

## Dear Shareholders,

I feel privileged to present the performance of your Bank for the Financial Year 2020-2021.

I thank all our shareholders for sparing their time & making it convenient to attend the AGM of the Bank virtually this year too, from various locations.

The outbreak of Covid-19 pandemic around the globe and in India has caused significant disruptions & volatility in the global and Indian financial markets. Our experience in navigating the first wave of the pandemic successfully instilled enough confidence to deal with the challenges of the second wave and also subsequent waves, if any, going forward. This crisis-like situation has shown us new opportunities as well. The digital revolution that was going on in all walks of life, has now gained traction manifold. It also taught us to change the way of doing the business and to adjust to the new-normal situation. Your Bank also has taken many innovative steps to face this pandemic and keep the business on track. We have adopted the Covid-19 business prescription 'Conserve, Consolidate & Emerge Stronger' which came in handy in keeping your Bank resilient. Even though the threat of Covid-19 aftermath is still not over, I am confident that your Bank will emerge still stronger in the days to come.

## Global Economy

The world Gross Domestic Product (GDP) for the year 2021 is expected to grow by 6.3 per cent, and GDP growth forecast for most developed economies was also upgraded.

## Indian Economy

Indian economy is expected to expand by 8.3 per cent in the fiscal year 2021-22, according to a report by World Bank in June 2021. The Reserve Bank of India (RBI) has retained the GDP growth projection for the fiscal year 2021-22 (FY22) at 9.5 per cent. RBI also extended certain liquidity measures/relaxation provided earlier to ensure adequate liquidity in the system to support the growth.

## Banking Industry

As per the RBI, India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to many other countries in the world. Further, various measures introduced by RBI in the form of liquidity facility of ₹ 50,000 crore, Special Long-Term Repo Operations (SLTRO) credit to MSMEs entrepreneurs and resolution framework 2.0 for Covid-19 related stressed assets for individuals, small businesses & MSME are expected to boost the economy and the banking sector going forward.

## Your Bank's Performance

During the year under consideration, your Bank was able to steer the business successfully and focused on further strengthening its fundamentals & bottom line and the overall satisfactory performance of your Bank is the testimony to its strength and resilience, as highlighted herebelow:

- The Business turnover stood at ₹ 1,27,348.56 crore consisting of Deposits of ₹ 75,654.86 crore and advances of ₹ 51,693.70 crore as on 31.03.2021. During the year under report, the Bank has realigned its credit portfolio by reducing large corporate advances portfolio significantly and further strengthening its Retail & Mid-Corporate advances Portfolios.
- The Bank has continuously focused on the growth of CASA and the total CASA deposits stood at ₹ 23,823 crore constituting 31.49 per cent of total deposits as against 28.91 per cent as on 31.03.2020.
- Operating Profit grew from ₹ 1656.77 crore for the year ended March 31, 2020 to ₹ 1,999.14 crore for the year ended March 31, 2021 registering a healthy growth of 20.67 per cent. Net Profit also recorded an all-time high of ₹ 482.57 crore from ₹ 431.78 crore thereby recording y-o-y growth of 11.76 per cent.
- The capital funds of the Bank increased from ₹ 6,789.35 crore to ₹ 7,387.05 crore and the Capital Adequacy Ratio is at a comfortable level of 14.85 per cent as against the regulatory requirement of a minimum of 10.875 per cent.
- The Provision Coverage Ratio (PCR) also improved to 70.05 per cent in FY 21 from 64.70 per cent in FY20.
- The Book Value per share is ₹ 213.67 as on 31.03.2021 as against ₹ 192.06 during the previous year.
- Digital banking transactions are gaining momentum and have risen above 90 per cent as on March 31, 2021 as compared to 83 per cent a year ago.
- GNPAs which were at ₹ 2,799.93 crore a year back improved to ₹ 2,588.41 crore in absolute terms with a reduction of ₹ 211 crore. Similarly NNPA's have also come down from ₹ 1,755.01 crore to ₹ 1,642.10 crore with a reduction of ₹ 113 crore. Even though in percentage terms, there is a marginal increase of around 10 bps both in GNPA and NNPA, this was mainly on account of the denominator effect, as our overall loan book came down by around 9 per cent.

## Dividend

The RBI on April 22, 2021, in partial modification of the instructions contained in its circular dated May 4, 2005 and December 04, 2020, permitted banks to pay dividend to the shareholders subject to certain parameters. Accordingly, I am pleased to inform that your Board of Directors, has proposed a dividend of ₹ 1.80 on each equity share (i.e. @ 18 per cent) on the paid up value of the equity shares for the year ended March 31, 2021.

