

INTEGRATED REPORTING

In today's era, although organizations in India operate in local jurisdictions, the developed countries' working culture has been influencing over the past few years and is shaping the internal processes and also external processes. As such, reporting standards and disclosure requirements are being aligned to international standards and efforts are being made both by (i) Indian Corporates (i.e. taking steps in this regard on a voluntary basis) and (ii) Regulators (such as MCA, RBI, SEBI etc.) and are considering progressive phase-wise initiatives in the reporting and disclosure standards. Some of the examples of internationally aligned reporting standards are introduction of IFRS (i.e. IND AS), Integrated Reporting (IR), XBRL Reporting, BASEL Standards etc.

Further, the Securities and Exchange Board of India (SEBI) is working towards improving the disclosure standards of listed entities in India in consultation with the industry bodies and stock exchanges etc. and thus, suggested the listed entities to introduce the concept of "Integrated Reporting" (IR) based on the "International Integrated Reporting Council's (IIRC) Framework".

Your Bank being a listed entity, an attempt is made to address the concepts introduced under the IIRC Framework and going forward, the reporting/disclosure standards will be aligned with the IIRC model with a view to implement comprehensive structure of reporting in the years to come. In this context, IIRC Framework also provided a timeline of not more than three years for the entities to realign their reporting standards in accordance with the IR framework.

Further, presentation of the Integrated Reporting (IR) is under nascent stages, and therefore, your Directors opine that adoption of entire IIRC framework by the industry at large would require aligning reporting/disclosure in consonance with the Indian regulatory standards wherein, most of the financial and non-financial disclosures are already being made as per the formats prescribed by various Indian Regulators as stated above. However, this is a transition phase for the overall listed entities' community. As regards the Bank's IR, a comparative table given below will provide details of disclosures that are being made over the past few years and the IR elements.

Your Bank is in the business of banking i.e. playing a fiduciary role in overall socio-economic growth of the country by safeguarding the depositors' interest and providing quality financial support to the enthusiasts who have been making an impact in the society not only for their own profit, but also providing employment to many needy citizens. The Bank in its 95 years of existence, touched many lives through financial support, social support, financial inclusion and generation of employment etc. and the success of its business model has been mainly by focusing on quality of service to stakeholders. As the decades pass by, new technological revolutions are shaping the new age banking and Karnataka Bank has been adapting itself to the new processes and systems to meet the expectations of the customers yet, keeping intact the core values and identity. To illustrate, Karnataka Bank was one of the first few private sector banks to adopt core banking solution (CBS) in India. Further, your Bank believes that, concepts that have emerged in the recent times such as mobile based banking, block-chain, unified payment interface, fin-tech business etc. are only derivatives of the disruptive technologies and the future of banking across the globe is subject to adaption of newer technologies by Banks and, Karnataka Bank has been proactively initiating steps to adapt itself to innovative systems from time to time. In this direction, a Transformation Plan is being worked out at strategic level to assess suitable technologies and processes and systems.

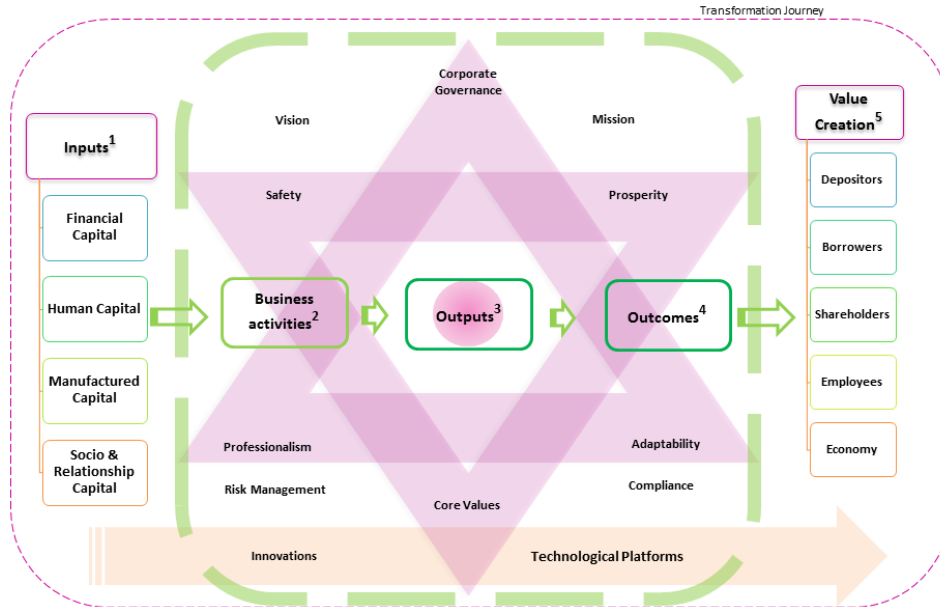
Table on comparative statement with respect to IR and Bank's disclosures that are being made:

