

IMPORTANT NOTICE

NOT FOR DISTRIBUTION INTO THE UNITED STATES OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering circular. In accessing the offering circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED IN THIS OFFERING CIRCULAR.

Confirmation of your Representation: In order to be eligible to view this offering circular or make an investment decisions with respect of the securities, investors must be either (1) qualified institutional buyers (“QIBs”) (within the meaning of Rule 144A under the Securities Act) or (2) addressees who are purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting this e-mail and accessing this offering circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBS or (b) eligible to purchase the securities outside the United States in an offshore transaction in reliance on Regulation S and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of such offering circular and any amendments and supplements thereto by electronic transmission.

You are reminded that this offering circular has been delivered to you on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver this offering circular to any other person.

The materials relating to any offering of securities under the Programme described in this offering circular do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires such offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, then such offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

This offering circular has not been and will not be registered, produced or made available to all as an offer document (whether as a prospectus in respect of a public offer or an information memorandum or private placement offer letter or other offering material in respect of any private placement or public issue under applicable India laws) with the Securities and Exchange Board of India or the Reserve Bank of India or any other statutory or regulatory body of like nature in India.

This offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Citigroup Global Markets Limited or any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the preliminary offering circular distributed to you in electronic format and the hard copy version available to you on request from Citigroup Global Markets Limited.

Actions that you May Not Take: If you receive this document by e-mail, you should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply electronic mail communications, including those you generate by using the “Reply” function on your electronic mail software, will be ignored or rejected.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



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

U.S.\$3,000,000,000 Medium Term Note Programme

Under this U.S.\$3,000,000,000 Medium Term Note Programme (the "Programme"), Canara Bank (the "Issuer" or the "Bank"), acting through its London Branch or other foreign branch, as the case may be, may from time to time issue notes (the "Notes", which expression shall include Senior Notes, Subordinated Notes and Hybrid Tier I Notes (as defined herein)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively "Bearer Notes" and "Registered Notes"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$3,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Notes.

Approval-in-principle has been granted for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST (the "Official List"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Approval-in-principle for the listing of Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, its subsidiaries, its associated companies, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in a pricing supplement (the "Pricing Supplement") which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST on or before the date of listing of the Notes of such Tranche. It is possible for notes to be listed after the issue date.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Issuer may agree with any Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear Bank SA/NV ("Euroclear") and/or Clearstream Banking S.A. ("Clearstream, Luxembourg") and/or The Depositary Trust Company ("DTC") and/or any other clearing system, as specified in the applicable Pricing Supplement.

Each Tranche of Bearer Notes will initially be represented by either a temporary bearer global note (a "Temporary Bearer Global Note") or a permanent bearer global note (a "Permanent Bearer Global Note" and, together with a Temporary Bearer Global Note, the "Bearer Global Notes", and each a "Bearer Global Note") as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the "Common Depository") for Euroclear and Clearstream, Luxembourg.

On and after the date (the "Exchange Date") which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) definitive Bearer Notes of the same Series (each a "Definitive Bearer Note"). The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable for Definitive Bearer Notes in certain limited circumstances.

Registered Notes sold in an "offshore transaction" within the meaning of Regulation S ("Regulation S") under the U.S. Securities Act of 1933, as amended (the Securities Act), which will be sold outside the United States, will initially be represented by a global note in registered form, without receipts or coupons, (a "Regulation S Global Note") deposited with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of such common depositary.

The Registered Notes of each Tranche may only be offered and sold in the United States in private transactions to QIBs (as defined in "Form of the Notes") in transactions exempt from registration in reliance on Rule 144A under the Securities Act ("Rule 144A") or any other applicable exemption. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form, without receipts or interest coupons (a "Rule 144A Global Note" and, together with a Regulation S Global Note, the "Registered Global Notes"), which will be deposited with a custodian for, and registered in the name of DTC or a nominee of DTC.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold in the United States unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "Form of the Notes" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer. See "Subscription, Sale, Transfer and Selling Restrictions".

This Offering Circular has not been and will not be registered or published as a prospectus or a statement in lieu of a prospectus with any governmental authority in India in respect of a public offer or information memorandum or other offering material in respect of any private placement of securities under applicable Indian laws. This Offering Circular has not been and will not be reviewed or approved by any regulatory authority in India, including, but not limited to, the Securities and Exchange Board of India, or any stock exchange in India. This Offering Circular and the Notes are not and should not be construed as an advertisement, invitation, offer or sale of any securities to the public or any person resident in India. The Notes have not been and will not be, offered or sold to any person resident in India. If you purchase any of the Notes, you will be deemed to have acknowledged, represented and agreed that you are eligible to purchase the Notes under applicable laws and regulations and that you are not prohibited under any applicable law or regulation from acquiring, owning or selling the Notes.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Prospective investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the relevant Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Prospective investors should also have regard, *inter alia*, to the factors described in "Investment Considerations".

Arranger and Dealer

Citigroup

The date of this Offering Circular is 15 March 2019.

NOTICE TO INVESTORS

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything that would make the statements therein, in light of the circumstances under which they were made, misleading. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the Programme and the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

No person is or has been authorised by the Issuer to give any information or to make any representation other than those contained in this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made by any other person, such information or representations must not be relied upon as having been authorised by the Issuer, the Arranger or any of the Dealers, the Trustee (as defined herein) or the Agents (as defined herein) or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person. Save as expressly stated in this Offering Circular, nothing contained herein is, or may be relied upon as, a promise or representation as to the future performance or policies of the Issuer or the Group.

The Arranger, the Dealers, the Trustee and the Agents have not separately verified the information contained in this Offering Circular. None of the Arranger, any of the Dealers, the Trustee, the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person, is making any representation or warranty expressed or implied as to the merits of the Notes or the subscription for, purchase or acquisition thereof, the creditworthiness or financial condition or otherwise of the Issuer. Further, none of the Arranger, any of the Dealers, the Trustee or the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person, makes any representation or warranty as to the Issuer or as to the accuracy, reliability or completeness of the information set out herein and the documents which are incorporated by reference in, and form part of, this Offering Circular.

To the fullest extent permitted by law, none of the Arranger, the Dealers, the Trustee, the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person, accepts any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Arranger, the Dealers, the Trustee or the Agents or on their behalf in connection with the Issuer, the Programme or the issue and offering of the Notes. Each of the Arranger, each Dealer, the Trustee and each Agent and each person who controls any of them, and each of their respective officers, employees, advisers and agents, and each affiliate of any such person, accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, any of the Arranger or the Dealers, the Trustee or the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Arranger or the Dealers, the Trustee or the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person, to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular (or any part thereof) nor any sale, offering or purchase made in connection herewith shall, under any circumstances, create any implication that there has been no change in the prospects, results of operation or general affairs of the Issuer since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Arranger, the Dealers, the Trustee, the Agents and any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Arranger, the Dealers, the Trustee, the Agents and any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering.

In particular, no action has been taken by the Issuer, the Arranger or any of the Dealers, the Trustee or the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, India, United Kingdom, Japan, Singapore and Hong Kong, see "*Subscription, Sale, Transfer and Selling Restrictions*".

Neither this Offering Circular nor any other document or information (or any part thereof) delivered and supplied under or in relation to the Programme or any Notes is intended to provide the basis of any credit or other evaluation of the Issuer and should not be considered as a recommendation by any of the Issuer, the Arranger, the Dealers, the Trustee, the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person, that any recipient of this Offering Circular or any other financial statements should purchase the Notes. Each potential purchaser of Notes shall make its own assessment of the foregoing and other relevant matters including the financial condition and affairs and its appraisal of the creditworthiness of the Issuer and obtain its own independent legal or other advice thereon, and its investment shall be deemed to be based on its own independent investigation of the financial condition and affairs and its appraisal of the creditworthiness of the Issuer. Accordingly, notwithstanding anything herein, none of the Arranger, any of the Dealers, the Trustee, the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person, shall be held responsible for any loss or damage suffered or incurred by the recipients of this Offering Circular or such other document or information (or such part thereof) as a result of or arising from anything expressly or implicitly contained in or referred to in this Offering Circular or such other document or information (or such part thereof and the same shall not constitute a ground for rescission of any purchase or acquisition of any of the Notes by a recipient of this Offering Circular or such other document or information (or such part thereof). None of the Dealers, the Arranger, the Trustee or the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers, the Arranger, the Trustee, the Agents or any person who controls any of them, or any of their respective officers, employees, advisers or agents, or any affiliate of any such person.

Any purchase or acquisition of the Notes is in all respects conditional on the satisfaction of certain conditions set out in the Programme Agreement (as defined herein) and the issue of the Notes by the Issuer pursuant to the Programme Agreement. Any offer, invitation to offer or agreement made in connection with the purchase or acquisition of the Notes or pursuant to this Offering Circular shall (without any liability or responsibility) on the part of the Issuer, the Arranger or any of the Dealers lapse and cease to have any effect if (for any other reason whatsoever) the Notes are not issued by the Issuer pursuant to the Programme Agreement.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the relevant Pricing Supplement are provided as general information only.

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. Investors should consult their own financial, tax, accounting and legal advisers as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

None of the Issuer, the Arranger, the Dealers and the Trustee makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

For a description of other restrictions, see "*Subscription, Sale, Transfer and Selling Restrictions*".

EEA RETAIL INVESTORS

If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the “**Prospectus Directive**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation

MIFID PRODUCT GOVERNANCE/TARGET MARKET

The Pricing Supplement in respect of any Notes may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, “**MiFID II**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE)

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

U.S. INFORMATION

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority of the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

This Offering Circular is being submitted on a confidential basis in the United States to a limited number of QIBs (as defined under “*Form of the Notes*”) for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and the Treasury regulations promulgated thereunder.

Registered Notes may be offered or sold within the United States only to QIBs, in transactions exempt from registration under the Securities Act in reliance on Rule 144A under the Securities Act (“R144A”) or any other applicable exemption. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it is being made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together, “**Legended Notes**”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “*Subscription, Sale, Transfer and Selling Restrictions*”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “*Form of the Notes*”.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “**restricted securities**” within the meaning of the Securities Act, the Issuer will furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as “**restricted securities**” within the meaning of Rule 144 (a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the *Exchange Act*), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action or over-allotment may begin on or after the date on

which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a corporation organised under the laws of India. All of the officers and directors named herein reside in India and all or a substantial portion of the assets of the Issuer and of such officers and directors are located in India. As a result, it may not be possible for investors to effect service of process outside India upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside India predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Indian law, including any judgment predicated upon United States federal securities laws.

In addition, India is not a signatory to any international treaty in relation to the recognition or enforcement of foreign judgments. The statutory basis for the recognition and enforcement of foreign judgments is given under section 13 and section 44A of the Indian Code of Civil Procedure, 1908 (the "**Civil Code**"). Section 44A of the Civil Code provides that where a foreign judgment has been rendered by a superior court in any country or territory outside India which the Government has by notification declared to be a reciprocating territory, it may be enforced in India by proceedings in execution as if the judgment had been rendered by the relevant court in India. Under the Civil Code, a court in India will, upon the production of any document purporting to be a certified copy of a foreign judgment, presume that the judgment was pronounced by a court of competent jurisdiction, unless the contrary appears on record but such presumption may be displaced by proving want of jurisdiction. However, section 44A of the Civil Code is applicable only to monetary decrees not being in the nature of any amounts payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty and is not applicable to arbitration awards even if such awards are enforceable as a decree or judgment.

A judgment of a court in a jurisdiction which is not a reciprocating territory may be enforced only by a new suit upon the judgment and not by proceedings in execution. The United States has not been declared by the Government to be a reciprocating territory for the purposes of section 44A of the Civil Code. However, the United Kingdom has been declared by the Government to be a reciprocating territory and the High Courts in England as the relevant superior courts. Accordingly, a judgment of a court in the United States may be enforced only by a fresh suit upon the judgment and not by proceedings in execution. Section 13 of the Civil Code provides that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except: (i) where it has not been pronounced by a court of competent jurisdiction; (ii) where it has not been given on the merits of the case; (iii) where it appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognise the law of India in cases where such law is applicable; (iv) where the proceedings in which the judgment was obtained were opposed to natural justice; (v) where it has been obtained by fraud; or (vi) where it sustains a claim founded on a breach of any law in force in India. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India.

It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce a foreign judgment if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice. A party seeking to enforce a foreign judgment in India is required to obtain approval from the RBI to repatriate outside India any amount recovered pursuant to execution. Any judgment in a foreign currency would be converted into Indian Rupees on the date of the judgment and not on

the date of the payment. Also, a party may file suit in India against the Issuer, its directors or its executive directors as an original action predicated upon the provisions of the Federal Securities laws in the United States.

In connection with the offering of any series of Notes, each Dealer is acting or will act for the Issuer in connection with the offering and no one else will be responsible to anyone other than the Issuer for providing the protections afforded to clients of that Dealer nor for providing advice in relation to any such offering.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, the financial information in this Offering Circular relating to the Issuer has been derived from (i) the audited non-consolidated financial statements of the Issuer for the fiscal years ended 2017 and 2018, (ii) the audited consolidated financial statements of the Issuer for the fiscal years ended 31 March 2017 and 2018 and (iii) the unaudited reviewed non-consolidated financial statements of the Issuer for the nine months ended 31 December 2018 (together, the “**Financial Statements**”).

The Issuer’s financial year ends on 31 March, and references in this Offering Circular to any specific year are to the 12-month period ended on 31 March of such year.

The Issuer maintains its financial books and records and prepares its financial statements in Indian Rupees in accordance with generally accepted accounting principles in the Republic of India (“**Indian GAAP**”) which differ in certain important respects from International Financial Reporting Standards (“**IFRS**”). For a discussion of the principal differences between Indian GAAP and IFRS as they relate to the Issuer, see “*Summary of Significant Differences Between Indian GAAP and IFRS*”. Unless otherwise stated, all financial data (other than financial data with respect to investments) contained herein is stated on a non-consolidated basis.

CERTAIN DEFINITIONS

Capitalised terms which are used but not defined in any particular section of this Offering Circular will have the meaning attributed to them in the “*Terms and Conditions of the Notes*” or any other section of this Offering Circular.

In this Offering Circular, unless otherwise specified, all references to the “**Group**” are to the Bank and its consolidated subsidiaries and other consolidated entities. References to “**India**” are to the Republic of India and references to the “**Government**” are to the government of India. References to specific data applicable to particular subsidiaries or other consolidated entities are made by reference to the name of that particular entity. References to “**fiscal year**” are to the year starting from 1 April and ending on 31 March.

All references in this document to “**U.S. dollars**”, “**U.S.\$**” and “\$” refer to United States dollars and to “**Rupee**”, “**Rupees**” and “**Rs.**” refer to Indian Rupees. In addition, references to “**Sterling**” and “£” refer to pounds sterling and to “**euro**” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

For convenience only, certain Rupee amounts in this Offering Circular have been translated into U.S. dollars. Unless otherwise specified, all such conversions were made at the exchange rate based on market rates prevailing at the relevant dates. No representation is made that the Rupee or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Rupee, as the case may be, at any particular rate, or at all.

References to **crores** and **lakhs** or **lac** in the Bank's consolidated and non-consolidated financial statements are to the following:

One lac or lakh	1,000,000	(one hundred thousand)
One crore	10,000,000	(ten million)
Ten crores	100,000,000	(one hundred million)
One hundred crores	1,000,000,000	(one thousand million or one billion)

ROUNDING OF AMOUNTS

Certain monetary figures and percentages included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them. Any discrepancies in the tables included in the tables included in this Offering Circular between the listed amounts and the totals thereof are due to rounding.

INDUSTRY AND MARKET DATA

Certain industry and market share data in this Offering Circular are derived from data of the Reserve Bank of India (the “RBI”) or the Director General of Commercial Intelligence and Statistics. Certain other information regarding market position, growth rates and other industry data pertaining to the Bank’s business contained in this Offering Circular consists of estimates based on data reports compiled by professional organisations and analysts, on data from other external sources and on the Bank’s knowledge of its markets. This data is subject to change and cannot be verified with complete certainty due to limits on the availability and reliability of the raw data and other limitations and uncertainties inherent in any statistical survey. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organisations) to validate market-related analyses and estimates, so the Bank relies on internally developed estimates. While the Bank has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither the Bank, the Arranger, the Dealers nor the Trustee has independently verified that data and neither the Bank, the Arranger, the Dealers nor the Trustee makes any representation regarding the accuracy of such data. Similarly, while the Bank believes its internal estimates to be reasonable, such estimates have not been verified by any independent sources and neither the Bank, the Arranger, the Dealers nor the Trustee can assure potential investors as to their accuracy.

FORWARD-LOOKING STATEMENTS

The Issuer has included statements in this Offering Circular which contain words or phrases such as **will**, **would**, **aimed**, **is likely**, **are likely**, **believe**, **expect**, **expected to**, **will continue**, **will achieve**, **anticipate**, **estimate**, **intend**, **plan**, **contemplate**, **seek to**, **seeking to**, **target**, **propose to**, **future**, **objective**, **goal**, **project**, **should**, **can**, **could**, **may** and similar expressions or variations of such expressions, that are “forward-looking statements”. Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the expectations of the Issuer with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate future mergers or acquisitions into its operations, future levels of non-performing assets (“NPAs”) and restructured assets, its growth and expansion, the adequacy of its allowance for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to implement its dividend policy, the impact of Indian banking regulations on it, which includes the assets and liabilities of the Issuer, its ability to roll over its short-term funding sources, its exposure to market risks and the market acceptance of and demand for Internet banking services.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this Offering Circular include, but are not limited to general economic and political conditions in India, southeast Asia, and the other countries which have an impact on the Issuer's business activities or investments, political or financial instability in India or any other country caused by any factor including any terrorist attacks in India, the United States or elsewhere or any other acts of terrorism worldwide, any anti-terrorist or other attacks by the United States, a United States-led coalition or any other country, the monetary and interest rate policies of India, political or financial instability in India or any other country caused by tensions between India and Pakistan related to the Kashmir region or by military armament or social unrest in any part of India, inflation, deflation, unanticipated turbulence in interest rates, or changes in the value of the Rupee, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets and level of internet penetration in India and globally, changes in domestic and foreign laws, regulations and taxes, changes in competition and the pricing environment in India and regional or general changes in asset valuations. For a further discussion on the factors that could cause actual results to differ, see the discussion under "*Investment Considerations*" contained in this Offering Circular.

Any forward looking statements contained in this Offering Circular speak only as at the date of this Offering Circular. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Offering Circular any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance and should only be viewed as historical data.

TABLE OF CONTENTS

	Page
DOCUMENTS INCORPORATED BY REFERENCE	1
GENERAL DESCRIPTION OF THE PROGRAMME	2
SUMMARY OF THE PROGRAMME	3
FORM OF THE NOTES	11
FORM OF PRICING SUPPLEMENT	16
TERMS AND CONDITIONS OF THE NOTES	31
USE OF PROCEEDS	85
CAPITALISATION	86
INVESTMENT CONSIDERATIONS	87
DESCRIPTION OF THE BANK	121
DESCRIPTION OF THE BANK'S LONDON BRANCH	176
DESCRIPTION OF THE BANK'S OVERSEAS OPERATIONS	177
RECENT DEVELOPMENTS	180
MANAGEMENT	181
SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN INDIAN GAAP AND IFRS	190
THE INDIAN FINANCIAL SECTOR	202
SUPERVISION AND REGULATION	232
TAXATION	275
BOOK-ENTRY CLEARANCE SYSTEMS	282
SUBSCRIPTION, SALE, TRANSFER AND SELLING RESTRICTIONS	286
GENERAL INFORMATION	296
INDEX TO FINANCIAL STATEMENTS	F-1

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the most recently published audited consolidated and audited non-consolidated annual financial statements and, if published later, the most recently published audited or reviewed, as the case may be, interim consolidated and non-consolidated financial results (if any) of the Issuer, (see "*General Information*" for a description of the financial statements currently published by the Issuer); and
- (b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the principal office of the Principal Paying Agent in London (which for the time being is Citibank, N.A., London Branch (the "**Principal Paying Agent**") for the Notes listed on the SGX-ST).

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, to an extent which is material in the context of the Programme, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

This Offering Circular and any supplement will only be valid for listing Notes on the SGX-ST in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.\$3,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be determined, at the discretion of the Issuer, either as at the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this summary.

Issuer	Canara Bank, acting through its London Branch or other foreign branch (as specified in the relevant Pricing Supplement)
Description	Medium Term Note Programme
Arranger	Citigroup Global Markets Limited
Dealers	Citigroup Global Markets Limited and any other Dealers appointed in accordance with the Programme Agreement (as defined under “ <i>Subscription, Sale, Transfer and Selling Restrictions</i> ”).
Certain Restrictions	Each issue of Notes in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription, Sale, Transfer and Selling Restrictions</i> ”) including the following restrictions applicable at the date of this Offering Circular.
Trustee	Citicorp Trustee Company Limited
Principal Paying Agent, Exchange Agent and Transfer Agent	Citibank N.A., London Branch
Registrar	Citigroup Global Markets Europe AG
Programme Size	U.S.\$3,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) in aggregate nominal amount of Notes outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Investment Considerations	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under " <i>Investment Considerations</i> " below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under " <i>Investment Considerations</i> " and include certain risks relating to the structure of particular Series of Notes and certain market risks.
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Redenomination	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. At the date of this Offering Circular, (i) Lower Tier II Subordinated Notes shall have a minimum maturity of five years or, if issued between 1 January and 31 March in any year, 63 months and (ii) Upper Tier II Subordinated Notes shall have a minimum maturity of 15 years. Hybrid Tier I Notes are perpetual and have no maturity date.
Issue Price	Notes may be issued on a fully-paid or (in the case of Notes other than Subordinated Notes and Hybrid Tier I Notes) a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes

The Notes may be in bearer form and/or registered form as set out in the applicable Pricing Supplement. Bearer Notes will be in bearer form and will on issue be represented by a Temporary Bearer Global Note or a Permanent Bearer Global Note as indicated in the applicable Pricing Supplement. Temporary Bearer Global Notes will be exchangeable either for (i) interests in a Permanent Bearer Global Note or (ii) Definitive Bearer Notes as indicated in the applicable Pricing Supplement. Permanent Bearer Global Notes will be exchangeable for Definitive Bearer Notes upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii) only upon the occurrence of an Exchange Event as described under "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa.

Fixed Rate Notes

Fixed interest will be payable at such rate or rates in arrear and on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Notes

Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate, or both.

Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in Floating Rate Notes and Index Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Partly Paid Notes	The Issuer may issue Notes in respect of which the issue price is paid in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Other Notes	The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement.

Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity other than (i) in specified instalments, if applicable, or (ii) for taxation reasons (in the case of Subordinated Notes and Hybrid Tier I Notes, only with the prior approval of RBI or such other relevant authority), or (iii) in the case of Hybrid Tier I Notes, for certain regulatory reasons (with the prior approval of the RBI or such other relevant authority) or (iv) following an Event of Default (as defined in Condition 11) (in the case of Senior Notes, in accordance with the provisions of Condition 11.1 and, in the case of Subordinated Notes or Hybrid Tier I Notes, only in accordance with the provisions of Condition 11.2), or that such Notes will be redeemable at the option of the Issuer (in the case of Subordinated Notes and Hybrid Tier I Notes, only with the prior approval of the RBI and subject to the fulfilment of applicable conditions) and/or (except in the case of Subordinated Notes and Hybrid Tier I Notes) the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as set forth in the Terms and Conditions of the Notes or as may be agreed between the Issuer and the relevant Dealer.
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.
Taxation	All payments of principal and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, assessments, governmental charges or duties of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of any Tax Jurisdiction (as defined in Condition 9), subject as provided in Condition 9. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.

	Without prejudice to the Issuer's obligation to pay additional amounts as described above, all payments in respect of the Notes will be made subject to any withholding or deduction required pursuant to fiscal and other laws, as provided in Condition 7.2.
Negative Pledge	The terms of the Notes (other than Subordinated Notes and Hybrid Tier I Notes) will contain a negative pledge provision as further described in Condition 4.
Cross Default	The terms of the Notes (other than Subordinated Notes and Hybrid Tier I Notes) will contain a cross default provision as further described in Condition 11.
Status of the Senior Notes	The Senior Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and will rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsubordinated and unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Status, Events of Default and other Terms of or relating to the Subordinated Notes	Subordinated Notes will be Upper Tier II Subordinated Notes or Lower Tier II Subordinated Notes, as indicated in the applicable Pricing Supplement. The status of the Subordinated Notes and events of default applicable to the Subordinated Notes are set out in Conditions 3.2 and 11.2, respectively. Subordinated Notes do not have the benefit of a negative pledge or cross default provision.
Status, Events of Default and other Terms of or relating to the Hybrid Tier I Notes	The status of the Hybrid Tier I Notes and events of default applicable to the Hybrid Tier I Notes are set out in Conditions 3.3 and 11.2, respectively. Hybrid Tier I Notes do not have the benefit of a negative pledge or cross default provision.
Limited Right of Acceleration in respect of Subordinated Notes and Hybrid Tier I Notes	If a default is made in the payment of any principal or interest due on the Subordinated Notes or the Hybrid Tier I Notes or any of them on the due date and, in the case of interest, such default continues for a period of seven days, the Trustee may, subject to the approval from the relevant authorities in India, institute proceedings against the Issuer but may take no other action in respect of such default.

*Pursuant to Section 18 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 as amended from time to time (the “**Bank Nationalisation Act**”), Indian statutory provisions relating to winding up do not apply to the Issuer, and it may only be placed in liquidation by order of the Government in such manner as it may direct.*

The Trustee may only accelerate the Subordinated Notes or the Hybrid Tier I Notes in the circumstances set out in Condition 11.2(b).

Neither the Terms and Conditions of the Subordinated Notes and/or the Hybrid Tier I Notes nor the Trust Deed will contain any provision whereby the Subordinated Notes and/or the Hybrid Tier I Notes will become due and payable upon a default in the payment of principal of or interest on the Subordinated Notes and/or the Hybrid Tier Notes or on the non-performance of any covenant of the Issuer or upon the happening of any event other than the events set forth in Condition 11.2(b); principally, the winding up or liquidation of the Issuer.

Listing

Approval-in-principle has been granted for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, its subsidiaries, its associated companies, the Programme or the Notes. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. If the application to the SGX-ST to list a particular series of Notes is approved, for so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes listed on the SGX-ST, if traded, will be traded on the SGX-ST in a minimum board lot size of at least S\$200,000 (or its equivalent in foreign currencies).

Unlisted Notes may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).

Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by and shall be construed in accordance with, English law except that, in the case of Subordinated Notes, Conditions 3.2 and, in the case of Hybrid Tier I Notes, 3.3 will be governed by Indian law.
Clearing System	Euroclear, Clearstream, Luxembourg, DTC (each as defined in Condition 1) and/or any other clearing system, as specified in the applicable Pricing Supplement (see " <i>Form of Notes</i> ").
Legal Entity Identifier	335800E4RH82Z8XC3C30.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, the European Economic Area, Netherlands, Italy, India, Hong Kong, Japan and Singapore and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see " <i>Subscription, Sale, Transfer and Selling Restrictions</i> ").
United States Selling Restrictions	Regulation S, Category 1, Rule 144A and Section 4(a)(2) of the Securities Act, and/or TEFRA C or D, as specified in the applicable Pricing Supplement.

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached (“**Bearer Notes**”), or registered form, without interest coupons attached (“**Registered Notes**”). Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (“**Regulation S**”) and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A under the Securities Act (“**Rule 144A**”) or otherwise in a private transaction that is exempt from the registration requirements of the Securities Act.

Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear and/or Clearstream, Luxembourg and/or DTC and/or any other clearing system as specified in the applicable Pricing Supplement.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a “**Temporary Bearer Global Note**”) or a permanent bearer global note (a “**Permanent Bearer Global Note**”) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the “**Common Depositary**”) for Euroclear and Clearstream, Luxembourg. Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the “**Exchange Date**”) which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same series or (ii) for Definitive Bearer Notes of the same series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of Definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement) in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive Definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for Definitive Bearer Notes is improperly withheld or refused. The Bearer Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days’ written notice given at any time from Euroclear and/or Clearstream, Luxembourg (acting on the

instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form (provided that, in certain circumstances where the Notes are held through Euroclear and/or Clearstream, Luxembourg, such adverse tax consequences are as a result of a change in, or amendment to, the laws or regulations (taxation or otherwise) in, or of, a Tax Jurisdiction (as defined under “Terms and Conditions of the Notes – Condition 9”)) and a certificate to such effect signed by two authorised officers of the Issuer is given to the Trustee. The Issuer will promptly give notice to the Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange following an Exchange Event shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

All Notes will be issued pursuant to the Trust Deed (as defined under “*Terms and Conditions of the Notes*”) and the Agency Agreement.

The following legend will appear on all Bearer Global Notes and all Definitive Bearer Notes which have an original maturity of more than 365 days and on all receipts, talons and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts, talons or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold outside the United States, will initially be represented by a global note in registered form (a “**Regulation S Global Note**”).

The Registered Notes of each Tranche offered and sold in the United States or to U.S. persons may only be offered and sold in private transactions to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“**QIBs**”). The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a “**Rule 144A Global Note**” and, together with a Regulation S Global Note, the “**Registered Global Notes**”).

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of its participants, including Euroclear and Clearstream, Luxembourg or (ii) be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 1) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.3) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg, have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 9 which would not be required were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions. See "*Subscription, Sale, Transfer and Selling Restrictions*".

General

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the Trust Deed and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8:00 p.m. (London time) on the day immediately following such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and DTC on and subject to the terms of the relevant Global Note and the Trust Deed. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC’s standard operating procedures.

So long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that the Global Note representing such Notes is exchanged for definitive Notes. In addition, an announcement of such exchange will be made through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

No Noteholder, Receiptholder (as defined below) or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a new Offering Circular or a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6, 7, 8 (except Condition 8.2), 12, 13, 14, 15 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 18, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[MiFID II product governance/Professional investors and ECPs only target market] – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[Consider any negative target market.]* Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS] – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products].¹

[Date]

CANARA BANK
acting through its [London/specify other foreign branch] Branch
Legal Entity Identifier: 335800E4RH82Z8XC3C30/[•]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.\$3,000,000,000
Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 15 March 2019 [and the supplement[s] to it dated [•] and [•]] (the "Offering Circular").

¹ For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated [original date] [and the supplement to it dated [date]] which are incorporated by reference in the Offering Circular. This document constitutes the final terms of the Notes and must be read in conjunction with the Offering Circular dated [●] 2019, save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable”. Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement]

- | | |
|--|--|
| 1. Issuer: | Canara Bank, acting through its [London/
specify other foreign branch] Branch |
| 2. (a) Series Number: | [●] |
| (b) Tranche Number: | [●] |
| | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)</i> |
| (c) Date on which the Notes will be consolidated and form a single Series: | The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [●] below, which is expected to occur on or about [date]] [Not Applicable] |
| 3. Specified Currency or Currencies: | [●] |
| 4. Aggregate Nominal Amount: | |
| (a) Series: | [●] |
| (b) Tranche: | [●] |
| 5. Issue Price: | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| 6. (a) Specified Denominations: | [●] |
| | <i>(In the case of Registered Notes this means the minimum integral amount in which transfers can be made)</i> |
| | <i>(Note is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive.)</i> |

(N.B. Where Bearer Notes with multiple denominations above [€100,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed: “[€100,000] and integral multiples of [€1,000] in excess thereof, up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]”.)

- (b) Calculation Amount (in relation to calculation of interest in global form, see Conditions):

(In the case of Registered Notes, this means the minimum integral amount in which transfers can be made)

[•]

(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)

7. (a) Issue Date:

[•]

- (b) Interest Commencement Date:

[specify/Issue Date/Not Applicable]

(N.B. – An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes)

[specify/Issue Date/Not Applicable]

(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)

8. Maturity Date:

[– Specify date or for Floating Rate Notes – Interest Payment Date falling in or nearest to [specify month and year]]

(NB: – As per current regulations, (i) Lower Tier II Subordinated Notes shall have such minimum maturity as may be specified by the RBI at the time of giving approval for the issuance of such Lower Tier II Subordinated Notes, (ii) Upper Tier II. Subordinated Notes shall have a minimum maturity of 15 years and (iii) Hybrid Tier I Notes shall be perpetual)

9. Interest Basis: [[●] per cent. Fixed Rate]
 [[Specify Reference Rate] [+/-●] per cent.]
 [Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [specify other]
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [Instalment]
 [specify other]
11. Change of Interest Basis or
 Redemption/Payment Basis: [Applicable/Not Applicable]
*(If applicable, specify details of any provision
 for change of Notes into another Interest Basis
 or Redemption/Payment Basis)*
*(N.B. For Upper Tier II Subordinated Notes
 and Hybrid Tier I Notes, the Issuer has a
 step-up option in relation to the Interest Basis.
 Such step-up option may be exercised only
 once during the tenor of the relevant Upper
 Tier II Subordinated Notes or Hybrid Tier I
 Notes in conjunction with the Issuer Call and
 must be within the limits set by the RBI.)*
12. Put/Call Options: [Investor Put]
*[N.B. Investor Put is not possible for
 Subordinated Notes or Hybrid Tier I Notes.]*
 [Issuer Call]
*(N.B. For Upper Tier II Subordinated Notes
 and Hybrid Tier I Notes, Issuer Call may only
 be exercised after the tenth anniversary of the
 Issue Date (i.e. ten years and one day), and is
 subject to the prior approval of the RBI.)*
 [(further particulars specified below)]

13.	Status of the Notes:	[Senior/Subordinated/Hybrid Tier I] ¹ <i>(If "Subordinated", specify either "Upper Tier II Subordinated" or "Lower Tier II Subordinated".)</i>
14.	(a) Date Board approval for issuance of Notes obtained:	[●] [and [●], respectively]/[None required] <i>(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)</i>
	(b) Date regulatory approval/consent for issuance of Notes obtained:	[●]/[None required] <i>(N.B. Only relevant where regulatory (or similar) approval or consent is required for the particular tranche of Notes)</i>
15.	Listing:	[Singapore/specify other/None] <i>(N.B. Consider disclosure requirements under the EU Prospectus Directive applicable to securities admitted to an EU regulated market)</i>
		 <i>(N.B. For unlisted Notes, and certain other Notes issued by the London Branch, withholding tax may be applicable. See "Taxation – United Kingdom Taxation" in the Offering Circular.)</i>
16.	Method of distribution:	[Syndicated/Non-syndicated]
PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE		
17.	Fixed Rate Note Provisions:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(a) Rate(s) of Interest:	[●] per cent. per annum payable in arrear on each Interest Payment Date <i>(If payable other than annually, consider amending Condition 6)</i>
	(b) Interest Payment Date(s):	[●] in each year up to and including the Maturity Date <i>(Amend appropriately in the case of irregular coupons)</i>

¹ Prior to the implementation of the Basel III guidelines, regarding the capital eligibility of Tier I & Tier II Notes, in India, the UK or any other jurisdiction where a foreign branch through which the Notes are being issued is located, the inclusion of a substitution or amendment provision which would permit the Issuer to make such changes to the terms as are necessary to reflect the eventual bail-in rules without the need for the consent of the Noteholders, should be considered.

(c) Fixed Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form, see Conditions):	[●] per Calculation Amount
	<i>(Applicable to Notes in definitive form)</i>
(d) Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form, see Conditions):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]] [Not Applicable]
	<i>(Applicable to Notes in definitive form)</i>
(e) Day Count Fraction:	[Actual/Actual (ICMA) or 30/360 or [specify other]]
(f) Determination Date(s):	[[●] in each year] [Not Applicable]
	<i>[Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]</i>
	<i>(N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration)</i>
	<i>(N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))</i>
(g) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/Give details]
18. Floating Rate Note Provisions	[Applicable/Not Applicable]
	<i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(a) Specified Period(s)/Specified Interest Payment Dates:	[●]
(b) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]] [Not Applicable]
(c) Additional Business Centre(s):	[●]
(d) Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/specify other]

- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [●]
- (f) Screen Rate Determination:
- Reference Rate: Reference Rate: [●] month [LIBOR/EURIBOR].
[Specify Other Reference Rate]
[[Either LIBOR, EURIBOR or other, although additional information is required if other, including fallback provisions in the Agency Agreement]]
- (N.B.— Presently, Hybrid Tier I Notes and Upper Tier II Subordinated Notes with a floating interest rate must be referenced to a market determined Rupee interest benchmark rate)
- Interest Determination Date(s): [●]
[●]
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: [●]
(In the case of EURIBOR, if not Reuters EURIBOR1, ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)
- (h) Margin(s): [+/-] [●] per cent. per annum
- (i) Minimum Rate of Interest: [●] per cent. per annum
- (j) Maximum Rate of Interest: [●] per cent. per annum

(k) Day Count Fraction:	[Actual/Actual (ISDA)]
	[Actual/Actual]
	[Actual/365 (Fixed)]
	[Actual/365 (Sterling)]
	[Actual/360]
	[30/360]
	[360/360]
	[Bond Basis]
	[30E/360]
	[Eurobond Basis]
	[30E/360 (ISDA)]
	[Bond Basis]
	[Other]
	<i>(See Condition 6 for alternatives)</i>
(l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
19. Zero Coupon Note Provisions	[Applicable/Not Applicable]
	<i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(a) Accrual Yield:	[●] per cent. per annum
(b) Reference Price:	[●]
(c) Any other formula/basis of determining amount payable:	[●]
(d) Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365] <i>[specify other]</i>

20.	Index Linked Interest Note Provisions	[Applicable/Not Applicable]
<i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>		
	(a) Index/Formula:	[give or annex details]
	(b) Calculation Agent:	[●]
	(c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and the Interest Amount (if not the Principal Paying Agent)	[●]
	(d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(e) Specified Period(s)/Specified Interest Payment Dates:	[●]
	(f) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
	(g) Additional Business Centre(s):	[●]
	(h) Minimum Rate of Interest:	[●] per cent. per annum
	(i) Maximum Rate of Interest:	[●] per cent. per annum
	(j) Day Count Fraction:	[●]
21.	Dual Currency Interest Note Provisions	[Applicable/Not Applicable]
<i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>		
	(a) Rate of Exchange/method of calculating Rate of Exchange:	[give or annex details]
	(b) Party, if any, responsible for calculating principal and/or interest due (if not the Paying Agent):	[●]
	(c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(d) Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

22. Notice periods for condition
[Redemption and Purchase – days
Redemption for tax reasons]: Minimum period: [30] days Maximum period:
[60]
23. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other/see Appendix]
- (c) If redeemable in part:
(i) Minimum Redemption Amount: [●]
(ii) Maximum Redemption Amount: [●]
- (d) Notice period (if other than as set out in the Conditions): Minimum period: [15] days Maximum period:
[30] days
(N.B. – If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of five business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)
24. Investor Put: [Applicable/Not Applicable]
(N.B. – Investor Put is not applicable for Subordinated Notes or Hybrid Tier I Notes). (If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other/see Appendix]

(c) Notice period (if other than as set out in the Conditions):	[●]	<i>(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)</i>
25. Final Redemption Amount of each Note:	[[●]] per Calculation Amount/specify other/see Appendix]	
26. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8.6):	[[●]] per Calculation Amount/specify other/see Appendix] <i>(N.B. If Hybrid Tier I Notes, to specify (i) Calculation Agent if the Principal Paying Agent is not the Calculation Agent and (ii) Day Count Fraction for the purpose of the Make Whole Amount.) [N.B. – If the Final Redemption Amount is 100.0 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100.0 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be]</i>	
27. Regulatory Redemption Amount:	[Applicable/Not Applicable] <i>(Applicable only for Hybrid Tier I Notes) (if not applicable, delete the remaining subparagraphs of this paragraph)</i>	
(a) Calculation Agent:	[●]	
(b) Day Count Fraction (for Make Whole Amount):	[●]	
(c) Applicable Spread:	[[●]] per cent. per annum/Not Applicable]	

GENERAL PROVISIONS APPLICABLE TO THE NOTES

28. Form of Notes:

[Bearer Notes:

[Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]¹]

[Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]²]

[Registered Notes:

[Regulation S Global Note (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]]

[Rule 144A Global Note (U.S.\$[●] nominal amount registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]] (specify nominal amounts)]

(Ensure that this is consistent with the language in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice option should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€ 100,000] and integral multiples of [€ 1,000] in excess thereof up to and including [€ 199,000]. Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes")

¹ Regard should be had to the specific requirements of the relevant clearing system(s), if any. As the date of this Offering Circular, neither Euroclear nor Clearstream, Luxembourg accept Global Notes representing Notes which (i) are tradeable in the clearing system(s) in amounts other than the Specified Denomination and integral amounts thereof and (ii) give the holder thereof the right to exchange such Global Notes for Definitive Notes other than upon the occurrence of an Exchange Event.

29. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this item relates to the date of payment and not the end dates of Interest Periods for the purpose of calculating the amount of interest to which items 18(c) and 20(g) relate)
30. Talons for future Coupons or Receipts to be attached to Definitive Notes in bearer form (and dates on which such Talons mature): [Yes/No. If yes, give details]
31. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of a failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. N.B. – a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
32. Details relating to Instalment Notes: [Applicable/Not Applicable]
(If not applicable delete the remaining sub-paragraph of the paragraph)
- (a) [Instalment Amount(s): [give details]]
- (b) [Instalment Date(s): [give details]]
33. Redenomination applicable: Redenomination [not] applicable
(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
34. Other terms or special conditions: [Not Applicable/give details]
(N.B. If Upper Tier II Subordinated Notes provide Compound Rate)

DISTRIBUTION

35. (a) If syndicated, names of Managers: [Not Applicable/give names]
- (b) Stabilising Manager(s) (if any): [Not Applicable/give name(s)]
36. If non-syndicated, name of relevant Dealer: [●]

37. U.S. selling restrictions:	[Regulation S Category 1/2; TEFRA D/TEFRA C/TEFRA not applicable]
38. Additional U.S. Tax Considerations	[Not Applicable] [The Notes are [not] Specified Notes. [Additional information concerning potential withholding can be found [●].]] (<i>The Notes will not be Specified Notes if they (i) are issued prior to 1 January 2017 or (ii) do not reference any U.S. equity or any index that contains any component U.S. equity or otherwise provide direct or indirect exposure to U.S. equities. If the Notes are issued on or after 1 January 2017 and reference a U.S. equity or an index that contains a component U.S. equity or otherwise provide direct or indirect exposure to U.S. equities, further analysis would be required. If the Notes are Specified Notes, include the "Additional information" sentence and indicate where the additional information will be made available (e.g., a website).)</i>)
39. Additional selling restrictions:	[Not Applicable/give details]
40. Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)

OPERATIONAL INFORMATION

41. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and DTC and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
42. Delivery:	Delivery [against/free of] payment
43. Additional Paying Agent(s) (if any):	[●]

ISIN: [●]

Common Code: [●]

CFI: [[●]/Not Applicable]

FISN: [[●]/Not Applicable]

(If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable".)

(insert here any other codes such as CUSIP and CINS Codes)

[LISTING APPLICATION]

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$3,000,000,000 Medium Term Note Programme of Canara Bank, acting through its [London/*specify other foreign branch*] Branch.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: _____

Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and except for the paragraphs in italics, are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Canara Bank (the "**Issuer**"), acting through its London Branch or any other branch of the Issuer outside the Republic of India, as specified in the applicable Pricing Supplement, and constituted by an amended and restated Trust Deed dated 15 March 2019 (such Trust Deed as further modified and/or supplemented and/or restated from time to time, the "**Trust Deed**") made between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**" which expression shall include any successor as Trustee).

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a Global Note, units of each Specified Denomination in the Specified Currency;
- (ii) definitive Bearer Notes issued in exchange (or part exchange) for a Global Note; and
- (iii) any Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of the Amended and Restated Agency Agreement dated 15 March 2019 (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer, the Trustee, Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**", which expression shall include any additional or successor principal paying agent, and, together with any additional paying agents appointed in accordance with the Agency Agreement, the "**Paying Agents**", which expression shall, unless the context otherwise requires, include any successor paying agents), as exchange agent (the "**Exchange Agent**", which expression shall include any successor exchange agent) and as transfer agent (the "**Transfer Agent**", which expression shall include any substitute or any additional transfer agents appointed in accordance with the Agency Agreement) and Citigroup Global Markets Europe AG as registrar (the "**Registrar**", which expression shall include any successor registrar). The Principal Paying Agent and the Paying Agents, together referred to as the "**Agents**".

Interest bearing definitive Bearer Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons ("**Coupons**") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Definitive Registered Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions (“**Conditions**”) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the “**applicable Pricing Supplement**” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to “**Noteholders**” or “**holders**” in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “**Receiptholders**” shall mean the holders of the Receipts and any reference herein to “**Couponholders**” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons. The Trustee acts for the benefit of the Noteholders, the Receiptholders and the Couponholders, in accordance with the provisions of the Trust Deed.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee and the Principal Paying Agent. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of the Trustee and the Principal Paying Agent save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Trustee or the Principal Paying Agent, as the case may be, as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1 FORM, DENOMINATION AND TITLE

The Notes may be in bearer form (“**Bearer Notes**”) and/or in registered form (“**Registered Notes**”) and, in the case of definitive Notes, will be serially numbered, in the currency (the “**Specified Currency**”) and the denomination (the “**Specified Denomination(s)**”) specified in the applicable Pricing Supplement. Save as provided in Condition 2, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Each Tranche of Bearer Notes will be initially represented by a temporary global Note (each, a “**Temporary Global Note**”) without Receipts, Coupons or Talons attached which will be delivered to a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”). On or after the date which is 40 days after the Issue Date, beneficial interests in a Temporary Global Note will be exchangeable upon a request as described therein either for interests in a permanent global Note (each, a “**Permanent Global Note**” and, together with any Temporary Global Note, the “**Bearer Global Notes**”) without Receipts, Coupons or Talons attached or for definitive Bearer Notes (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification to the effect that the beneficial owner of interests in such Temporary Global Note is not a U.S. person or a person who has purchased for resale to any U.S. person, as required by U.S. Treasury regulations. The applicable Pricing Supplement will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days’ written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Principal Paying Agent or (ii) only upon the occurrence of an “**Exchange Event**”. For these purposes, Exchange Event means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form (provided that, in certain circumstances where the Notes are held through Euroclear and/or Clearstream, Luxembourg, such adverse tax consequences are as a result of a change in, or amendment to, the laws or regulations (taxation or otherwise) in, or of, a Tax Jurisdiction (as defined under Condition 9) and a certificate to such effect signed by two authorised officers of the Issuer is given to the Trustee. The Issuer will promptly give notice to the Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange following an Exchange Event shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Bearer Notes in definitive form are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Unless otherwise provided with respect to a particular series of Registered Notes, Registered Notes of each Tranche sold outside the United States in reliance on Regulation S (“**Regulation S**”) under the United States Securities Act of 1933, as amended, (the “**Securities Act**”) will, unless otherwise specified in the applicable Pricing Supplement, be represented by a permanent global Registered Note, without Receipts, Coupons or Talons, (each, a “**Regulation S Global Note**”), deposited with a custodian for, and registered in the

name of a nominee of, The Depository Trust Company (“**DTC**”) for the accounts of Euroclear and Clearstream, Luxembourg. Notes in definitive registered form (“**Definitive Registered Notes**”) issued in exchange for Regulation S Global Notes or otherwise sold or transferred in reliance on Regulation S under the Securities Act, together with the Regulation S Global Notes, are referred to herein as “**Regulation S Notes**”.

Registered Notes of each Tranche sold in private transactions in reliance upon Rule 144A under the Securities Act to qualified institutional buyers within the meaning of Rule 144A under the Securities Act (“**QIBs**”) will, unless otherwise specified in the applicable Pricing Supplement, be represented by a permanent global Registered Note, without Receipts, Coupons or Talons (each, a “**Restricted Global Note**” and, together with any Regulation S Global Note, the “**Registered Global Notes**” and, together with the Bearer Global Notes, the “**Global Notes**”) deposited with a custodian for, and registered in the name of a nominee of, DTC. Notes in definitive form issued in exchange for Restricted Global Notes or otherwise sold or transferred in accordance with the requirements of Rule 144A under the Securities Act, together with the Restricted Global Notes, are referred to herein as “**Restricted Notes**”.

Restricted Notes shall bear a legend specifying certain restrictions on transfer (each, a “**Legend**”), such Notes being referred to herein as “**Legended Notes**”. Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of a Legend, the Registrar shall (save as provided in Condition 2.4 deliver only Legended Notes or refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Subject as otherwise provided in Condition 2, Definitive Registered Notes may be exchanged or transferred in whole or in part in the Specified Denominations for one or more Definitive Registered Notes of like aggregate nominal amount.

Each Definitive Registered Note will be numbered serially with an identifying number which will be recorded in the register (the “**Register**”) which the Issuer shall procure to be kept by the Registrar.

Notes are issued in the Specified Denomination(s) set out in the applicable Pricing Supplement which, in the case of Registered Notes sold other than pursuant to Regulation S, shall be the Authorised Denomination (as defined below) and, in the case of Notes having a maturity of 183 days or less, the Specified Denomination shall be at least U.S.\$500,000 (or the equivalent in any other currency or currencies).

“**Authorised Denomination**” means, in the case of a Restricted Notes, U.S.\$100,000 (or its equivalent rounded upwards as specified in the relevant Pricing Supplement) and higher integral multiples of U.S.\$10,000, or the higher denomination or denominations specified in the applicable Pricing Supplement.

Any minimum Authorised Denomination required by any law or directive or regulatory authority in respect of the currency of issue of any Note shall be such as applied on or prior to the date of issue of such Note.

Subject as set out below, title to Bearer Notes, Receipts and Coupons will pass by delivery. Title to Registered Notes will pass upon registration of transfers in the books of the Registrar in Frankfurt. The Issuer, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and any Transfer Agent may deem and treat the bearer of any Bearer Note, Receipt or Coupon and any person in whose name a Registered Note is registered

as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Bearer Notes is represented by a Bearer Global Note held by a common depositary on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear, Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee, any Paying Agent, the Registrar and any Transfer Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Trustee, any Paying Agent, the Registrar and any Transfer Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

For so long as The Depository Trust Company ("DTC") or its nominee is the registered owner or holder of a Rule 144A Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Rule 144A Global Note for all purposes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg and DTC, as the case may be. References to Euroclear, Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Trustee and the Principal Paying Agent.

2 EXCHANGE AND TRANSFERS OF REGISTERED NOTES

2.1 Exchange of interests in Registered Global Notes for Definitive Registered Notes

Interests in any Registered Global Note will be exchangeable for Definitive Registered Notes, if (i) Euroclear and/or Clearstream, Luxembourg or DTC, as the case may be, notifies the Issuer that it is unwilling or unable to continue as depositary for such Registered Global Note, (ii) if applicable, DTC ceases to be a "**Clearing Agency**" registered under the United States Securities Exchange Act of 1934 (the "**Exchange Act**") or either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business, and a successor depositary or alternative clearing system satisfactory to the Issuer and the Trustee is not available, (iii) an Event of Default (as defined in Condition 11) has occurred and is continuing with respect to such Notes or (iv) unless otherwise provided in the applicable Pricing Supplement, a written request for one or more Definitive Registered Notes is made by a holder of a beneficial interest in a Registered Global Note; provided that in the case of (iv) such written notice or request, as the case may be, is submitted to the Registrar

by the beneficial owner not less than 60 days (or such other period as may be indicated in the applicable Pricing Supplement) prior to the requested date of such exchange. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause the appropriate Definitive Registered Notes to be delivered, provided that, notwithstanding the above, no Definitive Registered Notes will be issued until expiry of the applicable Distribution Compliance Period.

2.2 Transfers of Registered Global Notes

Transfers of any Registered Global Note shall be limited to transfers of such Registered Global Note, in whole but not in part, to a nominee of DTC or to a successor of DTC or such successor's nominee.

2.3 Transfers of interests in Regulation S Notes

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Note to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a “**Transfer Certificate**”), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

In the case of (i) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (ii) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period, if applicable, (a) beneficial interests in Regulation S Notes may be held through DTC directly by a participant in DTC or indirectly through a participant in DTC and (b) such certification requirements will no longer apply to such transfers.

2.4 Transfers of interests in Legended Notes

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

- (ii) to a transferee who takes delivery of such interest through a Legended Note, where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States,

and in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

2.5 Exchanges and transfers of Registered Notes generally

Registered Notes may not be exchanged for Bearer Notes and vice versa.

Holders of Definitive Registered Notes may exchange such Definitive Registered Notes for interests in a Registered Global Note of the same type at any time.

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will be transferable and exchangeable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be (the “**Applicable Procedures**”).

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement) by the holder or holders surrendering the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and upon the Registrar or, as the case may be, the relevant Transfer Agent, after due and careful enquiry, being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the Issuer and the Registrar, or as the case may be, the relevant Transfer Agent may prescribe, including any restrictions imposed by the Issuer on transfers of Definitive Registered Notes originally sold to a U.S. person. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of

part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

Exchanges or transfers by a holder of a Definitive Registered Note for an interest in, or to a person who takes delivery of such Note through, a Registered Global Note will be made no later than 60 days after the receipt by the Registrar or, as the case may be, the relevant Transfer Agent of the Definitive Registered Note to be so exchanged or transferred and, if applicable, upon receipt by the Registrar of a written certification from the transferor.

2.6 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 8.3, the Issuer shall not be required:

- (a) to register the transfer of Registered Notes (or parts of Registered Notes) during the period beginning on the 15th day before the date of the partial redemption and ending on the date on which notice is given specifying the serial numbers of Notes called (in whole or in part) for redemption (both inclusive); or
- (b) to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

2.7 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest or payment on that Note.

2.8 Costs of exchange or registration

Registration of transfers will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to it provided that the Issuer shall not be responsible for any documentary stamp tax payable on the transfer of Notes effected in the Republic of India (“**India**”) unless the Issuer is the counterparty directly liable for that documentary stamp tax.

3 STATUS

3.1 Status of the Senior Notes

Notes the status of which is specified in the applicable Pricing Supplement as Senior (the “**Senior Notes**”) and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsubordinated and unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

3.2 Status of the Subordinated Notes

*This Condition 3.2 applies only to Notes specified in the applicable Pricing Supplement as Subordinated Notes and shall be governed by Indian law. Subordinated Notes shall be either Upper Tier II Subordinated Notes (“**Upper Tier II Subordinated Notes**”) or Lower Tier II Subordinated Notes (“**Lower Tier II Subordinated Notes**”). Upper Tier II Subordinated Notes and Lower Tier II Subordinated Notes are together referred to in these Terms and Conditions as “**Subordinated Notes**” which term, for the purposes of these Terms and Conditions and the Trust Deed, shall exclude Hybrid Tier I Notes.*

The Subordinated Notes are not deposits of the Issuer and are not guaranteed or insured by the Issuer or any party related to the Issuer and they may not be used as collateral for any loan made by the Issuer or any of its subsidiaries or affiliates.

(a) Subordination

Subordinated Notes and any relative Receipts and Coupons are unsecured obligations of the Issuer and, in the event of the winding up of the Issuer, the claims of the holders of Subordinated Notes and any relative Receipts and Coupons pursuant thereto will be subordinated in right of payment to the claims of all other creditors (other than claims of holders of Subordinated Indebtedness ranking equal to or lower than the claims of the holders of Subordinated Notes and any relative Receipts and Coupons, if any) of the Issuer in the manner and to the extent provided in the Trust Deed. For the avoidance of doubt, the claims of holders of Subordinated Notes and any relative Receipts and Coupons shall be senior to the claims of holders of Tier I capital as defined in the Reserve Bank of India’s Master Circular – Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances and the Reserve Bank of India’s Master Circular – Basel III Capital Regulations, each dated 1 July 2015 (together, and as amended from time to time, the “**RBI Guidelines**”) and the claims of holders of Lower Tier II Subordinated Notes and any relative Receipts and Coupons shall be senior to the claims of holders of Upper Tier II Subordinated Notes and any indebtedness classified as Upper Tier II capital by the RBI Guidelines.

Claims in respect of Subordinated Notes and any relative Receipts and Coupons may not be set-off, or be the subject of a counterclaim, by the holder against or in respect of any obligations of the holder to the Issuer or to any other persons and the holder of any Subordinated Note or relative Receipt or Coupon shall, by virtue of being the holder of such Subordinated Note or relative Receipt or Coupon, be deemed to have waived all such rights of set-off.

(b) Payment Deferrals on Upper Tier II Subordinated Notes

Unless otherwise provided in the applicable Pricing Supplement,

- (i) If (A) the Issuer is not, or would be caused by any payment of the principal of and/or (as the case may be) interest on any Upper Tier II Subordinated Note not to be, in compliance with the Capital to Risk Assets Ratio Requirement (as defined below) but (B) the Issuer is in compliance with the Net Loss Requirement (as defined below), in each case on the due date for the relevant payment, the Issuer shall not be

liable to pay such principal and/or interest (as the case may be and provided that interest cannot be paid in part) as provided in this Condition 3.2(b) until the date specified in (v) below and any such failure to pay will not constitute a default by the Issuer for any purpose; provided, however, that the Issuer shall not declare or pay any dividends on any share capital of the Issuer or make any payments in respect of liabilities of the Issuer (other than the liabilities under the Lower Tier II Subordinated Notes and any other indebtedness classified as tier II capital by the RBI Guidelines) that rank equally with or junior to the Upper Tier II Subordinated Notes unless and until any and all Payments in Arrears (as defined in (iv) below) and other accrued interest on the Upper Tier II Subordinated Notes, including Additional Payments (as defined in (iv) below), have been paid in full.

- (ii) If the Issuer is not, or would be caused by any payment of the principal of and/or (as the case may be) interest on any Upper Tier II Subordinated Note not to be, in compliance with (A) the Capital to Risk Assets Ratio Requirement and (B) the Net Loss Requirement, in each case on the due date for the relevant payment, the Issuer shall not make such payment on the due date and shall defer payment of such principal and/or interest (as the case may be) as provided in this Condition 3.2(b) until the date specified in (v) below and any such failure to pay will not constitute a default by the Issuer for any purpose; provided, however, that the Issuer shall not declare or pay any dividends on any share capital of the Issuer or make any payments in respect of liabilities of the Issuer (other than the liabilities under the Lower Tier II Subordinated Notes and any other indebtedness classified as tier II capital by the RBI Guidelines) that rank equally with or junior to the Upper Tier II Subordinated Notes unless and until any and all Payments in Arrears and other accrued interest on the Upper Tier II Subordinated Notes, including Additional Payments, have been paid in full.
- (iii) If (A) the Issuer is not, or would be caused by any payment of interest on any Upper Tier II Subordinated Note not to be, in compliance with the Net Loss Requirement but (B) the Issuer is in compliance with the Capital to Risk Assets Ratio Requirement, in each case on the due date for the relevant payment, the Issuer shall not, without the prior approval of the Reserve Bank of India, make such payment of interest, and payment of such interest shall be deferred as provided in this Condition 3.2(b) until the date specified in (v) below and any such failure to pay will not constitute a default by the Issuer for any purpose; provided, however, that the Issuer shall not declare or pay any dividends on any share capital of the Issuer or make any payments in respect of liabilities of the Issuer (other than the liabilities under the Lower Tier II Subordinated Notes and any other indebtedness classified as tier II capital by the RBI Guidelines) that rank equally with or junior to the Upper Tier II Subordinated Notes unless and until any and all Payments in Arrears and other accrued interest on the Upper Tier II Subordinated Notes, including Additional Payments, have been paid in full.
- (iv) Any principal or interest in respect of Upper Tier II Subordinated Notes not paid on the due date for payment thereof, together with any principal or interest in respect of Upper Tier II Subordinated Notes not paid on any other date, will, so long as the same remains unpaid, constitute "**Payments in Arrears**". Unless otherwise provided in the applicable

Pricing Supplement, until paid (whether before or after the Maturity Date), Payments in Arrears will be made with compound interest at a rate (the “**Compound Rate**”) which shall not exceed the interest rate payable on the relevant Upper Tier II Subordinated Note at that time (such additional interest amounts, “**Additional Payments**”). The Compound Rate in respect of each Tranche of Upper Tier II Subordinated Notes shall be set out in the applicable Pricing Supplement.

- (v) Payments in Arrears and accrued interest, including Additional Payments, in respect of Upper Tier II Subordinated Notes will (subject to Condition 3.2(a)) become due in full on whichever is the earlier of (A) the next Compulsory Payment Date (as defined below) or (B) the occurrence of an event as specified in Condition 11.2. Subject to the foregoing, if notice is given by the Issuer of its intention to pay the whole or any part of Payments in Arrears and other accrued interest, including Additional Payments, the Issuer shall be obligated (subject to Condition 3.2(a)) to make such payment upon the expiration of such notice.

In respect of any Payments in Arrears arising pursuant to Condition 3.2(b)(i), any such Payments in Arrears and accrued interest, including Additional Payments, thereon may, at the option of the Issuer, be paid (in whole but not in part) at any time upon the expiration of not less than 14 days' notice to such effect given to the Paying Agent and to the holders of the Notes, subject always to the provisions of Condition 3.2(b)(v).

For the avoidance of doubt, where any payment of principal and/or interest may only be made with the approval of the Reserve Bank of India, the Issuer will use its best endeavours to obtain such approval.

- (i) As used in this Condition 3.2 and in Condition 3.3:

“**Compulsory Payment Date**” means (A), in the case of principal, the first date (the “**Compliance Date**”) following deferral of the relevant payment of principal and/or interest on which the Issuer is either (I) in compliance with the Capital to Risk Assets Ratio Requirement and the Net Loss Requirement or (II) in compliance with the Capital to Risk Assets Ratio Requirement, not in compliance with the Net Loss Requirement (or any such payment would cause the Issuer not to be in compliance with the Net Loss Requirement) and has approval from the Reserve Bank of India to make the relevant payment of principal and/or interest, in each case provided that any such payment will not cause the Issuer to be in breach of the Capital to Risk Assets Ratio Requirement or in the case of (I) the Net Loss Requirement and (B), in the case of interest, the next Interest Payment Date (if any) following the Compliance Date or, if none, the Compliance Date; and

“**Capital to Risk Assets Ratio Requirement**” means the requirement for the minimum capital to risk assets ratio (“**CRAR**”) of the Issuer, determined in accordance with the guidelines of the Reserve Bank of India, which currently is 9.00 per cent.

“**Net Loss**” means a negative balance in the balance of the profit and loss account contained within reserves and surplus on the Issuer's balance sheet as shown in the most recent quarterly or, as the case may be, annual financial statements of the Issuer.

“Net Loss Requirement” means the Issuer not having a Net Loss.

“Reserve Bank of India” or “RBI” means the Reserve Bank of India or any successor thereto.

“Subordinated Indebtedness” means all indebtedness of the Issuer which by its terms is subordinated, in the event of the winding up of the Issuer, in right of payment to the claims of unsubordinated creditors of the Issuer and so that, for the purpose of this definition, indebtedness shall include all liabilities, whether actual or contingent, under guarantees or indemnities.

The definitions set forth in this Condition 3.2(b)(vi) are subject to such interpretations, amendments and clarifications of the RBI Guidelines as may be stipulated by the Reserve Bank of India from time to time. The Bank shall notify or procure notification of any such interpretations, amendments and clarifications of the Reserve Bank of India, to the Trustee, the Paying Agents, the Transfer Agents, the Registrar, the SGX-ST and the Noteholders (in accordance with Condition 15) no later than five days from the announcement or publication of such.

- (ii) On the fifth Business Day (as defined in Condition 6.6) immediately preceding any date for payment of principal of and/or (as the case may be) interest on any of the Upper Tier II Subordinated Notes (the **“Payment Deferral Determination Date”**), the Issuer will determine, as of such Payment Deferral Determination Date, if it shall not be liable to make such payment of principal of and/or (as the case may be) interest on any of the Upper Tier II Subordinated Notes pursuant to any of paragraphs (i), (ii) or (iii) of this Condition 3.2(b). In the event that the Issuer determines that it shall defer such payment of principal of and/or (as the case may be) interest on any of the Upper Tier II Subordinated Notes as provided above, the Issuer shall (a) notify or procure notification, no later than the day immediately following the relevant Payment Deferral Determination Date, to the Trustee (in a certificate signed by two directors of the Issuer), the Paying Agents, the Transfer Agents, the Registrar, the SGX-ST and the Noteholders (in accordance with Condition 15), of that fact and of the amount to be deferred and (b) deliver to the Registrar a certificate signed by two directors of the Issuer (the **“Deferral Certificate”**) stating such fact, the amount to be deferred in respect of such payment and the relevant paragraph of this Condition 3.2(b) whereby such right of deferral arose. PROVIDED THAT, in the event that the Issuer determines, on the relevant payment date, the circumstances giving rise to the right and/or (as the case may be) requirement to defer the relevant payment pursuant to paragraphs (i), (ii) or (iii) of this Condition 3.2(b) as set out in the Deferral Certificate no longer apply, the Issuer shall (x) notify or procure notification, no later than the day following the relevant payment date, to the Trustee (in a certificate signed by two directors of the Issuer), the Paying Agents, the Transfer Agents, the Registrar, the SGX-ST and the Noteholders (in accordance with Condition 15), of the fact, and (y) make payment of the relevant amount of principal of and/or interest on the Upper Tier II Subordinated Notes as soon as practicable and in any event no later than two Business Days immediately following the relevant payment date.

3.3 Status of the Hybrid Tier I Notes

*This Condition 3.3 applies only to Notes specified in the applicable Pricing Supplement as “**Hybrid Tier I Notes**” and shall be governed by Indian law.*

(a) Status

The Hybrid Tier I Notes are direct and unsecured obligations of the Issuer and are subordinated in the manner described in Condition 3.3(b).

The Hybrid Tier I Notes are not deposits of the Issuer and are not guaranteed or insured by the Issuer or any party related to the Issuer and they may not be used as collateral for any loan made by the Issuer or any of its subsidiaries or affiliates.

(b) Subordination

The Issuer, for itself, its successors and assignees, covenants and agrees, and each Noteholder by subscribing for or purchasing a Hybrid Tier I Note irrevocably acknowledges and agrees that:

- (i) the indebtedness evidenced by the Hybrid Tier I Notes constitutes unsecured and subordinated obligations of the Issuer; and
- (iii) the subordination is for the benefit of the holders of indebtedness that rank senior to the Hybrid Tier I Notes.

Claims in respect of the Hybrid Tier I Notes will rank:

- (i) junior to the claims of holders of all deposits and other liabilities of the Issuer and debt instruments constituting “Upper Tier II” or “Tier II” capital of the Issuer as defined under the RBI Guidelines;
- (ii) *pari passu* and without preference among themselves and claims of creditors of the Issuer that are subordinated so as to rank *pari passu* with claims in respect of the Hybrid Tier I Notes; and
- (iii) senior to (a) the claims for payment of any obligation that, expressly or by applicable law, is subordinated to the Hybrid Tier I Notes and (b) the rights and claims of holders of preference shares (if any) and equity shares of the Issuer.

The principal of, and interest and any additional amounts payable on, the Hybrid Tier I Notes will be subordinated in right of payment upon occurrence of any Winding Up Proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Issuer (including liabilities of all offices and branches of the Issuer wherever located and any subordinated debt securities of the Issuer that rank senior to the Hybrid Tier I Notes), except in each case to those liabilities which by their terms rank equally in right of payment with or which are subordinated to the Hybrid Tier I Notes, in the manner and to the extent provided in the Trust Deed.

No Noteholder, Receiptholder or Couponholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Hybrid Tier I Notes and each Noteholder,

Receiptholder and Couponholder shall by virtue of its subscription, purchase or holding of any Hybrid Tier I Note, be deemed to have waived all such rights of set-off to the fullest extent permitted by law.

The Issuer agrees that so long as any of the Hybrid Tier I Notes remains outstanding, it will not create, issue, assume or otherwise incur any loan, debt, guarantee, instrument or other obligation which shall be, or shall purport to be, subordinated debt of the Issuer and which shall, at the time it is created, issued, assumed or otherwise incurred or at any time thereafter, be considered to be innovative Tier 1 capital of the Issuer under applicable regulations which would rank (as regards interest, dividends or distributions on liquidation, dissolution or winding up) senior to the Hybrid Tier I Notes.

As a consequence of these subordination provisions, if a Winding Up Proceeding should occur, the Noteholders, Receiptholders and Couponholders may recover less rateably than the holders of deposit liabilities or the holders of other unsubordinated liabilities of the Issuer. Moreover, holders of Hybrid Tier I Notes would likely be required to pursue their claims on the Hybrid Tier I Notes in proceedings in India as further described in Condition 11.3.

Holders of the Hybrid Tier I Notes will have limited voting rights and will not be entitled to receive notice of, or attend or vote at, any meeting of shareholders of the Issuer or participate in the management of the Issuer.

As at 31 December 2018, the Issuer had outstanding third party liabilities in an amount of Rs.6,272.97 billion. Such third party liabilities rank senior to the Hybrid Tier I Notes. Except as provided above, the Hybrid Tier I Notes do not limit the amount of liabilities ranking senior or equal to the Hybrid Tier I Notes.

To the extent that holders of the Hybrid Tier I Notes are entitled to any recovery with respect to the Hybrid Tier I Notes in any Indian proceedings, such holders may not be entitled in such proceedings to a recovery in U.S. dollars and may be entitled to a recovery in Indian rupees. The Issuer has agreed in Condition 18 to indemnify the holders of the Hybrid Tier I Notes against certain losses incurred as a result of any judgment or order being given or made for any amount due under the Hybrid Tier I Notes and such judgment or order being expressed and paid in a currency other than U.S. dollars. Any amounts due under such indemnification will be subordinated in right of payment as described above.

(c) *Payment Limitation on Hybrid Tier I Notes*

Unless otherwise provided in the applicable Pricing Supplement,

- (i) If the Issuer is not, or would be caused by any payment of interest on any Hybrid Tier I Note not to be, in compliance with the Capital to Risk Assets Ratio Requirement, on the due date for the relevant payment, the Issuer shall not be liable to make payment of such interest as provided in this Condition 3.3(c) and any such failure to pay will not constitute a default by the Issuer for any purpose; provided, however, that the Issuer shall not declare or pay any dividends on any share capital of the Issuer or make any payments in respect of liabilities of the Issuer (other than the liabilities under the Subordinated Notes and any other indebtedness classified as tier II capital by the RBI Guidelines)

that rank equally with or junior to the Hybrid Tier I Notes (each such declaration or (as the case may be) payment being a “**Subordinated Payment**”) unless and until such time as all payments of interest under the Hybrid Tier I Notes are made by the Issuer, as and when such payments are due, for the 12-month period immediately preceding such Subordinated Payment.

- (ii) If the Issuer is not, or would be caused by any payment of interest on any Hybrid Tier I Note not to be, in compliance with the Net Loss Requirement on the due date for the relevant payment, the Issuer shall not, without the prior approval of the Reserve Bank of India, make such payment of interest, and any such failure to pay will not constitute a default by the Issuer for any purpose; provided, however, (i) that the Issuer shall not make any Subordinated Payment unless and until such time as all payments of interest under the Hybrid Tier I Notes are made by the Issuer, as and when such payments are due, for the 12-month period immediately preceding such Subordinated Payment and
- (iii) that if the Issuer is in compliance with the Capital to Risk Assets Ratio Requirement, the Issuer shall apply to the Reserve Bank of India for approval to make such payment of interest and, if such approval is granted, it shall make such payment of interest as soon as practicable and in any event no later than two Business Days after such approval from the Reserve Bank of India is obtained, subject to any restrictions imposed by the Reserve Bank of India in granting such approval.
- (iv) Interest on the Hybrid Tier I Notes will be non-cumulative. Subject to Condition 3.3(c)(iv), if interest is not paid on an Interest Payment Date pursuant to and in accordance with this Condition 3.3(c), the right of Noteholders, Receiptholders and Couponholders to receive interest in respect of the Interest Period ending on such Interest Payment Date will be lost and the Issuer will have no further obligation in respect of the interest for such Interest Period whether or not any amount of interest is paid for any future Interest Period.
- (v) On the fifth Business Day (as defined in Condition 6.6) immediately preceding any date for payment of interest on any of the Notes (the “**Payment Limitation Determination Date**”), the Issuer will determine, as of such Payment Limitation Determination Date, if it shall not be liable to make such payment of interest on any of the Hybrid Tier I Notes pursuant to any of paragraphs (i) or (ii) of this Condition 3.3(c). In the event that the Issuer determines that it shall not make such payment of interest on any of the Hybrid Tier I Notes as provided above, the Issuer shall (a) notify or procure notification, no later than the day immediately following the relevant Payment Limitation Determination Date, to the Trustee (in a certificate signed by two directors of the Issuer), the Paying Agents, the Transfer Agents, the Registrar, the SGX-ST and the Noteholders (in accordance with Condition 15), of that fact and of the amount that shall not be paid and (b) deliver to the Registrar a certificate signed by two directors of the Issuer (the “**Payment Limitation Certificate**”) stating such fact, the amount which shall not be paid in respect of such payment and the relevant paragraph of this Condition 3.3(c) whereby such right of non-payment arose. PROVIDED THAT, in the event that the Issuer determines, on the relevant payment date, the circumstances giving rise to the right to non-payment of the

relevant payment pursuant to paragraphs (i) or (ii) of this Condition 3.3(c) as set out in the Payment Limitation Certificate no longer apply, the Issuer shall (x) notify or procure notification, no later than the day following the relevant payment date, to the Trustee (in a certificate signed by two directors of the Issuer), the Paying Agents, the Transfer Agents, the Registrar, the SGX-ST and the Noteholders (in accordance with Condition 15), of the fact, and (y) make payment of the relevant amount of interest on the Hybrid Tier I Notes as soon as practicable and in any event no later than two Business Days following the relevant payment date.

4 NEGATIVE PLEDGE

So long as any of the Senior Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, and will procure that none of its Subsidiaries (as defined below) will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a “**Security Interest**”) upon, or with respect to, any part of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or any of its Subsidiaries to secure any Relevant Indebtedness (as defined below), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

- (i) all amounts payable by it under the Senior Notes and the Trust Deed (in respect of the Senior Notes) are secured by the Security Interest equally and rateably with the Relevant Indebtedness to the satisfaction of the Trustee in its absolute discretion; or
- (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided either (i) as the Trustee in its absolute discretion deems not materially less beneficial to the interests of the holders of the Senior Notes or (ii) as is approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast thereon) of the holders of the Senior Notes.

For the purposes of these Conditions,

- (a) “**Relevant Indebtedness**” means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities of the Issuer or any of its Subsidiaries which (a) by their terms are payable in a currency other than Rupees or are denominated in Rupees and more than 50 per cent. of the aggregate principal amount of which is initially distributed outside India by or with the authorisation of the Issuer and (b) are for the time being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, and (ii) any guarantee or indemnity in respect of any such indebtedness.
- (b) “**Subsidiary**” means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer, except where such holding, right, membership or control arises solely as a result of the Issuer enforcing any security granted to it in relation to a loan or advance made to a borrower in the ordinary course of the Issuer’s business.

5 REDENOMINATION

5.1 Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders or the Couponholders, on giving 30 days' prior notice to the Trustee, the Paying Agents, the Transfer Agents, Euroclear, Clearstream, Luxembourg and/or DTC as applicable, and at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of 0.01 with a nominal amount in euro for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent and the Trustee, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes are for the time being listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts of less than euro 1,000 or such smaller denominations as the Issuer in conjunction with the Principal Paying Agent may determine) euro 0.01 and such other denominations as the Issuer shall determine and notify to the Noteholders;
- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the "**Exchange Notice**") that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to

the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

- (e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee. If payments cannot be effected by credit or transfer, then such payments will be made by a euro cheque;
- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and
 - (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding;

- (g) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (h) such other changes shall be made to these Conditions as the Issuer may decide, after consultation with the Trustee and the Principal Paying Agent, and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro.

5.2 Definitions

In these Conditions, the following expressions have the following meanings:

“Established Rate” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

“euro” and **“€”** mean the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

"Redenomination Date" means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

"Treaty" means the Treaty on the Functioning of the European Union, as amended by the Treaty on European Union, as amended.

6 INTEREST

6.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the nominal amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

In the event that either the initial Interest Period or final Interest Period is for a period other than a Fixed Interest Period, payments of interest on the relevant Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1:

- (a) if “**Actual/Actual (ICMA)**” is specified in the applicable Pricing Supplement:
- (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
 - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; or
- (b) if “**30/360**” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

“Determination Period” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

6.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, "**Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

(b) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or such other party specified in the applicable Pricing Supplement under an interest rate swap transaction if the Principal Paying Agent or such other party were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

- (A) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (C) the relevant Reset Date is the date specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (i), “**Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

(ii) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR as specified in the applicable Pricing Supplement) which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent or such other party specified in the applicable Pricing Supplement. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent or such other party for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

(a) *Minimum and/or Maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(b) **Determination of Rate of Interest and Calculation of Interest Amounts**

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same. If required to be calculated by it, the Principal Paying Agent or, as the case may be, the Calculation Agent shall cause the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders and, if the Notes are listed on a stock exchange and the rules of such stock exchange or other relevant authority so require, such stock exchange or other relevant authority as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the Interest Amount) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (ii) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

- (i) if “**Actual/Actual (ISDA)**” or “**Actual/Actual**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

- (iii) if “**Actual/365 (Sterling)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “**30/360, 360/360**” or “**Bond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Interest Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D₁ is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Interest Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D₁ is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30; and

- (vii) if “**30E/360 (ISDA)**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Interest Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D₁ is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(c) ***Notification of Rate of Interest and Interest Amounts***

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the

purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(d) ***Determination or Calculation by Trustee***

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (b)(i) or subparagraph (b)(ii) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as applicable.

(e) ***Certificates to be Final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default and bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

6.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

6.5 Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) as provided in the Trust Deed.

6.6 Definitions

In these Conditions, if a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 6.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “**Business Day**” means a day which is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre (other than TARGET2 System) specified in the applicable Pricing Supplement;

- (b) if TARGET2 System is specified as an Additional Business Centre in the applicable Pricing Supplement, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “**TARGET2 System**”) is open; and
- (c) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which TARGET2 System or any successor system is open.

6.7 Benchmark Discontinuation

(a) *Independent Adviser*

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 6.7(b)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 6.7(d)). In making such determination, the Independent Adviser appointed pursuant to this Condition 6.7 shall act in good faith and in a commercially reasonable manner as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Principal Paying Agent, the Paying Agents, the Noteholders, the Receiptholders or the Couponholders for any determination made by it pursuant to this Condition 6.7.

If (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 6.7(a) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 6.7(a).

(b) ***Successor Rate or Alternative Rate***

If the Independent Adviser determines that:

- (i) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 6.7); or
- (ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 6.7).

(c) ***Adjustment Spread***

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(d) ***Benchmark Adjustments***

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 6.7 and the Independent Adviser, determines (i) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 6.7(e), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate in English signed by an authorised officer of the Issuer pursuant to Condition 6.7(e), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 6.7(d), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 6.7, no Successor Rate or Alternative rate will be adopted, nor will be the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes as Subordinated Notes and/or the Notes eligible liabilities or loss absorbing capacity instruments for the purposes of the loss absorption regulations as set out in the RBI Guidelines.

(e) ***Notices, etc.***

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 6.7 will be notified promptly by the Issuer to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate in English signed by an authorised officer of the Issuer:

- (i) confirming (1) that a Benchmark Event has occurred, (2) the Successor Rate or, as the case may be, the Alternative Rate, (3) the applicable Adjustment Spread and (iv) the specific terms of any Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 6.7; and
- (ii) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Trustee shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof and shall not be liable to the Issuer, the Noteholders, the Couponholders or any other person for so doing. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Principal Paying Agent and the Noteholders.

(f) ***Survival of Original Reference Rate***

Without prejudice to the obligations of the Issuer under Conditions 6.7(a), 6.7(b), 6.7(c) and 6.7(d), the Original Reference Rate and the fallback provisions provided for in Condition 6.2(b) will continue to apply unless and until a Benchmark Event has occurred.

(g) **Definitions**

As used in this Condition 6.7:

"Adjustment Spread" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);
- (ii) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if Independent Adviser determines that no such spread is customarily applied); or
- (iii) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"Alternative Rate" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 6.7(b) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) for the same interest period and in the same Specified Currency as the Notes;

"Benchmark Amendments" has the meaning given to it in Condition 6.7(d);

"Benchmark Event" means:

- (i) the Original Reference Rate ceasing to be published for a period of at least five business days or ceasing to exist; or
- (ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (iii) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

- (v) it has become unlawful for the Principal Paying Agent, the Issuer or any other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate;

"Independent Adviser" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 6.7(a);

"Original Reference Rate" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes;

"Relevant Nominating Body" means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof; and

"Successor Rate" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

7 PAYMENTS

7.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars, shall be Auckland). If payments cannot be effected by credit or transfer, then such payments will be made by a cheque in such Specified Currency drawn on a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars, shall be Auckland); and
- (b) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee. If payments cannot be effected by credit or transfer, then such payments will be made by a euro cheque.

7.2 Payments Subject to Fiscal and Other Laws

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9, (ii) any withholding or deduction required pursuant to an agreement described in Section 147 1(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretation thereof, or any laws implementing an intergovernmental approach thereto (no commissions or expenses shall be charged to the Holders in respect of such payments), and (iii) any withholding or deduction imposed pursuant to Section 87 1(m) of the Code.

7.3 Presentation of Notes, Receipts and Coupons

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America and its possessions).

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of any Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of the Bearer Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

Payments of Instalment Amounts (if any) in respect of definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 7.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of

the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9.2) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Note**” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

7.4 Payments in respect of Global Notes

Payments of principal and interest (if any) in respect of Bearer Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes or otherwise in the manner specified in the relevant Bearer Global Note against presentation or surrender of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

Payments of principal (other than instalments of principal (if any) prior to the final instalment) in respect of Registered Notes (whether in definitive or global form) will be made in the manner specified in Condition 7.1 to the persons in whose name such Registered Notes are registered (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the business day (being for this purpose a day on which banks are open for business in the city where the Registrar is located) immediately prior to the relevant payment date against presentation and surrender (or, in the case of part payment only of any sum due, endorsement) of such Registered Notes at the specified office of the Registrar.

Payments of interest due on a Registered Note (whether in definitive or global form) and payments of instalments of principal (if any) due on a Registered Note (other than the final instalment) will be made in the manner specified in Condition 7.1 to the person in whose name such Note is registered (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day (being for this purpose a day on which banks are open for business in the city where the Registrar is located) (the “**Record Date**”)) prior to such due date. In the case of payments by cheque, cheques will be mailed to the holder (or the first named of joint holders) at such holder’s registered address on the business day (as described above) immediately preceding the due date.

If payment in respect of any Registered Notes is required by credit or transfer as referred to in Condition 7.1(a), application for such payment must be made by the holder to the Registrar not later than the relevant Record Date.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Principal Paying Agent to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for payment in such Specified Currency or conversion into U.S. dollars in accordance with the provisions of the Agency Agreement.

7.5 General provisions applicable to payments

The holder of a Global Note (or as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for his share of each payment so made by the Issuer in respect of such Global Note.

7.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day which (subject to Condition 11) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) in the case of Notes in definitive form only, the relevant place of presentation;
 - (ii) each Additional Financial Centre (other than TARGET2 System) specified in the applicable Pricing Supplement;
- (b) if TARGET2 System is specified as an Additional Financial Centre in the applicable Pricing Supplement, a day on which the TARGET2 System is open; and
- (c) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

7.7 Interpretation of principal and interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 9 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.6); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

8 REDEMPTION AND PURCHASE

8.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) save for any Hybrid Tier I Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date, subject to compliance with the applicable regulatory requirements, including in the case of Upper Tier II Subordinated Notes, the prior approval of the Reserve Bank of India.

The Hybrid Tier I Notes are perpetual with no scheduled maturity date and may only be redeemed in accordance with Conditions 8.2, 8.3 or 8.4 and subject to the conditions and limitations set forth therein.

For the avoidance of doubt, all payments made in respect of Subordinated Notes and Hybrid Tier I Notes under this Condition 8 shall be subject to such further interpretations, amendments and clarifications as may be stipulated by the Reserve Bank of India from time to time.

8.2 Redemption for tax reasons

In the case of Senior Notes or Subordinated Notes, at any time prior to the applicable Maturity Date, or in the case of Hybrid Tier I Notes, at any time prior to the first Optional Redemption Date as specified in the applicable Pricing Supplement, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee (in its absolute discretion) immediately before the giving of such notice that:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 9) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes for such Series; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that (1) in the case of Subordinated Notes, the prior approval of the RBI or such other relevant authority shall have been obtained, if necessary, (2) in the case of Hybrid Tier I Notes, the Conditions for Redemption set out in Condition 8.12 having been satisfied, (3) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which, the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee to make available at its specified office to the Noteholders (1) a certificate signed by an authorised officer of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

As used in this Condition 8, "**authorised officer of the Issuer**" shall mean a person (a) who is duly authorised by (i) the Chairman and Managing Director of the Issuer or (ii) the Fund Management Committee of the Issuer or (b) who is a constituted attorney of the Issuer.

Notes redeemed pursuant to this Condition 8.2 will be redeemed at their Early Redemption Amount referred to in Condition 8.6 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

8.3 Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, (1) in the case of the Upper Tier II Subordinated Notes, having obtained the prior approval of the Reserve Bank of India or other relevant authority, if necessary, (2) in the case of Hybrid Tier I Notes, the Conditions for Redemption set out in Condition 8.12 having been satisfied, and (3) in the case of any Note having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and
- (b) not less than seven days before the giving of the notice referred to in (a), notice to the Trustee and the Principal Paying Agent,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and/or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes (or, as the case may be, parts of Registered Notes), the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream,

Luxembourg and/or, as the case may be, DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

Any optional redemption of the Notes is subject to compliance with applicable regulatory requirements, including the prior approval of the Reserve Bank of India. The Reserve Bank of India, while considering the request of the Issuer to so redeem the securities, may take into consideration, amongst other things, the Issuer's capital adequacy position both at the time of the proposed redemption and thereafter.

8.4 Redemption for Regulatory Reasons

Subject to the Conditions for Redemption in Condition 8.12 having been satisfied, the Hybrid Tier I Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time prior to the first Optional Redemption Date as specified in the applicable Pricing Supplement, on giving not less than 30 nor more than 60 days' notice to the Trustee, the Paying Agents, the Transfer Agents, the Registrar, the SGX-ST and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee (acting in its absolute discretion) immediately before the giving of such notice that for any reason, there is more than an insubstantial risk that for the purposes of the Reserve Bank of India's capital adequacy requirements under applicable regulations from time to time applicable to the Issuer, the Hybrid Tier I Notes, after having qualified as such, will no longer qualify as Tier I capital of the Issuer under applicable regulations (other than for the reason that the amount of Hybrid Tier I Notes exceeds any limitations prescribed by the Reserve Bank of India with respect to the amount that qualifies as Tier I capital) provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that there is more than an insubstantial risk that for the purposes of the Reserve Bank of India's capital adequacy requirements under applicable regulations from time to time applicable to the Issuer the Hybrid Tier I Notes will no longer qualify as Tier I capital of the Issuer.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee:

- (1) a certificate signed by an authorised officer of the Issuer stating that the circumstances referred to in this Condition 8.4 exist and is prevailing (including the requirements of Condition 8.12) and setting out the details of such circumstances; and
- (2) an opinion of independent legal advisers of recognised standing experienced in such matters to the effect that there is more than an insubstantial risk that for the purposes of the Reserve Bank of India's capital adequacy requirements under applicable regulations from time to time applicable to the Issuer, the Hybrid Tier I Notes, after having qualified as such, will no longer qualify as Tier I capital of the Issuer under applicable regulations (other than for the reason that the amount of Hybrid Tier I Notes exceeds any limitations prescribed by the Reserve Bank of India with respect to the amount that qualifies as Tier I capital),

and the Trustee shall be entitled without further action or inquiry to accept the certificate as conclusive and sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Hybrid Tier I Notes redeemed pursuant to this Condition 8.4 will be redeemed at their Regulatory Redemption Amount.

For the purposes of this Condition 8.4:

"Applicable Spread" shall be as provided in the applicable Pricing Supplement;

"Base Redemption Amount" means the sum of (i) 100 per cent. of the aggregate principal amount of the Hybrid Tier I Notes being redeemed and (ii) an amount equal to unpaid interest, if any, thereon for the relevant Interest Period;

"Make Whole Amount" means an amount, as applied on any date of redemption of the Hybrid Tier I Notes pursuant to this Condition 8.4, equal to the sum of (i) the present value of the outstanding principal amount of the Hybrid Tier I Notes, assuming a repayment thereof on the first Optional Redemption Date as set out in the applicable Pricing Supplement, and (ii) the present value of the remaining payments of interest scheduled to be paid to and including such first Optional Redemption Date, in each case discounted to the redemption date on the basis of the Day Count Fraction set forth in the Pricing Supplement, at the applicable Treasury Yield plus the Applicable Spread;

"Regulatory Redemption Amount" means an amount equal to the greater of (a) the Make Whole Amount and (b) the Base Redemption Amount; and

"Treasury Yield" shall be calculated by the Calculation Agent, in consultation with the Issuer, by the appointment of three or more other primary U.S. Government securities dealers in New York City (each a "**Primary Treasury Dealer**") or their respective successors as reference dealers, provided, however, that if any such dealer ceases to be a Primary Treasury Dealer, the Calculation Agent will (in consultation with the Issuer) substitute such dealer with another Primary Treasury Dealer. The Calculation Agent will select a United States Treasury security having a maturity comparable to the time period between the redemption

date and the first Optional Redemption Date as set out in the applicable Pricing Supplement (the “**Make Whole End Date**”), which would be used in accordance with customary financial practice to price new issues of corporate debt securities with a maturity comparable to the Make Whole End Date. The reference dealers will provide the Calculation Agent with the bid and ask prices provided by each reference dealer to obtain such reference dealer’s quotation. The Calculation Agent will eliminate the highest and lowest quotations and then calculate the average of the remaining quotations; provided, however, that if the Calculation Agent obtains fewer than three quotations, it will calculate the average of all the quotations without eliminating any of them (the “**comparable treasury price**”). The applicable Treasury Yield will be determined by the Calculation Agent and will be the annual equivalent yield to maturity of a security whose price is equal to the comparable treasury price, in each case expressed as a percentage of its principal amount.

8.5 Redemption of the Senior Notes at the Option of the Noteholders (Investor Put)

(a) *If Investor Put is specified in the applicable Pricing Supplement*

If Investor Put is specified as being applicable in the applicable Pricing Supplement with respect to Senior Notes only, upon the holder of any Senior Note giving to the Issuer in accordance with Condition 15 not less than 30 nor more than 60 days’ notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Senior Note on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date.

(b) *Put Option Exercise Procedures*

To exercise the right to require redemption of a Senior Note the holder of such Senior Note must deliver a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent, Transfer Agent or the Registrar (a “**Put Notice**”) accompanied by, if the Senior Note is in definitive form, the definitive Senior Note, to the specified office of any Paying Agent, in the case of Bearer Notes, or of any Transfer Agent or the Registrar in the case of Registered Notes, at any time within the notice period during normal business hours of such Paying Agent, Transfer Agent or the Registrar. In the Put Notice the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition.

Any optional redemption of the Notes is subject to compliance with applicable regulatory requirements, including the prior approval of the RBI. The RBI, while considering the request of the Issuer to so redeem the securities, may take into consideration, amongst other things, the Issuer’s capital adequacy position both at the time of the proposed redemption and thereafter.

8.6 Early Redemption Amounts

For the purpose of Conditions 8.2 and 8.5 above and Condition 11, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) each Note (other than a Zero Coupon Note) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = RP \times (1 + AY)^y$$

where:

"**RP**" means the Reference Price;

"**AY**" means the Accrual Yield expressed as a decimal; and

"**y**" is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365),

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

8.7 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 8.6 above.

8.8 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

8.9 Purchases

The Issuer or any of its Subsidiaries may at any time purchase (i) Senior Notes and (ii) (subject to obtaining the prior approval of the Reserve Bank of India or other relevant authority) Subordinated Notes and/or Hybrid Tier I Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer surrendered to any Paying Agent and/or the Registrar for cancellation.

8.10 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 8.9 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent (which shall notify the Registrar of such cancelled Notes in the case of Registered Notes) and may not be reissued or resold.

8.11 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 8.1, 8.2, 8.3 or 8.5 above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.6(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Trustee or the Principal Paying Agent and notice to that effect has been given to the Noteholders in accordance with Condition 15.

8.12 Conditions for Redemption of Hybrid Tier I Notes

The Issuer shall not redeem any of the Hybrid Tier I Notes or purchase and cancel the Hybrid Tier I Notes unless (i) the Issuer is solvent at the time of payment and immediately thereafter and (ii) the prior written consent of the Reserve Bank of India shall have been obtained (collectively, the "**Conditions for Redemption**"). Prior to any redemption of Hybrid Tier I Notes under this Condition 8, the Issuer shall deliver to the Trustee a certificate signed by an authorised officer of the Issuer confirming that the Issuer is entitled to effect the redemption and setting forth a statement of facts showing which Conditions have been satisfied and

whether any consent of the Reserve Bank of India is required, and if so required in connection with any such redemption or a redemption under Condition 8.2 or 8.4, attaching thereto a copy of such consent as well as a certificate as to the solvency of the Issuer executed by an authorised officer of the Issuer. Such certificates and attachments shall be made available for inspection by the Noteholders. The Trustee shall be entitled without further action or enquiry to accept the certificate and attachment as conclusive and sufficient evidence of the contents and matters set forth therein.

Noteholders should note that it is intended that the Hybrid Tier I Notes should constitute Tier I instruments of the Issuer and, accordingly, under statute and regulatory requirements prevailing at the date of issue of the Hybrid Tier I Notes relative to Tier I instruments, and by virtue of the above provisions, any redemption of such Notes is subject to the prior consent of the Reserve Bank of India at the relevant time.

9 TAXATION

9.1 Payment without Withholding

All payments of principal and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, assessments, governmental charges or duties of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction (the "**Additional Amounts**"), except that no such Additional Amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) where the holder is liable for such taxes, assessments, governmental charges or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) presented (or in respect of which the certificate representing it is presented) for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7.6); or
- (c) presented for payment by or on behalf of a holder of such Note, Receipt or Coupon who, at the time of such presentation, is able to lawfully avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or certificate representing it), Receipt or Coupon is presented for payment and does not make such declaration or claim; or

- (d) with respect to any withholding or deduction (i) required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code and any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto or (ii) imposed pursuant to Section 871(m) of the Code.

9.2 Interpretation

As used herein:

- (i) **"Tax Jurisdiction"** means:
- (A) where the Issuer is acting through its London branch, India or any political subdivision or any authority thereof or therein having power to tax or the United Kingdom or any political subdivision or any authority thereof or therein having power to tax payments made by the Issuer of principal or interest on the Notes, Receipts or Coupons; or
- (B) where the Issuer is acting through any other branch outside India as specified in the applicable Pricing Supplement, India or any political subdivision or any authority thereof or therein having power to tax or the tax jurisdiction applicable to such branch or any political subdivision or any authority thereof or therein having power to tax payments made by the Issuer of principal or interest on the Notes, Receipts or Coupons.
- (ii) **"Relevant Date"** in respect of any Note, Receipt or Coupon means the date on which payment in respect thereof first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Principal Paying Agent or, as the case may be, the Registrar on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

9.3 Transfers or Sales

The Issuer has in the Trust Deed agreed, subject to receipt of written evidence reasonably satisfactory to the Issuer in respect thereof, to indemnify any transferor or transferee of a Note (or any beneficial interest therein), other than a transferor or transferee who is liable to Indian tax by reason of his having a connection with India, apart from the mere holding of a Note, against any loss resulting from the imposition of Indian income, capital gains or gift tax on transfer or sale of a Note outside India, provided that (i) such indemnity shall not (a) extend to any penalty interest or tax incurred as a result of any delay or failure on the part of the relevant transferor or transferee in complying the applicable tax laws and regulations and (b) be enforceable by any person other than the relevant transferor or transferee and (ii) the Issuer shall incur no liability in respect of this indemnity towards any person other than the relevant transferor or transferee. The foregoing indemnity will terminate upon the Issuer providing (a) certification signed by two authorised officers of the Issuer and (b) a reasoned legal opinion in writing of a practising Indian taxation lawyer acceptable to the Trustee, that it is satisfied, on the basis of an appropriate amendment of the Income Tax Act 1961 of India that the Notes are not and are not deemed to be situated in India.

Under current RBI regulations applicable to external commercial borrowings, the Issuer would require the prior approval of the RBI before making any payment under this indemnity. Such approval may or may not be forthcoming.

10 PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9.2) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7.3 or any Talon which would be void pursuant to Condition 7.3.

11 EVENTS OF DEFAULT AND ENFORCEMENT

11.1 Events of Default relating to Senior Notes

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Senior Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured to its satisfaction), (but in the case of the happening of any of the events described in paragraphs (b), (c), (d) (in the case of the winding up or liquidation of any of the Issuer's Subsidiaries), (e), (h) to (j) inclusive and (m) (in respect of any event which has an analogous effect to any of the events referred to in subparagraphs (e) and (i)) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the holders of the Senior Notes), give notice in writing to the Issuer that each Senior Note is, and each Senior Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an "**Event of Default**") shall occur:

- (a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and, in the case of interest, the default continues for a period of three days; or
- (b) if the Issuer fails to perform or observe any of its other obligations under the Conditions or the Trust Deed and (except in any case where, in the opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if (i) any other present or future Indebtedness for Borrowed Money of the Issuer or any of its Subsidiaries becomes capable of being declared due and payable prior to its stated maturity otherwise than at the option of the Issuer or the relevant Subsidiary, or (ii) any such Indebtedness for Borrowed Money is not paid when due or, as the case may be, within any applicable grace period, or (iii) any security given by the Issuer or any of its Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness for Borrowed Money other than in circumstances where (A) the

Trustee is satisfied that the Issuer or the relevant Subsidiary is contesting in good faith in appropriate proceedings the fact that any such amount is due or (B) the Issuer or the relevant Subsidiary is prohibited from making payment of any such amount by the order of a court having appropriate jurisdiction, provided that the aggregate amount outstanding of the relevant Indebtedness for Borrowed Money or amounts payable under the guarantees and/or indemnities or subject to the security in respect of one or more events mentioned above in this subparagraph (c) exceeds U.S.\$20,000,000 or its equivalent in other currencies; or

- (d) if any order by the Government of India is made for the winding up or liquidation of the Issuer or any of its Subsidiaries, save for the purposes of reorganisation on terms previously approved in writing by an Extraordinary Resolution of the Noteholders; or
- (e) if the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on the whole or substantially all of its business, save for the purposes of reorganisation on terms previously approved in writing by an Extraordinary Resolution of the Noteholders, or the Issuer or any of its Subsidiaries stops or threatens to stop or suspends payment of, or is unable to, or admits an inability to, pay its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts (or any class of its debts) pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if the Issuer (or its directors) or any of its Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- (g) if a moratorium is agreed or declared by the Issuer in respect of any Indebtedness for Borrowed Money (including any obligation arising under any guarantee) of the Issuer or any of its Subsidiaries; or
- (h) if it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes, the Receipts, the Coupons, the Agency Agreement or the Trust Deed; or
- (i) if any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or any material part of the assets or shares of the Issuer or any of its Subsidiaries without fair compensation, unless, and for so long as, the Trustee is satisfied that such compulsory purchase or expropriation is being contested in good faith and by appropriate proceedings; or
- (j) if the Issuer or any of its Subsidiaries is or becomes entitled or subject to, or is declared by law or otherwise to be protected by immunity (sovereign or otherwise) and Condition 20.4 is held to be invalid or unenforceable; or

- (k) if (i) proceedings are initiated against the Issuer or any of its Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Subsidiaries or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator or an administrative receiver appointed following presentation of a petition for an administration order) unless initiated by the relevant company, is not discharged within 14 days; or
- (l) if the Government of India ceases to own, directly or indirectly, more than 50 per cent. of the voting securities of the Issuer; or
- (m) if any event occurs, which has, in the Trustee's opinion, an analogous effect to any of the events referred to in subparagraphs (e) to (g) inclusive, (i) and (k).

For the purposes of this Condition, "**Indebtedness for Borrowed Money**" means (i) any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or (ii) any borrowed money or (iii) any liability under or in respect of any acceptance or acceptance credit.

11.2 Events of Default relating to Subordinated Notes and Hybrid Tier I Notes

- (a) Subject to the provisions of Condition 3.2(b) and 3.3(c), as applicable, if default is made in the payment of any principal or interest due on the Subordinated Notes or the Hybrid Tier I Notes or any of them on the due date and, in the case of interest, such default continues for a period of seven days, the Trustee may, at its discretion and without further notice (subject to being indemnified and/or secured to its satisfaction), institute such proceedings against the Issuer as it may think fit to enforce the obligations of the Issuer under the Subordinated Notes, the Hybrid Tier I Notes or the Trust Deed provided that the Issuer shall not, by virtue of the institution of any such proceedings other than proceedings for the winding up of the Issuer, be obliged to pay any sums sooner than the same would otherwise have been payable by it.

Pursuant to Section 18 of the Bank Nationalisation Act, Indian statutory provisions relating to winding up do not apply to the Issuer, and it may only be placed in liquidation by order of the Government in such manner as it may direct.

- (b) If any order of the Government of India is made for the winding up or liquidation of the Issuer, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution of the Noteholders, the Trustee may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Subordinated Notes or (as the case may be) the Hybrid Tier I Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject to being indemnified and/or secured to its satisfaction) give notice to the Issuer that the Subordinated Notes or (as the case may be) the Hybrid Tier I Notes are, and they shall, subject to the prior approval of RBI having been obtained, thereupon immediately become, due or repayable at the amount provided in, or calculated in accordance with, Condition 8.6, together with accrued interest as provided in the Trust Deed.

11.3 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

12 REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced subject to applicable laws, regulations and relevant stock exchange regulations at the specified office of the Principal Paying Agent or (where applicable) the Paying Agent in Singapore (in the case of Bearer Notes, Receipts, Coupons and Talons) or of the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13 PRINCIPAL PAYING AGENT, REGISTRAR, EXCHANGE AGENT, PAYING AND TRANSFER AGENTS

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Exchange Agent, the initial Registrar and the other initial Transfer Agents and their initial specified offices are set out below.

The Issuer is, with the prior written approval of the Trustee, entitled to vary or terminate the appointment of any Paying Agent, the Exchange Agent, Registrar or Transfer Agent and/or appoint additional or other Paying Agents, Exchange Agents, Registrars or Transfer Agents and/or approve any change in the specified office through which any of the same acts, provided that:

- (i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent and, if appropriate, a Registrar and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange;
- (ii) so long as the Notes are listed on the SGX-ST, if the Notes are issued in definitive form, there will be at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the SGX-ST;
- (iii) there will at all times be a Transfer Agent having a specified office in London;
- (iv) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in London; and
- (v) there will at all times be a Principal Paying Agent.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the second paragraph of Condition 7.3. Notice of any appointment, variation, termination or change in Paying Agents will be given promptly to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Principal Paying Agent, the Exchange Agent, the Registrar, the Paying Agents and the Transfer Agents act solely as agents of the Issuer and, in certain limited circumstances, of the Trustee and do not assume any obligation or trust for or with any Noteholders.

14 EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

15 NOTICES

Notices to holders of Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by air mail to them at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth day after the date of such mailing.

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading daily newspaper of general circulation in Asia or such other English language daily newspaper with general circulation in Asia as the Trustee may approve. It is expected that such publication will be made in the *Asian Wall Street Journal*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Notes are for the time

being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If, in the opinion of the Trustee, publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg or DTC, be substituted for such publication in such newspaper(s) or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange (or any other relevant authority). Any such notice shall be deemed to have been given to the holders of the Notes on the first day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg or DTC, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg or DTC, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to Noteholders in accordance with this Condition 15.

16 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts, the Coupons or the Trust Deed (including, *inter alia*, modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in outstanding nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in outstanding nominal amount of the Notes for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in outstanding nominal amount of the Notes for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form

satisfactory to the Trustee) by or on behalf of the holders of not less than three-fourths in outstanding nominal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed by the Noteholders will be binding on all the Noteholders, whether or not they are present at any meeting and whether or not they voted on the resolution, and on all Receiptholders and Couponholders.

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders to do so or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 9 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

The Trustee may, without the consent of the Noteholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of an entity owned or controlled by the Issuer, subject to (a) the Notes being unconditionally and irrevocably guaranteed by the Issuer, (b) the Trustee being satisfied, in its absolute discretion, that the interests of the Noteholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with.

Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be promptly notified to Noteholders by the Issuer in accordance with Condition 15.

17 INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

18 FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

19 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20 GOVERNING LAW AND SUBMISSION TO JURISDICTION

20.1 Governing law

The Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons are governed by and shall be construed in accordance with English law except that, in the case of Subordinated Notes, Condition 3.2, and in the case of Hybrid Tier I Notes, Condition 3.3 is governed by, and shall be construed in accordance with, Indian law.

20.2 Submission to jurisdiction

- (a) Subject to Condition 20.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (a “**Dispute**”) and all Disputes will be submitted to the exclusive jurisdiction of the English courts.

- (b) For the purposes of this Condition 20.2, each of the Issuer and the Trustee and any Noteholders, Receiptholders or Couponholders taking proceedings in relation to any Dispute waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) This Condition 20.2(c) is for the benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders only. To the extent allowed by law, the Trustee, the Noteholders, the Receiptholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

20.3 Appointment of Process Agent

The Issuer irrevocably appoints Canara Bank, London Branch, at its specified office for the time being as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Canara Bank, London Branch being unable or unwilling for any reason so to act, it will immediately appoint another person approved by the Trustee as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

20.4 Waiver of immunity

The Issuer irrevocably and unconditionally with respect to any Dispute (i) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction, (ii) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute and (iii) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgment, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer towards its general corporate purposes, to meet the funding requirements of its foreign offices, subsidiaries and joint venture, which includes but is not limited to the Issuer's London Branch and any other foreign branch through which Notes may be issued under the Programme, and to develop and expand the Issuer's businesses in these offices.

CAPITALISATION

The following table sets forth the non-consolidated indebtedness and capitalisation of the Bank as at 31 December 2018. The financial effects of transactions subsequent to 31 December 2018 are not taken into account. This table should be read in conjunction with the Bank's reviewed non-consolidated financial statements as at 31 December 2018 and the schedules and notes presented elsewhere herein.

	As at 31 December 2018	
	(reviewed)	
	(Rs. in billions)	(U.S.\$ in billions)⁽¹⁾
Short Term Liabilities		
Deposits due to Banks	336.90	4.83
Other Deposits	1,496.89	21.45
Demand Liabilities	244.56	3.50
Other Liabilities including provisions	181.64	2.60
Total	<u>2,259.99</u>	<u>32.39</u>
Long Term Liabilities		
Term Deposits ⁽²⁾	3,676.89	52.70
Other Liabilities	—	—
Total	<u>3,676.89</u>	<u>52.70</u>
Borrowings⁽³⁾		
	<u>419.07</u>	<u>6.01</u>
Shareholder Funds		
Share Capital ⁽⁴⁾	7.33	0.11
Reserves & Surplus	358.02	5.13
Total	<u>365.35</u>	<u>5.24</u>
Total Capitalisation⁽⁵⁾		
Capital Adequacy Ratio (%)		
Tier I (%)	12.21	12.21
Tier II (%)	<u>9.54</u>	<u>9.54</u>
	<u>2.67</u>	<u>2.67</u>

Notes:

- (1) U.S. dollar translations have been made using the exchange rate of U.S.\$1.00 = Rs.69,7750 as at 31 December 2018, based on prevailing rates at that date being the reference rate released by the Foreign Exchange Dealers' Association of India (the "FEDA") on 31 December 2018 which is available on the website of the FEDA (Source: <https://www.fedai.org.in>).
- (2) Includes current portion of term deposits but excludes overdue term deposits.
- (3) Includes short-term and long-term borrowings.
- (4) At 31 December 2018 there were 3,000,000,000 authorised and 733,244,800 outstanding and fully paid shares.
- (5) Represents the sum of short term-liabilities, long-term liabilities, borrowings and shareholder's funds.

Non-consolidated contingent liabilities as at 31 December 2018 were Rs.3,145.05 billion.

Except as described above, there has been no significant change in the non-consolidated indebtedness or capitalisation or non-consolidated contingent liabilities of the Bank since 31 December 2018.

INVESTMENT CONSIDERATIONS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes issued under the Programme are also described below.

Prospective investors should carefully consider, among other things, the risks described below, as well as the other information contained in this Offering Circular (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making an investment decision. Any of the following risks could materially adversely affect the Bank's business, financial condition or results of operations and, as a result, investors could lose all or part of their investment. The risks below are not the only risks the Bank faces. Additional risks and uncertainties not currently known to the Bank, or which are currently deemed to be immaterial, may also materially adversely affect the Bank's business, financial condition or results of operations.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal and other professional advisers to determine whether and to what extent (i) the Notes are suitable legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital rules or similar rules.

Risks Relating to the Bank's Business

The Bank is exposed to various industry sectors. A deterioration in the performance of any of these industry sectors to which the Bank has significant exposure may adversely impact the Bank's business and, in turn, its financial conditions.

As at 31 December 2018, the Bank had credit exposure to various industrial sectors in India. As at that date, the Bank's five largest industry exposures were to infrastructure at Rs.548.93 billion, textiles at Rs.137.85 billion, food processing at Rs.108.88 billion, engineering at Rs.103.59 billion and basic metal and metal products at Rs.48.07 billion, together amounting to Rs.947.32 billion and constituting 23.41 per cent. of the Bank's net advances. The global and domestic trends in these industries may have a bearing on the Bank's financial position. Any significant deterioration in the performance of a particular sector, driven by events outside the Bank's control, such as regulatory action or policy announcements by Government or state government authorities, would adversely impact the ability of borrowers in that industry to service their debt obligations to the Bank. As a result, the Bank would experience increased delinquencies which may adversely affect the Bank's business, its future financial performance, shareholders' funds and the price of the Notes.

If the Bank is not able to control or reduce the level of non-performing assets in its portfolio, its business will suffer.

As at 31 December 2018, the Bank's net non-performing assets ("NPAs") amounted to Rs.265.91 billion or 6.37 per cent. of its net assets. A number of factors will have an impact on the Bank's ability to control and reduce non-performing and restructured loans. Some of these factors, including developments in the Indian economy, movements in global commodity markets, global competition, interest rates and exchange rates, are not within the Bank's control. While the growth of the Indian economy in the past year has contributed to a reduction in defaults by the Bank's

borrowers, there can be no assurance that such growth will continue or that the business of the Bank will grow in line with the economy. The Bank is increasing its efforts to improve collections and to foreclose on existing non-performing loans, but there is no assurance that it will be successful in its efforts or that the overall quality of its loan portfolio will not deteriorate in the future. If the Bank is not able to control and reduce its non-performing loans, or if there is a further significant increase in its restructured loans, its business, future financial performance, shareholders' funds and the price of the Notes could be adversely affected.

The Bank's provision for loan losses as a percentage of NPAs as at 31 December 2018 was 40.41 per cent. There can be no assurance that there will be no deterioration in provisions for loan losses as a percentage of non-performing assets or otherwise or that the percentage of non-performing assets that the Bank will be able to recover will be similar to the Bank's past experience of recoveries of non-performing assets. In the event of any deterioration in the Bank's asset portfolio, there could be an adverse impact on its business, future financial performance, shareholders' funds and the price of the Notes.

The Bank's loan portfolio contains significant advances to the agricultural sector.

The Bank's loan portfolio contains significant advances to the agricultural sector, amounting to Rs.912.21 billion (including certain eligible investments included as advances for the purpose of calculating the required regulatory percentage of such advances), as at 31 December 2018. In addition, as at 31 December 2018, the Bank had a network of 3,819 rural and semi-urban branches, constituting approximately 60.48 per cent. of its total branch network, to service the agricultural sector.

India is still a predominantly agrarian economy, and agricultural production in India is heavily dependent on weather cycles. In accordance with regulatory requirements in India, at least 18.00 per cent. of the Bank's net bank credit must be extended to the agricultural sector. A deterioration in the performance of the agricultural sector may lead to an increase in delinquency and adversely affect the Bank's business and financial condition. For example, any major floods or draughts which occur in the country will have a negative impact on the customers in the affected regions, and in turn affect their ability to make timely payment on their loans. In addition, the market may perceive the exposure of banks to the agricultural sector to be of higher risk. This may negatively affect the Bank's business, future financial performance, shareholders' funds and the price of the Notes.

Meanwhile, the Government's proposed agricultural lending plans may contemplate state-owned banks, including the Bank, lending at below-market rates in the agricultural sector. The RBI guidelines stipulate that the Bank's agricultural advances be 18.00 per cent. of adjusted net bank credit and the Bank's objective is to increase agricultural spending to achieve this benchmark. The international financial market may perceive the Bank's exposure of state-owned banks to the agricultural sector to involve higher risks, whether or not the Government mandates lending, which may negatively affect the Bank's access and cost of funding, and adversely affect the Bank's business, future financial performance and the trading price of the Notes.

Recently, several Indian states have announced farm loan waiver programmes, with an estimated cost in the billions of Rupees. If such farm loan waivers become more widespread in the future, this could result in a loss of short-term liquidity for affected public sector banks, including the Bank, while such banks wait for the reimbursement of such waived loans from the Government. In addition to a loss of short-term liquidity for affected banks, such farm loan waivers may also have a negative impact on borrower behaviour such as the farmers' willingness to make repayments as they may anticipate further farm loan waivers. The farm loan waiver programmes may have an adverse impact on the banking sector as a whole as well as the Bank's business, future financial performance and the trading price of the Notes.

The Bank may experience delays in enforcing its collateral when borrowers default on their obligations to the Bank which may result in failure to recover the expected value of collateral security exposing it to a potential loss.

A substantial portion of the Bank's loans to corporate customers are secured by real assets, including property, plant and equipment. The Bank's loans to corporate customers also include working capital credit facilities that are typically secured by a first lien on inventory, receivables and other current assets. In some cases, the Bank may have taken further security of a first or second lien on fixed assets, a pledge of financial assets such as marketable securities, corporate guarantees and personal guarantees. A substantial portion of the Bank's loans to retail customers is also secured by the assets financed, predominantly property and vehicles. Although in general the Bank's loans are over-collateralised, an economic downturn could result in a fall in relevant collateral values for the Bank.

In India, foreclosure on immovable property generally requires a written petition to an Indian court or tribunal. An application, when made, may be subject to delays and administrative requirements that may result in, or be accompanied by, a decrease in the value of the immovable property. Security created on shares of a borrower can be enforced without court proceedings. However, there can be delays in realisation in the event that the borrower challenges the enforcement in an Indian court. In the event that a corporate borrower makes a reference to the specialised judicial authority called the National Company Law Tribunal (the "**NCLT**"), foreclosure and enforceability of collateral is stayed.

The Insolvency and Bankruptcy Code enacted in 2016 provides for a time-bound mechanism to resolve stressed assets. Further, the new framework for resolution of stressed assets introduced in February 2018 by the RBI requires banks to implement a plan to resolve within 180 days any overdue account where aggregate exposure of the lenders is Rs.20 billion or more, failing which the borrower would have to be referred for resolution under the IBC. The process of resolution of accounts referred under the IBC is still evolving, with periodic amendments being incorporated in the framework through both legislation and judicial decisions. This could delay the resolution of accounts referred. Should the resolution of accounts not be achieved, the borrowers will go into liquidation, and the market value of the collateral may come down thus impacting the recovery of dues by lenders.

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (the "**SARFAESI Act**"), has strengthened the ability of lenders to resolve non-performing assets by granting them greater rights as to enforcement of security and recovery of dues from corporate borrowers. While the Bank believes that the SARFAESI Act has contributed to its enforcement efforts, there can be no assurance that the legislation will continue to have a favourable impact on the Bank's efforts to resolve non-performing assets. For example, in a case before the Supreme Court of India in 2004, while the constitutional validity of the SARFAESI Act was affirmed, the right of a defaulting borrower to appeal to the Debt Recovery Tribunal (the "**DRT**") was also affirmed. The DRT has the power to issue a stay order prohibiting the lender from selling the assets of a defaulted borrower. As a result, there can be no assurance that any foreclosure proceedings would not be stayed by the DRT. In addition, there is also no assurance that the Insolvency and Bankruptcy Code, 2016 will continue to have a favourable impact on the Bank's efforts to resolve NPAs. A failure to recover the expected value of collateral security could expose the Bank to a potential loss.

The Bank cannot guarantee that it will be able to realise the full value on its collateral, as a result of, among other factors, delays in bankruptcy and foreclosure proceedings, defects in the perfection of collateral and fraudulent transfers by borrowers. A failure to recover the expected value of collateral security could expose the Bank to a potential loss. Any unexpected losses could adversely affect the Bank's business, its future financial performance and the price of the Notes.

The Bank faces greater credit risks than banks in more developed countries.

The Bank's principal business is providing financing to its clients, most of whom are based in India. The Bank's advances to small to medium sized enterprises and retail customers can be expected to be more severely affected by adverse developments in the Indian economy than loans to large corporations. The Bank is subject to the credit risk of its borrowers, who may not pay in a timely fashion or may not pay at all. The credit risk of all its borrowers is higher than in more developed countries due to the higher uncertainty in the Indian regulatory, political, economic and industrial environment and difficulties that many of the Bank's borrowers face in adapting to instability in world markets and technological advances taking place across the world. Unlike several developed countries, India does not have a fully operational nationwide credit information bureau, which may affect the quality of information available to the Bank about the credit history of its borrowers, especially individuals and small businesses. Increased competition arising from economic liberalisation in India, variable industrial growth, a sharp decline in commodity prices, the high level of debt in the financing of projects and capital structures of companies in India and the high interest rates in the Indian economy during the period in which a sizeable proportion of project financings were undertaken may have reduced the profitability of certain of the Bank's borrowers. In addition, an economic slowdown and a general decline in business activity in India could impose further stress on these borrowers' financial soundness and profitability and thus expose the Bank to increased credit risk. The Bank is subject to the credit risk that its borrowers may not pay in a timely fashion or at all.

Banking is a heavily regulated industry and material changes in the regulations which govern the Bank could cause its business to suffer and the price of the Notes to go down.

Banks in India are subject to detailed supervision and regulation by the RBI. In addition, banks are subject generally to changes in Indian law, as well as to changes in regulation and government policies and accounting principles. The laws and regulations governing the banking sector could change in the future and any such changes may adversely affect the Bank's business, future financial performance and the price of the Notes, by requiring a restructuring of its activities, increasing costs or otherwise. For more information relating to reforms in the Banking Sector, see "*The Indian Financial Sector – Banking Sector Reform*".

In accordance with current RBI guidelines, all banks in India, including the Bank, are required to lend a minimum of 40.00 per cent. of its net bank credit to certain eligible sectors, such as agriculture, small-scale industries and housing finance up to certain limits, which are categorised as "Priority Sectors". The Bank's Priority Sector advances include loans to agricultural industries, small-scale industries and services, loans to certain sectors targeted as requiring special assistance, such as loans to housing, education, food and agriculture based processing sectors. At least 18.00 per cent. of the Bank's net bank credit must be lent to the agricultural sector. Any shortfall in the amount required to be provided to the Priority Sectors has to be deposited with Government-sponsored Indian development banks such as the National Bank for Agriculture and Rural Development ("NABARD"). These deposits typically carry interest rates lower than market rates.

Economic difficulties are likely to affect those borrowers significantly. As at 31 December 2018, the Bank's lending to Priority Sectors accounted for 54.00 per cent. of net bank credit, which includes 22.00 per cent. of net bank credit going to the agricultural sector. If the Bank does not meet the minimum level prescribed by the RBI, the Bank would be required to invest the amount of shortfall under certain Priority Sector targets in the Rural Infrastructure Development Fund (the "RIDF") managed by the NABARD at the end of the fiscal year. The Bank has invested Rs.13.70 billion in various funds under the RIDF on account of short falls under Priority Sector targets for the fiscal years prior to 2014. Since fiscal year 2014, the Bank has achieved all relevant targets set by the Government and therefore no further investment in the RIDF has been necessary.

According to RBI guidelines, advances to weaker sections by all commercial banks in India are required to be 10.00 per cent. of net bank credit. Any shortfall in the amount required to be lent to the Priority Sectors may be required to be deposited with the NABARD. These deposits can be for a period of one year to seven years.

