

Bank of the Future...

Also refer to Special Pages of the Annual Report and Kannada version of the Directors' Report at:

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Note: Across this Report, the word "KBL" refers to "Karnataka Bank Limited."

Cautionary Statement

This Report contains statements relating to future business developments and economic performance that could constitute 'forward looking statements'. Words such as 'anticipate', 'expect', 'project', 'plan', 'believe', 'estimate', 'potential' and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are made based on current plans, estimates and projections and therefore undue reliance should not be placed on them. Forward-looking statements are subject to future risks and uncertainties that could cause actual results to differ, in some instances materially, from those anticipated, estimated or projected. Readers are cautioned to bear this in mind. Karnataka Bank makes no commitment to revise or update any forward looking statements, whether as a result of new information, future events or otherwise.

Bank of the Future ...

Nearly a century in banking, we have learnt that an abiding commitment to customer and an agility to transform is what defines organisations that last the test of time. Karnataka Bank, has demonstrated resilience in surmounting upheavals, displayed prudence in its risk appetite and shown a passion and courage to venture into white spaces, tread new paths. The 'Compliance first, business next' approach of the bank has provided it the strength and stability creating value for all stakeholders.

Trust, transparency and a tenacity to blaze new trails has always been a part of our DNA, be it venturing out as the first generation private sector bank in the country or being among the first few banks to embrace new digital technologies.

Today on the cusp of another transformational journey, we are inventing ourselves anew, for the challenges of a fast changing digitally enabled, banking environment, to stay ahead of the curve.

KBL Vikaas - the transformational journey, customer-centred, inclusive and future driven is designed not only to transform lives and create stakeholder value, but also build our capabilities to emerge bigger, stronger and more vibrant, lending a new definition to New Age Banking.

At KBL, we are getting ready to take our place as the 'Bank of the Future'...

BOARD OF DIRECTORS



Sri P Jayarama Bhat
Chairman



Sri Mahabaleshwara M S
Managing Director & CEO



Sri Ashok Haranahalli
Independent Director



Sri Rammohan Rao Belle
Independent Director



Sri Ullal Ravindra Bhat
Independent Director



Sri Keshav Krishnarao Desai
Independent Director



Sri D Surendra Kumar
Independent Director



Smt Mythily Ramesh
Independent Director



Sri B R Ashok
Additional Director

CORPORATE INFORMATION

MANAGEMENT TEAM

CHIEF OPERATING OFFICER

Sri Y. V Balachandra

CHIEF BUSINESS OFFICER

Sri Gokuldas Pai

GENERAL MANAGERS

Sri B Chandrashekar Rao
Sri Subhaschandra Puranik
Sri Muralidhar Krishna Rao
Sri Nagaraja Rao B
Sri Manjunatha Bhat B K
Sri Mahalingeshwara K
Sri S Ramesh
Sri Vinaya Bhat P J
Sri Vadiraj K A
Sri Rajakumar P H

DEPUTY GENERAL MANAGERS

Sri Gajanan T Hegde
Sri Vijayashankar Rai K V
Sri Nirmal Kumar Kechappa Hegde
Sri Ananthapadmanabha B
Sri Ranganatha
Sri Ravishankar N R
Sri H P Ravindranath Hande
Sri Raja B S
Sri Venkatakrishna Bhat

DEPUTY GENERAL MANAGERS

Sri Ravichandran S
Sri Satheesha Shetty
Sri Jayanagaraja Rao S
Smt Sandra Maria Lorena
Sri Ramesh Bhat
Sri Manohar Anantha Hegde
Sri Srinath Kamath A
Sri Nagendra Rao T
Sri Chandrashekar
Sri Thrivikrama
Sri Prakash Kumar

COMPANY SECRETARY

Sri Prasanna Patil

LEGAL ADVISOR

Sri M.V. Shanker Bhat

AUDITORS

M/s Badari, Madhusudhan & Srinivasan, Bengaluru
M/s Manohar Chowdhry & Associates, Chennai

REGISTRAR & SHARE TRANSFER AGENT

M/s Integrated Registry Management Services Pvt. Ltd.
Bengaluru

REGD. & HEAD OFFICE

Mahaveera Circle, Kankanady,
Mangaluru.
CIN: L85110KA1924PLC001128

DIRECTORS' REPORT

Dear Stakeholders,

Your Directors have the pleasure in presenting the 96th Annual Report of the Bank together with the Audited Statement of Accounts for the year ended 31st March 2020 and the Auditors' Report thereon. Your Bank has been able to register a steady growth during the year, despite a challenging business environment. The Indian Economy belied expectations recording a year of tepid growth with core sectors beset with subdued market demand. Despite timely measures by the Government and Reserve Bank of India, the banking sector was buffeted with the twin headwinds of asset quality and liquidity stress. The focused intervention by the Government to declog the system with corrective measures and the timely liquidity infusion into the banking system restored some of balance. It was certainly another year of challenging times for the banking industry as a whole.

Among the first generation private sector banks in India, having started the journey in the year 1924, we have learnt that to remain resilient and ahead of the curve, we need to exercise both prudence and agility. 'KBL Vikaas' launched during 2017, marked yet another chapter of transformational journey, a journey that would redefine our place in New Age Banking. At Karnataka Bank (KBL), a focused thrust towards growth and transformation to a future-ready, Next Generation Banking model created a dynamic eco-system and contributed to the enhancement of key growth parameters and Bank is now focusing on consolidation and sustainability of all its transformational initiatives. Further adverse and mischievous media reports on liquidity position with regard to Market-Capital Ratio (M-Cap Ratio) etc., at the fag end of the year had an insignificant spillover effect on the business of the Bank. Your Bank took timely action in portraying the correct financial and healthy capital adequacy position through various means including newspapers/media channels and also through the stock exchanges allaying the unfounded fears and to protect the interest and confidence of stakeholders at large. The Board of Directors wish to express their affirmation that financial and liquidity position of your Bank is strong and the Bank is well poised to emerge still stronger going forward.

OPERATIONAL PERFORMANCE

Performance highlights for the reporting financial year are as under:

(₹ in crore)

Particulars	31 st March 2020	31 st March 2019
BUSINESS TURNOVER	128749.42	123280.32
DEPOSITS	71785.15	68452.12
ADVANCES	56964.27	54828.20
INVESTMENTS	17545.34	16184.99
GROSS INCOME	7870.82	6907.92
OPERATING PROFIT	1656.77	1449.81
NET PROFIT	431.78	477.24
Net Interest Income (NII)	2030.36	1905.12

BUSINESS TURNOVER

The total business turnover of the Bank stood at ₹ 128749.42 crore as on 31st March 2020, registering a growth of 4.44 per cent as against the turnover of ₹ 123280.32 crore as on 31st March 2019. The total assets of the Bank increased to ₹ 83313.49 crore from ₹ 79045.76 crore recording a growth of 5.40 per cent for the year 2019-20.

DEPOSITS AND CASA

The total deposits of the Bank grew to ₹ 71785.15 crore as on 31st March 2020 from ₹ 68452.12 crore as on 31st March 2019. During the year, low cost deposits of the Bank, viz. Current Account and Savings Account Deposits i.e., CASA constituted 28.91 per cent of the total deposits of the Bank as on 31st March 2020 as against 28.06 per cent as on 31st March 2019.

ADVANCES

In spite of continued sluggishness in the market and tepid credit growth reported by the industry for financial year 2019-20, the total advances grew to ₹ 56964.27 crore as on 31st March 2020, from ₹ 54828.20 crore as on 31st March 2019. The Credit Deposit Ratio at 79.35 percent. The priority sector advances increased from ₹ 21878.22 crore to ₹ 25093.73 crore forming 43.89 percent of applicable Adjusted Net Bank Credit (ANBC) and agricultural advances increased from ₹ 7081.90 crore to ₹ 8568.24 crore which, together with eligible deposit under Rural Infrastructure Development Fund (RIDF), constituted 14.99 per cent of ANBC. Lending under various socio-economic schemes is engaging the attention of the Bank.

Continuing our thrust towards retail / mid-corporate segment advances, the exposure to large corporate decreased and the Retail/Mid Corporate advances to Corporate advances Ratio improved to 74.20 percent as against 69.70 percent as on 31st March 2019.

NON-PERFORMING ASSETS AND PROVISION COVERAGE RATIO

Your Bank has been focusing on containing the non-performing assets through better credit monitoring as well as intensified efforts to address the problems posed by the impaired assets. The Bank's Gross NPAs (GNPAs) as on 31st March 2020 were at ₹ 2799.93 crore (4.82 per cent) as against ₹ 2456.38 crore (4.41 per cent) as on 31st March 2019. Further, the GNPAs were at ₹ 2777.46 crore (4.99%) as on 31st December 2019. The Net NPAs (NNPAs) were at ₹ 1755.01 crore (3.08%) as against ₹ 1616.71 crore (2.95%) as on 31st March 2019. The NNPAs were at ₹ 2058.04 crore (3.75%) as on 31st December 2019. The Provision Coverage Ratio (PCR) improved to 64.70 percent as on 31st March 2020 from 58.45 per cent as on 31st March 2019, thus further strengthening the Balance Sheet.

INVESTMENTS

The total investments increased from ₹ 16184.99 crore as on 31st March 2019 to ₹ 17545.34 crore as on 31st March 2020. The ID ratio stood at 24.44 per cent as on 31st March 2020 as against 23.64 per cent as on 31st March 2019.

BANKING OUTLETS

Though the presence of your bank is predominant in south India, your Bank has been judiciously expanding its network of branches and controlling offices in various parts of the country after examining the potential for business, earnings and customer outreach.

As at 31st March 2020, your Bank had 2329 service outlets including 848 branches, one extension counter, 1,026 ATMs and 454 recyclers with a presence in 548 centres spread across 22 States and 2 Union Territories. Apart from the above, the Bank also had one International Division, one Data Centre, one Customer Care Centre, four Service branches, three Currency Chests, two Central Processing Centre, one Digital Centre of Excellence and six Asset Recovery Management Branches. During the year under report, your Bank has opened twelve new branches and two Regional Offices at Ahmedabad and Kalaburagi with a view to further explore and improve the business in the states of Gujarat and Karnataka. With this, the total number of Regional Offices of the Bank stands at fourteen.

GROSS INCOME AND NII

The gross income of the Bank for the year ended 31st March 2020 stood at ₹ 7870.82 crore as against ₹ 6907.92 crore in the last financial year showing a growth of 13.94 percent. Similarly, the total expenditure (excluding provisions and contingencies) stood at ₹6214.05 crore for the year ended 31st March 2020 as against ₹ 5458.11 crore in the last financial year. The net interest income (NII) for the year ended 31st March 2020 was ₹ 2030.36 crore, showing a growth of 6.57 per cent over the previous year.

PROFIT

Your Bank earned an operating profit of ₹ 1656.77 crore for the year 2019-20 as against ₹ 1449.81 crore for the previous year. The provisions (other than tax) and contingencies for the year 2019-20 was ₹ 1134.74 crore. The net profit of the Bank during the year 2019-20 stood at ₹ 431.78 crore as against ₹ 477.24 crore during the previous year. Your Bank focused on prudent provisioning thus resulting in improved PCR (64.70%) and fundamentals.


APPROPRIATIONS

The net profit of ₹ 431.78 crore which along with a sum of ₹ 119.65 crore brought forward from the previous year, aggregating to ₹ 551.43 crore, is appropriated as under:

Appropriation	₹ in crore
Transfer to Statutory Reserve	110.00
Transfer to Capital Reserve	183.08
Transfer to Revenue and Special Reserves	36.74
Transfer to Investment Fluctuation Reserve	0.78
Dividend of 2018-19 paid during the year 2019-20	98.83
Tax on dividend paid as above	20.32
Balance carried over to Balance Sheet	101.68
Total	551.43

DIVIDEND

Considering an environment of heightened uncertainty caused by COVID-19, with a view to conserve capital to retain capacity to support the economy and absorb losses if any, all scheduled commercial banks have been directed by the Reserve Bank of India not to make any further dividend payout from the profits pertaining to the financial year ended 31st March 2020 until



further instructions, vide circular DOR.BP.BC.No.64/21.02.067/ 2019-20 dated 17th April 2020. Accordingly, Board of Directors has not recommended any dividend on shares for the financial year 2019-20 even though the Bank is having distributable profits for the financial year ended 31st March 2020.

EARNINGS PER SHARE/ BOOK VALUE

The earnings per share (basic / diluted) and the book value per share as on 31st March 2020 stood at ₹ 13.89 and ₹ 192.06 respectively. This was ₹15.35 and ₹ 204.71 respectively during last year. The marginal reduction in Book Value is after factoring in the Bonus shares issued. Similarly, the adjusted book value per share now stands at ₹ 135.62 as against the earlier ₹ 147.50.

CAPITAL FUNDS AND CAPITAL ADEQUACY RATIO

The capital funds of the Bank increased from ₹ 6306.95 crore to ₹ 6673.60 crore, registering a growth of 5.81 per cent. The Capital to Risk Weighted Assets (CRAR) stood at 12.66 per cent as on 31st March 2020, as per BASEL III norms (Previous year 13.17 per cent). The Bank has been consistently maintaining the ratio well above the minimum CRAR of 10.875 per cent including the Capital Conservation Buffer of 1.875 per cent stipulated by the Reserve Bank of India.

BONUS ISSUE-2020

During the reporting year, your Bank has rewarded the shareholders by way of issue of Bonus Shares in the ratio of 1:10 (one equity share for every ten shares held) and the allotment of 2,82,60,881 shares was made on 19th March 2020 to the eligible shareholders. With this, the paid up equity share capital of the Bank increased to ₹ 310.87 crore as against the earlier ₹ 282.61 crore.

While taking approval from the shareholders via postal ballot for issue of Bonus Shares, the Bank had also sought the approval for issue of shares to Qualified Institutional Buyers (QIBs) and the special resolution is valid for a period of one year i.e. till 4th March, 2021, and your Bank may raise capital when the market conditions for such issue are conducive for the capital augmentation.

TRANSFORMATION JOURNEY- 'KBL VIKAAS'

Your Bank was incorporated in the year 1924 by leading visionaries of the coastal town of Mangalore. Beginning its journey as a South India focused Bank, it later expanded the geographical footprints in the northern parts of the country, transitioning into a Pan-India Bank with a national focus. The Bank consolidated its position as a 'one stop financial solution' provider with a diversified portfolio of Retail, SME, Corporate lending and fee based products. In 2017, your Bank touched a new milestone with the business turnover crossing 'Rupees One lakh Crore.'

In its quest for new milestones, Karnataka Bank today is in an exciting phase of a transformation journey. A journey which is expected to transform the core of the Bank and equip it to be a significant player in the Indian Banking space by emerging as a 'Bank of the Future'. The transformation journey which began in November 2017 has gained momentum and was oriented towards transformation of credit delivery system, transformation of HR & IT sphere and enhancing the Customer experience. Within two years, major strides in moving towards a digitally driven capability that would define Next Generation Banking have been initiated, few of which are as below:

1. Digital Centre of Excellence (DCoE):

Your Bank has set up the state-of-the-art DCoE at Bengaluru to analyze, address and deliver a seamless customer fulfillment experience by digitizing the end-to-end customer journeys across both asset and liability products. With this initiative, Your Bank has been able to significantly upgrade its underwriting capabilities with significant improvement in TAT (Turnaround Time for sanction). It is the endeavor of the Bank to cover all the retail products under this initiative going forward so as to achieve scale and efficiency.

2. Customer Journey Digitization

As part of customer journey digitization, Bank has launched an innovative range of digital products:

- a. Xpress Home Loan
- b. Xpress Cash Loan (Personal Loan product)
- c. Xpress Car Loan
- d. Xpress Working Capital loan for MSMEs (Pilot Launch)
- e. Xpress Term loan for MSMEs (Pilot Launch)
- f. Xpress Savings Account (Pilot Launch) – SB Tab banking

The digital loan portfolio is steadily building-up and the sanctions given under Xpress Home, Cash and Car Loan are gaining momentum.

3. Digi Branch

During the first leg of digitization in November, 2018, your Bank established a fully digital interface in the form of 'Digi Branch' at Basavanagundi, Bengaluru. The prospective clients can simply walk into 'Digi-Branch' and open SB Account, besides self-generating the Debit Card, all in a matter of just few minutes.


4. Migration to Digital Channels

As on 31st March 2020, 83.50% of the Bank's transactions are happening through Digital Channels using Internet Banking, Mobile Banking, ATMs, e-lobbies, POS etc.

5. Tools for internal efficiency and effectiveness

In order to build a digital eco-system to support the digital initiatives and also for conducting periodic review, a host of internal tools have been launched, which are given below:

- a. **KBL FORCE**, a Lead Management System (LMS) - designed for end to end management of the business leads.
- b. **KBL Kollekt+** - Digital collection tool for real time monitoring of stress accounts.
- c. **KBL Vasool So-Ft** - A digital NPA management tool for monitoring of non-performing accounts and effective initiation of recovery steps.

- 
- d. **KBL RISE** - A KRA/role based 'Performance Management System' for objective performance evaluation of members of staff.
 - e. **KBL e - Dashboard**- a daily business dashboard to monitor the business.

6. Other Initiatives:

During the year under report, several other initiatives have been taken up under KBL Vikaas which are set out hereunder:

1. Rolling out new CASA products:
 - SB-TASC [Trusts, Association, Society, Clubs] for Institutional Customers and
 - SB-Salary for salaried customers.
2. Partnered with FISDOM for distribution of Mutual Fund units with end-to-end digitization to invest in more than 40 AMCs through Bank's Mobile Banking platform - 'KBL Mobile Plus'.
3. Initiating steps for Setting-up of Bank's Wholly Owned Non-Financial Subsidiary - 'KBL Services Ltd.'
4. Institutionalizing the Culture of Sales & Marketing among the workforce etc.
5. Efficiency enhancement across all sectors and cadres.

Further to ensure the sustainability of transformation achievements, your Bank is now focusing on consolidation of its benefits, knowing fully well that it is a continuous journey and regarded as a work-in-progress across the globe.

SPECIAL INITIATIVES TO FACE THE UNCERTAINTIES CAUSED BY COVID-19 PANDEMIC:

In view of the continued uncertainties triggered by the COVID-19 pandemic in the country, your Bank has taken several proactive steps to tread cautiously with a conservative approach so as to conserve, consolidate emerge still stronger at the end. In this direction, Bank has initiated many measures to conserve capital and also to reduce the avoidable revenue expenses. The Board of Directors also led from the front by opting for around 29 percent and 20 percent cut in their sitting fees for Board / Committee meetings respectively. Further, the MD & CEO has also opted to forego his variable pay entitlement for the financial year 2019-20 and he has also decided to continue to use his old car itself so as to defer the capital expenses thereon. All the meetings of Board / Committee and the internal review meetings are happening through digital mode thus having a huge positive impact on savings. All such cost cutting measures down the line are showing desired results.

Fund transfer pricing (FTP):

Your Bank has further streamlined the in-house developed concept of FTP (Fund Transfer Pricing) mechanism to create an awareness that each and every business decision/relation is remunerative and profitable. With the help of FTP, Bank is closely monitoring the profit or loss of each of its branches, business units, products, sectors, clients, business lines etc., and appropriate remedial measures are initiated then and there. This is regarded as a great step forward in enhancing the overall efficiency and professionalism across the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC AND INDUSTRY TRENDS

Global Economy

It was a watershed year for the Global Economy, a year of unprecedented upheavals. Brexit, Geo-political tensions, trade conflicts between USA and China, slowdown in market demand, decline in world output and trade and then, the later part of the year witnessing COVID19 pandemic which brought the world to a standstill at the end of financial year.

According to the International Monetary Fund (IMF), the global economy has hit the worst recession since the great depression in the 1930s due to the raging pandemic that has nearly stalled all economic activities across the world. The global economic growth which decelerated to 2.9% in 2019 is projected to contract to -3.0% in 2020.

Further, the IMF also projected that Global Economic growth is projected to revive at 5.8% by 2021, while the growth in Advanced Economies and EMDE's (Emerging Markets and Developing Economies) is slated to rise to 4.5% and 6.6% in 2021 respectively. The rebound is however, dependent on the containment of the pandemic by the second half of 2020, policy support by Governments and normalisation of business activity and trade flow. However, an extended duration of the pandemic could upset the scenario leading to a further fall of projected growth rates.

Indian Economy

The Indian Economy exhibited signs of a slowdown with GDP growth declining to 4.8 per cent in the first half of 2019-20. Muted market demand in core sectors such as Auto, Construction, Mining, Engineering and related segments proved a drag on the economy, while a stressed financial environment added to the burden. The Industrial Sector as per Index of Industrial Production (IIP) registered a growth of 0.5 per cent in 2019-20 (April-December) as compared to 4.7 per cent during the same period in 2018-19. According to the India Brand Equity Foundation (IBEF) Economic Survey, WPI inflation increased to 3.1 per cent in January 2020 as compared to 2.6 per cent in December 2019 while Consumer Price Index (CPI) – Combined inflation was 4.5 per cent in April-January 2019-20 as compared to 3.6 per cent in April-January 2019.

The COVID19 pandemic and the lockdown that followed at the end of FY 2019-20 shuttered businesses, shrunk the country's GDP to 1.9% in Q4. However, the IMF, in its latest edition of the World Economy Report, has placed India as one of the fastest-growing emerging economies in the world which will register a positive growth rate in 2020.

The Government rolled out supportive fiscal and policy measures to reduce financial stress and to bolster growth. The ₹ 20 Lakh crore package under 'Atmanirbhar Bharath' program, Repo Rate cut by RBI, the incentives for the beleaguered Auto sector migrating to BSVI standards and the Guaranteed Emergency Credit Line (GECL) to MSME Sector, the large investment allocation under the National Infrastructure Pipeline for demand generation and job generation, are some of the significant remedial measures by the Government which present possibilities for a faster rebound in 2020-21.

According to the RBI reports, the GDP growth in the first half of 2020-21 is expected to remain negative, with some slight pick-up in the second half. The decline in private final consumption expenditure, the slowdown in rural demand, the deceleration in labour intensive exports and the macroeconomic fallout and the associated stress in financial and commodity markets have all added to the bleak scenario. However, considering the prevailing uncertainties at this juncture, arriving at projections with reasonable certainty has become difficult and also challenging.



DEVELOPMENTS IN THE INDIAN BANKING SECTOR

2019 was a transformational year for the Indian banking industry. The Government's move to create 10 large public sector banks from over two dozen entities, for economies of scale was also a major move. The first half of fiscal 2020 witnessed a heightened credit quality pressure for India Inc, due to a series of factors including slowdown in the global and Indian economies, muted consumer demand and moderation in government spending.

The fiscal measures taken by the Government to restore stability to banks beleaguered with high NPA's and large exposures, the tightening of the regulatory framework and a concerted thrust towards financial inclusion and digitisation all augur well for the Indian banking industry.

Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level five in the Faster Payments Innovation Index (FPPII).

OPPORTUNITIES

The focus of the Union Budget with 'Minimum Government Maximum Governance', promoting the 'Make in India' business environment, supporting a strong MSME (Micro, Small and Medium Enterprises) eco system, creating new job opportunities and investment priority in infrastructure building are offering major opportunities for growth. Report of the Task Force on National Infrastructure Pipeline, released on 31.12.2019, has projected total infrastructure investment of ₹102 lakh crore (US\$ 1.44 trillion) during the period FY 2020-2025 in India. The Government's pro-business policies, Digital India drive and the use of technology has helped the country to leapfrog ahead of many nations in the World Bank's 'Ease of Doing Business Report' under the indicator 'Trading across Borders', from 142 in 2014 to 63 in 2019, thereby opening opportunities of becoming a manufacturing destination of choice for global industry majors.

BUSINESS SEGMENTS OF BANK:


Your Bank's business primarily consists of Retail Banking, Corporate / Wholesale Banking, Treasury Operations and Other Banking operations.

RETAIL BANKING:

Your Bank offers a wide spectrum of personal banking products in the retail segment. The retail credit products include mortgage loans, automobile loans, personal loans, education loans, loans against term deposits, loans against securities, gold loans, small business banking loans and agriculture loans. The major components of Bank's retail lending portfolio are home and mortgage finance, agriculture loans, personal loans and automobile finance.

MSME Lending:

Your Bank, as part of retail banking, also supports the MSME sector with a range of banking products such as Working Capital Finance, Term Loans, Business Finance Products, both fund based and non-fund based suited to all sectors of Industry.



The United Nations Industrial Development Organisation (UNIDO) has identified in total 388 clusters having MSME concentration, across the country. Your Bank has its presence in more than 200 such clusters with Branches and dedicated teams delivering credit to the MSME sector units.

This Retail Segment has earned revenue of ₹ 2613.35 crore with a contribution of ₹ 451.31 crore to profit before tax and un-allocable expenditure.

CORPORATE/WHOLESALE BANKING:

Your Bank's Corporate and Wholesale banking business (with an individual entity exposure of over ₹ 5 crore) caters to the banking needs of all entities including corporate entities particularly, large-sized corporations. Corporate banking products and services include various fund and non-fund based products, including loan products such as term loans, working capital facilities, foreign exchange services and structured finance and trade financing products such as letter of credit and guarantees, bill discounting, etc.

The revenue earned by the Bank during the year under report from this Segment was ₹ 3138.02 crore with a contribution of ₹ 556.03 crore to profit before tax and un-allocable expenditure.

TREASURY OPERATIONS

Bank's treasury operations comprise primarily of statutory reserves management such as SLR and CRR, liquidity management, investment and trading activities and foreign exchange activities. As part of liquidity management, the Treasury primarily invests in sovereign debt instruments and other fixed income securities. Bank also deals with commercial papers, mutual funds, certificates of deposits and floating rate instruments in order to manage short-term surplus liquidity.

Your Bank engages in foreign exchange operations from a centralized location in Mumbai as an extended wing of Integrated Treasury. Bank also offers a wide range of products and services for customers such as forward contracts, foreign exchange products and services etc.

Bank has earned a total revenue of ₹ 1625.94 crore from Treasury operations with a contribution of ₹ 574.20 crore to profit before tax and un-allocable expenditure.

OTHER BANKING OPERATIONS:

Bank offers a range of products and services including savings accounts, current accounts, wholesale term deposits, international debit cards, Co-branded credit cards, depository services, online trading, Application Supported by Blocked Amount (ASBA) facility for participation in public issuances, physical and digital locker facilities, mobile and internet banking services, payment and remittance services etc. Bank offers these services through physical banking channels as well as digital channels including internet or E-banking, mobile banking, E-lobbies etc.

This segment has generated revenues of ₹ 473.51 crore with a contribution of ₹ 118.99 crore to profit before tax and un-allocable expenditure.

PARA BANKING ACTIVITIES

With an aim to provide diversified financial products & services and to maximize value added services to the customers, Your Bank provides Parabanking- Third Party Products such as Life Insurance, General Insurance, Health Insurance, Mutual Funds etc.

BANCASSURANCE BUSINESS

Life Insurance:

Your Bank has an association with PNB Metlife Insurance Company Limited for over 15 years, Life Insurance Corporation of India Limited since 2017 and Bharti AXA Life Insurance Limited since last one year, for sale of their life insurance products.

In Fiscal 2020, Bank earned a fee income of ₹ 38.50 crore from life insurance business as compared to ₹33.06 crore in Fiscal 2019.

General Insurance:

Your Bank's joint venture with Universal Sampo General Insurance Co Ltd and collaboration with Bajaj Allianz General Insurance Company Limited enables in offering health and non-life insurance products to the customers. In Fiscal 2020, Bank earned fee income of ₹11.19 crore from its non-life insurance business as compared to ₹ 9.75 crore in Fiscal 2019.

The Social Security Schemes such as Pradhan Mantri Jeevan Jyoti Beema Yojana [PMJJBY] and Pradhan Mantri Suraksha Bima Yojana [PMSBY] and NPS facility (National Pension Scheme) are also extended at all the branches of the Bank. Bank has also launched Group Personal Accident Insurance Scheme - "*KBL Suraksha*" which provides insurance cover for accidental death. All the Bank's SB account customers between the age group of 18 to 70 years can subscribe to this scheme by paying a nominal annual premium with the facility of auto renewal and this social welfare scheme has become very popular.


DISTRIBUTION OF MUTUAL FUND UNITS:

Your Bank distributes mutual fund products of many of the major asset management companies in India to its clients as an empanelled distributor. Mutual fund products are sold through Bank's branch distribution network based on client requirements. Your Bank has recently associated with Finwizard Technology Private Limited for online sale of mutual funds through their technology enabled platform supported by the mobile application 'FISDOM'.

POINT OF SALE ("POS") NETWORK

Bank provides PoS (swiping machine) services to merchant partners for collection of their payments in an automated manner. In order to provide more effective payment solutions to clients, Bank has associated with 'Mswipe Technologies Private Limited' and 'Bijilipay' which enables us to act as independent referral service providers of both the companies for marketing, procurement of business and assistance in providing services to the clients.

Your Bank has also launched 'Cash@POS' facility through its network over 11,900 PoS terminals installed at various merchant establishments throughout India. It is a facility through which any other Bank's customers can also withdraw cash using their debit cards /open system prepaid cards (issued by Banks in India) at PoS terminals of the Bank.



Under its merchant acquiring business, Bank focuses on strengthening its relationship with its merchant partners to open up avenues of cross selling Bank's transactional products.

CUSTOMER SERVICE

Your Bank is focused on providing excellent customer service to make the Bank distinctly more competitive. This necessitates designing of innovative and cost effective mechanisms of delivering banking services efficiently. Bank is actively involved in putting in place system and procedures on banking services rendered to customers and an effective grievance redressal mechanism including an Internal Banking Ombudsman as per the guidelines received from RBI and IBA from time to time.


AWARDS AND ACCOLADES

Your Bank has bagged the following awards during the year under report in recognition of its achievement under technology initiatives, social banking etc.

- ▶ IBA – Banking Technology Awards 2020 under the Small Bank Category in 3 variants.
 - Winner in the category of 'Best Digital Financial Inclusion'.
 - Joint Winner in the category of 'Best IT Risk Mgt & Cyber Security Initiatives'.
 - Runner Up in the category of 'Technology Bank of the Year'.
- ▶ Best MSME offering under Private Sector category in ASSOCHAM 7th National MSMEs Excellence Awards, instituted by ASSOCHAM.
- ▶ Third Best Performed Bank award at National Level under Old Private Sector Bank Category for the year 2018-2019, instituted by State Forum of Bankers' Club, Kerala.
- ▶ BFSI Awards [For Excellence in Banking Financial Services & Insurance] under 2 categories, instituted by ABP News.
 - Best Bank under Private Sector.
 - Innovation and emerging technologies in banking sector.
- ▶ ET Business Excellence Award 2019, in the category "Excellence in Banking Service".
- ▶ STP Award 2018: In recognition of Bank's outstanding payment formatting and straight-through rate, instituted by Bank of New York, Mellon.
- ▶ Bank's in-house magazine 'ABHYUDAYA' – awarded as the Best In House Magazine in the National Awards for Marketing Excellence presented by Business Television India (BTVI), Mumbai.
- ▶ Atal Pension Yojana "Game Changers" award instituted by PFRDA on 01-07-2019, for achieving 100% of AAPB target for the FY 2018-19.

FINANCIAL INCLUSION

Through the Financial Inclusion Plan, your Bank aims at 'connecting people' with the Bank and not just opening accounts. This includes meeting the small credit needs of the rural public, giving them access to the payments system, providing remittance facility, life insurance and health insurance etc.



Your Bank has 386 branches (including 35 Ultra Small Branches) located in the rural and semi-urban areas and offer banking facilities to the rural clientele. Our rural branches are also acting as Financial Literacy Centers (FLCs) and imparting banking literacy among the rural populace. In accordance with Prime Minister's Jan Dhan Yojana (PMJDY), Bank has implemented the revised Strategy and Guidelines for Financial Inclusion activities. Your Bank is actively participating in Direct Benefit Transfer (DBT) Programme of Govt. of India, to transfer the benefits of various Schemes / LPG Subsidy directly to the beneficiaries' Aadhaar enabled bank accounts.

As part of Financial Inclusion plan, Bank has been offering following services:

1. Business Correspondent (BC) services: Bank has tied up with Sub-K Impact solutions Limited to provide the BC services and as on 31st March 2020, 119 BC Agents are covering allocated villages in the states of Karnataka, Andhra Pradesh and Chhattisgarh.
2. Aadhar Enabled Payment System (AEPS): Bank has introduced AEPS transaction services offered by National Payments Corporation of India (NPCI) at all Business Correspondent (BC) locations of the Bank and with this, Bank's customer having an Aadhar enabled SB account can transact at the BC point.
3. Financial Literacy and Credit Counseling Centers (FLCs): Bank has sponsored 5 FLCs at B.C Road, Tiptur, Hangal, Kundagol and Alur (Karnataka) jointly with M/s Jnana Jyothi Financial Literacy and Credit Counseling Trust, Manipal. During the year, the FLCs have conducted 3012 Financial Literacy campaigns in which 1,20,320 participants took part. In adherence to RBI guidelines all the rural branches of your Bank are also conducting financial literacy Camps.
4. Social Security Schemes: Three Social Security Schemes-Prime Minister Jeevan Jyothi Bima Yojana (PMJJBY), Prime Minister Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana (APY) have been launched by Hon'ble Prime Minister on 1st June 2015. All the branches of your Bank are actively involved in providing these schemes to the customers across the country.
5. Prime Minister Jan Dhan Yojana (PMJDY): All the branches across the country are opening accounts under PMJDY and are issuing RuPay Debit Cards. Since 15.08.2014, 2,39,573 PMJDY accounts have been opened with an outstanding balance of ₹.64.59 crore. So, far 77,886 PMJDY RuPay cards have also been issued.

CORPORATE SOCIAL RESPONSIBILITY

The Corporate Social Responsibility initiatives of the Bank are designed to make a positive impact on a wide range of areas of social life like healthcare, education/ livelihood enhancement, empowering women/socially and economically disadvantaged, environmental sustainability/ green initiatives, protection of heritage/ culture, promotion of sports, rural development, Swachh Bharath etc., aimed at promoting the overall development of the society. Further, to minimize the urban-rural divide, your Bank has been strengthening its rural orientation through initiatives aimed at imparting financial literacy and extending banking services to the people in rural unbanked areas, in a fair and transparent manner, at an affordable cost.

Further, pursuant to Section 135 of the Companies Act, 2013 read with Companies (Corporate Social Responsibility Policy) Rules, 2014, the Board has constituted 'Corporate Social Responsibility (CSR) Committee' and has also put in place a Policy on Corporate Social Responsibility (CSR Policy) to undertake projects/programmes in pursuance to the said Policy. The contents of



the CSR Policy along with the report on amounts spent on various projects/ programmes during the financial year 2019-20 is detailed in Annexure V to this report pursuant to Rule 8 of the Companies (Corporate Social Responsibility Policy) Rules, 2014. Under CSR activities, Bank has so far funded 1171 projects with a total financial outlay of ₹ 40.80 crore and these projects have exhibited a total positive impact on the society.

HUMAN RESOURCES

Banking industry is exposed to various changes/challenges with the digitalisation taking the world by storm. The survival and prosperity of any industry depends upon the quality of its human resource and banking industry is not an exception. Human Resource Development is a continuous process to ensure development of employee competencies, dynamism, motivation and effectiveness in a systematic and planned way. Accordingly your Bank attaches the greatest importance to employee satisfaction and human resource development activities. Bank also has a Chief Learning Officer to oversee HR department aspects. Bank has also introduced ECDS (Employee Career and Development System) by operationalizing the PMS (Performance Management System).

Training & Development

Training plays a major role in Human Resource Development. Effective training is important for any organisation that aims to gain competitive advantage through enhanced performance and excellent service from its employees. It is essential that staff members are acquainted with required knowledge and skills to meet current challenges so as to perform the tasks efficiently and prepare them to shoulder higher responsibilities. Your Bank deposes its employees to various training and development programmes to upgrade their skills, competencies and contribution towards the growth of the Bank. The Bank has a well-established Staff Training College which is awarded with the prestigious ISO 9001:2015 certification for the Compliance Quality Management Standards. Indian Institute of Management (IIM) Ahmedabad, BQ Global Academy Mumbai, Centre for Advanced Financial Research & Learning (CAFRAL) Mumbai, National Institute of Bank Management (NIBM) Pune, Southern India Banks' Staff Training College (SIBSTC) Bengaluru, IFBI Chennai, Indian Institute of Banking and Finance (IIBF) Mumbai, College of Agricultural Banking (CAB) Pune, Institute for Development and Research in Banking Technology (IDRBT) Hyderabad, Foreign Exchange Dealers Association of India (FEDAI) at Mumbai, Bankers Institute of Rural Development (BIRD) Mangaluru & Lucknow are some of the elite institutes where Bank deposes its officers and staffs for specialized training. During the year 2019-20, 4622 employees were nominated for various trainings / workshops / conferences covering 50.22% of the total staff strength besides conducting induction training programme for the newly recruited staff members.

Your Bank has implemented 'e-learning' concept wherein, the members of staff acquire knowledge on diversified subjects at their location through easy learning techniques without the necessity of attending classroom training. These modules are in simple & lucid language and understandable to everyone.

As a part of Capacity Building initiative, specialized areas like Treasury Operations, Risk Management, Credit Management, Accounting, Human Resource Management and Information Technology have been identified and the staff members are encouraged to acquire certification courses from institutions approved by IBA. Robotic Process Automation (RPA) has been implemented for various HR Processes. Mandatory Leave has been introduced for Executives / Officers posted in Sensitive positions / Areas of operation as a risk mitigation measure.

Your Bank values opinions and suggestions from all the employees and encourages their inputs, thoughts and innovative ideas which help in creating a highly productive, competitive and reliable workforce thereby emerging as a preferred destination for the competent work force.

As on 31st March 2020, Bank had 8509 employees. The Business per employee (excluding inter-bank deposits) has improved to ₹15.12 crore as on 31st March 2020 from ₹14.89 crore as on 31st March 2019, so also the business per branch has also improved to ₹151.80 crore as on 31st March 2020 from ₹147.50 crore as on 31st March 2019. Further, your Bank has maintained cordial industrial relations and effective employee discipline.

Your Bank has put in place an institutional mechanism for protection of women employees at the workplace and adopted a policy pursuant to Section 22 of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, providing for protection of women employees against the sexual harassment of women at the workplace and redressal of such complaints. The details of the complaints under the above Policy for the year under report are as under:

Number of complaints pending as at the beginning of the financial year	Nil
Number of complaints filed during the financial year	Nil
Number of complaints pending as on end of the financial year	Nil

VIGIL MECHANISM

The Bank has implemented the Protected Disclosure Policy (Whistle Blower Policy) since the year 2007 intended to promote participation of employees at all levels and detection of corruption, misuse of Office, criminal offences, suspected / actual fraud, failure to comply with the rules and regulations prescribed by the Banks and any events/ acts detrimental to the interest of the Bank, depositors and the public resulting in financial loss/operational risk, loss of reputation etc. Further, the mechanism adopted by the Bank encourages the Whistle Blower to report genuine concerns or grievances and provides for adequate safeguards against victimization of the Whistle Blower who avails such mechanism and also provides for direct access to the Chief of Internal Vigilance (CIV) in general and Chairman of the Audit Committee, in exceptional cases. The Vigil mechanism is reviewed periodically. The details of Whistle Blower Policy is posted in Bank's website and available at the link: <https://karnatakabank.com/sites/default/files/201709/Policy%20on%20Disclosure%20Scheme.pdf>

INFORMATION TECHNOLOGY:

The Core Banking System (CBS) covers all the branches and offices of the Bank. Further, Alternate Delivery Channels like Automated Teller Machines (ATM), Internet Banking, Mobile Banking, Unified Payment Interface (UPI) App etc., have also been integrated with CBS. Disaster Recovery (DR) facilities for all the critical applications are established to ensure business continuity in the event of primary site failure. A three-way data replication aimed at zero data loss is also implemented for applications such as CBS, ATM and Internet Banking. The IT infrastructure is also supervised by the CTO (Chief Technology Officer).