## Board Composition

You are aware that your Bank is regarded as a professionally managed time tested Bank. Your Bank now has 11 Directors including two women directors, out of which eight are independent Directors constituting 72.72% of the Board as against the minimum requirement

# WE GROW, AS A FAMILY.

## Excerpts of the speech delivered by

## Shri Mahabaleshwara M S

Managing Director & CEO, Karnataka Bank Limited

at 97th Annual General Meeting of the shareholders

held at Head Office, Mangaluru on September 02, 2021

of 33.33%. During the year under report, two Directors had retired from the Board and one more Director retired in May 2021 after completion of their respective full terms. Further, to ensure board level succession planning, five new eminent personalities have been inducted as additional directors.

## Distribution Network

During the year under report, a total of 16 Branches were opened and 6 branches were merged. Further 16 branches were shifted for operational convenience and better ambience. The total branch network stood at 858 and 1478 ATMs/Cash Recyclers. The Bank has undertaken rationalisation & optimisation of branch space in line with the Bank's vision of 'Less space More business'.

## Financial Inclusion

Through the Financial Inclusion Plan, your Bank aims at 'connecting and financially empowering people and spreading financial literacy' by meeting the small credit needs of the rural public, giving them access to the payments system, providing remittance facility and life/health insurance products etc. The Bank has 192 branches located in the rural areas offering banking facilities to the rural clientele and also acting as Financial Literacy Centres (FLCs). Further, the Bank has 35 USBs (Ultra Small Branches) and 120 BC Agents who are covering the allocated villages of Karnataka, Andhra Pradesh and Chattisgarh States. Further, your Bank is actively participating in Direct Benefit Transfer (DBT) Programme of Govt. of India, wherein, the Govt. would transfer benefits of various schemes directly to the beneficiaries' Aadhaar enabled bank accounts. The Bank has sponsored five FLCs at B.C.Road, Tiptur, Hangal, Kundagol and Alur in Karnataka State. During the financial year 2020-21, a total of 429 Financial Literacy campaigns were conducted and 14,159 participants have been covered. The Bank is also taking lead role in implementation of Social Security Schemes-Prime Minister Jeevan Jyothi Bima Yojana (PMJJBY), Prime Minister Suraksha Bima Yojana (PMSBY), Atal Pension Yojana (APY), PMSVANidhi Scheme, Pradhan Mantri Jan Dhan Yojana (PMJDY) etc. and issuing RuPay Debit Cards also.

## Priority Sector Advances

Priority sector advances of the Bank stood at ₹ 28,616.59 crore as on March 31, 2021, constituting 46.58 per cent of Adjusted Net Bank Credit (ANBC). Credit to agriculture sector reached a level of ₹ 9,071.32 crore, and constituted 14.76% of ANBC with a focused attention on weaker section, Small and Marginal farmers etc.

## Risk Management and Compliance

The Bank has robust risk management system in place. In the normal course of business, the Bank is exposed to key risks such as Credit Risk, Market Risk, Liquidity Risk and Operational Risk which also includes IT Risk, besides interest rate risk, concentration risk, strategic risk, reputation risk, cyber risk, etc. In compliance to the RBI guidelines, your Bank periodically continues to strengthen various risk management systems that include policies, tools, techniques and other monitoring mechanisms. A Board level Committee i.e. Risk & Capital Management Committee (RCMC) reviews the risk profile, evaluates, develops policies and strategies periodically for its effective management. Further, your Bank attaches highest importance to the Compliance Culture across all aspects of banking. The Bank follows 'Compliance First and Business Next' concept in its operations. A separate Compliance Department at H.O. is supervising the compliance functions and Compliance Officers have been nominated at all the ROs & Branches of the Bank to closely monitor the compliance.

## Investor Relation Cell

In order to continuously engage with shareholders and to disseminate corporate information periodically on voluntary basis, a separate 'Investor Relation Cell' is functioning at Head Office. During the year under report, we had 4 concalls soon after the quarterly results and 5 e-mail communications and all these were hosted in the Bank's website also.