There are a number of restrictions under the Banking Regulation Act, 1949 (the “**Banking Regulation Act**”) and the Bank Nationalisation Act, which impact the Bank’s operating flexibility and affect/restrict investors’ rights. These include the following:

- Section 15(1) of the Banking Regulation Act, states that “no banking company shall pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisation 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 forms of business in which the Bank and any subsidiaries of the Bank may engage are specified and regulated by the Banking Regulation Act. Pursuant to the provisions of Section 8 of Banking Regulation Act, the Bank cannot directly or indirectly deal in the buying, selling or bartering of goods by itself or for others, except in connection with the realisation of security given to it or held by it, or engage in any trading, buying, selling or bartering of goods for others other than in connection with bills of exchange received for collection or negotiation, or in connection with the administration of estates as executor, trustee or otherwise, or in connection with any business specified under Section 6(1)(o) of the Banking Regulation Act. Goods for this purpose means every kind of movable property, other than actionable claims, stocks, shares, money, bullion and specie and all instruments referred to in Section 6(1)(a) of Banking Regulation Act. Unlike a company incorporated under the Companies Act which may amend the objects clause of its Memorandum of Association to commence a new business activity, banking companies may only carry on business activities permitted by Section 6 of the Banking Regulation Act or specifically permitted by the RBI. This may restrict the Bank’s ability to pursue profitable business opportunities as they arise.
- Section 17(1) of the Banking Regulation Act requires every banking company to create a Reserve Fund and out of the balance of the profit of each year as disclosed in the profit and loss account transfer a sum equivalent to not less than 20.00 per cent. of such profit to the reserve fund before paying any dividend. Further, pursuant to the revised guidelines issued by the RBI, only those banks, which comply with the requirements of minimum capital adequacy ratio of at least 9.00 per cent. for preceding two completed years and the accounting year for which it proposes to declare dividend and net non-performing asset ratio of less than 7.00 per cent., would be eligible to declare dividends without prior approval of the RBI.
- Section 19 of the Banking Regulation Act regulates and restricts the opening of subsidiaries by banks, which may prevent the Bank from exploiting emerging business opportunities in areas other than banking. Similarly, Section 23 of the Banking Regulation Act contains certain restrictions on banking companies regarding the opening of new places of business and transfers of existing places of business, which may hamper the Bank’s operational flexibility.
- Section 25 of the Banking Regulation Act requires each banking company to maintain assets in India equivalent to not less than 75.00 per cent. of its demand and time liabilities in India, which in turn may restrict the Bank from building overseas asset portfolios and exploiting overseas business opportunities.
- Section 14A of the Banking Regulation Act requires that a banking company obtain RBI approval for the creation of floating charges on its assets and Sections 34 and 35 contain provisions regarding production of documents and availability of records for inspection.

- Under Sections 35A and 36 of the Banking Regulation Act (which apply to the Bank), the RBI is empowered to give directions to, prohibit from entering into any transactions, and advise generally the Bank. Consequently, the performance of obligations by the Bank under the Programme Agreement, the Trust Deed, the Agency Agreement and the Notes, may be restricted by the directions or advice given by the RBI under the aforesaid provision.
- Under Section 50 of the Banking Regulation Act (which also applies to the Bank), no person shall have a right, whether in contract or otherwise, to any compensation for any loss incurred by reason of operation of certain provisions of the Act, including Sections 35A and 36. Therefore, holders of the Notes may not be able to claim any compensation for a failure by the Bank to perform its obligations under the Programme Agreement, the Trust Deed, the Agency Agreement and the Notes, consequent to the operation of the aforesaid provisions.
- Under Section 3 (2-B) of the Bank Nationalisation Act, the paid up capital of the Bank may be increased with the prior sanction of the Government by the Board of Directors in consultation with the RBI including by transferring funds from the reserve fund, contribution by the Government or by issue of shares, provided however the holding of the Government shall at all times not be less than 52.00 per cent. of the paid up capital of the Bank.
- Under Section 3 (2-BB) of the Bank Nationalisation Act, the paid up capital of the Bank may be reduced by the Government prior to paid up capital being raised from the public, after consultation with the RBI, by cancelling any paid-up capital which is lost, or is unrepresented by available assets or with the previous sanction of the Government, by paying off any paid-up capital which is in excess of the wants of the Bank.
- Under Section 3 (2-BBB) of the Bank Nationalisation Act, the paid up capital of the Bank may be reduced by resolution passed at an annual general meeting of the shareholders by extinguishing or reducing the liability on any of its shares in respect of share capital not paid up or with or without cancelling any paid-up capital which is lost, or is unrepresented by available assets or by paying off any paid-up capital which is in excess of the wants of the Bank. However, the paid-up capital cannot be reduced below 25.00 per cent. of the total paid-up capital as at the date of the Bank's commencement of operations.
- Section 3 (2-D) of the Bank Nationalisation Act provides that a non-resident entity or individual shall not hold or acquire more than 20.00 per cent. of the paid-up capital of the Bank.
- Under Section 3 (2-E) of the Bank Nationalisation Act, no shareholder of, other than the Government, shall be entitled to exercise voting rights in respect of any shares held by such shareholder in excess of 10.00 per cent. of the total voting rights of all the shareholders of the Bank.
- Section 9(3) of the Bank Nationalisation Act provides that every Board of Directors shall include not more than four whole time directors appointed by the Government, one director who is an official of the Government, a director appointed by the Government who is a nominee of the RBI, a director from amongst employees being non-officers, a director from amongst officer employees, and depending on percentage of paid up capital being held by shareholders other than the Government, between one to three directors from amongst the shareholders apart from directors appointed under Section 9(3)(g) and Section 9(3)(h) of the Bank Nationalisation Act.
- Section 18 of the Bank Nationalisation Act provides that no provision of law relating to the winding up of the companies shall apply to the Bank and the Bank shall not be placed in liquidation except by order of the Government and in such manner as it may direct.

For more information relating to the Bank's regulatory restrictions, see "*Supervision and Regulation*".

The Bank has a large portfolio of Government securities and its business is particularly vulnerable to volatility in interest rates caused by deregulation of the financial sector in India.

As a result of Indian reserve requirements, the Bank is more structurally exposed to interest rate risk than banks in many other countries. Under the regulations of the RBI, the Bank's liabilities are subject to the statutory liquidity ratio requirement which requires that a minimum specified percentage, currently 19.50 per cent. of a bank's demand and time liabilities be invested in approved securities for the purpose of compliance with statutory liquidity ratio ("SLR") requirements. Such securities represented 82.19 per cent. of the Bank's investment portfolio as at 31 December 2018. The Bank earns interest on such Government securities at rates which could be less favourable than those which it typically receives in respect of its retail and corporate loan portfolio. In a rising interest rate environment, such as that recently experienced in India, the Bank could be materially adversely affected by the decline in market value of this portfolio and other fixed income securities.

The Bank's bond portfolio is principally held for investment purposes. Investment Holdings are classified as "Held to Maturity" ("HTM"), "Available for Sale" ("AFS") and "Held for Trading" ("HFT") investment in accordance with regulatory stipulations. See "*Supervision and Regulation – Banks' Investment classification and Valuation Standards*" for further information.

The RBI permits an annual one-time transfer of investments classified as AFS and HFT to the HTM category, subject to certain limits.

As at 31 March 2018, approximately 69.02 per cent. of the Bank's investment was classified as HTM and 30.84 per cent. was classified as AFS. While the Bank cannot hold securities classified as HFT for more than 90 days, there are no such restrictions on the holding period or monetary limits for AFS. In respect of HTM securities, the Bank cannot hold SLR securities classified as HTM in excess of 25.00 per cent. of its demand and time liabilities.

The Bank's income from treasury operations is particularly vulnerable to interest rate volatility and an increasing interest rate environment is likely to adversely affect the income from its treasury operations. Declines in the value of the Bank's trading portfolio in such an environment will adversely affect its income.

If the Bank is not able to integrate any future acquisitions, the Bank's business could be disrupted.

The Bank competes principally with other nationwide commercial banks in India but also faces competition from a number of additional sources including regional banks, development banks, specialised banks and subsidiaries and branches of foreign banks operating in India, as well as various other types of financial institutions, including credit card companies, securities companies and investment trust companies.

The Bank may seek opportunities for growth through acquisitions or be required to undertake mergers mandated by RBI. Any future acquisition or merger is subject to risks and uncertainties, some of which are beyond the Bank's control, including:

- difficulties in operating the integrated information technology system, electronic banking system, risk management and other systems;
- difficulties in harmonising the two corporate cultures;
- difficulties in maintaining asset quality;

- difficulties in retaining and attracting customers and new talent;
- difficulties in leveraging synergies following the acquisition or merger;
- difficulties in developing new skills required for new business and markets; and
- diversion of management's attention required to integrate the two businesses following the acquisition or merger,

some or all of the above factors could have an adverse effect on the Bank's business.

The Indian banking industry is very competitive and the Bank's growth strategy depends on its ability to compete effectively.

The Bank faces competition from Indian and foreign commercial banks in all its products and services. Over the last several years, several Indian banks have increased their focus on retail loans. The Bank will face competition from Indian and foreign commercial banks and non-bank finance companies in its retail products and services. In addition, since the Bank raises funds from market sources and individual depositors, it will face increasing competition for such funds. Applicable regulations currently permit foreign banks to establish wholly-owned subsidiaries ("WOS") in India and to own up to 74.00 per cent. of equity in Indian private sector banks.

In November 2013, the RBI introduced the regulatory framework applicable to foreign banks in India. Pursuant to such framework, foreign banks may operate in India by establishing WOS. WOS of foreign banks are allowed to raise Rupee-denominated resources through the issue of non-equity capital instruments. Further, WOS of foreign banks may be allowed to open branches in Tier 1 to Tier 6 centres, except at specified locations considered sensitive for national security reasons.

In addition, the new bank licensing guidelines (the "**New Bank Licensing Guidelines**") were issued by the RBI in February 2013, which specified that selected entities or groups in the private sector, entities in the public sector and non-banking financial companies with a successful track record of at least ten years would be eligible to provide banking services. In April 2014, the RBI granted in-principle approval to two applicants to set up banks under the New Bank Licensing Guidelines. To promote further financial inclusion in India, the RBI has issued licences to 11 "Payment Banks" and ten "Small Finance Banks" in 2015, with the objective to provide banking facilities to the sections of the Indian population that have yet to utilise banking services. These new banks will operate mostly in rural areas. Further, in August 2016, the RBI issued new guidelines for 'on tap' licensing of universal banks in the private sector which stated that the initial minimum paid-up equity capital for a bank should be Rs.5,000 million and thereafter, such bank should have a minimum net worth of Rs.5,000 million at all times. Further, these new Guidelines provided for the setting up of a standing external advisory committee by the RBI to deal with applications for new banking licences.

Due to competitive pressures, the Bank may be unable to successfully execute its growth strategy and offer products and services at reasonable returns and this may adversely impact its business, future financial performance and the trading price of the Notes.

The Bank's exposure to the securities of asset reconstruction companies could generally affect the Bank's business, financial condition and results of operations.

The Bank also has investments in security receipts arising from the sale of non-performing assets to reconstruction companies registered with the RBI. There can be no assurance that reconstruction companies will be able to recover these assets and redeem the Bank's investments in security receipts and that there will be no reduction in the value of these investments. Any such inability to recover assets or redeem these investments without a diminution in value could generally affect the Bank's business, financial condition and results of operations. In September 2016, the RBI issued a framework for sale of stressed assets. As per this framework, with effect from 1 April 2017, provisions held for investment in security receipts will be subject to a floor rate applicable to the underlying loans (the provisions the Bank would have had to make if the loans had continued to be held in its books), if more than 50.00 per cent. of the security receipts are held by the bank that sold the loans. The threshold of 50.00 per cent. was reduced to 10.00 per cent. from 1 April 2018 as per the framework. Further, the framework requires banks to maintain an internal list of stressed assets identified for sale and review assets classified as 'doubtful' above a threshold amount on a periodic basis with a view to consider a sale or other disposition.

The Bank's exposure to borrowers under a corporate insolvency resolution process could generally affect the Bank's business, financial condition and results of operations.

The Government promulgated the IBC in 2016 to comprehensively overhaul the insolvency resolution and liquidation process in India. The IBC has changed the paradigm of insolvency resolution to a creditor-controlled regime in India, wherein corporate debtors undergoing a corporate insolvency resolution process ("CIRP") are run by insolvency professionals as a going concern. During the CIRP, a moratorium is imposed wherein, inter alia, any institution of suits, continuation of pending suits, execution of any judgment, order or decree in any court, tribunal or other authority, or any action to foreclose, recover or enforce any security interest created by the corporate debtor is prohibited.

While it has been held by courts in India that no discrimination can happen between creditors of the same class, it is not a guarantee that the resolution plan approved by the committee of creditors and the National Company Law Tribunal will envisage satisfactory resolution of the financial debt owed to the Bank. Further, due to the imposition of the moratorium, the Bank is also prohibited from enforcing any security interest created by a corporate debtor in its favour during the CIRP, or any attempt to institute any suits or enforce any order or decree received in respect of the corporate debtor. If no resolution plan is approved, then the company will enter liquidation, where the distribution of assets will be as per the waterfall mandated by the IBC. It is possible that with respect to the borrowers of the Bank that are under CIRP under the IBC, the Bank may face significant discounts for financial debt owed to it by such borrowers. Additionally, due to litigation and other disputes by parties, the time taken for such resolution mechanism may extend beyond the estimated timelines.

The Bank's failure to manage growth effectively may adversely impact the Bank's business.

The Bank has witnessed growth in both its infrastructure and its business. The number of branches of the Bank has grown from 5,849 as at 31 March 2016 to 6,212 as at 31 March 2018. Such growth puts pressure on the Bank's ability to effectively manage and control historical and newly emerging risks. The Bank's ability to sustain growth depends primarily upon its ability to manage key issues such as selecting and retaining skilled manpower, maintaining an effective technology platform that can be continually upgraded, developing a knowledge base to implement the Bank's strategies, and ensuring a high standard of customer service. The inability of the Bank to effectively manage any of these issues may adversely affect the Bank's business growth and as a result, impact its business, future financial performance and the trading price of the Notes.

Consolidation in the banking sector in India may adversely affect the Bank.

The Government has expressed a preference for consolidation in the banking sector in India. Mergers among public sector banks may result in enhanced competitive strengths in pricing and delivery channels for merged entities. If there is liberalisation of the rules for foreign investment in private sector banks, this could result in consolidation in the banking sector. The Bank may face greater competition from larger banks as a result of such consolidation, which may adversely affect the Bank's business, future financial performance and the trading price of the Notes.

The Bank's funding is primarily in the form of deposits and if depositors do not roll over deposited funds upon maturity the Bank's business could be adversely affected.

The Bank attempts to maintain a diversified funding base and to concentrate deposits in savings accounts and current accounts. The Bank's funding is primarily derived from deposits placed with the Bank by its corporate and consumer clients. The Bank also derives funding from capital reserves and borrowings.

While, as at 31 December 2018, the maturity profile of the Bank's assets and liabilities showed a positive gap in the five year term, a negative gap may arise in the future if the average maturity of the Bank's deposits and other liabilities become shorter than that of its loans and investments. Most of the Bank's incremental funding requirements are met primarily in the form of deposits. If a significant portion of the Bank's depositors do not roll over deposited funds upon maturity or do so for a shorter maturity than that of the Bank's assets, which tend to have medium to long-term maturities, the Bank's liquidity position could be adversely affected. The failure to obtain rollover of customer deposits upon maturity or to replace them with fresh deposits with similar maturity profile as the Bank's assets could have a material adverse effect on the Bank's business, future financial performance and the trading price of the Notes.

The Bank is exposed to Interest Rate Risk.

The Bank's net interest income or net interest margin is dependent on the movement of interest rates and mismatches in the cash flows or repricing dates. The immediate impact of changes in interest rates is on the Bank's earning (i.e., reported profits).

The Bank is exposed to fluctuation in foreign exchange rates.

The Bank undertakes various forex transactions to hedge its client's business and also for proprietary trading which are exposed to various kinds of risks including but not limited to credit risk, market risk and exchange risk. The Bank adopts the Market Risk Management Policy (see "*Description of the Bank's Assets and Liabilities – Market Risk*") to mitigate various risks to a large extent through various risk limits such as counterparty limits, country wise exposure limits, overnight limits, intraday limits and Value at Risk. The Bank follows the model approved by the Foreign Exchange Dealers Association of India to arrive at the Value at Risk.

The Bank is exposed to various kinds of risk.

In addition to foreign exchange risk and interest rate risk as described above, the Bank may also be exposed to other different types of risk during its operation and entering into transactions, including but not limited to credit risk, counterparty risk, market risk, liquidity risk and operational risk. These specific risks are further explained in the section "*Description of the Bank's Assets and Liabilities*".

The Bank's risk management policies and procedures may leave the Bank exposed to unidentified or unanticipated risks, which could negatively affect its business or result in losses.

The Bank's hedging strategies and other risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some methods of managing risk are based upon observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be greater than the historical measures indicated. Other risk management methods depend upon an evaluation of information regarding markets, clients or other matters. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal or regulatory risk requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. Although the Bank has established these policies and procedures, they may not be fully effective.

The Bank may not be able to detect and prevent instances of fraud, corruption or other misconduct.

The Bank is exposed to potential acts of fraud, corruption or other misconduct committed by its customers, third parties or employees that could subject it to financial losses and sanctions imposed by various authorities as well as adversely affect its reputation. For example, in August 2016, a forgery was committed by one of the Bank's customers which resulted in incidental losses to the Bank. In March 2018, the Central Bureau of Investigation filed charges against the Bank's former chairman and managing director and five senior officials for allegations of cheating and non-adherence to the relevant guidelines in respect of disbursement of loans in the amount of Rs.683.8 million.

The Bank's management information systems and internal control procedures are designed to monitor the Bank's operations and overall compliance, and the Bank from time to time examines its internal control and corporate governance policies and procedures in order to strengthen its ability to detect and prevent fraud, corruption or other similar misconduct. Nevertheless, it is not always possible to detect and prevent fraud, corruption and other misconduct, and the precautions the Bank takes to prevent and detect such activities may not be effective. Therefore, there will continue to be the risk that fraud, corruption and other misconduct may occur, including negative publicity as a result, which may have a material adverse effect on the Bank's business, its reputation, financial condition, results of operations and the trading price of the Notes.

The Bank may not be able to detect money-laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and harm its business or reputation.

The Bank is required to comply with applicable anti-money-laundering and anti-terrorism laws and other regulations in India and in other jurisdictions where it has operations. These laws and regulations require the Bank, among other things, to adopt and enforce "know-your-customer" ("KYC") policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking networks for money-laundering activities and by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Bank may be used by other parties to engage in money-laundering and other illegal or improper activities due to, in part, the short history of these policies and procedures.

Although the Bank strives to ensure that it has adequate internal policies in place relating to AML and KYC compliance, there can be no assurance that it will always be able to comply with the laws and regulations pertaining to AML and KYC compliance in respect of the jurisdictions to which it operates in. For example, the Bank was fined £896,100 and a prohibition from accepting new deposits for approximately five months in respect of its branches in the United Kingdom was imposed on the Bank by the Financial Conduct Authority in June 2018 as a result of the Bank's failure to comply with the applicable laws and regulations pertaining to AML in the United Kingdom. In addition, there can also be no assurance that the Bank will not be used by other parties to engage in money-laundering and other illegal or improper activities. The Bank's business and reputation could suffer if any such parties use the Bank for money-laundering or illegal or improper purposes.

Significant security breaches could adversely impact the Bank's business.

The Bank seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems. Computer break-ins and power disruptions could affect the security of information stored in and transmitted through these computer systems and network infrastructure. The Bank has also set up a disaster recovery centre as an alternative centre in the event of any disruption in the main centre and tests its operations periodically. The Bank employs security systems, including firewalls and password encryption, upgraded on an ongoing basis, with the process being guided by policies approved by the Bank's Board of Directors. These systems are designed to minimise the risk of security breaches. Although the Bank intends to continue to implement security technology and establish operational procedures to prevent break-ins, damage and failures, there can be no assurance that these security measures will be adequate or successful. Failure in security measures could have a material adverse effect on the Bank's business, its future financial performance and the trading price of the Notes. Although the Bank takes adequate measures to safeguard against system-related and other frauds, there can be no assurance that it would be able to prevent fraud completely. The Bank's reputation could be adversely affected by significant fraud committed by employees, customers or outsiders.

The failure of the Bank's systems or a third party to perform on its obligations to deliver systems creation, management and support, could materially and adversely affect the Bank's business, results of operations and financial condition.

The Bank's businesses are heavily dependent on the ability to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at the Bank's various branches, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of the Bank's financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting the Bank's various branches and offices is critical to the Bank's businesses and the Bank's ability to compete effectively. The Bank has entered into a nine year contract with IBM India Private Limited for the supply, installation, implementation and maintenance of a Core Banking Solution ("CBS") system in all of its branches and offices. The Bank has also established a data centre at Bangalore and a disaster recovery centre at Mumbai. See "*Description of the Bank – Technology*" for further information. The Bank has also established a "near site" disaster recovery centre in Bangalore, with the aim of achieving near zero data loss.

Although the Bank has backup data that could be used in the event of a catastrophe involving or failure of the primary systems, a partial or complete failure of any of these primary systems or communication networks could materially and adversely affect the Bank's decision-making process, risk management or internal controls as well as the Bank's timely response to market conditions. If the Bank cannot maintain an effective data collection and management system, or the strategy of outsourcing information technology and systems management proves unsuccessful or unreliable, the Bank's business, financial condition and results of operations could be materially and adversely affected.

The Bank needs to comply with regulatory requirements in jurisdictions in which it operates.

The Bank and its overseas branches are required to maintain monitoring systems and controls, risk management structures, operational compliances and processes that meet regulatory requirements in their jurisdictions. The failure to comply may subject the Bank or its overseas branches to regulatory action from foreign and Indian regulators. For example, the Bank was fined £896,100 and a prohibition from accepting new deposits for approximately five months in respect of its United Kingdom branches was imposed on the Bank by the Financial Conduct Authority in June 2018 as a result of the Bank's failure to comply with the applicable laws and regulations pertaining to AML in the United Kingdom. With the Bank's widespread overseas presence, despite the Bank's ongoing efforts to enhance the systems and controls to meet regulatory expectations in all jurisdictions in full, the relevant governments and regulatory agencies to which the Bank reports have the authority to impose penalties and other punitive actions. Any such adverse action taken by such agencies could adversely affect the Bank's business, financial performance and reputation.

System failures could adversely impact the Bank.

Given the substantial share of retail products and services and transaction banking services in the Bank's overall business, the importance of systems technology to the Bank's business has increased significantly. The Bank's principal delivery channels include ATMs, internet banking, mobile banking and call centres. While the Bank seeks to ensure that any such system failures are prevented or minimised to ensure business continuity, there can be no assurance that it will always be successful in doing so and any failure in the Bank's system, particularly for retail products and services and transaction banking, could significantly affect the Bank's operations and the quality of its customer service and could result in business and financial losses for the Bank.

The Bank depends on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, the Bank may rely on information furnished to the Bank by or on behalf of customers and counterparties, including financial statements and other financial information. The Bank may also rely on certain representations as to the accuracy and completeness of that information and, with respect to financial statements, on reports of their independent auditors. For instance, in deciding whether to extend credit, the Bank may assume that a customer's audited financial statements conform to generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. While the Bank conducts its own due diligence procedures to ascertain the accuracy and completeness of information furnished by customers and counterparties, there can be no assurance that it will always be successful in identifying such inaccuracies or incompleteness of information. The Bank's financial condition and results of operations could be negatively affected by relying on financial statements that do not comply with generally accepted accounting principles or other information that is materially misleading. According to data published by the RBI, frauds reported in the Indian banking sector have shown an increasing trend in recent years, and the composition of the fraud amount reported is largely dominated by frauds related to loans and advances. In addition, the Bank's access to information about the credit histories of the Bank's borrowers, especially individuals and small businesses, may be limited, relative to what is typically available for similar borrowers in developed economies with more established nationwide credit bureaus. This may affect the quality of information available to the Bank about the credit history of its borrowers, especially individuals and small businesses. As a result, the Bank's ability to effectively manage its credit risk may be adversely affected.

The Bank's international operations increase the complexity of the risks that the Bank faces.

The Bank's international profile in multiple jurisdictions exposes us to a variety of regulatory and business challenges and risks, including cross-cultural risk and has increased the complexity of the Bank's risks in a number of areas including price risks, currency risks, interest rate risks, credit risk, compliance risk, regulatory and reputational risk and operational risk. In the aftermath of the financial crisis and in light of enhanced regulations in many countries, the Bank expects to face additional scrutiny in all of these areas and in the management of the Bank's international operations. The Bank also faces risks arising from its ability to manage inconsistent legal and regulatory requirements in the multiple jurisdictions in which the Bank operates. The Bank's businesses are subject to changes in legal and regulatory requirements and it may not be possible to predict the timing or nature of such changes. Business opportunities in these jurisdictions will also determine the growth in the Bank's operations. The loan portfolio of the Bank's international branches and subsidiaries exposes the Bank to specific additional risks including the failure of the acquired entities to perform as expected, and the Bank's inexperience in various aspects of the economic and legal framework in overseas markets. Regulatory changes globally and in specific markets, including increased regulatory oversight following the global financial crisis, may impact the Bank's ability to execute its strategy and deliver returns on capital invested in its international subsidiaries. There could be risks arising from political changes in the jurisdictions in which the Bank operates, such as the election by a majority of voters in the United Kingdom to withdraw from the European Union in a national referendum in June 2016. While the Bank has recently closed operations of four of its loss-making overseas branches and has taken steps to strengthen the asset quality of its remaining international branches (including the improvement of the relevant checks and balances), there can be no assurance that it will always be successful in such implementation to address the complexity of risks that it faces from its international operations.

The Bank's business is subject to reputational risks.

Reputational risk has the potential for damage to the Bank as a result of stakeholders taking a negative view of the Bank or its actions. Reputational risk could arise from the failure by the Bank to effectively mitigate the risks in its businesses, including one or more of location, credit, liquidity, market, regulatory, operational, environmental, litigation and social risk. Damage to the Bank's reputation could cause existing clients to reduce or cease to do business with the Bank and prospective clients to be reluctant to do business with the Bank. Any such event could result in a loss of earnings and have a material adverse effect on the business of the Bank. A failure to manage reputational risk effectively could also materially affect the Bank's business, financial condition and results of operations.

Systemic risk resulting from failures in the banking industry could adversely affect the Bank.

Within the banking industry, the default of any institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Bank interacts on a daily basis, which could have an adverse effect on the Bank's ability to raise new funding and on the Bank's business, financial condition and results of operations.

In particular, the Bank is exposed to the risks inherent in the Indian financial system and the other financial systems in which it operates. Any difficulties or instability of the financial systems of India, United Kingdom or Hong Kong or the other financial systems in which the Bank operates

could create an adverse market perception about financial institutions and banks in the affected region and could adversely affect its business. The Bank's transactions with these financial institutions expose it to credit risk in the event of default by the counterparty, which can be exacerbated during periods of market illiquidity. In addition, as the Indian financial system operates within an emerging market, the Bank faces risks of a nature and extent not typically faced in more developed economies, including the risk of deposit runs notwithstanding the existence of a national deposit insurance scheme.

In September 2018, India's leading non-banking financial company, the Infrastructure Leasing and Financial Services Limited ("IL&FS"), reported that it had defaulted in several of its bank loan repayment obligations. This has led to volatility in the Indian debt and equity markets and heightened investors' concerns about the systemic risks that the Indian financial institutions face. There is no assurance that the IF&FS's default will not have more significant repercussions in the infrastructure industry and on India's financial markets as a whole, which may adversely affect the Bank's business, operations and financial performance.

If the Bank is unable to adapt to rapid technological changes, its business could suffer.

The Bank's future success and ability to compete with other banks will depend, in part, on its ability to respond to technological advances and emerging banking industry standards and practices on a cost-effective and timely basis. The development and implementation of such technology entails significant technical and business risks. There can be no assurance that the Bank will successfully implement new technologies, including the CBS system, effectively or adapt its transaction-processing systems to customer requirements or emerging industry standards.

Further, if the Bank is unable, for technical, legal, financial or other reasons, to adapt in a timely manner to changing market conditions, customer requirements or technological changes, its business, the future financial performance of the Bank and the trading price of the Notes could be materially affected.

Any inability to attract and retain talented professionals may negatively affect the Bank.

Attracting and retaining talented professionals is a key element of the Bank's growth strategy. As the Bank generally pays wages that are lower than those paid by private sector banks it has greater difficulty attracting and retaining certain talented professionals. An inability to attract and retain such talented professionals or the resignation or loss of key management personnel may have an adverse impact on the Bank's business, future financial performance and trading price of the Notes.

The Bank has contingent liabilities.

As at 31 March 2018, the Bank had contingent liabilities of Rs.2,937.28 billion on account of claims against the Bank not acknowledged as debt, liabilities on account of outstanding forward exchange contracts, guarantees, acceptances, endorsements and other obligations, interest rate swaps and others. If the Bank's contingent liabilities crystallise, this may have an adverse effect on the Bank's future financial performance and the trading price of the Notes.

As the Government controls a majority of the Bank's issued share capital, its public policy decisions may impact the Bank's strategy and operations.

Through its direct and indirect holdings, the Government controls a majority of the Bank's issued share capital. As at 31 December 2018, the Government directly held 72.55 per cent. of the Bank's issued share capital. In addition, Section 3(2E) of the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970 provides that no shareholder other than the Government shall be entitled to exercise voting rights in respect of any equity shares held by such shareholder in

excess of 10.00 per cent. of the total voting rights of all the shareholders of the Bank. Although historically the Bank has enjoyed certain autonomy from the Government in the management of the Bank's affairs and strategic direction, as its controlling shareholder, the Government is able to exercise effective control over the Bank. Furthermore, the Chairman and Managing Director, two Executive Directors and one further director are appointed by the Government. The Government also appoints one director to the Bank's Board of Directors who is a nominee of the RBI. Currently, the Bank's Board of Directors also consist of two Chartered Accountants and four other persons who specialise in different fields. Although the Bank's management runs the day-to-day operations, the Government may determine material policies as a majority and controlling shareholder, without the consent of the other shareholders and the outcome of any transaction or other matter submitted to the Bank's shareholders for approval, except for those matters requiring a special resolution of the shareholders.

The Bank was mandated under the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970 to, among other things, meet progressively and serve better the needs of development of the economy in conformity with national policy and objectives. From time to time, the Bank may be required to take actions in furtherance of public policy considerations and the Government's broader objectives for the banking industry, which are not necessarily in the Bank's best commercial interests. The Bank cannot make any assurance that future policy decisions by the Government will not have an adverse effect on the Bank's results of operations and financial condition.

The Bank is subject to Regulatory Reserve requirements, which affects the interest on a portion of the Bank's balances.

The Bank is required to maintain 4.00 per cent. of its demand and time liabilities in the form of balances with the RBI in accordance with Section 42 of the RBI Act, 1934. The Bank does not earn any interest on such balances held with the RBI.

The implementation of Basel III may have an adverse effect on the position of the Noteholders.

On 2 May 2012, the RBI published its final guidelines on Basel III capital regulations. The Basel III regulations became effective from 1 April 2013 and are subject to a series of transitional arrangements to be phased in over a period of time. The capital ratios specified in the Basel III regulations were fully implemented on 31 March 2018. It has been indicated by the RBI that the capital requirements for the implementation of the Basel III regulations may be lower during the initial periods and higher during the later years. The Basel III regulations provide for, among other things, higher levels of Tier I capital which will predominantly consist of common equity, capital conservation buffers, treatment of minority interest in consolidated subsidiaries, changes in the structure of debt instruments eligible for inclusion in Tier I and Tier II capital and types of preference shares in Tier II capital, criteria for classification as common shares to be included in common equity Tier I capital, methods to deal with credit risk and reputational risk, capital charges for credit risks, introduction of a leverage ratio and investments in capital of banks, financial and insurance entities (including where ownership is less than 10.00 per cent.). The Basel III regulations also stipulate that non-equity Tier I and Tier II capital should have loss absorbency characteristics, which require them to be written down or be converted into common equity upon the occurrence of a pre-specified trigger event.

The Bank's current capitalisation levels are in line with these requirements. However, unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital requirement may adversely impact the Bank's ability to grow its business and may even require the Bank to withdraw from or to curtail some of its current business operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future at all or on terms favourable to it. The RBI and/or any other relevant authority may implement the

package of reforms, including the terms which capital securities are required to have, in a manner that is different from that which is currently envisaged, or may impose more onerous requirements on the Bank. Further, the Basel III regulations, when implemented, may adversely affect the position of any holder of any Subordinated Notes and Hybrid Tier 1 Notes issued as the Issuer would be required to incorporate features mandated by Indian laws and regulations in the terms and conditions of such Subordinated Notes and Hybrid Tier 1 Notes.

The Bank may be involved in litigation matters from time to time and any final judgment awarding material damages against the Bank could have a material adverse impact on its future financial performance, stockholders' equity and the trading price of the Notes.

The Bank may be involved in certain litigation matters in the ordinary course of its business from time to time. These matters may arise because the Bank seeks to recover from borrowers or because customers seek claims against them. Although it is the Bank's policy to make provisions for probable loss, the Bank does not make provisions or disclosures in its financial statements where its assessment is that the risk is insignificant. The Bank cannot guarantee that the judgments in any of the litigation in which the Bank is involved would be favourable to it and, if its assessment of the risk changes, its view on provisions will also change. Increased provisioning for such potential losses could have a material adverse effect on the Bank's results of operations and financial condition. If the Bank's provisioning is inadequate relative to actual losses on final judgment, such additional losses could have an adverse impact on the Bank's business.

Risks Relating to India

A slowdown in economic growth in India could cause the Bank's business to suffer.

A substantial part of the Bank's business operations and assets are based in India. The Bank's income, its results of operations and the quality of growth of its assets are necessarily dependent, to a large extent, on the performance of the Indian economy. There was a significant slowdown in the growth rate in fiscal year 2012, following the financial crisis that began in the industrialised nations in 2007, which then spread to the global economy. During fiscal year 2013, India witnessed one of its lowest gross domestic product ("GDP") growth rates in recent years at 5.00 per cent. as compared to 6.50 per cent. and 8.05 per cent. for fiscal years 2012 and 2011, respectively. The slowdown in the growth of the United States and Europe for a significant portion of fiscal year 2013 resulted in a sluggish export recovery and a slowdown in financial flows into the Indian economy. The slowdown in GDP growth continued for fiscal year 2014 being 4.70 per cent., which was however later revised to 6.90 per cent. on the basis of a new calculation methodology. The Government has announced that its estimate for GDP growth for the fiscal year 2018 for India stands at 7.20 per cent. According to the Central Statistics Office, the estimated GDP growth for fiscal year 2019 is 7.20 per cent.

Any slowdown in the Indian economy or India's export growth or the future volatility of global commodity prices could adversely affect the Bank's borrowers and contractual counterparties and could result in lower credit demand and higher defaults among corporate, retail and rural borrowers, which could adversely impact the Bank's business, its financial performance, shareholders' funds, the Bank's ability to implement its business strategies and the price of the Notes.

Continuing high prices of crude oil could adversely affect the Indian economy, which could adversely affect the Bank's business.

India imports approximately 83.00 per cent. of its requirements of crude oil, which comprised approximately 27.00 per cent. of total imports in fiscal year 2018. Accordingly, a significant increase from current levels in the price of crude oil could adversely affect the Indian economy. Since 2004, there have been several periods of sharp increase in global crude oil prices due to both increased demand and speculation, pressures on production and refinery capacity, and political and military tensions in key oil-producing regions, among other factors. A sharp increase in global crude oil prices during calendar year 2010 caused the Indian wholesale price index to peak at 10.90 per cent. in April 2010. In June 2010, the Government eliminated subsidies on petroleum products, which significantly increased the price of gasoline. In June 2011, the Government raised retail fuel prices and cut customs and excise duties on petroleum products to limit under-recovery at oil companies and followed up with a further increase in May 2012. However since June 2014, there was a sharp fall in oil prices due to a large increase in supply of oil in North America, the unexpected decision by the Organisation of the Petroleum Exporting Countries not to reduce its output of crude oil and a multi-year slowing in demand for crude oil, and this had resulted in a decrease in the proportion of oil to total imports.

Furthermore, the Government has also deregulated the prices of certain oil products including diesel, resulting in international crude prices having a greater effect on domestic oil prices.

Any further increase or volatility of oil prices suffered by Indian consumers could have a material adverse impact on the Indian economy and on the Indian banking and financial system in particular, including through a rise in inflation and market interest rates and a higher trade deficit.

A significant change in the Government's economic liberalisation and deregulation policies could disrupt the Bank's business.

With the advent of the liberalisation policies of the Government in 1991, the Indian economy has progressed steadily over the years and has made a mark in the global economy. The Government has approached various sectors of the economy to make them more competitive and productive. Given the global financial crisis, the Government as well as the RBI is expected to be cautious in its approach towards wider opening up of the banking and insurance segments. The current Government has continued India's economic liberalisation and deregulation programmes. However, there can be no assurances that these liberalisation policies will continue in the future. Any significant change in the Government's economic liberalisation and deregulation policies could adversely affect business and economic conditions in India and could also adversely affect the Bank's business, its future financial performance and the trading price of the Notes.

Financial instability in other countries could disrupt the Bank's business and cause the trading price of the Notes to decrease.

The Indian market and the Indian economy are influenced by economic and market conditions in other countries. The global financial crisis in 2008 and the subsequent European sovereign debt crisis have resulted in an adverse impact on the Indian economy. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including India. A loss of investor confidence in the financial systems of other emerging markets may cause volatility in Indian financial markets and indirectly, in the Indian economy in general. Any worldwide financial instability including the global liquidity crisis which the credit markets may experience or the continuing sovereign credit crisis could also have a negative impact on the Indian economy.

Trade tensions between the United States and major trading partners, most notably China, continue to escalate following the introduction of a series of tariff measures in both countries. Although China is the primary target of United States trade measures, value chain linkages mean that other emerging markets, primarily in Asia, may also be impacted. China's policy response to these trade measures also presents a degree of uncertainty. There is some evidence of China's monetary policy easing and the potential for greater fiscal spending, which could worsen existing imbalances in its economy. This could undermine efforts to address already high debt levels and increase medium-term risks.

In Europe, (i) the possible exit of the United Kingdom from the European Union; (ii) the possible exit of Scotland, Wales or Northern Ireland from the United Kingdom; (iii) the possibility that other European Union countries could hold similar referendums to the one held in the United Kingdom and/or call into question their membership of the European Union; (iv) the possibility that one or more countries that adopted the Euro as their national currency might decide, in the long term, to adopt an alternative currency; or (v) prolonged periods of uncertainty connected to these eventualities could have significant negative impacts on international markets. These could include greater volatility of foreign exchange and financial markets in general due to the increased uncertainty.

The global oil and gas industry is still evolving, which could lead to further uncertainty in the global economic environment. There can be no assurance that the economic slowdown in China, market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions or general uncertainty in global markets or commodity prices, will not affect the Bank. These factors may, individually or cumulatively, result in another global or regional financial crisis.

If there is another global or regional financial crisis or a deterioration in the economic or political environment of India or any of the other countries in which the Bank operates, this may have a material adverse effect on the Bank's business, financial condition and results of operations. Further, in light of the interconnectivity between India's economy and other economies, India's economy is increasingly exposed to economic and market conditions in other countries. As a result, an economic downturn or recession in the United States, Europe and other countries in the developed world or a slowdown in economic growth in major emerging markets like China could have an adverse effect on economic growth in India. A slowdown in the rate of growth in Singapore's economy could result in lower demand for credit and other financial products and services and higher defaults among corporate and retail customers, which could adversely affect the Bank's business, financial condition, results of operations and also have an adverse effect on the Bank's cost of funding, loan portfolio, business, future financial performance and the trading price of the Notes.

If regional hostilities, terrorist attacks or social unrest in India increases, the Bank's business could be adversely affected and the trading price of the Notes could decrease.

India has from time to time experienced social and civil unrest and hostilities with neighbouring countries. Present relations between India and Pakistan continue to be fragile on the issues of terrorism, armament and Kashmir. India has also experienced terrorist attacks in some parts of the country. These hostilities, attacks and tensions could lead to political or economic instability in India and a possible adverse effect on the Bank's business, its future financial performance and the trading price of the Notes. For example, the recent attack on the Central Reserve Police Force personnel in Pulwama in Kashmir has led to retaliation by India and escalated hostilities between India and Pakistan. The two countries' continuing escalations could exacerbate these regional hostilities and tensions. Further, India has also experienced social unrest in some parts of the country. If such tensions occur in other parts of the country, leading to overall political and economic instability, it could have an adverse effect on the Bank's business, future financial performance and the trading price of the Notes.

Trade deficits could have a negative effect on the Bank's business and the trading price of the Notes.

India's trade relationships with other countries can influence Indian economic conditions. India had a trade deficit of U.S.\$14.73 billion as at January 2019 compared to U.S.\$15.67 billion as at January 2018. With the United States President Donald Trump proposing reciprocal tax and ending India's preferential trade treatment, there is a likelihood for the trade deficit to increase. If India's trade deficit becomes unmanageable, the Indian economy, and, therefore, the Bank's business and future financial performance and the trading price of the Notes could be adversely affected.

Natural calamities could have a negative impact on the Indian economy and could cause the Bank's business to suffer and the trading price of the Notes to decrease.

India has experienced natural calamities such as earthquakes, floods and drought in the recent past. The extent and severity of these natural disasters determine their impact on the Indian economy. For example, in 2015, the agricultural sector was adversely affected by unseasonal rains and hailstorms in northern India in March 2015. As a result, the gross value added, which is the value of output less the value of intermediate consumption, in the agricultural sector increased only 0.2 per cent. in 2015 as compared to 3.7 per cent. growth in 2014. In August 2018, severe floods in the state of Kerala also caused significant damage to the agricultural production of the state. The occurrence of other natural calamities could have a negative impact on the Indian economy, affecting the Bank's business and potentially causing the trading price of the Notes to decrease. Similarly, global or regional climate change or natural calamities in other countries where the Bank operates could affect the economies of those countries and the Bank's operations in those countries.

An outbreak of an infectious disease or any other serious public health concerns in Asia or elsewhere could have an adverse effect on the Bank's business and results of operations.

The outbreak of an infectious disease in Asia or elsewhere or any other serious public health concerns could have a negative effect on the economies, financial markets and business activities in the countries from where raw materials are sourced or in which our end markets are located, which could have an adverse effect on the Bank's business. Since 2012, an outbreak of the Middle East Respiratory Syndrome corona virus has affected several countries, primarily in the Middle East. While, Southeast Asia is a hotspot for emerging infectious diseases, including those with pandemic potential. Emerging infectious diseases have exacted heavy public health and economic tolls such as influenza H5N1 had a profound effect on the poultry industry. The reasons why Southeast Asia is at risk from emerging infectious diseases are complex. The region is home to dynamic systems in which biological, social, ecological, and technological processes interconnect in ways that enable microbes to exploit new ecological niches. These processes include population growth and movement, urbanisation, changes in food production, agriculture and land use, water and sanitation, and the effect of health systems through generation of drug resistance. Nipah virus encephalitis is an emerging infectious disease of public health importance in the World Health Organisation South-East Asia Region. Bangladesh and India have reported human cases of Nipah virus encephalitis. Indonesia. India's southern state of Kerala was put under a lot of stress in May 2018 with the most recent Nipah virus outbreak. The Nipah virus, which is carried by Pteropus fruit bats, is a newly emerging zoonotic disease that affects both animals and humans. Any future outbreak of health epidemics may restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business.

A decline in India's foreign exchange reserves may affect liquidity and interest rates in the Indian economy which could adversely impact the banking industry in general.

With India showing a relatively high growth in GDP in comparison to other emerging and developed economies, India's foreign exchange reserves increased steadily over from U.S.\$367.9 billion as at 31 March 2017, to U.S.\$422.5 billion as at 31 March 2018. As at 31 March 2016, 2017 and 2018, foreign exchange reserves stood at U.S.\$359.7 billion, U.S.\$369.9 billion and U.S.\$424.4 billion, respectively. A significant decline in India's foreign exchange reserves could have an adverse effect on the Bank's business, its future financial performance and the trading price of the Notes.

Any downgrading of India's debt rating by an international rating agency could adversely affect the Bank's business and the Bank's liquidity.

On 9 April 2015, Moody's changed the outlook of India's rating to "positive" from "stable" on the expectation that Indian policymakers will establish a framework that will potentially allow India's growth to continue to outperform that of its peers over the medium term and improve India's macro-economic, infrastructure and institutional profile. On 16 November 2016, Moody's rated India's outlook "positive" again. However, on 16 November 2017, Moody's changed the outlook of India's rating from "positive" to "stable".

There can be no assurance that these ratings will not in future be revised down by Moody's, S&P Global Ratings, or Fitch or that any other global rating agency will also in future revise down the Issuer's or the Indian banking system's ratings. Any such downgrade in ratings may adversely affect the Bank's business and the trading price of the Notes. Furthermore, the Bank's access to capital markets may also be limited, lowering its liquidity.

Investors in the Notes may not be able to enforce a judgment of a foreign court against the Bank.

The Bank was constituted under the Bank Nationalisation Act and the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 (the "**Scheme**"). Substantially all of the Bank's Directors and executive officers are residents of India and a substantial portion of the assets of the Bank and such persons are located in India. As a result, it may not be possible for investors to effect service of process upon the Bank, or such persons outside India, or to enforce judgments obtained against such parties outside India.

Recognition and enforcement of foreign judgments is provided for under Sections 13 and 44A of the Code of Civil Procedure, 1908 of India (the "**Civil Code**") on a statutory basis. Section 13 of the Civil Code provides that foreign judgments shall be conclusive regarding any matter directly adjudicated upon between the same parties or between parties under whom they or any of them are claiming under the same title except: (i) where the judgment has not been pronounced by a court of competent jurisdiction; (ii) where the judgment has not been given on the merits of the case; (iii) where it appears on the face of the proceedings that the judgment is founded on an incorrect view of international law or a refusal to recognise the law of India in cases to which such law is applicable; (iv) where the proceedings in which the judgment was obtained were opposed to natural justice; (v) where the judgment has been obtained by fraud; and (vi) where the judgment sustains a claim founded on a breach of any law then in force in India. Under Section 14 of the Civil Code, a court in India shall, upon the production of any document purporting to be a certified copy of a foreign judgment, presume that the judgment was pronounced by a court of competent jurisdiction, unless the contrary appears on record. Such presumption may be displaced by proving want of jurisdiction.

India is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments. Section 44A of the Civil Code provides that where a certified copy of a foreign judgment has been rendered by a superior court, within the meaning of that Section, in any country or territory outside India which the Government has by notification declared to be in a reciprocating territory, it may be enforced in India by proceedings in execution as if the judgment had been rendered by the relevant court in India. However, Section 44A of the Civil Code is applicable only to monetary decrees not in the same nature of amounts payable in respect of taxes, other charges of a similar nature or in respect of a fine or other penalties and is not applicable to arbitration awards.

The United Kingdom has been declared by the Government to be a reciprocating territory for the purposes of Section 44A but the United States has not been so declared. A judgment of a court of a country which is not a reciprocating territory may be enforced only by a fresh suit upon the judgment and not by proceedings in execution, whereas a judgment of a superior court in the United Kingdom may be enforced by proceedings in execution, and a judgment not of a superior court by a fresh suit resulting in a judgment or order. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India. Such a suit has to be filed in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India. A party seeking to enforce a foreign judgment in India is required to obtain approval from the RBI to repatriate outside India any amounts received pursuant to execution of the judgment. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action were to be brought in India. Furthermore, it is unlikely that an Indian court would enforce foreign judgments if that court were of the view that the amount of damages awarded was excessive or inconsistent with Indian public policy, it is uncertain as to whether an Indian court would enforce foreign judgments that would contravene or violate Indian law. Any judgment in a foreign currency would be converted into Rupees on the date of the judgment and not on the date of the payment. The Bank cannot predict whether a suit brought in an Indian court will be disposed off in a timely manner or be subject to considerable delays.

The insolvency laws of India may differ from other jurisdictions with which the holders of the Notes are familiar.

As the Bank is incorporated under the laws of India, any insolvency proceedings relating to the Bank is likely to involve the insolvency laws of India, the procedure and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with the holders of the Notes are familiar with.

Indian accounting principles and audit standards differ from those which prospective investors may be familiar with in other countries.

As stated in the report of the Bank's independent auditors included in this Offering Circular, the Bank's financial statements are in conformity with Indian GAAP, consistently applied during the periods stated, except as provided in such report, and no attempt has been made to reconcile any of the information given in this Offering Circular to any other principles or to base it on any other standards. Indian GAAP differs from accounting principles and auditing standards with which prospective investors may be familiar in other countries. See "*Summary of Significant Differences between Indian GAAP and IFRS*".

The Bank's transition to the use of the IFRS converged Indian Accounting Standards may result in changes in the presentation of its financial statements

On 16 February 2015, the Ministry of Corporate Affairs ("MCA") of the Government published the Companies (Indian Accounting Standards) Rules, 2015, which are effective from 1 April 2015, which provides that IFRS converged Indian Accounting Standards ("IND-AS") will be mandatorily implemented by the companies specified in the roadmap for the accounting periods beginning on or after 1 April 2016, with the comparatives for the period ended 31 March 2016, or thereafter. However, banking, insurance and non-banking finance companies were exempted from this road map.

On 11 February 2016, the RBI issued a notification for the implementation of IND-AS by banks. Under this notification, all scheduled commercial banks (excluding Regional Rural Banks) was to follow IND-AS as notified under the Companies (Indian Accounting Standards) Rules, 2015, subject to any guideline or direction issued by the RBI in this regard from the accounting periods beginning on or after 1 April 2018 with the comparatives for the period ending 31 March 2018. However, in April 2018, the RBI deferred the implementation of IND-AS for banks by a year, to 1 April 2019. The subsidiaries, joint ventures and associates of such banks shall also follow the road map applicable to banks.

The Bank is in the process of determining the impact that such adoption will have on its financial reporting. Furthermore, the new accounting standards will change, among other things, the Bank's methodology for estimating allowances for probable loan losses and for classifying and valuing its investment portfolio and its revenue recognition policy. For estimation of probable loan losses, the new accounting standards may require the Bank to calculate the present value of the expected future cash flows realisable from its loans, including the possible liquidation of collateral (discounted at the loan's effective interest rate). This may result in the Bank recognising allowances for probable loan losses in the future which may be higher or lower than under current Indian GAAP. Therefore, there can be no assurance that the Bank's financial condition, results of operations, cash flows or changes in shareholders' equity will not appear materially worse under IND-AS than under Indian GAAP. In the Bank's transition to IND-AS reporting, the Bank may encounter difficulties in the ongoing process of implementing and enhancing its management information systems. There can be no assurance that the Bank's adoption of IND-AS will not adversely affect its reported results of operations or financial condition and any failure to successfully adopt IND-AS could adversely affect the Bank's business and the trading price of the Notes.

There may be less company information available in the Indian securities markets than securities markets in developed countries.

There may be differences between the level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants and that of the markets in the United States and other developed countries. The Securities and Exchange Board of India ("SEBI") is responsible for approving and improving disclosure and other regulatory standards for the Indian securities markets. SEBI has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed countries.

Financial difficulty and other problems in certain long-term lending institutions and investment institutions in India could have a negative impact on the Bank's business and the trading price of the Notes could decrease.

The Bank is exposed to the risks of the Indian financial system which in turn may be affected by financial difficulties and other problems faced by certain Indian financial institutions. See "*The Indian Financial Sector*". As an emerging market economy, the Indian financial system faces risks of a nature and to an extent not typically faced in developing countries, including the risk of deposit runs notwithstanding the existence of a national deposit insurance scheme.

Certain Indian financial institutions have experienced difficulties during recent years. Some co-operative banks have also faced serious financial and liquidity crises. The problems faced by individual Indian financial institutions and any instability in or difficulties faced by the Indian financial system generally could create adverse market perception about Indian financial institutions and banks. This in turn could adversely affect the Bank's business, future financial performance and the price of the Notes.

The proposed new taxation system could adversely affect the Bank's business and the trading price of the Notes.

The Government proposed two major reforms in Indian tax laws, namely the goods and services tax ("GST"), which came into force on 1 July 2017, and the direct taxes code, which has not been implemented yet. The goods and services tax has replaced the indirect taxes on good and services such as central excise duty, service tax, customs duty, central sales tax, surcharge and excise currently being collected by the central and state governments. The direct taxes code aims to reduce distortions in tax structure, introduce moderate levels of taxation, expand the tax base and provide greater tax clarity and stability to investors who invest in Indian projects and companies. It also aims to consolidate and amend laws relating to all direct taxes such as income tax, dividend distribution tax, fringe benefit tax and wealth tax and facilitate voluntary compliance.

The GST framework in India is undergoing continuous amendments. For instance, the President on 29 August 2018 gave assent to amendments to the central GST and state GST. Some of the key changes to the scheme of GST effective from 1 February 2019 include multiple registrations in the same state and simplification of GST returns. As the GST regime in India and other forms of taxes continue to undergo regular modifications, its long-term effects on the Bank and other banks are unclear as at the date of this Offering Circular and there can be no assurance that such effects would not adversely affect the Bank's business, future financial performance and the trading price of the Notes.

SEBI introduced changes to the listing agreement, which may subject the Bank to higher compliance requirements and increase the Bank's compliance cost.

SEBI issued revised corporate governance guidelines under the equity listing agreement which have been effective from 1 October 2014 and 1 April 2015. Pursuant to the revised guidelines, the Bank is required to appoint at least one female director on the Board, establish a mechanism for directors and employees and reconstitute certain committees in accordance with the revised guidelines, among other things. The Bank may face difficulties in complying with any such requirements. Furthermore, the Bank cannot currently determine the impact of provisions of the revised SEBI corporate governance guidelines, which have come into force. Any increase in the Bank's compliance requirements or compliance costs may have an adverse effect on its business, cash flows and results of operations.

Risks Relating to an Investment in the Notes

The Notes may not be a suitable investment for all investors.

The Notes are complex and high risk instruments. Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets;
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios of economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- (vi) (in relation to the Subordinated Notes only) have a good understanding of the loss absorption regulations as set out in the RBI Guidelines). A potential investor should not invest in the Subordinated Notes unless it has the knowledge and expertise (either alone or with the help of a financial advisor) to be in a position to bear the risk of uncertainty with respect to the effect of such loss absorption regulations.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Notes are not guaranteed by the Republic of India.

The Notes are not the obligations of, or guaranteed by, the Republic of India. Although the Government owned 72.55 per cent. of the Bank's issued share capital as at 31 December 2018, the Government is not providing a guarantee in respect of the Notes. In addition, the Government is under no obligation to maintain the solvency of the Bank. Therefore, investors should not rely on the Government ensuring that the Bank fulfils its obligations under the Notes.

The Notes which are Subordinated Notes are subordinated and have only limited rights of acceleration.

The relevant Pricing Supplement may specify that the Notes will be Subordinated Notes (as defined in Condition 3.2 of the Terms and Conditions of the Notes) which will be subordinated obligations of the Bank. Payments on the Subordinated Notes will be subordinate in right of payment upon the winding-up or liquidation of the Bank to the prior payment in full of all deposits and other liabilities of the Bank, except those liabilities which rank equally with or junior to the Subordinated Notes. As a consequence of these subordination provisions, in the event of a winding-up of the Bank's operations, the holders of the Subordinated Notes may recover proportionately less than the holders of the Bank's deposit liabilities or the holders of its other unsubordinated liabilities. As at 31 December 2018, all of the Bank's outstanding liabilities (including deposits, borrowings, call money, guarantees and acceptances and other liabilities, but excluding provisions), other than Rs.133.15 billion of its outstanding subordinated bonds, would rank senior to the Subordinated Notes.

Only those events described in Condition 11.2 of the Terms and Conditions of the Notes regarding the Bank's winding-up or liquidation, will permit a holder of a Subordinated Note to accelerate payment of such Subordinated Notes. However, Section 18 of the Bank Nationalisation Act provides that no provision of law relating to the winding up of the companies shall apply to the Bank and the Bank shall not be placed in liquidation except by order of the Government and in such manner as it may direct. Accordingly, in those events described in Condition 11.2 of the Terms and Conditions of the Notes, the only action the holder may take in India against the Bank is certain actions to make a claim in the Bank's liquidation or reorganisation placed by an order of the Government. Furthermore, if the Bank's indebtedness were to be accelerated, its assets may be insufficient to repay in full borrowings under all such debt instruments, including the Notes.

Payment of principal of and/or interest on Upper Tier II Subordinated Notes may or shall be deferred under certain circumstances.

The Issuer may defer payment of the principal of and/or interest on any Upper Tier II Subordinated Notes in certain situations described in Condition 3.2(b)(i) of the Terms and Conditions of the Notes until the earlier of the next Compulsory Payment Date (as defined in Condition 3.2(b)(vi) of the Terms and Conditions of the Notes) or the occurrence of an event specified in Condition 11.2 of the Terms and Conditions of the Notes. Furthermore, the Issuer must defer payment of such principal and/or interest in certain situations described in Conditions 3.2(b)(ii) or (iii) of the Terms and Conditions of the Notes until the earlier of the next Compulsory Payment Date or the occurrence of an event specified in Condition 11.2 of the Terms and Conditions of the Notes. Accordingly, if principal and/or interest is not paid on the relevant due date as a result of the foregoing, holders of Upper Tier II Subordinated Notes will not be entitled to receive such principal and/or interest on such due date.

The Notes which are Subordinated Notes may not qualify as Tier II Capital.

There is no guarantee that the Notes designated as Upper Tier II Subordinated Notes or Lower Tier I Subordinated Notes will qualify as Tier II capital under the Capital Adequacy Guidelines published by the RBI. See "*Supervision and Regulation – Capital Adequacy Requirements*". The failure of such Notes to qualify as Tier II capital due to any reason (including changes in law, regulations or interpretations of the RBI or other government authorities) would adversely affect the Bank's capital adequacy ratio.

Interest Amounts on the Hybrid Tier I Notes are not cumulative and will not be required to be paid under certain circumstances.

Interest may not be paid in full, or at all, in certain situations described in Condition 3.3(c) of the Terms and Conditions of the Notes. Interest payments on the Hybrid Tier I Notes are not cumulative. Accordingly, if interest is not paid on any Interest Payment Date as a result of the foregoing, holders of the Hybrid Tier I Notes will not be entitled to receive such interest on any subsequent Interest Payment Date or any other date.

The Hybrid Tier I Notes have no fixed maturity date and investors have no right to call for redemption of the Hybrid Tier I Notes.

The Hybrid Tier I Notes are perpetual unless the Issuer elects to redeem the Hybrid Tier I Notes to the extent allowed by the Terms and Conditions of the Notes and the applicable pricing supplement. Accordingly, the Hybrid Tier I Notes have no fixed final redemption date. In addition, holders of the Hybrid Tier I Notes have no right to call for the redemption of the Hybrid Tier I Notes. Although the Issuer may redeem the Hybrid Tier I Notes at its option on the Optional Redemption Date or at any time following the occurrence of certain tax and regulatory events, there are limitations on redemption of the Hybrid Tier I Notes, including obtaining the prior written approval of the Reserve Bank of India and satisfaction of any conditions that the Reserve Bank of India and other relevant Indian authorities may impose at the time of such approval.

Investors will have limited rights under the Hybrid Tier I Notes.

Investors will have limited voting rights under the Hybrid Tier I Notes and will not be entitled to receive notice of, or attend or vote at, any meeting of shareholders of the Issuer or participate in the management of the Issuer, except in limited circumstances (including certain instances of failure by the Issuer to make payments of amounts due in relation to the Hybrid Tier I Notes). In the event of a default in payment on the Hybrid Tier I Notes, investors will have no right to accelerate payments on the Hybrid Tier I Notes, except if an order is made by the Government for the winding up of the Issuer.

The Hybrid Tier I Notes are subordinated to most of the Issuer's liabilities and the terms of the Hybrid Tier I Notes contain no limitation on issuing debt or senior or pari passu securities.

The Hybrid Tier I Notes will constitute unsecured and subordinated obligations of the Issuer which rank *pari passu* and without preference among themselves. The Hybrid Tier I Notes are not deposits and are not insured by the Issuer or guaranteed or insured by any party related to the Issuer and they may not be used as collateral for any loan made by the Issuer. In the event of a winding up of the Issuer's operations, the claims of the holders of the Hybrid Tier I Notes will be subordinated in right of payment to the prior payment in full of all of the Issuer's other liabilities (whether actual or contingent, present or future) including all deposit liabilities and other liabilities of the Issuer and all of the Issuer's offices and branches, except those liabilities which by their terms rank equal with or junior to the Hybrid Tier I Notes.

As a consequence of the subordination provision, in the event of a winding up of the Issuer's operations, the holders of the Hybrid Tier I Notes may recover less rateably than the holders of deposit liabilities or the holders of the Issuer's other liabilities that rank senior to the Hybrid Tier I Notes. The Hybrid Tier I Notes, the Trust Deed and the Agency Agreement do not limit the amount of liabilities ranking senior to the Hybrid Tier I Notes which may be hereafter incurred or assumed by the Issuer except for certain Tier I instruments.

The Hybrid Tier I Notes may not qualify as Tier I Capital.

There is no guarantee that the Hybrid Tier I Notes will qualify as Tier I capital under the Capital Adequacy Guidelines published by the Reserve Bank of India. See “*Supervision and Regulation – Capital Adequacy Requirements*”. The failure of the Hybrid Tier I Notes to qualify as Tier I capital due to any reason (including changes in laws, regulations or interpretations of the Reserve Bank of India or other governmental authorities) would adversely affect the Issuer’s capital adequacy ratio.

Payments under the Subordinated Notes and/or Hybrid Tier I Notes may be subject to compliance with applicable regulatory requirements, including the prior approval of the RBI.

Payments of the principal of and/or interest on Subordinated Notes and/or Hybrid Tier I Notes in certain situations described in the Terms and Conditions of the Notes may be subject to compliance with applicable regulatory requirements, including the prior approval of the RBI. The RBI, while considering the request of the Issuer to approve its payment of the principal of and/or interest on Subordinated Notes and/or Hybrid Tier I Notes, may take into consideration, amongst other things, the Issuer’s capital adequacy position at the time of the proposed payment and thereafter. There can be no assurance that the RBI will provide such approval in a timely manner or at all.

Payments under the Notes may be subject to RBI guidelines regarding remittances of funds outside India.

If the Bank is unable to make payments with respect to the Notes from its overseas branches and instead makes payments from India, such payments shall be subject to RBI regulations governing the remittance of funds outside India. The Bank is under no obligation to maintain liquidity at its overseas branches to make interest payments due on the Notes. Any approval, if and when required, for the remittance of funds outside India is at the discretion of the RBI and the Bank can give no assurance that it will be able to obtain such approvals.

The regulation and reform of “benchmarks” may adversely affect the value of Notes linked to or referencing such “benchmarks”.

Interest rates and indices which are deemed to be “benchmarks” are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a “benchmark”. Regulation (EU) 2016/1011 (the **“Benchmarks Regulation”**) was published in the Official Journal of the EU on 29 June 2016 and was applicable from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities of “benchmarks” of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to or referencing LIBOR or EURIBOR, in particular, if the methodology or other terms of LIBOR or EURIBOR are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of LIBOR or EURIBOR.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of “benchmarks”, could increase the costs and risks of administering or otherwise participating in the setting of a “benchmark” and complying with any such regulations or requirements. Such factors may have the following effects on certain “benchmarks” (including LIBOR or EURIBOR): (i) discourage market participants from continuing to administer or contribute to the “benchmark”; (ii) trigger changes in the rules or methodologies used in the “benchmark”; or (iii) lead to the disappearance of the “benchmark”. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing LIBOR or EURIBOR.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Notes linked to or referencing LIBOR or EURIBOR.

Future discontinuance of LIBOR may adversely affect the value of Floating Rate Notes which reference LIBOR.

On 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “**FCA Announcement**”). The FCA Announcement indicates that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021 and that planning a transition to alternative reference rates that are based firmly on transactions must begin.

On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a “risk free overnight rate” which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area.

Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or the benchmark could be eliminated entirely, or there could be other consequences that cannot be predicted. Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities based on the same benchmark.

Investors should be aware that, if a benchmark were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which are linked to or which reference such benchmark will be determined for the relevant period by the fallback provisions applicable to such Notes. The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a published benchmark (including any page on which such benchmark may be published (or any successor service)) becomes unavailable.

If the circumstances described in the preceding paragraph occur, such fallback arrangements will include the possibility that: (i) the relevant rate of interest (or, as applicable, the relevant component part thereof) could be determined by reference to a Successor Rate or an Alternative Reference Rate (as applicable) determined by an Independent Adviser; and (ii) such Successor Rate or Alternative Reference Rate (as applicable) may be adjusted (if required) by the relevant Independent Adviser in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark.

In addition, the relevant Independent Adviser may also determine that other changes to the Terms and Conditions of the Notes are necessary in order to follow market practice in relation to the relevant Successor Rate or Alternative Reference Rate (as applicable).

No consent of the Noteholders shall be required in connection with effecting any relevant Successor Rate or Alternative Reference Rate (as applicable) or any other related adjustments and/or amendments described above.

In certain circumstances, the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. Such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes. Investors should consider these matters when making their investment decision with respect to the relevant Floating Rate Notes.

The Notes may have limited liquidity.

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of Notes.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- the Bank's results of operations and financial condition;
- political and economic developments in and affecting India;
- the market conditions for similar securities; and
- the financial condition and stability of the Indian financial sector.

Inflation risks.

Noteholders may suffer erosion on the return of their investments due to inflation. Noteholders would have an anticipated rate of return based on expected inflation rates on the purchase of the Notes. An unexpected increase in inflation could reduce the actual returns.

Credit ratings may not reflect all risk and a downgrade in such credit ratings may affect the market price of the Notes.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be suspended, reduced or withdrawn by the rating agency at any time. In addition, there can be no assurance that such credit ratings will be maintained for any given period or that the ratings will not be revised by the relevant credit rating agencies in the future if, in their judgment, circumstances so warrant. A downgrade in the credit ratings of such Notes may affect the market price of the Notes.

Interest rate risks.

Noteholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the price of the Notes, resulting in a capital loss for the Noteholders. However, the Noteholders may reinvest the interest at higher prevailing interest rates. Conversely, when interest rates fall, the price of the Notes may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

Notes subject to option redemption by the Issuer.

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Subordinated Notes may be subject to write off or conversion on the occurrence of a Non-Viability Event or if the Issuer becomes subject to resolution.

The Basel Committee has proposed a number of fundamental reforms to the regulatory capital framework for internationally active banks which are designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss (the “**Basel III Reforms**”). The principal elements of the Basel III Reforms are set out in Basel Committee papers dated 16 December 2010 (as revised in June 2011) and in a press release dated 13 January 2011. The implementation of the Basel III Reforms in individual jurisdictions was scheduled to commence on 1 January 2013 (with the requirements being subject to a series of transitional arrangements and phased in over time). It is the Hong Kong Monetary Authority’s current intention to implement the Basel III Reforms in accordance with the Basel Committee’s timetable, including the transitional arrangements. However, in a number of jurisdictions, implementation of the Basel III Reforms has been delayed.

The Basel III Reforms have not yet been implemented by relevant authorities in the European Union. First drafts of the European Union’s legislation to implement the Basel III Reforms, being amendments to the Capital Requirements Directive (known as “**CRD IV**”) and an accompanying regulation (known as “**CRR**”), were released on 20 July 2011. A number of revised drafts of CRD IV and CRR have been published since, with the latest official drafts being released in May 2012. It is unclear whether CRD IV and CRR will be implemented in their current draft form.

The Basel III Reforms include a requirement for all non-common Tier 1 instruments and Tier 2 instruments (such as the Subordinated Notes), at the option of the relevant authority, to either be written off or converted into ordinary shares upon the occurrence of a Non-Viability Event (the “**PoNV rule**”). The PoNV rule may be met contractually (by inclusion of appropriate provisions in the terms and conditions of the instrument) or by the existence of laws in a jurisdiction that give relevant authorities appropriate powers.

As used above, “**Non-Viability Event**” means the earlier of: (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary, as determined by the relevant authority; and (b) the decision to make a public sector injection of capital, or equivalent support, without which the relevant bank would have become non-viable, as determined by the relevant authority.

The PoNV rule has not been included as a capital eligibility requirement in the official drafts of CRD IV or CRR and it is still unclear whether EU legislation will implement the PoNV rule by requiring certain provisions to be included in the terms and conditions of non-common Tier 1 and Tier 2 instruments, by requiring relevant authorities to have appropriate powers, or both.

On 6 June 2012, the European Commission published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, known as the Recovery and Resolution Directive (the “**RRD**”). The stated aim of the draft RRD is to provide supervisory authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers’ exposure to losses. The powers proposed to be granted to supervisory authorities under the draft RRD include a “bail-in” tool, which would give such authorities the power to write down or write off the claims (including non-common Tier 1 and Tier 2 instruments) of certain unsecured creditors of a failing institution and/or to convert certain debt claims to equity. Except for the general bail-in tool, it is currently contemplated that the measures set out in the draft RRD (including the power of authorities to write off non-common Tier 1 and Tier 2 instruments) will be implemented with effect from 1 January 2015. However, the RRD is not in final form and changes may be made to it in the course of the legislative process.

Although the draft RRD contemplates giving powers to authorities by 1 January 2015 to write-down or convert non-common Tier 1 and Tier 2 instruments in certain circumstances, it is as yet unclear as to whether the RRD is intended to implement the PoNV rule in the EU and, if so, how the RRD provisions will interact with the eligibility requirements for Tier 1 and Tier 2 instruments contained in CRR.

Although the terms and conditions of the Subordinated Notes do not contain a provision that requires them to be written off or converted into equity (whether on the occurrence of a Non-Viability Event or otherwise), it is possible that the powers that either currently exist under the Banking Act 2009 of the United Kingdom (the “**Banking Act 2009**”) or that may result from any future change to the Banking Act 2009 or the application of relevant laws, including those arising from RRD, the Basel III Reforms (including the EU’s implementation of the Basel III Reforms) or other similar regulatory proposals, could be used in such a way as to result in the Subordinated Notes being written-down or converted into ordinary shares on the occurrence of a Non-Viability Event. The determination that all or part of the principal amount of the Subordinated Notes will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors that may be outside of the Issuer’s control.

Due to this inherent uncertainty, it will be difficult to predict when, if at all, a principal write off or conversion to equity will occur. Accordingly, trading behaviour in respect of the Subordinated Notes is not necessarily expected to follow the trading behaviour associated with other types of securities. Potential investors in the Subordinated Notes should consider the risk that a holder may lose all of its investment, including the principal amount plus any accrued interest, if such statutory loss absorption measures are acted upon.

Furthermore, there can be no assurance that, prior to the implementation of the Basel III Reforms, the Basel Committee will not propose further amendments to the Basel Accord. Further, the European Union, relevant authorities in the United Kingdom and/or India may implement the Basel III Reforms, including the provisions relating to terms that capital instruments are required to have, in a manner that is different from that which is currently envisaged or may impose more onerous requirements on banks. Until fully implemented, the Issuer cannot predict the precise effects of the changes that will result from the implementation of the Basel III Reforms on the pricing of the Subordinated Notes. In addition, further changes in law after the date hereof may affect the rights of holders of the Subordinated Notes as well as the market value of the Subordinated Notes.

Definitive Notes may not be available in certain denominations.

In relation to any issue of Notes which are tradeable in clearing systems in amounts other than integral multiples of the relevant minimum or specified denomination, should definitive Notes be required to be issued, a holder who does not have such integral multiple in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple thereof.

Where the Bearer Global Notes or Registered Global Notes are held by or on behalf of Euroclear, Clearstream, Luxembourg and/or DTC, investors will have to rely on the procedures of Euroclear, Clearstream, Luxembourg and/or DTC for transfer, payment and communication with the Issuer.

Notes issued under the Programme may be represented by one or more Bearer Global Notes or Registered Global Notes. Such Bearer Global Notes or Registered Global Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and/or a nominee for DTC. Except in the circumstances described in the relevant Bearer Global Note or Registered Global Note, investors will not be entitled to receive Definitive Bearer Notes or Definitive Registered Notes. Each of DTC, Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Bearer Global Notes or Registered Global Notes held through it. While the Notes are represented by one or more Bearer Global Notes or Registered Global Notes, investors will be able to transfer their beneficial interests only through Euroclear or Clearstream, Luxembourg or DTC.

While the Notes are represented by one or more Bearer Global Notes or Registered Global Notes, the Issuer will discharge its payment obligations under such Notes by making payments to or to the order of the DTC and/or the common depositary for Euroclear and Clearstream, Luxembourg (as the case may be) for distribution to their account holders. A holder of a beneficial interest in a Bearer Global Note or Registered Global note must rely on the procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Bearer Global Notes or Registered Global Notes.

Holders of beneficial interests in the Bearer Global Notes or Registered Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by DTC, Euroclear or Clearstream, Luxembourg (as the case may be) to appoint appropriate proxies. Similarly, holders of beneficial interests in the Bearer Global Notes or Registered Global Notes will not have a direct right under the respective Bearer Global Notes or Registered Global Notes to take enforcement action against the Issuer following an Event of Default under the relevant Notes but will have to rely upon their rights under the Trust Deed.

Modification and waivers.

The Terms and Conditions of the Notes contain provisions that relate to the calling of meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders (i) agree to any modification of, or to waive or authorise any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed or (ii) determine that any Event of Default or potential Event of Default shall not be treated as such, in each case in the circumstances described in Condition 16 of the Terms and Conditions of the Notes.

Change of law.

The Terms and Conditions of the Notes are based on English law in effect as of the date of issue of the relevant Notes save for (in the case of Subordinated Notes) Condition 3.2 and (in the case of Hybrid Tier 1 Notes) Condition 3.3, which shall be governed by and construed in accordance with Indian law. No assurance can be given as to the impact of any possible judicial decision or change to English law or Indian law or administrative practice after the date of issue of the relevant Notes.

Performance of contractual obligations.

The ability of the Issuer to make payments in respect of the Notes may depend upon the due performance of the respective obligations of the other parties to the transaction documents, including but not limited to the performance by the Trustee, the Principal Paying Agent, the Paying Agents, the Exchange Agent, the Transfer Agent and the Registrar of their respective obligations. Whilst the non-performance of any relevant parties will not relieve the Issuer of its obligations to make payments in respect of the Notes, the Issuer may not, in such circumstances, be able to fulfil its obligations to the Noteholders, Receiptholders and the Couponholders.

Dividend equivalent payments may be subject to U.S. withholding tax

Under Section 871(m) of the Code and the U.S. Treasury regulations thereunder (“**Section 871(m)**”), a “dividend equivalent” payment is treated as a dividend from sources within the United States and generally will be subject to U.S. withholding tax at a rate of 30.00 per cent when paid to a non-U.S. person (unless a lower treaty rate is applicable) under certain financial instruments if certain conditions are met. If the Issuer or any withholding agent determines that withholding is required, neither the Issuer nor any withholding agent will be required to pay any additional amounts with respect to amounts so withheld. Prospective investors should refer to the section “*Taxation – Potential U.S. Withholding on Dividend Equivalent Payments*”.

DESCRIPTION OF THE BANK

Overview

As at 31 March 2018, the Bank was one of the largest nationalised banks in India in terms of total advances and deposits, which amounted to Rs.9,064.70 billion, and was the fourth largest nationalised bank in India in terms of asset size, with total assets of Rs.6,168.86 billion. As at 31 March 2018, the Bank had over 63.90 million customers. As at 31 December 2018, the Government owned 72.55 per cent. of the Bank and, accordingly, exercises control over the Bank's management and operations.

As at 31 December 2018, the Bank had a network of 6,312 branches which included 1,819 rural branches, 2,000 semi-urban branches, 1,202 urban and 1,286 metropolitan branches in India and its overseas branches in London, Hong Kong, Shanghai, Manama, Johannesburg, New York and Dubai International Financial Centre. The Bank's branches are administered through the Bank's head office in Bangalore (the "**Head Office**") and the Bank's 21 circle offices (the "**Circle Offices**").

The Bank is engaged in a wide variety of banking activities, such as corporate, micro-sized enterprises, small to medium-sized enterprises ("SMEs") and retail banking, and offers a wide range of financial products and services to corporate, SME and retail customers, including both resident and non-resident Indians. The Bank also provides funding to sectors identified by the Government as "Priority Sectors" such as agricultural and small scale industries.

The Bank's corporate and SME banking services to Indian corporations include syndicated loans, credit line commitments, treasury products, trade finance and correspondent banking.

The Bank's retail banking services include consumer lending and deposit services. The Bank offers a wide range of consumer credit products, including personal loans, home loans, mortgage loans and credit cards. The Bank's deposit products include savings accounts, time deposits and tailored deposit products for customers in various sectors, such as accounts for high wealth individuals, non-resident Rupee accounts, annuity-linked deposit schemes and tax-saving deposit products.

Other businesses of the Bank include merchant banking, bancassurance (marketing of life and non-life insurance products), corporate cash management services, executor, trustee and taxation services, agricultural consultancy services and depositary services.

As at 31 March 2018, the Bank's unconsolidated deposits, advances and total assets were Rs.5,247.72 billion, Rs.3,817.03 billion and Rs.6,168.86 billion, respectively. For the fiscal year ended 31 March 2018, the Bank's unconsolidated net loss amounted to Rs.42.22 billion, a decrease of Rs.53.44 billion from the fiscal year ended 31 March 2017. For the nine months ended 31 December 2018, the Bank's unconsolidated net profit was Rs.8.99 billion, an increase of Rs.2.61 billion or 40.91 per cent. from the nine-month period ended 31 December 2017.

As at 31 March 2018, the Group's consolidated deposits, advances and total assets were Rs.5,248.47 billion, Rs.3,820.75 billion and Rs.6,314.35 billion, respectively. For the fiscal year ended 31 March 2018, the Group's consolidated net loss amounted to Rs.39.51 billion, a decrease of Rs.53.09 billion from the year ended 31 March 2017.

History

The Bank was founded as Canara Hindu Permanent Fund Limited on 1 July 1906 in Mangalore, Karnataka by Shri. Ammembal Subba Rao Pai. The Bank, together with 13 other banks, was nationalised in July 1969 under the Bank Nationalisation Act. Since 1961, the Bank has acquired 11 other Indian banks and as at 31 March 2010, was the fourth largest nationalised bank in India in terms of total assets, according to statistics published by the RBI. In November 2002, the Bank undertook an initial public offering, which reduced the Government's shareholding from 100.00 per cent. as at 13 December 2002 to 73.17 per cent. as at 31 December 2010. The Bank undertook a qualified institutional placement that raised Rs.19.93 billion during the last quarter of 2011, which reduced the Government's shareholding from 73.17 per cent. as at 31 December 2010 to 67.72 per cent. as at 31 March 2013. During fiscal year 2014, the Bank issued 18.26 million equity shares to the Government on a preferential basis which increased the Government's shareholding from 67.72 per cent as at 31 March 2013 to 69.0 per cent as at 31 March 2014. Further, during fiscal year 2015, the Bank issued 13.94 million equity shares to the Government on a preferential basis which increased the Government's shareholding to 69.90 per cent as at 31 March 2015 from 69.0 per cent as at 31 March 2014. During fiscal year 2016, the Bank issued 40 million shares to the Life Insurance Corporation of India and 27.79 million shares to the Government on a preferential basis which reduced the Government's shareholding from 69.90 per cent as at 31 March 2015 to 66.30 per cent as at 31 March 2016. The Bank issued and allotted 135,954,616 equity shares on a preferential basis to the Government on 27 March 2018 which increased the Government's shareholding to 72.55 per cent. and increased the total paid up capital of the Bank to Rs.7,332 million. As at 31 December 2018, the Government's shareholding of the Bank remained at 72.55 per cent. In addition, as at 31 December 2018, a Government-controlled entity, Life Insurance Corporation of India, held a 9.47 per cent. shareholding of the Bank.

The Bank has developed into a financial conglomerate with eight subsidiaries, one sponsored entity and one joint venture, operating in a variety of sectors including investment management, venture capital funding, factoring, software development and consultancy, housing finance, financial services and gilt securities trading.

Relationship with the Government and the RBI

As at 31 December 2018, the Government owned 72.55 per cent. of the paid-up share capital of the Bank. As its principal shareholder, the Government has an interest in the Bank's performance both in terms of its contribution to the Indian economy as well as its ability to operate on a commercial basis. Although the Government may sell shares of the Bank in the future, the Bank Nationalisation Act provides that the Government shall hold not less than 51.00 per cent. of the Bank's outstanding shares.

Since the nationalisation of the Bank in 1969, the Government has provided financial support to the Bank by way of additional equity capital. The Government has contributed Rs.5.32 billion of capital since 1969, with the most recent contribution being a Rs.1.36 billion investment in 2018. As at the date of this Offering Circular, the Government does not have any plans to contribute any capital. In the fiscal year ended 31 March 2003, at the time of its initial public offering, the Bank repaid Rs.2.8 billion of capital to the Government. The Bank successfully raised Rs.19.93 billion through a qualified institutional placement by issue of 330 million equity shares of Rs.10 each in March 2011 at a premium of Rs.594. The Bank may raise equity capital by conducting further public offerings to reduce the Government's shareholding of the Bank to not less than 51.00 per cent. of the Bank's outstanding shares.

The Government may, under the Bank Nationalisation Act, increase the paid-up capital of the Bank by contributing capital in consultation with the RBI. However, in the event that the board of directors of the Bank (the "**Board of Directors**") considers it necessary to increase the paid-up capital of the Bank either by transferring funds from the reserve fund or by issue of shares to the

public, this may be done only with the prior approval of the Government. The paid-up capital of the Bank cannot be reduced below 25.00 per cent. of the total paid-up capital of the Bank as at 21 January 1995 (the date of the commencement of the Banking Companies (Acquisition and Transfer of Undertaking) Amendment Act 1995).

Although historically the Bank has enjoyed certain autonomy from the Government in the management of the Bank's affairs and strategic direction, as its controlling shareholder, the Government is able to exercise effective control over the Bank. The Chairman and Managing Director, the Executive Director and one further director are appointed by the Government. The Government also appoints one director to the Bank's Board of Directors who is a nominee of the RBI. The Government, as its majority and controlling shareholder, may also determine material policies of the Bank and the outcome of any transaction or other matter submitted to the Bank's shareholders for approval, except for those matters requiring a special resolution of the shareholders.

The RBI regulates the banking sector in India. In particular, the RBI has authority to issue instructions and notifications, which are typically broad in scope, thereby giving the RBI considerable control over banks in general, including the Bank. Pursuant to such instructions and notifications, the RBI defines the scope of the Bank's activities and otherwise controls many factors affecting the Bank's competitive position, operations and financial condition. The RBI also has the power to grant licenses to new banks that may compete with the Bank.

Strategy

The Bank's long term strategy is to emerge as a global bank, with best practices with respect to asset portfolio management, customer orientation, product innovation, profitability and corporate governance, and to enhance value for its shareholders.

In the medium term, the Bank's key business strategy includes:

- Securing cost effective funding by increasing the Bank's current account and savings account ("CASA") deposits.
- Prudent fund management through optimising costs and yields.
- Focusing on the retail segments through mobilisation of higher CASA and retail term deposits and an increased lending to the sectors including education, agriculture and SME.
- Maintaining status as a financial conglomerate through synergy with subsidiaries.
- Enhancing exclusive customer relationship management, marketing and brand building.
- Leveraging on the use of technology for product innovation and providing efficient customer service.
- Increasing the fee income.
- Reducing the quantum of Non Performing Assets ("NPAs") and containing growth of NPAs.
- Accelerating the recovery of NPA accounts.
- Improving operational financial ratios – including but not limited to net interest margin, return on assets, return on equity and cost to income.

The Bank's key short to medium-term initiatives include:

- Increasing the Bank's business by an annual growth rate of 15.00 per cent. each year over the next five years.
- Expanding the Bank's global reach by opening representative offices or branches in international financial centres.

In addition, the Bank's growth strategy is to position the balance sheet for further growth through particular focus on CASA, costs, credit quality and capital.

Products and Services

The Bank organises its business into four business lines:

- **Non-Priority Sector Lending** which comprises a wide variety of banking activities including corporate, SME and retail banking activities.
- **Priority Sector Lending** under which the Bank provides funding to sectors identified by the Government as Priority Sectors including loans to agricultural industries, small-scale industries and services, education, food and agriculture based processing sectors, loans to the housing sector of up to a maximum of Rs.1.5 million.
- **International Banking** through which the Bank caters to financial requirements of Indian exporters and importers.
- **Other Services** which include bancassurance, cross-selling of mutual fund products, corporate cash management, agricultural consultancy, industrial advisory, depositary, merchant banking and executor, trustee and taxation related services.

The following sets out the total net advances and deposits of the Bank as at 31 March 2016, 2017 and 2018 and 31 December 2018.

	As at 31 March			As at 31 December
	2016	2017	2018	2018
	(audited)	(Rs. in billions)		(reviewed)
Total advances (net of provisions)	3,247.15	3,420.09	3,817.03	4,172.27
Total deposits	4,797.92	4,952.75	5,247.72	5,755.24

The Bank's income is derived from interest income and non-interest income comprising fees and commissions received for exchange and brokerage services, profits on exchange transactions, profits on sales of investments and dividend income from its subsidiaries and joint venture.

The following describes the breakdown of interest income and non-interest income for the fiscal years ended 31 March 2016, 2017 and 2018 and for the nine months ended 31 December 2017 and 2018.

	For the fiscal year ended 31 March						For the 9 months ended 31 December		For the 9 months ended 31 December	
	2016		2017		2018		2017		2018	
	(audited)		(audited)		(audited)		(reviewed)		(reviewed)	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
(Rs. in billions)										
Interest income	440.2	90.0	413.88	85	412.52	86	310.29	85	346.22	88
Non-interest income	48.75	10.0	75.54	15	69.43	14	56.11	15	47.13	12
Total	488.97	100.0	489.42	100	481.95	100	366.40	100	393.85	100

An increase in interest rates during the fiscal years ended 31 March 2016, 2017 and 2018 and a growth in credit during the fiscal years ended 31 March 2017 and 2018 contributed to an increase in the Bank's interest income. The fee-based income to non-interest income ratio for the fiscal year ended 31 March 2018 was 38.94 per cent. (compared to 32.08 per cent. for the fiscal year ended 31 March 2017).

For the nine months ended 31 December 2018, the Bank's fee-based income to non-interest income ratios increased to 37.87 per cent. from 35.99 per cent. for the corresponding period of the previous fiscal year.

Non-Priority Sector Lending

The Bank's Non-Priority Sector Lending business is generally divided into corporate banking, SME banking and retail banking. While the Bank's advances to SMEs are classified as either Non-Priority or Priority Sector Lending, its advances to corporates and SMEs are not differentiated. The Bank's Non-Priority Sector Lending loan portfolio amounted to Rs.2,148.91 billion as at 31 December 2018, which accounted for 56.00 per cent. of the Bank's total loan portfolio.

Corporate Banking

The Bank's Corporate Banking Group generally services the banking needs of large and mid-sized corporations.

Credit proposals exceeding Rs.500 million are generally handled by the Prime Corporate Credit Department at the Head Office of the Bank. The Bank also has specialised branches which handle corporate proposals exceeding Rs.500 million. Key products offered to corporations include medium to long term project financing, working capital financing, syndicated loans, short-term credit products linked to market benchmarks and derivative products. As at 31 December 2018, the Bank's exposure to corporates amounted to approximately 32.94 per cent. of the Bank's credit portfolio.

Corporate Lending

Project and Corporate Finance. India is a developing country with many long-term infrastructure and non-infrastructure related projects, which provide opportunities to local financial institutions, including the Bank, to provide financing for these projects. The Bank has extended project financing in a variety of sectors, including the manufacturing, processing, preservation, services, trading, health care, tourism and education sectors. In particular, the Bank has been providing credit for infrastructure projects due to the importance of such projects to India and its economy. The Bank has also developed significant loan syndication capabilities for arranging project finance for large corporates and plans to leverage its capabilities to increase its fee-based income.

The Bank generally provides term loans up to a maximum period of seven years. Such term may be increased up to 10 to 15 years for loans in respect of infrastructure projects or long-term agricultural loans.

Working Capital Finance. The Bank provides working capital finance in the form of fund-based credit facilities, such as cash credit, overdrafts, packing credit, bills limit and book debt finance, and non-fund-based credit facilities, such as letters of credit, bank guarantees and co-acceptances. The Bank also provides three-to six-month term credit products with rates of interest linked to market benchmarks, such as the London Interbank Offered Rate (in the case of six-month term credit products) and the G-Sec Index (in the case of three-month term credit products). Based on various factors, including the market condition and the liquidity position of the Bank, the Bank determines the appropriate pricing of these products.

Treasury Products

The Bank operates in the domestic and international money, foreign exchange and derivatives markets to hedge its customers' risks on foreign exchange and interest rates. The Bank offers a number of treasury products, such as spots, forwards and swaps for hedging short term exchange risk on foreign currency receivables and payables and options and swaps for hedging medium and long term foreign exchange risk. The Bank also offers various foreign exchange products and services for expatriate workers to remit foreign exchange through electronic fund transfers, SWIFT remittances and demand drafts.

See "*Description of the Bank's Assets and Liabilities – Investment*" for a discussion of the Bank's internal treasury operations.

SME Banking

Facilitating growth of SMEs has always been a priority focus of the Bank and providing financing to the SME segment remains one of the Bank's core activities. The Micro, Small and Medium Enterprises Development Act, 2006 enacted by the Government provides the basis for classification of various enterprises into micro, small or medium. An enterprise engaged in the manufacture or production, processing or preservation of goods can be classified as a micro enterprise, if the investment in plant and machinery does not exceed Rs.2.5 million; a small enterprise, if the investment in plant and machinery is more than Rs.2.5 million but does not exceed Rs.50 million; and a medium enterprise, if the investment in plant and machinery is more than Rs.50 million but does not exceed Rs.100 million. An enterprise involved in the service sector can be classified as a micro enterprise, if the investment in equipment does not exceed Rs.1 million; a small enterprise, if the investment in equipment is more than Rs.1 million but does not exceed Rs.20 million; and a medium enterprise, if the investment in equipment is more than Rs.20 million but does not exceed Rs.50 million. The Bank classifies SMEs as entities that do not reach the financial thresholds set for corporate banking customers and may include individual entrepreneurs. Advances to SMEs are classified as Priority Sector lending.

As at 31 December 2018, the Bank had over 1 million SME customers and its loan portfolio to the SME sector amounted to Rs.908 billion which represented 20.53 per cent. of the Bank's total loan portfolio.

The Bank has launched several initiatives to assist the SME sector, including the following:

Specialised Branches: To ensure adequate and timely credit flow to the SME sector, the Bank has established 166 specialised SME branches which exclusively handle SME credit in industrial belts across India. The Bank applies credit assessment standards recommended by the PR Nayak Committee, which was formed by the RBI in 1991 to examine the adequacy of institutional credit to SMEs and make appropriate recommendations. These recommendations stipulate working capital limits to be based on the projected and accepted turnover amounts. These recommendations also stipulate the disposal of applications and proposals for credit within a maximum period of 45 days.

SME Sulabhs: For the purposes of processing credit applications and delivering credit to SMEs in an efficient and timely manner, the Bank has established 52 "SME Sulabhs", which are centralised processing centres, under 21 Circle Offices of the Bank. These SME Sulabhs are equipped with specialised marketing and credit appraisal teams to directly receive, process and sanction SME credit proposals in a time efficient manner. The dedicated marketing team of the SME Sulabhs, can reach out to a large number of SMEs in the respective centres, particularly in the industrial sector, for identifying new SME clients and market the Bank's products and provide required finance to eligible SMEs.

SME Policy: The Bank has adopted a specific SME Policy under which the Bank has taken steps to ensure increased flow of credit to SMEs. Graded rate of interest based on the Bank's scoring standards, which take into account the profitability and the liquidity of the unit and the security provided, among others, has been adopted wherein SME units can secure financing at a lower rate than the maximum interest band. As at 31 December 2018, the maximum interest rate was 7.00 per cent. over the marginal cost of fund based lending rate of the Bank per annum. For credits to SMEs, however, the maximum interest rate was 6.00 per cent. over the marginal cost of fund based lending rate of the Bank per annum for working capital and 6.85 per cent. for term loans, in each case as at 31 December 2018.

Special Schemes

Cluster Approach: The Bank offers tailored credit products to cater for specific industrial areas, such as cracker industries in Sivakasi and traders in Koyembedu etc., in different states across India. At present there are 10 such area specific schemes. The Bank also plays an active role in financing SMEs in other industrial clusters identified by the United Nations Industrial Development Organisation (the "**UNIDO**") and the Government. The Banks has branches in all 388 UNIDO clusters which cater to the needs of SMEs in those clusters.

Other initiatives:

Collateral Free Loans and Advances: The Bank generally provides collateral free loans of up to Rs.20 million to SMEs. These collateral free loans are guaranteed by corporations or the Government up to a maximum of 85.00 per cent. of the loan amount. The Bank provides collateral free loans to micro and small enterprises under two credit guarantee schemes, namely the Credit Guarantee Fund for Micro Units (the "**CGFMU**") and Credit Guarantee Fund for Micro & Small Enterprises (the "**CGMSE**").

CGFMU

The credit guarantee scheme is managed and operated by National Credit Guarantee Trustee Company Limited (the “**NCGTC**”), a trustee company set up by the Government. The CGFMU guarantees loans granted to eligible micro units up to the specified limited of Rs.1 million, without obtaining any collateral or third party guarantee.

CGMSE

The CGMSE is offered by the Credit Guarantee Fund Trust for Micro and Small Enterprises (the “**CGTMSE**”), which is a credit guarantee institution set up jointly by the Government and the Small Industries Development Bank of India, to extend guarantee cover to banks for loans granted by them to micro and small enterprises without obtaining collateral securities and/or third party guarantees. The CGTMSE guarantees loans above Rs.1 million up to Rs.20 million made to small scale industries.

As at 31 December 2018, the Bank’s SME advances of Rs.147 billion are covered under the CGFMU and the CGMSE.

Trade Receivables Discounting System (“TReDS”): This is an automated system-driven platform to benefit SMEs by facilitating them to auction their trade receivables at competitive market rates through a transparent bidding process on the platform by multiple financiers. The Bank has on boarded on TReDS Platform of Receivables Exchange of India Ltd. (“**RXIL**”) to garner business of bill discounting of SMEs through online portal.

Contactless loans using Fin-Tech: The Bank is onboarded in the digital platform for Contactless SME loans through the digital portal PSB loans in 59 minutes. The platform is put into operation to apply and get “in-Principle Sanction” for business loans within 59 minutes without any physical contact with the relevant branches of the Bank. It verifies credit history, financial statements and tax returns. Nearly 2,000 sanctions have been made so far.

Standby credit facility for capital expenditure for SMEs: This scheme enables the entrepreneurs to have access to finance for certain capital expenditures, such as replacements and major repairs.

Others: The Bank is also effectively implementing various subsidy-oriented loan schemes. The eligible applicants under these schemes are granted a central subsidy from various Government agencies.

The Bank has entered into a memorandum of understanding with top rated credit rating agencies, such as M/s. Credit Rating & Information Services India Ltd (“**CRISIL**”), M/s. Small & Medium Enterprises Rating Agency (“**SMERA**”), M/s. Credit Rating and Information Services India Ltd. (“**CARE**”), M/s. IRR Advisory Services Private Ltd. and M/s. Brickwork Ratings (India) Pvt Ltd. for the rating of SMEs to enable a rated SME to obtain a loan at a better rate of interest and to reduce the credit decision period.

Retail Banking

The Bank has a variety of retail loan and deposit products to meet its customers’ needs. Retail loan products include housing loans, vehicle loans, personal loans, loan facilities for professionals and specialised loan schemes for corporate employees, SMEs and for the agriculture. The Bank’s retail deposit products include savings accounts, time deposits and specific products for customers in various sectors, such as accounts for high net-worth individuals, non-resident Rupee accounts, annuity-linked deposit schemes and tax-saving deposit products.

Retail Lending

The Bank's retail credit products include financing for home building, renovation and furnishing, purchasing of automobiles, household articles, education, travel and retail trade. The Bank has launched a new retail loan product called "Yuva Awas Rin" to cater to the specific needs of young salaried persons with respect to housing loans. The value of the loan is based on the borrower's monthly salary, of up to 6 years' gross salary. In respect of construction of a house, a maximum moratorium of 36 months is permitted under this retail credit product. The Bank has also launched a loan product for financial needs in relation to roof top solar photovoltaic systems for borrowers who would not otherwise qualify for obtaining a housing loan from the Bank. The Bank monitors the market periodically and regularly modifies its retail credit products based on market response and the changing needs of its customers with a view to set interest rates at a competitive level as compared with peer banks in the industry.

The Bank delivers its retail credit products through its network of 6,312 branches, which is supported by its retail lending centralised processing units and retail lending marketing teams at major cities across India. The Bank has also been aggressively marketing its retail credit products to employees of various Government departments, multinationals and corporates, real estate developers and automobile manufacturers and dealers.

The Bank believes that, with the backing of fiscal incentives implemented by the Government, the Indian economy is currently experiencing an increase in home building activities. As at 31 March 2016, 2017 and 2018 and 31 December 2018, the Bank's housing loans represented 37.90 per cent., 41.31 per cent., 36.83 per cent. and 35.84 per cent., respectively, of its total retail credit portfolio.

The table below sets out the Bank's retail credit portfolio as at the dates indicated.

	As at 31 March			As at 31 December
	2016	2017	2018	2018
		(audited)		(reviewed)
(Rs. in billions)				
Housing Loans	204.75	243.37	283.08	330.08
Education Loan	67.38	76.51	84.38	89.13
Personal Loans	120.49	138.35	216.01	257.90
Total retail credit	540.69	589.10	768.53	920.91
Total Credit	3,247.15	3,420.00	3,817.00	4,172.00

Retail Deposits

The Bank's retail deposit products include the following:

- *Savings accounts.* Demand deposits for retail customers that accrue interest at a fixed rate and offer withdrawal facilities through cheque books and debit cards.
- *Current accounts.* Non-interest bearing demand deposits.
- *Time deposits.* Tenure based deposits of a fixed amount over a fixed term that accrue interest at a fixed rate and may be withdrawn before maturity in accordance with applicable terms and conditions. Tenures range from seven days to 120 months.

The table below sets out the amount of CASA deposits of the Bank as at the dates indicated:

	As at 31 March			As at 31 December
	2016	2017	2018	2018
	(audited)			(reviewed)
(Rs. in billions)				
Current Deposit	198.27	225.81	249.84	247.02
Savings Deposit	1,037.15	1,271.68	1,420.51	1,496.89
CASA Deposit	1,235.42	1,497.49	1,670.35	1,743.91
Domestic Deposit	4,512.12	4,546.10	4,859.94	5,402.13
Percentage of CASA ⁽¹⁾	27.38	32.85	34.28	32.23

Note:

(1) To domestic deposit.

For the fiscal years ended 31 March 2016, 2017 and 2018, the credit-deposit ratio of the Bank stood at 67.7 per cent., 69.1 per cent. and 72.8 per cent., respectively. As at 31 December 2018, the credit-deposit ratio of the Bank stood at 72.5 per cent.

Credit and Debit Cards

The Bank offers global credit and domestic debit cards and prepaid cards to its customers in association with Visa and MasterCard. The Bank has launched its international prepaid travel cards denominated in seven foreign currencies, namely U.S. dollar, Sterling, Euro, Australian dollar, Canadian dollar, Singapore dollar and United Arab Emirates Dirham in 2015. To support its credit card operations, the Bank has established a network comprising over 21,228 merchants, 6,327 designated branches of the Bank and 9,004 automatic teller machines ("ATMs") as at 31 December 2018. All the ATMs and designated branches provide cash advance facilities to credit card holders. For the fiscal years ended 31 March 2016, 2017 and 2018, the Bank had issued approximately 31.9 million, 33.1 million and 43.0 million debit and credit cards respectively. As at 31 December 2018, the Bank had issued approximately 45.7 million debit and credit cards.

Non-Resident Products and Services

The Bank provides a variety of services to non-resident Indians. Such products and services include foreign currency non-resident term deposits, rupee deposits from overseas (savings and term deposits), fixed deposits, ordinary deposits, savings account in Rupees, remittance services and portfolio management services.

Priority Sector Lending

The Bank has played a proactive role in extending financial support and financing the sectors identified as "Priority Sectors" by the Government and the RBI to promote the development of the rural economy. The Bank's Priority Sector advances include loans to agricultural industries, small-scale industries and services, loans to certain sectors targeted as requiring special assistance, such as education, food and agriculture based processing sectors, loans to the housing sector of up to a maximum of Rs.2.5 million. Although the Government and the RBI have identified the Priority Sectors and provided lending guidelines, the Bank has full discretion in determining the commercial terms and conditions in extending financing to borrowers in such sectors.

In accordance with current RBI guidelines, all banks in India, including the Bank, are required to lend a minimum of 40.00 per cent. of its net bank credit to Priority Sectors and at least 18.00 per cent. of its net bank credit to the agricultural sector.

The table below sets out the outstanding Priority Sector advances (as defined by the Government and the RBI) of the Bank as at the dates indicated.

	As at 31 March			As at 31 December
	2016	2017	2018	2018
		(audited)		(reviewed)
(Rs. in billions, except percentages)				
Agriculture	671.76	740.79	840.12	912.21
SME	666.89	743.02	820.98	908.06
Other Priority Sectors	171.51	188.96	195.16	203.10
Total Priority Sector advances	1,455.58	1,602.69	1,856.26	2,023.36
Total Priority Sector advances (net) ⁽¹⁾ as a percentage of Adjusted net bank credit (%)	49.29	49.13	51.69	54.44
Total Priority Sector advances as a percentage of gross bank credit (%)	48.06	50.88	52.66	51.35

Note:

(1) Net Foreign Currency Non-Resident Repatriable (Banks) liabilities

The RBI also requires commercial banks to advance at least 10.00 per cent. of their net bank credit to weaker sectors identified by the RBI. Under the Differential Rate of Interest scheme (the “**DRI Scheme**”), the Bank extends loans to low-income sectors of the community that are engaged in productive ventures at an interest rate of 4.00 per cent. per annum to meet their credit requirements. The maximum principal amount of a loan that may be provided under the DRI Scheme is Rs.15,000. Under the DRI Scheme, a loan with a principal amount of up to Rs.5,000 can be granted to physically handicapped people for the purchase of equipment, and an additional loan amount up to Rs.20,000 can be granted to scheduled castes and scheduled tribes (being communities that are accorded special status by the Constitution of India). To be eligible for the DRI Scheme, a borrower’s annual income must not exceed Rs.24,000 per family residing in urban or semi-urban areas and Rs.18,000 per family in rural areas.

Agriculture

Agriculture is a key sector of the Indian economy, which contributed approximately 16.40 per cent. to its GDP for the fiscal year 2018. Agriculture accounted for approximately 41.61 per cent. of employment in India during fiscal year 2018. The Bank began providing agricultural lending prior to the nationalisation of banks in India, which took place in July 1969 pursuant to the Bank Nationalisation Act (See “*Investment Considerations*” for a discussion of the Bank Nationalisation Act). The Bank remains one of the leading nationalised banks in India in terms of the total principal amount of loans provided for the purposes of agricultural and rural development.

As at 31 December 2018, the Bank had a network of 3,819 rural and semi urban branches, constituting approximately 60.67 per cent. of its total branch network, that support agricultural development. In addition, approximately 92.09 per cent. of the Bank’s branches provide agricultural financing, thereby making it well positioned to offer credit facilities to farmers throughout the country.

The Bank is the market leader in India in terms of the number of agricultural customers. The Bank was the first bank in India to introduce an agricultural overdraft facility (in 1981), specifically for farmers, and it was also the first bank in India to provide agricultural consultancy services (in 1988) and to open specialised hi-tech agriculture finance branches (in 1993).

The Bank's branches extend financial support to customers involved in a wide range of agricultural activities, such as crop production, horticulture, floriculture, plantation crops, forestry, farming, animal husbandry, land reclamation and development, farm mechanisation, development of irrigation potential through different irrigation structures, construction and operation of storage facilities, go-downs, silos and cold storage and processing of agricultural products. The Bank also extends financial support in the form of cash, credit, tailored repayment terms and other forms of credit in connection with the establishment of agri-clinics and agri-business centres.

The Bank has introduced several innovative schemes for financing the agricultural sector. For example, the "Kisan Suvidha" scheme was introduced in 2005 to provide a comprehensive credit solution (working capital and term loans) to farmers. The Bank also introduced the "Kisan OD" scheme in 2006 to provide hassle-free ATM linked overdraft facilities to farmers. The Bank introduced the Kisan Credit Card Scheme in 1999, under which certain cash credit is provided by the Bank and the repayment schedule coincides with the harvest and/or marketing of crops. Since the introduction of the Kisan Credit Card Scheme, the Bank has issued more than 8.58 million Kisan credit cards to farmers as at 31 December 2018.

Micro Finance and Financial Inclusion

As at 31 December 2018, the Bank provided services to 10,049 villages comprising of 3,962 allotted sub-service areas ("SSAs") through 902 brick and mortar branches and provides services through its Business Correspondent ("BC") model. The Bank has engaged three corporate BCs, viz., M/s Vision India Software Exports Limited, M/s FINO Payment Bank Limited, M/s Manipal Business Solutions P Limited and M/s Integra Micro Systems (P) Ltd.

The Bank introduced the new hybrid model bank business outlets for BC services on 19 November 2018 (the "**New Hybrid Model**"). Under the New Hybrid Model, BC agents are provided with tablets instead of traditional hand-held machines where the BC agent is required to work for a fixed four to five hours a day at a particular designated site and will be able to work mobile thereafter. Centralised software is used to promote uniformity. Kiosk model is also done centrally to create a branding image. The Bank's total budget allotted for the fiscal year ended 31 March 2019 is Rs.920 million. As at 31 December 2018, approximately Rs.460 million of the budget has been utilised.

As at 31 December 2018, there were 902 brick and mortar branches which have returned a business of Rs.207.26 billion in over 71,920,000 accounts, which include deposits of Rs.93.27 billion and advances of Rs.113.99 billion. These branches have achieved an average business of Rs.22,980,000 and the average number of accounts per branch is 7,974.

Under the basic saving bank deposit ("BSBD") accounts, the Bank has opened 18,302,000 accounts since the inception of the scheme, including deposits of Rs.50.26 billion as at 31 December 2018.

The Bank has opened accounts under the Government scheme of "One Family One Account", offering accounts in rural and urban areas, and offering accounts to migrant labourers and street vendors in urban areas.

The Bank has also opened at least one account for each household under the jurisdiction of the Bank's branches for the disbursement of Government benefits such as social security pensions, scholarships, gas subsidies and kerosene subsidies. The Bank has completed 12,219,000

transactions through hand held machines amounting to Rs.23.28 billion for the fiscal year ended 31 March 2018 and 11 million transactions amounting to Rs.19.63 billion for the nine months ended 31 December 2018.

As at 31 December 2018, the Bank had opened 18 micro finance branches, urban centres exclusively for urban financial inclusion. These branches have handled a total amount of deposits and loans to the value of Rs.6.96 billion as at 31 December 2018 in 1.58 million accounts. These branches cater to the requirements of the poor and excluded category in urban areas, to whom the standard banking branches are not in a position to cater.

Self-help group (“**SHG**”) finance is a group lending scheme. Each SHG consists of 10 to 20 members who have grouped together for the purposes of self help and finance. Each SHG is unregistered. Group members make regular savings and offer finance to members of the group, taken from the group’s savings. The groups are graded after six months. Various parameters such as the conducting of meetings, the collection of savings of members, the maintenance of books and internal lending are taken into account for the purposes of grading the groups, and the groups are financed after successful gradation. Initially, a finance in the ratio of 1:1 of the savings of the group is considered. Gradually, the quantum will be increased to 1:2, 1:3 or 1:4 based on the group’s performance. As at 31 December 2018, the Bank has formed 31,129 SHGs and financed 68,375 SHGs to the value of Rs.23.05 billion.

As at 31 December 2018, the Bank’s exposure under the SHG finance programme was Rs.36.21 billion in 143,010 accounts.

Educational Loans

The Bank commenced offering loans to students in 1956 through its Golden Jubilee Education Fund at an interest rate of 4.00 per cent. per annum. The Vidyasagar Education Loan was introduced by the Bank in 1978 to cater to the needs of students pursuing various courses in India and abroad.

During the fiscal year ended 31 March 2018, the Bank assisted more than 29,615 students and disbursed a total of Rs.14.52 billion in education loans. As at 31 December 2018, the Bank’s total outstanding education loans amounted to Rs.82.59 billion, which covered more than 289,865 students.

Due to recent signs of stress in its educational loan portfolio, the Bank offers loans on a meritocratic basis.

International Banking

Foreign Network

As at 31 December 2018, the Bank had seven international branches in London, Hong Kong, Shanghai, Manama, Johannesburg, New York and Dubai International Financial Centre, a representative office in Sharjah, a joint venture with the State Bank of India in Moscow and a wholly owned banking subsidiary in Dar es Salaam to supplement its international business operations.

In January 2018, the Government issued a directive instructing the public-sector banks of India (“PSBs”), including the Bank, to consolidate their overseas operations as part of the Government’s initiative to rationalise the overseas operations of PSBs for cost efficiencies and synergies in the overseas market. The initiative seeks a differentiated banking strategy for the PSBs to leverage on their respective competitive advantages including branch network rationalisations for a stronger regional connection and presence. As part of the initiative, branches and offices of PSBs in foreign countries would either have to shut down or be merged with other branches of the respective PSBs concerned. Against this backdrop, the Board of Directors of the Bank provided its approval for the Bank’s overseas branch rationalisation plan which involves (a) shutting down the operations of its Leicester branch, Shanghai branch, Manama branch and Johannesburg branch and (b) divesting its entire joint venture stake in Commercial Indo Bank LLC (“CIBL”) to the State Bank of India.

As part of the Bank’s efforts of ensuring continuity in services for its customers of the branches that were being closed, the operations and works at (a) the Leicester branch has been transferred to the London branch with effect from 14 December 2018, (b) the Shanghai branch is scheduled to be transferred to the Hong Kong branch with effect from 31 March 2019 and (c) the Manama branch has been transferred to the Dubai branch with effect from 23 January 2019. The Bank’s Johannesburg branch received the approval in principle from the South African Reserve Bank on 22 June 2018 for closure of its operations and the Johannesburg branch has since closed all of its deposit accounts and remains in the process of transferring and closure of loan accounts. The Johannesburg branch is scheduled to cease operations with effect from 30 June 2019. In January 2018, the Bank received approval from the Department of Financial Services of the Ministry of Finance of India for the divestment of the Bank’s entire stake in CIBL and as of the date of this Offering Circular, the Bank is currently remains in the process of completing its divestment in CIBL which is scheduled to take effect from September 2019.

See “Description of the Bank’s Overseas Operations” for more details.

Export Finance

Generally, all branches of the Bank may handle export and import credit. 157 designated branches are able to handle export and import credit independently, whereas all other branches conduct this business through the relevant foreign department of the Bank.

As at 31 December 2018, the Bank’s total outstanding export credit amounted to Rs.114.55 billion.

Foreign Exchange

The Bank’s foreign exchange operations facilitate payments related to exports and imports. For the fiscal year ended 31 March 2018, export turnover amounted to Rs.953.17 billion and import turnover amounted to Rs.546.19 billion. For the nine months ended 31 December 2018, export turnover amounted to Rs.915.30 billion and import turnover amounted to Rs.509.16 billion. The Bank’s London branch undertakes merchant related foreign exchange transactions and proprietary trading in accordance with applicable guidelines and polices. The Bank’s branches in India also undertake foreign exchange transactions.

Correspondent Banking

The Bank maintains a correspondent relationship with various international banks to facilitate its foreign business in trade finance, foreign exchange and other treasury services. As at 31 December 2018, the Bank had correspondent relationships with 394 banks in 71 countries.

Remittance Services

As at 31 December 2018, the Bank had a Rupee drawing arrangement with 34 exchange houses and 25 banks in the Middle East to facilitate Rupee remittances by expatriates. Under the Rupee drawing arrangement, expatriates can remit funds back to India, mainly through designated depository agency accounts. These are accounts opened in the name of the Bank by the relevant exchange house with a bank in the Middle East which is acceptable to the Bank. Daily drawings by expatriates are deposited by the exchange houses in these accounts and the funds so deposited are transferred to the Bank's nostro account on the next working day. The Bank also manages two exchange houses, Al Razouki International Exchange Co, in Dubai and Eastern Exchange Est, in Qatar, under separate secondment and management agreements.

Other Services

Agricultural Innovation Centre (AIC)

The Bank's Agricultural Consultancy Service is the first consultancy service for agriculture and related activities introduced in the banking industry in India in 1988 and was renamed as Agricultural Innovation Centre ("AIC") on 22 January 2014. The Bank's AIC facilitates the modernisation of agriculture activities and businesses, appraises agriculture-based projects and provides consultancy services. The Bank's AIC also offers an array of services which include provision of detailed project reports, project appraisal, rehabilitation packages for agricultural units facing financial, management or operational difficulties and debt restructuring for such agricultural units. For the fiscal years ended 31 March 2016, 2017 and 2018, the AIC handled 76 assignments with a total project cost of Rs.5.6 billion, 112 assignments with a total project cost of Rs.10.75 billion and 108 assignments with a total project cost of Rs.13.43 billion, respectively.

Corporate Social Responsibility ("CSR") initiatives

In line with the vision of the Bank's founder Sri Ammembal Subba Rao Pai, the Bank has been a pioneer in initiating and implementing multifaceted and innovative programmes aimed at the development of all segments of society which includes the introduction of several CSR initiatives which cover a wide array of areas, including self employment training, primary health, drinking water, community development, empowerment of women and sustainable development of the environment. Major initiatives of the Bank also include the setting up of relevant trusts and institutions with the aim of creating an impact in serving the people and society at large.

Canara Bank Centenary Rural Development Trust ("CBCRD Trust")

The CBCRD Trust (formerly known as the Canara Bank Platinum Jubilee Rural Development Fund) was set up in 1982 exclusively to initiate rural development activities and to mitigate the problem of unemployment in rural areas by establishing 31 training institutes. These institutes provide training to unemployed rural youth in more than 50 activities, the cost of which is borne by the Bank. The trained candidates are provided assistance to start their own ventures through bank finance and counselling. Since the establishment of the CBCRD Trust, over 332,666 youths have been trained since inception at various training institutes established by the CBCRD Trust and in association with other agencies. Post-training follow-up of the candidates is carried out for a period of two years.

Canara Financial Advisory Trust ("CFA Trust")

The CFA Trust was set up in 2010 for the purposes of coordinating and promoting financial literacy. As of the date of this Offering Circular, there are 72 financial literacy centres across India for the dissemination and promotion of financial literacy.

Canara Golden Jubilee Education Fund (“CBJEF”)

The CBJEF was set up in 1956 in commemoration of the golden jubilee of the Bank. The CBJEF offers scholarships to the student community (particularly for female students) and has also subsequently established a library in Bengaluru which, as of the date of this Offering Circular, offers more than 14,000 text books of professional courses. The CBJEF has benefitted approximately 30,000 students since its inception. For the year ended 31 March 2017, the Bank set aside Rs.0.3 million and Rs.0.2 million for libraries in Sagar and Bangalore respectively. For the year ended 31 March 2018, the Bank set aside Rs.0.5 million for a library in the rural area of Shimoga.

Rural Development & Self-Employment Training Institutes (“RUDSETIs”)

In 1982, the Bank, in collaboration with Syndicate Bank and the Sri Dharmasthala Manjunatheshwara Educational Trust, started the RUDSETIs. The main objectives are to identify, orient, motivate, train and assist rural youth to take up self-employment, to promote rural entrepreneurship, to train village workers, and to provide counselling and consultation. As at 31 December 2018, there were 27 RUDSETIs located across 17 states in India.

Other innovative rural development programmes of the Bank

The Bank has initiated several developmental programmes since the 1970s for the development of rural areas. The major programmes currently being implemented are providing street lighting to Central University, Periyar, Kerala, solar street lights at Pali, Rajasthan and Dattatreya Peeta at Bababudhan Darga and providing drinking water plants at selected villages across India with an outlay of Rs.2.41 million.

Centre for Entrepreneurship Development for Women (“CED”)

Under the CED Scheme, the Bank identifies, selects and trains female entrepreneurs, conducts entrepreneurial development programmes and assists female entrepreneurs to establish and operate their businesses. The Bank also offers counselling services to prospective and existing female entrepreneurs and assists in the formation of self-help groups.

Canara Relief and Welfare Society (“CBRWS”)

In 1961, the Bank sponsored and set up the CBRWS to provide holiday camps for children living in rural areas of India. The CBRWS was subsequently transformed into a big institution which now runs Sevakshetra Hospital, a home for abandoned children called Mathruchaya and a nursing home for the aged in Bangalore. For the year 2017-2018, the Bank has set aside Rs.3.56 million to the CBRWS for the renovation of the Braille Centre at Bangalore.

Canara Vidyajyothi Scheme (“CVS”)

The CVS was set up in 2013 and was specially formulated to provide scholarship to meritorious female students from the “Schedule Caste” and “Schedule Tribes” belonging to the lower income sections of society (together, the “SC/ST”) categories. The CVS has been implemented throughout the Bank’s 4,932 branches across the rural, semi-urban and urban areas of India. Under the CVS, each such relevant branch will identify six female students from SC/ST category studying in Government and/or Government-aided schools in the relevant areas and provide a scholarship to the highest achieving pupil among such SC/ST girls in the class based on the final examinations. The scholarship amount is Rs.2,500. Since inception of the CVS to 31 March 2018, a total of Rs.143.8 million has been distributed under the scholarships. For the financial year ended 31 March 2018, the budget allocated was Rs.42.5 million to which Rs.39.9 million was distributed under the scholarships. For the year ended 31 March 2019, the Bank has allocated Rs.40.0 million for distribution under the scholarships.

Swatch Bharat Scheme (“SBS”)

The SBS was set up in 2015 to promote public cleanliness in India. As part of its corporate social responsibility, the Bank has extended its financial support for this activity and for the financial year ended 31 March 2018, the Bank had provided approximately Rs.4.2 million of financial assistance.

Social Banking Activities

As part of its corporate social responsibilities, the Bank has set up the Social Banking Cell to undertake and monitor social service activities throughout the country, such as organising blood donation camps, health check-ups, assisting the poor and assisting organisations that work for the welfare of the disabled, orphans and the destitute by making donations.

Every year, the Bank, through its branches and offices, spends approximately Rs.300 million to conduct social service activities. For the fiscal year ended 31 March 2018 and for the nine months ended 31 December 2018, the Bank spent approximately Rs.285.29 million and Rs.166.90 million respectively, on such social service activities

Food Credit

The Bank is one of the consortium members in extending food credit to Food Corporation of India (“FCI”). The Bank plays a significant role in safeguarding the interest of farmers and financing food credit through FCI, which provides effective price support operations by procuring the grains if their market prices fall below the minimum support price, distributes food grains throughout the country and maintains a satisfactory level of buffer stocks. FCI undertakes the annual purchase of food grains and acts as a facilitator for safeguarding the quality and quantity of the food reaching the underprivileged segment of the Indian population.

Others

In addition to the initiatives described above, the Bank is also engaged in a range of other CSR activities and programmes which have had a positive impact on a cross-section of society in India. Some other major initiatives include: (a) providing training to 829,000 unemployed youths of which over 454,000 were female, (b) construction of public toilets for 78 schools for girls in rural districts in India, (c) adoption of 63 villages across the country for holistic development under the village adoption scheme called “Canara Gramodaya” and (d) the installation of potable water units in 156 fluoride affected villages of Kolar District, Karnataka which amounted to approximately Rs.114.0 million.

Awards and Recognition

The contribution of the Bank towards its CSR initiatives has been widely recognised and acknowledged and the Bank has been bestowed with various awards and accolades for its efforts. The Bank was awarded the “Golden Peacock Award 2017” under the “Corporate Social Responsibility” category by The Institute of Directors, New Delhi and the “Best Social Banking Award” under the large class category at the 14th Annual Associated Chambers of Commerce and Industry of India.