During the year under report, Bank has undertaken the following IT projects:

1. Europay, MasterCard and VISA (EMV) card enabled ATMs.
2. Cardless cash withdrawal in all the ATM and Bulk Note Acceptor (BNA) machines through Mobile Banking application.

3. Enhancement in Internet Banking solution 'Money click'.
4. Introduction of e-mandate system proposed by National Payment Corporation of India (NPCI).
5. e-Waste management to ensure safe disposal of hazardous electronic waste.

Your Bank will continue to take note of technological revolutions and take appropriate decision at the right time to provide premier banking services and also continue to be a tech-savvy Bank.

RISK ARCHITECTURE

RISK AND CONCERNS


Eventhough risk and rewards are an integral part of banking, it makes prudent to take informed decision through proper risk assessment process. The key risks that a Bank is exposed to in the normal course of business include Credit Risk, Market Risk, Liquidity Risk and Operational Risk. In addition, other residual risks which are inherent in the banking sector are Interest Rate Risk, Concentration Risk, Strategic Risk, Reputation Risk, etc. With a view to efficiently manage such risks, your Bank has put in place a Risk Management framework which is supervised by a Committee of Executives. In line with the guidelines issued by the Reserve Bank of India, your Bank periodically continues to strengthen the various risk management systems that include policies, tools, techniques and other monitoring and forewarning mechanisms.

Your Bank's risk management objectives broadly cover proper identification, assessment, measurement, monitoring, controlling, mitigation and reporting of the risks across various business segments of the Bank. The risk management strategy adopted by your Bank is based on a clear understanding of the risks and level of risk appetite, which is dependent on the willingness of your Bank to take risks in the normal course of business. A Board level committee, viz., Risk & Capital Management Committee (RCMC) periodically reviews the risk profile, evaluates the overall risk faced by the Bank and develops policies and strategies for its effective management. Bank has a competent Risk Management Department and a Chief Risk Officer for the overall supervision of all the risk related issues. The wide spectrum of risks which are managed by the Bank include, inter-alia, Credit Risk, Operational Risk, Market Risk, Concentration Risk, Liquidity Risk, Interest Rate Risk, Compliance Risk Cyber Risks etc.

CREDIT RISK AND ITS MANAGEMENT

Credit risk is the possibility of a borrower or counterparty failing to meet their obligations in accordance with agreed terms. It is the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. Loans are the largest and the most obvious source of credit risk for Banks. Credit risk also exists in the banking book and in the trading book, and both on and off balance sheet. Banks increasingly face credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, inter-bank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options and in guarantees and settlement of transactions.

Your Bank has developed an online comprehensive credit risk rating system for quantifying and aggregating the credit risk of all borrower accounts across various exposures. Besides validating its existing rating models and refining the corporate model, the Bank has introduced Specialized lending rating models, Retail Score Card model (Pool based approach) and Facility Rating Model. Further, score card models under Business Rule Engine(BRE) approach have also been introduced for digital sanction process. Accordingly, Bank is rating its credit portfolio as per the criteria laid down for rating in the Loan Policy of the Bank. The rating serves as a single point indicator of diverse risk factors of counter-party and for taking credit decisions. The risk rating



system is drawn up in a structured manner, incorporating different factors such as borrower and industry specific characteristics. The Bank also undertakes periodic validation exercise of its rating models and also conducts migration and default rate analysis to test robustness of its rating models.

The Bank has formulated a comprehensive Loan Policy by incorporating various parameters and prudential limits to manage and control default, transaction and intrinsic /concentration risks. The credit exposures are underwritten by the Bank after subjecting the proposals to detailed analysis of various risk factors such as financial risk, industry risk, management risk, business risk, transaction risk, etc.

The Bank analyses the migration of borrowers in various risk rating categories to gauge the quality of the loan portfolio. The Bank also conducts periodical review of the loan assets to ascertain conduct of the accounts. In addition, periodic Credit Audit, Legal Audit and Stock Audit of large credit exposures are conducted to limit the magnitude of credit risk.

Credit sanction and related processes:


Know Your Customer is a leading principle for all business activities. The other components of the credit processes are:

1. Sound credit approval process with well laid credit sanctioning criteria.
2. The acceptability of credit exposure, primarily based on the sustainability and adequacy of borrower's normal business operations and not based solely on the availability of security.
3. Portfolio level risk analysis and reporting to ensure optimal spread of risk across various rating classes to prevent undue risk concentration across any particular industry segments and monitoring credit risk mitigation. Sector specific studies at periodic intervals to highlight risks and opportunities in those sectors.
4. Adoption of rating linked exposure norms.
5. Industry-wise exposure ceilings based on the industry performance, prospects and the competitiveness of the sector.
6. Separate risk limits for credit portfolios like advances to NBFC and unsecured loans that require special monitoring.

Review and Credit Monitoring

1. All credit exposures, once approved, are monitored and reviewed periodically against the approved limits. Borrowers with lower credit rating are subject to more frequent reviews.
2. Credit monitoring involves independent review of credit risk assessment, compliance with internal policies of the Bank and with the regulatory framework, compliance with the sanction terms and conditions and effectiveness of loan administration.
3. Customers with emerging credit problems are identified through an EWS (Early Warning System) mechanism and classified accordingly. Remedial action is initiated promptly to minimize the potential loss to the Bank.

In order to have an effective post sanction monitoring and collection mechanism, an exclusive Credit Monitoring Department (CrMD) is set up at Head Office. 'Regional Collection Hubs (RCH) consisting of Regional Retail Collection Team (RRCT) and



Regional Corporate Collection Team (RCCT) are set-up at all the Regional offices. The RRCTs and RCCTs follow up /take time bound/DPD-wise actions to ensure collection of dues in respect of all loan accounts under the overall supervision of CrMD. A dedicated Credit Monitoring Team (CrMT) is also functioning under RCHs at all the Regional Offices to undertake post-sanction monitoring of loan accounts of respective Regions.

During the year under report, with a view to strengthen the credit monitoring, Bank has taken up following initiatives:

1. Implementation of automated web based Collection Tool- 'KBL-Collect' to monitor/undertake the follow up activities of RCH/Branches;
2. Introduction of Auto Sweep System for auto collection of EMI/Installment/Interest of loans from operating accounts of borrowers;
3. Auto-capturing of eligible Early Warning Signals under big ticket loans of ₹ 25.00 crore and above;
4. Automation of Legal Audit exercise.

Further, a yearlong program by name, 'Monitoring Excellence Initiatives' was launched on Founders' Day of the Bank on 18.02.2019 so as to achieve new benchmarks in credit monitoring, which helped the Bank in controlling the stress level.

Credit Risk Mitigation: Disclosures for Standardized Approach

As stipulated by the RBI guidelines, the Bank uses the comprehensive approach for collateral risk mitigation. Under this approach, the Bank reduces its credit exposure to counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral as specified in the Basel guidelines.

CONCENTRATION RISK

The Bank controls concentration risk by means of appropriate sectoral limits and borrowers limits based on creditworthiness. The Bank also captures the Concentration risk by monitoring the geographical exposure.

Large Exposures Framework

RBI revised the Large Exposures Framework (LEF) effective from 7th June 2019, for all scheduled commercial banks. Under the earlier framework of 4th April 2019, a bank's exposure to a single NBFC was restricted to 15 per cent of its available eligible capital base, while the general single counterparty exposure limit was 20 per cent, which could be extended to 25 per cent by banks' boards under exceptional circumstances. To harmonize the counterparty exposure limit to a single NBFC with that of the general limit, RBI has now permitted bank's exposure to a single NBFC (excluding gold loan companies) to be restricted to 20 per cent of Tier-1 capital of the bank.

Large exposures to individual clients or group

The Bank has individual borrower-wise exposure ceilings based on the internal rating of the borrower as well as group-wise exposure limits. The Bank monitors the level of credit risk (Low/Moderate/ High/ Very High) and direction of change in credit risk (increasing /decreasing/ stable) at the portfolio level. Your Bank has complied with above framework credit exposure while taking credit exposure.

External Benchmark Based Lending:

External Benchmark Based Lending: RBI has made it mandatory for banks to link all new floating rate personal or retail loans (housing, auto, etc.) and SME loans with an external benchmark from 1st October 2019. Banks can offer such external benchmark linked loans to other types of borrowers as well. The banks can benchmark the loans to the RBI policy repo rate/ Government of India's 3-month or 6-month treasury bill yields, or any other benchmark market interest rate published by the Financial Benchmarks India Pvt. Ltd. Banks are free to decide the spread over the external benchmark, but the credit risk premium can be changed only when the borrowers' credit assessment changes substantially. Other components of the spread including operating costs can be altered once in 3 years. The interest rate will be reset at least once in 3 months. The move is aimed at faster transmission of monetary policy rates.

OPERATIONAL RISK AND ITS MANAGEMENT

Operational risk is the risk of direct or indirect loss resulting from breakdowns in internal procedures, people, system and external events. Examples of operational risk are frauds, system failure, error in financial transactions, failure to discharge demand of contractual obligations due to insufficient funds, etc.

Bank has initiated several measures to manage operational risk through identification, assessment and monitoring of inherent risks in all its business processes.

Framework and Process

To manage Operational Risks, Your Bank has put in place a comprehensive and robust risk management framework whose implementation is supervised by the Operational Risk Management Committee (ORMC) and reviewed by the Risk & Capital Management Committee (RCMC) of the Board. The Operational Risk Management Policy approved by the Board of Directors, details the framework for hedging and/or mitigating Operational Risks in the Bank. As per the policy, all new products are vetted by the New Product and Process Approval Committee to identify and assess potential operational risks, including control measures to mitigate the risks.

Scope and Nature of Operational Risk Reporting and Measurement Systems


In your Bank a systematic process for reporting risk events, loss events, 'near misses' and non-compliance issues relating to operational risks is used to develop triggers to initiate corrective actions and to enhance controls. All critical risks and potential loss events are reported to the Senior Management /ORMC/ RCMC for their directions and suggestions.

Approach for Operational Risk Capital Assessment

As per the RBI guidelines, the Bank has adopted the Basic Indicator Approach for computing capital charge for Operational Risk.

CYBER RISK

Cyber risk is a concern for all businesses including banking business. Your Bank has taken adequate steps to address cyber risks by implementing 'Cyber Security Framework' as per RBI guidelines and has deployed various Information Security systems such



as Application Firewall, Web Security Gateway, End Point Security systems, Honey Pot systems and Privilege Identity Management (PIM) to protect its information systems. Bank has also put in place in house captive 'Security Operations Center (SOC)', wherein logs are monitored through 'Security Information Event Management (SIEM)' tools. All security Device Monitoring & Management is carried out on 24*7*365 basis to identify and prevent any device malfunctioning/malicious activities. Apart from mitigation measure, bank has also adopted risk transfer approach. Bank has in place 'cyber security insurance'.

A Board level Committee (IT Strategy & Governance Committee) gives directions, approves IT Security related policies apart from overseeing preparedness in respect of 'Information Security' of your Bank.

Senior Management of your Bank including majority of board members have undergone Cyber Security Training at IDRBT, Hyderabad. Further, your Bank has been complying with the RBI/other regulatory instructions relating to cyber security threat advisories. A Senior Management Committee (Information Security Steering Committee) regularly reviews the information security arrangements and implementation of Information Security programs in the Bank.

Your Bank has nominated a Chief Information Security Officer (CISO), who is responsible for articulating and enforcing the policies that Bank uses to protect the information assets apart from coordinating security related issues in implementation of new systems under Information Technology in the Bank.

During the reporting year, Bank has participated in Cyber Security Drills conducted by IDRBT with a view to strengthen its internal cyber resilience system.

MARKET RISK


Market risk is the risk to a earnings and capital resulting from movements in market prices, particularly changes in interest rates, foreign exchange rates, equity and commodity prices, including the volatilities resulting from those changes.

Your Bank has put in place Board approved Integrated Treasury Policy, Asset Liability Management (ALM) policy, Market Risk Management Policy and Fund Transfer Pricing policy for effective management of Market Risk in the Bank. The objective of the Integrated Treasury Policy is to assess and minimize risks associated with treasury operations by extensive use of various risk management tools. Broadly, it encompasses Policy prescriptions for managing systemic risk, credit risk, market risk, operational risk and liquidity risk in treasury operations.

For market risk arising out of various products in treasury and its business activities, the Bank has set regulatory / internal limits and ensures the adherence thereof. Migration of ratings is tracked regularly. Additionally Limits for exposures to counter-parties, industries and countries are monitored and the risks are controlled through Stop Loss Limit, Overnight Limit, Daylight Limit, Aggregate Gap Limit, Individual Gap Limit, Value at Risk (VaR) Limit for Forex, Inter-Bank dealing and various investment limits. The Mid Office function of Market Risk Management, is handled by the Risk Management Department.

The Board, RCMC & ALCO oversee the market risk management of the Bank and procedures thereof, implementing risk management guidelines issued by the regulator and the best risk management practices followed globally and ensuring that internal parameters, procedures, practices /policies and risk management prudential limits are adhered to.

Your Bank is having Fund Transfer Pricing Policy which lays down methodology/assumptions on which profitability of the branches/ products/ customers are measured and the outcome of the FTP results are being used for effective decision making.



The Board, RCMC & ALCO oversee the market risk management of the Bank and procedures thereof, implementing risk management guidelines issued by the regulator and the best risk management practices followed globally and ensuring that internal parameters, procedures, practices /policies and risk management prudential limits are adhered to.

The policies for hedging and/or mitigating risks as well as strategies and processes for monitoring the continuing effectiveness of hedges/mitigant are discussed in the ALCO and based on their inputs, hedge deals are undertaken.

Market Risk in Trading Book

Bank has adopted the Standardized Duration Approach as prescribed by RBI for computation of capital charge for market risk and is fully compliant with such RBI guidelines.

LIQUIDITY RISK

Liquidity risk arises when a bank fails to meet its contractual obligation in its daily operations due to inadequate funds flow. The Liquidity risk is mitigated through advance assessment of need of funds and coordinating with various sources of funds available to the bank under normal and stressed conditions. There are three different circumstances viz. Funding risks, Time risks, and call risks which normally cause liquidity risk to the banks.

Your Bank's Liquidity risk is assessed using daily gap analysis for maturity mismatch based on residual maturity in different time buckets as well as various liquidity ratios and management of the same is done within the prudential limits fixed thereon. Advance techniques such as Stress testing, simulation, sensitivity analysis etc., are conducted at regular intervals to draw the contingency funding plan under different liquidity scenarios.


Liquidity Coverage Ratio (LCR)

Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio (LCR), is a global standard used to measure a Bank's liquidity position. LCR ensures that a Bank maintains adequate and unencumbered High Quality Liquid Assets (HQLAs) that can be converted easily to cash to meet its emergency liquidity requirement in a 30 day liquidity stress scenario. The assets allowed as Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing the LCR of banks, include (a) Government securities in excess of the minimum SLR requirement and, (b) within the mandatory SLR requirement, Government securities to the extent allowed by RBI under (i) Marginal Standing Facility (MSF) and (ii) Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR)].

For the purpose of LCR, banks would continue to value government securities reckoned as HQLA at an amount not greater than their current market value (irrespective of the category under which the security is held, i.e., HTM, AFS or HFT).

QUALITATIVE DISCLOSURE

Bank is computing LCR on a daily basis in line with the RBI mandate on "Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards." The bank ensures that sufficient amount of High Quality Liquid Assets (HQLAs) is maintained at all times. Your Bank's HQLAs stood at 219.25 per cent of the net cash outflows, on a consolidated basis, for the year ended 31st March 2020, which is well above the minimum regulatory requirement of 100 per cent.



Bank's Asset Liability Management Committee (ALCO) is empowered to monitor and form suitable strategies to maintain stipulated levels of LCR by channelizing funds to target good quality asset and liability profile to meet Bank's profitability as well as liquidity requirements. Funding strategies are formulated by the Treasury and Accounts Department (TAD) in accordance with ALCO guidance. The objective of the funding strategy is to achieve an optimal funding mix which is consistent with prudent liquidity, diversity of sources and servicing costs. Accordingly, TAD estimates daily liquidity requirement. With the help of structural liquidity statement prepared by bank, TAD evaluates current and future liquidity requirement and takes necessary corrective action.

INTEREST RATE RISK

This is a Risk that arises when the financial value of assets or liabilities (or inflows/outflows) is altered because of fluctuations in interest rates.

Interest Rate Risk in the Banking Book (IRRBB): The interest rate risk is viewed from two perspectives - 'Earnings Perspective' and 'Economic Value Perspective'. The former is measured using Earnings-at-Risk (EaR) under Traditional Gap Analysis (TGA) while the latter is measured through changes in the Market Value of Equity (MVE) under Duration Gap Analysis (DGA).

Earnings-at-Risk (EaR)

All the Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) maturing /re-pricing up to 1 year are bucketed as per Traditional Gap Analysis (TGA) and EaR analysis is conducted by applying various shocks on product-wise weighted average interest rates in each time band. EaR is quantified by changes in the NII and NIM in comparison with the previous reporting.

Basel III Capital Regulations - Implementation of Leverage Ratio:

To mitigate the risk of excessive leverage and enhance the financial stability, RBI mandated the minimum leverage Ratio (LR) under Basel III regulations for banks in India. Both the capital measure and the exposure measure along with the leverage ratio are to be disclosed on a quarter-end basis. However, banks must meet the minimum leverage ratio requirements at all times. As on 31st March 2020, your Bank had the leverage ratio of 6.23 percent as against the regulatory minimum requirement of 3.5 percent.

Capital Adequacy

Under Pillar 2 of the Basel II Accord, Internal Capital Adequacy and Assessment Process (ICAAP) was introduced as a measure of the adequacy of a bank's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its networth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.

An assessment of the capital requirement of the Bank is carried out through comprehensive projections of future business that takes cognizance of the strategic intent of the Bank, profitability of particular business and opportunities for growth. The proper mapping of credit, operational and market risks to this projected business growth enables assignment of capital that not only adequately covers the minimum regulatory capital requirements but also provides headroom for growth. The calibration of risk to business is enabled by a strong risk culture in the Bank aided by effective, technology based risk management system.

Basel III Capital Adequacy Ratio Minimum Requirement

The capital adequacy ratio (CRAR) is calculated by adding Tier 1 capital to Tier 2 capital and dividing by risk-weighted assets. Tier 1 capital is the core capital of a bank, which includes Equity Capital, Reserves & Surplus and Share Premium amount. This type of capital absorbs losses without requiring the bank to cease its operations. As of 31st March 2020, under Basel III, a bank's Tier 1 and Tier 2 minimum capital adequacy ratio (including the capital conservation buffer) must be at least 10.875 percent and your Bank's CRAR is at a comfortable level of 12.66 percent.

CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP):

In compliance with Basel guidelines, the Bank has put in place a policy document for Internal Capital Adequacy Assessment Process (ICAAP) to evaluate its capital adequacy relative to its risks. Stress testing framework for various stress scenarios is also put in place for a better understanding of the likely impact of adverse market movements/events on the capital and earnings. The results of the ICAAP and Stress testing are reviewed periodically to assess the capital requirement for the projected business growth, keeping in view the risk appetite and risk profile of the Bank. A Board level Risk & Capital Management Committee (RCMC) reviews the risk appetite, risk profile, business projections as well as capital assessments of your Bank at periodic intervals

COMPLIANCE RISK

Compliance risk arises when prudential guidelines are not adequately complied with by the bank or its service provider resulting in fines, penalties or punitive damages from regulators. RBI has been imposing penalties on banks for their failure to comply with regulatory or statutory requirements including KYC/AML areas.


INTERNAL CONTROL SYSTEMS - ADEQUACY AND COMPLIANCE

Your Bank has put in place an effective and robust internal control apparatus, commensurate with its size, geographical spread and complexity of operations. At the apex level, guidance and direction on the control aspects is vested with the Audit Committee of the Board of Directors which takes an overall view on the internal control aspects and formulates all the related policy guidelines.

The Bank has put in place an independent Compliance Department headed by a Chief Compliance Officer who is In-Charge of the entire compliance functions of the Bank to ensure effective implementation and compliance of all the directives issued by various Regulators, its Board of Directors and its own Internal Control Policy.

Your Bank has adopted Risk-Based Internal Audit (RBIA) mechanism which ensures greater emphasis on the internal auditor's role in mitigating various risks. While continuing with the traditional risk management and control methods involving transaction testing etc., the Risk-Based Internal Audit would, not only offer suggestions for mitigating current risk but also on potential future risk, thereby playing an important role in the risk management process of the Bank.

The risk assessment under RBIA covers risks at various levels (corporate and branch; portfolio and individual transactions etc.) as also the processes in place to identify, measure, monitor and control the risks. The internal audit department is devising the RBIA risk assessment methodology, with the approval of the Audit Committee of the Board of Directors, keeping in view the



size and complexity of the business undertaken by the Bank. The risk assessment process includes identification of 'Inherent Business Risk' in various activities undertaken by the Bank and evaluate the effectiveness of the control systems for monitoring the Inherent Risks of the business activities.

With a view to seek periodic assurances on the adequacy and efficacy of internal control functions, the Bank causes periodic Regular Inspections and Information System (IS) Audit of all the branches and Offices. Besides, your Bank also covers select branches under concurrent audit as per the Concurrent Audit Policy of the Bank and Short Inspection of all the branches as well. Concurrent Audit of Treasury functions (both domestic and forex), International Division, Forex designated branches, Central Processing Centre, Centralized Account Verification Cell, SWIFT reconciliation, Regional Loan Processing Centres (RLPC), and external Integrated Audit of Centralised Payment & Reconciliation Cell is also undertaken. Further, IS Audit of Data Centre and DR Site is done by CERT-In empanelled external security auditing firm besides conducting other regular IS Audits by internal CISA qualified and ISO 27001 Lead Auditors etc.

Besides, the Bank has also been causing Stock/Credit Audits and Legal Audits of large borrowal accounts by external professionals in furtherance of effective credit administration. Bank's Credit Monitoring Department and Risk Management Department are acting as Risk resilient system for effectively monitoring and managing for mitigation of various risks.

To apprise the effectiveness of management at different levels in accomplishing the assigned tasks towards achieving the overall corporate objectives, Management Audit is also introduced by your Bank for Departments at Head Office and Regional Offices.

As per the requirement of Companies Act, 2013, Bank has formulated Internal Financial Controls framework by documenting risk and controls associated with each process in the Bank and testing of Internal Financial Controls over Financial Reporting (ICFR) is done annually.

Your Bank has implemented 'Defense in Depth' security architecture with continuous monitoring by Securities Operations Centre (SOC) integrated with SIEM to safeguard the interest of the bank's assets and its stakeholders. The systems and processes of the Data Centre, NLS & IT departments of the Bank are ISO 27001:2013 Certified.

Your Bank has put in place the policies and procedures for ensuring an orderly and efficient conduct of its business, safeguarding of its assets, prevention and detection of frauds and errors, accuracy and completeness of the accounting records and timely preparation of reliable and transparent financial information. The Audit Committee of the Board periodically assesses the effectiveness of the internal financial controls and their adequacy and issues directions for its strengthening wherever found necessary. The Internal Audit function of the Bank, operates independently under the supervision of the Audit Committee of the Board, thereby ensuring its independence.

RISK BASED SUPERVISION (RBS)

In view of the growing complexities in the processes, product offerings and systems and procedures in the Indian banking sector, pursuant to the recommendation of the High Level Steering Committee, Reserve Bank of India has shifted supervisory stance to risk-based approach called Supervisory Program for Assessment of Risk and Capital (SPARC) which is focusing on evaluating both present and future risks, identifying incipient problems and facilitating prompt intervention / early corrective action etc. Your Bank has been included under the same and migrated to Risk Based Supervision since 31st March, 2015. A plan of action for complying with various findings in RBS communicated to the Bank in Risk Assessment Report is also ensured.

COMPLIANCE FUNCTION

Compliance function in the Bank is one of the key elements in the Bank's Corporate Governance structure along with internal control and risk management process. As an important element in Corporate Governance structure, the Bank has a robust Compliance Department with sufficient independence to promote healthy compliance culture within the Bank. Bank ensures strict observance of all statutory provisions, guidelines from RBI and other Regulators, standards and codes, Bank's internal policies and fair practices code. The compliance function includes interpretation/ dissemination of regulatory and statutory guidelines and ensures that controls and procedures capture the appropriate information to the Senior Management in their risk management function. The risk-based compliance programme of the Bank, under the supervision of Chief Compliance Officer, ensures appropriate coverage across businesses, besides verifying the level of compliance through 'Compliance Testing' of branches/business units. The Bank carries out an annual compliance risk assessment to identify and assess major compliance risk faced by it and take steps to manage the risks effectively.

CONVERGENCE WITH THE INTERNATIONAL FINANCIAL REPORTING SYSTEM (IFRS)- 'IND-AS'


As per the roadmap given by Reserve Bank of India (RBI) vide circular dated 11th February 2017, transition to "Indian Accounting Standards (Ind AS)" in banks were to commence from the accounting period beginning 1st April, 2018 onwards. However, the regulator had deferred the implementation of Ind AS for Scheduled Commercial Banks by one year i.e. from the accounting period beginning 1st April 2019. The RBI vide its circular No.DBR.BP.BC.No.29/21.07.001/ 2018-19 dated 22nd March 2019 has deferred implementation of Ind AS till further notice.

However, your Bank is prepared to implement Ind AS and towards this direction, Bank has conducted diagnostic study on various disparities between current Accounting framework and Ind AS and ascertained various areas having an impact on measurement, accounting and disclosure of financial assets & liabilities and provisioning requirements. Besides, changes required to be carried out in Core Banking Solution (CBS) and IT systems of the Bank, to accommodate Ind AS are also being looked into and as stipulated by RBI, Bank has been submitting the Proforma Ind AS Financial statements from time to time to RBI.

SUBORDINATED DEBT INSTRUMENTS

With a view to maintain a healthy capital position on an ongoing basis, Bank raised capital funds in the earlier years by issuing subordinated debt instruments (i.e., Unsecured Non-Convertible Subordinated (Lower Tier-2) BASEL III Debt Instruments) as part of Tier 2 Capital under different series by private placement and are listed on National Stock Exchange of India Ltd (NSE) and details of the debt instruments outstanding as on 31st March 2020 are as under:

Series	Date of Issue	Face Value per Bond	Number of Bonds	Amount (₹ crore)	Tenure from date of issue	Coupon Rate (% p.a.)	Credit Rating	Listing	ISIN of the Bonds
IV	17.11.2012	10,00,000	2,500	250.00	120 months	11	ICRA A & CARE A	Listed on NSE-Debt Segment	INE614B08021
V	16.11.2018	1,00,000	40,000	400.00		12			INE614B08039
VI	18.02.2019	1,00,000	32,000	320.00		12			INE614B08047



Your Bank has paid interest on these debt instruments on a timely basis since the issue of respective debt instruments as per the terms of the issue. No Certificate of Deposits were issued by the Bank during the year under report.

DIVIDEND DISTRIBUTION POLICY

Your Bank has adopted a Policy on Distribution of Dividend to the shareholders pursuant to the Regulation 43A of the SEBI (LODR) Regulations, 2015. Gist of the Dividend Distribution Policy is as under:

- ▶ Being a Banking entity, Dividend Distribution is guided by the RBI Circular DBOD.No.BP. BC. 8821.02.67/2004-05 dated 5th May, 2005 with regard to eligibility criteria for distribution of dividend.
- ▶ Factors considered for recommendation of dividend includes both internal factors such as financial performance, dividend payout trends, tax implications, corporate actions and external factors such as shareholders' expectations, macro environment etc.
- ▶ Factors considered for determining the quantum of dividend include financial performance, capital fund requirements to support future business growth, having regard to the dividend payout ratio prescribed under the aforesaid RBI Guidelines etc.

The Dividend Distribution Policy of the Bank is available in Bank's website at <https://karnatakabank.com/investor-portal/corporate-governance>.

As discussed earlier, in view of the restriction imposed by the RBI vide circular dated 17th April 2020 on payment of dividend by the schedule commercial banks, the Board of Directors has not recommended any dividend for the financial year 2019-20.


INTEGRATED REPORTING

SEBI vide circular dated 6th February 2017 has prescribed that Integrated Reporting may be adopted by Top 500 listed entities on a voluntary basis from the financial year 2017-18. Accordingly, your Bank being one of the 500 listed entities, has prepared the Integrated Report which has been hosted on the Bank's website under Investor Portal at www.karnatakabank.com> Investor Portal>Corporate Governance tab.

DIRECTORS AND CHANGES IN THE BOARD

As on 31st March 2020, your Bank's Board comprised of 9 Directors, including one woman director. All of them are Independent Directors except Mr. P Jayarama Bhat, Part-Time Non-Executive Chairman, Mr. Mahabaleshwara M S, Managing Director & CEO and Mr. B R Ashok, Additional Director. The details of the criteria for appointment and remuneration of Directors are provided in the report on Corporate Governance under Annexure III.

During the year under report, Mr. B A Prabhakar, Independent Director retired from office on 5th September 2019 upon completion of his five year term in terms of Companies Act, 2013. The Board places on record its appreciation for the valuable contributions and the guidance given by him during his tenure in office. Further, the Board appointed Mr. B R Ashok, Chartered Accountant from Chennai, as an Additional Director w.e.f. 27th August 2019 and in terms of Section 161 of Companies Act, 2013, he holds the office up to the date of 96th Annual General Meeting and the Board of Directors recommends his appointment as a Non-Independent Director of the Bank. Accordingly, a resolution seeking shareholders' approval for his appointment has been included in the Notice of ensuing 96th Annual General Meeting.



Mr. P Jayarama Bhat (DIN: 00041500) was appointed as the Part Time Non-Executive Director of the Bank upon receipt of approval from the RBI and also from shareholders to hold office from 12th April 2017 for a period of three years i.e. 11th April 2020. Considering his Chairmanship and participation in the Board to the overall growth of the Bank also upholding best corporate governance practices, the Board of Directors recommends his continuation in the office to hold the office till 13th November 2021 i.e. upto attainment of upper age limit of 70 years. In terms of section of 10B(1A)(i) of Banking Regulation Act, 1949 , appointment of chairman in the Banks is subject to the approval of RBI and upon application by the Bank, Reserve Bank of India vide email dated 24th March 2020, accorded its approval for his reappointment to hold office of the Part Time Non-Executive Chairman upto 13th November 2021 and for his remuneration. Since, he is not an Independent Director, a resolution seeking shareholders' approval for his reappointment has been included in the Notice of ensuing 96th Annual General Meeting.

Mr. Keshav K Desai (DIN: 07427621), who was appointed as an Independent Director on the Board of the Bank on 19th February 2016, will be completing his tenure of 5 years as an Independent Director on 18th February 2021. Considering his participation and contribution in the Board deliberations, your Directors' recommend for approval of his reappointment as an Independent Director of the Bank and a resolution has been included in the Notice of ensuing 96th Annual General Meeting.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER (MD & CEO)


Mr. Mahabaleshwara M S (DIN: 07645317) was appointed as the Managing Director & CEO of the Bank upon receipt of approval from RBI to hold office from 15th April 2017 for a period of three years i.e. till 14th April 2020. Necessary shareholders' approval was also obtained at the 93rd Annual General meeting. Considering his contribution to the growth of the Bank in these years under challenging business environment, the Board of Directors recommends his continuation in the office for a further period of three years. The Reserve Bank of India vide its email dated 24th March 2020, accorded its approval in terms of Section 35B of the Banking Regulation Act, 1949 for his reappointment for a further period of three years w.e.f. 15th April 2020 along with revised remuneration duly complying with guidelines as defined in RBI Circular dated 4th November 2019 on Compensation to WTDs/CEOs and other Material Risk Takers. Hence, a resolution seeking shareholders' approval for his reappointment and revised remuneration has been included in the Notice of ensuing 96th Annual General Meeting.

INDEPENDENT AND NON-EXECUTIVE DIRECTORS

Pursuant to the provisions of Section 149(6) of the Companies Act, 2013, your Bank has received necessary declarations from all the Independent Directors confirming that they meet the criteria of independence for Independent Directors as on 31st March 2020.

PERFORMANCE EVALUATION OF THE BOARD

Your Board of Directors has laid down criteria for performance evaluation of Directors, Chairman, MD & CEO, Committees of the Board and Board as a whole and also the evaluation process for the same. The statement indicating the manner in which formal annual evaluation of the Directors, the Board and Committees of the Board etc., are given in detail in the report on Corporate Governance under Annexure III. In pursuance to the above, NRC of the Board and Independent Directors in their separate meetings held on 20th March 2020 have reviewed and evaluated the performance of Board as a whole and the Managing Director & CEO.



Further, the Board has also reviewed the performance of committees of the Board and that of individual Independent Directors at its meeting held on 20th March 2020.

CONTRACTS OR ARRANGEMENTS WITH RELATED PARTIES

All transactions with the related parties that were entered into during the year under report were in the ordinary course of the business of the Bank and were on arm's length basis. There were no materially significant related party transactions entered into by the Bank with Directors, Key Managerial Personnel or other persons which may have a potential conflict with the interest of the Bank. As such disclosure in Form AOC-2 is not applicable. The policy on dealing with Related Party Transactions as approved by the Audit Committee/ Board has been placed in the website of the Bank under Investor Portal.

DIRECTORS' RESPONSIBILITY STATEMENT


In accordance with Section 134(3)(c), 134(5) of the Companies Act, 2013 read with Rule 8 of the Companies (Accounts) Rule, 2014, and other applicable provisions, your Directors state that:

- a) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- b) The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as at the end of financial year 31st March 2020 and profit and loss for that period.
- c) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities.
- d) The Directors have prepared the annual accounts on a going concern basis.
- e) The Directors have laid down the internal financial controls followed by the Bank and that such internal financial controls are adequate and are operating effectively.
- f) The Directors have devised proper systems to ensure compliance with the provision of all applicable laws and that such systems were adequate and operating effectively.

STATUTORY DISCLOSURES

The disclosures under sub-section (3) of Section 134 of the Companies (Accounts) Rules, 2014 are furnished below:

- a) Conservation of energy and technology absorption: Considering the nature of the Bank's business, the provisions of Section 134(3)(m) of the Companies Act, 2013 relating to conservation of energy and technology absorption are not applicable to your Bank. The Bank has, however, used information technology in its operations extensively. Further, to promote renewable sources of energy, Bank has installed solar panels at the Corporate Office, few Regional Offices and also at few Bank's owned premises.

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- b) During the year ended 31st March 2020, the Bank has earned ₹0.93 crore and spent ₹1.66 crore in foreign currency.
 - c) There were no significant and material orders passed by the regulators or courts of tribunals impacting the going concern status and Bank's operations in future.
 - d) Internal financial control systems and their adequacy: Your Bank has laid down standards, processes and structure facilitating the implementation of internal financial control across the Bank and ensure that same are adequate and operating effectively.
 - e) Key Managerial Personnel: Mr. Mahabaleshwara M S, MD & CEO, Mr. Muralidhara Krishna Rao, CFO and Mr. Prasanna Patil, Company Secretary of the Bank were the Key Managerial Personnel of the Bank as on 31st March 2020 as per the provisions of the Companies Act, 2013. None of the Key Managerial Personnel has resigned during the year under report. Upon elevation of Mr. Y V Balachandra to the post of Chief Operating Officer (COO) of the Bank and entrustment of other functional reallocation to him, Mr. Muralidhara Krishna Rao, General Manager, has been designated as the Chief financial Officer of the Bank w.e.f. 13th May 2019 in place of Mr. Y V Balachandra.
 - f) Remuneration of Directors: Disclosure pursuant to Section 197 (12) of the Companies Act, 2013 read with Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are given in Annexure VI to this report.
 - g) During the financial year 2019-20, there was no employee who was in receipt of remuneration requiring disclosure as per the limits prescribed under Section 197 of the Companies Act, 2013 read with Rule 5 of The Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

NUMBER OF BOARD MEETINGS

During the year under report the Board met 16 times and the details thereof are provided in the report on Corporate Governance attached to this report.

COMMITTEES OF THE BOARD

The Bank had 9 Committees of the Board which were constituted to comply with the requirements of relevant provisions of the applicable laws and for operational efficiency. Details of the meetings of the Board and the Committees, their composition, terms of reference, powers, roles etc are furnished in the report on Corporate Governance attached to this report in Annexure III.

CORPORATE GOVERNANCE

Your Bank is committed to follow the best practice of corporate governance to protect the interest of all the stakeholders of the Bank, viz. shareholders, depositors and other customers, employees and the society in general and maintain transparency at all levels. A detailed report on corporate governance practices is given as Annexure III to this report.

AUDITORS

a. Statutory Auditors

At the 95th Annual General Meeting held on 7th August 2019, M/s. Badari, Madhusudhan & Srinivasan, (Firm Registration No. 005389S) Chartered Accountants, No. 132, II Floor, Kantha Court, Lalbagh Road, Bengaluru-560027 and M/s Manohar Chowdhry & Associates, (Firm Registration No. 001997S), Chartered Accountants, New No.27, Subramaniam Street, Abiramapuram, Chennai-600018, were appointed as the Joint Statutory Central Auditors of the Bank who, at the conclusion

of the ensuing Annual General Meeting, will be completing the period of second year (i.e., in the term commencing from FY 2018-19).

The Board of Directors proposes to the members the appointment of M/s Badari, Madhusudhan & Srinivasan (Firm Registration No.005389S), Chartered Accountants, No.132, II Floor, Kantha Court, Lalbagh Road, Bengaluru-560027 and M/s Manohar Chowdhry & Associates, Chartered Accountants, New No. 27, Subramaniam Street, Abiramapuram, Chennai-600018 jointly as Statutory Central Auditors of the Bank to hold office upto the conclusion of 97th Annual General Meeting. Pursuant to Section 30(1A) of the Banking Regulation Act, 1949, approval from Reserve Bank of India has been sought for the said appointments. The Bank has received consent from the above auditors and necessary confirmation from them that they are not disqualified to be appointed as auditors of the Bank pursuant to the provisions of the Companies Act 2013 and the Rules made thereunder.

b. Secretarial Auditor and Secretarial Audit Report

Pursuant to Section 204 of the Companies Act, 2013 and the rules thereunder, your Bank had appointed M/s. Gopalakrishnaraj H H & Associates, Practising Company Secretary, Bengaluru as Secretarial Auditors to conduct the Secretarial Audit for the year ended 31st March 2020. The audit report from the Secretarial Auditor is annexed to this report as a part of Annexure III.

c. Observations made by the Auditors

Both the Statutory Central Auditors and the Secretarial Auditor have made an observation over compliance to SEBI (LODR) Regulations, 2015 regarding non-compliance in the constitution of the Audit Committee for a short period from 6th September 2019 till 5th November 2019 and the compliance in this regard has been ensured soon it came to the notice of the Bank. The Constitution of the Audit Committee in Banks is primarily governed by the extant guidelines issued by the Reserve Bank of India and also SEBI (LODR) Regulations, 2015. However, the Bank reconstituted the Audit Committee with effect from 6th November 2019 in compliance with Regulation 18 of SEBI (LODR) Regulations, 2015. The details are also mentioned in the Corporate Governance Report annexed to this report.

