

ENDURING LEGACY DIGITALLY ENABLED

98th Annual Report 2021-22

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ABOUT US

Karnataka Bank Limited (KBL), a time tested universal Bank under India's first generation private sector banks with over 9 decades of professional banking experience, and a national presence with a network of 877 branches, 1448 ATMs/Cash Recyclers spread across 22 States and 2 Union Territories.

Ably guided by Professional Board, managed by a dedicated & competent Management Team, backed by over 8520 committed Employees, 2 lakh+ Shareholders and the trusted 'Family Bank' for over 12 million Customers.

VISION

"To be a progressive, prosperous and well governed bank"

MISSION

"To be a technology savvy, customer centric progressive bank with a national presence, driven by the highest standards of corporate governance and guided by sound ethical values"



KEY HIGHLIGHTS

Business

Deposits (31.03.2022)

₹ **80,387** crore

+6.25% YoY

Advances (31.03.2022)

₹ **56,783** crore

+10.22% YoY

Turnover (FY22)

₹ **137,170** crore

+7.86% YoY

CASA (FY22)

32.97 %

+148 bps

Financial Performance

Net Interest Income (FY22)

₹ **2491** crore

+14.10% YoY

Net Profit (FY22)

₹ **509** crore

+5.40% YoY

CRAR (FY22)

15.66 %

81 bps

Asset Quality

Net NPA (FY22)

2.42 %

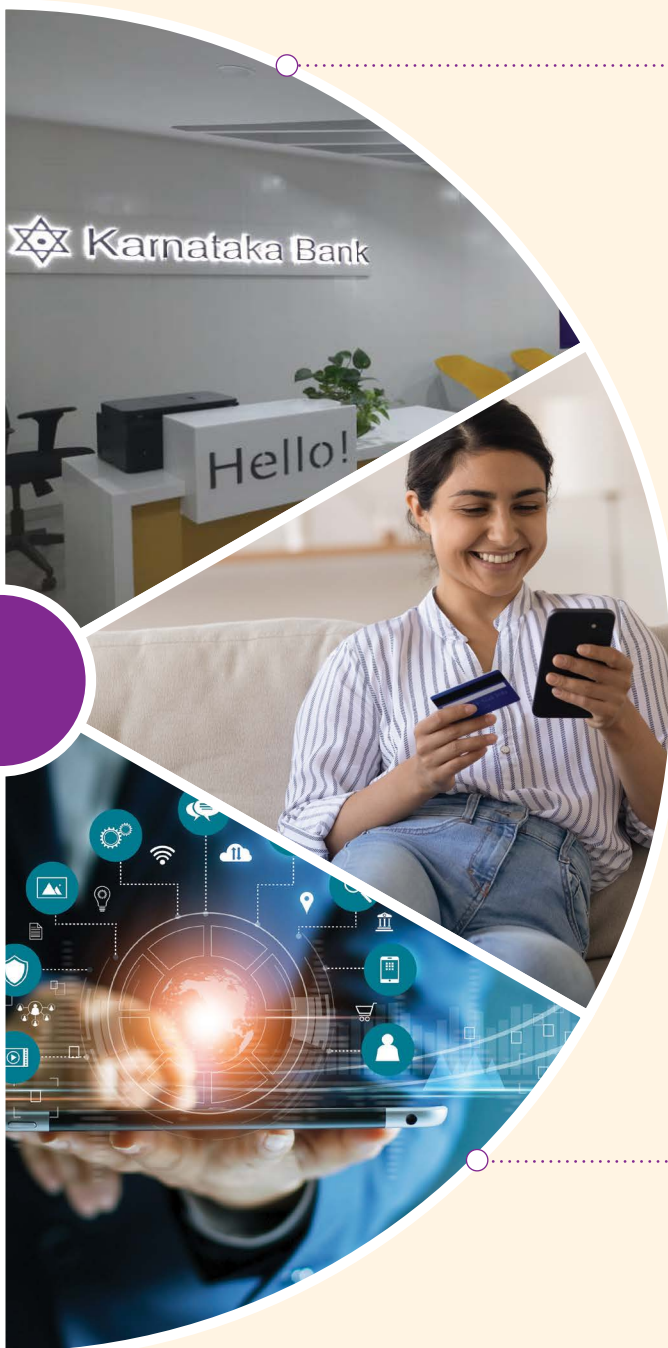
-77 bps

PCR (FY22)

73.47 %

+348 bps





Network & Customers

Branches (FY22)

877

Customers (FY22)

12 million+

MoneyPlant® ATMs/Cash Recyclers (FY22)

1448

Digital Banking

Digital Transactions (FY22)

93.22 %

Mobile Banking (FY22)

23,85,999 Regd. users

From 12,60,921 users in FY21

Key Strategies

Implementation of KBL-NxT to emerge as 'Digital Bank'

Integrated Management of Asset Quality

Opening of Digital Banking Units

Focussed Credit and CASA Growth

Re-aligning banking with ESG

CHAIRMAN'S STATEMENT



Being more prudent, we have been continuously increasing our Provision Coverage Ratio. After the provisions made during FY22, PCR stood at 73.47% as of 31st March 2022 compared to 69.99% at the end of the previous year.