Government Banking

The Bank handles Government transactions as an agent of the Government and various state governments. The Bank collects various taxes (both direct taxes and indirect taxes) on behalf of the Government. The Bank also handles payment functions of the Government, including salary and pension payments and expenditure payments of various ministries.

Third Party Products

Life Insurance: The Bank, as a Corporate Agent of Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited, sells life insurance products through the Bank's branches.

Non-Life Insurance: The Bank, as a corporate agent of Bajaj Allianz General Insurance Co.Ltd, TATA AIG General Insurance Co. Ltd and The New India Assurance Company Limited cross sells the general insurance products of these insurance companies through the Bank's branches. The Bank, as a corporate agent of Apollo Munich Health Insurance Co. Ltd sells health insurance products through the Bank's branches.

Mutual fund and other investment products: The Bank, as a distributor of Canara Robeco Asset Management Company Limited sells mutual fund products.

Branch Banking – Distribution Network

The Bank distributes its products and services through various access points ranging from traditional branches to ATMs and the Internet.

Traditional Branch Network

For the fiscal years ended 31 March 2016, 2017 and 2018, the Bank had a network of 5,849, 6,083 and 6,212 branches respectively. As at 31 December 2018, the Bank had 6,312 branches, comprising its London, Hong Kong, Manama, Shanghai, Johannesburg, New York and Dubai International Financial Centre branches abroad and its 1,819 rural, 2,000 semi urban, 1,202 urban and 1,286 metropolitan branches in India. For more details on the Bank overseas operations and branches, please see "*Description of the Bank's London Branch*" and "*Description of the Bank's Overseas Operations*".

In order to develop niche areas of service, as at 31 December 2018, the Bank's branches included 290 specialised service branches, which consisted of 1 savings branch, 167 SME branches, 11 overseas branches, 9 agri-finance branches, 9 non-resident Indian branches, 3 industrial finance branches, 20 asset recovery management branches, 2 stock exchange branches, 12 prime corporate services branches, 1 capital markets branch, 2 Mahila banking branches (i.e. branches that cater and provide services especially for female clients and are managed by female employees of the Bank), 17 micro finance branches, 6 specialised Government business branches, 1 branch for the physically handicapped and 24 mid corporate branches. The Bank maintains 9 non-resident Indian branches to provide specialised services to high net-worth non-resident depositors.

In the fiscal year ended 31 March 2018 and in the nine months ended 31 December 2018, the Bank opened 132 and 23 new branches respectively. The Bank's network of branches is spread across both metropolitan and rural locations. To provide banking access to rural areas efficiently, the Bank's branches are located in rural and semi urban areas. Under the Lead Bank Scheme introduced by the RBI in 1969, the Bank has been designated as a "Lead Bank" in 26 districts in India, spread over the five states of Karnataka, Kerala, Tamil Nadu, Uttar Pradesh and Bihar. As a designated Lead Bank, the Bank is generally entrusted with responsibility for each designated district and is responsible for coordinating the efforts of all credit institutions in the district to increase the flow of credit to agriculture, small-scale industries and other economic activities included in the Priority Sector in the rural and semi urban areas. The Bank is also responsible for preparing the "District Credit Plan" based on the "Potential Linked Credit Plan" prepared by the NABARD and ensuring its successful implementation by coordinating with other banks and development departments of the Government in the allotted district. The Bank also coordinates the implementation of various state sponsored poverty alleviation programmes for creating rural employment and income generation and is responsible for ensuring that resources mobilised in

the district are utilised for the benefit of the local population for balanced growth of the area. In the fiscal year ended 31 March 2018, the Bank disbursed an aggregate of Rs.344.05 billion of credit in its 31 allotted districts.

ATM Network

The Bank was the first Indian bank to install a network of ATMs in Bangalore and Delhi in 1995. Since then, the network has extended throughout India. For the fiscal years ended 31 March 2016, 2017 and 2018, the Bank had a total of 9,251, 10,519 and 9,395 ATMs. As at 31 December 2018, the Bank had a total of 9,004 ATMs and it plans to increase the number of ATMs to approximately 9,200 by 31 March 2019. The Bank has collaborated with the National Financial Switch, which is promoted by the Institute for Development and Research in Banking Technology, to allow the Bank to share a network of 200,000 ATMs belonging to its member banks. As the Bank issues VISA/MasterCard/RuPay Debit Cards, customers will have access to all ATMs compatible with VISA/MasterCard/RuPay. The Bank has arrangements with VISA, Mastercard and RuPay to accept VISA/Mastercard/RuPay transactions in its ATM network.

The Bank has added additional value added services in its ATM network such as enabling funds transfer between a user's own accounts and third party accounts, Aadhaar registrations and Aadhaar seeding status enquiry, "Mobile Top up", utility bill payments, interbank mobile payment services, enrolment for social security scheme and direct tax payment services.

Internet Banking

The Bank's internet banking customers have grown significantly in recent years. For the fiscal years ended 31 March 2016, 2017 and 2018, the Bank had approximately 2.4 million, 3.0 million and 4.8 million internet banking customers respectively. As at 31 December 2018, the Bank had approximately 5.9 million internet banking customers. The Bank has extended its fund transfer facility up to a limit of Rs.1 million per day to retail customers and a customisable limit for corporate customers. A utility bill payment facility is available to retail customers as at the date of this Offering Circular and the Bank also proposes to extend the facility to corporate customers. The Bank is also extending the real time gross settlement bulk upload facility to corporate customers.

Mobile Banking

The Bank's mobile banking customers have grown significantly in recent years. For the fiscal years ended 31 March 2016, 2017 and 2018, the Bank had approximately 3.9 million, 5.2 million and 9.1 million mobile banking customers respectively. A fund transfer facility is available up to Rs.200,000 through the Immediate Payment System ("IMPS") and intra-bank fund transfer respectively and Rs.100,000 for the Unified Payment Interface ("UPI") and up to Rs.5,000 for U.S. dollar transactions. The Bank's mobile banking platform offers utility payment facility through the Bharat Bill Payment System ("BBPS").

Mobile banking registration can also be carried out through net banking and mobile banking application. Mobile banking activation can be carried out through the Bank's mobile banking application.

Central Processing Centre (“CPC”)

As at the date of this Offering Circular the Bank has opened up 41 CPCs, carrying out the following functions:

- opening of personalised accounts;
- activating welcome kit;
- capturing all account details;
- scanning and uploading of specimen signature(s);
- sending appreciation letter directly to the account holder and the introducer of the account; and
- net banking and mobile banking activation.

The Bank proposes to entrust the net banking user creation to the CPCs, for the accounts captured by the CPCs.

Technology

The Bank’s main technology strategy is to leverage information technology for convergence and to synergise services to maximise customer satisfaction and returns. The Bank believes that in order to sustain corporate success, it must embrace a customer oriented strategic business model. In line with this model, the Bank has entered into contract with IBM India Private Limited for the supply, installation, implementation and maintenance of the Core Banking Solution (“**CBS**”) in all of its branches and offices. The Bank uses the CBS software to centralise its processing of transactions. It enables the networking of the Bank’s branches, thereby allowing customers to operate their accounts and avail themselves to banking services from any branch of the Bank on the CBS network, regardless of where that customer maintains its account.

CBS has been implemented in all of the Bank’s branches, and currency chests (being the Bank’s “storehouses” where its notes and coins are stored and distributed to 106 currency chests of the Bank’s Circle Offices within the vicinity of the currency chests to meet their cash requirements). The Bank has also established alternative delivery channels such as ATMs, internet banking and mobile banking to provide a wide range of banking services to customers out of its branch premises. Canara Loan Application Processing System (“**CLAPS**”) has been implemented in all branches and safe deposit lockers module have been implemented in 4,760 branches. The Bank has established a data centre in Bangalore and a disaster recovery centre in Mumbai to prevent and reduce business interruption and data loss in the event of technological problems or disasters. The Bank has also established “near site” disaster recovery in Bangalore to achieve near zero data loss. The Bank periodically conducts disaster recovery drills to ensure its readiness to face any untoward events.

As at 31 December 2018, the Bank has over 312 employees in its core technology team based in the Head Office and has an additional 163 employees based in its Circle Offices, who provide technology related support to its branches.

The Bank has its own networking system and as at 31 December 2018, all branches and offices are connected to the corporate network. As at 31 December 2018, the Bank has over 9,004 ATMs of its own.

The following facilities and systems are also available in the Bank's banking network:

- The real time gross settlement and structured financial message system facilities are available in all branches/offices.
- The National Electronic Funds Transfer facility is available in all branches/offices.
- SWIFT facility is available in 166 branches.
- The Bank also provides a wide range of online tax payment facilities to its customers. Further, many software modules have been implemented to enable the collection of state governments and central Government taxes or duties at the Bank's branches.
- An image-based Magnetic Ink Code Recognition cheque processing system has been set up in Bangalore.
- The Bank has implemented "Cheque Truncation System" ("CTS") in Delhi, Chennai and Mumbai. The branches in southern India, Kolkata and Chandigarh are connected through the Chennai CTS Grid.
- An online tax accounting system has been implemented in 831 designated branches.
- The Bank is in the process of implementing an "Enterprise Wide Data Warehouse" for all of its management information systems, regulatory, business intelligence, forecasting and other requirements.

The Bank is focused on investing in its technology and continues to upgrade its technology capabilities to increase efficiency, reduce costs and to expand its service portfolio. To standardise its systems, the Bank has the majority of its applications operating on Oracle platform.

To ensure confidentiality, integrity and availability of information systems, the Bank has formulated an information technology security policy and necessary guidelines have been issued to all the branches and offices of the Bank. The Bank has implemented security operation centre ("SOC") for protecting IT resources from cyber-attacks. The Bank has procured servers for its data centre that are considered to be among the best in the industry. The Bank has also implemented encryption of its data using "Oracle Advanced Security" tools.

Alternative Distribution Channels

The Bank has introduced several initiatives and platforms designed in line with its sustainable growth strategy through alternative distribution channels. For example, the Bank launched mobile and digital solution platforms including but not limited to the "eMPower", "Canara Swipe", "Canara Cart", "Canara easyCash", "Canara GeoLocate" and "Canara mServe" as part of its efforts at promoting a complete suite of banking offerings. As at 31 December 2018, the Bank had 182 high-technology e-lounges which were operational in select branches and provided facilities such as cash deposit kiosks with voice guided systems, cheque deposit kiosks, self-printing passbook kiosks, internet banking terminals, online trading terminals and corporate website access. In addition, in line with the Government's increased promotion of technology as a driver for future growth in the banking sector, the Bank established its "CANDI" fully digital branches which offers technological features such as video banking, touch banking, instant internet banking and mobile banking, quick cash deposits and digital tokens. The Bank currently has digital branches in Bengaluru, Chennai, Delhi and Mumbai and has plans for another 17 more such digital branches to be open for the fiscal year 2019.

Employees

As at 31 December 2018, the Bank had 59,006 employees. Approximately, 98.00 per cent. of the Bank's employees are members of National Banking Unions, with a majority of its non-officer employees belonging to the Canara Bank Employees Union affiliated with the All India Bank Employees Association, and a majority of its officer employees belonging to the Canara Bank Officers' Association affiliated with the All India Bank Officers' Confederation. The Bank is a member of the Indian Banks' Association, which negotiates wages and other service conditions with the majority unions. These negotiations are usually conducted every five years. The last negotiation was on 25 May 2015 in relation to the implementation of wage revision. The Bank believes that it enjoys good relations with its employees and the respective unions to which its employees belong.

One of the corporate initiatives undertaken by the Bank is to provide training for its personnel in order to enhance their skills. The training included in-house training, external training as well as foreign training. During the fiscal year ended 31 March 2018 and for the nine months ended 31 December 2018, the Bank provided training sessions in various areas with the total number of attendances amounting to 102,086 and 48,586 respectively. The Bank currently has 4,045 specialist officers who hold professional qualifications in various disciplines, including law, agriculture, information technology, marketing and engineering. The Bank also has three human resource initiatives, namely study circle, brainstorming sessions and staff meetings which facilitate interaction with the workforce so as to promote team spirit, a cohesive work culture, commitment and involvement.

The Bank's employees belong to workmen and officers' unions. The Bank holds periodical joint conferences with the recognised workmen and officers' unions to discuss various issues concerning its employees. There have not been any work stoppages or business interruptions by the Bank's employees in the past.

During the financial years ended 31 March 2016 to 31 March 2018, the Bank has inducted 15,103 new employees to its pay roll, which included 1,076 specialist officers.

Properties

The Bank's Head Office and corporate headquarters is located at 112, J C Road, Bangalore – 560002.

As at 31 December 2018, the Bank had seven international branches in London, Hong Kong, Shanghai, Manama, Johannesburg, New York and Dubai International Financial Centre, a representative office in Sharjah, a joint venture with the State Bank of India in Moscow, and a wholly owned banking subsidiary in Dar es Salaam to supplement its international business operations. As at 31 December 2018, 96.00 per cent. of the premises on which the Bank's branches and offices were situated were leased and the remaining were owned. As at 31 December 2018, the gross book value of all of the Bank's owned properties including branches, administrative offices and residential premises amounted to Rs.71.33 billion. The Bank does not own any property which has been leased to third parties other than to entities within the Group.

Legal Proceedings

The Bank is involved in legal proceedings in India and the other jurisdictions in which it conducts business, both as plaintiff and defendant. As at 31 March 2018, there were claims made against the Bank, representing a total potential liability of Rs.22.82 billion. A majority of the claims against the Bank relate to collection of allegedly fraudulent demand drafts, non-payment of letters of credit, disputes regarding cheques and allegedly fraudulent cheques, collection and payments of trade bills for collection.

Save as otherwise disclosed, the Bank is not aware of any legal or arbitration proceedings (whether actual, pending or threatened), which may have a material effect on the financial position of the Bank.

Subsidiaries and Strategic Investments

Canbank Factors Ltd. ("CFL")

CFL was established in 1991 and is a 70.00 per cent. owned subsidiary of the Bank. With a network of 12 branches, CFL is engaged in the business of domestic factoring and invoice discounting. It is currently one of the leading factoring companies in India and for the fiscal year ended 31 March 2018, it had a total business turnover of Rs.16.40 billion. For the nine months ended 31 December 2018, its total business turnover amounted to Rs.12.25 billion. For the fiscal year ended 31 March 2018, it posted a profit after tax of Rs.506.60 million. CFL's short-term debt programme has been accredited with the rating of A1+ (which is the highest rating) by Credit Rating & Information Services India Ltd.

Canara Robeco Asset Management Company Ltd.

Canbank Investment Management Services Ltd was established in March 1993 as an investment manager for managing the Schemes of Canbank Mutual Fund. To augment the base of the company, the Bank decided to form a joint venture with the Netherlands based Robeco Groep N.V., a subsidiary of Rabo Bank, by divesting 49.00 per cent. of its stake in favour of Robeco Groep N.V. The joint venture was established on 26 September 2007 and the company was renamed as "Canara Robeco Asset Management Company Ltd" ("**CRAMC**"). Subsequent to the establishment of the joint venture, Canbank Mutual Fund was renamed as Canbank Robeco Mutual Fund. CRAMC is engaged in the business of investing in debt and equity securities and is managed by a team of professionals with international practice and expertise and supported by full-fledged in-house research and market information departments. With 20 investor relation centres spread across important cities within India, CRAMC aims to capture a sizeable market share of the Mutual Fund industry. As at 31 March 2018, CRAMC managed 29 schemes which comprised eight equity oriented schemes, nine hybrid schemes, 2 liquid and money markets schemes, 6 debt oriented schemes, 2 gilt oriented schemes 1 exchange traded fund and 1 domestic fund. As at 31 March 2018, the assets under management was Rs.126 billion. The total capital of CRAMC as at 31 December 2018 was Rs.498.50 million. As at 31 December 2018, the Bank continued to have a 51.00 per cent. interest in CRAMC and Robeco Groep N.V. had the remaining 49.00 per cent. interest in CRAMC. In 2017, CRAMC was awarded the Thomson Reuters Lipper Award for Debt Fund House.

Canara Bank Securities Limited

Gilt Securities Trading Corporation Limited was established in 1996 as a primary dealer in the government securities market until 2007. Its primary dealer business in the governmental securities market was subsequently hived off to the Bank in 6 June 1996 following which the company was renamed "Canara Bank Securities Limited" ("**CBSL**") and forayed into the corporate broking business and also diversified into equity related activities such as stock broking, equity trading, futures and options. CBSL is also offering investment and online trading facilities in the capital market-cash segment, futures and options, currency derivatives segments and mutual fund products. In April 2017, CBSL acquired depositary participant services from the Bank. As at 31 December 2018, CBSL is a wholly owned subsidiary of the Bank with capital of Rs.0.40 billion. CBSL has registered a total turnover of Rs.374.08 billion for the year ended 31 March 2018 earning a net profit of Rs.95.40 million. For the nine months ended 31 December 2018, the company has recorded a profit of Rs.69.10 million.

Canbank Computer Services Ltd. ("CCSL")

CCSL was established in 1994 and is co-promoted by Bank of Baroda, Vijaya Bank, The Lakshimi Vilas Bank Ltd. and The Karur Vysya Bank Ltd. As at 31 December 2018, the Bank continued to hold 69.14 per cent. equity interest in CCSL. CCSL is the only PSB sponsored information technology company in India and is ISO 9001 certified. It designs and develops software for banks, financial institutions and government departments. With its extensive captive domain capabilities, CCSL provides customised development of software projects. In addition, CCSL also provides other services which includes information systems audit, consultancy services, software testing, corporate registrar and transfer agency services and also monitors the outsourced ATMs of the Bank.. For the fiscal year ended 31 March 2018, CCSL's revenue amounted to Rs.264.80 million and its profit amounted to Rs.40.20 million. For the nine months ended 31 December 2018, CCSL recorded a profit of Rs.32.00 million.

Canbank Venture Capital Fund Limited ("CVCFL")

CVCFL is a wholly owned subsidiary of the Bank established in 1989. CVCFL acts as a trustee and manager of the Canbank Venture Capital Fund and provides venture capital funds for equity participation in new ventures. As at 31 December 2018, CVCFL has launched five venture capital funds. The aggregate assets of CVCFL were Rs.406.70 million as at 31 December 2018. The fifth fund was launched on 15 June 2010 with a principal amount of Rs.5 billion. For the fiscal year ended 31 March 2018, CVCFL earned a net profit of Rs.49.30 million and for the nine months ended 31 December 2018, the net profit of CVCFL was Rs.21.10 million.

Canbank Financial Services Ltd. ("Canfina")

Canfina was established in 1987 and is a wholly owned subsidiary of the Bank. The activities of Canfina during the fiscal year ended 31 March 2018 were confined to the follow up of legal matters arising out of past transactions in securities and others besides concentrating on collection of lease rentals and realisation of investments. Canfina currently does not intend to enter into new transactions until the said legal matters are resolved. No other activities are undertaken.

Can Fin Homes Ltd. ("CFHL")

CFHL was established in 1987 and is engaged in the housing finance sector for the purposes of promoting home ownership and for increasing the housing stock in India. CFHL is listed on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited. As at 31 December 2018 the Bank had 29.99 per cent. equity interests in CFHL with the remaining shares of CFHL held by Caladium Investments Pte. Ltd. (13.45 per cent. equity interest), Chattisgarh Investments Ltd. (9.67 per cent. equity interest) and the public. CFHL has over 30 years of operations in the housing finance sector and as at 31 December 2018, has 154 branches, 21 affordable housing loan centres and 14 satellite offices catering to 66 cities across 21 in India. CFHL has increased its network by four times since 2010. CFHL offers a range of loan products, housing loans as well as non-housing loans, at competitive interest rates and designed to suit the needs of its customers. The product portfolio consists of individual loans for different purposes and includes loans for rural housing, loans for urban housing, purchase of site and construction of houses thereon and loans for commercial property. It also offers non-housing loans such as mortgage loans and personal loans. In line with the Government's initiatives to provide "Housing for all by 2022", CFHL introduced the concept of affordable housing loan centres to provide loans under the credit linked subsidiary scheme for the lower income group and middle income group segments under Pradhan Mantri Awas Yojana in peripheral areas of tier 1, 2 and 3 cities of India. CFHL is one of the few housing finance institutions permitted by the National Housing Bank of India to accept deposits from the public. CFHL obtained a licence from the Insurance Regulatory Development Authority of India and commenced insurance agency business

since January 2018. The added insurance business segment to its businesses has enhanced CFHL's business competitiveness and enlarged its service portfolio accordingly.

For the fiscal year ended 31 March 2018, CFHL had sanctioned housing finance amounting to Rs.57.60 billion with disbursements of more than Rs.52.06 billion. For the fiscal year ended 31 March 2018, CFHL had outstanding housing loans amounting to Rs.157.43 billion. As at 31 December 2018, the total paid up capital of CFHL was Rs.266.30 million.

HSBC Canara Oriental Bank of Commerce Life Insurance Company Ltd.

HSBC Canara Oriental Bank of Commerce Life Insurance Company Ltd. is a joint venture established in 2008 between the Bank, HSBC Insurance (Asia-Pacific) Holdings Limited and Oriental Bank of Commerce. As at 31 December 2018, the equity interest held in HSBC Canara Oriental Bank of Commerce Life Insurance Company Ltd. by the Bank, HSBC Insurance (Asia-Pacific) Holdings Limited and Oriental Bank of Commerce was 51.00 per cent., 26.00 per cent. and 23.00 per cent. respectively.

HSBC Canara Oriental Bank of Commerce Life Insurance Company Ltd. is engaged in the life insurance business and has access to over 115 million customers and a pan-India network of over 10,000 branches of bank partners as at 31 December 2018. For the fiscal year ended 31 March 2018, HSBC Canara Oriental Bank of Commerce Life Insurance Company Ltd. recorded a gross written premium of Rs.2,7811.00 million and achieved a statutory profit of Rs.1,678 million. As at 31 December 2018, HSBC Canara Oriental Bank of Commerce Life Insurance Company Ltd. has underwritten more than 0.87 million policies since its incorporation.

With consistent fund performance, exceeding benchmarks with prudent investment strategies, HSBC Canara Oriental Bank of Commerce Life Insurance Company Ltd. was ranked in 10th position in the industry among the 23 private life insurers in terms of retail weighted premium income during the fiscal year 2018.

The Bank's equity interests and investments as at 31 December 2018 in its subsidiaries and strategic investments, and their net profits for the relevant periods are set out in the table below:

Name	Primary Business Investment	As at 31 December 2018		Net Profits for the fiscal year ended 31 March 2018
		The Bank's ownership (Face Value)	(per cent.)	
Canbank Factors Ltd	Factoring	70.00	140.00	(506.60)
Canara Robeco Asset Management Company Ltd.	Asset Management	51.00	254.23	227.00
Canara Bank Securities Ltd.	Primary Dealer	100.00	400.00	95.40
CCSL	Software & R&T	69.14	22.40	40.20
CVCFL	Venture Capital	100.00	2.50	49.30
CFHL	Housing Finance	29.99	79.86	3,017.70
Canfina	Merchant Banking	100.00	300.00	39.50
Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd.	Insurance	51.00	4,845.00	1,678.00
Commercial Bank of India LLC	Banking	40	1,023.56	(59.31)

Regional Rural Banks (“RRBs”)

As at 31 March 2018, the Bank had two sponsored RRBs namely, (i) the Kerala Gramin Bank (“**KGB**”) covering all 14 districts of the state of Kerala with 630 branches and (ii) the Pragathi Krishna Gramin Bank (“**PKGB**”), covering 11 districts of eastern Karnataka with 655 branches. Both the RRBs together have a network of 1,285 branches and 601 ATMs of which 22 branches and 35 ATMs were opened during the fiscal year ended 31 March 2018.

The aggregate business of the RRBs as at 31 March 2018 stood at Rs.588.76 billion, which comprises Rs.314.85 billion deposits and Rs.273.91 billion advances. KGB had a total business of Rs.296.48 billion and PKGB had a total business of Rs.292.28 billion. Both the RRBs have achieved the mandated target of 75.00 per cent. of the total advances under priority sector lending. Gross NPA and net NPA levels of the RRBs were below the maximum level of 5.00 per cent. of their advances.

As of the date of this Offering Circular, both these RRBs are profit making bodies and posted a gross profit of Rs.7.56 billion and net profit of Rs.3.53 billion during the fiscal year ended 31 March 2018. Their capital adequacy is above the mandatory requirement norm of 9.00 per cent.

The sponsored RRBs are CBS compliant and ahead of their peers at the technology front, with added benefits of information technology based products, like, mobile banking, “Rupay Debit Card services”, cheque truncation system, eKYC technology, “Aadhar” enabled services and remittance facilities through NEFT and RTGS.

For the fiscal year ended 31 March 2018, the RRBs extended basic banking services to villages through 1,068 business correspondents. In addition to conducting financial literacy camps, two financial literacy counselling centres were established by the RRBs during the fiscal year 2018.

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

Overview

The total assets of the Bank increased from Rs.5,835 billion as at 31 March 2017 to Rs.6,169 billion as at 31 March 2018 and increased to Rs.6,721 billion as at 31 December 2018.

The following table sets out the assets of the Bank as at the dates indicated below.

	As at 31 March			As at 31 December
	2016	2017	2018	2018
	(audited)	(audited)	(audited)	(reviewed)
(Rs. in billions)				
Assets				
Cash and balance with the RBI	207	199	221	271
Balance with banks	361	389	278	310
Investments	1,423	1,503	1,440	1,527
Advances	3,247	3,420	3,817	4,172
Fixed assets	72	72	83	83
Other assets	220	253	329	359
Total Assets	5,530	5,835	6,169	6,721

During the fiscal year ended 31 March 2018, the Bank's loan portfolio increased by 11.61 per cent. from Rs.3,420 billion as at 31 March 2017 to Rs.3,817 billion as at 31 March 2018 and investments decreased by 4.19 per cent. from Rs.1,503 billion as at 31 March 2017 to Rs.1,440 billion as at 31 March 2018. As at 31 December 2018, the Bank's loan portfolio amounted to Rs.4.172 billion and investments amounted to Rs.1,527 billion.

The following table sets out the advances of the Bank as at the dates indicated below.

	As at 31 March			As at 31 December
	2016	2017	2018	2018
	(audited)	(audited)	(audited)	(reviewed)
(Rs. in billions)				
Bills purchased and discounted	102	149	159	171
Cash credits and overdrafts	1,316	1,412	1,637	1,763
Term loans	1,829	1,860	2,021	2,237
(Less)/Add: Inter-bank participation certificates (net)	—	—	—	—
(Less)/Add: Inter-bank participation certificates (net)	—	—	—	—
Sub-total	3,247	3,420	3,817	4,171

	As at 31 March			As at 31 December
	2016 (audited)	2017 (audited)	2018 (audited)	2018 (reviewed)
	(Rs. in billions)			
Secured by tangible assets	2,654	2,751	3,059	3,365
Covered by guarantees	140	130	121	93
Unsecured	453	539	638	713
(Less)/Add: Inter-bank participation certificates (net)	—	—	—	—
Sub-total	3,247	3,420	3,817	4,172
Advances in India:				
Priority sector	1,250	1,367	1,579	1,799
Public sector	241	120	182	203
Banks	—	—	15	39
Others	1,537	1,661	1,750	1,899
(Less)/Add: Inter-bank participation certificates (net)	—	—	—	—
Sub-total	3,028	3,150	3,525	3,940
Advances outside India:				
Due from banks	—	—	—	—
Due from others	—	—	—	—
Bills purchased and discounted	42	82	96	110
Syndicated loans	95	75	60	74
Others	82	113	136	47
Sub-total	219	271	292	231
Grand Total	3,247	3,420	3,817	4,172

As at 31 December 2018, 83.31 per cent. of the total advances of the Bank were secured by tangible assets or covered by guarantees.

Loan Portfolio

The Bank aims to have a diversified loan portfolio and to limit its exposure to a particular sector or borrower. As at 31 December 2018, a significant portion of the Bank's loans were made to the infrastructure, textiles, food processing, engineering, basic metal and metal products and other industries.

As at 31 March 2018, the Bank's five largest industry exposures were to infrastructure at Rs.518.69 billion, textiles at Rs.135.96 billion, food processing at Rs.105.84 billion, engineering at Rs.87.75 billion and basic metal and metal products at Rs.45.68 billion, together amounting to Rs.893.92 billion and constituting 23.41 per cent. of the Bank's net advances of Rs.3,817.00 billion.

The table below sets out the Bank's loan portfolio in terms of industry concentration as at the dates indicated below.

Industry	As at 31 March				As at 31 December		
	2016		2017		2018		2018
	(audited)		(audited)		(audited)		(reviewed)
	Amount of Loans (Rs. in billion)	Per cent. of total	Amount of Loans (Rs. in billion)	Per cent. of total	Amount of Loans (Rs. in billion)	Per cent. of total	Amount of Loans (Rs. in billion) Per cent. of total
Mining and Quarrying	27.76	1.70	15.65	1.12	13.21	0.94	20.36 1.37
Food Processing	106.74	6.52	100.38	7.21	105.84	7.50	108.88 7.32
Sugar	21.75	1.33	16.53	1.19	11.47	0.81	11.88 0.80
Edible Oils and Vanaspati	5.25	0.32	5.80	0.42	6.48	0.46	7.02 0.47
Tea	1.41	0.09	0.94	0.07	0.71	0.05	1.29 0.09
Others	78.33	4.79	77.10	5.54	87.19	6.18	88.69 5.96
Beverage and Tobacco	8.05	0.49	8.01	0.58	8.63	0.61	10.00 0.67
Textiles	155.62	9.51	137.20	9.86	135.96	9.63	137.85 9.26
Cotton Textiles	69.49	4.25	59.15	4.25	58.97	4.18	57.91 3.89
Jute Textiles	2.58	0.16	2.63	0.19	2.44	0.17	3.32 0.22
Man-Made Textiles	0.00	0.00	60.35	4.34	53.37	3.78	54.87 3.69
Other Textiles	83.55	5.11	15.08	1.08	21.17	1.50	21.75 1.46
Leather and Leather Products	11.75	0.72	11.12	0.80	11.64	0.82	11.85 0.80
Wood and Wood Products	7.46	0.46	7.83	0.56	8.72	0.62	9.38 0.63
Paper and Paper Products	27.56	1.68	24.91	1.79	23.55	1.67	23.03 1.55
Petroleum, Coal Products and Nuclear Fuels	50.23	3.07	38.60	2.77	37.17	2.63	38.73 2.60
Chemicals and Chemical Products	55.05	3.36	39.68	2.85	38.95	2.76	40.07 2.69
Fertiliser	9.03	0.55	9.57	0.69	10.67	0.76	8.29 0.56
Drugs and Pharmaceuticals	20.26	1.24	11.20	0.80	10.07	0.71	12.25 0.82
Petro Chemicals	5.89	0.36	2.98	0.21	3.34	0.24	3.88 0.26
Others	19.87	1.21	77.10	5.54	87.19	6.18	88.69 5.96
Rubber, Plastic and their Products	19.37	1.18	17.57	1.26	16.94	1.20	17.53 1.18
Glass and Glassware	1.68	0.10	0.93	0.07	0.93	0.07	1.05 0.07
Cement and Cement Products	20.93	1.28	16.71	1.20	17.50	1.24	16.52 1.11
Basic Metal and Metal Products	210.74	12.88	215.97	15.52	244.37	17.32	244.67 16.44
Iron and Steel	154.60	9.45	158.37	11.38	198.69	14.08	196.60 13.21
Other Metal and Metal Products	56.14	3.43	57.60	4.14	45.68	3.24	48.07 3.23
All Engineering	85.48	5.22	84.55	6.07	87.75	6.22	103.59 6.96
Electronics	10.09	0.62	8.74	0.63	8.11	0.57	9.98 0.67
Electrical	24.95	1.53	—	—	—	—	— 0.00
Others	50.40	3.08	75.82	5.45	79.64	5.64	93.62 6.29
Vehicles, Vehicle Parts and Transport Equipments	40.61	2.48	33.11	2.38	31.25	2.21	32.09 2.16

Industry	As at 31 March				As at 31 December		
	2016		2017		2018		2018
	(audited)		(audited)		(audited)		(reviewed)
	Amount of Loans (Rs. in billion)	Per cent. of total	Amount of Loans (Rs. in billion)	Per cent. of total	Amount of Loans (Rs. in billion)	Per cent. of total	Amount of Loans (Rs. in billion)
Gems and Jewellery	16.96	1.04	18.36	1.32	31.39	2.22	37.88
Construction	65.59	4.01	77.90	5.60	47.40	3.36	50.76
Infrastructure	632.80	38.68	501.26	36.01	518.69	36.75	548.93
Power	384.44	23.50	300.88	21.62	303.24	21.49	289.12
Telecommunications	64.90	3.97	58.85	4.23	47.11	3.34	43.49
Roads & Ports	102.86	6.29	86.66	6.23	81.90	5.80	77.55
Other Infrastructure	80.62	4.93	18.93	1.36	43.51	3.08	87.29
Other Industries	91.52	5.59	42.25	3.03	31.33	2.22	35.11
INDUSTRY (Total of Small, Medium and Large Scale)	1,635.90	100.00	1,391.99	100.00	1,411.23	100.00	1,488.27
							100.00

The largest borrower of the Bank as at 31 December 2018 accounted for approximately 0.89 per cent. of its total exposure. According to the RBI's prudential exposure norms the Bank's direct credit exposure to any single borrower may not exceed 5.00 per cent. of the Bank's total exposure. As at 31 December 2018, the twenty largest individual borrowers accounted for approximately 9.98 per cent. of the Bank's total exposure.

Loan by Segment

The Bank's advances in terms of principal market segment as at the dates indicated are set forth in the following table.

	As at 31 March			As at 31 December
	2016	2017	2018	2018
	(audited)	(audited)	(audited)	(reviewed)
	(Rs. in billions)			
Agriculture and related activities	671.76	740.84	818.01	912.21
Small-scale industries	486.84	507.53	609.50	721.63
Other Priority Sector advances	296.98	354.32	355.16	389.52
Total Priority Sector	1,455.58	1,602.69	1,782.67	2,023.36
Medium and large industries	1,097.80	1,146.58	1,110.56	1,145.42
Advances to traders	156.98	161.19	168.53	115.90
Employees advances	28.84	38.81	47.03	54.03
Food credit	66.68	29.89	23.65	36.19
Others (includes various segments of economic activity)	559.59	573.90	875.99	979.33
Total (Global Gross Advances)	3,365.47	3,553.06	4,008.43	4,354.23

Classification of Assets and Provisioning Requirements

The Bank classifies its loans and other assets in compliance with RBI guidelines. The following describes the various RBI loan classifications as well as the RBI's provisioning guidelines for such categories.

Classification	Description	Provision
Standard	Performing assets are Standard Assets which do not disclose any problem and which do not carry more than the normal risk attached to the business. The performing asset is one which generates income for the bank.	<p>1. A general provision for Standard Assets at the following rates should be made for the funded outstanding on a global loan portfolio basis:</p> <ul style="list-style-type: none"> (a) Farm Credit to agricultural activities and SME sectors at 0.25 per cent.; (b) advances to Commercial Real Estate ("CRE") sector at 1.00 per cent.; (c) advances to CRE sector – residential housing at 00.75 per cent.; (d) Provisioning on the outstanding amount of housing loans at teaser rates at 2.00 per cent. The provisioning on these assets would revert to 0.40 per cent. after one year from the date on which the rates are reset at higher rates if the accounts remain 'standard'; (e) Provision at 5.00 per cent. for projects where the date of commencement of commercial operations ("DCCO") has been extended beyond two years and up to four years or three years from the original DCCO, as the case may be, for infrastructure projects depending upon the reasons for such delay and beyond one year and up to two years from the original DCCO, for non-infrastructure projects; (f) all other loans and advances not included in (a) to (e) above at 0.40 per cent.

Classification	Description	Provision
		<p>2. The RBI's revised provisioning norms have prospective effect. However, the provisions held prior to the revised provision norms, which came to effect on 5 November 2009, should not have been reversed. Nonetheless, after 5 November 2009, if the application of the revised provisioning norms would require a higher provision to be made over the level of provisions then held for the Standard Assets, the shortfall should be provided for.</p>
		<p>3. While the provisions on individual portfolios are required to be calculated at the rates applicable to them, the excess or shortfall in the provisioning compared to the position as on any previous date, should be determined on an aggregate basis. If the provisions on an aggregate basis, which are required to be held from 15 November 2008, are less than the provisions already held, the provisions regarded as a surplus should not be reflected in the bank's profit and loss account and should instead continue to be maintained at the existing level. In case of a shortfall being determined on aggregate basis, the balance should be provided for as a debit to the bank's profit and loss account.</p>
		<p>4. The provisions on Standard Assets should not be taken into account for the calculation of net NPAs.</p>
		<p>5. The provisions on Standard Assets should not be netted from gross advances but should shown separately as 'Contingent Provisions against Standard Assets' under the 'Other Liabilities and Provisions' in Schedule 5 of the bank's balance sheet.</p>

Classification	Description	Provision
Sub-standard	<p>1. With effect from 31 March 2005, a Sub-standard Asset would be one which has remained a non-performing asset for a period less than or equal to 12 months.</p> <p>2. In such cases, the current net worth of the borrower or the guarantor or the current market value of the security charged is not enough to ensure recovery of the amounts due to the banks in full. Such an asset will have well defined credit weaknesses that could jeopardise the liquidation of the debt and is characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.</p>	<p>(i) A general provision of 15.00 per cent. on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.</p> <p>(ii) The ‘unsecured exposures’ which are identified as ‘substandard’ would attract additional provision of 10.00 per cent., i.e., a total of 25.00 per cent. on the outstanding balance. However, in view of certain safeguards such as escrow accounts available in respect of infrastructure lending, infrastructure loan accounts which are classified as sub-standard will attract a provisioning of 20.00 per cent. instead of the aforesaid prescription of 25.00 per cent. Unsecured exposure is defined as an exposure where the realisable value of the security, as assessed by the bank/approved valuers/RBI’s inspecting officers, is not more than 10.00 per cent., ab-initio, of the outstanding exposure.</p>
Doubtful	<p>3. With effect from 31 March 2005, an asset would be classified as doubtful if it had remained in the sub-standard category continuously for 12 months.</p>	100.00 per cent. of the extent to which the advance is not covered by the realisable value of the security to which the Bank has a valid recourse and the realisable value is estimated on a realistic basis.

Classification	Description	Provision	
	4. A loan classified as doubtful has all the weaknesses inherent in assets that are classified as sub-standard, with the added characteristic that the weaknesses make the full collection or liquidation of the debt highly questionable and improbable.	(ii) In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 25.00 per cent. to 100.00 per cent. of the secured portion depending upon the period for which the asset has remained doubtful:.	
		Period for which the advance has remained in "Doubtful" category	Provision requirement
			(%)
Loss	5. A Loss Asset is one where the loss has been identified by the bank, internal auditor, external auditors or the RBI inspectors, but the amount has not been written off wholly or partly. In other words, such an asset is considered uncollectible with little salvage or recovery value.	Up to one year	25.00 per cent.
	6. Further, in cases of exposures, where the realisable value of securities, while sanctioning of the facility is more than 10.00 per cent. of the outstanding exposure and has subsequently eroded to less than 10.00 per cent. of the outstanding then the account should be straightaway classified as Loss Asset.	One to three years	40.00 per cent.
		More than three years	100.00 per cent.

Classification	Description	Provision
	<p>7. Further, in respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers, in such cases the asset should be straightaway classified as doubtful of loss asset as appropriate as enumerated below:</p> <p>(a) Erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50.00 per cent. of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category.</p> <p>(b) If the realisable value of the security, as assessed by the bank/ approved valuers/RBI is less than 10.00 per cent. of the outstanding in the borrower accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset.</p>	

Under the RBI guidelines, an NPA is a loan or an advance where:

- interest and/or instalment of principal remained overdue for a period of more than 90 days in respect of a term loan;
- the account remained “out-of-order” (as defined below) in respect of an Overdraft or Cash Credit for more than 90 days;
- the bill remained overdue for a period of more than 90 days in case of bills purchased and discounted;

- a loan granted for short duration crops will be treated as an NPA if the instalments of principal or interest thereon remain overdue for two crop seasons;
- a loan granted for long duration crops will be treated as an NPA if the instalments of principal or interest thereon remain overdue for one crop season;
- an amount of the liquidity facility to be received remains overdue for a period of 90 days in respect of a securitisation transaction undertaken pursuant to the guidelines on securitisation dated 1 February 2006; and
- the receivables representing positive mark-to-market value of a derivative contract remained unpaid for a period of 90 days from the specified due date for payment, in respect of derivative transactions.

Once the account has been classified as an NPA, the unrealised interest and any other income which has been debited to the account is no longer recognised and any further interest is not recognised nor credited to the income account unless the amount overdue has been collected.

An account is treated as “out-of-order” if the outstanding balance remains continuously in excess of the sanctioned drawing limit. In circumstances where the outstanding balance in the principal operating account is less than the sanctioned drawing limit, but (i) there are no credits for a period of 90 days as at the date the balance sheet of the Bank or (ii) the credits are not sufficient to cover the interest debited during the same period, these accounts are treated as “out-of-order”. In addition, any amount due to the Bank under any credit facility is treated as “overdue” if it is not paid on the due date fixed by the Bank.

The following table describes the Bank’s net and gross NPA ratios for the operations and as at the dates indicated below.

Particulars	As at 31 March						As at 31 December	
	2016		2017		2018		2018	
	(audited)		(audited)		(audited)		(reviewed)	
	Gross NPA (%)	Net NPA (%)	Gross NPA (%)	Net NPA (%)	Gross NPA (%)	Net NPA (%)	Gross NPA (%)	Net NPA (%)
Indian operations	9.36	6.22	9.70	6.25	11.97	7.36	10.16	6.08
Non Indian operations	9.98	9.19	8.73	7.27	10.24	8.86	11.77	11.32
Total Ratio	9.40	6.42	9.63	6.33	11.84	7.48	10.25	6.37

The Framework (as described in “*Supervision and Regulation – Provision for Loan Losses and Non-Performing Assets – Distressed assets in Indian Economy*”) issued on 12 February 2018, revises the framework for resolution of stressed assets. The Framework classifies stressed assets as special mention accounts (“SMA”) as per the following categories:

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

The Framework states that in case of any restructuring, the accounts classified as ‘standard’ shall be immediately downgraded as NPAs to begin with. The NPAs, upon restructuring, would continue to have the same asset classification as prior to restructuring. In both cases, the asset classification shall continue to be governed by the ageing criteria as per extant asset classification norms.

The following table sets forth the classification of gross loan assets of the Bank as at the dates indicated below.

Particulars	As at 31 March				As at 31 December			
	2016		2017		2018		2018	
	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas
(Rs. in billions)								
Standard	2,850.44	198.66	2,960.12	250.92	3,267.73	266.02	3,702.36	205.65
Sub-standard	165.57	8.33	76.82	3.34	135.33	3.32	115.24	4.52
Doubtful	128.78	13.70	241.18	20.68	308.99	27.04	303.55	22.90
Loss	0.00	0.00	—	—	—	—	—	—

The following table sets out the Bank’s provisions for possible credit losses as at the dates indicated.

	As at 31 March			As at 31 December
	2016	2017	2018	2018
	(audited)	(audited)	(audited)	(reviewed)
(Rs. in billions, except for percentages)				

Provisioning for the following classes of assets:

Standard	14	14	14	15
Sub-standard	39	20	28	24
Doubtful	69	105	162	156
Loss	—	—	—	—
Total Provision	122	139	204	195
Provision held as percentage of gross advances	3.65%	3.93%	5.07%	4.49%
Provision held as percentage of gross NPAs	34.14%	36.55%	40.02%	40.34%

NPA Management

The Bank is committed to efficiently managing and reducing its NPAs and has implemented the following measures to manage and reduce its NPA ratio:

Slippage Management

Slippage management of the Bank closely monitors delinquent accounts to avoid their slippage to an NPA status. Slippage to an NPA status would trigger the Framework in time in respect of large corporates to ensure the continuance of the account as standard asset.

1. Undertaking financial restructuring of an account in time so as to curtail further deterioration in the financial condition of the company. Where an account shows signs of liquidity problems and does not generate enough cash surplus to meet its commitments, such account is reviewed and restructured depending on the financial viability of the account and relevant borrower.
2. Rescheduling and/or restructuring of the relevant account so as to avert slippage to *NPA status* – In the case where the borrower is not in a position to make payments to the Bank according to its repayment schedule, the Bank will consider the reasons for the borrower failing to meet its commitments and also the borrower's financial viability. If the Bank considers the delay or failure in repayments justified, instead of initiating action to recover the outstanding amounts, the Bank may reschedule the borrower's schedule of payment and the amount of the instalments.

NPA Management

1. Initiating recovery action immediately on slippage of accounts. This involves taking non-legal recovery actions or initiating legal action.
2. Conducting recovery meetings at circle levels to arrive at a compromise settlement which is both cost effective and mutually beneficial. Recovery meetings involve inviting defaulting borrowers to the Bank in order to negotiate and reach mutually agreeable settlement proposals. According to the Bank's experience, the majority of one-time settlement proposals were arrived at during such recovery meetings.
3. Close monitoring of "compromise permitted accounts" for recovery in accordance with the terms of settlement. By maintaining open dialogue with borrowers of the compromise permitted accounts, the Bank seeks to recover its NPAs within specified periods and with minimum costs or least sacrifice.
4. Aggressively pursuing and achieving substantial progress in respect of measures allowed to be implemented by the Bank under the SARFAESI (as further explained below).
5. Debt Recovery Tribunal ("DRT") liaison officers are monitoring the recovery of overdue amounts under an account which are subject to a court ruling. The role of a DRT liaison officer is to liaise with the Bank and the DRT during the relevant debt recovery action, and to take timely action within a specific time frame.
6. Strict adherence to the rehabilitation package under the policies formulated by the Bank relating to resolution of stressed assets.

Restructured Assets

The RBI has issued separate guidelines for the restructuring of assets. A fully secured standard asset can be restructured by rescheduling payments of principal of, and/or interest on, such asset but must be separately disclosed as a restructured asset. The amount of sacrifice, if any, in the element of interest (measured in present value terms), is either written-off, or provision is made to the extent of the sacrifice involved. Similar guidelines apply to sub-standard assets and to doubtful assets, in the case of the restructuring of assets under the CDR (as defined below) mechanism.

Under the Framework and upon the promulgation of the IBC, the RBI has attempted to streamline the process of the resolution of stressed assets in India. The IBC is intended to be the primary mechanism for resolution of insolvency and defaults in loans, and the RBI *vide* its Framework withdrew all existing rules and guidelines on restructuring of assets and issued to banks a deadline of 180 days from 1 March 2018, if such default existed at that date, or if there is default after 1 March 2018, then 180 days from such date to come up with a resolution plan for bank accounts with aggregate exposure of Rs.20 billion.

Sub-standard assets which have been subjected to restructuring, whether in respect of a principal instalment or an interest amount, are eligible to be upgraded to the standard category only after the specified period, which is a period of one year after the date when first payment of principal or interest, whichever is earlier, falls due, subject to satisfactory performance during the period. The Bank has 32 accounts with aggregate exposure above Rs.20 billion and has referred two defaulting loans to the corporate insolvency resolution process under the IBC. See “*Description of the Bank’s Assets and Liabilities – Classification of Assets and Provisioning Requirements*” for further details on the different asset types and classification.

Enforcement of Security Interests under the SARFAESI Act

To assist banks and financial institutions in recovering their unpaid advances and to ensure financial discipline among borrowers, the Government enacted the SARFAESI Act in December 2002. The SARFAESI Act provides the legal framework for:

- (i) the securitisation of financial assets by setting up a Securitisation Company (“SC”);
- (ii) the foreclosure of assets through a SC or a Reconstruction Company (“RC”); and
- (iii) the foreclosure of NPA accounts.

Pursuant to the SARFAESI Act, a bank which is a secured creditor may, in respect of loans classified as NPAs, give notice in writing to the borrower requiring it to discharge its liabilities within 60 days, failing which and in the absence of any satisfactory objections or representations made by the borrower, such a secured creditor may take the following measures to recover the amount outstanding:

- taking possession of such business of the borrower as forms part of the secured assets, including the right to transfer these assets by way of lease, assignment or sale for realising the secured loans;
- taking over the management of secured assets, including the right to transfer these assets by way of lease, assignment or sale for realising the secured loans;
- appointing any person to manage the secured assets after taking possession; or
- advising any person acquiring any of the secured assets from the borrower, to pay the purchase money directly to the banks and institutions.

If required, the secured creditors may request the Chief Metropolitan Magistrate or the District Magistrate to take possession of a part or the whole of the secured assets and other related documents and forward the assets and documents to the secured creditors. The sale proceeds (if any) would first be utilised to meet all the expenses incurred in enforcement of the security interest and then for payment of dues of the secured creditors. The remaining amount (if any) would be paid to others in accordance with their rights and interests. In the event that the dues are not fully recovered by the sale of secured assets, the secured creditors may file an application to the Debt Recovery Tribunal for the remaining dues. The secured creditors are also entitled to proceed against any guarantors and sell the charged assets independent of their action for enforcement of security interest.

Pursuant to the action initiated under SARFAESI Act, the borrower cannot make a reference to the Board for Industrial and Financial Reconstruction (the “BIFR”) after transfer of financial assets to a SC or an RC. Similarly, any pending reference before the BIFR shall abate if 75.00 per cent. of the secured creditors (in terms of amount outstanding and owed to such secured creditors) have taken any action to recover their dues under the SARFAESI Act.

On 8 April 2004, the Supreme Court pronounced a judgment upholding the constitutional validity of the SARFAESI Act with the exception of Section 17(2), which contained the requirement that the borrower deposit 75.00 per cent. of the amount outstanding with the debt recovery tribunal as a pre-condition for appeal by the borrower against the enforcement measures. The Government has since enacted the Enforcement of Security Interest and Recovery of Debts Loss (Amendment) Act, 2004 (the “**Amended Act**”).

The relevant features of the Amended Act are as follows:

- A new provision in the Amended Act makes it mandatory for the secured creditor to consider any representation or objection raised by the borrower (on whom notice had been served) and communicate reasons for non-acceptance of the representation or objection within one week from the date of receipt of such representation or objection. The amendment, which came into effect on 15 January 2013 increased this time limit to 15 days.
- A new Section 13(4B) empowers the secured creditor to take over the management of business of such borrower, which is related to the security for the debt. Under Section 13(4B), where a substantial part of the business of the borrower is held as security for the debt, the secured creditor is also empowered to take over the management including the right to transfer by way of lease, assignment or sale for realising the secured assets. However the term “substantial part of the business” has not been defined.
- The Debt Recovery Tribunal Act, 1993, has been amended to allow banks and financial institutions to withdraw the recovery application filed by them at the DRT in the event that they propose to initiate action under SARFAESI Act.
- Two new provisions enable a borrower to make an application before the DRT and stay action taken under SARFAESI Act and such application is required to be decided within 60 days. Further, an appeal can be filed against the order of the DRT before the Debt Recovery Appellate Tribunal (the “**DRAT**”) after the borrower deposits 50.00 per cent. of the amount of the relevant debt (such sum may be reduced to 25.00 per cent. by the DRAT).

The SARFAESI Act was amended by the enforcement of the Security Interest and Recovery of Debts Laws (Amendment) Act, 2012 with effect from 15 January 2013. The relevant features of the amendment are as follows:

- The time within which the secured creditor is to communicate the reasons for non-acceptance of the representation/objection made by the borrower, with regard to the notice issued by the secured creditor under Section 13(2), has been enhanced from one week to 15 days (Section – 13(3A)).
- The secured creditor can itself participate in the process of bidding (self bidding) for the purchase of the secured asset in respect of which the auction was postponed for want of a bid, for an amount not less than the reserve price (Section 13(5A)). However, the secured creditor shall hold such property as set out in Section 9 of the Banking Regulation Act, which states that no banking company shall hold any immovable property howsoever acquired, except such as is required for its own use, for any period exceeding seven years from the acquisition thereof or any extension of such period as given by the RBI.
- Action under Section 13(4), in respect of a secured asset in which more than one secured creditor has an interest, can be taken with the consent of such secured creditors representing 60.00 per cent. (before the amendment this threshold was set at 75.00 per cent.) in value of the amount outstanding, as on a record date (Section 13(9)). Since the coming into force of the IBC, any such action will be subject to the provision of the IBC.

- When an application is to be moved before the Chief Metropolitan Magistrate or the District Magistrate seeking assistance for the taking of physical possession of the secured asset, such application must be made in the manner and form set out in Section 14(1), giving all the particulars and information, as specified therein.
- If there is an assumption that the borrower may approach the DRT, the DRAT or the High Court by filing a SARFAESI appeal or an appeal against the action under the SARFAESI Act, the bank can file a caveat before the Tribunal or Court and a notice to this effect is to be sent to the person concerned. Any caveat so filed will be valid for 90 days (Section 18(c)).

As an effective measure of recovery, the Bank is taking steps under the SARFAESI Act. As at 31 December 2018, the Bank has cumulatively issued notices under the SARFAESI Act to 12,594 borrowers with an aggregate principal outstanding amount of Rs.190.22 billion. Of the 12,594 borrowers to whom the Bank served notice, 263 borrowers have since approached the Bank for settlement of their outstanding debts. As at 31 December 2018, the Bank has also seized the assets of 7,901 defaulting borrowers/loan accounts under the SARFAESI Act with an aggregate realisable value of Rs.177.83 billion.

The Bank has been applying all available methods for the recovery of unpaid advances, including reporting the name of wilful defaulters to the RBI and to credit information companies, and initiating the necessary steps for recovery. One of the most important strategies adopted by the Bank to recover NPAs is the Compromise Settlement Scheme. The Bank's Compromise Policy sets out guidelines for the Bank to recover NPA accounts which are marked for recovery. In accordance with RBI guidelines and to provide opportunities to individual borrowers to settle their NPA accounts with the Bank, a simplified mechanism for one-time settlement has been initiated by the Bank in respect of small value NPA loans with an outstanding amount of up to Rs.500,000.

Pursuant to the Framework, the Corporate Debt Restructuring Mechanism (“**CDR**”), Strategic Debt Restructuring Scheme (“**SDR**”), Change in Ownership outside SDR, Scheme for Sustainable Structuring of Stressed Assets (“**S4A**”), and all extant guidelines for resolution of stressed assets were withdrawn with immediate effect. The Framework also instructed banks to refer accounts with an exposure of Rs.20 billion or more to the corporate insolvency resolution process under the IBC, in case no resolution plan was formulated for such accounts within the timelines stipulated by the 12 February 2018 Circular. See also “*Supervision and Regulation – Provision for Loan Losses and Non-Performing Assets – Distressed assets in Indian Economy*”.

As at 31 December 2018, 17 accounts of the Bank have been admitted pursuant to the erstwhile CDR for restructuring, involving an aggregate amount of Rs.12.97 billion. The CDR Empowered Group has approved final schemes in all 17 cases, involving an aggregate amount of Rs.12.97 billion.

The following table sets out selected data on restructuring carried out under the CDR in respect of loan accounts of the Bank as at 31 March 2018 and 31 December 2018.

	As at 31 March 2018		As at 31 December 2018	
	(audited)		(reviewed)	
	Number	Rs. in billions	Number	Rs. in billions
Proposals considered by CDR	33	35.01	17	12.97
Proposals approved	33	35.01	17	12.97
Proposals closed/rejected	–	–	2	0.41
Proposals under process	–	–	–	–

The following table shows loan assets subjected to restructuring as at 31 March 2016, 2017 and 2018 and 31 December 2018, and as a percentage of the Bank's total loans as at such dates.

	As at 31 March				As at 31 December			
	2016		2017		2018		2018	
	(audited)		(audited)		(audited)		(reviewed)	
	Rs. in billions	%	Rs. in billions	%	Rs. in billions	%	Rs. in billions	%
Total loan assets which have been admitted to CDR for restructuring								
89.90	38.70	83.99	38.96	34.73	18.73	12.97	7.45	
Out of the above								
– Standard assets	46.89	20.18	3.69	17.11	7.19	3.87	10.14	5.82
– Sub standard assets	13.01	5.60	0.62	2.87	–	–	–	–
– Doubtful assets	27.00	11.63	3.65	16.92	25.26	13.63	2.84	1.63
– Loss assets	2.99	1.29	0.44	2.04	2.28	1.23	–	–

Asset Reconstruction Companies

The SARFAESI Act provides the framework for establishing asset reconstruction companies in India to acquire NPAs at a mutually acceptable price against the issue of security receipts. These companies recover the relevant debts by methods including debt restructuring, settlement of dues by mutual agreement, enforcement of security and use any amounts so recovered to redeem the security receipts.

As at 31 December 2018, the Bank had transferred a total of 145 NPAs amounting to Rs.36.55 billion to such asset reconstruction companies.

Credit Management Policies and Procedures

Credit Approval and Monitoring

Keeping in view the size of its business and the competitive scenario, the Bank has established a well-defined credit approval process. Powers are delegated to various authorities based on their position. The delegation prescribes sub-limit restrictions, with a view to address transaction risk, portfolio risk and concentration risk within the defined risk appetite of the Bank. Exposures on certain sensitive sectors and also certain sectors which need higher technical skills and expertise are taken only with the permission of certain authorities. The Bank's credit approval process includes the following aspects:

- Time norms for the disposal of applications;
- Financial benchmarks and standards prescribed for taking credit exposure;
- Monitoring of the accounts;
- Every proposal is subjected to a thorough appraisal to ensure the technical feasibility and economic viability of the business ventures in order to determine the bankability and credit worthiness of the proposal; and

- In respect of term loans beyond a cut-off amount of Rs.50 million (new business ventures and existing borrowers with internally rated as moderate risk or externally rated BB) and Rs.100 million (existing business ventures going for modernisation or expansion internally rated as Low/Normal Risk or externally rated BBB or better) project appraisal is conducted by the Project Appraisal Group and/or Project Appraisal Cells of the Bank to ensure technical feasibility and economic viability of the proposal. Similarly, in the case of agricultural term loans of over Rs.5 million, the projects are appraised by the Agricultural Consultancy Services Cell at the Head Office.

General Procedures

The Bank's credit approval process involves multiple levels of loan approval authorities and credit approval committees, depending on the loan amount and other factors such as the nature of the credit, the conditions of the transaction, whether or not the loan is secured and the internal/external risk rating of the loan.

Each credit application or proposal is first subjected to thorough due diligence and submitted to the loan approval authority/committee attached to the department or branch at which such credit application or proposal is handled, and depending on the loan amount or other factors, may be submitted to higher levels of loan approval authorities and/or specific committees for further processing and review.

Certain committees constituted by the Bank for specific purposes are responsible for examining the proposals in respect of infrastructure projects lending and computer software lending.

In respect of high value credit, the Bank has introduced the concept of Core Credit Groups at identified circles. Under this concept, the relationship function is segregated from the credit appraisal function. The branch will only be responsible for the relationship function of contracting the proposal whereas the specifically constituted specialised Core Credit Groups undertake the credit appraisal function.

Similarly SME Sulabhs have been set up in at select Circle Offices where small and medium enterprises are grouped together to centralise the processing of SME credit proposals that falls beyond the sanctioning powers of the relevant branches.

Prime Corporate Branches ("PCBs") have been set up in key business centres to handle high value credit portfolios with a view to reduce the response time for credit distribution and to improve the efficiency of credit delivery mechanisms. The PCBs are permitted to submit credit proposals falling under the sanctioning powers of Head Office, directly to Head Office. The Bank's policy prohibits sanction of loans to new borrowers rated as high risk. In respect of existing borrowers with high risk grade, credit applications are submitted to higher level sanctioning authorities within the Bank wherever deterioration in financials or temporary irregularities in the existing accounts are observed (for example, non-compliance with the Bank's specified financial benchmarks, irregularities in accounts and non-compliance with the Bank's covenants as stipulated on the relevant loan facility document). Similarly, based on the risk perceived by the Bank, certain credit proposals are submitted to these designated authorities. In respect of such proposals, they will be presented to the Bank's Credit Committee (which comprises of a number of general managers) at the Head Office and the recommendations and conclusion of the Credit Committee will be given, together with the proposal to the relevant sanctioning authority, for example, the Management Committee of the Board, Executive Director – Credit Approval Committee of the Board.

Examples of the types of procedures in place for various finance divisions include:

Corporate Finance Procedures

Based on the quantum of financial requirements and the sector or the activity to be financed, the Bank has prescribed financial benchmarks to appraise the proposals. In the case of corporate term loans, project appraisal is conducted by credit analysts to ensure the technical feasibility and economic viability of the proposal. As a pre-sanction exercise, credit risk rating of high value credit proposals will be conducted to assist in the evaluation of the proposal.

Retail Loan Procedures

The Bank's retail customers comprise mainly salary earners, professionals or self employed individuals. The Bank has a clear policy for retail credit which is delivered through all the branches of the Bank. Housing, retail trade, automobile and mortgage based loans must be secured. A majority of the personal loans made out by the Bank are secured while some are unsecured. In general, the Bank offers unsecured personal loans to salary earners, so as to deduct the repayments under the loan directly from his or her periodic salary.

Working Capital Finance Procedures

The Bank provides a range of working capital facilities, both fund-based and non-fund-based, after conducting a proper assessment of the limits as per the standards laid down in the credit policy of the Bank. Working capital requirements are assessed based on certain factors such as the nature of the relevant business operations, the processing and production cycle of the relevant borrower, financial and managerial capabilities of the borrower and working capital cycle. The Bank has developed the following three approaches to assess working capital requirements:

- (1) Turnover method, which is linked to projected sales turnover;
- (2) Maximum Permissible Bank Finance method, which is based on the holding level of current assets and current liabilities; and
- (3) Cash budget system, which is based on cash flow mismatches.

Working capital limits are usually fixed for one year. However, the Bank may fix such limits up to two or three years for certain categories of borrowers such as exporters and certain low risk rated accounts.

Project Finance Procedures

The Bank undertakes detailed techno-economic appraisal of projects seeking financial assistance from the Bank and prepares appraisal reports by evaluating technical, managerial, financial and commercial aspects of the project. Loans are approved based on the Bank's appraisal of the cost, viability of the venture and the credit standing of the entity's promoters. The Bank undertakes monitoring agency activities and merchant appraisal work for companies that intend to launch a public offering as per guidelines stipulated by the SEBI.

Small and Medium Enterprise Industry: General Purpose Term Loan Procedures

The SME sector is one of the largest employment providers across India. With the opening up of the Indian economy, entrepreneurs in the SME sector will be required to upgrade their technology and improve their productivity and efficiency. The Bank subjects every credit proposal to an objective appraisal as per the policy and procedural guidelines laid down from time to time in order

to determine technical feasibility, economic viability and bankability of the proposal. The Bank grants credit facilities, both fund-based and non-fund-based, based on the requirements of the borrower after due appraisal.

The Bank grants term loans to the SME sector for purposes such as the setting up of production and processing units, expansion of business and technology upgrades. The broad parameters for assessing the term loan proposals include a debt equity ratio, a debt service coverage ratio and promoters contribution. The general repayment period is from three to seven years and may vary depending upon the income generation of the relevant business. The assets obtained from the proceeds of the term loan will be taken as security by the Bank by way of hypothecation or mortgage.

Working capital credit limits to borrowers from the SME sector are computed in accordance with recommendations from the P R Nayak Committee, which are based on the estimated and accepted annual turnover of the borrower up to a limit of Rs.50 million. In such cases, working capital limits are generally assessed at 20.00 per cent. of the accepted annual sales turnover. One of the criteria the Bank takes into account in sanctioning working capital credit facilities is a current ratio, the acceptable range of which is between 1.25 to 1.33 per cent. Fund-based working capital finance includes overdrafts, cash credit, packing credit and bill discounting, and non-fund-based facilities include bank guarantees and letters of credit. Hypothecation of stocks and receivables are generally taken as security for working capital loans.

For both term loans and working capital credit facilities, borrowers will be subjected to a risk rating by the Bank. In respect of both term loan limits and working capital limits, personal guarantees from the corporate entity's promoter are insisted upon. Depending on the circumstances, the Bank may also require third party guarantees and/or collateral security of land and building to be given for loans above the value of Rs.1.0 million. Under the Credit Guarantee Trust for Small and Micro Enterprises of the Government, there is also an option to cover exposure to Micro and Small Enterprises up to Rs.20 million. The Bank prices its loan products at competitive rates, which will be based partly on the credentials and performance of the borrower.

Loan Review and Monitoring

The Bank has an effective ongoing loan review mechanism and monitoring of accounts system, to identify the early signs of stress and initiate prompt remedial action, to maintain the asset quality, to monitor accounts for ensuring adherence and compliance with relevant policies and loan covenants. The Bank prescribes appropriate credit administration, credit risk measurement and monitoring processes. The Bank's strategies essentially include the identification of target areas and target markets, industry analysis, portfolio analysis relating to the fixing of exposure ceilings based on regulatory guidelines as well as the risk appetite of the Bank, the assessment and minimisation of concentration risk, the adherence to bench marks, the acceptable level of pricing based on rating, the review of exposure and the control of exposure to sensitive sectors. Loan sanctions are aligned to the risk rating of the loan accounts and powers are vested with each authority in accordance with the risk grade of the account, i.e. the higher the risk of an account, the lower the vested powers for sanction. A structured system for the risk rating of all loan accounts as a pre-requisite for credit sanctions, and suitable risk rating models for different levels of credit limits are in place. The Bank's loan review mechanism encompasses a review of the sanctions made by each authority by the next higher authority, ensuring that the Bank's credit policy guidelines as above are adhered to. A system of credit audit (conducted within three months from the date of disbursement) is in place to verify compliance of the Bank's policies and sanction terms and the adequacy of documentation, to detect early warning signals, if any, and suggest remedial measures. A mid-term review of loan accounts through suitably devised formats, carried out at frequent intervals, ensures review of asset quality in relation to its rating grade, financials, conduct of accounts, and compliances. Monitoring processes include a review of all credit exposures of Rs.10 million and above through various credit monitoring mechanisms at fixed

intervals by different authorities depending upon the size of the credit limit and risk rating. All exposures of Rs.2,000 million and above are rated as “Moderate Risk” and all “High Risk” rated exposures are reviewed at more frequent intervals by the appropriate higher authority. As per the directions of the Ministry of Finance, the Bank is required to tie up with agencies responsible for “Specialised Monitoring of Accounts” with respect to exposures above Rs.2,500 million from the banking system under the “consortium”, “multiple banking arrangement” and “sole banking” categories for the purposes of monitoring the accounts including projects under implementation, on a quarterly basis to ensure the end use of funds and to detect stress in the relevant account early on. As part of the Bank’s efforts to maintain asset quality, all overdue loan exposures (both financial and non-financial) beyond one month are brought under the concept of “Special Watch Accounts” and are continuously followed up on a fortnightly or monthly basis. As per RBI guidelines, accounts in default or Special Mention Accounts (“**SMA**”) with exposure above Rs.50 million are followed up for recovery of the arrears and for resolution in the respective accounts.

Exposure Limits

The Bank’s prudential exposure norms are in line with the norms laid down by the RBI for all Indian financial institutions. As per these norms, the Bank’s direct credit exposure to any single borrower may not exceed 20.00 per cent. (extendable to 25.00 per cent. with prior approval of the Board) of the Bank’s capital funds (Tier I) and the Bank’s exposure to any single business group may not exceed 25.00 per cent. of the Bank’s capital funds.

As at 31 March 2018, the Bank had not exceeded the prudential credit exposure limits in respect of any group accounts. As at 31 December 2018, the Bank had not exceeded the prudential credit exposure limits in respect of any group accounts.

Collateral Management

The Bank has a collateral management policy in place to address one of the basic objectives of credit management, the mitigation of credit risks through the identification of appropriate collateral and control, optimising the benefit of credit risk mitigation (“**CRM**”) in addition to capital charges and mitigating residual risk arising out of utilisation of CRM techniques.

Classification of loan quality

Loan quality is measured by credit risk assessment. Credit risk is primarily assessed through the internal rating process. The Bank also uses the rating assigned by external credit assessment institutions approved by the RBI. The risk rating of eligible borrowers is a pre-sanctioning exercise. The Bank has various rating models in place to accomplish this. The credit risk assessment helps the Bank to measure whether the potential borrowers will be able to meet their loan obligations in accordance with the relevant contractual agreements. All borrowers with limit of Rs.200,000 and above are rated individually and under the appropriate risk rating models developed for this purpose. The rating will be based on financial reports as well as recent information available to the Bank. The individual borrower ratings are subject to annual review.

Applicable Government requirements/guidelines: Priority sector advances

Certain sectors of the economy are declared as priority sectors by the Government/the RBI from time to time in order to ensure the increased flow of credit to these sectors. The Bank will continue to monitor its plans for enhancing credit to all the segments of these sectors and to remain in line with the mandated targets.

The following are the different priority sector subject to the eligibility criteria for individual sectors set by the RBI/the Bank from time to time:

- Agriculture (direct and indirect finance)
- Small Enterprises (direct and indirect, including micro enterprises)
- State sponsored organisations for specified castes and specified tribes
- Educational loans (up to Rs.1,500,000 for inland studies & for studies abroad)
- Housing (up to Rs.3,500,000) (excluding staff housing loans and loans granted to the staff of the Bank on the same terms and conditions of loans granted to the Bank's customers for housing purposes)
- Micro credit
- Weaker sections as classified under the RBI guidelines

The Bank is strictly complying with the prudential guidelines and other regulatory instructions prescribed by the RBI.

Funding and Liquidity

The Bank's funding operations are designed to ensure stability of funding, minimise funding costs and effectively manage liquidity. The Bank attempts to maintain a diversified funding base and to concentrate deposits in savings accounts, which offer relatively low rates of interest, and current accounts on which no interest is paid. The Bank's funding is primarily derived from deposits placed with the Bank by its corporate and retail clients. The Bank also derives funding from capital and reserves and borrowing. While the majority of the Bank's funds is denominated in Rupees, the Bank's foreign branch and subsidiaries raise foreign currency borrowings from local banks and foreign counterparties through established lines of credit facility arrangements to fund the Bank's overseas operations, in addition to funding undertaken directly by the parent Bank. The following table shows the breakdown of the Bank's funding profile as at the dates indicated.

	As at 31 March				As at 31 December	
	2016		2017		2018	
	(audited)	(audited)	(audited)	(audited)	(reviewed)	
	Amount (Rs. in billions)	%	Amount (Rs. in billions)	%	Amount (Rs. in billions)	%
Rupee deposits	4,507.9	81.5	4,546.1	77.9	4,859.9	78.8
Foreign currency deposits	290.0	5.2	406.7	7.0	387.8	6.3
Total deposits	4,797.9	86.7	4,952.7	84.9	5,247.7	85.1
Rupee borrowings	125.5	2.3	280.7	4.8	256.4	4.2
Foreign currency borrowings	143.2	2.6	114.3	1.9	131.7	2.1
Total borrowings	268.7	4.9	395.0	6.7	388.1	6.3
Share capital, reserves and surplus	316.0	5.7	336.8	5.8	356.0	5.8
Minority interest	—	—	—	—	—	—
Other liabilities and provisions	146.9	2.7	150.5	2.6	177.0	2.8
					181.6	2.7

Treasury Operations

The Bank's treasury manages its foreign currency exposures and offers various products to customers for hedging their foreign exchange risk exposures. The Bank also undertakes proprietary trading of currencies. The Bank manages liquidity and maintains regulatory reserves through its treasury operations, which are governed by the investment policy of the Bank as approved by the Board of Directors. The Bank's market risk policies must also be approved by the Board of Directors. All of the Bank's treasury operations are operated based on the Reuters/Oracle Financial Services Software supported IT platform.

Regulatory Reserves

The Bank is required to maintain 4.00 per cent. of its demand and time liabilities in the form of balances with the RBI in accordance with Section 42 of the RBI Act, 1934 with effect from the fortnight beginning 9 February 2013. The Bank does not earn any interest on such balances held with the RBI. The Bank undertakes liquidity management in line with regulatory requirements and with an objective to keep minimum cash balances at its branches for their day-to-day operations. The Bank maintains a proper mix of interest-earning liquid assets and cash balances to maximise income while providing adequate liquidity for branch operations.

The Bank also is also required to maintain 23.00 per cent. of its net demand and time liabilities in approved securities pursuant Section 24 of the Banking Regulation Act, 1949 with effect from the fortnight beginning 11 August 2012. Approved securities consist of mostly sovereign securities like treasury bills, Government loans and loans issued by state governments. The Bank trades actively in such approved securities.

Other than approved securities, the Bank also maintains investments in PSU bonds, corporate bonds and debentures, equity shares, mutual fund units, venture capital funds, preference shares and strategic investments in subsidiaries and associates.

Classification of Investments

Investments in India

As at 31 March 2018, the Bank had aggregate net investments of Rs.1,428 billion in India, of which Rs.1,276 billion (89.40 per cent.) was held in approved securities, in accordance with the reserve requirements as stipulated under the Banking Regulation Act, 1949. The Bank's bond portfolio is held principally for statutory liquidity ratio purposes. The Bank's investments are classified as HTM, AFS and HFT in accordance with regulation stipulations. While the Bank cannot hold securities classified as HFT for more than 90 days, there are no such restrictions on the holding period or monetary limits for AFS. In respect of HTM securities, the Bank cannot hold SLR securities classified as HTM in excess of 25.00 per cent. of its demand and time deposits. As at 31 March 2018, approximately 69.02 per cent. of the Bank's investment was classified as HTM and 30.84 per cent. was classified as AFS. As at 31 December 2018, investments classified as HTM and AFS were 61.11 per cent. and 38.73 per cent., respectively, of the Bank's investment.

The RBI permits an annual one-time transfer of investments classified as AFS and HFT to the HTM category, subject to certain limits. For the fiscal year ended 31 March 2018, the Bank has not transferred any amount under this facility.

The Bank's equity portfolio of Rs.34.10 billion as at 31 March 2018, which represented approximately 2.35 per cent. of its total portfolio, consisted of listed stocks, unlisted stocks and unit type securities. Listed stocks constituted 71.80 per cent. of the equity portfolio, while unlisted stocks constituted 28.20 per cent. of the equity portfolio and were acquired mainly as strategic

stake in corporates and institutions on a long-term basis. Unlisted stocks included investments in preference shares and equity received as part of restructuring of NPA.

Investments outside India

The market values of the Bank's net investments outside India amounted to Rs.1.05 billion and Rs.1.70 billion as at 31 March 2018 and 31 December 2018, respectively. Such investments included investment in subsidiaries and joint ventures, which accounted for Rs.1.01 billion and Rs.1.67 billion as at 31 March 2018 and 31 December 2018, respectively.

The table below describes the book value of the Bank's total investment portfolio as at the dates indicated:

	As at 31 March			As at 31 December
	2016	2017	2018	2018
	(audited)	(audited)	(audited)	(reviewed)
(Rs. in billions)				
Net Investments in India:				
Government securities	1,269	1,357	1,276	1,346
Other approved securities	–	–	–	–
Shares	17	19	25	22
Debentures and bonds	64	74	92	105
Investments in subsidiaries and/or joint ventures	8	7	7	7
Others ⁽¹⁾	55	36	27	26
Total net investments in India	1,413	1,493	1,428	1,506
Net investments outside India:				
Government securities	1	3	3	10
Other investments ⁽²⁾	9	7	10	10
Total net investments outside India	10	10	13	20
Total net investments in and outside India	1,423	1,503	1,441	1,526

Notes:

(1) Includes, among other things, mutual funds and commercial paper.

(2) Includes investments in floating rate notes, credit-linked notes, and subsidiaries and joint ventures.

Capital Adequacy

As at 31 December 2018, the Bank's total capital adequacy ratio was 12.21 per cent. and its Tier I capital adequacy ratio was 8.81 per cent. The total capital adequacy ratio of the Bank as at 31 December 2018 was higher than the RBI stipulation of 9.00 per cent. The following table sets certain capital adequacy data for the Bank as at the dates indicated below.

	As at 31 March		As at 31 December	
	2016 (audited)	2017 (audited)	2018 (audited)	2018 (reviewed)
	(Rs. in billions, except percentages)			
Tier I Capital	294	331	362	363
Tier II Capital	76	105	103	101
Total Capital	370	436	465	464
Capital Adequacy Ratios:				
Tier I Capital Adequacy Ratio	8.80%	9.77%	10.30%	9.54%
Tier II Capital Adequacy Ratio	2.28%	3.09%	2.92%	2.67%
Total Capital Adequacy Ratio	11.08%	12.86%	13.22%	12.21%
Minimum capital adequacy ratios required by the RBI:				
Tier I Capital Adequacy Ratio	7.00%	7.00%	7.00%	7.00%
Total Capital Adequacy Ratio	9.00%	9.00%	9.00%	9.00%

The Bank implemented Basel III standards from June 2013 onwards by adopting the basic indicator approach for operational risk and standardise approach for credit and market risk. Subsequent to the implementation of Basal III standards, the Bank has maintained its capital to risk asset ratio ("CRAR") at 13.22 per cent. as at 31 March 2018, which is above the regulatory minimum of 9.00 per cent.

Risk Management

The Bank has been implementing global best practices and risk management initiatives in conformity with the Basel II framework. The Bank's risk management policies focus on effective organisational business strategy to meet the business goals by promoting a compliance culture and building an effective reporting system.

For unified risk management, the Risk Management Department has been in place at the Head Office since 2000. The Risk Management Committee of the Board of Directors is responsible for the overall supervision of risk management initiatives in the Bank. Top executive level committees which are headed by the Chairman, the Managing Director and the Executive Directors have been formed for credit risk, market risk, operational risk and asset liability management.

The Bank, pursuant to RBI guidelines, implemented Basel II as at 31 March 2008 by adopting the following Basic Approaches for Credit, Market & Operational Risk:

- The Standardised Approach for Credit Risk;
- The Basic Indicator Approach for Operational Risk; and
- The Standardised Modified Duration approach for Market Risk.

The Bank formulated an Internal Capital Adequacy Assessment Process (“**ICAAP**”) document in 2007, under Pillar 2 of the Basel II requirements. The ICAAP document is reviewed on an annual basis. The objective of ICAAP document is to encourage better risk management and capital allocation by developing an integrated risk assessment, which will allow the Bank to assess the risk assessment processes, the overall risk faced by the Bank and the capital adequacy of the Bank. The Bank has put in place a Capital Planning Committee to advise the measures for the maintenance of appropriate levels of capital and on capital raising options.

The Bank has put in place a disclosure policy to cover all the disclosures that are required to be made by the Bank under legal and regulatory requirements (including Basel II pillar 3 requirements). The Disclosure Committee is in place to evaluate and discuss the appropriateness and timing of any public disclosure.

The Bank engaged Price Waterhouse Coopers (P) Ltd (“**PwC**”) in 2001 to provide advisory services on the implementation of risk management systems and initiated steps to implement design deliverables suggested by it. In 2005, the Bank engaged IBM Business Consultancy Services to conduct a Basel II diagnostic study, and to advise on, and review the progress of, the Bank’s implementation of the recommendations of PwC. The Bank has addressed the issues identified in the reports of IBM Business Consultancy Services.

The Bank has taken steps to migrate to advanced approaches under Basel II for capital computation of credit risk, market risk and operational risk. The Bank has appointed a consultant, M/s Deloitte Touche Tohmatsu India Private Limited to assist in the implementation of an Enterprise-wide Integrated Risk Management Framework (“**EWIRM**”) in the Bank and its group entities.

The consultants have been engaged to guide the Bank in its migration to advanced approaches and its implementation. The entire project is classified into five stages with the specific scope of work and deliverables covering six functional areas, namely credit risk, market risk, operational risk, integrated and group risk, risk solution selection and training.

The implementation of the EWIRM project requires the collection of critical data for the last few years, cleaning of the data, validating the rating models, ensuring that the risk rating systems and estimates meet the minimum requirements of internal rating model, assisting in the validation of data for computation of Probability of Default (“**PD**”), Exposure at Default (“**EAD**”) and Loss Given Default (“**LGD**”).

A letter of intent for the adoption of the Internal Rating Based (“**IRB**”) approach for the calculation of capital charges for credit risk was filed by the Bank with the RBI on 29 September 2012.

Credit Risk

The Bank is exposed to credit risk due to loss arising from inability or unwillingness of the customer or counterparty to meet commitments in accordance with agreed terms in relation to lending and other financial transactions. In order to address credit risk, credit proposals are given thorough analysis, including detailed financial analysis using certain benchmarks determined by the Bank. The Bank also analyses qualitative features such as industry trends, management capability and market feedback. The Bank uses various risk management tools such as fixing prudential exposure limits for individuals and groups, exposure limits on various industries and certain sensitive sectors such as real estate and capital markets, credit risk rating of exposures, mid-term reviews, reviews of high value exposures, monitoring of Special Watch accounts and reviews of credit approvals by authorities more senior than the sanctioning authorities. These tools assist the Bank in addressing concentration risk, portfolio risk and counterparty credit risk.

Counter-party Risk and Bank Exposure Risk

The Bank has put in place a detailed counterparty bank exposure risk policy as a part of its market risk policy to fix limits for various types of transactions with other banks. Counter-party banks have been classified into eight categories and exposure limits have been stipulated in accordance with the risk perception against each type of bank. Individual limits have also been stipulated for each type of fund-based and non-fund-based transaction in both domestic and foreign exchange treasuries. A scoring matrix has been introduced to assess international banks based on critical parameters and the maximum exposure limit is fixed according to the total points scored. Proper management information systems have been implemented to monitor exposures on a daily as well as weekly basis and reports are submitted to the chief risk officer of the Bank's Risk Management Wing at the Head Office. Review of exposure limits are placed before the MD and CEO in the monthly review notes and to the Market Risk Management Committee at its quarterly meetings. Separate limits have been stipulated for money market transactions, derivatives, foreign exchange dealings and nostro balances.

The Bank has adopted a Country Risk Management Policy as a part of its market risk policy for undertaking various types of direct and indirect exposures and funded and non-funded exposures in various jurisdictions. The Bank has established an Internal Country Rating Model in which countries are classified into seven categories according to the risk profile of each country. Points are allocated in accordance with certain parameters including: macroeconomic indicators, import cover, fund transfer delay, past experience (which takes into account factors such as past defaults, late payments and satisfactory past dealings with the Bank), and ratings awarded by international agencies and also by Export Credit Guarantee Corporation of India Limited. Maximum exposure limits have been stipulated for each country depending on the scores obtained as per the Internal Country Rating Model. Certain parameters and limits have been stipulated in the Bank's Country Risk Management Policy. These include Limit Triggers and Exit Options and steps put in place by the Bank in the event that the risk rating of any country to which the Bank has exposure is downgraded. The Country Risk Management Policy also confers wider powers to the authorities in the Bank responsible for ratifying exposures outside the approved limits. These authorities are therefore able to sanction the Bank to take exposure in countries in the high risk categories, ensuring that business opportunities would not be foregone merely on account of restrictions on the Bank's stipulated country exposure limits.

Market Risk

Market risk relates to the fluctuations in interest rates, foreign exchange rates or stock prices that can change the value of financial products held by the Bank and lead to a potential loss. The Bank has adopted a detailed Market Risk Management policy consisting of the Market Risk Product Programme, which deals with risk identification and risk mitigation, risk limits and triggers, and risk reporting and monitoring procedures. The functional unit undertaking the review and reporting of market risk operates independently of the Bank's treasury department and reports directly to the Chief Risk Officer of the Risk Management Department at the Head Office. Stop loss limits and maximum holding periods have been stipulated for investments classified under the HFT category. Aggregate gap limits and intra-day, overnight and value-at-risk ("VaR") limits for foreign exchange exposure have been prescribed in the Market Risk Management policy. The Bank has centralised the trading activities of the Integrated Treasury, an office which carries out both Rupee treasury and forex treasury operations, and has integrated activities. This facilitates the monitoring of the market risk of the Bank. The Bank also has a VaR framework for its foreign exchange trading exposure.

The Bank has also established a MRM policy aiming to control financial trading risks, including those relating to derivatives and debt and equity securities. Trading market risk limits are set in accordance with the structure of the Bank's financial market trading activities. The trading market risk management framework includes the following elements:

- Market Risk Management Structure
- Policies
- Prudential Risk Limits and Triggers
- Reporting, Review & Monitoring Mechanism
- Auditing Systems

Foreign Exchange Risk

The Bank undertakes various foreign exchange transactions to hedge the customer's business and also for proprietary trading which is exposed to risks like credit risk, market risk and exchange risk. As described above, the Bank adopts, among other things, the MRM policy to mitigate various risks mainly through various risk limits, such as counterparty limits, country-wise exposure limits, overnight limits, intra-day limits and VaR limits. The Bank follows the approved model from Foreign Exchange Dealers Association of India to determine its VaR limits. The Bank is currently in the process of implementing advanced software.

Operational Risk

In accordance with regulatory guidelines, the Bank adopted the Basic Indicator Approach for calculating operational risk, which is leveraged against 15.00 per cent. of its gross income. This approach calculates the Bank's minimum capital requirements based on its gross income as its sole operational risk indicator. In comparison, the Bank's minimum capital requirements under the Advanced Measurement Approach equal the risk measures generated by the Bank's internal operational risk measurement system using qualitative and quantitative criteria (and not only based on its gross income). In order to fulfil the criteria for implementing the Advanced Measurement Approach, the Bank has established specialised committees and formulated comprehensive policies covering different aspects of operational risk management to guide the Operational Risk Management Department in adopting appropriate process and procedures for managing operational risk effectively.

Liquidity Risk

Liquidity is a bank's capacity to fund an increase in its assets and meet both expected and unexpected cash and collateral obligations at a reasonable cost and without incurring unacceptable losses. Liquidity risk management policy of the Bank is based on the Liquidity Sound Principles of the Basel Committee on Banking Supervision ("BCBS"), guidelines issued by the RBI from time to time on liquidity risk management and regulations of the host country in which the Bank's branches are located, with a view to ensure that Bank has a sufficiently robust liquidity risk management system to withstand severe liquidity shocks.

To ensure that adequate liquidity is maintained consistently, the Bank measures and monitors its liquidity under both the cash-flow and stock approach, for instance by monitoring various liquidity ratios. Under the cash-flow approach the net cash outflow in various time buckets is calculated according to their expected maturity dates (or, where appropriate, behavioural patterns). Tolerance levels for various maturities is fixed by the Bank depending on the asset-to-liability profile, the extent of stable deposit base (measured by analysing the behavioural pattern of CASA

accounts, the redemption/roll over pattern of retail deposits of up to Rs.10,000,000 and by making a study of core deposits which have remained with the Bank for an extended period), the nature of cash flows and regulatory prescriptions. In respect of mismatches in cash flows in the near term buckets of up to 30 days, the Bank endeavours to keep the cash flow mismatches at a minimum level. In order to monitor short-term liquidity on a dynamic basis over a time horizon spanning from 1 to 90 days, the Bank also estimates the short-term liquidity profiles on the basis of projections and other commitments for planning purposes.

Liquidity Coverage Ratio (“**LCR**”) is one of the Basel Committee’s key reforms to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector. The LCR standard aims to ensure that a bank maintains an adequate level of unencumbered high quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario specified by supervisors. The Bank has strived consistently to maintain LCR above the mandatory required levels specified by the regulators.

As a part of its liquidity risk management, the Bank focuses on a number of internal and external variables, including all available sources of liquidity, preserving necessary funding capacity and formulating contingency plans. Further, the Bank has established a series of caps on activities such as net short term borrowings and daily call lending and borrowings.

The Bank undertakes regular liquidity stress testing exercises as part of its internal risk management to estimate the possible impact on the cash flows, liquidity positions, profitability, and solvency of the Bank. The results of stress tests also play a key role in shaping the Bank’s contingency funding plan.

Interest Rate Risk

Interest rate risk is the risk of changes in market interest rates affecting a bank’s financial position. The immediate impact of changes in interest rates is on a bank’s earnings (i.e. reported profits) by change in its Net Interest Income (“**NII**”). A long-term impact of a change in interest rates is on a bank’s Market Value of Equity (“**MVE**”) or net worth as the economic value of bank’s assets, liabilities and off-balance sheet positions would be affected due to variation in market interest rates.

The risk from the earnings perspective of the Bank., namely its NII, is measured using the Traditional Gap Analysis (“**TGA**”). The estimated drop in the MVE of the Bank as a result of a prescribed rate shock is estimated by the Duration Gap Analysis (“**DGA**”).

The Bank strives to match the price of its assets and liabilities coupled with proper maturity matching in order to reduce the gap in different time buckets which are due to mature or reprice. Interest rate risk management is achieved by establishing and monitoring risk curbing limits such as interest rate sensitivity gap limits. The interest rate sensitivity statement (“**IRS**”) which presents the gap between rate sensitive assets and rate sensitive liabilities over different time buckets under TGA and DGA is prepared on a monthly basis.

Internal Controls

Internal Audit

The overall objective of internal inspection and audit is to aid the Bank in achieving efficiency and effectiveness in all its operations, in addition to evaluating the performance of branches and offices of the Bank. Internal inspection provides the management with analysis, appraisals, observations and recommendations concerning the activities reviewed. In order to provide both protective and constructive services, such inspection extends to financial activities as well as other operational areas.

The Inspection Wing of the Bank is centralised and functions as a separate unit in the Head Office. The Inspection Wing in the Head Office is headed by a general manager who reports to the Chairman and the Managing Director.

The scope of inspection covers the entire workings of the branch or office and involves verification and critical review of all the assets and liabilities, checking of observance of the internal systems as per prescribed procedures and practices, with particular focus to be placed on certain critical areas. In line with RBI guidelines, the Bank has also introduced Risk Based Internal Audit.

Know-Your-Customer (“KYC”)/Anti-Money Laundering (“AML”) guidelines

The Inspection Unit has instructed inspecting officers to conduct verification of the compliance level of KYC/AML during regular inspections of the branches. In addition, inspecting officers have been advised to conduct audits on a random basis exclusively for verification of the implementation of KYC/AML standards at different select branches of each Circle Office on a monthly basis.

Compliance with RBI Guidelines

The Bank ensures strict compliance with all statutory provisions contained in the relevant legislation (specifically including the Banking Regulation Act, the Reserve Bank of India Act, the Foreign Exchange Management Act and the Prevention of Money Laundering Act) and regulatory guidelines as well as all applicable standards and codes prescribed by regulatory bodies in India from time to time. In accordance with the RBI Guidelines, the Bank has established an independent compliance function (the “**Compliance Function**”) to ensure, *inter alia*, compliance with these guidelines and the comprehensive compliance policy has been implemented in the Bank’s organisational structure and reporting framework.

The aim of the Compliance Function is to ensure that the compliance policy and framework is implemented throughout the Bank and to ensure that both the management of the Bank and its employees adhere to the compliance procedures. There is a system in place to escalate compliance failures, if any, to the highest authority in the Bank, and to take appropriate action.

Vigilance

Vigilance management in the Bank, under the supervision and guidance of the Chief Vigilance Officer (“**CVO**”), administers various vigilance functions. The CVO acts as the advisor to the Chief Executive of the Bank in all vigilance matters and acts as a link between the Bank and the Central Vigilance Commission. The CVO administers various functions in respect of the preventive, detective and punitive aspects of vigilance, with more emphasis on preventive vigilance to eliminate or minimise factors which provide opportunities for fraud, corruption and malpractices in the Bank.

DESCRIPTION OF THE BANK'S LONDON BRANCH

London branch

The Bank opened its branch in London, United Kingdom on 12 December 1983 with an initial capital of GBP 0.5 million, to cater for the needs of the local established ethnic Indian community. As at 31 December 2018, the paid-in capital of the Bank's London branch amounted to GBP7.75 million. The core business of the branch is accepting deposits and deploying them profitably in investments and its credit portfolio. The branch also services the Bank's branches in India and the Bank's clients in India for their foreign exchange operations, including but not limited to inward remittances and letters of credit. For the fiscal year ended 31 March 2018, the total business of the Bank's London branch was GBP2,741.39 million comprising of deposits and advances of GBP1,838.24 million and GBP903.15 million respectively. For the nine months ended 31 December 2018, the total business of the Bank's London branch was GBP3,544.82 million comprising of deposits and advances of GBP2,426.83 million and GBP1,117.99 million respectively.

In addition, the operations and works at the Leicester branch have been transferred to the London branch following the Leicester branch's cessation of operations with effect from 14 December 2018.

Regulation of the London branch

Regulation under the laws of England: The Bank is registered with the Financial Conduct Authority (“**FCA**”) and is regulated by the Prudential Regulation Authority (“**PRA**”). The PRA and FCA are independent organisations responsible for regulating financial services in the United Kingdom.

DESCRIPTION OF THE BANK'S OVERSEAS OPERATIONS

Hong Kong branch

The Bank opened its branch in Hong Kong on 19 March 2007 with an initial capital of U.S.\$20 million, to cater for the needs of the local established ethnic Indian community. As at 31 December 2018, the paid-in capital of the Bank's Hong Kong branch amounted to U.S.\$20 million. For the fiscal year ended 31 March 2018, the total business of the Bank's Hong Kong branch was U.S.\$3,659.51 million comprising of deposits and advances of U.S.\$1,828.62 million and U.S.\$1,830.89 million respectively. For the nine months ended 31 December 2018, the total business of the Bank's Hong Kong branch was U.S.\$2,548.58 million comprising of deposits and advances of U.S.\$1,289.61 million and U.S.\$1,258.97 million respectively. The net profit of the Bank's Hong Kong Branch was U.S.\$2.51 million for the nine months ended 31 December 2018. The core business of the branch is accepting deposits and deploying deposits profitably to its credit portfolio. The branch also services the Bank's branches in India and the Bank's clients in India in relation to foreign exchange requirements, including but not limited to inward remittances and letters of credit.

In addition, the operations and works at the Shanghai branch will be transferred to the Hong Kong branch following its cessation of operations which is scheduled to take effect from 31 March 2019.

Regulation of Hong Kong branch

The Bank is registered with the Hong Kong Monetary Authority (the “**HKMA**”) and is regulated by the HKMA. The HKMA is the independent organisation responsible for regulating financial services in Hong Kong.

New York branch

The Bank opened its branch in New York, USA on 9 June 2014 with an initial capital of U.S.\$20 million. As at 31 December 2018, the paid-in capital of the Bank's New York branch remained at U.S.\$20 million. The core business of the branch is accepting deposits and deploying them in credit portfolios denominated in multiple currencies. The branch also services the Bank's branches in India and the Bank's clients in India in relation to their foreign exchange requirements, including but not limited to, inward remittances and letters of credit. For the fiscal year ended 31 March 2018, the total business of the Bank's New York branch was U.S.\$1,622.26 million comprising of deposits and advances of U.S.\$1,170.55 million and U.S.\$451.71 million respectively. For the nine months ended 31 December 2018, the total business of the Bank's New York branch was U.S.\$1,291.49 million comprising of deposits and advances of U.S.\$1,151.81 million and U.S.\$139.68 million respectively.

Regulation of New York branch

The Bank is registered with the Federal Reserve Bank of New York (“**FRBNY**”) and is regulated by the FRBNY and New York Department of Financial Services (“**NYDFS**”). The FRBNY and NYDFS are independent organisations responsible for regulating financial services in the state of New York.

Dubai International Financial Centre branch

The Bank opened its branch in the Dubai International Financial Centre (“**DIFC**”) on 28 January 2016 with an initial capital of U.S.\$10 million. As at 31 December 2018, the paid-in capital of the Bank's DIFC branch remained at U.S.\$10 million. The core business of the branch is accepting deposits and deploying them in credit portfolios denominated in multiple currencies. The branch also services the Bank's branches in India and the Bank's clients in India in relation to their foreign

exchange requirements, including but not limited to, inward remittances and letters of credit. For the fiscal year ended 31 March 2018, the total business of the Bank's DIFC branch was U.S.\$193.63 million comprising of deposits and advances of U.S.\$15.93 million and U.S.\$177.70 million respectively. For the nine months ended 31 December 2018, the total business of the Bank's DIFC branch was U.S.\$530.84 million comprising of deposits and advances of U.S.\$12.56 million and U.S.\$518.28 million respectively.

In addition, the operations and works at the Manama branch have been transferred to the DIFC branch following its cessation of operations with effect from 23 January 2019.

Regulation of DIFC branch

The Bank is registered with the Dubai Financial Services Authority ("DFSA") and is regulated by the DFSA. The DFSA is an independent organisation responsible for regulating financial services in the Dubai International Financial Centre.

Regulation under Indian Law

With the prior approval of the RBI, the Bank had established its overseas branches. In addition to being subject to the laws and regulations of the host country, the Bank's overseas branches are also subject to the regulations and directives of the RBI as applicable to overseas branches of Indian Banks. The overseas branches, in accordance with such guidelines, are required to put in place a proper asset liability management system covering areas such as control of funding risk and liquidity management, interest rate exposure, control of maturity mismatching in its asset liability structure and control of exchange risk exposure. Certain credit exposure norms for overseas branches have also been stipulated by the RBI.

Representative Office at Sharjah, United Arab Emirates ("UAE")

The representative office of the Bank in UAE was opened in Sharjah on 20 June 2010. The functions of representative office include the following:

- representing the Bank in relation to business inside the country, including contacts with relevant parties as well as promoting its services in the local market;
- providing Head Office with information regarding the economic developments in the UAE;
- providing customers of the Bank with information regarding the local market;
- providing information to any local party, who intends to develop its activities where Bank operates;
- providing customers with banking, financial and investment consultation services; and
- setting up a presence in the fast growing business of the UAE and also to facilitate trade between India and the UAE.

Canara Bank (Tanzania) Limited ("CBTL"), Dar es Salaam, Tanzania

The Bank established its wholly owned banking subsidiary at Dar es Salaam in Tanzania on 9 May 2016, after obtaining a licence from the Bank of Tanzania. CBTL is a banking subsidiary and undertakes core banking activities such as accepting deposits and deploying credit. CBTL was established with a capital of U.S.\$10.97 million. The Bank has provided total capital of U.S.\$15 million to its subsidiary. For the fiscal year ended 31 March 2018, the total business of CBTL was U.S.\$36.55 million comprising of deposits and advances of U.S.\$25.10 million and U.S.\$11.45

million respectively. For the nine months ended 31 December 2018, the total business of CBTL was U.S.\$27.83 million comprising of deposits and advances of U.S.\$12.62 million and U.S.\$15.21 million respectively.

CBTL is regulated by Bank of Tanzania, an independent organisation regulating the financial services in Tanzania.

Others

In January 2018, the Government issued a directive instructing the public-sector banks of India (“PSBs”), including the Bank, to consolidate their overseas operations as part of the Government’s initiative to rationalise the overseas operations of PSBs for cost efficiencies and synergies in the overseas market. The initiative seeks a differentiated banking strategy for the PSBs to leverage on their respective competitive advantages including branch network rationalisations for a stronger regional connection and presence. As part of the initiative, branches and offices of PSBs in foreign countries would either have to shut down or be merged with other branches of the respective PSBs concerned.

Against this backdrop, the Board of Directors of the Bank provided its approval for its overseas branch rationalisation plan which involves (a) shutting down the operations of its Leicester branch, Shanghai Branch, Manama branch and Johannesburg branch and (b) divesting its entire joint venture stake in the Commercial Indo Bank LLC (“CIBL”) to the State Bank of India.

The Leicester branch was the Bank’s second branch in the United Kingdom which opened on 12 April 2010 and operated as a sub-branch of the main London branch. The Shanghai branch opened on 6 August 2008 with an initial capital of U.S.\$28.62 million and was engaged in the core business of accepting deposits and deploying them profitably in credit portfolio in currencies other than Chinese Renminbi and servicing the Bank’s branches in India and the Bank’s clients in India in relation to their foreign exchange requirements, including but not limited to inward remittances and letters of credit. The Manama branch opened on 29 September 2011 with an initial capital of U.S.\$10 million and was engaged in the core business of accepting deposits and deploying them profitably in credit portfolios denominated in multiple currencies and servicing the Bank’s branches in India and the Bank’s clients in India in relation to their foreign exchange requirements, including but not limited to, inward remittances and letters of credit. The Johannesburg branch opened on 19 May 2014 with an initial capital of ZAR250 million and was engaged in the acceptance of deposits and deployment of such deposits in credit portfolios denominated in multiple currencies. The Johannesburg branch was not permitted to enter into any transaction in any foreign currency (other than ZAR). CICL is an overseas joint venture established in 2013 in association with the State Bank of India. As at 31 December 2018, the Bank’s share in the capital of CIBL remained at 40.00 per cent. of CIBL’s total capital of U.S.\$36.67 million.

As part of the Bank’s efforts of ensuring continuity in services for its customers of the branches that were being closed, the operations and works at (a) the Leicester Branch have been transferred to the London branch with effect from 14 December 2018, (b) the Shanghai Branch are scheduled to be transferred to the Hong Kong branch with effect from 31 March 2019 and (c) the Manama branch have been transferred to the Dubai Branch with effect from 23 January 2019. The Bank’s Johannesburg branch received the approval in principle from the South African Reserve Bank on 22 June 2018 for closure of its operations and the Johannesburg branch has since closed all of its deposit accounts and remains in the process of transferring and closure of loan accounts. The Johannesburg branch is scheduled to cease operations with effect from 30 June 2019. In January 2018, pursuant to the directions of the Department of Financial Services of the Ministry of Finance of India, divestment of the Bank’s stake in CIBL was permitted and as of the date of this Offering Circular, the Bank remains in the process of completing its divestment in CIBL which is scheduled to take effect from September 2019.

RECENT DEVELOPMENTS

Issuer's financial results for the nine months ended 31 December 2018

On 28 January 2019, the Issuer published its unaudited, unconsolidated financial results for the nine months ended 31 December 2018, which have been subjected to a limited review by the Issuer's auditors. The following financial information is derived from the Issuer's unaudited, unconsolidated financial results for the nine months ended 31 December 2018 and has been presented in a summarised manner for the convenience of investors, and is qualified in its entirety by reference to such financial results, including the notes thereto on pages F-3 to F-18 in this Offering Circular. The following information is not indicative of future operating results and should not be relied upon as being so indicative.

The unaudited, unconsolidated financial results of the Issuer for the nine months ended 31 December 2018 and 2017 have been prepared in accordance with Indian GAAP, which differs in certain respects from IFRS. A summary of the differences between the Indian GAAP (as applicable to the Issuer) and IFRS is contained in this Offering Circular under the headings of "*Summary of Significant Differences Between Indian GAAP and IFRS*".

Highlights of the Issuer's financial results for the nine months ended 31 December 2018

- The Issuer's total interest earned increased by Rs.36,431.8 million, or 11.74 per cent., to Rs.346,718.6 million for the nine months ended 31 December 2018 from Rs.310,286.8 million for the nine months ended 31 December 2017.
- The Issuer's total income increased by Rs.27,450.4 million, or 7.49 per cent., to Rs.393,848.7 million for the nine months ended 31 December 2018 from Rs.366,398.3 million for the nine months ended 31 December 2017.
- The Issuer's total operating expenses increased by Rs.10,702.7 million, or 15.28 per cent., to Rs.80,735.7 million for the nine months ended 31 December 2018 from Rs.70,033.0 million for the nine months ended 31 December 2017. The increase in total operating expenses was due to an increase in staff expenses due to increased salaries and a normal increase in other operating expenses.
- The Issuer's total provisions and contingencies decreased by Rs.4,272 million, or 5.98 per cent., to Rs.67,188.60 million for the nine months ended 31 December 2018 from Rs.71,460.60 million for the nine months ended 31 December 2017. The decrease in total provisions (other than tax) and contingencies was due to a decrease in provisions on NPAs.
- The Issuer's net profit increased by Rs.2,610.2 million, or 40.94 per cent., to Rs. 8,985.5 million for the nine months ended 31 December 2018 from Rs.6,375.3 million for the nine months ended 31 December 2017. The increase in net profit was due to a decrease in total provisions and contingencies.
- The Issuer's other liabilities and provisions increased by Rs.36,370.4 million, or 25.04 per cent., to Rs.181,641.5 million as at 31 December 2018 as compared to Rs.145,271.1 million as at 31 March 2018. The increase in other liabilities and provisions was due to an increase in accrued interest on deposit, standard asset provision, provision for security receipt and other liabilities and provisions.
- The Issuer's total investments increased by Rs.108,684.9 million, or 7.66 per cent., to Rs.1,526,945.2 million as at 31 December 2018 as compared to Rs.1,418,260.3 million as at 31 December 2017.

MANAGEMENT

Board of Directors

After the Bank was nationalised in July 1969, a Board of Directors (the “**Board of Directors**”) was constituted in accordance with the Banking Regulation Act, 1949, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 and Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1980. The constitution of the Board of Directors of the Bank also complies with various amendments made to the abovementioned acts and schemes including the Financial Institutions Laws (Amendment) Act, 2006 and the Nationalised Banks (Management and Miscellaneous Provisions) Amendment Scheme, 2007.

Sub-section 3 of section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 prescribes that:

“Every Board of Directors shall include:

- (a) not more than four whole-time directors;
- (b) one director who is an official of the Government provided that no such director shall be a director of any other corresponding new bank;
- (c) one director possessing necessary expertise and experience in matters relating to regulation or supervision of commercial banks, to be nominated by the Government on the recommendation of the RBI;
- (d) one director, from among such of the employees who are workmen;
- (e) one director, from among the employees who are not workmen;
- (f) one director who has been a chartered accountant for not less than 15 years;
- (g) not more than six directors to be nominated by the Government;
- (h) where the capital issued to shareholders other than the Government is:
 - (i) not more than 16.00 per cent. of total paid-up capital, one director;
 - (ii) more than 16.00 per cent. but not more than 32.00 per cent., two directors; or
 - (iii) more than 32.00 per cent., three directors,

to be elected by the shareholders other than the Government from amongst themselves.”

The Board of Directors is headed by the Chairman of the Bank. The Chairman, Managing Director and Chief Executive Officer (“**MD and CEO**”) and the Executive Directors are appointed by the Government. The remaining Directors are non-executive Directors that represent the Government, the RBI, shareholders and the workmen and non-workmen staff of the Bank. The non-executive Directors are comprised of individuals with backgrounds in various fields such as economics, agriculture and industry. The Directors representing shareholders of the Bank other than the Government are independent Directors as defined in the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

As at the date of this Offering Circular, the MD and CEO post remains vacant following the superannuation of Shri. Rakesh Sharma on 31 July 2018. The Government is still in the process of appointing a new MD and CEO of the Bank. As of the date of this Offering Circular, the Board of Directors comprised of the following members:

Name	Designation
Shri. T. N. Manoharan	Chairman
Shri. Matam Venkata Rao	Executive Director
Shri. Debashish Mukherjee	Executive Director
Ms. A. Manimekhala	Executive Director
Shri. Suchindra Misra	Nominee of Government
Smt. Uma Shankar	Nominee of RBI
Shri. Krishnamurthy H	Shareholder Director
Shri. Venkatachalam Ramakrishna Iyer	Shareholder Director

The Board of Directors meets regularly based on the requirements of the Bank. During the fiscal year ended 31 March 2018, the Board of Directors held 15 meetings. The Board of Directors held 13 meetings during the nine months ended 31 December 2018.

The profile of Directors on the Board as at the date of this Offering Circular is as follows:

Profile of Directors

Shri. T. N. Manoharan was appointed as the non-executive Chairman of the Bank with effect from 14 August 2015 for three years and subsequently extended for a period of two years till 13 August 2020. He holds a post graduate in commerce, a graduate degree in law and is a fellow Chartered Accountant with 32 years of experience. He was the President of the Institute of Chartered Accountants of India (“**ICAI**”) during 2006-2007 and is founder partner of M/s Manohar Chowdhry & Associates. Shri. Manoharan was previously associated with the central statutory audit department of the Corporation Bank and has around two decades of experience auditing branches of various public sector banks such as the Indian Overseas Bank, Punjab National Bank and the Indian Bank.

Additionally, Shri. Manoharan was the Chairman of the Committee on Education and Centre for Excellence of South Asian Federation of Accountants for the year 2004, a member of the International Accounting Education Standards Board of IFAC during 2006-2007, Chairman of the National Committee on Accounting Standards constituted by the Confederation of Indian Industry (“**CII**”) during 2009-2011, a board member of the Insurance Regulatory and Development Authority (“**IRDA**”) for the year 2006, a member of the advisory “Board on Banks, Commercial and Financial Frauds” constituted by the Central Vigilance Commission during 2012-2014 and a member of the Appellate Authority, constituted by the Government with reference to the disciplinary mechanism for chartered accountants during 2011-2014. He has authored books for professionals and students on Indian Tax law.

Further, Shri. Manoharan was nominated by the Government as a Special Director for revival of the Satyam Computer Services Company from 2009 to 2012 and was a recipient of many awards including but not limited to the “Business Leadership Award” of NDTV Profit in October 2009 and “Indian of the year 2009” by CNN IBN. He was conferred the “Padma Shri” (the fourth highest civilian award) by the President of India on 7 April 2010.

Shri. Matam Venkata Rao was appointed an Executive Director of the Bank with effect from 9 October 2017 and up to 8 October 2020 (i.e., the date of his attaining the age of superannuation or until further orders, whichever is earlier), by Government notification dated 9 October 2017. He holds a post graduate degree in Agriculture and is a Certified Associate of the Indian Institute of Bankers. Shri Rao has over 30 years of experience in various areas of banking. Shri Rao started his banking career in Allahabad Bank as Agricultural Field Officer in 1988 and has worked in different geographical areas of India and in various capacities including as general manager, as well as heading Allahabad Bank's departments such as corporate credit, debt restructuring and retail banking. Shri Rao was also instrumental in launching a transformative project in Allahabad Bank that focused on asset centric banking.

Shri. Debashish Mukherjee was appointed an Executive Director of the Bank with effect from 19 February 2018 and up to 18 February 2021 (i.e., the date of his attaining the age of superannuation or until further orders, whichever is earlier), by Government notification dated 19 February 2018. He holds a masters of business administration in finance. Shri Mukherjee has over 25 years of experience in various areas of banking. He started his banking career with Punjab National Bank as a financial analyst in 1994. He joined United Bank of India as an assistant general manager (credit) in 2006 where he worked in various capacities at the regional offices, headed the corporate finance branch at Kolkata, served as the regional manager of Bihar region and was the General Manager in 2012.

Ms. A. Manimekhala was appointed as an executive Director of the Bank with effect from 12 February 2019 and up to 11 February 2022 (i.e., the date of her attaining the age of superannuation or until further orders, whichever is earlier), by Government notification dated 11 February 2019. Ms. Manimekhala has over 30 years of experience in various areas of banking. She started her banking career with Vijaya Bank as an officer and has worked in various capacities including branch head, regional office head, functional head of various departments at Vijaya Bank and as General Manager.

Shri. Suchindra Misra, currently a Government nominee director, was nominated to the Board on 14 June 2016. He holds a bachelor's degree in science and a post graduate diploma in business management in marketing finance. As of the date of this Offering Circular, he is the Joint Secretary at the Department of Financial Services, Ministry of Finance, Government where he joined the Defence Accounts department on 19 October 1992.

Smt. Uma Shankar, currently a Government nominee director, was nominated to the Board on 23 February 2015 as a Director representing the RBI. She holds a masters degree in arts and is a certified associate of the Indian Institute of Bankers. Smt. Shankar started her career as a direct recruit Grade B officer in 1982 and held important posts in various capacities and departments of the RBI in Chennai, Hyderabad, Mumbai and Bangalore. As of the date of this Offering Circular, she is an Executive Director of the RBI, Mumbai. Previously she also acted as the Regional Director of the RBI, Bangalore, Chief General Manager, Department of Currency Management, RBI, Mumbai as well as served on the boards of Corporation Bank and UCO Bank.

Shri. Krishnamurthy H, currently a Director nominated by the Bank's Shareholders, was appointed to the Board on 27 July 2016. He holds a masters degree in engineering and was the chief research scientist at the Indian Institute of Science, Bengaluru. His areas of interest include banking technologies including communications and networking in particular.

Shri Venkatachalam Ramakrishna Iyer, currently a Director nominated by the Bank's Shareholders, was appointed to the Board on 27 July 2016. He holds a bachelor's degree in science and is a Certified Associate of the Indian Institute of Bankers and is a retired Deputy Managing Director of State Bank of India. Previously he was the nominee director on the boards of SBI General Insurance Company Limited and SBI Global Factors Private Limited. As of the date of this Offering Circular, he is a nominee director of SBI in Usha Martin Limited, Kolkata.

Committees

The Bank has the following committees of the Board: (1) Management Committee, (2) Audit Committee, (3) Stakeholders' Relationship Committee, (4) Special Committee of the Board for monitoring and following up on cases of frauds involving amounts of Rs.10 million and above, (5) Customer Service Committee, (6) Risk Management Committee, (7) Remuneration Committee, (8) Nomination Committee and (9) Committee for Monitoring Recovery.

Management Committee

The Management Committee of the Board (the "**Management Committee**") is constituted as per the provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and exercises all the powers vested in the Board in respect of such matters as financial sanctions, compromises, approval of capital and revenue expenditures, acquisition and hiring of premises, write-off proposals and the filing of suits and appeals, investment, donations and any other matter referred to or delegated to the Committee. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the Management Committee which consists of five members made up of three Executive Directors, the RBI Nominee Director and one Shareholder Director. This committee met 19 times during the fiscal year ended 31 March 2018 and met 18 times during the nine months ended 31 December 2018. The functions of the Management Committee include, but are not limited to, the consideration of credit, loan compromise and write-off proposals, the approval of capital and revenue expenditure, the acquisition and hiring of premises, the filing and defending of suits or appeals, investment in Government and other approved securities, shares and debentures of companies, including underwriting and donations.

Audit Committee

The Audit Committee of the Board (the "**Audit Committee**") was constituted by the Board of Directors as per the instructions of the RBI. The Audit Committee provides direction and also oversees the operation of the total audit function in the Bank. The total audit function includes the organisation, operationalisation and quality control of internal audit and inspection within the Bank including any follow-up, as required, on the statutory and external audit of the Bank and the inspection of the RBI. The Audit Committee also reviews the internal inspection and audit functions in the Bank, including its system, its quality and its effectiveness in terms of follow-up. It reviews the inspection reports of specialised and extra-large branches and all branches with unsatisfactory ratings. In particular, it focuses on the follow-up of:

- inter-branch adjustment accounts;
- unreconciled long outstanding entries in interbank accounts and nostro accounts;
- arrears in the balancing of books at various branches;
- fraud; and
- all other major areas of housekeeping, such as the review of reports received from the Bank's compliance department and dealing with inter-branch adjustment accounts.

As of the date of this Offering Circular, Shri Krishnamurthy H is the chairman of the Audit Committee which consists of five members made up of the Chairman, one Executive Director, the Government Nominee Director, the RBI Nominee Director and one Shareholder Director. The Audit Committee met 13 times during the fiscal year ended 31 March 2018 and met 19 times during the nine months ended 31 December 2018. According to its internal policies, the Audit Committee must meet at least six times a year.

Stakeholders' Relationship Committee

In accordance with SEBI guidelines on Corporate Governance and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, a Shareholders' Relationship Committee of the Board (the "**Stakeholders' Relationship Committee**") was constituted by the Board in 2002. The Stakeholders' Relationship Committee is responsible for redressing the grievances of the shareholders and investors pertaining to the transfer of shares, non-receipt of balance sheets, non-receipt of dividends and other shareholding related matters. As of the date of this Offering Circular, Shri. Venkatachalam Ramakrishna Iyer is the chairman of the Stakeholders' Relationship Committee which consists of three Executive Directors and two Shareholder Directors. The Stakeholders' Relationship Committee met twice during the fiscal year ended 31 March 2018 and met one time during the nine months ended 31 December 2018.

Special Committee of the Board for Monitoring and Following up Cases of Frauds Involving Amounts of Rs.10 million and above

This special committee (the "**Special Committee (Frauds)**") was established in January 2004 with the main function of monitoring and reviewing potential cases of fraud amounting to Rs.10 million and above. In particular, the Special Committee (Frauds) seeks to:

- identify the reasons for any delay in the detection and reporting of potential fraud cases to the Management Committee and the RBI;
- monitor the progress of crime investigation and actions taken by the relevant law enforcement agencies;
- examine and ensure staff accountability at all levels of the Bank and to take immediate action if appropriate;
- review the efficacy of remedial action taken by the Bank to prevent the recurrence of fraud cases; such remedial actions include, but are not limited to, strengthening the Bank's internal control systems; and
- establish other measures as may be considered relevant to strengthen the Bank's preventive measures against potential fraud cases.

As of the date of this Offering Circular, Shri. T. N. Manoharan is the chairman of the Special Committee (Frauds) which consists of the Chairman, three Executive Directors, the Government Nominee Director and two Shareholder Directors. The Special Committee (Frauds) Committee met twice during the fiscal year ended 31 March 2018 and met twice during the nine months ended 31 December 2018.

Customer Service Committee

With a view to strengthening the corporate governance structure in the banking system, the RBI recommended the establishment of a permanent customer service committee of the Board of each bank that is dedicated to bringing about ongoing improvement in the quality of service provided by banks. In response to the RBI's recommendations, the Bank established its Standing Committee on Customer Service (formerly known as the Adhoc Committee) in 2004, and its Customer Service Committee (the "**Customer Service Committee**") in 2004. The functions of the Standing Committee on Customer Service include, but are not limited to, reviewing the regulations and procedures prescribed by the RBI on customer service and making appropriate recommendations to the Bank, reviewing the Bank's Customer Service System and simplifying the Bank's procedures and practices for handling requests from customers. The Customer Service

Committee oversees the functioning of the Standing Committee on Customer Service, including compliance with the recommendation of the Adhoc Committee on Procedure and Performance Audit on Public Services. It also implements measures to enhance the quality of customer service and improve the level of customer satisfaction. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the Customer Service Committee which consists of the Chairman, three Executive Directors and one Shareholder Director. The Customer Service Committee met four times during the fiscal year ended 31 March 2018 and met three times during the nine months ended 31 December 2018.

Risk Management Committee

The Risk Management Committee (the “**Risk Management Committee**”) was established for the purposes of monitoring risk management of the Bank. The Risk Management Committee has the overall responsibility of deciding the risk management policy of the Bank and set limits for liquidity, interest rate, foreign exchange and equity price risks. The functions of this committee are to co-ordinate, review and monitor the functioning of the Credit Policy Committee (“**CPC**”), which deals with credit risk related matters and the Asset Liability Management Committee (“**ALCO**”), which deals with market risk. The Risk Management Committee devises the policy and strategy for integrated risk management containing various risk exposures of the Bank including credit risk. For this purpose, this committee coordinates between the Credit Risk Management Committee (“**CRMC**”), the ALCO and other risk committees of the Bank, if any. As of the date of this Offering Circular, Shri. T. N. Manoharan is the chairman of the Risk Management Committee which consists of the Chairman, three Executive Directors and two Shareholder Directors. The Risk Management Committee meets bi-monthly. The Risk Management Committee met nine times during the fiscal year ended 31 March 2018 and met nine times during the nine months ended 31 December 2018.

Remuneration Committee

The Board of the Bank formed a Remuneration Committee (the “**Remuneration Committee**”) to evaluate the performance as per the Government’s guidelines in respect of performance-linked incentives to full-time Directors. As of the date of this Offering Circular, Shri. T. N. Manoharan is the chairman of the Remuneration Committee which consists of the Chairman, the Government Nominee Director, the RBI Nominee Director and two Shareholder Directors. The Remuneration Committee did not meet during the fiscal year ended 31 March 2018 and the nine months ended 31 December 2018 as the performance of key executives of PSBs will be evaluated by a Committee chaired by Secretary (Financial Services) in line with Department of Financial Services of the Ministry of Finance of the Government letter No.12/1/2014-BOA dated 18 August 2015.

Nomination Committee

The Nomination Committee (the “**Nomination Committee**”) was formed on 30 November 2007 as per the orders of the Board based on the Notification No. DBOB.No.BC.No.47/29.39.001/2007-2008 dated 1 November 2007 of the RBI. The main function of this committee is to determine the fit and proper status of the existing elected Directors or proposed candidates based on broad criteria such as educational qualification, experience and field of expertise, track record and integrity. As of the date of this Offering Circular, Shri. T. N. Manoharan is the chairman of the Nomination Committee which consists of the Chairman and the Government Nominee Director. The Nomination Committee meets as and when required. The committee did not meet during the fiscal year ended 31 March 2018 and the nine months ended 31 December 2018. There was no requirement to conduct any meetings during this period as the existing shareholders directors had been previously elected for a period of three years which was only due to expire from 26 July 2019.