IR Framework's content elements	Reporting provided in this Annual Report
Eight Content Elements:	
1. Organizational overview and external environment	
2. Governance	
3. Business model	
4. Risks and opportunities	
5. Strategy and resource allocation	
6. Performance	
7. Outlook	
8. Basis of preparation and presentation	

<p>1. <u>Organizational overview and external environment</u> <i>What does the organization do and what are the circumstances under which it operates?</i></p> <p>Ownership</p> <p>Operating Structure, principal activities and markets, competitive landscape and market positioning.</p> <p>External environment</p>	<p>Karnataka Bank is in the business of banking.</p> <p>With a view to uphold the best corporate governance practices, Founders of this Bank carefully designed the business model wherein, Bank does not have any promoter and only the best professionalism prevails. In the Indian scenario, this model is now being adopted by many companies. Back in the era of 1920s, non-promoter concept was used to ensure there is no conflict of interest at the helm of leadership. Bank’s Board/ Management has been ensuring handing over of the stewardship to the team of persons who possess required caliber. Healthy sustenance of the Bank has always been kept in mind while defining succession planning at the top levels. Your Bank’s shares are held by the public at large and shareholding pattern as on March 31, 2019 has been provided under Annexure III.</p> <p>Your Bank operates through ‘Branch Banking Model’ and also ‘Digital Banking Model’ and follows three tier administrative structure comprising of Head Office at the apex level, Regional Offices at the administrative level and Branches as business centers. Its principal activities include acceptance of deposits and lending for earning interest and fees. Karnataka Bank operates in various states in India and the details are provided under “Distribution Network” Section provided as part of this Directors’ Report.</p> <p>Details on external environment, regulatory changes and their impact on the banking industry as well the bank besides risks and the opportunities are detailed under “Management Discussion Analysis (MDA)” Section which is provided as part of this Directors’ Report.</p>
<p>2. <u>Governance</u> <i>How does the organization’s governance structure support its ability to create value in the short, medium and long term. Specific processes used to make strategic decisions.</i></p>	<p>Your Bank being a regulated entity, adheres to the norms prescribed under Banking Regulation Act, 1949 wherein, guidance on constitution of the Board of the banks etc. has been narrated. Accordingly, the constitution of the Board of Directors of the Bank 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 drawn from specialized fields such as Banking, Finance, Accountancy, Law, Agriculture and Rural Economy, Cooperation and SSI, Information Technology etc.</p> <p>The progress of the Bank is being reported to the Board/Board level Committees on a periodical basis and the Directors provide feedback to the Management for further improvement in the operations of the Bank. Further, Board of Directors has also formed sub-committees to take advantage of the skills and expertise of directors concerned. Terms of reference and number of meetings held etc. are provided under “Corporate Governance Report” (Annexure III).</p> <p>Further, Bank’s Corporate Governance Report is prepared in line with the extant regulations of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [‘SEBI LODR’].</p> <p>Further, the Management also has many committees of executives for the day-to-day management and to implement new initiatives.</p>
<p>3. <u>Business Model</u> <i>What is the organization’s business model. (Inputs, Business activities, Outputs, Outcomes)</i></p>	<p>A detailed diagram provided in subsequent page provides an insight on Bank’s business model.</p>