## Awards & Accolades

- Bank's Staff Training College has been re-accredited with the prestigious ISO 9001:2015 Certification.
- Bank has bagged Certificate of Appreciation 'Power to Persist (Sept. 2020)' in recognition of the achievement of persistency target & contribution towards Atal Pension Yojana from Pension Fund Regulatory and Development Authority (PFRDA), New Delhi.
- Letter of Appreciation for exemplary performance under APY from PFRDA.
- Bank has been honoured with 'Karnataka Best Employer Brand Awards 2020' from World HRD Congress in 15th Employer Branding Awards - Best Employer 2020-2021.
- Bank has won the following prestigious awards from World HRD Congress, Mumbai:
  - Dream companies to work for
  - Organisation with innovative HR practices

Further, I am humbled to mention here that your Managing Director & CEO has been conferred with the following honours:

- "Distinguished Alumni Award" from the Alumni Association of UASB (University of Agricultural Sciences, Bengaluru)
- Prestigious 'CEO of the Year' award in the 19th Global Edition of Business Leader of the year, presented by World Leadership Congress & Awards.
- Prestigious 'A. Shama Rao Memorial Outstanding Achievement Award-2021' instituted by A. Shama Rao Foundation, Mangaluru.

## KBL-VIKAAS- Aspirational Journey for wholistic and inclusive Transformation

The transformation journey in the Bank which began in November 2017 has gained momentum and is oriented towards transformation of credit delivery system, HR, IT and enhancing the customer experience. Your Bank has set up the state-of-the-art Digital Centre of Excellence (DCoE) at Bengaluru to analyse, address and deliver a seamless customer fulfillment experience by digitising the end-to-end customer journeys across both asset and liability products. Your Bank also established a fully digital interface in the form of 'Digi Branch' at Basavanagudi, Bengaluru and will be extending it to other centres. The prospective clients can simply walk-in to 'Digi-Branch' and open SB Account, besides self-generating the Debit Card, all in a matter of just a few minutes. During the year under report, the Bank has introduced a new concept DhIRA (Digital Human Interactive Relationship Assistant), a digital chatbot to interact with customers for Bank's products & services, information and capturing leads etc. As a part of customer journey digitisation, the Bank has launched innovative digital products and majority of Retail Loans are being sanctioned under Digital Loan Processes wherein in-principle sanction is provided instantly. The percentage of sanctions in Home Loans and Car loans through digital mode has exceeded 90% of the eligible loans and your Bank has been able to significantly upgrade its underwriting capabilities with remarkable improvement in TAT (Turn Around Time) for sanction. It is the endeavour of the Bank to cover all the retail products under this initiative going forward so as to achieve the scale and efficiency.

Further, in the second phase of Transformation "KBL VIKAAAS 2.0", your Bank intends to undertake advanced digital initiatives and recently launched Digital Transformation drive "KBL NxT" to emerge as the 'Digital Bank of future', with further focus on having tie-ups with Fintechs, Digital Customer on-boarding, Digi-branch, Analytical solutions, Digital Insurance, Increased ADC Adoption, Digitisation / Automation of processes across all the verticals of the Bank with enhanced IT infrastructure/Cyber security and end-to-end digital solutions.

## Formation of Subsidiary

With a view to optimise the costs, enhance the overall efficiency and to streamline back-end operations, your Bank has established its first ever wholly owned non-financial subsidiary named 'KBL Services Ltd.' I am happy to inform that the subsidiary company has commenced its operations w.e.f. March 30, 2021 and is taking required steps to accelerate its functions in line with the stated objectives. Business Associates of 'KBL Services Ltd.' are acting as 'Feet on Street' to source the business from New To Bank (NTB) customers.

## Human Resources Management

Our employees are our greatest asset and they have exhibited great resilience & dedication in these turbulent times of pandemic by further redefining the customer service benchmarks even by risking their life and their dedicated service is laudable. The Bank encourages its employees to engage in continuous learning for up-skilling their capabilities as a 'capacity building' initiative. A platform of e-learning called ELM (e-Learning Module) has been put in place in which training materials on various related topics are being uploaded regularly for the benefit of the employees. Apart from this, training is being provided at ISO 9001:2015 Certified Staff Training College of the Bank and also by deputing to other prestigious training Centres like SIBSTC, CAB-RBI, IDRBT, FEDAI, CAFRAL, etc. A total number of 4433 staff members (56.66 per cent of total staff) have undergone training/workshop/seminars during the reporting year.

## Covid Welfare Measures to Employees

The Bank has introduced special Covid-19 insurance of ₹ 20.00 lakh to be paid to the nominee of the employees who succumbed to Covid-19 apart from compassionate appointment to an eligible family member of the deceased staff member based on the extant guidelines. The Bank has organised vaccination camps at various Centres for the benefit of its employees and their family members. The Covid-19 safety measures such as sanitisers, masks and thermal screening are being followed scrupulously besides WFH (Work From Home), flexible working hours, sabbatical leave etc. to ensure the safety of the employees.