Committee for Monitoring Recovery

The Committee for Monitoring Recovery (the “**Committee for Monitoring Recovery**”) was formed as per the guidelines of the Government and the orders of the Board dated 3 December 2012. The main functions of the Committee for Monitoring Recovery are to monitor the Bank’s recovery progress on a regular basis and to submit reports to the Board on a monthly basis. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the Committee for Monitoring Recovery which consists of three Executive Directors, the Government Nominee Director and one Shareholder Director. The Committee for Monitoring Recovery met 11 times during the fiscal year ended 31 March 2018 and met eight times during the nine months ended 31 December 2018.

Sub-committees

The Bank has the following sub-committees of the Board: (1) Sub-committee of the Board for monitoring the progress in implementation of information technology in the Bank, (2) Sub-committee of the Board on Human Resources, (3) Sub-committee for voting for Shareholder Directors in other institutions, (4) Sub-committee of the Board for sustainable development and corporate social responsibility, (5) Sub-committee of the Board for capital planning process, (6) Sub-committee of the Board for the review of wilful defaulters, (7) Sub-committee of the Board for the implementation of business plan strategy, (8) Sub-committee of the Board for the monetisation of non-core assets of the Bank and (9) Sub-committee of the Board for rights issues.

Sub-committee of the Board for Monitoring the Progress in Implementation of Information Technology in the Bank

The Sub-committee of the Board for monitoring the progress in implementation of information technology in the Bank (the “**IT Sub-committee**”) was established in June 2003. The functions of the IT Sub-committee are advisory in nature. In addition to monitoring the Bank’s progress in implementing information technology, this sub-committee provides guidance and recommendations, and suggest changes in the relevant systems and procedures if any, in order to facilitate progressive and effective implementation of information technology throughout the Bank. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the IT Sub-committee which consists of three Executive Directors and two Shareholder Directors. The IT Sub-committee met eight times during the fiscal year ended 31 March 2018 and met five times during the nine months ended 31 December 2018.

Sub-committee of the Board on Human Resources

The Sub-committee of the Board on Human Resources (the “**HR Sub-committee**”) was formed to discuss, review and suggestions on various HR related issues. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the HR Sub-committee which consists of the Chairman, three Executive Directors, the Government Nominee Director and two Shareholder Directors. The HR Sub-committee met six times during the fiscal year ended 31 March 2018 and met seven times during the nine months ended 31 December 2018.

Sub-committee for Voting for Shareholder Directors in other Institutions

The Sub-committee of the Board for Voting for Shareholder Directors in other Institutions (the “**Shareholder Directors Sub-committee**”) was constituted in line with the Department of Financial Services of the Ministry of Finance of the Government letter No.16/11/2012-BO-I dated 3 April 2012 and the Board orders dated 10 September 2012. The main function of the Shareholder Directors Sub-committee is to: (i) carefully consider the qualification, experience, profile and background of the various candidates and take a decision in supporting the candidates in the election as Shareholder Directors in various companies including financial institutions and public sector banks where the Bank has equity and (ii) ensure that only those persons with specific

authorisation by name for a particular institution are permitted to exercise their voting rights. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the Shareholder Directors Sub-committee which consists of the three Executive Directors and two Shareholder Directors. The Shareholder Directors Sub-committee did not meet during the fiscal year ended 31 March 2018 as the frequency of meeting of the committee is as and when required and the Shareholder Directors Sub-committee met once during the nine months ended 31 December 2018.

Sub-committee of the Board for Sustainable Development and Corporate Social Responsibility

The Sub-committee of the Board for sustainable development and corporate social responsibility (the “**Sustainable Development and CSR Sub-committee**”) was constituted in line with the Companies Act, 2013. The main function of the Sustainable Development and CSR Sub-committee is to (i) oversee the implementation and monitoring of Sustainability and CSR activities of the Bank and (ii) examine the proposals and requests and to determine their approval or rejection within the overall corporate social responsibility budget sanctioned by the Board. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the Sustainable Development and CSR Sub-committee which consists of the two Executive Directors and one Shareholder Director. The Sustainable Development and CSR Sub-committee met twice during the fiscal year ended 31 March 2018 and met once during the nine months ended 31 December 2018.

Sub-committee of the Board for Capital Planning Process

The Sub-committee of the Board for capital planning process (the “**Capital Planning Process Sub-committee**”) was constituted in line with the remarks of the RBI, made during the Risk Based Supervision for the financial year 2013-14 and Board orders dated 30 April 2015. The main function of the Capital Planning Process Sub-committee is to (i) oversee the capital planning proves, (ii) ensure that capital to risk weighted assets ratio is maintained above the minimum regulatory requirement along with the prescribed norms, (iii) recommend quantum, mode and types of capital raising, as per the requirement and (iv) ensure compliance of instructions and directions of the Ministry of Finance, the RBI and any other statutory body in the matter relating to issues pertaining to capital. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the Capital Planning Process Sub-committee which consists of the three Executive Directors and two Shareholder Directors. The Capital Planning Process Sub-committee met once during the fiscal year ended 31 March 2018 and met twice during the nine months ended 31 December 2018.

Sub-committee of the Board for the Review of Wilful Defaulters

The Sub-Committee of the Board for the review of wilful defaulters (the “**Review of Wilful Defaulters Sub-committee**”) was constituted in line with revised guidelines of the RBI dated 7 January 2015 on Policy for identification of Wilful Defaulters and Board orders dated 9 March 2015. The main function of the Review of Wilful Defaulters Sub-committee is to review the orders of the Committee for Identification and Grievance Redressal of Wilful Defaulter. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the Review of Wilful Defaulters Sub-committee which consists of one Executive Director and two Shareholder Directors. The Review of Wilful Defaulters Sub-committee met four times during the fiscal year ended 31 March 2018 and met twice during the nine months ended 31 December 2018.

Sub-committee of the Board for the Implementation of Business Plan Strategy

The Sub-committee of the Board for the implementation of business plan strategy (the “**Business Plan Strategy Sub-committee**”) was constituted in line with the Ministry of Finance communication on Roles and Responsibilities of the Chairman of PSBs F.No.4/4/2015-B.O.I (pt) dated 18 August 2015 and the Board Orders dated 31 August 2015. The main function of the Business Plan Strategy Sub-committee is to discuss the business plan strategy of the Bank, with specific reference to resources mobilisation, credit, asset quality management and marketing of Bank’s products. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the Business Strategy Plan Sub-committee which consists of the Chairman, three Executive Directors and one Shareholder Director. The Business Strategy Plan Sub-committee met four times during the fiscal year ended 31 March 2018 and met three times during the nine months ended 31 December 2018.

Sub-committee of the Board for the Monetisation of Non-Core Assets of the Bank

The Sub-committee of the Board for the monetisation of non-core assets of the Bank (the “**Monetisation of Bank’s Non-Core Assets Sub-committee**”) was constituted in line with the Department of Financial Services of the Ministry of Finance of the Government letter No.11/4/2012 (Part-II) BOA dated 21 January 2015 and the Board orders dated 12 July 2016. The main function of the Monetisation of Bank’s Non-Core Assets Sub-committee is to consider all options for monetisation of non core assets of the Bank including subsidiaries and associates and advise in this aspect. As of the date of this Offering Circular, Shri. Debashish Mukherjee is the chairman of the Monetisation of Bank’s Non-Core Assets Sub-committee which consists of the Chairman, three Executive Directors and two Shareholder Directors. The Monetisation of Bank’s Non-Core Assets Sub-committee met seven times during the fiscal year ended 31 March 2018 and met once during the nine months ended 31 December 2018.

Sub-committee of the Board for Rights Issues

The Sub-committee of the Board for rights issues (the “**Rights Issues Sub-committee**”) was constituted in line with the Board order dated 23 September 2016. The main function of the Rights Issues Sub-committee is to decide and permit on: (a) terms, (b) timing, (c) pricing and (d) and other modalities of the rights issue as required under SEBI guidelines. As of the date of this Offering Circular, Shri. Matam Venkata Rao is the chairman of the Rights Issues Sub-committee which consists of the Chairman, three Executive Directors and two Shareholder Directors. The Rights Issues Sub-committee did not meet during the fiscal year ended 31 March 2018 and during the nine months ended 31 December 2018 as the Bank has not had any rights issues during this period. The Rights Issues Sub-committee shall meet as and when required.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN INDIAN GAAP AND IFRS

The Financial Statements of the Issuer included in this Offering Circular have been prepared in accordance with the accounting policies followed by the Issuer which conform to Indian GAAP as applicable to the Issuer. The following is a general summary of certain principal differences between Indian GAAP and IFRS as applicable to the Issuer. The differences identified below are limited to those significant differences that are appropriate to the Issuer's financial statements. However, they should not be construed as being exhaustive, and no attempt has been made to identify possible future differences between Indian GAAP and IFRS as a result of prescribed changes in accounting standards nor to identify future differences that may affect the Issuer's financial statements as a result of transactions or events that may occur in the future.

	IFRS	INDIAN GAAP
1 Contents of financial statements – General	A complete set of financial statements comprises a balance sheet, statement of comprehensive income, cash flow statement and statement showing changes in equity as of and for the last two fiscal years, accounting policies and other explanatory notes to financial statements with corresponding figures from the previous year.	A complete set of financial statements normally includes a balance sheet, profit and loss account and cash flow statement as of and for the last fiscal year, accounting policies and notes to financial statements. The presentation of these financial statements differs in certain respects compared to IFRS.
2 Contents of financial statements – Disclosures	<p>No particular format is prescribed for the income statement. However, an analysis of expenses must be presented in one of two formats (function or nature). Certain items must be presented on the face of the income statement.</p> <p>Similarly, no particular format is prescribed for the balance sheet; an entity may use a liquidity presentation of assets and liabilities, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Certain items must be presented on the face of the balance sheet.</p>	<p>Listed entities are required to produce consolidated financial statements and the related notes along with standalone financial statements.</p> <p>The Indian Companies Act prescribes the balance sheet format. There is no prescribed format for the profit and loss account but there are disclosure standards for income and expenditure items. In the case of banks, the format of the balance sheet and profit and loss account is prescribed in Schedule 3 to the Banking Regulations Act. Further, the RBI prescribes various disclosures from time to time.</p>

	IFRS	INDIAN GAAP
	<p>However, banks shall present an income statement which groups income and expenses by nature and disclose the amounts of principal types of income and expenses.</p> <p>Further, banks shall present a balance sheet that groups assets and liabilities by nature and lists them in order that reflects their relative liquidity.</p>	
3 Correction of errors	Mandatory restatement of comparative amounts for the prior year period(s) presented in which errors, including frauds, have occurred.	No restatement. The nature and amount of prior period items should be separately disclosed in the current year's profit and loss and the effect of the error must also be disclosed.
4 Changes in accounting policies	Retrospective application requiring the entity to adjust each affected component of equity for the earliest period presented, except where impracticable to do so.	Impact of and adjustments resulting from the change to be shown in the income statement of the period in which the change is made except as specified in certain standards where the change resulting from adoption of such standards has to be shown by an adjustment in the opening retained earnings.
5 Statement of Comprehensive Income	<p>The total of gains and losses recognised in a period is comprised of net income together with the following gains and losses which are recognised directly in equity:</p> <ul style="list-style-type: none"> • revaluation increase/decrease; • fair value gains/(losses) on land and buildings, available for sale, investments and certain financial instruments; • foreign exchange translation differences; • the cumulative effect of changes in accounting policy; and 	<p>No concept of comprehensive income. However, accounting standards, statute and industry practices allow for certain adjustments in reserves.</p> <p>RBI specifically requires gain on sale of held-to-maturity securities to be appropriated from the profit/loss account to capital reserve net of taxes.</p>

	IFRS	INDIAN GAAP
	<ul style="list-style-type: none"> • changes in fair values of certain financial instruments if designated as cash flow hedges, net of tax, and cash flow hedges reclassified to income and/or the relevant hedged asset/liability. <p>Recognised gains and losses can be presented either in the notes to financial statements or highlighted separately within the primary statement of changes in shareholders' equity.</p>	
6 Statement of Changes in Shareholder's Equity	<p>The statement must be presented as a primary statement.</p> <p>The statement must show capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity.</p>	<p>No separate statement required. However, any adjustments to equity and reserve account must be shown in the schedules that accompany the financial statements.</p>
7 Cash-flow statement – Formats and method	<p>Headings are standardised but there is a limited flexibility over content. Direct or indirect method may be used.</p>	<p>Headings are standardised and the direct or indirect method may be used. Banks in India generally use the indirect method.</p>
8 Cash-flow statements – Definition of cash & cash equivalents	<p>Cash and cash equivalents include overdrafts repayable on demand and investments with original short-term maturities (less than three months).</p>	<p>Cash includes cash on hand and demand deposits with bank and cash equivalents are short-term, highly liquid investments that readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.</p>

	IFRS	INDIAN GAAP
9 Consolidation of subsidiaries	<p>The consolidated financial statements include all subsidiaries of the parent. IFRS focuses on the concept of the power to control in determining whether a parent-subsidiary relationship exists.</p> <p>Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist where the parent company owns, directly or indirectly through subsidiaries, more than one half of the voting power of an enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control can also exist in certain situations where the parent company owns one half or less of the voting power of an enterprise.</p> <p>Companies acquired (disposed off) are included in (excluded from) consolidation from the date on which control passes. Presently exercisable potential voting rights should also be considered. A subsidiary which meets the criteria to be classified as held for sale in accordance with IFRS 5 should be shown as an asset held for sale rather than being consolidated.</p> <p>A subsidiary can be excluded when there is evidence that control is intended to be temporary and such a subsidiary should be shown as an asset held for sale.</p>	<p>Consolidation is required only in the case of listed companies and when there is controlling interest, directly or indirectly through subsidiaries, by virtue of holding the majority of the voting shares of an enterprise or controlling the board of directors of an enterprise except in case of entities such as gratuity trust where the objective is not to obtain economic benefits from their activities.</p> <p>A subsidiary should be excluded from consolidation when:</p> <ul style="list-style-type: none"> • control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or • it operates under severe long-term restrictions that significantly impair its ability to transfer funds to the parent. <p>The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.</p> <p>In separate financial statements of banks, investments in such subsidiaries should be accounted for in accordance with guidelines prescribed by the RBI.</p>

	IFRS	INDIAN GAAP
10 Accounting for joint ventures in the form of a jointly controlled entity	<p>Both the proportional consolidation method and equity method are permitted.</p> <p>A venturer with an interest in a jointly controlled entity is exempted from proportionate consolidation and equity method accounting when it meets the following conditions:</p> <ul style="list-style-type: none"> • there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer; • the exception in paragraph 10 of IAS 27 Consolidated and Separate Financial Statements allowing a parent that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable; or • all of the following apply: <ul style="list-style-type: none"> • the venturer is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the venturer not applying proportionate consolidation or the equity method; 	<p>In its separate financial statements, the venturer must recognise its interest in a joint venture as an investment. In the consolidated financial statements, the venturer should consolidate the joint venture in case it is a subsidiary or else report its interest in the jointly controlled entity using the proportionate consolidation method.</p>

- the venturer's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- the venturer did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and
- the ultimate or any intermediate parent of the venturer produces consolidated financial statements available for public use that comply with IFRS.

Interests in jointly controlled entities that meet the condition mentioned above shall be classified as held for trading and accounted for in accordance with IAS 39.

	IFRS	INDIAN GAAP
11 Presentation of associate results	Equity method must be used. Presentation must show share of post-tax results.	Similar to IFRS. However, the accounting for associate results using the equity method was not required under Indian GAAP until 1 April 2003. Upon transition to the equity method from the cost method, an increase in Investment in Associate in Shareholders' Equity should be recorded as an adjustment to reserves for the period of change.
12 Employee benefits – Defined benefit plans – pension costs	Actuarial assumptions required to measure the obligation, must use the projected unit credit method to determine benefit obligation. Use of Corridor approach and hence all actuarial gains and losses are not recognised in the statement of comprehensive income.	The equity method of accounting is not required in the separate/standalone financial statements of the investor. However, AS15 (revised 2005) requires the use of projected credit unit method to determine benefit obligation.
13 Employee benefits – Other	Post retirement benefits are accounted for in a similar manner to pensions. Rules also given for termination benefits arising from redundancies and other post-employment benefits (short-term and long-term). Account for termination indemnity plans as pensions.	AS15 (revised 2005) (mandatory with effect from 1 April 2006) provides for disclosure of general description of the type of plan, reconciliation of opening and closing balances of various parameters, description of accounting policies for recognising actuarial gains/losses, total expense recognised in the profit and loss account etc. AS 15 (revised 2005) (mandatory with effect from 1 April 2006) provides rules for termination benefits arising from redundancies and other post-employment benefits (short-term and long-term).

	IFRS	INDIAN GAAP
14 Property, plant and equipment	<p>Use historical cost or revalued amounts.</p> <p>Systematic revaluation of entire classes of assets are required when the revaluation option is chosen. Initial estimated cost of decommissioning, restoration and other obligations are treated as cost of acquisition.</p>	<p>Use historical cost or revalued amounts.</p> <p>Revaluation of an entire class of assets or of a selection of assets is carried out on a systematic basis. No current restriction on the frequency of valuation.</p>
15 Depreciation	<p>Allocated on a systematic basis to each accounting period over the economic useful life of the asset reflecting the pattern in which the entity consumes the asset's benefits.</p>	<p>The Indian Companies Act provides minimum rates of depreciation. If managements' estimate of useful life of a fixed asset is shorter than depreciation rates as per the Companies Act, depreciation is provided at a higher rate based on the managements' estimate of useful life of the asset.</p>
16 Capitalisation of borrowing costs	<p>Permitted for qualifying assets but not required.</p> <p>Capitalisation rate is to be disclosed.</p>	<p>Compulsory when relates to the construction of certain assets.</p>
17 Deferred expenditure	<p>Costs in respect of any start up are expensed as incurred.</p> <p>Costs for advertising are expensed as incurred.</p> <p>Equity issue costs should be accounted for as a deduction from equity (net of any related income tax benefit).</p>	<p>Costs are not allowed to be deferred unless permitted by RBI.</p> <p>Equity issue costs can be adjusted against the securities premium account to the extent available as provided for by the Companies Act.</p>
18 Provisions	<p>Recognise the provisions relating to present obligations from past events if the outflow of resources is probable and can be reliably estimated.</p> <p>Discounting required if the effect is material.</p>	<p>Similar to IFRS.</p> <p>Discounting is not permitted.</p>

	IFRS	INDIAN GAAP
19 Financial Assets – Classification	<p>Financial assets are to be classified as one of the following four categories depending on certain conditions to be satisfied for each category:</p> <ul style="list-style-type: none"> • financial asset or financial liability at fair value through profit or loss; • held to maturity investments; • loans and receivables; and • available-for-sale financial assets 	<p>AS-13, Accounting for Investments is not applicable to banks. The RBI has given guidelines for classification of investments into:</p> <ul style="list-style-type: none"> • held to maturity • available for sale and • held for trading. <p>Loans and advances are classified on the basis of the Income Recognition and Asset Classification standards of RBI.</p>
20 Financial Assets – Measurement	<p>Initially, a financial asset is measured at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.</p> <p>Subsequent recognition depends on the classification of the investment – if held to maturity investments and loan receivables, carry at amortised cost, using effective interest method otherwise state at fair value. Unrealised gains and losses on fair value through Profit or Loss classification (including trading securities) recognised in the income statement and on available-for-sale investments recognised in equity.</p>	<p>Investments are measured and valued on the basis of the guidelines issued by the RBI from time to time. Loans and advances are measured in accordance with the Income Recognition and Asset Classification standards of the RBI.</p> <p>Investments classified as AFS or HFT are measured at lower of cost or market value and those classified as HTM are measured at amortised cost.</p>

	IFRS	INDIAN GAAP
21 Financial liabilities – classification	<p>Capital instruments are classified depending on the substance of the obligations of the issuer.</p> <p>There are two categories of financial liabilities:</p> <ul style="list-style-type: none"> • financial liabilities at fair value through the Profit and Loss Account; and • others. <p>Preference shares that are mandatory to redeem are classified as liabilities.</p>	Generally accepted accounting practice follows legal form rather than substance.
22 Financial Liabilities – Measurement	<p>Initially, a financial liability is measured at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.</p> <p>After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:</p> <ul style="list-style-type: none"> • financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost; and 	Liabilities are recognised based on the legal obligation of the entity.

	IFRS	INDIAN GAAP
	<ul style="list-style-type: none"> • financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or is accounted for using the continuing involvement approach. <p>Financial liabilities that are designated as hedged items are subject to measurement under the hedge accounting requirements.</p>	
23 Debt Issue Costs	Direct incremental costs of issuing debt are reduced from debt and the debt is carried at amortised cost. Issue costs are included in the calculation of the effective interest rate over the life of the instrument.	Expensed as incurred.
24 Discount on issue of debt	Amortised as an adjustment to the yield.	Amortised on a straight line basis.
25 Dividends Paid	Dividends are recorded as liabilities when declared.	Dividends are recorded as liabilities when proposed.
26 Deferred Income taxes	Full provision method must be used (with some exceptions), driven by balance sheet temporary differences. Recognise deferred tax assets if recovery is probable.	<p>Deferred tax assets and liabilities should be recognised for all timing differences subject to consideration of prudence in respect of deferred tax assets. Where an enterprise has unabsorbed depreciation or carries forward losses under tax laws, deferred tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.</p> <p>Deferred tax assets are reassessed at each balance sheet date and are adjusted to reflect the amount that is reasonably or virtually certain to be realised.</p>

	IFRS	INDIAN GAAP
27 Post balance sheet events	Adjustments in the financial statements for events occurring after the balance sheet date, providing evidence of conditions at balance sheet date and materially affecting amounts in financial statements (adjusting events). Disclose non-adjusting events.	Similar to IFRS.
28 Interim financial reporting	<p>Not mandatory to prepare interim statements but must use standard if prepared. Basis should be consistent with the full-year statements and include comparatives.</p> <p>Publicly traded companies are encouraged to provide interim financial reports.</p>	<p>Interim financial reporting is not mandatory, but AS-25 “Interim Financial Reporting” under the accounting standards must be used.</p> <p>Basis should be consistent with the full year statements and included comparatives.</p>
29 Guarantees	Recognise a liability at fair value in the statement of financial position at the inception of the guarantee.	Guarantees must be disclosed as a contingent liability.
30 Related Party Disclosures	<p>Disclose the name of the related party and the nature of relationship and types of transactions. For control relationships, give disclosures regardless of whether the transactions occur.</p> <p>Some exemptions are available for separate financial statements of subsidiaries. The disclosures are quite exhaustive.</p>	<p>Similar to IFRS.</p> <p>RBI has also laid down guidelines for disclosure of related party transactions.</p>

THE INDIAN FINANCIAL SECTOR

The information presented in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government and its various ministries, the RBI and the Indian Banks Association, and has not been prepared or independently verified by the Bank, the Arranger, the Dealers, the Trustee or any of their affiliates or advisers.

Introduction

The RBI, the central banking and monetary authority of India, is the central regulatory and supervisory authority for Indian banks and non-banking finance companies. A variety of financial intermediaries in the public and private sectors participate in India's financial sector, including the following:

- commercial banks;
- small banks and payment banks
- long-term lending institutions;
- non-banking financial companies, including housing finance companies;
- other specialised financial institutions and state-level financial institutions;
- insurance companies; and
- mutual funds.

Until the 1990s, the Indian financial system was strictly controlled. Interest rates were administered by the Government. Formal and informal parameters governed asset allocation and strict controls limited entry into and expansion within the financial sector. Bank profitability was low, NPAs were comparatively high, capital adequacy was diminished and operational flexibility was hindered. The Government's economic reform programme, which began in 1991, encompassed the financial sector. The first phase of the reform process began with the implementation of the recommendations of the Committee on the Financial System, namely the Narasimham Committee I. Following that, reports were submitted in 1997 and 1998 by other committees, such as the second Committee on Banking Sector Reform, namely the Narasimham Committee II, and the Tarapore Committee on Capital Account Convertibility. This, in turn, led to the second phase of reforms relating to capital adequacy requirements, asset classification and provisioning, risk management and merger policies. The deregulation of interest rates, the emergence of a liberalised domestic capital market and the entry of new private sector banks have progressively intensified the competition among banks. Banks in India may be categorised as scheduled banks and non-scheduled banks, where the former are banks which are included in the second schedule to the RBI Act as amended. These banks comprise scheduled commercial banks and scheduled cooperative banks.

This discussion presents an overview of the role and activities of the RBI and of each of the major participants in the Indian financial system, with a focus on commercial banks. This is followed by a brief summary of the banking reform process along with the recommendations of various committees that have played a key role in the reform process. A brief discussion on the impact of the liberalisation process on long-term lending institutions and commercial banks is then presented. Finally, reforms in the non-banking financial sector are briefly reviewed.

The Reserve Bank of India

The RBI, established on 1 April 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934 (the “**RBI Act**”), is the central banking and monetary authority in India. Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government. The RBI manages the country’s money supply and foreign exchange and also serves as a bank for the Government and for the country’s commercial banks. In addition to these traditional central banking roles, the RBI undertakes certain developmental and promotional roles.

The RBI issues guidelines on exposure limits, income recognition, asset classification, provisioning for non-performing and restructured assets, investment valuation and capital adequacy for commercial banks, long-term lending institutions and non-banking financial companies. The RBI requires these institutions to furnish information relating to their businesses to it on a regular basis.

Commercial Banks

Commercial banks in India have traditionally focused on meeting the short-term financial needs of primary, secondary and tertiary sector. In recent years they have also focused on increasing long-term financing to sectors like infrastructure. As of 30 September 2018, there were 149 scheduled commercial banks in the country, including 56 regional rural banks (“**RRBs**”). Scheduled commercial banks are banks that are listed in the second schedule to the RBI Act and are further categorised as public sector banks, private sector banks and foreign banks. Scheduled commercial banks have a presence throughout India with a network of 149,447 branches, and approximately 61.3 per cent. of these branches were located in rural or semi-urban areas of the country as of 30 June 2018. A large number of these branches belong to the public sector banks.

Public Sector Banks

Public sector banks make up the largest category in the Indian banking system. They include the State Bank of India, 19 nationalised banks and 56 regional rural banks. Excluding the regional rural banks, the remaining public sector banks have 95,386 branches, and accounted for 61.73 per cent. of the outstanding gross bank credit and 66.88 per cent. of the aggregate deposits of scheduled commercial banks at 30 June 2018. The State Bank of India is the largest bank in India in terms of total assets. In one of the largest consolidations in the Indian banking industry, the State Bank of India merged the five of its associate banks (State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank of Raipur, State Bank of Travancore, State Bank of Hyderabad and Bhartiya Mahila Bank) into the Bank.

Regional rural banks were established from 1976 to 1987 by the central government, state governments and sponsoring commercial banks jointly with a view to develop the rural economy. Regional rural banks provide credit to small farmers, artisans, small entrepreneurs and agricultural labourers. The National Bank for Agriculture and Rural Development is responsible for supervising the functions of the regional rural banks. As of 30 June 2018, there were 56 regional rural banks and they had 22,083 branches, and accounted for 3.35 per cent. of aggregate deposits and 2.93 per cent. of gross bank credit outstanding of scheduled commercial banks.

Private Sector Banks

Most large banks in India were nationalised in 1969, resulting in public sector banks making up the largest portion of Indian banking. The Government’s focus on public sector banks was maintained throughout the 1970s and 1980s. In addition, existing private sector banks that showed signs of an eventual default were merged with state-owned banks. In July 1993, as part of the banking reform process and as a measure to induce competition in the banking sector, the RBI permitted entry of the private sector into the banking system. This resulted in the introduction

of private sector banks. These banks are collectively known as the “new” private sector banks. As at 31 March 2018 there were a total of 22 private banks. The Sangli Bank Limited, an unlisted “old” private sector bank merged, with ICICI Bank with effect from 19 April 2007. The Centurion Bank of Punjab merged with HDFC Bank in May 2008. The Bank of Rajasthan Limited, an “old” private sector bank, merged with ICICI Bank with effect from the close of business on 12 August 2010. On 1 April 2015, the RBI approved the merger of Kotak Mahindra Bank and ING Vysya Bank.

As at 30 June 2018, private sector banks, including the small finance banks, accounted for approximately 25.91 per cent. of aggregate deposits and 30.48 per cent. of gross bank credit outstanding of the scheduled commercial banks. Their network of 29,520 branches accounted for 19.69 per cent. of the total branch network of scheduled commercial banks in the country.

In February 2013, the RBI issued guidelines on the entry of “new” private sector banks into the banking industry, specifying that select entities or groups in the private sector, entities in the public sector or non-banking financial companies with a successful track record of at least ten years and not receiving over 10 per cent. of income from real estate, construction and/or broking activities are eligible to promote banks. The initial minimum capital requirement for these entities is Rs.5.0 billion, with foreign shareholding not exceeding 49.0 per cent. for the first five years, and the new banks could be set up only through a wholly owned non-operative financial holding company registered with the RBI. The business plan for the bank should cover a realistic plan for achieving financial inclusion.

The RBI also issued guidelines in November 2014 on the entry of “Small Finance Banks” and “Payments Banks” into the private sector in the banking industry, including the eligibility criteria, structure, capital requirements, shareholding structure and corporate governance practices applicable to such proposed entities. During fiscal year 2016, the RBI issued new bank licences to “Small Finance Banks” and “Payments Banks” in the private sector, which, apart from providing an impetus to financial inclusion, is expected to intensify competition in the banking sector in the medium term. As at 31 March 2017, two entities had functioning payment banks and four entities had approvals from the RBI for the setting-up of payment banks. In addition, six entities had a functioning small finance bank and one entity had approval to set up a small finance bank.

Foreign Banks

As of 30 June 2018, there are 45 foreign banks operating in India with a combined total of 299 branches. Foreign banks accounted for 4.19 per cent. of aggregate deposits and 4.44 per cent. of outstanding gross bank credit of scheduled commercial banks. In 2009, as part of the liberalisation process that accompanied the second phase of the reform process that began in 2005, the RBI began permitting foreign banks to operate more freely, subject to requirements largely similar to those imposed on domestic banks. The primary activity of most foreign banks in India has been in the corporate segment. However, some of the larger foreign banks have made retail banking a significant part of their portfolios. Most foreign banks operate in India through branches of the parent bank. Certain foreign banks also have wholly owned non-banking financial company subsidiaries or joint ventures for both corporate and retail lending. In 2004, the RBI stipulated that banks, including foreign banks operating in India, should not acquire any fresh stake in another bank’s equity shares if, by such acquisition, the investing bank’s holding would exceed 5.0 per cent. of the investee bank’s equity capital.

In February 2005, the Government and the RBI released the “Roadmap for Presence of Foreign Banks in India”, which laid out a two-track, gradual approach aimed at increasing the efficiency and stability of the banking sector in India. The first track was the consolidation of the domestic banking system, both in the private and public sectors; the second track was the gradual enhancement of the presence of foreign banks in a synchronised manner. The roadmap was divided into two phases, the first phase spanning the period from March 2005 to March 2009, and the second phase beginning in April 2009. However, the second phase was delayed due to the

global financial crisis in 2009. In January 2011, the RBI released a draft discussion paper on the mode of presence of foreign banks in India. The paper indicates a preference for a wholly owned subsidiary model of presence over a branch model.

Based on the comments received, the RBI in its annual policy statement for fiscal year 2012 stated that it was in the process of framing comprehensive guidelines in this regard. On 20 July 2012, the RBI revised priority sector lending guidelines for foreign banks. The RBI now requires foreign banks with 20 or more branches to achieve the same priority sector lending targets as domestic banks within the five-year period commencing on 1 April 2013. All other foreign banks will continue to be subject to the existing overall target of 32.0 per cent.

On 6 November 2013, the RBI issued a framework for the establishment of wholly owned subsidiaries (“WOS”) by foreign banks in India. The framework requires that foreign banks must establish a WOS to operate in India if they (i) have complicated holding structures, (ii) do not provide adequate disclosure in their home jurisdiction or (iii) are from jurisdictions that give a preferential claim to depositors of its home country in a winding-up proceeding. Banks not fitting these criteria may operate as either a branch or a WOS. The framework does not require existing foreign banks (which established a presence in India before 31 August 2010) to convert into a WOS. However, foreign banks are incentivised to convert into a WOS because the regulatory regime for a WOS is similar to that for local banks. For example, a foreign bank WOS would benefit from policies such as the lifting of nearly all branch expansion restrictions. However, foreign banks converting into a WOS would have to abide by the RBI’s 40 per cent. priority sector lending requirement and increase their involvement in the financing of sectors such as agriculture and small-scale industries, following an adequate transition period.

Co-operative Banks

Cooperative banks cater to the financing needs of agriculture, small industry and self-employed businessmen in urban and semi-urban areas of India. The state land development banks and the primary land development banks provide long-term credit for agriculture. In response to liquidity and insolvency problems experienced by some cooperative banks in fiscal year 2001, the RBI undertook several interim measures, pending formal legislative changes, including measures relating to lending against shares, borrowing in the call market and term deposits placed with other urban cooperative banks. Currently, the RBI is responsible for the supervision and regulation of urban cooperative banks, and NABARD for state co-operative banks and district central cooperative banks.

In its annual policy statement for fiscal year 2010, the RBI proposed expanding the area of operation of Tier II urban cooperative banks in Grade I to the entire state of registration with the prior approval of the RBI. It also proposed reviewing the existing instructions and issuing appropriate guidelines to urban cooperative banks on internal controls, risk management systems, asset liability management and disclosure norms and applying a capital charge for market risks in respect of large-sized and systemically important urban cooperative banks with effect from 1 April 2010. Urban cooperative banks that fulfil certain eligibility criteria are allowed direct access to the negotiated dealing system order matching, subject to obtaining prior approval from the RBI. This helps deepen the bond market by increasing the number of participants.

Long-Term Lending Institutions

The long-term lending institutions were established to provide medium-term and long-term financial assistance to various industries for setting up new projects and for the expansion and modernisation of existing facilities. These institutions provided fund-based and non-fund-based assistance to industry in the form of loans, underwriting, direct subscription to shares, debentures and guarantees. The primary long-term lending institutions included Industrial Development Bank of India (now IDBI Bank), IFCI Limited, the Industrial Investment Bank of India and ICICI prior to its amalgamation with ICICI Bank Limited.

The long-term lending institutions were expected to play a critical role in Indian industrial growth and, accordingly, had access to concessional Government funding. However, in recent years, the operating environment of the long-term lending institutions has changed substantially. Although the initial role of these institutions was largely limited to providing a channel for Government funding to industry, the reform process required such institutions to expand the scope of their business activities, including into:

- fee-based activities such as investment banking and advisory services; and
- short-term lending activity, including making corporate finance and working capital loans.

Pursuant to the recommendations of the Narasimham Committee II and the Khan Working Group in 1998, a working group was created in 1999 to harmonise the role and operations of long-term lending institutions and banks. The RBI, in its mid-term review of monetary and credit policy for fiscal year 2000, announced that long-term lending institutions would have the option of transforming themselves into banks subject to compliance with the prudential norms applicable to banks.

Several mergers resulted from this reform effort. In April 2002, ICICI merged with ICICI Bank. The Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003 converted the Industrial Development Bank of India into a banking company incorporated under the Companies Act, 1956 on 27 September 2004, with exemptions from certain statutory and regulatory norms applicable to banks, including an exemption for a certain period of time from the statutory liquidity ratio. IDBI Bank Limited, a public sector bank that was a subsidiary of the Industrial Development Bank of India, was merged with the Industrial Development Bank of India in April 2005. The long-term funding needs of Indian companies are now primarily met by banks, Life Insurance Corporation of India and specialised non-banking financial companies such as Infrastructure Development Finance Corporation. Indian banking companies also make bond issuances to institutional and retail investors.

Non-Banking Financial Companies

There are approximately 10,357 non-banking financial companies in India as of 30 June 2018, mostly in the private sector. All non-banking financial companies are required to register with the RBI. These non-banking financial companies may be categorised into entities which take public deposits and those which do not. The companies which take public deposits are subject to strict supervision and the capital adequacy requirements of the RBI. The RBI classifies non-banking financial companies into three categories: asset finance companies, loan companies and investment companies. In February 2010, the RBI introduced a fourth category of non-banking financial companies, called infrastructure finance companies and followed up in December 2011 with the announcement of a separate category of non-banking financial companies called microfinance institutions. The primary activities of the non-banking financial companies include: providing consumer credit, which include automobile finance, home finance and consumer durable products finance; wholesale finance products such as bill discounting for small and medium companies and infrastructure finance, and fee-based services such as investment banking and underwriting. In 2003, Kotak Mahindra Finance Limited, a large non-banking financial company, was granted a banking license by the RBI and converted itself into Kotak Mahindra Bank.

During fiscal year 2006, the RBI issued guidelines on the financial regulation of systemically important non-banking financial companies and banks' relationships with them with a view to removing the possibility of regulatory arbitrage leading to an uneven playing field and potential systemic risk.

Within non-deposit taking non-banking financial companies, the guidelines classify those with an asset size above Rs.1.0 billion as per the last audited balance sheet as systemically important. These non-banking financial companies were required to maintain a minimum capital to risk-weighted assets ratio of 10.0 per cent., in addition to conforming to single and group exposure norms. In August 2008, the RBI issued draft guidelines covering non-deposit taking non-banking financial companies. It was proposed that non-deposit taking non-banking financial companies with an asset size of Rs.1.0 billion and above would have to maintain a capital to risk-weighted assets ratio of 12.0 per cent. instead of the current minimum of 10.0 per cent. The capital adequacy ratio was proposed to be increased to 15.0 per cent. from April 2009. In its 2009 annual policy statement, the RBI deferred the implementation of the capital to risk-weighted assets ratio of 12.0 per cent. requirement to 31 March 2010 and of 15.0 per cent. to 31 March 2011. In February 2011, the RBI issued guidelines mandating deposit taking non-banking financial companies to maintain a capital to risk-weighted assets ratio of 15.0 per cent. against the current minimum of 12.0 per cent.

With the purpose of enhancing the flow of funds to infrastructure projects, the RBI issued guidelines in November 2011 for the establishment of infrastructure debt funds. An infrastructure debt fund may be set up either as a trust or as a company. A trust-based infrastructure debt fund would be a mutual fund which would be regulated by SEBI, while a company-based infrastructure debt fund would be a non-banking financial company which would be regulated by the RBI. All non-banking financial companies, including infrastructure finance companies, may sponsor infrastructure debt funds set up as mutual funds. However, only infrastructure finance companies can sponsor infrastructure debt funds set up as non-banking financial companies. Banks are allowed to sponsor infrastructure debt funds in the form of mutual funds and non-banking financial companies with investments by the bank not exceeding 10.0 per cent. of the bank's paid-up capital. In August 2011, the RBI released a working group report on issues and concerns in the non-banking financial companies sector. Some key recommendations of the report included a minimum asset size of Rs.500.0 million with a minimum net owned fund of Rs.20.0 million for registering as a non-banking financial company, a minimum Tier I capital of 12.0 per cent. to be achieved in three years, the introduction of liquidity ratios, more stringent asset classification norms and provisioning norms, and limits on exposure to real estate. In December 2012, the RBI issued draft guidelines on the regulatory framework for non-banking financial companies based on the recommendations of the working group. The guidelines relate to entry norms, principal business criteria, prudential regulations, liquidity requirements and corporate governance of non-banking financial companies.

On 1 April 2014, the RBI temporarily suspended, for a period of one year, the issue of certificates of registration to companies proposing to conduct the business of non-banking financial institution ("NBFI") under the terms of Section 45IA of the RBI Act. The report submitted by the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households made several recommendations pertaining to NBFCs. In view of the recommendation, the RBI felt the need to review the regulatory framework and streamline the sector before allowing more entities into the sector.

On 10 November 2014, the RBI revised the regulatory framework for NBFCs by raising the capital adequacy requirement and the net owned fund limit, among others, with an objective to mitigating risks in the sector and revoked, with immediate effect, its temporary suspension on issuance of a Certificate of Registration to companies proposing to conduct the business of a NBFI. The minimum Tier I capital requirement for non-deposit taking NBFC having an asset size of Rs.5,000.0 million and above and all deposit taking NBFCs was raised to 10.0 per cent. from

7.5 per cent. in a gradual manner (8.5 per cent. by the end of March 2016 and nil per cent. by the end of March 2017). The net owned fund requirement would be required to be raised in a phased manner from Rs.2.5 million to Rs.10 million by March 2016, and then further to Rs.20 million by 2017.

The RBI circular on “Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions” dated 1 July 2016 and the master direction “Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016” dated 1 September 2016 states that the minimum capital ratio consisting of Tier I and Tier II capital shall not be less than 15 per cent. of its aggregated risk-weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items. The total of Tier I capital, at any time, shall not be less than 8.5 per cent. as at 31 March 2016 and 10 per cent. as at 31 March 2017.

Housing Finance Companies

Housing finance companies form a distinct sub-group of non-banking financial companies. As a result of the various incentives given by the Government for investing in the housing sector in recent years, the scope of this business has grown substantially. Housing Development Finance Corporation Limited is a leading provider of housing finance in India. In recent years, several other players, including banks, have entered the housing finance industry. The National Housing Bank and Housing and Urban Development Corporation Limited are the two major financial institutions instituted through acts of Parliament to improve the availability of housing finance in India. The National Housing Bank Act provides for securitisation of housing loans, foreclosure of mortgages and setting-up of the Mortgage Credit Guarantee Scheme.

In August 2013, the IRDA relaxed the investment regulations of housing finance companies (“HFCs”), as specified in the IRDA (Investment) Regulations, 2000, as follows:

- investments in debt instruments issued by the HFCs as specified in the Investment Regulations shall be treated as exposure to the housing sector instead of exposure to “Financial and Insurance Activities”; and
- the single investee debt exposure limits in the HFCs was increased to 20 per cent. of equity plus free reserves from the existing 10 per cent. limit, with a further option of an increase by an additional 5 per cent. on the 20 per cent. limit, with prior approval from the board of the company.

Other Financial Institutions

Specialised Financial Institutions

In addition to the long-term lending institutions, there are various specialised financial institutions which cater to the specific needs of different sectors. These include NABARD, Export Import Bank of India, Small Industries Development Bank of India, Risk Capital and Technology Finance Corporation Limited, Tourism Finance Corporation of India Limited, National Housing Bank, Power Finance Corporation Limited, Infrastructure Development Finance Corporation Limited, Industrial Investment Bank of India, North Eastern Development Finance Corporation and India Infrastructure Finance Company.

State-level Financial Institutions

State financial corporations operate at the state level and form an integral part of the institutional financing system. State financial corporations were set up to finance and promote SMEs. The state financial institutions are expected to achieve balanced regional socio-economic growth by generating employment opportunities and widening the ownership base of industry. At the state level, there are also state industrial development corporations, which provide finance primarily to medium-sized and large enterprises.

Insurance Companies

As on 28 November 2018, there are 60 insurers operating in India; of which 24 are life insurers, 34 are general insurers and two are re-insurance companies. Of the 24 life insurance companies, 23 are in the private sector and one is in the public sector. Among the general insurance companies, 26 are in the private sector and seven are in the public sector. The reinsurance company General Insurance Corporation of India is in the public sector and ITI Reinsurance Limited is in the private sector. Life Insurance Corporation of India, General Insurance Corporation of India and public sector general insurance companies also provide long-term financial assistance to the industrial sector. The insurance sector in India is regulated by the Insurance Regulatory and Development Authority (“**IRDAI**”). In December 1999, the Indian Parliament passed the Insurance Regulatory and Development Authority Act, 1999, which amended the Insurance Act, 1938 and opened up the Indian insurance sector for foreign and private investors. The Insurance Act allows foreign equity participation in new insurance companies of up to 26.0 per cent. A new company should have minimum paid-up equity capital of Rs.1.0 billion to carry on the business of life insurance or general insurance or Rs.2.0 billion to carry on exclusively the business of re-insurance.

In its monetary and credit policy for fiscal year 2001, the RBI issued guidelines governing the entry of banks and financial institutions into the insurance business. The guidelines permit banks and financial institutions to enter the business of insurance underwriting through joint ventures provided they meet stipulated criteria relating to their net worth, capital adequacy ratios, profitability track record, level of non-performing loans and the performance of their existing subsidiary companies. The promoters of insurance companies have to divest in a phased manner their shareholding in excess of 26.0 per cent. (or such other percentage as may be prescribed) after a period of ten years from the date of commencement of business or within such period as may be prescribed by the Government. In December 2014, the Government raised the limit on foreign equity participation in private sector insurance companies from 26.1 per cent. to 49.0 per cent.

During fiscal year 2017, the total premiums there were underwritten by the life insurance sector increased by 14.04 per cent. year-on-year from Rs.3,669 billion during fiscal year 2016 to Rs.4,184 billion during fiscal year 2017. While private sector insurers posted a 17.40 per cent. growth for fiscal year 2017 against 13.64 per cent. in fiscal year 2016 in their premium income, LIC recorded 12.78 per cent. growth for fiscal year 2017 against a growth of 11.17 per cent. in fiscal year 2016. During 2017, the market share of private players increased from 27.39 per cent. in fiscal year 2016 to 28.19 per cent. in fiscal year 2017. While renewal premium accounted for 58.13 per cent. for fiscal year 2017 of the total premium received by the life insurers, first year premiums contributed the remaining 41.87 per cent. LIC's market share stood at 71.81 per cent. at the end of fiscal year 2017.

The financial inclusion initiatives of the Government include providing insurance cover for people belonging to low-income or below poverty segments and are enrolled through the Government's financial inclusion programme. Under the Government's *Pradhan Mantri Jeevan Jyoti Bima Yojana* life insurance scheme, life insurance cover and accident insurance cover of up to Rs.200,000 each are provided to the beneficiaries at very low premiums. The Government has also launched separate schemes for providing pension and insurance products to the wider population.

Mutual Funds

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India at the initiative of the Government and the RBI. From 1963 to 1987, Unit Trust of India was the only mutual fund operating in India. From 1987 onwards, several other public sector mutual funds entered this sector. These mutual funds were established by public sector banks, LIC and General Insurance Corporation of India. The mutual funds industry was opened up to the private sector in 1993. The industry is regulated by the SEBI (Mutual Fund) Regulations, 1996. The assets under management of the Indian MF Industry has grown from Rs.4.05 trillion as of 30 November 2008 to Rs.24.03 trillion as of 30 November 2018, which represents an approximate six fold increase in a span of a decade.

In June 2009, SEBI removed the entry load for all mutual fund schemes and directed that upfront commissions to distributors be paid directly by the investors. To enhance the reach and marketability of mutual fund schemes, in November 2009, SEBI permitted the use of stock exchange terminals to facilitate transactions in mutual fund schemes. As a result, mutual fund units can now be traded on recognised stock exchanges. In February 2010, SEBI introduced guidelines for the valuation of money market and debt securities with a view to ensuring that the value of the money market and debt securities in the portfolio of mutual funds schemes reflect the current market scenario. The valuation guidelines are effective from 1 August 2010. Further, the Union Budget for fiscal year 2014 allowed mutual fund distributors to become members of the mutual fund segment of stock exchanges to enable them to leverage the stock exchange network to improve the reach and distribution of mutual fund products.

Banking Sector Reform

Most large banks in India were nationalised in 1969 and thereafter were subject to a high degree of control until reform began in 1991. In addition to controlling interest rates and entry into the banking sector, these Government regulations also channelled lending into priority sectors. Banks were required to fund the public sector through the mandatory acquisition of low interest-bearing Government securities or SLR bonds to fulfil statutory liquidity requirements. As a result, bank profitability was low, non-performing assets were comparatively high, capital adequacy was diminished, and operational flexibility was hindered.

Committee on the Financial System

The Committee on the Financial System ("Narasimham Committee I") was set up in August 1991 to recommend measures for reforming the financial sector. Many of the recommendations made by the committee, which addressed organisational issues, accounting practices and operating procedures, were implemented by the Government. The major recommendations that were implemented included the following:

- with fiscal stabilisation and the Government increasingly resorting to market borrowing to raise resources, the SLR or the proportion of banks' net demand and time liabilities that was required to be invested in Government securities was reduced from 38.5 per cent. in the pre-reform period to 25.0 per cent. in October 1997. At the end of every business day, banks are required to maintain a minimum ratio of their time liabilities (when the bank has to wait to redeem their liabilities) and net demand (when bank can withdraw money from these

accounts immediately) in the form of liquid assets like gold, cash and Government securities. The ratio of time liabilities and liquid assets in demand is called “Statutory Liquidity Ratio” or “SLR”. The maximum SLR that the RBI can set is 40 per cent. per annum. However, the current SLR is set at 19.5 per cent. per annum. The RBI currently requires banking companies to maintain a liquidity ratio of 19.50 per cent. with effect from 4 October 2017;

- similarly, the cash reserve ratio (“CRR”) or the proportion of a bank’s net demand and time liabilities that was required to be deposited with the RBI was reduced from 15.0 per cent. in the pre-reform period to a low of 4.5 per cent. The CRR effective from 9 February 2013 is 4.00 per cent. which is effective till date;
- special tribunals were created to resolve bad debt problems;
- most of the restrictions on interest rates for deposits were removed. Commercial banks were allowed to set their own level of interest rates for all deposits except savings bank deposits. Subsequently, on 25 October 2011, the RBI deregulated the savings bank deposit rate, after which commercial banks were also allowed to determine their savings bank deposit rate; and
- substantial capital infusion to several state-owned banks was approved in order to bring their capital adequacy closer to internationally accepted standards. By the end of fiscal year 2002, aggregate re-capitalisation amounted to Rs.217.5 billion. Stronger public sector banks were given permission to issue equity to further increase capital.

Committee on Banking Sector Reform

The second Committee on Banking Sector Reform (“**Narasimham Committee II**”) submitted its report in April 1998. The major recommendations of the committee were in respect of capital adequacy requirements, asset classification and provisioning, risk management and merger policies. The RBI accepted and began implementing many of these recommendations in October 1998.

Banks implemented new prudential accounting norms for the classification of assets, income recognition and loan loss provisioning. Following the Bank for International Settlements guidelines, capital adequacy norms were also prescribed. To meet additional capital requirements, public sector banks were allowed to access the market for funds. Interest rates were deregulated, while the rate of directed lending was progressively reduced.

Commercial Banking Trends

Credit

For the period ended 30 September 2018, the aggregate deposits grew by 8.4 per cent. on an annual basis while bank credit grew by 13.1 per cent. As of 30 September 2018, public sector banks (including RRBs) accounted for the largest share of aggregate deposits and gross bank credit, followed by private sector banks. As of 30 September 2018, the credit-deposit ratio for scheduled commercial banks stood at 76.4 per cent. as compared to 73.3 per cent. in the previous year.

From 30 September 2017 to 30 September 2018, private sector banks and foreign banks indicated higher credit growth rates of 22.8 per cent. and 12.0 per cent., respectively, as compared to 8.7 per cent. for public sector banks.

For fiscal year 2018, the growth in credit within the agricultural sector has slowed, compared to a year ago. This may indicate pressures within the agricultural sector, as corroborated by agriculture debt waivers announced in some states. A pick-up was witnessed across sectors such

as textiles; vehicles, vehicle parts and transport equipment; engineering; food processing; and rubber, plastic and products. In contrast, credit to infrastructure, which accounted for about one-third of bank credit to industry, contracted in a broad-based manner (by 1.7 per cent. in March 2018), pulled down by power, telecommunications and roads. The modest signs of recovery in infrastructure as compared to the previous year's position suggest that the power sector could benefit from improved electricity supply following better availability of coal. The base metal segment remained distressed, despite the recovery in global metal prices. The recent revival in manufacturing activity has provided some boost to base metal prices. The steel segment has improved on the back of strong export demand and revival of domestic activity.

Interest rates and Inflation

As regards the price situation, inflation eased to its lowest level in the new consumer price index (“**CPI**”) series in June 2017, with food prices going into deflation. Thereafter, a confluence of domestic and global developments pushed inflation up – an unseasonal spike in the price of vegetables during October-November 2017, disbursement of house rent allowance for central government employees under the 7th Central Pay Commission’s award and firming up of global commodity prices. The delayed softening of food prices in Q4 brought relief as it got prolonged and in the event, the year ended with the lowest annual average inflation of 3.6 per cent. since 2012-13.

According to the RBI, November CPI inflation grew 2.3 per cent. year-on-year from 3.4 per cent. in October on account of higher non-food and core inflation but offset by lower food inflation. Continued contraction in the price of vegetables, cereals, sugar, oil and fats has led to an eleventh consecutive month of sequential decline in food inflation. Earlier, in response to increased inflation, the RBI twice hiked repo rates by 0.25 per cent. each in the current fiscal year 2018 in 2 consecutive bi-monthly Monetary Policy Committee meetings, the repo rate is currently at 6.50 per cent.. The reverse repo rate has been pegged at 0.25 per cent. below the repo rate since 6 April 2017 and thus has followed a similar trend since that time.

Asset quality

The gross non-performing advances (“**GNPA**”) ratio of scheduled commercial banks rose from 10.2 per cent. in September 2017 to 11.6 per cent. in March 2018. However, their net non performing advances ratio registered only a smaller increase during the period due to increase in provisioning. The GNPA ratio in the industry sector rose from 19.4 per cent. to 22.8 per cent. during the same period whereas the stressed advances ratio increased from 23.9 per cent. to 24.8 per cent.. Within the banking industry, the stressed advances ratio of subsectors such as ‘gems and jewellery’, ‘infrastructure’, ‘paper and paper products’, ‘cement and cement products’ and ‘engineering’ registered an increase in March 2018 from their levels in September 2017. The asset quality of ‘food processing’, and ‘textiles’ sub-sectors improved during the same period. The provision coverage ratio increased across all bank groups in March 2018 from its level in September 2017. Among the bank groups, Foreign Banks had the highest provision coverage ratio (88.7 per cent.) followed by Private Sector Banks (51.0 per cent.) and Public Sector Banks (47.1 per cent.).

Income and profitability

The banking stability indicator showed that deteriorating profitability as well as asset quality pose elevated risks to the banking sector stability. Weak profitability of SCBs is a concern as low profits can prevent banks from building cushions against unexpected losses and make them vulnerable to adverse shocks. Median return on assets of SCBs came down further in March 2018. The share of net interest income in total operating income increased from 63.7 per cent. in 2016-17 to 65.2 per cent. in fiscal year 2018, but saw a decline to their other operating income declined.

There are several structural issues resulting in low profitability of SCBs, including high loan loss provisions, debt overhang, increasing costs and declining revenues.

Recent Structural Reforms

Amendments to the Banking Regulation Act

In May 2017, the Government issued an ordinance amending the Banking Regulation Act, 1949 which empowers the RBI to participate in the resolution of stressed assets. The Banking Regulation (Amendment) Ordinance, 2017 was promulgated on 4 May 2017. The Ordinance amended section 35A of the Banking Regulation Act, 1949 and inserted two new sections 35AA and 35AB. Through this amendment, the RBI is authorised to intervene and instruct banks to resolve specific stressed assets and initiate insolvency resolution process where required. The RBI is also empowered to issue other directions for resolution, and appoint or approve for appointment, authorities or committees to advise banking companies for resolution of stressed assets.

The RBI constituted an Internal Advisory Committee comprising its independent board members to advise on stressed accounts. On the recommendations of the Committee, in June 2017 the RBI issued directions to banks to file for resolution under the Insolvency and Bankruptcy Code with the National Company Law Tribunal in respect of 12 large stressed accounts. With respect to other identified stressed accounts, the banks are required to finalise a resolution plan within six months. In cases where a viable resolution plan is not agreed upon within six months, banks must be required to file for insolvency proceedings under the Insolvency and Bankruptcy Code. Further, in August 2017, the RBI identified an additional list of stressed accounts and directed banks to initiate insolvency resolution process under the provisions of the Insolvency and Bankruptcy Code by 31 December 2017 if a resolution plan where the residual debt is rated investment grade by two external credit rating agencies is not implemented by 13 December 2017. In December 2012, the Indian Parliament further amended the laws governing the banking sector by way of the Banking Laws (Amendment Act), 2012. This Act seeks to strengthen the regulatory powers of the RBI and to further develop the banking sector in India.

The main amendments are as follows:

- permit all private banking companies to issue preference shares that will not carry any voting rights, subject to RBI guidelines;
- make prior approval of the RBI mandatory for the acquisition of more than 5.00 per cent. of a banking company's paid-up capital or voting rights by any individual, firm or group, and empower the RBI to impose conditions while granting approval for such acquisitions;
- empower the RBI, after consultations with the Government, to supersede the board of a private sector bank for a total period not exceeding 12 months, during which time the RBI will have the power to appoint an administrator to manage the bank;
- give the RBI the right to inspect affiliates of enterprises or banking entities (affiliates include subsidiaries, holding companies or any joint ventures of banks); and
- restrict the maximum voting power exercisable by a shareholder in a private banking company to 26.00%. irrespective of its total shareholding and raise the ceiling for voting rights of shareholders of a nationalised bank from 1.00 per cent. to 10.00 per cent.

The Banking Laws (Amendment) Act, 2012 was notified in January 2013.

Legislative Framework for Recovery of Debts due to Banks

In fiscal year 2003, the Indian Parliament passed the SARFAESI Act. The SARFAESI Act provides that a secured creditor may, in respect of loans classified as non-performing in accordance with RBI guidelines, give notice in writing to the borrower requiring it to discharge its liabilities within 60 days, failing which the secured creditor may take possession of the assets constituting the security for the loan and exercise management rights in relation thereto, including the right to sell or otherwise dispose of the assets. The SARFAESI Act also provides for the setting-up of asset reconstruction companies regulated by the RBI to acquire assets from banks and financial institutions. The RBI has issued guidelines for asset reconstruction companies in respect of their establishment, registration and licensing by the RBI, and operations. Asset Reconstruction Company (India) Limited, set up by the Industrial Development Bank of India, State Bank of India and certain other banks and institutions, received registration from the RBI and commenced operation in August 2003. Foreign direct investment is now permitted in the equity capital of asset reconstruction companies and investment in security receipts issued by asset reconstruction companies by foreign institutional investors registered with SEBI is permitted, subject to certain conditions and restrictions.

Several petitions challenging the constitutional validity of the SARFAESI Act were filed before the Indian Supreme Court. The Supreme Court, in April 2004, upheld the constitutionality of the SARFAESI Act, other than the requirement originally included in the Act that the borrower deposit 75.0 per cent. of the dues with the debt recovery tribunal as a pre-condition for appeal by the borrower against the enforcement measures. In November 2004, the Government issued an ordinance amending the SARFAESI Act. The Indian Parliament has subsequently passed this ordinance as an Act. This Act, as amended, now provides that a borrower may make an objection or representation to a secured creditor after a notice is issued by the secured creditor to the borrower under the Act demanding payment of dues. The secured creditor must give reasons to the borrower for not accepting the objection or representation. The Act also introduces a deposit requirement for borrowers if they wish to appeal the decision of the debt recovery tribunal. Further, the Act permits a lender to take over the business of a borrower under the SARFAESI Act under certain circumstances (unlike the earlier provisions under which only assets could be taken over).

Earlier, following the recommendations of the Narasimham Committee, the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 was enacted. This legislation provides for the establishment of a tribunal for speedy resolution of litigation and recovery of debts owed to banks or financial institutions. The Act created tribunals before which banks or financial institutions can file a suit for recovery of the amounts due to them. However, if a scheme of reconstruction is pending before the Board for Industrial and Financial Reconstruction, under the Sick Industrial Companies (Special Provision) Act, 1985, no proceeding for recovery can be initiated or continued before the tribunals. This protection from creditor action ceases if the secured creditor takes action under the SARFAESI Act. While presenting its budget for fiscal year 2002, the Government announced measures to set up additional debt recovery tribunals and the eventual repeal of the Sick Industrial Companies (Special Provision) Act, 1985. While the Indian Parliament has repealed this Act, the notification to make the repeal effective has not yet been issued.

The Central Registry of Securitisation Asset Reconstruction and Security Interest of India, a Government company licensed under the Companies Act, has been incorporated to operate and maintain the "central registry" under the provisions of the SARFAESI Act. With the existence of a central registry, it would be very difficult for a borrower to raise loans twice against the same property, or to raise loans using forged documents, since the central registry holds details of all properties against which loans have been taken.

Framework for Recognition of Financial Distress

In February 2014, the RBI announced the “Framework for Revitalising Distressed Assets in the Economy.” The framework outlines a corrective action plan to incentivise the following:

- early identification of problem cases;
- timely restructuring of accounts to be viable;
- prompt steps for recovery or sale of unviable accounts;
- centralised reporting and dissemination of information on large credits;
- early formation of lenders committee, with timelines to agree to a plan for resolution in relation to distressed assets;
- better regulatory treatment of stressed assets if a resolution plan is underway;
- accelerated provision if no agreements can be reached;
- improvement in current restructuring process: independent evaluation of large-value restructuring mandated, with a focus on viable plans and a fair sharing of losses (and future possible upside) between promoters and creditors; and
- making future borrowing more expensive for borrowers who do not cooperate with lenders in resolution.

Prompt Corrective Action Framework

The Reserve Bank has specified certain regulatory trigger points, as a part of prompt corrective action Framework (“**PCA Framework**”), in terms of three parameters, i.e. capital to risk weighted assets ratio (“**CRAR**”), net non-performing assets and Return on Assets, for initiation of certain structured and discretionary actions in respect of banks hitting such trigger points. The PCA framework is applicable only to commercial banks and not extended to co-operative banks, non-banking financial companies and FMs and would help to identify the banks which have stretched balance sheets by having some trigger points that help in assessing, monitoring, controlling and taking corrective actions. The salient features of the PCA Framework for Banks are as below:

- Capital, asset quality and profitability are the key areas for monitoring in the revised framework
- Leverage would be monitored additionally as part of the PCA Framework.
- Breach of any risk threshold (as detailed under) would result in invocation of the PCA Framework.
- A bank will be placed under the PCA Framework based on the audited Annual Financial Results and the Supervisory Assessment made by RBI. However, RBI may impose PCA on any bank during the course of a year (including migration from one threshold to another) in case the circumstances so warrant.

PCA matrix – Areas, indicators and risk thresholds:

	Indicator	Risk Threshold 1	Risk Threshold 2	Risk Threshold 3
Area Capital	CRAR – Minimum regulatory prescription for capital to risk assets ratio + applicable buffer	up to 250 bps below Indicator	more than 250 bps but not exceeding 400 bps below Indicator	In excess of 312.50 bps below Indicator
(Breach of either CRAR or CET 1 ratio to trigger PCA)	current minimum RBI prescription of 10.25% (9% minimum total capital plus 1.25%* of CCB as on 31 March 2017) And/Or Regulatory pre-specified trigger of Common Equity Tier 1 (CET 1min) + applicable capital conservation buffer (“CCB”)	<10.25% but >=7.75%	<7.75% but >=6.25%	<3.625%
Asset Quality	Net Non-performing advances (“NNPA”) ratio	>=6.0% but <9.0%	>=9.0% but <12.0%	>= 12.0%
Profitability	Return on assets (“ROA”)	Negative ROA for two consecutive years	Negative ROA for three consecutive years	Negative ROA for four consecutive years
Leverage	Tier 1 Leverage ratio	<=4.0% but >=3.5% (leverage is over 25 times the Tier 1 capital)	< 3.5% (leverage is over 28.6 times the Tier 1 capital)	

The Insolvency and Bankruptcy Code (Amendment) Bill, 2017

The Insolvency and Bankruptcy Code (Amendment) Bill, 2017, was passed by the Lok Sabha on 29 December 2017, and by the Rajya Sabha on 2 January 2018. It replaces the IBC (Amendment) Bill, 2017, which was promulgated on 23 November 2017.

In the CIRP the Committee of Creditors (“CoC”) invites resolution plans from resolution applicants, and may select one of these plans. The Code originally does not specify any restrictions on who these resolution applicants might be. The Bill has declared that some persons are ineligible to submit resolution plans:

- (i) an undischarged insolvent;
- (ii) a “wilful defaulter”;
- (iii) a borrower whose account has been identified as a non-performing asset for over a year and who has not repaid the amount before submitting a plan;

- (iv) a person convicted of an offence punishable with two or more years of imprisonment;
- (v) a person disqualified as a director under the Companies Act, 2013;
- (vi) a person prohibited from trading in securities;
- (vii) a person who is the promoter or in the management of a company which has indulged in undervalued, preferential, or fraudulent transactions;
- (viii) a person who has given guarantee on a liability of the defaulting company undergoing resolution or liquidation, and has not honoured the guarantee;
- (ix) a person who is subject to any of the above disabilities in any jurisdiction outside India; or
- (x) a person who has a connected person disqualified in any manner above.

The thrust of the Bill is to prevent a range of undesirable persons from bidding for the debtor. The Bill may prevent promoters from bidding for their own firms. A resolution plan would typically involve significant haircuts on the parts of the financial and operational creditors. Thus, allowing a promoter to bid without restriction would mean countenancing a situation where an owner, having driven a firm into insolvency, is now able to purchase it back at a discount. This can lead to a situation of moral hazard, where incompetent or fraudulent promoters are effectively rewarded with the control of their company, leaving the creditors to write off their debts.

The Bill, thus, seeks to achieve a balanced approach, enabling the CoC to avoid imprudent transactions, while preserving its freedom to choose the best resolution plan from amongst all the applicants.

Universal Banking Guidelines

Universal banking in the Indian context means the transformation of long-term lending institutions into banks. Pursuant to the recommendations of the Narasimham Committee II and the Khan Working Group, the RBI, in its mid-term review of monetary and credit policy for fiscal year 2000, announced that long-term lending institutions would have the option of transforming themselves into banks subject to compliance with the prudential norms as applicable to banks. If a long-term lending institution chose to exercise the option available to it and formally decided to convert itself into a universal bank, it could formulate a plan for the transition path and a strategy for smooth conversion into a universal bank over a specified time frame. In May 2001, the RBI issued guidelines on several operational and regulatory issues which were required to be addressed in evolving the path for transition of a long-term lending institution into a universal bank.

Base Rate System

The benchmark prime lending (the “**BPLR**”) system, introduced in 2003, fell short of its original objective of bringing transparency to lending rates. This was mainly because, under the BPLR system, banks could lend below the BPLR. For the same reason, it was also difficult to assess the transmission of policy rates of the RBI to lending rates of the banks. The base rate system replaced the BPLR with effect from 1 July 2010. The base rate system is aimed at enhancing transparency in lending rates of banks and enabling better assessment of transmission of monetary policy. Base rate includes all those elements of the lending rate that are common across all categories of borrowers. Banks may choose any benchmark to arrive at the base rate for a specific tenor that is required to be disclosed transparently. Banks are free to use any methodology in computing the base rate, provided it is consistent and is made available for supervisory review and scrutiny, as and when required.

Banks may determine their actual lending rates on loans and advances with reference to the base rate and by including such other customer specific charges as considered appropriate. In order to give banks some time to stabilise the system of base rate calculation, banks were permitted to change the benchmark and methodology until 30 June 2011.

On 17 December 2015, the RBI released the final guidelines on computing interest rates on advances based on the marginal cost of funds. The guidelines came into effect on 1 April 2016. Apart from helping improve the transmission of policy rates into the lending rates of banks, these measures are expected to improve transparency in the methodology followed by banks for determining interest rates on advances. The guidelines are also expected to ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks. Further, marginal cost pricing of loans will help the banks become more competitive and enhance their long-run value and contribution to economic growth. The Marginal Cost of Funds based Lending Rate or MCLR is a new methodology to set the lending rates for commercial banks. Previously, banks used to lend as per the Base Rate fixed by the RBI but with the introduction of MCLR, banks will have to lend using rates linked to their funding costs. Simply put, bank raises their funds through deposits, bonds and other investments. For the banks to function smoothly, there are costs involved like salaries, rents and other bills. Considering that banks also need to make profits every year, the RBI has included the expenses of the bank and have come up with a formula which can be used by banks to determine their lending rate. With the reduction of repo rate, some banks have reduced MCLR up to 0.90 per cent.

The highlights of the guidelines are as follows:

1. all rupee loans sanctioned and credit limits renewed with effect from 1 April 2016 will be priced with reference to the marginal cost of funds based lending rate (“**MCLR**”) which will be the internal benchmark for such purposes;
2. the MCLR will be a tenor linked internal benchmark;
3. actual lending rates will be determined by adding the components of spread to the MCLR;
4. banks will review and publish their MCLR of different maturities every month on a pre-announced date;
5. banks may specify interest reset dates on their floating rate loans. They will have the option to offer loans with reset dates linked either to the date of sanction of the loan/credit limits or to the date of review of the MCLR;
6. the periodicity of reset shall be one year or lower;
7. the MCLR prevailing on the day the loan is sanctioned will be applicable until the next reset date, irrespective of the changes in the benchmark during the interim period;
8. existing loans and credit limits linked to the Base Rate may continue until repayment or renewal, as the case may be. Existing borrowers will also have the option to move to the MCLR linked loan on mutually acceptable terms; and
9. banks will continue to review and publish the Base Rate as hitherto.

Credit Policy Measures

The RBI issues an annual policy statement setting out its monetary policy stance and announcing various regulatory measures. The RBI issues a review of the annual policy statement on a bi-monthly basis.

Monetary Policy Statement for 2015-16

The first bi-monthly Monetary Policy Statement 2015-16 was announced on 7 April 2015. The RBI decided to keep the reverse repo rate under the liquidity adjustment facility (“**LAF**”) unchanged at 7.5 per cent., and the marginal standing facility (“**MSF**”) rate and the Bank Rate at 9.0 per cent.; consequently, the reverse repo rate under the LAF remained unchanged at 6.5 per cent., and the MSF rate and the Bank Rate stood at 8.5 per cent.

The second bi-monthly Monetary Policy Statement 2015-16 was announced on 2 June 2015 under which the RBI with immediate effect reduced the policy rate under the LAF by 0.25 per cent. to 7.25 per cent.; continued to provide liquidity under overnight repos at 0.25 per cent. of bank-wise net demand and time liability (“**NDTL**”) at the LAF repo rate and liquidity under 14-day term repos as well as allowed longer term repos of up to 0.75 per cent. of NDTL of the banking system through auctions; and continued with overnight/term variable rate repos and reverse repos to smoothen the liquidity. Consequently, the reverse repo rate under the LAF remained unchanged at 6.25 per cent., and the MSF rate and the Bank Rate stood at 8.25 per cent.

The third bi-monthly Monetary Policy Statement 2015-16 was announced on 4 August 2015 under which the RBI decided to keep the policy rate under LAF unchanged at 7.25 per cent.; and the CRR of scheduled banks unchanged at 4.0 per cent. of NDTL; continued to provide liquidity under overnight repos at 0.25 per cent. of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as allowed longer term repos of up to 0.75 per cent. of NDTL of the banking system through auctions; and continued with daily variable rate repos and reverse repos to smoothen the liquidity. Consequently, the reverse repo rate under the LAF remained unchanged at 6.25 per cent., and the MSF rate and the Bank Rate at 8.25 per cent.

The fourth bi-monthly Monetary Policy Statement 2015-16 was announced on 29 September 2015 under which the RBI decided to reduce the policy repo rate under the LAF by 0.50 per cent. from 7.25 per cent. to 6.75 per cent.; keep the CRR of scheduled banks unchanged at 4.0 per cent. of NDTL; continued to provide liquidity under overnight repos at 0.25 per cent. of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as allowed longer term repos of up to 0.75 per cent. of NDTL of the banking system through auctions; and continued with daily variable rate repos and reverse repos to smoothen the liquidity. Consequently, the reverse repo rate under the LAF stood adjusted to 5.75 per cent., and the MSF rate and the Bank Rate to 7.75 per cent.

The fifth bi-monthly Monetary Policy Statement 2015-16 was announced on 1 December 2015. The RBI decided to keep the policy repo rate under the LAF unchanged at 6.75 per cent.; keep the CRR of scheduled banks unchanged at 4.0 per cent. of NDTL; continued to provide liquidity under overnight repos at 0.25 per cent. of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as allowed longer term repos of up to 0.75 per cent. of NDTL of the banking system through auctions; and continued with daily variable rate repos and reverse repos to smoothen the liquidity. Consequently, the reverse repo rate under the LAF remained unchanged at 5.75 per cent., and the MSF rate and the Bank Rate stood at 7.75 per cent.

The sixth bi-monthly Monetary Policy Statement 2015-16 was announced on 2 February 2016. The RBI decided to keep the policy repo rate under the LAF unchanged at 6.75 per cent.; keep the CRR of scheduled banks unchanged at 4.0 per cent. of NDTL; continued to provide liquidity under overnight repos at 0.25 per cent. of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as allowed longer term repos of up to 0.75 per cent. of NDTL of the banking system through auctions; and continued with daily variable rate repos and reverse repos to smoothen the liquidity. Consequently, the reverse repo rate under the LAF remained unchanged at 5.75 per cent., and the MSF rate and the Bank Rate stood at 7.75 per cent.

Monetary Policy Statement for 2016-17

First Bi-Monthly Monetary Policy Statement for fiscal year 2017 held on 5 April 2016

Monetary and Liquidity Measures

- Reduced the policy repo rate under the LAF by 0.25 per cent. from 6.75 per cent. to 6.50 per cent.
- CRR remained unchanged at 4.00 per cent. Reduced the minimum daily cash maintenance of CRR from 95.00 per cent. to 90.00 per cent. with effect from the fortnight beginning 16 April 2016.
- Narrowed the policy rate corridor from +/-1.00 per cent. to +/-0.50 per cent. by reducing the MSF rate by 0.75 per cent. and increasing the reverse repo rate by 0.25 per cent.
- The MSF rate stood adjusted at 7.00 per cent., the Bank Rate at 7.00 per cent. and the reverse repo rate under the LAF at 6 per cent.
- The liquidity provided under term repos of 7-day and 14-day tenor remained unchanged at 0.75 per cent. of NDTL of the banking system while liquidity provided under overnight repos remained unchanged at 0.25 per cent. of bank-wise NDTL.
- Reduced the SLR by 0.25 per cent. from 21.5 per cent. to 21.00 per cent. of the NDTL.
- Introduced MCLR for improving monetary policy transmission.

Second Bi-Monthly Monetary Policy Statement for fiscal year 2017 held on 7 June 2016

Monetary and Liquidity Measures

- The policy repo rate under the LAF remained unchanged at 6.50 per cent.
- The MSF rate, Bank Rate and reverse repo rate remained unchanged at 7.00 per cent., 7.00 per cent. and 6.00 per cent., respectively.
- The liquidity provided under term repos of 7-day and 14-day tenor remained unchanged at 0.75 per cent. of NDTL of the banking system while liquidity provided under overnight repos remained unchanged at 0.25 per cent. of bank-wise NDTL.

Third Bi-Monthly Monetary Policy Statement for fiscal year 2017 held on 9 August 2016

Monetary and Liquidity Measures

- The policy repo rate under the LAF remained unchanged at 6.50 per cent.
- The MSF rate remained unchanged at 7.00 per cent., the Bank Rate at 7.00 per cent. and the reverse repo rate under the LAF at 6 per cent.
- The liquidity provided under term repos of 7-day and 14-day tenor remained unchanged at 0.75 per cent. of NDTL of the banking system while liquidity provided under overnight repos remained unchanged at 0.25 per cent. of bank-wise NDTL.

Fourth Bi-Monthly Monetary Policy Statement for fiscal year 2017 held on 4 October 2016

Monetary and Liquidity Measures

- Reduced the policy repo rate under the LAF by 0.25 per cent. from 6.50 per cent. to 6.25 per cent. with immediate effect.
- CRR of scheduled banks remained unchanged at 4.0 per cent. of NDTL.
- Continued to provide liquidity under overnight repos at 0.25 per cent. of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as allowed longer term repos of up to 0.75 per cent. of NDTL of the banking system through auctions.
- Continued with daily variable rate repos and reverse repos to smoothen the liquidity.
- The reverse repo rate under the LAF stands adjusted to 5.75 per cent., and the MSF rate and the Bank Rate to 6.75 per cent.
- SLR adjusted to 20.75 per cent. from 21.00 per cent. with effect from 1 October 2016.

Fifth Bi-Monthly Monetary Policy Statement for fiscal year 2017 held on 7 December 2016

Monetary and Liquidity Measures

- Policy repo rate under the LAF unchanged at 6.25 per cent.
- CRR of scheduled banks unchanged at 4.00 per cent. of NDTL.
- Continued to provide liquidity under overnight repos at 0.25 per cent. of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as allowed longer term repos of up to 0.75 per cent. of NDTL of the banking system through auctions.
- Continued with daily variable rate repos and reverse repos to smoothen the liquidity.
- The reverse repo rate under the LAF remained unchanged at 5.75 per cent., and the MSF rate and the Bank Rate at 6.75 per cent.
- Withdraw the incremental CRR of 100 per cent. of increase in NDTL which was introduced between 16 September 2016 and 11 November 2016 to absorb excess liquidity in the system due to withdrawal of legal tender status of Rs.500 and Rs.1,000.

Sixth Bi-Monthly Monetary Policy Statement for fiscal year 2017 held on 8 February 2017

Monetary and Liquidity Measures

- Policy repo rate under the LAF unchanged at 6.25 per cent.
- CRR of scheduled banks unchanged at 4.00 per cent. of NDTL.
- Continue to provide liquidity under overnight repos at 0.25 per cent. of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as longer term repos of up to 0.75 per cent. of NDTL of the banking system through auctions.
- Continue with daily variable rate repos and reverse repos to smooth liquidity.
- The reverse repo rate under the LAF remained unchanged at 5.75 per cent., and the MSF rate and the Bank Rate at 6.75 per cent.

Monetary Policy Statement for 2016-17

Monetary and Liquidity Measures

- Policy repo rate under the LAF unchanged at 6.25 per cent.
- CRR of scheduled banks unchanged at 4.00 per cent. of NDTL.
- Continued with daily variable rate repos and reverse repos for smooth liquidity.
- Reverse repo rate under the LAF increased by 0.25 per cent. to 6.00 per cent. MSF rate and Bank Rate have been reduced by 25 bps to 6.50 per cent.

Monetary Policy Statement for 2017-18

Monetary and Liquidity Measures

- Policy repo rate under the LAF unchanged at 6.25 per cent.
- CRR of scheduled banks unchanged at 4.00 per cent. of NDTL.
- Continued with daily variable rate repos and reverse repos for smooth liquidity.
- Reverse repo rate under the LAF remained unchanged at 6.00 per cent. MSF rate and Bank Rate have been kept unchanged at 6.50 per cent.

Monetary Policy Statement for 2018-19

Monetary and Liquidity Measures

- Policy repo rate under the LAF increased by 0.25 per cent. to 6.25 per cent. in June 2018 and to 6.50 per cent. in August 2018.
- CRR of scheduled banks unchanged at 4.0 per cent. of NDTL.
- Continued with daily variable rate repos and reverse repos for smooth liquidity.
- Reverse repo rate under the LAF increased by 0.25 per cent. to 6.25 per cent. MSF rate and Bank Rate have been increased to 6.75 per cent.

Government Initiatives

- A new portal named ‘Udyami Mitra’ has been launched by the Small Industries Development Bank of India (“**SIDBI**”) with the aim of improving credit availability to Micro, Small and Medium Enterprises’ (“**MSMEs**”) in India.
- Mr Arun Jaitley, Minister of Finance, the Government, introduced ‘The Banking Regulation (Amendment) Bill, 2017’, which will replace the Banking Regulation (Amendment) Ordinance, 2017, to allow the RBI to guide banks for resolving the problems of stressed assets.
- Under the Union Budget 2018-19, the Government has allocated Rs.3.0 trillion towards the Mudra Scheme and Rs.3.8 billion towards credit support, capital and interest subsidy to MSMEs.

- In March 2018, the Government launched Pradhan Mantri Vaya Vandana Yojna to provide elderly people Rs.10,000 pension per month. This scheme has an investment limit of Rs.1.5 million.
- In May 2018, the Government provided Rs.6.00 trillion loans to 120 million beneficiaries under Mudra scheme.
- As on 4 January 2018, the Lok Sabha has approved recapitalisation bonds worth Rs.80.0 billion for public sector banks, which will be accompanied by a series of reforms.

The Government and the RBI have undertaken several measures to strengthen the Indian banking sector.

- A two-year plan to strengthen the public sector banks through reforms and capital infusion of Rs 2,110.0 billion, has been unveiled by the Government that will enable these banks to play a much larger role in the financial system and give a boost to the MSME sector. In this regard, the Lok Sabha has approved recapitalisation bonds worth Rs.800.0 billion for public sector banks, which will be accompanied by a series of reforms, according to Mr. Arun Jaitley, Minister of Finance.
- The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 Bill has been passed by Rajya Sabha and is expected to strengthen the banking sector.

Reforms of the Non-Banking Financial Companies

Standards relating to income recognition, provisioning and capital adequacy were prescribed for non-banking financial companies in June 1994. Registered non-banking financial companies were required to achieve a minimum capital adequacy of 6.0 per cent. by the end of fiscal year 1995 and 8.0 per cent. by the end of fiscal year 1996 and to obtain a minimum credit rating. To encourage companies to comply with the regulatory framework, the RBI announced in July 1996 certain liberalisation measures under which the non-banking financial companies registered with it and complying with the prudential norms and credit rating requirements were granted freedom from the ceiling on interest rates on deposits and amount of deposits. Other measures introduced include requiring non-banking financial companies to maintain a certain percentage of liquid assets and to create a reserve fund. The percentage of liquid assets to be maintained by non-banking financial companies has been revised uniformly upwards to 15.0 per cent. of public deposits since April 1999. From 1 January 2000, the requirement should not be less than 10.0 per cent. in approved securities and the remaining in unencumbered term deposits in any scheduled commercial bank, the aggregate of which shall not be less than 15.0 per cent. of the "public deposit" outstanding at the close of business on the last working day of the second preceding quarter. The maximum rate of interest that non-banking financial companies could pay on their public deposits was reduced from 12.5 per cent. per annum to 11.0 per cent. per annum effective 4 March 2003. Effective 24 April 2007, the maximum rate of interest on public deposits accepted by non-banking financial companies was increased to 12.5 per cent. per annum.

Efforts have also been made to integrate non-banking financial companies into the mainstream financial sector. The first phase of this integration covered measures relating to registrations and standards. The focus of supervision has now shifted to non-banking financial companies accepting public deposits. This is because companies accepting public deposits are required to comply with all the directions relating to public deposits, prudential norms and liquid assets. A task force on non-banking financial companies set up by the Government submitted its report in October 1998, and recommended several steps to rationalise the regulation of non-banking financial companies. Accepting these recommendations, the RBI issued new guidelines for non-banking financial companies in December 1998, which were as follows:

- a minimum net owned fund of Rs.2.5 million is mandatory before existing non-banking financial companies may accept public deposits;
- a minimum investment grade rating is compulsory for loan and investment companies accepting public deposits, even if they have the minimum net owned funds;
- permission to accept public deposits was also linked to the level of capital to risk assets ratio. Different capital to risk assets ratio levels for non-banking financial companies with different ratings were specified; and
- non-banking financial companies were advised to restrict their investments in real estate to 10.0 per cent. of their net owned funds.

In the monetary and credit policy for fiscal year 2000, the RBI stipulated a minimum capital base of Rs.20 million for all new non-banking financial companies. This measure was implemented by a notification dated 21 April 1999. In this regard, draft guidelines were introduced on 21 May 2007 whereby the requirement of a minimum net owned fund of Rs.20 million was proposed to be extended to all NBFCs. Subsequent to the Government's budget for fiscal year 2002, the procedures for foreign direct investment in NBFCs were substantially liberalised.

During fiscal year 2003, the RBI introduced a number of measures to enhance the regulatory and supervisory standards of non-banking financial companies, especially in order to bring them in line with commercial banks, in select operations, over a period of time. Other regulatory measures adopted and subsequently revised in November 2004 included aligning interest rates in this sector with the rates prevalent in the rest of the economy, tightening prudential norms and harmonising supervisory directions with the requirements of the Companies Act, 1956, procedural changes in nomination facilities, issuance of a Know Your Customer policy and allowing non-banking financial companies to enter the insurance agency business.

In 2005, the RBI introduced stricter regulatory measures for non-banking financial companies, including stringent reporting requirements and revised Know Your Customer guidelines.

On 11 May 2010, the RBI decided to modify the extant ECB policy in respect of IFCs. As per the extant norms, IFCs have been permitted to avail of ECBs for on-lending to the infrastructure sector, as defined in the extant ECB policy, under the approval route. As a measure of liberalisation of the existing procedures, it was decided to permit the IFCs to avail of ECBs, including the outstanding ECBs, up to 50.0 per cent. of their owned funds under the automatic route, subject to their compliance with the prudential guidelines already in place. ECBs incurred by IFCs in excess of 50.0 per cent. of their owned funds would require the approval of the RBI and would, therefore, be considered under the approval route. All the other aspects of ECB policy remained unchanged.

In February 2011, the RBI decided to align the minimum capital ratio of all deposit-taking as well as systemically important non-deposit-taking NBFCs to 15 per cent. Accordingly, all deposit-taking NBFCs were required to maintain a minimum capital ratio consisting of Tier I and Tier II capital, which shall not be less than 15 per cent. of its aggregate risk-weighted assets on balance sheet and risk adjusted value of off-balance sheet items with effect from 31 March 2012.

In March 2011, the RBI decided to prohibit NBFCs from contributing capital to any partnership firm or to be partners in partnership firms in view of the risks involved in NBFCs associating themselves with partnership firms. In the case of existing partnerships, NBFCs may seek early retirement from the partnership firms.

In November 2014, the RBI introduced a revised regulatory framework for NBFCs in view of the increasing complexities of services offered by NBFCs, making it mandatory for all NBFCs to attain a minimum net-owned fund of Rs.20 million by the end of March 2017 in a phased manner, with a minimum net-owned fund of Rs.10.0 million by March 2016 and Rs.20.0 million by March 2017. The RBI amended disclosure requirements in the financial statements applicable to all NBFCs and all non-deposit-taking NBFCs. In addition, the RBI made changes to the prudential norms, board committees of the NBFCs, criteria for the appointment of directors, offsite reporting and exemptions.

Guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards

To address the deficiencies witnessed in liquidity risk management in the recent crisis and to strengthen liquidity risk management in banks, the BCBS published “Principles for Sound Liquidity Risk Management and Supervision” in September 2008. This was followed by the publication of “Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring” in December 2010, i.e. the Basel III rules text on liquidity prescribing two minimum global regulatory standards, namely the LCR and the net stable funding ratio for liquidity risk and a set of five monitoring tools.

In accordance with this, the RBI, being a member of the BCBS, released draft guidelines “Liquidity Risk Management and Basel III Framework on Liquidity Standards” in February 2012. The final guidelines on Basel III capital regulations were issued on 2 May 2012. These guidelines were scheduled to be implemented on 1 January 2013 in a phased manner and were scheduled to be fully implemented on 31 March 2018. Subsequently, the implementation date for Basel III capital regulations was changed to 1 April 2013 from 1 January 2013 to align the implementation date with the Indian financial year.

Compliance with Basel II and Basel III Requirements

In April 2011, the RBI issued guidelines to banks in relation to moving towards the “Advanced Measurement Approach” (“AMA”) for computing capital for operational risk. According to the AMA guidelines, banks are required to submit their letter of intent to migrate to the AMA followed by a detailed application to the RBI for migrating to the advanced measurement approach. The Bank had submitted its letter of intent for migration to the AMA in September 2012. On the basis of the RBI’s permission, the Bank had made its final application for moving to the AMA in September 2014. The RBI had undertaken an offsite and onsite assessment of the Bank’s preparedness and had granted approval to the Bank to migrate to the AMA on a parallel run basis in June 2015.

In April 2010 and March 2012, the RBI issued guidelines relating to switching over to (i) the “Internal Model Approach” for computing capital for market risk and (ii) the “Internal Ratings-Based Approach” (“IRB”) for computing capital for credit risk, respectively.

The Bank has constituted a Basel Credit Risk Committee which comprises the deputy managing director, the chief risk officer and the group head of finance and audit functions, which meets on a quarterly basis to oversee the progress of the preparation for the IRB. The committee is also responsible for approving various IRB related policies which are presented to it from time to time. Further, the committee also reviews the capital impact as per the IRB approach and provides guidance on reviews of the methodology used from time to time.

The Bank had completed a self-assessment of its preparation to migrate to the IRB approach and, with the approval of the Risk Policy and Monitoring Committee of the Board, submitted a letter of intent to RBI for migrating to the IRB approach. Following the submission of additional information and further interaction with RBI officials, the Bank has been allowed by RBI to participate in the parallel run process for the Foundation IRB approach for regulatory capital calculation for credit risk, subject to certain conditions. During the parallel run period, the Bank is required to provide data and/or information as per prescribed returns to RBI on a quarterly basis. Quantitative disclosures in line with pillar 3 disclosures under the Basel III guidelines as mandated by the RBI for commercial banks are disclosed in the Regulatory Disclosure Section of the Bank's website on a quarterly basis.

With regards to market risk capital charge, the Bank currently follows the standardised approach (being the standardised measurement methodology ("SMM") prescribed by the regulator and has further put in place a risk analytics system towards developing capability for adopting an internal model approach. The Basel III guidelines have been introduced with a view to improve the banking sector's ability to absorb shocks arising from any financial and economic stress from whatever source and with the aim of supplementing the risk-based capital requirement with a leverage ratio that requires capital for all "on and off balance sheet" items, thus shifting the focus towards common equity capital.

During fiscal year 2014, the Bank made concurrent qualified institutional placements and a public offering of American depositary shares each representing three equity shares. The aggregate funds received from these issuances was Rs.97,661 million. Furthermore, the Bank continuously takes measures to be in compliance with the phasing in of capital and leverage ratio requirements under the Basel III guidelines as per the schedule prescribed by the RBI.

Small Finance Banks and Payment Banks

The RBI on 17 July 2014 issued draft guidelines for the licensing of payment banks and on 27 November 2014 issued guidelines for small finance banks in the private sector. The primary objective of setting up the payment banks and small finance banks was to further financial inclusion by providing (i) small savings accounts and (ii) payments/remittance services to a migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users, by enabling high-volume low-value transactions in deposits and payments/remittance services in a secured technology driven environment. The RBI received 72 applications for small finance banks and 41 applications for payment banks. In August 2015, 11 entities were granted "in-principle" approval from the RBI for the setting up of payment banks while ten entities were provided "in-principle" approval for the setting up of small finance banks. However, as of the date of this Offering Circular, of the 11 payment banks, three applicants had surrendered their payment bank licences.

Key features of the Small Finance Bank guidelines are as follows:

Eligible promoters:

Resident individuals/professionals with 10 years of experience in banking and finance and companies and societies "owned and controlled by residents" will be eligible to set up small finance banks. Existing NBFCs, micro finance institutions, and local area banks that are "owned and controlled by residents" can also opt for conversion into small finance banks. Promoter/promoter groups should be "fit and proper", with a sound track record of professional experience or of running their businesses for a period of at least five years in order to be eligible to promote small finance banks.

Scope of activities:

- The small finance banks shall primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections, including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
- There will not be any restriction in the area of operations of small finance banks.

Capital requirement:

The minimum paid-up equity capital for small finance banks shall be Rs.100 million.

Promoter's contribution:

The promoter's minimum initial contribution to the paid-up equity capital of such small finance bank shall be at least 40 per cent. and shall gradually be brought down to 26 per cent. within 12 years from the date of commencement of business of the bank.

Foreign shareholding:

The foreign shareholding in small finance banks would be as per the Foreign Direct Investment ("FDI") policy for private sector banks as amended from time to time.

Prudential norms:

- The small finance banks will be subject to all prudential norms and regulations of the RBI as applicable to existing commercial banks, including the requirement of maintenance of CRR and SLR. No forbearance would be provided for complying with the statutory provisions.
- The small finance banks will be required to extend 75 per cent. of their ANBC to the sectors eligible for classification as PSL by the RBI.
- At least 50 per cent. of their loan portfolio should constitute loans and advances of up to Rs.2.5 million.

Transition path:

If a small finance bank aspires to transit into a universal bank, such transition will not be automatic, but would be subject to fulfilling the minimum paid-up capital/net worth requirement as applicable to universal banks, its satisfactory track record of performance as a small finance bank and the outcome of the RBI's due diligence exercise.

Key features of the Payments Banks guidelines are as follows:

Eligible promoters:

- Existing non-bank pre-paid payment instrument issuers and other entities such as individuals/professionals, NBFCs, corporate Business Correspondents ("BCs"), mobile telephone companies, supermarket chains, companies, real sector cooperatives that are "owned and controlled by residents", and public sector entities may apply to set up payments banks.

- A promoter/promoter group can have a joint venture with an existing scheduled commercial bank to set up a payments bank. However, a scheduled commercial bank can take an equity stake in a payments bank to the extent permitted under Section 19(2) of the Banking Regulation Act, 1949.
- Promoter/promoter groups should be “fit and proper”, with a sound track record of professional experience or of running their businesses for a period of at least five years in order to be eligible to promote payments banks.

Scope of activities:

- Acceptance of demand deposits. Payments banks will initially be restricted to holding a maximum balance of Rs.100,000 per individual customer.
- Issuance of ATM/debit cards. Payments banks, however, cannot issue credit cards.
- Payments and remittance services through various channels.
- BC of another bank, subject to the RBI guidelines on BCs.
- Distribution of non-risk sharing simple financial products such as mutual fund units and insurance products.

Deployment of funds:

- The payments banks cannot undertake lending activities.
- Apart from amounts maintained as CRR with the RBI on its outside demand and time liabilities, payments banks will be required to invest a minimum of 75 per cent. of their “demand deposit balances” in SLR eligible Government securities/treasury bills with a maturity up to one year and to hold a maximum 25 per cent. in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

Capital requirement:

- The minimum paid-up equity capital for payments banks shall be Rs.100 million.
- The payments banks should have a leverage ratio of not less than 3 per cent., i.e., their outside liabilities should not exceed 33.33 times their net worth (paid-up capital and reserves).

Promoter's contribution:

The promoter's minimum initial contribution to the paid-up equity capital of such payments bank shall be at least 40 per cent. for the first five years from the commencement of its business.

Foreign shareholding:

The foreign shareholding in the payments banks would be as per the FDI policy for private sector banks as amended from time to time.

Other conditions:

- The operations of the banks should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms.
- The banks should have a high-powered customer grievances cell to handle customer complaints.

Key Features

- Accept them & deposits up-to Rs.100,000
- Pay interest on the deposits
- Issue debit cards/ATM cards that can be used on any bank's ATM
- Offer remittance services through mobile phones
- Offer automatic payment of bills
- Offer forex services to travellers
- Transfer funds directly to bank accounts

Developments in the Banking Sector

Implementation of the Basel III capital regulations

In December 2010, the BCBS issued a comprehensive reform package of capital regulations, known as Basel III. The objective of the reform package is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spill over from the financial sector to the real economy. The RBI issued the RBI Basel III Capital Regulations and the guidelines became operational from 1 April 2013. However, the reform package and guidelines will be implemented in a phased manner. On 31 December 2013, the RBI further extended the implementation of credit valuation adjustment risk to 1 April 2014, and, on 27 March 2014, extended the deadline for full implementation of Basel III requirements to 31 March 2019. (*Source: RBI Circular DBOD.No.BP.BC.81/21.06.201/2013-14 dated 31 December 2013 and RBI Circular DBOD.No.BP.BC. 102/21.06.201/2013-14 dated 27 March 2013.*)

Under Basel III, the total capital of a bank in India must be at least 9.00 per cent. of RWAs (8.00 per cent. as specified by the BCBS), Tier I capital must be at least 7.00 per cent. of RWAs (6.00 per cent. as specified by the BCBS) and Common Equity Tier I capital must be at least 5.50 per cent. of RWAs (4.50 per cent. as specified by the BCBS). Due to the transitional arrangements, the capital requirements of banks may be lower during the initial periods and higher during later years. Therefore, banks have been advised to do their capital planning accordingly. In addition to the minimum requirements as indicated above, banks are required to maintain a capital conservation buffer ("CCB") in the form of common equity of 2.50 per cent. of RWAs. Under the RBI Basel III Guidelines, total capital with CCB has been fixed at 11.50 per cent. of RWAs. In July 2014, the RBI released the "Final Report of the Internal Working Group on Implementation of Counter-cyclical Capital Buffer", which requires banks to maintain a buffer of up to 2.5 per cent. of RWAs in period of high credit growth as a precaution for downturn.

Furthermore, under Basel III, a simple, transparent, non-risk based leverage ratio has been introduced. The BCBS will test a minimum Tier I leverage ratio of 3.00 per cent. during a parallel run period from 1 January 2013 to 1 January 2017. The RBI has prescribed that during this parallel run period banks should strive to maintain their existing leverage ratios, but in no case should a bank's leverage ratio fall below 4.50 per cent. Banks whose leverage is below 4.50 per cent. have been advised to achieve this target as early as possible. This leverage ratio requirement is yet to be finalised and will be finalised taking into account the final proposals of the BCBS. (*Source: RBI Annual Report 2011-2012.*) Additionally, in June 2014, the RBI released guidelines for a LCR as part of the Basel III framework on liquidity standards, which will require minimum LCRs starting at 60 per cent. as of 1 January 2015, increasing in equal annual steps to 100 per cent. by 1 January 2019.

Furthermore, Additional Tier I non-equity capital instruments under Basel III are expected to provide additional features such as full coupon discretion, and principal loss absorption when the common equity ratio of a bank falls below 6.125 per cent. of its risk-weighted assets. In the case of Tier II non-equity capital instruments, the distinction between Upper Tier II and Lower Tier II instruments under Basel II is removed and a single class of Tier II instrument eligibility criteria has been prescribed. Additionally, under Basel III loss absorption features have been included in the event of the occurrence of the "Point of Non-Viability" trigger. The RBI has also fixed the base at the nominal amount of capital instruments outstanding on 1 January 2013, and their recognition will be capped at 90.00 per cent. from 1 April 2013, with the cap reducing by 10.00 per cent. points in each subsequent year.

On 31 August 2015, the RBI designated the State Bank of India and ICICI Bank Ltd. as domestic systematically important banks ("D-SIB"). Based on the methodology provided in the D-SIB framework and data collected from banks as on 31 March 2015, the State Bank of India and ICICI Bank Ltd. will have to provide Additional Common Equity Tier 1 ("CET1") requirements as a percentage of risk weighted assets of 0.6 per cent. and 0.2 per cent., respectively. The CET1 requirements applicable to D-SIBs will be applicable from 1 April 2016 in a phased manner and would become fully effective from 1 April 2019. The additional CET1 requirements will be in addition to the capital conservation buffer.

Dynamic provisioning guidelines

At present, banks generally make two types of provisions; general provisions on standard assets and specific provisions on NPAs. Since the level of NPAs varies through the economic cycle, the resultant level of specific provisions also behaves cyclically. Consequently, lower provisions during upturns and higher provisions during downturns have a pro-cyclical effect on the real economy.

To address the pro-cyclicality of capital and provisioning, efforts at an international level are being made to introduce countercyclical capital and provisioning buffers. The RBI has prepared a discussion paper on a countercyclical (dynamic) provisioning ("DP") framework.

The DP framework is based on the concept of expected loss ("EL"), which is the average level of losses a bank can reasonably expect to experience, and is considered the cost of doing business. It is generally covered by provisioning and pricing. The objective of DP is to soften the impact of incurred losses on the results of operations through the economic cycle, and not to provide a general provisioning cushion for EL. More specifically, the DP created during a year will be the difference between the long run average EL of the portfolio for one year and the incremental specific provisions made during the year. The parameters of the model suggested in the discussion paper are calibrated based on the data of Indian banks. Banks that have the capability to calibrate their own parameters may, with the prior approval of the RBI, introduce a DP framework using the theoretical model indicated by the RBI. Other banks will have to use the standardised calibration provided by the RBI. (*Source: RBI Annual Report 2011-2012 and Discussion Paper on Introduction of Dynamic Loan Loss Provisioning Framework for Banks in India dated 30 March 2012.*)

The RBI, in its circular dated 30 March 2015, has decided that, as a countercyclical measure, a bank may utilise up to 50 per cent. of the countercyclical provisioning buffer/floating provisions held by it as at 31 December 2014 for making specific provisions for non-performing assets, as per the policy approved by the bank's Board of Directors. The RBI further clarified that the use of the countercyclical provisioning buffer/floating provisions under this measure may be over and above the use of the countercyclical provisioning buffer/floating provisions as proposed in the RBI's circular of 26 February 2014 on "Framework for Revitalising Distressed Assets in the Economy – Refinancing of Project Loans, Sale of NPA and Other Regulatory Measures." The February 2014 circular also emphasises that all banks should develop the necessary capabilities to have a dynamic loan loss provisioning framework in place which would enable them to build up a "DP account" during good times and utilise the same during a downturn.

The Master Direction issued by the RBI on 12 May 2016 titled "Master Direction – Ownership in Private Sector Banks, Directions, 2016" provides the applicable shareholding ceilings in private sector banks to various categories of shareholders. It states that the ownership limits for all shareholders in the long run shall be based on categorisation of the shareholders under two broad categories, namely (i) natural persons (individuals) and (ii) legal persons (entities or institutions). Further, non-financial and financial institutions and, among financial institutions, diversified and non-diversified financial institutions shall have separate limits for shareholding, as below:

- in the case of individuals and non-financial entities (other than promoters or promoter groups), the limit shall be 10 per cent. of the paid-up capital. However, in the case of promoters being individuals and non-financial entities in existing banks, the permitted promoter or promoter group shareholding shall be in line with the permitted level in the 22 February 2013 guidelines on the licensing of universal banks at 15 per cent.;
- in the case of entities from the financial sector, other than regulated or diversified or listed, the limit shall be 15 per cent. of the paid-up capital;
- in the case of "regulated, well diversified, listed entities from the financial sector" and shareholding by supranational institutions or public sector undertakings or the Government, a uniform limit of up to 40 per cent. of the paid-up capital is permitted for promoters, promoter groups and non-promoters; and
- higher stake or strategic investment by promoters, non-promoters through capital infusion by domestic or foreign entities or institutions shall be permitted on a case-by-case basis under circumstances, amongst others, such as relinquishment by existing promoters, rehabilitation, restructuring of problems, weak banks, entrenchment of existing promoters, or if it is in the interests of the bank or in the interests of consolidation in the banking sector.

Future Outlook and Key Trends

Going forward, banks will need to move towards the mandated higher capital standards, stricter liquidity and leverage ratios and a more cautious approach to risk. This implies that Indian banks will need to improve efficiency even as their costs of doing business increase. They will need to refine their risk management skills for enterprise-wide risk management. In addition, banks need to have in place a fair and differentiated risk pricing of products and services, since capital comes at a cost. This involves costing, a quantitative assessment of revenue streams from each product and service and an efficient transfer-pricing mechanism that would determine capital allocation.

SUPERVISION AND REGULATION

Regulation of the Bank

The following description is a summary of certain laws, regulations and policies in India, which are applicable to the Bank. The information provided below has been obtained from sources available in the public domain. The summary of the regulations set out below is not exhaustive, and is only intended to provide general information to potential investors and is neither designed nor intended to be a substitute for professional legal advice.

The main legislation governing commercial banks in India is the Banking Regulation Act, 1949 (“**Banking Regulation Act**”). Other important laws governing the Bank include the Reserve Bank of India Act, 1934, the Negotiable Instruments Act, 1881, the Foreign Exchange Management Act, 1999 (“**FEMA**”) and the Banker’s Books Evidence Act, 1891. Additionally, the RBI, from time to time, issues guidelines to be followed by banks. Compliance with all regulatory requirements is evaluated with respect to financial statements under Indian Generally Accepted Accounting Principles (“**Indian GAAP**”). The Bank is also governed by the provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (the “**Bank Nationalisation Act**”) and the Nationalised Bank (Management and Miscellaneous Provisions) Scheme, 1970 (the “**Scheme**”). The Bank is not subject to the purview of the Companies Act. Banks listed on a stock exchange in India are subject to the various regulations of the Securities Exchange Board of India (the “**SEBI**”).

The Banking Nationalisation Act and the Scheme

The Bank was nationalised under the Bank Nationalisation Act and is governed by its relevant provisions and by the Scheme. In addition, the Bank is subject to certain provisions of the Banking Regulation Act, and other laws in force. The nationalisation of banks, including the Bank, was to enable banks to better serve the needs of development of the economy in conformity with the national policy and objectives. Therefore, under the Bank Nationalisation Act, the Bank is guided by such directions in matters of policy involving the public interest as the Government may, in consultation with the RBI, give to the Bank. The Bank is managed by a Board of Directors, which consists of the Chairman, Managing Director and CEO and three Executive Directors who are appointed by the Government under the Bank Nationalisation Act as well as other elected directors from the shareholders, nominees from the RBI and other directors who may be appointed by the Government who have a special knowledge of agricultural and rural economy, banking, economy and small scale industries.

RBI Regulations

Commercial banks in India are required under the Banking Regulation Act to obtain a licence from the RBI to carry on banking business in India. Before granting the licence, the RBI must be satisfied that certain conditions are complied with, including the following:

- (i) that the bank has the ability to pay its present and future depositors in full as their claims accrue;
- (ii) that the affairs of the bank will not be or are not likely to be conducted in a manner detrimental to the interests of present or future depositors;
- (iii) that the bank has adequate capital and earnings prospects;
- (iv) that the public interest will be served if such licence is granted to the bank; and

- (v) that having regard to the area of operations, the potential scope for expansion of banks already in existence and other relevant factors, the grant of the licence would not be prejudicial to the operation and condition of the banking system.

The RBI can cancel the licence if the bank fails to meet the above conditions or if the bank ceases to carry on banking operations in India.

The Bank, being licenced by the RBI, is regulated and supervised by the RBI. The RBI requires the Bank to furnish statements, information and certain details relating to its business. It has issued guidelines for commercial banks on recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisioning for non-performing and restructured assets. In 1994, the RBI set up the Board for Financial Supervision, under the chairmanship of the Governor of the RBI to perform the function of financial supervision. The primary function of the Board for Financial Supervision is to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies.

Appointment of Auditors

The RBI has issued norms on eligibility, empanelment and selection of auditors in public sector banks, including the Bank. Some of the important norms in relation to appointment of auditors include (i) the audit firm so appointed shall have a minimum of seven full time chartered accountants, of which at least five should be full time partners exclusively associated with the audit firm; the norms also prescribe criteria for minimum experience of the auditors, (ii) the standing of the audit firm should be of at least 15 years, and (iii) the firm should have minimum statutory central audit experience of 15 years of public sector banks (before or after nationalisation) and/or by way of statutory branch audit thereof or that of statutory audit experience of a private sector bank with deposits resources of not less than Rs.5,000 million. These norms also set out the procedure for appointment of statutory auditors.

Further the RBI may in public interest, or in the interest of the banking company or its depositors appoint an auditor to conduct a special audit of the banking company's accounts, for any such transaction or class of transaction as may be specified by the RBI.

Regulations relating to the Opening of Branches

Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of the RBI to open a new place of business in India or change (unless such change is in the same city, town or village) the location of an existing place of business situated in India. Permission is granted based on factors such as the financial condition and history of the bank, its management, adequacy of capital structure and earning prospects and the public interest. The RBI may revoke the permission given by it for opening new places of business in case of violations of the conditions under which it was granted. In order to rationalise the bank authorisation policy, the RBI in its notification dated 18 May 2017 (the "**Bank Authorisation Circular**") revised its branch authorisation policy for clarifying the meaning of a "banking outlet" and harmonising the treatment of different forms of bank presence for the purpose of opening outlets in underserved areas. The Bank Authorisation Circular supersedes the erstwhile bank licensing guidelines in force and applies to all scheduled commercial banks. Some of the key aspects of the Bank Authorisation Circular are:

- (i) a "banking outlet" for a domestic scheduled commercial bank ("**DSCB**"), is a fixed point service delivery unit, manned by either bank's staff or its business correspondent where services of acceptance of deposits, encashment of cheques/cash withdrawal or lending of money are provided for a minimum of four hours per day for at least five days a week. It carries uniform signage with name of the bank and authorisation from it, contact details of the

controlling authorities and complaint escalation mechanism. Such a bank should have a regular off-site and on-site monitoring of the ‘Banking Outlet’ to ensure proper supervision, ‘uninterrupted service’ except temporary interruptions due to inter alia telecom connectivity and timely addressing of customer grievances.

- (ii) a general permission is available for opening of branches by domestic scheduled commercial banks, unless otherwise specifically restricted, in Tier 1 to Tier 6 centres across the country and will encompass specialised branches, extension counters, satellite offices, service branches, central processing centres and all other offices/branches of a bank. Thus, banks are not required to approach the RBI for authorisation for opening branches or any other places of business or administrative offices in any centre;
- (iii) The opening of ‘Banking Outlets’ during a financial year will be subject to the conditions set out below:
 - (a) At least 25.00 per cent. of the total number of ‘Banking Outlets’ opened during a financial year should be opened in unbanked rural centres, as defined in the Bank Authorisation Circular.
 - (b) A ‘Part-time Banking Outlet’, opened in any centre, will be counted and added to the denominator as well as numerator on pro rata basis for computing the requirement as well as the compliance with the norm of opening 25.00 per cent. of its Banking Outlets in unbanked rural centres.
- (iv) Merger, closure, shifting or conversion of “Banking Outlets” –
 - (a) Certain banks having general permission may shift, merge or close all ‘Banking Outlets’ (except rural outlets and sole semi-urban outlets) at their discretion. Conversion of any rural or sole semi-urban banking outlet into a full-fledged brick and mortar branch and vice versa would not require any additional approval. While merging/closing/shifting/converting a rural or a sole semi urban ‘Banking Outlet’, banks, district consultative committee and district level review committee shall ensure that the banking needs of the centre continue to be met.
 - (b) Domestic scheduled commercial banks from whom general permission has been withdrawn, require prior approval of Department of Banking Regulation (“DBR”), Central Office, the RBI for opening all their branches.

Capital Adequacy Requirements

The Bank manages and maintains capital as a cushion against risk of probable losses and to protect its depositors and creditors. The capital requirement of the Bank during the next fiscal year is projected as a part of its annual business plan, in accordance with its business strategy. In calculating the future capital requirements of the Bank, broad parameters, mainly balance sheet composition, portfolio mix, growth rate and relevant discounting, are considered. In addition, views regarding market behaviour of interest rate and liquidity positions are also taken into account. Further, the loan composition and rating matrix is factored in to reflect precision in projections.

In order to strengthen the resilience of the banking sector to absorb potential future shocks arising from financial and economic stress, together with ensuring adequate liquidity in the banking system, the Basel Committee on Banking Supervision released a comprehensive reform package titled the “Basel III: A global regulatory framework for more resilient banks and banking system”.

The RBI has issued guidelines based on the Basel III regulations and these have been implemented in phases in India starting since 1 April 2013 and will come to full force from 31 March 2019. The Basel III regulations on capital consist of measures on improving the quality, consistency and transparency of capital, enhancing risk coverage, introducing a supplementary leverage ratio, reducing pro-cyclicality and promoting countercyclical buffers, and addressing systemic risk and interconnectedness between financial institutions. The Basel III regulations include a liquidity coverage ratio which is a measure of short-term liquidity and is aimed at building liquidity buffers to meet stress situations; and a measure of long-term net stable funding ratio aimed at promoting longer term structural funding.

The Basel III regulations focus on enhancing quality and quantity of capital, introducing a capital conservation buffer and leverage ratio. The guidelines also enhance the risk coverage by increasing capital requirements for certain asset classes (e.g. claims on banks, securitisation etc.) and introduces credit value adjustment on the derivatives portfolio.

Capital to Risk (Weighted) Assets Ratio (CRAR) Position under Basel III

In line with requirements of Basel III Guidelines, the Bank has put in place due process to meet the requirements envisaged in the abovementioned guidelines. Accordingly, the Bank has been computing its capital requirements since quarter ended 30 June 2013 as per Basel III norms and disclosed the same. The CRAR position of the Bank (standalone) as on 31 December 2018 is as below:

CRAR	Basel III
CET 1 (%)	8.81
Tier 1 (%)	9.54
Total (%)	12.21

Risk weights on certain asset classes as per Basel III norms:

(i) Risk weight on Residential Real Estate and Commercial Real Estate:

The RBI guidelines have modified the risk weights applicable on loans classified as residential real estate loans loan-to-value ("LTV") ratios, as provided in the table below. Additionally, a new sub sector of commercial Real Estate – Residential Housing within Commercial Real Estate ("CRE") has been introduced by the RBI which attracts a lower risk weight of 75.00 per cent. as against 100.00 per cent. for CRE.

Category of Loan	LTV Loan (%)	Risk Weight
A. Individual Housing Loans		
(i) Up to Rs. 2 million	90%	50%
(ii) Above Rs. 2 million and up to Rs.7.5 million	80%	50%
(iii) Above Rs.7.5 million	75%	75%
B. CRE – RH	NA	75%
C. CRE	NA	100%

(ii) Risk weight as per external rating:

Claims on corporates, exposures on Asset Finance Companies (“**AFCs**”) and Non-Banking Finance Companies-Infrastructure Finance Companies (“**NBFC-IFC**”), shall be risk weighted as per the ratings assigned by the rating agencies registered with the SEBI and accredited by the RBI. The following table indicates the risk weight applicable to claims on corporates, AFCs and NBFC-IFCs:

Rating	Risk Weight
AAA	20%
AA	30%
A	50%
BBB	100%
BB and Below	150%
Unrated	100%

(iii) Risk weights on other asset classes:

Asset Class	Risk Weight
Capital Market Exposure	125%
Regulatory Retail Portfolio	75%

Elements of capital under Basel III norms:

(i) Elements of Common Equity Tier 1 Capital:

Elements of common equity component of Tier 1 capital will comprise of the following:

- (a) common shares (paid-up equity capital) issued by the bank which meet the criteria for classification as common shares for regulatory purposes as per Basel III guidelines;
- (b) stock surplus (share premium) resulting from the issue of common shares;
- (c) statutory reserves;
- (d) capital reserves representing surplus arising out of sale proceeds of assets;
- (e) other disclosed free reserves, if any;
- (f) balance in profit and loss account at the end of the previous fiscal year;
- (g) further Banks may reckon the profits in current fiscal year for CRAR calculation on a quarterly basis provided the incremental provisions made for NPAs at the end of any of the four quarters of the previous fiscal year have not deviated more than 25.00 per cent. from the average of the four quarters. The amount which can be reckoned would be derived using the following formula: $EP_t = \{NP_t - 0.25*D*t\}$

Where:

EP_t = Eligible profit up to the quarter ‘t’ of the current fiscal year; ‘t’ varies from 1 to 4

NP_t = Net profit up to the quarter 't'

D = Average annual dividend paid during last three years

Further, while calculating capital adequacy at the consolidated level, common shares issued by consolidated subsidiaries of the bank and held by third parties which meet the criteria for inclusion in Common Equity Tier1 capital will be included;

- (h) less: regulatory adjustments or deductions applied in the calculation of Common Equity Tier 1 capital (i.e. will be deducted from the sum of items (a) to (g)).

(ii) Elements of Additional Tier 1 Capital

Additional Tier 1 capital will consist of the sum of the following elements:

- (a) perpetual non-cumulative preference shares, which comply with the regulatory requirements as specified in the Basel III guidelines;
- (b) stock surplus (share premium) resulting from the issue of instruments included in the Additional Tier 1 capital;
- (c) debt capital instruments eligible for inclusion in Additional Tier 1 capital, which comply with the regulatory requirements as specified in the Basel III guidelines;
- (d) any other type of instrument generally notified by the RBI from time to time for inclusion in Additional Tier 1 capital;
- (e) further, while calculating capital adequacy at the consolidated level, Additional Tier 1 capital instruments issued by consolidated subsidiaries of the bank and held by third parties which meet the criteria for inclusion in Additional Tier 1 capital will be included; and
- (f) less: regulatory adjustments or deductions applied in the calculation of Additional Tier 1 capital (i.e. will be deducted from the sum of items (a) to (e)).

(iii) Elements of Tier 2 Capital

Tier 2 capital will consist of the following elements:

- (a) General Provisions and Loss Reserves;
 - provisions or loan-loss reserves held against future, presently unidentified losses, which are freely available to meet losses which subsequently materialise, will qualify for inclusion within Tier 2 capital. Accordingly, general provisions on standard assets, floating provisions, provisions held for country exposures, investment reserve account, excess provisions which arise on account of sale of NPAs and 'countercyclical provisioning buffer' will qualify for inclusion in Tier 2 capital. However, these items together will be admitted as Tier 2 capital up to a maximum of 1.25 per cent. of the total credit risk and weighted assets under the standardised approach. Under the Internal Rating Based ("IRB") approach, where the total expected loss amount is less than the total eligible provisions, banks may recognise the difference as Tier 2 capital of up to a maximum of 0.60 per cent. of credit-risk weighted assets calculated under the IRB approach; and

- provisions ascribed to identified deterioration of particular assets or loan liabilities, whether individual or grouped, shall be excluded. Accordingly, for instance, specific provisions on NPAs, both at individual account or at portfolio level, provisions in lieu of diminution in the fair value of assets in the case of restructured advances, provisions against depreciation in the value of investments will be excluded.
- (b) debt capital instruments issued by the banks;
- (c) preference share capital instruments, including perpetual cumulative preference shares redeemable non-cumulative preference shares, and redeemable cumulative preference shares issued by the banks;
- (d) stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital;
- (e) revaluation reserves at a discount of 55.00 per cent.;
- (f) any other type of instrument generally notified by the RBI from time to time for inclusion in Tier 2 capital;
- (g) further, while calculating capital adequacy at the consolidated level, Tier 2 capital instruments issued by consolidated subsidiaries of the bank and held by third parties which meet the criteria for inclusion in Tier 2 capital will be included; and
- (h) less: regulatory adjustments or deductions applied in the calculation of Tier 2 capital (i.e. to be deducted from the sum of items (a) to (g)).

The RBI, in its circular dated 1 March 2016, has provided that the revaluation reserves arising out of a change in the carrying amount of a bank's property consequent upon its revaluation may, at the discretion of such bank, be considered as Common Equity Tier 1 capital at a discount of 55.00 per cent., instead of as Tier 2 capital, subject to fulfilment of certain conditions mentioned therein.

Provision for Loan Losses and Non-Performing Assets

The RBI annually issues consolidated instructions and guidelines relating to income recognition, asset classification and provisioning standards in its master circular on 'Prudential Norms on Income Recognition, Asset Classification and provisioning pertaining to Advances (the "IRAC Master Circular")' dated 1 July 2015. The RBI has also consolidated all instructions and guidelines relating to valuation of investments in its master circular on 'Prudential Norms for Classification, Valuation and Operation of Investment Portfolios by Banks' dated 1 July 2015. The guidelines are amended and revised by the RBI from time to time.

The principal features of these RBI guidelines, which have been implemented with respect to the Bank's loans, debentures, lease assets, hire purchases and bills are set forth below.

Asset Classification

An NPA is an asset which ceases to generate income for the Bank. In particular it is a loan or an advance where:

- (i) interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan;

- (ii) the account remains “out-of-order” (as defined below) for a period of more than 90 days in respect of an overdraft or cash credit;
- (iii) the bill remains overdue for a period of more than 90 days in case of bills purchased and discounted;
- (iv) instalment of principal or interest remains overdue for two crop seasons for short duration crops or for one crop season for long duration crops;
- (v) the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated 1 February 2006;
- (vi) in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment; and
- (vii) in respect of derivative transactions, the overdue receivables representing a positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Banks should classify an account as an NPA only if the interest imposed during any quarter is not fully repaid within 90 days from the end of the relevant quarter.

Once an account has been classified as an NPA, it is not recognised on an accrual basis but is booked as income only once it has been received. Therefore, banks should not charge and take to income account interest on any NPA. This will apply to Government guaranteed accounts as well.

“Out-of-Order” Status

An account should be treated as “out-of-order” if the outstanding balance remains continuously in excess of the sanctioned or drawing limit. In circumstances where the outstanding balance in the principal operating account is less than the sanctioned or drawing limit, but (i) there are no credits continuously for a period of 90 days as at the date the balance sheet of the bank or (ii) the credits are not sufficient to cover the interest debited during the same period, these accounts should be treated as “out-of-order”.

Once the account has been classified as an NPA, the unrealised interest and other income already debited to the account is de-recognised and further interest is not recognised or credited to the income account unless collected.

“Overdue” Status

Any amount due to a bank under any credit facility is treated as ‘overdue’ if it is not paid on the due date fixed by the bank.