ACKNOWLEDGEMENTS

The Board of Directors would like to place on record their sincere gratitude to the Reserve Bank of India, other government and regulatory authorities, financial institutions and correspondent banks for their continued guidance and support. Your Directors also place on record their gratitude to the Bank's shareholders, depositors and other customers for their continued support, patronage and goodwill. Your Directors express their deep sense of appreciation to all the staff members, for their contribution in your Bank's quest for sustained growth and profitability and look forward for their continued contribution in scaling greater heights.

For and on behalf of the Board of Directors

Sd/-

Place: Mangaluru

Date: June 6, 2020

P Jayarama Bhat

Chairman

ANNEXURE I

Disclosure regarding ESOS under Clause 14 of SEBI (Share Based Employee Benefits) Regulations, 2014.

At the 94th AGM of the members of the Bank held on July 21, 2018, shareholders of the Bank had approved an Employee Stock Option Scheme viz., KBL ESOS-2018. Under the Scheme a total of 50,00,000 stock options were available for grant. Further, to give effect to the corporate action by way of Bonus issue in the ratio of 1:10, additional 1,07,147 options have been accounted and hence, the total available options under the scheme stand increased to 51,07,147 stock options. The status of the options outstanding under KBL ESOS - 2018 as on 31st March 2020 is as under:

Date of Shareholders' Approval	July 21, 2018
Total number of options available under ESOS 2018	51,07,147* *after giving effect to the Bonus Issue 2020 in the ratio of 1:10.
Vesting Requirements	The employee stock options granted under this scheme shall vest in a graded manner over a period of three years from the date of grant (i.e. 40%, 30% & 30% on completion of 1 st , 2 nd & 3 rd year respectively), subject to continued employment with the Bank on the date of vesting.
Exercise Price/ Pricing formula	The exercise price per option shall be the closing price per equity share of the Bank on the date of the grant in terms of SEBI (Share Based Employee Benefits) Regulations, 2014.
Maximum Term of Options	Exercise period is five years from the date of vesting of options. If an employee ceases to be in the service of the Bank due to early retirement approved by the Bank, attainment of superannuation etc the maximum term of options would be limited to the period of six/ twelve months from the date of such cessation respectively.
Sources of Shares	Primary
Variation in terms of ESOS	NIL

Option movement during the year						
Particulars	Series 1		Series 2	Series 4	Series 5	Total
Date of Grant	11.01.19	30.04.19	11.01.19	07.08.20	21.03.20	
Price of Grant	105.55*	115.27*	105.55*	71.59*	48.10	
Number of Options outstanding at the beginning of the year	753175	0	137000	0	0	890175
Number of Options granted during the year	-	2400	0	200000	162000	364400
Options lapsed / forfeited/ cancelled (Nos.)	15682	100	3500	0	0	19282
Number of Options vested during the year	325565*	0	58740*	0	0	384305*
Number of Options exercised during the year	-	-	-	-	-	-
Total number of shares arising as a result of exercise of options during the year	-	-	-	-	-	-
Money realized by exercise of options, including premium (₹)	-	-	-	-	-	-
Number of Options outstanding as on 31 st March 2019	811036*	2530*	146850*	220000*	162000 ^s	1342416*
Number of Options exercisable at the end of the year 31 st March 2019	325565*	-	58740*	-	-	384305*

Pricing formula	Closing price of equity shares of the Bank as on the date of grant
Method used to account for ESOS	Intrinsic Value
Difference between the employee compensation cost that shall have been recognized if the Bank had used the fair value of the options instead of intrinsic value	Had the company followed fair value method for accounting, the stock option compensation expense would have been higher by ₹0.60 Crore.
The impact of this difference on profits and on EPS of the company shall also be disclosed.	Profit after tax would have been lower by ₹0.39 crore. However, there is no impact on basic EPS and diluted EPS which would remain at ₹13.89 and ₹13.89.
Weighted average exercise prices and weighted average fair values of options shall be disclosed separately for options whose exercise price either equals or is less than the market price of the stock options.	Since the ESOPs are granted at market price as on the date of grant, the weighted average price of the stock options to be exercised is ₹93.07 per option and weighted average fair value is ₹ 93.07 per option

* after giving effect to Bonus Issue -2020

\$ since granted post Bonus Issue-2020, no adjustment is being made.

Employee wise details	
1.	Grant to Senior Management Personnel during the year: Nil
2.	Employees granted options equal to or exceeding 1 percent of the issued capital: Nil
3.	Employees receiving 5 percent or more of the total number of options granted during the year:

Name of the Employee	Designation	No. of options granted	Series	Exercise Price per option
1. Mr. Balachandra Y V	Chief Operating Officer	110000	Series-4	₹71.59*
2. Mr. Gokuldas Pai	Chief Business Officer	110000	Series-4	₹71.59*

* After giving effect to Bonus issue-2020.

A description of the method and significant assumptions used during the year to estimate the fair value of options, at the time of grant including the following weighted average information:	
a. Risk-free interest rate	3.80%
b. Expected life	33.98 %to 36.10%
c. Expected volatility	5.83% to 6.26%
d. Expected dividends yield	2.41 to 5.50 years
e. The price of the underlying share in the market at the time of option grant	Price varied for different grant series since the grant price is the market price as on the date of grant as provided in the previous page.

Independent Auditors' Certificate on ESOPs

1. We, Manohar Chowdhry & Associates and Badari, Madhusudhan & Srinivasan Chartered Accountants, Joint Statutory Auditors of The Karnataka Bank Limited(hereinafter referred to as "the Bank") having its Head Office at P. B. No. 599, Mahaveera Circle, Kankanady, Mangaluru, Karnataka - 575002 have been requested to certify that the Employee Stock Option Scheme, 2018("Scheme 2018") as approved at the annual general meeting held on July 21, 2018 is in compliance with Regulation 13 of the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014("the Regulations").

Management's Responsibility

2. The Management is responsible for ensuring that the Bank complies with the requirements of the Regulations and provides all the relevant information in the annual general meeting of the Bank.

Auditor's Responsibility

3. Pursuant to the requirements of the Regulations, it is our responsibility to provide a reasonable assurance whether the Scheme 2018 is in compliance with the Regulations.
4. We have examined the books of account and other relevant records and documents maintained by the Bank for the purposes of providing reasonable assurance on the compliance with the Corporate Governance requirements by the Bank.
5. We conducted our examination of the relevant records of the Bank in accordance with the Guidance Note on Reports or Certificates for special purposes issued by the Institute of the Chartered Accountants of India (the "ICAI"), The guidance note requires that we comply with the ethical requirements of the Code of Ethics issued by the ICAI. We have not performed an audit, the objective of which would be the expression of an opinion on the financial statements, specified elements, accounts or items thereof, for the purpose of this Certificate.
6. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial information, and Other Assurance and Related Services Engagements.

Opinion

7. Based on our examination, as above, and the information and explanations given to us, we report that the Bank has implemented the Scheme in accordance with the Regulations to the extent applicable and resolution passed by the shareholders in the General Meeting and through e-Voting.

for **Manohar Chowdhry & Associates**
Chartered Accountants
Firm Regn. No. 001997S

Sd/-

(Murali Mohan)

Partner - M. No.203592

UDIN: 20203592AAAACD9040

Place : Mangaluru

Date : June 06, 2020

for **Badari, Madhusudhan & Srinivasan**
Chartered Accountants
Firm Registration No.005389S

Sd/-

(T V Sudarshan)

Partner -M. No. 019108

UDIN:20019108AAAAAQ8777

ANNEXURE II

DISCLOSURE UNDER PILLAR III OF BASEL III ACCORD

1. SCOPE OF APPLICATION

The Karnataka Bank Limited, a premier private sector Bank, was incorporated on February 18th 1924 in Mangaluru. The Bank does not have any subsidiary/associate companies under its Management.

The Bank presently is not involved in insurance business. However, Bank has entered into a Joint venture agreement and holds equity investments to the extent of 6.00 per cent in M/s Universal Somp General Insurance Company Limited. The financials of the joint venture company are not consolidated with the balance sheet of the Bank. The investment in the joint venture is not deducted from the capital funds of the Bank but is assigned risk weights as an investment.

2. CAPITAL STRUCTURE

Sl. No	Particulars	No of equity Shares	Face value per share	Amount (₹ in crore)
1.	Authorized Capital	800000000	10	800.00
2.	Issued Capital	310998210	10	311.00
3.	Subscribed Capital	310886239	10	310.89*
4.	Called up / Paid up Capital	310869689	10	310.88*

*inclusive of forfeiture shares.

The Bank's shares are listed on the National Stock exchange of India Ltd and BSE Ltd.

During the financial year ending 31st March 2020, Bank has issued 2,82,60,881 fully paid bonus equity shares in the ratio of 1:10 (i.e., one bonus equity share for every ten equity shares held) under Bonus Issue-2020 and the Paid-up Share Capital stands increased by ₹ 28.26 crore.

a. Breakup of Capital Funds

The Tier I Capital of the Bank comprises of (₹ in crore)

1.	Paid up Capital (Including forfeited shares)	310.88
2.	Reserves	5308.55
Total		5619.43

The Tier II Capital of the Bank comprises of (₹ in crore)

1	Undisclosed reserves	86.64
2	General Provisions and Loss Reserves	197.53
3	Subordinated debts eligible for inclusion in Lower Tier 2 Capital	770.00
Total		1054.17

The Total Capital comprises of: (₹ in crore)

1	Tier I Capital	5619.43
2	Tier II Capital	1054.17
Total		6673.60

Details of the aggregate amounts of the Bank's total interests in insurance entities, which are risk-weighted:

(Amount ₹ in crore)

Name of the insurance entities / country of incorporation	Principle activity of the entity	Total balance sheet equity (as stated in the accounting balance sheet of the legal entity)	% of bank's holding in the total equity / proportion of voting power	Quantitative impact on regulatory capital of using risk weighting method versus using the full deduction method
Universal Sampo General Insurance Co Ltd / India	General Insurance	350	6.31%	CRAR is reduced by 0.08%

b. Assessment of Capital Adequacy:

An assessment of the capital requirement of the Bank is carried out through comprehensive projections of future business that takes cognizance of the strategic intent of the Bank, profitability of particular business and opportunities for growth. The proper mapping of credit, operational and market risks to this projected business growth enables assignment of capital that not only adequately covers the minimum regulatory capital requirements but also provides headroom for growth. The calibration of risk to business is enabled by a strong risk culture in the Bank aided by effective, technology based risk management systems.

A summary of the Bank's Capital requirement under Basel III for credit, market and operational risk and the capital adequacy ratio is detailed below.

(₹ in crore)

A	Capital requirement for Credit Risk	
	- Portfolios subject to Standardized approach	4149.31
	- Securitization exposures	-
B	Capital requirement for Market Risk	
	Standardized duration approach	162.63
	- Interest rate Risk	87.65
	- Foreign exchange risk	1.01
	- Equity Risk	73.97
C	Capital requirement for Operational Risk	
	- Basic Indicator approach	431.81
D	Total Capital requirement (**)	4743.75
E	Total eligible Capital Funds of the Bank as per Basel III	6673.60
F	Total Risk Weighted Assets	52708.33
G	Common Equity Tier I ratio (CET1) (%)	10.66%
H	Tier I CRAR (%)	10.66%
I	Tier II CRAR (%)	2.00%
J	Total CRAR (%)	12.66%

** Excluding CCB

3. RISK MANAGEMENT: OBJECTIVES AND ORGANIZATION STRUCTURE

The various risks taken by the Bank during the course of the business development are identified, assessed, measured, controlled, monitored, mitigated and reported effectively. The key components of the Bank's risk management rely on the risk governance architecture, comprehensive processes and internal control mechanism. The Bank's risk governance architecture focuses attention on key areas of risk such as credit, market and operational risk and quantification of these risks wherever possible for effective and continuous monitoring.

a. Objectives and Policies

The Bank's risk management processes are guided by well-defined policies appropriate for various risk categories, independent risk oversight and periodic monitoring through the sub-committees of the Board of Directors. The Bank has a well-documented Board approved 'Risk Management Policy' in place. The Board sets the overall risk appetite and philosophy for the Bank. The Board of Directors, the Risk & Capital Management Committee and the Audit Committee of the Board review various aspects of risk arising from the businesses of the Bank.

b. Structure and Organization

The Bank has a risk management system that is centralized with a three track committee approach. The committees are - Credit Policy Committee (CPC), Asset Liability Management Committee (ALCO) and Operational Risk Management Committee (ORMC). Risk & Capital Management Committee (RCMC) evaluates the overall risk factors faced by the bank and directly reports to the Board of directors.

CPC deals with credit policies and procedures, ALCO deals with Asset Liability Management (ALM) and Investment Policy of the Bank and ORMC formulates policies and procedures for managing operational risk.

4. CREDIT RISK MANAGEMENT

Bank has developed an online comprehensive credit risk rating system for all borrower accounts. Risk rating of borrowers is intended to help Banks in quantifying and aggregating the credit risk across various exposures. The Bank has validated its existing rating models and refined/revised the corporate models, besides introduction of Specialized lending rating models, Retail score card models [Pool based approach] and Facility rating. Accordingly, bank is rating its credit portfolio as per the criteria laid down for rating in the Loan Policy of the Bank. The rating serves as a single point indicator of diverse risk factors of counter-party and for taking credit decisions. The risk rating system is drawn up in a structured manner, incorporating different factors such as borrower and industry specific characteristics. The Bank also undertakes periodic validation exercise of its rating models and also conducts migration and default rate analysis to test robustness of its rating models.

The Bank has formulated a comprehensive Loan Policy by incorporating various parameters and prudential limits to manage and control default, transaction and intrinsic/concentration risk. The credit exposures are taken after subjecting the proposals to analysis of various risk factors such as financial risk, industry risk, management risk, business risk, transaction risk etc.

The Bank analyses the migration of borrowers in various risk rating categories to gauge the quality of the loan portfolio. The Bank also conducts periodical review of the loan assets to ascertain conduct of the accounts. The Bank conducts periodical Credit Audit and Stock Audit of large credit exposures to limit the magnitude of credit risk and interest rate risk.

Credit sanction and related processes

Know Your Customer is a leading principle for all business activities. The other components of the credit processes are:

1. Sound credit approval process with well laid credit sanctioning criteria.
2. The acceptability of credit exposure primarily based on the sustainability and adequacy of borrower's normal business operations and not based solely on the availability of security.
3. Portfolio level risk analysis and reporting to ensure optimal spread of risk across various rating classes to prevent undue risk concentration across any particular industry segments and monitor credit risk migration.
4. Sector specific studies at periodic intervals to highlight risks and opportunities in those sectors.
5. Adoption of rating linked exposure norms.
6. Industry-wise exposure ceilings based on the industry performance, prospects and the competitiveness of the sector.
7. Separate risk limits for credit portfolios like advances to NBFC and unsecured loans that require special monitoring.

Review and Monitoring

1. All credit exposures, once approved, are monitored and reviewed periodically against the approved limits. Borrowers with lower credit rating are subject to more frequent reviews.
2. Credit monitoring involves independent review of credit risk assessment, compliance with internal policies of the Bank and with the regulatory framework, compliance with the sanction terms and conditions and effectiveness of loan administration.
3. Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimize the potential loss to the Bank.

Concentration Risk

The Bank controls concentration risk by means of appropriate sectoral limits and borrowers limits based on creditworthiness. The Bank also captures the Concentration risk by monitoring the geographical exposure.

Large exposures to individual clients or group

The Bank has individual borrower-wise exposure ceilings based on the internal rating of the borrower as well as group-wise borrowing limits. The Bank monitors the level of credit risk (Low/Moderate/High/Very High) and direction of change in credit risk (increasing /decreasing/ stable) at the portfolio level.

Definition of Non-Performing Assets

Bank has adopted the definition of the past due and impaired assets (for accounting purposes) as defined by the regulator for income recognition and asset classification norms.

Exposures

Total gross credit exposure including geographic distribution of exposure

(₹ in crore)

Category	Domestic	Overseas	Total
Fund Based	65293.69	0.00	65293.69
Non Fund based	8424.86	0.00	8424.86
Total	73718.55	0.00	73718.55

Geographic distribution of credit exposure

(₹ in crore)

S. No.	State / Union Territory	Funded Exposure	Non Funded Exposure	Total Exposure
1	Andaman And Nicobar	0.00	0.00	0.00
2	Andhra Pradesh	2738.18	447.7	3185.88
3	Arunachal Pradesh	0.00	0.00	0.00
4	Assam	208.01	123.23	331.23
5	Bihar	8.58	0.75	9.34
6	Chandigarh	105.83	38.12	143.95
7	Chhattisgarh	649.19	206.44	855.63
8	Delhi	6562.21	380.37	6942.58
9	Goa	318.16	30.53	348.69
10	Gujarat	814.43	181.26	995.7
11	Haryana	1102.08	273.93	1376.01
12	Himachal Pradesh	7.25	1.26	8.51
13	Jammu And Kashmir	0.02	0.00	0.02
14	Jharkhand	302.23	5.4	307.63
15	Karnataka	26880.88	3465.85	30346.74
16	Kerala	848.7	10.73	859.43
17	Madhya Pradesh	496.72	19.34	516.05
18	Maharashtra	11924.41	1016.59	12941
19	Manipur	0.05	0.00	0.05
20	Orissa	807.86	101.5	909.36
21	Pondicherry	26.88	1.28	28.16
22	Punjab	849.52	76.14	925.66
23	Rajasthan	638.93	123.4	762.33
24	Sikkim	23.88	0.00	23.88

S. No.	State / Union Territory	Funded Exposure	Non Funded Exposure	Total Exposure
25	Tamil Nadu	4356.62	450.51	4807.14
26	Telangana	3179.03	1067.82	4246.85
27	Tripura	0.00	0.01	0.01
28	Uttar Pradesh	553.03	63.93	616.96
29	Uttarakhand	147.16	5.97	153.13
30	West Bengal	1740.27	332.79	2073.06
31	Dadra And Nagar Haveli	3.58	0.01	3.59
Total		65293.69	8424.86	73718.57

While determining level and direction of credit risk, parameters like percentage of low- risk credit (investment grade and above) to credit risk exposure and migration from investment to non-investment grade (quantum as percentage of credit risk exposure) are also considered. The Bank monitors the rating-wise distribution of its borrowers also.

Exposure to Industries

Industry analysis plays an important part in assessing the concentration risk within the loan portfolio. Particular attention is given to industry sectors where the Bank believes that there is a high degree of risk or potential for volatility in the future. The Bank has fixed internal limits for aggregate commitments to different sectors so that the exposures are evenly spread over various sectors.

The credit policy deals with short term as well as long term approach to credit risk management. The policy of the Bank embodies in itself the areas of risk identification, risk measurement, risk grading techniques, reporting and risk control systems /mitigation techniques, documentation practice and the system for management of problematic loans.

Distribution of Credit Exposure by Industry Sector

(₹ in crore)

Sl. No.	Industry	Fund based	Non Fund based	Total Exposure
1	Coal And Mining	193.79	3.83	197.62
2	Iron And Steel	279.83	82.40	362.23
3	Metal And Metal Products	300.62	94.37	394.99
4	Other Engineering	1157.56	235.31	1392.87
5	Wood Based Industries	2.11	0.06	2.17
6	Electronics	23.84	6.34	30.18
7	Cotton Textile	559.95	46.53	606.48
8	Jute Textile	0.03	0.00	0.03
9	Other Textiles	1207.40	83.43	1290.83
10	Tea Industry	0.00	0.32	0.32
11	Kandasari And Sugar	46.30	0.00	46.30
12	Vegetable Oil	20.06	100.00	120.06
13	Tobbaco And Tobbaco Products	0.00	0.00	0.00

Sl. No.	Industry	Fund based	Non Fund based	Total Exposure
14	Paper And Paper Products	147.04	11.46	158.50
15	Rubber And Rubber Products	30.36	16.00	46.36
16	Plastic And Plastic Products	342.18	40.22	382.40
17	Chemicals, Dyes	622.65	31.03	653.69
18	Drugs And Pharmaceuticals	155.98	73.00	228.98
19	Cement And Cement Products	192.77	28.48	221.26
20	Leather And Leather Products	8.10	5.65	13.74
21	Petroleum Products	116.48	57.33	173.81
22	Distilleries, Breweries Including Soft Drinks	59.68	1.66	61.34
23	Cashewnut Processing	0.53	0.00	0.54
24	Rice, Flour, Dhal Mills	68.15	10.06	78.20
25	Marine Products/Processing	8.50	0.00	8.50
26	Food And Food Products	295.63	120.77	416.40
27	Gems And Jewellery	180.21	27.59	207.79
28	Automobiles	283.54	34.43	317.97
29	Computer Software And Computer Hardware	2.18	0.90	3.08
30	Infrastructure Advances	3286.29	569.19	3855.48
31	All Other Industries	1503.73	423.10	1926.83
TOTAL EXPOSURE TO INDUSTRY SECTOR		11095.49	2103.46	13198.95

The details of the Industry wherein the Bank's exposure in the related Industry has exceeded the 5 per cent of total gross credit exposure is furnished below.

Sl No	Industry / sectors classification	Percentage of the total credit exposure
1.	Infrastructure Advances	6.20%

Movement of Provisions for NPAs

(₹ in crore)

Sl No	Particulars	31.03.2020
1.	Opening Balance	810.55
2.	Provision made during the period	1297.59
3.	Write off	1090.33
4.	Write back of excess provisions	0.00
5.	Closing balance	1017.31

(₹ in crore)

Particulars	Amount
Write offs booked directly to income statement	0.00
Recoveries booked directly to income statement	95.82

Non Performing Investments and movement of provision for depreciation on Investments

(₹ in crore)

SI No	Particulars	31.03.2020
A.	Amount of Non performing Investments	75.15
B.	Amount of Provision held for Non performing Investments	69.49
C.	Movement of provisions for depreciation on Investments	
	a) Opening balance	185.31
	b) Add: Provisions made during the year	4.50
	c) Less: Write off/write back of excess provisions	9.49
	d) Closing balance	180.32

Major Industry break-up of NPA

(₹ in crore)

Industry	Gross NPA	Specific Provision
NPA in Top 5 Industries	494.04	171.56

Geography wise Distribution of NPA and Provision

(₹ in crore)

Geography	Gross NPA	Specific Provision	General Provision
Domestic	2799.93	1017.31	0.67
Overseas	0.00	0.00	0
Total	2799.93	1017.31	0.67

Disclosure for portfolios subject to the standardized approach

Large corporate borrowers and Public Sector Enterprises are being encouraged to solicit ratings from approved external rating agencies and wherever such ratings are available, the Bank uses the same in assigning risk weights. Bank uses ratings assessed by 7 domestic credit rating agencies identified by RBI i.e. CRISIL, CARE, India Ratings and Research Private Limited (earlier FITCH India), ICRA, Brickwork, Acuite Ratings & Research Ltd (Earlier SMERA Ratings Limited) and INFOMERICS Valuation and Rating Pvt Ltd (INFOMERICS). The ratings available in public domain are mapped according to risk profile and specific risk characteristics of each rating grade of respective agencies as envisaged in RBI guidelines.

The credit exposure [fund based & non-fund based] after risk mitigation (subject to the standardized Approach) in different risk buckets are as under:

(₹ in crore)

SI No	Risk weight	Exposure Outstanding
1.	Below 100%	32124.87
2.	100%	18401.77
3.	More than 100%	4897.96
	Total	55424.60

Maturity pattern of assets -31.03.2020

(₹ in crore)

Time Bucket	Cash & Balance with RBI	Balance with Banks & Money at Call & Short Notice	Investments	Advances	Fixed Assets	Other Assets	Total
1day	728.80	11.72	4196.45	846.11	0.00	0.00	5783.08
2 to 7 days	11.24	0.00	103.94	125.61	0.00	0.00	240.79
8 to 14 days	13.74	37.82	94.02	196.43	0.00	0.00	342.01
15 to 30 days	22.90	0.00	150.12	58.53	0.00	0.00	231.55
31 days to 2 Months	42.06	113.50	226.98	216.63	0.00	0.00	599.17
2 Months to 3 Months	43.31	0.00	345.63	749.77	0.00	0.00	1138.71
Over 3 Months to 6 months	159.27	0.00	894.78	4586.74	0.00	0.00	5640.79
Over 6 months to 1 year	195.71	0.00	1160.60	6102.86	0.00	1146.30	8605.47
Over 1 year to 3 years	1462.19	0.40	8920.09	23661.63	0.00	0.00	34044.31
Over 3 years to 5 years	11.66	0.00	288.93	6026.41	0.00	0.00	6327.00
5 year to 7 Years	7.91	0.00	64.25	3286.90	0.00	0.00	3359.06
7 Year to 10 years	21.24	0.00	165.36	3728.82	0.00	0.00	3915.42
10 Year to 15 Years	4.37	0.00	492.78	4157.22	0.00	0.00	4654.37
Over 15 Years	31.65	0.00	441.41	3220.61	826.42	3911.67	8431.76
Total	2756.05	163.44	17545.34	56964.27	826.42	5057.97	83313.49

Classification of Non Performing Advances

(₹ in crore)

Sl. No.	Particulars	31.03.2020
A	Amount of NPA's (Gross)	2799.93
	Substandard	1381.61
	Doubtful 1	699.96
	Doubtful 2	357.98
	Doubtful 3	8.15
	Loss	352.23
B	Net NPAs	
	Amount of Net NPA	1755.01
C	NPA Ratios	
	Gross NPAs to Gross Advances ratio (%)	4.82
	Net NPAs to Net Advances ratio (%)	3.08

Movement of NPAs (Gross)

(₹ in crore)

Sl. No.	Particulars	31.03.2020
1	Opening Balance as on 01.04.2019	2456.38
2	Additions	1998.58
3	Reductions	1655.03
4	Closing Balance as on 31.03.2020	2799.93

Credit Risk Mitigation: Disclosures for Standardized Approach

As stipulated by the RBI guidelines, the Bank uses the comprehensive approach for collateral risk mitigation. Under this approach, the Bank reduces its credit exposure to counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral as specified in the Basel guidelines.

Types of eligible financial collateral / Guarantors:

The Bank recognizes only specified types of financial collateral and guarantees (counter-guarantors) for providing capital relief in line with Basel II guidelines on credit risk mitigation.

This includes cash, Bank own deposits, gold (including bullion and jewellery, subject to collateralized jewellery being notionally converted/benchmarked to 99.99 per cent purity), securities issued by the Central and State Governments, Kisan Vikas Patra, National Savings certificates, life insurance policies with a declared surrender value which is regulated by IRDA, certain debt securities rated by a recognized credit rating agency, certain debt securities not rated but issued by Banks and listed on a recognized exchange and are classified as senior debt, certain mutual fund units where daily Net Assets Value (NAV) is available in public domain.

Eligible Guarantors (counter-guarantors):

Credit protection given by the following entities is recognized:

- i. Sovereigns, sovereign entities (including BIS, IMF, European Central Bank and European Community as well as permitted MDBs, ECGC, CRGFTLIH and CGTMSE), banks and primary dealers with a lower risk weight than the counterparty;
- ii. Other entities that are externally rated except when credit protection is provided to a securitization exposure. This would include credit protection provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.
- iii. When credit protection is provided to a securitization exposure, other entities that currently are externally rated BBB- or better and that were externally rated A- or better at the time the credit protection was provided. This would include credit protection provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.

The extent of total credit exposure (under the standardized approach) covered by eligible financial collaterals after application of haircuts are furnished below:

	(₹ in crore)
Eligible financial collaterals after haircuts	4861.34
Eligible guarantees	770.59

5. MARKET RISK & LIQUIDITY RISK

The Bank has put in place Board approved Integrated Treasury Policy and Asset Liability Management (ALM) policy, Market Risk Policy and Fund Transfer Pricing Policy for effective management of market risk in the Bank. The objective of Integrated Treasury Policy is to assess and minimize risks associated with treasury operations by extensive use of various risk management tools. Broadly, it encompasses Policy prescriptions for managing systemic risk, credit risk, market risk, operational risk and liquidity risk in treasury operations.

For market risk arising out of various products in treasury and its business activities, the Bank has set regulatory / internal limits and ensures the adherence thereof. Migration of ratings is tracked regularly. Limits for exposures to counter-parties, industries and countries are monitored and the risks are controlled through Stop Loss Limits, Overnight limit, Daylight limit, Aggregate Gap limit, Individual gap limit, Value at Risk (VaR) limit for Forex, Inter-Bank dealing and various investment limits. For the Market Risk Management the Bank has a Mid Office. The functions of Mid Office are handled by Risk Management Department.

The Board, RCMC & ALCO are overseeing the market risk management of the Bank, procedures thereof, implementing risk management guidelines issued by regulator, best risk management practices followed globally and ensures that internal parameters, procedures, practices/policies and risk management prudential limits are adhered to.

Your Bank is having Fund Transfer Pricing Policy which lays down a methodology/assumptions on which profitability the branches/products/customers are measured and the outcome of the FTP results are being used for effective decision making.

Liquidity risk of the Bank is assessed through daily gap analysis for maturity mismatch based on residual maturity in different time buckets as well as various liquidity ratios and management of the same is done within the prudential limits fixed thereon. Advance techniques such as Stress testing, simulation, sensitivity analysis etc. are conducted on regular intervals to draw the contingency funding plan under different liquidity scenarios.

Market Risk in Trading Book

Bank has adopted the Standardized Duration Approach as prescribed by RBI for computation of capital charge for market risk and is fully compliant with RBI guidelines.

The capital requirements for market risk are detailed below:

(₹ in crore)

Sl No	Risk Category	Capital Charge
I	Interest Rate	87.65
II	Equity	73.97
III	Foreign Exchange , Gold and Derivatives	1.01
IV	Total Capital Charge for market Risk (I+II+III)	162.63

6. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

The interest rate risk is viewed from two perspectives i.e. 'Earnings Perspective' and 'Economic Value Perspective'. Generally, the former is measured using Earnings-at-Risk (EaR) under Traditional Gap Analysis (TGA) and the latter is measured through changes in the Market value of Equity (MVE) under Duration Gap Analysis (DGA).

► Earnings-at-Risk (EaR):

All the Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) maturing/re-pricing up to 1 year are bucketed as per Traditional Gap Analysis (TGA) and EaR analysis is conducted by applying various shocks on product-wise weighted average interest rates in each time band. EaR is quantified by changes in the NII and NIM in comparison with the previous financial year end.

► **Impact on Market Value of Equity (MVE):**

Impact on Market Value of Equity (MVE) is analyzed through Duration Gap Analysis (DGA) which involves bucketing of market value of all Rate Sensitive Assets and Rate Sensitive Liabilities as per residual maturity/ re-pricing in various time bands and computing Modified Duration Gap. Accurate method is adopted for computing the market value by discounting each cash flow of all Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) with various discount curves as suggested by RBI. Notional interest rate shocks are applied on the resultant Modified Duration Gap to arrive at the changes in the Market Value of Equity (MVE).

- Prudential limits have been fixed for changes in NIM and MVE for 200bps shock in the interest rates and monitored on a monthly basis.
- Earning at Risk for 200 bps interest rate shock is estimated at ₹13.92 crore and change in the Market value of Equity for 200 bps interest rate shocks is 16.72%.

7. OPERATIONAL RISK

Strategies and Processes: Bank has initiated several measures to manage operational risk through identification, assessment and monitoring of inherent risks in all its business processes. A framework has been laid to capture loss data which can be mapped to operational risk events to measure the impact quantitatively. Bank has put in place a hierarchical structure to effectively manage operational risk through the formation of internal committee viz., Operational Risk Management Committee (ORMC).

Scope and Nature of Operational Risk Reporting and Measurement Systems

A systematic process for reporting risk events, loss events, "near misses" and non-compliance issues relating to operational risks have been developed and implemented. The information gathered will be used to develop triggers to initiate corrective actions to improve controls. All critical risks and potential loss events are reported to the senior Management/ORMC/RCMC as appropriate for their directions and suggestions.

An Operational Risk Management Policy approved by the Board of Directors details the framework for hedging and/or mitigating operational risk in the Bank. As per the policy, all new products are vetted by the New Product Approval Committee to identify and assess potential operational risks involved and suggest control measures to mitigate the risks

Approach for Operational Risk Capital Assessment

As per the RBI guidelines, the Bank has adopted Basic Indicator Approach for computing capital charge for Operational Risk. Steps have been initiated to migrate to the Advanced Measurement Approach.

8. EXPOSURE RELATED TO COUNTERPARTY CREDIT RISK

Counterparty Credit Risk exposures for banks are assessed based on Bank's business requirements and considering counterparty bank's parameters such as CRAR, net worth, NPA level etc. Counterparty exposures for other entities are assessed subject to exposure ceilings as per the Loan Policy of the Bank. Capital for Counterparty Credit Risk exposure is assessed based on Standardized Approach.

The Bank does not recognize bilateral netting. The credit equivalent amount of derivative exposure is calculated using Current Exposure Method and the balance outstanding as on 31st March 2020 is as under:

(₹ in crore)

Particulars	Notional Amount	Current Exposure
Foreign exchange contracts	3124.17	105.91
Interest rate contracts	Nil	Nil
Total	3124.17	105.91

9. COMPOSITION OF CAPITAL:

Disclosures pertaining to main features of equity and debt capital instruments and the terms and conditions of equity and debt capital instruments have been disclosed separately on the Bank's website under 'Regulatory Disclosures Section'. The link to this section is <http://ktkbank.com/ktk/BaselDisclosures.jsp>

10. DISCLOSURE ON REMUNERATION

Necessary disclosure have been furnished in the Notes on Accounts and also available in the 'Regulatory Disclosure Section' of the Bank's website.

11. EQUITIES – DISCLOSURE FOR BANKING BOOK POSITIONS

Other disclosures like Leverage Ratio, Liquidity Coverage Ratio etc. are available in the 'Regulatory Disclosure Section' of the Bank's website.

ANNEXURE III

CORPORATE GOVERNANCE

Philosophy of Corporate Governance

The basic philosophy of Corporate Governance in the Bank is the application of the best management practices that provide stability and growth to the enterprise, transparency, accountability, disclosures and value creation. Your Bank believes that good governance practices ultimately secure the goal of turning the Bank into a value driven organization. Your Bank's philosophy of Corporate Governance has been embedded in its mission statement which reads as under:

"To be a technology savvy, customer centric progressive Bank with national presence, driven by the highest standards of Corporate Governance and guided by sound ethical values".

The Bank has also adopted a vision statement which reads as under:

"To be a progressive, prosperous and well governed Bank".

The Core values and guiding principles to be followed by all working in the Bank include:

- i) Sincere, Honest and Trustworthy
- ii) Unshakable Integrity.
- iii) Professional and Smart Banker.
- iv) Committed to protect Bank's interests through legitimate and sustainable business.
- v) 'Bank first' attitude always

Your Directors present below the Bank's Report on compliance of Corporate Governance requirements as prescribed under Regulation 17 to 27 read with Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 (hereinafter referred as "SEBI LODR") and confirm that the Bank has complied with the corporate governance requirements as specified in Regulation 17 to 27 and clauses (b) to (i) of sub-regulation 2 of Regulation 46 of SEBI (LODR) Regulations, 2015.

Board of Directors:

Composition of the Board: The Board of Directors of the Bank consists of 9 Directors including the Part-time Non-Executive Chairman and Managing Director & CEO. The constitution of the Board conforms to the provisions of Section 10A of the Banking Regulation Act, 1949, Section 149 of the Companies Act, 2013 and SEBI LODR. The Board consists of eminent persons having specialized knowledge or practical experience in the areas such as Banking, Finance, Accountancy, Law, Agriculture & Rural Economy, Cooperation & SSI, Information Technology and other areas as specified in the Banking Regulation Act 1949. Details of directors as on 31.03.2020 are as under.

Sl.No.	Name of the Director (Messrs / Mrs.)	Type of Director
1	P Jayarama Bhat	Part-time Non-Executive Chairman
2	Mahabaleshwara M S	Managing Director & CEO
3	Ashok Haranahalli	Independent Director
4	Rammohan Rao Belle	Independent Director

Sl.No.	Name of the Director (Messrs / Mrs.)	Type of Director
5	U R Bhat	Independent Director
6	Keshav K Desai	Independent Director
7	D Surendra Kumar	Independent Director
8	Mythily Ramesh	Independent Director
9	B R Ashok (w.e.f 27.08.2019)	Additional Director

During the year under report, Mr. B A Prabhakar retired from the office of the Independent Director on 05.09.2019 upon completion of 5 years term. Mr. B R Ashok, Chartered Accountant, was appointed as an Additional Director on 27.08.2019.

Competency at the Board level:

The chart setting out the skills/expertise/competence of the Board of Directors of the Bank is as under:

Sl no.	List of core skills/ expertise/ competencies required in terms of statutory requirement as per BR Act	Board of Directors as on 31.03.2020								
		1 Mr. P Jayarama Bhat *	2 Mahabale shwara M S*	3 Ashok Harannahalli*	4 RR Belle*	5 U R Bhat §	6 KK Desai §	7 D Surendra Kumar §	8 Mythily Ramesh §	9 B R Ashok*
1	Accountancy	✓	✓		✓	✓				✓
2	Agriculture and rural economy		✓	✓			✓	✓		
3	Banking	✓	✓		✓	✓		✓		✓
4	Co-operation & SSI	✓	✓				✓	✓		
5	Economics				✓	✓				✓
6	Finance	✓	✓		✓	✓				✓
7	Law			✓						
8	IT	✓	✓		✓	✓			✓	✓
9	Risk Management	✓	✓		✓	✓			✓	✓
10	Payment & Settlement	✓	✓						✓	
11	HR	✓	✓	✓	✓	✓	✓	✓	✓	
12	Business Management	✓	✓	✓	✓	✓	✓	✓	✓	
In terms of Banking Regulation Act, 1949		* Director represents Majority Sector means that director does not have substantial interest in any company/firm carrying on trade, commerce or industry.								
		§ Director represents Minority Sector means director have substantial interest in any company/firm carrying on trade, commerce or industry.								

BOARD MEETINGS:

During the financial year ended March 31st March 2020 the Board met 16 times on the following dates:

Sl.No.	Date of the meeting
1	30.04.2019
2	13.05.2019
3	15.06.2019
4	17.06.2019
5	12.07.2019
6	27.08.2019
7	20.09.2019
8	15.10.2019

Sl.No.	Date of the meeting
9	06.11.2019
10	23.11.2019
11	23.12.2019
12	16.01.2020
13	27.01.2020
14	19.02.2020
15	20.03.2020
16	21.03.2020


Details of the attendance of directors at the Board meetings during the year under report and at the last Annual General Meeting were as under:

Sl.No.	Name of the Director (Messrs/ Mrs.)	No. of meetings attended	Whether attended the last AGM
1	P Jayarama Bhat	16	YES
2	Mahabaleshwara M S	16	YES
3	Ashok Haranahalli	16	YES
4	Rammohan Rao Belle	16	YES
5	B A Prabhakar (up to 05.09.2019)	6	YES
6	U R Bhat	16	YES
7	Keshav K Desai	16	YES
8	D Surendra Kumar	14	YES
9	Mythily Ramesh	14	YES
10	B R Ashok (w.e.f 27.08.2019)	11	N.A.

a. Directorships/committee positions held in other companies as on 31st March 2020:

Sl. No.	Name of the Director (Messrs/ Mrs.)	Directorship in other public Limited Companies	Committee positions in other Public Limited Companies	Directorship in other listed entity	Nature of Directorship
1	P Jayarama Bhat	01	NIL	NIL	NIL
2	Mahabaleshwara M S	NIL	NA	NIL	NIL
3	Ashok Haranahalli	NIL	NA	NIL	NIL
4	Rammohan Rao Belle	NIL	NA	NIL	NIL
5	U R Bhat	04	04	02	Independent Director
6	Keshav K Desai	NIL	NA	NIL	NIL
7	D Surendra Kumar	NIL	NA	NIL	NIL
8	Mythily Ramesh	02	NIL	01	Independent Director
9	B R Ashok	NIL	NIL	NIL	NIL

Note: In terms of Regulation 26 of the SEBI (LODR), for the purpose of Committee positions held in other public limited companies, only Audit Committee and Stakeholders Relationship Committee have been considered.