## Corporate Social Responsibility (CSR)

Your Bank is actively associated with the society through various activities under CSR programme in promoting education, women & children welfare schemes, preservation of heritage, rejuvenation of lakes, green initiatives, livelihood enhancement, providing infrastructure to rural Govt. Schools, etc. Over the years, your Bank's contribution under CSR has generated a positive social impact in various sections of the society and the results are encouraging. Further, during this Covid-19 related challenging times, your Bank undertook various relief measures such as supply of Digital Pulse Oximeters, Life Support Ambulances, PPE Kits, Life Saving Ventilators, Cardiac Monitors, etc. to further strengthen the health infrastructure. During the year under report, your Bank had sanctioned a sum of ₹ 979.04 lakh for 185 projects under its CSR initiatives as against the budgeted amount of ₹ 960.00 lakh. A committee of Directors, viz. Corporate Social Responsibility Committee is overseeing the overall governance of the CSR activities of your Bank ably assisted by a CSR Support Group of Executives.

## Tribute to Founders

Your Bank is organising Founders' Day lecture on February 18th of every year to pay tribute to the founding fathers of the Bank. This year too on February 18, 2021, the Bank had its Founders' Day Celebration by duly adhering to the Covid-19 protocols. Renowned motivational speaker Dr. Gururaja Karajagi delivered this year's Founders' Day lecture and the same was well received.

## Centenary Year 2023-2024

Your Bank will be completing 100 years of its service to the nation on February 18, 2024 and we are planning for Centenary Celebration from February 18, 2023 to February 18, 2024 to lay a strong foundation for the second Century of the Bank by innovative and long lasting initiatives. Your Bank is planning to construct a 'Centenary Building' and also to come out with a 'Centenary Souvenir' to commemorate this special event besides various far reaching initiatives, such as 'KBL NxT' etc.

## Acknowledgment

I express my heartfelt gratitude to our beloved Chairman, Shri P. Jayarama Bhat and the Board of Directors for the enlightened advice & guidance to maintain the highest standards of corporate governance and professionalism in running the Bank. I also thankfully acknowledge the continuous guidance & support of the Reserve Bank of India, Indian Banks' Association, SEBI, Stock Exchanges, IRDAI, PFRDA and other Regulatory / Statutory bodies/ various state Governments.

I would like to place on record my appreciation to senior executive team and all the members of staff for their outstanding tireless efforts during the challenging year. My sincere thanks to the President, General Secretary and office bearers of both AIKBEA & KBOO for their continued support in all the endeavours of the Bank as partners in progress. My special thanks to all of you dear shareholders for reposing your continued faith and support. My sincere thanks to all our valued customers, well-wishers, Channel Partners and Vendors.

## Way Forward

Having overcome the challenges in 2020-21, we look forward with optimism & enthusiasm and our focus continues to make the current financial year an 'YEAR OF EXCELLENCE' and 'Team KBL' shall strive hard to see your Bank among the Top three in the peer group by focusing on following aspects in the years to come:

- A healthy, consistent, sustainable and remunerative business.
- An efficient collection mechanism to de-stress the Advances Portfolio and to bring down the 'Slippage Ratio'.
- To continue our good efforts in NPA resolution and recovery in Technically Written-Off accounts.
- To have a 'Cost-Lite' liability portfolio by focusing on CASA and cost effective RTD (Retail Term Deposit).
- Customer centric initiatives including Third Party Product (TPP), to broad-base the fee income stream.
- Redesigning business model by duly factoring in the service of KBL Services Ltd.
- Creating a future ready workforce.
- Further strengthening the control functions by spreading the culture of compliance.
- Further strengthening the fundamentals like PCR, CRAR, NIM, ROA, ROE, Cost to Income Ratio etc.
- Strive hard to enhance the stakeholders' value.
- Taking digital initiatives to next level to create the 'Digital Bank of future' by further strengthening the IT/ digital security features and by focusing on 'KBL NxT' concept.

Further, I am happy to inform that your Bank has recently been authorised by the RBI as "Agency Bank" to conduct government business. With this, the Bank would be able to increase its CASA base as well as earn fee income by extending technology driven banking solutions to the Central and State Government Departments in the coming years.

I am sure, with mutual trust between the Bank & its clients and the support of the shareholders your Bank will continue to play the leading role in the economy, as it has done for more than 97 years. The outlook for us is POSITIVE and full of OPPORTUNITIES. Together, let us build a 'New KBL' as strong 'Digital Bank of future'.

**Thank you one and all.**

(Note : This does not purport to be a record of the proceedings of the Annual General Meeting)

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Your Family Bank. Across India.