Asset Classification

The IRAC Master Circular classifies NPAs as follows:

Sub-Standard Assets – with effect from 31 March 2015, assets that are NPAs for a period not exceeding 12 months will be classified as sub-standard assets. In such cases, the current net worth of the borrower or guarantor or the current market value of the security charged is not enough to ensure recovery of dues to the banks in full. Such an asset has well-defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

Doubtful Assets – with effect from 31 March 2015, assets that remain in the sub-standard category for more than 12 months will be classified as doubtful. A loan classified as doubtful has all the weaknesses inherent in assets that are classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss Assets – Assets on which losses have been identified by the bank or internal or external auditors or by the RBI inspection, but the amount has not been written off wholly, are classified as loss assets. Such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

The RBI has issued separate guidelines for restructured loans. A fully secured standard loan can be restructured by rescheduling the principal repayments and/or the interest element, but it must be separately disclosed as a restructured loan. The amount of diminution, if any, in the fair value of the loan, measured in present value terms, is either written off or provision is made to the extent of the diminution involved. The total provisions required against an account are capped at 100.00 per cent. of the outstanding debt amount. Similar guidelines apply to sub-standard assets and doubtful assets. The sub-standard accounts which have been subjected to restructuring, whether in respect of principal instalment or interest amount, by whatever modality, are eligible to be upgraded to the standard category only after the specified period, i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period.

Provisioning and Write-Offs

Provisions are based on guidelines specific to the classification of the assets. The following guidelines apply to the various asset classifications:

Standard Assets – A general provision of 0.40 per cent. is required, other than for direct advances to the agriculture and small and micro enterprise sectors for which the requirement is 0.25 per cent. and advances for commercial real estate sector, for which the requirement is 1.00 per cent. and advances to the residential housing sector for which the requirement is 0.75 per cent. However, medium enterprises will attract a 0.40 per cent. standard asset provisioning. The RBI has increased the standard asset provisioning on the outstanding amount from 0.40 per cent. to 2.00 per cent. for housing loans extended at teaser rates i.e. where the banks sanction the housing loans at comparatively lower rates of interest in the first few years, after which rates are reset at higher rates. The provisioning on these assets reverts to 0.40 per cent. after one year from the date on which the rates are reset at higher rates if the accounts remain ‘standard’.

Restructured Accounts – A provision of 2.75 per cent. is required for restructured accounts classified as standard advances in the first two years from the date of restructuring. In cases of a moratorium on the payment of interest or principal after restructuring, such advances attract a provision of 2.75 per cent. for the period covering the moratorium and the two years thereafter. Restructured accounts classified as NPAs, when upgraded to standard category, attract a provision of 2.75 per cent. in the first year from the date of having been upgraded. The provisioning requirement for restructured standard advances has been further increased to 5.00 per cent. with effect from 1 June 2013 and will be implemented in a phased manner, and become fully effective from 31 March 2016.

Sub-Standard Assets – A general provision of 15.00 per cent. of the total outstanding loans is required without making allowance for the securities available. Unsecured exposures, which are identified as “sub-standard”, attract an additional provision of 10.00 per cent. (that is, a total of 25.00 per cent. on the outstanding balance). However, in view of certain safeguards such as escrow accounts available in respect of infrastructure lending, infrastructure loan accounts which are classified as sub-standard attract a provisioning of 20.00 per cent. instead of 25.00 per cent.

Doubtful Assets – A 100.00 per cent. provision is made against the unsecured portion of the doubtful asset. For NPAs with a balance of Rs.50.00 million and above the value assigned to the collateral securing a loan is, as per RBI guidelines, the realisable value determined by third party appraisers. In cases where there is a secured portion of the asset, depending upon the period for which the asset remains doubtful, a provision is required to be taken against the secured asset as follows:

- (i) up to one year: 25.00 per cent. provision;
- (ii) one to three years: 40.00 per cent. provision; and
- (iii) more than three years: a 100.00 per cent. provision.

Loss Assets – The entire asset is required to be written off and, in case it is permitted to remain on the books, 100.00 per cent. of the outstanding has to be provided for.

Restructured Assets – Until 27 August 2008, the amount of sacrifice, if any, in the element of interest, measured in present value terms, was either written off or provision was made to the extent of the sacrifice involved. For loans restructured after 27 August 2008, a provision equal to the difference between the fair value of the loan before and after restructuring is required to be made. The fair value of the loan before restructuring is computed as the present value of cash flows representing the interest at the existing rate charged on the loan before restructuring and the principal. The fair value of the loan after restructuring is computed as the present value of cash flows representing the interest at the rate charged on the loan on restructuring and the principal. Both sets of cash flows are discounted by the bank's benchmark prime lending rate as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring.

Distressed Assets in Indian Economy

In view of the enactment of the Insolvency and Bankruptcy Code (“**IBC**”), the RBI decided to substitute the erstwhile guidelines and norms relating to resolution of stressed assets with a revised, comprehensive framework. The RBI issued a notification for resolution of stressed assets on 12 February 2018 (“**Framework**”). The Framework is applicable to all scheduled commercial banks and all India financial institutions.

The Framework has repealed multiple guidelines and schemes including the Framework for Revitalising Distressed Assets, Corporate Debt Restructuring Scheme, Flexible Structuring of Existing Long Term Project Loans, Strategic Debt Restructuring Scheme, Change in Ownership outside SDR, and Scheme for Sustainable Structuring of Stressed Assets with immediate effect from the date of the Framework.

The Framework provides for resolution of stressed assets in a systematic manner as detailed below:

(a) *Early Identification of Stressed Assets*

The manner of classification of stressed assets are required to continue classifying the stressed assets as special mention accounts (“**SMA**”) as per the following categories:

SMA Sub-categories

Basis for classification – Principal or interest payment or any other amount wholly or partly overdue

(Default) between

SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

(b) *Reporting of Stressed Assets*

For borrowers against which lenders have aggregate exposure of Rs. 50 million and above, the Lenders are required to:

- report credit information (including classification of an account as SMA) to Central Repository of Information on Large Credits (“**CRILC**”);
- submit the CRILC-Main Report on a monthly basis effective 1 April 2018, instead of the quarterly reporting required to be made under the erstwhile regulations;
- report to CRILC, such borrowers in default on a weekly basis, with the first such weekly report required to be submitted for the week ending 23 February 2018.

(c) *Resolution Plan*

All lenders are required to have board approved policies for resolution of stressed assets including the timelines for such resolution. For ensuring uniformity of treatment, however, the Framework specifies the prudential norms applicable for the various means of restructuring adopted. Upon a default in a borrower’s account with any lender, all lenders (singly or jointly) shall initiate steps to cure the default and formulate a resolution plan (“**RP**”). The RP may involve actions, plan or reorganisation including but not limited to regularisation of the account by payment of all over dues by the borrower, or sale of the exposures to other entities/investors, change in ownership. The RP is required to be documented by all the lenders.

A RP in respect of borrower entities to whom the lenders continue to have credit exposure shall be deemed to be “*implemented*” only if:

- (i) the borrowing entity is no longer in default with any of its lenders;
- (ii) if the resolution involves restructuring then:
 - (a) all related documentation, including execution of necessary agreement between the lenders and borrower is complete; and
 - (b) the new capital structure or changes in the terms of the conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.

RPs involving restructuring or change in ownership in respect of large accounts (i.e. accounts where the aggregate exposure of lenders is Rs.1 billion or above shall require independent credit evaluation (“**ICE**”) of the residual debt by credit rating agencies specifically authorised by the RBI. While accounts with aggregate exposure of Rs.5 billion and above shall require two ICEs.

The Framework sets out timelines for large accounts to be referred under the IBC. Accounts with an aggregate exposure of the lenders at Rs.20.00 billion and above after 1 March 2018 including accounts where resolution may have been initiated under any of the existing schemes, the RP shall be implemented as per the following timelines:

- (a) if in default as on the reference date, then 180 days from the reference date; and
- (b) if in default after the reference date, then 180 days from the date of first such default.

If a RP in respect of such large accounts is not implemented as per the timelines specified in the Framework, the lenders are required to file insolvency applicable under the IBC within 15 days from the expiry of the timeline.

Regulations Relating to Making Loans

The provisions of the Banking Regulation Act govern the making of loans by banks in India. These directions and guidelines issued by the RBI are consolidated in the master circular on ‘Loans and Advances-Statutory and Other Restrictions’ issued by the RBI dated 1 July 2015. Some of the important provisions of the Banking Regulation Act and guidelines of the RBI, which are now in effect, are as follows:

- (i) The RBI has prescribed standards for bank lending to non-bank financial companies and financing of public sector disinvestment.
- (ii) Prior to 1 July 2010, lending rates were linked to the prime lending rate which was determined and disclosed by each bank. Banks were given the freedom to lend at a rate below the prime lending rate in respect of creditworthy borrowers and exposures. From 1 July 2010, the benchmark prime lending rate (“**BPLR**”) had been replaced by the base rate, which takes into consideration all elements of lending rates that are common across borrowers. The base rate is the minimum rate for all loans; banks are not permitted to lend below the base rate except for the ‘Differential Rate of Interest’ advances, loans to banks’ own employees and loans to banks’ depositors against their own deposits. Banks have been permitted to arrive at the base rate for a specific tenor that would be needed to be disclosed transparently. Further, banks have been permitted to determine their final lending rates on loans and advances with reference to the base rate and by including such other customer specific charges as they consider appropriate. Until such time that loans linked to the benchmark prime lending rate exists, both the benchmark prime lending rate and the base rate will have to be announced by banks.

- (iii) The base rate and BPLR are now replaced by the marginal cost of funds based lending rate (“**MCLR**”).
- (iv) As per the RBI master direction on ‘Interest Rate On Advances’ dated 3 March 2016, banks have to prepare an MCLR which will be the internal benchmark lending rates. Based upon the MCLR, interest rates for different types of customers should be fixed in accordance with their associated risk. The base rate is determined on the basis of the MCLR calculation. The MCLR will be revised monthly based on the consideration of certain new factors including the repo rate and other borrowing rates. The MCLR is automatically applicable to any loans availed after the notification of the abovementioned master direction. As per the master direction, banks have to set five benchmark rates for different tenures or time periods ranging from one day to one year.
- (v) Under the master directions, existing loans provided on the basis of the BPLR shall be allowed to run to maturity. Existing borrowers who wish to switch to the new Base Rate system shall be given an option before the expiry of their existing contracts with the relevant banks to convert to the new Base Rate on mutually agreed terms with the bank.
- (vi) Section 20(1) of the Banking Regulation Act provides that a bank cannot grant any loans and advances against the security of its own shares, a banking company is prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 8 of the Companies Act) of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor. There are certain exemptions in this regard as the explanation to the section provides that “loans or advances” shall not include any transaction which the RBI may specify by general or special order as not being a loan or advance for the purpose of such section.

However, the RBI may, subject to conditions as it may deem fit to impose, exempt any banking company from the restriction on lending to the subsidiary, holding company or any other company in which any of the directors of the banking company is a director, managing agent, manager, employee, guarantor or in which such person holds substantial interest.

The RBI has prohibited banks from granting any loan or advance for subscription to Indian Depository Receipts (“**IDRs**”). Banks are also prohibited from granting any loan or advance against security or collateral of IDRs.

Guidelines relating to use of Recovery Agents by Banks

In April 2008, the RBI issued guidelines for banks engaging recovery agents. The RBI has asked banks to put in place a due diligence process for engagement of recovery agents, structured to cover individuals involved in the recovery process. Banks are expected to communicate details of recovery agents to borrowers and have in place a grievance redress mechanism pertaining to the recovery process. The RBI has advised banks to initiate a training course for current and prospective recovery agents to ensure prudent recovery practices.

Regulations relating to Sale of Assets to Asset Reconstruction Companies

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (“**SARFAESI Act**”) provides for sale of financial assets by banks and financial institutions to asset reconstruction companies. The RBI has issued guidelines to banks on the process to be followed for sales of financial assets to asset reconstruction companies. These guidelines provide that a bank may sell financial assets to an asset reconstruction company

provided the asset is an NPA. These assets are to be sold on a “non-recourse” basis only. A bank may sell a financial asset which is a standard asset only if the borrower has a consortium or multiple banking arrangement, at least 75.00 per cent. by value of the total loans to the borrower are classified as NPA and at least 75.00 per cent. by value of the banks and financial institutions in the consortium or multiple banking arrangement agree to the sale. The banks selling financial assets should ensure that there is no known liability devolving on them and that they do not assume any operational, legal or any other type of risks relating to the financial assets sold.

Further, banks may not sell financial assets at a contingent price with an agreement to bear a part of the shortfall on ultimate realisation. Banks may sell specific financial assets with an agreement to share in any surplus realised by the asset reconstruction company in the future. Whilst each bank is required to make its own assessment of the value offered in the sale before accepting or rejecting an offer for purchase of financial assets by an asset reconstruction company, in consortium or multiple banking arrangements where more than 75.00 per cent. by value of the banks or financial institutions accept the offer, the remaining banks or financial institutions are obliged to accept the offer. Consideration for the sale may be in the form of cash, bonds or debentures. Banks may also invest in security receipts or pass through certificates issued by the asset reconstruction company or trusts set up by it to acquire the financial assets.

The IRAC Master Circular lays down the guidelines for sale of financial assets to securitisation companies or reconstruction companies. These guidelines prescribe certain regulatory standards for capital adequacy, valuation, profit and loss on sale of assets, income recognition and provisioning for originators and service providers like credit enhancers, liquidity support providers, underwriters as well as investors and also the accounting treatment for securitisation transactions and disclosure standards have been prescribed. Quarterly reporting to the audit sub-committee of the board by originating banks of the securitisation transactions has also been prescribed.

In March 2009, the RBI issued guidelines relating to excess provisions on sale of standard assets and NPAs. Banks were permitted to voluntarily make specific provisions for NPAs at rates higher than prescribed by regulation with the additional provisions for NPAs netted off from gross NPAs to arrive at net NPAs. According to the guidelines in respect of the sale of standard assets, in case the sale consideration is higher than the book value, the excess provisions may be credited to the profit and loss account. Excess provisions which arise on sale of NPAs may be treated as Tier II capital subject to the overall ceiling of 1.25 per cent. of total risk-weighted assets. Regarding provisions for diminution of fair value of restructured advances, both in respect of standard assets and NPAs, made on account of reduction in rate of interest and/or re-scheduling of principal amount are permitted to be netted from the relative assets.

The RBI, in its circular dated 7 May 2012, revised the guidelines applicable to securitised transactions. Some of the key provisions of the circular are as follows:

- (i) Banks can securitise loans only after a minimum holding period (“**MHP**”) counted from the date of full disbursement of the loans. The circular prescribes the MHP applicable to various loans depending upon their tenor and repayment frequency.
- (ii) The originating banks are required to adhere to the minimum retention requirement (“**MRR**”) prescribed in the circular depending on the type of loan and the maturity date.
- (iii) The total exposure of banks to the loans securitised in the following forms should not exceed 20.00 per cent. of the total securitised instruments issued:
 - (a) investments in equity/subordinate/senior tranches of securities issued by the SPV including through underwriting commitments;
 - (b) credit enhancements including cash and other forms of collaterals including over-collateralisation, but excluding the credit enhancing interest-only strip;

- (c) liquidity support;
- (d) if a bank exceeds the above limit, the excess amount would be risk-weighted at 1,111.00 per cent.; and
- (e) in case of a true sale, the selling bank shall transfer all risks/rewards and rights/obligations pertaining to the asset and shall not hold any beneficial interest in the asset after its sale except those specifically permitted under the guidelines. The buyer should have the unfettered right to pledge, sell, transfer or exchange or otherwise dispose of the assets free of any restraining condition. The buyer shall not have any recourse to the selling bank for any expenses or losses except those specifically permitted under the guidelines.

On 1 July 2013, the RBI issued certain guidelines on the reset of credit enhancement in securitisation transactions which provide conditions subject to which the amount of the external credit enhancement provided can be reset and the excess amount of credit enhancement can be released. The original amount of external credit enhancements provided at the time of the initiation of a securitisation transaction can be reset by the credit enhancement provider if it fulfils certain conditions, including, among others, that (i) the rating of any of the tranches has not deteriorated, (ii) consent of all the trustees has been obtained, (iii) reset of the credit enhancement is provided for in the contractual terms of the transaction, (iv) the initial rating of the transaction takes into account the likelihood of resets, and (v) the pool of underlying loans has demonstrated a satisfactory performance before the reset is permitted.

The excess credit enhancement can be released subject to certain conditions, the credit enhancement provided should not go below a reserve floor (which is a percentage of the initial credit enhancement) and in no event should be less than 30.00 per cent. of the initial credit enhancement and the release cannot cause the exposures retained by originators along with credit enhancements offered by them to fall below the prescribed level of MRR.

Guidelines on Sale and Purchase of NPAs

In July 2005, the RBI issued guidelines on sales and purchases of NPAs between banks, financial institutions and non-bank finance companies, which have now been consolidated in the IRAC Master Circular. These guidelines require that the board of directors of the bank must establish a policy for purchases and sales of NPAs. Purchases and sales of NPAs must be without recourse to the seller and on a cash basis, with the entire consideration being paid up front. An asset must have been classified as non-performing for at least two years by the seller to be eligible for sale. The purchasing bank must hold the NPA on its books for at least 12 months before it can sell the asset to another bank. The asset cannot be sold back to the original seller.

The IRAC Master Circular also prescribes guidelines regarding the valuation of NPAs being put up for sale. As per the IRAC Master Circular, banks have been instructed to work out the net present value of the estimated cash flows associated with the realisable value of the available asset net of the cost of realisation. The sale price should not be lower than the net present value. The RBI has instructed banks to follow the same procedure in case of compromise settlements as well.

The IRAC Master Circular lays down the procedure for sale of banks'/financial assets' financial assets to securitisation companies ("SCs") or reconstruction companies ("RCs"). These include banks using auction process for the sale of NPAs. The auction process is required to be transparent, and should, *inter alia*, disclose the reserve price and specify clauses for non-acceptance of bids. Further, while selling the NPA, the net present value ("NPV") of the estimated cash flows associated with the realisable value of the available securities, net of the cost of realisation, has to be worked out. The sale price should not be lower than the NPV arrived at as indicated above.

The IRAC Master Circular further provides for sale of the financial assets on a ‘without recourse’ basis, i.e., with the entire credit risk associated with the financial assets being transferred to an SC/RC, as well as on a ‘with recourse’ basis, i.e., subject to unrealised part of the asset reverting to the seller bank/FI. Banks/FIs are, required to ensure that the effect of the sale of the financial assets should be such that when the asset is taken off the books of the bank or FI and after the sale there should not be any known liability devolving on the banks/FIs.

Prudential norms for banks/FIs for the sale transactions

Provisioning/valuation norms

The IRAC Master Circular provides for the following provisioning/valuations norms:

- (i) when a bank/FI sells its financial assets to an SC/RC, on such transfer, the same will be removed from its books;
- (ii) if the sale to an SC/RC is at a price below the net book value (“NBV”) (i.e., book value less provisions held), the shortfall should be debited to the profit and loss account of that year. Banks can also use countercyclical/floating provisions for meeting any shortfall on sale of NPAs i.e., when the sale is at a price below the NBV;
- (iii) As per the IRAC Master Circular for assets sold on or after 26 February 2014, banks can reverse the excess provision on sale of NPAs, if the sale value is for a value higher than the NBV, to its profit and loss account in the year the amounts are received. However, banks can reverse excess provision arising out of sale of NPAs only when the cash received (by way of initial consideration and/or redemption of SRs/pass-through certificates) is higher than the NBV of the asset. Further, reversal of excess provision will be limited to the extent to which cash received exceeds the NBV of the asset;
- (iv) with regard to assets sold before 26 February 2014, excess provision, on account of sale value being higher than NBV, should not be reversed but should be utilised to meet the shortfall/loss on account of sale of other financial assets to an SC/RC; and
- (v) when banks/FIs invest in the security receipts/pass-through certificates issued by an SC/RC in respect of the financial assets sold by them to the SC/RC, the sale shall be recognised in books of the banks/FIs at the lower of:
 - (a) the redemption value of the security receipts/pass-through certificates; and
 - (b) the NBV of the financial asset.

The investment at paragraph (v) above, should be carried in the books of the bank/FI at the price as determined above until its sale or realisation, and on such sale or realisation, the loss or gain must be dealt with in the same manner as at paragraphs (ii) and (iii) above.

The securities (bonds and debentures) offered by an SC/RC are required to satisfy the following conditions:

- (i) the securities must not have a term in excess of six years;
- (ii) the securities must carry a rate of interest which is not lower than 1.50 per cent. above the bank rate in force at the time of issue;
- (iii) the securities must be secured by an appropriate charge on the assets transferred;
- (iv) the securities must provide for part or full prepayment in the event the SC/RC sells the asset securing the security before the maturity date of the security;

- (v) the commitment of the SC/RC to redeem the securities must be unconditional and not linked to the realisation of the assets; and
- (vi) whenever the security is transferred to any other party, notice of transfer should be issued to the SC/RC.

All instruments received by banks/FIs from the SC/RC as sale consideration for financial assets sold to them and also other instruments issued by the SC/RC in which banks/FIs invest will be in the nature of SLR securities. Accordingly, the valuation, classification and other norms applicable to investment in non-SLR instruments prescribed by the RBI from time to time would be applicable to the bank's/FI's investment in debentures/bonds/security receipts/pass-through certificates issued by the SC/RC. However, if any of the above instruments issued by an SC/RC is limited to the actual realisation of the financial assets assigned to the instruments in the concerned scheme the bank/FI shall reckon the (NAV), obtained from the SC/RC from time to time, for valuation of such investments.

Exposure Norms

Banks'/FIs' investments in debentures, bonds, security receipts and pass-through certificates issued by an SC/RC will constitute exposure on an SC/RC. Since there are only a few SC/RCs presently, banks'/FIs' exposure on a SC/RC through their investments in debentures/bonds/security receipts/pass through certificates issued by the SC/RC may go beyond their prudential exposure ceiling. In view of the extra ordinary nature of event, banks/FIs will be allowed, in the initial years, to exceed prudential exposure ceiling on a case-to-case basis.

Classification of SMEs

The Government passed the Micro, Small & Medium Enterprises Development Act, 2006 in June 2006 to promote lending to SMEs and to create uniformity in the way that banks classify SMEs. Entities are divided into micro, small or medium sized entities. Micro-sized entities comprise manufacturing companies with investments in plant and machinery of up to Rs.2.50 million or service companies with investments in equipment of up to Rs.1.00 million. Small-sized entities comprise manufacturing companies with investments in plant and machinery of over Rs.2.50 million but less than Rs.50.00 million and service companies with investments in equipment of over Rs.1.00 million but less than Rs.20.00 million. Medium-sized entities comprise manufacturing companies with investments in plant and machinery of over Rs.50.00 million but less than Rs.100.00 million and service companies with investments in equipment of over Rs.20.00 million but less than Rs.50.00 million.

Sale of Stressed Assets by Banks

The RBI has issued guidelines on Sale of Stressed Assets by Banks on 1 September 2016. As per these guidelines, the boards of banks are required to lay down detailed policies and guidelines for the sale of their stressed assets to SCs and RCs. This policy is required to cover aspects such as (but not limited to), financial assets to be sold, norms and procedure for sale of such financial assets, and valuation procedures. The guidelines prescribe measures to increase transparency in the entire process of sale of stressed assets.

In order to develop a thriving stressed assets market, the guidelines issued by RBI progressively restrict banks from investing in security receipts backed by their own stressed assets. With effect from 1 April 2017, where the investment by a bank in SRs backed by stressed assets sold by it, under an asset securitisation, is more than 50.00 per cent. of SRs backed by its sold assets and issued under that securitisation, the provisions held in respect of these SRs will be subject to a floor. This floor shall be progressive provisioning as per extant asset classification and provisioning norms, notionally treating book value of these SRs as the corresponding stressed loans, assuming these had remained, without recovery of principal, on the bank's books. In effect, provisioning requirement on SRs will be higher of the:

- (i) provisioning rate required in terms of net asset value declared by the SCs/RCs; and

- (ii) provisioning rate as applicable to the underlying loans, assuming that the loans notionally continued in the books of the bank;

Further, with effect from 1 April 2018, the above threshold of 50.00 per cent. will stand reduced to 10.00 per cent.

Directed Lending

Priority Sector Lending

The RBI has issued a number of guidelines on priority sector lending to emphasise that commercial banks should increase their involvement in the financing of priority sectors. These guidelines are consolidated under the master direction on ‘Priority Sector Lending – Targets and Classification’ dated 7 July 2016, and amended time to time. The master circular identifies agriculture, micro, small and medium enterprises, education, housing, export credit, social infrastructure, renewable energy and certain other sectors as priority sector lending categories. The RBI has linked the priority sector lending targets to adjusted net bank credit (“**ANBC**”) or credit equivalent of off balance sheet exposures, whichever is higher, of the preceding 31 March. For the purpose of priority sector lending, ANBC denotes the outstanding bank credit in India minus bills rediscounted with RBI and other approved FIs plus permitted non-SLR securities in the HTM category, plus other investments eligible to be treated as part of priority sector lending, such as investments in securitised assets. The outstanding deposits under the Rural Infrastructure Development Fund (“**RIDF**”) and other funds with National Bank for Agriculture and Rural Development (“**NABARD**”), National Housing Bank (“**NHB**”) and Small Industries Development Bank of India (“**SIDBI**”) in lieu of non-achievement of priority sector lending targets/sub-targets will form part of ANBC. Advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements, will also be excluded from the ANBC for computation of priority sector lending targets, till their repayment. The eligible amount for exemption on account of issuance of long-term bonds for infrastructure and affordable housing will also be excluded from the ANBC for computation of priority sector lending targets. Total priority sector advances should be 40.00 per cent. of ANBC or credit equivalent of off-balance sheet exposure (whichever is higher as at 31 March of the previous year). The RBI has also prescribed specific percentages to be lent to other sectors within the overall priority sector lending target. For instance, agricultural advances and advances to weaker sections are required to comprise of 18.00 per cent. and 8.00 per cent. respectively of ANBC or credit equivalent of off-balance sheet exposure (whichever is higher as at 31 March of the previous year). Advances to micro enterprises shall be 7.50 per cent. of ANBC or credit equivalent amount of off-balance sheet exposure. Any shortfall in the amount required to be lent to the priority sector target or agriculture and weaker sections target shall be allocated for contribution to the RIDF established with NABARD or funds with NHB or SIDBI or other FIs, as specified by the RBI. In its above referred directions, the RBI has decided to include credit extended to medium enterprises (besides micro and small enterprises) by scheduled commercial banks as eligible priority sector lending.

The RBI has also allowed, by the said directions, incremental export credit over the corresponding date of the preceding year, up to 2.00 per cent. of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, effective from 1 April 2015, subject to a sanctioned limit of Rs.250 million per borrower to units having turnover of up to Rs.1 billion. The master direction specifies that housing loans to individuals of up to Rs.3.5 million in metropolitan centres with a population above one million and housing loans of up to Rs.2.5 million in other centres for purchase/construction of a dwelling unit per family (provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed Rs.3.5 million and Rs.2.5 million, respectively) are treated as a priority sector. Housing loans for construction of housing projects are applicable to economically weaker sections and low income groups. The total cost of the dwelling unit should not exceed Rs.1 million per dwelling unit and the family income should be limited to Rs.0.30 million for economically weaker sections of the society and Rs.0.60 million for

low income groups. The master directions have removed the distinction between direct and indirect agriculture. The indirect agri sub-target has been removed and lending to small and marginal farmers included in a phased manner.

Educational loans eligible for classification under these master directions have been capped at Rs.1 million. A new category has been introduced entitled "Social Infrastructure". Loans of up to a limit of Rs.50 million per borrower for building social infrastructure may be made. Loans to renewable energy have been introduced, up to a limit of Rs.150 million for, among others, solar based power generators, biomass power generators and wind mills. For individuals, a limit of Rs.1 million has been set for setting up off-grid solar and other off-grid renewable energy solutions for households. Lending to microfinance institutions for on-lending must ensure that the microfinance institutions comply with the cap on individual loans and margin caps according to the master directions, in order to classify these loans under a priority sector. The loans extended by MFI to medium enterprises, if eligible, can be classified under priority sector lending.

Credit Exposure Limits

As a prudent measure aimed at better risk management and avoidance of concentration of credit risk, the RBI has prescribed credit exposure limits for banks and long-term lending institutions in respect of their lending to individual borrowers and to all companies in a single group (or sponsor group). These measures are consolidated as the RBI's master circular on 'Exposure Norms' dated 1 July 2015.

Credit exposure is the aggregate of:

- (i) all types of funded and non-funded credit limits; and
- (ii) facilities extended by way of equipment leasing, hire purchase finance and factoring services.

The limits set by the RBI are as follows:

- (i) exposure ceiling for a single borrower is 15.00 per cent. of capital funds. The group exposure limit is 40.00 per cent. of capital funds. In case of financing for infrastructure projects, the single borrower exposure limit is extendable by another 5.00 per cent., i.e., up to 20.00 per cent. of capital funds and the group exposure limit is extendable by another 10.00 per cent. (i.e. up to 50.00 per cent. of capital funds). Banks may, in exceptional circumstances, with the approval of their board of directors, consider enhancement of the exposure to a borrower up to a maximum of further 5.00 per cent. of capital funds, subject to the borrower consenting to the banks making appropriate disclosures in their annual reports;
- (ii) public sector undertakings are exempt from group exposure limits and only single borrower exposure limits apply to them;
- (iii) capital funds are the total capital as defined under capital adequacy standards (Tier I and Tier II capital of the borrowing entity or group); and
- (iv) exposure shall include credit exposure (funded and non funded credit limits) and investment exposure (including underwriting and other similar commitments).

To ensure that exposures are evenly spread, the RBI requires banks to fix internal limits of exposure to specific sectors. These limits are subject to periodical review by the banks.

Limits on exposure to Non-Banking Finance Companies

The exposure (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC/NBFC-AFC (Asset Financing Companies) should not exceed 10.00 per cent. and 15.00 per cent. respectively, of the bank's capital funds as per its last audited balance sheet. Banks may, however, assume exposures on a single NBFC/NBFC-AFC up to 15.00 per cent. and 20.00 per cent. respectively, of their capital funds provided the exposure in excess of 10.00 per cent. and 15.00 per cent. respectively, is on account of funds on-lent by the NBFC/NBFC-AFC to the infrastructure sector. Exposure of a bank to Infrastructure Finance Companies ("IFCs") should not exceed 15.00 per cent. of its capital funds as per its last audited balance sheet, with a provision to increase it to 20.00 per cent. if the same is on account of funds on-lent by the IFCs to the infrastructure sector. Further, banks can also consider fixing internal limits for their aggregate exposure to all NBFCs put together.

Additionally, the RBI in its notification in February 2019, has merged three categories of NBFCs, namely NBFC (Asset Finance Companies), Loan Companies (LCs) and Investment Companies (ICs) into a new category called NBFC – Investment and Credit Company (NBFC-ICC).

Large Exposures Framework

As detailed above the Master Circular – Exposure Norms for Financial Institutions consolidates the directions and guidelines relating to exposure norms. Additionally, in order to foster a convergence among widely divergent national regulations on dealing with large exposures, the Basel Committee on Banking Supervision issued the Standards on 'Supervisory framework for measuring and controlling large exposures' in April 2014. The RBI has issued the Large Exposures Framework ("LE Framework") in the same line. The LE Framework applies to all scheduled commercial banks. Scheduled commercial banks are required to apply the LE Framework at the consolidated group level and the solo level.

Under the LE Framework, a bank is required to consider its exposure to its counterparties and connected counter parties, subject to certain exemptions which include exposures to the RBI, and intra-group exposures. The LE Framework mandates that the sum of all exposure values of a bank to a (i) single counterparty must not be higher than 20.00 per cent.; and (ii) group of connected counterparties must not be higher than 25.00 per cent. of the bank's available eligible capital base at all times. The LE Framework prescribes exposure limits for NBFCs as well.

Regulations relating to Investments and Capital Market Exposure Limits

In terms of Section 19(2) of the Banking Regulation Act, no banking company can hold shares in any company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30.00 per cent. of the paid-up share capital of that company or 30.00 per cent. of its own paid-up share capital and reserves, whichever is less, except as provided in sub-section (1) of Section 19 of the Banking Regulation Act. This is an aggregate holding limit for each company. While granting any advance against shares, underwriting any issue of shares, or acquiring any shares on investment account or even in lieu of debt of any company, these statutory provisions have to be strictly observed.

Pursuant to RBI master circular on 'Exposure Norms' dated 1 July 2015 (the "Exposure Norms"), the exposure of banks to capital markets (both fund based and non-fund based) should not exceed 40.00 per cent. of its net worth as at 31 March of the previous fiscal year and within this overall limit, banks' direct investment in shares, convertible debentures, units of equity-oriented mutual funds and all exposures to venture capital funds both registered and unregistered should not exceed 20.00 per cent. of the bank's net worth.

Limits on intra group transactions and exposures

The master circular on Exposure Norms includes guidelines regarding Indian banks' transactions and exposures to the entities belonging to that bank's own group (Group entities). The master circular contains both quantitative limits for the financial intra-group transactions and exposures ("ITEs"), and prudential measures for the non-financial ITEs to ensure that the banks engage in ITEs in a safe and sound manner in order to contain the concentration and contagion risk arising out of ITEs. These measures are aimed at ensuring that banks, at all times, maintain an arms' length relationship in their dealings with Group entities, meet minimum requirements with respect to group risk management and group-wide oversight, and also adhere to prudential limits on intra-group exposures. The master circular prescribes an exposure limit of 5.00 per cent. of paid-up capital and reserves for non-financial services companies and unregulated financial services companies at a standalone level, and a 10.00 per cent. limit at a group level for these companies. For regulated financial services companies, the limit set is 10.00 per cent. of paid-up capital and reserves on a standalone basis, and 20.00 per cent. at the aggregate group level.

Consolidated Supervision Guidelines

In August 2003, the RBI issued guidelines for consolidated accounting and consolidated supervision for banks. These guidelines became effective from 1 April 2003. The principal features of these guidelines are:

Consolidated Financial Statements – Banks are required to prepare consolidated financial statements intended for public disclosure. These are prepared annually in addition to the solo annual reports of the FIs and their subsidiaries published separately at present, and submitted to the RBI within one month of the publication of its annual accounts

Consolidated Prudential Returns – Banks are required to submit to the RBI, consolidated prudential returns reporting their compliance with various prudential norms on a consolidated basis, excluding insurance subsidiaries. Compliance on a consolidated basis is required in respect of the following main prudential norms:

- (i) Single borrower exposure limit of 15.00 per cent. of capital funds (up to 20.00 per cent. of capital funds provided the additional exposure of up to 5.00 per cent. is for the purpose of financing infrastructure projects);
- (ii) Borrower group exposure limit of 40.00 per cent. of capital funds (up to 50.00 per cent. of capital funds provided the additional exposure of up to 10.00 per cent. is for the purpose of financing infrastructure projects);
- (iii) Deduction from Tier I and Tier II capital of the bank in equal proportion, of any shortfall in capital adequacy of a subsidiary engaged in financial activities for which capital adequacy norms are specified; and
- (iv) Consolidated capital market exposure limit of 40.00 per cent. of consolidated net worth with a direct investment limit of 20.00 per cent. of consolidated net worth.

In 2011 the RBI constituted a Financial Conglomerate Monitoring Division (the "FCMD") in the Department of Banking Supervision to supervise and monitor 12 large banks with effect from 1 April 2011 including the Bank. All frauds involving an amount more than Rs.100,000 pertaining to any of these 12 banks must be directly reported to the FCMD.

The RBI issued the “Master Directions on Frauds – Classification and Reporting by Commercial Banks and Select FIs” (“**Master Direction on Frauds**”) on 1 July 2016, pursuant to Section 35A of the Banking Regulation Act. The Master Direction on Frauds consolidates all the instructions issued on the subject and is applicable to all scheduled commercial banks (excluding regional rural banks). The Master Direction on Frauds has been issued to provide a framework to banks to enable them to detect and report frauds in a timely manner so that persons perpetrating bank fraud can be brought to book early, and banks can effectively manage risks associated with fraud.

On 2 July 2012, the RBI issued a master circular on disclosure in financial statements – notes to accounts to provide detailed guidance to banks in relation to disclosures in the ‘Notes to Accounts’ to their financial statements. The master circular on disclosure in financial statements is updated periodically.

Virtual Currency

In April 2018, the RBI disallowed entities regulated by it, including banks, to deal in virtual currencies or to provide services facilitating any person or entity in dealing with or settling virtual currencies. Such services include maintaining accounts, registering, trading, settling, clearing, giving loans against virtual tokens, accepting them as collateral, opening accounts of exchanges dealing with them and transfer/receipt of money in accounts relating to purchase/sale of virtual currencies. Regulated entities that were already providing such services were required to exit those relationship within three months.

Banks’ Investment Classification and Valuation Norms

The RBI issued a master circular on ‘Prudential Norms for Classification, Valuation and Operation of Investment Portfolios by Banks’ dated 1 July 2015. The salient features of the guidelines are given below:

- (i) The entire investment portfolio is required to be classified under three categories: (a) held to maturity (“**HTM**”), (b) held for trading (“**HFT**”) and (c) available for sale (“**AFS**”). Held to maturity includes securities so classified in accordance with the RBI guidelines; HFT includes securities acquired with the intention of being traded to take advantage of the short-term price/interest rate movements; and AFS includes securities not included in HTM and HFT. Banks should decide the category of investment at the time of acquisition.
- (ii) The Investments acquired with the intention to be held until maturity are categorised under HTM. The investments compulsorily include: (a) re-capitalisation bonds received from the Government towards re-capitalisation requirements and held in an investment portfolio, (b) investments in subsidiaries and joint ventures, (c) investments in long-term bonds (with a minimum residual maturity of seven years) issued by companies engaged in infrastructure activities and (d) investment in RIDF, SIDBI and Rural Housing Development Fund deposits. HTM investments also include any other investment identified for inclusion in this category subject to the condition that such investments cannot exceed 25.00 per cent. of the total investment, excluding the investments mentioned above. The RBI has permitted banks to exceed the limit of 25.00 per cent. of investments for the HTM category subject to certain conditions, listed below:
 - (a) the excess comprises only statutory liquid ratio securities; and
 - (b) the total statutory liquid ratio securities held in the HTM category is not more than 22.50 per cent. and 22.00 per cent. from 19 September 2015 of their demand and time liabilities as on the last Friday of the second preceding fortnight.

- (iii) HTM securities are not marked to market and are carried at acquisition cost or at an amortised cost if acquired at a premium over the face value.
- (iv) Profit on sale of investments in this category should be first taken to the profit and loss account and thereafter be appropriated to the 'Capital Reserve Account'. Loss on sale will be recognised in the profit and loss account.
- (v) Investments acquired with the intention to be traded, taking advantage of the short-term price or interest rate movements, are categorised under HFT. Investments under this category should be sold within 90 days. Shifting of the investments from HFT category to AFS category is generally not allowed. However, it will be permitted under exceptional circumstances, such as inability to sell due to adverse factors, including tight liquidity, extreme volatility or an unidirectional movement in the market. Such transfer is permitted only with the approval of the board of directors or asset liability management committee or investment committee. The RBI permits banks to shift investments to or from HTM with the approval of its board of directors once a year, usually at the beginning of the accounting year. If the value of sales and transfers exceeds 5.00 per cent. of the book value of the investment held in the HTM category at the beginning of the year, the market value of the investment will have to be disclosed in the notes to accounts in the annual report, along with the excess book value over market value for which provision was not made. Transfer of scrips from AFS or HFT category to HTM category should be made at the lower of book value or market value. In cases where the market value is higher than the book value at the time of transfer, the appreciation should be ignored and the security should be transferred at the book value. In cases where the market value is less than the book value, the provision against depreciation held against this security (including the additional provision, if any, required based on valuation done on the date of transfer) should be adjusted to reduce the book value to the market value and the security should be transferred at the market value.
- (vi) Investments which do not fall within the above two categories are categorised under AFS.
- (vii) The individual scrips in the AFS category are marked to market at quarterly or at more frequent intervals. Domestic securities under this category are valued scrip-wise, and depreciation or appreciation is aggregated for classification into each category, and foreign investments under this category are valued scrip-wise, and depreciation or appreciation is aggregated for five classifications, namely, (i) government securities (including local authorities), (ii) shares, (iii) debentures and bonds, (iv) subsidiaries and/or joint ventures abroad and (v) other investments. Furthermore, investment in a particular classification, both in domestic and foreign securities, may be aggregated for the purpose of arriving at a net depreciation or appreciation of investments under that category. Net depreciation, if any, shall be provided for and net appreciation, if any, should be ignored.
- (viii) The individual scrips in the HFT category will be marked to market at monthly or at more frequent intervals and provided for as in the case for those in the AFS category. Consequently, the book value of the individual securities in this category would also not undergo any change after marking to market.
- (ix) Profit or loss on the sale of investments in both HFT and AFS categories is reflected in the profit and loss account.

Investments in security receipts or pass-through certificates issued by asset reconstruction companies or trusts set up by asset reconstruction companies should be valued at the lower of the redemption value of the security receipts or pass-through certificates, and the net book value of the financial asset. However, if the instrument issued by securitisation or asset reconstruction companies is limited to the actual realisation of the financial asset assigned to the instrument, the net asset value should be obtained from the securitisation or asset reconstruction companies for valuation of the investments.

Limit on Transactions through Individual Brokers

Guidelines issued by the RBI require banks to empanel brokers for transactions in securities. These guidelines also require that a disproportionate part of the bank's business should not be transacted only through one broker or a few brokers. The RBI specifies that not more than 5.00 per cent. of the total transactions through empanelled brokers can be transacted through one broker. If for any reason this limit is breached, the RBI has stipulated that the board of directors of the bank concerned should be informed of it.

Short-Selling by banks

The RBI released a notification on 25 July 2018 for Secondary Market Transactions in Government Securities – Short Selling (“**Short Selling Circular**”) pursuant to Section 45W of the RBI Act. It liberalises the eligible short sale participant base and increase the entity-wise and security category-wise (liquid/other securities) limits for short selling in Government Securities.

The Short Selling Circular prescribes limits for short selling of liquid and other securities. The operational guidelines required to be adhered by banks while short selling are:

- (i) Short sale transactions and the related cover transactions, shall tag those transactions in the Negotiated Dealing System – Order Matching segment (“**NDS-OM**”) appropriately. The ‘short sale’ tag in NDS-OM shall not be used for sale transactions of securities that are not in immediate possession of the entity but will be received by the time of settlement (e.g., securities used to avail of intra-day liquidity, securities placed as margin with clearing houses, etc.).
- (ii) Short sales shall be covered within a period of three months from the date of transaction (inclusive of the date).
- (iii) Short sales, including notional short sales by banks, shall be covered by outright purchase of an equivalent amount (face value) of the same security, either in the secondary market or in primary auction, including in the When Issued market.
- (iv) Securities that are short sold are to be invariably delivered on the settlement date. Entities shall meet their delivery obligations by borrowing securities in the repo market or through outright purchase. However, securities acquired under the RBI’s liquidity adjustment facility or any other liquidity facility shall not be used for delivery into short sales.
- (v) Banks undertaking ‘notional’ short sales shall ordinarily borrow securities from the repo market to meet delivery obligations, but in exceptional situations of market stress (e.g., short squeeze), it may deliver securities from its own investment portfolio. If securities are delivered out of its own portfolio, it must be accounted for appropriately and reflect the transactions as internal borrowing. It shall be ensured that the securities so borrowed are brought back to the same portfolio, without any change in book value.

- (vi) Members of the Securities Settlement Segment of Clearing Corporation of India Ltd. (hereafter referred to as ‘members’) shall be responsible for settlements and reporting of trades of their constituent entities viz., entities maintaining gilt accounts or demat accounts. Accordingly, eligible constituent entities shall undertake short sale transactions to the extent permitted by the members through whom they settle their securities transactions, within the limits prescribed in Para 4 of these directions.
- (vii) An entity is not required to reduce its short position in a security if the security is removed from the list of liquid securities published by FIMMDA during the period of short sale. It can continue to maintain the short position till it is covered.

Introduction of Credit Default Swaps for Corporate Bonds

On 23 May 2011, the RBI issued guidelines on credit default swaps (“**CDS**”) for corporate bonds (the “**CDS Guidelines**”) which came into effect on 1 December 2011. Under the CDS Guidelines banks are eligible to act both as ‘users’ and ‘market-makers’. Commercial banks who intend to act as ‘market-makers’ shall fulfil the following criteria:

- (i) minimum CRAR of 11.00 per cent. with core CRAR (Tier I) of at least 7.00 per cent.; and
- (ii) net NPAs of less than 3.00 per cent.

Banks are required to submit their board-approved policy and the date of the commencement of CDS trading as ‘market-makers’ to the RBI.

The CDS Guidelines also prescribe the risk management framework to be followed. On 19 October 2011, the RBI classified a CDS as a derivative. On 15 November 2012 the SEBI allowed mutual funds to participate in the CDS market as users.

In its circular dated 7 January 2013, the RBI revised the CDS Guidelines to introduce, amongst others, the following changes:

- (i) CDS has been permitted on unlisted but rated corporate bonds even for issues other than infrastructure companies; and
- (ii) CDS has been permitted on securities with an original maturity of up to one year such as commercial papers, certificates of deposit and non-convertible debentures with an original maturity of less than one year as reference/deliverable obligations.

Regulations relating to Deposits

The RBI permits banks to independently determine rates of interest offered on term deposits. Effective 25 October 2011, the RBI permitted banks to determine the interest rate offered on savings bank deposits. On 3 March 2016, the RBI issued the Master Direction on Interest Rates on Deposits. The master direction is applicable to all scheduled commercial banks accepting deposits in rupee and foreign currency. This master direction consolidates instructions on rules and regulations framed by the RBI under various acts including banking issues and foreign exchange transactions.

Under the master direction issued by the RBI, banks are required to offer a uniform interest rate on savings bank deposits up to Rs.100,000, irrespective of the amount in the account within this limit. For savings bank deposits over Rs.100,000, a bank may provide differential rates of interest, subject to the condition that the bank will not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

The interest rates on Non-Resident (External) Rupee (“**NRE**”) deposits and Ordinary Non-Resident (“**NRO**”) accounts have been deregulated provided that the interest rate so offered is not higher than those offered by them on comparable domestic rupee deposits. The interest rates on term deposits under NRO Accounts have also been deregulated.

Accordingly, banks are free to determine their interest rates on both savings deposits and term deposits with a maturity of one year and above under NRE deposit accounts and savings deposits and term deposits under NRO accounts with immediate effect. NRO deposits have a minimum maturity of seven days and a maximum maturity of 10 years.

Prior approval of the relevant board or asset liability management committee (if powers are delegated by the board) may be obtained by a bank while fixing interest rates on such deposits. At any point of time, individual banks should offer uniform rates at all their branches. The revised deposit rates will apply only to fresh deposits and on renewal of maturing deposits. Further, banks should closely monitor their external liability arising on account of such deregulation and ensure asset-liability compatibility from systemic risk point of view.

Term deposits from NRIs denominated in foreign currencies, namely Foreign Currency Non Resident (Bank) (“**FCNR (B)**”) deposits, have a minimum maturity of one year and a maximum maturity of five years.

In respect of FCNR (B) deposits contracted effective on 1 March 2014, maximum permissible interest shall be paid as follows:

- (i) for a maturity period from one year to less than three years, LIBOR or SWAP plus 200 bps; and
- (ii) for a maturity period from three years to five years, LIBOR or SWAP plus 300 bps.

The LIBOR rates are considered as on the last working day of the previous month. Senior citizen rates and additional interest to staff are not applicable for any kind of NRI deposits (NRE or NRO or FCNR (B)). Savings deposits for NRI accounts are offered under the NRE and NRO categories.

Banks have the discretion to offer differential interest rates based on whether the term deposits are with or without premature-withdrawal facility subject to the following guidelines:

- (i) all term deposits of individuals (held singly or jointly) of Rs.1.5 million and below should necessarily, have premature-withdrawal-facility;
- (ii) for all term deposits other than (i) above, banks can offer deposits without the option of premature withdrawal as well. However, banks that offer such term deposits should ensure that at the customer interface point, the customers are given the option to choose between term deposits either with or without premature-withdrawal-facility;
- (iii) banks should disclose in advance the schedule of interest rates payable on deposits i.e. all deposits mobilised by banks should be strictly in conformity with the published schedule; and
- (iv) the banks should have a board approved policy with regard to interest rates on deposit including deposits with differential rates of interest and ensure that the interest rates offered are reasonable, consistent, transparent and available for supervisory review/scrutiny as and when required.

Deposit Insurance

Demand and time deposits of up to Rs.100,000.00 accepted by Indian banks have to be mandatorily insured with the Deposit Insurance and Credit Guarantee Corporation, a wholly owned subsidiary of the RBI. Banks are required to pay the insurance premium for the eligible amount to the Deposit Insurance and Credit Guarantee Corporation on a semi-annual basis. The cost of the insurance premium cannot be passed on to the customer. Banks are required to pay the insurance premium for the eligible amount to the Deposit Insurances and Credit Guarantee Corporations on a semi-annual basis. The cost of the insurance premium cannot be passed on to the customer.

Regulations relating to Knowing the Customer and Anti-Money Laundering

The RBI has issued several guidelines relating to identification of depositors and has advised banks to put in place systems and procedures to control financial frauds, identify money laundering and suspicious activities, and monitor high value cash transactions. The RBI has also issued guidelines from time to time advising banks to be vigilant whilst opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds.

The RBI issued a notification in November 2004 which were revised in 2005, prescribing guidelines for Know Your Customer (“**KYC**”) and anti-money laundering procedures. Banks are required to have a customer acceptance policy laying down explicit criteria for acceptance of customers and defining risk parameters. A profile of the customers should be prepared based on risk categorisation. Banks have been advised to apply enhanced due diligence for high-risk customers. The guidelines provide that banks should undertake customer identification procedures while establishing a banking relationship or carrying out a financial transaction or when the bank has a doubt about the authenticity or the adequacy of the previously obtained customer identification data. Banks must obtain sufficient information necessary to establish the identity of each new customer and the purpose of the intended banking relationship. The guidelines also provide that banks should monitor transactions depending on the account’s risk sensitivity.

The RBI in fiscal year 2006 introduced a basic banking ‘no frills’ account with nil or minimal balance requirements and low bank charges that would make such accounts accessible to vast sections of the population. In its circular dated 10 August 2012, the RBI has directed banks to refrain from the use of the word ‘no frills’ account and advised the banks to instead offer a ‘Basic Savings Bank Deposit Account’. This account does not have a minimum balance requirement. The ‘Basic Savings Bank Deposit Account’ is subject to RBI instructions on Know Your Customer (“**KYC**”) and Anti-Money Laundering (“**AML**”) procedures for the opening of bank accounts and if such account is opened on the basis of simplified KYC norms, the account would additionally be treated as a ‘Small Account’ and would be subject to the following conditions:

- (i) the aggregate of all credits in a fiscal year does not exceed Rs.0.1 million;
- (ii) the aggregate of all withdrawals and transfers in a month does not exceed Rs.10,000; and
- (iii) the balance at any point of time does not exceed Rs.50,000.

In a bid to prevent money laundering activities, the Government enacted the Prevention of Money Laundering Act, 2002 (the “**PMLA**”) which came into effect on 1 July 2005. The PMLA seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering and for incidental matters or matters connected therewith.

The PMLA and the rules made thereunder stipulate that banking companies, financial institutions and intermediaries (together, the “**Institutions**”) shall maintain a comprehensive record of all their transactions, including the nature and value of such transaction. Further, it mandates verification of the identity of all their clients and also requires the Institutions to maintain records of their respective clients. These details are to be provided to the authority established by the PMLA, who is empowered to order confiscation of property where the authority is of the opinion that a crime as recognised under the PMLA has been committed. In addition the applicable exchange control regulations prescribe reporting mechanisms for transactions in foreign exchange and require authorised dealers to report identified suspicious transactions to the RBI. In December 2004, the Indian Parliament passed the Unlawful Activities (Prevention) Amendment Act, 2004 incorporating the provisions considered necessary to deal with various facets of terrorism.

In its circular dated 17 July 2014, the RBI further advised banks as regards the amendment on KYC norms under the PML Rules. The amended PML Rules clarified the definition of “Officially Valid Document” that must be obtained for purposes of verifying the identity and address of the customer. Further, banks were required to frame their KYC policies incorporating (a) customer acceptance policy, (b) customer identification procedures (including the allotment of unique customer identification code for existing customers), (c) monitoring of transactions and (d) risk management.

In addition, the applicable exchange control regulations prescribe reporting mechanisms for foreign exchange transactions, and required authorised dealers to report suspicious transactions that they identify to the RBI. Furthermore, banks are required to update customer identification data after the account is opened, once every ten years (for low risk category customers) once every eight years (for medium risk category customers) and once every two years (for high risk category customers).

In relation to combating the financing of terrorism, banks are required to develop suitable mechanisms, through an appropriate policy framework, to enhance monitoring of accounts suspected of having terrorist links connections, to swiftly identify of suspicious transactions, and to make prompt reports to the Financial Intelligence Unit – India (FIU-IND).

All instructions and guidelines issued by the RBI on KYC norms, AML standards and obligations under the PMLA to be followed by banks are consolidated under the master direction on ‘Know Your Customer (KYC) norms or Anti-Money Laundering (AML) standards or Combating of Financing of Terrorism (CFT) or Obligation of banks under PMLA, 2002’ issued by the RBI on 8 July 2016. The RBI master direction is a compendium of all instructions on customer identification and due diligence, covering opening of accounts, wire transfers, non-face-to-face customers, correspondent banking, foreign funding of non-government organisations and non-profit organisations, politically exposed persons and multilevel marketing firms. The guidelines also include the periodic updating of customer identification data based upon risk assessment, screening of customers against negative lists, mandatory reporting to the Financial Intelligence Unit (the national agency responsible for receiving, processing, analysing and disseminating information relating to suspicious financial transactions to enforcement agencies and foreign financial intelligence units), which includes reporting of cash transactions, suspicious transactions, counterfeit currency, cross-border wire transfers and transactions involving receipts by non-profit organisations. In an amendment to section 13(2) of the PLMA, banks have been advised to nominate a director on their boards as ‘designated director’ to ensure compliance with the obligations mentioned thereunder.

Legal Reserve Requirements

Cash Reserve Ratio

A banking company such as the Bank is required to maintain a specified percentage of its demand and time liabilities, excluding inter-bank deposits, by way of cash reserve with itself and by way of balance in current account with the RBI. The current cash reserve ratio prescribed by the RBI is 4.00 per cent.

The following liabilities are excluded from the calculation of the cash reserve ratio:

- (i) inter-bank liabilities;
- (ii) liabilities to primary dealers;
- (iii) refinancing from the RBI and other institutions permitted to offer refinancing to banks; and
- (iv) perpetual debt qualifying for lower Tier I capital treatment.

Paid up capital, reserves, credit balance in the profit and loss account of the bank, amount availed of as refinance from the RBI and apex FIs, provision for income tax in excess of the actual estimated liabilities, specified interbank term deposits or term borrowing liabilities are some of the items which are excluded from the calculation of the CRR.

Statutory Liquidity Ratio

In addition to the cash reserve ratio, a bank is required to maintain a specified percentage of its Net Demand and Time Liabilities (“**NDTL**”) by way of liquid assets like cash, gold or approved securities. The percentage of this liquidity ratio is fixed by the RBI from time to time. The RBI fixes the percentage of this liquidity ratio from time to time under section 24 of the Banking Regulation Act. At present, the RBI requires banking companies to maintain a SLR of no less than 20.00 per cent.

On 5 December 2018, the RBI has decided to reduce the SLR requirement of banks by 0.25 per cent. every calendar quarter from 19.50 per cent. of their to:

- (i) 19.25 per cent. from 5 January 2019;
- (ii) 19.00 per cent. from 13 April 2019;
- (iii) 18.75 per cent. from 6 July 2019;
- (iv) 18.50 per cent. from 12 October 2019;
- (v) 18.25 per cent. from 4 January 2020; and
- (vi) 18.00 per cent. from 11 April 2020.

Inflation Indexed Securities

The Government of India announced the introduction of inflation-indexed bonds for retail investors in the Union Budget of 2013-14. The Final Wholesale Price Inflation Index is used for calculating index ratio and thereby providing inflation protection to the investors.

In November 2013, the RBI, in consultation with the Government, announced the issuance of the Government's Inflation Indexed National Savings Securities – Cumulative for retail investors. Interest rate on these securities are linked to the final combined consumer price index. Eligible investors for these securities consist of individuals, Hindu undivided families, trusts and charitable institutions. The rate of interest on these securities are comprised of a fixed rate plus inflation rate. Interest is compounded half-yearly and is required to be paid cumulatively at redemption.

Regulations on Asset Liability Management

At present, the RBI's regulations for asset liability management require banks to draw up asset-liability gap statements separately for the Rupee and for four major foreign currencies. These gap statements are prepared by scheduling all assets and liabilities according to the stated and anticipated re-pricing date, or maturity date. These statements for the domestic assets and liabilities must be submitted to the RBI on a quarterly basis. The RBI has advised banks to actively monitor the difference in the amount of assets and liabilities maturing or being re-priced in a particular period and place internal prudential limits on the gaps in each time period, as a risk control mechanism. Additionally, the RBI has asked banks to manage their asset-liability structure such that the negative liquidity gap in the 1, 2 to 7, 8 to 14 day and 15 to 28 day time periods does not exceed 20.00 per cent. of cash outflows in these time periods. This 20.00 per cent. limit on negative gaps was made mandatory with effect from 1 April 2000. In respect of time periods of up to one year, the RBI has directed banks to lay down internal norms in respect of negative liquidity gaps. It is not mandatory for banks to lay down internal norms in respect of negative liquidity gaps for time periods greater than one year.

Foreign Currency Dealership

The RBI has granted the Bank a full-fledged authorised dealers' licence to deal in foreign exchange through its designated branches. Under this licence, the Bank has been granted permission to:

- (i) engage in foreign exchange transactions in all currencies;
- (ii) open and maintain foreign currency accounts abroad;
- (iii) raise foreign currency and Rupee denominated deposits from NRIs;
- (iv) grant foreign currency loans to on-shore and off-shore corporations;
- (v) open documentary credits;
- (vi) grant import and export loans;
- (vii) handle collection of bills, funds transfer services;
- (viii) issue guarantees; and
- (ix) enter into derivative transactions and risk management activities that are incidental to its normal functions authorised under its organisational documents.

The Bank's foreign exchange operations are subject to the guidelines specified by the RBI in the exchange control manual. As an authorised dealer, the Bank is required to enrol as a member of the Foreign Exchange Dealers Association of India (the "FEDAI"), which prescribes the rules relating to foreign exchange business in India.

Banks authorised by the RBI under section 10 of FEMA as ‘AD Category – I bank’ are permitted to become trading and clearing members of the currency futures market of the recognised stock exchanges, on their own account and on behalf of their clients, subject to fulfilling the minimum prudential requirements.

Interest Rate Futures

The RBI issued the Interest Rate Futures (Reserve Bank) Directions, 2013, as amended, (the “**IRF Guidelines**”) on 5 December 2013, superseding the previous Interest Rate Futures (Reserve Bank) Directions, 2009, to regulate the trading in interest rate futures (“**IRFs**”). Under the IRF Guidelines, the RBI has permitted IRFs on (i) 91-Day Treasury Bills; (ii) on two-year, five-year and 10-year coupon bearing notional Government securities; (iii) coupon bearing Government Securities; and (iv) any money market interest rate or instrument other than 91-day Treasury bill with residual maturity between four and eight years, eight and 11 years and 11 and 15 years. No scheduled bank can participate in the interest rate futures market without the permission of the RBI. The RBI has permitted commercial banks to participate in IRFs both for the purpose of hedging the risk in the underlying investment portfolio, and also to take trading positions. However, banks are not allowed to undertake transactions in IRFs on behalf of their clients.

In addition to the above, the RBI, on 12 June 2015, released final guidelines for the introduction of 6-year and 13-year cash settled IRFs on Government Securities with a residual maturity of 4-8 years and 11-15 years respectively. These guidelines expanded the residual maturity for the existing 10-year cash settled IRF from 9-11 years to 8-11 years. The RBI expects that this will provide market participants with greater choice and flexibility to hedge their interest rate risk across different tenors.

Capital and provisioning requirements for unhedged foreign currency exposure of clients

On 15 January 2014, the RBI issued guidelines on “Capital and Provisioning Requirements for Exposures to entities with Unhedged Foreign Currency Exposure”, which came into effect on 1 April 2014. In accordance with this guideline, banks have to monitor their clients unhedged foreign currency exposure and, in the case, where estimated losses from adverse exchange rate movements exceed the defined level, banks would be required to provide and maintain additional capital and provision based on the exposure of such clients to such entities.

External Commercial Borrowings

The laws relating to ECBs are embodied in the Foreign Exchange Management Act, 1999, the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 and the rules and regulations issued by the RBI in relation to ECBs including the External Commercial Borrowings (ECB) Policy – New ECB Framework, issued by the RBI on 16 January 2019 (“**New ECB Policy**”). ECBs can be accessed under two routes: (i) the automatic route; and (ii) the approval route. The automatic route does not require a borrower to obtain any RBI approvals, whereas the approval route requires a prior RBI approval. The New ECB Policy classify ECBs under two categories (i) foreign currency denominated ECBs (“**FCY ECB**”); and (ii) Indian Rupee denominated ECBs (“**INR ECB**”).

In accordance with the New ECB Policy, all entities that are eligible to receive foreign direct investment are classified as eligible borrowers for availing ECBs. Additionally, the New ECB Policy also allows (i) port trusts; (ii) units in a special economic zone; (iii) Small Industries Development Bank of India; (iv) Export Import Bank of India; and (v) registered entities engaged in micro-finance activities, namely, registered not for profit companies, registered societies, trusts, cooperatives and non-government organisations (which are permitted only to raise INR ECB) to raise ECBs.

Pursuant to the New ECB Policy any resident of a Financial Action Task Force (“**FATF**”) or International Organisation of Securities Commission (“**IOSCO**”) compliant country will qualify as a recognised lender/investors eligible to provide ECBs to Indian entities. Additionally, multilateral and regional financial institutions where India is a member country will also be considered as recognised lenders/investors. Further, the New ECB Policy permits individuals as ECB lenders if they are foreign equity holders or if bonds/debentures are listed abroad.

In relation to the utilisation of the ECB proceeds, the negative list for both FCY ECB and INR ECB includes: (i) real estate activities; (ii) investment in capital market; and (iii) equity investment. Additionally, proceeds from an ECB cannot be utilised for (i) working capital purposes; (ii) general corporate purposes; and (iii) repayment of rupee loans except from a foreign equity holder. Additionally, for all ECBs, on-lending for any of the abovementioned activities is prohibited under the New ECB Policy.

The maximum amount which can be raised every fiscal year by an eligible borrower under the automatic route is U.S.\$750 million or its equivalent. The all-in cost (which includes rate of interest, other fees and expenses in foreign currency or Indian Rupees but does not include commitment fees, payments for withholding tax in Rupees), for both FCY ECB and INR ECB is benchmark rate plus 450 basis points spread. As per the New ECB Policy, various components of all-in-cost have to be paid by the ECB borrower without taking recourse to the drawdown of ECB, i.e. ECB proceeds cannot be used for payment of interest or charges.

Regulatory Requirements in relation to issuance of Indian Rupee denominated Notes overseas

Pursuant to the New ECB Policy, any entity which can accept foreign direct investment, can issue Rupee denominated ECBs in the form of overseas bonds with a three-year minimum maturity period. In addition to the above, the New ECB Policy also permits (i) port trusts; (ii) units in special economic zones; (iii) Small Industries Development Bank of India; (iv) Export Import Bank of India; and (v) registered entities engaged in micro-finance activities, namely, registered not for profit companies, and registered societies, trusts, cooperatives and non-government organisations to raise Rupee denominated ECBs.

The Notes can be subscribed or purchased by any recognised lender as detailed above. An offshore branch or subsidiary of an Indian bank is not permitted to subscribe but can participate as an arranger/underwriter/market maker/trader for rupee denominated bonds issued overseas (except when the issuer is another Indian bank).

The foreign currency to Rupee conversion will be at the market rate on the settlement date. Furthermore, investors are allowed to hedge their Rupee exposure through permitted derivative products with an AD Bank in India. The ECB lenders can also access the domestic market through branches/subsidiaries of Indian banks abroad or branches of foreign banks with Indian presence on a back-to-back basis.

Statutes Governing Foreign Exchange and Cross-Border Business Transactions

The foreign exchange and cross border transactions undertaken by banks are subject to the provisions of FEMA. All branches should monitor all non-resident accounts to prevent money laundering.

The overseas branches of banks are not affected by these guidelines since Regulation 4(A)(ii) of the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 provides that foreign branches of authorised dealers who are banks incorporated or constituted in India are permitted to borrow in foreign currency in the normal course of their banking business outside India.

Foreign Currency Borrowings by Banks in India

In accordance with the Master Directions on Risk Management and Inter-Bank Dealings dated 5 July 2016, as amended (“**Inter-Bank Dealings Guidelines**”), banks in India are allowed to borrow funds from their overseas branches and correspondent banks (including external commercial borrowings and overdrafts from their head office or nostro account) up to a limit of 100.00 per cent. of unimpaired Tier 1 capital or U.S.\$10 million (or its equivalent), whichever is higher.

The borrowings beyond 50.00 per cent. of unimpaired Tier 1 capital of AD Category-I banks will be permitted provided that: (i) the bank shall have a board approved policy on overseas borrowings which shall contain the risk management practices that the bank shall adhere to while borrowing abroad in foreign currency; (ii) the bank has to maintain a CRAR of 12.00 per cent.; (iii) the borrowings beyond the existing ceiling shall be with a minimum maturity of three years; and (iv) all other existing norms (such as the FEMA regulations, net open position limit norms, etc.) shall continue to be applicable.

In accordance with the Inter-Bank Dealing Guidelines, AD category – I banks are permitted to borrow from international/multilateral FIs without approaching the RBI on a case-by-case approval. Such FIs shall include (i) international/multilateral FIs of which the Government is a shareholding member; (ii) FIs which have been established by more than one government, or (iii) FIs which have shareholding by more than one government and other international organisations.

Special Provisions of the Banking Regulation Act

Under Sections 35A and 36 of the Banking Regulation Act (which apply to the Bank), the RBI is empowered to give directions to, prohibit from entering into any transactions, and generally give advice to banks. Under Section 50 of the Banking Regulation Act (which also applies to the Bank), no person shall have a right, whether in contract or otherwise, to any compensation for any loss incurred by reason of operation of certain provisions of the Banking Regulation Act, including sections 35A and 36.

Prohibited Business

Section 6(1) of the Banking Regulation Act specifies the business activities in which a bank may engage. Banks are prohibited from engaging in business activities other than the specified activities.

Reserve Fund

In accordance with Section 17 of the Banking Regulation Act, any bank incorporated in India is required to create a reserve fund to which it must transfer not less than 20.00 per cent. of the profits of each year before dividends. If there is an appropriation from this account, the bank is required to report the same to the RBI within 21 days from the date of such appropriation, explaining the circumstances leading to such appropriation. The Government may, on the recommendation of the RBI, exempt a bank from requirements relating to its reserve fund.

Restrictions on Payment of Dividends

Pursuant to Section 15 of the Banking Regulation Act, a bank can pay dividends on its shares only after all its capitalised expenses (including preliminary expenses, organisation expenses, underwriting commission, brokerage, amounts of losses and any other item of expenditure not represented by tangible assets) have been completely written off. The Government may exempt banks from this provision by issuing a notification on the recommendation of the RBI.

- (i) The bank should have:
 - (a) CRAR of at least 9.00 per cent. for the preceding two completed years and the accounting year for which it proposes to declare a dividend; and
 - (b) net NPA of less than 7.00 per cent.
- (ii) The bank should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act.
- (iii) The bank should comply with the prevailing regulations/guidelines issued by RBI, including creating adequate provisions for impairment of assets and staff retirement benefits, transfer of profits to statutory reserves etc.
- (iv) The dividend pay-out ratio does not exceed 40.00 per cent.
- (v) The proposed dividend should be payable out of the current year's profit.
- (vi) The financial statements pertaining to the fiscal year for which the bank is declaring a dividend should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year.
- (vii) The RBI should not have placed any explicit restrictions on the bank for declaration of dividends.
- (viii) In the event a bank does not meet the above CRAR norm, but has a CRAR of at least 9.00 per cent. for the accounting year for which it proposes to declare a dividend, it would be eligible to declare a dividend provided its net NPA ratio is less than 5.00 per cent. Banks that are eligible to declare dividends under the above rules can do so subject to the following:
 - (i) The dividend payout ratio (calculated as a percentage of dividend payable in a year to net profit during the year) must not exceed 40.00 per cent. The maximum permissible dividend payout ratio would vary from bank to bank, depending on the capital adequacy ratio in each of the last three years and the net NPA ratio;
 - (ii) In case the profit for the relevant period includes any extraordinary income, the payout ratio must be calculated after excluding that income for compliance with the prudential payout ratio; and
 - (iii) the financial statements pertaining to the fiscal year for which the bank is declaring a dividend should be free of any qualification by the statutory auditors, which might have an adverse effect on the profit during that year. In case there are any such qualifications, the net profit should be suitably adjusted while computing the dividend payout ratio.

In the event that a bank fulfils the conditions stated above, it can declare dividends without the consent of the RBI, but if such bank does not comply with the conditions stated above but wishes to declare dividend or a higher rate of dividend, it would require prior permission from the RBI.

The RBI master circular on ‘Basel III Capital Regulations’ dated 1 July 2015, requires banks to maintain a capital conservation buffer of 2.50 per cent. comprised of Common Equity Tier I capital above the regulatory minimum capital requirement of 9.00 per cent. Banks are restricted from distributing capital (i.e. pay dividends or bonuses in any form) in case capital levels fall within this range.

The RBI has also notified that banks may also declare and pay interim dividends out of the relevant account period’s profit without the prior approval of the RBI if they satisfy the minimum criteria above, and the cumulative interim dividend is within the prudential cap on dividend pay-out ratio (40.00 per cent.) computed for the relevant accounting period. Declaration and payment of interim dividend beyond this limit would require the prior approval of the RBI.

Restriction on Share Capital and Voting Rights

The Banking Laws Amendment Act, 2012 (the “**Banking Amendment Act**”) which came into effect from 18 January 2013, amends the Banking Regulation Act, the Bank Nationalisation Act and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 and makes consequential amendments in certain other enactments. After the amendment, the share capital of banking companies can comprise equity shares only or equity and preference shares. Prior to this amendment, the share capital of a bank could comprise only of equity shares.

Further, the Banking Regulation Act originally specified that no shareholder in a banking company can exercise voting rights on a poll in excess of 10.00 per cent. of the total voting rights of all the shareholders of the banking company. This provision has now been amended, and the RBI has been given the power to increase the ceiling on voting rights from 10.00 per cent. to 26.00 per cent. in a phased manner.

Some further changes under the Banking Amendment Act are as follows:

- (i) the ceiling on voting rights of shareholders of nationalised banks has been raised from 1.00 per cent. to 10.00 per cent.;
- (ii) a new provision has been introduced in the Banking Regulation Act to regulate the share acquisition and acquisition of voting rights and it is now mandatory for any person who proposes to acquire 5.00 per cent. or more of the share capital of a banking company to obtain prior approval from the RBI;
- (iii) the Government has been empowered to increase or decrease the authorised capital of nationalised banks; and
- (iv) the nationalised banks have been allowed to issue bonus shares and undertake rights issues.

Regulatory Reporting and Examination Procedures

The RBI is empowered under the Banking Regulation Act to inspect a bank. The RBI monitors prudential parameters at quarterly intervals. To this end and to enable off-site monitoring and surveillance by the RBI, banks are required to report to the RBI on aspects such as:

- (i) assets, liabilities and off-balance sheet exposures;
- (ii) the risk weighting of these exposures, the capital base and the capital adequacy ratio;

- (iii) the unaudited operating results for each quarter;
- (iv) asset quality;
- (v) concentration of exposures;
- (vi) connected and related lending and the profile of ownership, control and management; and
- (vii) other prudential parameters.

The RBI also conducts periodical on-site inspections on matters relating to the bank's portfolio, risk management systems, internal controls, credit allocation and regulatory compliance, at intervals ranging from one to three years. The Bank has been, and at present also is, subject to the on-site inspection by the RBI at yearly intervals. The inspection report, along with the report on actions taken by the Bank, has to be placed before the Board of Directors. On approval by the Board of Directors, the Bank is required to submit the report on actions taken by it to the RBI. The RBI also discusses the report with the management team including the Chairman and Managing Director and the Executive Director.

The RBI also conducts on-site supervision of selected branches of the Bank with respect to their general operations and foreign exchange related transactions.

Appointment and Remuneration of the Chairman, Managing Director and Other Directors

The Directors on the Board of Directors of the Bank are appointed by the Government in terms of Section 9 of the Bank Nationalisation Act. In accordance with section 9 of the Bank Nationalisation Act, the Board of Directors shall include (a) not more than four whole-time directors who shall be appointed by the Government after consultation with the RBI; (b) one director who is an official of the Government provided that no such director shall be a director of any other corresponding new bank; (c) one director possessing necessary expertise and experience in matters relating to regulation or supervision of commercial banks, to be nominated by the Government on the recommendation of RBI; (c) one director, from among such of the employees who are workmen; (d) one director, from among the employees who are not workmen; (e) one director who has been a chartered accountant for not less than 15 years; (f) not more than six directors to be nominated by the Government; and (g) a specified number of Directors to be elected by the shareholders.

Section 10-A(2) of the Banking Regulation Act provides that at least 51.00 per cent. of the total number of members of the board of directors of a banking company shall have specialised knowledge or practical experience in the fields specified under the said provision. Two of these persons must have special knowledge or practical knowledge in agriculture and rural economy, co-operation or small scale industry.

Remuneration paid to Directors is determined by the Government in consultation with the RBI.

Penalties

The RBI may impose penalties on banks and its employees in case of infringement of regulations under the Banking Regulation Act. The penalty may be a fixed amount or may be related to the amount involved in any contravention of the regulations. The penalty may also include imprisonment.

Assets to be maintained in India

In accordance with Section 25 of the Banking Regulation Act every bank is required to ensure that its assets in India (including import-export bills drawn in India and the RBI approved securities, even if the bills and the securities are held outside India) are not less than 75.00 per cent. of its demand and time liabilities in India.

Subsidiaries and Other Investments

The Bank requires the prior permission of the RBI to incorporate a subsidiary. The Bank is required to maintain an “arms’ length” relationship in respect of its subsidiaries and in respect of mutual funds sponsored by it in regard to business parameters such as taking undue advantage in borrowing or lending funds, transferring or selling or buying of securities at rates other than market rates, giving special consideration for securities transactions, in supporting or financing the subsidiary and financing its clients through them when it itself is not able or are not permitted to do so. The Bank and its subsidiaries have to observe the prudential norms stipulated by the RBI, from time to time, in respect of its underwriting commitments.

The Bank also requires the prior specific approval of the RBI to participate in the equity of financial services ventures including stock exchanges and depositories notwithstanding the fact that such investments may be within the ceiling prescribed under Section 19(2) of the Banking Regulation Act. Further investment by the Bank in a subsidiary, financial services company, financial institution cannot exceed 10.00 per cent. of its paid-up capital and reserves and its aggregate investments in all such companies, financial institutions and other entities engaged in financial services and non-financial services, including overseas investments put together cannot exceed 20.00 per cent. of its paid-up capital and reserves.

Restriction on Creation of Floating Charge

Section 14A of the Banking Regulation Act prohibits all banks from creating a floating charge on the undertaking or any property of the bank or any part thereof unless the creation of such floating charge is certified in writing by the RBI as not being detrimental to the interests of the depositors of such bank. Any floating charge created without obtaining the RBI’s certification shall be invalid. In cases where the RBI refuses to grant certification, a bank may, within 90 days of such refusal, appeal to the Government, but the decisions of the Government in cases of appeal are final.

Maintenance of Records

Banks are required to maintain their books, records and registers according to the Banking Companies (Period of Preservation of Records) Rules, 1985 which specify that banks shall preserve in good order, certain books, accounts and documents (such as cheque book registers) relating to a period of not less than five years immediately preceding the current calendar year; and certain other books, accounts and documents (such as stock and share registers) relating to a period of not less than eight years immediately preceding the current calendar year.

The KYC guidelines prescribed by the RBI under Master Direction – Know Your Customer (KYC) Direction, 2016 dated 25 February 2016 also provide for certain records to be preserved for five years. Furthermore, pursuant to PMLA, the records of a transaction are to be preserved for five years from the date of the transaction between a customer and a bank is completed.

Secrecy Obligations

The Bank’s obligations relating to maintaining secrecy arise out of Section 13 of the Bank Nationalisation Act and common law principles governing its relationship with its customers. The Bank cannot disclose any information to third parties except under clearly defined circumstances. The following are the exceptions to this general rule:

- (i) where there is an obligation to disclose to the public;
- (ii) where the Bank needs to disclose information in its interest;
- (iii) where disclosure is made with the express or implied consent of the customer; and
- (iv) where disclosure is required to be made under any law or practice or usage customary among banks.

The Bank is required to comply with the above in furnishing any information to any parties. The Bank is also required to disclose information if ordered to do so by a court. The RBI may, in the public interest, publish the information obtained from the bank. Under the provisions of the Banker's Books Evidence Act, 1891, a copy of any entry in a bankers' book, such as ledgers, day books, cash books and account books certified by an officer of the bank may be treated as *prima facie* evidence of the transaction in any legal proceedings.

Regulations and Guidelines of the Securities and Exchange Board of India

The SEBI was established to protect the interests of public investors in securities and to promote the development of, and to regulate, the Indian securities market. The Bank is subject to SEBI regulations for its capital issuances, as well as its underwriting, custodial, depositary participant, investment banking, registrar and transfer agents, brokering and debenture trusteeship activities. These regulations provide for its registration with the SEBI for each of these activities, functions and responsibilities. The Bank has been adhering to the regulations and guidelines issued by the SEBI for various activities.

Listing Agreement

The Bank is required to comply with the requirements of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) and the listing agreements entered into between itself and the BSE and the NSE (the Listing Agreements). The Listing Regulations and Listing Agreements provide for continuing disclosure by corporations. All listed companies are required to inform the stock exchanges of all events immediately, which will have bearing on the performance or appraisal of the company as well as price sensitive information. The Listing Regulations also help in implementing better corporate governance in listed companies and are an important instrument of investor protection. The Listing Regulations were made to complement the corporate governance provisions of the Companies Act, 2013.

Regulations governing Offshore Banking Units

The Government and the RBI have permitted banks to set up offshore banking units in special economic zones, which are specially delineated duty free enclaves deemed to be foreign territory for the purpose of trade operations, duties and tariffs. The key regulations applicable to offshore bank units include, but are not limited to, the following:

- (i) Permission from the RBI is required for setting up offshore banking units.
- (ii) No separate assigned capital is required. However, the parent bank is required to provide a minimum of U.S.\$10 million to its offshore banking unit.
- (iii) Offshore banking units are exempt from CRR requirements.
- (iv) Banks are required to maintain the SLR. However, the RBI may exempt a bank's offshore banking unit from SLR requirements on specific application by the bank.
- (v) An offshore banking unit may not enter into any transactions in foreign exchange with residents in India, unless such a person is eligible under the existing exchange control regulations to invest or maintain foreign currency accounts abroad.
- (vi) All prudential norms applicable to overseas branches of Indian banks apply to offshore banking units. The offshore banking units are also required to follow the best international practice of 90 days' payment delinquency norm for income recognition, asset classification and provisioning.

- (vii) Offshore banking units are required to adopt liquidity and interest rate risk management policies prescribed by the RBI in respect of overseas branches of Indian banks as well as within the overall risk management and asset and liability management framework of the bank subject to monitoring by the bank's board of directors at prescribed intervals.
- (viii) Offshore banking units may operate and maintain balance sheets only in foreign currency and are not allowed to deal in Rupees except for having a special Rupee account out of the convertible funds in order to meet their daily expenses. These branches are prohibited from participating in the domestic call, notice, term etc. money market and payment system.
- (ix) The loans and advances of offshore banking units would not be reckoned as net bank credit for computing priority sector lending obligations.
- (x) Offshore banking units must follow the 'Know Your Customer' guidelines and must be able to establish the identity and address of the participants in a transaction, the legal capacity of the participants and the identity of the beneficial owner of the funds.
- (xi) A bank cannot borrow from its offshore banking unit.
- (xii) The exposures of an offshore banking unit in the domestic tariff area should not exceed 25.00 per cent. of its total liabilities as at the close of business of the previous business day, at any point in time.

Further to the above, banks in India have been allowed to open an International Financial Services Centre (**IFSC**) Banking Unit ("IBU") at GIFT City SEZ in Gandhinagar, Gujarat with the following requirements: (i) minimum of U.S.\$20 million as regulatory capital; (ii) dealing currency would be any currency except INR; (iii) no CRR, SLR, priority sector advances requirements; (iv) no applicability of Withholding Tax; (v) no retail deposits can be booked; (vi) IBUs are only allowed to have liabilities in foreign currency deposit with original maturity period greater than one year except for short term liabilities from banks where there is no limit; (vii) a minimum alternate tax of 9.00 per cent.; (viii) 100.00 per cent. income tax rebate for the first five years and 50.00 per cent. income tax rebate for five years after that.

Foreign Ownership Restriction

Foreign investment in the Bank, as a "corresponding new bank", is regulated by the provisions of the Bank Nationalisation Act. Under Section 3(2D), foreign investment in new corresponding banks is subject to an overall statutory limit of 20.00 per cent. of the paid-up capital. For public sector banks the RBI monitors the ceilings on non-resident investments on a daily basis. For effective monitoring the RBI has fixed cut off points lower than the actual ceilings which is 18.00 per cent. for public sector banks. Once the aggregate net purchase of equity shares reaches the cut off points further acquisition of equity shares by non-residents to the ceiling of 20.00 per cent. requires approval of the RBI, beyond which non-residents are not allowed to acquire shares.

Credit Information Bureau

In accordance with the Credit Information Companies (Regulation) Act, 2005, every bank is required to become a member of a credit information bureau and furnish to it such credit information as may be required by the credit information bureau about persons who enjoy a credit relationship with it. Other credit institutions, credit information bureaus and such other persons as the RBI specifies may access such disclosed credit information.

The Regional Rural Banks Act, 1976

Regional Rural Banks (“RRBs”) are established under the Regional Rural Banks Act, 1976 by the Government at the instance of a sponsor bank. The Government may also issue notifications specifying the local limits within which a given RRB shall operate. The sponsor bank shall subscribe to the share capital of the RRB, train personnel and provide managerial and financial assistance to the RRB.

The Regional Rural Banks Act, 1976 stipulates the limit of the paid-up capital of a regional rural bank and further stipulates that the shares shall always be fully paid up shares of Rs.100 each. Of this, 50.00 per cent. shall be subscribed to by the Government, 15.00 per cent. by the concerned state government and 35.00 per cent. by the sponsor bank. The issued capital can be changed by the board of directors of the RRB (with the prior approval of the Government) after consultation with NABARD, the concerned state government and the sponsor bank.

The board of directors shall consist of the following:

- (i) a chairman-appointed by the sponsor bank;
- (ii) two directors, nominated by the Government, who are not officers of the Government, the concerned state government, the RBI, NABARD, the sponsor bank or any other bank;
- (iii) one director to be nominated by the RBI, such person being an officer of the RBI;
- (iv) one director to be nominated by NABARD, such person being an officer of NABARD;
- (v) two directors to be nominated by the sponsor bank, such person being an officer of the sponsor bank; and
- (vi) two directors to be nominated by the concerned state government, who are officers of the concerned state government.

Taxation

The indirect tax regime in India has undergone a complete overhaul. The indirect taxes on goods and services, such as central excise duty, service tax, central sales tax, state value added tax, surcharge and excise have been replaced by Goods and Service Tax with effect from 1 July 2017. The goods and services tax regime, provides for a unified goods and services tax structure to expand the tax base, rationalise the input tax credit and harmonise the current multiple taxation laws in India.

Income Tax Benefits

As a banking company, the Bank is entitled to certain tax benefits under the Indian Income-tax Act including the following:

- (i) The Bank is allowed a deduction of up to 20.00 per cent. of the profits derived from the business of providing long-term finance (defined as loans and advances extended for a period of not less than five years) for specified purposes, computed in the manner specified under the Income Tax Act, 1961 and carried to a special reserve account. The deduction is allowed subject to the aggregate of the amounts transferred to the special reserve account for this purpose from time to time not exceeding twice the Bank’s paid-up share capital and general reserves. The amount withdrawn from such a special reserve account would be chargeable to income tax in the year of withdrawal, in accordance with the provisions of the Income Tax Act, 1961.

- (ii) The Bank is entitled to a tax deduction on the provisioning towards bad and doubtful debts equal to 8.50 per cent. of the Bank's total business income, computed before making any deductions prescribed under Chapter VI A of the Income Tax Act, 1961, and to the extent of 10.00 per cent. of the aggregate average advances made by its rural branches computed in the manner prescribed.

The Right to Information Act, 2005

The Government has promulgated the Right to Information Act, 2005, which sets out the right of citizens to access information under the control of public authorities in order to promote transparency and accountability in the working of every public authority. The Act came into force on 12 October 2005 and is applicable to all 'public authorities', which includes public sector banks.

Goods and Services Tax and General Anti-Avoidance Rules ("GAAR")

The Government had introduced major reforms in Indian indirect tax laws, namely the GST taking effect from 1 July 2017. Under the GST, unified structures have been introduced to expand the tax base, rationalise the input tax credit and harmonise the current multiple taxation laws in India. The GST has replaced the indirect taxes on goods and services such as central excise duty, service tax, customs duty, central sales tax, state value added tax, surcharge and excise currently being collected by the Central and State Governments.

In a significant widening of the tax base of the Goods and Services Tax, the Government included electricity and real estate within the ambit of the indirect levy. Apart from alcohol and petroleum products, these are two notable exemptions in GST and attract Central and State levies of excise duty, service tax and value-added tax as States have been keen to protect their revenue base.

The GAAR provisions became effective from 1 April 2017 and would apply to arrangements declared as "impermissible avoidance arrangements", which is defined to mean an arrangement, the main purpose or one of the main purposes of which is to obtain a tax benefit and which satisfy at least one of the following tests (i) creates rights, or obligations, which are not ordinarily created between persons dealing at arm's length; (ii) results, directly or indirectly, in misuse, or abuse, of the provisions of the Income Tax Act, 1961; (iii) lacks commercial substance or is deemed to lack commercial substance, in whole or in part; or (iv) is entered into, or carried out, by means, or in a manner, which are not ordinarily employed for bona fide purposes.

The Enforcement of Security Interest and Recovery of Debts Laws and Miscellaneous Provisions (Amendment) Act, 2016

The Enforcement of Security Interest and Recovery of Debts Laws and Miscellaneous Provisions (Amendment) Act, 2016 amends inter alia the SARFAESI Act and the Recovery of Debts due to Banks and Financial Institutions Act, 1993 ("RDBFI").

Key features of the Act are:

- (i) Upon a default in repayment, the secured creditors must within 30 days, with the help of the district magistrate, take possession over the collateral, against which a loan had been provided;
- (ii) the District Magistrate may assist banks in taking over the management of a company, in case the company is unable to repay loans. This will be done in case the banks convert their outstanding debt into equity shares, and consequently hold a stake of 51.00 per cent. or more in the company;

- (iii) secured creditors will not be able to take possession over the collateral unless it is registered with the central registry. Further, these creditors, after registration of security interest, will have priority over others in repayment of dues; and
- (iv) stamp duty will not be charged on transactions undertaken for transfer of financial asset (including loans and collaterals) in favour of asset reconstruction companies.
- (v) banks may file cases in tribunals having jurisdiction over the area of bank branch where the debt is pending; and
- (vi) the retirement age of Presiding Officers of Debt Recovery Tribunals will be increased from 62 years to 65 years. Further, the retirement age of Chairpersons of Appellate Tribunals will be increased from 65 years to 67 years. It also makes Presiding Officers and Chairpersons eligible for reappointment to their positions.

The Insolvency and Bankruptcy Code, 2016

The Insolvency and Bankruptcy Code, 2016 of the IBC was passed by the Lok Sabha on 5 May 2016, the Rajya Sabha on 11 May 2016, received the assent of the President and was notified in the Official Gazette on 28 May 2016. The IBC primarily consolidates the existing insolvency law, *inter alia*, relating to companies and corporate entities with the objective of providing clarity and consistency in the treatment of all the stakeholders in the insolvency process. The IBC classifies creditors into financial creditors and operational creditors, which includes creditors in respect of financial loans for interest and loans arising from the operational nature of the debtor, respectively. The IBC proposes to appoint specialised insolvency professionals to assist companies and corporate entities through the insolvency process. The IBC provides a 180 day timeline which may be extended by an additional 90 days when dealing with insolvency resolution applications. Subsequently, the insolvency resolution plan prepared by insolvency professionals was required to be approved by 75 per cent., and subsequent to amendments as detailed below, by 66 per cent., of the financial creditors and further sanction from the adjudicating authority and, if rejected, the adjudicating authority will pass an order for liquidation. The National Company Law Tribunal will be the adjudicating authority with jurisdiction over companies and limited liability entities. The objective of the IBC is to promote entrepreneurship, availability of credit, and balance the interests of all stakeholders by consolidating and amending the laws relating to reorganisation and insolvency resolution of corporate persons, partnership firms and individuals in a timely manner and for maximisation of value of assets of such persons and matters connected therewith or incidental thereto.

The Indian Parliament on 19 January 2018, passed the Insolvency and Bankruptcy Code (Amendment) Bill, 2017. The amendments aim to keep out such persons who have wilfully defaulted, are associated with NPAs, or are habitually non-compliant and, therefore, are likely to be a risk to successful resolution of the insolvency of a company. The Indian Parliament further enacted the Insolvency and Bankruptcy Code (Second Amendment) Act, 2018. This amendment has reviewed norms pertaining to enforcement of third party security which has to be provided by the corporate debtor. Further, the voting threshold has been brought down to 66 per cent. from 75 per cent. for all major decisions such as approval of resolution plan and extension of corporate insolvency resolution process period, among. In order to facilitate the corporate debtor to continue as a going concern during the corporate insolvency resolution process, the voting threshold for routine decisions has been reduced to 51 per cent. This amendment provides relief to home buyers who are now to be treated as financial creditors and therefore will be able to decide the future of defaulting builders alongside their lenders.

The IBC aims to consolidate the laws relating to insolvency of companies and limited liability entities (including limited liability partnerships and other entities with limited liability), unlimited liability partnerships and individuals, presently contained in a number of legislations, into a single legislation. Such consolidation will provide for a greater clarity in law and facilitate the application of consistent and coherent provisions to different stakeholders affected by business failure or inability to pay debt. The vision of the new law is to encourage entrepreneurship and innovation. The IBC is a comprehensive and systemic reform, which will have a significant effect on the functioning of the credit market.

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of Notes are advised to consult their own tax advisors as to the tax consequences of the purchase, ownership and disposal of Notes, including the effect of any state or local taxes, under the tax laws of India, the United States and each country of which they are residents or the countries of purchase, holding or disposal of Notes. Additionally, in view of the number of different jurisdictions where local laws may apply, this Offering Circular does not discuss the local tax consequences applicable to a potential holder, purchaser or seller arising from the acquisition, holding or disposal of the Notes, other than in respect of certain U.S. tax consequences discussed below. Prospective investors must, therefore, inform themselves as to any tax, exchange control legislation or other laws and regulations in force relating to the subscription, holding or disposal of the Notes at their place of residence and in the countries of which they are citizens or the countries of purchase, holding or disposal of the Notes.

Indian Taxation

The following is a summary of the existing principal Indian tax consequences for non-resident investors purchasing Notes issued by the Bank through its offshore branches. The summary is based on existing Indian taxation law and practice in force at the date of this Offering Circular and is subject to change, possibly with retroactive effect. The summary does not constitute legal or tax advice and is not intended to represent a complete analysis of the tax consequences under Indian law of the acquisition, ownership or disposal of Notes. Prospective investors should, therefore, consult their own tax advisors regarding the Indian tax consequences, as well as the tax consequences under any other applicable taxing jurisdiction, of acquiring, owning and disposing of the Notes.

Payments through The Issuer's Offshore Branches

There is currently no requirement to withhold tax under Indian taxation law on interest payments that are made on the Notes by the Issuer's offshore branches if the amounts raised through these Notes are utilised outside India for the purposes of a business carried on by the Bank outside India or for the purposes of making or earning income from any source outside India. If, and to the extent the amounts so raised are utilised in India, Indian tax consequences would be applicable as detailed under the paragraphs "Withholding taxes" and "Taxation of interest", which are set out below.

Payments through India

Any payments the Bank makes on the Notes, including additional amounts, are subject to the regulations of the RBI.

Taxation of interest

Interest on the Notes may not be subject to tax in India, if the proceeds of the issuance of the Notes are used for the purpose of the business carried out by the Bank outside India. If, however, the proceeds are used for the purposes of the Bank's business in India, a non-resident investor may be liable to pay tax at the rate of 20.00 per cent (plus applicable surcharges and health and education cess) on interest paid on the Notes through India, subject to and in accordance with the prevalent laws in India.

However, an applicable tax treaty may reduce such tax liability to such beneficial rates, as provided in the applicable tax treaty, subject to the fulfilment of conditions prescribed therein. A non-resident investor would be obligated to pay such income tax equivalent to, or would be entitled to a refund of, as the case may be, any difference between the taxes withheld and its ultimate Indian tax liability for such interest, subject to and in accordance with the provisions of the Income-tax Act, 1961 ("Income Tax Act").

Withholding taxes

There will be a requirement to withhold tax at the rate of 20.00 per cent. (plus applicable surcharges and health and education cess) on interest payments made on the Notes subject to and in accordance with the conditions contained in the Income Tax Act.

An applicable tax treaty may reduce such tax liability to such beneficial rates as provided in the applicable tax treaty, subject to fulfilment of the conditions prescribed therein and if the beneficial recipient has a Permanent Account Number (a "PAN") issued by the Indian tax authorities. If the non-resident investor does not have a PAN, a tax identification number may be submitted along with certain other details such as name, e-mail ID, contact number and address in the country of residence, along with a tax residency certificate substantiating such tax identification number.

Pursuant to the Terms and Conditions of the Notes, all payments of, or in respect of, principal and interest on the Notes, will be made free and clear of and without withholding or deduction on account of any present or future taxes within India unless it is required by law, in which case, pursuant to Condition 9, the Issuer will pay additional amount as may be necessary in order that the net amount received by the investor after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or the deduction, subject to certain exceptions.

Taxation of gains arising on disposal

Any gains arising to a non-resident investor from disposal of the Notes held as a capital asset will generally be chargeable to income tax in India if the Notes are regarded as property situated in India. A non-resident investor generally will not be chargeable to income tax in India from a disposal of Notes held as a capital asset provided that the Notes are regarded as being situated outside India. There is a possibility that the Indian tax authorities may treat the Notes as being located in India as the Bank is incorporated in and resident in India.

If the Notes are regarded as situated in India, upon disposal of a Note:

- (i) a non-resident investor who has held the Notes for a period of more than 36 months immediately preceding the date of their disposal may be liable to pay capital gains tax at rates of 10.00 per cent. (plus applicable surcharge and health and education cess) subject to and in accordance with the provisions of the Income Tax Act, and subject to any lower rate provided for by an applicable tax treaty;

- (ii) a non-resident investor who has held the Notes for a period of 36 months or less immediately preceding the date of their disposal would be liable to pay capital gains tax at rates ranging up to 40.00 per cent. (plus applicable surcharge and health and education cess) subject to any lower rate provided for by an applicable tax treaty, depending on the legal status of the non-resident investor and his taxable income in India; and
- (iii) any gains realised by a non-resident investor from disposal of the Notes held as stock-in-trade would be subject to income tax in India to the extent, if any, that the gains are attributable to a “business connection in India” or, where a tax treaty applies, to a “permanent establishment” in India of the non-resident investor. A non-resident investor would be liable to pay tax in India on the income which is attributable at rates ranging from 30.00 per cent. to 40.00 per cent. (plus applicable surcharge and health and education cess), depending on the legal status of the non-resident investor his taxable income in India and subject to any beneficial provision provided for by an applicable tax treaty.

If a non-resident investor earns any capital gains chargeable to tax in India, the Income Tax Act requires that such tax shall be withheld by the person making any payment to such non-resident investor at the rate of 10% (plus applicable surcharge and health and education cess) on long-term capital gains. Furthermore, tax at the rate of up to 40 per cent. (plus applicable surcharge and health and education cess), shall be withheld depending on the legal status of the recipient of income, on short term capital gains. These rates are subject to any lower rate of tax provided under the relevant tax treaty (if any). The tax payable shall be computed in such manner as prescribed in this regard under the Income Tax Act. For the purpose of withholding of taxes, the non-resident investor shall have to submit the details of its PAN as allotted to it by the tax authorities and all prescribed information and documents, including tax residency certificate (issued by the tax authorities of the country in which the investor is resident) for claiming the tax treaty benefits. If the non-resident investor does not have a PAN, a tax identification number may be submitted along with certain other details such as name, e-mail ID, contact number and address in the country of residence, along with a tax residency certificate substantiating such tax identification number.

Taxation of deemed income

As a measure to prevent laundering of unaccounted income, the Income Tax Act provides that if an individual receives shares or securities (which may arguably include Notes) for a consideration which is less than fair market value (“FMV”) of such securities by an amount exceeding INR50,000, the aggregate FMV of the property as exceeds such consideration is added to the taxable income of the recipient of Notes. However, it may be noted that this provision would not be applicable if the asset is received from a relative or under a will or by way of inheritance or any other specific instances provided under section 56(2)(x) of the Income Tax Act.

The applicability of this provision for non-residents shall have to be examined separately.

General Anti Avoidance Rules

The **GAAR** may become applicable to “impermissible avoidance arrangement” in cases of transactions which does not have any business rationale and where the main purpose is to obtain tax benefits, subject to certain other tests. If GAAR provisions are invoked, it could result in significant implications for the parties to the transaction including inter alia, disregarding, combining or re-characterisation of any step in or part or whole of the impermissible avoidance arrangement, considering or looking through any arrangement by disregarding any corporate structure, denial of any tax benefit claimed by the taxpayer or denial of benefit claimed by the non-resident under a tax treaty.

The GAAR is effective from 1 April 2017.

Non-resident investors should consult their own tax advisors regarding the Indian tax consequences of disposing of the Notes.

Potential investors should, in any event, consult their own tax advisers on the tax consequences of transfer of the Notes.

Wealth Tax

No wealth tax is payable at present in relation to the Notes in India.

Estate Duty

No estate duty is payable at present in relation to the Notes in India.

Gift Tax

No gift tax is payable at present in India.

Stamp Duty

A transfer of Notes outside India will not give rise to any Indian stamp duty liability unless the Notes are brought into India. In the event that the Notes are brought in India for enforcement or any other purpose, the Notes will attract stamp duty as payable in the relevant state at the prevailing rates. The stamp duty will have to be paid within a period of three months from the date the Notes were first received in India.

United Kingdom Taxation

The following is a summary of the Issuer's understanding of current United Kingdom law as applied in England and Wales and published HM Revenue and Customs' practice (which may not be binding on HM Revenue and Customs), in each case as at the latest practicable date before the date of this Offering Circular, relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Payments of interest on the Notes that does not have a United Kingdom source may be made without deduction or withholding on account of United Kingdom income tax. If interest paid on the Notes does have a United Kingdom source, then payments may be made without deduction or withholding on account of United Kingdom income tax in any of the following circumstances:

- (1) The Issuer will be entitled to make payments of interest on the Notes without deduction of or withholding on account of United Kingdom income tax provided that:
 - (a) the Issuer is and continues to be a bank within the meaning of section 991 of the Income Tax Act 2007 ("ITA 2007"); and
 - (b) the interest on the Notes is and continues to be paid in the ordinary course of the Issuer's business within the meaning of section 878 ITA 2007.

- (2) Payments of interest on the Notes may be made without deduction or withholding for or on account of United Kingdom income tax provided that the Notes carry a right to interest and the Notes are and continue to be listed on a “recognised stock exchange” within the meaning of section 1005 ITA 2007. The SGX-ST is a recognised stock exchange for these purposes. The Notes will be treated as listed on the SGX-ST if they are both officially listed in Singapore in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on the SGX-ST. Provided, therefore, that the Notes carry a right to interest and are and remain so listed on a “recognised stock exchange”, interest on the Notes will be payable without deduction of or withholding on account of United Kingdom tax whether or not the Issuer is a bank and whether or not the interest is paid in the ordinary course of its business.
- (3) Payments of interest on Notes may be made without deduction of or withholding on account of United Kingdom tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In all other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any other available reliefs under domestic law or to any direction to the contrary from HM Revenue and Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

An amount may also be required to be withheld from payments on the Notes that have a United Kingdom source and are not interest, but are nevertheless treated as annual payments for United Kingdom tax purposes, on account of United Kingdom tax at the basic rate. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986 (the “**Code**”), commonly known as FATCA, a “foreign financial institution” may be required to withhold on, among other things, (i) certain payments it makes (“**foreign passthru payments**”) and (ii) dividend equivalent payments (as described below in “*Taxation – Potential U.S. Withholding on Dividend Equivalent Payments*”), in each case, to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, under proposed U.S. Treasury Regulations, such withholding would not apply prior to the date that is two years after the date on which final regulations defining “foreign passthru payments” are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that tax payers may rely on these proposed regulations until the issuance of final regulations. Notes that are characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. However, if

additional notes (as described under “*Terms and Conditions of the Notes – Further Issues*”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding. Prospective investors should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

Potential U.S. Withholding on Dividend Equivalent Payments

Under Section 871(m) of the Code and the U.S. Treasury regulations thereunder (“**Section 871(m)**”), a “dividend equivalent” payment is treated as a dividend from sources within the United States and generally would be subject to a 30 per cent. U.S. withholding tax when paid to a non-U.S. person (unless a lower treaty rate is applicable). A “dividend equivalent” payment generally includes a payment (or deemed payment) that is contingent upon, or determined by reference to, the payment of a dividend from sources within the United States. An instrument whose economic characteristics are sufficiently similar to those of an underlying referenced U.S. security that pays U.S.-source dividends under tests provided in applicable U.S. Treasury regulations will generally be subject to the Section 871(m) regime (such an instrument, a “**Specified Transaction**”). The tests applicable for determining whether an instrument is a Specified Transaction will depend on the terms of the relevant instrument and the date on which the instrument is priced, or issued or entered into (the applicable date to be determined in accordance with Section 871(m)), and may be subject to redetermination in connection with certain modifications of the instrument, or upon the rebalancing of a basket of reference assets or an index referenced by the instrument.

In general, Section 871(m) will not apply to certain financial instruments issued or entered into prior to 1 January 2021 if such financial instruments are not “delta one” transactions. In addition, the Section 871(m) regulations provide certain broadly applicable exceptions to characterisation as Specified Transactions, in particular for certain instruments linked to certain broad-based indices.

Withholding in respect of dividend equivalents may be required on any portion of a payment or deemed payment under a Specified Transaction, including, if appropriate, the payment of the purchase price, or upon the date of maturity, lapse, disposition, settlement or other resolution to a non-U.S. person. If the underlying or referenced U.S. security or securities are expected to be treated as paying dividends during the term of the Specified Transaction, withholding generally will still be required even if the Specified Transaction does not provide for payments explicitly linked to such dividends.

Withholding in respect of dividend equivalents will generally be required when cash payments are made on a Specified Note or upon the date of maturity, lapse or other disposition by the non-U.S. holder of the Specified Note. If the underlying U.S. security or securities are expected to pay dividends during the term of the Specified Note, withholding generally will still be required even if the Specified Note does not provide for payments explicitly linked to dividends. If the Issuer or any withholding agent determines that withholding is required, neither the Issuer nor any withholding agent will be required to pay any additional amounts with respect to amounts so withheld.

As discussed above, FATCA would impose withholding tax at a rate of 30 per cent. on any payments in respect of a Note that are treated as dividend equivalent payments when paid to persons that fail to meet certain certification, reporting or related requirements.

While a payment with respect to a Note could be subject to U.S. withholding both under FATCA and as a result of being treated as a dividend equivalent payment, the maximum rate of U.S. withholding on such payment would not exceed 30 per cent.

Upon the issuance of a series of Notes, the Issuer will state in the applicable Pricing Supplement if it has determined that the Notes are Specified Transactions, in which case a non-U.S. holder of the Notes should expect to be subject to withholding in respect of any dividend-paying U.S. securities underlying those Notes. In the event that any withholding would be required pursuant to Section 871(m) with respect to payments on the Notes, no person will be required to pay any additional amounts with respect to amounts so withheld. The Issuer's determination is binding on non-U.S. holders of the Notes, but it is not binding on the IRS. The Section 871(m) Regulations require complex calculations to be made with respect to Notes linked to U.S. securities and their application to a specific issue of Notes may be uncertain. Additionally, the Issuer may withhold the full 30 per cent. tax on any payment on the Notes in respect of any dividend equivalent arising with respect to such Notes regardless of any exemption from, or reduction in, such withholding otherwise available under applicable law (including, for the avoidance of doubt, where a non-U.S. holder is eligible for a reduced tax rate under an applicable tax treaty with the United States). A holder may be able to claim a refund of any excess withholding provided the required information is timely furnished to the U.S. Internal Revenue Service (the "IRS").

Prospective investors should consult their tax advisers regarding the potential application of Section 871(m) to the Notes, including their ability to claim reductions in the amount of withholding or refunds or credits in respect of amounts withheld under an applicable treaty with the United States.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the Clearing Systems) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Arranger, the Dealers, the Trustee nor any Agent (as defined in the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “Rules”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“DTC Notes”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the United States Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“Owners”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, who will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“Beneficial Owner”) is in turn to be recorded on the Direct Participant’s or, as applicable, Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant’s or, as applicable, Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial

Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct Participants and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to the Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription, Sale, Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for their respective customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository

and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to the interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' accounts.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participants and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such

Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription, Sale, Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (Custodian) with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

SUBSCRIPTION, SALE, TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in the Amended and Restated Programme Agreement dated 15 March 2019 (as amended and/or supplemented from time to time, the “**Programme Agreement**”) agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe for Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In order to facilitate the offering of any Tranche of the Notes, a nominated Dealer participating in the offering of the Tranche may, to the extent permitted by applicable laws and regulations, engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Under UK laws and regulations stabilising activities may only be carried on by the stabilising manager(s) (or any person acting on behalf of any stabilising manager(s)) named in the applicable Pricing Supplement and only for a limited period following the Issue Date of the relevant Tranche of Notes.

If a jurisdiction requires that an offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

In connection with each Tranche of Notes issued under the Programme, each of the Dealers and its affiliates may engage in investment or commercial banking or advisory services and other dealings in the ordinary course of business with the Issuer or its affiliates from time to time and may receive fees and commissions for these transactions. In addition to the transactions noted above, each Dealer and its affiliates may, from time to time after completion of the Offering, engage in other transactions with, and perform services for, the Issuer or its affiliates in the ordinary course of their business. Each Dealer or its affiliates may also purchase Notes for asset management and/or proprietary purposes but not with a view to distribution or may hold the Notes on behalf of clients or in the capacity of investment advisers. While each Dealer and its affiliates has policies and procedures to deal with conflicts of interests, any such transactions may cause a Dealer or its affiliates or its clients or counterparties to have economic interests and incentives which may conflict with those of an investor in the Notes. Each Dealer may receive returns on such transactions and has no obligation to take, refrain from taking or cease taking any action with respect to any such transactions based on the potential effect on a prospective investor in the Notes. Further, each of the Dealers and its affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities.

Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Notes issued under the Programme may be purchased by or be allocated to any Dealer or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree and each person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is outside the United States and is not a U.S. person;
- (ii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. States securities laws and may not be offered or sold within the United States except as set forth below;
- (iii) that, unless it holds an interest in a Regulation S Global Note and is a person located outside the United States who is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. States securities laws;

- (iv) that it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (vi) that the Notes in registered form, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A FOR RESALES OF THE SECURITY.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

- (vii) if it is outside the United States, that if it should resell or otherwise transfer the Notes, it will do so only (a)(i) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. States securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT."; and

- (viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and it agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Legended Notes in the United States to any one QIB will be for less than U.S.\$100,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-banking fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) principal amount of Registered Notes.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder. The applicable Pricing Supplement will identify whether either TEFRA C or TEFRA D apply or whether TEFRA is applicable.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("**Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers

and sales of the Regulation S Notes within the United States. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent thereof in any other currency). To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in the Trust Deed to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or Section 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of MiFID II; or
 - (ii) a customer within the meaning of IMD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the pricing supplement in

relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression “an offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (“**FSMA**”) by the Issuer;

- (b) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Netherlands

Each Dealer has represented and agreed that the Notes (or any interest therein) are not and may not, directly or indirectly, be offered, sold, pledged, delivered or transferred in the Netherlands, on their issue date or at any time thereafter, and neither the Offering Circular nor any other document in relation to any offering of the Notes (or any interest therein) may be distributed or circulated in the Netherlands, other than to qualified investors as defined in the Prospectus Directive (as defined under “European Economic Area” above), provided that these parties acquire the Notes for their own account or that of another qualified investor.

Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations. Each Dealer has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Offering Circular or any other document relating to the Notes in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the “**Issuers Regulation**”), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation. In any event, any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:
 - (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”) and CONSOB Regulation No. 16190 of 29 October 2007, all as amended from time to time;
 - (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
 - (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSB or the Bank of Italy or other competent authority.

India

Each Dealer has warranted, represented and undertaken and each further Dealer appointed under the Programme will be required to warrant, represent and agree in each case to the Issuer and to each other that (a) the Offering Circular has not been and will not be registered, produced or published as an offer document (whether a prospectus in respect of a public offer or an information memorandum, private placement offer letter or other offering material in respect of any private placement under any applicable laws in India) with the Securities and Exchange Board of India or any other statutory or regulatory body of like nature in India. The Notes will not be offered or sold, and have not been offered or sold either directly or indirectly, to any person or the public or any member of the public in India by means of any document, other than to persons permitted to acquire the Notes under Indian law, whether as a principal or agent, and (c) this Offering Circular or any other offering document or material relating to the Notes will not be circulated or distributed either directly or indirectly and have not been circulated or distributed directly or indirectly, to any person or any member of the public in India or otherwise generally distributed or circulated in India, other than for the sole consideration and exclusive use of the persons permitted to acquire Notes under Indian law. The Notes have not been offered or sold and will not be offered or sold in India in circumstances which would constitute an advertisement, invitation, sale or solicitation of an offer to subscribe for or purchase any securities to the public under applicable Indian law for the time being in force.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the "**Financial Instruments and Exchange Act**") and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance ((Cap. 571) of Hong Kong) other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

General

Each Dealer has represented, warranted and undertaken and each further Dealer appointed under the Programme will be required to represent, warrant and undertake that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trustee, the Arranger and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation and Legal Entity Identifier

1. The establishment and update of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer dated 29 September 2006, 31 January 2011, 25 April 2012, 14 September 2016 and 8 January 2019.
2. Currently the issuance of Notes by the Issuer acting through its London Branch or any other foreign branch for borrowings in foreign currency for the purpose of funding its foreign offices in the normal course of banking business outside India, does not require any approval from the RBI and/or the Ministry of Finance. The Issuer is, however, required to (i) comply with reporting requirements specified under the guidelines issued by the RBI (by its circular DBS No. FBC.BC.34/13.12.001/1999/2000 dated 6 April 2000, as amended), (ii) comply with reporting as part of the overseas liabilities and DSBO Returns with respect to operation of foreign branches of Indian banks, as amended, modified or supplemented from time to time and (iii) comply with the requirements specified by the RBI in relation to the issue of Notes under the Programme.
3. The Legal Entity Identifier (“**LEI**”) of the Issuer is 335800E4RH82Z8XC3C30.

Listing

4. Approval-in-principle has been granted for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. If the application to the SGX-ST to list a particular series of Notes is approved, for so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded, will be traded on the SGX-ST in a board lot size of at least S\$200,000 (or its equivalent in other currencies).

Admission to the Official List and quotation of any Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer, its subsidiaries, its associated companies, the Programme or the Notes. So long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Notes is exchanged for definitive Notes. In addition, in the event that the Global Notes is exchanged for definitive Notes, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Delisting of Notes

5. The Trust Deed provides that if the applicable Pricing Supplement indicates that the Notes are listed on a stock exchange (the “**relevant Stock Exchange**”), the Bank will use its best endeavours to maintain the listing on the relevant Stock Exchange of those of the Notes which are listed on the relevant Stock Exchange or, if it is unable to do so having used its best endeavours or if the Trustee considers that the maintenance of such listings is unduly onerous whether as a result of the implementation of the EU Transparency Directive (directive 2004/109/EC of the European Parliament and of the Council on the Harmonisation of Transparency Requirements in relation to information about issuers whose securities are admitted to trading on a regulated market) or otherwise, it may cease to maintain such listing provided that it shall use its best endeavours promptly to obtain and maintain a quotation or

listing of such Notes on such other stock exchange or exchanges or securities market or markets on which it is then accepted in the sphere of international issues of debt securities to list securities such as the Notes as it may (with the approval of the Trustee (which approval of the Trustee may only be given if the Trustee has received confirmation from the relevant Dealer(s) in respect of such Notes that such other stock exchange or exchanges or securities market or markets is so accepted)) decide and shall also upon obtaining a quotation or listing of such Notes issued by it on such other stock exchange or exchanges or securities market or markets enter into a trust deed supplemental to the Trust Deed to effect such consequential amendments to the Trust Deed as the Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market.

Clearing systems

6. The Bearer Notes to be issued under the Programme have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. In addition, the Issuer may make an application for any Registered Notes to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Notes, together with the relevant ISIN and common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

No significant change

7. Save as disclosed in this Offering Circular, there has been no significant or material adverse change in the financial or trading position of the Bank since 31 March 2018.

Litigation

8. The Bank is not involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Bank.

Accounts

9. The auditors of the Issuer are as follows:

In respect of the financial statements as at and for the year ended 31 March 2017:

Ramraj & Co.
V K Niranjan & Co.
J. Singh & Associates
J.L. Sengupta & Co.

in respect of the financial statements as at and for the year ended 31 March 2018:

J.Singh & Associates
J.L.Sengupta & Co.
Dagliya & Co
Komandoor & Co LLP

in respect of the financial statements for the nine months ended 31 December 2018:

Dagliya & Co.
Komandoor & Co. LLP
D K Chhajer & Co.
S N K & Co.

The auditors mentioned above have audited the Issuer's consolidated and non-consolidated accounts, without qualification, in accordance with generally accepted auditing standards in India for each of the periods mentioned above.

Trustee's Reliance on Certificates

10. The Trust Deed provides that the Trustee may rely on certificates or reports from the Auditors (as defined in the Trust Deed) or any other person in accordance with the provisions of the Trust Deed as sufficient evidence of the facts stated therein whether or not called for by or addressed to the Trustee and whether or not any such certificate or report or engagement letter or other document entered into by the Trustee and the Auditors or such other person in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person. However, the Trustee will have no recourse to the Auditors or such other person in respect of such certificates or reports unless the Auditors or such other person have agreed to address such certificates or reports to the Trustee.

Documents Available

11. So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the corporate office of the Issuer and from the specified office of the Principal Paying Agent in London:
 - (a) the audited financial statements of the Bank and the Group in respect of the financial years ended 31 March 2017 and 2018;
 - (b) the most recently published audited annual financial statements of the Bank and the most recently published unaudited non-consolidated interim financial results of the Bank (the Bank currently prepares unaudited non-consolidated interim results on a quarterly basis under Indian regulatory requirements);
 - (c) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Temporary Global Notes, the Permanent Global Notes, the Definitive Bearer Notes, the Receipts, the Coupons, the Talons and the Regulation S Global Notes, the Restricted Global Notes and the Definitive Registered Notes;
 - (d) a copy of this Offering Circular;
 - (e) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
 - (f) the constitutional documents of the Bank.