Dear Shareholders,

I am happy to send my first communicate to you after I took over as the Chairman on November 14, 2021.

As Covid-19 has progressed from a pandemic to an endemic, the risks are gradually reducing. But as the experts advise us, let us continue to be cautious and take preventive measures.

Economic scenario

The most disturbing phenomenon currently impacting world peace and economic progress is the Russia-Ukraine conflict which has caused one of the most severe humanitarian crises in recent times. The impact of the war is having many global repercussions, from scarcity of fuel and food grains to supply chain difficulties, which is fuelling steep inflation in almost every country.

Central banks worldwide, whether the US Fed, Bank of England, or RBI in our home country, have been increasing the interest rates to contain inflation. IMF has been trimming the world growth expectations for 2022, given the problematic prevailing conditions.

However, even the downwardly revised India's growth forecast is much better than the world average and many other developing and developed countries. The significant factors that make India an optimistic economy are the proactive government policy measures such as Production Linked Incentives (PLI) and a normal monsoon expected during this year.

The Indian banking sector has undergone major reforms in recent years. The banking sector's gross NPAs have dropped below 6% in March 2022, which is the lowest in the last six years. Profit momentum for the banks

continued to be positive in FY2021 and FY2022, despite the pandemic. With inbuilt resilience, the banking sector is now in a solid position to resiliently absorb many of these external impacts. After recovering from the covid-related disruptions, businesses are regaining growth and investing further. Rising interest rates are a concern, but I am confident that growing companies will be able to absorb the new interest rates, and the impact on lending may only be marginal.

Our financial performance during FY22

During the FY2022, our Bank earned the highest ever net profit of ₹508.62 crores. This achievement has been possible primarily due to the improvement in our Net Interest Margin, among other factors.

As of the end of FY2022, Gross Non-Performing Asset (GNPA) was 3.90%,

which is significantly better than the 4.91% a year ago. Similarly, Net Non-Performing Asset (NNPA) improved from 3.19%, down to 2.42%.

Being more prudent, we have been continuously increasing our Provision Coverage Ratio. After the provisions made during FY2022, our PCR stood at 73.47% as of March 31, 2022, compared to 69.99% at the end of the previous year.

The Capital Risk-weighted Assets Ratio (CRAR) of the Bank as of March 31, 2022, stood at 15.66%, much higher than the rate of 11.50% required by Basel III norms. During the year, the Bank issued Tier 2 bonds aggregating ₹ 300 crore to augment its capital adequacy.

Digital transformation

KBL-VIKAAS, our journey towards digital transformation, began in 2017 based on the recommendations of the Boston Consulting Group. With this initiative, we have tremendously improved our internal processes with respect to assets and liabilities and built a strong culture of sales and marketing.

Recognising our digitisation efforts, the Bank has been conferred the 'DX 2021 Award' by the Confederation of Indian Industry (CII) for Best Practice in Digital Transformation.

To take our digital initiatives to the next level, we have started KBL-VIKAAS 2.0 to make Karnataka Bank "The Digital Bank of Future". I appreciate the executive team and the staff members' effort and spirit.

Changes in the Board

Mr. P Jayarama Bhat retired as the Part-time Non-Executive Chairman on November 13, 2021. Before this,

he had been the MD & CEO of the Bank from July 2009 till April 2017, with overall five decades of dedicated service to the Bank. It was an excellent experience for me to have worked with him on the Board. I join all of you in wishing him a healthy and happy life. We are indebted to him for his contributions and guidance.

In April 2022, the Board appointed two additional non-executive independent directors whose appointment has been approved by the shareholders vide a resolution dated June 2, 2022, passed via postal ballot (e-voting).

Mr Jeevandas Narayan has over 40 years of experience in the banking and finance sector, including as the Deputy Managing Director of State Bank of India and Managing Director of State Bank of Travancore.

Mr Kalmanje Gururaj Acharya is a Chartered Accountant specialising in corporate finance, corporate taxes and company law. He was a Director on the Board of the erstwhile State Bank of Mysore and a Member of the Expert Advisory Committee of ICAI, New Delhi.

I welcome them onto the Board, and I believe their appointment would further enhance our expertise in banking and financial specialisations.