None of the Directors of the Board serves as members of more than ten Committees or acts as Chairpersons of more than five Committees across all listed entities in which they are directors. In the opinion of the Board, all the Independent Directors fulfill the criteria of independence as specified under SEBI (LODR) Regulations, 2015 and are independent of the management.

b. Relationship between Directors inter-se: None of the Directors of the Board is related inter-se.

c. Details of Familiarization Programme imparted to Directors:

The Directors of the Bank were nominated to various training programmes in specialized areas such as IT, Governance, Cyber Security, Risk Management and Corporate Governance etc., conducted by IDRBT, CAFRAL, NIBM etc., and the details of training undergone during the reporting period are posted on the website of the Bank at the URL <https://karnatakabank.com/investor-portal>

Remuneration Policy:

The Bank has adopted a policy on compensation of Whole Time Directors/Chief Executive Officers, Material Risk Takers etc. The policy is designed to support key business strategies and provide reasonable remuneration commensurate with the performance of the Bank's taking into account alignment of compensation with prudent risk taking etc. Pursuant to revised guidelines on 'Compensation of Whole Time Directors/Chief Executive Officers/Material Risk Takers and Control Function staff etc.' issued by RBI vide circular No. DOR.Appt. BC. No.23/ 29.67.001/2019-20 dated 4th November 2019, the compensation structure of Bank's Managing Director & CEO needed realignment in line with the revised guidelines. The revised RBI Guidelines explicitly lay down that the Variable Pay component is a part of the overall compensation package and such variable pay shall be at least 50% of the total compensation with a maximum ceiling limit of 300% of fixed pay. Keeping in view the regulatory guidance in the matter, the Compensation Policy of the Bank has been amended for the pay cycles beginning from April 2020, to provide for a variable pay, up to 200% of the fixed pay, payable after evaluation of the performance and risk score assigned thereon and subject to approval of the RBI each year.

Remuneration of Directors:

Remuneration of Whole Time Director / Managing Director & CEO:

The remuneration of the Managing Director & CEO of the Bank is recommended by the NRC to the Board for approval in accordance with the aforesaid policy. The Board of Directors on the basis of recommendation of the NRC approves the remuneration, subject to necessary approvals from Reserve Bank of India and the shareholders. The remuneration comprises of fixed pay and variable pay linked to the achievement in financial and non-financial parameters duly aligned to the risk, cost to income ratio etc., in accordance with compensation policy of the Bank.

As a Policy, prudential limit for variable pay has been stipulated as percentage of fixed pay and the NRC vide its resolution dated 14.03.2018, reduced the limit from 70 percent of fixed pay to 45 percent of the fixed pay and in terms of resolution dated 19.02.2019, NRC has amended the criteria for payment of variable pay to the Managing Director & CEO by introducing quantitative and qualitative metrics. This structure is applicable for the variable pay to be payable for the financial year ended 2019-20.

During the reporting year (2019-20), the Reserve Bank of India (RBI) vide its circular DOR.Appt.BC.No.23/ 29.67.001/2019-20 dated 4th November 2020 revised its "Guidelines on Compensation of Whole Time Directors/Chief Executive Officers/Material Risk Takers and Control Function staff" ('Revised Guidelines') for the pay cycles commencing from/after 1st April 2020. These Revised Guidelines have further improvised the method of payment of compensation to the Whole Time Directors/CEOs of private sector Banks which includes: (i) mandating at least 100 per cent variable pay of the fixed pay, (ii) variable pay to be subjected to deferral arrangement (iii) invoking malus/clawback for reporting of divergence (iv) variable pay to mandatorily include share linked benefits (i.e. ESOPs), (v) defining Material Risk Takers other than WTDs (vi) improved disclosure format etc.

Accordingly, NRC has suitably amended the Compensation Policy in line with the aforesaid Revised Guidelines and post-facto, the compensation structure of the Managing Director & CEO is since amended to be applicable for the FY 2020-21 onwards and the same is approved by the Reserve Bank of India vide email dated 24th March 2020 and the same is also placed before the shareholders for approval. As regard the variable pay, the same is subject to the approval of the RBI from time to time.

Remuneration of Non-Executive Directors:

The Non-Executive Directors including Chairman of the Board were paid sitting fees for attending each meeting of the Board/ Committee as approved by the Board subject to limits prescribed under the Companies Act, 2013 besides reimbursement of traveling expenses wherever applicable and halting allowance at the rates fixed by the Board. Besides, consolidated monthly salary was paid to the Part-time Non Executive Chairman of the Bank as approved by RBI. No compensation in the form of profit related commission was paid to the Non-Executive Directors/Independent Directors during the year under report. The details of remuneration paid to Directors during the year under report are as under:

A. Remuneration of Managing Director & CEO- Mahabaleshwara M S:

Sl. No.	Particulars of Remuneration	(₹ In Crore)
1	Gross Salary	
	a) Salary as per provisions contained in Section 17(1) of the Income Tax Act, 1961	0.65
	b) Value of Perquisites u/s 17(2) of the Income Tax Act, 1961	-
	c) Profits in lieu of salary u/s 17(3) of the Income Tax Act, 1961	-
2	Stock Options	-
3	Sweat Equity	-
4	Commission (as a % of profit & others)	-
5	Others	
	Contribution to SPF	0.06
	Variable Pay (2017-18)	0.21
	Total (A)	0.92

B. Remuneration of Non Executive Directors:

(₹ in Crore)

Sl No	Particulars of Remuneration	Name of the Directors (Messrs. / Mrs.)										Total Amount										
		P Jayarama Bhat	Ashok Haranahalli	Rammohan Rao Belle	B A Prabhakar (Upto 05.09.2019)	U R Bhat	Keshav K Desai	D Surendra Kumar	Mythily Ramesh	B R Ashok (w.e.f 27.08.2019)	Total											
1	Independent Directors																					
	Sitting Fees for attending Board/Committees		0.19	0.30	0.13	0.31	0.20	0.15	0.20				0.20									1.48
	Commission		0	0	0	0	0	0	0				0									0
	Others		0	0	0	0	0	0	0				0									0
	Total(1)		0.19	0.30	0.13	0.31	0.20	0.15	0.20				0.20									1.48
2	Non-Executive Directors																					
	Sitting Fees for attending meetings of the Board/ Committees	0.30																				0.45
	Commission	0																				0
	Others (Salary)	0.12																				0.12
	Total(2)	0.42																				0.57
	Total (B)=(1+2)	0.42	0.19	0.30	0.13	0.31	0.20	0.15	0.20				0.20									2.05
	Total Managerial Remuneration (A+B)																					2.97

Overall ceiling as per the act @

@ Being Banking Company, the provisions of Banking Regulation Act, 1949 would apply to the Bank and the remuneration of Whole-Time-Director is subject to the approval of Reserve Bank of India. Again, any payment to Non-Executive/ Independent Directors other than sitting fees and profit related commission not exceeding in aggregate one per cent of net profits of the Bank subject to maximum of ₹ 10 lakh (except to Part Time Chairman) can be made with the approval of RBI. Presently, Independent Directors are paid only sitting fees and Mr. P Jayarama Bhat, Non Executive Chairman is being paid with a consolidated remuneration of ₹ 1.00 lakh per month, as approved by RBI, which is within limits prescribed under the Companies Act, 2013.

2. COMMITTEES OF THE BOARD:

In compliance with the regulatory requirements and for the operational convenience, Bank has constituted Board level Committees and the constitution as on 31st March 2020 was as under:

Director's Name	Name of the Committee								
	ACB	NRC	EC	SCRC	Special Committee	RCMC	IT	CSR	RCNCWD
Non Executive Chairman									
P Jayarama Bhat	✓	✓		◆	◆	◆	✓		
Whole Time Director									
Mahabaleshwara M S			◆	✓	✓	✓	✓	◆	◆
Independent Directors									
Ashok Haranahalli		◆						✓	✓
Rammohan Rao Belle	◆		✓		✓	✓			✓
U R Bhat		✓	✓		✓	✓	✓		
Keshav K Desai	✓			✓	✓			✓	
D Surendra Kumar	✓	✓		✓				✓	
Mythily Ramesh	✓	✓					◆		
Additional Director									
B R Ashok	✓		✓			✓			✓

◆ Chairman of the Committee ✓ Member of the Committee

The following committees were functioning in the Bank as on 31st March 2020:

a. Audit Committee of the Board of Directors (ACB)

As per the directions of Reserve Bank of India, Bank had constituted an Audit Committee of the Board (ACB) in the year 1995.

Committee Constitution (as on 31.03.2020)
Chairman
1. Mr. Rammohan Rao Belle , Independent Director
Members:
2. Mr. P Jayarama Bhat , Part-Time Non-Executive Chairman
3. Mr. Keshav K Desai , Independent Director
4. Mr. D Surendra Kumar , Independent Director
5. Mrs. Mythily Ramesh , Independent Director
6. Mr. B R Ashok , Additional Director

Brief terms of reference

- Overseeing the Bank's financial reporting process and disclosure of financial information to ensure that the financial statement is fair, sufficient and credible;
- Recommending appointment and removal of external auditors and fixing of their fees;
- Reviewing with management the annual financial statements and auditor's report before submission to the Board with special emphasis on accounting policies and practices, compliance with accounting standards, disclosure of related party transactions and other legal requirements relating to financial statements;
- Reviewing the adequacy of the Audit and Compliance functions, including their policies, procedures, techniques and other regulatory requirements; and
- Any other terms of reference as may be included from time to time in the Banking Regulations Act, 1949 or extant guidelines of RBI in the form of Calendar of reviews or by separate circulars, Companies Act, 2013, SEBI Listing Regulations, 2015, including any amendments/re-enactments thereof

Number of meetings held : 10 meetings

All the members of the ACB were financially literate. The Company Secretary acted as the secretary to the Committee. The Chief Operating Officer, Chief Business Officer, Chief Financial Officer, Chief Compliance Officer, Chief Risk Officer and the Head of the Inspection & Audit Department of the Bank were also invited to attend the meetings of the Committee. The Statutory Central Auditors were also invited to attend the meetings whenever interim/ Annual Financial Reports / Long Form Audit Report were considered.

During the financial year under review, 10 meetings of ACB were held. The meeting dates and the attendance record is as below:

Dates of Meeting	B A Prabhakar (upto 05.09.2019)	P Jayarama Bhat	Rammohan Rao Belle	U R Bhat (upto 05.09.2019)	Mythily Ramesh	KK Desai (W.e.f 06.09.2019)	B R Ashok (W.e.f 06.09.2019)	D Surendra Kumar (W.e.f 06.11.2019)
13.05.2019	✓	✓	✓	✓	✓			
01.06.2019	✓	✓	✓	✓	✓			
11.07.2019	✓	✓	✓	✓	✓			
07.08.2019	✓	✓	✓	✓	✓			
14.10.2019		✓	✓		✓	✓	✓	
18.11.2019		✓	✓		✓	✓	✓	✓
17.12.2019		✓	✓		—	✓	✓	✓
16.01.2020		✓	✓		✓	✓	✓	—
28.02.2020		✓	✓		✓	✓	✓	—
26.03.2020		✓	✓		✓	✓	✓	✓
Meetings Attended	4	10	10	4	9	6	6	3

b. Nomination and Remuneration Committee (NRC)

Pursuant to the Companies Act, 2013, SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 and the extant guidelines of Reserve Bank of India, Bank has constituted "Nomination & Remuneration Committee (NRC)" w.e.f. 30.09.2014.

Committee Constitution (as on 31.03.2020)
Chairman
1. Mr. Ashok Haranahalli , Independent Director
Members:
2. Mr. P Jayarama Bhat , Part-Time Non-Executive Chairman
3. Mr. U R Bhat , Independent Director
4. Mr. D Surendra Kumar , Independent Director
5. Mrs. Mythily Ramesh , Independent Director
Brief terms of reference
<p>a. Identification of persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down.</p> <p>b. Undertake the due diligence of candidates before their appointment/ re-appointment as directors.</p> <p>c. Recommend to the Board, appointment of directors and senior management personnel and their removal</p> <p>d. Formulate the criteria for determining qualifications, positive attributes and independence of a director, Key Managerial Personnel and other employees.</p> <p>e. Recommend to the Board the policy for evaluation of performance of directors.</p> <p>f. Recommend to the Board on the remuneration of Whole Time Directors/Chief Executive Officers, etc.</p> <p>g. To administer the Employees Stock Option Scheme of the Bank.</p> <p>h. Any other terms of reference as may be included from time to time in the Banking Regulations Act, 1934 or extant guidelines of RBI, Companies Act, 2013, SEBI Listing Regulations, 2015, including any amendments / re-enactments thereof from time to time.</p> <p>In deference to the above, the Committee has laid down policy on determination of the qualifications, positive attributes and independence of a director for appointment as Director on the Board of the Bank and also a policy on remuneration of Directors.</p>
Number of meetings held: 7 meetings

During the financial year under review, 7 meetings of NRC were held. The meeting dates and the attendance record is as below:

Dates of Meeting	Ashok Haranahalli	P Jayarama Bhat	B A Prabhakar (upto 05.09.2019)	U R Bhat	D Surendra Kumar (w.e.f 06.09.2019)	Mythily Ramesh (w.e.f 06.09.2019)
30.04.2019	✓	✓	✓	✓		
17.06.2019	✓	✓	✓	✓		
12.07.2019	✓	✓	✓	✓		
07.08.2019	✓	✓	✓	✓		
27.08.2019	✓	✓	✓	✓		
06.11.2019	✓	✓		✓	✓	✓
21.03.2020	✓	✓		✓	—	✓
Meetings Attended	7	7	5	7	1	2

c. Executive Committee of the Board of Directors (EC)

Committee Constitution (as on 31.03.2020)
Chairman
1. Mr. Mahabaleshwara M S , Managing Director & CEO
Members:
2. Mr. Rammohan Rao Belle , Independent Director
3. Mr. U R Bhat , Independent Director
4. Mr. B R Ashok , Additional Director
Brief terms of reference
In order to facilitate the Board to concentrate on policy matters and strategic planning, etc., the Board has delegated lending and non-lending powers upto the limits decided by the Board from time to time to the Executive Committee of the Board of Directors.
Number of meetings held: 8 meetings

During the financial year under review, 8 meetings of EC were held. The meeting dates and the attendance record is as below:

Dates of Meeting	Mahabaleshwara M S	Ashok Haranahalli (Upto 05.09.2019)	Rammohan Rao Belle (w.e.f 06.09.2019)	B A Prabhakar (Upto 05.09.2019)	U R Bhat	B R Ashok (w.e.f 06.09.2019)
06.06.2019	✓	✓		✓	✓	
25.06.2019	✓	✓		✓	✓	
16.08.2019	✓	✓		✓	✓	
21.09.2019	✓		✓		✓	✓
19.11.2019	✓		✓		✓	✓
24.12.2019	✓		✓		✓	✓
01.02.2020	✓		✓		✓	✓
11.03.2020	✓		✓		✓	✓
Meetings Attended	8	3	5	3	8	5

d. Stakeholders and Customer Relations Committee (SCRC)

To enhance the customer service standards in the Bank and to ensure a mutually rewarding relationship with the shareholders and also to redress their grievances, a 'Stakeholders and Customer Relations Committee (SCRC) has been functioning at the Board level as per the requirements of the Companies Act, 2013, and SEBI (LODR) Regulation and the extant RBI guidelines.

Committee Constitution (as on 31.03.2020)
Chairman
1. Mr. P Jayarama Bhat , Part-Time Non-Executive Chairman
Members
2. Mr. Mahabaleshwara M S , Managing Director & CEO
3. Mr. Keshav K Desai , Independent Director
4. Mr. D Surendra Kumar , Independent Director
Further, customers were invited to the meetings of the Committee to get their feedback about the level of customer service in the Bank.

Brief terms of reference

- a. Formulation of a comprehensive deposit policy;
- b. Product approval process;
- c. Annual survey of depositor satisfaction;
- d. Tri-annual audit of such services;
- e. Periodical review the performance of the Ad-hoc committee;
- f. To specifically look into various aspects of interest of shareholders, debenture holders and other security holders.

Number of meetings held: 2 meetings

Name & Designation of the Compliance Officer:

Mr. Prasanna Patil, Company Secretary.

A total of 26 complaints were received from the Investors/Shareholders and all of them have been redressed satisfactorily. An exclusive Email ID viz., investor.grievance@ktkbank.com has been maintained by the Bank for the purpose of redressal of investors' complaints, if any. Further, the complaints received online via SEBI's Complaint Redress System (SCORES) were also redressed promptly.

During the financial year under review 2 meetings of SCRC were held and the meeting dates and the attendance record is as below:

Dates of Meeting	P Jayarama Bhat	Mahabaleshwara M S	Keshav K Desai	D Surendra Kumar
06.06.2019	✓	✓	✓	✓
19.11.2019	✓	✓	✓	✓
Meetings Attended	2	2	2	2

e. Special Committee for Monitoring and Investigation of Large Value Frauds:

As per the directions of the Reserve Bank of India, the Board had constituted a Special Committee on 17.02.2004 exclusively to monitor, investigate and follow-up cases of fraud involving amounts of Rupees One crore and above.

Committee Constitution (as on 31.03.2020)

Chairman

1. **Mr. P Jayarama Bhat**, Part-Time Non-Executive Chairman

Members:

2. **Mr. Mahabaleshwara M S**, Managing Director & CEO
3. **Mr. Rammohan Rao Belle**, Independent Director
4. **Mr. U R Bhat**, Independent Director
5. **Mr. Keshav K Desai**, Independent Director

Brief terms of reference

- a. Identify the systems lacunae, if any, that facilitated perpetration of the fraud and put in place measures to plug the same.
- b. Identify the reasons for delay in detection, if any, in reporting to top management of the Bank and RBI.
- c. Monitor progress of CBI/Police investigation and recovery position.
- d. Ensuring examination of staff accountability at all levels in all cases of frauds and quick completion of staff side action, if required, without loss of time.
- e. Review the efficacy of the remedial action taken to prevent recurrence of frauds such as strengthening of internal controls.
- f. Put in place other measures as may be considered relevant to strengthen preventive measures against frauds etc.

Number of meetings held : 5 meetings

The Committee meets quarterly to review and follow up all cases. Also, the Committee meets immediately on detection of any fraud involving amount of Rupees One crore and above.

During the financial year under review, 5 meetings of Special Committee were held. The meeting dates and the attendance record is as below:

Dates of Meeting	P Jayarama Bhat	Mahabaleshwara M S	Rammohan Rao Belle	U R Bhat	Keshav K Desai
26.08.2019	✓	✓	✓	✓	✓
20.09.2019	✓	✓	✓	✓	✓
19.11.2019	✓	✓	✓	✓	✓
24.12.2019	✓	✓	✓	✓	✓
21.03.2020	✓	✓	✓	✓	✓
Meetings Attended	5	5	5	5	5

f. Risk and Capital Management Committee (RCMC):

With a view to have a holistic understanding of the risks associated with the business of the Bank vis-à-vis their impact on the capital adequacy, Bank has a single Board level committee viz., "Risk and Capital Management Committee" (RCMC). The Committee conforms to the guidelines of Reserve Bank of India and SEBI (LODR) Regulation, 2015.



Committee Constitution (as on 31.03.2020)	
Chairman	
a. Mr. P Jayarama Bhat , Part-Time Non Executive Chairman	
Members:	
b. Mr. Mahabaleshwara M S , Managing Director & CEO	
c. Mr. Rammohan Rao Belle , Independent Director	
d. Mr. U R Bhat , Independent Director	
e. Mr. B R Ashok , Additional Director	
Brief terms of reference	
<p><u>Risk Function:</u></p> <ul style="list-style-type: none"> a. Devise the policy and strategy for integrated risk management containing various risk exposures of the Bank including Credit Risk, Market Risk and Operational Risk. b. Review of Risk Profile of the Bank, evaluation of overall risks faced by the Bank. c. Review the decision of the 3 sub-committees namely ALCO, ORMC and CPC and ensure smooth transition to new capital adequacy framework. d. Develop policies and strategies for integrated risk management containing the credit, market, operational risk, etc . e. Ensure robustness of the financial models used for measuring risks and to ensure a smooth transition to the New Capital Adequacy Framework. f. Ensuring that new risks arising out of events like new product launch, new business, increased volume, changes in concentration, changes in quality of portfolio or in overall economic scenario have been properly incorporated in the risk assessment. 	<p><u>Capital Function:</u></p> <ul style="list-style-type: none"> a. To review the business projections, Risk Profile Assessment and Capital Budgeting and to set short term and long-term goals for capital levels based on current and projected changes to the risk profile. b. To approve the Basel III Pillar II CRAR calculations along with the results of Stress Testing and Leverage Ratio & Liquidity Coverage Ratio. c. To review and recommend to the Board the capital plan of the Bank at annual intervals and lay down capital planning process and responsibilities as well as contingency planning for dealing with deviations and unexpected events like restrictions on business activities, etc. d. To develop an internal strategy for maintaining adequate capital, which reflects desired level of risk coverage, expected balance sheet growth, future sources and application of fund, acquisitions, new products and services, market image, strategic goals. e. To review and appraise the capital management and planning policy of the Bank and review the capital targets and levels in relation to such policy. f. To ensure that detailed documentation of methodologies, assumptions, procedures and minutes of meeting etc. is available for all the processes of ICAAP and is communicated to the concerned stakeholders and appropriate authority and responsibilities have been allocated
Number of meetings held: 5 meetings	

During the financial year under review, 5 meetings of RCMC were held. The meeting dates and the attendance record is as below:

Dates of Meeting	P Jayarama Bhat	Mahabaleshwara M S	B A Prabhakar (upto 05.09.2019)	Rammohan Rao Belle (w.e.f 06.09.2019)	U R Bhat	Mythily Ramesh (upto 05.09.2019)	B R Ashok (w.e.f 06.09.2019)
06.06.2019	✓	✓	✓		✓	✓	
26.08.2019	✓	✓	✓		✓	✓	
18.11.2019	✓	✓		✓	✓		✓
27.01.2020	✓	✓		✓	✓		✓
20.03.2020	✓	✓		✓	✓		✓
Meetings Attended	5	5	2	3	5	2	3

g. Committee for IT Strategy and Governance (IT)

A Board Level Committee on IT Strategy and Governance has been constituted on 29.11.2011 to oversee the Information Technology (IT) related areas such as IT Governance, Information Security, Information System Audit, IT Operations, IT Services Outsourcing, Cyber Fraud, Business Continuity Planning etc.

Committee Constitution (as on 31.03.2020)	
Chairperson	
1. Mrs. Mythily Ramesh , Independent Director	
Members:	
2. Mr. P Jayarama Bhat , Part-Time Non Executive Chairman	
3. Mr. Mahabaleshwara M S , Managing Director & CEO	
4. Mr. U R Bhat , Independent Director	
Brief terms of reference	
a. Approving IT strategy and policy documents; b. Ensuring that the management has put an effective strategic planning process in place; c. Ratifying that the business strategy is indeed aligned with IT strategy; d. Ensuring that the IT organizational structure complements the business model and its Direction; e. Ascertaining that management has implemented processes and practices to ensure that the IT delivers value to the business; f. Ensuring IT investments represent a balance of risks and benefits and that budgets are acceptable; g. Monitoring the method that management uses to determine the IT resources needed to achieve strategic goals and to provide high-level direction for sourcing and use of IT resources;	

- h. Ensuring proper balance of IT investments for sustaining bank's growth;
- i. Becoming aware about exposure towards IT risks and controls and evaluating effectiveness of management's monitoring of IT risks;
- j. Assessing Senior Management's performance in implementing IT strategies;
- k. Issuing high-level policy guidance (e.g. related to risk, funding, or sourcing tasks);
- l. Confirming whether IT or business architecture is to be designed, so as to derive the maximum business value from IT;
- m. Overseeing the aggregate funding of IT at a bank-level and ascertaining if the management has resources to ensure the proper management of IT risks;
- n. Monitoring progress in Digital Banking transactions;

The main objective of IT Governance is to achieve outcome viz., "Value Delivery by IT to business" and "IT Risk Management". The drivers of this outcome are "IT Strategic Alignment", "IT Resource Management" and "IT Performance Measurement".

Number of meetings held: 5 meetings

During the financial year under review 5 meetings of IT Strategy and Governance Committee were held. The meeting dates and the attendance record is as below:

Dates of Meeting	Mythily Ramesh (Chairperson of the Committee w.e.f 06.09.2019)	P Jayarama Bhat	Mahabaleshwara M S	Rammohan Rao Belle (Chairman of the Committee upto 05.09.2019)	U R Bhat (w.e.f 06.09.2019)
01.06.2019	✓	✓	✓	✓	
11.07.2019	✓	✓	✓	✓	
26.08.2019	✓	✓	✓	✓	
19.11.2019	✓	✓	✓		✓
28.02.2020	✓	✓	✓		✓
Meetings Attended	5	5	5	3	2

h. Corporate Social Responsibility (CSR) Committee

Committee Constitution (as on 31.03.2020)	
Chairman	
1. Mr. Mahabaleshwara M S , Managing Director & CEO	
Members:	
2. Mr. Ashok Haranahalli , Independent Director	
3. Mr. Keshav K Desai , Independent Director	
4. Mr. D Surendra Kumar , Independent Director	

Brief terms of reference

Pursuant to Section 135 of the Companies Act, 2013, a separate Committee has been constituted by the Board on 24.03.2014 to formulate and recommend a CSR Policy, recommend the amount of expenditure to be incurred on the CSR activities and monitor the CSR Policy of the Bank from time to time, monitor & regulate the expenditure incurred by the Bank in corporate social responsibilities.

Number of meetings held: 2 meetings

During the financial year under review 2 meetings of CSR Committee were held. The meeting dates and the attendance record is as below:

Dates of Meeting	Mahabaleshwara M S	Ashok Haranahalli	Keshav K Desai	D Surendra Kumar
01.06.2019	✓	✓	✓	✓
18.11.2019	✓	✓	✓	✓
Meetings Attended	2	2	2	2

Necessary disclosure pursuant to Section 135(4) of the Companies Act, 2013 read with Companies (CSR) Rules 2014, has been furnished in Annexure V forming part of Directors Report and also posted in our website.

i. Review Committee for Identification of Non-Cooperative Borrowers and Wilful Defaulters:

Committee Constitution (as on 31.03.2020)

Chairman

1. **Mr. Mahabaleshwara M S**, Managing Director & CEO

Members:

1. **Mr. Ashok Haranahalli**, Independent Director
2. **Mr. Rammohan Rao Belle**, Independent Director
2. **Mr. B R Ashok**, Additional Director.

Brief terms of reference

- a. Reviewing and confirming the order of the Internal Screening Committee for Identification of Non-Cooperative Borrowers.
- b. Reviewing and confirming the order of the Internal Committee for identification of wilful defaulters.

Number of meetings held: 2 meetings

During the financial year under review 2 meetings of Review Committee for Identification of Non Cooperative Borrowers and Wilful Defaulters were held. The meeting dates and the attendance record is as below:

Dates of Meeting	Mahabaleshwara M S	Ashok Haranahalli	Rammohan Rao Belle	B R Ashok (w.e.f 06.09.2019)
07.08.2019	✓	✓	✓	
18.11.2019	✓	✓	✓	✓
Meetings Attended	2	2	2	1

Detailed terms of reference of each of above Committees are provided in the Bank's website under the section 'Investors Portal/ Corporate Governance'

COMMITTEES OF EXECUTIVES:

Apart from the Board Committees, the Bank has also constituted other committees of executives such as Asset and Liability Management Committee (ALCO), Investment Management Committee (IMC), Credit Management Committee (CMC), Credit Policy Committee (CPC), Operational Risk Management Committee (ORMC), Committee for scrutiny of frauds, staff accountability Committee, New Product & Process Approval Committee, IT Steering Committee, ICAAP Function Committee, Management Security Forum, Risk Based Supervision (RBS) Top Management Committee, Inspection Monitorable Action Plan (IMAP) Committee, KBL Vikas Steering Committee etc. These Committees meet regularly and take decisions on respective matters.

PERFORMANCE EVALUATION CRITERIA FOR DIRECTORS

As required under the Companies Act, 2013 and the SEBI LODR, performance review/evaluation of the Board as a whole, Committees of the Board, Chairman of the Board, all Directors including Independent Directors and Managing Director & CEO of the Bank was carried out as per the Performance Evaluation Policy adopted by the Bank. The process of Performance Evaluation is as under:

Independent Directors in a separate meeting shall evaluate the performance of non-independent directors, Chairman of the Board and Board as a whole taking into account the views of the Managing Director.

Board shall review the performance of all Independent Directors as well as the Committee of the Board.

EVALUATION CRITERIA

Bank aligned its performance evaluation templates in line with SEBI Guidance Note dated 5th January 2017 and the basis of evaluation are as under:

Board

The criteria for evaluation of performance of the Board include composition of the Board, periodicity of the meetings, management and human resources, strategy determination, monitoring and acting, policies and procedures including Risk management policy, understanding the regulatory requirements, reporting to the stakeholders, compliance with all applicable laws etc.

Committees of the Board

The performance of the Board Committees was evaluated taking into consideration the terms of reference of each Committee periodicity of meetings, collective judgment and contribution by each committee in attaining their objectives.

Chairman of the Board:

The evaluation criteria for the performance of the Chairman of the Board inter-alia included leadership qualities demonstrated by him, ability to synthesize discussion and divergent views to lead to consensus after listening to all directors, his working relationship with the Managing Director & CEO etc.

Managing Director & CEO

While evaluating the performance of the Managing Director & CEO, besides his leadership qualities, performance in key financial and non-financial areas such as achieving the business targets, meeting stakeholder's expectations and maintaining harmonious relationship with the labour associations and recognition and rewards secured by the Bank under his leadership, relationship with the Board, ability to execute the strategies etc., were considered.

Independent Directors:

The review of the performance of Independent Directors has been undertaken by the Board having regard to their experience and expertise in the specified area of their specialization, attendance record at the meetings of the Board and the Committees there of, value addition in the decision-making process in the meetings, their ability to update their knowledge about the business and regulatory environment in which the Bank is functioning, leading to bringing in independent judgment and safeguarding the interest of stakeholders etc.

ANNUAL GENERAL MEETINGS:

Venue and the date of the last three Annual General Meeting were as under:

Year	Venue	Date	Day	Time	Whether any Special resolution/s passed
2019	Registered Office, Mangaluru	07.08.2019	Wednesday	11.30 am	Yes
2018	Registered Office, Mangaluru	21.07.2018	Saturday	11.30 am	Yes
2017	Registered Office, Mangaluru	17.07.2017	Monday	11.30 am	No#

Introduction of Employees Stock Option Scheme 2017 (ESOS 2017) - This item was not passed as the votes cast in favour of the resolution were less than the required majority,

Note: Resolutions passed through Postal Ballot/Evoting:

On 5th March 2020, Bank obtained shareholders' approval for the following resolutions through Postal Ballot/e-voting:

1. Bonus Issue 2020:

Issue of Bonus equity shares in the ratio of 1 (one) bonus share for every 10 (ten) equity shares held on the record date i.e. 18th March 2020. The shareholders approved this Ordinary resolution with requisite majority and with this the paid up equity share capital of the Bank stands increased to ₹ 310.87 crore.

2. Qualified Institutions Programme (QIP):

Approval of the shareholders by way of Special resolution with requisite majority was obtained to issue not exceeding 15,00,00,000 fully paid equity shares of the Bank to Qualified Institutional Buyers (QIB) under QIP. The resolution is valid for a period of one year i.e., up to March 4, 2021.

M/s. BMP and Co LLP acted as a Scrutinizer for the aforesaid postal ballot process and the details of voting pattern were as under

Resolution	% of shareholders voted	No. of shares voted 'For'	% of Total voted 'For'	No. of shareholders voted 'Against'	% of Total Voted 'Against'
Issue of Bonus Shares	45.52	12,46,54,085	96.89	40,05,002	3.11
Issue of capital under QIP Process	45.13	12,20,29,469	95.70	54,89,032	4.30

DISCLOSURES:

There were no materially significant transactions entered into by the Bank with its directors, management or relatives conflicting with the interest of the Bank at large during the year ended 31st March 2020. Further it is declared that all the directors and senior management personnel have affirmed the compliance to the code of conduct laid down by the Bank.

The policy on dealing with related party transactions is available on the Bank's website www.karnatakabank.com under section *Investors>Corporate Governance>Policies*.

STATUTORY COMPLIANCE, PENALTIES AND STRICTURES:

1. Reserve Bank of India vide their letter EFD.CO.SO/590/02.02.005/2019-20 dated 27.05.2020 imposed a penalty of ₹ 1.00 crore for divergence in NPA and ₹ 0.20 crore for non-adherence to IRAC norms for the financial position as on 31st March 2017 and 31st March 2018. However, the Bank has fully provided in respect of these NPA Accounts in the earlier years.
2. BSE Ltd and National Stock Exchange of India Ltd (collectively referred to as 'exchanges') levied a penalty of ₹ 1.24 lakh each as per the Standard Operating Procedure prescribed by SEBI Circular No. SEBI/HO/CFD/CMD/CIR/P/2018/77 dated 3rd May 2018 for the non-compliance of Regulation 17 of SEBI (LODR) Regulations 2015 with reference to constitution of Audit Committee of Directors during the period 06.09.2019 to 05.11.2019. Bank reconstituted its Audit Committee at the meeting of Board of Directors held on 06.11.2019 and the new constitution is in compliance with the SEBI (LODR) Regulations, 2015. However, detailed representations have been made to the exchanges seeking waiver of the penalty and final outcome is awaited from the exchanges.

MEANS OF COMMUNICATION:

The quarterly/half yearly/annual results are published in the leading national English dailies such as Business Standard, Business Line, Financial Express, Economic Times etc and vernacular newspaper such as Udayavani etc. The results and presentation on analysis of financial results were also posted on our website <https://karnatakabank.com/investor-portal>. Further, the gist of financial results is also shared on a quarterly basis with all the shareholders who have registered their email ids with the Bank

SHAREHOLDERS' INFORMATION:

A. Annual General Meeting for the FY 2019-20 (e-AGM) to be held through Video Conferencing ("VC")/Other Audio Visual Means ("OAVM"):

Day	:	Friday
Date	:	July 17, 2020
Time	:	11.30 AM
Venue	:	Not Applicable (to be held through VC/OAVM) .
Mode	:	Will be held through Video Conferencing ("VC")/Other Audio Visual Means ("OAVM") as advised by the Ministry of Corporate Affairs vide its General Circulars viz. 14/2020 dtd 08.04.2020, 17/2020 dtd 13.04.2020 and 20/2020 dtd 05.05.2020. The detailed guidelines on the procedure to be followed for participating in the AGM are furnished in the Notice of AGM
Bank's Address for Correspondence	:	The Karnataka Bank Ltd, Secretarial Department, Regd & Head Office, Mahaveer Circle, Kankanady, Mangaluru-575002, Karnataka, India. Tel: +91-824-2228222, Email: info@ktkbank.com Website: www.karnatakabank.com

B. Financial Calendar:

The financial year of the Bank is April to March. The financial results for the quarter /half year/year are generally published as under:

- a) Quarter ending June 30, 2020: July, 2020
- b) Quarter ending Sept. 30, 2020: October, 2020
- c) Quarter ending Dec. 31, 2020: January, 2021
- d) Quarter ending March 31, 2021: May/June, 2021

C. Dividend:

Considering an environment of heightened uncertainty caused by COVID-19, with a view to conserve capital to retain capacity to support the economy and absorb losses, all scheduled commercial banks have been directed by the Reserve Bank of India not to make any further dividend payout from the profits pertaining to the financial year ended 31st March 2020 until further instructions, vide circular DOR.BP.BC.No.64/21.02.067/ 2019-20 dated 17th April 2020. Accordingly, Board of Directors has not recommended any dividend on shares for the financial year 2019-20 even though the Bank is having distributable profits for the financial year ended 31st March 2020

D. Year wise details of Unclaimed Dividend:

The following Table gives the position of unclaimed dividend for the past seven years as on 31.03.2020.

Year	Unclaimed dividend (₹)	Date of declaration	Last date for claiming dividend
2012-2013	59,93,408.00	06.07.2013	05.08.2020
2013-2014	68,59,864.00	09.08.2014	08.09.2021
2014-2015	83,85,045.00	16.07.2015	15.08.2022
2015-2016	87,23,039.00	28.07.2016	27.08.2023
2016-2017	86,69,012.00	17.07.2017	16.08.2024
2017-2018	76,07,305.00	21.07.2018	20.08.2025
2018-2019	93,27,308.05	07.08.2019	06.09.2026

Demat Suspense Account: Pursuant to Schedule V of SEBI LODR, after sending three reminders to the shareholders, at the latest available address, in respect of unclaimed shares, Bank had transferred these unclaimed shares to the separate Demat Suspense Account. The Voting rights on these shares shall remain frozen till such shares are claimed by the rightful owner. The summary of shares transferred and released in favour of shareholders is furnished below:

Particulars	No. of shareholders	Total Number of shares
1. Number of shareholders and the outstanding shares in the suspense account lying at the beginning of the year	556	89283
2. Shareholders who approached us for transfer of shares from suspense account during the year	17	3552
3. Less: Shareholders to whom shares were transferred from suspense account during the year	17	3552
4. Less: Shares transferred to IEPF	35	2520
Subtotal	503	83211
5. Add: Number of cases transferred to suspense account due to rejection of Corporate Action under Bonus Issue 2020 and entitlement on the shares lying in Suspense A/c as on the record date i.e., 18.03.2020	26	11460
6. Number of shareholders and the outstanding shares in the suspense account lying at the end of the year (6 =1-3-4+5)	530	94671

Transfer of unclaimed dividend to IEPF:

As per the provisions of Section 124 of the Companies Act, 2013, the unclaimed dividend for the financial year 2011-12 of ₹ 50,87,400/- has been transferred on 24.10.2019 to the Investor Education and Protection Fund established by the Central Government.

Transfer of shares to IEPF:

Pursuant to Section 124(6) of the Act read with Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 (in short "IEPF rules"), all shares in respect of which dividend has not been paid or claimed for seven consecutive years or more are required to be transferred in the name of Investor Education and Protection Fund. Accordingly, 77,961 shares (including 2,520 shares from Demat Suspense A/c as said above) in respect of which the dividend for the FY 2011-12 had remained unclaimed for a period of seven years or more, were transferred to IEPF on 24.10.2019.

E. Listing of shares:

The shares of the Bank are listed on the following Stock Exchanges.

ISIN	INE614B01018	
Scrip Code	Name of the Stock Exchange	Address
KTKBANK	National Stock Exchange of India Ltd.	Regd. Office: Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai- 400051
532652	BSE Ltd.	Regd. Office: Floor 25, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001

The Bank has paid the Annual Listing Fees for the year 2020-21 to the above Stock Exchanges.