INDEX TO FINANCIAL STATEMENTS

Non-Consolidated Financial Statements

Nine months ended 31 December 2018

Non-consolidated Balance Sheet as at 31 December 2018.....	F-3
Non-consolidated Profit and Loss Account for the nine months ended 31 December 2018.....	F-4
Schedules to the non-consolidated Balance Sheet as at 31 December 2018 and non-consolidated Profit and Loss Account for the nine months ended 31 December 2018.	F-5
Limited Review Report on the non-consolidated Financial Statements for the nine months ended 31 December 2018	F-17

Year ended 31 March 2018

Non-consolidated Balance Sheet as at 31 March 2018	F-19
Non-consolidated Profit and Loss Account for the year ended 31 March 2018.....	F-20
Schedules to the non-consolidated Balance Sheet as at 31 March 2018 and non-consolidated Profit and Loss Account for the year ended 31 March 2018.....	F-21
Non-consolidated Cashflow Statement for the year ended 31 March 2018	F-33
Significant Accounting Policies adopted in preparing the non-consolidated Financial Statements for the year ended 31 March 2018	F-35
Notes on Accounts on the non-consolidated Financial Statements for the year ended 31 March 2018	F-45
Independent Auditors' Report on the non-consolidated Financial Statements for the year ended 31 March 2018	F-86

Year ended 31 March 2017

Non-consolidated Balance Sheet as at 31 March 2017.....	F-88
Non-consolidated Profit and Loss Account for the year ended 31 March 2017.....	F-89
Schedules to the non-consolidated Balance Sheet as at 31 March 2017 and non-consolidated Profit and Loss Account for the year ended 31 March 2017.....	F-90
Non-consolidated Cashflow Statement for the year ended 31 March 2017.....	F-102
Significant Accounting Policies adopted in preparing the non-consolidated Financial Statements for the year ended 31 March 2017	F-104
Notes on Accounts on the non-consolidated Financial Statements for the year ended 31 March 2017	F-112
Independent Auditors' Report on the non-consolidated Financial Statements for the year ended 31 March 2017	F-143

Consolidated Financial Statements

Year ended 31 March 2018

Consolidated Balance Sheet as at 31 March 2018	F-145
Consolidated Profit and Loss Account for the year ended 31 March 2018	F-146
Schedules to the consolidated Balance Sheet as at 31 March 2018 and consolidated Profit and Loss Account for the year ended 31 March 2018	F-147
Consolidated Cashflow Statement for the year ended 31 March 2018	F-160
Significant Accounting Policies adopted in preparing the consolidated Financial Statements for the year ended 31 March 2018	F-162
Notes on Accounts on the consolidated Financial Statements for the year ended 31 March 2018	F-173
Independent Auditors' Report on the consolidated Financial Statements for the year ended 31 March 2018	F-183

Year ended 31 March 2017

Consolidated Balance Sheet as at 31 March 2017	F-187
Consolidated Profit and Loss Account for the year ended 31 March 2017	F-188
Schedules to the consolidated Balance Sheet as at 31 March 2017 and consolidated Profit and Loss Account for the year ended 31 March 2017	F-189
Consolidated Cashflow Statement for the year ended 31 March 2017	F-202
Significant Accounting Policies adopted in preparing the consolidated Financial Statements for the year ended 31 March 2017	F-204
Notes on Accounts on the consolidated Financial Statements for the year ended 31 March 2017	F-214
Independent Auditors' Report on the consolidated Financial Statements for the year ended 31 March 2017	F-225

BALANCE SHEET AS AT 31st DECEMBER 2018

Schedule	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
CAPITAL AND LIABILITIES		
CAPITAL	1 733 24 48	597 29 02
RESERVES AND SURPLUS	2 35801 52 14	33622 92 78
DEPOSITS	3 575524 73 44	503887 79 68
BORROWINGS	4 41906 75 41	47137 97 18
OTHER LIABILITIES AND PROVISIONS	5 18164 13 79	14527 11 60
TOTAL	672130 39 26	599773 10 26
ASSETS		
CASH & BALANCES WITH RESERVE BANK OF INDIA	6 27077 02 07	22720 98 51
BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE	7 31014 67 28	28853 72 22
INVESTMENTS	8 152694 52 36	141826 03 23
ADVANCES	9 417227 38 59	373122 61 31
FIXED ASSETS	10 8254 04 97	7088 34 20
OTHER ASSETS	11 35862 73 99	26161 40 79
TOTAL	672130 39 26	599773 10 26
CONTINGENT LIABILITIES	12 314505 25 09	331599 33 43
BILLS FOR COLLECTION		28378 60 92
		26456 25 97

PLACE : BENGALURU
DATE : 28-Jan-19



PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31.12.2018

	Schedule	For the period ended 31.12.2018 (Rs. '000)	For the period ended 31.12.2017 (Rs. '000)
I. INCOME	13	34671 86 63	31028 68 30
INTEREST EARNED		4713 01 17	5611 14 71
OTHER INCOME		39384 87 80	36639 83 01
II. EXPENDITURE	15	23693 88 62	21852 94 09
INTEREST EXPENDED		8073 58 09	7008 29 69
OPERATING EXPENSES		6718 85 53	7146 06 59
III. NET PROFIT/(LOSS) FOR THE PERIOD	16	38486 32 24	36002 30 37
EARNINGS PER SHARE		898 55 56	637 52 64
		12.25	10.67

PLACE : BENGALURU
DATE : 28.01.2019



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.12.2018

	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
SCHEDULE 1 - CAPITAL		
I. Authorised Capital (300,00,00,000 Equity Shares of Rs.10/- each)	3000 00 00	3000 00 00
II.Issued,Subscribed and Paid up:		
i) 53,19,44,775 Equity Shares of Rs.10/- each Previous year 39,59,90,159 Equity share of Rs. 10/- each held by Central Government	531 94 48	395 99 02
ii) 20,13,00,000 Equity Shares of Rs.10/- each Previous year 20,13,00,000 Equity Shares of Rs.10/- each held by others.	201 30 00	201 30 00
	733 24 48	597 29 02



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.12.2018

	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
SCHEDULE 2 - RESERVES AND SURPLUS		
I. STATUTORY RESERVE (Reserve Fund in terms of Section 17 of the Banking Regulation Act, 1949)		
OPENING BALANCE	8264 00 00	8264 00 00
Additions during the period		
Total	8264 00 00	8264 00 00
II. CAPITAL RESERVE		
a. REVALUATION RESERVE		
OPENING BALANCE	6524 72 80	5373 14 97
Add : Addition during the period		
Less : Transferred to Profit and Loss Account	84 42 95	52 78 13
Total	6440 29 85	5320 36 84
b. FOREIGN CURRENCY TRANSLATION RESERVE		
OPENING BALANCE	223 24 48	155 21 59
Add : Additions during the period	31 37 37	13 85 74
Total	254 61 85	169 07 33
c. OTHERS		
OPENING BALANCE	2255 67 07	2255 67 07
Add : Additions during the period		
Total	2255 67 07	2255 67 07
III. SHARE PREMIUM :		
OPENING BALANCE	11471 26 67	6742 22 14
Add : Additions during the period		
Total	11471 26 67	6742 22 14
IV. REVENUE AND OTHER RESERVES		
a. REVENUE RESERVE		
OPENING BALANCE	8601 94 25	8481 09 06
ADD: Additions during the period	84 42 94	
Less: Deductions during the period	8686 37 19	8481 09 06
Total	8686 37 19	8481 09 06
b. SPECIAL RESERVE {In terms of Section 36 (1)(viii) of the Income Tax Act, 1961}		
OPENING BALANCE	4000 00 00	4000 00 00
Additions during the period		
Total	4000 00 00	4000 00 00
c. INVESTMENT RESERVE ACCOUNT		
OPENING BALANCE	565 80 00	565 80 00
Add : Additions during the period		
Less: Deductions during the period	565 80 00	565 80 00
Total	565 80 00	565 80 00
d. Balance in Profit & Loss account		
OPENING BALANCE	(7035 06 06)	(2812 82 29)
Add : Additions during the period	898 55 57	637 52 64
Less: Deduction during the period		
Total	(6136 50 49)	(2175 29 65)
TOTAL	35801 52 14	33622 92 78



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.12.2018

	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
SCHEDULE 3 - DEPOSITS		
A. I. DEMAND DEPOSITS		
i. FROM BANKS	245 38 17	232 76 44
ii. FROM OTHERS	24456 12 13	23011 95 83
Total	24701 50 30	23244 72 27
II. SAVINGS BANK DEPOSITS		
	149689 16 74	134340 95 09
Total	149689 16 74	134340 95 09
III. TERM DEPOSITS		
i. FROM BANKS	33444 64 52	33028 00 47
ii. FROM OTHERS	367689 41 88	313274 11 85
Total	401134 06 40	346302 12 32
TOTAL	575524 73 44	503887 79 68
B. DEPOSITS OF BRANCHES		
i. IN INDIA	540212 73 00	465248 60 65
ii. OUTSIDE INDIA	35312 00 44	38639 19 03
TOTAL	575524 73 44	503887 79 68



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.12.2018

	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
SCHEDULE 4 - BORROWINGS		
I. BORROWINGS IN INDIA		
i. RESERVE BANK OF INDIA	1100 00 00	
ii. OTHER BANKS	2499 96 52	
iii. OTHER INSTITUTIONS AND AGENCIES	13708 39 71	10895 15 42
iv. UNSECURED REDEEMABLE BONDS (IPDI AND SUB-ORDINATED DEBT)	13314 60 00	14014 60 00
Total	29522 96 23	26009 75 42
II. BORROWINGS OUTSIDE INDIA		
i. OTHER BANKS	12383 79 18	21128 21 76
ii. UNSECURED REDEEMABLE BONDS (SUB-ORDINATED DEBT)		
Total	12383 79 18	21128 21 76
TOTAL	41906 75 41	47137 97 18

SCHEDULE 5 - OTHER LIABILITIES & PROVISIONS

I.	BILLS PAYABLE	1026 79 79	1027 52 59
II.	INTER OFFICE ADJUSTMENT (NET)	549 13 16	276 42 61
III.	INTEREST ACCRUED	2374 71 10	2026 14 64
IV.	OTHERS (INCLUDING PROVISIONS)	14213 49 74	11197 01 76
TOTAL			18164 13 79
			14527 11 60



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.12.2018

	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
SCHEDULE 6-CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I. CASH IN HAND (Including Foreign Currency Notes)	3905 44 09	2844 06 76
II. BALANCES WITH RESERVE BANK OF INDIA IN CURRENT ACCOUNT IN OTHER ACCOUNTS	23171 57 98	19876 91 75
Total	23171 57 98	19876 91 75
TOTAL	27077 02 07	22720 98 51
 SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. IN INDIA i. BALANCE WITH BANKS a. IN CURRENT ACCOUNTS b. IN OTHER DEPOSIT ACCOUNTS	34 61 86	64 35 50
Total	34 61 86	64 35 50
ii. MONEY AT CALL AND SHORT NOTICE a. WITH BANKS b. WITH OTHER INSTITUTIONS	3300 00 00	-
Total	3300 00 00	-
Total	3334 61 86	64 35 50
II. OUTSIDE INDIA i. IN CURRENT ACCOUNTS ii. IN OTHER DEPOSIT ACCOUNTS iii. MONEY AT CALL AND SHORT NOTICE	4675 51 22 14819 03 57 8185 50 63 27680 05 42	625 51 54 19102 18 16 9061 67 02 28789 36 72
TOTAL	31014 67 28	28853 72 22



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.12.2018

	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
SCHEDULE 8 - INVESTMENTS		
I. INVESTMENTS IN INDIA : GROSS:	153074 10 72	142600 29 05
LESS: PROVISION FOR DEPRECIATION & NPI	2416 06 08	1917 40 17
NET INVESTMENT IN INDIA	150658 04 64	140682 88 88
i. GOVERNMENT SECURITIES	134593 51 90	125252 75 18
ii. OTHER APPROVED SECURITIES	1 49 87	1 49 87
iii SHARES	2238 53 91	2617 82 21
iv. DEBENTURES AND BONDS	10484 54 58	9442 46 73
v. SUBSIDIARIES AND/OR JOINT VENTURES	746 21 41	796 21 41
vi. OTHERS	2593 72 97	2572 13 48
Total	150658 04 64	140682 88 88
HELD TO MATURITY	93316 06 50	95617 97 77
AVAILABLE FOR SALE	57095 39 62	44816 12 45
HELD FOR TRADING	246 58 52	248 78 66
Total	150658 04 64	140682 88 88
II. INVESTMENTS OUTSIDE INDIA - GROSS	2061 18 54	1148 30 03
LESS : PROVISION FOR DEPRECIATION	24 70 82	5 15 68
NET INVESTMENTS OUTSIDE INDIA	2036 47 72	1143 14 35
i. GOVERNMENT SECURITIES	1004 72 61	328 48 96
(INCLUDING LOCAL AUTHORITIES)		
ii. SUBSIDIARIES AND/OR JOINT VENTURES	166 30 73	166 30 73
iii. OTHER INVESTMENTS	865 44 38	648 34 66
Total	2036 47 72	1143 14 35
HELD TO MATURITY	232 35 40	264 98 95
AVAILABLE FOR SALE	1804 12 32	878 15 40
HELD FOR TRADING	-	-
Total	2036 47 72	1143 14 35
TOTAL	152694 52 36	141826 03 23



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.12.2018

	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
SCHEDULE 9 - ADVANCES		
A. i. BILLS PURCHASED & DISCOUNTED	17198 76 40	15198 80 43
ii. CASH CREDITS, OVERDRAFTS AND LOANS REPAYABLE ON DEMAND	176308 69 31	160647 57 40
iii. TERM LOANS	223719 92 88	197276 23 48
Total	417227 38 59	373122 61 31
B. i. SECURED BY TANGIBLE ASSETS (INCLUDING BOOK DEBTS)	336507 13 33	300870 47 28
ii. COVERED BY BANK / GOVT.GUARANTEES	9344 66 50	17767 42 75
iii. UNSECURED	71375 58 76	54484 71 28
Total	417227 38 59	373122 61 31
C. i. ADVANCES IN INDIA		
i. PRIORITY SECTOR	179870 93 38	153974 66 78
ii. PUBLIC SECTOR	20348 73 12	15365 40 86
iii. BANKS	3963 14 85	9 58 92
iv. OTHERS	189856 02 59	172751 55 20
TOTAL	394038 83 94	342101 21 76
II. ADVANCES OUTSIDE INDIA (DUE FROM OTHER THAN BANKS)		
i. BILLS PURCHASED AND DISCOUNTED	11019 98 21	9319 15 20
ii. TERM / SYNDICATED LOANS	7460 94 30	8919 10 93
iii. OTHERS	4707 62 14	12783 13 42
Total	23188 54 65	31021 39 55
TOTAL	417227 38 59	373122 61 31



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.12.2018

	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
SCHEDULE 10 - FIXED ASSETS		
I. PREMISES		
AT COST / VALUATION AS PER LAST BALANCE SHEET	8035 62 87	6758 27 30
ADDITIONS DURING THE YEAR	<u>30 66 17</u>	<u>3 60 98</u>
	<u>8066 29 04</u>	<u>6761 88 28</u>
REVALUATIONS MADE DURING THE YEAR	-	-
	<u>8066 29 04</u>	<u>6761 88 28</u>
DEDUCTIONS DURING THE YEAR	<u>1 05</u>	<u>12 03</u>
	<u>8066 27 99</u>	<u>6761 76 25</u>
DEPRECIATION TO DATE	<u>931 22 86</u>	<u>768 16 28</u>
	<u><u>7135 05 13</u></u>	<u><u>5993 59 97</u></u>
II. OTHER FIXED ASSETS (INCLUDING FURNITURE & FIXTURES)		
AT COST AS PER LAST BALANCE SHEET	3775 14 75	3511 19 50
ADDITIONS DURING THE YEAR	<u>247 82 51</u>	<u>212 04 09</u>
	<u>4022 97 27</u>	<u>3723 23 59</u>
DEDUCTIONS DURING THE YEAR	<u>46 61 92</u>	<u>33 80 18</u>
	<u>3976 35 35</u>	<u>3689 43 41</u>
DEPRECIATION TO DATE	<u>2859 54 50</u>	<u>2596 88 18</u>
	<u><u>1116 80 85</u></u>	<u><u>1092 55 23</u></u>
III. LEASED ASSETS		
AT COST AS PER LAST BALANCE SHEET	71 77 28	71 77 29
ADDITIONS DURING THE YEAR	<u>71 77 28</u>	<u>71 77 29</u>
DEDUCTIONS DURING THE YEAR	-	-
	<u>71 77 28</u>	<u>71 77 29</u>
DEPRECIATION TO DATE	<u>69 24 28</u>	<u>68 81 04</u>
	<u>2 53 00</u>	<u>2 96 25</u>
LESS: LEASE TERMINAL ADJUSTMENT ACCOUNT	<u>34 01</u>	<u>77 25</u>
	<u><u>2 18 99</u></u>	<u><u>2 19 00</u></u>
TOTAL	<u>8254 04 97</u>	<u>7088 34 20</u>



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.12.2018

	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
SCHEDULE 11 - OTHER ASSETS		
I. INTEREST ACCRUED	6725 17 40	6397 59 88
II. TAX PAID IN ADVANCE/TAX DEDUCTED AT SOURCE (NET)	7383 84 16	7337 92 25
III. STATIONERY AND STAMPS	6 30 79	13 97 45
IV. NON BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS	59 11 54	16 52
V. OTHERS	15853 10 10	10315 97 69
VI. DEFERRED TAX ASSETS	5835 20 00	2095 77 00
TOTAL	35862 73 99	26161 40 79



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.12.2018

	As at 31.12.2018 (Rs. '000)	As at 31.12.2017 (Rs. '000)
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. CLAIMS AGAINST THE BANK NOT ACKNOWLEDGED AS DEBTS	7843 51 04	6774 04 83
II. LIABILITY FOR PARTLY PAID INVESTMENTS		36 00
III. LIABILITY ON ACCOUNT OF OUTSTANDING FORWARD EXCHANGE CONTRACTS	242764 89 71	255369 39 54
IV. GUARANTEES GIVEN ON BEHALF OF CONSTITUENTS		
a. IN INDIA	37268 02 20	42824 71 33
b. OUTSIDE INDIA	<u>174 54 09</u>	<u>166 35 21</u>
	37442 56 29	42991 06 54
V. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS	24886 22 98	24612 52 13
VI. OTHER ITEMS FOR WHICH THE BANK IS CONTINGENTLY LIABLE		
a. BILLS OF EXCHANGE REDISCOUNTED	1568 05 08	1851 94 39
b. OTHERS	<u>1568 05 08</u>	<u>1851 94 39</u>
TOTAL	314505 25 09	331599 33 43



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT FOR THE PERIOD ENDED 31.12.2018

	For the period ended 31.12.2018 (Rs. '000)	For the period ended 31.12.2017 (Rs. '000)
SCHEDULE 13 - INTEREST EARNED		
I. INTEREST/DISCOUNT ON ADVANCES/BILLS	25689 35 98	21843 97 47
II. INCOME ON INVESTMENTS	8118 17 10	7859 74 17
III. INTEREST ON BALANCES WITH RBI AND OTHER INTER BANK FUNDS	544 12 26	480 44 84
IV. OTHERS	320 21 29	844 51 82
TOTAL	34671 86 63	31028 68 30
 SCHEDULE 14 - OTHER INCOME		
I. COMMISSION, EXCHANGE AND BROKERAGE	875 84 38	957 44 46
II. PROFIT ON SALE OF INVESTMENTS	159 69 14	1856 22 21
III. LOSS ON REVALUATION OF INVESTMENTS	(79 56)	-
IV. PROFIT ON SALE OF LAND/BUILDINGS AND OTHER ASSETS	(2 08 61)	(3 06 32)
V PROFIT ON EXCHANGE TRANSACTIONS - NET	428 40 15	397 43 02
VI. INCOME EARNED BY WAY OF DIVIDEND ETC. FROM SUBSIDIARIES/COMPANIES AND/OR JOINT VENTURES ABROAD/IN INDIA	40 22 33	38 51 97
VII MISCELLANEOUS INCOME	3211 73 35	2364 59 37
TOTAL	4713 01 17	5611 14 71



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT FOR THE PERIOD ENDED 31.12.2018

	For the period ended 31.12.2018 (Rs. '000)	For the period ended 31.12.2017 (Rs. '000)
SCHEDULE 15 - INTEREST EXPENDED		
I. INTEREST ON DEPOSITS	22023 46 31	20420 10 27
II. INTEREST ON RESERVE BANK OF INDIA/ INTERBANK BORROWINGS	776 65 70	493 67 09
III. OTHERS (INCLUDING TIER I & TIER II BOND INTEREST)	893 76 61	939 16 73
TOTAL	23693 88 62	21852 94 09

SCHEDULE 16 - OPERATING EXPENSES

I. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES	4635 23 58	4137 41 04
II. RENT, TAXES, LIGHTING	703 35 40	670 22 08
III. PRINTING AND STATIONERY	30 34 90	32 48 75
IV. ADVERTISEMENT AND PUBLICITY	18 42 39	21 59 02
V. DEPRECIATION ON BANK'S PROPERTY	331 28 65	237 51 02
VI. DIRECTORS FEES, ALLOWANCES AND EXPENSES	31 38	51 53
VII. AUDITORS' FEES AND EXPENSES (INCLUDES FOR BRANCH AUDITORS)	53 36 29	56 62 82
VIII. LAW CHARGES	44 16 04	39 49 17
IX. POSTAGE, TELEGRAMS, TELEPHONES ETC	39 10 89	37 21 77
X. REPAIRS AND MAINTENANCE	224 89 54	221 99 36
XI. INSURANCE	366 82 52	333 94 23
XII. OTHER EXPENDITURE	1626 26 51	1214 28 90
TOTAL	8073 58 09	7003 29 69



DAGLIYA & CO. Chartered Accountants FRN : 000671S	KOMANDOOR & CO. LLP Chartered Accountants FRN: 001420S / S200034	D K CHHAJER & CO. Chartered Accountants FRN : 304138E	S N K & CO. Chartered Accountants FRN : 109176W
---	--	---	---

Limited Review Report

To
The Board of Directors
Canara Bank
Bangalore

1. We have reviewed the accompanying statement of unaudited financial results of Canara Bank (the "Bank") for the Quarter and period ended December 31, 2018. The disclosures relating to "Pillar 3 under Basel III Capital Regulations", "Leverage Ratio" and "Liquidity Coverage Ratio" as have been disclosed on the Bank's website and in respect of which a link have been provided in the aforesaid financial results have not been reviewed by us. This statement of unaudited financial results is the responsibility of the Bank's management and has been approved by the Board of Directors. Our responsibility is to issue a report on these financial statements based on our review.
2. We conducted our review in accordance with the Standard on Review Engagement (SRE) 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Institute of Chartered Accountants of India. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free from material mis-statement. A review of Interim Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
3. The statement of unaudited financial results incorporate the relevant returns of 20 branches reviewed by us, 2 foreign branches reviewed by other auditors specially appointed for this purpose and un-reviewed returns in respect of 6071 branches. In the conduct of our review, we have taken note of the review reports in respect of non-performing assets submitted by the Inspection Officials of bank of 220 branches to the bank management. These review reports cover 55.71 percent of the advances portfolio of the bank.



DAGLIYA & CO. Chartered Accountants FRN : 000671S	KOMANDOOR & CO. LLP Chartered Accountants FRN: 001420S / S200034	D K CHHAJER & CO. Chartered Accountants FRN : 304138E	S N K & CO. Chartered Accountants FRN : 109176W
---	--	---	---

4. Based on our review as aforesaid, subject to limitations in scope as mentioned in Para 3 above, nothing has come to our attention that causes us to believe that the accompanying statement of unaudited financial results together with the notes thereon, prepared in accordance with applicable accounting standards and other prevailing recognised accounting practices and policies has not disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with RBI circular (2016-17/29 dt. 28/07/2016 w.r.t half-yearly/quarterly review of the account of public sector banks) including the manner in which it is to be disclosed, or that it contains any material mis-statement or that it has not been prepared in accordance with the relevant prudential norms issued by the Reserve Bank of India in respect of income recognition, asset classification, provisioning and other related matters.

DAGLIYA & CO.
Chartered Accountants
FRN : 000671S

(P. Manohara Gupta)
Partner
Membership No 016444



Place: Bangalore
Date: January 28, 2019

KOMANDOOR & CO. LLP
Chartered Accountants
FRN : 001420S / S200034

(T. Nagendranadh)
Partner
Membership No 226246



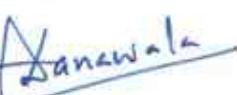
D K CHHAJER & CO.
Chartered Accountants
FRN : 304138E

(Jagannath P Mohapatro)
Partner
Membership No 217012



S N K & CO.
Chartered Accountants
FRN : 109176W

(Ankit D. Danawala)
Partner
Membership No 119972





ಕರ್ನಾಟಕ ಬ್ಯಾಂಕ್ Canara Bank
Head Office, Bengaluru

BALANCE SHEET AS AT 31st MARCH 2018

Schedule	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
CAPITAL AND LIABILITIES		
CAPITAL	1 733 24 48	597 29 02
RESERVES AND SURPLUS	2 34871 59 21	33088 24 73
DEPOSITS	3 524771 86 03	495275 24 22
BORROWINGS	4 38808 51 17	39503 55 90
OTHER LIABILITIES AND PROVISIONS	5 17700 89 59	15055 10 48
TOTAL	616886 10 48	583519 44 35
ASSETS		
CASH & BALANCES WITH RESERVE BANK OF INDIA	6 22100 03 81	19922 49 73
BALANCES WITH BANKS AND MONEY AT CALL		
AND SHORT NOTICE	7 27812 29 40	38902 96 15
INVESTMENTS	8 144053 67 04	150265 88 82
ADVANCES	9 381702 98 64	342008 76 08
FIXED ASSETS	10 8318 64 32	7168 31 59
OTHER ASSETS	11 32898 47 27	25251 01 98
TOTAL	616886 10 48	583519 44 35
CONTINGENT LIABILITIES		
BILLS FOR COLLECTION	12 293728 89 00	432470 42 05
		26782 07 90
		27176 31 19

M SHAMMITHAN
ASST.GENERAL MANAGER

DEBASHISH MUKHERJEE
EXECUTIVE DIRECTOR

RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

SUCHENDRA MISRA
DIRECTOR

UMA SHANKAR
DIRECTOR

AS PER OUR REPORT OF EVEN DATE

For M/S J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN 110266W

MEMBERSHIP NO: 042023
For M/S DAGLIYA & Co.
CHARTERED ACCOUNTANTS
Mumbai

Reverend Clegg

PRANJANA GUPTA
PARTNER
MEMBERSHIP NO.016444

PLACE : BENGALURU
DATE : 11-May-18

The logo for V. Singh & Associates, Chartered Accountants. It features a circular design with the firm's name at the top and bottom. In the center is a square box containing the letters 'CA' in a stylized font, with 'FRN' and '110266W' printed below it.

卷之三

For M/S J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
EBN 1020625

MANALI
PARTNER

For M/S KOMANDOOR & Co, LLP
CHARTERED ACCOUNTANTS
FRN:001420/S/2006/34


K MOHAN ACHARYA
PARTNER
MEMBERSHIP NO.020082

A circular stamp with the words "NATIONAL BUREAU OF STANDARDS" around the top edge and "WASHINGTON, D.C." at the bottom. The center contains the date "APR 1940".



Head Office, Bengaluru

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31.03.2018

	Schedule	For the year ended 31.03.2018 (Rs. '000)	For the year ended 31.03.2017 (Rs. '000)
I. INCOME			
INTEREST EARNED	13	41252 08 76	41387 64 49
OTHER INCOME	14	6942 85 24	7554 39 85
TOTAL		48194 94 00	48942 04 34
II. EXPENDITURE			
INTEREST EXPENDED	15	29088 76 25	31515 86 81
OPERATING EXPENSES	16	9557 93 54	8512 28 12
PROVISIONS AND CONTINGENCIES		13770 47 97	7791 97 19
TOTAL		52417 17 76	47820 12 12
III. NET PROFIT/(LOSS) FOR THE PERIOD		(4222 23 76)	1121 92 22
IV APPROPRIATIONS			
TRANSFERS TO			
STATUTORY RESERVES			281 00 00
CAPITAL RESERVES			777 00 00
INVESTMENT RESERVE ACCOUNT			-
REVENUE RESERVE			-
SPECIAL RESERVE			-
INTERIM DIVIDEND			-
PROPOSED DIVIDEND			-
DIVIDEND TAX			-
BALANCE OF PROFIT			63 92 22
TOTAL		(4222 23 76)	1121 92 22
EARNINGS PER SHARE		(70.47)	20.63

M SWAMI VATHAN
ASST. GENERAL MANAGER

DEEPMISH MUGHERJEE
EXECUTIVE DIRECTOR

SUKHENDRA MISRA
DIRECTOR

P VITHOOR
ASST. GENERAL MANAGER

P V RAJ
EXECUTIVE DIRECTOR

UMA SHANKAR
DIRECTOR

V RAMACHANDRA
DEPUTY GENERAL MANAGER

P V BHARATHI
EXECUTIVE DIRECTOR

T SIVASUBRAMANIAN
GENERAL MANAGER

T N MANOHARAN
CHAIRMAN

VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

KRISHNA MURTHY H
DIRECTOR

R Venkatachalam

For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN NO.110265W

For M/S DAGLIYA & Co.
CHARTERED ACCOUNTANTS
FRN.0006715

P MANOHARA GUPTA
PARTNER
MEMBERSHIP NO.916444

PLACE BENGALURU
DATE 11-May-18



AS PER OUR REPORT OF EVEN DATE

For J L SENGUPTA & Co.,
CHARTERED ACCOUNTANTS
FRN NO.307092E

S MANDAL
PARTNER
MEMBERSHIP NO.068308

For M/S KOMANDOOR & Co., LLP
CHARTERED ACCOUNTANTS
FRN.0014205/S200034

K MOHAN ACHARA
PARTNER
MEMBERSHIP NO.029082



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 1 - CAPITAL		
I. Authorised Capital (300,00,00,000 Equity Shares of Rs.10/- each)	<u>3000 00 00</u>	<u>3000 00 00</u>
II.Issued,Subscribed and Paid up: I) 53,19,44,775 Equity Shares of Rs.10/- each Previous year 35,99,91,054 Equity share of Rs. 10/- each held by Central Government	<u>531 94 48</u>	<u>395 99 02</u>
II) 20,13,00,000 Equity Shares of Rs.10/- each Previous year 20,13,00,000 Equity Shares of Rs.10/- each held by others.	<u>201 30 00</u>	<u>201 30 00</u>
	<u>733 24 48</u>	<u>587 29 02</u>



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2018

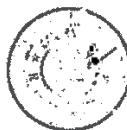
	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 2 - RESERVES AND SURPLUS		
I. STATUTORY RESERVE (Reserve Fund In terms of Section 17 of the Banking Regulation Act, 1949)		
OPENING BALANCE	8264 00 00	7983 00 00
Additions during the period	281 00 00	
Total	8264 00 00	8264 00 00
II. CAPITAL RESERVE		
a. REVALUATION RESERVE		
OPENING BALANCE	5373 14 96	5444 66 30
Add : Addition during the period	1272 43 02	
Less : Transferred to Profit and Loss Account/Revenue Reserve	6645 57 98	5444 66 30
Total	120 85 18	71 51 34
	6524 72 80	5373 14 96
b. FOREIGN CURRENCY TRANSLATION RESERVE		
OPENING BALANCE	155 21 59	247 27 91
Add : Additions during the period	68 02 89	
Less: Deductions during the period	-	92 06 33
Total	223 24 48	155 21 58
c. OTHERS		
OPENING BALANCE	2255 67 07	1478 67 07
Add : Additions during the period	-	777 00 00
Total	2255 67 07	2255 67 07
iii. SHARE PREMIUM :		
OPENING BALANCE	6742 22 14	5672 52 90
Add : Additions during the period	4729 04 53	1069 69 24
Total	11471 26 67	6742 22 14
IV. REVENUE AND OTHER RESERVES		
a. REVENUE RESERVE		
OPENING BALANCE	8481 09 06	8481 09 06
ADD: Additions during the period	120 85 18	
Less: Deductions during the period	-	8601 94 24
Total	8601 94 24	8481 09 06
b. SPECIAL RESERVE (In terms of Section 38 (1)(viii) of the Income Tax Act, 1961)		
OPENING BALANCE	4000 00 00	4000 00 00
Additions during the period	-	4000 00 00
Total	4000 00 00	4000 00 00
c. INVESTMENT RESERVE ACCOUNT		
OPENING BALANCE	565 80 00	565 80 00
Add : Additions during the period	-	
Less: Deductions during the period	-	565 80 00
Total	565 80 00	565 80 00
d. Balance In Profit & Loss account		
OPENING BALANCE	(2748 90 08)	(2812 82 29)
Add : Additions during the period	(4222 23 76)	63 92 21
Less:Dividend distributed for 2016-17	63 92 21	
Total	(7035 08 05)	(2748 90 08)
TOTAL	34871 59 21	33088 24 73



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 3 - DEPOSITS		
A. I. DEMAND DEPOSITS		
I. FROM BANKS	264 31 18	199 43 74
ii. FROM OTHERS	24719 54 03	22381 52 98
Total	<u>24983 85 21</u>	<u>22580 98 72</u>
II. SAVINGS BANK DEPOSITS		
Total	<u>142051 02 99</u>	<u>127167 64 31</u>
III. TERM DEPOSITS		
i. FROM BANKS	34838 65 29	33205 98 35
ii. FROM OTHERS	322898 32 54	312320 64 84
Total	<u>357736 97 83</u>	<u>345526 63 19</u>
TOTAL	<u>524771 86 03</u>	<u>495275 24 22</u>
B. DEPOSITS OF BRANCHES		
i. IN INDIA	485993 88 74	454609 75 04
ii. OUTSIDE INDIA	38777 97 29	40665 49 18
TOTAL	<u>524771 86 03</u>	<u>495275 24 22</u>



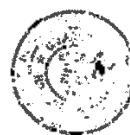
CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 4 - BORROWINGS		
I. BORROWINGS IN INDIA		
i. RESERVE BANK OF INDIA	11873 00 00	700 00 00
ii. OTHER BANKS	176 46 94	11204 77 74
iii. OTHER INSTITUTIONS AND AGENCIES	277 11 25	2147 84 54
iv. UNSECURED REDEEMABLE BONDS (IPDI AND SUB-ORDINATED DEBT)	13314 60 00	14014 60 00
Total	25641 18 19	28067 22 27
II. BORROWINGS OUTSIDE INDIA		
i. OTHER BANKS	13167 32 98	11436 33 63
ii. UNSECURED REDEEMABLE BONDS (SUB-ORDINATED DEBT)	-	-
Total	13167 32 98	11436 33 63
TOTAL	38808 51 17	39503 55 90

SCHEDULE 5 - OTHER LIABILITIES & PROVISIONS

I.	BILLS PAYABLE	1295 32 91	1355 70 48
II.	INTER OFFICE ADJUSTMENT (NET)	1871 88 23	940 69 16
III.	INTEREST ACCRUED	2013 67 96	1877 76 74
IV.	OTHERS (INCLUDING PROVISIONS)	12520 00 49	10880 94 10
TOTAL			17700 89 59
			15055 10 48



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 6-CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I. CASH IN HAND (Including Foreign Currency Notes)	2649 16 05	1846 39 28
II. BALANCES WITH RESERVE BANK OF INDIA IN CURRENT ACCOUNT IN OTHER ACCOUNTS	19450 87 76	18076 10 47
Total	19450 87 76	18076 10 47
TOTAL	22100 03 81	19922 49 78
 SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. IN INDIA		
i. BALANCE WITH BANKS		
a. IN CURRENT ACCOUNTS	77 87 48	83 27 94
b. IN OTHER DEPOSIT ACCOUNTS	-	-
Total	77 87 48	83 27 94
II. MONEY AT CALL AND SHORT NOTICE		
a. WITH BANKS	200 00 00	-
b. WITH OTHER INSTITUTIONS	1000 00 00	-
Total	1200 00 00	-
Total	1277 87 48	83 27 94
III. OUTSIDE INDIA		
i. IN CURRENT ACCOUNTS	4771 47 95	6517 51 73
ii. IN OTHER DEPOSIT ACCOUNTS	17242 16 66	25926 09 49
iii. MONEY AT CALL AND SHORT NOTICE	4520 77 31	6376 08 99
Total	26534 41 92	38819 68 21
TOTAL	27812 29 40	38902 96 15



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2018

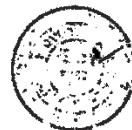
	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 8 - INVESTMENTS		
I. INVESTMENTS IN INDIA : GROSS:	145101 45 48	149777 67 83
LESS: PROVISION FOR DEPRECIATION & NPI	<u>2348 13 38</u>	<u>483 99 64</u>
NET INVESTMENT IN INDIA	<u>142753 32 10</u>	<u>149293 68 19</u>
I. GOVERNMENT SECURITIES	127612 21 83	135664 21 08
II. OTHER APPROVED SECURITIES	1 49 87	1 49 87
III SHARES	2540 38 15	1906 77 80
IV. DEBENTURES AND BONDS	9176 72 85	7378 04 93
V. SUBSIDIARIES AND/OR JOINT VENTURES	746 21 41	746 21 41
VI. OTHERS	2676 27 99	3596 93 12
Total	<u>142753 32 10</u>	<u>149293 68 19</u>
HELD TO MATURITY	100085 98 40	106037 28 82
AVAILABLE FOR SALE	42463 08 50	42768 25 23
HELD FOR TRADING	204 27 20	488 16 14
Total	<u>142753 32 10</u>	<u>149293 68 19</u>
II. INVESTMENTS OUTSIDE INDIA - GROSS	1311 55 95	975 09 16
LESS : PROVISION FOR DEPRECIATION	<u>11 21 01</u>	<u>2 88 53</u>
NET INVESTMENTS OUTSIDE INDIA	<u>1300 34 94</u>	<u>972 20 63</u>
I. GOVERNMENT SECURITIES (INCLUDING LOCAL AUTHORITIES)	343 49 18	253 50 33
II. SUBSIDIARIES AND/OR JOINT VENTURES	166 30 73	166 30 73
III. OTHER INVESTMENTS	790 55 03	552 39 57
Total	<u>1300 34 94</u>	<u>972 20 63</u>
HELD TO MATURITY	259 77 87	266 10 67
AVAILABLE FOR SALE	1040 57 07	706 09 96
HELD FOR TRADING		
Total	<u>1300 34 94</u>	<u>972 20 63</u>
TOTAL	<u>144053 67 04</u>	<u>150265 68 82</u>



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 9 - ADVANCES		
A. i. BILLS PURCHASED & DISCOUNTED	15863 46 74	14857 79 13
ii. CASH CREDITS, OVERDRAFTS AND LOANS REPAYABLE ON DEMAND	163723 12 36	141181 33 85
iii. TERM LOANS	202116 39 54	185989 63 10
Total	381702 98 64	342008 76 08
B. i. SECURED BY TANGIBLE ASSETS (INCLUDING BOOK DEBTS)	305862 36 53	275094 69 35
ii. COVERED BY BANK / GOVT.GUARANTEES	12076 67 39	13031.72 98
iii. UNSECURED	63763 94 72	53882 33 75
Total	381702 98 64	342008 76 08
C. i. ADVANCES IN INDIA		
i. PRIORITY SECTOR	157880 94 20	136718 80 28
ii. PUBLIC SECTOR	18181 20 76	12034 69 38
iii. BANKS	1454 45 54	21 87 37
iv. OTHERS	175002 42 48	166183 31 62
TOTAL	352519 02 98	314958 68 65
II. ADVANCES OUTSIDE INDIA (DUE FROM OTHER THAN BANKS)		
i. BILLS PURCHASED AND DISCOUNTED	9584 08 43	8232 93 15
ii. TERM / SYNDICATED LOANS	6033 65 58	7547 83 13
iii. OTHERS	13566 21 65	11269 31 15
Total	29183 95 66	27050 07 43
TOTAL	381702 98 64	342008 76 08



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 10 - FIXED ASSETS		
I. PREMISES		
AT COST / VALUATION AS PER LAST BALANCE SHEET	6758 27 30	6680 07 27
ADDITIONS DURING THE YEAR	5 22 32	87 69 85
	6763 49 62	6767 77 12
REVALUATIONS MADE DURING THE YEAR	1272 43 02	-
	8035 92 64	6767 77 12
DEDUCTIONS DURING THE YEAR	9 16	9 49 82
	8035 83 48	6758 27 30
DEPRECIATION TO DATE	839 08 24	708 50 38
	7196 75 24	6049 76 92
II. OTHER FIXED ASSETS		
(INCLUDING FURNITURE & FIXTURES)		
AT COST AS PER LAST BALANCE SHEET	3511 19 50	3326 25 64
ADDITIONS DURING THE YEAR	326 16 52	296 58 44
	3837 36 02	3622 84 08
DEDUCTIONS DURING THE YEAR	51 35 64	111 64 58
	3786 00 38	3511 19 50
DEPRECIATION TO DATE	2666 30 30	2394 83 83
	1119 70 08	1116 35 67
III. LEASED ASSETS		
AT COST AS PER LAST BALANCE SHEET	71 77 29	71 77 29
ADDITIONS DURING THE YEAR	-	-
	71 77 29	71 77 29
DEDUCTIONS DURING THE YEAR	-	-
	71 77 29	71 77 29
DEPRECIATION TO DATE	68 93 18	68 44 63
	2 84 11	3 32 65
LESS: LEASE TERMINAL ADJUSTMENT ACCOUNT	65 11	1 13 66
	2 19 00	2 19 00
TOTAL	8318 64 32	7168 31 59



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 11 - OTHER ASSETS		
I. INTEREST ACCRUED	4717 56 91	4440 60 09
II. TAX PAID IN ADVANCE/TAX DEDUCTED AT SOURCE (NET)	7281 30 47	6360 03 99
III. STATIONERY AND STAMPS	2 17 40	11 83 35
IV. NON BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS	13 45 59	32 13
V. OTHERS	15112 76 90	13259 39 42
VI. DEFERRED TAX ASSETS	5771 20 00	1178 83 00
TOTAL	<u>32898 47 27</u>	<u>25251 01 98</u>



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. CLAIMS AGAINST THE BANK NOT ACKNOWLEDGED AS DEBTS	7804 83 34	9625 86 72
II. LIABILITY FOR PARTLY PAID INVESTMENTS	75 06	36 00
III. LIABILITY ON ACCOUNT OF OUTSTANDING FORWARD EXCHANGE CONTRACTS	219287 58 69	354452 23 48
IV. GUARANTEES GIVEN ON BEHALF OF CONSTITUENTS		
a. IN INDIA	39684 99 03	40160 32 62
b. OUTSIDE INDIA	<u>198 66 33</u>	<u>137 01 80</u>
	39883 65 36	40297 34 22
V. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS	24849 95 77	26408 28 19
VI. OTHER ITEMS FOR WHICH THE BANK IS CONTINGENTLY LIABLE	*	*
a. BILLS OF EXCHANGE REDISCOUNTED		
b. OTHERS	<u>1902 10 78</u>	<u>1686 33 44</u>
	<u>1902 10 78</u>	<u>1686 33 44</u>
TOTAL	293728 89 00	432470 42 05



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31.03.2018

	For the period ended 31.03.2018 (Rs. '000)	For the period ended 31.03.2017 (Rs. '000)
SCHEDULE 13 - INTEREST EARNED		
I. INTEREST/DISCOUNT ON ADVANCES/BILLS	29096 44 14	29585 67 21
II. INCOME ON INVESTMENTS	10412 09 64	10711 28 69
III. INTEREST ON BALANCES WITH RBI AND OTHER INTER BANK FUNDS.	646 99 03	768 19 83
IV. OTHERS	1096 55 95	322 48 76
TOTAL	41252 08 76	41387 64 49
SCHEDULE 14 - OTHER INCOME		
I. COMMISSION, EXCHANGE AND BROKERAGE	1199 82 23	1191 18 79
II. PROFIT ON SALE OF INVESTMENTS	1922 89 79	2981 98 78
III. LOSS ON REVALUATION OF INVESTMENTS	-	(35 96 72)
IV. PROFIT ON SALE OF LAND/BUILDINGS AND OTHER ASSETS	(4 53 01)	1 32 42
V PROFIT ON EXCHANGE TRANSACTIONS - NET	537 92 98	871 46 51
VI. INCOME EARNED BY WAY OF DIVIDEND ETC. FROM SUBSIDIARIES/COMPANIES AND/OR JOINT VENTURES ABROAD/IN INDIA	53 32 41	62 70 92
VII MISCELLANEOUS INCOME	3233 40 84	2381 69 14
TOTAL	6942 85 24	7554 39 85



CANARA BANK, HO, BENGALURU

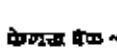
SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31.03.2018

	For the year ended 31.03.2018 (Rs. '000)	For the year ended 31.03.2017 (Rs. '000)
SCHEDULE 15 - INTEREST EXPENDED		
I. INTEREST ON DEPOSITS	27136 16 13	29560 07 66
II. INTEREST ON RESERVE BANK OF INDIA/INTERBANK BORROWINGS	720 48 75	584 96 37
III. OTHERS (INCLUDING TIER I & TIER II BOND INTEREST)	1232 11 37	1370 82 78
TOTAL	29088 76 25	31515 86 81

SCHEDULE 16 - OPERATING EXPENSES

I. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES	5444 10 55	4915 09 21
II. RENT, TAXES, LIGHTING	921 85 50	846 75 79
III. PRINTING AND STATIONERY	55 70 31	57 25 85
IV. ADVERTISEMENT AND PUBLICITY	36 43 55	41 50 67
V. DEPRECIATION ON BANK'S PROPERTY	445 04 50	327 54 11
VI. DIRECTORS FEES, ALLOWANCES AND EXPENSES	62 36	1 19 25
VII. AUDITORS' FEES AND EXPENSES (INCLUDES FOR BRANCH AUDITORS)	77 90 26	62 79 78
VIII. LAW CHARGES	53 00 52	47 86 47
IX. POSTAGE, TELEGRAMS, TELEPHONES ETC	50 33 13	52 55 63
X. REPAIRS AND MAINTENANCE	279 83 07	236 81 67
XI. INSURANCE	445 33 31	431 82 31
XII. OTHER EXPENDITURE	1747 76 48	1491 07 38
TOTAL	9557 93 54	8512 28 12



 Canara Bank
 (Head Office : Bangalore - 2)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2018		
	(Rs In Crore)	
	31.03.2018	31.03.2017
Cash Flow from Operating activities		
Net profit after Tax	-4222.24	1121.92
Adjustments for:		
Provision for Tax	-2338.62	520.00
Depreciation	445.05	327.54
Loss on revaluation of investments	0.00	35.97
Provision for Diminution in Fair Value and NPAs	14366.34	7077.77
Provision for Standard assets including unhedged foreign currency provision	-2.52	25.26
Interest on Tier I and Tier II bonds	1231.69	1368.52
Provision for contingencies and others	-146.54	6.55
Profit / loss on sale of Fixed Assets	4.53	-1.32
Income from Investment in subsidiaries, JVs, etc	-53.32	-62.71
Provision for investment depreciation/ (appreciation)	1891.81	162.39
Sub total	15398.42	9459.97
Adjustments for:		
(Increase)/ Decrease in Investments	4320.41	-8111.72
(Increase)/ Decrease in advances	-53992.54	-24463.77
Increase/ (Decrease) in borrowings	4.95	12261.60
Increase/ (Decrease) in deposits	29496.62	15483.68
(Increase)/ Decrease in other assets	-6142.93	-1546.13
Increase/ (Decrease) in other liabilities and provisions	5133.47	-189.39
	-21180.02	-6565.73
Less: Advance Tax paid	1500.00	1700.00
Cash Generated from Operating Activities	(A)	-11503.84
Cash Flow from Investing activities		
Income from Investment in subsidiaries and/or JVs	53.32	62.71
Investment in JVs, Subsidiaries, etc	0.00	-43.23
Net inflow/ outflow from sale/ purchase of fixed assets	-327.48	-367.95
Cash generated from investing activities	(B)	-274.16
Cash Flow from Financing activities		
Fresh issue of capital	135.95	54.30
Premium Received on Issue of share	4729.05	1069.69
Dividend and DDT paid	-68.44	0.00
Payment of Interest on Tier I and Tier II bonds	-1231.69	-1368.52
Fresh issue/Redemption of bonds Including sub-ordinated debts	-700.00	368.64
Cash generated from Financing activities	(C)	2864.87
Net Increase/ (Decrease) in cash and cash equivalents (A+B+C)		-8913.13
Opening Cash and Cash equivalents		58825.46
Closing Cash and Cash Equivalents		49912.33
		58825.46



Notes:

Cash and Cash equivalents includes Cash on hand, Balance with RBI & Other Banks and Money at Call and Short Notice

Compositional of Cash & Cash Equivalents	31.03.2018	31.03.2017
Cash & Balance with RBI	23100.04	38922.30
Balance with Banks and Money at call	27822.79	38902.96
Total	49922.83	58825.46

M. SWARNAKUMARANATHAN
ASST.GENERAL MANAGER

P. VITTHALA
ASST.GENERAL MANAGER

V. RAMACHANDRA
DEPUTY GENERAL MANAGER

R. V. RAVASAHOO
GENERAL MANAGER

DEEPMISHTRI JEE
EXECUTIVE DIRECTOR

M. V. RAO
EXECUTIVE DIRECTOR

T. V. BHARATHI
EXECUTIVE DIRECTOR

RAJESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

T. N. MUNICHANDAN
CHIEF EXECUTIVE

SUDHINDRA MISHRA
DIRECTOR

UMA SHANTAKRISHNA
DIRECTOR

VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER OUR REPORT OF EVEN DATE

For M/S J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN NO.110266W



For M/S DASGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN NO.00000715



P. MANOHARA GUPTA
PARTNER

MEMBERSHIP NO.016444

PLACE : BENGALURU

DATE : 31.03.2018

For M/S J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN NO.307092E

S. MANDAL
PARTNER
MEMBERSHIP NO.068309



For M/S KOMANDOOR & Co. LLP
CHARTERED ACCOUNTANTS
FRN NO.000074205/5288024

K. MOHAN ACHARYA
PARTNER
MEMBERSHIP NO.029062





[Head Office: Bangalore]

SCHEDULE - 17

SIGNIFICANT ACCOUNTING POLICIES

[1] (a) Basis of Preparation:

The accounts are prepared under the historical cost convention and conform to the statutory provisions and prevailing practices, except as otherwise stated.

(b) Use of Estimates:

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amount of assets, liabilities, expenses, income and disclosure of contingent liabilities as at the date of the financial statements. Management believes that these estimates and assumptions are reasonable and prudent. However, actual results could differ from estimates. Any revision to accounting estimates is recognized in current and future periods.

[2] Foreign Currency Translation / Conversion of Foreign Currencies

- 2.1 Foreign currency monetary items are initially recorded at a notional rate. Foreign currency monetary items are restated at the rate published by Foreign Exchange Dealers' Association of India (FEDAI) at the end of each quarter. Exchange difference arising on restatement of such items at the quarterly rates is recognised in Profit and Loss Account.
- 2.2 Transactions and balances of foreign branches are classified as non-integral foreign operations. Such transactions and balances are consolidated by the bank on a quarterly basis.

Assets and Liabilities (both monetary and non-monetary as well as contingent liabilities) are translated at the closing spot rate of exchange announced by Foreign Exchange Dealers' Association of India (FEDAI) as at the end of each quarter. Income and Expenditure items of the foreign branches are translated at the quarterly average rate published by FEDAI in accordance with Accounting Standard (AS) 11- "The effect of Changes in Foreign Exchange rates" issued by the Institute of Chartered



Accountants of India (ICAI) and as per the guidelines of Reserve Bank of India (RBI) regarding the compliance of the said standard.

The resultant exchange gain/loss is credited / debited to Foreign Currency Translation Reserve.

2.3 Forward Exchange Contracts

Premium or discount arising at the inception of all forward exchange contracts are amortized as expense or income over the life of the contract. Profit/ Losses arising on cancellation of forward exchange contracts, together with unamortized premium or discount, if any, is recognized on the date of termination. Exchange differences on such contracts are recognized in the Profit & Loss account in the reporting period in which the exchange rates change.

- 2.4 Contingent liability in respect of outstanding forward exchange contracts, guarantees, acceptances, endorsements and other obligations are stated in the balance sheet at the closing rates published by FEDAI.

[3] Investments

- 3.1. Classification of investments is made as per the guidelines of the RBI. The entire investment portfolio of the bank is classified under three categories viz. 'Held to Maturity' (HTM), 'Available for Sale' (AFS) and 'Held for Trading' (HFT). Such classification is decided at the time of acquisition of securities.

Investments are disclosed in the Balance Sheet under six classifications viz: (a) Government securities (b) Other approved securities (c) Shares (d) Debentures & Bonds (e) Subsidiaries and Joint Ventures & Associates and (f) Others.

- 3.2. In determining the acquisition cost of investment:-

- (a) Cost such as brokerage, commission etc., relating to securities at the time of purchase are charged to Profit & Loss Account.



- (b) Broken period interest on debt instruments up to the date of acquisition / disposal is treated as revenue.
- 3.3 The valuation of Investments is done in accordance with the guidelines issued by the RBI as under:

a) **HELD TO MATURITY**

Investments under Held to Maturity category are carried at acquisition cost, net of amortisation, if any. The excess of acquisition cost, if any, over the face value is amortized over the remaining period of maturity.

Investments in Subsidiaries and Joint Ventures & Associates are valued at carrying cost. Any diminution in the value other than temporary in nature is fully provided for.

Investment in sponsored Regional Rural Banks (RRB) and other Trustee Shares are valued at carrying cost.

Investment in units of Venture Capital Funds (VCFs) made after 23.08.2006 are classified under HTM category for initial period of three years and valued at cost.

b) **AVAILABLE FOR SALE**

Investments classified under this category are mark to market on quarterly basis and valued as per Reserve Bank of India guidelines at the market rates available on the last day of each quarter (Balance Sheet date) from trades/quotes on the stock exchanges, prices/yields declared by the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Unquoted securities are also valued as per the Reserve Bank of India guidelines.

The net depreciation under each category/classification is fully provided for whereas the net appreciation, if any, is ignored. The book value of the individual securities does not undergo any change after these are valued at mark to market basis.

Units of Venture Capital Funds (VCF) transferred from HTM category after a period of three years (Refer paragraph 3.3(a)) are valued at NAV as per the audited financial statements of Venture Capital Funds. In case such audited financial statements are not available continuously for 18 months as on the date of valuation, units are valued at Re. 1 per VCF.



c) HELD FOR TRADING

Investments classified under this category are valued at rates based on market quotations, price/yields declared by FIMMDA on a weekly basis.

The net depreciation under each security held is fully provided for whereas the net appreciation, if any, is ignored. The book value of the individual securities does not undergo any change after marked to market.

3.4. Transfer of scrips from one category to another is carried on the following basis:

- (a) HTM to AFS/HFT category at acquisition price/book value. In case the investments under HTM category are placed at premium originally the transfer is made at amortised cost.
- (b) AFS/HFT to HTM category at lower of the book value or market value.
- (c) AFS to HFT category or vice versa, at the carrying value. The accumulated depreciation, if any, to be transferred to the provision for depreciation against HFT securities and vice versa.

3.5. Non performing Investments Security Receipts issued by Securitisation / Reconstruction Company (SC/RC) in respect of financial assets sold by the Bank to the SC/RC are valued at the lower of the redemption value of the Security Receipt and the Net Book Value of the financial asset. The Investment is carried in the books at the price determined as above until its sale or realisation and on such sale or realisation, loss or gain is dealt with as below:

- (a) If sale is at a price below Net Book Value (NBV), the shortfall is recognised as per Reserve Bank of India guidelines.
- (b) If the sale is for a value higher than NBV, the excess provision is not reversed but utilized to meet shortfall/loss on account of sale of other financial assets to SC/RC.

3.6. Securities included in any of three categories where interest/principal is in arrears for a specified period, are classified as Non performing Investment. Interest Income on such securities is not reckoned and appropriate depreciation/provision in value of Investments is made.



Deprecation in respect of such Non Performing Investments is not set off against appreciation in other performing securities.

3.7. Profit on sale of Investments

Profit on sale of Investments in respect of "Available for Sale" and "Held for Trading" categories is recognized in Profit & Loss Account.

Profit on sale of Investments in respect of "Held to Maturity" category is first taken to the Profit & Loss Account and an equivalent amount of Profit is appropriated to the Capital Reserve (net of taxes and amount required to be transferred to Statutory Reserve).

Loss on sale of Investments in all the three categories is recognized in Profit & Loss Account.

3.8. Accounting for Repo/Reverse Repo and Liquidity Adjustment Facility (LAF)

Securities sold/purchased with an agreement to repurchase/resale on the agreed terms under Repo/Reverse Repo including LAF with RBI are recognized as Borrowing/Lending.

[4] Derivative contracts

The Bank deals in Interest Rate Swaps and Currency Derivatives. The Interest Rate Derivatives dealt by the Bank are Rupee Interest Rate Swaps, Cross Currency Interest Rate Swaps and Forward Rate Agreements. Currency Derivatives dealt by the Bank are Options and Currency Swaps.

Such derivative contracts are valued as under:

- a. Derivative contracts dealt for trading are valued on mark to market basis, net depreciation is recognized while net appreciation is ignored.
- b. Derivative contracts undertaken for hedging are:
 - i. Derivative contracts designated as hedges are not marked to market unless their underlying asset is marked to market.



ii. Income / Expenditure is recognized on accrual basis for Hedging swaps.

[5] ADVANCES

5.1 Advances are classified as performing and non-performing assets in accordance with the prudential norms issued by RBI.

5.2 Advances are classified into Standard, Sub Standard, Doubtful and Loss assets borrower wise.

5.3 Provisions for domestic advances are made for performing/non -performing advances in accordance with the RBI Guidelines.

5.4 Provisions for performing/ non-performing advances with foreign branches are made as per regulations of host country or according to the norms prescribed by RBI, whichever is more stringent.

5.5 Advances stated in the Balance Sheet are net of provisions made for Non Performing Assets, claims received from Credit Guarantee Institutions and rediscount.

5.6 Partial recoveries in Non Performing Advances are apportioned first towards charges and interest, thereafter towards principal with the exception of non performing advances involving compromise settlements/ "Loan Past Due" advances where the recoveries are first adjusted towards principal.

5.7 In case of financial assets sold to SC/ RC, the valuation, income recognition etc are done as per RBI guidelines.

[6] Fixed Assets

6.1. The premises of the Bank include freehold and leasehold properties. All the Fixed Assets are capitalized based on the date of put to use.

6.2. Land and Premises are stated at revalued cost and other fixed assets are stated at historical cost. The appreciation on revaluation, if any, is credited to the 'Revaluation Reserve' Account. Depreciation / Amortization attributable to the enhanced value have been debited to the Profit & Loss account. Equivalent amount has been transferred from Revaluation Reserve to Revenue Reserve.

[7] Depreciation



- 7.1. Fixed Assets are depreciated under Straight line Method at the rates determined by the management on the basis of estimated useful life of the respective assets except for the Computers where as per the guidelines of RBI, depreciation is charged under straight line method at 33.33%.
- 7.2 5 percent residual value has been kept for all the assets except for the assets with estimated useful life of 3 years or 5 years (Eg. computer, Servers and ATMs etc), where the entire cost of the asset is amortized over the useful life.
- 7.3 Depreciation on fixed assets in the year of capitalization is charged for the full year if the asset is used for more than 180 days during that financial year; else it is provided at 50 percent of the applicable rate. No depreciation is provided for in the year of sale/disposal.
- 7.4 Premium paid on leasehold properties is charged off over the lease period.
- 7.5 In respect of fixed assets held at foreign offices, depreciation is provided as per the regulations / norms of the respective countries

[8] Impairment of Assets

An assessment is made at each balance sheet date whether there is any indication that an asset is impaired. If any such indication exists, an estimate of the recoverable amount is made and impairment loss, if any, is provided for.

[9] Revenue Recognition

- 9.1. Income and expenditure are generally accounted on accrual basis, except the following:
 - a) Interest on Non-Performing advances and non performing investments is recognized on receipt basis as per norms laid down by Reserve Bank of India.
 - b) Interest on overdue bills, Commission (other than Government business), Exchange, Brokerage and rent on lockers are accounted on realization.
 - c) Dividend Income is recognized when the right to receive the same is established.



- d) In case of suit filed accounts, related legal and other expenses incurred are charged to Profit & Loss Account and on recovery the same are accounted as Income.

[10] Employee Benefits

10.1 Defined Contribution Plans

Defined Contribution to Plans such as Provident / Pension fund are recognized as an expense and charged to Profit & Loss account.

10.2 Defined Benefit Plans

- a. Gratuity: The employee Gratuity Fund Scheme is funded by the Bank and managed by a separate trust who in turn manages their funds as per guidelines. The present value of the Banks obligation under Gratuity is recognized on actuarial basis as at the year end and the fair value of the Plan assets is reduced from the gross obligation to recognize the obligation on a net basis.
- b. Pension: The employee Pension Fund Scheme is funded by the Bank and managed by a separate trust. The present value of the Banks obligations under Pension is recognized on the basis of actuary's report as at the year end and the fair value of the Plan assets is reduced from the gross obligation to recognize the obligation on a net basis.

10.3 The privilege leave is considered as a long term benefit and is recognized based on independent actuarial valuation on 'Projected Unit Credit method' at each Balance Sheet date.

[11] Provision for Taxation

- a) Provision for tax is made for both Current and & Deferred Taxes.
- b) Deferred Tax assets and liabilities arising on account of timing differences and which are capable of reversal in subsequent periods are recognized using the tax rates and laws that have been enacted or substantively enacted as of the balance sheet date.
- c) Deferred tax assets are not recognized unless there is virtual certainty that sufficient future taxable income



would be available against which such deferred tax assets can be recognized.

[12] Net Profit

12.1 Provisions, Contingent Liabilities and Contingent Assets

I. In conformity with AS 29, "Provisions, Contingent Liabilities & Contingent Assets" issued by the Institute of Chartered Accountants Of India, the bank recognizes provision only when :

- a. It has a present obligation as a result of past event.
- b. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- c. A reliable estimate of the amount of the obligation can be made.

II. No provision is recognized:

- a. For any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the bank.
- b. Where it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or
- c. When a reliable estimate of the amount of obligation cannot be made.

Such obligations are recorded as Contingent Liabilities. These are assessed at regular intervals and only that part of the obligation for which the outflow of resources embodying economic benefits is probable, is provided for, except in the extremely rare circumstances where no reliable estimate can be made.

III. Contingent Assets are not recognized in the financial Statements.

12.2 Net Profit

The Net Profit in the Profit & Loss Account is after:-

- a) Provision for depreciation on Investments.
- b) Provision for Taxation.



- c) Provision on Non Performing Advances
- d) Provision on Standard Assets.
- e) Provision for Non Performing Investments.
- f) Provision for other usual & necessary Items.

[13] Earning per share:

The Bank reports basic and diluted Earnings Per Share in accordance with AS 20. Basic Earnings Per Share is computed by dividing the net profit after tax by the weighted average number of equity shares outstanding for the Year.





HEAD OFFICE: BENGALURU

SCHEDULE 18 - NOTES ON ACCOUNTS

1 Investments:

The percentage of investments under "Held to Maturity" category - SLR as on 31.03.2018 was 19.01% of Net Demand and Time Liability of the Bank (Previous year 20.41%), which is within the permissible limit as per RBI guidelines.

2 Inter-Branch Transactions:

The matching and setting of entries under Inter-Branch/office transactions are carried out by the system itself based on Core Banking Solutions (CBS) for the whole of the Bank through Inter Office Adjustment account.

3 Premises:

Premises include certain properties capitalized and carrying book value of Rs.40.07 Crore (Previous year Rs.39.71 Crore) as they have been put to use though conveyance of title deeds is still to be completed.

4 Disclosure as per RBI Requirements:

4.1 Capital: (Rs. in Crore)

	Particulars	Basel III	
		31.03.2018	31.03.2017
(i)	Common Equity Tier 1 Capital Ratio (%)	9.51%	8.92
(ii)	Tier 1 Capital Ratio (%)	10.30%	9.77
(iii)	Tier 2 Capital Ratio (%)	2.92%	3.09
(iv)	Total Capital Ratio (%)	13.22%	12.86
(v)	Percentage of Shareholding of the Government of India in the Bank	72.55	66.30
(vi)	Amount of Equity Capital raised(including share premium)	4865.00	1123.99
(vii)	Amount of Additional Tier 1 capital raised; of which,	Nil	1000.00
	Perpetual Non Cumulative Preference Shares (PNCPS):	Nil	NIL
	Perpetual Debt Instruments (PDI):	Nil	1000.00
(vii)	Amount of Tier 2 capital raised; of which	Nil	3000.00
	Debt capital instrument:		3000.00
	Preference Share Capital Instruments: [Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non Cumulative Preference Shares (RNCPS) /Redeemable Cumulative Preference Shares (RCPS)]	Nil	NIL

4.2 Investments:

(1) Value of Investments:

Particulars		(Rs. in Crore)	
		31.03.2018	31.03.2017
i.	Gross Value of Investments	146413.01	150752.77
a.	In India	145101.45	149777.68
b.	Outside India	1311.56	975.09
ii.	Provisions for Depreciation, NPI	2359.34	486.88
a.	In India	2348.13	484.00
b.	Outside India	11.21	2.88
iii.	Net Value of Investments	144053.67	150265.89
a.	In India	142753.32	149293.68
b.	Outside India	1300.35	972.21

(2) Movement of Provisions held towards depreciation and for NPI on Investments:

Particulars		(Rs.in Crore)	
		31.03.2018	31.03.2017
i.	Opening Balance	486.88	365.26
ii.	Add: Provisions made during the year	2355.71	166.02
iii.	Less: Write back of excess provisions during the year	483.25	44.40
iv.	Closing balance	2359.34	486.88

4.2.1 Repo Transactions-

i) Market REPO

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	Outstanding as on 31.03.2018
Securities sold under repo				
i) Government Securities	25.00	13216.98	2408.31	180.00
ii) Corporate Debt Securities	NIL	NIL	NIL	NIL
Securities purchased under reverse repo				
i) Government Securities	5.00	1867.26	31.40	NIL
ii) Corporate Debt Securities	NIL	NIL	NIL	NIL



ii. Liquidity Adjustment Facility (LAF) with RBI

(Rs. in Crore)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	Outstanding as on 31.03.2018
Securities sold under repo				
i) Government Securities	586.84	11919.74	261.64	11919.74
ii) Corporate Debt Securities	NIL	NIL	NIL	NIL
Securities purchased under reverse repo				
i) Government Securities	128.59	2788.31	166.90	962.34
ii) Corporate Debt Securities	NIL	NIL	NIL	NIL

4.2.2 Non-SLR Investment Portfolio:

i) Issuer composition of Non SLR Investments:

(Rs in Crore)

No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
(i)	PSUs	2811.80	472.44	0.00	0.00	0.00
(ii)	FIs	3621.78	2964.90	0.00	0.00	0.00
(iii)	Banks	1524.87	694.80	0.00	32.59	0.00
(iv)	Private Corporate	5415.53	2838.59	69.85	0.00	0.00
(v)	Subsidiaries/ Joint Ventures	912.52	912.52	0.00	0.00	0.00
(vi)	Others	3119.59	3004.94	0.00	0.00	0.00
(vii)	Less: Provision held towards depreciation	1309.62	0.00	0.00	0.00	0.00
	Total	16096.47	10888.19	69.85	32.59	0.00

Note: Amounts reported under columns 4, 5, 6 and 7 above are not mutually exclusive.



ii) Non-Performing Non SLR Investments:

(Rs In Crore)

Particulars	31.03.2018	31.03.2017
Opening balance	526.93	442.69
Additions during the year since 1 st April 2017	1743.89	117.73
Reductions during the above period	23.90	29.66
Exchange Fluctuation	6.67	(3.83)
Closing balance	2253.59	526.93
Total Provisions held	1352.32	402.64

4.2.3 Sale and transfers to/from HTM Category:

During the Financial Year 2017-18 the Bank sold securities from HTM category in excess of 5% of the book value of HTM category. (In the previous year also the sale exceeded 5% of HTM category).

The market value of investments under HTM category as on March 31, 2018 was Rs.1,02,355 crore (as on March 31, 2017 Rs.1,11,394 crore), which is higher than the book value as of that date. The excess of book value over market value of investment in Government securities and bonds & debentures under HTM category was Rs.446 crore as on March 31, 2018 (NIL as on March 31, 2017), for which provision has not been made.

4.3 Derivatives:

4.3.1 Forward Rate Agreement / Interest Rate Swap:

(Rs in Crore)

Particulars	31.03.2018	31.03.2017
i. The notional principal of swap agreements	7169.25	3242.50
ii. Losses which would be incurred if counter parties failed to fulfill their obligations under the agreements	55.40	39.73
iii. Collateral required by the Bank upon entering into swaps	0.00	0.00
iv. Concentration of credit risk arising from the swaps	0.00	0.00
v. The fair value of the swap book	55.40	39.73

4.3.2 Exchange Traded Interest Rate Derivatives;



(Rs. in Crore)

Sl.	Particular	Amount
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (Instrument Wise)	0.00
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31 st March 2018	0.00
(iii)	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective"	0.00
(iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument-wise)	0.00

4.3.3 Disclosure on risk exposure in derivatives:

I Qualitative Disclosure

The Credit Risk Management Policy approved by the Board of Directors, on the use of Derivative Instruments to hedge / trade is in place.

The Investment Portfolio of the Bank consists of assets with characteristics such as fixed interest rate, zero coupon and floating interest rates and is subject to interest rate risk. The Bank also has issued Tier I and Tier II bonds and this capital cost is at fixed rate with no exit option. The policy permits hedging the interest rate risk on this liability as well.

Bank is permitted to use FRA and IRS and only plain vanilla transactions are permitted. These instruments are used not only for hedging the interest rate risk in the investment portfolio but also for market making. .

During the year the bank has not undertaken derivative trades in IRS under the investment portfolio. .

No Trading Swaps/FRAs were undertaken during the year.

The Bank has been undertaking derivatives trades like IRS and FRAs, for the purpose of hedging the Bank's Foreign Currency liabilities also. Options and swaps are also undertaken on behalf of clients on back to back basis.

- a. The risk management policies and major control limits like stop loss limits, counterparty exposure limits, PVo1, etc. approved by the Board of Directors are in place. These risk limits are monitored and reviewed regularly. MIS/Reports are submitted periodically to Risk Management Committee. The hedge effectiveness of the outstanding derivative deals are monitored in relation to the underlying asset/liability on fortnightly basis.



B. Accounting Policy:

Hedge Positions :

- Accrual on account of interest expenses/income on the IRS are accounted and recognized as expenses/Income.
- Hedge effectiveness of the outstanding derivatives deals are monitored in relation to the fair value of the Swap and underlying asset/liability. The Bank has used the relevant INBMK yield + Spread as declared by FIMMDA for arriving at the fair value of the underlying assets/liability. If the Hedge is not effective, hedge swaps is accounted as trading swaps. If swap is terminated before maturity, the MTM loss/gain and accruals till such dates are accounted as income/expenses under interest paid/received on IRS.

Trading Positions:

- Trading swaps are marked to market at frequent intervals and changes are recorded in the income statements.
- Accrual on account of interest expenses/income on the IRS are accounted and recognized as income/expenses.
- Gains or losses on termination of swaps are recorded as immediate income or expenses under the above head.



II Quantitative disclosure + (Rs in Crore)

*Currency Futures in NSE, BSE and MCX



4.4.3 Details of financial assets sold to Securitization / Reconstruction Company for Asset Reconstruction:

A. Details of Sales

Particulars		(Rs. in Crore)	
		31.03.2018	31.03.2017
i.	No. of accounts	7	NIL
ii.	Aggregate value (net of provisions) of accounts sold to SC/RC	6.36	NIL
iii.	Aggregate consideration	228.87	NIL
iv.	Additional consideration realized in respect of accounts transferred in earlier years	Nil	NIL
v.	Aggregate Gain over Net Book Value	222.51	NIL

B. Details of Book Value of Investments in Security Receipts
(Rs. in Crore)

Particulars		31.03.2018	31.03.2017
i.	Backed by NPAs sold by the bank as underlying	1973.27	1920.08
ii.	Backed by NPAs sold by other banks / financial institutions / non banking financial companies as underlying	Nil	Nil
	Total	1973.27	1920.08

Bank is holding provision of Rs. 955.63 Crore on account of Security Receipts. (Previous year Rs. 770.80 Crore)

C. Details of Investments in Security Receipts
(Rs. in Crore)

Particulars		SRs issued within past 5 years	SRs issued more than 5 years ago but within past 8 years	SRs issued more than 8 years ago
i.	Book Value of SRs backed by NPAs sold by the bank as underlying	1967.83	--	5.44*
	Provision held against (i)	950.19	--	5.44
ii.	Book Value of SRs	--	--	--



	backed by NPAs sold by other banks / financial institutions / non banking financial companies as underlying			
	Provision held against (ii)	--	--	--
	Total (i) + (ii)	1967.83	--	5.44

* In Sundry Asset Redemption Receivable

4.4.4 Details of non-performing financial assets purchased / sold:

A. Details of non-performing financial assets purchased (Rs. in Crore)

	Particulars	31.03.2018	31.03.2017
1.	a. No. of accounts purchased during the year	Nil	NIL
	b. Aggregate consideration	Nil	NIL
2.	a. Of these, number of accounts restructured during the year	Nil	NIL
	b. Aggregate outstanding	Nil	NIL

B. Details of non-performing financial assets sold

(Rs. in Crore)

	Particulars	31.03.2018	31.03.2017
i.	No. of accounts sold	7	NIL
ii.	Aggregate outstanding	607.40	NIL
iii.	Aggregate consideration received	228.87	NIL

4.4.5 Provisions on Standard Asset:

(Rs. in Crore)

	Particulars	31.03.2018	31.03.2017
	Provisions towards Standard Assets	1382.83	1438.60



4.4 Asset Quality:

4.4.1 Non-Performing Assets:

Particulars		(Rs in Crore)	
		31.03.2018	31.03.2017
(i)	Net NPAs to Net Advances (%)	7.48	6.33
(ii)	Movement of NPAs (Gross)		
a.	Opening balance	34202.04	31637.83
b.	Additions during the year	24760.76	11652.11
c.	Reductions during the year Exchange fluctuation		9087.90 11494.33
d.	Closing balance	47468.47	34202.04
(iii)	Movement of Net NPAs		
a.	Opening balance	21648.98	20832.91
b.	Additions during the year	18387.75	9903.97
c.	Reductions during the year Exchange fluctuation		9087.90 11494.33
d.	Closing balance	28542.40	21648.98
(iv)	Movement of provisions for NPAs (excluding Provision on Standard Assets)		
a.	Opening balance	12418.93	10745.17
b.	Adjustment towards Exchange Fluctuation & others	6.62	27.49
c.	Provisions made during the year	14684.82	7235.93
d.	Write off/Write back of excess provision	8346.66	5589.66
e.	Closing balance	18763.71	12418.93



4.4.2 Particulars of Accounts Restructured:

(Rs. In Crore)

DISCLOSURE OF RESTRUCTURED ACCOUNTS AS AT 31/03/2018



4.4.6 Divergence in the asset classification and provisioning:

(Rs in crore)

Sr.	Particulars	Amount
1	Gross NPA as on March 31, 2017 as reported by bank	34202.04
2	Gross NPA as on March 31, 2017 as assessed by RBI	37450.54
3	Divergence in Gross NPAs (2-1)	3248.50
4	Net NPA as on March 31, 2017 as reported by the bank	21648.98
5	Net NPA as on March 31, 2017 as assessed by RBI	23496.26
6	Divergence in Net NPAs (5-4)	1847.28
7	Provisions for NPAs as on March 31, 2017 as reported by Bank	12553.06
8	provisions for NPAs as on March 31, 2017 as assessed by RBI	13954.28
9	Divergence in provisioning (8-7)	1401.22
10	Reported Net Profit after Tax (PAT) for the year ended March 31, 2017	1121.92
11	Adjusted (notional) Net Profit after Tax (PAT) for the year ended March 31, 2017 after taking into account the divergence in provisioning	-279.30
Note:	Provisions for NPAs as on March 31, 2017 as reported by Bank includes Rs. 134.13 Crore ECGC Claim settled & pending adjustment	

4.4.7 Scheme for sustainable structuring of Stressed assets as on 31.03.2018:

(Rs in crore)

No of Accounts where S4 A has been applied	Aggregate amount outstanding	Amount outstanding		Provision held
		In Part A	In Part B	
Classified as Standard	1181.10	621.95	559.15	246.70
No of Accounts - 6				
Classified as NPA	2343.78	--	--	842.96
No. of Accounts- 12				



4.4.8 Disclosures on Flexible Structuring of Existing Loans

(Rs in crore)

Period	No of Borrowers taken up for flexible structuring	Amount of loans taken up for flexible structuring		Exposure weighted average duration of loans taken up for flexible structuring	
		Classified as Standard	Classified as NPA	Before applying flexible structuring	After applying flexible structuring
Previous Financial Year	3	110	74.74	7.141 Yrs	15.209 Yrs
Current Financial Year (From April 2017 to March 2018)	7	2123.67	Nil	8.723 Yrs	18.368 Yrs

4.4.9 Disclosures on Strategic Debt Restructuring Scheme (accounts which are currently under the stand-still period)

(Rs in crore)

No. of accounts where SDR has been invoked	Amount outstanding as on the reporting date		Amount Outstanding as on the reporting date with respect to accounts where conversion of debt to equity is pending		Amount Outstanding as on the reporting date with respect to accounts where conversion of debt to equity has taken place	
	Classified as Standard	Classified as NPA	Classified as Standard	Classified as NPA	Classified as Standard	Classified as NPA
Nil	Nil	Nil	Nil	Nil	Nil	Nil



4.4.10 Disclosures on change in Ownership outside SDR Scheme (accounts which are currently under the stand still period)

No of account s where Banks have decided to effect change in owners hip	Amount outstanding as on the reporting date		Amount outstanding as on the reporting date with respect to accounts where conversion of debt to equity/invocation of pledge of equity shares is pending		Amount outstanding as on the reporting date with respect to accounts where conversion of debt to equity/invocation of pledge of equity shares has taken place		Amount outstanding as on the reporting date with respect to accounts where change in ownership is envisaged by issuance of fresh shares or sale of promoters equity	
	Classified as Standard	Classified as NPA	Classified as Standard	Classified as Standard	Classified as NPA	Classified as NPA	Classified as Standard	Classified as NPA
Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

4.4.11 Disclosures on Change in Ownership of Projects under Implementation (accounts which are currently under the stand-still period)

No. of Project loan accounts where banks have decided to effect change in ownership	Amount outstanding as on the reporting date		
	Classified as standard	Classified as standard restructured.	Classified as NPA
Nil	Nil	Nil	Nil

4.5 Business Ratios:

	Particulars	31.03.2018	31.03.2017
i.	Interest income as a percentage to Working Funds (%)	7.34	7.35
ii.	Non-interest income as a percentage to Working Funds (%)	1.24	1.34
iii.	Operating Profit as a percentage to Working Funds (%)	1.70	1.58
iv.	Return on Assets (%)	-0.75	0.20
v.	Business (Deposits plus Advances) per employee [Rs. in lakh]	1480.54	1442.79
vi.	Profit per employee (Rs. in Crore)	-0.07	0.02



4.6 Asset Liability Management:

Maturity pattern of certain items of assets and liabilities:

(Rs in Crore)

Particulars	Deposits	Advances	Investments	Borrowings	Foreign Assets	Currency Liabilities	Foreign Liabilities
1 day	9794.52 (13599.62)	37245.77 (10435.82)	0.00 (437.32)	0.00 (163.42)	6233.67 (9326.12)	2230.22 (8409.51)	
2 to 7 days	22533.43 (32434.27)	7686.18 (7422.96)	927.19 (533.90)	8633.04 (11980.97)	2417.43 (5679.43)	5289.11 (5250.70)	
8 to 14 days	14325.20 (12180.11)	7780.40 (5221.59)	1030.27 (39.05)	3788.71 (486.38)	1486.46 (2137.36)	2069.04 (2254.09)	
15 to 30 days	10188.87 (9904.75)	15826.43 (15935.86)	229.37 (75.03)	390.13 (1458.75)	5275.63 (5397.26)	5896.27 (4681.21)	
31 days to 2 months	12578.49 (15028.91)	15230.69 (12036.44)	352.72 (5144.96)	1181.16 (1237.82)	8300.79 (6260.15)	5182.82 (5038.45)	
Over 2 months to 3 months	14392.44 (21575.02)	13446.98 (23191.29)	224.34 (1483.22)	1171.85 (1764.83)	6346.23 (9182.20)	6601.34 (7311.66)	
Over 3 months to 6 months	44657.22 (43100.87)	29166.78 (29221.89)	583.84 (1314.05)	969.99 (2357.88)	7355.64 (11538.58)	6473.94 (7881.54)	
Over 6 months to 1 year	133844.35 (94568.56)	43336.53 (37845.07)	8046.77 (2617.63)	4890.65 (1566.67)	9755.04 (8755.64)	3930.74 (7698.94)	
Over 1 year to 3 years	216000.94 (202293.34)	94242.30 (95637.23)	24586.38 (27231.42)	716.92 (4456.89)	2511.80 (2647.77)	1287.53 (763.54)	
Over 3 years to 5 years	21679.45 (25656.32)	44035.91 (37888.92)	16587.58 (19259.27)	4041.08 (3532.68)	1746.77 (1114.04)	239.22 (281.32)	
Over 5 years	24776.96 (24933.47)	73705.02 (67171.69)	91485.21 (92130.04)	13024.98 (10497.27)	3505.16 (3267.92)	1970.46 (2279.81)	
Total	524771.87 (495275.24)	381702.99 (342008.76)	144053.67 (150265.89)	38808.51 (39503.56)	54934.62 (65306.47)	41170.69 (51850.77)	

(Figures in brackets relate to previous year)



4.7 Exposures:

4.7.1 Exposure to Real Estate Sector:

		(Rs in Crore)	
	Category	31.03.2018	31.03.2017
a)	Direct Exposure	33976.05	32088.71
(i)	Residential Mortgages - lending fully secured by Mortgages on residential property that is or will be occupied by the borrower or that is rented		26092.64
	- Of which, individual Housing Loans eligible for inclusion in priority sector advances	28392.80	11604.84
			17900.79
(ii)	Commercial Real Estate - Lending secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc). Exposure also include non-fund based (NFB) limits.	5447.02	5052.65
(iii)	Investments in Mortgage Backed Securities (MBS) and other securitized exposures -	136.23	1105.54
	a. Residential	94.12	1048.20
	b. Commercial Real Estate	42.11	57.34
b)	Indirect Exposure		
	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs)	15573.98	11380.90
	Total Exposure to Real Estate Sector (a + b)	49550.03	43631.73

4.7.2 Exposure to Capital Market:

		(Rs in Crore)	
	Particulars	31.03.2018	31.03.2017
i.	Direct Investment in Equity Shares, convertible bonds, convertible debentures and units of equity oriented mutual funds the corpus of which is not exclusively invested in corporate debt.	1505.82	1414.90
ii .	Advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures and units of equity oriented mutual funds.	16.81	10.63
ii i.	Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security.	11.01	55.83
iv .	Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds/convertible debentures/units of equity oriented mutual funds does not fully cover the advances.	0.00	21.14
v.	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stock brokers	339.20	286.82



	and market makers		
vi	Loans sanctioned to corporate against the security of shares/bonds/debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources.	0.33	NIL
vi i.	Bridge loans to companies against expected equity flows/issues	2.00	0.04
vi ii	Underwriting commitments taken up by the Banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds	0.08	NIL
ix	Financing to stockbrokers for margin trading	0.02	NIL
x	All exposures to Venture Capital Funds (both registered and unregistered)	294.06	325.88
	Total Exposure to Capital Market	2169.33	2115.24

4.7.3 Risk Category-wise Country Exposure:

Only in respect of the Country where a Bank's net funded exposure is 1% or more of its total assets, the Bank is required to make provision for Country Risk. As on 31.03.2018 in the case of USA (Insignificant Risk category -A1), and UAE (Low Risk category -A2) the Net funded exposure exceeds 1% of the total assets of the Bank (1% of the total assets as on 31.03.2018 - Rs.6168.86 Crore), for which the required provision is made.

(Rs. in Crore)

Risk Category	Exposure (net) as at 31.03.2018	Provision held as at 31.03.2018	Exposure (net) as at 31.03.2017	Provision held as at 31.03.2017
Insignificant	10248.89	6.31	16465.27	11.88
Low	24603.81	8.27	33575.10	22.85
Moderate	2258.78	0.00	3751.38	0.00
High	368.63	0.00	0.00	0.00
Very High	46.35	0.00	19.46	0.00
Restricted	0.74	0.00	0.72	0.00
Off-credit	0.00	0.00	0.00	0.00
TOTAL	37527.22	14.58	53811.93	34.73

4.7.4 Details of Single Borrower Limit (SGL) / Group Borrower Limit (GBL) exceeded by the Bank:

The Bank has not exceeded the prudential credit exposure limits prescribed for group accounts and single borrower engaged in infrastructure projects or for Oil Companies.

(Rs. in Crore)

Sl. No.	Name of the Borrower	Exposure Limit	Total amount sanctioned	Outstanding as on 31.03.2018
	NIL	NIL	NIL	NIL



4.7.5 Unsecured Advances:

(Rs.in Crore)

Particulars	31.03.2018	31.03.2017
Total Unsecured Advance	63763.94	53882.34
Out of which		
i) Amount of advances outstanding against charge over intangible securities such as rights, licenses, authorizations etc. charged to the Bank as collateral	2193.58	8200.27
ii) The estimated value of such intangible securities (as in (i) above)	2864.75	8404.26

(As compiled and certified by the management and relied upon by the auditors).

4.8 Miscellaneous:**4.8.1 Amount of Provisions made for Income Tax during the year:**

(Rs. in Crore)

Particulars	31.03.2018	31.03.2017
Provision for Income Tax (including Deferred tax)	(2338.62)	520.00

4.8.2 Disclosure of Penalties imposed by RBI

During the financial year 2017-18, no penalties have been imposed on our Bank by Reserve Bank of India under Section 46 (4) of the Banking Regulation Act, 1949.

5. Accounting Standards:

In compliance with the guidelines issued by the RBI regarding disclosure requirements of the various Accounting Standards issued by Institute of Chartered Accountants of India (ICAI), the following information is disclosed:

5.1 Accounting Standard 5 - Net Profit/Loss for the period, prior period items and changes in accounting policies:**5.1.1 There are no material prior period items**

5.2 Accounting Standard 15 – Employee Benefits:

The actuarial assumptions in respect of gratuity, pension and privilege leave, for determining the present value of obligations and contributions of the bank, have been made by fixing various parameters for

- Salary escalation by taking into account inflation, seniority, promotion and other factors mentioned in Accounting Standard 15(Revised) issued by ICAI.
 - Attrition rate by reference to past experience and expected future experience and includes all types of withdrawals other than death but including those due to disability.
- Provision towards sick leave has been made in the books of account on the basis of Actuarial valuation.

Principal Actuarial Assumptions

Particulars	Gratuity	Pension	Privilege Leave
Discount Rate	7.71%	7.60%	7.71%
Expected Return on Capital	8.00%	8.00%	--
Salary Escalation	5.50%	5.50%	5.50%
Pension Escalation	--	2.00%	--
Mortality	IALM 2006-08	IALM 2006-08	IALM 2006-08

Change in obligation and assets over the year ending 31 Mar 2018
(Rs in crore)

A Changes in Defined Benefit Obligation (DBO)			
	Gratuity	Pension	Privilege Leave
1 DBO at beginning of the year	1786.93	10901.48	972.56
2 Service Cost	112.70	961.40	54.38
3 Interest Cost	134.53	788.02	66.01
4 Past Service Cost	145.30	-	-
5 Actuarial Losses / (Gains)	44.96	380.17	210.49
6 Benefit Payments	235.61	1065.47	232.79
7 DBO at end of the year	1988.81	11965.61	1070.65

B Changes in Fair Value of Assets			
	Gratuity	Pension	Privilege Leave
1 Fair Value of Plan Assets at beginning of the year	1716.43	10901.48	--
2 Expected Return on plan assets	137.31	872.12	--
3 Actual company contributions	--	1076.82	--
4 Actuarial Gain / (Loss)	(7.51)	222.24	--
5 Benefits payments	235.61	1065.47	--
6 Fair Value of Plan Assets at the end of the year	1610.62	12007.19	--



Net Asset/Liability Recognized in the Balance Sheet as at 31st March 2018

(Rs. in Crore)

		Gratuity	Pension	Privilege Leave
1	Present value of Defined Benefit Obligation	1988.81	11965.61	--
2	Fair Value of Plan Assets	1610.62	12007.19	--
3	Funded Status [Surplus/(Deficit)]	(378.19)	41.58	--
4	Net Asset / (Liability) recognized in the Balance Sheet	(378.19)	41.58	--

Disclosure of Employer Expenses for the year ending 31 Mar 2018

(Rs in Crore)

		Gratuity	Pension	Privilege Leave
1	Current Service Cost (including risk premiums for fully insured benefits)	112.70	961.40	54.38
2	Interest Cost	134.53	788.02	66.01
3	Expected Return on Plan Assets	137.31	872.12	--
4	Past Service Cost	145.30	-	-
5	Actuarial Losses / (Gains)	52.47	157.93	210.49
6	Total Employer Expense recognized in P&L	307.69	1035.24	330.88

Bank has provided Rs 31.51 Crore towards Sick Leave on prudential basis though there is no payout.

Reconciliation of Net Assets/Liabilities recognized in Balance Sheet for the year ended 31st March 2018

(Rs in Crore)

		Gratuity	Pension	Privilege Leave
1	Net Asset / (Liability) at the beginning of the period	70.50	0.00	972.56
2	Employer Expenses	307.69	1035.24	330.88
3	Employer Contributions	--	1076.82	--
4	Benefits Paid	--	--	232.79
5	Acquisitions / Business Combinations	--	--	--
6	Net Asset / (Liability) at the end of the period	378.19	(41.58)	1070.65



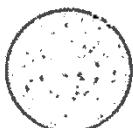
5.3 Accounting Standard-17 – Segment Reporting:

Part A – Business Segment:

(Rs in Crore)

	BUSINESS SEGMENT	Year ended	
		31.03.2018	31.03.2017
(1)	Segment Revenue		
a	Treasury Operations	12876.12	14427.03
b	Retail Banking Operations	17782.12	16387.47
c	Wholesale Banking Operations	16480.64	17984.63
d	Unallocated	1056.06	142.91
	Total	48194.94	48942.04
	Less: Inter Segment Revenue	0.00	0.00
	Income from operations	48194.94	48942.04

	BUSINESS SEGMENT	Year ended	
		31.03.2018	31.03.2017
(2)	Segment Results		
a	Treasury Operations	4009.59	4197.48
b	Retail Banking Operations	3561.81	2111.83
c	Wholesale Banking Operations	920.78	2461.72
d	Other Banking Operations	0.00	0.00
	Total	8492.18	8771.03
	Unallocated Income/Expenses (including Provisions and contingencies)	(15053.04)	(7,129.11)
	Total Profit Before tax	(6,560.86)	1641.92
	Income tax	(2,338.62)	520.00
	Net Profit	(4,222.24)	1121.92
(3)	Capital Employed		
a	Treasury Operations	10856.86	2767.63
b	Retail Banking Operations	18740.91	16488.37
c	Wholesale Banking Operations	855.50	16054.63
d	Other Banking Operations	0.00	0.00
e	Unallocated	5151.56	(1,625.09)
	Total Capital Employed	35604.83	33685.54



(Rs in Crore)

GEOGRAPHICAL SEGMENT		Year ended	
		31.03.2018	31.03.2017
		(AUDITED)	(AUDITED)
(1)	Revenue		
a	Domestic	46888.53	47908.95
b	International	1306.41	1033.09
	Total	48194.94	48942.04
(2)	Assets		
a	Domestic	560817.56	522588.25
b	International	56068.54	60931.19
	Total	616886.10	583519.44

This has been prepared in terms of RBI Master Circular:
DBR:BP.BC No.8/21.04.018/ 2015-16 dated 01.07.2015.

5.4 Accounting Standard-18 - Related Party Disclosures:

Names of Related parties and their relationship with the Bank-Parent -

Canara Bank

5.4.1 Key Management Personnel -

- i) Shri. Rakesh Sharma, Managing Director & Chief Executive Officer
- ii) Shri. Harideesh Kumar B, Executive Director (Till 31.05.2017)
- iii) Shri. Dinabandhu Mohapatra, Executive Director (Till 05.05.2017)
- iv) Smt P V Bharathi, Executive Director
- v) Sri M V Rao, Executive Director (From 09.10.2017)
- vi) Sri Debasish Mukherjee, Executive Director (From 19.02.2018)

5.4.2 Parent-

- i) Canara Bank

5.4.3 Subsidiaries -

- i) Canbank Financial Services Ltd.
- ii) Canbank Venture Capital Fund Ltd.
- iii) Canbank Factors Ltd.
- iv) Canara Robeco Asset Management Company Ltd.



- v) Canbank Computer Services Ltd.
- vi) Canara Bank Securities Ltd. (formerly GILT Securities Trading Corp. Ltd)
- vii) Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd
- viii) Canara Bank (Tanzania) Ltd.

5.4.4 Joint Ventures

- i) Commercial Indo Bank LLC., Moscow (formerly Commercial Bank of India LLC., Moscow)

5.4.5 Associates -

- i) Canfin Homes Ltd.
- ii) Commonwealth Trust (India) Ltd.
- iii) Regional Rural Banks sponsored by the Bank
 - a) Pragati Krishna Gramin Bank (Erstwhile Pragati Gramin Bank)
 - b) Kerala Gramin Bank (Erstwhile South Malabar Gramin Bank)

HIGHER EDUCATION FUNDING AGENCY (HEFA) :

The MHRD, GoI with an object to build world class higher educational institutions and to set up research facilities, intended to provide a platform, through a special purpose vehicle, for improvement of the infrastructure standards of the higher educational institutions like IIM, IIT, IISER, IISc, NIT etc of the country.

Basing on this the MHRD proposed to set up Higher Education Financing Agency (HEFA) a Joint Venture Company with an authorized capital of Rs 2000 Cr. Canara Bank submitted the expression of interest to be a joint venture partner with MHRD, GoI. Ministry had since selected Canara Bank as the promoter for managing the fund.

Subsequently, the process of Registration, Incorporation and obtention of NBFC License has been completed and the Company has become fully operational. Initial Equity contribution to the extent of Rs 300 Cr has been subscribed by the JV partners (ie., Rs 250 Cr by MHRD, GOI and Rs 50 Cr by Canara Bank) and shares have been allotted to the JV partners. Company has done provisional sanctions and is in the process of raising capital and disbursing the installments of the loans.



5.4.6 Disclosure about transactions with Key Management Personnel is as under:

- (i) Remuneration to Key Management Personnel Rs.0.83 Crore
(Previous Year: Rs.0.99 Crore)

In terms of paragraph 5 of AS 18, transactions in the nature of Banker-Customer relationship including those with Key Management Personnel and relatives of Key Management Personnel have not been disclosed.

5.4.7 Transactions with Subsidiaries, Associates and Joint Venture are as under:

Particulars	Subsidiaries	Associates & Joint Ventures	Key Management Personnel (KMP)	Relatives of KMP	Total
Borrowings - Outstanding as at the year end	0.14 (NIL)	71.95 (30.00)	---	---	72.09 (30.00)
Maximum outstanding during the year	0.14 (NIL)	275.00 (30.00)			275.014 (30.00)
Deposits- Outstanding as at the year end	84.11 (43.03)	17.39 (16.63)	---	---	101.50 (59.66)
Maximum outstanding during the year	84.11 (48.59)	17.39 (406.63)			101.50 (455.22)
Placement of Deposits - Outstanding as at the year end	NIL (19.68)	NIL (146.24)	---	---	NIL (165.92)
Maximum outstanding during the year	NIL (19.68)	NIL (146.24)			NIL (165.92)
Advances- Outstanding as at the	308.20 (411.36)	2749.81 (2293.89)	---	---	3058.01 (2705.25)



<u>year end</u>	313.43 (411.36)	3189.78 (2651.30)			3503.21 (3062.66)
Purchase of Fixed Assets- Outstanding as at the year end	NIL (NIL)	NIL (NIL)	---	---	NIL (NIL)
Maximum outstanding during the year	NIL (NIL)	NIL (NIL)			NIL (NIL)
Balance in current account Outstanding as at the year end	0.88 (28.00)	20.87 (47.11)	-----	-----	21.75 (75.11)
Maximum outstanding during the year	2.52 (28.69)	22.06 (222.57)			24.58 (251.26)
Other receivable- Outstanding as at the year end	35.00 (0.10)	22.28 (NIL)	---	---	57.28 (0.10)
Maximum outstanding during the year	45.00 (0.10)	22.28 (NIL)			67.28 (0.10)
Inter Bank Participation Certificate - Participated					
Outstanding as at the year end	NIL (NIL)	127.42 (NIL)	---	---	127.42 (NIL)
Maximum	NIL (NIL)	127.42 (NIL)			127.42 (NIL)



outstanding during the year					
Commission Receivable-					
Outstanding as at the year end	6.00 (4.61)	0.09 (0.08)	---	---	6.09 (4.69)
Maximum outstanding during the year	6.00 (4.61)	0.03 (0.08)			6.09 (4.69)
Other payable					
Outstanding as at the year end	0.06 (0.01)	NIL (NIL)	---	---	0.06 (0.01)
Maximum outstanding during the year	0.06 (0.01)	NIL (NIL)			0.06 (0.01)
Interest paid	1.35 (2.91)	2.43 (31.62)	---	---	3.78 (34.53)
Interest received	5.46 (16.83)	119.78 (256.60)	---	---	125.24 (273.43)
Dividend received	NIL (16.96)	NIL (11.57)	---	---	NIL (28.53)
Premium Paid	211.57 (152.48)	NIL (NIL)	---	---	211.57 (152.48)
Rendering of Service	175.97 (110.41)	31.41 (3.01)	---	---	207.37 (113.42)
Receiving for Services	21.20 (30.29)	NIL (0.01)	---	---	21.20 (30.30)
Guarantee in respect of rights issued to BSE	NIL (NIL)	NIL (NIL)	---	---	NIL (NIL)

(Figures in brackets relate to previous year)

(As compiled and certified by the management and relied upon
by the auditors).



5.4.8 Intra-Group Exposures

(Rs in Crore)

Particulars	For the Year 2017-18	For the Year 2016-17
Total amount of intra-group exposures	3268.35	2890.82
Total amount of top-20 intra-group exposures	3268.35	2890.82
Percentage of intra-group exposures to total exposure of the bank on borrowers /customers	0.48%	0.37%
Details of breach of limits on intra-group exposures and regulatory action thereon, if any.	NIL	NIL

(As compiled and certified by the management and relied upon by the auditors.)

5.5 Accounting Standard-20 – Earnings Per Share:

Basic and diluted earnings per equity share are computed in accordance with Accounting Standard 20, "Earnings per Share".

The Computation of EPS is given below.

	Particulars	2017-18	2016-17
A	Net Profit for the year attributable to Equity Shareholders (Rs. In Crore)	(4222.24)	1121.92
B	Number of Equity Shares (Rs. in Crore)	73.32	59.73
C	Weighted Average Number of Equity Shares (In Crore)	59.92	54.37
D	Basic and Diluted Earnings per Share (A/C) (Rs.)	(70.47)	20.63
E	Nominal Value per Share (Rs.)	10/-	10/-

5.6 Accounting Standard-22 – Accounting for Taxes on Income:

The Bank has recognized Deferred Tax Assets / Liabilities (DTA / DTL) and has accounted for the Net Deferred Tax as on 31.03.2018 as under:

Major components of Deferred Tax Assets and Deferred Tax Liabilities are as under:



(Rs in Crore)

Particulars	Deferred Tax Assets		Deferred Tax Liability	
	31.03.2018	31.03.2017	31.03.2018	31.03.2017
Interest accrued but not due on securities	-	-	-	828.37
Provision for Leave Encashment	372.23	338.29	-	-
Depreciation on Fixed Assets	-	-	23.68	19.50
Depreciation on Investments	-	-	1705.10	1705.10
Un-realised gain on Forward contracts	-	-	-	145.47
Provision made for advances	8458.37	4869.61	-	-
On Special Reserve		-	1384.32	1384.32
Others	53.72	53.69	-	-
Deferred Tax Asset/ Liability	8884.32	5261.59	3113.10	4082.76

Net Deferred Tax Assets as on March 31, 2018: Rs.5771.22 Crore
(Previous year: Net Deferred Tax Assets Rs.1178.83 Crore)

5.7 Accounting Standard 27 - Financial Reporting of Interests in Joint Ventures

Investments include Rs.375.22 Crore (at the exchange rate of the transaction date) in the Commercial Indo Bank LLC (Incorporated in Russia) wherein the Bank owns 40% of the equity.

As required by AS 27 the aggregate amount of the assets, liabilities, income and expenses (Bank's interest @ 40% in jointly controlled entity) is disclosed as under:

Commercial Indo Bank LLC - Details of Assets, Liabilities, Income & Expenses

Particulars	Current year ended 31/03/2018	Current year ended 31/03/2018	Bank's share @ 40%	Previous year ended 31/03/2017	Previous year ended 31/03/2017	Bank's share @ 40%
	In '000 US Dollars	Rs. in Crore	Rs. in Crore	In '000 US Dollars	Rs. in Crore	Rs. in Crore
Aggregate Capital and Reserves	35804.00	233.35	93.34	41,524.00	269.28	107.71
Aggregate Liabilities	90558.00	590.21	236.08	71,795.00	465.59	186.24
Aggregate Assets	126362.00	823.56	329.42	113,319.00	734.87	293.95
Aggregate Income	8062.00	52.54	21.02	7,553.00	50.67	20.27
Aggregate Expenditure	1620.00	10.56	4.22	2,241.00	15.04	6.02
Profit	(5385.00)	(35.09)	(14.03)	5,312.00	35.63	14.25



Exchange rate at which Assets & liabilities and Income & expenditure have been translated- 1 USD = Rs. 65.175.

5.8 Accounting Standard 28 - Impairment of Assets:

Assets are reviewed for impairment at the end of the year whenever events or changes in circumstances warrant that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison for the carrying amount of an asset to future net discounted cash flows expected to be generated by the asset. If such an asset is considered to be impaired, the impairment to be recognized and is measured by the amount by which the carrying amount of the asset exceeds the recoverable amount of the asset. However, in the opinion of the Bank's Management, there is no indication of material impairment to the assets during the year to which Accounting Standard 28 - "Impairment of Assets" applies.

5.9 Accounting Standard 29 - Provisions, Contingent Liabilities and Contingent Assets:

(Rs in Crore)

Particulars	Opening as on 01.04.2017	Provision made during the year	Provision reversed / adjusted	Closing as on 31.03.2018
Movement of Provision for Contingent Liabilities	781.24	669.36	485.74	964.86

6. Additional Disclosures

6.1 Details of Provisions and Contingencies made during the year:

(Rs in Crore)

Particulars	31.03.2018	31.03.2017
Provision for Depreciation on Investment and NPI	1891.81	161.04
Provision towards NPA	14882.70	7437.77
Provision towards Standard Asset	4.74	26.61
Provision for Tax—(includes Deferred Tax)	(2338.62)	520.00
Provision for Diminution in Fair Value	(516.36)	(360.00)
Provision for Asset Doubt Of Recovery	7.07	35.00
Provision for Country Risk Exposure	(20.72)	13.00
Provision for FITL and other contingencies	(140.14)	(41.45)
TOTAL	13770.48	7791.97



6.2.A Floating Provision:

(Rs in Crore)

Particulars	31.03.2018	31.03.2017
Opening Balance	NIL	NIL
Addition during the year	NIL	NIL
Draw down during the year.	NIL	NIL
Closing Balance	NIL	NIL

6.2.B Draw down from Reserves:

During the year, no draw down has been made from reserves.

6.3 Disclosure of Complaints / unimplemented awards of Banking Ombudsmen:

A. Customer Complaints : (Including ATM related complaints)

Sl. No	Particulars	31.03.2018	31.03.2017
(a)	Number of complaints pending at the beginning of the year	3165	1550
(b)	Number of complaints received during the year	93276	66977
(c)	Number of complaints redressed during the year	93187	65362
(d)	Number of complaints pending at the end of the year	3254	3165

B. Awards passed by the Banking Ombudsmen :

Sl. No	Particulars	31.03.2018	31.03.2017
(a)	Number of unimplemented Awards at the beginning of the year	NIL	NIL
(b)	Number of Awards received during the year	01	08
(c)	Number of Awards redressed during the year	NIL	08
(d)	Number of unimplemented Awards pending at the end of the year	NIL*	NIL

* As per Award, complainant has to furnish the letter of acceptance within 30 days. Complainant has not accepted the Award, hence lapsed.

Note: All customer complaints pertaining to Automated Teller Machine (ATM) cards are included. Majority of the ATM complaints pertain to Acquiry issues.



6.4 Letters of Comfort issued:

Bank has issued 3422 No. of Letters of Comfort to the tune of Rs. 29391.40 Crore during the financial year 2017-18. The cumulative outstanding position of 1301 No. of LOC as on 31.03.2018 is Rs. 6423.86 Crore. Apart from this, Bank has also issued Letter of Comfort to the following regulators during previous years:

OVERSEAS:

The Bank has not issued any LOC favouring host country regulators during the financial year 2017-18.

LOCs/Undertaking/Guarantee issued in the past:-

- China Banking Regulatory Commission, China (on behalf of our Shanghai Branch) - issued on 19.04.2008
- Central Bank of UAE (on behalf of our Representative office, Sharjah) - Issued on 03.08.2009
- Central Bank of Bahrain (on behalf of our Manama branch, Bahrain) - Issued on 07.06.2010 and
- South African Reserve Bank (on behalf of our Johannesburg branch, South Africa) - Issued on 19.11.2011

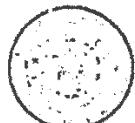
Financial Impact:

Bank has so far not issued any LOC/undertaking on behalf of the subsidiaries or Joint Ventures (JVs). Hence, the financial impact on issue of LOC/undertaking by the Bank does not exist.

With regard to branches the assets and liabilities of overseas branches are merged with the domestic operation and a consolidated Balance Sheet is drawn for the Bank as a whole. The total liability of overseas branches forms part of the liabilities of the Bank's annual balance sheet. There is no additional financial impact of LOCs issued on behalf of branches. In respect of representative Office, there are no commercial operations undertaken and hence no financial impacts of LOC issued to host country regulator.

As at 31st March 2018, there is no financial impact of LOCs issued favoring the overseas Regulators for our Bank since the same are issued on behalf of branches and Representative offices.

**6.4.1 Provision Coverage Ratio is 58.06% as on 31.03.2018
(Previous Year 55.62%) :**



6.5 Fees/Remuneration received by the Bank from Bancassurance Business etc: (Rs. in Crore)

Sl. No.	Nature of Income	31.03.2018	31.03.2017
1	For selling Life Insurance Policies	76.60	38.29
2	For selling Non Life Insurance Policies	26.93	18.51
3	For selling Mutual Funds Products	26.93	14.03
4	Other (Health Insurance Policies)	20.84	15.81
5	PMJJBY	5.11	4.92
6	PMSBY	0.02	0.71
	TOTAL	156.40	92.27

6.6 Concentration of Deposits, Advances, Exposures and NPAs

6.6.1 Concentration of Deposits:

(Rs in Crore)

Particulars	31.03.2018	31.03.2017
Total Deposits of twenty largest depositors	81464.73	71579.31
Percentage of Deposits of twenty largest depositors to Total Deposits of the Bank	15.52%	14.45%

6.6.2 Concentration of Advances:

(Rs in Crore)

Particulars	31.03.2018	31.03.2017
Total Advances to twenty largest borrowers	35329.89	26101.53
Percentage of Advances to twenty largest borrowers to Total Advances of the Bank	9.26%	7.63%

6.6.3 Concentration of Exposures: (Rs. in Crore)

Particulars	31.03.2018	31.03.2017
Total Exposure to twenty largest borrowers/customers	60652.57	59989.87
Percentage of Exposures to twenty largest borrowers / customers to Total Exposure of the bank on borrowers / customers	8.92%	7.75%



6.6.4 Concentration of NPAs:

(Rs in Crore)

Particulars	31.03.2018	31.03.2017
Total Exposure to top four NPA accounts	9423.81	8282.63

6.6.5 Sector-wise Advances:

(Rs in Crore)

Sl No	Sector	Current Year			Previous Year		
		Outstanding total Advances	Gross NPA	Percentage of Gross NPA to Total Advances in that sector	Outstanding total Advances	Gross NPA	Percentage of Gross NPA to Total Advances in that sector
A	Priority sector						
1	Agriculture and allied activities	84012.00	3850.80	4.58%	74079.00	2757.31	3.72%
2	Advances to industries sector eligible as priority sector lending	43168.00	8129.36	18.83%	39175.00	5557.95	14.19%
3	Services	38930.00	616.98	1.58%	28119.00	555.15	1.97%
4	Personal loans	19516.00	-	-	18896.00	-	-
	Sub-Total (A)	185626.00	12597.14	6.79%	160269.00	8870.41	5.53%
B	Non Priority sector						
1	Agriculture and allied activities	214.00	-	-	614.00	0.00	-
2	Industries	181857.98	34504.92	18.97%	140262.29	19622.09	13.99%
3	Services	-	-	-	28108.02	5406.46	19.23%
4	Personal loans	33145.51	366.41	1.11%	26052.35	303.08	1.16%
	Sub total (B)	215217.49	34871.33	16.20%	195036.66	25331.63	12.99%
	Total (A+B)	400843.49	47468.47	11.84%	355305.66	34202.04	9.63%



Sub sector of industries where the outstanding advances exceeds 10 percent of the outstanding total advances of the sector:

Sl No	Sub Sector	Current Year			Previous Year		
		Outstanding total Advances	Gross NPA	Percentage of Gross NPA to Total Advances in that sector	Outstanding total Advances	Gross NPA	Percentage of Gross NPA to Total Advances in that sector
1	Basic metal and metal products	24388.58	11730.68	48.10	21596.96	10930.41	50.61%
2	Infrastructure	52760.28	10277.74	19.48	50125.76	2527.05	5.04%

(As compiled and certified by the management and relied upon by the auditors.)

Particulars	31.03.2018	31.03.2017
Gross NPAs as on 1 st April 2017 (Opening Balance)	34202.04	31637.83
Additions (Fresh NPAs) during the year	24760.76	11652.11
Sub-total (A)	58962.80	43289.94
Less:-		
(i) Up-gradations	943.49	2264.82
(ii) Recoveries (excluding recoveries made from upgraded accounts)	2241.17	1278.30
(iii) Technical/ Prudential Write-offs	7548.87	5103.16
(iv) Write-offs other than those under (iii) above	760.80	441.62
Sub-total (B)	11494.33	9087.90
Gross NPAs as on 31 st March 2018 (closing balance) (A-B)	47468.47	34202.04

Movement of Technical Write off and the recoveries made thereon:

Particulars	31.03.2018	31.03.2017
Opening balance of Technical/ Prudential written-off accounts as at April 1 st	14377.42	9936.31
Add: Technical/ Prudential write-offs During the year*	7523.52	5129.81
Sub-total (A)	21900.94	15066.12



Less: Recoveries made from previously technical/ prudential written-off accounts, amount sent to branches during the year and exchange fluctuation(B)	1534.04	688.70
Closing balance as at March 31 (A-B)	20366.90	14377.42

* including exchange fluctuation

6.8 Overseas Assets NPAs and Revenue

(Rs in Crore)

Particulars	31.03.2018	31.03.2017
Total Assets	56068.54	66360.55
Total NPAs : Gross	3284.51	2650.47
Net	1575.88	1415.27
Total Revenue	1306.41	1033.08

6.9 Off-balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms)

Name of the SPV sponsored	
Domestic	Overseas
NIL	NIL

6.10 Disclosure relating to Securitisation:

SL No.	Particulars	No./Amount in Rs Crore
1.	No of SPVs sponsored by the bank for securitization transaction	
2.	Total amount of securitized assets as per books of the SPVs sponsored by the bank	
3.	Total amount of exposures retained by the bank to comply with MRR as on the date of balance sheet	
	Off-balance sheet exposures	
a)	First loss	
	Others	
	On-balance sheet exposures	
b)	First loss	
	Others	
4.	Amount of exposures to securitization transactions other than MRR	NIL
	Off-balance sheet exposures	
a)	Exposure to own securitizations	
i)	First loss	
	Others	
	Exposure to third party securitizations	
ii)	First loss	
	Others	
	On-balance sheet exposures	
b)	Exposure to own securitizations	
i)	First loss	
	Others	
	Exposure to third party securitizations	
ii)	First loss	
	Others	

6.11 Credit Default Swaps (CDS): NIL



**6.12 Transfers to Depositor Education and Awareness Fund
(DEAF)**

(Rs in Crore)

Particulars	31.03.2018	31.03.2017
Opening balance of amounts transferred to DEAF	1166.89	977.29
Add : Amounts transferred to DEAF during the year	241.43	205.28
Less : Amounts reimbursed by DEAF towards claims	26.01	15.68
Closing balance of amounts transferred to DEAF	1382.31	1166.89

6.13 Reserve Bank of India vide its communication Number DBOD.No.BP.BC. 85 /21.06.200/2013-14 dated January 15 2014 advised the Bank to provide incremental provision and capital with regard to bank's exposure to entities with unhedged foreign currency exposures. Accordingly for the financial year 2017-18 bank is holding a provision of Rs.25.66 Crore (Rs 32.92 Crore) towards unhedged foreign currency exposure. Further Bank is also holding a capital of Rs.127.67 Crore (Rs 143.85 Crore) as on 31.03.2018 towards the risk on unhedged foreign currency exposure.

Policies to manage currency induced credit risk with regard to Unhedged Foreign Currency Exposure:

In respect of borrower entities having foreign currency exposure, Bank is computing Unhedged Foreign Currency Exposure (UFCE); Annual Earnings before interest and Depreciation (EBID); expected loss in case of movement in USD-INR exchange rate using annualized volatilities. Expected loss on account of exchange rate movements is expressed as a percentage of EBID i.e likely loss/EBID percentage. As a prudential measure Bank is holding incremental capital and made incremental provisioning (over and above the extant standard assets provisioning) on the total credit exposure to such entities at the specified rates.



6.14 Liquidity Coverage Ratio : (Rs. in Crore)

Sl No		Current year		Previous Year	
		Total Un- weighted Value (average)	Total Weighted Value (average)	Total Un- weighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets					
1	Total High Quality Liquid Assets (HQLA)		82240.55		87616.68
Cash Outflows					
2	Retail deposits and deposits from small business customers of which:	289969.63	24614.78	267438.54	22600.09
(i)	Stable deposits	87643.63	4382.18	82875.20	4143.76
(ii)	Less stable deposits	202326.01	20232.60	184563.33	18456.33
3	Unsecured wholesale funding of which:	111281.44	64382.92	110649.58	65105.56
(i)	Operational deposits (all counterparties)	0.00	0.00	0.00	0.00
(ii)	Non-operational deposits (all counterparties)	111281.44	64382.92	108722.19	63178.17
(iii)	Unsecured debt	0.00	0.00	1927.39	1927.39
4	Secured wholesale funding	6966.92	274.11	4187.18	789.55
5	Additional requirements of which	29421.64	3512.45	39716.88	14329.79
(i)	Outflows related to derivative exposures and other collateral requirements	0.00	0.00	0.00	0.00
(ii)	Outflows related to loss of funding on debt products	0.00	0.00	0.00	0.00
(iii)	Credit and liquidity facilities	29421.64	3512.45	39716.88	14329.79
6	Other contractual funding obligations	568.82	568.82	616.29	616.29
7	Other contingent funding obligations	115740.80	4444.33	76896.07	2568.07
8	Total Cash Outflows	553949.26	97797.41	499504.55	106009.36
9	Secured lending (e.g. reverse repos)	101.84	0.00	3844.84	0.00
10	Inflows from fully performing exposures	30083.49	21415.39	33844.10	25794.57
11	Other cash inflows	729.67	423.02	869.23	579.85
12	Total Cash Inflows	30915.00	21838.41	38558.17	26374.42
			Total Adjusted Value		Total Adjusted Value
13	TOTAL HQLA	82240.55			87616.68
14	Total Net Cash Outflows		75959.00		79634.95
15	Liquidity Coverage Ratio (%)		108.27%		110.02%



Qualitative disclosure around LCR :

Liquidity Coverage Ratio (LCR) standard is introduced to test the liquidity resilience of the Bank, for a minimum stress period of 30 days. The standard ensures, the Bank maintains adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted into cash to meet liquidity needs (net cash-out flows). The LCR is defined as:

$$\text{LCR} = \frac{\text{Stock of high quality liquid assets (HQLAs)}}{\text{Total net cash outflows over the next 30 calendar days}}$$

The minimum LCR requirement for the calendar year 2017 was 80 per cent and is stepped up to 90 per cent for the calendar year 2018. LCR requirement will be further stepped up 10 per cent annually to reach 100 per cent by 1st January 2019.

HQLA comprises of Level 1(0% hair-cut), Level 2A (15% hair-cut) and Level 2B assets (50% hair-cut). Level 1 assets comprising of cash, excess CRR, excess SLR securities, government securities to the extent allowed by RBI under Marginal Standing Facility (MSF) [presently 2 per cent of the Bank's NDTL] and Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [presently 9 per cent of the Bank's NDTL].

Level 2A assets comprises of sovereign guaranteed marketable securities, corporate bonds or commercial papers which are rated AA- and more are issued other than by financial institutions. Level 2B assets include investments in common equity shares included in NSE CNX Nifty and/or S&P BSE Sensex indices.

Expected net cash outflows under stress are the weighted sum of outflows minus inflows in the next 30 days. Funding from retail and small business customers carries lower run-off factor as compared to wholesale funding.

The prime drivers of the LCR are the level of surplus SLR held by the Bank and the proportion of retail and wholesale funding source.

Weighted Level 1 assets of the Bank constitutes around 95 per cent of the total HQLA, and the remaining 5 per cent comprises of Level 2A and Level 2B assets. Excess SLR securities (part of level 1 assets) forms around 30 per cent of the total HQLA.



Over the period the Bank reduced dependency on the wholesale deposits including certificate of deposits by increasing the share of retail (individual) deposits including CASA. The share of retail deposits to total domestic deposits remained at 56 per cent (March 2017) to 56 per cent (March 2018). The high share of retail deposits marks the stability in the funding profile of the Bank, reducing the liquidity outflows under stress.

During the FY 2017-18, the LCR of the Bank remained above the minimum requirement on all observed counts. The LCR moved down marginally year on year from average of 110.02% (FY 2016-17) to 108.27% (FY 2017-18). This was mainly on account of decreased share of retail deposits (increasing the cash outflows) and lesser HQLA.

Quarter on quarter, the LCR (3 months average) of the Bank moved from 109.75% (June'17) to 108.65% (September'17) and to 115.19% (December'17).

6.15 Fresh Issue of Equity Share Capital:

During the year Bank had issued and allotted 13,59,54,616 Equity shares of face value of Rs 10 each at an issue price of Rs 357.84 per equity share including premium of Rs 347.84 per equity share to the Government of India (GOI) on preferential basis on 27.03.2018 with the consent of the Shareholders of the Bank by way of Special Resolution passed in the Extraordinary General Meeting of the Bank held on 01.03.2018.

6.16 Bank has made certain modifications in the additional provisioning for non-performing advances by dispensing with additional provisioning for category II of doubtful advances. Consequently the Bank is holding such additional provision of Rs.500 Crore (previous year Rs.500 Crore) for non-performing advances over and above the minimum provision prescribed under IRAC norms of RBI.

6.17 Our Bank has sold 54880 units under Priority Sector Lending Certificates (PSLCs) to the tune of Rs.13720 Crore under Agriculture and Small and Marginal Farmers category as at March 2018.

6.18 RBI vide letter RBI 2017-18:131:DBR NO BP BC 101/21.04.048:2017-18 dated February 12, 2018, issued a Revised Framework for Resolution of Stressed Assets, which superseded the existing guidelines on CDR, SDR, change in ownership outside SDR, Flexible Structuring of



Existing Long term project loans (5/25 Scheme) and S4A with immediate effect. Under the revised framework, the stand-still benefits for accounts where any of these schemes had been invoked but not yet implemented were revoked and accordingly these accounts have been classified as per the extant RBI prudential norms on Income Recognition and Asset Classification

- 6.19 RBI vide letter DBR No BP 8756 21.04.048:2017-18 dated April 2, 2018, the provisioning requirements in respect of NCLT accounts is reduced from 50% of secured portion to 40% of secured portion as at March 31, 2018. However Bank has not availed the relaxation permitted and continue to provide @ 50% instead of provisioning @ 40%.
- 6.20 As per RBI letter RBI:2017-18 :147 DBR.No.BP BC 102/21.04.048 2017-18 dated April 2, 2018 has permitted banks to opt for spread over provisioning for Mark to Market (MTM) losses on investments held in AFS and HFT for the quarters ended December 31, 2017 and March 31, 2018. The losses can be spread over four quarters, commencing from the quarter in which the loss has been incurred. However, Bank has not availed the option of spreading of MTM losses and provided fully.
- 6.21 RBI vide letter DBR BP 9730/21.04.018 2017-18 dated April 27, 2018 permitted to spread the additional liability on account of the enhancement in gratuity limits over four quarters beginning with the quarter ended March 31, 2018. However Bank has not availed the relaxation permitted and has provided for the entire liability in March 18 itself.
- 6.22 In view of fraud reported during the year in certain banks in respect of one Gems and Jewellery borrower group accounts , the Bank has classified these accounts as Non- Performing Asset and provided fully.
- 6.23 In pursuant to revised Accounting Standard -10 "Property Plant & Equipment" applicable from 1st April, 2017, depreciation of Rs.120.85 crores during the year on the revalued portion of the fixed assets has been debited to the Profit & Loss account. Equivalent amount has been transferred from Revaluation Reserve to Revenue Reserve.



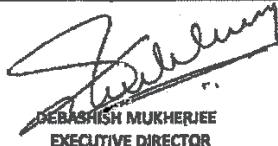
7 Figures of the previous year have been regrouped / rearranged / reclassified wherever necessary.


M SWAMINATHAN
ASSISTANT GENERAL MANAGER


P VITHOKKUMAR
ASSISTANT GENERAL MANAGER


V RAMACHANDRA
DEPUTY GENERAL MANAGER


N SIVASANKARAN
GENERAL MANAGER


DEBASHISH MUKHERJEE
EXECUTIVE DIRECTOR


M. V. RAO
EXECUTIVE DIRECTOR


P. V. BHARATHI
EXECUTIVE DIRECTOR


RAKESH SHARMA
MANAGING DIRECTOR & CEO


T.J. MANOHARAN
CHAIRMAN


SUCHINDRA MISRA
DIRECTOR


UMA SHANKAR
DIRECTOR


KRISHNAMURTHY H
DIRECTOR


VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER REPORT OF EVEN DATE

For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN.110266W

For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN.307092E

For M/S DAGLIYA & Co.
CHARTERED ACCOUNTANTS
FRN.000671S

For M/S KOMANDOOR & Co. LLP
CHARTERED ACCOUNTANTS
FRN.001420S/5200034


J SINGH
PARTNER
MEMBERSHIP NO.042023



S MANDAL
PARTNER
MEMBERSHIP NO.068309




P MANOHARA GUPTA
PARTNER
MEMBERSHIP NO.016444




K MOHAN ACHARYA
PARTNER
MEMBERSHIP NO.029082



PLACE : BENGALURU
DATE : 11.05.2018

J Singh & Associates
Chartered Accountants
FRN : 110266W

J L Sengupta & Co.
Chartered Accountants
FRN : 307092E

Dagliya & Co
Chartered Accountants
FRN : 000671S

Komandoor & Co LLP
Chartered Accountants
FRN: 001420S/S200034

INDEPENDENT AUDITORS' REPORT

To,

The Members of Canara Bank

Report on the Standalone Financial Statements

1. We have audited the accompanying standalone financial statements of **Canara Bank** as at 31st March, 2018, which comprise the standalone Balance Sheet as at 31st March, 2018, Standalone Profit and Loss Account, the Standalone Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information. Incorporated in these financial statements are the returns of 20 branches audited by us, 3661 branches audited by statutory branch auditors and 7 foreign branches audited by local auditors in respective countries. The branches audited by us and those audited by other auditors have been selected by the Bank in accordance with the guidelines issued to the Bank by the Reserve Bank of India. Also incorporated in the Standalone Balance Sheet and the Standalone Profit and Loss Account are the returns from 2523 branches which have not been subjected to audit. These unaudited branches account for 4.87 per cent of advances, 16.72 per cent of deposits, 3.64 per cent of interest income and 16.30 per cent of interest expenses.