Thus, at present, the Board has eleven members, of whom nine are Independent Directors, constituting 82% of the Board as against the minimum requirement of 33%. Furthermore, the Board has two women directors against the minimum requirement of one, and both are Independent Directors. Thus, the Board is well represented and broad-based with requisite skill sets/ expertise from all spheres of Banking.

Governance

The Board places utmost importance on corporate governance to ensure our decision-making is based on objective reasoning, banking operations are conducted transparently, and administration is carried out with integrity.

All our directors are continuously imparted training to enhance the Board's overall effectiveness. During the year, the directors were provided training at the Centre for Advanced Financial Research and Learning, National Institute of Securities Management, Institute for Development and Research in Banking Technology, Ernst & Young, etc. The focus areas of training have been corporate governance, risk management, cyber security, compliances, HR management during pandemics etc.

The Bank has completed its successful journey of 98 years, and the Centenary Year is just around the corner in 2023-24. We look forward to your continued association to celebrate this once-in-a-lifetime event in a befitting manner.

I would like to conclude with placing my gratitude to you for your continued support and to all our customers, employees, and service providers for their unstinted support. I also thank the Regulator and other government departments for their guidance.

With best wishes,

P Pradeep Kumar

Part-time Chairman

MANAGING DIRECTOR & CEO'S REVIEW

During the last few years, the Bank has metamorphosed from a traditional lending entity to a new-age financial institution. We are building technological structures to turn ourselves into the 'Digital Bank of Future.'



Dear Shareholders,

The age-old adage "*Businesses are built on the foundation of Trust*" cannot be proved more accurate, and trust is not built in large, comprehensive moments, but in tiny, capsular moments day by day, every day.

As I present to you the 98th Annual report for 2021-22 of Karnataka Bank Ltd. (KBL), I can confidently share with you that '*trust*' has played a crucial role in propelling the Bank to this altitude, and in the last close-to-a-century-years, we have together lived, learnt and enjoyed from many such tiny moments and in the process became stronger and stronger.

Pillars of Technology

"Technology is an enabler, and organisations that adopt and adapt to technology can usher in an era of growth and revolution."

During the last few years, the Bank has metamorphosed from a traditional lending entity to a new-

age financial institution. We are building technological structures to turn ourselves into the '*Digital Bank of Future*.' With an objective of taking the digital initiatives to the next level, complemented with the idea of "One Bank One Team", the Bank has launched project 'KBL NxT' under wave 2.0 of 'KBL-VIKAAS' in April 2021, after the successful completion of KBL-VIKAAS 1.0. The holistic and inclusive approach towards the transformation is now discernible amongst the workforce, offices and processes and its consistency and sustainability are quite visible.

Recently, we have launched the 'Video-based Customer Identification Process (V-CIP) to enable the online opening of Savings Bank Accounts in minutes. The Validation of PAN / Aadhaar numbers and other KYC requirements are fulfilled in a paperless digital environment. V-CIP is another milestone in our digital journey.

Our digital underwriting platform enabled online sanction of home, personal, car, 2-wheeler loans and MSME loans. Digital sales of insurance policies and mutual fund products have been made possible by a single platform, FISDOM. Online opening of Demat and trading accounts has been enabled through KBL-Smart Trade. KBL-Mobile has recorded tremendous growth as the registered users increased from 12.62 lakhs in FY2021 to 23.86 lakhs in FY2022. Further, on a day-to-day basis, digital transactions have reached a new high of 93.13%.

Bank proposes to open two Digital Banking Units (DBUs) shortly, in addition to the already existing Digi branch and a Digi centre, in line with the Government of India's initiatives under 'Azadi Ka Amrit Mahotsav' to commemorate 75 years of India's Independence.

The Bank has always stayed ahead of the curve in building its digital capabilities. It has significantly

invested in technology and digital analytics to underwrite, manage risk and outcomes, and optimise costs. The transformation journey has also enhanced the visibility of your Bank, the brand and digital capabilities at par with any new generation bank, and the emergence of 'New KBL' is quite evident.

Banking all through FY2022

FY2022, for KBL, is the 'Year of Business Excellence' despite the Covid-19-related challenges and the fallout of the global war scenario.

The year witnessed the Bank's net profit crossing the ₹500 crore mark' for the first time in the history of KBL, and the Bank created another record of crossing the ₹100 crore net profit mark consistently in all the four quarters in FY2022. In FY2022, we earned the highest net profit of ₹508.62 crore, an increase of 5.4% over ₹482.57 crore earned during the previous year. Net Interest Income

stood at ₹2,491.03 Cr, up by 14.10%. Net Interest Margin was 3.18%, with a growth of 27 bps. Regarding business growth, gross advances increased by 10.22%, deposits increased by 6.25%, CASA book increased by 11.23%, and CASA reached a new high of 32.97% of the total deposits. With respect to NPA and Provisioning, Gross NPA of 3.90% was down by 101 bps, Net NPA of 2.42% was down by 77 bps and provision coverage ratio at 73.47% was up by 348 bps. The Capital to Risk-weighted Asset Ratio at 15.66% was up by 81 bps and much higher than the minimum regulatory requirement of 11.50%. These accomplishments are the stepping stones towards our dream of emerging as a 'Strong, Vibrant and Digital Bank of the Future' by the turn of the Centenary Year of the Bank.