Compliance with Corporate Governance requirements:

The Bank has been complying with requirements of Corporate Governance as stipulated under Regulations 17-27 read with Schedule V of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and a report on corporate Governance in the prescribed format has been submitted to the Stock Exchange every quarter.

Share transfer procedure:

The shares of the Bank being traded in dematerialized form are transferable through the depository system. Pursuant to the proviso to Regulation 40(1) of SEBI (LODR) Regulations, w.e.f. 01.04.2019, the requests for effecting transfer of securities shall not be processed unless the securities are held in the dematerialized form with a depository and accordingly, transfer of securities in physical form is not permissible.

Stock Market Data

The shares of the Bank are traded on the Stock Exchanges only in dematerialized form as per the directives issued by Securities and Exchange Board of India (SEBI). The shares are regularly traded on National Stock Exchange of India Ltd. (NSE) and BSE Ltd (BSE). The monthly high & low prices along with the volumes traded from 01.04.2019 to 31.03.2020 on the above Stock Exchanges are given below together with bench mark indices.

Trading statistics on NSE:

Month	Share price		No. of Shares Traded	NIFTY 50	
	High	Low		High	Low
Apr 2019	141.25	125.30	51165581	11856.15	11549.10
May 2019	130.75	109.40	53017839	12041.15	11108.30
June 2019	115.60	99.70	51330318	12103.05	11625.10
July 2019	105.95	81.65	29495575	11981.75	10999.40
Aug 2019	85.70	71.65	18461460	11181.45	10637.15
Sep 2019	82.95	74.10	14011629	11694.85	10670.25
Oct 2019	80.70	67.80	19597153	11945.00	11090.15
Nov 2019	80.70	72.90	17027837	12158.80	11802.65
Dec 2019	78.65	70.75	12193989	12293.90	11832.30
Jan 2020	79.90	71.55	18490760	12430.50	11929.60
Feb 2020	82.50	69.40	19695947	12246.70	11175.05
Mar 2020	71.30	38.05	36739870	11433.00	7511.10

Trading statistics on BSE

Month	Share price		No. of Shares Traded	S&P BSE SENSEX	
	High	Low		High	Low
Apr 2019	141.15	125.25	3080564	39487.45	38460.25
May 2019	130.85	109.20	4368993	40124.96	36956.10
June 2019	115.60	99.80	3951470	40312.07	38870.96
July 2019	105.90	81.65	4206195	40032.41	37128.26
Aug 2019	85.80	71.90	2345082	37807.55	36102.35
Sep 2019	82.80	74.20	1449034	39441.12	35987.80
Oct 2019	82.65	68.00	1710937	40392.22	37415.83
Nov 2019	80.55	73.00	1386946	41163.79	40014.23
Dec 2019	78.75	70.70	1932247	41809.96	40135.37
Jan 2020	79.95	71.75	1437757	42273.87	40476.55
Feb 2020	82.50	69.50	1982527	41709.30	38219.97
Mar 2020	72.00	35.15	3065319	39083.17	25638.90

I. SHAREHOLDING PATTERN

i) Category-wise Shareholding:

Category of Shareholders	No. of Shares held at the beginning of the year (i.e. as on 01.04.2019)				No. of Shares held at the end of the year (i.e. as on 31.03.2020)				% change during the year	
	Demat		% of Total Shares		Demat		% of Total Shares			
	Physical	Total	Physical	Total	Physical	Total	Physical	Total		
A. Promoters										
(1) Indian										
a) Individual/HUF										
b) Central Govt. or State Govt.										
c) Bodies Corporates										
d) Bank/FI										
e) Any other										
SUB TOTAL:(A) (1)										
(2) Foreign										
a) NRI- Individuals										
b) Other Individuals										
c) Bodies Corp.										
d) Banks/FI										
e) Any other										
SUB TOTAL (A) (2)										
Total Shareholding of Promoter (A)=(A) (1)+(A)(2)										
B. PUBLIC SHAREHOLDING										
(1) Institutions										
a) Mutual Funds	26069189	0	26069189	9.22	14171872	0	14171872	4.56		-45.64
b) Banks/FI	1301078	0	1301078	0.46	1091539	0	1091539	0.35		-16.10
c) Central Govt.	0	0	0	0	0	0	0	0		0
d) State Govt.	0	0	0	0	0	0	0	0		0
e) Venture Capital Fund	0	0	0	0	0	0	0	0		0
f) Insurance Companies	16181300	0	16181300	5.73	17843063	0	17843063	5.74		10.27
g) FPIs	41174690	0	41174690	14.57	39801510	0	39801510	12.80		-3.34
i) Others (specify) Alternate Investment Fund	1549806	0	1549806	0.55	0	0	0	0		-100
SUB TOTAL (B)(1):	86276063	0	86276063	30.53	72907984	0	72907984	23.45		

Category of Shareholders	No. of Shares held at the beginning of the year (i.e. as on 01.04.2019)			No. of Shares held at the end of the year (i.e. as on 31.03.2020)			% change during the year		
	Demat	Physical	Total	% of Total Shares	Demat	Physical		Total	% of Total Shares
(2) Non Institutions									
a) Bodies corporate									
i) Indian	22577655	292656	22870311	8.09	24619971	2888284	24908255	8.01	8.92
ii) Overseas	0	0	0	0	0	0	0	0	0
b) Individuals									
i) Individual shareholders holding nominal share capital upto ₹ 1 lakh	74611959	11943168	86555127	30.62	93501155	12053720	105554875	33.96	21.95
ii) Individual shareholders holding nominal share capital in excess of ₹ 1 lakh	73988108	2531876	76519984	27.08	89710987	2579480	92290467	29.69	20.61
c) Others (specify)									
Trust	48759	0	48759	0.02	17498	0	17498	0.01	-64.11
Clearing Members	3018344	0	3018344	1.07	4137380	0	4137380	1.33	37.07
KBL - Unclaimed Suspense a/c	89283	0	89283	0.03	94671	0	94671	0.03	6.03
NRIs	6580945	5000	6585945	2.33	10169511	5500	10175011	3.27	54.50
IEPF	643982	0	643982	0.23	783548	0	783548	0.25	21.67
SUB TOTAL (B)(2):	181559035	14772700	196331735	69.47	223034721	14926984	237961705	76.55	
Total Public Shareholding (B)= (B)(1)+(B)(2)	267835098	14772700	282607798	100	295942705	14926984	310869689		
C. Shares held by Custodian for GDRs & ADRs	0	0	0	0	0	0	0	0	0
Grand Total (A+B+C)	267835098	14772700	282607798	100	295942705	14926984	310869689	100	

Note: During the year under report Bank has allotted Bonus equity shares in the ratio of 1:10.

ii) **Shareholding of Promoters:**

Not applicable as the Bank does not have any promoters in control of the management.

iii) Shareholding Pattern of top ten Shareholders other than directors, promoters, holders of ADR/GDR

Sl. No.	Name	At the beginning of the year		Change in Shareholding (No. of Shares) Increase/ (Decrease)	At the end of the year	
		No. of shares	% to total shares of the Bank		No. of shares	% to total shares of the Bank
1	Life Insurance Corporation of India	14053194	4.97	1405319	15458513	4.97
2	ICICI Prudential Fund (under various fund accounts)	13865851	4.91	(204268)	13661583	4.39
3	B Sumanthkumar Reddy & Relatives	13014971	4.61	(3810798)	9204173	2.96
4	LSV Emerging Markets Equity Fund Lp	3938400	1.39	393840	4332240	1.39
5	State Street Emerging Markets Small Cap Active Non	3242584	1.15	(28536)	3214048	1.03
6	Sreenadha Reddy Nayani	2788005	0.99	278800	3066805	0.99
7	Vanguard Total International Stock Index Fund	2524581	0.89	178698	2703279	0.87
8	Chirag Dilipkumar Lakhi	2381935	0.84	156793	2538728	0.82
9	CD Equifinance Private Limited	3429285	1.21	(903603)	2525682	0.81
10	Vivek Chand Burman	2175000	0.77	217500	2392500	0.77

Note: Since the substantial portion of the shares are held and traded in demat form, date wise increase or decrease is not available.

iv) Shareholding of Directors & Key Managerial Personnel:

Sl. No.	The Director and KMP (Messrs./Mrs.)	At the beginning of the year		Date-wise increase/ decrease during the year	Reasons for increase/ decrease	Cumulative shareholding during the year	
		No of shares	% of total shares of the Company			No of shares	% of total shares of the Company
Directors:							
1	P Jayarama Bhat	6000	0.00	599	Indicating bonus shares allotted during March 2020	6599	0.00
2	Mahabaleshwara M S	15617	0.00	1561		17178	0.00
3	Ashok Haranahalli	9000	0.00	900		9900	0.00
4	Rammohan Rao Belle	357	0.00	35		392	0.00
5	U R Bhat	7223	0.00	722		7945	0.00
6	Keshav K Desai	10000	0.00	1000		11000	0.00
7	D Surendra Kumar	17661	0.00	1766		19427	0.00
8	Mythily Ramesh	150	0.00	15		165	0.00
9	B R Ashok (w.e.f. 27 th August 2019)	1500	0.00	150		1650	0.00
Key Managerial Personnel							
10	Muralidhar Krishna Rao, Chief Financial Officer	1106	0.00	110	Indicating bonus shares allotted during March 2020	1216	0.00
11	Prasanna Patil, Company Secretary	100	0.00	10		110	0.00

Distribution of shareholding as on 31st March 2020

Shareholding of nominal value of		Shareholders		Share Amount	
Rs.	P.	Number	% to Total	In ₹	% to Total
(1)	(2)	(3)	(4)	(5)	(6)
Upto 5,000		146330	73.57	194577710	6.26
5,001 - 10,000		20998	10.56	146459850	4.71
10,001 - 20,000		14996	7.54	205816600	6.62
20,001 - 30,000		5638	2.83	137499820	4.42
30,001 - 40,000		2803	1.41	96828310	3.11
40,001 - 50,000		1744	0.88	78269850	2.52
50,001 - 1,00,000		3513	1.77	242087070	7.79
1,00,001 and above		2869	1.44	2007157680	64.57
Total		198891	100.00	3108696890	100.00

Dematerialization of shares:

As per the directives of SEBI, the equity shares of the Bank are compulsorily traded in dematerialized form by all categories of investors with effect from 26.02.2001. The Bank had entered into tripartite agreement with the depositories viz., National Securities Depositories Ltd. & Central Depositories Services (India) Ltd. and share transfer agent, for dematerialization of shares. The ISIN allotted for the shares of the Bank is INE614B01018. In view of the obvious benefits of holding the shares in demat form, over the period of time shareholders have converted their physical shares into electronic form and about 95.20 percent of the equity shares of the Bank are in demat form as on 31.03.2020.

Registrar & Share Transfer Agent (RTA):

The Bank has appointed Integrated Registry Management Services Pvt Ltd as common Share Transfer Agent for both physical and electronic shares. Therefore, all communications relating to share transmission, dividend, change of address for shares held in physical form and dematerialization of shares etc are to be addressed to the Registrar and Share Transfer Agent at the following address:

Integrated Registry Management Services Pvt Ltd
 30, Ramana Residency, 4th Cross
 Sampige Road, Malleshwaram, Bengaluru-560003
 Tel: (080) 23460815-818 Fax: (080) 23460819
 Email: irg@integratedindia.in

F. Listing of Subordinated Bonds:

The Bonds of the Bank are listed on the following Stock Exchange.

Name of the Stock Exchange	Address
National Stock Exchange of India Ltd.-Debt Market Segment	Regd. Office: Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai- 400051

The Bank has paid the Annual Listing Fees for the year 2020-21 to the above Stock Exchange.

ISIN:

Particulars	Series IV	Series V	Series VI
ISIN at NSDL/CDSL	INE614B08021	INE614B08039	INE614B08047

Debenture Trustee:

In respect of the Sub-ordinated debt instruments outstanding as on 31st March 2020, the Bank has appointed M/s IDBI Trusteeship Services Ltd as the Debenture Trustee and their contact details are as follows.

IDBI Trusteeship Services Ltd
Asian Building, Ground Floor, 17, R. Kamani Marg,
Ballard Estate, Mumbai - 400001
Tel: 91 022 4080 7001 Fax: 91 022 66311776
Email: itsl@idbitrustee.co.in Website: www.idbitrustee.com

Credit Ratings:

Instrument Type	Face Value (₹ in Lakh)	Coupon Rate	Date of Issue	Tenor (Years)	Amount (₹ in Crore)	Credit Rating		Outlook
						CARE	ICRA	
Tier II Bonds (Series IV)	10.00	11%	17.11.12	10	250.00	CARE "A"	ICRA "A"	Stable
Tier II Bonds (Series V)	1.00	12%	16.11.18	10	400.00	CARE "A"	ICRA "A"	Stable
Tier II Bonds (Series VI)	1.00	12%	18.02.19	10	320.00	CARE "A "	ICRA "A "	Stable

Non-mandatory (Discretionary) requirements:

The compliance statuses of Non-mandatory requirements were as under:

Requirements	Compliance status
The Board -A non-executive Chairman may be entitled to maintain a Chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties.	Not Applicable. However, Chairman's office is hosted by the Bank at its Registered & Head office, Mangaluru and the Chairman is entitled to allowances such as Travelling/Halting allowances etc as paid to other directors.
Shareholders Rights: A half-yearly declaration of financial performance including summary of the significant events in last six-months, may be sent to each household of shareholders.	In view of wider publication of results in newspapers and posting the same in the web site of the Bank, no separate communication was sent to each household of shareholders. Bank through its Investor Relation Cell is disseminating corporate communications periodically about financial results or major events etc., on a voluntary basis, to the shareholders whose email ids are registered. Such communications are also hosted on Bank's website for information of the shareholders.
Modified opinion(s) in audit report: Company may move towards a regime of unqualified financial statements.	There were no audit qualifications.
Separate posts of Chairperson and Chief Executive Officer: The company may appoint separate persons to the post of Chairman and Managing Director/CEO.	Complied with.
Reporting of Internal Auditor (The Internal auditor may report directly to the Audit Committee).	Complied with. Bank follows guidelines issued by Reserve Bank of India in the matter of Risk Based Internal Audit and has put in place policies for ensuring the compliance with the requirements.

COMPLIANCE WITH THE CODE OF CONDUCT

I confirm that all Directors and members of the Senior Management have affirmed compliance with the Bank's Code of Conduct for the year ended March 31, 2020.

Date: June 6, 2020
Place: Mangaluru

Sd/-
Mahabaleshwara M.S.
Managing Director & CEO

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To the members of The Karnataka Bank Limited.

1. We, **M/s Manohar Chowdhry & Associates** and **M/s Badari, Madhusudhan & Srinivasan, Chartered Accountants**, Joint Statutory Auditors of the Karnataka Bank Ltd. ("the Bank") have examined the records of the Bank concerning the compliance of conditions of Corporate Governance as stipulated under Regulations 17 to 27 and clauses 46(2) (b) to (i) read with Schedule V of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in relation to the listing of shares on National Stock Exchange of India Limited and BSE Limited for the year ended 31st March 2020.

Managements' Responsibility

2. The compliance of conditions of Corporate Governance is the responsibility of the Management. This responsibility includes the design, implementation and maintenance of internal control and procedures to ensure compliance with the conditions of the Corporate Governance stipulated in the Listing Regulations.

Auditor's Responsibility

3. Our responsibility is limited to examining the procedures and implementation thereof, adopted by the Bank for ensuring compliance with the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.
4. We have examined the books of account and other relevant records and documents maintained by the Bank for the purposes of providing reasonable assurance on the compliance with Corporate Governance requirements by the Bank.
5. We have carried out an examination of the relevant records of the Bank in accordance with the Guidance Note on Certification of Corporate Governance issued by the Institute of the Chartered Accountants of India (the "ICAI"), the Standards on Auditing specified under Section 143(10) of the Companies Act 2013, in so far as applicable for the purpose of this certificate and as per the Guidance Note on Reports or Certificates for Special Purposes issued by the ICAI which requires that we comply with the ethical requirements of the Code of Ethics issued by the ICAI.
6. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

Opinion

7. Based on our examination of the relevant records and according to the information and explanations provided to us and the representations provided by the Management, we certify, that the Bank has complied with the conditions of Corporate Governance as stipulated in Regulation 17 to 27 and clauses (b) to (i) of Regulation 46(2) and para C and D of Schedule V to the Listing Regulations during the year ended 31st March 2020 *except for non-compliance with the requirements in relation to composition of the Audit Committee of the Board for the period between 6.9.2019 to 5.11.2019.*
8. We state that such compliance is neither an assurance as to the future viability of the Bank, nor as to the efficiency or effectiveness with which the management has conducted the affairs of the Bank.

For Manohar Chowdhry & Associates

Chartered Accountants
Firm Regn. No. 001997S
Sd/-

(Murali Mohan)
Partner - M. No.203592
UDIN: 20203592AAAACC4774

Place : Mangaluru
Date : June 06, 2020

For Badari, Madhusudhan & Srinivasan

Chartered Accountants
Firm Registration No.005389S
Sd/-

(T.V. Sudarshan)
Partner -M. No. 019108
UDIN: 20019108AAAAAQ8777

SECRETARIAL AUDIT REPORT

[Pursuant to section 204(1) of the Companies Act, 2013 and rule No.9 of the Companies (Appointment and Remuneration Personnel) Rules, 2014]

For the Financial Year ended 31st March 2020

To,
The Members,
The Karnataka Bank Limited CIN: L85110KA1924PLC001128
Regd. & Head Office:
P B No.599, Mahaveera Circle, Kankanady Mangaluru- 575 002

We have conducted the Secretarial Audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by The Karnataka Bank Limited ('the Bank') covering the Financial Year ended 31st March 2020. The Secretarial Audit was conducted in a manner that provided us a reasonable basis for evaluating the corporate conducts/ statutory compliances and expressing our opinion thereon.

Based on our verification of the books, papers, minute books, forms and returns filed and other records maintained by the Bank and also the information provided by the Bank, its officers, agents and authorized representatives during the conduct of secretarial audit, we hereby report that in our opinion, the Bank has, during the audit period covering the financial year ended on 31st March 2020, complied with the statutory provisions listed hereunder and also that the Bank has proper Board processes and compliance mechanism in place to the extent, in the manner and subject to the reporting made hereinafter.

We have examined the books, papers, minute books, forms and returns filed and other records maintained by the Bank for the financial year ended on 31st March 2020 according to the provisions of:

1. The Companies Act, 2013 (CA 2013) and the rules made thereunder;
2. The Securities Contracts (Regulation) Act, 1956 (SCRA) and the rules made thereunder;
3. The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
4. Foreign Exchange Management Act, 1999 (FEMA) and the rules and regulations made there under to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
5. The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 (SEBI Act'):
 - a. The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.
 - b. The Securities and Exchange Board of .India (Prohibition of Insider Trading) Regulations, 2015.

- c. The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.
- d. The Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014.
- e. The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008.
- f. The Securities and Exchange Board of India (Bankers to an Issue) Regulations, 1994.

6. Other Laws :

- a. The Banking Regulation Act, 1949 (BR Act)

We have also examined compliance with the applicable clauses of the following:


- (i) Secretarial Standards (SS) issued by the Institute of Company Secretaries of India.
- (ii) Listing Agreements entered into by the Bank with BSE Limited (BSE) and National Stock Exchange of India Limited (NSE).
- (iii) Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

During the period under review the Bank has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc., mentioned above.

We further state that, during the period under review and based on our verification of the records maintained by the Bank and also on review of compliance reports/statements by the respective department heads/Chief Financial Officer/Company Secretary taken on record by the Board of Directors of the Bank, in our opinion, adequate systems and processes and control mechanism commensurate to the size and nature of the bank's business exist in the bank to monitor and ensure compliances with applicable laws, industry specific laws, labour laws, intellectual property laws and environmental laws. We have not reviewed the applicable financial laws, direct and indirect tax laws since the same have been subject to review and audit by the Statutory Auditors of the Bank. Further, we state that due to restrictions imposed by the Government on account of COVID- 19, we were not able to verify certain records physically and relied on the soft copies provided electronically by the Bank.

We, further report that:

1. The Board of Directors of the Bank is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act and BR Act except with reference to the constitution of Audit Committee of Directors during the period 06.09.2019 to 05.11.2019.
2. Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.
3. All decisions of the Board were carried through unanimous votes only.



We further report that during the audit period:

- a) the Bank has allotted 2,82,60,881(Two Crore Eighty Two Lakhs Sixty Thousand Eight Hundred Eighty One) fully paid up Bonus Shares of ₹ 10/- each at the ratio 1:10 (one Bonus equity share for every ten equity shares held) on 19/03/2020.
- b) the Bank has altered the provisions of Memorandum of Association with respect to the objects incidental and ancillary to the main objects at the 95th Annual General Meeting held on 07/08/2019.
- c) the Bank has taken approval from the members to borrow not exceeding ₹ 2000 (Rupees Two Thousand) Crores at the 95th Annual General Meeting held on 07/08/2019.
- d) the Bank has not undertaken any merger/amalgamation/reconstruction.
- e) the Bank has not undertaken any foreign technical collaborations.

Place: Bengaluru
Date: 06.06.2020

For **Gopalakrishnaraj H H & Associates**
Company Secretaries

Sd/-
Gopalakrishnaraj H H
Proprietor
FCS: 5654; CP: 4152
UDIN:F005654B000322190

**CERTIFICATE UNDER OF CLAUSE C (10)(i) OF SCHEDULE V UNDER REGULATION 34(3) AND 53(f) OF
THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015
FOR THE YEAR ENDED ON MARCH 31, 2020**

We have examined relevant books and records of The Karnataka Bank Limited (CIN: L85110KA1924PLC001128) (hereinafter referred to as the Bank) for the financial year ended 31/03/2020 for the purpose of issuing a Certificate under of clause c (10) (i) of Schedule V under Regulation 34(3) and 53(f) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Based on our verification of the relevant books and records of the Bank and also the information provided by the Bank, we hereby certify that none of the directors on the board of the Bank have been debarred or disqualified from being appointed or continuing as directors of companies by the Securities and Exchange Board of India, Ministry of Corporate Affairs or any such statutory authority.

For **Gopalakrishnaraj H H & Associates**
Company Secretaries

Sd/-
Gopalakrishnaraj H H
Proprietor

FCS: 5654; CP: 4152
UDIN:F005654B000322190

Place: Bengaluru
Date: 06.06.2020

ANNEXURE-IV

EXTRACT OF THE ANNUAL RETURN

[Pursuant to Section 92(3) of the Companies Act, 2013 and Rule 12(1) of the Companies (Management and Administration) Rules, 2014]

I. REGISTRATION AND OTHER DETAILS:

i.	CIN	L85110KA1924PLC001128
ii.	Registration Date	February 18, 1924
iii.	Name of the Company	The Karnataka Bank Limited
iv.	Category / Subcategory of the Company	Public Limited Company
v.	Address of the Registered Office and Contact details	Regd. & Head Office, Mahaveera Circle, Kankanady, Mangaluru-575002 Tel: (0824)2228222 : Fax: (0824)2225588 Email: investor.grievance@ktkbank.com
vi.	Whether listed Company	Listed Company
vii.	Name, Address & Contact details of Registrar and Share Transfer Agent, if any	Integrated Registry Management Services Pvt Ltd 30, Ramana Residency, 4 th Cross, Sampige Road, Malleswaram, Bengaluru- 560 0063 Tel: (080)23460815 : Fax: (080)23460819

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

All the business activities contributing 10% or more of the total turnover of the company shall be stated:

Sl. No.	Name and Description of main product/ services	NIC Code of the Product/ Service	% to total turnover of the Company
1	Banking Services	64191	100

III. PARTICULARS OF HOLDING , SUBSIDIARY AND ASSOCIATE COMPANIES

Sl. No.	Name and Address of the Company	CIN/GLN	Holding/Subsidiary/ Associate	% of shares held	Applicable Section
Bank does not have any holding/subsidiary/associate company					

IV. SHAREHOLDING PATTERN

a)	Category-wise Share Holding: Shareholding of Promoters	Provided in the Corporate Governance Report.
b)	Change in Promoter's Shareholding	
c)	Shareholding Pattern of top ten Shareholders other than directors, promoters, holders of ADR/GDR	
d)	Shareholding of Directors & Key Managerial Personnel:	

INDEBTEDNESS:

Indebtedness of the company including interest outstanding/accrued but not due for payment.

(₹ in Crore)

	Secured Loans Excluding deposits	Unsecured Loans	Deposits*	Total Indebtedness
Indebtedness at the beginning of the financial year				
i) Principal Amounts	150.00	3175.51	0.00	3325.51
ii) Interest due but not paid	0.00	0.00	0.00	0.00
iii) Interest accrued not due	0.00	47.18	0.00	47.18
Total (i + ii + iii)	150.00	3222.69	0.00	3372.69
Change in indebtedness during the financial year				
i) addition	26078.21	7625.45	0.00	33703.66
ii) deletion	24813.22	8198.00	0.00	33011.23
Net Change	1264.99	-572.55	0.00	692.43
Indebtedness at the end of financial year				
i) Principal Amount	1414.98	2650.14	0.00	4065.12
ii) Interest due but not paid	0.00	0.00	0.00	0.00
iii) Interest accrued not due	0.00	35.13	0.00	35.13
Total (i + ii + iii)	1414.98	2685.27	0.00	4100.24

*Deposits received by the Bank in the ordinary course of business do not amount to deposits in terms of Companies Act, 2013, hence not included.

V) REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL

A. Remuneration of Managing Director, Whole Time Director and/or Manager:

Details furnished in the Corporate Governance Report

B. Remuneration of Directors:

Details furnished in the Corporate Governance Report

C. Remuneration of Key Managerial Personnel other than Managing Director & CEO

(₹ in Lakh)

Sl. No.	Particulars of Remuneration	CFO	Company Secretary	Total Amount
1	Gross Salary	21.68	15.05	36.73
	(a) Salary as per provisions contained in Section 17(1) of the Income Tax Act, 1961	19.70	13.61	33.31
	(b) Value of Perquisites u/s 17(2) of the Income Tax Act, 1961	1.98	1.44	3.42
	(c) Profits in lieu of salary u/s 17(3) of the Income Tax Act, 1961	-	-	-

Sl. No.	Particulars of Remuneration	CFO	Company Secretary	Total Amount
2	Stock Options	-	-	-
3	Sweat Equity	-	-	-
4	Commission - as a % of profit - others	-	-	-
5	Others - Contribution to SPF	1.03	1.05	2.08
	Total	22.71	16.10	38.81

VI) PENALTIES / PUNISHMENT / COMPOUNDING OF OFFENCES:

Type	Section of the Companies Act	Brief Description	Details of penalty/ punishment	Authority [RD/NCLT/Court]	Appeal made, if any
A. COMPANY					
Penalty	Nil	Nil	Nil	Nil	Nil
Compounding	Nil	Nil	Nil	Nil	Nil
B. DIRECTORS					
Penalty	Nil	Nil	Nil	Nil	Nil
Punishment	Nil	Nil	Nil	Nil	Nil
Compounding	Nil	Nil	Nil	Nil	Nil
C. OTHER OFFICERS IN DEFAULT					
Penalty	Nil	Nil	Nil	Nil	Nil
Punishment	Nil	Nil	Nil	Nil	Nil
Compounding	Nil	Nil	Nil	Nil	Nil

Note: The details of penalty other than the aforesaid Acts are furnished in the Corporate Governance Report.

ANNEXURE V

Annual report on Corporate Social Responsibility (CSR) activities

A brief outline of the company's CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.

Business organizations are an integral part of the society. Every decision taken while doing the business involves financial implications and social and environmental consequences. We strongly believe that usefulness of existence of an entity is best judged not from the financial numbers it reports over a period of time but its relevance to the society as judged by the Stakeholders. We believe in the principle of sharing the earnings. CSR is the process aimed at embracing the responsibility for the actions of the Bank and encourage a positive impact through our activities on the environment, consumers, employees, communities, stakeholders and all other members of the public.

The area of focus for our CSR activities include the education, sanitation and making available drinking water, healthcare and promotion of arts/ sports and culture.

Overview of Activities

Pursuant to the CSR Policy of the Bank and in accordance with Schedule VII of the Companies Act, 2013, your Bank has undertaken certain activities during the year under report with a view to bring positive impact on the society. The key initiatives undertaken were in the field of education, accessibility to safe and clean drinking water, health care, arts/promoting sports, rejuvenation of places of historical prominence etc.

Web link to the CSR Policy

The CSR policy of the Bank is posted on the website of the Bank and the same can be accessed at the following web link:- <https://karnatakabank.com/sites/default/files/2019-06/website.pdf>

Composition of CSR Committee

Your Board has constituted a CSR Committee consisting of following Directors as members.

1. Mr. Mahabaleshwara M S, Managing Director & CEO
2. Mr. Keshav K Desai
3. Mr. D Surendra Kumar
4. Mr. Ashok Haranahalli

Average net profit of the Bank for the last three financial years: ₹ 461.98 crore.

Prescribed CSR expenditure (two per cent of the amount as above): ₹ 9.24 crore.

Details of CSR spent during the financial year.

- a. Total amount to be spent for the financial year 2019-20: ₹ 9.24 crore


The Bank has spent ₹ 9.24 crore during the financial year 2019-20
(including amount to be released in respect of sanctioned projects)

- b. Amount unspent, if any: Nil
- c. Manner in which the amount spent during the financial year is detailed below

(₹ in Crore)

Sl. No	CSR Project or activity identified	Sector in which the project is covered	Project or programs (1) Local area or other (2) State and district where the projects were undertaken	Amount outlay (budget) project or program wise	Amount spent on the project Sub-heads (1)direct expenditure (2)overheads	Cumulative expenditure upto the reporting period	Amount Spent: Direct or through implementing agency
1	Education	Promoting education including special education, infrastructure development of schools, promotion of Financial Literacy among people who are outside institutional banking facilities, consumer service and consumer protection activities .	Telangana, Karnataka, Uttarakhand, Maharashtra, Tamil Nadu, Delhi, Kerala	4.43	4.88	16.49	Direct
2	Environmental Sustainability / Green Initiatives	Protection of flora and fauna, conservation of natural resources, ensuring environmental sustainability & ecological balance	Karnataka, Delhi, Kerala	1.07	0.62	4.98	Direct
3	Protection of Heritage / Culture	Protection of art and culture including restoration of buildings and sites of historical importance, promotion and development of traditional arts and handicrafts.	Karnataka, Maharashtra	1.39	0.92	3.17	Direct
4	Swachh Bharat	Sanitation, encouraging cleanliness under Swachh Bharat, Construction of toilets.	Karnataka	0.22	0.29	2.42	Direct
5	Healthcare	Making available safe drinking water, promoting health care including preventive health care, Provisions for aids and appliances to the differently-abled persons etc.	Karnataka, Maharashtra, Punjab, Kerala	0.94	1.20	6.54	Direct
6	Empowering women / socially & economically disadvantaged	Empowering women, setting up of homes and hostels for women and orphans, measures for reducing inequalities faced by socially and economically backward groups	Maharashtra, Karnataka, Kerala	0.56	0.76	1.91	Direct
7	Rural Development	Rural Development	Karnataka	0.22	0.24	0.68	Direct
8	Promotion of Sports	Promotion of nationally recognized sports	Karnataka, Tamil - Nadu, West Bengal	0.16	0.16	0.44	Direct
9	Others	Expenditure on administrative overheads		0.25	0.25	0.65	Direct
	Total			9.24	9.32*	37.28	

*inclusive of ₹ 2.60 crore disbursed during the year under report out of the CSR spend budgeted for the FYs 2015-16, 2017-18 and 2018-19



Bank's spending under its various Corporate Social Responsibility initiatives over the years has been increasing and has resulted in improving the quality of life of common man especially the weaker sections of the society by making an impact in different spheres of public life like education, healthcare, sanitation, cleanliness, environmental sustainability, protection of heritage/ culture etc. The amount spent by the Bank under CSR in FY 2019-20 is ₹ 9.24 Crores (including amount to be released in respect of sanctioned projects). The Bank will continue to be committed to judiciously spend under its CSR initiatives to make a difference in the lives of marginalized and disadvantaged sections of the society.

The CSR Committee of the Board hereby confirm that the implementation and monitoring of CSR Policy is in compliance with the CSR objectives and Policy of the Bank.

For and on behalf of the CSR Committee

Sd/-

Mahabaleshwara M.S.

Managing Director & CEO
and Chairman of the CSR Committee

ANNEXURE VI

The ratio of the remuneration of each director to the median employee's remuneration and other details in terms of sub-section 12 of Section 197 of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

(i) the ratio of the remuneration of each director to the median remuneration of the employees of the company for the financial year	MD& CEO: 17.04x Chairman : 2.22x
(ii) the percentage increase in remuneration of each director, Chief Financial Officer(CFO), Chief Executive Officer (CEO), Company Secretary (CS) or Manager, if any, in the financial year	MD & CEO: The remuneration paid to MD & CEO during the FY 2019-20 has remained at the same level and as approved by the Reserve Bank of India, variable pay of ₹ 21.00 lakhs has been paid to him for the FY 2017-18. Chairman: A consolidated monthly salary of ₹1.00 lakh was paid to Part-time Non Executive Chairman as per the approval received from RBI in this regard. As the Bank follows salary and other service conditions agreed to at the industry level settlement, except increase in the Dearness Allowance portion of the salary of CFO and CS during the year, there was no increase in the remuneration of the CFO and CS.
iii) the percentage increase in the median remuneration of employees in the financial year	Increase in the median remuneration of employees in the financial year was 8.67per cent.
(iv) the number of permanent employees on the rolls of company	8509
viii) average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration;	There was an average increase of 6.60% in salaries of all employees other than managerial personnel in the last financial year as per Bi-partite wage settlement entered into by the IBA with the Workmen Association and Officers Organization and normal annual increments and increase in Dearness Allowance which is linked to the consumer price index and paid across the banks as per the industry level wage pact.
(xii) affirmation that the remuneration is as per the Remuneration policy of the company. Explanation.- For the purposes of this rule.- (i) the expression "median" means the numerical value separating the higher half of a population from the lower half and the median of a finite list of numbers may be found by arranging all the observations from lowest value to highest value and picking the middle one; ii) if there is an even number of observations, the median shall be the average of the two middle values.	Yes. It is confirmed.

*clauses (v), (vi), (vii) and (ix) to (xi) omitted by MCA notification no. 646(E) dated 30th June, 2016.

ANNEXURE VII

BUSINESS RESPONSIBILITY REPORT

Bank has adopted various policies that imbibe the best practices with regard to environmental, social and governance principles. In this context, Bank is presenting its Business Responsibility Report (BRR) for the Financial Year 2019-20 prepared in accordance with the requirements under Regulation 34(2)(f) of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and as per the format devised by the Securities and Exchange Board of India vide Circular CIR/CFD/CMD/10/2015 dated 4th November 2015. This report is also made available on our website: www.karnatakabank.com.

SECTION A: GENERAL INFORMATION ABOUT THE COMPANY

1. Corporate Identity Number (CIN) of the Company	L85110KA1924PLC001128
2. Name of the Company	THE KARNATAKA BANK LIMITED
3. Registered Address	Regd. & Head Office, Post Box No. 599, Mahaveera Circle, Kankanady, Mangaluru-575002 Karnataka, India.
4. Website	www.karnatakabank.com
5. E-mail Id	info@ktnkbank.com
6. Financial Year reported	2019-20
7. Sector(s) that the Company is engaged in (industrial activity code-wise)	National Industrial Classification: 2008 Section K: Financial and Insurance Activities Code: 64191
8. List three key products/services that the Company manufactures/provides (as in balance sheet)	<ul style="list-style-type: none"> ▶ Loans ▶ Deposits ▶ Investments and Treasury
9. Total number of locations where business activity is undertaken by the Company	22 States and 2 Union Territories
a. Number of International Locations (Provide details of major 5)	Nil
b. Number of National Locations	Located in 548 Centres with 848 Branches pan India as on 31 st March 2020
10. Markets served by the Company – Local/State/National/ International	National

SECTION B: FINANCIAL DETAILS OF THE COMPANY

1. Paid up Capital (₹ In crore)	₹ 310.87 Crore
2. Total Turnover (₹ In crore)	₹ 1,28,749 Crore
3. Total profit after taxes (₹ In crore)	₹ 431.78 crore
4. Total Spending on Corporate Social Responsibility (CSR) as percentage of profit after tax (%)	2% (percentage for the year ended 31 st March 2020)
5. List of activities in which expenditure in 4 above has been incurred:- (a).(b).(c).	Kindly refer to the Annexure V of the Directors' Report of the Bank for more details on expenditure towards Corporate Social Responsibilities during the FY 2019-20.

SECTION C : OTHER DETAILS

1. Does the Company have any Subsidiary Company/ Companies?	No
2. Do the Subsidiary Company/Companies participate in the BR Initiatives of the parent company? If yes, then indicate the number of such subsidiary company(s)	Not applicable
3. Do any other entity/entities (e.g. suppliers, distributors etc.) that the Company does business with, participate in the BR initiatives of the Company? If yes, then indicate the percentage of such entity/entities? [Less than 30%, 30-60%, More than 60%]	Nil

SECTION D: BR INFORMATION

1. Details of Director/Directors responsible for BR		
a. Details of the Director/Director responsible for implementation of the BR policy/policies		
	i. DIN Number	DIN 07645317
	ii. Name	Mr. Mahabaleshwara M S
	iii. Designation	Managing Director & CEO
b. Details of the BR head		
No	Particulars	
1	DIN Number (if applicable)	DIN 07645317
2	Name	Mr. Mahabaleshwara M S
3	Designation	Managing Director & CEO
4	Telephone number	0824-2228222
5	e-mail id	comsec@ktkbank.com

1. Mapping of Policies of the Bank with the Principles.

Principle	Policies
P1: Ethics, Transparency and Accountability:	<ul style="list-style-type: none"> a. Code of Conduct for Board of Directors and Senior Management b. Compliance Policy c. KYC Standards and AML Measures Policy d. Policy for dealing with Related Party Transactions e. Code of conduct to Regulate, Monitor and Report trading by Insiders f. Protected Disclosure Scheme [Whistle-Blower policy] g. Fraud Risk Management Policy h. Staff Accountability Policy i. Grievance Redressal Policy j. Fair Practice Code
P2: Sustainable products & services:	<ul style="list-style-type: none"> a. Code of Bank's Commitment to Customers b. Code of Bank's Commitment to Micro & Small Enterprises c. Loan Policy d. Financial Inclusion plan 2016-19

Principle	Policies
P3 Workforce Well-being:	a. HRM Policy b. HR Security Policy c. Policy on prevention of Sexual Harassment of Women at Workplace
P4: Stakeholder engagement	a. Lending Policy for MSME b. Code of Bank's Commitment to Micro & Small Enterprises c. Financial Inclusion plan 2016-19 d. Corporate Social Responsibility Policy
P5: Promotion of Human Rights	a. Customer Rights Policy & Policy on Product Suitability b. Citizens Charter c. Fair Practice Code
P6: Restoration of environment	Corporate Social Responsibility Policy
P7: Policy advocacy	The Bank works closely with the industry associations, however, there is no specific policy outlined for this principle.
P8: Inclusive growth & equitable development	Financial Inclusion plan 2016-19 Corporate Social Responsibility Policy
P9: Value to customers	a. Code of Bank's Commitment to Customers b. Code of Bank's Commitment to Micro & Small Enterprises c. Loan Policy d. Outsourcing Policy e. Deposit Policy f. Information Security Policy g. Customer Rights Policy & Policy on Product Suitability h. Citizens Charter i. Fair Practice Code

2. Principle-wise (as per NVGs) BR Policy/policies

a. Details of Compliance

No.	Questions	P1	P2	P3	P4	P5	P6	P7	P8	P9
1	Do you have a policy/ policies for 1	Y	Y	Y	Y	Y	Y	N*	Y	Y
2	Has the policy being formulated in consultation with the relevant stakeholders?	Y	Y	Y	Y	Y	Y	-	Y	Y
3	Does the policy conform to any national / international standards? If yes, specify? (50 words)	Y ²	Y ²	Y ²	Y ²	Y ²	Y ²	-	Y ²	Y ²
4	Has the policy being approved by the Board? If yes, has it been signed by MD/ owner/ CEO/ appropriate Board Director?	Y ³	Y ³	Y ³	Y ³	Y ³	Y ³	-	Y ³	Y ³
5	Does the company have a specified committee of the Board/ Director/ Official to oversee the implementation of the policy?	Y	Y	Y	Y	Y	Y	-	Y	Y

6	Indicate the link for the policy to be viewed online?	
	a. Code of Bank's Commitment to Customers	https://karnatakabank.com/BCSBI-code
	b. Customer Rights Policy & Policy on Product Suitability	https://karnatakabank.com/sites/default/files/2017-08/Cust-RightsPolicySuitability-2017.pdf
	c. Citizens Charter	https://karnatakabank.com/model-citizen-chart
	d. Fair Practice Code	https://karnatakabank.com/fair-practise-code
	e. Lending Policy for MSME	https://karnatakabank.com/sites/default/files/2017-09/lending%20policy%20for%20MSME.pdf
	f. Deposit Policy	https://karnatakabank.com/sites/default/files/2017-08/DepositPolicy-2017.pdf
	g. Code of Conduct for Board of Directors and Senior Management	https://karnatakabank.com/investor-portal/corporate-governance#collapseFiveInner
	h. Policy for dealing with Related Party Transactions	https://karnatakabank.com/investor-portal/corporate-governance#collapseThreeInner
	i. Code of conduct to Regulate, Monitor and Report trading by Insiders	https://karnatakabank.com/sites/default/files/2017-09/PRACTICES_2015.pdf
	j. Protected Disclosure Scheme [Whistle-Blower policy]	https://karnatakabank.com/sites/default/files/2017-09/Policy%20on%20Disclosure%20Scheme.pdf
	k. Grievance Redressal Policy	https://karnatakabank.com/sites/default/files/2017-08/GrieveRedressal-2017.pdf
	l. Corporate Social Responsibility Policy	https://karnatakabank.com/sites/default/files/2017-09/CSR_policy_2014.pdf
7	Has the policy been formally communicated to all relevant internal and external stakeholders?	Yes. The policies have been communicated to all relevant internal and external stakeholders as the case may be.