Management's Responsibility for the Standalone Financial Statements

2. The bank's management is responsible for the preparation of these Standalone financial statements in accordance with the Banking Regulation Act 1949, Reserve Bank of India guidelines issued from time to time and Accounting Standards generally accepted in India. This responsibility of the Management includes design, implementation and maintenance of internal control relevant to the preparation of the Standalone Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

3. Our responsibility is to express an opinion on these Standalone financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the standalone financial statements are free from material misstatements.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Standalone financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, as shown by the books of the Bank, and to the best of our information and according to the explanations given to us:
 - I. the Standalone Balance sheet, read with the significant accounting policies and the notes thereon is a full and fair Balance Sheet containing all the necessary particulars, is properly drawn up so as to exhibit a true and fair view of state of affairs of the Bank as at 31st March, 2018 in conformity with accounting principles generally accepted in India;



J Singh & Associates
Chartered Accountants
FRN : 110266W

J L Sengupta & Co.
Chartered Accountants
FRN : 307092E

Dagliya & Co
Chartered Accountants
FRN : 000671S

Komandoor & Co LLP
Chartered Accountants
FRN: 001420S/S200034

- II. the Standalone Profit and Loss Account, read with the significant accounting policies and the notes thereon shows a true balance of loss, in conformity with accounting principles generally accepted in India, for the year covered by the account; and
- III. the Standalone Cash Flow Statement gives a true and fair view of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

7. The Standalone Balance Sheet and the Profit and Loss Account have been drawn up in Forms "A" and "B" respectively of the Third Schedule to the Banking Regulation Act, 1949.
8. Subject to the limitations of the audit indicated in paragraph 1 to 5 above and as required by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 / 1980 and also subject to the limitations of disclosure required therein, we report that:
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit and have found them to be satisfactory;
 - b) The transactions of the Bank, which have come to our notice have been within the powers of the Bank;
 - c) The returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit;
9. We further report that:
 - a) The Standalone Balance Sheet and the Standalone Profit & Loss Account dealt with by this report are in agreement with the books of account and returns;
 - b) The report on the accounts of the Branch/Offices audited by the branch auditors of the Bank under Section 29 of the Banking Regulation Act, 1949 have been sent to us and have been properly dealt with by us in preparing this report;
 - c) In our opinion, the Standalone Balance Sheet, Profit & Loss Account and Cash Flow Statement comply with the applicable Accounting Standards.



J. Singh
Partner
Membership No 042023



(S Mandal)
Partner
Membership No 068309



(P Manohara Gupta)
Partner
Membership No 016444



(K Mohan Acharya)
Partner
Membership No 029082

Place : Bengaluru
Date : May 11, 2018

BALANCE SHEET AS AT 31st MARCH 2017

	Schedule	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
CAPITAL AND LIABILITIES			
CAPITAL	1	597 29 02	542 99 10
RESERVES AND SURPLUS	2	33088 24 73	31060 20 95
DEPOSITS	3	495275 24 22	479791 56 21
BORROWINGS	4	39503 55 90	26873 31 64
OTHER LIABILITIES AND PROVISIONS	5	15055 10 48	14692 69 93
TOTAL		583519 44 35	552960 77 83
ASSETS			
CASH & BALANCES WITH RESERVE BANK OF INDIA	6	19922 49 73	20664 05 10
BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE	7	38902 96 15	36069 60 75
INVESTMENTS	8	150265 88 82	142309 30 11
ADVANCES	9	342008 76 08	324714 82 40
FIXED ASSETS	10	7168 31 59	7198 10 17
OTHER ASSETS	11	25251 01 98	22004 89 30
TOTAL		583519 44 35	552960 77 83
CONTINGENT LIABILITIES	12	432470 42 05	287945 55 29
BILLS FOR COLLECTION		27176 31 19	26563 00 23

M SWAMINATHAN
DIVISIONAL MANAGER

P V BHARATHI
EXECUTIVE DIRECTOR

RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

SUCHINDRA MISRA
DIRECTOR

MAHADEV NAGENDRA RAO
DIRECTOR

P VITHOBA
ASST. GENERAL MANAGER

V RAMACHANDRA
DEPUTY GENERAL MANAGER

N SELVARAJAN
GENERAL MANAGER

HARIDEESH KUMAR B
EXECUTIVE DIRECTOR

T N MANOHARAN
CHAIRMAN

KRISHNAMURTHY H
DIRECTOR

UMA SHANKAR
DIRECTOR

VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

G VENKATESWARA RAO
PARTNER
MEMBERSHIP NO.024182

J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN NO.110266W

J SINGH
PARTNER
MEMBERSHIP NO.042023

PLACE : BENGALURU
DATE : 08.05.2017

For V K NIRANJAN & Co.
CHARTERED ACCOUNTANTS
FRN NO.0024685

M JAYARAJAN
PARTNER
MEMBERSHIP NO.011105

For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN NO.307092E

S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO. 018073





Head Office, Bengaluru

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31.03.2017

	Schedule	For the year ended 31.03.2017 (Rs. '000)	For the year ended 31.03.2016 (Rs. '000)
I.	INCOME		
	INTEREST EARNED	41387 64 49	44022 13 54
	OTHER INCOME	7554 39 85	4875 22 92
	TOTAL	48942 04 34	48897 36 46
II.	EXPENDITURE		
	INTEREST EXPENDED	31515 86 81	34258 77 46
	OPERATING EXPENSES	8512 28 12	7491 93 46
	PROVISIONS AND CONTINGENCIES	7791 97 19	9959 47 83
	TOTAL	47820 12 12	51710 18 75
III.	NET PROFIT FOR THE PERIOD	1121 92 22	(2812 82 29)
IV.	APPROPRIATIONS		
	TRANSFERS TO		
	STATUTORY RESERVES	281 00 00	-
	CAPITAL RESERVES	777 00 00	-
	BALANCE OF PROFIT	63 92 22	-
	TOTAL	1121 92 22	-
	EARNINGS PER SHARE	20.63	(53.61)

M SWAMINATHAN
DIVISIONAL MANAGER

P V-BHARATHI
EXECUTIVE DIRECTOR

RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

SUCHINDRA MISRA
DIRECTOR

MAHADEV NAGENDRA RAO
DIRECTOR

P VITHOBIA
ASST.GENERAL MANAGER

V RAMACHANDRA
DEPUTY GENERAL MANAGER

HARIDEESH KUMAR B
EXECUTIVE DIRECTOR

N SELVARAJAN
GENERAL MANAGER

T N MANOHARAN
CHAIRMAN

KRISHNAMURTHY H
DIRECTOR

UMA SHANKAR
DIRECTOR

VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER OUR REPORT OF EVEN DATE

For RAM RAJ & Co.
CHARTERED ACCOUNTANTS
FRN NO.002839S

G VENKATESWARA RAO
PARTNER
MEMBERSHIP NO.024182

For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN NO.110266W

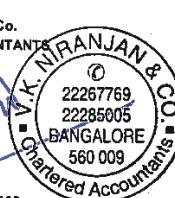
PLACE : BENGALURU
DATE : 08.05.2017

For V K NIRANJAN & Co.
CHARTERED ACCOUNTANTS
FRN NO.002468S

M JAYARAJAN
PARTNER
MEMBERSHIP NO.011105

For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN NO.307092E

S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO. 018073



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 1 - CAPITAL		
I. Authorised Capital (300,00,00,000 Equity Shares of Rs.10/- each)	3000 00 00	3000 00 00
II.Issued,Subscribed and Paid up:		
i) 39,59,90,159 Equity Shares of Rs.10/- each Previous year 35,99,91,054 Equity Shares of Rs.10/- each held by Central Government	395 99 02	359 99 10
ii) 20,13,00,000 Equity Shares of Rs.10/- each Previous year 18,30,00,000 Equity Shares of Rs.10/- each held by others.	201 30 00	183 00 00
	597 29 02	542 99 10



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 2 - RESERVES AND SURPLUS		
I. STATUTORY RESERVE (Reserve Fund in terms of Section 17 of the Banking Regulation Act, 1949)		
OPENING BALANCE	7983 00 00	7983 00 00
Additions during the period	281 00 00	-
Total	8264 00 00	7983 00 00
II. CAPITAL RESERVE		
a. REVALUATION RESERVE		
OPENING BALANCE	5444 66 30	5405 85 08
Add : Addition during the period	-	113 58 78
Less : Transferred to Profit and Loss Account	5444 66 30	5519 43 86
Total	71 51 34	74 77 56
	5373 14 96	5444 66 30
b. FOREIGN CURRENCY TRANSLATION RESERVE		
OPENING BALANCE	247 27 91	196 62 03
Add : Additions during the period	-	50 65 88
Less: Deductions during the period	92 06 33	-
Total	155 21 58	247 27 91
c. OTHERS		
OPENING BALANCE	1478 67 07	1478 67 07
Add : Additions during the period	777 00 00	-
Total	2255 67 07	1478 67 07
III. SHARE PREMIUM :		
OPENING BALANCE	5672 52 90	3273 00 31
Add : Additions during the period	1069 69 24	2399 52 59
Total	6742 22 14	5672 52 90
IV. REVENUE AND OTHER RESERVES		
a. REVENUE RESERVE		
OPENING BALANCE	8481 09 06	8481 09 06
ADD: Additions during the period	-	-
Less: Deductions during the period	8481 09 06	8481 09 06
Total	8481 09 06	8481 09 06
b. SPECIAL RESERVE		
{In terms of Section 36 (1)(viii) of the Income Tax Act, 1961}		
OPENING BALANCE	4000 00 00	4000 00 00
Additions during the period	-	-
Total	4000 00 00	4000 00 00
c. INVESTMENT RESERVE ACCOUNT		
OPENING BALANCE	565 80 00	565 80 00
Add : Additions during the period	-	-
Less: Deductions during the period	565 80 00	565 80 00
Total	565 80 00	565 80 00
d. Balance in Profit & Loss account		
OPENING BALANCE	(2812 82 29)	
Add : Additions during the period	63 92 21	(2812 82 29)
Total	(2748 90 08)	(2812 82 29)
TOTAL	33088 24 73	31060 20 95



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 3 - DEPOSITS		
A. I. DEMAND DEPOSITS		
i. FROM BANKS	199 43 74	333 85 02
ii. FROM OTHERS	22381 52 98	19493 50 98
Total	22580 96 72	19827 36 00
II. SAVINGS BANK DEPOSITS		
	127167 64 31	103714 84 91
Total	127167 64 31	103714 84 91
III. TERM DEPOSITS		
i. FROM BANKS	33205 98 35	23963 31 34
ii. FROM OTHERS	312320 64 84	332286 03 96
Total	345526 63 19	356249 35 30
TOTAL	495275 24 22	479791 56 21
B. DEPOSITS OF BRANCHES		
i. IN INDIA	454609 75 04	450788 12 50
ii. OUTSIDE INDIA	40665 49 18	29003 43 71
TOTAL	495275 24 22	479791 56 21



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 4 - BORROWINGS		
I. BORROWINGS IN INDIA		
i. RESERVE BANK OF INDIA	700 00 00	
ii OTHER BANKS	11204 77 74	-
iii. OTHER INSTITUTIONS AND AGENCIES	2147 84 53	559 32 32
iv. UNSECURED REDEEMABLE BONDS (IPDI AND SUB-ORDINATED DEBT)	14014 60 00	11989 60 00
Total	28067 22 27	12548 92 32
II. BORROWINGS OUTSIDE INDIA		
i. OTHER BANKS	11436 33 63	12668 03 48
ii. UNSECURED REDEEMABLE BONDS (SUB-ORDINATED DEBT)	-	1656 35 84
Total	11436 33 63	14324 39 32
TOTAL	39503 55 90	26873 31 64

SCHEDULE 5 - OTHER LIABILITIES & PROVISIONS

I. BILLS PAYABLE	1355 70 48	1270 23 99
II. INTER OFFICE ADJUSTMENT (NET)	940 69 16	460 11 77
III. INTEREST ACCRUED	1877 76 74	1875 31 68
IV. DEFERRED TAX LIABILITY	-	
V. OTHERS (INCLUDING PROVISIONS)	10880 94 10	11087 02 49
TOTAL	15055 10 48	14692 69 93



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 6-CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I. CASH IN HAND (Including Foreign Currency Notes)	1846 39 26	2011 86 73
II. BALANCES WITH RESERVE BANK OF INDIA IN CURRENT ACCOUNT IN OTHER ACCOUNTS	18076 10 47	18652 18 37
Total	18076 10 47	18652 18 37
TOTAL	19922 49 73	20664 05 10
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. IN INDIA BALANCE WITH BANKS a. IN CURRENT ACCOUNTS	83 27 94	310 17 50
b. IN OTHER DEPOSIT ACCOUNTS	-	-
Total	83 27 94	310 17 50
ii. MONEY AT CALL AND SHORT NOTICE a. WITH BANKS	-	1200 00 00
b. WITH OTHER INSTITUTIONS	-	-
Total	-	1200 00 00
Total	83 27 94	1510 17 50
II. OUTSIDE INDIA i. IN CURRENT ACCOUNTS	6517 51 73	8675 13 75
ii. IN OTHER DEPOSIT ACCOUNTS	25926 09 49	20444 98 12
iii. MONEY AT CALL AND SHORT NOTICE	6376 06 99	5439 31 38
Total	38819 68 21	34559 43 25
TOTAL	38902 96 15	36069 60 75



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 8 - INVESTMENTS		
I. INVESTMENTS IN INDIA : GROSS:	149777 67 83	141679 09 18
LESS: PROVISION FOR DEPRECIATION & NPI	483 99 64	365 25 92
NET INVESTMENT IN INDIA	149293 68 19	141313 83 26
I. GOVERNMENT SECURITIES	135664 21 06	126882 35 19
II. OTHER APPROVED SECURITIES	1 49 87	1 49 87
III. SHARES	1906 77 80	1718 23 89
IV. DEBENTURES AND BONDS	7378 04 93	6416 16 85
V. SUBSIDIARIES AND/OR JOINT VENTURES	746 21 41	796 06 80
VI. OTHERS	3596 93 12	5499 50 66
Total	149293 68 19	141313 83 26
HELD TO MATURITY	106037 26 82	102733 23 82
AVAILABLE FOR SALE	42768 25 23	38287 94 86
HELD FOR TRADING	468 16 14	292 64 58
Total	149293 68 19	141313 83 26
II. INVESTMENTS OUTSIDE INDIA - GROSS	975 09 16	995 46 85
LESS : PROVISION FOR DEPRECIATION	2 88 53	-
NET INVESTMENTS OUTSIDE INDIA	972 20 63	995 46 85
I. GOVERNMENT SECURITIES	253 50 33	89 32 73
(INCLUDING LOCAL AUTHORITIES)		
II. SUBSIDIARIES AND/OR JOINT VENTURES	166 30 73	73 22 11
III. OTHER INVESTMENTS	552 39 57	832 92 01
Total	972 20 63	995 46 85
HELD TO MATURITY	266 10 67	134 60 95
AVAILABLE FOR SALE	706 09 96	860 85 90
HELD FOR TRADING	-	-
Total	972 20 63	995 46 85
TOTAL	150265 88 82	142309 30 11



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 9 - ADVANCES		
A. i. BILLS PURCHASED & DISCOUNTED	14857 79 13	10245 51 44
ii. CASH CREDITS, OVERDRAFTS AND LOANS REPAYABLE ON DEMAND	141181 33 85	131566 48 67
iii. TERM LOANS	185969 63 10	182902 82 29
Total	342008 76 08	324714 82 40
B. i. SECURED BY TANGIBLE ASSETS (INCLUDING BOOK DEBTS)	275094 69 35	265366 91 78
ii. COVERED BY BANK / GOVT.GUARANTEES	13031 72 98	14048 06 37
iii. UNSECURED	53882 33 75	45299 84 25
Total	342008 76 08	324714 82 40
C. I. ADVANCES IN INDIA		
i. PRIORITY SECTOR	136718 80 28	124952 09 90
ii. PUBLIC SECTOR	12034 69 38	24180 47 26
iii. BANKS	21 87 37	17 54 92
iv. OTHERS	166183 31 62	153699 83 51
TOTAL	314958 68 65	302849 95 59
II. ADVANCES OUTSIDE INDIA (DUE FROM OTHER THAN BANKS)		
i. BILLS PURCHASED AND DISCOUNTED	8232 93 15	4137 55 93
ii. TERM / SYNDICATED LOANS	7547 83 13	9479 37 81
iii. OTHERS	11269 31 15	8247 93 07
Total	27050 07 43	21864 86 81
TOTAL	342008 76 08	324714 82 40



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs '000)
SCHEDULE 10 - FIXED ASSETS		
I. PREMISES		
AT COST / VALUATION AS PER LAST BALANCE SHEET	6680 07 27	6648 97 84
ADDITIONS DURING THE YEAR	<u>87 69 85</u>	<u>31 36 37</u>
	<u>6767 77 12</u>	<u>6680 34 21</u>
REVALUATIONS MADE DURING THE YEAR	-	-
	<u>6767 77 12</u>	<u>6680 34 21</u>
DEDUCTIONS DURING THE YEAR	<u>9 49 82</u>	<u>26 94</u>
	<u>6758 27 30</u>	<u>6680 07 27</u>
DEPRECIATION TO DATE	<u>708 50 38</u>	<u>630 25 34</u>
	<u><u>6049 76 92</u></u>	<u><u>6049 81 93</u></u>
II. OTHER FIXED ASSETS		
(INCLUDING FURNITURE & FIXTURES)		
AT COST AS PER LAST BALANCE SHEET	3326 25 64	3073 45 27
ADDITIONS DURING THE YEAR	<u>296 58 44</u>	<u>364 50 39</u>
	<u>3622 84 08</u>	<u>3437 95 66</u>
DEDUCTIONS DURING THE YEAR	<u>111 64 58</u>	<u>111 70 02</u>
	<u>3511 19 50</u>	<u>3326 25 64</u>
DEPRECIATION TO DATE	<u>2394 83 83</u>	<u>2180 16 40</u>
	<u><u>1116 35 67</u></u>	<u><u>1146 09 24</u></u>
III. LEASED ASSETS		
AT COST AS PER LAST BALANCE SHEET	71 77 29	75 26 84
ADDITIONS DURING THE YEAR	<u>71 77 29</u>	<u>75 26 84</u>
	<u>71 77 29</u>	<u>3 49 56</u>
DEDUCTIONS DURING THE YEAR	-	71 77 28
	<u>71 77 29</u>	<u>71 77 28</u>
DEPRECIATION TO DATE	<u>68 44 63</u>	<u>67 87 75</u>
	<u>3 32 66</u>	<u>3 89 53</u>
LESS: LEASE TERMINAL ADJUSTMENT ACCOUNT	<u>1 13 66</u>	<u>1 70 53</u>
	<u><u>2 19 00</u></u>	<u><u>2 19 00</u></u>
TOTAL	<u>7168 31 59</u>	<u>7198 10 17</u>



CANARA BANK, HO. BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 11 - OTHER ASSETS		
I. INTEREST ACCRUED	4440 60 09	4289 83 27
II. TAX PAID IN ADVANCE/TAX DEDUCTED AT SOURCE (NET)	6360 03 99	6301 79 57
III. STATIONERY AND STAMPS	11 83 35	13 04 36
IV. NON BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS'	32 13	32 13
V. OTHERS	13259 39 42	11351 80 97
VI. DEFERRED TAX ASSETS	1178 83 00	48 09 00
TOTAL	25251 01 98	22004 89 30



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31.03.2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. CLAIMS AGAINST THE BANK NOT ACKNOWLEDGED AS DEBTS	9625 86 72	5816 69 18
II. LIABILITY FOR PARTLY PAID INVESTMENTS	36 00	36 00
III. LIABILITY ON ACCOUNT OF OUTSTANDING FORWARD EXCHANGE CONTRACTS	354452 23 48	221936 97 80
IV. GUARANTEES GIVEN ON BEHALF OF CONSTITUENTS		
a. IN INDIA	40160 32 62	38766 70 07
b. OUTSIDE INDIA	<u>137 01 60</u>	<u>132 92 76</u>
	40297 34 22	38899 62 83
V. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS	26408 28 19	19808 59 32
VI. OTHER ITEMS FOR WHICH THE BANK IS CONTINGENTLY LIABLE	-	-
a. BILLS OF EXCHANGE REDISCOUNTED	-	-
b. OTHERS	1686 33 44	1483 30 16
	<u>1686 33 44</u>	<u>1483 30 16</u>
TOTAL	<u>432470 42 05</u>	<u>287945 55 29</u>



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31.03.2017

	For the Year ended 31.03.2017 (Rs. '000)	For the Year ended 31.03.2016 (Rs. '000)
SCHEDULE 13 - INTEREST EARNED		
I. INTEREST/DISCOUNT ON ADVANCES/BILLS	29585 67 21	31377 24 86
II. INCOME ON INVESTMENTS	10711 28 69	11407 79 14
III. INTEREST ON BALANCES WITH RBI AND OTHER INTER BANK FUNDS	768 19 83	879 50 16
IV. OTHERS	322 48 76	357 59 58
TOTAL	41387 64 49	44022 13 54
 SCHEDULE 14 - OTHER INCOME		
I. COMMISSION, EXCHANGE AND BROKERAGE	1191 18 79	917 47 58
II. PROFIT ON SALE OF INVESTMENTS PROFIT	3019 97 80	1018 14 71
LESS : LOSS	<u>37 99 02</u>	<u>28 47 88</u>
III. LOSS ON REVALUATION OF INVESTMENTS PROFIT	35 96 72	(35 96 72)
IV. PROFIT ON SALE OF LAND/BUILDINGS AND OTHER ASSETS PROFIT	1 32 42	3 35 47
LESS : LOSS	<u>-</u>	<u>1 32 42</u>
	<u>3 93 45</u>	(57 98)
V. PROFIT ON EXCHANGE TRANSACTIONS - NET PROFIT	971 63 98	673 97 21
LESS : LOSS	<u>17 47</u>	<u>971 46 51</u>
	<u>5 00 60</u>	668 96 61
VI. INCOME EARNED BY WAY OF DIVIDEND ETC. FROM SUBSIDIARIES/COMPANIES AND/OR JOINT VENTURES ABROAD/IN INDIA	62 70 92	63 14 55
VII. MISCELLANEOUS INCOME	2381 69 15	2236 55 33
TOTAL	7554 39 85	4875 22 92



CANARA BANK, HO, BENGALURU

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31.03.2017

	For the year ended 31.03.2017 (Rs. '000)	For the year ended 31.03.2016 (Rs. '000)
SCHEDULE 15 - INTEREST EXPENDED		
I. INTEREST ON DEPOSITS	29560 07 66	32350 02 35
II. INTEREST ON RESERVE BANK OF INDIA/ INTERBANK BORROWINGS	584 96 37	854 09 68
III. OTHERS (INCLUDING TIER I & TIER II BOND INTEREST)	1370 82 78	1054 65 43
TOTAL	31515 86 81	34258 77 46

SCHEDULE 16 - OPERATING EXPENSES

I. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES	4915 09 21	4445 88 18
II. RENT, TAXES, LIGHTING	846 75 79	778 12 67
III. PRINTING AND STATIONERY	57 25 85	44 04 75
IV. ADVERTISEMENT AND PUBLICITY	41 50 67	30 35 01
V. DEPRECIATION ON BANK'S PROPERTY (NET OF TRANSFER FROM REVALUATION RESERVE)	327 54 11	169 96 37
VI. DIRECTORS FEES, ALLOWANCES AND EXPENSES	1 19 25	1 56 91
VII. AUDITORS' FEES AND EXPENSES (INCLUDES FOR BRANCH AUDITORS)	62 79 78	59 18 93
VIII. LAW CHARGES	47 86 47	33 56 99
IX. POSTAGE, TELEGRAMS, TELEPHONES ETC	52 55 63	53 70 06
X. REPAIRS AND MAINTENANCE	236 81 67	206 74 35
XI. INSURANCE	431 82 31	427 23 54
XII. OTHER EXPENDITURE	1491 07 38	1241 55 70
TOTAL	8512 28 12	7491 93 46



CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2017		
	(Rs in Crore)	
	31.03.2017	31.03.2016
Cash Flow from Operating activities		
Net profit after Tax	1121.92	-2812.82
Adjustments for:		
Provision for Tax	520.00	-372.95
Depreciation	327.54	169.96
Loss on revaluation of Investments	35.97	0.00
Provision for Diminution in Fair Value and NPAs	7077.77	10139.45
Provision for Standard assets	25.26	-459.20
Interest on Tier I and Tier II bonds	1368.52	1053.08
Provision for contingencies and others	6.55	384.42
Profit / loss on sale of Fixed Assets	-1.32	0.58
Income from Investment in subsidiaries, JVs, etc	-62.71	-63.14
Provision for investment depreciation/ (appreciation)	162.39	267.75
Sub total	9459.97	11119.95
Adjustments for:		
(Increase)/ Decrease in investments	-8111.72	-515.63
(Increase)/ Decrease in advances	-24463.77	-4768.10
Increase/ (Decrease) in borrowings	12261.60	-367.09
Increase/ (Decrease) in deposits	15483.68	5951.46
(Increase)/ Decrease in other assets	-1546.13	-191.80
Increase/ (Decrease) in other liabilities and provisions	-189.40	-837.52
	-6565.74	-728.68
Less: AdvanceTax paid		
	1700.00	1500.00
Cash Generated from Operating Activities	(A)	2316.15
Cash Flow from Investing activities		
Income from investment in subsidiaries and/or JVs	62.71	63.14
Investment in JVs, Subsidiaries, etc	-43.23	0.00
Net inflow/ outflow from sale/ purchase of fixed assets	-367.95	-380.38
Cash generated from Investing activities	(B)	-348.47
Cash Flow from Financing activities		
Fresh issue of capital	54.30	67.79
Premium Received on Issue of share	1069.69	2399.53
Dividend and DDT paid	0.00	-651.72
Payment of interest on Tier I and Tier II bonds	-1368.52	-1053.08
Fresh issue of bonds including sub-ordinated debts	368.64	1568.84
Cash generated from Financing activities	(C)	124.11
Net Increase/ (Decrease) in cash and cash equivalents (A+B+C)	2091.80	8092.57
Opening Cash and Cash equivalents	56733.66	48641.09
Closing Cash and Cash Equivalents	58825.46	56733.66



Notes:

Cash and Cash equivalents includes Cash on hand, Balance with RBI & Other Banks and Money at Call and Short Notice

Components of Cash & Cash Equivalents	31.03.2017	31.03.2016
Cash & Balance with RBI	19922.50	20664.05
Balances with Banks and	38902.96	36069.61
Total	58825.46	56733.66

M Swaminathan
M SWAMINATHAN
DIVISIONAL MANAGER

P Vithoba
P VITHOBIA
ASST.GENERAL MANAGER

V Leendly
V RAMACHANDRA
DEPUTY GENERAL MANAGER

N Selvarajan
N SELVARAJAN
GENERAL MANAGER

P V Bharathi
P V BHARATHI
EXECUTIVE DIRECTOR

Rakesh Sharma
RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Suchindra Misra
SUCHINDRA MISRA
DIRECTOR

Mahadev Narendra Rao
MAHADEV NAGENDRA-RAO
DIRECTOR

Uma Shankar
UMA SHANKAR
DIRECTOR

Krishnamurthy H
KRISHNAMURTHY H
DIRECTOR

Venkatachalam Ramakrishna Iyer
VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER OUR REPORT OF EVEN DATE

For RAMRAJ & Co.
CHARTERED ACCOUNTANTS
FRN NO.002839S

G Venkateswara Rao
G VENKATESWARA RAO
PARTNER
MEMBERSHIP NO.024182



For V K NIRANJAN & Co.
CHARTERED ACCOUNTANTS
FRN NO.002468S

M Jayarajan
M JAYARAJAN
PARTNER
MEMBERSHIP NO.011105



For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN NO.110266W

J Singh
J SINGH
PARTNER
MEMBERSHIP NO.042023



For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN NO.307092E

S R Ananthakrishnan
S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO. 018073



PLACE : BENGALURU
DATE : 08.05.2017



[Head Office: Bangalore]

SCHEDULE – 17

SIGNIFICANT ACCOUNTING POLICIES

[1](a) Basis of Preparation:

The accounts are prepared under the historical cost convention and conform to the statutory provisions and prevailing practices, except as otherwise stated.

(b) Use of Estimates:

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amount of assets, liabilities, expenses, income and disclosure of contingent liabilities as at the date of the financial statements. Management believes that these estimates and assumptions are reasonable and prudent. However, actual results could differ from estimates. Any revision to accounting estimates is recognized in current and future periods.

[2] Foreign Currency Translation / Conversion of Foreign Currencies

2.1 Foreign currency monetary items are initially recorded at a notional rate. Foreign currency monetary items are restated at the rate published by Foreign Exchange Dealers' Association of India (FEDAI) at the end of each quarter. Exchange difference arising on restatement of such items at the quarterly rates is recognised in Profit and Loss Account.

2.2 Transactions and balances of foreign branches are classified as non-integral foreign operations. Such transactions and balances are consolidated by the bank on a quarterly basis.

Assets and Liabilities (both monetary and non-monetary as well as contingent liabilities) are translated at the closing spot rate of exchange announced by Foreign Exchange Dealers' Association of India (FEDAI) as at the end of each quarter. Income and Expenditure items of the foreign branches are translated at the quarterly average rate published by FEDAI in accordance with Accounting Standard (AS) 11- "The effect of Changes in Foreign Exchange rates" issued by the Institute of Chartered Accountants of India (ICAI) and as per the guidelines of Reserve Bank of India (RBI) regarding the compliance of the said standard.

The resultant exchange gain/loss is credited / debited to Foreign Currency Translation Reserve.



2.3 Forward Exchange Contracts

Premium or discount arising at the inception of all forward exchange contracts are amortized as expense or income over the life of the contract. Profit/ Losses arising on cancellation of forward exchange contracts, together with unamortized premium or discount, if any, is recognized on the date of termination. Exchange differences on such contracts are recognized in the Profit & Loss account in the reporting period in which the exchange rates change.

- 2.4 Contingent liability in respect of outstanding forward exchange contracts, guarantees, acceptances, endorsements and other obligations are stated in the balance sheet at the closing rates published by FEDAI.

[3] Investments

- 3.1. Classification of investments is made as per the guidelines of the RBI. The entire investment portfolio of the bank is classified under three categories viz. 'Held to Maturity' (HTM), 'Available for Sale' (AFS) and 'Held for Trading' (HFT). Such classification is decided at the time of acquisition of securities.

Investments are disclosed in the Balance Sheet under six classifications viz: (a) Government securities (b) Other approved securities (c) Shares (d) Debentures & Bonds (e) Subsidiaries and Joint Ventures & Associates and (f) Others.

- 3.2. In determining the acquisition cost of investment:-

- (a) Cost such as brokerage, commission etc., relating to securities at the time of purchase are charged to Profit & Loss Account.
- (b) Broken period interest on debt instruments up to the date of acquisition / disposal is treated as revenue.

- 3.3 The valuation of Investments is done in accordance with the guidelines issued by the RBI as under:

a) HELD TO MATURITY

Investments under Held to Maturity category are carried at acquisition cost, net of amortisation, if any. The excess of acquisition cost, if any, over the face value is amortized over the remaining period of maturity.

Investments in Subsidiaries and Joint Ventures & Associates are valued at carrying cost. Any diminution in the value other than temporary in nature is fully provided for.

Investment in sponsored Regional Rural Banks (RRB) and other Trustee Shares are valued at carrying cost.

Investment in units of Venture Capital Funds (VCFs) made after 23.08.2006 are classified under HTM category for initial period of three years and valued at cost.



b) **AVAILABLE FOR SALE**

Investments classified under this category are mark to market on quarterly basis and valued as per Reserve Bank of India guidelines at the market rates available on the last day of each quarter (Balance Sheet date) from trades/quotes on the stock exchanges, prices/yields declared by the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Unquoted securities are also valued as per the Reserve Bank of India guidelines.

The net depreciation under each category/classification is fully provided for whereas the net appreciation, if any, is ignored. The book value of the individual securities does not undergo any change after these are valued at mark to market basis.

Units of Venture Capital Funds (VCF) transferred from HTM category after a period of three years (Refer paragraph 3.3(a)) are valued at NAV as per the audited financial statements of Venture Capital Funds. In case such audited financial statements are not available continuously for 18 months as on the date of valuation, units are valued at Re. 1 per VCF.

c) **HELD FOR TRADING**

Investments classified under this category are valued at rates based on market quotations, price/yields declared by FIMMDA on a weekly basis.

The net depreciation under each security held is fully provided for whereas the net appreciation, if any, is ignored. The book value of the individual securities does not undergo any change after marked to market.

3.4. Transfer of scrips from one category to another is carried on the following basis:

- (a) HTM to AFS/HFT category at acquisition price/book value. In case the investments under HTM category are placed at premium originally the transfer is made at amortised cost.
- (b) AFS/HFT to HTM category at lower of the book value or market value.
- (c) AFS to HFT category or vice versa, at the carrying value. The accumulated depreciation, if any, to be transferred to the provision for depreciation against HFT securities and vice versa.

3.5. Non performing Investments Security Receipts issued by Securitisation / Reconstruction Company (SC/RC) in respect of financial assets sold by the Bank to the SC/RC are valued at the lower of the redemption value of the Security Receipt and the Net Book Value of the financial asset. The Investment is carried in the books at the price determined as above until its sale or realisation and on such sale or realisation, loss or gain is dealt with as below:

- (a) If sale is at a price below Net Book Value (NBV), the shortfall is recognised as per Reserve Bank of India guidelines.



- (b) If the sale is for a value higher than NBV, the excess provision is not reversed but utilized to meet shortfall/loss on account of sale of other financial assets to SC/RC.
- 3.6.** Securities included in any of three categories where interest/principal is in arrears for a specified period, are classified as Non performing Investment. Interest Income on such securities is not reckoned and appropriate depreciation/provision in value of Investments is made. Deprecation in respect of such Non Performing Investments is not set off against appreciation in other performing securities.

3.7. Profit on sale of Investments

Profit on sale of Investments in respect of “Available for Sale” and “Held for Trading” categories is recognized in Profit & Loss Account.

Profit on sale of Investments in respect of “Held to Maturity” category is first taken to the Profit & Loss Account and an equivalent amount of Profit is appropriated to the Capital Reserve (net of taxes and amount required to be transferred to Statutory Reserve).

Loss on sale of Investments in all the three categories is recognized in Profit & Loss Account.

3.8. Accounting for Repo/Reverse Repo and Liquidity Adjustment Facility (LAF)

Securities sold/purchased with an agreement to repurchase/resale on the agreed terms under Repo/Reverse Repo including LAF with RBI are recognized as Borrowing/Lending.

[4] Derivative contracts

The Bank deals in Interest Rate Swaps and Currency Derivatives. The Interest Rate Derivatives dealt by the Bank are Rupee Interest Rate Swaps, Cross Currency Interest Rate Swaps and Forward Rate Agreements. Currency Derivatives dealt by the Bank are Options and Currency Swaps.

Such derivative contracts are valued as under:

- a. Derivative contracts dealt for trading are valued on mark to market basis, net depreciation is recognized while net appreciation is ignored.
- b. Derivative contracts undertaken for hedging are:
 - i. Derivative contracts designated as hedges are not marked to market unless their underlying asset is marked to market.



- ii. Income / Expenditure is recognized on accrual basis for Hedging swaps.

[5] ADVANCES

- 5.1 Advances are classified as performing and non-performing assets in accordance with the prudential norms issued by RBI.
- 5.2 Advances are classified into Standard, Sub Standard, Doubtful and Loss assets borrower wise.
- 5.3 Provisions for domestic advances are made for performing/non -performing advances in accordance with the RBI Guidelines.
- 5.4 Provisions for performing/ non-performing advances with foreign branches are made as per regulations of host country or according to the norms prescribed by RBI, whichever is more stringent.
- 5.5 Advances stated in the Balance Sheet are net of provisions made for Non Performing Assets, claims received from Credit Guarantee Institutions and rediscount.
- 5.6 Partial recoveries in Non Performing Advances are apportioned first towards charges and interest, thereafter towards principal with the exception of non performing advances involving compromise settlements/ "Loan Past Due" advances where the recoveries are first adjusted towards principal.
- 5.7 In case of financial assets sold to SC/ RC, the valuation, income recognition etc are done as per RBI guidelines.

[6] Fixed Assets

- 6.1 The premises of the Bank include freehold and leasehold properties. All the Fixed Assets are capitalised based on the date of put to use.
- 6.2 Premises and other Fixed Assets are stated at historical cost except wherever revalued. The appreciation on revaluation, if any, is credited to the 'Revaluation Reserve' Account. Depreciation / Amortization attributable to the enhanced value is transferred from Revaluation Reserve to the credit of Depreciation in the Profit and Loss Account.

[7] Depreciation

- 7.1 Fixed Assets are depreciated under Straight line Method at the rates determined by the management on the basis of estimated useful life of the respective assets except for the Computers where as per the guidelines of RBI, depreciation is charged under straight line method at 33.33%.
- 7.2 5 percent residual value has been kept for all the assets except for the assets with estimated useful life of 3 years or 5 years (Eg. computer, Servers and ATMs etc), where the entire cost of the asset is amortized over the useful life.



- 7.3 Depreciation on fixed assets in the year of capitalization is charged for the full year if the asset is used for more than 180 days during that financial year; else it is provided at 50 percent of the applicable rate. No depreciation is provided for in the year of sale/disposal.
- 7.4 Premium paid on leasehold properties is charged off over the lease period.
- 7.5 In respect of fixed assets held at foreign offices, depreciation is provided as per the regulations / norms of the respective countries

[8] Impairment of Assets

An assessment is made at each balance sheet date whether there is any indication that an asset is impaired. If any such indication exists, an estimate of the recoverable amount is made and impairment loss, if any, is provided for.

[9] Revenue Recognition

- 9.1. Income and expenditure are generally accounted on accrual basis, except the following:

- a) Interest on Non-Performing advances and non performing investments is recognized on receipt basis as per norms laid down by Reserve Bank of India.
- b) Interest on overdue bills, Commission (other than Government business), Exchange, Brokerage and rent on lockers are accounted on realization.
- c) Dividend Income is recognized when the right to receive the same is established.
- d) In case of suit filed accounts, related legal and other expenses incurred are charged to Profit & Loss Account and on recovery the same are accounted as Income.

[10] Employee Benefits

10.1 Defined Contribution Plans

Defined Contribution to Plans such as Provident / Pension fund are recognized as an expense and charged to Profit & Loss account.

10.2 Defined Benefit Plans

- a. **Gratuity:** The employee Gratuity Fund Scheme is funded by the Bank and managed by a separate trust who in turn manages their funds as per guidelines. The present value of the Banks obligation under Gratuity is recognized on actuarial basis as at the year end and the fair value of the Plan assets is reduced from the gross obligation to recognize the obligation on a net basis.



- b. Pension: The employee Pension Fund Scheme is funded by the Bank and managed by a separate trust. The present value of the Banks obligations under Pension is recognized on the basis of actuary's report as at the year end and the fair value of the Plan assets is reduced from the gross obligation to recognize the obligation on a net basis.
- 10.3** The privilege leave is considered as a long term benefit and is recognized based on independent actuarial valuation on 'Projected Unit Credit method' at each Balance Sheet date.

[11] Provision for Taxation

- a) Provision for tax is made for both Current and & Deferred Taxes.
- b) Deferred Tax assets and liabilities arising on account of timing differences and which are capable of reversal in subsequent periods are recognized using the tax rates and laws that have been enacted or substantively enacted as of the balance sheet date.
- c) Deferred tax assets are not recognized unless there is virtual certainty that sufficient future taxable income would be available against which such deferred tax assets can be recognized.

[12] Net Profit

12.1 Provisions, Contingent Liabilities and Contingent Assets

- I. In conformity with AS 29, "Provisions, Contingent Liabilities & Contingent Assets" issued by the Institute of Chartered Accountants Of India, the bank recognizes provision only when :
 - a. It has a present obligation as a result of past event.
 - b. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
 - c. A reliable estimate of the amount of the obligation can be made.
- II. No provision is recognized:
 - a. For any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the bank.
 - b. Where it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or
 - c. When a reliable estimate of the amount of obligation cannot be made.

Such obligations are recorded as Contingent Liabilities. These are assessed at regular intervals and only that part of the obligation for which the outflow of resources



embodying economic benefits is probable, is provided for, except in the extremely rare circumstances where no reliable estimate can be made.

III. Contingent Assets are not recognized in the financial Statements.

12.2 Net Profit

The Net Profit in the Profit & Loss Account is after:-

- a) Provision for depreciation on Investments.
- b) Provision for Taxation.
- c) Provision on Non Performing Advances
- d) Provision on Standard Assets.
- e) Provision for Non Performing Investments.
- f) Provision for other usual & necessary Items.

[13] Earning per share:

The Bank reports basic and diluted Earnings Per Share in accordance with AS 20. Basic Earnings Per Share is computed by dividing the net profit after tax by the weighted average number of equity shares outstanding for the Year.





HEAD OFFICE: BENGALURU

SCHEDULE 18 - NOTES ON ACCOUNTS

1 Investments:

The percentage of investments under "Held to Maturity" category – SLR as on 31.03.2017 was 20.41% of Demand and Time Liability of the Bank (Previous year 20.60%), which is within the permissible limit as per RBI guidelines.

2 Inter-Branch Transactions:

The matching and setting of entries under Inter-Branch/office transactions are carried out by the system itself based on Core Banking Solutions (CBS) for the whole of the Bank through Inter Office Adjustment account.

3 Premises:

Premises include certain properties capitalized at original cost of Rs.56.62 Crore (Previous year Rs.55.46 Crore) as they have been put to use though conveyance of title deeds is still to be completed.

4 Disclosure as per RBI Requirements:

4.1 Capital:

(Rs.in Crore)

	Particulars	Basel III	
		31.03.2017	31.03.2016
(i)	Common Equity Tier 1 Capital Ratio (%)	8.92	8.18
(ii)	Tier 1 Capital Ratio (%)	9.77	8.80
(iii)	Tier 2 Capital Ratio (%)	3.09	2.28
(iv)	Total Capital Ratio (%)	12.86	11.08
(v)	Percentage of Shareholding of the Government of India in the Bank	66.30	66.30
(vi)	Amount of Equity Capital raised	54.30	2467.32
(vii)	Amount of Additional Tier 1 capital raised; of which,	1000.00	NIL
	Perpetual Non Cumulative Preference Shares (PNCPS):	NIL	NIL
	Perpetual Debt Instruments (PDI):	1000.00	NIL
(vii)	Amount of Tier 2 capital raised; of which	3000.00	2400.00
	Debt capital instrument:	3000.00	2400.00
	Preference Share Capital Instruments: [Perpetual Cumulative Preference Shares (PCPS)/ Redeemable Non Cumulative Preference Shares (RNCPS)/Redeemable Cumulative Preference Shares (RCPS)]	NIL	NIL

4.2 Investments:

(1) Value of Investments:

		(Rs. in Crore)	
Particulars		31.03.2017	31.03.2016
i.	Gross Value of Investments	150752.75	142674.56
a.	In India	149777.68	141679.09
b.	Outside India	975.07	995.47
ii.	Provisions for Depreciation, NPI	488.44	365.26
a.	In India	484.00	365.26
b.	Outside India	4.44	0.00
iii.	Net Value of Investments	150264.31	142309.30
a.	In India	149293.68	141313.83
b.	Outside India	970.63	995.47

(2) Movement of Provisions held towards depreciation and for NPI on Investments:

		(Rs.in Crore)	
Particulars		31.03.2017	31.03.2016
i.	Opening Balance	365.26	109.06
ii.	Add: Provisions made during the year	167.58	257.64
iii.	Less: Write back of excess provisions during the year	44.40	1.44
iv.	Closing balance	488.44	365.26

4.2.1 Repo Transactions-

i) Market REPO (Rs.in Crore)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	Outstanding as on 31.03.2017
Securities sold under repo				
i) Government Securities	5.00	10966.90	997.85	10966.90
ii) Corporate Debt Securities	NIL	NIL	NIL	NIL
Securities purchased under reverse repo				
i) Government Securities	125.00	9390.92	647.49	NIL
ii) Corporate Debt Securities	NIL	NIL	NIL	NIL

ii. Liquidity Adjustment Facility (LAF) with RBI

(Rs. in Crore)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	Outstanding as on 31.03.2017
Securities sold under repo				
i) Government Securities	272.14	12848.73	692.72	647.87
ii) Corporate Debt Securities	NIL	NIL	NIL	NIL
Securities purchased under reverse repo				
i) Government Securities	260.00	32876.56	4367.74	NIL
ii) Corporate Debt Securities	NIL	NIL	NIL	NIL

4.2.2 Non-SLR Investment Portfolio:

i) Issuer composition of Non SLR Investments:

(Rs in Crore)

No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
(i)	PSUs	3004.87	590.41	0.00	0.00	0.00
(ii)	FIs	2779.14	2067.43	0.00	0.00	0.00
(iii)	Banks	1718.35	1162.69	5.00	0.00	0.00
(iv)	Private Corporate	3916.85	707.38	91.80	0.00	0.00
(v)	Subsidiaries/ Joint Ventures	912.52	912.52	0.00	0.00	0.00
(vi)	Others	10936.80	10616.05	0.00	0.00	0.00
(vii)	Less: Provision held towards depreciation and NPI	315.16	0.00	0.00	0.00	0.00
	Total	22953.37	16056.48	96.80	0.00	0.00

Amounts reported under columns 4, 5, 6 and 7 above are not mutually exclusive.

ii) Non-Performing Non SLR Investments:

(Rs in Crore)

Particulars	31.03.2017	31.03.2016
Opening balance	442.70	331.56
Additions during the year since 1 st April 2016	117.73	106.98
Reductions during the above period	29.66	1.28
Exchange Fluctuation	(3.83)	5.43
Closing balance	526.94	442.69
Total Provisions held	402.65	330.03

4.2.3 Sale and transfers to/from HTM Category:

The value of sale and transfers of securities to/from HTM category during the year does not exceed five percent of the book value of the investment held in HTM category as on 01.04.2016.

4.3 Derivatives:

4.3.1 Forward Rate Agreement / Interest Rate Swap:

(Rs in Crore)

Particulars	31.03.2017	31.03.2016
i. The notional principal of swap agreements	3242.50	6956.77
ii. Losses which would be incurred if counter parties failed to fulfill their obligations under the agreements	39.73	204.71
iii. Collateral required by the Bank upon entering into swaps	0.00	0.00
iv. Concentration of credit risk arising from the swaps	0.00	0.00
v. The fair value of the swap book	39.73	204.71

4.3.2 Exchange Traded Interest Rate Derivatives

(Rs. in Crore)

Sl. No.	Particular	Amount
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (Instrument Wise) a) 7.59 CL MAT 29.09.2016 b) 7.59 CL MAT 30.03.2017 c) 7.59 CL MAT 27.10.2016 d) 7.59 CL MAT 29.12.2016	91.70 71.47 20.82 3.20
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31 st March 2017 (instrument-wise)	NIL
(iii)	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument-wise)	NIL
(iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument-wise)	NIL

4.3.3 Disclosure on risk exposure in derivatives:

I Qualitative Disclosure

The Credit Risk Management Policy approved by the Board of Directors, on the use of Derivative Instruments to hedge / trade is in place.

- A. The Investment Portfolio of the Bank consists of assets with interest streams such as fixed interest rate, zero coupon and floating interest rates and is subject to interest rate risk.

Capital of the Bank:

The Bank has issued Tier I and Tier II bonds hedged for interest rate swap which do not have exit option. The policy permits hedging the interest rate risk on this liability as well.

Bank has been permitted to undertake derivative trades like IRS and FRAs for the purpose of hedging the interest rate risk in the investment portfolio (only plain vanilla transactions permitted) and also for market making. Such derivative trades like IRS and FRAs are undertaken by bank for hedging foreign currency liabilities also. Options and Swaps are also undertaken on behalf of clients on back to back basis.

However during the year the bank has neither undertaken derivative trades in IRS under investment portfolio nor any trading swaps/FRAs.

- B. The risk management policies and major control limits like stop loss limits, counterparty exposure limits, PV01, etc. approved by the Board of Directors are in place. These risk limits are monitored and reviewed regularly. MIS/Reports are submitted periodically to Risk Management Committee. The effectiveness of hedging by way of outstanding derivative deals are monitored in relation to the underlying asset/liability on fortnightly basis.

C. Accounting Policy:

Hedge Positions:

- Accrual on account of interest expenses/income on the IRS are accounted and recognized as expenses/income.
- Hedge effectiveness of the outstanding derivatives deals are monitored in relation to the fair value of the Swap and underlying asset/Liability. Bank has used the FIMMDA pricing method ie relevant G sec yield plus corporate bonds spread for arriving at the fair value of the underlying assets/liability. If the Hedge is not effective, hedge swaps is accounted as trading swaps. If swap is terminated before maturity, the MTM loss/gain and accruals till such dates are accounted as expense/income under interest paid/received on IRS.

Trading Positions:

- Trading swaps are marked to market at frequent intervals and changes are recorded in the income statements
- Accrual on account of interest expenses/income on the IRS are accounted and recognized as expenses/income
- Gains or losses on termination of swaps are recorded as immediate income or expenses under the above head.

II Quantitative disclosure : (Rs in Crore)

SI No	Particulars	Currency Derivatives		Interest Rate Derivatives			
		31.03.2017	31.03.2016	31.03.2017	31.03.2016		
1	Derivatives (Notional principal amount)						
	- Hedging	NIL	NIL	3242.50	6956.77		
	- Trading	625.53*	2597.73	NIL	NIL		
2	Marked to Market positions						
	- Assets (+)	NIL	NIL	7.31	148.74		
	- Liabilities (-)	-0.33	-0.03	NIL	NIL		
3	Credit Exposure	NIL	NIL	NIL	NIL		
		Domestic		Overseas			
		Currency Derivative		Interest Rate Derivatives		Currency Derivative	
		31.03.2017	31.03.2016	31.03.2017	31.03.2016	31.03.2017	31.03.2016
4	Likely impact of one percentage change in interest rate [100*PV01]-						
	- on hedging derivatives	NIL	NIL	NIL	NIL	NIL	1.01
	- on trading derivatives	NIL	NIL	NIL	NIL	NIL	NIL
5	Maximum and minimum of 100*PV01 observed during the year.						
	- on hedging	NIL	NIL	NIL	NIL	NIL	NIL
	- on trading	NIL	NIL	NIL	NIL	NIL	NIL
6	Likely impact of one percentage change in exchange rate on outstanding position under forward contract [100%PV01]:						

*Currency Futures in NSE

4.4 Asset Quality:

4.4.1 Non-Performing Assets:

	Particulars	31.03.2017	(Rs in Crore) 31.03.2016
(i)	Net NPAs to Net Advances (%)	6.33	6.42
(ii)	Movement of NPAs (Gross)		
a.	Opening balance	31637.83	13039.96
b.	Additions during the year	11652.11	24724.06
c.	Reductions during the year	9087.90	6126.19
d.	Closing balance	34202.04	31637.83
(iii)	Movement of Net NPAs		
a.	Opening balance	20832.91	8740.09
b.	Additions during the year	9897.29	18219.01
c.	Reductions during the year	9081.22	6126.19
d.	Closing balance	21648.98	20832.91
(iv)	Movement of provisions for NPAs (excluding Provision on Standard Assets)		
a.	Opening balance	10745.17	4253.68
b.	Adjustment towards Exchange Fluctuation & others	27.49	29.28
c.	Provisions made during the year	7235.93	9856.97
d.	Write off/Write back of excess provision	5589.66	3394.76
e.	Closing balance	12418.93	10745.17

4.4.2 Particulars of Accounts Restructured:

REFER ANNEXURE

4.4.3 Details of financial assets sold to Securitization / Reconstruction Company for Asset Reconstruction:

A. Details of Sales

	Particulars	(Rs. in Crore)	
i.	No. of accounts	NIL	7
ii.	Aggregate value (net of provisions) of accounts sold to SC/RC	NIL	36.81
iii.	Aggregate consideration	NIL	34.21
iv.	Additional consideration realized in respect of accounts transferred in earlier years	NIL	NIL
v.	Aggregate Gain over Net Book Value	NIL	(2.60)

B. Details of Book Value of Investments in Security Receipts

(Rs. in Crore)

Particulars		31.03.2017	31.03.2016
i.	Backed by NPAs sold by the bank as underlying	1920.08	1967.75
ii.	Backed by NPAs sold by other banks / financial institutions / non banking financial companies as underlying	NIL	NIL
	Total	1920.08	1967.75

4.4.4 Details of non-performing financial assets purchased / sold:**A. Details of non-performing financial assets purchased**

(Rs. in Crore)

Particulars		31.03.2017	31.03.2016
1.	a. No. of accounts purchased during the year	NIL	NIL
	b. Aggregate consideration	NIL	NIL
2.	a. Of these, number of accounts restructured during the year	NIL	NIL
	b. Aggregate outstanding	NIL	NIL

B. Details of non-performing financial assets sold

(Rs. in Crore)

Particulars		31.03.2017	31.03.2016
i.	No. of accounts sold	NIL	7
ii.	Aggregate outstanding	NIL	151.47
iii.	Aggregate consideration received	NIL	34.21

4.4.5 Provisions on Standard Asset:

(Rs. in Crore)

Particulars		31.03.2017	31.03.2016
Provisions towards Standard Assets		1438.60	1413.09

Divergence in the asset classification and provisioning:

(Rs in crores)

Sr.	Particulars	Amount
1	Gross NPA as on March 31, 2016 as reported by bank	31637.83
2	Gross NPA as on March 31, 2016 as assessed by RBI	32145.13
3	Divergence in Gross NPAs (2-1)	507.30
4	Net NPA as on March 31, 2016 as reported by the bank	20832.91
5	Net NPA as on March 31, 2016 as assessed by RBI	20863.06
6	Divergence in Net NPAs (5-4)	30.15
7	Provisions for NPAs as on March 31, 2016 as reported by Bank	10745.17
8	provisions for NPAs as on March 31, 2016 as assessed by RBI	11282.07
9	Divergence in provisioning (8-7)	536.90
10	Reported Net Profit after Tax (PAT) for the year ended March 31, 2016	(2812.82)
11	Adjusted (notional) Net Profit after Tax (PAT) for the year ended March 31, 2016 after taking into account the divergence in provisioning	(3349.72)

4.4.6 Scheme for sustainable structuring of Stressed assets:

No of Accounts where S4 A has been applied		Aggregate amount outstanding	Amount outstanding		(Rs in crore) Provision held
			In Part A	In Part B	
Classified as Standard					
No of Accounts -03 *(Resolution plan yet to be adopted in four accounts)		376.75	316.43	249.02	113.08
Classified as NPA		NIL	NIL	NIL	NIL

4.4.7 Disclosures on Flexible Structuring of Existing Loans

Period	No of Borrowers taken up for flexible structuring	Amount of loans taken up for flexible structuring		Amount Outstanding as on the reporting date with respect to accounts where conversion of debt to equity has taken place	
		Classified as Standard	Classified as NPA	Classified as Standard	Classified as NPA
2015-16	09	1752.73	2379.27	NIL	NIL

4.4.8 Disclosures on Strategic Debt Restructuring Scheme (accounts which are currently under the stand-still period)

No of accounts where SDR has been invoked	Amount outstanding as on the reporting date		Amount Outstanding as on the reporting date with respect to accounts where conversion of debt to equity is pending		Amount Outstanding as on the reporting date with respect to accounts where conversion of debt to equity has taken place	
	Classified as Standard	Classified as NPA	Classified as Standard	Classified as NPA	Classified as Standard	Classified as NPA
10	3661.24	NIL	940.38	NIL	2620.86	NIL

4.4.9 Disclosures on change in Ownership outside SDR Scheme (accounts which are currently under the stand still period)

(Rs in crore)

No of account s where Banks have decided to effect change in owners hip	Amount outstanding as on the reporting date	Amount outstanding as on the reporting date with respect to accounts where conversion of debt to equity/invocation of pledge of equity shares is pending	Amount outstanding as on the reporting date with respect to accounts where conversion of debt to equity/invocation of pledge of equity shares has taken place	Issuance of fresh shares or sale of promoters equity
	Classified as Standard	Classified as NPA	Classified as Standard	Classified as Standard
	NIL		NIL	NIL

4.4.10 Disclosures on Change in Ownership of Projects under Implementation (accounts which are currently under the stand-still period)

(Rs in crore)

No of Project loan accounts where banks have decided to effect change in ownership	Amount outstanding as on the reporting date		
	Classified as standard	Classified as standard restructured	Classified as NPA
01	769.99	NIL	NIL

4.5 Business Ratios:

	Particulars	31.03.2017	31.03.2016
i.	Interest income as a percentage to Working Funds (%)	7.35	8.11
ii.	Non-interest income as a percentage to Working Funds (%)	1.34	0.90
iii.	Operating Profit as a percentage to Working Funds (%)	1.58	1.32
iv.	Return on Assets (%)	0.20	(0.52)
v.	Business (Deposits plus Advances) per employee [Rs. in lakhs]	1442.79	1444.62
vi.	Profit per employee (Rs. in Crore)	0.02	(0.05)

4.6 Asset Liability Management:

Maturity pattern of certain items of assets and liabilities:

(Rs in Crore)

Particulars	Deposits	Advances	Investments	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
1 day	13599.62	10435.82	437.32	163.42	9326.12	8409.51
	(5825.91)	(9764.30)	(445.76)	(0.00)	(10365.97)	(1472.24)
2 to 7 days	32434.27	7422.96	533.90	12218.97	5679.43	5250.70
	(21929.52)	(7937.15)	(198.16)	(337.24)	(1537.67)	(2902.73)
8 to 14 days	12180.11	5221.59	39.05	510.50	2137.36	2254.09
	(15420.38)	(10056.91)	(383.78)	(616.54)	(1244.02)	(1224.56)
15 to 30 days	9904.75	15935.86	75.03	1698.85	5397.26	4681.21
	(16077.75)	(9853.60)	(279.70)	(480.35)	(3612.39)	(3443.71)
31 days to 2 months	15028.91	12036.44	5144.96	1310.24	6260.15	5038.45
	(26275.24)	(19515.60)	(1094.72)	(1420.58)	(5008.40)	(5728.80)
Over 2 months to 3 months	21575.02	23191.29	1483.22	1785.62	9182.20	7311.66
	(28855.36)	(15596.44)	(733.41)	(1634.37)	(7414.64)	(4946.24)
Over 3 months to 6 months	43100.87	29221.89	1314.05	2656.20	11538.58	7881.54
	(40479.94)	(18253.19)	(1121.30)	(4330.69)	(9179.74)	(10134.91)
Over 6 months to 1 year	94568.56	37845.07	2617.63	1775.24	8755.64	7698.94
	(85376.03)	(28160.42)	(3837.65)	(1360.76)	(9004.84)	(7234.21)
Over 1 year to 3 years	202293.34	95637.23	27234.20	4407.89	2647.77	763.54
	(191141.03)	(99680.66)	(21690.60)	(5046.82)	(3194.35)	(4988.11)
Over 3 years to 5 years	25656.32	37888.92	19259.36	3467.87	1114.04	281.32
	(27718.13)	(43344.70)	(28554.95)	(0.00)	(1166.38)	(334.63)
Over 5 years	24933.47	67171.69	92130.03	10400.00	3267.92	2279.81
	(20692.27)	(62551.85)	(83969.27)	(11645.96)	(2645.85)	(3120.73)
Total	495275.24	342008.76	150268.75	40394.80	65306.47	51850.77
	(479791.56)	(324714.82)	(142309.30)	(26873.31)	(54374.25)	(45531.39)

(Figures in brackets relate to previous year)

(As compiled and certified by the management and relied upon by the auditors)

4.7 Exposures:

4.7.1 Exposure to Real Estate Sector:

(Rs in Crore)

	Category	31.03.2017	31.03.2016
a)	Direct Exposure	32088.71	26587.44
(i)	Residential Mortgages – lending fully secured by Mortgages on residential property that is or will be occupied by the borrower or that is rented	26092.64	22367.96
	- Of which, individual Housing Loans eligible for inclusion in priority sector advances	17900.79	14728.75
(ii)	Commercial Real Estate – Lending secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development	4890.53	4081.85

	and construction, etc). Exposure also include non-fund based (NFB) limits.		
(iii)	Investments in Mortgage Backed Securities (MBS) and other securitized exposures -	1105.54	137.63
a.	Residential	1048.20	120.52
b.	Commercial Real Estate	57.34	17.11
b)	Indirect Exposure	11380.90	11561.45
	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs)	11380.90	11561.45
	Total Exposure to Real Estate Sector	43469.61	38148.89

(As compiled and certified by the management and relied upon by the auditors)

4.7.2 Exposure to Capital Market:

(Rs in Crore)

	Particulars	31.03.2017	31.03.2016
i.	Direct Investment in Equity Shares, convertible bonds, convertible debentures and units of equity oriented mutual funds the corpus of which is not exclusively invested in corporate debt.	1414.90	1418.64
ii	Advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures and units of equity oriented mutual funds.	10.63	10.56
iii.	Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security.	55.83	62.06
iv.	Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds/convertible debentures/units of equity oriented mutual funds does not fully cover the advances.	21.14	60.66
v.	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stock brokers and market makers	286.62	784.98
vi.	Loans sanctioned to corporate against the security of shares/bonds/debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources.	NIL	3.10
vii.	Bridge loans to companies against expected equity flows/issues	0.04	NIL
viii	Underwriting commitments taken up by the Banks in respect of primary issue of shares or convertible bonds or convertible – debentures or units of equity oriented mutual funds	NIL	NIL
ix	Financing to stockbrokers for margin trading	NIL	NIL
x	All exposures to Venture Capital Funds (both registered and unregistered)	325.88	327.69
	Total Exposure to Capital Market	2115.24	2667.69

4.7.3 Risk Category-wise Country Exposure:

Only in respect of the Country where a Bank's net funded exposure is 1% or more of its total assets, the Bank is required to make provision for Country Risk. As on 31.03.2017 in the case of Hong Kong (Insignificant Risk Category – A1), USA (Low Risk category – A2), UK (Low Risk category –A2) and UAE (Low Risk category –A2) the Net funded exposure exceeds 1% of the total assets of the Bank (1% of the total assets as on 31.03.2017 –Rs.5835.19 Crore), for which the required provision is made.

(Rs.in Crore)

Risk Category	Exposure (net) as at 31.03.2017	Provision held as at 31.03.2017	Exposure (net) as at 31.03.2016	Provision held as at 31.03.2016
Insignificant	16465.27	11.88	3434.88	-
Low	33575.10	22.85	33518.81	21.96
Moderate	3751.38	0.00	1375.35	-
High	0.00	0.00	0.00	-
Very High	19.46	0.00	103.75	-
Restricted	0.72	0.00	0.00	-
Off-credit	0.00	0.00	3.98	-
TOTAL	53811.93	34.73	38436.77	21.96

4.7.4 Details of Single Borrower Limit (SGL) / Group Borrower Limit (GBL) exceeded by the Bank:

The Bank has not exceeded the prudential credit exposure limits prescribed for group accounts and single borrower engaged in infrastructure projects or for Oil Companies.

[Rs. in Crore]

Sl. No.	Name of the Borrower	Exposure Limit	Total amount sanctioned	Outstanding as on 31.03.2017
	NIL	NIL	NIL	NIL

4.7.5 Unsecured Advances:

[Rs.in Crore]

Particulars	31.03.2017	31.03.2016
Total Unsecured Advance	53882.34	45570.44
Out of which		
i) Amount of advances outstanding against charge over intangible securities such as rights, licenses, authorizations etc. charged to the Bank as collateral	8200.27	8303.03
ii) The estimated value of such intangible securities (as in (i) above)	9647.37	9856.32

(As Compiled by Management and relied upon by Auditor)

4.8 Miscellaneous:

4.8.1 Amount of Provisions made for Income Tax during the year:

(Rs. In Crore)

Particulars	31.03.2017	31.03.2016
Provision for Income Tax (including Deferred tax)	520.00	(372.95)

4.8.2 Disclosure of Penalties imposed by RBI

During the financial year 2016-17, there is penalty of Rs.2.00 Crore in terms of Section 47 (A) (1) (c) read with section 46 (4) (i) of the Banking Regulation Act, 1949 on non-compliance of certain guidelines of the Reserve Bank of India instructions.

Financial Intelligence Unit, India (FIU-IND) has imposed a penalty of Rs.3.00 lakh under Section 12 (Rule 2, 3, 5 & 7) & 13 (2) of PML Act, 2002 for failure of internal mechanism of the bank in detecting and reporting attempted suspicious transactions.

There was no penalty to Reserve Bank of India during the previous year.

5. Accounting Standards:

In compliance with the guidelines issued by the RBI regarding disclosure requirements of the various Accounting Standards issued by Institute of Chartered Accountants of India (ICAI), the following information is disclosed:

5.1 Accounting Standard 5 – Net Profit/Loss for the period, prior period items and changes in accounting policies:

5.1.1 There are no material prior period items

5.2 Accounting Standard 15 – Employee Benefits:

The actuarial assumptions in respect of gratuity, pension and privilege leave, for determining the present value of obligations and contributions of the bank, have been made by fixing various parameters for

- Salary escalation by taking into account inflation, seniority, promotion and other factors mentioned in Accounting Standard 15(Revised) issued by ICAI.
- Attrition rate by reference to past experience and expected future experience and includes all types of withdrawals other than death but including those due to disability.

Provision towards sick leave has been made in the books of account on the basis of Actuarial valuation.

Principal Actuarial Assumptions

Particulars	Gratuity	Pension	Privilege Leave
Discount Rate	7.57%	7.05%	7.57%
Expected Return on Capital	8.00%	8.00%	-
Salary Escalation	5.50%	5.50%	5.50%
Pension Escalation	-	2.00%	-
Mortality	IALM (2006-08)	IALM (2006-08)	IALM (2006-08)

Change in obligation and assets over the year ending 31 Mar 2017 (Rs in crores)

A Changes in Defined Benefit Obligation (DBO)

		Gratuity	Pension	Privilege Leave
1	DBO at beginning of the year	1640.45	9974.28	893.92
2	Service Cost	118.51	954.85	53.32
3	Interest Cost	110.35	700.77	60.67
4	Actuarial Losses / (Gains)	154.42	(659.74)	149.59
5	Benefit Payments	236.80	68.68	184.94
6	DBO at end of the year	1786.93	10901.48	972.56

B Changes in Fair Value of Assets

		Gratuity	Pension	Privilege Leave
1	Fair Value of Plan Assets at beginning of the year	1446.91	9339.00	-
2	Expected Return on plan assets	115.75	747.12	-
3	Actual company contributions	269.52	1540.06	-
4	Actuarial Gain / (Loss)	121.05	(656.02)	-
5	Benefits payments	236.80	68.68	-
6	Fair Value of Plan Assets at the end of the year	1716.43	10901.48	-

Net Asset/Liability Recognized in the Balance Sheet as at 31st March 2017

		(Rs. In Crore)		
		Gratuity	Pension	Privilege Leave
1	Present value of Defined Benefit Obligation	1786.93	10901.48	-
2	Fair Value of Plan Assets	1716.43	10901.48	-
3	Funded Status [Surplus/(Deficit)]	(70.50)	-	-
4	Net Asset / (Liability) recognized in the Balance Sheet	(70.50)	-	-

Disclosure of Employer Expense for the year ending 31 Mar 2017

		(Rs. In Crore)		
		Gratuity	Pension	Privilege Leave
1	Current Service Cost (including risk premiums for fully insured benefits)	118.51	954.85	53.32
2	Interest Cost	110.35	700.76	60.67
3	Expected Return on Plan Assets	115.75	747.12	-
4	Actuarial Losses / (Gains)	33.37	(3.71)	149.59
5	Total Employer Expense recognized in P&L	146.48	904.78	263.58

Bank has provided Rs 30.89 Crore toward Sick Leave on prudential basis though there is no payout.

Reconciliation of Net Assets/Liabilities recognized in Balance Sheet for the year ended 31st March 2017

		(Rs. In Crore)		
		Gratuity	Pension	Privilege Leave
1	Net Asset / (Liability) at the beginning of the period	193.54	635.28	893.92
2	Employer Expenses	146.48	904.78	78.64
3	Employer Contributions	269.52	1540.06	-
4	Acquisitions / Business Combinations	-	-	-
5	Net Asset / (Liability) at the end of the period	70.50	0.00	972.56

5.3 Accounting Standard-17 – Segment Reporting:

Part A – Business Segment:

	BUSINESS SEGMENT	Year ended	
		31.03.2017	31.03.2016
(1)	Segment Revenue		
a	Treasury Operations	14427.03	12811.13
b	Retail Banking Operations	16387.47	15516.47
c	Wholesale Banking Operations	17984.63	20382.09
d	Unallocated	142.91	187.66
	Total	48942.04	48897.35
	Less: Inter Segment Revenue	0.00	0.00
	Income from operations	48942.04	48897.35

	BUSINESS SEGMENT	Year ended	
		31.03.2017	31.03.2016
(2)	Segment Results		
a	Treasury Operations	4197.48	2156.28
b	Retail Banking Operations	2111.83	2429.04
c	Wholesale Banking Operations	2461.72	2373.68
d	Other Banking Operations	0.00	0.00
	Total	8771.03	6959.00
	Unallocated Income/Expenses (including Provisions and contingencies)	(7,129.11)	(10,144.77)
	Total Profit Before tax	1641.92	(3,185.77)
	Income tax	520.00	(372.95)
	Net Profit	1121.92	(2,812.82)
(3)	Capital Employed		
a	Treasury Operations	2767.63	15771.98
b	Retail Banking Operations	16488.37	10069.32
c	Wholesale Banking Operations	16054.63	10773.20
d	Other Banking Operations	0.00	0.00
e	Unallocated	(1,625.09)	(5,011.30)
	Total Capital Employed	33685.53	31603.20

(Rs.in Crore)

	GEOGRAPHICAL SEGMENT	Year ended	
		31.03.2017	31.03.2016
		(AUDITED)	(AUDITED)
(1)	Revenue		
a	Domestic	47908.95	47634.87
b	International	1033.09	1262.49
	Total	48942.04	48897.36
(2)	Assets		
a	Domestic	522588.25	498586.52
b	International	60931.19	54374.26
	Total	583519.44	552960.78

This has been prepared in terms of RBI Master Circular- DBR:BP.BC No.8/21.04.018/ 2015-16 dated 01.07.2015.

5.4 Accounting Standard-18 – Related Party Disclosures:

Names of Related parties and their relationship with the Bank- Parent – Canara Bank

5.4.1 Key Management Personnel –

- i) Shri. Rakesh Sharma, Managing Director & Chief Executive Officer
- ii) Shri. Harideesh Kumar B, Executive Director
- iii) Shri. Dinabandhu Mohapatra, Executive Director
- iv) Smt P V Bharathi, Executive Director (From 15.09.2016)
- v) Sri Pradyuman Singh Rawat (Till 31.05.2016)

5.4.2 Parent-

- i) Canara Bank

5.4.3 Subsidiaries –

- i) Canbank Financial Services Ltd.
- ii) Canbank Venture Capital Fund Ltd.
- iii) Canbank Factors Ltd.
- iv) Canara Robeco Asset Management Company Ltd.
- v) Canbank Computer Services Ltd.
- vi) Canara Bank Securities Ltd. (formerly GILT Securities Trading Corpn. Ltd)
- vii) Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd
- viii) Canara Bank (Tanjania) Ltd.

5.4.4 Joint Ventures

- i) Commercial Indo Bank LLC., Moscow (formerly Commercial Bank of India LLC., Moscow)

5.4.5 Associates –

- i) Canfin Homes Ltd.
- ii) Commonwealth Trust (India) Ltd.
- iii) Regional Rural Banks sponsored by the Bank
 - a) Pragati Krishna Gramin Bank (Erstwhile Pragati Gramin Bank)
 - b) Kerala Gramin Bank (Erstwhile South Malabar Gramin Bank)

5.4.6 Disclosure about transactions with Key Management Personnel is as under:

- (i) Remuneration to Key Management Personnel Rs. 0.99 Crore (Previous Year: Rs. 0.68 Crore)

In terms of paragraph 5 of AS 18, transactions in the nature of Banker-Customer relationship including those with Key Management Personnel and relatives of Key Management Personnel have not been disclosed.

5.4.7 Transactions with Subsidiaries, Associates and Joint Venture are as under:

Particulars	Subsidiaries	Associates & Joint Ventures	Key Management Personnel (KMP)	Relatives of KMP	Total
Borrowings – Outstanding as at the year end	NIL (NIL)	275.00 (30.00)	---	---	275.00 (30.00)
Maximum outstanding during the year	NIL (NIL)	275.00 (30.00)	---	---	275.00 (30.00)
Deposits- Outstanding as at the year end	42.71 (42.56)	16.63 (388.52)	---	---	59.34 (431.08)
Maximum outstanding during the year	48.26 (63.41)	406.63 (1792.12)	---	---	454.89 (1855.53)
Placement of Deposits – Outstanding as at the year end	19.68 (NIL)	146.24 (149.41)	---	---	165.92 (149.41)
Maximum outstanding during the year	19.68 (NIL)	146.24 (149.41)	---	---	165.92 (149.41)
Advances- Outstanding as at the year end	411.36 (537.29)	2293.89 (2218.11)	---	---	2705.25 (2755.40)
Maximum outstanding during the year	411.36 (616.21)	2651.30 (2972.25)	---	---	3062.66 (3588.46)
Purchase of Fixed Assets- Outstanding as at the year end	NIL (31.30)	NIL (NIL)	---	---	NIL (31.30)
Maximum outstanding during the year	NIL (31.30)	NIL (NIL)	---	---	NIL (31.30)
Balance in current account Outstanding as at the year end	28.39 (26.54)	47.11 (181.68)	----	---	75.50 (208.22)

Maximum outstanding during the year	28.39 (48.03)	47.11 (282.32)			75.50 (330.35)
Other receivable- Outstanding as at the year end	0.02 (20.02)	NIL (NIL)	---	---	0.02 (20.02)
Maximum outstanding during the year	0.02 (20.02)	NIL (NIL)			0.02 (20.02)
Inter Bank Participation Certificate – Participated Outstanding as at the year end	NIL (NIL)	NIL (NIL)			NIL (NIL)
Maximum outstanding during the year	NIL (NIL)	NIL (400.00)	---	---	NIL (400.00)
Commission Receivable- Outstanding as at the year end	4.61 (2.60)	0.08 (0.11)	---	---	4.69 (2.71)
Maximum outstanding during the year	4.61 (2.60)	0.08 (0.11)			4.69 (2.71)
Other payable Outstanding as at the year end	0.01 (NIL)	NIL (NIL)	---	---	0.01 (NIL)
Maximum outstanding during the year	0.01 (NIL)	NIL (NIL)			0.01 (NIL)
Interest paid	3.05 (10.14)	31.62 (99.96)	---	---	34.67 (110.10)
Interest received	16.90 (43.77)	101.80 (178.58)	---	---	118.70 (222.35)
Dividend received	13.34 (2.50)	NIL (NIL)	---	---	13.34 (2.50)
Premium Paid	152.48 (114.92)	NIL (NIL)	---	---	152.48 (114.92)
Rendering of Service	106.32 (93.87)	0.35 (0.70)	---	---	106.67 (94.57)
Receiving for Services	30.46 (0.32)	0.01 (0.01)	---	---	30.47 (0.33)
Guarantee in respect of rights issued to BSE	NIL (NIL)	NIL (1.39)	---	---	NIL (1.39)

Salary to deputed staff is not shown as the same is reimbursed

(Figures in brackets relate to previous year).

(As compiled and certified by the management and relied upon by the auditors).

5.4.8 Intra-Group Exposures

(Rs in Crore)

Particulars	For the Year 2016-17	For the Year 2015-16
Total amount of intra-group exposures	2890.82	2937.53
Total amount of top-20 intra-group exposures	2890.82	2937.53
Percentage of intra-group exposures to total exposure of the bank on borrowers /customers	0.37%	0.48%
Details of breach of limits on intra-group exposures and regulatory action thereon, if any.	NIL	NIL

(As compiled and certified by the management and relied upon by the auditors.)

5.5 Accounting Standard-20 – Earnings Per Share:

Basic and diluted earnings per equity share are computed in accordance with Accounting Standard 20, "Earnings per Share".

The Computation of EPS is given below.

	Particulars	2016-17	2015-16
A	Net Profit for the year attributable to Equity Shareholders (Rs. In Crore)	1121.92	(2812.82)
B	Number of Equity Shares (In Crore)	59.73	54.30
C	Weighted Average Number of Equity Shares (In Crore)	54.37	52.47
D	Basic and Diluted Earnings per Share (A/C) (Rs.)	20.63	(53.61)
E	Nominal Value per Share (Rs.)	10/-	10/-

5.6 Accounting Standard-22 – Accounting for Taxes on Income:

The Bank has recognized Deferred Tax Assets / Liabilities (DTA / DTL) and has accounted for the Net Deferred Tax as on 31.03.2017 as under:

Major components of Deferred Tax Assets and Deferred Tax Liabilities are as under:

Particulars	Deferred Tax Assets		Deferred Tax Liability	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
Interest accrued but not due on securities	-	-	828.37	849.68
Provision for Leave Encashment	338.29	309.38		
Depreciation on Fixed Assets	-	-	19.50	17.40
Depreciation on Investments	-	-	1705.10	1705.10
Unrealised gain on Forward contacts	-	-	145.47	52.94
Provision made for advances	4869.61	3748.15		
On Special Reserve	-	-	1384.32	1384.32
Others	53.72		-	-
Deferred Tax Asset/ Liability	5261.62	4057.53	4082.76	4009.44

Net Deferred Tax Assets as on March 31, 2017: Rs.1178.86 Crore (Previous year: Net Deferred Tax Assets Rs.48.09 Crore)

5.7 Accounting Standard 27 - Financial Reporting of Interests in Joint Ventures

Investments include Rs.73.22 Crore (at the exchange rate of the transaction date) in the Commercial Indo Bank LLC (Incorporated in Russia) wherein the Bank owns 40% of the equity.

As required by AS 27 the aggregate amount of the assets, liabilities, income and expenses (Bank's interest @ 40% in jointly controlled entity) is disclosed as under:

Commercial Indo Bank LLC - Details of Assets, Liabilities, Income & Expenses

Particulars	Current year ended 31/03/2017	Current year ended 31/03/2017	Bank's share@ 40%	Previous year ended 31/03/2016	Previous year ended 31/03/2016	Bank's share @ 40%
	In '000 US Dollars	Rs. in Crore	Rs. in Crore	In '000 US Dollars	Rs. in Crore	Rs. in Crore
Aggregate Capital and Reserves	41524.00	269.28	107.71	26,361	174.65	69.86
Aggregate Liabilities	71795.00	465.59	186.24	68,908	456.55	182.62
Aggregate Assets	113319.00	734.87	293.95	95,269	631.20	252.48
Aggregate Income	7553.00	48.98	119.59	6,408	42.46	16.98
Aggregate Expenditure	2241.00	14.53	5.81	2,468	16.35	6.54
Profit	5312.00	34.48	13.79	3,940	26.10	10.44

(As compiled and certified by the management and relied upon by the auditors)

5.8 Accounting Standard 28 - Impairment of Assets:

Assets are reviewed for impairment at the end of the year whenever events or changes in circumstances warrant that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison for the carrying amount of an asset to future net discounted cash flows expected to be generated by the asset. If such an asset is considered to be impaired, the impairment to be recognized and is measured by the amount by which the carrying amount of the asset exceeds the recoverable amount of the asset. However, in the opinion of the Bank's Management, there is no indication of material impairment to the assets during the year to which Accounting Standard 28 - "Impairment of Assets" applies.

5.9 Accounting Standard 29 – Provisions, Contingent Liabilities and Contingent Assets:

Particulars	Opening as on 01.04.2016	Provision made during the year	Provision reversed / adjusted	Closing as on 31.03.2017
Movement of Provision for Contingent Liabilities	581.24	226.00	26.00	781.24

6. Additional Disclosures

6.1 Details of Provisions and Contingencies made during the year:

Particulars	31.03.2017	31.03.2016 (Rs.in Crore)
Provision for Depreciation on Investment and NPI	161.04	267.75
Provision towards NPA	7437.77	9608.16
Provision towards Standard Asset	26.61	(459.20)
Provision for Tax (includes Deferred Tax)	520.00	(372.95)
Provision for Diminution in Fair Value	(360.00)	531.29
Provision for Asset Doubt Of Recovery	35.00	4.80
Provision for Country Risk Exposure	13.00	8.00
Provision for FITL and other contingencies	(41.45)	371.63
TOTAL	7791.97	9959.48

6.2 Floating Provision: (Rs.in Crore)

Particulars	31.03.2017	31.03.2016
Opening Balance	NIL	NIL
Addition during the year	NIL	NIL
Draw down during the year.	NIL	NIL
Closing Balance	NIL	NIL

6.3 Disclosure of Complaints / unimplemented awards of Banking Ombudsmen:

A. Customer Complaints (including ATM related complaints):

Sl. No	Particulars	31.03.2017	31.03.2016
(a)	Number of complaints pending at the beginning of the year	1550	1534
(b)	Number of complaints received during the year	66977	35862
(c)	Number of complaints redressed during the year	65362	35846
(d)	Number of complaints pending at the end of the year	3165	1550

B. Awards passed by the Banking Ombudsmen :

Sl. No	Particulars	31.03.2017	31.03.2016
(a)	Number of unimplemented Awards at the beginning of the year	NIL	NIL
(b)	Number of Awards received during the year	08	07
(c)	Number of Awards redressed during the year	08	07
(d)	Number of unimplemented Awards pending at the end of the year	NIL	NIL

All customer complaints pertaining to Automated Teller Machine (ATM) cards are included. All the ATM complaints pertain to Acquiry issues.

6.4 Letters of Comfort issued:

Bank has issued 3571 No. of Letters of Comfort to the tune of Rs.34677.55 Crore during the financial year. The cumulative outstanding position of 1506 No. of LOC as on 31.03.2017 is Rs.8787.41 Crore. Apart from this, Bank has also issued Letter of Comfort to the following regulators during previous years:

OVERSEAS:

The Bank has not issued any LOC favouring host country regulators during the financial year 2016-17.

LOCs/Undertaking/Guarantee issued in the past:-

- China Banking Regulatory Commission, China (on behalf of our Shanghai Branch) – vide order dated 29.03.2008
- Central Bank of the UAE (on behalf of our Representative office, Sharjah) – Vide order dated 04.06.2009
- Central Bank of Bahrain (on behalf of our Manama branch, Bahrain) – Vide order dated 15.01.2010 and
- South African Reserve Bank (on behalf of our Johannesburg branch, South Africa) – Vide order dated 19.11.2011

Financial Impact:

Bank has so far not issued any LOC/undertaking on behalf of the subsidiaries or Joint Ventures (JVs), hence, the financial impact on issued of LOC/undertaking by the Bank does not exist.

With regard to branches the assets and liabilities of overseas branches are merged with the domestic operation and a consolidated Balance Sheet is drawn for the Bank as a whole. The total liability of overseas branches forms part of the liabilities of the Banks annual balance sheet.

Hence, there is no additional financial impact of LOCs issued on behalf of branches. In respect of representative Office, there are no commercial operations undertaken and hence no financial impacts of LOC issued to host country regulator.

As at 31st March 2017, there is no financial impact of LOCs issued favoring the overseas Regulators for our Bank since the same are issued on behalf of branches and Representative offices. In terms of RBI guidelines, we propose to disclose the details of LOCs issued by the Bank so far and "NIL" financial impact on account of such LOCs, under "Notes to Accounts" in the Balance Sheet as at March 2017.

6.4.1 Provision Coverage Ratio is 55.62% as on 31.03.2017 (Previous Year 50.11%):**6.5 Fees/Remuneration received by the Bank from Bancassurance Business etc:**

(Rs.in Crore)			
Sl. No.	Nature of Income	31.03.2017	31.03.2016
1	For selling Life Insurance Policies	38.29	26.20
2	For selling Non Life Insurance Policies	18.51	17.16
3	For selling Mutual Funds Products	14.03	10.07
4	Other (Health Insurance Policies)	15.81	10.67
5	PMJJBY	4.92	5.50
6	PMSBY	0.71	0.70
	TOTAL	92.27	70.30

6.6 Concentration of Deposits, Advances, Exposures and NPAs

6.6.1 Concentration of Deposits:

Particulars	31.03.2017	31.03.2016
Total Deposits of twenty largest depositors	71579.31	65542.30
Percentage of Deposits of twenty largest depositors to Total Deposits of the Bank	14.45%	13.66%

6.6.2 Concentration of Advances:

Particulars	31.03.2017	31.03.2016
Total Advances to twenty largest borrowers	26337.87	28865.40
Percentage of Advances to twenty largest borrowers to Total Advances of the Bank	7.63%	8.89%

6.6.3 Concentration of Exposures:

Particulars	31.03.2017	31.03.2016
Total Exposure to twenty largest borrowers/customers	60226.11	56608.69
Percentage of Exposures to twenty largest borrowers / customers to Total Exposure of the bank on borrowers / customers	7.75%	9.20%

6.6.4 Concentration of NPAs: (Rs.in Crore)

Particulars	31.03.2017	31.03.2016
Total Exposure to top four NPA accounts	8224.27	7391.30

6.6.5 Sector-wise Advances:

Sl No	Sector*	Current Year			Previous Year		
		Outstanding total Advances	Gross NPA	Percentage of Gross NPA to Total Advances in that	Outstanding total Advances	Gross NPA	Percentage of Gross NPA to Total Advances in that

				sector			sector
A	Priority sector						
1	Agriculture and allied activities	74079.00	2757.31	3.72%	67176.00	2159.30	3.21%
2	Advances to industries sector eligible as priority sector lending	39175.00	5557.95	14.19	35433.00	4663.07	13.16%
3	Services	28119.00	555.15	1.97%	25798.00	588.31	2.28%
4	Personal loans	18896.00	-	-	17151.00	-	-
	Sub-Total (A)	160269.00	8870.41	5.53%	145558.00	7410.68	5.09%
B	Non Priority sector						
1	Agriculture and allied activities	614.00	0.00	-	23.00	-	-
2	Industries	140262.29	19622.09	13.99%	143935.70	19519.92	13.56%
3	Services	28108.02	5406.46	19.23%	22780.53	4392.74	19.28%
4	Personal loans	26052.35	303.08	1.16%	24250.64	314.49	1.30%
	Sub total (B)	195036.66	25331.63	12.99%	190989.87	24227.15	12.69%
	Total (A+B)	355305.66	34202.04	9.63%	336547.87	31637.83	9.40%

Sub sector of industries where the outstanding advances exceeds 10 percent of the outstanding total advances of the sector.

(Rs in Crore)

Sl No	Sub Sector	Current Year			Previous Year		
		Outstanding total Advances	Gross NPA	Percentage of Gross NPA to Total Advances in that sector	Outstanding total Advances	Gross NPA	Percentage of Gross NPA to Total Advances in that sector
1	Basic metal and metal products	21596.96	10930.41	50.61%	18965.65	9912.30	52.26%
2	Infrastructure	50125.76	2527.05	5.04%	54287.36	3291.73	6.06%

(As compiled and certified by the management and relied upon by the auditors.)

6.7 Movement of NPAs

(Rs. In crore)

Particulars	31.03.2017	31.03.2016
Gross NPAs as on 1 st April 2016 (Opening Balance)	31637.83	13039.96
Additions (Fresh NPAs) during the year	11652.11	24724.06

Sub-total (A)	43289.94	37764.02
Less:-		
(i) Upgradations	2264.82	1460.14
(ii) Recoveries (excluding recoveries made from upgraded accounts)	1278.30	1279.08
(iii) Technical/ Prudential Write-offs	5103.16	2911.93
(iv) Write-offs other than those under (iii) above	441.62	475.04
Sub-total (B)	9087.90	6126.19
Gross NPAs as on 31 st March 2017 (closing balance) (A-B)	34202.04	31637.83

Movement of Technical Write off and the recoveries made thereon: (Rs. in Crore)

Particulars	31.03.2017	31.03.2016
Opening balance of Technical/ Prudential written-off accounts as at April 1	9936.31	7423.21
Add: Technical/ Prudential write-offs during the year*	5129.81	2911.93
Sub-total (A)	15066.12	10335.14
Less: Recoveries made from previously technical/ prudential written-off accounts during the year (B)	688.70	398.83
Closing balance as at March 31 (A-B)	14377.42	9936.31

* including exchange fluctuation

6.8 Overseas Assets NPAs and Revenue

Particulars	31.03.2017	31.03.2016	(Rs.in Crore)
Total Assets	66360.55	54374.25	
Total NPAs : Gross	2650.47	2477.89	
Net	1415.27	1532.16	
Total Revenue	1033.08	1262.50	

6.9 Off-balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms)

Name of the SPV sponsored	
Domestic	Overseas
NIL	NIL

6.10 Disclosure relating to Securitisation:

SI No	Particulars	No./Amount in Rs Crore
1.	No of SPVs sponsored by the bank for securitization transaction	
2.	Total amount of securitized assets as per books of the SPVs sponsored by the bank	
3.	Total amount of exposures retained by the bank to comply with MRR as on the date of balance sheet	
	Off-balance sheet exposures	
a)	First loss	
	Others	
b)	On-balance sheet exposures	

	First loss		
	Others		
4.	Amount of exposures to securitization transactions other than MRR		
	Off-balance sheet exposures		
a)	i) Exposure to own securitizations		
	First loss		
	Others		
	ii) Exposure to third party securitizations		
	First loss		
	Others		
b)	On-balance sheet exposures		
	i) Exposure to own securitizations		
	First loss		
	Others		
	ii) Exposure to third party securitizations		
	First loss		
	Others		

NIL

6.11 Credit Default Swaps (CDS): NIL

6.12 Transfers to Depositor Education and Awareness Fund (DEAF)

Particulars	31.03.2017	(Rs in Crore) 31.03.2016
Opening balance of amounts transferred to DEAF	977.29	847.99
Add : Amounts transferred to DEAF during the year	205.28	140.04
Less : Amounts reimbursed by DEAF towards claims	15.68	10.74
Closing balance of amounts transferred to DEAF	1166.89	977.29

6.13 Reserve Bank of India vide its communication Number DBOD.No.BP.BC. 85 /21.06.200/2013-14 dated January 15 2014 advised the Bank to provide incremental provision and capital with regard to bank's exposure to entities with unhedged foreign currency exposures. Accordingly for the financial year 2016-17 bank has made incremental provision of Rs.32.92 Crore (Rs 37.69 Crore) towards unhedged foreign currency exposure. Further Bank is also holding a capital of Rs.143.85 Crore (Rs 118.21 Crore) as on 31.03.2017 towards the risk on unhedged foreign currency exposure.

Policies to manage currency induced credit risk with regard to Unhedged Foreign Currency Exposure:

In respect of borrower entities having foreign currency exposure Bank is computing Unhedged Foreign Currency Exposure (UFCE); Annual Earnings before interest and Depreciation (EBID); expected loss in case of movement in USD-INR exchange rate using annualized volatilities. Expected loss on account of exchange rate movements is expressed as a percentage of EBID i.e likely loss/EBID percentage. As a prudential measure Bank is holding incremental capital and made incremental provisioning (over and above the extant standard assets provisioning) on the total credit exposure to such entities at the specified rates.

6.14 Liquidity Coverage Ratio

[Rs. in Crore]

Sl No		Current year		Previous Year	
		Total Un-weighted Value (average)	Total Weighted Value (average)	Total Un-weighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets					
1	Total High Quality Liquid Assets (HQLA)		87616.68		77186.04
Cash Outflows					
2	Retail deposits and deposits from small business customers of which:	267438.54	22600.09	235838.02	20037.78
(i)	Stable deposits	82875.20	4143.76	70920.44	3546.02
(ii)	Less stable deposits	184563.33	18456.33	164917.58	16491.76
3	Unsecured wholesale funding of which:	110649.58	65105.56	120248.60	70308.92
(i)	Operational deposits (all counterparties)	0.00	0.00	8.59	0.43
(ii)	Non-operational deposits (all counterparties)	108722.19	63178.17	116941.26	67009.74
(iii)	Unsecured debt	1927.39	1927.39	3298.75	3298.75
4	Secured wholesale funding	4187.18	789.55	5692.00	3870.81
5	Additional requirements of which	39716.88	14329.79	42610.89	12448.87
(i)	Outflows related to derivative exposures and other collateral requirements	0.00	0.00	0.84	0.84
(ii)	Outflows related to loss of funding on debt products	0.00	0.00	0.00	0.00
(iii)	Credit and liquidity facilities	39716.88	14329.79	42610.05	12448.03
6	Other contractual funding obligations	616.29	616.29	478.26	478.26
7	Other contingent funding obligations	76896.07	2568.07	62107.45	3007.53
8	Total Cash Outflows		106009.36		110152.17
9	Secured lending (e.g. reverse repos)	3844.84	0.00	545.66	0.00
10	Inflows from fully performing exposures	33844.10	25794.57	27612.99	18123.49
11	Other cash inflows	869.23	579.85	1251.13	1135.18
12	Total Cash Inflows	38558.17	26374.42	29409.79	19258.68
			Total Adjusted Value		Total Adjusted Value
13	TOTAL HQLA		87616.68		77186.04
14	Total Net Cash Outflows		79634.95		90893.49
15	Liquidity Coverage Ratio (%)		110.02%		84.92%

Qualitative disclosure around LCR

Liquidity Coverage Ratio (LCR) standard is introduced to tests the liquidity resilience of the Bank, for a minimum stress period of 30 days. The standard ensures, the Bank maintains adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted into cash to meet liquidity needs (net cash-out flows). The LCR is defined as:

$$\text{LCR} = \frac{\text{Stock of high quality liquid assets (HQLAs)}}{\text{Total net cash outflows over the next 30 calendar days}}$$

The minimum LCR requirement for the calendar year 2016 was 70 per cent and is stepped up to 80 per cent for the calendar year 2017. LCR requirement will be further, stepped up 10 per cent annually to reach 100 per cent by 1st January 2019.

HQLA comprises of Level 1(0% hair-cut), Level 2A (15% hair-cut) and Level 2B assets (50% hair-cut). Level 1 assets comprising of cash, excess CRR, excess SLR securities, government securities to the extent allowed by RBI under Marginal Standing Facility (MSF) [presently 2 per cent of the Bank's NDTL] and Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [presently 9 per cent of the Bank's NDTL].

Level 2A assets comprises of sovereign guaranteed marketable securities, corporate bonds or commercial papers which are rated AA+ and more are issued other than by financial institutions. Level 2B assets include investments in common equity shares included in NSE CNX Nifty and/or S&P BSE Sensex indices.

Expected net cash outflows under stress are the weighted sum of outflows minus inflows in the next 30 days. Funding from retail and small business customers carries lower run-off factor as compared to wholesale funding.

The prime drivers of the LCR are the level of surplus SLR held by the Bank and the proportion of retail and wholesale funding source.

Weighted Level 1 assets of the Bank constitutes around 95 per cent of the total HQLA, and the remaining 5 per cent comprises of Level 2A and Level 2B assets. Excess SLR securities (part of level 1 assets) forms around 30 per cent of the total HQLA.

Over the period the Bank reduced dependency on the wholesale deposits including certificate of deposits by increasing the share of retail (individual) deposits including CASA. The share of retail deposits to total domestic deposits increased from 48 per cent (March 2016) to 56 per cent (March 2017). The increased share of retail deposits marks the stability in the funding profile of the Bank, reducing the liquidity outflows under stress.

Under wholesale category, the Bank has separate deposits product with no premature withdrawal option (non-callable) to limit any funds outflows over the next 30 days.

During the FY 2016-17, the LCR of the Bank remained above the minimum requirement on all observed counts. The LCR moved up year on year from average of 84.92% (FY2015-16) to 110.02% (FY 2016-17). This was contributed on account of increased share of retail deposits (reducing the cash outflows), more realizable inflows within 30 days and higher HQLA.

Quarter on quarter, the LCR (3 months average) of the Bank increased from 91.33% (June'16) to 99.74% (September'16) and to 115.42% (December'16).

For the quarter ending March 2017, the Bank has commenced the computation of the LCR on a daily basis. The LCK at 134.25% for quarter ending March 2017 is based on the daily average, covering 70 data points.

The LCR shows marked increase in December 2016 and March 2017 quarter, mainly on account of increase in retail deposits with withdrawal of Specified Bank Notes (SBNs) by the Government of India w.e.f., 9th November 2016.

The impact of derivative exposure, potential collateral calls and currency mismatch on the LCR of the Bank remained insignificant.

Bank's wholly owned banking subsidiary "Canara Bank Tanzania Ltd." started its operation in May 2016, and is consolidated for disclosure of consolidated LCR.

6.15 Fresh Issue of Equity Share Capital:

During the year Bank had issued and allotted Equity Shares to the following parties:

During the financial year 2016-17 , pursuant to exercise of Rights Issue option, the Bank has allotted 1,83,00,000 equity shares to the Shareholders and 3,59,99,105 equity shares to Government of India of face value of Rs.10/- each at a premium of Rs.197 per equity share for a total consideration of Rs.1123.99 crores . With this the equity share capital of the bank has gone upto Rs. 597.29 Crore(as on 31.03.2017) from Rs. 542.99 (as on 31.03.2016)

6.16 During the year the Bank has made certain modifications in the additional provisioning for non-performing advances by dispensing with additional provisioning for category II of doubtful advances. Consequently the Bank is holding such additional provision of Rs.500 Crore (previous year Rs. 1486 Crore) for non-performing advances over and above the minimum provision prescribed under IRAC norms of RBI.

6.17 Our Bank has sold 47,200 units under Priority Sector Lending Certificates (PSLCs) to the tune of Rs.11,800 Crore under Agriculture and Small and Marginal Farmers category as at March 2017.

6.18 During Financial Year 2017, the Bank has offloaded 13.45% of shares held in M/s Canfin Homes Ltd., one of our Associates and realised a profit of Rs.703.91 Crore.

7. Figures of the previous year have been regrouped / rearranged / reclassified wherever necessary.

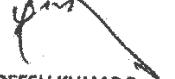

M SWAMINATHAN
DIVISIONAL MANAGER

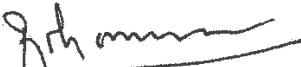

P VITHICHAN
ASSISTANT GENERAL MANAGER


V RAMACHANDRA
DEPUTY GENERAL MANAGER


N SELVARAJAN
GENERAL MANAGER


P.V. BHARATHI
EXECUTIVE DIRECTOR

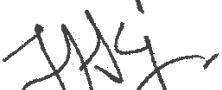

HARIDEESH KUMAR B
EXECUTIVE DIRECTOR


RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

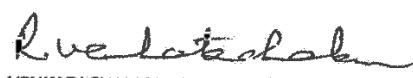

T.N. MANOHARAN
CHAIRMAN


SUCHINDRA MISRA
DIRECTOR


UMA SHANKAR
DIRECTOR

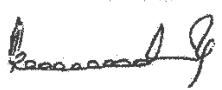

KRISHNAMURTHY H
DIRECTOR


MAHADEV NAGENDRA RAO
DIRECTOR


VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER REPORT OF EVEN DATE

For RAMRAJ & Co.
CHARTERED ACCOUNTANTS
FRN.002839S


G VENKATESWARA RAO
PARTNER
MEMBERSHIP NO.024182

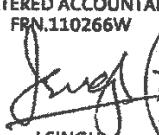


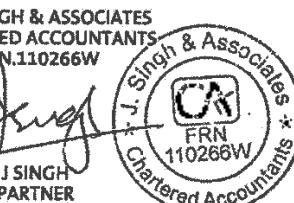
For V K NIRANJAN & Co.
CHARTERED ACCOUNTANTS
FRN.002468S


M JAYARAJAN
PARTNER
MEMBERSHIP NO.011105

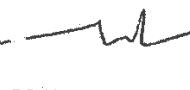


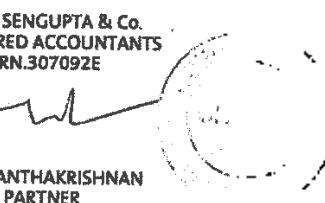
For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN.110266W


J SINGH
PARTNER
MEMBERSHIP NO.042023



For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN.307092E


S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO.018073



Place: Bengaluru
Date: 08.05.2017

Ramraj & Co. Chartered Accountants FRN:002839S	V K Niranjan & Co. Chartered Accountants FRN:002468S
J Singh & Associates Chartered Accountants FRN:110266W	J L Sengupta & Co. Chartered Accountants FRN:307092E

INDEPENDENT AUDITORS' REPORT

To,

The Members of Canara Bank

Report on the Financial Statements

1. We have audited the accompanying financial statements of **Canara Bank** as on 31st March, 2017, which comprise the Balance Sheet as at 31st March, 2017, Profit and Loss Account, the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information. Incorporated in these financial statements are the returns of 20 branches audited by us, 3234 branches audited by statutory branch auditors and 7 foreign branches audited by local auditors in respective countries. The branches audited by us and those audited by other auditors have been selected by the Bank in accordance with the guidelines issued to the Bank by the Reserve Bank of India. Also incorporated in the Balance Sheet and the Profit and Loss Account are the returns from 2821 branches which have not been subjected to audit. These unaudited branches account for 5.24 per cent of advances, 15.39 per cent of deposits, 5.00 per cent of interest income and 14.95 per cent of interest expenses.

Management's Responsibility for the Financial Statements

2. The bank's management is responsible for the preparation of these financial statements in accordance with the Banking Regulation Act 1949, Reserve Bank of India guidelines issued from time to time and Accounting Standards generally accepted in India. This responsibility of the Management includes design, implementation and maintenance of internal control relevant to the preparation of the Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

6. In our opinion, as shown by the books of the Bank, and to the best of our information and according to the explanations given to us:
- I. the Balance sheet, read with the significant accounting policies and the notes thereon is a full and fair Balance Sheet containing all the necessary particulars, is properly drawn up so as to exhibit a true and fair view of state of affairs of the Bank as at 31st March, 2017 in conformity with accounting principles generally accepted in India;
 - II. the Profit and Loss Account, read with the significant accounting policies and the notes thereon shows a true balance of profit, in conformity with accounting principles generally accepted in India, for the year covered by the account; and
 - III. the Cash Flow Statement gives a true and fair view of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

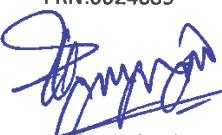
7. The Balance Sheet and the Profit and Loss Account have been drawn up in Forms "A" and "B" respectively of the Third Schedule to the Banking Regulation Act, 1949.
8. Subject to the limitations of the audit indicated in paragraph 1 to 5 above and as required by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 / 1980 and also subject to the limitations of disclosure required therein, we report that:
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit and have found them to be satisfactory;
 - b) The transactions of the Bank, which have come to our notice have been within the powers of the Bank;
 - c) The returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit;
9. We further report that:
 - a) The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account and returns;
 - b) The report on the accounts of the Branch/Offices audited by the branch auditors of the Bank under Section 29 of the Banking Regulation Act, 1949 have been sent to us and have been properly dealt with by us in preparing this report;
 - c) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement comply with the applicable Accounting Standards.

For Ramraj & Co
Chartered Accountants
FRN:002839S

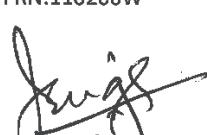
G Venkateshwara Rao
Partner
Membership No.024182


Place: Bangalore
Dated: May 08, 2017

For V K Niranjan & Co
Chartered Accountants
FRN:002468S

Jayarajan M
Partner
Membership No.011105



For J Singh & Associates
Chartered Accountants
FRN:110266W

J. Singh
Partner
Membership No.042023



For J L Sengupta & Co
Chartered Accountants
FRN:307092E

S R Ananthakrishnan
Partner
Membership No.018073



CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

Particulars	Schedule	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
CAPITAL AND LIABILITIES			
CAPITAL	1	733 24 48	597 29 02
RESERVES AND SURPLUS	2	36164 44 69	34088 11 36
MINORITY INTEREST	2A	521 79 94	498 07 24
DEPOSITS	3	524846 98 24	495266 33 76
BORROWINGS	4	38909 49 64	39591 75 51
OTHER LIABILITIES AND PROVISIONS	5	30259 49 98	26117 18 04
TOTAL ASSETS		631435 46 97	596158 74 93
CASH & BALANCES WITH RESERVE BANK OF INDIA	6	22102 41 52	19924 48 73
BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE	7	28122 18 65	39042 88 92
INVESTMENTS	8	157443 56 36	162072 91 95
ADVANCES	9	382074 57 89	342320 14 17
FIXED ASSETS	10	8335 30 05	7184 99 65
OTHER ASSETS	11	33357 42 50	25613 31 51
TOTAL CONTINGENT LIABILITIES		631435 46 97	596158 74 93
BILLS FOR COLLECTION	12	293830 66 75 26782 07 90	432677 01 95 27176 31 19


ARVIND KUMAR
DIVISIONAL MANAGER


M. SWAMINATHAN
ASST.GENERAL MANAGER

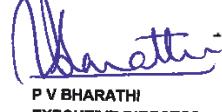

P VITHOBAL
ASST.GENERAL MANAGER


V RAMACHANDRA
DEPUTY GENERAL MANAGER


N SIVASANKARAN
GENERAL MANAGER


DEBASHISH MUKHERJEE
EXECUTIVE DIRECTOR


M. V. RAO
EXECUTIVE DIRECTOR


P V BHARATHI
EXECUTIVE DIRECTOR


RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER


T N MANOHARAN
CHAIRMAN


SUCHINDRA MISRA
DIRECTOR

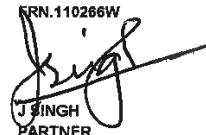

UMA SHANKAR
DIRECTOR


KRISHNAMURTHY H.
DIRECTOR


VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER OUR REPORT OF EVEN DATE

For M/S J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN.110266W


J. SINGH
PARTNER
MEMBERSHIP NO.042023



For M/S J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN.307092E


S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO.018073



For M/S DAGLIYA & Co.,
CHARTERED ACCOUNTANTS
FRN.000971S


P. MANOHARA GUPTA
PARTNER
MEMBERSHIP NO.016444



For M/S KOMANDOOR & Co., LLP
CHARTERED ACCOUNTANTS
FRN.001420S/S200034


K MOHAN ACHARYA
PARTNER
MEMBERSHIP NO.029082



CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2018

Particulars	Schedule	Year ended 31.03.2018 (Rs. '000)	Year ended 31.03.2017 (Rs. '000)
I. INCOME			
INTEREST EARNED	13	41345 32 05	41456 65 51
OTHER INCOME	14	7397 99 93	7852 25 92
TOTAL		48743 31 98	49308 91 43
II. EXPENDITURE			
INTEREST EXPENDED	15	29112 90 11	31540 26 58
OPERATING EXPENSES	16	9837 80 79	8612 19 14
PROVISIONS AND CONTINGENCIES		13879 93 20	7922 84 81
TOTAL		52830 64 10	48075 30 53
SHARE OF EARNINGS IN ASSOCIATES	17	214 77 84	177 19 29
CONSOLIDATED NET PROFIT FOR THE YEAR			
BEFORE DEDUCTING MINORITIES' INTEREST		(3872 54 28)	1410 80 19
LESS: MINORITY INTEREST (NET LOSS)		78 85 23	52 52 67
CONSOLIDATED PROFIT FOR THE			
YEAR ATTRIBUTABLE TO THE GROUP		(3951 39 51)	1358 27 52
III. APPROPRIATIONS			
TRANSFERS TO			
STATUTORY RESERVE			281 00 00
CAPITAL RESERVE			777 00 00
INVESTMENT RESERVE		-	-
SPECIAL RESERVE		-	-
INTERIM DIVIDEND		-	-
PROPOSED DIVIDEND		-	-
DIVIDEND TAX		-	-
BALANCE CARRIED OVER TO			
REVENUE AND OTHER RESERVES			300 27 52
TOTAL		(3951 39 51)	1358 27 52
SIGNIFICANT ACCOUNTING POLICIES	18		
NOTES ON ACCOUNTS	19		
EARNINGS PER SHARE (BASIC AND DILUTED) (IN Rs.)		(65. 95)	24.98

ARVIND KUMAR
DIVISIONAL MANAGER

M.SWAMINATHAN
ASST.GENERAL MANAGER

P VITHOBIA
ASST.GENERAL MANAGER

V-RAMACHANDRA
DEPUTY GENERAL MANAGER

N SIVASANKARAN
GENERAL MANAGER

DEBASHISH MUKHERJEE
EXECUTIVE DIRECTOR

M-V RAO
EXECUTIVE DIRECTOR

P V BHARATHI
EXECUTIVE DIRECTOR

RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

T N MANOHARAN
CHAIRMAN

SUCHINDRA MISRA
DIRECTOR

UMA SHANKAR
DIRECTOR

KRISHNAMURTHY H
DIRECTOR

VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER OUR REPORT OF EVEN DATE

For M/S J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN.110266W

J-SINGH
PARTNER
MEMBERSHIP NO.042023

For M/S DAGLIYA & Co.
CHARTERED ACCOUNTANTS
FRN.000671S

P MANOHARA GUPTA
PARTNER
MEMBERSHIP NO.016444

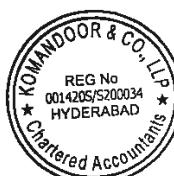


For M/S J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN.307092E

S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO.018073

For M/S KOMANDOOR & Co. LLP
CHARTERED ACCOUNTANTS
FRN.001420S/8200034

K MOHAN ACHARYA
PARTNER
MEMBERSHIP NO.029082



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 1 - CAPITAL		
I. Authorised Capital (300,00,00,000 Equity Shares of Rs.10/- each)	<u>3000 00 00</u>	<u>3000 00 00</u>
II.Issued,Subscribed and Paid up:		
i) 53,19,44,775 Equity Shares of Rs.10/- each Previous year 39,59,90,159 Equity share of Rs. 10/- each held by Central Government	531 94 48	395 99 02
ii) 20,13,00,000 Equity Shares of Rs.10/- each Previous year 20,13,00,000 Equity Shares of Rs.10/- each held by others.	201 30 00	201 30 00
	<u>733 24 48</u>	<u>597 29 02</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 2 - RESERVES AND SURPLUS		
I Statutory Reserves	8314 06 00	8314 06 00
II Capital Reserves	2255 67 07	2255 67 07
III Capital Reserves on Consolidation	2 79 18	2 79 18
IV Share Premium	11598 40 18	6869 35 64
V Foreign Currency Translation Reserve	181 73 48	116 25 71
VI Revaluation Reserve	6524 72 80	5373 14 97
VII Investment Reserve	565 80 00	565 80 00
VIII Special Reserve in terms of Section 36(1)(viii) of the Income Tax Act, 1961	4000 00 00	4000 00 00
IX Revenue and Other Reserves	2721 25 98	6591 02 79
TOTAL	36164 44 69	34088 11 36

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 2A - MINORITIES INTEREST		
I Minority interest at the date on which the parent- Subsidiary relationship came into existence	110 15 12	110 15 12
II Subsequent Increase / (Decrease)	411 64 82	387 92 12
TOTAL	521 79 94	498 07 24



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 3 - DEPOSITS		
A. I. DEMAND DEPOSITS		
i. FROM BANKS	267 03 87	201 45 56
ii. FROM OTHERS	24731 51 41	22360 27 79
Total	24998 55 28	22561 73 35
II. SAVINGS BANK DEPOSITS		
	142054 64 07	127170 02 95
Total	142054 64 07	127170 02 95
III. TERM DEPOSITS		
i. FROM BANKS	34856 28 93	33205 65 56
ii. FROM OTHERS	322937 49 96	312328 91 90
Total	357793 78 89	345534 57 46
TOTAL	524846 98 24	495266 33 76
B. DEPOSITS OF BRANCHES		
i. IN INDIA	485901 04 68	454528 93 86
ii. OUTSIDE INDIA	38945 93 56	40737 39 90
TOTAL	524846 98 24	495266 33 76



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 4 - BORROWINGS		
I. BORROWINGS IN INDIA		
i. RESERVE BANK OF INDIA	11873 00 00	700 00 00
ii. OTHER BANKS	176 46 94	11204 77 74
iii. OTHER INSTITUTIONS AND AGENCIES	277 11 25	2147 84 54
iv. UNSECURED REDEEMABLE BONDS (IPDI AND SUB-ORDINATED DEBT)	13314 60 00	14014 60 00
Total	25641 18 19	28067 22 28
II. BORROWINGS OUTSIDE INDIA		
i. OTHER BANKS	13268 31 45	11524 53 23
ii. UNSECURED REDEEMABLE BONDS (SUB-ORDINATED DEBT)		
Total	13268 31 45	11524 53 23
TOTAL	38909 49 64	39591 75 51
	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 5 - OTHER LIABILITIES & PROVISIONS		
i. BILLS PAYABLE	1295 32 91	1355 70 48
ii. INTER OFFICE ADJUSTMENT (NET)	1871 88 23	940 69 16
iii. INTEREST ACCRUED	2016 84 98	1878 98 66
IV. DEFERRED TAX LIABILITY		
v. OTHERS (INCLUDING PROVISIONS)	25075 43 86	21941 79 74
TOTAL	30259 49 98	26117 18 04



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 6-CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I. CASH IN HAND (Including Foreign Currency Notes)	2651 53 78	1848 38 26
II BALANCES WITH RESERVE BANK OF INDIA		
- IN CURRENT ACCOUNT	19450 87 74	18076 10 47
Total	19450 87 74	18076 10 47
TOTAL	22102 41 52	19924 48 73

SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
I. IN INDIA		
i. BALANCE WITH BANKS		
a. IN CURRENT ACCOUNTS	235 35 85	169 55 19
b. IN OTHER DEPOSIT ACCOUNTS	25 92 63	24 02 18
Total	261 28 48	193 57 37
ii. MONEY AT CALL AND SHORT NOTICE		
a. WITH BANKS	200 00 00	-
b. WITH OTHER INSTITUTIONS	1000 00 00	-
Total	1200 00 00	
Total	1461 28 48	193 57 37
II. OUTSIDE INDIA		
i. IN CURRENT ACCOUNTS	4799 66 90	6529 16 88
ii. IN DEPOSIT ACCOUNTS	17247 60 48	25899 09 40
iii. MONEY AT CALL AND SHORT NOTICE	4613 62 79	6421 05 27
Total	26660 90 17	38849 31 55
TOTAL	28122 18 65	39042 88 92



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 8 - INVESTMENTS		
I. INVESTMENTS IN INDIA : GROSS:	158456 85 14	161520 76 14
LESS: PROVISION FOR DEPRECIATION AND NPI	<u>2355 69 31</u>	<u>492 95 07</u>
NET INVESTMENT IN INDIA	<u>156101 15 83</u>	<u>161027 81 07</u>
i. GOVERNMENT SECURITIES	130733 14 17	138711 85 63
ii. OTHER APPROVED SECURITIES	762 65 77	428 32 73
iii SHARES	7555 76 14	6641 78 67
iv. DEBENTURES AND BONDS	12021 96 31	8598 91 80
v. INVESTMENTS IN ASSOCIATES	1182 44 29	1007 45 86
vi. OTHERS (MFs, VCF, CDs, CP ETC.)	3845 19 15	5639 46 38
Total	<u>156101 15 83</u>	<u>161027 81 07</u>
II. INVESTMENTS OUTSIDE INDIA - GROSS	1358 94 93	1048 16 00
LESS : PROVISION FOR DEPRECIATION	<u>16 54 40</u>	<u>3 05 12</u>
NET INVESTMENTS OUTSIDE INDIA	<u>1342 40 53</u>	<u>1045 10 88</u>
i. GOVERNMENT SECURITIES (INCLUDING LOCAL AUTHORITIES)	409 38 63	317 06 67
iii. OTHERS	<u>933 01 90</u>	<u>728 04 21</u>
Total	<u>1342 40 53</u>	<u>1045 10 88</u>
TOTAL	<u>157443 56 36</u>	<u>162072 91 95</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 9 - ADVANCES		
A. i. BILLS PURCHASED & DISCOUNTED	16369 25 77	15501 26 23
ii. CASH CREDITS, OVERDRAFTS AND LOANS		
REPAYABLE ON DEMAND	163487 67 06	140774 31 41
iii. TERM LOANS	202217 65 06	186044 56 53
Total	382074 57 89	342320 14 17
B. i. SECURED BY TANGIBLE ASSETS (INCLUDING ADVANCES AGAINST BOOK DEBTS)	305981 11 09	275149 51 64
ii. COVERED BY BANK / GOVT. GUARANTEES	12076 67 39	13031 72 99
iii. UNSECURED	64016 79 41	54138 89 54
Total	382074 57 89	342320 14 17
C. ADVANCES IN INDIA		
i. PRIORITY SECTOR	157880 94 20	136718 80 28
ii. PUBLIC SECTOR	18181 20 76	12034 69 38
iii. BANKS	1454 45 54	21 87 37
iv. OTHERS	175252 29 65	166403 29 12
TOTAL	352768 90 15	315178 66 15
II. ADVANCES OUTSIDE INDIA		
i. Due from Banks		35 97 62
ii. Due from Others		
(a) BILLS PURCHASED AND DISCOUNTED	9584 08 43	8232 93 14
(b) TERM / SYNDICATED LOANS	6033 65 58	7547 83 13
(c) OTHERS	13687 93 73	11324 74 13
Total	29305 67 74	27141 48 02
TOTAL	382074 57 89	342320 14 17



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 10 - FIXED ASSETS		
I. PREMISES		
AT COST / VALUATION AS PER LAST BALANCE SHEET	6759 31 65	6681 11 62
ADDITIONS DURING THE YEAR	5 22 32	87 69 85
	6764 53 97	6768 81 47
REVALUATION MADE DURING THE YEAR	1272 43 02	
DEDUCTIONS DURING THE YEAR	9 16	9 49 82
	8036 87 83	6759 31 65
DEPRECIATION TO DATE	839 76 71	7197 11 12
	709 16 76	6050 14 89
II. OTHER FIXED ASSETS		
(INCLUDING FURNITURE & FIXTURES)		
AT COST AS PER LAST BALANCE SHEET	3663 07 55	3461 21 95
ADDITIONS DURING THE YEAR	335 32 74	315 66 80
	3998 40 29	3776 88 75
DEDUCTIONS DURING THE YEAR	55 35 77	113 81 20
	3943 04 52	3663 07 55
DEPRECIATION TO DATE	2809 29 04	1133 75 48
	2532 43 06	1130 64 49
III. LEASED ASSETS		
AT COST AS PER LAST BALANCE SHEET	90 91 12	93 34 95
ADDITIONS DURING THE YEAR	1 08 12	63 31
	91 99 24	93 98 26
DEDUCTIONS DURING THE YEAR	11 80 96	3 07 14
	80 18 28	90 91 12
DEPRECIATION TO DATE	74 32 59	84 80 06
	5 85 69	6 11 06
LESS: LEASE TERMINAL ADJUSTMENT ACCOUNT	1 42 24	4 43 45
	1 90 79	4 20 27
IV. CAPITAL WORK IN PROGRESS		
TOTAL	8335 30 05	7184 99 65



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 11 - OTHER ASSETS		
I. INTEREST ACCRUED	4832 48 12	4534 42 07
II. TAX PAID IN ADVANCE/TAX DEDUCTED AT SOURCE (NET)	7313 47 77	6394 04 84
III. STATIONERY AND STAMPS	2 54 15	12 47 94
IV. NON BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS	13 45 59	32 13
V. OTHERS	15376 43 92	13449 01 04
VI. DEFERRED TAX ASSETS	5819 02 95	1223 03 49
TOTAL	33357 42 50	25613 31 51



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2018

	As at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. CLAIMS AGAINST THE BANK NOT ACKNOWLEDGED AS DEBTS	7893 31 22	9809 83 34
II. LIABILITY FOR PARTLY PAID INVESTMENTS	75 06	36 00
III. LIABILITY ON ACCOUNT OF OUTSTANDING FORWARD EXCHANGE CONTRACTS	219287 58 69	354452 23 49
IV. GUARANTEES GIVEN ON BEHALF OF CONSTITUENTS		
a. IN INDIA	39689 73 28	40164 95 12
b. OUTSIDE INDIA	<u>198 66 33</u>	<u>137 01 60</u>
	<u>39888 39 61</u>	40301 96 72
V. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS	24853 90 47	26421 39 73
VI. OTHER ITEMS FOR WHICH THE BANK IS CONTINGENTLY LIABLE		
a. BILLS OF EXCHANGE REDISCOUNTED	-	-
b. OTHERS	<u>1906 71 70</u>	<u>1691 22 67</u>
	<u>1906 71 70</u>	<u>1691 22 67</u>
TOTAL	<u>293830 66 75</u>	<u>432677 01 95</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2018

	For the Year ended 31.03.2018 (Rs. '000)	For the Year ended 31.03.2017 (Rs. '000)
SCHEDULE 13 - INTEREST EARNED		
I. INTEREST/DISCOUNT ON ADVANCES/BILLS	29101 56 03	29573 97 76
II. INCOME ON INVESTMENTS	10484 73 11	10772 70 39
III. INTEREST ON BALANCES WITH RBI AND OTHER INTER BANK FUNDS	653 83 68	779 60 53
IV. OTHERS	1105 19 23	330 36 83
TOTAL	41345 32 05	41456 65 51
SCHEDULE 14 - OTHER INCOME		
I. COMMISSION, EXCHANGE AND BROKERAGE	1087 46 20	1274 29 41
II. PROFIT ON SALE OF INVESTMENTS		
PROFIT	1934 17 82	3028 72 86
LESS: LOSS	<u>1934 17 82</u>	<u>37 99 02</u>
III. PROFIT ON REVALUATION OF INVESTMENTS		
LESS: LOSS ON REVALUATION OF INVEST	<u>35 96 72</u>	<u>-35 96 72</u>
IV. PROFIT ON SALE OF LAND/BUILDINGS AND OTHER ASSETS		
PROFIT	11	1 32 64
LESS: LOSS	<u>4 53 01</u>	<u>(4 52 90)</u>
V. PROFIT ON EXCHANGE TRANSACTIONS		
PROFIT	538 87 26	972 24 73
LESS: LOSS	<u>538 87 26</u>	<u>17 47</u>
VI. INCOME EARNED BY WAY OF DIVIDEND	49 52 78	57 53 05
VII. MISCELLANEOUS INCOME	3792 48 77	2592 26 44
TOTAL	7397 99 93	7852 25 92



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2018

	For the Year ended 31.03.2018 (Rs. '000)	For the Year ended 31.03.2017 (Rs. '000)
SCHEDULE 15 - INTEREST EXPENDED		
I. INTEREST ON DEPOSITS	27136 51 34	29557 77 18
II. INTEREST ON RESERVE BANK OF INDIA/ INTERBANK BORROWINGS	724 56 91	587 73 51
III. OTHERS	1251 81 86	1394 75 89
TOTAL	29112 90 11	31540 26 58

SCHEDULE 16 - OPERATING EXPENSES

	For the Year ended 31.03.2018 (Rs. '000)	For the Year ended 31.03.2017 (Rs. '000)
SCHEDULE 16 - OPERATING EXPENSES		
I. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES	5699 34 97	4962 78 76
II. RENT, TAXES, LIGHTING	951 22 41	854 88 57
III. PRINTING AND STATIONERY	60 78 47	57 89 04
IV. ADVERTISEMENT AND PUBLICITY	61 97 37	42 09 40
V. DEPRECIATION ON BANK'S PROPERTY	456 32 62	331 19 11
VI. DIRECTORS FEES, ALLOWANCES AND EXPENSES	82 56	1 42 55
VII. AUDITORS' FEES AND EXPENSES (INCLUDING BRANCH AUDITORS' FEES AND EXPENSES)	78 85 24	63 10 10
VIII. LAW CHARGES	64 01 28	51 29 71
IX. POSTAGE, TELEGRAMS, TELEPHONES ETC	52 38 73	53 97 40
X. REPAIRS AND MAINTENANCE	286 75 18	240 30 60
XI. INSURANCE	445 58 43	432 00 89
XII. OTHER EXPENDITURE	1679 73 53	1521 23 01
TOTAL	9837 80 79	8612 19 14



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2018

	For the Year ended 31.03.2018 (Rs. '000)	For the Year ended 31.03.2017 (Rs. '000)	
SCHEDULE 17 - SHARE OF EARNINGS / (LOSS) IN ASSOCIATES			
I. CANFIN HOMES LTD	90 53 23	70 57 76	
II. COMMONWEALTH TRUST INDIA LTD	--	--	
III REGIONAL RURAL BANKS			
A. PRAGATHI KRISHNA GRAMIN BANK	75 91 83	70 58 76	
B. KERALA GRAMIN BANK	48 32 78	124 24 61	36 02 77 106 61 53
 TOTAL	 214 77 84	 177 19 29	



CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31.03.2018

Rs. in Crore

		31-Mar-18	31-Mar-17
I CASH FLOW FROM OPERATING ACTIVITIES			
Net profit after Taxes		-3,951.39	1,358.28
ADJUSTMENTS FOR:			
Provisions for Tax		-2,320.62	512.67
Provision for Investment Depreciation		1,891.81	161.04
Provision for Non Performing Assets		14,948.28	7,576.27
Provision for Standard Asset		4.59	26.32
Provision for Contingencies and Others		-644.13	-353.45
Depreciation on fixed assets		456.33	331.19
Loss on revaluation of Investments		0.00	-35.97
Interest on Tier I and Tier II bonds		1,231.69	1,368.52
(Profit) / loss on sale of Investments		-1,934.18	-2,990.74
(Profit) / loss on sale of Fixed Assets		4.53	-1.33
Sub-total		9,686.91	7,952.80
Adjustments for :			
Increase/ (Decrease) in Deposits		29,580.64	15,517.40
Increase/ (Decrease) in Borrowings		17.74	12,259.70
(Increase)/ Decrease in Investments		6,738.52	-6,616.22
(Increase)/ Decrease in Advances		-39,754.44	-17,327.78
(Increase)/ Decrease in Other assets		-6,226.35	-1,593.14
Increase/ (Decrease) in Other liabilities and provisions		-9,669.17	-5,959.33
Increase/ (Decrease) in Minority Interest		23.73	48.84
Cash flow from operating activity before taxation		-9,602.42	4,282.27
Less: Advance Tax paid		1,517.77	1,706.91
NET CASHFLOW FROM OPERATING ACTIVITIES	(A)	-11,120.19	2,575.36
II CASH FLOW FROM INVESTING ACTIVITIES			
(Increase) / Decrease in Investment in Subsidiaries/Associates/JVs		-174.98	39.81
(Increase) / Decrease in Fixed Assets		-459.58	-380.61
Increase / (Decrease) in Other Reserve		81.62	-60.46
NET CASH USED IN INVESTING ACTIVITIES	(B)	-552.94	-401.26
CASH FLOW FROM FINANCING ACTIVITIES			
Share Capital		135.95	54.30
Share Premium		4,729.05	1,069.69
Increase/Decrease in Subordinated Bonds		-700.00	368.64
Payment of interest on Tier I and Tier II bonds		-1,231.69	-1,368.52
Dividends paid including tax paid thereon		-68.44	0.00
NET CASHFLOW FROM FINANCING ACTIVITIES	(C)	2,864.87	124.11
IV CASH FLOW ON ACCOUNT OF EXCHANGE FLUCTUATION			
Reserves of Foreign currency fluctuation		65.48	-74.57
NET CASH FLOWS ON ACCOUNT OF EXCHANGE FLUCTUATION	(D)	65.48	-74.57
Net Increase/ (Decrease) in cash and cash equivalents (A+B+C+D)		-8,742.78	2,223.63
Opening Cash and Cash equivalents		58,967.38	56,743.75
Closing Cash and Cash Equivalents		50,224.60	58,967.38



Notes:

Cash and Cash equivalents includes Cash on hand, Balance with RBI & Other Banks and Money at Call and Short Notice

Components of Cash & Cash Equivalents	31.03.2018	31.03.2017
Cash & Balance with RBI	22 102.41	19 924.49
Balances with Banks and Money at	28 122.19	39 042.89
Total	50 224.60	58 967.38


ARVIND KUMAR
DIVISIONAL MANAGER


M SWAMINATHAN
ASST.GENERAL MANAGER


P VITHOBAN
ASST.GENERAL MANAGER


V RAMACHANDRA
DEPUTY GENERAL MANAGER


M V RAO
EXECUTIVE DIRECTOR


N SIVASANKARAN
GENERAL MANAGER


DEBASHISH MUKHERJEE
EXECUTIVE DIRECTOR


M V RAO
EXECUTIVE DIRECTOR


P V BHARATHI
EXECUTIVE DIRECTOR


RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER


T N MANOHARAN
CHAIRMAN

SUCHINDRA MISRA
DIRECTOR

UMA SHANKAR
DIRECTOR


KRISHNAMURTHY H
DIRECTOR

VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN NO.110266W

J SINGH
PARTNER
MEMBERSHIP NO.042023



For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN NO.307092E


S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO. 018073



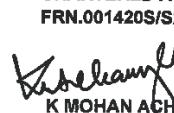
For M/S DAGLIYA & Co.
CHARTERED ACCOUNTANTS
FRN.000671S

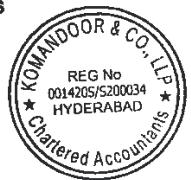
P MANOHARA GUPTA
PARTNER
MEMBERSHIP NO.016444



PLACE : BENGALURU
DATE : 30.05.2018

For M/S KOMANDOOR & Co. LLP
CHARTERED ACCOUNTANTS
FRN.001420S/S200034


K MOHAN ACHARYA
PARTNER
MEMBERSHIP NO.029082





[Head Office: Bangalore]

SCHEDULE – 18

SIGNIFICANT ACCOUNTING POLICIES ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2018

[1] (a) Basis of Preparation of Consolidated Financial Statements

The Consolidated Financial Statements (CFS) of the Bank (Parent), its Subsidiaries, Associates and Joint Venture (Group) are drawn up on historical cost convention and conform in all material aspects to the Generally Accepted Accounting Principles (GAAP) in India, applicable statutory provisions, regulatory norms / guidelines prescribed by Reserve Bank of India (RBI), Insurance Regulatory and Development Authority, Companies Act, 2013, Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the prevalent market practices, in the respective industry / business except as otherwise stated.