<p>4. <u>Risks and Opportunities</u> <i>What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them etc.</i></p>	<p>Details have been provided under MDA.</p>
<p>5. <u>Strategy and Resource allocation</u> <i>Where does the organization want to go and how does it intend to get there?</i></p>	<p>As detailed above, your Bank has been taking initiatives to adapt itself to changing scenarios to meet the expectations of the stakeholders. In this direction, your Bank defines corporate goals on an annual basis and the performance is reviewed on a periodical basis.</p> <p>However, technological advancements are impacting all industries across the globe and Bank has time and again initiated steps to transform itself through business process re-engineering or through transformation plan after carefully studying the pros and cons of such advancements. Accordingly, with a view to reposition the Bank as 'Relevant and Significant Bank', a transformation project has been launched during the reporting financial year partnering with Boston Consulting Group (BCG). A brief about the strategies included under transformation project adopted by the Bank have been detailed under "Transformation Project" Section under this Directors' Report.</p>
<p>6. <u>Performance</u> <i>To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals</i></p>	<p>Both financial and non-financial performance achieved by the Bank during the reporting period has been detailed under this Directors' Report along with its impact on capital.</p>
<p>7. <u>Outlook</u> <i>What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance</i></p>	<p>Outlook of the banking industry, changes in the socio-economic conditions, changes in the regulatory environment, and their impact on business model and future performance etc. have been detailed under MDA.</p>
<p>8. <u>Basis of preparation and presentation</u> <i>How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated</i></p>	<p>As aforesaid, the concept of IR is in the nascent stages in Indian reporting structure, however, most of the content elements provided under the IR Framework have already been reported under various formats as desired by various regulators such as RBI, MCA, SEBI etc. and Bank will continue to adhere to the standards of reporting as per the expectations of the regulators by pooling the best resources.</p>

BUSINESS MODEL



1. Inputs

Financial Capital	Human Capital	Manufactured Capital	Socio-Relationship Capital
<ul style="list-style-type: none"> • Deposits from public • Raising funds in the form of equity, debt etc. • Internal own funds (i.e. Reserves and Share Premium Account). 	<ul style="list-style-type: none"> • Karnataka Bank has 8275 employees who have been regularly updating their skills to provide best in the class banking services. 	<ul style="list-style-type: none"> • The Bank's business is operated through branch-banking and digital banking channels including ATMs, Internet Banking, Mobile Banking, POS, e-Lobbies etc. • The Bank has 836 branches spread across 22 states and 2 Union Territories as on March 31, 2019. 	<ul style="list-style-type: none"> • Bank has been making efforts over the years by contributing to society through its financial inclusion branches. Bank has touched 547 villages of 106 Gram Panchayats through "Brick and Mortar" Branch approach as on March 31, 2019. • The Bank also provides assistance through its Corporate Social Responsibility (CSR) Programme and details of its contribution made during the year are provided under Annexure V.

Further details have been provided at the beginning of the Directors' Report.

Banking is a service oriented technology based industry and utilization of natural resources plays only a supportive role to the main activity.

2. Business Activities

- By employing various forms of capital, Bank deploys its funds by lending and investing.
- In this process, Bank also sells third party products such as Bancassurance, Mutual Funds units etc.

3. Outputs

- By employing various forms of capitals and deployment of funds, Bank earns interest/commission in funded and non-funded exposures by retaining a margin between borrowing rates and lending rates
- Bank also earns commissions, processing fees, profit on sale of investments etc.

4. Outcomes and 5. Value creation

- Business turnover, operating profit, interest income, Bank's operating profit etc. are outcomes of the process.
- In its 95 years of existence, Bank has played a pivotal role in many lives by providing timely servicing of interest to depositors, lending to borrowers at competitive rates, creating employment, distributing dividend on a consistent basis to the shareholders and besides value creation by way of increase in the market capitalisation.
- Contributing to society through its Financial Inclusion and CSR Programmes and enabling the weaker section to improve their standard of living.