No.	Questions	P1	P2	P3	P4	P5	P6	P7	P8	P9
8	Does the company have in-house structure to implement the policy/policies	Y	Y	Y	Y	Y	Y	-	Y	Y
9	Does the Company have a grievance redressal mechanism related to the policy/ policies to address stakeholders' grievances related to the policy/ policies?	Y	Y	Y	Y	Y	Y	-	Y	Y
10	Has the company carried out independent audit/evaluation of the working of this policy by an internal or external agency?	All policies are reviewed internally on an annual basis.								

b. If answer to the question at serial number 1 against any principle, is 'No', please explain why: (Tick up to 2 options)

No.	Questions	P1	P2	P3	P4	P5	P6	P7	P8	P9
1	The company has not understood the Principles	-	-	-	-	-	-	-	-	-
2	The company is not at a stage where it finds itself in a position to formulate and implement the policies on specified principles	-	-	-	-	-	-	-	-	-
3	The company does not have financial or manpower resources available for the task	-	-	-	-	-	-	-	-	-
4	It is planned to be done within next 6 months	-	-	-	-	-	-	-	-	-
5	It is planned to be done within the next 1 year	-	-	-	-	-	-	-	-	-
6	Any other reason (please specify)	-	-	-	-	-	-	*	-	-

*Note: Bank works closely with trade association for the collective good of the society, though there is no specific policy for this principle.

Y² Bank's policies are developed keeping in mind the requirements of extant RBI Guidelines, SEBI Regulations, Companies Act, 2013 and also Bank's internal requirements and best practices.

Y³ Policies are approved by the Board/Committee of the Board or Senior Management as the case may be.

3. Governance related to BR


a. Indicate the frequency with which the Board of Directors, Committee of the Board or CEO to assess the BR performance of the Company. Within 3 months, 3-6 months, Annually, More than 1 year.	Annually.
b. Does the Company publish a BR or a Sustainability Report? What is the hyperlink for viewing this report? How frequently it is published	Bank is reporting BR annually w.e.f. 1 st April 2016. The BR for the FY 2019-20 is made available on the Bank's website www.karnatakabank.com (Investors Portal)

SECTION E : PRINCIPLE-WISE PERFORMANCE

PRINCIPLE 1:- Ethics, Transparency and Accountability:

1. Does the policy relating to ethics, bribery and corruption cover only the company? Yes/ No. Does it extend to the Group/ Joint Ventures/Suppliers/Contractors/ NGOs /Others?

Bank has devised various polices such as Code of Conduct and Fair Practices Code applicable to all its employees. Bank has also devised a Code of Conduct for Board of Directors and Senior Management, Fair Practice Code and Code of Conduct to Regulate, Monitor and Report Trading by Insiders and Staff Accountability Policy to ensure highest standards of ethics and corporate governance.

- 
2. How many stakeholder complaints have been received in the past financial year and what percentage was satisfactorily resolved by the management? If so, provide details thereof, in about 50 words or so.

During the Financial Year, Bank received 3 complaints and the same has been redressed.

PRINCIPLE 2:- Sustainable products & services:

1. List up to 3 of your products or services whose design has incorporated social or environmental concerns, risks and/or opportunities.
 - a. Finance to MSE's and other Priority sectors.
 - b. Corporate Finance for renewable energy sources.
 - c. Rural banking, finance to agriculture and allied activities.
 - d. KBL Suraksha.

2. For each such product, provide the following details in respect of resource use (energy, water, raw material etc.) per unit of product(optional):
 - a. Reduction during sourcing/production/ distribution achieved since the previous year throughout the value chain?
 - b. Reduction during usage by consumers (energy, water) has been achieved since the previous year?

Not applicable since we are engaged in providing banking & financial services.

3. Does the company have procedures in place for sustainable sourcing (including transportation)? (a) If yes, what percentage of your inputs was sourced sustainably? Also, provide details thereof, in about 50 words or so.

We are in the financial services sector and there is no directly attributable consumable to be covered here. However, as a responsible corporate, we are constantly working towards reducing paper consumption by adopting new technology in its processes. Some of the initiatives in this direction were thrust towards digital banking, introduction of online account opening, creating awareness among the public to shift towards cashless transactions, paperless Board & internal meetings. Bank has also introduced 'Self Registration' process to avoid printing of PIN mailers for Internet Banking & Mobile Banking and alternatively Bank has introduced GREEN PIN. Thus, Bank is making extensive use of electronic means to promote "green initiative" among the public.

4. Has the company taken any steps to procure goods and services from local & small producers, including communities surrounding their place of work?

(a) If yes, what steps have been taken to improve their capacity and capability of local and small vendors?

Not applicable for the Bank.

5. Does the company have a mechanism to recycle products and waste? If yes what is the percentage of recycling of products and waste (separately as <5%, 5-10%, >10%). Also, provide details thereof, in about 50 words or so.

Bank, being in the service industry, recycling of products does not arise. Bank has taken adequate steps to ensure proper disposal of waste, especially paper waste and electronic waste. Paper waste and electronic waste generated are provided to third party local vendors who are in the business of recycling of waste materials.

PRINCIPLE 3:- Workforce Well-being:

1. Please indicate the Total number of employees	8509
2. Please indicate the Total number of employees hired on temporary/ contractual/ casual basis	3
3. Please indicate the Number of permanent women employees	2375
4. Please indicate the Number of permanent employees with disabilities	21
5. Do you have an employee association that is recognized by management	Yes. The Bank has two employee associations. i) AIKBEA (All India Karnataka Bank Employees Association) for Award Staff. ii) KBOO (Karnataka Bank Officers Organisation) for Officers (Scale I, II & III)
6. What percentage of your permanent employees is members of this recognized employee association?	AIKBEA– 99.44%% KBOO – 99.78%

7. Please indicate the Number of complaints relating to child labour, forced labour, involuntary labour, sexual harassment in the last financial year and pending, as on the end of the financial year

No	Category	No of complaints filed during the financial year	No of complaints pending as on end of the financial year
1	Child labour/forced labour/ involuntary labour	NA	NIL
2	Sexual harassment	NIL	NIL
3	Discriminatory employment	NIL	NIL

8. What percentage of your under mentioned employees were given safety & skill up-gradation training in the last year?

	Safety Training	Skill up-gradation Training
a. Permanent Employees*	100	99.80
b. Permanent Women Employees*	100	99.95
c. Casual/Temporary/Contractual Employees*	-	100
d. Employees with Disabilities*	100	100

*Excluding attenders and part time sub-staff

PRINCIPLE 4:- Stakeholder engagement

1. Has the company mapped its internal and external stakeholders? Yes/No

Yes. Bank has mapped its internal and external stakeholders. All members of the entire value chain including investors, customers, employees, vendors, outsourcing agencies, technical consultants, valuers, legal advisors, society in general are considered as stakeholders.

2. Out of the above, has the company identified the disadvantaged, vulnerable & marginalized stakeholders?

Bank had identified the unbanked population living in the rural and semi-urban areas, who do not have access to the basic and advanced banking products. All the branches of the Bank are opening accounts under Prime Minister Jan Dhan Yojana (PMJDY) and contributed toward the financial inclusion in rural, semi urban and urban areas.

3. Are there any special initiatives taken by the company to engage with the disadvantaged, vulnerable and marginalized stakeholders. If so, provide details thereof, in about 50 words or so.

As part of its social obligation, Bank has been opening branches in Gram Panchayat locations and Financial Inclusion Branches to cater to the needs of the unbanked and economically underdeveloped areas. Bank also encourages schemes introduced by the Government of India.

PRINCIPLE 5:- Promotion of Human Rights

1. Does the policy of the company on human rights cover only the company or extend to the Group/Joint Ventures/ Suppliers/ Contractors/NGOs/Others?

Bank respects every human being connected to the Bank in the various forms such as customer, employees, contractors etc. and Bank's policies are aligned to include clauses in respect of each other's obligations and rights and also adherence to local laws relating to such stakeholders. Bank also aims to educate everyone who deals with the Bank about their rights with regard to the various banking products.

2. How many stakeholder complaints have been received in the past financial year and what percent was satisfactorily resolved by the management?

The Bank did not receive any complaint in the area of human rights violations from internal or external stakeholders.

PRINCIPLE 6:- Restoration of Environment

1. Does the policy related to Principle 6 cover only the company or extends to the Group/Joint Ventures/Suppliers/Contractors/ NGOs/others.

As an on-going process, Bank has been taking initiatives to support the activities that aim to protect the environment. Bank has devised Corporate Social Responsibility Policy wherein the projects related to protection of environment including encouragement to utilization of natural resources are considered under its budget. The Policy covers society in general.

2. Does the company have strategies/ initiatives to address global environmental issues such as climate change, global warming, etc.? Y/N. If yes, please give hyperlink for webpage etc

Bank advocates the need for addressing global environmental issues like global warming, scarcity of water, encouragement to renewable energy sources etc. not only through its lending decisions, but also as part of its CSR Strategy. Besides, Bank aims to achieve minimum paper consumption and reduce its carbon footprint through efficient energy management at its Branches/offices. Details of CSR decisions in this regard have been provided under Annexure V of the Directors' Report 2020. Copy of the annual report is made available on our Bank's website www.karnatakabank.com

3. Does the company identify and assess potential environmental risks? Y / N

Potential environment risks are assessed as part of Bank's lending decisions.

4. Does the company have any project related to Clean Development Mechanism? If so, provide details thereof, in about 50 words or so. Also, if Yes, whether any environmental compliance report is filed?

No.

5. Has the company undertaken any other initiatives on- clean technology, energy efficiency, renewable energy, etc. Y/N. If yes, please give hyperlink for web page etc.

While pursuing CSR initiatives, identifying and supporting initiatives focused at harnessing solar energy is at the top of the priority list of the Bank. With the assistance of the Bank, Sri Gurunarasimha Temple, Saligrama, a prominent heritage site having more than 500 years of history and which attracts thousands of devotees every year, installed solar lights at the premises of the temple. Bank has also installed a D C Solar System at Govt. High School, Shettybettu, Udupi. Bank donated a solar water heater to the ladies hostel managed by Havyaka Abhivridhi Pratishthana, Sagar. Solar street light was also installed at the premises of Holy Cross Convent/Home for the Aged, Trasi. Commitment of an amount not exceeding ₹ 25.00 lakhs was given to Poornaprajna Institute of scientific research, Devanahalli, Bengaluru for installing solar roof top photo voltaic system at the educational campus. As a further step towards going green, Bank supported the endeavour of Kudremukh National Park to digitize the existing paper pass system and also install eco – trash bag to avoid littering of plastic within the limits of the park. The support for scaling up the work of installing solar lights at the un-electrified households of poor rural school children under the "Student Solar Light Scholarship" project in association with Bharathiya Vikas Trust, Udupi continued. Bank also extended support to cover additional households in the endeavour of Addagadde Village Forest Committee, Sringeri Taluk, Chikkamagaluru Dist. in installing solar lights at households within the village.

6. Are the Emissions/Waste generated by the company within the permissible limits given by CPCB/SPCB for the financial year being reported?

Not applicable.

7. Number of show cause/ legal notices received from CPCB/SPCB which are pending (i.e. not resolved to satisfaction) as on end of Financial Year.

Nil

PRINCIPLE 7:- Policy advocacy

1. Is your company a member of any trade and chamber or association? If Yes, Name only those major ones that your business deals with:

Bank has been associated with Federation of Indian Export Organisation (FIEO) and is a member of Indian Banks Association (IBA).

2. Have you advocated/lobbied through above associations for the advancement or improvement of public good? Yes/No; if yes specify the broad areas (drop box: Governance and Administration, Economic Reforms, Inclusive Development Policies, Energy security, Water, Food Security, Sustainable Business Principles, Others)

Bank, through its association with the trade houses, has been encouraging the exports and also lending to MSME sector thereby playing a pivotal role in encouraging the economic growth.

PRINCIPLE 8:- Inclusive growth & equitable development

1. Does the company have specified programmes/initiatives/projects in pursuit of the policy related to Principle 8? If yes details thereof.

Bank has been involving in various social welfare activities to improve the lives of socially and economically weaker sections of the society as part of its CSR initiatives. Guided by the projects/programmes as indicated in Schedule VII of the Companies Act, 2013, Bank has undertaken various projects/programmes in areas of Education, Environmental Sustainability, Healthcare, Rural Development, Swachh Bharat etc.

2. Are the programmes/projects undertaken through in-house team/own foundation/external NGO/government structures/ any other organization?

The CSR projects/programmes are undertaken through an in-house team of the Bank.

3. Have you done any impact assessment of your initiative?

Bank's contribution under its CSR initiatives has touched a broad spectrum of areas covering education, healthcare, environmental sustainability, protection of heritage and culture, rural development, empowering women etc., and has resulted in improving the quality of lives of less privileged sections of the society. The progress of implementation of various initiatives are monitored and reviewed periodically to ensure the end utilization of funds.

4. What is your company's direct contribution to community development projects- Amount in INR and the details of the projects undertaken?

Bank has contributed a sum of ₹ 50.00 lakhs to Karnataka State Disaster Management Authority, Bengaluru towards the rehabilitation of victims and re-construction of affected areas in the flood that ravaged Karnataka State. Bank donated a sum of ₹10.00 lakhs to the Community Health Department of Bangalore Baptist Hospital to set up a Brain Stem Evoked Response Audiometry (BERA) facility to screen infants and children in villages of Devanahalli and Doddaballapur Taluks of

Bengaluru Rural District for neuro-developmental problems, as early diagnosis and rehabilitation help reduce permanent disability in these children. Bank contributed a sum of ₹10.00 lakhs towards the rejuvenation of an old community lake at Sasalu village, Doddaballapur Taluk, Bengaluru Rural District. Financial support was also extended for de-silting of Anesondilu lake at Chippali – Lingadahalli village, Sagar Taluk, Shivamogga District. The total contribution of the Bank for community development projects is ₹ 72.00 lakhs.

5. Have you taken steps to ensure that this community development initiative is successfully adopted by the community? Please explain in 50 words, or so.

Bank ensures the participation of local community in community development projects in all stages of a project, right from its conceptualization to different stages of implementation. Bank also works in tandem with other important stakeholders in these projects. In the instance of rejuvenation of lake at Sasalu village, Doddaballapur Taluk, Bengaluru Rural District the Deputy Commissioner & District Magistrate, Bengaluru Rural District himself was leading the case for reviving the lake in the interest of the community. It is also ensured that branches and respective regional offices near the project sites assume the responsibility of monitoring the end use of funds.

PRINCIPLE 9:- Value to customers

1. What percentage of customer complaints/ consumer cases are pending as on the end of financial year.

complaints pending at the beginning of the FY 2019-20	complaints received during the FY 2019-20	complaints redressed during the FY 2019-20	complaints pending at the end of FY 2019-20
698	54506	54854	350

2. Does the company display product information on the product label, over and above what is mandated as per local laws? Yes/No/N.A. /Remarks (additional information)

Considering the said nature of business, bank has put in place Code of Bank’s Commitment to Customers and Customer Rights Policy & Policy on Product Suitability besides Fair Trade Practice. All relevant material information which could affect the customers’ decisions are disclosed in the relevant Bank forms and loan agreements. Bank also publishes periodic information about the products & services along with details of the interest rates on its website.

3. Is there any case filed by any stakeholder against the company regarding unfair trade practices, irresponsible advertising and/or anti-competitive behaviour during the last five years and pending as on end of financial year. If so, provide details thereof, in about 50 words or so.

Nil

4. Did your company carry out any consumer survey/ consumer satisfaction trends?

Bank has adopted both formal and informal methods of obtaining customer feedback regarding the Bank’s services. Bank’s staffs are specifically trained to ensure prompt customer service and also obtain feedback for ongoing improvement. Bank also has a dedicated grievance redressal portal to ensure time-bound disposal of customer complaints. In addition, Stakeholders and Customer Relations Committee of the Bank meets periodically to assess the customer satisfaction levels and improve on the gaps if any on an ongoing basis.

BALANCE SHEET AS ON 31ST MARCH 2020

(₹ in '000s)

	Schedule No.	As on 31.03.2020	As on 31.03.2019
CAPITAL AND LIABILITIES			
Capital	1	310,87,95	282,61,76
Reserves and Surplus	2	5659,56,41	5502,56,53
Deposits	3	71785,15,40	68452,12,28
Borrowings	4	4065,11,80	3325,51,10
Other Liabilities and Provisions	5	1492,77,20	1482,93,85
Total		83313,48,76	79045,75,52
ASSETS			
Cash and balances with Reserve Bank of India	6	2756,05,04	3411,66,12
Balances with Banks and Money at Call and Short Notice	7	163,44,02	198,08,73
Investments	8	17545,34,22	16184,98,87
Advances	9	56964,27,18	54828,20,10
Fixed Assets	10	826,41,89	774,99,60
Other Assets	11	5057,96,41	3647,82,10
Total		83313,48,76	79045,75,52
Contingent Liabilities	12	7723,75,78	6522,22,71
Bills for Collection		2315,38,01	2229,88,31
Significant Accounting Policies	17		
Notes on Account	18		

The schedules referred to above form an integral part of the Balance Sheet

Sd/-
Prasanna Patil
Company Secretary

Sd/-
Muralidhar K Rao
General Manager & CFO

Sd/-
Gokuldas Pai
Chief Business Officer

Sd/-
Y V Balachandra
Chief Operating Officer

Sd/-
Mahabaleshwara M S
Managing Director & CEO

Sd/-
P Jayarama Bhat
Chairman

Sd/-
Ashok Haranahalli
Director

Sd/-
Rammohan Rao Belle
Director

Sd/-
B R Ashok
Director

Refer our report of even date

For Manohar Chowdhry & Associates
Chartered Accountants
Firm Regn. No. 001997S

For Badari, Madhusudhan & Srinivasan
Chartered Accountants
Firm Regn. No. 005389S

Sd/-
Murali Mohan Bhat
Partner
M.No. 203592

Sd/-
T.V.Sudarshan
Partner
M.No. 019108

Place : Mangaluru
Date : 06th June 2020

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2020

(₹ in '000s)

	Schedule No.	Year ended 31.03.2020	Year ended 31.03.2019
I. INCOME			
Interest Earned	13	6474,76,99	5905,96,22
Other Income	14	1396,04,90	1001,95,57
Total		7870,81,89	6907,91,79
II. EXPENDITURE			
Interest Expended	15	4444,41,24	4000,83,59
Operating Expenses	16	1769,64,12	1457,27,14
Provisions and Contingencies		1224,98,88	972,57,08
Total		7439,04,24	6430,67,81
III. PROFIT			
Net profit for the year		431,77,65	477,23,98
Profit brought forward		119,64,95	102,23,21
Total		551,42,60	579,47,19
IV. APPROPRIATIONS			
Transfer to Statutory Reserve		110,00,00	180,00,00
Transfer to Capital Reserve		183,08,22	0
Transfer to Revenue Reserve		30,00,00	88,50,00
Transfer to Special Reserve u/s 36 (1) (viii) of Income Tax Act		6,73,79	21,20,05
Transfer from Investment Reserve Account		0	0
Transfer to Investment Fluctuation Reserve		77,81	67,91,23
Transfer to Other Funds		0	0
Dividend paid for 2019		98,82,75	84,78,23
Tax on dividend paid		20,31,89	17,42,73
Balance carried to Balance Sheet		101,68,14	119,64,95
Total		551,42,60	579,47,19
Earning per share			
Basic		₹ 13.89	₹ 15.35*
Diluted		₹ 13.89	₹ 15.35*
Significant Accounting Policies	17		
Notes on Account	18		

* Previous year figures recomputed on account of issue of bonus shares

The schedules referred to above form an integral part of Profit And Loss Account

Sd/-
Prasanna Patil
Company Secretary

Sd/-
Muralidhar K Rao
General Manager & CFO

Sd/-
Gokuldas Pai
Chief Business Officer

Sd/-
Y V Balachandra
Chief Operating Officer

Sd/-
Mahabaleshwara M S
Managing Director & CEO

Sd/-
P Jayarama Bhat
Chairman

Sd/-
Ashok Haranahalli
Director

Sd/-
Rammohan Rao Belle
Director

Sd/-
B R Ashok
Director

Refer our report of even date

For Manohar Chowdhry & Associates
Chartered Accountants
Firm Regn. No. 001997S

For Badari, Madhusudhan & Srinivasan
Chartered Accountants
Firm Regn. No. 005389S

Sd/-
Murali Mohan Bhat
Partner
M.No. 203592

Sd/-
T.V.Sudarshan
Partner
M.No. 019108

Place : Mangaluru
Date : 06th June 2020

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2020

(₹ in '000s)

	Year Ended March 31, 2020		Year Ended March 31, 2019	
A CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit after Tax and Extra Ordinary Items		431,77,65		477,23,98
Add:				
Adjustments for :				
Provision for Tax	90,24,67		130,56,68	
(Profit)/Loss on sale Fixed Assets	70,71		-40,27	
Depreciation on Fixed Assets including Lease Adjustment charges	63,76,49		54,17,52	
Provisions and Contingencies	1134,74,21		842,00,40	
Amortisation of premium on Held to Maturity Investments	76,05,35		62,84,10	
Loss on sale to SC/RC amortised during the year	0		0	
Write-off of Fixed Assets	0	1365,51,43	0	1089,18,43
Operating Profit Before Working Capital Changes		1797,29,08		1566,42,41
Adjustment for :				
i) (Increase)/Decrease in Advances & Other Assets	-3608,73,67		-7141,08,23	
ii) (Increase)/Decrease in Investments	-1431,41,46		-851,29,10	
iii) Increase/(Decrease) in Deposits, Borrowings & Other Liabilities	3367,73,82	-1672,41,31	4403,19,81	-3589,17,52
Cash Generated from Operations		124,87,77		-2022,75,10
Less: Direct taxes paid		214,47,41		208,30,53
Net Cash Flow from Operating Activities (A)		-89,59,64		-2231,05,63

(Contd...)

(₹ in '000s)

	Year Ended March 31, 2020	Year Ended March 31, 2019
B CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	-57,52,90	-69,17,33
Sale of Fixed Assets	148,09	163,32
Net Cash used in Investing Activities (B)	-56,04,81	-67,54,01
TOTAL (A+B)	-145,64,45	-2298,59,64
C CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital (net of expenses)	61	1
Proceeds from long term borrowings	-425,37,50	2409,54,10
Dividend paid (Including Tax on Dividend)	-119,24,45	-102,20,96
Net Cash Generated from Financing Activities (C)	-544,61,34	2307,33,15
Net Increase in Cash & Cash Equivalents (A+B+C)	-690,25,79	8,73,51
Cash & Cash Equivalents as at the beginning of the year	3609,74,85	3601,01,34
Cash & Cash Equivalents as at the end of the year	2919,49,06	3609,74,85

Note:

- The Cash Flow Statement has been prepared under the Indirect method and previous year's figures have been re-grouped wherever necessary.
- Cash and Cash Equivalents comprise of Cash on Hand, Balances with Reserve Bank of India, Balances with Banks and Money at Call and Short Notice.

Sd/-
Prasanna Patil
Company Secretary

Sd/-
Muralidhar K Rao
General Manager & CFO

Sd/-
Gokuldas Pai
Chief Business Officer

Sd/-
Y V Balachandra
Chief Operating Officer

Sd/-
Mahabaleshwara M S
Managing Director & CEO

Sd/-
P Jayarama Bhat
Chairman

Sd/-
Ashok Haranahalli
Director

Sd/-
Rammohan Rao Belle
Director

Sd/-
B R Ashok
Director

Refer our report of even date

For Manohar Chowdhry & Associates

Chartered Accountants
Firm Regn. No. 001997S

Sd/-
Murali Mohan Bhat
Partner
M.No. 203592

For Badari, Madhusudhan & Srinivasan

Chartered Accountants
Firm Regn. No. 005389S

Sd/-
T.V.Sudarshan
Partner
M.No. 019108

Place : Mangaluru
Date : 06th June 2020

SCHEDULES FORMING PART OF BALANCE SHEET

SCHEDULE - 1 CAPITAL

(₹ in '000s)

	As on 31.03.2020	As on 31.03.2019
Authorised Capital		
80,00,00,000 Equity shares of ₹ 10/- each (Previous Year 80,00,00,000 Equity shares of ₹ 10/- each)	800,00,00	800,00,00
Issued Capital*		
31,09,98,210 Equity shares of ₹ 10/- each (previous year 28,27,27,150 equity shares of ₹ 10/- each)	310,99,82	282,72,72
Subscribed Capital*		
31,08,86,239 Equity shares of ₹ 10/- each (previous year 28,26,24,348 Equity shares of ₹ 10/- each)	310,88,62	282,62,43
Paid-up Capital*		
31,08,69,689 Equity shares of ₹10/- each fully paid up (Previous year 28,26,07,798 Equity shares of ₹10/- each)	310,86,97	282,60,78
Add : Forfeited Shares	98	98
Total	310,87,95	282,61,76
*Increase due to issue of 2,82,60,881 bonus shares of ₹ 10 each fully paid up and allotment of 1010 shares of earlier right entitlement kept in abeyance.		

SCHEDULE -2 RESERVES AND SURPLUS

I. Statutory Reserve		
Opening balance	2370,00,00	2190,00,00
Additions during the year	110,00,00	180,00,00
	2480,00,00	2370,00,00
Deductions during the year	0	0
Total	2480,00,00	2370,00,00
II. Capital Reserve		
Opening balance	242,79,52	242,79,52
Additions during the year ¹	183,08,22	0
	425,87,74	242,79,52
Deductions during the year	0	0
Total	425,87,74	242,79,52

(₹ in '000s)

	As on 31.03.2020	As on 31.03.2019
III. Share Premium		
Opening balance	1283,96,42	1283,96,35
Additions during the year	62	7
	1283,97,04	1283,96,42
Deductions during the year ²	28,92,89	0
Total	1255,04,15	1283,96,42
IV. Revenue and other Reserves		
a) Revenue Reserve		
Opening balance	782,70,77	690,10,96
Additions during the year	34,71,70	92,59,81
	817,42,47	782,70,77
Deductions during the year ³	189,37,03	0
Total	628,05,44	782,70,77
b) Special Reserve u/s 36(1)(viii) of Income Tax Act		
Opening balance	223,41,54	202,21,49
Additions during the year	6,73,79	21,20,05
	230,15,33	223,41,54
Deletion during the year	0	0
Total	230,15,33	223,41,54
c) Investment Fluctuation Reserve Account		
Opening balance	67,91,23	0
Additions during the year	77,81	67,91,23
	68,69,04	67,91,23
Deductions during the year	0	0
Total	6,86,904	67,91,23
d) Revaluation Reserve Account		
Opening balance	412,12,10	416,21,91
Additions during the year ⁴	63,81,26	0
	475,93,36	416,21,91
Deductions during the year	5,86,79	4,09,81
Total	470,06,57	412,12,10
V. Balance in Profit and Loss Account	101,68,14	119,64,95
Grand Total (I TO V)	5659,56,41	5502,56,53

- Note 1. Appropriation of profit on sale of investments held under HTM category, net of taxes and transfer to Statutory Reserve
2. Utilised towards bonus shares and issue expenses.
3. On account of deferment of provision for fraud - Refer Schedule 18 Notes C. 15
4. On account of revaluation of land & building - Refer Schedule 18 Note B. 3

(₹ in '000s)

	As on 31.03.2020	As on 31.03.2019
SCHEDULE -3 DEPOSITS		
A. I. Demand Deposits		
1. From Banks	6,77,11	7,20,30
2. From others	4156,16,51	3949,09,19
	4162,93,62	3956,29,49
II. Savings Bank Deposits	16588,68,33	15251,82,06
III. Term Deposits		
1. From Banks	53,74,36	68,67,49
2. From others	50979,79,09	49175,33,24
	51033,53,45	49244,00,73
Total : (I, II and III)	71785,15,40	68452,12,28
B. 1. Deposits of branches in India	71785,15,40	68452,12,28
2. Deposits of branches outside India	0	0
Total (1+2)	71785,15,40	68452,12,28
SCHEDULE -4 BORROWINGS		
I. Borrowings in India		
1. Reserve Bank of India	1414,98,20	150,00,00
2. Other Banks	0	100,00,00
3. Other Institutions and Agencies	1680,13,60	2105,51,10
4. Subordinated Debts for Tier II Capital	970,00,00	970,00,00
Total	4065,11,80	3325,51,10
II. Borrowings outside India	0	0
Total : (I and II)	4065,11,80	3325,51,10
Secured borrowings included in I & II above	1414,98,20	150,00,00
SCHEDULE - 5 OTHER LIABILITIES AND PROVISIONS		
I. Bills Payable	188,16,15	263,76,19
II. Inter Office adjustments(Net)	0	0
III. Interest accrued	58,52,93	57,14,92
IV. Deferred Tax Liability (Net)	0	0
V. Others (including Provisions)	1246,08,12	1162,02,74
Total	1492,77,20	1482,93,85

(₹ in '000s)

	As on 31.03.2020	As on 31.03.2019
SCHEDULE - 6 CASH AND BALANCES WITH RBI		
I. Cash in hand (including foreign currency notes)	549,04,46	411,22,75
II. Balances with Reserve Bank of India		
1. In Current Account	2082,00,58	2750,43,37
2. In Other Accounts	125,00,00	250,00,00
Total	2207,00,58	3000,43,37
Total : (I and II)	2756,05,04	3411,66,12
SCHEDULE - 7 BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. IN INDIA		
i. Balances with Banks		
a) In Current Accounts	24,52,71	36,66,29
b) In Other Deposit Accounts	0	0
	24,52,71	36,66,29
ii. Money at Call and Short Notice		
a) With Banks	0	0
b) With Other Institutions	0	0
	0	0
Total (i) & (ii)	24,52,71	36,66,29
II. OUTSIDE INDIA		
i. In Current Accounts / (Debit balance)	-12,41,69	-4,54,76
ii. In Other Deposit Accounts	151,33,00	165,97,20
iii. Money at Call and Short Notice	0	0
Total	138,91,31	161,42,44
Grand Total (I and II)	163,44,02	198,08,73
SCHEDULE - 8 INVESTMENTS		
I. Investments in India (Gross)	17725,66,21	16370,30,09
Less: Provision / depreciation	180,31,99	185,31,22
Net value of Investments In India	17545,34,22	16184,98,87

(₹ in '000s)

	As on 31.03.2020	As on 31.03.2019
Break-up :		
1. Government Securities*	15304,05,36	13646,28,16
2. Other Approved Securities	0	0
3. Shares	55,21,15	57,13,42
4. Debentures and Bonds	1534,98,46	1494,35,30
5. Subsidiaries and/or Joint Ventures	0	0
6. Others	651,09,25	987,21,99
Total	17545,34,22	16184,98,87
II. Investments outside India	0	0
Total (I+II)	17545,34,22	16184,98,87
* includes securities of 14149820 (Previous year 1500000) pledged for borrowings		
SCHEDULE - 9 ADVANCES		
A) 1. Bills Purchased and Discounted	751,17,39	598,50,01
2. Cash Credits, Overdrafts and Loans repayable on demand	21230,10,41	23677,46,17
3. Term Loans	34982,99,38	30552,23,92
Total	56964,27,18	54828,20,10
B) 1. Secured by Tangible Assets (including book debts)	49773,97,44	47600,59,82
2. Secured by Bank/Government Guarantees	1418,39,40	1487,67,04
3. Unsecured	5771,90,34	5739,93,24
Total	56964,27,18	54828,20,10
C) I. Advances in India		
1. Priority Sector	21579,72,11	20115,08,08
2. Public Sector	4267,55,99	4031,83,58
3. Banks	0	0
4. Others	31116,99,08	30681,28,44
Total	56964,27,18	54828,20,10
C) II. Advances outside India		
1. Due from Banks	0	0
2. Due from others	0	0
a) Bills Purchased and Discounted	0	0
b) Syndicated Loans	0	0
c) Others	0	0
Total	0	0
Grand Total (C. I and C. II)	56964,27,18	54828,20,10

(₹ in '000s)

	As on 31.03.2020	As on 31.03.2019
SCHEDULE - 10 FIXED ASSETS		
I. Premises		
At cost / Revaluation as on 31 st March of the preceding year	604,46,21	598,14,81
Additions during the year	72,14,18	6,35,25
	676,60,39	604,50,06
Deductions during the year	3,85	3,85
	676,56,54	604,46,21
Depreciation to date	44,92,71	35,56,51
Total	631,63,83	568,89,70
II. Other Fixed Assets		
(including Furniture and Fixtures)		
At cost as on 31 st March of the preceding year	555,77,42	498,63,82
Additions during the year	44,66,03	62,60,63
	600,43,45	561,24,45
Deductions during the year	16,69,27	5,47,03
	583,74,18	555,77,42
Depreciation to date	388,96,12	349,67,52
Total	194,78,06	206,09,90
Total (I+II)	826,41,89	774,99,60
SCHEDULE -11 OTHER ASSETS		
I. Interest accrued	286,66,79	287,11,83
II. Tax paid in advance/tax deducted at source(net of provisions) *	762,14,40	880,84,72
III. Stationery and Stamps	7,28,13	5,73,72
IV. Non-Banking Assets acquired in satisfaction of claims	19,60,62	19,60,62
V. Others **	3982,26,47	2454,51,21
Total	5057,96,41	3647,82,10
* includes MAT Entitlement Credit of ₹ 55,03,55 (Previous year ₹ 73,78,08)		
** includes deferred tax assets (net)of ₹ 440,80,75 (Previous year ₹ 365,06,05)		

(₹ in '000s)

	As on 31.03.2020	As on 31.03.2019
SCHEDULE - 12 CONTINGENT LIABILITIES		
I. Claims against the Bank not acknowledged as debts	38,12,82	33,36,05
II. Liability for Partly paid investments	0	0
III. Liability on account of outstanding Forward Exchange Contracts	3124,17,48	2653,07,50
IV. Guarantees given on behalf of constituents		
a) In India	3583,57,03	2848,00,59
b) Outside India	0	0
V. Acceptances, Endorsements and other Obligations	854,89,63	879,72,31
VI. Other items for which the bank is contingently liable	122,98,82	108,06,26
Total	7723,75,78	6522,22,71

SCHEDULES FORMING PART OF PROFIT & LOSS ACCOUNT

	Year ended 31.03.2020	Year ended 31.03.2019
SCHEDULE - 13 INTEREST EARNED		
I. Interest/Discount on Advances/Bills	5155,84,16	4698,03,42
II. Income on Investments	1160,13,16	1105,65,28
III. Interest on balances with R.B.I / other Inter-Bank funds	44,59,80	16,62,98
IV. Others	114,19,87	85,64,54
Total	6474,76,99	5905,96,22
SCHEDULE - 14 OTHER INCOME		
I. Commission, Exchange and Brokerage	486,03,27	430,45,67
II. Profit on sale of Investments (net)	400,29,35	163,24,85
III. Profit on Revaluation of Investments (net)	0	0
IV. Profit/(Loss) on sale of Land, Buildings and Other Assets (net)	-70,71	40,27
V. Profit on Exchange Transactions(net)	18,28,50	20,14,92
VI. Income earned by way of dividends etc., from Subsidiaries/ Companies and /or Joint Ventures abroad/ in India	0	0
VII. Miscellaneous income	492,14,49	387,69,86
Total	1396,04,90	1001,95,57
Income is inclusive of GST collected wherever applicable		

(₹ in '000s)

	Year ended 31.03.2020	Year ended 31.03.2019
SCHEDULE - 15 INTEREST EXPENDED		
1. Interest on deposits	4204,14,62	3822,70,78
2. Interest on Reserve Bank of India/Inter-Bank Borrowings	25,88,02	28,24,45
3. Others	214,38,60	149,88,36
Total	4444,41,24	4000,83,59
SCHEDULE - 16 OPERATING EXPENSES		
I. Payments to and provisions for employees	897,00,24	605,56,37
II. Rent, Taxes and Lighting	146,90,61	138,27,66
III. Printing and Stationery	6,90,63	10,25,45
IV. Advertisement and Publicity	5,84,48	5,87,44
V. Depreciation on Bank's property	63,76,49	54,13,67
VI. Directors' fees, allowances and expenses	2,36,64	2,32,13
VII. Auditors' fees and expenses (including branch audit fees)	4,25,14	4,09,52
VIII. Law charges	7,47,80	5,90,98
IX. Postage, telegrams, telephones etc.	20,31,27	23,73,10
X. Repairs and maintenance	45,33,98	42,79,04
XI. Insurance	75,92,06	70,87,43
XII. Other expenditure	493,54,78	493,44,35
Total	1769,64,12	1457,27,14

SCHEDULE-17

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES ADOPTED IN PREPARING THE FINANCIAL STATEMENTS

GENERAL

The Karnataka Bank Limited incorporated at Mangaluru in India is a publicly held Banking Company governed by the Banking Regulation Act, 1949 and is engaged in providing a wide range of banking & financial services involving retail, corporate banking and para-banking activities in addition to treasury and foreign exchange business.