(b) Use of Estimates:

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amount of assets, liabilities, expenses, income and disclosure of contingent liabilities as at the date of the financial statements. Management believes that these estimates and assumptions are reasonable and prudent. However, actual results could differ from estimates. Any revision to accounting estimates is recognized in current and future periods.

[2] Consolidation procedure

2.1 CFS of the Group [comprising of Eight (8) Subsidiaries, Three (3) Associates and One (1) Joint Venture] have been prepared on the basis of:

- (a) Audited accounts of Canara Bank (Parent).
- (b) Line by line aggregation of each item of asset / liability / income / expense of the Subsidiaries with the respective item of the Parent, and after eliminating all material intra-group balances / transactions, unrealised profit / loss and making necessary adjustments wherever required for all significant non-uniform accounting policies as per Accounting Standard (AS) 21 (Consolidated Financial Statements) issued by ICAI.
- (c) Long Term Investments in Associates are accounted for under the Equity Method as per Accounting Standard (AS) 23 (Accounting for Investments in Associates in Consolidated Financial Statements) issued by ICAI based on the Audited Financial Statements of the



Associates. The investor's share of the result of the operations of the Associates is reflected separately in the Consolidated Profit & Loss Account.

- (d) Interests in Joint Ventures are consolidated on 'Proportionate consolidation method' as prescribed in Accounting Standard (AS) 27 (Financial Reporting of Interests in Joint Ventures) issued by ICAI.
- 2.2 Minority interest in the CFS consists of the share of the minority shareholders in the net equity / profit of the subsidiaries.
- 2.3 The difference between cost to the Parent of its initial investment in the subsidiaries and the Parent's portion of the equity of the subsidiaries is recognized as goodwill / capital reserve as the case may be.

[3] Foreign Currency Translation / Conversion of Foreign Currencies

- 3.1 Foreign currency monetary items are initially recorded at a notional rate. Foreign currency monetary items are restated at the rate published by Foreign Exchange Dealers' Association of India (FEDAI) at the end of each quarter. Exchange difference arising on restatement of such items at the quarterly rates is recognised in Profit & Loss Account.
- 3.2 Transactions and balances of foreign branches are classified as non-integral foreign operations. Such transactions and balances are consolidated by the Bank (Parent) on quarterly basis.

Assets and Liabilities (both monetary and non-monetary as well as contingent liabilities) are translated at the closing spot rate of exchange announced by Foreign Exchange Dealers' Association of India (FEDAI) as at the end of each quarter and Income and Expenditure items of the foreign branches are translated at the quarterly average rate published by FEDAI in accordance with Accounting Standard (AS) 11 (The effect of Changes in Foreign Exchange rates) issued by the ICAI and as per the guidelines of RBI regarding the compliance of the said standard.

The resultant exchange gain / loss is credited / debited to Foreign Currency Translation Reserve.

3.4 Forward Exchange Contracts

Premium or discount arising at the inception of all forward exchange contracts are amortized as expense or income over the life of the contract. Profit / Loss arising on cancellation of forward exchange contracts, together with unamortized premium or discount, if any, is recognized on the date of termination. Exchange differences on forward contracts are recognized in the Profit & Loss account in the reporting period in which the exchange rates change.



- 3.5 Contingent liabilities in respect of outstanding forward exchange contracts, guarantees, acceptances, endorsements and other obligations are stated in the balance sheet at the closing rates published by FEDAI.

[4] Investments

- 4.1 Classification of investments is made as per the guidelines of the RBI. The entire investment portfolio of the Parent is classified under three categories viz. 'Held to Maturity (HTM)', 'Available for Sale (AFS)' and 'Held for Trading (HFT)'. Such classification is decided at the time of acquisition of securities.

Investments are disclosed in the Balance Sheet under six classifications viz:
(a) Government securities, (b) Other approved securities, (c) Shares, (d) Debentures & Bonds, (e) Investments in Associates and (f) Others.

- 4.2 In determining the acquisition cost of investment:

- (a) Cost such as brokerage, commission etc., relating to securities at the time of purchase are charged to Profit & Loss Account.
- (b) Broken period interest on debt instruments up to the date of acquisition / disposal is treated as revenue.

- 4.3 The valuation of Investments is done in accordance with the guidelines issued by the RBI as under:

(a) Held to Maturity (HTM)

Investments under Held to Maturity category are carried at acquisition cost, net of amortisation, if any. The excess of acquisition cost, if any, over the face value is amortized over the remaining period of maturity.

Investments in Associates are valued under equity method. Any diminution in the value other than temporary in nature is fully provided for.

Investment in sponsored Regional Rural Banks (RRB) and other Trustee Shares are valued at carrying cost.

Investment in units of Venture Capital Funds (VCFs) made after 23.08.2006 are classified under HTM category for initial period of three years and valued at cost.

(b) Available for Sale (AFS)

Investments classified under this category are marked to market on quarterly basis and valued as per RBI guidelines at the market rates available on the last day of each quarter (Balance Sheet date) from trades / quotes on the stock exchanges, prices / yields declared by the Fixed Income Money Market and Derivatives Association of India



(FIMMDA). Unquoted securities are also valued as per the RBI guidelines.

The net depreciation under each category / classification is fully provided for whereas the net appreciation, if any, is ignored. The book value of the individual securities does not undergo any change after these are valued at Mark-to-Market basis.

Units of Venture Capital Funds (VCF) transferred from HTM category after a period of three years [Refer para 4.3 (a) above] are valued at Net Asset Value (NAV) as per the audited financial statements of Venture Capital Funds. In case such audited financial statements are not available continuously for 18 months as on the date of valuation, units are valued at Re. 1 per VCF.

(c) Held for Trading (HFT)

Investments classified under this category are valued at rates based on market quotations, price / yields declared by FIMMDA on a weekly basis.

The net depreciation under each security held is fully provided for whereas the net appreciation, if any, is ignored. The book value of the individual securities does not undergo any change after "marked to market".

4.4 Transfer of scripts from one category to another is carried on the following basis:

- (a) HTM to AFS / HFT category at acquisition price / book value. In case the investments under HTM category are placed at premium originally the transfer is made at amortised cost.
- (b) AFS / HFT to HTM category at lower of the book value or market value.
- (c) AFS to HFT category or vice versa, at the carrying value. The accumulated depreciation, if any, to be transferred to the provision for depreciation against HFT securities and vice versa.

4.5 Security Receipts issued by Securitisation / Reconstruction Company (SC / RC) in respect of financial assets sold by the Bank to the SC / RC are valued at the lower of the redemption value of the Security Receipt or the Net Book Value of the financial asset. The Investment is carried in the books at the price determined as above until its sale or realisation and on such sale or realisation, loss or gain is dealt with as below:

- (a) If sale is at a price below Net Book Value (NBV), the shortfall is recognised as per Reserve Bank of India guidelines.



- (b) If the sale is for a value higher than NBV, the excess provision is not reversed but utilized to meet shortfall / loss on account of sale of other financial assets to SC / RC.
- 4.6 Non-Performing Investments Securities included in any of three categories where interest / principal is in arrears for a specified period, are classified as Non-Performing Investment. Interest Income on such securities is not reckoned and appropriate depreciation / provision in value of Investments is made. Deprecation in respect of such Non-Performing Investments is not set off against appreciation in other performing securities.
- 4.7 **Profit on sale of Investments**
- Profit on sale of Investments in respect of 'Available for Sale' and 'Held for Trading' categories is recognized in Profit & Loss Account.
- Profit on sale of Investments in respect of 'Held to Maturity' category is first taken to the Profit & Loss Account and an equivalent amount of Profit is appropriated to the Capital Reserve (net of taxes and amount required to be transferred to Statutory Reserve).
- Loss on sale of Investments in all the three categories is recognized in Profit & Loss Account.
- 4.8 **Accounting for Repo / Reverse Repo and Liquidity Adjustment Facility (LAF)**

Securities sold/purchased with an agreement to repurchase/resale on the agreed terms under Repo/Reverse Repo including LAF with RBI are recognized as Borrowing/Lending.

[5] **Derivative contracts**

The Bank (Parent) deals in Interest Rate Swaps and Currency Derivatives. The Interest Rate Derivatives dealt by the Bank (Parent) are Rupee Interest Rate Swaps, Cross Currency Interest Rate Swaps and Forward Rate Agreements. Currency Derivatives dealt by the Bank (Parent) are Options and Currency Swaps.

Such derivative contracts are valued as under:

- (a) Derivative contracts dealt for trading are valued on mark-to-market basis, net depreciation is recognized while net appreciation is ignored.
- (b) Derivative contracts undertaken for hedging are:
- (i) Derivative contracts designated as hedges are not marked to market unless their underlying asset is marked to market.



- (ii) Income / Expenditure is recognized on accrual basis for Hedging Swaps.

[6] Advances

- 6.1 Advances are classified as Performing and Non-Performing Assets in accordance with the prudential norms issued by RBI.
- 6.2 Advances are classified into Standard, Sub-Standard, Doubtful and Loss assets borrower-wise.
- 6.3 Provisions for Domestic Advances are made for Performing / Non-Performing Advances in accordance with the RBI Guidelines.
- 6.4 Provisions for performing/ non-performing advances with foreign branches are made as per regulations of host country or according to the norms prescribed by RBI, whichever is more stringent.
- 6.5 Advances stated in the Balance Sheet are net of provisions made for Non-Performing Assets, claims received from Credit Guarantee Institutions and rediscount.
- 6.6 Partial recoveries in Non-Performing Advances are apportioned first towards charges and interest, thereafter towards principal with the exception of Non-Performing advances involving compromise settlements / 'Loan Past Due' advances, where the recoveries are first adjusted towards principal.
- 6.7 In case of financial assets sold to SC / RC, the valuation and income recognition are done as per RBI guidelines.

[7] Fixed Assets

- 7.1 The premises of the Bank include freehold and leasehold properties. All the Fixed Assets are capitalized based on the date of put to use.
- 7.2 Land and Premises are stated at revalued cost and other fixed assets are stated at historical cost. The appreciation on revaluation, if any, is credited to the 'Revaluation Reserve' Account. Depreciation / Amortization attributable to the enhanced value have been debited to the Profit & Loss account. Equivalent amount has been transferred from Revaluation Reserve to Revenue Reserve.

[8] Depreciation

8.1 Parent:

- 8.1.1 Fixed Assets are depreciated under Straight line Method at the rates determined by the management on the basis of estimated useful life of the respective assets except for the Computers where as per the guidelines of RBI, depreciation is charged under straight line method at 33.33%.



- 8.1.2 5 percent residual value has been kept for all the assets except for the assets with estimated useful life of 3 years or 5 years (Eg. computer, Servers and ATMs etc), where the entire cost of the asset is amortized over the useful life.
- 8.1.3 Depreciation on fixed assets in the year of capitalization is charged for the full year if the asset is used for more than 180 days during that financial year; else it is provided at 50 percent of the applicable rate. No depreciation is provided for in the year of sale/disposal.
- 8.1.4 Premium paid on leasehold properties is charged off over the lease period.
- 8.1.5 In respect of fixed assets held at foreign offices, depreciation is provided as per the regulations / norms of the respective countries

8.2 Subsidiaries:

- (a) Fixed Assets of the domestic subsidiaries are depreciated as provided in the Schedule II of the Companies Act, 2013.
 - (b) Intangible assets comprising of software purchase / developed and licensing cost are depreciated on straight-line method over the useful life of the software upto a maximum of 3 years commencing from the date on which software is first utilized.
 - (c) In respect of leased assets depreciation is charged either as per the method and rates prescribed under the Companies Act, 2013 or in the ratio of lease rentals accrued during the year to lease rentals for the entire primary / secondary period of the lease, as per agreements, whichever is higher.
- 8.3 In respect of fixed assets held at foreign offices, depreciation is provided as per the regulations / norms of the respective countries.

[9] Impairment of Assets

An assessment is made at each balance sheet date whether there is any indication that an asset is impaired. If any such indication exists, an estimate of the recoverable amount is made and impairment loss, if any, is provided for.

[10] Revenue Recognition

Income and expenditure are generally accounted on accrual basis, except the following:

- (a) Interest on Non-Performing advances and Non-Performing Investments is recognized as per norms laid down by the RBI.



- (b) Interest on overdue bills, Commission (other than Government business), Exchange, Brokerage and rent on lockers are accounted on realization.
- (c) Dividend is accounted when the right to receive the same is established.
- (d) In case of suit filed accounts, related legal and other expenses incurred are charged to Profit & Loss Account and on recovery the same are accounted as Income.

[11] Life Insurance Company:

(a) Premium:

Premium is recognised as income when due from policy holders, if there is a reasonable certainty of collectability. For unit linked business, income is recognized when the units are allocated. Premium on lapsed policies is recognized as income when such policies are reinstated. Premiums are recognized net of GST/service tax. Top-up premium is considered as single premium.

(b) Income from Linked Business:

Fund management charges, administrative charges, mortality charges and other charges as per the product feature are recovered from linked funds in accordance with terms and conditions of policies and are recognized when due.

(c) Reinsurance Premium:

Reinsurance premium ceded is accounted in accordance with the treaty or in principle arrangement with the re-insurer.

(d) Benefits paid (including claims):

Claims costs consist of the policy benefit amount and claim settlement costs, where applicable. Death claims and rider claims are accounted for on receipt of intimation.

Survival benefit claims and maturity claims are accounted for when due for payment.

Surrenders and withdrawals (net of charges) under unit linked policies are accounted for when associated units are cancelled. Under traditional policies these are accounted for when the intimation for the surrender is received and accepted.

In case of surrender of linked policy within the lock-in period i.e., 5 years from the date of issue of policy (in case of policies issued after 1st September 2010), the surrender value of such policies is invested in a designated fund called 'UL Discontinued Policy Fund' and is paid to the



policyholder on the expiry of the lock-in period along with minimum guaranteed return or actual return, whichever is higher.

In case of insurance products having the feature of waiver of the balance future premiums on the death of the life proposer, the entire future premiums waived are recognised as liability under the benefits paid on the occurrence of death of the life proposer. When the subsequent modal premium becomes due, the said premiums are funded by reducing the aforesaid liability and the premium income is recognized for the same.

Re-insurance recoveries on claims are accounted for, in the same period as the related claims.

(e) **Acquisition Costs:**

Acquisition costs are costs which vary with and are primarily related to acquisition of insurance contracts and are expensed off in the period in which they are incurred. Recovery on account of claw back of the first year commission paid, if any, in future is accounted in the year in which its recovery is due.

(f) **Liability for life policies:**

The value of liabilities is determined in accordance with Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of insurers) Regulations, 2000 and other relevant Regulations issued by IRDA as amended from time to time, the Actuarial Practice Standards (APS 2 and APS 7) issued by the Institute of Actuaries of India and generally accepted actuarial principles in India.

[12] Employee Benefits

(a) **Defined Contribution Plans:** Defined Contribution Plans such as Provident / Pension fund are recognized as an expense and charged to Profit & Loss account.

(b) **Defined Benefit Plans:**

(i) **Gratuity:** The employee Gratuity Fund Scheme is funded by the Bank (Parent) and managed by a separate trust who in turn manages their funds as per guidelines. The present value of the Bank's (Parent) obligation under Gratuity is recognized on actuarial basis as at the year end and the fair value of the Plan assets is reduced from the gross obligation to recognize the obligation on a net basis.

(ii) **Pension:** The employee Pension Fund Scheme is funded by the Bank (Parent) and managed by a separate trust. The present value of the Bank's (Parent) obligations under Pension is recognized on the basis as at the year end and the fair value of the



Plan assets is reduced from the gross obligation to recognize the obligation on a net basis.

- (c) The privilege leave is considered a long term benefit and is recognized based on independent actuarial valuation on 'projected Unit credit method' at each Balance Sheet date.

[13] Provision for Taxation

- (a) Provision for tax is made for both Current and Deferred Taxes.
- (b) Deferred Tax assets and liabilities arising on account of timing differences and which are capable of reversal in subsequent periods are recognized using the tax rates and laws that have been enacted or substantively enacted as of the balance sheet date
- (c) Deferred tax assets are not recognized unless there is virtual certainty that sufficient future taxable income would be available against which such deferred tax assets can be recognized.

[14] Provisions, Contingent Liabilities, Contingent Assets

- (a) In conformity with Accounting Standard (AS) 29 (Provisions, Contingent Liabilities & Contingent Assets) issued by ICAI, the Bank (Parent) recognizes provision only when:
 - (i) It has a present obligation as a result of past event.
 - (ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
 - (iii) When a reliable estimate of the amount of the obligation can be made.
- (b) No provision is recognized for:
 - (i) Any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank (parent).
 - (ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
 - (iii) A reliable estimate of the amount of obligation cannot be made.

Such obligations are recorded as Contingent Liabilities. These are assessed at regular intervals and only that part of the obligation for which the outflow of resources embodying economic benefits is probable, is provided for, except in the extremely rare circumstances where no reliable estimate can be made.



(c) Contingent Assets are not recognized in the financial Statements.

[15] Net Profit

The Net Profit in the Profit & Loss Account is after:

- (a) Provision for Depreciation on Investments.
- (b) Provision for Taxation.
- (c) Provision on Loan Losses
- (d) Provision on Standard Assets.
- (e) Provision for Non-Performing Investments.
- (f) Other usual & necessary items.

[16] Earnings per share:

The Bank (Parent) reports basic and diluted Earnings Per Share in accordance with Accounting Standard (AS) 20 (Earnings per Share). Basic Earnings Per Share is computed by dividing the net profit after tax by the weighted average number of equity shares outstanding during the Year.





[Head Office: Bangalore]

SCHEDULE – 19

NOTES ON ACCOUNTS ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2018

1. The Consolidated Financial Statements (CFS) of the Group comprises the result of the Canara Bank (Parent) and following Subsidiaries, Associates and Joint venture. The financial statements of the Subsidiaries/Associates/Joint venture are drawn upto the same reporting date as that of the Parent i.e. year ended March 31, 2018.

1.1 Subsidiaries:

The following subsidiaries have been considered for consolidation based on their Audited/Unaudited Financial Statements:

Sl. No.	Name of the Subsidiary	Country of incorporation	Audited /Unaudited	Percentage of ownership interest (%) as on 31.03.2018	Percentage of ownership interest (%) as on 31.03.2017
1.	Canbank Financial Services Ltd	India	Audited	100.00%	100.00%
2.	Canbank Venture Capital Fund Ltd	India	Audited	100.00%	100.00%
3.	Canbank Factors Ltd.	India	Unaudited	70.00%	70.00%
4.	Canara Robeco Asset Management Company Ltd	India	Audited	51.00%	51.00%
5.	Canbank Computer Services Ltd	India	Audited	69.14%	69.14%
6.	Canara Bank Securities Ltd. (formerly GILT Securities Trading Corpn. Ltd)	India	Audited	100.00%	100.00%
7.	Canara HSBC Oriental Bank of Commerce Life insurance Company Ltd	India	Audited	51.00%	51.00%
8.	Canara Bank (Tanzania) Ltd	Tanzania	Unaudited	100%	100%



1.2 Associates:

- I. The investment in the following Associates have been considered for the purpose of consolidation based on their Audited Financial Statements:

Sl. No.	Name of the Associates	Country of incorporation	Percentage of ownership interest (%) as on 31.03.2018	Percentage of ownership interest (%) as on 31.03.2017
1.	Canfin Homes Ltd.	India	30.00%	30.00%
2.	Pragathi Krishna Gramin Bank (Erstwhile Pragati Gramin Bank)	India	35.00%	35.00%
3.	Kerala Gramin Bank (Erstwhile South Malabar Gramin Bank)	India	35.00%	35.00%

- II. Commonwealth Trust (India) Ltd., an Associate, in which Parent has 30% holding, could not be considered for consolidation as its financial statements are available only upto 31st March 2016. Considering the unsubstantial financials of the Associate as per the last available financial statements as at 31.03.2016, there is no material impact of non-inclusion of its Financials in the Consolidated Financial Statements.

1.3 Joint Venture:

- a. In respect of Commercial Indo Bank LLC, Moscow, (formerly Commercial Bank of India LLC., Moscow) the Joint Venture entity, incorporated in Russia wherein the Bank has 40% interest, consolidation has been done based on unaudited accounts for the year ended 31st March, 2018. The Accounting year for the joint venture ends on 31st December.
- b. As required by Accounting Standard (AS) - 27 - "Financial Reporting of Interest in Joint Ventures" issued by the Institute of Chartered Accountants of India (ICAI) the amount of the Assets, Liabilities, Income and Expenses of Parent's share in the said Joint Venture is as under:



A. Balance Sheet:

Particulars	(Rs. in Crore)	
	31.03.2018	31.03.2017
Capital & Liabilities		
Capital	95.59	95.11
Reserve & Surplus	(2.25)	12.60
Deposits	68.45	32.45
Borrowings	160.10	146.69
Other Liabilities and Provisions	6.51	1.10
TOTAL	328.40	287.95
Assets		
Cash & Balance with RBI	0.79	0.62
Balance with Banks & Money at Call and Short Notice	129.77	53.63
Investments	150.09	187.43
Advances	47.07	50.91
Fixed Assets	0.07	0.07
Other Assets	0.61	(4.71)
TOTAL	328.40	287.95
Contingent Liabilities	8.56	18.01

B. Profit & Loss Account:

Particulars	(Rs. in Crore)	
	2017-18	2016-17
Income		
Interest Earned	17.60	16.84
Other Income	2.11	3.43
TOTAL	19.71	20.27
Expenditure		
Interest Expended	4.09	3.52
Operating Expenses	4.27	3.20
Provision and Contingencies	25.30	(0.70)
TOTAL	33.66	6.02
PROFIT	(13.95)	14.25

2. The Subsidiaries, Associates and Joint Venture are following Accounting Policies consistently as per the prevalent law and practice, which are different from Parent in a few cases because of respective industry / business / country requirements. In the opinion of the management, as the impact of the same is not material, no adjustment is required in Consolidated Financial Statements.



3. The breakup of Capital Reserve / (Goodwill) arising on the acquisition of various Subsidiaries is as under:

Name of the Subsidiary	31.03.2018	31.03.2017	(Rs. in Crore)
Canbank Factors Limited	2.54	2.54	
Canbank Computer Services Ltd.	0.25	0.25	
Net Capital Reserve	2.79	2.79	

4. Inter Branch transactions and confirmation of balances:

The matching and setting of entries under Inter-Branch/office transactions of the Parent Bank are carried out by the system itself based on Core Banking Solutions (CBS) for the whole of the Bank through Inter Office Adjustment account.

In some of the Group Companies, balances in Sundry Creditors, Sundry Debtors, Loans and Advances etc. are subject to confirmation.

5. Fixed Assets:

Premises include certain properties capitalized and carrying book value of Rs.40.07Crore (Previous year Rs.39.71 Crore) as they have been put to use though conveyance of title deeds is still to be completed.

6. Canbank Financial Services Limited (CANFINA):

Pursuant to the directions of the Reserve Bank of India, Canbank Financial Services Ltd. (CANFINA), a wholly owned Subsidiary whose net worth is totally eroded is not engaged in any of the activities of a Non Banking Financial Company. Further, Reserve Bank of India, has permitted CANFINA a further extension of three years i.e up to January 31, 2020 to dispose off the financial assets. The extension of time is subject to the condition that the company shall not undertake any NBFC type of activity during the period. However, considering the extension permitted upto 31.01.2020, the financials of CANFINA have been consolidated on going concern basis.

7. Fresh Issue of Equity Share Capital:

During the financial year 2017-18, the Parent Bank has issued and allotted 13,59,54,616 Equity shares to Government of India of face value of Rs.10/- each at a premium of Rs.347.84/- per equity share for a total consideration of Rs.4865 Crores on preferential basis on 27.03.2018.



8. Related Party Disclosures:

8.1 Names of Related parties and their relationship with the Bank- Parent – Canara Bank

8.1.1 Key Management Personnel –

- i) Shri. Rakesh Sharma, Managing Director & Chief Executive Officer
- ii) Shri. Harideesh Kumar B, Executive Director (Till 31.05.2017)
- iii) Shri. Dinabandhu Mohapatra, Executive Director (Till 05.05.2017)
- iv) Smt P V Bharathi, Executive Director
- v) Shri M V Rao, Executive Director (From 09.10.2017)
- vi) Shri Debashish Mukherjee, Executive Director (From 19.02.2018)

8.1.2 Parent-

- i) Canara Bank

8.1.3 Subsidiaries –

1	Canbank Financial Services Ltd.
2	Canbank Venture Capital Fund Ltd.
3	Canbank Factors Ltd.
4	Canara Robeco Asset Management Company Ltd.
5	Canbank Computer Services Ltd.
6	Canara Bank Securities Ltd. (formerly GILT Securities Trading Corp. Ltd)
7	Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd
8	Canara Bank (Tanzania) Ltd

8.1.4 Joint Ventures

Commercial Indo Bank LLC. Moscow (formerly Commercial Bank of India LLC. Moscow)

8.1.5 Associates –

1	Canfin Homes Ltd.
2	Commonwealth Trust (India) Ltd.
Regional Rural Banks sponsored by the Bank	
1	Pragati Krishna Gramin Bank (Erstwhile Pragati Gramin Bank)
2	Kerala Gramin Bank (Erstwhile South Malabar Gramin Bank)



8.1.6 Disclosure about transactions with Key Management Personnel is as under:

- (i) Remuneration to Key Management Personnel Rs. 0.83 Crore (Previous Year: Rs. 0.99 Crore)

In terms of paragraph 5 of AS 18, transactions in the nature of Banker-Customer relationship including those with Key Management Personnel and relatives of Key Management Personnel have not been disclosed

9. Earnings Per Share:

9.1 Basic and Diluted Earnings Per Share:

Particulars	2017-2018	2016-2017
Basic and Diluted EPS (Rs.)	(65.95)	24.98

9.2 Computation of EPS:

	Particulars	2017-18	2016-17
A	Net Profit/(Loss) for the year attributable to Equity Shareholders (Rs. in Crore)	(3951.39)	1358.28
B	Weighted Average Number of Equity Shares (Crore)	59.92	54.37
C	No. of Shares outstanding as on 31 st March (Crore)	73.32	59.73
D	Basic and Diluted Earnings per Share (A/B) (Rs.)	(65.95)	24.98
E	Nominal Value per Share (Rs.)	10.00	10.00



10. Deferred Tax Assets and Liabilities:

Net Deferred Tax Assets computed as on 31.03.2018 amounted to Rs 5819.03 Crore (Rs. 1223.03 Crore as on 31.03.2017). The components of Deferred Tax Assets and Deferred Tax Liabilities are as under:

Particulars	Deferred Tax Assets		Deferred Tax Liability	
	31.03.2018	31.03.2017	31.03.2018	31.03.2017
Rs in Crore				
Interest accrued but not due on securities				828.37
Leave Encashment / Gratuity	373.20	338.65		
Depreciation on Fixed Assets			23.22	19.24
Depreciation on Investments			1705.10	1705.10
Unrealised gain on Forward contracts				145.47
Provision made for advances	8289.62	4909.42		
DTL on Special Reserve created u/s 36(1)(viii) of IT Act,1961			1384.32	1384.32
Others	269.89	57.46	1.03	
Deferred Tax Asset / Liability	8933.37	5305.53	3114.34	4082.50

11. Details of Provisions and Contingencies made during the year:

[Rs. in Crore]

Particulars	31.03.2018	31.03.2017
Provision for Depreciation on Investment and NPI	1891.81	161.04
Provision towards NPA	14948.28	7576.27
Provision towards Standard Asset	4.59	26.32
Provision for Tax-(Including Deferred Tax)	(2320.62)	512.67
Provision for Diminution in Fair Value	(516.36)	(360.00)
Provision for assets doubtful of recovery	7.07	35.00
Provision for Country Risk Exposure	(20.72)	13.00
Other Provision and Contingencies –Net	(114.12)	(41.45)
TOTAL	13879.93	7922.85



12. Consolidated Segment Reporting

Part A-Business Segment

	PARTICULARS	YEAR ENDED	
		31.03.2018	31.03.2017
(1)	Segment Revenue		
A	Treasury Operations	12876.12	14427.03
B	Retail Banking Operations	17782.12	16387.47
C	Wholesale Banking Operations	16480.64	17984.63
D	Unallocated	1604.44	509.79
	Total	48743.32	49308.92
	Less: Inter segment Revenue	0.00	0.00
	Income from operations	48743.32	49308.92
(2)	Segment Results		
A	Treasury Operations	4009.59	4197.48
B	Retail Banking Operations	3561.81	2111.83
C	Wholesale Banking Operations	920.78	2461.72
D	Other Banking Operations		0.00
	Total	8492.18	8771.03
E	Unallocated income/expenses(including provisions and contingencies)	(14900.12)	(7024.75)
	Total profit before tax	(6407.94)	1746.28
	Income Tax	(2320.62)	512.67
	Net Profit	(4087.32)	1233.61
	Add: Share of earning in Associates	214.78	177.19
	Less: Minority Interest	78.85	52.52
	Consolidated profit/(loss) for the year attributable to the Group	(3951.39)	1358.28
	Segment Assets		
	Treasury Operations	161990.29	176462.61
	Retail Banking Operations	178009.24	163912.84
	Wholesale Banking Operations	240866.78	218227.64
	Other Banking Operations	0.00	0.00
	Unallocated Assets	50569.16	37555.66
	Total Assets	631435.47	596158.75
	Segment Liabilities		
	Treasury Operations	151133.43	173694.98
	Retail Banking Operations	159268.33	147424.47
	Wholesale Banking Operations	240011.28	202173.02
	Other Banking Operations	0.00	0.00
	Unallocated Liabilities	44124.74	38180.88
	Total Liabilities	594537.78	561473.35
(3)	Capital Employed		
A	Treasury Operations	10856.86	2767.63
B	Retail Banking Operations	18740.91	16488.37



C	Wholesale Banking Operations	855.50	16054.63
D	Other Banking Operations	0.00	0.00
E	Unallocated	6444.42	(625.23)
	Total	36897.69	34685.40

Part B – Geographical Segment:

[Rs. in Crore]

	PARTICULARS	YEAR ENDED	
		31.03.2018	31.03.2017
A	Revenue		
	Domestic	47402.17	48243.46
	International	1341.15	1065.46
	Total	48743.32	49308.92
B	Assets		
	Domestic	575008.21	535025.86
	International	56427.26	61132.89
	Total	631435.47	596158.75

13. The consolidated Reserves of the Group after reckoning Parent's share of accumulated profit / loss of Subsidiaries, Associates and Joint Venture amount to Rs.36164.45 Crore of which Rs. 34871.59 Crore relate to the Parent and the balance Rs. 1292.86 Crore relates to the Subsidiaries, Associates and Joint Venture (Previous year Rs. 34088.11 Crore of which Rs. 33088.25 Crore relate to the Parent and the balance Rs. 999.86 Crore relates to the Subsidiaries, Associates and Joint Venture).
14. Additional statutory information disclosed in individual financial statements of the Parent and Subsidiaries having no bearing on the true and fair view of the Consolidated Financial Statements and also the information pertaining to the items which are not material have not been disclosed in the Consolidated Financial Statements in view of the general clarification issued by the ICAI.
15. **Accounting Standard 28 - Impairment of Assets:**

Assets are reviewed for impairment at the end of the year whenever events or changes in circumstances warrant that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison for the carrying amount of an asset to future net discounted cash flows expected to be generated by the asset. If such an asset is considered to be impaired, the impairment to be recognized and is measured by the amount by which the carrying amount of the asset exceeds the recoverable amount of the asset. However, in the opinion of the Bank's Management, there is no indication of material impairment to the assets during the year to which Accounting Standard 28 - "Impairment of Assets" applies.



16 Figures of the previous year have been regrouped / rearranged / reclassified wherever necessary.

ARVIND KUMAR
DIVISIONAL MANAGER

M SWAMINATHAN
ASSISTANT GENERAL MANAGER

P VITHOBAL
ASSISTANT GENERAL MANAGER

V RAMACHANDRA

DEPUTY GENERAL MANAGER

N SIVASANKARAN

GENERAL MANAGER

DEBASHISH MUKHERJEE
EXECUTIVE DIRECTOR

M.V. RAO
EXECUTIVE DIRECTOR

P. V. BHARATHI
EXECUTIVE DIRECTOR

RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

T.N. MANOHARAN
CHAIRMAN

SUCHINDRA MISRA
DIRECTOR

UMA SHANKAR
DIRECTOR

KRISHNAMURTHY H
DIRECTOR

VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER REPORT OF EVEN DATE

For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN.110266W

J SINGH
PARTNER
MEMBERSHIP NO.042023



For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN.307092E

S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO.018073



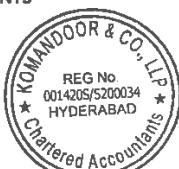
For DAGLIYA & CO.
CHARTERED ACCOUNTANTS
FRN.000671S

P MANOHARA GUPTA
PARTNER
MEMBERSHIP NO.016444



For KOMANDOOR & CO.LLP
CHARTERED ACCOUNTANTS
FRN.001420S/S200034

K MOHAN ACHARYA
PARTNER
MEMBERSHIP NO.029082



PLACE : BENGALURU
DATE : 30.05.2018

J Singh & Associates Chartered Accountants FRN: 110266W	J L Sengupta & Co Chartered Accountants FRN: 307092E
Dagliya & Co. Chartered Accountants FRN: 000671S	Komandoor & Co. LLP Chartered Accountants FRN: 001420S/S200034

**INDEPENDENT AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS**

To

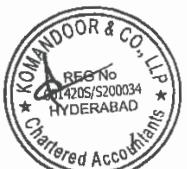
The Board of Directors
Canara Bank

Report on the Consolidated Financial Statements

1. We have audited the accompanying consolidated financial statements of Canara Bank (hereinafter referred to as "the Bank"), in which are incorporated the financial statements of its subsidiaries, associates, and joint ventures (together referred to as "the Group"). The consolidated Financial Statements comprise of the Consolidated Balance Sheet as at 31st March 2018, the Consolidated Profit & Loss Account and the Consolidated Cash Flow Statement for the Year then ended , and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the Consolidated Financial Statements") in which are incorporated:
 - i) Audited financial statements of Bank audited by us.
 - ii) Audited financial statements of six (6) Subsidiaries, and one (1) Associate audited by other auditors.
 - iii) Unaudited accounts of two (2) Subsidiaries, two (2) associates and One (1) Jointly Controlled Entity.

Management's Responsibility for the Consolidated Financial Statements

2. The Bank's Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cashflows of the Group in accordance with the requirements of the Accounting Standard (AS) 21—"Consolidated Financial Statements", Accounting Standard (AS) 23—"Accounting for Investments in Associates in Consolidated Financial Statements" and Accounting Standard (AS) 27 –



"Financial Reporting of Interest in Joint Ventures" issued by the Institute of Chartered Accountants of India, provisions of Section 29 of the Banking Regulation Act, 1949, and the applicable guidelines issued by the Reserve Bank of India from time to time and other accounting principles generally accepted in India . This responsibility of the management of the Bank includes the design, implementation and maintenance of internal controls relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

3. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. While conducting the audit we have taken into account the applicable accounting standards and the standards on auditing issued by the Institute of Chartered Accountants of India.

We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditors consider internal financial control relevant to the Bank's preparation of the consolidated financial statements that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal financial controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management of the entities of the group, as well as evaluating the overall presentation of the consolidated financial statements.
5. We believe that the audit evidence obtained by us and the audit evidence obtained by other auditors in terms of their reports referred to in the Other Matters Paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.



Opinion

6. In our opinion and to the best of our information and according to the explanations given to us and based on our consideration of the reports of other auditors on separate financial statements and on the other financial information of the Subsidiaries, Joint Venture and Associates:
- i) The Consolidated Balance Sheet, read with the accounting policies and notes thereon is a full and fair Consolidated Balance Sheet containing all the necessary particulars and, is properly drawn up so as to exhibit a true and fair view of state of affairs of the Group as at 31st March 2018 in conformity with accounting principles generally accepted in India;
 - ii) The Consolidated Profit and Loss Account, read with the notes thereon shows a true balance of Loss of the Group for the year in conformity with accounting principles generally accepted in India; and
 - iii) The Consolidated Cash Flow Statement gives a true and fair view of the cash flows of the Group for the year ended on that date.

Other Matters

7. (a) We did not audit the financial statements of six (6) subsidiaries whose financial statements reflect total assets of Rs 13602.41 Crores as at 31st March, 2018, total revenues of Rs 896.82 Crores and net cash inflows amounting to Rs 84.27 Crores for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit of Rs 90.53 Crores for the year ended 31st March 2018, as considered in the consolidated financial statements, in respect of one (1) associate, whose financial statements/ financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the Bank and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and associates is based solely on the reports of the other auditors.
- (b) We did not audit the financial statements / financial information of two (2) subsidiaries and one (1) joint venture whose financial statements/financial information reflect total assets of Rs. 1645.15 Crores as at 31st March, 2018, total revenues of Rs. 116.06 Crores and net cash inflows amounting to Rs. 209.43 Crores for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit of Rs.124.25 Crores for the year ended 31st March, 2018 as considered in the consolidated financial statements, in respect of two (2) associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information are unaudited and have been furnished to us by the Management and our opinion on the consolidated financial statements,

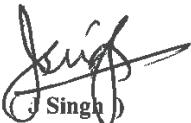
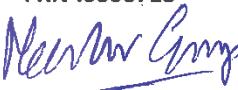
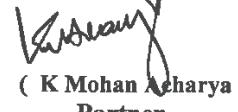


in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, associates and joint venture, is based solely on such unaudited financial statements/ financial information. In our opinion and according to the information and explanations given to us by the Bank, these financial statements/ financial information are not material to the Group.

Our opinion above on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements/ financial information certified by the Bank.

Report on Other Legal and Regulatory Requirements

- 8 i)The Consolidated Balance Sheet and the Consolidated Profit and Loss Account have been drawn up in Form "A" and "B" respectively of the Third Schedule to the Banking Regulation Act, 1949
- ii) In our opinion, the Consolidated Balance Sheet, Consolidated Profit and Loss Account and Consolidated Cash Flow Statement comply with the applicable Accounting Standards prescribed by the Institute of Chartered Accountants of India .

J Singh & Associates Chartered Accountants FRN : 110266W  J Singh Partner Membership No 042023	J L Sengupta & Co. Chartered Accountants FRN : 307092E  (S R Ananthakrishnan) Partner Membership No 018073	Dagliya & Co. Chartered Accountants FRN :000671S  (P Manohara Gupta) Partner Membership No 016444	Komandoor & Co LLP Chartered Accountants FRN : 001420S/ S200034  (K Mohan Acharya) Partner Membership No 029082
---	--	---	--



Place: Bangalore

Date: 30th May, 2018



Head Office Bangalore

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

Particulars	Schedule	As at	As at
		31.03.2017 (Rs. '000)	31.03.2016 (Rs. '000)
CAPITAL AND LIABILITIES			
CAPITAL	1	597 29 02	542 99 10
RESERVES AND SURPLUS	2	34088 11 36	31866 68 32
MINORITY INTEREST	2A	498 07 24	449 23 13
DEPOSITS	3	495266 33 76	479748 93 75
BORROWINGS	4	39591 75 51	26963 42 32
OTHER LIABILITIES AND PROVISIONS	5	26117 18 04	24153 65 70
TOTAL		596158 74 93	563724 92 32
ASSETS			
CASH & BALANCES WITH RESERVE BANK OF INDIA	6	19924 48 73	20665 03 17
BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE	7	39042 88 92	36078 71 36
INVESTMENTS	8	162072 91 95	152469 80 33
ADVANCES	9	342320 14 17	324992 36 19
FIXED ASSETS	10	7184 99 65	7205 76 12
OTHER ASSETS	11	25613 31 51	22313 29 15
TOTAL		596158 74 93	563724 92 32
CONTINGENT LIABILITIES	12	432677 01 95	288149 12 66
BILLS FOR COLLECTION		27176 31 19	26563 00 23

M Swaminathan

M SWAMINATHAN
DIVISIONAL MANAGER

P Vithoba

P VITHOBHA
ASST. GENERAL MANAGER

V Ramachandra

V RAMACHANDRA
DEPUTY GENERAL MANAGER

N Selvarajan

N SELVARAJAN
GENERAL MANAGER

P V Bharathi

P V BHARATHI
EXECUTIVE DIRECTOR

Rakesh Sharma

RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

HariDeesh Kumar B

HARIDEESH KUMAR B
EXECUTIVE DIRECTOR

T N Manoharan

T N MANOHARAN
CHAIRMAN

Suchindra Misra

SUCHINDRA MISRA
DIRECTOR

Uma Shankar

UMA SHANKAR
DIRECTOR

Kishore Murthy H

KISHORE MURTHY H
DIRECTOR

Mahadev Narendra Rao

MAHADEV NARENDRA RAO
DIRECTOR

Venkatachalam Ramakrishna Iyer

VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

For RAMRAJ & Co.
CHARTERED ACCOUNTANTS
FRN NO.002B395

K Siva Subramanya Prasad
PARTNER
MEMBERSHIP NO.024456

For V K NIRANJAN & Co.
CHARTERED ACCOUNTANTS
FRN NO.0024685

NIRANJAN V K
PARTNER
MEMBERSHIP NO.021432

For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN NO.110266W

J Singh
PARTNER
MEMBERSHIP NO.042023



For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN NO.307092E

S Ramanathkrishnan
PARTNER
MEMBERSHIP NO.018073

PLACE : BANGALORE
DATE : 27.05.2017

Canara Bank
Head Office Bangalore

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2017

Particulars	Schedule	Year ended 31.03.2017 (Rs. '000)	Year ended 31.03.2016 (Rs. '000)
I. INCOME			
INTEREST EARNED	13	41456 65 51	44039 48 67
OTHER INCOME	14	7852 25 92	5131 25 80
TOTAL		49308 91 43	49170 74 47
II. EXPENDITURE			
INTEREST EXPENDED	15	31540 26 58	34262 99 15
OPERATING EXPENSES	16	8612 19 14	7591 93 76
PROVISIONS AND CONTINGENCIES		7922 84 81	9986 11 28
TOTAL		48075 30 53	51841 04 19
SHARE OF EARNINGS IN ASSOCIATES	17	177 19 29	132 17 71
CONSOLIDATED NET PROFIT FOR THE YEAR BEFORE DEDUCTING MINORITIES' INTEREST		1410 80 19	-25351 70 01
LESS: MINORITY INTEREST (NET LOSS)		52 52 67	71 88 78
CONSOLIDATED PROFIT FOR THE YEAR ATTRIBUTABLE TO THE GROUP		1358 27 52	-2607 00 79
III. APPROPRIATIONS			
TRANSFERS TO			
STATUTORY RESERVE		281 00 00	45 00
CAPITAL RESERVE		777 00 00	-
INVESTMENT RESERVE		-	-
SPECIAL RESERVE		-	-
INTERIM DIVIDEND		-	-
PROPOSED DIVIDEND		-	-
DIVIDEND TAX		-	-
BALANCE CARRIED OVER TO REVENUE AND OTHER RESERVES		300 27 52	-2607 45 79
TOTAL	18	1358 27 52	2607 00 79
SIGNIFICANT ACCOUNTING POLICIES	19		
NOTES ON ACCOUNTS			
EARNINGS PER SHARE (BASIC AND DILUTED) (IN Rs.)		24.98	-49.69

M S VAMINATHAN
DIVISIONAL MANAGER

P V BHARATHI
EXECUTIVE DIRECTOR

RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

SUCHINDRA MISRA
DIRECTOR

MAHADEV HAGENDRA RAO
DIRECTOR

P VITHOBAI
ASST. GENERAL MANAGER

V RAMACHANDRA
DEPUTY GENERAL MANAGER

N SELVARAJAN
GENERAL MANAGER

HARIDEESH KUMAR
EXECUTIVE DIRECTOR

T N MANOHARAN
CHAIRMAN

KRISHNAMURTHY H
DIRECTOR

VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER OUR REPORT OF EVEN DATE

For RAMRAJ & Co.
CHARTERED ACCOUNTANTS
FRN NO.0028395

K SIVA SUBRAMANYA PRASAD
PARTNER
MEMBERSHIP NO.024456

For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN NO.110766W

J SINGH
PARTNER
MEMBERSHIP NO.042023

For V K NIRANJAN & Co.
CHARTERED ACCOUNTANTS
FRN NO.0024685

NIRANJAN V K
PARTNER
MEMBERSHIP NO.021432

For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN NO.307092E

S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO.018073



PLACE : BANGALORE
DATE : 27.05.2017

CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
<hr/>		
SCHEDULE I - CAPITAL		
I. Authorised Capital (300,00,00,000 Equity Shares of Rs.10/- each)	<u>3000 00 00</u>	<u>3000 00 00</u>
II.Issued,Subscribed and Paid up:		
i) 39,59,90,159 Equity Shares of Rs.10/- each Previous year 35,99,91,054 Equity share of Rs. 10/- each held by Central Government	395 99 02	359 99 10
ii) 20,13,00,000 Equity Shares of Rs.10/- each Previous year 18,30,00,000 Equity Shares of Rs.10/- each held by others.	201 30 00	183 00 00
	<u>597 29 02</u>	<u>542 99 10</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 2 - RESERVES AND SURPLUS		
I Statutory Reserves	8314 06 00	8033 06 00
II Capital Reserves	2255 67 07	1478 67 07
III Capital Reserves on Consolidation	2 79 18	2 79 18
IV Share Premium	6869 35 64	5799 66 41
V Foreign Currency Translation Reserve	116 25 71	190 82 85
VI Revaluation Reserve	5373 14 97	5444 66 30
VII Investment Reserve	565 80 00	565 80 00
VIII Special Reserve in terms of Section 36(1)(viii) of the Income Tax Act, 1961	4000 00 00	4000 00 00
IX Revenue and Other Reserves	6591 02 79	6351 20 51
TOTAL	34088 11 36	31866 68 32

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 2A - MINORITIES INTEREST		
I Minority Interest at the date on which the parent- Subsidiary relationship came into existence	110 15 12	110 15 12
II Subsequent Increase / (Decrease)	387 92 12	339 08 01
TOTAL	498 07 24	449 23 13



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 3 - DEPOSITS		
A. I. DEMAND DEPOSITS		
i. FROM BANKS	201 45 56	334 26 36
ii. FROM OTHERS	22360 27 79	19480 00 09
Total	<u>22561 73 35</u>	<u>19814 26 45</u>
i. SAVINGS BANK DEPOSITS	127170 02 95	103714 84 91
Total	<u>127170 02 95</u>	<u>103714 84 91</u>
III. TERM DEPOSITS		
i. FROM BANKS	33205 65 56	23963 31 34
ii. FROM OTHERS	312328 91 90	332256 51 05
Total	<u>345534 57 46</u>	<u>356219 82 39</u>
TOTAL	<u>495266 33 76</u>	<u>479748 93 75</u>
B. DEPOSITS OF BRANCHES		
i. IN INDIA	454528 93 86	450719 78 55
ii. OUTSIDE INDIA	40737 39 90	29029 15 20
TOTAL	<u>495266 33 76</u>	<u>479748 93 75</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 4 - BORROWINGS		
I. BORROWINGS IN INDIA		
i. RESERVE BANK OF INDIA	700 00 00	--
ii. OTHER BANKS	11204 77 74	--
iii. OTHER INSTITUTIONS AND AGENCIES	2147 84 54	559 32 32
iv. UNSECURED REDEEMABLE BONDS (IPDI AND SUB-ORDINATED DEBT)	14014 60 00	11989 60 00
Total	28067 22 28	12548 92 32
II. BORROWINGS OUTSIDE INDIA		
i. OTHER BANKS	11524 53 23	12758 14 16
ii. UNSECURED REDEEMABLE BONDS (SUB-ORDINATED DEBT)	1656 35 84	
Total	11524 53 23	14414 50 00
TOTAL	39591 75 51	26963 42 32

SCHEDULE 5 - OTHER LIABILITIES & PROVISIONS

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
I. BILLS PAYABLE	1355 70 48	1270 24 52
II. INTER OFFICE ADJUSTMENT (NET)	940 69 16	460 11 77
III. INTEREST ACCRUED	1878 98 66	1875 60 04
IV. DEFERRED TAX LIABILITY		
V. OTHERS (INCLUDING PROVISIONS)	21941 79 74	20547 69 37
TOTAL	26117 18 04	24153 65 70



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 6-CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I. CASH IN HAND (Including Foreign Currency Notes)	<u>1848 38 26</u>	<u>2012 84 80</u>
II. BALANCES WITH RESERVE BANK OF INDIA		
- IN CURRENT ACCOUNT	<u>18076 10 47</u>	<u>18652 18 37</u>
Total	<u>18076 10 47</u>	<u>18652 18 37</u>
TOTAL	<u>19924 48 73</u>	<u>20665 03 17</u>

SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
I. IN INDIA		
i. BALANCE WITH BANKS		
ii. IN CURRENT ACCOUNTS	<u>169 55 19</u>	<u>280 30 52</u>
b. IN OTHER DEPOSIT ACCOUNTS	<u>24 02 18</u>	<u>13 02 52</u>
Total	<u>193 57 37</u>	<u>293 33 04</u>
ii. MONEY AT CALL AND SHORT NOTICE		
a. WITH BANKS	-	1200 00 00
b. WITH OTHER INSTITUTIONS	-	-
Total	<u>193 57 37</u>	<u>1200 00 00</u>
Total	<u>193 57 37</u>	<u>1493 33 04</u>
II. OUTSIDE INDIA		
i. IN CURRENT ACCOUNTS	<u>6529 16 88</u>	<u>8712 63 52</u>
ii. IN DEPOSIT ACCOUNTS	<u>25899 09 40</u>	<u>20433 43 42</u>
iii. MONEY AT CALL AND SHORT NOTICE	<u>6421 05 27</u>	<u>5439 31 38</u>
Total	<u>38849 31 55</u>	<u>34585 38 32</u>
TOTAL	<u>39042 88 92</u>	<u>36078 71 36</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 8 - INVESTMENTS		
I. INVESTMENTS IN INDIA : GROSS:	161520 76 14	151777 99 87
LESS: PROVISION FOR DEPRECIATION AND NPI	492 95 07	374 64 55
NET INVESTMENT IN INDIA	161027 81 07	151403 35 32
i. GOVERNMENT SECURITIES	138711 85 63	129991 92 42
ii. OTHER APPROVED SECURITIES	428 32 73	186 89 42
iii. SHARES	6641 78 67	5449 84 76
iv. DEBENTURES AND BONDS	8598 91 80	8169 52 21
v. INVESTMENTS IN ASSOCIATES	1007 45 86	954 17 85
vi. OTHERS (MFs, VCF, CDs, CP ETC.)	5639 46 38	6650 98 66
Total	161027 81 07	151403 35 32
II. INVESTMENTS OUTSIDE INDIA - GROSS	1048 16 00	1076 92 37
LESS : PROVISION FOR DEPRECIATION	3 05 12	10 47 36
NET INVESTMENTS OUTSIDE INDIA	1045 10 88	1066 45 01
i. GOVERNMENT SECURITIES (INCLUDING LOCAL AUTHORITIES)	317 06 67	145 47 44
iii. OTHERS	728 04 21	920 97 57
Total	1045 10 88	1066 45 01
TOTAL	162072 91 95	152469 80 33



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 9 - ADVANCES		
A. I. BILLS PURCHASED & DISCOUNTED	15501 26 23	11039 30 97
ii. CASH CREDITS, OVERDRAFTS AND LOANS		
REPAYABLE ON DEMAND	140774 31 41	131029 19 20
iii. TERM LOANS	186044 56 53	182923 86 02
Total	<u>342320 14 17</u>	<u>324992 36 19</u>
i. SECURED BY TANGIBLE ASSETS	275149 51 64	265373 85 60
(INCLUDING ADVANCES AGAINST BOOK DEBTS)		
ii. COVERED BY BANK / GOVT. GUARANTEES	13031 72 99	14048 06 37
iii. UNSECURED	54138 89 54	45570 44 22
Total	<u>342320 14 17</u>	<u>324992 36 19</u>
C. ADVANCES IN INDIA		
i. PRIORITY SECTOR	136718 80 28	124952 09 90
ii. PUBLIC SECTOR	12034 69 38	24180 47 26
iii. BANKS	21 87 37	17 54 92
iv. OTHERS	166403 29 12	153956 33 57
TOTAL	<u>315178 66 15</u>	<u>303106 45 65</u>
II. ADVANCES OUTSIDE INDIA		
i. Due from Banks	35 97 62	13 25 10
ii. Due from Others		
(a) BILLS PURCHASED AND DISCOUNTED	8232 93 14	4137 55 93
(b) TERM / SYNDICATED LOANS	7547 83 13	9479 37 81
(c) OTHERS	11324 74 13	8255 71 70
Total	<u>27141 48 02</u>	<u>21885 90 54</u>
TOTAL	<u>342320 14 17</u>	<u>324992 36 19</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 10 - FIXED ASSETS		
I. PREMISES		
AT COST / VALUATION AS PER LAST BALANCE SHEET	6681 11 62	6650 07 43
ADDITIONS DURING THE YEAR	<u>87 69 85</u>	<u>31 36 37</u>
	<u>6768 81 47</u>	<u>6681 43 80</u>
REVALUATION MADE DURING THE YEAR		
DEDUCTIONS DURING THE YEAR	<u>9 49 82</u>	<u>32 18</u>
	<u>6759 31 65</u>	<u>6681 11 62</u>
DEPRECIATION TO DATE	<u>709 16 76</u>	<u>6050 14 89</u> <u>630 89 48</u> <u>6050 22 14</u>
II. OTHER FIXED ASSETS		
(INCLUDING FURNITURE & FIXTURES)		
AT COST AS PER LAST BALANCE SHEET	3461 21 95	3214 43 60
ADDITIONS DURING THE YEAR	<u>315 66 80</u>	<u>369 87 29</u>
	<u>3776 88 75</u>	<u>3584 30 89</u>
DEDUCTIONS DURING THE YEAR	<u>113 81 20</u>	<u>123 08 94</u>
	<u>3663 07 55</u>	<u>3461 21 95</u>
DEPRECIATION TO DATE	<u>2532 43 06</u>	<u>1130 64 49</u> <u>2310 37 77</u> <u>1150 84 18</u>
III. LEASED ASSETS		
AT COST AS PER LAST BALANCE SHEET	93 34 95	96 28 48
ADDITIONS DURING THE YEAR	<u>63 31</u>	<u>95 25</u>
	<u>93 98 26</u>	<u>97 23 73</u>
DEDUCTIONS DURING THE YEAR	<u>3 07 14</u>	<u>3 88 78</u>
	<u>90 91 12</u>	<u>93 34 95</u>
DEPRECIATION TO DATE	<u>84 80 06</u>	<u>86 09 21</u>
	<u>6 11 06</u>	<u>7 25 74</u>
LESS: LEASE TERMINAL ADJUSTMENT ACCOUNT	<u>1 90 79</u>	<u>4 20 27</u> <u>2 68 36</u> <u>4 57 38</u>
IV. CAPITAL WORK IN PROGRESS		12 42
TOTAL	<u>7184 99 65</u>	<u>7205 76 12</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 11 - OTHER ASSETS		
I. INTEREST ACCRUED	4534 42 07	4362 23 16
II. TAX PAID IN ADVANCE/TAX DEDUCTED AT SOURCE (NET)	6394 04 84	6323 06 49
III. STATIONERY AND STAMPS	12 47 94	13 40 67
IV. NON BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS	32 13	32 13
V. OTHERS	13449 01 04	11544 00 61
VI. DEFERRED TAX ASSETS	1223 03 49	70 22 09
TOTAL	<u>25613 31 51</u>	<u>22313 25 15</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2017

	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. CLAIMS AGAINST THE BANK NOT ACKNOWLEDGED AS DEBTS	9809 83 34	5997 79 40
II. LIABILITY FOR PARTLY PAID INVESTMENTS	36 00	36 00
III. LIABILITY ON ACCOUNT OF OUTSTANDING FORWARD EXCHANGE CONTRACTS	354452 23 49	221936 97 80
IV. GUARANTEES GIVEN ON BEHALF OF CONSTITUENTS		
a. IN INDIA	40164 95 12	38771 32 57
b. OUTSIDE INDIA	<u>137 01 60</u>	<u>132 92 76</u>
	40301 96 72	38904 25 33
V. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS	26421 39 73	19821 44 14
VI. OTHER ITEMS FOR WHICH THE BANK IS CONTINGENTLY LIABLE		
a. BILLS OF EXCHANGE REDISCOUNTED	-	--
b. OTHERS	<u>1691 22 67</u>	<u>1488 29 99</u>
	<u>1691 22 67</u>	<u>1488 29 99</u>
TOTAL	<u>432677 01 95</u>	<u>288149 12 66</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2017

	For the Year ended 31.03.2017 (Rs. '000)	For the Year ended 31.03.2016 (Rs. '000)
SCHEDULE 13 - INTEREST EARNED		
I. INTEREST/DISCOUNT ON ADVANCES/BILLS	29573 97 76	31334 73 55
II. INCOME ON INVESTMENTS	10772 70 39	11458 61 19
III. INTEREST ON BALANCES WITH RBI AND OTHER INTER BANK FUNDS	779 60 53	884 37 80
IV. OTHERS	330 36 83	361 76 13
TOTAL	41456 65 51	44039 48 67

	For the Year ended 31.03.2017 (Rs. '000)	For the Year ended 31.03.2016 (Rs. '000)
SCHEDULE 14 - OTHER INCOME		
I. COMMISSION, EXCHANGE AND BROKERAGE	1274 29 41	994 26 75
II. PROFIT ON SALE OF INVESTMENTS		
PROFIT	3028 72 86	969 67 32
LESS: LOSS	<u>37 99 02</u>	<u>2990 73 84</u> <u>-28 47 88</u> 998 15 20
III. PROFIT ON REVALUATION OF INVESTMENTS		
LESS: LOSS ON REVALUATION OF INVESTMENTS	<u>35 96 72</u>	<u>-35 96 72</u> 0
IV. PROFIT ON SALE OF LAND/BUILDINGS AND OTHER ASSETS		
PROFIT	1 32 64	3 35 56
LESS: LOSS	<u>1 32 64</u>	<u>3 93 45</u> - 57 89
V. PROFIT ON EXCHANGE TRANSACTIONS		
PROFIT	972 24 73	674 51 57
LESS: LOSS	<u>17 47</u>	<u>972 07 26</u> <u>5 00 60</u> 669 50 97
VI. INCOME EARNED BY WAY OF DIVIDEND	57 53 05	68 42 06
VII. MISCELLANEOUS INCOME	2592 26 44	2401 48 71
TOTAL	7852 25 92	5131 25 80



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2017

	For the Year ended 31.03.2017 (Rs. '000)	For the Year ended 31.03.2016 (Rs. '000)
SCHEDULE 15 - INTEREST EXPENDED		
I. INTEREST ON DEPOSITS	29557 77 18	32340 31 85
II. INTEREST ON RESERVE BANK OF INDIA/ INTERBANK BORROWINGS	587 73 51	867 82 14
III. OTHERS	1394 75 89	1054 85 16
TOTAL	<u>31540 26 58</u>	<u>34262 99 15</u>
SCHEDULE 16 - OPERATING EXPENSES		
I. PAYMENTS TO AND PROVISIONS FOR EMPLOYEES	4962 78 76	4489 51 92
II. RENT, TAXES, LIGHTING	854 88 57	785 32 80
III. PRINTING AND STATIONERY	57 89 04	43 46 53
IV. ADVERTISEMENT AND PUBLICITY	42 09 40	30 62 76
V. DEPRECIATION ON BANK'S PROPERTY (NET OF TRANSFER FROM REVALUATION RESERVE)	331 19 11	172 02 98
VI. DIRECTORS FEES, ALLOWANCES AND EXPENSES	1 42 55	1 83 29
VII. AUDITORS' FEES AND EXPENSES (INCLUDING BRANCH AUDITORS' FEES AND EXPENSES)	63 10 10	59 40 03
VIII. LAW CHARGES	51 29 71	37 41 33
IX. POSTAGE, TELEGRAMS, TELEPHONES ETC	53 97 40	55 22 04
X. REPAIRS AND MAINTENANCE	240 30 60	210 16 52
XI. INSURANCE	432 00 89	427 32 47
XII. OTHER EXPENDITURE	1521 23 01	1279 61 09
TOTAL	<u>8612 19 14</u>	<u>7591 93 76</u>



CANARA BANK, HO, BANGALORE

SCHEDULES FORMING PART OF THE CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2017

	For the Year ended 31.03.2017 (Rs. '000)	For the Year ended 31.03.2016 (Rs. '000)
SCHEDULE 17 - SHARE OF EARNINGS / (LOSS) IN ASSOCIATES		
I. CANFIN HOMES LTD	70 57 76	68 26 22
II. COMMONWEALTH TRUST INDIA LTD	--	--
III. CREDIT ANALYSIS AND RESEARCH LTD	--	--
IV. REGIONAL RURAL BANKS		
A. PRAGATHI KRISHNA GRAMIN BANK	70 58 76	40 56 43
B. KERALA GRAMIN BANK	36 02 77	106 61 53
	177 19 29	135 17 71
TOTAL		



CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31.03.2017

		Rs. In Crore	
		31-Mar-17	31-Mar-16
I CASH FLOW FROM OPERATING ACTIVITIES			
Net profit after Taxes		1358.28	(2607.01)
ADJUSTMENTS FOR:			
Provisions for Tax		512.67	(378.52)
Provision for Investment Depreciation		161.04	267.75
Provision for Non Performing Assets		7576.27	9641.37
Provision for Standard Asset		26.32	(459.28)
Provision for Contingencies and Others		(353.45)	924.79
Depreciation on fixed assets		331.19	172.03
Loss on revaluation of Investments		(35.97)	0.00
Interest on Tier I and Tier II bonds		1368.52	1073.08
(Profit) / loss on sale of Investments		(2990.74)	(998.15)
(Profit) / loss on sale of Fixed Assets		(1.33)	0.58
Sub-total		7952.80	7606.64
Adjustments for :			
Increase/ (Decrease) in Deposits		15517.40	6073.95
Increase/ (Decrease) in Borrowings		12259.70	2769.44
(Increase)/ Decrease in Investments		(662.22)	742.73
(Increase)/ Decrease in Advances		(17327.78)	5301.51
(Increase)/ Decrease in Other assets		(1593.14)	(279.55)
Increase/ (Decrease) in Other liabilities and provisions		(5959.33)	(11380.10)
Increase/ (Decrease) in Minority Interest		48.84	70.58
Cash flow from operating activity before taxation		4282.27	30855.20
Less: Advance tax paid		1706.91	1509.28
NET CASHFLOW FROM OPERATING ACTIVITIES	(A)	2575.36	9345.92
II CASH FLOW FROM INVESTING ACTIVITIES			
(Increase) / Decrease in Investment in Subsidiaries/Associates/JVs		39.81	(92.68)
(Increase) / Decrease in Fixed Assets		(380.61)	(369.57)
Increase / (Decrease) in Other Reserve		(60.46)	(22.62)
NET CASH USED IN INVESTING ACTIVITIES	(B)	(401.26)	(184.87)
III CASH FLOW FROM FINANCING ACTIVITIES			
Share Capital		54.30	67.79
Share Premium		1069.69	2399.53
Increase/Decrease in Subordinated Bonds		368.64	(1568.84)
Payment of interest on Tier I and Tier II bonds		(1368.52)	(1053.08)
Dividends paid including tax paid thereon		0.00	(651.73)
NET CASHFLOW FROM FINANCING ACTIVITIES	(C)	124.11	(806.33)
IV CASH FLOW ON ACCOUNT OF EXCHANGE FLUCTUATION			
Reserves of Foreign currency fluctuation		(74.57)	41.46
NET CASH FLOWS ON ACCOUNT OF EXCHANGE FLUCTUATION	(D)	(74.57)	41.46
Net Increase/ (Decrease) in cash and cash equivalents (A+B+C+D)		2223.63	8096.38
Opening Cash and Cash equivalents		56743.75	48647.56
Closing Cash and Cash Equivalents		58967.38	56743.75



Notes:

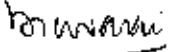
Cash and Cash equivalents includes Cash on hand, Balance with RBI & Other Banks and Money at Call and Short Notice

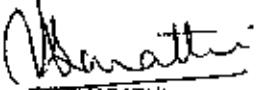
Components of Cash & Cash Equivalents	31.03.2017	31.03.2016
Cash & Balance with RBI	19 924.49	20 665.03
Balances with Banks and Money at Call and Short Notice	39 042.89	36 078.72
Total	58 967.38	56 743.75


M SWAMINATHAN
DIVISIONAL MANAGER

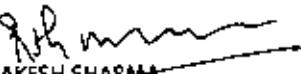

P VITHOBAJ. J.
ASST.GENERAL MANAGER


V RAMACHANDRA
DEPUTY GENERAL MANAGER


N SELVARAJAN
GENERAL MANAGER


P V BHARATHI
EXECUTIVE DIRECTOR


HARIDEESH KUMAR B
EXECUTIVE DIRECTOR


RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

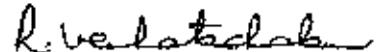

T N MANOHARAN
CHAIRMAN


SUCHINDRA MISRA
DIRECTOR


UMA SHANKAR
DIRECTOR


KRISHNAMURTHY H
DIRECTOR


MAHADEV NAGENDRA RAO
DIRECTOR


VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER OUR REPORT OF EVEN DATE

For RAMRAJ & Co.
CHARTERED ACCOUNTANTS
FRN NO.0028395


K SIVA SUBRAMANYA PRASAD
PARTNER
MEMBERSHIP NO.024456

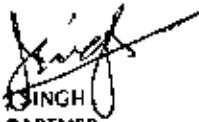


For V K NIRANJAN & Co.
CHARTERED ACCOUNTANTS
FRN NO.0024585


NIRANJAN V K
PARTNER
MEMBERSHIP NO.021432



For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN NO.110266W


J SINGH
PARTNER
MEMBERSHIP NO.042023



For J L SENGUPTA & Co.,
CHARTERED ACCOUNTANTS
FRN NO.307092E


S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO. 018073



PLACE : BENGALURU
DATE : 27.05.2017



[Head Office: Bangalore]

SCHEDULE – 18

SIGNIFICANT ACCOUNTING POLICIES ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2017

[1] (a) Basis of Preparation of Consolidated Financial Statements

The Consolidated Financial Statements (CFS) of the Bank (Parent), its Subsidiaries, Associates and Joint Venture (Group) are drawn up on historical cost convention and conform in all material aspects to the Generally Accepted Accounting Principles (GAAP) in India, applicable statutory provisions, regulatory norms / guidelines prescribed by Reserve Bank of India (RBI), Insurance Regulatory and Development Authority, Companies Act, 2013, Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the prevalent market practices, in the respective industry / business except as otherwise stated.

(b) Use of Estimates:

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amount of assets, liabilities, expenses, income and disclosure of contingent liabilities as at the date of the financial statements. Management believes that these estimates and assumptions are reasonable and prudent. However, actual results could differ from estimates. Any revision to accounting estimates is recognized in current and future periods.

[2] Consolidation procedure

2.1 CFS of the Group [comprising of Eight (8) Subsidiaries, Three (3) Associates and One (1) Joint Venture] have been prepared on the basis of:

- (a) Audited accounts of Canara Bank (Parent).**
- (b) Line by line aggregation of each item of asset / liability / income / expense of the Subsidiaries with the respective item of the Parent, and after eliminating all material intra-group balances / transactions, unrealised profit / loss and making necessary adjustments wherever required for all significant non-uniform accounting policies as per Accounting Standard (AS) 21 (Consolidated Financial Statements) issued by ICAI.**
- (c) Long Term Investments in Associates are accounted for under the Equity Method as per Accounting Standard (AS) 23 (Accounting for Investments in Associates in Consolidated Financial Statements) issued by ICAI based on the Audited Financial Statements of the Associates. The investor's share of the result of the operations of the Associates is reflected separately in the Consolidated Profit & Loss Account.**



- (d) Interests in Joint Ventures are consolidated on 'Proportionate consolidation method' as prescribed in Accounting Standard (AS) 27 (Financial Reporting of Interests in Joint Ventures) issued by ICAI.
- 2.2 Minority interest in the CFS consists of the share of the minority shareholders in the net equity / profit of the subsidiaries.
- 2.3 The difference between cost to the Parent of its initial investment in the subsidiaries and the Parent's portion of the equity of the subsidiaries is recognized as goodwill / capital reserve as the case may be.
- [3] **Foreign Currency Translation / Conversion of Foreign Currencies**
- 3.1 Foreign currency monetary items are initially recorded at a notional rate. Foreign currency monetary items are restated at the rate published by Foreign Exchange Dealers' Association of India (FEDAI) at the end of each quarter. Exchange difference arising on restatement of such items at the quarterly rates is recognised in Profit & Loss Account.
- 3.2 Transactions and balances of foreign branches are classified as non-integral foreign operations. Such transactions and balances are consolidated by the Bank (Parent) on quarterly basis.

Assets and Liabilities (both monetary and non-monetary as well as contingent liabilities) are translated at the closing spot rate of exchange announced by Foreign Exchange Dealers' Association of India (FEDAI) as at the end of each quarter and Income and Expenditure items of the foreign branches are translated at the quarterly average rate published by FEDAI in accordance with Accounting Standard (AS) 11 (The effect of Changes in Foreign Exchange rates) issued by the ICAI and as per the guidelines of RBI regarding the compliance of the said standard.

The resultant exchange gain / loss is credited / debited to Foreign Currency Translation Reserve.

3.4 **Forward Exchange Contracts**

Premium or discount arising at the inception of all forward exchange contracts are amortized as expense or income over the life of the contract. Profit / Loss arising on cancellation of forward exchange contracts, together with unamortized premium or discount, if any, is recognized on the date of termination. Exchange differences on forward contracts are recognized in the Profit & Loss account in the reporting period in which the exchange rates change.

3.5 Contingent liabilities in respect of outstanding forward exchange contracts, guarantees, acceptances, endorsements and other obligations are stated in the balance sheet at the closing rates published by FEDAI.



[4] Investments

4.1 Classification of investments is made as per the guidelines of the RBI. The entire investment portfolio of the Parent is classified under three categories viz. 'Held to Maturity (HTM)', 'Available for Sale (AFS)' and 'Held for Trading (HFT)'. Such classification is decided at the time of acquisition of securities.

Investments are disclosed in the Balance Sheet under six classifications viz: (a) Government securities, (b) Other approved securities, (c) Shares, (d) Debentures & Bonds, (e) Investments in Associates and (f) Others.

4.2 In determining the acquisition cost of investment:

- (a) Cost such as brokerage, commission etc., relating to securities at the time of purchase are charged to Profit & Loss Account.
- (b) Broken period interest on debt instruments up to the date of acquisition / disposal is treated as revenue.

4.3 The valuation of Investments is done in accordance with the guidelines issued by the RBI as under:

(a) **Held to Maturity (HTM)**

Investments under Held to Maturity category are carried at acquisition cost, net of amortisation, if any. The excess of acquisition cost, if any, over the face value is amortized over the remaining period of maturity.

Investments in Associates are valued under equity method. Any diminution in the value other than temporary in nature is fully provided for.

Investment in sponsored Regional Rural Banks (RRB) and other Trustee Shares are valued at carrying cost.

Investment in units of Venture Capital Funds (VCFs) made after 23.08.2006 are classified under HTM category for initial period of three years and valued at cost.

(b) **Available for Sale (AFS)**

Investments classified under this category are marked to market on quarterly basis and valued as per RBI guidelines at the market rates available on the last day of each quarter (Balance Sheet date) from trades / quotes on the stock exchanges, prices / yields declared by the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Unquoted securities are also valued as per the RBI guidelines.

The net depreciation under each category / classification is fully provided for whereas the net appreciation, if any, is ignored. The book value of the individual securities does not undergo any change after these are valued at Mark-to-Market basis.



Units of Venture Capital Funds (VCF) transferred from HTM category after a period of three years [Refer para 4.3 (a) above] are valued at Net Asset Value (NAV) as per the audited financial statements of Venture Capital Funds. In case such audited financial statements are not available continuously for 18 months as on the date of valuation, units are valued at Re. 1 per VCF.

(c) **Held for Trading (HFT)**

Investments classified under this category are valued at rates based on market quotations, price / yields declared by FIMMDA on a weekly basis.

The net depreciation under each security held is fully provided for whereas the net appreciation, if any, is ignored. The book value of the individual securities does not undergo any change after "marked to market".

4.4 Transfer of scrips from one category to another is carried on the following basis:

- (a) HTM to AFS / HFT category at acquisition price / book value. In case the investments under HTM category are placed at premium originally the transfer is made at amortised cost.
- (b) AFS / HFT to HTM category at lower of the book value or market value.
- (c) AFS to HFT category or vice versa, at the carrying value. The accumulated depreciation, if any, to be transferred to the provision for depreciation against HFT securities and vice versa.

4.5 Security Receipts issued by Securitisation / Reconstruction Company (SC / RC) in respect of financial assets sold by the Bank to the SC / RC are valued at the lower of the redemption value of the Security Receipt or the Net Book Value of the financial asset. The Investment is carried in the books at the price determined as above until its sale or realisation and on such sale or realisation, loss or gain is dealt with as below:

- (a) If sale is at a price below Net Book Value (NBV), the shortfall is recognised as per Reserve Bank of India guidelines.
- (b) If the sale is for a value higher than NBV, the excess provision is not reversed but utilized to meet shortfall / loss on account of sale of other financial assets to SC / RC.

4.6 Non-Performing Investments Securities included in any of three categories where interest / principal is in arrears for a specified period, are classified as Non-Performing Investment. Interest Income on such securities is not reckoned and appropriate depreciation / provision in value of Investments is made. Deprecation in respect of such Non-Performing Investments is not set off against appreciation in other performing securities.



4.7 Profit on sale of Investments

Profit on sale of Investments in respect of 'Available for Sale' and 'Held for Trading' categories is recognized in Profit & Loss Account.

Profit on sale of Investments in respect of 'Held to Maturity' category is first taken to the Profit & Loss Account and an equivalent amount of Profit is appropriated to the Capital Reserve (net of taxes and amount required to be transferred to Statutory Reserve).

Loss on sale of Investments in all the three categories is recognized in Profit & Loss Account.

4.8 Accounting for Repo / Reverse Repo and Liquidity Adjustment Facility (LAF)

Securities sold/purchased with an agreement to repurchase/resale on the agreed terms under Repo/Reverse Repo including LAF with RBI are recognized as Borrowing/Lending.

[5] Derivative contracts

The Bank (Parent) deals in Interest Rate Swaps and Currency Derivatives. The Interest Rate Derivatives dealt by the Bank (Parent) are Rupee Interest Rate Swaps, Cross Currency Interest Rate Swaps and Forward Rate Agreements. Currency Derivatives dealt by the Bank (Parent) are Options and Currency Swaps.

Such derivative contracts are valued as under:

- (a) Derivative contracts dealt for trading are valued on mark-to-market basis, net depreciation is recognized while net appreciation is ignored.
- (b) Derivative contracts undertaken for hedging are:
 - (i) Derivative contracts designated as hedges are not marked to market unless their underlying asset is marked to market.
 - (ii) Income / Expenditure is recognized on accrual basis for Hedging Swaps.

[6] Advances

- 6.1 Advances are classified as Performing and Non-Performing Assets in accordance with the prudential norms issued by RBI.
- 6.2 Advances are classified into Standard, Sub-Standard, Doubtful and Loss assets borrower-wise.



- 6.3 Provisions for Domestic Advances are made for Performing / Non-Performing Advances in accordance with the RBI Guidelines.
- 6.4 Provisions for performing/ non-performing advances with foreign branches are made as per regulations of host country or according to the norms prescribed by RBI, whichever is more stringent.
- 6.5 Advances stated in the Balance Sheet are net of provisions made for Non-Performing Assets, claims received from Credit Guarantee Institutions and rediscount.
- 6.6 Partial recoveries in Non-Performing Advances are apportioned first towards charges and interest, thereafter towards principal with the exception of Non-Performing advances involving compromise settlements / 'Loan Past Due' advances, where the recoveries are first adjusted towards principal.
- 6.7 In case of financial assets sold to SC / RC, the valuation and income recognition are done as per RBI guidelines.

[7] Fixed Assets

- 7.1 The premises of the Bank include freehold and leasehold properties. All the Fixed Assets are capitalised based on the date of put to use.
- 7.2 Premises and other Fixed Assets are stated at historical cost except wherever revalued. The appreciation on revaluation, if any, is credited to the 'Revaluation Reserve' Account. Depreciation / Amortization attributable to the enhanced value is transferred from Revaluation Reserve to the credit of Depreciation in the Profit and Loss Account.

[8] Depreciation

8.1 Parent:

- 8.1.1 Fixed Assets are depreciated under Straight Line Method at the rates determined by the management on the basis of estimated useful life of the respective assets except for the Computers where as per the guidelines of RBI, depreciation is charged under straight line method at 33.33%.
- 8.1.2 5 percent residual value has been kept for all the assets except for the assets with estimated useful life of 3 years or 5 years (Eg. computer, Servers and ATMs etc), where the entire cost of the asset is amortized over the useful life.
- 8.1.3 Depreciation on fixed assets in the year of capitalization is charged for the full year if the asset is used for more than 180 days during that financial year; else it is provided at 50 percent of the applicable rate. No depreciation is provided for in the year of sale/disposal.
- 8.1.4 Premium paid on leasehold properties is charged off over the lease period.



8.1.5 In respect of fixed assets held at foreign offices, depreciation is provided as per the regulations / norms of the respective countries

8.2 **Subsidiaries:**

- (a) Fixed Assets of the domestic subsidiaries are depreciated as provided in the Schedule II of the Companies Act, 2013.
- (b) Intangible assets comprising of software purchase / developed and licensing cost are depreciated on straight-line method over the useful life of the software upto a maximum of 3 years commencing from the date on which software is first utilized.
- (c) In respect of leased assets depreciation is charged either as per the method and rates prescribed under the Companies Act, 2013 or in the ratio of lease rentals accrued during the year to lease rentals for the entire primary / secondary period of the lease, as per agreements, whichever is higher.

8.3 In respect of fixed assets held at foreign offices, depreciation is provided as per the regulations / norms of the respective countries.

[9] **Impairment of Assets**

An assessment is made at each balance sheet date whether there is any indication that an asset is impaired. If any such indication exists, an estimate of the recoverable amount is made and impairment loss, if any, is provided for.

[10] **Revenue Recognition**

Income and expenditure are generally accounted on accrual basis, except the following:

- (a) Interest on Non-Performing advances and Non-Performing Investments is recognized as per norms laid down by the RBI.
- (b) Interest on overdue bills, Commission (other than Government business), Exchange, Brokerage and rent on lockers are accounted on realization.
- (c) Dividend is accounted when the right to receive the same is established.
- (d) In case of suit filed accounts, related legal and other expenses incurred are charged to Profit & Loss Account and on recovery the same are accounted as Income.

[11] **Life Insurance Company:**

(a) **Premium:**

Premium is recognised as income when due from policy holders, if there is a reasonable certainty of collectability. For unit linked business, income is recognized when the units are allocated. Premium on lapsed policies is recognized as income when such policies are reinstated. Premiums are



recognized net of service tax. Top-up premium is considered as single premium.

(b) **Income from Linked Business:**

Fund management charges, administrative charges, mortality charges and other charges as per the product feature are recovered from linked funds in accordance with terms and conditions of policies and are recognized when due.

(c) **Reinsurance Premium:**

Reinsurance premium ceded is accounted in accordance with the treaty or in principle arrangement with the re-insurer.

(d) **Benefits paid (including claims):**

Claims costs consist of the policy benefit amount and claim settlement costs, where applicable. Death claims and rider claims are accounted for on receipt of intimation.

Survival benefit claims and maturity claims are accounted for when due for payment.

Surrenders and withdrawals (net of charges) under unit linked policies are accounted for when associated units are cancelled. Under traditional policies these are accounted for when the intimation for the surrender is received and accepted.

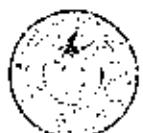
In case of surrender of linked policy within the lock-in period i.e., 5 years from the date of issue of policy (in case of policies issued after 1st September 2010), the surrender value of such policies is invested in a designated fund called 'UL Discontinued Policy Fund' and is paid to the policyholder on the expiry of the lock-in period along with minimum guaranteed return or actual return, whichever is higher.

In case of insurance products having the feature of waiver of the balance future premiums on the death of the life proposer, the entire future premiums waived are recognised as liability under the benefits paid on the occurrence of death of the life proposer. When the subsequent modal premium becomes due, the said premiums are funded by reducing the aforesaid liability and the premium income is recognized for the same.

Re-insurance recoveries on claims are accounted for, in the same period as the related claims.

(e) **Acquisition Costs:**

Acquisition costs are costs which vary with and are primarily related to acquisition of insurance contracts and are expensed off in the period in which they are incurred. Recovery on account of claw back of the first



year commission paid, if any, in future is accounted in the year in which its recovery is due.

(f) **Liability for life policies:**

The value of liabilities is determined in accordance with Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of insurers) Regulations, 2000 and other relevant Regulations issued by IRDA as amended from time to time, the Actuarial Practice Standards (APS 2 and APS 7) issued by the Institute of Actuaries of India and generally accepted actuarial principles in India.

[12] Employee Benefits

- (a) **Defined Contribution Plans:** Defined Contribution Plans such as Provident / Pension fund are recognized as an expense and charged to Profit & Loss account.
- (b) **Defined Benefit Plans:**
 - (i) **Gratuity:** The employee Gratuity Fund Scheme is funded by the Bank (Parent) and managed by a separate trust who in turn manages their funds as per guidelines. The present value of the Bank's (Parent) obligation under Gratuity is recognized on actuarial basis as at the year end and the fair value of the Plan assets is reduced from the gross obligation to recognize the obligation on a net basis.
 - (ii) **Pension:** The employee Pension Fund Scheme is funded by the Bank (Parent) and managed by a separate trust. The present value of the Bank's (Parent) obligations under Pension is recognized on the basis as at the year end and the fair value of the Plan assets is reduced from the gross obligation to recognize the obligation on a net basis.
- (c) The privilege leave is considered a long term benefit and is recognized based on independent actuarial valuation on 'projected Unit credit method' at each Balance Sheet date.

[13] Provision for Taxation

- (a) Provision for tax is made for both Current and Deferred Taxes.
- (b) Deferred Tax assets and liabilities arising on account of timing differences and which are capable of reversal in subsequent periods are recognized using the tax rates and laws that have been enacted or substantively enacted as of the balance sheet date
- (c) Deferred tax assets are not recognized unless there is virtual certainty that sufficient future taxable income would be available against which such deferred tax assets can be recognized.



[14] Provisions, Contingent Liabilities, Contingent Assets

- (a) In conformity with Accounting Standard (AS) 29 (Provisions, Contingent Liabilities & Contingent Assets) issued by ICAI, the Bank (Parent) recognizes provision only when :
 - (i) It has a present obligation as a result of past event.
 - (ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
 - (iii) When a reliable estimate of the amount of the obligation can be made.
- (b) No provision is recognized for:
 - (i) Any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank (parent).
 - (ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
 - (iii) A reliable estimate of the amount of obligation cannot be made.
- (c) Contingent Assets are not recognized in the financial Statements.

[15] Net Profit

The Net Profit in the Profit & Loss Account is after:-

- (a) Provision for Depreciation on Investments.
- (b) Provision for Taxation.
- (c) Provision on Loan Losses
- (d) Provision on Standard Assets.
- (e) Provision for Non-Performing Investments.
- (f) Other usual & necessary items.

[16] Earnings per share:

The Bank (Parent) reports basic and diluted Earnings Per Share in accordance with Accounting Standard (AS) 20 (Earnings per Share). Basic Earnings Per Share is computed by dividing the net profit after tax by the weighted average number of equity shares outstanding during the Year.





[Head Office: Bangalore]

SCHEDULE – 19

NOTES ON ACCOUNTS ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31st MARCH 2017

- The Consolidated Financial Statements (CFS) of the Group comprises the result of the Canara Bank (Parent) and following Subsidiaries, Associates and Joint venture. The financial statements of the Subsidiaries/Associates/Joint venture are drawn upto the same reporting date as that of the Parent i.e. year ended March 31, 2017.

1.1 Subsidiaries:

The following subsidiaries have been considered for consolidation based on their Audited/Unaudited Financial Statements:

SL. No.	Name of the Subsidiary	Country of incorporation	Audited /Unaudited	Percentage of ownership interest (%) as on 31.03.2017	Percentage of ownership interest (%) as on 31.03.2016
1.	Canbank Financial Services Ltd	India	Audited	100.00%	100.00%
2.	Canbank Venture Capital Fund Ltd	India	Audited	100.00%	100.00%
3.	Canbank Factors Ltd.	India	Unaudited	70.00%	70.00%
4.	Canara Robeco Asset Management Company Ltd	India	Audited	51.00%	51.00%
5.	Canbank Computer Services Ltd	India	Audited	69.14%	69.14%
6.	Canara Bank Securities Ltd, (formerly GILT Securities Trading Corpn. Ltd)	India	Audited	100.00%	100.00%
7.	Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd	India	Audited	51.00%	51.00%
8.	Canara Bank (Tanzania) Ltd*	Tanzania	Unaudited	100%	--

*The Bank has established its wholly owned banking subsidiary at Dar es Salaam in Tanzania on 9th May 2016, after obtaining licence from Bank of Tanzania (BOT). CBTL is a banking subsidiary and undertakes the core banking activities like accepting deposits and deploying profitably in credit. The capital of the Bank as on 31st March 2017 is TZS 32.83 billion (equivalent to USD 15 million). CBTL is regulated by Bank of



Tanzania, an independent organization regulating the financial services in Tanzania. The Accounting year for the subsidiary ends on 31st December every year.

1.2 Associates:

- I. The investment in the following Associates have been considered for the purpose of consolidation based on their Audited Financial Statements:

Sl. No.	Name of the Associates	Country of incorporation	Percentage of ownership interest (%) as on 31.03.2017	Percentage of ownership interest (%) as on 31.03.2016
1.	Canfin Homes Ltd.*	India	30.00%	43.45%
2.	Pragathi Krishna Gramin Bank (Erstwhile Pragati Gramin Bank)	India	35.00%	35.00%
3.	Kerala Gramin Bank (Erstwhile South Malabar Gramin Bank)	India	35.00%	35.00%

*During Financial Year 2016-17, the Parent Bank has offloaded 13.45% of shares held in M/s Canfin Homes Ltd., and realised a profit of Rs.703.91 Crore.

- II. Commonwealth Trust (India) Ltd., an Associate, in which Parent has 30% holding, could not be considered for consolidation as its financial statements are available only upto 31st March 2015. Considering the unsubstantial financials of the Associate as per the last available financial statements as at 31.03.2015, there is no material impact of non-inclusion of its investments in the Consolidated Financial Statements.

1.3 Joint Venture:

- In respect of Commercial Indo Bank LLC, Moscow, (formerly Commercial Bank of India LLC, Moscow) the Joint Venture entity, incorporated in Russia wherein the Bank has 40% interest, consolidation has been done based on unaudited accounts for the year ended 31st March, 2017. The Accounting year for the joint venture ends on 31st December.
- As required by Accounting Standard (AS) - 27 - "Financial Reporting of Interest in Joint Ventures" issued by the Institute of Chartered Accountants of India (ICAI) the amount of the Assets, Liabilities, Income and Expenses of Parent's share in the said Joint Venture is as under:-

A. Balance Sheet:

Particulars	(Rs. in Crore)	
	31.03.2017	31.03.2016
Capital & Liabilities		
Capital	95.11	97.17
Reserve & Surplus	12.60	(27.31)
Deposits	32.45	26.13
Borrowings	146.69	149.87



Other Liabilities and Provisions	1.10	0.58
TOTAL	287.95	246.44
Assets		
Cash & Balance with RBI	0.62	0.46
Balance with Banks & Money at Call and Short Notice	53.63	85.81
Investments	187.43	144.20
Advances	50.91	21.04
Fixed Assets	0.07	0.11
Other Assets	(4.71)	(5.18)
TOTAL	287.95	246.44
Contingent Liabilities	18.01	17.85

B. Profit & Loss Account:

(Rs. in Crore)

Particulars	2016-17	2015-16
Income		
Interest Earned	16.84	17.00
Other Income	3.43	1.47
TOTAL	20.27	18.47
Expenditure		
Interest Expended	3.52	2.77
Operating Expenses	3.20	3.67
Provision and Contingencies	(0.70)	(0.01)
TOTAL	6.02	6.43
PROFIT	14.25	12.04

2. The Subsidiaries, Associates and Joint Venture are following Accounting Policies consistently as per the prevalent law and practice, which are different from Parent in a few cases because of respective industry / business / country requirements. In the opinion of the management, as the impact of the same is not material, no adjustment is required in Consolidated Financial Statements.
3. The breakup of Capital Reserve / (Goodwill) arising on the acquisition of various Subsidiaries is as under:

(Rs. in Crore)

Name of the Subsidiary	31.03.2017	31.03.2016
Canbank Factors Limited	2.54	2.54
Canbank Computer Services Ltd.	0.25	0.25
Net Capital Reserve	2.79	2.79



4. Inter Branch transactions and confirmation of balances:

The matching and setting of entries under Inter-Branch/office transactions of the Parent Bank are carried out by the system itself based on Core Banking Solutions (CBS) for the whole of the Bank through Inter Office Adjustment account.

In some of the Group Companies, balances in Sundry Creditors, Sundry Debtors, Loans and Advances etc. are subject to confirmation.

5. Fixed Assets:

Premises include certain properties capitalized at original cost of Rs.56.62 Crore (Previous year Rs.55.46 Crore) as they have been put to use though conveyance of title deeds is still to be completed.

6. Canbank Financial Services Limited (CANFINA):

Pursuant to the directions of the Reserve Bank of India, Canbank Financial Services Ltd. (CANFINA), a wholly owned Subsidiary whose net worth is totally eroded is not engaged in any of the activities of a Non Banking Financial Company. Further, Reserve Bank of India, has permitted CANFINA a further extension of three years i.e up to January 31, 2020 to dispose off the financial assets. The extension of time is subject to the condition that the company shall not undertake any NBFC type of activity during the period. However, considering the extension permitted upto 31.01.2020, the financials of CANFINA have been consolidated on going concern basis.

7. Fresh Issue of Equity Share Capital:

During the financial year 2016-17, pursuant to exercise of Rights Issue option, the Parent Bank has allotted 1,83,00,000 equity shares to the Shareholders and 3,59,99,105 equity share to Government of India of face value of Rs.10/- each at a premium of Rs.197/- per equity share for a total consideration of Rs.1123.99 Crores.

8. Related Party Disclosures:

8.1 Names of Related parties and their relationship with the Bank- Parent – Canara Bank

8.1.1 Key Management Personnel –

- i) Shri. Rakesh Sharma, Managing Director & Chief Executive Officer
- ii) Shri. Harideesh Kumar B, Executive Director
- iii) Shri. Dinabandhu Mohapatra, Executive Director
- iv) Smt P V Bharathi, Executive Director (From 15.09.2016)
- v) Sri Pradyuman Singh Rawat (Till 31.05.2016)

8.1.2 Parent-

- i) Canara Bank



8.1.3 Subsidiaries -

1	Canbank Financial Services Ltd.
2	Canbank Venture Capital Fund Ltd.
3	Canbank Factors Ltd.
4	Canara Robeco Asset Management Company Ltd.
5	Canbank Computer Services Ltd.
6	Canara Bank Securities Ltd. (formerly GILT Securities Trading Corpn. Ltd)
7	Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd
8	Canara Bank (Tanzania) Ltd

8.1.4 Joint Ventures

Commercial Indo Bank LLC, Moscow (formerly Commercial Bank of India LLC, Moscow)
--

8.1.5 Associates -

1	Canfin Homes Ltd.
2	Commonwealth Trust (India) Ltd.
Regional Rural Banks sponsored by the Bank	
1	Pragati Krishna Gramin Bank (Erstwhile Pragati Gramin Bank)
2	Kerala Gramin Bank (Erstwhile South Malabar Gramin Bank)

8.1.6 Disclosure about transactions with Key Management Personnel is as under:

- (i) Remuneration to Key Management Personnel Rs. 0.99 Crore (Previous Year: Rs. 0.68 Crore)

In terms of paragraph 5 of AS 18, transactions in the nature of Banker-Customer relationship including those with Key Management Personnel and relatives of Key Management Personnel have not been disclosed

8.1.7 Transactions with Subsidiaries, Associates and Joint Venture are as under: (Rs in Crore)

Particulars	Subsidiaries	Associates & Joint Ventures	Key Management Personnel (KMP)	Relatives of KMP	Total
Borrowings – Outstanding as at the year end	NIL (NIL)	30.00 (30.00)	---	---	30.00 (30.00)



Maximum outstanding during the year	NIL (NIL)	30.00 (30.00)			30.00 (30.00)
Deposits- Outstanding as at the year end	43.03 (42.56)	16.63 (388.52)	---	---	59.66 (431.08)
Maximum outstanding during the year	48.59 (63.41)	406.63 (1792.12)			455.22 (1855.53)
Placement of Deposits – Outstanding as at the year end	19.68 (NIL)	146.24 (149.41)			165.92 (149.41)
Maximum outstanding during the year	19.68 (NIL)	146.24 (149.41)			165.92 (149.41)
Advances- Outstanding as at the year end	411.36 (537.29)	2293.89 (2218.11)	---	---	2705.25 (2755.40)
Maximum outstanding during the year	411.36 (616.21)	2651.30 (2972.25)			3062.66 (3588.46)
Purchase of Fixed Assets- Outstanding as at the year end	NIL (31.30)	NIL (NIL)	---	---	NIL (31.30)
Maximum outstanding during the year	NIL (31.30)	NIL (NIL)			NIL (31.30)
Balance in current account					
Outstanding as at the year end	28.00 (26.54)	47.11 (181.68)	---	---	75.11 (208.22)
Maximum outstanding during the year	28.69 (48.03)	222.57 (282.32)			251.26 (330.35)
Other receivable- Outstanding as at the year end	0.10 (20.02)	NIL (NIL)	---	---	0.10 (20.02)
Maximum outstanding during the year	0.10 (20.02)	NIL (NIL)			0.10 (20.02)
Inter Bank Participation Certificate – Participated					
Outstanding as at the year end		NIL (NIL)			NIL (NIL)



Maximum outstanding during the year	NIL (NIL)	NIL (400.00)	---	---	NIL (400.00)
Commission Receivable- Outstanding as at the year end	4.61 (2.60)	0.08 (0.11)	---	---	4.69 (2.71)
Maximum outstanding during the year	4.61 (2.60)	0.08 (0.11)	---	---	4.69 (2.71)
Other payable Outstanding as at the year end	0.01 (NIL)	NIL (NIL)	---	---	0.01 (NIL)
Maximum outstanding during the year	0.01 (NIL)	NIL (NIL)	---	---	0.01 (NIL)
Interest paid	2.91 (10.14)	31.62 (99.96)	---	---	34.53 (110.10)
Interest received	16.83 (43.77)	256.60 (178.58)	---	---	273.43 (222.35)
Dividend received	16.96 (2.50)	11.57 (NIL)	---	---	28.53 (2.50)
Premium Paid	152.48 (114.92)	NIL (NIL)	---	---	152.48 (114.92)
Rendering of Service	110.41 (93.87)	3.01 (0.70)	---	---	113.42 (94.57)
Receiving for Services	30.29 (0.32)	0.01 (0.01)	---	---	30.30 (0.33)
Guarantee in respect of rights issued to BSE	NIL (NIL)	NIL (1.39)	---	---	NIL (1.39)

(Figures in brackets relate to previous year).

(As compiled and certified by the management and relied upon by the auditors).

9. Earnings Per Share:

9.1 Basic and Diluted Earnings Per Share:

Particulars	2016-2017	2015-2016
Basic and Diluted EPS (Rs.)	24.98	(49.69)

9.2 Computation of EPS:

	Particulars	2016-17	2015-16
A	Net Profit for the year attributable to Equity Shareholders (Rs. in Crore)	1358.28	(2607.01)
B	Weighted Average Number of Equity Shares (Crore)	54.37	52.47



C	No. of Shares outstanding as on 31 st March (Crore)	59.73	54.30
D	Basic and Diluted Earnings per Share (A/B) (Rs.)	24.98	(49.69)
E	Nominal Value per Share (Rs.)	10.00	10.00

10. Deferred Tax Assets and Liabilities:

Net Deferred Tax Assets computed as on 31.03.2017 amounted to Rs 1223.03 Crore (Rs.70.21 Crore as on 31.03.2016). The components of Deferred Tax Assets and Deferred Tax Liabilities are as under:

Particulars	Deferred Tax Assets		Deferred Tax Liability	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
Rs in Crore				
Interest accrued but not due on securities			828.37	849.68
Leave Encashment / Gratuity	338.65	309.40		
Depreciation on Fixed Assets			19.24	17.00
Depreciation on Investments			1705.10	1705.10
Unrealised gain on Forward contracts			145.47	52.94
Provision made for advances	4909.42	3775.42		
DTL on Special Reserve created u/s 36(1)(viii) of IT Act,1961			1384.32	1384.32
Others	57.46			5.57
Deferred Tax Asset / Liability	5305.53	4084.82	4082.50	4014.61

11. Details of Provisions and Contingencies made during the year:

[Rs. in Crore]

Particulars	31.03.2017	31.03.2016
Provision for Depreciation on Investment and NPI	161.04	267.75
Provision towards NPA	7576.27	9641.37
Provision towards Standard Asset	26.32	(459.29)
Provision for Tax-(Including Deferred Tax)	512.67	(378.52)
Provision for Diminution in Fair Value	(360.00)	531.29
Provision for assets doubtful of recovery	35.00	4.80
Provision for Country Risk Exposure	13.00	8.00
Other Provision and Contingencies -Net	(41.45)	370.71
TOTAL	7922.85	9986.11



12. Consolidated Segment Reporting

Part A-Business Segment

PARTICULARS		YEAR ENDED		[Rs. in Crore]
		31.03.2017	31.03.2016	
(1)	Segment Revenue			
a	Treasury Operations	14427.03	12811.13	
b	Retail Banking Operations	16387.47	15516.47	
c	Wholesale Banking Operations	17984.63	20382.09	
d	Unallocated	509.79	461.06	
	Total	49308.92	49170.75	
	Less: Inter segment Revenue	0.00	0.00	
	Income from operations	49308.92	49170.75	
(2)	Segment Results			
a	Treasury Operations	4197.48	2156.28	
b	Retail Banking Operations	2111.83	2429.04	
c	Wholesale Banking Operations	2461.72	2373.68	
d	Other Banking Operations	0.00	0.00	
	Total	8771.03	6959.00	
e	Unallocated income/expenses(including provisions and contingencies)	(7024.75)	(10007.81)	
	Total profit before tax	1746.28	(3048.81)	
	Income Tax	512.67	(378.52)	
	Net Profit	1233.61	(2670.29)	
	Add: Share of earning in Associates	177.19	135.17	
	Less: Minority Interest	52.52	71.89	
	Consolidated profit/(loss) for the year attributable to the Group	1358.28	(2607.01)	
(3)	Capital Employed			
a	Treasury Operations	2767.63	15771.98	
b	Retail Banking Operations	16488.37	10069.32	
c	Wholesale Banking Operations	16054.63	10773.20	
d	Other Banking Operations	0.00	0.00	
e	Unallocated	(625.23)	(4204.83)	
	Total	34685.40	32409.67	

Part B – Geographical Segment:

PARTICULARS		YEAR ENDED		[Rs. in Crore]
		31.03.2017	31.03.2016	
a	Revenue			
	Domestic	48243.46	47908.25	
	International	1065.46	1262.50	
	Total	49308.92	49170.75	
b	Assets			
	Domestic	535025.86	509350.66	
	International	61132.89	54374.26	
	Total	596158.75	563724.92	

13. The consolidated Reserves of the Group after reckoning Parent's share of accumulated profit / loss of Subsidiaries, Associates and Joint Venture amount to Rs.34088.11 Crore of which Rs. 33088.25 Crore relate to the Parent and the balance Rs. 999.86 Crore relates to the Subsidiaries, Associates and Joint Venture (Previous year Rs. 31866.68 Crore of which Rs. 31060.21 Crore relate to the Parent and the balance Rs. 806.47 Crore relates to the Subsidiaries, Associates and Joint Venture).
14. Additional statutory information disclosed in individual financial statements of the Parent and Subsidiaries having no bearing on the true and fair view of the Consolidated Financial Statements and also the information pertaining to the items which are not material have not been disclosed in the Consolidated Financial Statements in view of the general clarification issued by the ICAI.
15. **Accounting Standard 28 - Impairment of Assets:**

Assets are reviewed for impairment at the end of the year whenever events or changes in circumstances warrant that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison for the carrying amount of an asset to future net discounted cash flows expected to be generated by the asset. If such an asset is considered to be impaired, the impairment to be recognized and is measured by the amount by which the carrying amount of the asset exceeds the recoverable amount of the asset. However, in the opinion of the Bank's Management, there is no indication of material impairment to the assets during the year to which Accounting Standard 28 - "Impairment of Assets" applies.

16. The Financial results for the year ended 31st March 2017 have been arrived at after considering provision for Loan Losses in accordance with the extant guidelines and directions of RBI on Prudential Norms for 'Income Recognition, Asset Classification and Provisioning' and Provision for Income Tax and Deferred Tax, Depreciation on Investments and Fixed Assets, provision for exposure to entities with unhedged foreign currency and other necessary provisions. During the year the Parent Bank has made certain modifications in the additional provisioning for non-performing advances by dispensing with additional provisioning for category II of doubtful advances. Consequently the Bank is holding such additional provision of Rs.500 Crore (previous year Rs. 1486 Crore) for non-performing advances over and above the minimum provision prescribed under IRAC norms of RBI.



17. Figures of the previous year have been regrouped / rearranged / reclassified wherever necessary.

M SWAMINATHAN
DIVISIONAL MANAGER
P VITHOOR
ASSISTANT GENERAL MANAGER

P. V. BHARATHI
EXECUTIVE DIRECTOR

V RAMACHANDRA
DEPUTY GENERAL MANAGER

N SELVARAJAN
GENERAL MANAGER

RAKESH SHARMA
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

HARIDEESH KUMAR-B
EXECUTIVE DIRECTOR

T N MANOHARAN
CHAIRMAN

SUCHINDRA MISRA
DIRECTOR

UMA SHANKAR
DIRECTOR

KESHAVAMURTHY H
DIRECTOR

MADHOOV NAGENDRA
DIRECTOR

R Venkatachalam
VENKATACHALAM RAMAKRISHNA IYER
DIRECTOR

AS PER OUR REPORT OF EVEN DATE

For RAMRAJ & Co.
CHARTERED ACCOUNTANTS
FIRM REGISTRATION NO.0028395

K SIVA SUBRAMANYA PRASAD
PARTNER
MEMBERSHIP NO. 024456

For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FIRM REGISTRATION NO.110266W

J SINGH
PARTNER
MEMBERSHIP NO.042023

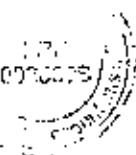
PLACE : BANGALORE
DATE : 27.05.2017

For V K NIRANJAN & Co.
CHARTERED ACCOUNTANTS
FIRM REGISTRATION NO.0024685

NIRANJAN V K
PARTNER
MEMBERSHIP NO.021432

For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FIRM REGISTRATION NO.302092E

S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO. 018073



Ramraj & Co Chartered Accountants FRN: 002839S	V K Nirajan & Co Chartered Accountants FRN: 002468S
J Singh & Associates Chartered Accountants FRN: 110266W	J L Sengupta & Co Chartered Accountants FRN: 307092E

**INDEPENDENT AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS**

To

The Members of Canara Bank

Report on the Financial Statements

1. We have audited the accompanying consolidated financial statements of Canara Bank (hereinafter referred to as "the Bank"), in which are incorporated the financial statements of its subsidiaries, associates, and jointly controlled entity (together referred to as "the Group"). The consolidated financial statements comprise of the Consolidated Balance Sheet as at 31st March 2017, the Consolidated Profit & Loss Account, the Consolidated Cash Flow Statement for the Year ended on that date annexed thereto, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the Consolidated Financial Statements"). In the Consolidated Financial Statements referred to herein above are incorporated:
 - i) Audited financial statements of Canara Bank audited by us.
 - ii) Audited financial statements of six (6) Subsidiaries, and three (3) Associates audited by other auditors.
 - iii) Unaudited accounts of two (2) Subsidiaries, and One (1) Jointly Controlled Entity.

Management's Responsibility for the Consolidated Financial Statements

2. The Consolidated Financial Statements are the responsibility of the Bank's management and have been prepared by the Management on the basis of separate financial statements and other financial information regarding Subsidiaries, Associates



and Joint Ventures. Our responsibility is to express our opinion on these Consolidated Financial Statements based on our audit.

3. The consolidated financial statements have been prepared by the management of the Bank in accordance with the requirement of the accounting Standard (AS) 21- "Consolidated Financial Statements", Accounting Standard (AS) 23- "Accounting for Investments in Associates in Consolidated Financial Statements" and Accounting Standard (AS) 27 - "Financial Reporting of Interest in Joint Ventures" issued by the Institute of Chartered Accountants of India and the guidelines issued by the Reserve Bank of India.

Auditors' Responsibility

4. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit of the accounts of the Bank. While conducting the audit we have taken into account the applicable accounting standards and the standards of auditing issued by the Institute of Chartered Accountants of India.

We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditors consider internal financial control relevant to the Bank's preparation and presentation of the consolidated financial statements that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the Bank's internal financial controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Bank's management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained by us and the audit evidence obtained by other auditors in terms of their reports referred to in the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.



Other Matters

6. We did not audit the financial statements of Eight (8) subsidiaries (whose financial statements reflect total assets of Rs.12925.71 Crore as at 31st March 2017, total revenues of Rs. 508.74 Crore and net cash flows of Rs. 85.61 Crore for the year then ended), Three (3) Associates (whose financial statements reflect total assets of Rs.51714.17 Crore as at 31st March 2017, total revenues of Rs.4782.13 Crore and net cash flows of Rs.(484.11) Crore for the year then ended) and One (1) Jointly Controlled Entity (whose financial statements reflect total assets of Rs.719.89 Crore as at 31st March 2017, total revenues of Rs.50.67 Crore and net cash flows of Rs.(75.46) Crore for the year then ended). These financial statements and other financial information (as referred to in Para 1 of this Audit Report) have been relied upon by us and our opinion on the Consolidated Financial Statements, in so far as it relates to the aforesaid subsidiaries, associates and joint Venture are based solely on the report of the other auditors and information and explanation as provided by the management.

Our opinion on the Consolidated Financial Statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters based on our reliance on the work done and the reports of the other auditors/management.

Opinion

7. In our opinion and to the best of our information and according to the explanations given to us:
- i) the Consolidated Balance Sheet, read with the accounting policies and notes thereon is a full and fair Balance Sheet containing all the necessary particular and, is properly drawn up so as to exhibit a true and fair view of state of affairs of the Group as at 31st March 2017 in conformity with accounting principles generally accepted in India;
 - ii) the Consolidated Profit and Loss Account, read with the notes thereon shows a true balance of Profit of the Group, in conformity with accounting principles generally accepted in India, for the year covered by the account; and
 - iii) the Consolidated Cash Flow Statement gives a true and fair view of the cash flows of the Group for the year ended on that date.

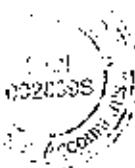


Report on Other Legal and Regulatory Requirements

8. i) The Balance Sheet and the Profit and Loss Account have been drawn up in Form "A" and "B" respectively of the Third Schedule to the Banking Regulation Act, 1949.
- ii) In our opinion, the Consolidated Balance Sheet, Consolidated Profit and Loss Account and Consolidated Cash Flow Statement of the Group comply with the applicable Accounting Standards.

For RAMRAJ & Co.
CHARTERED ACCOUNTANTS
FRN.002839S


K SIVA SUBRAMANYA PRASAD
PARTNER
MEMBERSHIP NO.024456

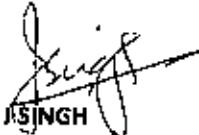


For V K NIRANJAN & Co.
CHARTERED ACCOUNTANTS
FRN.0024685


NIRANJAN V K
PARTNER
MEMBERSHIP NO.021432

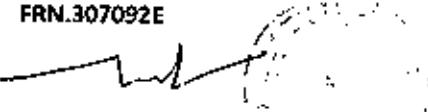


For J SINGH & ASSOCIATES
CHARTERED ACCOUNTANTS
FRN.110266W


J SINGH
PARTNER
MEMBERSHIP NO.042023



For J L SENGUPTA & Co.
CHARTERED ACCOUNTANTS
FRN.307092E


S R ANANTHAKRISHNAN
PARTNER
MEMBERSHIP NO.018073

Place: Bangalore
Date: 27th May, 2017

THE ISSUER

CANARA BANK

Head Office
112 J.C. Road
Bangalore 560 002
India

London Branch
PO Box No. 174
10 Chiswell Street
London EC1Y 4UQ
United Kingdom

ARRANGER AND DEALER

Citigroup Global Markets Limited

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

LEGAL ADVISERS

To the Dealers as to English law

Linklaters Singapore Pte. Ltd.
1 George Street 17-00
Singapore 049145

To the Issuer as to Indian law

Cyril Amarchand Mangaldas
Peninsula Chambers
Peninsula Corporate Park
Ganpatrao Kadam Marg
Lower Parel, Mumbai
400 013 India

TRUSTEE

PRINCIPAL PAYING AGENT, EXCHANGE AGENT AND TRANSFER AGENT

REGISTRAR

Citicorp Trustee Company Limited 14th Floor Citigroup Centre Canada Square Canary Wharf London E14 5LB England	Citibank, N.A., London Branch c/o Ground Floor 1 North Wall Quay Dublin 1, Ireland	Citigroup Global Markets Europe AG Reuterweg 16 60323 Frankfurt Germany
---	--	---