BASIS OF PREPARATION

The accompanying Financial Statements have been prepared in accordance with requirements prescribed under the Third Schedule (Form A and Form B) of the Banking Regulation Act, 1949, following the going concern concept, on historical cost basis and accrual basis of accounting unless otherwise stated, conforming to the Generally Accepted Accounting Principles (GAAP) in India which encompasses applicable statutory provisions, regulatory norms prescribed by the Reserve Bank of India (RBI) from time to time, the accounting standards notified under section 133 of the Companies Act, 2013, read together with paragraph 7 of the Companies (Accounts) Rules, 2014 and Companies (Accounting Standards) Amendment Rules, 2016 to the extent applicable and practices generally prevalent in the Banking industry in India.

USE OF ESTIMATES

The preparation of the financial statements requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities including contingent liabilities as of the date of the financial statements and the reported income and expenses during the reported period. The Management believes that the estimates and assumptions used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision in the accounting estimates is recognised prospectively in the current and future periods.

SIGNIFICANT ACCOUNTING POLICIES

1. REVENUE RECOGNITION

Interest and discount on performing advances and investments is accounted for on accrual basis. Income on discounted instruments is recognised over the tenor of the instrument on a Constant Yield to Maturity method.


Interest and discount on non performing advances and investments is accounted on realisation as per the RBI prudential norms on Income Recognition and Asset classification.

Commission on para banking business is accounted on accrual basis. Commission on Guarantees/Letter of Credit, Funded Interest on Term Loan, Processing Fees, Rent on safe deposit lockers and other fees and incomes are accounted on receipt basis.

Dividend Income is recognised when right to receive the dividend is established.

Recoveries in the non performing advances are appropriated as under:

- a) In case of Term Loan/DPN, recoveries are appropriated towards principal, interest and charges in order of demand.
- b) In case of Overdraft accounts the recoveries are first appropriated towards excess allowed in overdraft account if any, followed by expired sanctioned TOD and then towards interest.

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- c) In case of One Time settlement (OTS) accounts the recoveries are first adjusted to principal balance.
 - d) In case of suit filed accounts, related legal and other expenses incurred are charged to Profit and Loss Account and on recovery the same are accounted as income.
 - e) Recoveries from advances written-off are recognised in the Profit and Loss account under other income and recovery of Unrealised Interest under Income Interest on Loans & Advances.

Profit or Loss on sale of investments is recognised in the Profit and Loss Account. However, the profit on sale of investments in the "Held to Maturity" category is appropriated (net of applicable taxes and amount required to be transferred to Statutory Reserve account) in accordance with the RBI guidelines.

Interest on income tax refund is recognised based on the refund intimation / order received under the provisions of the Income tax Act 1961 from time to time.

2. INVESTMENTS

Investments are classified under the heads "Held to Maturity", "Available for Sale" and "Held for Trading" categories and are valued in accordance with the RBI guidelines. The value, net of depreciation is shown in the Balance Sheet.

The excess of acquisition cost over the face value of securities under "Held to Maturity" category is amortised over the remaining period to maturity.

Transfers of scrip, if any, from one category to another, are done at the lower of the book value/ market value on the date of transfer and the depreciation, if any, on such transfers is fully provided for.

Provisions for non-performing investments are made as per RBI guidelines. In respect of Non performing Non SLR debt instruments the bank makes provisions as per RBI prudential norms on Income Recognition and Classification as applicable to advances.

3. DERIVATIVE CONTRACTS

Derivative contracts are designated as hedging or trading and accounted in accordance with Reserve Bank of India's guidelines.


Derivative deals for trading are marked to market and net depreciation is recognised while net appreciation is ignored.

Derivatives used for hedging are marked to market in cases where the underlying assets/ liabilities are marked to market and income /expenditure is accounted on accrual basis.

4. ADVANCES

- a) Advances are classified into (a) Standard; (b) Sub-Standard; (c) Doubtful; and (d) Loss assets, in accordance with the RBI Guidelines and are stated net of provisions made towards Non- performing advances, unrealised interest and claims received from Guarantee corporations. etc.

Provisions are made in accordance with the prudential norms as prescribed by Reserve Bank of India from time to time.

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- b) In case of financial assets sold to Securitisation/Reconstruction Company, if the sale is for the price higher than the net book value, excess provision held is not reversed but retained till redemption of the security receipt, wherever applicable. If the sale is at a price below the net book value (NBV), the shortfall is debited to the Profit and Loss account, as per the RBI Guidelines.
 - c) For restructured / rescheduled assets, provision is made in accordance with the guidelines issued by the RBI, which requires diminution in the fair value of assets to be provided at the time of restructuring. Restructured accounts are classified in accordance with the RBI guidelines, including special dispensation wherever allowed.

5. FIXED ASSETS

Fixed assets are stated at cost (except premises revalued based on values determined by the approved valuers) less accumulated depreciation and impairment, if any. Cost includes incidental expenditure incurred on the assets before they are ready for intended use and Taxes and duties to the extent not eligible for input credits if any. Appreciation on account of revaluation is credited to the Revaluation Reserve. Depletion in value arising out of revaluation is charged to the Revaluation Reserve.

Computer Software is capitalised along with computer hardware and included under other fixed assets.

Carrying amount of fixed assets is reviewed at each balance sheet date for indication of impairment. Impairment loss if any, is recognised in the Profit and Loss Account to the extent the carrying amount of an asset exceeds its estimated recoverable value.

6. DEPRECIATION

Depreciation on fixed assets (including revalued portion thereon) is provided following Straight Line Method (SLM) as per the useful life specified under Schedule II of the Companies Act, 2013, except in respect of computers (including software) where depreciation is provided at a flat rate of 33.33 % as per the RBI guidelines.

Where during any financial year, addition has been made to any asset or where any asset has been sold, discarded, demolished or destroyed, the depreciation on such asset is calculated on pro rata basis from the date of such addition or as the case maybe, up to the date on which such asset has been sold, discarded, demolished or destroyed.

Premium paid on leasehold properties is charged off over the lease period. Depreciation on leased assets is calculated so as to spread the depreciable amount over the primary lease period.

Pursuant to Accounting Standard -10 (Revised 2016) on Property, Plant & Equipment, depreciation on Revalued portion of the fixed assets is transferred from the Revaluation Reserve to the Revenue Reserve.

7. FOREIGN CURRENCY TRANSACTIONS

Monetary Assets and Liabilities, Forward Exchange Contracts, Guarantees, Letters of Credit, Acceptances, Endorsements and other obligations are evaluated at the closing spot rates/forward rates for the residual maturity of the contract, as published by the FEDAI and in accordance with Accounting Standard 11.



Income and expenditure items are translated at the exchange rates ruling on the respective dates of the transaction.

Gain or loss on evaluation of outstanding monetary assets/liabilities and Foreign Exchange Contracts are taken to Profit and Loss Account.

8. EMPLOYEE BENEFITS

Contribution made by the Bank to the Provident Fund and Contributory Pension Scheme are charged to the Profit and Loss account.

Liability towards Gratuity, Pension, Sick Leave and En-cashable Leave are determined and recognised in the accounts based on actuarial valuation as at the Balance Sheet date and net actuarial gains/losses are recognised as per the Accounting Standard 15.

Short term employee benefits are accounted for on actual basis.

9. EMPLOYEE STOCK OPTION

The Bank uses Intrinsic Value method to account for compensation cost of stock options granted to employees of the Bank. Intrinsic value is the amount by which the quoted market price of the underlying shares exceeds the exercise price of the options.

10. SEGMENT REPORTING

The Bank recognises the Business Segment as the Primary Reporting Segment and Geographical Segment as the Secondary Reporting Segment, in accordance with the RBI guidelines and in compliance with Accounting Standard 17.

Business Segment is classified into (a) Treasury, (b) Corporate and Wholesale Banking, (c) Retail Banking and (d) Other Banking Operations and revenues /expenses allocated in accordance with the RBI guidelines.

Geographical Segment consists only of Domestic Segment since the Bank does not have any foreign branches.

11. EARNINGS PER SHARE


Basic Earnings per share are calculated by dividing the net profit or loss for the year attributable to the equity shareholders by the weighted average number of equity shares outstanding during the year.

Diluted Earnings per share are computed by dividing the net profit or loss for the year attributable to the equity shareholders using the weighted average number of equity shares and dilutive potential equity shares outstanding at the year end.

12. TAXATION

Tax expenses comprise current and deferred taxes. Current income tax is measured as the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 1961, rules framed thereunder and after due consideration of the judicial pronouncement and legal opinions.

Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the Balance Sheet date. Changes in deferred tax assets / liabilities on account of changes in enacted tax rates are given effect to in the Profit and Loss Account in the period of change.



Deferred tax assets and liabilities are recognised for future tax consequences of timing differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carry forwards.

Deferred tax assets are not recognised unless there is a virtual certainty that sufficient future taxable income will be available against which such deferred tax assets will be realised.

Deferred tax assets are reviewed at each balance sheet date and appropriately adjusted.

13. PROVISIONS AND CONTINGENT LIABILITIES & ASSETS

A provision is recognised when there is an obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation and in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation as at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank or a present obligation that arises from past events that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. The Bank does not recognize a contingent liability but discloses its existence in the financial statements.

Contingent liabilities on account of foreign exchange contracts, letters of credit, bank guarantees and acceptances and endorsements denominated in foreign currencies and outstanding as at the Balance Sheet date are translated at year end rates notified by the FEDAI.

Contingent assets are not recognized in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognized in the period in which the change occurs.

14. NET PROFIT

The net profit disclosed in the Profit & Loss Account is after making provisions for (i) Taxes, (ii) Non Performing Assets, (iii) Standard Advances, (iv) Restructured advances, (v) Depreciation on Investments and (vi) other necessary and applicable provisions.

15. CASH AND CASH EQUIVALENT

Cash and cash equivalents include cash in hand, balances with the RBI, balances with other banks and money at call and short notice.

16. CORPORATE SOCIAL RESPONSIBILITY

Expenditure towards corporate social responsibility, in accordance with the Companies Act, 2013, are recognised in the Profit and Loss account.

SCHEDULE – 18

NOTES ON ACCOUNTS FORMING PART OF THE BALANCE SHEET AS ON 31ST MARCH 2020,
THE PROFIT AND LOSS ACCOUNT AND THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2020.

A) Disclosures as laid down by the RBI Circulars

1. a) Capital

Sl. No.	PARTICULARS	Current Year 2019-20 Basel III	Previous Year 2018-19 Basel III
A	Common Equity Tier 1 capital ratio (%)	10.66	11.17
B	Tier 1 capital ratio (%)	10.66	11.17
C	Tier 2 capital ratio (%)	2.00	2.00
D	Total Capital ratio (CRAR) (%)	12.66	13.17
E	Amount of equity capital raised (₹ in Crore)*	28.26	Nil
F	Amount of additional Tier 1 capital raised, of which	Nil	Nil
	- PNCPS	Nil	Nil
	- PDI	Nil	Nil
G	Amount of Tier 2 capital raised, of which (₹ in Crore)	Nil	720.00
	- Debt capital instruments	Nil	720.00
	- Preference share capital instruments	Nil	Nil
	-Perpetual cumulative preference shares(PCPS)	Nil	Nil
	-Redeemable non cumulative preference shares(RNCPS)	Nil	Nil
	-Redeemable cumulative preference shares (RCPS)	Nil	Nil

* In the year under report, the Board of Directors' on 19th March, 2020 allotted 2,82,60,881 equity shares of ₹ 10 each fully paid up, as bonus shares in the ratio of one(1) share for every ten(10) equity shares held on the record date i.e. 18th March 2020 pursuant to the approval received from the shareholders for bonus issue through postal ballot resolution dated 5th March 2020 by utilizing the amount standing to the credit of Share Premium account.

b) Subordinated Debt Instruments

With a view to maintain a healthy capital position on an ongoing basis, the Bank raised capital fund by issuing subordinated debt instruments (i.e. Unsecured Non-Convertible Subordinated (Lower Tier-2) BASEL III Debt Instruments) as part of Tier 2 Capital under different series by private placement and listed on NSE and details of the debt instruments outstanding as at 31st March 2020 are as under:

Series	Date of issue	Face value per Bond (₹)	Number of bonds	Amount (₹ in crore)	Tenure from date of issue	Coupon Rate per annum (%)	Credit Rating	Listing	ISIN of the Bonds
IV	17.11.2012	10,00,000	2500	250.00		11			INE614B08021
V	16.11.2018	1,00,000	40000	400.00	120 Months	12	ICRA A & CARE A	Listed on NSE-Debt Segment	INE614B08039
VI	18.02.2019	1,00,000	32000	320.00		12			INE614B08047

The Bank has paid interest on the debt instruments as per the terms of the issue, on a timely basis since the issue of respective debt instruments.

2. Investments

(₹ in crore)

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
1	Value of Investments		
	A Gross Value of Investments	17725.66	16370.30
	a) In India	17725.66	16370.30
	b) Outside India	Nil	Nil
	B Provisions/ Depreciation		
	a) In India	180.32	185.31
	b) Outside India	Nil	Nil
	C Net Value of Investments		
	a) In India	17545.34	16184.99
	b) Outside India	Nil	Nil
2	Movement of provisions held towards depreciation on investments		
	a) Opening balance	185.31	137.03
	b) Add: Provision made in the year	4.50	50.66
	c) Less: Write off/write back of excess provision in the year	9.49	2.38
	d) Closing balance	180.32	185.31

3. Repo Transactions (in face value terms)

(₹ in crore)

Sl. No.	Particulars	Outstanding during the year			Outstanding as on 31.03.2020
		Min.	Max.	Daily average	
1	Securities sold under Repo				
	a) Government securities	40.00	1465.00	119.52	865.00
	b) Corporate Debt securities	Nil	Nil	Nil	Nil
2	Securities purchased under reverse Repo				
	a) Government securities	40.00	2890.00	147.21	125.00
	b) Corporate Debt securities	Nil	Nil	Nil	Nil

4. Non SLR Investment Portfolio

a) Issuer composition of Non SLR Investments

(₹ in crore)

Sl. No.	Issuer	Amount	Extent of private placements	Extent of 'below investment grade' securities	Extent of 'unrated' securities	Extent of 'unlisted' securities
1	2	3	4	5	6	7
1	PSUs	957.27	5.33	Nil	294.55	Nil
2	Financial Institutions	562.85	149.91	Nil	Nil	Nil
3	Banks	25.00	25.00	Nil	Nil	Nil
4	Private Corporates	505.12	448.00	9.10	Nil	2.00
5	Subsidiaries/Joint Ventures	Nil	Nil	Nil	Nil	Nil
6	Others	371.37	130.00	Nil	Nil	Nil
7	Less: Provision/depreciation	180.32				
	Total	2241.29				

Note: Amounts reported under Columns (4) to (7) above are not mutually exclusive

b) Non Performing Non SLR Investments (NPI)

(₹ in crore)

Particulars	Current Year 2019-20	Previous Year 2018-19
Opening Balance	69.00	10.85
Additions in the year since 1 st April	10.00	60.53
Reductions in the above period	3.85	2.38
Closing Balance	75.15	69.00
Total Provisions Held towards NPI	69.49	49.77

c) Sale and transfers to/from HTM Category

During the year under review, the Bank has not shifted any securities to / from HTM category. However during the year ended 31st March 2020, the Bank has sold securities from HTM category exceeding 5% of the book value of investments held in HTM category at the beginning of the year, with the due approval. The book value of HTM investment sold during the year ended 31st March 2020 was ₹ 12705.35 crore (excluding OMO sale and UDAY bonds sale worth ₹ 983.90 crore). The market value of investments under HTM category was at ₹ 14279.40 crore and was higher than the book value to an extent of ₹ 168.57 crore as on 31st March 2020

The percentage of SLR investments under "Held to Maturity" category as on 31st March 2020 was 18.72% (Previous Year 18.20%) of the Net Demand and Time Liabilities of the Bank, which is within the permissible limit as per the RBI guidelines.

5. Derivatives

- a) Forward Rate Agreement/ Interest Rate Swap : Nil
- b) Exchange Traded Interest Rate Derivatives : Nil

c) Disclosure on risk exposure in Derivatives

(i) Qualitative Disclosure

Operations in the Treasury are segregated into three functional areas, namely Front office, Mid-office and Back-office, equipped with necessary infrastructure and trained officers whose responsibilities are well defined. The Mid Office is handled by Risk Management Department. Daily report is generated by Risk Management department for appraisal of the risk profile to the senior management for Asset and Liability management. The Integrated Treasury policy of the Bank clearly lays down the types of financial derivative instruments, scope of usages, approval process as also the limits like the open position limits, deal size limits and stop loss limits for trading in approved instruments.

The Bank's policy lays down that the transactions with the corporate clients are to be undertaken only after the inherent credit exposures are quantified and approved in terms of the approval process laid down in the Derivative Policy for customer appropriateness and suitability and necessary documents like ISDA agreements etc. are duly executed. The Bank adopts Current Exposure Method for monitoring the credit exposures. Besides, the Bank may also use financial derivative transactions for hedging its on or off Balance Sheet exposures.

The Integrated Treasury Policy of the Bank spells out the approval process for hedging the exposures. The hedge transactions are monitored on a regular basis and the notional profits or losses are calculated on MTM basis. The hedged/non hedged transactions are recorded separately. The hedged transactions are accounted for on accrual basis. In case of Option contracts, guidelines issued by FEDAI from time to time for recognition of income, premium and discount are being followed. While sanctioning the limits, the competent authority may stipulate condition of obtaining collaterals/margin as deemed appropriate. The derivative limits are reviewed periodically along with other credit limits.

(ii) Quantitative Disclosure

(₹ in crore)

Sl. No.	Particulars	Currency Derivatives	Interest Rate Derivatives
1	Derivatives (Notional Principal Amount)		
	a. Hedging	Nil	Nil
	b. Trading	Nil	Nil
2.	Marked to Market Positions		
	Assets(+)	Nil	Nil
	Liabilities(-)	Nil	Nil
3.	Credit Exposure	Nil	Nil
4.	Likely impact of 1% change in interest rate (100*PV01)		
	a. On hedging derivatives	Nil	Nil
	b. On trading derivatives	Nil	Nil
5.	Maximum and Minimum of 100*PV01 observed during the year		
	a. On hedging	Nil	Nil
	b. On trading	Nil	Nil

The Bank has not entered into any derivative instruments other than Forex Forward Contracts maturing within 13 months, for trading/hedging purposes either in foreign exchange or domestic treasury operations. Bank does not have any open position in the derivative instruments in trading book as on 31st March 2020.

6. Asset Quality

a) Non Performing Assets (Funded)

(₹ in crore)

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
1	Gross NPA to Gross Advances (%)	4.82	4.41
2	Net NPA to Net Advances (%)	3.08	2.95
3	Movement of NPAs (Gross)		
	a) Opening Balance	2456.38	2376.07
	b) Additions during the year	1998.58	1447.86
	c) Reductions during the year	1655.03	1367.55
	(i) Upgradations	241.32	203.48
	(ii) Recoveries(excluding recoveries made from upgraded accounts)	322.87	264.80
	(iii) Technical/Prudential write offs	943.65	806.52
	(iv) Write offs other than those under (iii) above	147.19	92.75
	d) Closing balance	2799.93	2456.38
4	Movement of Net NPAs		
	a) Opening Balance	1616.71	1400.51
	b) Additions during the year	1022.45	802.01
	c) Reductions during the year	884.15	585.81
	d) Closing balance	1755.01	1616.71
5	Movement of provision for NPAs		
	a) Opening Balance	810.55	946.26
	b) Provision made during the year	1297.59	763.56
	c) Write off/write back of excess provision	1090.83	899.27
	d) Closing balance	1017.31	810.55

b) Movements in Technical Write Off

(₹ in crore)

Particulars	Current Year 2019-20	Previous Year 2018-19
Opening balance of Technical/Prudential write off accounts as at 1 st April	1434.27	706.16
Add: Technical/prudential write offs during the year	943.65	806.52
Sub total(A)	2377.92	1512.68
Less: Recoveries made from previously technical/prudential written off accounts during the year(including sale of assets to ARC) (B)	205.58	78.41
Closing balance as at 31st March(A-B)	2172.34	1434.27

c) **Provision Coverage Ratio (PCR)**

The Bank's provision coverage ratio as of 31st March 2020 is 64.70% (Previous year 58.45%).

d) **Concentration of NPAs**

(₹ in crore)

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
1	Total fund based exposure of top four NPA accounts	517.03	685.36

7. **Sectorwise Advances**

(₹ in crore)

Sl. No	Sector	Current Year 2019-20			Previous Year 2018-19		
		Outstanding total advances	Gross NPAs	Percentage of gross NPAs to total advances in that sector	Outstanding total advances	Gross NPAs	Percentage of gross NPAs to total advances in that sector
A	Priority Sector						
1	Agriculture and allied activities	6646.82	563.96	8.48	6095.49	350.07	5.74
2	Advances to industries sector eligible as priority sector lending	3402.47	301.13	8.85	3331.86	271.77	8.16
	A Textiles	848.62	88.40	10.42	788.52	97.89	12.41
	B Others	2553.85	212.73	8.33	2543.34	173.88	6.84
3	Services	8943.29	445.79	4.98	8410.90	391.20	4.65
	A Professional and self employed	3061.95	103.23	3.37	2608.77	91.64	3.51
	B Trade and Business	4371.38	253.83	5.81	4293.54	230.72	5.37
	C Small road and water transport operators	406.88	46.71	11.48	447.92	37.06	8.27
	D Others	1103.08	42.02	3.81	1060.67	31.78	3.00
4	Personal and Other Loans	3006.65	39.61	1.32	2557.03	37.69	1.47
	A Housing Loan	2689.62	35.43	1.32	2209.13	31.11	1.41
	B Others	317.03	4.18	1.32	347.90	6.58	1.89
	Sub total(A)	21999.23	1350.49	6.14	20395.28	1050.73	5.15
B	Non Priority Sector						
1	Agriculture and allied activities	53.11	3.09	5.82	45.87	3.63	7.92
2	Industry	3099.06	394.17	12.10	5711.35	409.51	7.17
	A Automobiles	153.96	9.82	6.38	664.41	9.82	1.48
	B Textiles	559.13	123.91	22.16	623.43	29.58	4.75
	C Iron & Steel	196.12	0.00	0.00	429.59	0.00	0.00
	D Others	2189.85	260.44	11.89	3993.92	370.11	9.27
3	Services	4255.88	156.55	3.68	2750.73	73.00	2.65
	A Professional and self employed	1704.71	147.70	8.66	1255.14	67.63	5.39
	B Other Service activity	2551.17	8.85	0.35	1495.59	5.37	0.36
4	Personal loans	10979.22	223.42	2.03	8717.73	178.73	2.05
	A Housing	7791.42	148.03	1.90	62.36	1.18	1.89
	B Other Personal Loan	3187.80	75.39	2.36	8655.37	177.55	2.05
5	Other Non Priority Loan	17656.70	672.21	4.74	18071.78	740.78	4.10
	A Commercial Real Estate	4285.36	87.26	2.04	3005.90	51.80	1.72
	B Infrastructure Loan	2854.91	186.80	6.52	4303.20	506.26	11.76
	C Others	10516.43	398.15	5.26	10762.68	182.72	1.70
	Sub total (B)	36043.97	1449.44	4.02	35297.46	1405.65	3.98
	Total (A+B)	58043.20*	2799.93	4.82	55692.75*	2456.38	4.41

*excludes provisions for NPAs & other netting items

8. Details of Loan Assets Subject To Restructuring

(₹ in crore)

Sl. No.	Type of Restructuring	Under CDR Mechanism				Under SME Debt Restructuring				Others				Total								
		Std.	SS	DS	Total	Std.	SS	DS	Total	Std.	SS	DS	Total	Std.	SS	DS	Total					
1	Restructured Accounts as on April 1 of the FY (opening figures)	No. of borrowers	0	0	0	0	2	0	1	0	3	416	5	40	4	465	418	5	41	4	468	
		Amount outstanding	0	0	0	0	6.93	0	5.56	0	12.49	291.76	38.09	529.91	0.15	859.91	298.69	38.09	535.47	0.15	872.40	
		Provision thereon	0	0	0	0	0.35	0	3.07	0	3.41	31.20	6.18	257.86	0.07	295.32	31.55	6.18	260.93	0.07	298.73	
2	Fresh Restructuring During the Year	No. of borrowers	0	0	0	0	0	0	0	0	0	152	6	1	0	159	152	6	1	0	159	
		Amount outstanding	0	0	0	0	0	0	0	0	0	225.26	30.61	1.25	0	257.12	225.26	30.61	1.25	0	257.12	
		Provision thereon*	0	0	0	0	0	0	0	0	0	22.90	31.46	1.15	0	55.51	22.90	5.34	1.15	26.12	56	
3	Upgradation to Restructured Standard Category during the Year	No. of borrowers	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Amount outstanding	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Provision thereon	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	Restructured Standard Advances which cease to attract higher provisioning and/or additional risk weight at the end of the FY and hence need not be shown as Restructured Standard Advances at the beginning of the next FY	No. of borrowers	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Amount outstanding	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Provision thereon	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5	Downgradation of Restructured Accounts during the FY	No. of borrowers	0	0	0	0	0	0	0	0	0	-24	16	7	1	0	-24	16	7	1	0	
		Amount outstanding	0	0	0	0	0	0	0	0	0	-49.82	-3.90	22.45	31.27	0	-49.82	-3.90	22.45	31.27	0	
		Provision thereon	0	0	0	0	0	0	0	0	0	-9.14	-26.73	4.60	31.27	0	-9.14	-0.61	4.60	5.15	0	
6	Writeoff of Restructured Accounts during the FY	No. of borrowers	0	0	0	0	0	0	-1	0	-2	-74	0	-27	-2	-103	-75	0	-28	-2	-105	
		Amount outstanding	0	0	0	0	0	0	0	0	0	-55.30	-0.34	-526.75	0	-582.39	-60.38	-0.34	-532.31	0	-593.03	
		Provision thereon*	0	0	0	0	0	0	0	0	0	-1.86	0	-256.14	0	-258.00	-2.12	0	-259.21	0	-261.33	
7	Restructured Accounts as on March 31 of FY (Closing figure)	No. of borrowers	0	0	0	0	1	0	0	1	470	27	21	3	521	471	27	21	3	522		
		Amount outstanding	0	0	0	0	1.85	0	0	1.85	411.90	64.46	26.86	31.42	534.64	413.75	64.46	26.86	31.42	536.49		
		Provision thereon	0	0	0	0	0.09	0	0	0.09	43.10	10.91	7.47	31.34	92.82	43.19	10.91	7.47	31.34	92.91		

* Including incremental provision

- Notes
- The figures under Sl. No. 2 include additional/fresh funding to existing restructured accounts.
 - Write off of Restructured Accounts during the year include reduction of ₹ 444.26 crore from the existing Restructured Accounts by way of closure/recovery.
 - Provision includes total provision held on Restructured Accounts.
 - Others include MSME accounts restructured.

9. a) Details of Financial Assets sold to Securitisation/Reconstruction Company(SC/RC) for Asset Reconstruction

(₹in crore)

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
1	No. of Accounts (including technically written off accounts)	3	2
2	Aggregate Value(net of Provisions) of accounts sold to SC/RC	63.08	44.93
3	Aggregate consideration	89.82	41.34
4	Additional consideration realised in respect of accounts transferred in earlier years	—	—
5	Aggregate Gain/(Loss) over net book value	26.74	(3.59)

b) Details of Security Receipts (SR) from Securitisation/Reconstruction Companies

(₹in crore)

Particulars	Backed by NPAs sold by the Bank as underlying		Backed by NPAs sold by other Banks/ financial institutions/ non banking financial companies as underlying		Total	
	Current Year 2019-20	Previous Year 2018-19	Current Year 2019-20	Previous Year 2018-19	Current Year 2019-20	Previous Year 2018-19
Book value of investments in security receipts	381.50	427.57	0.88	1.23	382.38	428.80

c) Further details on Investment in SRs

(₹in crore)

Sl. No.	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	233.80	139.60	8.10
	Provision held against (i)	48.17	52.38	8.10
ii)	Book value of SRs backed by NPAs sold by other Banks/financial institutions/non banking financial companies as underlying	0	0	0.88
	Provision held against (ii)	0	0	0.88
	Total (i) + (ii)	233.80	139.60	8.98

d) Details of non performing Financial assets purchased from other Banks/Sold to Other Banks : Nil

10. a) Provisions on Standard Assets

(₹ in crore)

Item	Current Year 2019-20	Previous Year 2018-19
Provisions towards Standard Assets	289.58	254.42

b) COVID-19 pandemic continues to spread across several countries including India resulting in a significant volatility in global and Indian financial markets and a significant decline in global and local economic activities. World Health Organization has declared COVID-19 as global pandemic. The Government of India had announced a series of lockdown measures from 24th March 2020 onwards which have been extended from time to time up to 30th June 2020. Govt of India has directed a calibrated and gradual withdrawal of lockdown and partial resumption of economic activity in spite of some of the major economic centres still continuing under strict lockdown. The revival of economic activities largely depends upon the intensity and spread of the disease, Govt stimulus packages and regulatory relief measures. The Bank has satisfactory capital and adequate liquidity to support its business growth which has already been moderated having regard to effects of COVID-19.

The extent to which the COVID-19 pandemic will impact the Bank's result will depend on future development which are highly uncertain including among other things any new information concerning the severity of the COVID-19 pandemic and action to contain its spread or mitigate impact including stimulus and regulatory packages.

c) In accordance with the 'COVID-19 Regulatory packages' announced by the RBI on 27th March 2020, 17th April 2020 and May 23 2020, with regard to providing relief to borrowers on account of COVID-19 pandemic whose accounts were standard as on 29th February 2020, the Bank, in accordance with the Board approved policy had offered moratorium on repayment of loan instalments and/or deferment of interest due between 1st March 2020 to 31st August 2020 including relaxation in certain parameters, to all the eligible borrowers, without considering the same as restructuring. In accordance with the RBI guidelines, the Bank is required to make provision @ 10% of outstanding advances over two quarters beginning with quarter ended 31st March 2020 in respect of such borrower accounts where asset classification benefit has been taken as per the RBI guidelines. The Bank as a prudent measure has made the entire 10% provision amounting to ₹ 24.08 crore in March 2020 quarter itself.

d) Following are the details of such accounts and the provision thereof made by the Bank:

(₹ in crore)

Particulars	As on 31 st March 2020
Advances in SMA /overdue categories , where the moratorium /deferment was extended	3881.68
(a) Moratorium ₹ 2155.14 crore	
(b) Deferment ₹ 1726.54 crore	
Advances where asset classification benefit is extended	240.81
Provision made in terms of paragraph 5 of COVID-19 Regulatory package for the year ended 31.03.2020	24.08
Provision adjusted during the year ended 31.03.2020	NA
Residual provisions in terms of paragraph 6 of Regulatory Package as at 31.03.2020	24.08

11. Business Ratios

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
1	Interest Income to working funds	7.94%	7.89%
2	Non interest income to working funds	1.71%	1.34%
3	Operating Profit to working funds	2.04%	1.94%
4	Return on Assets	0.53%	0.64%
5	Business (Deposits Plus Advances) per employee (₹ in crore)	15.12	14.89
6	Profit per employee (₹ in crore)	0.05	0.06

12. Asset Liability Management

Maturity pattern of certain items of assets and liabilities

(₹ in crore)

Particulars	Deposits	Advances	Investments	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
1 day	298.12	846.11	3.25	549.98	156.98	103.90
2 to 7 days	529.01	125.61	378.11	0	228.27	62.40
8 to 14 days	603.96	196.43	169.56	28.93	96.87	27.54
15 to 30 Days	744.76	58.53	65.72	0	457.06	527.07
31 Days to 2 Months	1198.01	216.63	40.79	75.18	348.99	208.58
2 to 3 Months	1807.92	749.77	10.02	75.18	269.77	167.52
Over 3 Months to 6 Months	5360.08	4586.74	71.07	246.19	477.23	490.68
Over 6 Months to 12 Months	6746.91	6102.86	102.17	558.88	194.26	447.02
Over 1 Year to 3 Years	53543.48	23661.63	2661.63	1810.78	18.59	205.11
Over 3 Years to 5 Years	435.17	6026.41	1334.33	0	64.95	86.83
Over 5 Years	517.73	14393.55	12708.69	720.00	0	0
Total	71785.15	56964.27	17545.34	4065.12	2312.97	2326.65

13. Exposures

a) Exposure to Real Estate Sector

(₹ in crore)

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
1	Direct Exposure		
	Residential Mortgage		
i)	Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented	9255.15	7344.64
	Of which, individual housing loans eligible for inclusion in Priority Sector advances	2689.62	2209.12
ii)	Commercial Real Estate		
	Lending (including Non Fund Based Limits) secured by mortgages on commercial real estate (office buildings, retail space, multipurpose commercial premises, multifamily residential buildings, multi tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction etc.,)	5346.94	4349.96

(₹ in crore)

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
iii)	Investments in Mortgage Backed Securities(MBS) and other Securitised Exposure		
	Residential	Nil	Nil
	Commercial Real Estate	Nil	Nil
2	Indirect Exposure		
	Fund based and non fund based exposures on National Housing Bank(NHB) and Housing Finance Companies (HFCs)	35.92	41.72
	Total Exposure to Real Estate Sector	14638.01	11736.32

b) Exposure to Capital Market

(₹ in crore)

Sl. No.	Category	Current Year 2019-20	Previous Year 2018-19
i	Direct investments in equity shares, convertible bonds, convertible debentures and units of equity oriented mutual funds the corpus of which is not exclusively invested in corporate debts	55.61	56.81
ii	Advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds and convertible debentures and units of equity oriented mutual funds.	Nil	Nil
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	Nil	Nil
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'	Nil	Nil
v	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers	38.44	39.37
vi	Loans sanctioned to corporate against the security of shares/bonds/debentures or others securities or on clean basis for meeting promoters contribution to the equity of new companies in anticipation of raising resources.	Nil	Nil
vii	Bridge loans to companies against expected equity flows/issues	Nil	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)	Nil	Nil
	Total capital market exposure	94.05	96.18

c) Risk Category-wise Country Exposure

(₹ in crore)

Risk Category	Exposure(net) as at 31.03.2020	Provision held as at 31.03.2020	Exposure(net) as at 31.03.2019	Provision held as at 31.03.2019
Insignificant	43.10	Nil	103.22	Nil
Low	68.26	Nil	59.13	Nil
Moderate	4.36	Nil	5.11	Nil
High	1.22	Nil	0.78	Nil
Very High	0	Nil	0	Nil
Restricted	0	Nil	0	Nil
Off-Credit	0	Nil	0	Nil
Total	116.94	Nil	168.24	Nil

The net funded exposure of the Bank in respect of foreign exchange transactions with each country is within 1% of the total assets of the Bank and hence no country risk provision is required as per the extant RBI guidelines. The Bank has used 7 categories of classifications followed by the ECGC for purpose of classification and making provision for country risk exposures.

14. Concentration of Deposits

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
1	Total deposits of 20 largest depositors (₹ in Crore)	2420.35	2800.25
2	% age of deposits of 20 largest depositors to total deposits	3.37	4.10

15. Concentration of Advances

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
1	Total advances of 20 largest borrowers (₹ in Crore)	8840.80	9120.65
2	% age of advances of 20 largest borrowers to total advances (credit exposures including derivatives)	12.02	13.01

16. Concentration of Exposures

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
1	Total exposure of 20 largest borrowers/customers (₹ in crore)	9293.93	9304.97
2	Percentage of exposure to 20 largest borrowers/ customers to total exposure of the Bank on borrowers/customers	12.20	12.79

17. Details of Single Borrower Limit (SBL)/Group Borrower Limits (GBL) exceeded by the Bank

During the year ended 31st March 2020, the Bank has not exceeded the Individual/Group Borrowers' Prudential exposure limits fixed by the RBI (Previous Year- Nil)

18. Unsecured Advances

The Bank has granted advances against intangible securities such as charge over the rights, licences, authorisations etc., and the outstanding balance as on 31st March 2020 was ₹ 108.86 crore (Previous year ₹ 114.00 crore)

19. Penalties imposed by the RBI

The Reserve Bank of India vide its letter dated EFD.CO.SO/590/02.02.005/2019-20 dated 27th May 2020 has imposed a penalty of ₹ 1.00 crore for divergence in NPA and ₹ 0.20 crore for non adherence to IRAC norms pertaining to the FY 2016-17 and 2017-18.

B. Accounting Standards

In compliance with the guidelines issued by the Reserve Bank of India regarding disclosure requirements of the various Accounting Standards, following information is disclosed:

1. Accounting Standard 5 – Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies

There are no material prior period items.

In the preparation of these Financial Statements, the Bank has followed the same accounting policies and generally accepted accounting practices adopted for the preparation of the Audited Financial Statements for the year ended 31st March 2019.

2. Accounting Standard 9 – Revenue Recognition

Revenue is recognized on accrual basis as per Accounting Policy No. 1 of Schedule 17 to the financial statements. Certain items of income are recognized on cash basis and same is not material.

3. Accounting Standard 10 – Fixed Assets

During the years ended 31st March 2017 and 31st March 2020, as permitted by the Board, the Bank had revalued land & buildings owned by it. Net appreciation of ₹ 422.58 crore and ₹ 60.11 crore respectively arising out of such revaluation was accounted with corresponding credit to the Revaluation Reserve, as under:

(₹ in crore)	
Details	Amount
Book value of Land & Building as on 31 st March 2020	161.58
Incremental value on account of revaluation made in 2016-17 and credited to the Revaluation Reserve	422.58
Incremental value on account of revaluation made in 2019-20 and credited to the Revaluation Reserve (net of reduction in value due to revaluation)	60.11
Depreciation up to 31 st March 2020 on revalued amount	16.05
Written Down Value of the revalued assets	628.22

Depreciation on the book value of the land & building up to 31st March 2020 is ₹ 41.34 crore. Profit and Loss Account for the current financial year has been debited with additional depreciation charge of ₹ 4.65 crore representing the incremental depreciation on the revalued amount.

4. Accounting Standard 15 – Employee Benefits

Various Benefits made available to the Employees

- a) **Pension:** The Bank has a defined benefit plan under Pension Trust to cover employees who have joined employment up to 31st March 2010 and who have opted for Pension Scheme under the Pension & Group Schemes unit of LIC of India, provided they have completed 20 years of service. The benefits under this plan are based on last drawn salary and the tenure of employment. The liability for the pension is determined and provided on the basis of actuarial valuation and is covered by purchase of annuity from LIC. The employees who have joined employment after 31st March 2010 are covered under contributory pension scheme.
- b) **Gratuity:** In accordance with the applicable Indian Laws, the Bank provides for defined gratuity benefit retirement plan ('the Gratuity Plan') covering eligible employees. This plan provides for a lump sum payment to the eligible employees on retirement, death, incapacitation or termination of employment of amounts that are based on the last drawn salary and tenure of employment. Liabilities with regard to the gratuity plan are determined by actuarial valuation and contributed to the gratuity fund trust. Trustees administer the contribution made to the trust and invest in specific designated securities as mandated by law, which generally comprise of Central and State Government Bonds and debt instruments of Government owned corporations.
- c) **Leave Encashment (PL):** The Bank permits encashment of leave accumulated by the employees. The liability for encashment of such leave is determined and provided on the basis of actuarial valuation. For the current financial year, Bank has provided an amount of ₹ 26.40 crore (Previous year ₹ 11.47 crore).
- d) **Provident Fund:** The Bank pays fixed contribution to Provident Fund at predetermined rates to a separate trust, which invests the funds in permitted securities. The contribution to the Fund is recognised as expense and is charged to the Profit and Loss Account. The obligation of the Bank is limited to such contributions. As on 31st March 2020, there was no liability due and outstanding to the Fund by the Bank.
- e) **Other Employee Benefits:** Other than the benefits listed above, the Bank also gives certain other benefits to the employees, which include Medical Aid, Sick Leave, Casual Leave etc.,
- f) The summarised position of post employment benefits and employees' long term benefits are recognized in the financial statements in accordance with Accounting Standard – 15 and are as under:

Principal actuarial assumption at the Balance Sheet Date (expressed as weighted average)

Sl. No.	Particulars	Pension (Funded)	Gratuity (Funded)
1	Method of Valuation	Projected unit credit	
2	Discount rate	6.80	6.80
3	Salary escalation rate	4.50	4.50
4	Attrition rate	2.00	2.00
5	Expected rate of return on plan assets	7.70	7.70
6	Mortality	IALM (2012-14) ult	

Changes in the Present Value of Obligations (PVO) - Reconciliation of Opening and Closing Balances

(₹ in crore)

Sl. No.	Particulars	Pension (Funded)	Gratuity (Funded)
1	Present Value of defined benefit obligation as at 1 st April 2019	690.90	217.80
2	Interest Cost	49.87	16.15
3	Current Service Cost	30.95	13.19
4	Past Service Cost	—	—
5	Benefits Paid	(103.06)	(21.52)
6	Actuarial Loss/(Gain) on Obligations	206.24	12.28
7	Present Value of defined benefit obligation as at 31st March 2020	874.90	237.90

Changes in Fair Value of Plan Assets- Reconciliation of Opening and Closing Balances

(₹ in crore)

Sl. No.	Particulars	Pension (Funded)	Gratuity (Funded)
1	Fair Value of Plan Assets at the beginning of the year	766.47	217.80
2	Expected return on Plan Assets	61.04	16.94
3	Bank's Contribution related to Current year	155.54	25.83
4	Benefits Paid	(103.06)	(21.52)
5	Actuarial Gain/(Loss) on plan assets	(5.09)	(1.15)
6	Fair Value of Plan Asset at the end of the year	874.90	237.90

Actual Return on Plan Assets

(₹ in crore)

Sl. No.	Particulars	Pension (Funded)	Gratuity (Funded)
1	Expected return on Plan Assets	61.04	16.94
2	Actuarial Gain/(Loss) on plan Assets	(5.09)	(1.15)
3	Actual Return on Plan Assets	55.95	15.79

Actuarial Gain/Loss Recognized

(₹ in crore)

Sl. No.	Particulars	Pension (Funded)	Gratuity (Funded)
1	Actuarial (Gain) / Loss for the period- Obligations	206.24	12.28
2	Actuarial (Gain) / Loss for the period- Plan Assets	5.09	1.15
3	Total (Gain) / Loss for the period- Plan Assets (2-1)	211.33	13.43
4	Actuarial (Gain) / Loss recognized in the year	211.33	13.43
5	Unrecognized actuarial (Gain) / Loss at the end of the year	—	—

Amounts recognized in Balance Sheet and Related Analysis

(₹ in crore)

Sl. No.	Particulars	Pension (Funded)	Gratuity (Funded)
1	Present value of the obligations	874.90	237.90
2	Fair Value of Plan Assets	874.90	237.90
3	Surplus/(Deficit)	0	0
4	Assets/(Liability) recognised in the Balance Sheet	0	0

Expenses recognised in the Profit and Loss Account

(₹ in crore)

Sl. No.	Particulars	Pension (Funded)	Gratuity (Funded)
1	Current Service Cost	30.95	13.19
2	Interest Cost	49.87	16.15
3	Expected Return on Plan Assets	(61.04)	(16.94)
4	Net actuarial (Gain)/Loss recognized in the year	211.33	13.43
5	Expenses recognised in the Profit and Loss Account	231.11	25.83

Major Categories of plan assets (As a percentage of total plan assets)

(₹ in crore)

Sl. No.	Particulars	Pension Fund	Gratuity Fund
1	Government of India Securities	0	2.73
2	State Government Securities	0	0
3	High Quality Corporate Bonds	0	0.63
4	Equity Shares of Listed Companies	0	0
5	Property	0	0
6	Funds managed by insurer	100.00	96.51
7	Mutual Funds	0	0
8	Bank Deposits- Current Accounts	0	0
9	Others	0	0.13
	Total	100.00	100.00

Estimated expenses/contribution for the next year

Sl. No.	Particulars	Pension (Funded)	Gratuity (Funded)
1	Enterprises Best estimate of expenditure to be incurred during the next year(inclusive of proportionate amortisation)	7.90	7.20

5. Accounting Standard 17 – Segment Reporting:

For the purpose of segment reporting in terms of AS 17 of the ICAI and as prescribed in the RBI guidelines, the business of the Bank has been classified into 4 segments i.e.(a) Treasury operations (b) Corporate/Wholesale Banking (c) Retail Banking and (d) Other Banking Operations. Since the Bank does not have any overseas branch, reporting under geographic segment does not arise. Segment assets have been identified and segment liabilities have been allocated on the basis of segment assets.

Business Segments

(₹ in crore)

BUSINESS SEGMENTS	TREASURY		CORPORATE/ WHOLESALE BANKING		RETAIL BANKING		OTHER BANKING OPERATIONS		TOTAL	
	Mar'20	Mar'19	Mar'20	Mar'19	Mar'20	Mar'19	Mar'20	Mar'19	Mar'20	Mar'19
Revenue	1625.94	1307.60	3138.02	2840.48	2613.35	2356.29	473.51	386.34	7850.82	6890.71
Unallocated Income									20.00	17.21
Total Income									7870.82	6907.92
Result	574.20	343.72	556.03	520.60	451.31	535.79	118.99	86.64	1700.53	1486.75
Unallocated expenses									-1178.50	-878.94
Profit before tax									522.03	607.81
Income taxes									90.25	130.57
Extraordinary/ Exceptional Profit / Loss									--	--
Net Profit									431.78	477.24
Other Information									--	--
Segment Assets	20953.25	20241.60	31237.24	31349.71	26279.46	23912.21	3163.29	1516.43	81633.24	77019.95
Unallocated Assets									1680.25	2025.81
Total Assets									83313.49	79045.76
Segment Liabilities	19359.49	18695.78	29073.28	29103.22	24416.51	22179.19	2941.31	1412.54	75790.59	71390.73
Unallocated liabilities									1552.45	1869.85
Total Liabilities									77343.04	73260.58
Capital employed									5970.45	5785.18

6. Accounting Standard 18 – Related Party Disclosures

There is no related party transaction other than remuneration paid to key management personnel, Sri Mahabaleshwara M S, Managing Director and Chief Executive Officer, amounting to ₹ 0.92 crore (Previous year ₹ 0.71 crore).

7. Accounting Standard 20 - Earnings per Share

Basic and diluted earnings per equity share computed in accordance with AS 20 – Earnings per Share are as under:

Particulars	Current Year 2019-20	Previous Year 2018-19
Earnings per share- Basic (₹)	13.89	15.35*
Earnings per share- Diluted (₹)	13.89	15.35*
Net Profit for the year attributable to Equity shares (₹ in crore)	431.78	477.24
Weighted Average number of Equity Shares –Basic	31,08,68,875	31,08,68,628
Weighted Average number of Equity Shares - Diluted	31,09,21,191	31,08,68,628
Nominal value per equity share (₹)	10.00	10.00

*Previous year figure recomputed on account of issue of bonus shares.

Allotment of 1,28,521 equity shares(Previous year 1,19,352) is kept in abeyance including 1,800 equity shares (Previous Year 1,800), where the entitlement matter is subjudice. These shares have not been considered for EPS calculation, as the shares are not allotted.

8 Accounting Standard 22 – Accounting for Taxes on Income

a) Provision made for taxes during the year

(₹in crore)

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
1	Current Tax	166.00	114.56
2	Current Tax	-75.75	16.01
	Total	90.25	130.57

b) Major components of Deferred Tax Assets and Liabilities recognised are as under:

(₹in crore)

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
A	Deferred Tax Liabilities		
1	Depreciation on fixed assets	18.24	20.95
2	Special Reserve u/s 36(1) (viii) of Income Tax Act	85.23	78.07
3	Deferred Revenue Expenditure	0.00	0.00
4	Others	66.17	26.41
	Total	169.64	125.43
B	Deferred Tax Assets		
1	PL/LFC Encashment	60.94	46.13
2	Provision for advances	355.49	372.14
3	Provision for Fair Value Loss	3.84	7.16
4	Others	190.18	65.06
	Total	610.45	490.49
	Net Deferred Tax Liability / (Asset) (A) – (B)	(440.81)	(365.06)

9. Accounting Standard 28 – Impairment of Assets

An assessment is made at each Balance sheet date as to 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. As on 31st March 2020, there was no indication of impairment of any asset.

10 Accounting Standard 29 – Provision, Contingent Liabilities and Contingent Assets

Movement in Provision for Contingencies

(₹ in crore)				
Particulars	Opening as on 01.04.2019	Provision made during the year	Provisions reversed/ adjusted	Closing as on 31.03.2020
Provision for contingencies	12.85	5.84	0.06	18.63

C. Additional Disclosures

1. Details of Provisions and Contingencies made during the year

(₹ in crore)				
Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19	
1	Provision for Depreciation on Investment	-1.95	28.18	
2	Provision towards NPA	1108.22	763.56	
3	Provision towards Standard Assets (including NPV of Restructured Standard advances)	25.68	28.62	
4	Provision made towards taxes	90.25	130.57	
5	Provision for Security Receipts	-3.04	22.49	
6	Other Provisions & contingencies-for frauds, claims against the Bank not acknowledged as debt and other intangibles.	5.84	-0.85	
	Total	1225.00	972.57	

2. Floating/Countercyclical Provisions

The Bank does not hold any floating/countercyclical provision in the current year (Previous year- Nil)

3. Drawdown from Reserves

The Bank has not undertaken any drawdown from reserves during the years ended 31st March 2020 and 31st March 2019 except:

- towards Bonus share issue expenses of ₹ 0.67 crore (Previous year Nil), incurred in the year ended 31st March 2020, adjusted against Share Premium account in terms of Section 52 of the Companies Act, 2013;
- ₹ 189.37 crore (Previous year Nil) from Revenue and Other Reserves being unamortized amount of provision for fraud cases as permitted by the RBI vide DBR No. BP.BC.92/21.04.048/2015-16 dated 18th April 2016.

4 Complaints / Unimplemented Awards of Banking Ombudsman

a) Customer Complaints

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
(a)	No. of complaints pending at the beginning of the year	698	546
(b)	No. of complaints received during the year	54506	53370
(c)	No. of complaints redressed during the year	54854	53218
(d)	No. of complaints pending at the end of year	350	698

Out of the above, the ATM complaints attributable to Acquiring Bank are detailed herein:

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
(a)	No. of complaints pending at the beginning of the year	463	483
(b)	No. of complaints received during the year	40534	44703
(c)	No. of complaints redressed during the year	40849	44723
(d)	No. of complaints pending at the end of year	148	463

b). Awards passed by the Banking Ombudsman

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
(a)	No. of unimplemented awards at the beginning of the year	Nil	Nil
(b)	No. of awards passed by the Banking Ombudsman during the year	Nil	Nil
(c)	No. of awards implemented during the year	Nil	Nil
(d)	No. of unimplemented awards at the end of the year	Nil	Nil

5. Disclosure of Letters of Comfort (LoC)

There were no LoCs outstanding (Previous year Nil).

6. Bank Assurance Business

(₹ in crore)

Sl. No.	Nature of Income	Current Year 2019-20	Previous Year 2018-19
1	For selling Life Insurance Policies	38.50	33.06
2	For selling Non Life Insurance Policies	11.19	9.75
	Total	49.69	42.81

7. **Overseas Assets, NPA and Revenue : Nil**
8. **Off Balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms): Nil**
9. **Disclosure of Remuneration**
 - a) **Qualitative disclosure:**

Remuneration Committee

The Nomination & Remuneration Committee (NRC) consists of 5 Directors', four of whom are Independent Directors'. Two members are also the members of the Risk and Capital Management Committee of the Board (RCMC).

The mandate of the NRC includes identification of persons who are qualified to become Directors' and who may be appointed in the senior management cadre in accordance with the criteria laid down and recommend to the Board for their appointment, fixing their compensation and/or removal, undertaking due diligence of candidates before their appointment/reappointment as Directors', formulating criteria for determining qualification, positive attributes and independence of a Director, key managerial personnel and other employees, formulation of criteria for evaluation of performance of independent Directors' and the Board of Directors' etc. NRC also reviews Compensation Policy of the Bank, besides, administration of the ESOP scheme.

Objectives of Compensation Policy

Compensation Policy aims to attract and retain the right candidates in the Bank. The policy is designed to support key business strategies and create a strong, performance orientated environment besides providing reasonable remuneration commensurate with the growth of the Bank. It also ensures effective governance of compensation, alignment of compensation with prudent risk taking, effective supervisory oversight and stakeholder engagement. The Policy also aims at facilitating effective succession planning in the Bank.

Risk adjustments in remuneration

A wide variety of measures of credit, market and liquidity risks are used by the Bank in implementation of risk adjustment. The risk adjustment methods have both quantitative and qualitative elements. Compensation outcomes are symmetric with risk outcomes and compensation payouts are sensitive to the time horizon of the risk.

Performance linked variable compensation, deferral and forms

The performance based remuneration motivates and rewards high performers who strengthen long term customer relations, and generate income and shareholder value. The Bank's compensation policy stipulates that while designing the compensation package to WTD/CEO, it is ensured that there is a proper balance between fixed pay and variable pay. While fixing the variable pay, performance parameters under financial and non financial areas of operations are assessed.

The financial performance of the Bank is factored while determining the amount of variable remuneration to be paid. The variable pay shall not exceed 45% of the fixed pay in a year. In terms of the RBI extant guidelines, deferral arrangement for payment of variable pay is necessitated where such proposed variable pay exceeds substantial portion of the fixed pay, i.e. 50% or more. However, as the variable pay limit fixed by the Bank is less than 50%, deferral arrangement does

not arise. The Board/NRC may grant stock options under the Employees Stock Options Plan/Scheme as may be introduced by the Bank from time to time in terms of SEBI (Share Based Employee Benefits) Regulations, 2015, subject to the approval of the RBI under Section 35B of the Banking Regulation Act, 1949. Such Stock Options will be excluded from the components of variable pay.

Further, during the reporting year (2019-20), the RBI vide its circular DOR. Appt.BC.No.23/ 29.67.001/2019-20 dated 4th November 2019 revised its "Guidelines on Compensation of Whole Time Directors/Chief Executive Officers/Material Risk Takers and Control Function Staff" ('Revised Guidelines') for the pay cycles commencing from/after 1st April 2020. These revised guidelines have further improvised the method of payment of compensation to the Whole Time Directors/CEOs of private sector Banks which includes: (i) mandating at least 100 per cent variable pay of the fixed pay, (ii) variable pay to be subjected to deferral arrangement, (iii) invoking malus/clawback for reporting of divergence, (iv) variable pay to mandatorily include share linked benefits(i.e. ESOPs), (v) defining Material Risk Takers other than WTDs, (vi) improved disclosure format etc.

Accordingly, NRC has suitably amended the Compensation Policy in line with the aforesaid revised guidelines and postfacto, the compensation structure of the Managing Director & CEO is since amended to be applicable for the FY 2020-21 onwards which has been approved by the Reserve Bank of India vide email dated 24th March 2020.

The variable pay could be in cash, or stock linked instruments or mix of both.

b) Quantitative disclosures :

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
(i)	Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.	Seven Sitting fees of ₹ 50000 to each non whole time Director per meeting attended.	Three Sitting fees of ₹ 50000 to each non whole time Director per meeting attended.
(ii)	Number of employees having received a variable remuneration award during the financial year.	One	One
	Number and total amount of sign-on awards made during the financial year.	Nil	Nil
	Details of guaranteed bonus, if any, paid as joining / sign on bonus.	Nil	Nil
	Details of severance pay, in addition to accrued benefits, if any.	Nil	Nil
(iii)	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	Nil	Nil
	Total amount of deferred remuneration paid out in the financial year.	Nil	Nil

Sl. No.	Particulars	Current Year 2019-20	Previous Year 2018-19
(iv)	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	Fixed: ₹ 0.71 crore Variable: ₹ 0.21 crore for the year 2017-18* * Paid during 2019-20 upon receipt of RBI approval.	Fixed: ₹ 0.71 crore
(v)	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	Nil	Nil
	Total amount of reductions during the financial year due to ex-post explicit adjustments.	Nil	Nil
	Total amount of reductions during the financial year due to ex-post implicit adjustments.	Nil	Nil

10. Disclosure relating to Securitization

The Bank has not sponsored any SPVs for securitisation transactions

11. Credit Default Swap

The Bank has not entered into any credit default swap.

12. Intra-Group Exposures

The Bank does not have any Intra Group Companies under its management.

13. Transfers to Depositor Education and Awareness Fund (DEAF)

(₹ in crore)

Particulars	Current Year 2019-20	Previous Year 2018-19
Opening balance of amounts transferred to DEAF	108.06	92.10
Add: Amounts transferred to DEAF during the year	17.72	17.99
Less: Amounts reimbursed by DEAF towards claims	2.79	2.03
Closing balance of amounts transferred to DEAF	122.99	108.06

14. Unhedged Foreign Currency Exposure

The Bank has put in place a policy on Hedging of Foreign Currency Exposure which is a part of the Loan Policy which stipulates the guidelines on managing the risk arising out of the unhedged foreign currency exposure in line with the extant RBI guidelines. Further, the Bank has made a provision of ₹ 16.91 crore (Previous year ₹ 15.30 crore) and has provided capital for the unhedged foreign currency exposure of borrowal entities of ₹ 3.49 crore (Previous year ₹ 1.97 crore) in line with the extant RBI guidelines.

15. Frauds

Total number of frauds reported during the FY are 216 amounting to ₹ 486.58 crore (Previous year- 84 amounting to ₹ 122.94 crore) and is fully provided for in the current year.

Out of the above, during the quarter ended 31st March 2020, the Bank recognized exposure in respect of 11 entities with outstanding of ₹ 252.49 crores as fraud and provided for the same fully, in accordance with the RBI circular dated 18th April 2016, by debiting ₹ 63.12 crore to Profit and Loss Account and ₹ 189.37 crore to 'Revenue Reserve' under 'Reserves and Surplus', as an adjusting event as specified in AS-4 "Events occurring after the Balance sheet date". In accordance with the said RBI circular, ₹ 189.37 crore debited to the Reserves & Surplus will be reversed to the Profit and Loss Account in the ensuing 3 quarters in the financial year 2020-21.

16. Liquidity Coverage Ratio

(₹in crore)

Particulars	2019-20 (Q4)		2018-19(Q4)	
	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
High Quality Liquid Assets				
1 Total High Quality Liquid Assets (HQLA)	15471.80	15381.37	11944.94	11842.58
Cash Outflows				
1 Retail Deposits and Deposits from small business customers	57581.39	5216.72	52398.31	4817.78
(i) Stable Deposits	10828.54	541.43	8441.14	422.06
(ii) Less: Stable Deposits	46752.85	4675.29	43957.17	4395.72
2 Unsecured Whole Funding, of which:	4456.59	2045.76	4344.82	2008.28
(i) Operational Deposits(all counterparties)	0.00	0.00	0.00	0.00
(ii) Non-operational deposits(all counterparties)	4456.59	2045.76	4344.82	2008.28
(iii) Unsecured debt	0.00	0.00	0.00	0.00
3 Secured wholesale funding	318.86	0.00	122.30	0.00
4 Additional requirements, of which	7989.86	914.45	6446.69	901.93
(i) Outflows related to derivative exposures and other collateral requirements	1.14	1.14	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	7988.72	913.31	6446.69	901.93
5 Other contractual funding obligations	221.29	221.29	225.53	225.53
6 Other contingent funding obligations	5109.68	153.29	4618.35	138.55
Total Cash Outflows	75677.67	8551.51	68156.00	8092.07

(₹ in crore)

Particulars	2019-20 (Q4)		2018-19(Q4)	
	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
Cash Inflows				
1 Secured lending (e.g. reverse repos)	107.57	0.00	149.83	0.00
2 Inflows from fully performing exposures	2289.27	1144.63	2014.19	1007.10
3 Other cash inflows	1170.24	1170.24	1588.99	1588.99
Total Cash Inflows	3567.08	2314.87	3753.01	2596.09
Total HQLA	15471.80	15381.37	11944.94	11842.58
Total Net Cash Outflows	72110.59	6236.64	64402.99	5495.98
Liquidity Coverage Ratio (%)		246.63		215.48

*Note: Computed based on simple average of previous 3 months daily observation

Qualitative Disclosures on LCR

The Bank is computing LCR on a daily basis in line with the RBI circular dated June 9, 2014 on “Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards”. These guidelines ensure that banks maintain sufficient amount of High Quality Liquidity Assets (HQLAs) to survive 30 days stress scenario so that Banks can take corrective measures within such period. These HQLAs have to be 100% of the net cash outflows w.e.f 1st January 2019.

Necessary system has been put in place to compute LCR and Bank’s strategy would be to maintain LCR well above the regulatory minimum levels ahead of the stipulated timelines. The main driver of LCR is adequate HQLAs and Bank is maintaining LCR well above the minimum stipulated level of 100% in view of SLR investments in excess of statutory requirement and 17.50% of NDTL in the form of borrowing limit available through Marginal Standing Facility (MSF) and Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR). The Bank has a diversified liability mix comprising of healthy retail deposits with its pan India presence and the dependency on wholesale funding is insignificant.

The Bank during the three months ended 31st March 2020 maintained average HQLA (after haircut) of ₹ 15381.37 crore (31st March 2019: ₹ 11842.58 crore). HQLA primarily includes Government securities in excess of minimum statutory liquidity ratio (SLR), 3% of NDTL under “marginal standing facility (MSF)”, 14.50% of NDTL under “facility to avail liquidity for LCR (FALLCR)”, investments under Corporate bonds & commercial papers rate “AA- and above”.

The weighted cash outflows are primarily driven by deposits from retail & small business customers, unsecured wholesale funding which includes non operational deposits and unsecured debt. During the three months ended 31st March 2020, funding from “retail & small business customers” and “non-operational deposits” contributed 61.00% & 23.92% to the total weighted cash outflows respectively. The other contingent funding obligations primarily include bank guarantees (BGs) and letters of credit (LCs) issued on behalf of the Bank’s clients.

The average LCR of the Bank for the three months ended 31st March 2020 was 246.63 % (31st March 2019: 215.48%). (Note: Increase in FALLCR from 13% to 14.50% of NDTL resulted in increase in HQLAs. Hence LCR increased when compared with 31st March 2019).

At 31st March 2020, top liability products/instruments and their percentage contribution to the total liabilities of the Bank was term deposits: 61.26%, savings account deposits: 19.91%, current account deposits: 5.00%. Top 20 depositors constituted 3.37% of total deposits of the Bank.

The Bank's Asset Liability Management Committee (ALCO) is empowered to monitor and form suitable strategies to maintain stipulated levels of LCR by channelizing funds to target good quality asset and liability profile to meet the Bank's profitability as well as liquidity requirements.

Funding strategies are formulated by the Treasury and Accounts Department (TAD) in accordance with ALCO guidance. The objective of the funding strategy is to achieve an optimal funding mix which is consistent with prudent liquidity, diversity of sources and servicing costs. Accordingly, TAD estimates daily liquidity requirement. With the help of structural liquidity statement prepared by the Bank, TAD evaluates current and future liquidity requirement and takes necessary action.

17. During the year, there was no conversion of debt into equity on restructuring (Previous year ₹ 32.12 crore).
18. Operating Expenses stated in Schedule 16 to the Profit and Loss Account includes ₹ 9.32 crore (Previous year ₹ 5.97 crore) spent towards Corporate Social Responsibility (CSR) activities.
19. The Reserve Bank of India vide its circular dated April 17,2020, has directed that Banks shall not make any further dividend payouts from profits pertaining to the financial year ended 31st March 2020 until further instructions, with a view that Banks must conserve capital in an environment of heightened uncertainty caused by COVID-19 pandemic. Accordingly, the Board of the Directors of the Bank have not recommended any dividend for the year 2019-20 (Previous year 35% i.e. ₹ 3.50 per equity share).
- 20 a) Following are the details as per the RBI circular DOR.No.BP.BC.34 /21.04.048/2019-20 dated 11th February 2020 with regard to Micro, Small and Medium Enterprises (MSME) Sector - Restructuring of Advances.

Particulars	Current Year 2019-20	Previous Year 2018-19
No. of accounts restructured	19	59
Amount (₹ in crore)	16.42	80.33

- b) The Bank could not implement Resolution Plan within the specified period of 180 days in three accounts during 2019-20. Hence, in terms of the RBI circular dated 7th June 2019 an additional provision of ₹ 49.84 crore has been made at the rate of 20% of Net Balance.

21. Reconciliation of Branch Adjustments and Balancing of Subsidiary Ledgers

- a) Balancing of Subsidiary Ledgers is completed at all the Branches/Offices
- b) Reconciliation of Branch Adjustments/Inter Bank accounts has been completed up to 31st March 2020 and steps are being taken to give effect to consequential adjustments of pending items.

22. Litigations and claims

A sum of ₹ 655.49 crore (Previous year ₹ 426.99 crore) is outstanding on account of demands raised by the Income Tax Department in the earlier years which have been fully paid under protest by debit to Sundry Assets - Protested Tax Account. In addition to the above, the Income Tax Department has gone on appeal on various issues wherein Appellate Authority has given decisions in favour of the Bank to the extent of ₹ 459.16 crore.

The Bank has also preferred appeal against certain service tax demands to the extent of ₹ 33.39 crore and paid pre deposit of ₹ 0.71 crore by debit to Sundry Assets – Service Tax Paid under Protest.

The Bank has been advised that there are good chances of success in these appeals, considering favorable judicial pronouncements and / or appellate orders on identical issues for earlier years. Hence, the Bank does not consider it necessary to make any provision or include the same under Schedule 12 - Contingent Liability, to the Balance sheet.

Further, in respect of certain disputed service tax demands, the Bank opted for Sab Ka Vishwas Scheme in FY 2019-20 on payment of ₹ 1.49 crore (including pre deposit amount of ₹ 0.94 crore), resulting in extinguishing of demands for ₹ 3.40 crore.

The Bank confirms that all pending litigations which may have an impact on its financial position have been estimated and provided for. In respect of other pending litigations, the Bank believes that no provision is required since these pending litigations have no impact on its financial position.

23. Basel III

In accordance with the RBI Circular DBR. No. BPBC.2/21.06.201/2018-19 dated 1st July 2015 on 'Basel III Capital Regulations' and RBI Circular DBR.NO.BP.BC 80/21.06.201/2014-15 dated 31st March 2015 on 'Prudential Guidelines on Capital Adequacy and Liquidity Standards Amendments', Banks are required to make Pillar III disclosures including Leverage Ratio and Liquidity Coverage Ratio under Basel III Framework. The Bank has made these disclosures which are available on its web site at the following link <http://ktkbank.com/ktk/BaselDisclosures.jsp#>. These disclosures have not been audited by the Statutory Central Auditors.

24. Employee Stock Option

The shareholders of the Bank, on July 21, 2018, have approved 'KBL Employee Stock Option Scheme-2018' (ESOS-2018) with a total of 50,00,000 stock options available for grant each of which is convertible into one equity share. The scheme has been framed in accordance with SEBI (Share Based Employee Benefits) Regulations, 2014 as amended from time to time. Bank has followed Intrinsic Value method for accounting the stock options in accordance with the aforesaid SEBI

Regulations. As per the scheme, the exercise price per option shall be the closing price per equity share of the Bank on the date of the grant.

The options granted under ESOS 2018 would vest after one year from the date of grant of such options in a graded manner over a period of three years (i.e. 40%, 30% & 30% respectively on completion of 1st, 2nd & 3rd year), as determined by the Nomination & Remuneration Committee (NRC), a committee of the Board of Directors, subject to continued employment with the Bank on the date of vesting.

During the year ended 31st March 2020, no modifications were made to the terms and conditions of ESOPs as approved by the NRC.

Activity in the options outstanding under the Employee Stock Option Plan:

Particulars	Number of options	Weighted Average Exercise Price (₹)
Outstanding at the beginning of the year	890175	116.10
Granted during the year	364400	65.44
Vested during the year	384305*	105.57
Exercised during the year	Nil	
Lapsed/ forfeited/ cancelled (No.s)	19282	
Outstanding as on 31 st March 2020	1342416*	93.07
Exercisable at the end of the year 31 st March 2020	384305*	105.57

*after giving effect to Bonus issue-2020

Application of Fair value methodology

Since, the Bank has followed intrinsic value method, the fair value of options used to compute the net profit and earnings per equity share has been estimated on the dates of each grant using the Black Scholes Formula. The Bank estimates the volatility based on the historical prices of its equity shares and expected life of options. The Bank granted 3,64,400 options during the year ended 31st March 2020 (previous year: 8,90,175). The various assumptions considered in the pricing model for the ESOPs granted during the year ended 31st March 2020 are:

a. Expected dividends yield	3.80%
b. Expected volatility	33.98 %to 36.10%
c. Risk –free interest rate	5.83% to 6.26%
d. Expected life of the options	2.41 to 5.50 years
e. The price of the underlying share in the market at the time of option grant.	₹. 48.10

Impact of the fair value method on the net profit and earnings per share

Had the Bank followed fair value method for accounting, the stock option compensation expense would have been ₹ 0.60 crore and the Bank's net profit for the year and earnings per share would have been as per the proforma amounts indicated below:

Particulars	31 st March 2020
Net Profit (as reported) (₹ in crore)	431.78
Add: Stock based employee compensation expense included in net income	0.00
Less: Stock based employee compensation expense determined under fair value method (₹ in crore)	0.39
Net Profit(Proforma)(₹ in crore)	431.39
Basic earnings per share(As reported)	13.89
Basic earnings per share(Proforma)	13.88
Diluted earnings per share(As reported)	13.89
Diluted earnings per share(Proforma)	13.87

25. Previous year's figures have been regrouped/rearranged/given in brackets wherever necessary and feasible to conform to current year's classification.

Sd/- Prasanna Patil Company Secretary	Sd/- Muralidhar K Rao General Manager & CFO	Sd/- Gokuldas Pai Chief Business Officer	Sd/- Y V Balachandra Chief Operating Officer
Sd/- Mahabaleshwara M S Managing Director & CEO	Sd/- P Jayarama Bhat Chairman	Sd/- Ashok Haranahalli Director	Sd/- B R Ashok Director

Refer our report of even date

For Manohar Chowdhry & Associates

Chartered Accountants
Firm Regn. No. 0019975

Sd/-

Murali Mohan Bhat
Partner
M.No. 203592

For Badari, Madhusudhan & Srinivasan

Chartered Accountants
Firm Regn. No. 0053895

Sd/-

T.V.Sudarshan
Partner
M.No. 019108

Place : Mangaluru

Date : 06th June 2020

INDEPENDENT AUDITORS' REPORT

To the Members of The Karnataka Bank Limited

Report on audit of the Standalone Financial Statements

Opinion

- 1.01 We have audited the standalone financial statements of The Karnataka Bank Limited ('the Bank'), which comprise the Balance Sheet as at 31st March 2020, the Profit and Loss Account and the Cash Flow Statement for the year then ended, and notes to the financial statements including a summary of the significant accounting policies and other explanatory information. Incorporated in these financial statements are the returns for the year ended on that date of 58 Branches/Offices audited by us and 824 Branches/Offices audited by the Statutory Branch Auditors.
- 1.02 In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013 in the manner so required for the Banking Companies and are in conformity with the accounting principles generally accepted in India and give a true and fair view of the state of affairs of the Bank as at 31st March 2020, and its Profit and Cash Flows for the year ended on that date.

Basis for Opinion

- 2.01 We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

- 3.01 Attention is drawn to:
- Schedule 18 – Notes A. 10 (b) to the financial statements which describes the uncertainties due to outbreak of novel coronavirus (COVID-19). In view of these uncertainties, the impact on the Bank's financial statements is significantly dependent on future developments;
 - Schedule 18 - Notes A. 10 (c) to the financial statements relating to Bank having recognized Provision on loans that were overdue but Standard as at 29th February 2020, for which moratorium benefit has been granted, based on the days past due status as on that date in accordance with the Reserve Bank of India COVID-19 Regulatory Package.
 - Schedule 18 – Notes C. 15 to the financial statements relating to deferment of provision of ₹ 189.37 crore pertaining to certain fraud accounts identified in the quarter ended 31st March 2020 and to be charged to the Profit and Loss Account in the three quarters of FY 2020-21, in terms of RBI Circular DBR No. BP.BC.92/21.04.048/2015-16 dated 18th April 2016.

3.02 Our opinion is not modified in respect of these matters.

Key Audit Matters

4.01 Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How our audit addressed the Key Audit Matter
<p>Identification of Non Performing Assets and Adequacy of Provisions</p> <p>Loans and Advances and Investments are classified as performing and non performing assets in accordance with the prudential norms issued by the Reserve Bank of India. The identification of non-performing assets and creation of provision on such assets involves key management judgments relating to performance, determination of realizable securities available to the Bank and their valuation.</p>	<p>We have assessed the Bank’s systems in place for classification of the assets, identification and provision for the non performing assets including assessment of realizable securities and their valuation. Our audit approach consisted of testing the design of the systems for identification of the non performing assets to ensure conformity with the guidelines of the RBI in the matter and test checking identification and valuation of non performing assets. We have reviewed the branch audit reports and ensured that changes suggested by the Branch auditors’ were duly carried out wherever necessary.</p>
<p>Recognition of Deferred Tax Assets</p> <p>Deferred Income tax reflect the impact of timing difference between taxable income and accounting income. Deferred Tax Asset is not recognized unless there is a virtual certainty that sufficient future taxable income will be available against which such asset will be realized.</p>	<p>We have relied upon the management estimates and expert opinions taken by the Bank regarding eligibility of carried forward tax losses for set off against future taxable income and used our own internal expertise in evaluating the claims, assumptions and profitability forecasts and assertions of the management provided to us, that sufficient future taxable income will be available for set off against the tax losses carried forward.</p>
<p>Contingent Liabilities, tax litigations and claims</p> <p>Contingent liability is a possible obligation, outcome of which is contingent upon occurrence or non-occurrence of one or more uncertain future events. In the judgment of the management, such claims and litigations including tax demands against the Bank would not eventually lead to a liability. However, should there be an adverse outcome, the Bank will be liable to pay the disputed amount with interest/penalty as may be decided by the competent authorities, the impact of which is uncertain/unascertainable at this stage.</p>	<p>We have reviewed the management note and the expert/legal opinions obtained by the Bank regarding the claims and tax litigations and involved our internal team to review the nature of such litigations and claims, their sustainability and likelihood of claims/litigations materializing into eventual liability upon final resolution, from the available records and developments to date.</p>

Information Other than the Standalone Financial Statements and Auditor's Report Thereon


- 5.01 The Bank's Board of Directors are responsible for the other information. The other information comprises the information included in the Annual Report including Pillar 3 Disclosure under the New Capital Adequacy Framework (Basel III disclosures), but does not include the standalone financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.
- 5.02 Our opinion on the standalone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.
- 5.03 In connection with our audit of the standalone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.
- 5.04 When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Management and those charged with Governance for the Standalone Financial Statements

- 6.01 The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.
- 6.02 In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the audit of the Financial Statements

- 7.01 Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users' taken on the basis of these financial statements.



7.02 As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the Bank has adequate internal financial controls system in place and the operating effectiveness of such controls;
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern; and
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

7.03 We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

7.04 We also provide those charged with governance with a statement that we have complied with the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

7.05 From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our Audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

- 8.01 We did not audit the financial statements/information of 824 Branches/Offices included in the standalone financial statements of the Bank whose financial statements/financial information reflect total advances of ₹ 31,272.27 crore as at 31st March 2020 and total revenue of ₹ 3,562.71 crore for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these Branches have been audited by the Branch Auditors' whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures pertaining to such Branches, is based solely on the report of the Branch Auditors'.
- 8.02 Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

- 9.01 The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 and Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014.
- 9.02 As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, 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 purpose 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.
- 9.03 Further, as required by section 143(3) of the Act, we report that:
- (a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (b) in our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from Branches/Offices not visited by us;
 - (c) the reports on the accounts of the Branch/Offices of the Bank audited under section 143(8) of the Act by the Statutory Branch Auditors' of the Bank have been sent to us and have been properly dealt with by us in preparing this report;
 - (d) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (e) in our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, to the extent they are not inconsistent with the accounting policies prescribed by the Reserve Bank of India;

- (f) on the basis of written representations received from the Directors as on 31st March 2020 and taken on record by the Board of Directors, none of the Director is disqualified as on 31st March 2020 from being appointed as a Director in terms of Section 164(2) of the Act;
- (g) with respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, separate Report in "Annexure A" may please be referred;
- (h) with respect to other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - (i) the Bank has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Schedule 18 Notes C. 22 to the financial statements;
 - (ii) the Bank does not have any long term contracts including derivative contracts for which there were any material foreseeable losses; and
 - (iii) there has been no delay in transferring the amounts required to be transferred to the Investor Education and Protection Fund, by the Bank.

for **Manohar Chowdhry & Associates**
Chartered Accountants
FR No. 001997S

Sd/-


(Murali Mohan Bhat)
Partner
M. No. 203592
UDIN:20203592AAAABS4967

Place: Mangaluru
Date: 06.06.2020

for **Badari, Madhusudhan & Srinivasan**
Chartered Accountants
FR No. 005389S

Sd/-

(T. V. Sudarshan)
Partner
M. No. 019108
UDIN: 20019108AAAAAP7034



Annexure A to the Independent Auditors' Report of even date on the standalone financial statements of The Karnataka Bank Limited

Report on the Internal Financial Controls Over Financial Reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

1.01 We have audited the internal financial controls over financial reporting of The Karnataka Bank Limited (“the Bank”) as at 31st March 2020 in conjunction with our audit of the standalone financial statements of the Bank for the year ended on that date.

Management’s Responsibility for Internal Financial Controls Over Financial Reporting

- 2.01 The Bank’s Board of Directors is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (“the Guidance Note”) issued by the Institute of Chartered Accountants of India (“the ICAI”).
- 2.02 These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 (“the Act”).

Auditors' Responsibility

- 3.01 Our responsibility is to express an opinion on the Bank’s internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (“the Guidance Note”) and the Standards on Auditing (“the Standards”), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.
- 3.02 Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- 3.03 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank’s internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

4.01 A Bank's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal financial control over financial reporting includes those policies and procedures that:

- a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank;
- b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditure of the Bank are being made only in accordance with authorizations of management and Directors of the Bank; and
- c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

5.01 Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

6.01 In our opinion, the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31st March 2020, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note issued by the ICAI.

for **Manohar Chowdhry & Associates**

Chartered Accountants

FR No. 001997S

Sd/-

(Murali Mohan Bhat)

Partner

M. No. 203592

UDIN:20203592AAAABS4967

Place: Mangaluru

Date: 06.06.2020

for **Badari, Madhusudhan & Srinivasan**

Chartered Accountants

FR No. 005389S

Sd/-

(T. V. Sudarshan)

Partner

M. No. 019108

UDIN: 20019108AAAAAP7034



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