Some more snippets from FY2022

During the year, we raised BASEL III Compliant Tier-2 Capital of ₹ 300 crore in a record time by way of issuing bonds to supplement the expected business growth in the coming years.

To its credit Karnataka Bank has pioneered to get ISO 9001:2015 Certification for its QMS activities associated with Risk Management Processes and practices of the Risk Management Department at Head Office.

The Bank has shifted to the new tax regime in FY2022 to get the tax benefit at a lower rate. Further, the practice of making accelerated provision towards NPAs has also been continued.

To date, we have hosted 100 e-learning modules on the ELM platform.

Retirees' Portal on the corporate website acts like a one-stop

The Bank has always stayed ahead of the curve in building its Digital Capabilities.

information source for the retirees of the Bank.

We have added 20 new branches taking the total brick & mortar branches tally to 877.

The wholly owned non-financial subsidiary of the Bank 'KBL Services Ltd.' (KSL), which commenced its operations on 30.03.2021 at Bengaluru, is continuing to play a supportive role and is optimising the cost of operations in various verticals.

Change in the governing body

Mr. P Jayarama Bhat retired as the Chairman on November 13, 2021, after an exemplary career in the Bank spanning almost fifty years and with a significant contribution to building the formidable financial institution we are now. His fortitude and leadership will be sorely missed.

On the other hand, I take pleasure in welcoming Mr. P Pradeep Kumar, who took charge as Part-time Chairman on November 14, 2021. Being an independent director for quite some time, he knows the Bank thoroughly, and I look forward to the Bank reaching newer heights under his guidance and stewardship.

Recognition of Excellence, Token of Merit

Team KBL, with commitment and team spirit, has bagged a record number of 25 prestigious awards during the year under report for its performance in many areas.

Bank proposes to open two Digital Banking Units (DBUs) shortly, in addition to the already existing Digi branch and a Digi centre, in line with the Government of India's initiatives under 'Azadi Ka Amrit Mahotsav' to commemorate 75 years of India's Independence.

As we are cruising in our landmark journey, the main focus area for FY2023 would include re-aligning banking activities to ESG protocols, continuation of the digital transformation initiatives of KBL-VIKAAS 2.0 and KBL-NxT and to prepare for KBL@100

A few notable ones are:

'National Best Employer Brand' Award at the 16th Edition of Employer Branding Awards of World HRD Congress, Mumbai

'Best MSME Bank of the year – Winner' Award among Private Sector Banks from ASSOCHAM, New Delhi

Prestigious 'GOLD' Award for outstanding achievement in Safety & Security in Banking Sector conferred by sustainable Development Foundation

Digital Transformation DX 2021 Award for Best Practice in Digital Transformation 2021 in recognition of the "Innovative" Best Practice – "KBL VIKAAS" instituted by the Confederation of Indian Industry (CII).

Infosys Innovation Global Awards 2021- 'Customer Journey Reimagination' category among the 'Mid-Size Bank segment' – 'RUNNER UP'

Outlook for FY23 and beyond

As we are cruising in our landmark journey, the main focus area for FY2023 would include re-aligning banking activities to ESG protocols, the continuation of the digital transformation initiatives of KBL-VIKAAS 2.0 and KBL-NxT, increasing the number of DBUs as per RBI guidelines, further improve the risk management systems, focus on strengthening the balance sheet, integrated management of Asset Quality including SMA, NPA, restructured portfolio, increase in CASA deposits and focus on NRI deposits, Capital Augmentation, effective Succession Planning at all levels, and Growth Management via branch expansion. Our Branch network is poised to cross 900 during the current FY.

Corporate Mobile Banking with an Omni Channel experience, KBL Mobile Plus enhancement with Multi-Language Support, and Centralised Know Your Customer Integrated Solution are some other treats in store for our esteemed customers.

The CSR activities will be based on the 'Centenary CSR Themes' of Education, Health and Environmental sustainability for the next three years so that the underprivileged sections of society would continue to benefit significantly.

KBL@100

The Centenary Year celebration is the collective dream of all the stakeholders, and we aspire to take the Bank to a new high when it enters the second century of its services in 2024.

In conclusion

The highest standards of corporate governance and professionalism

combined with a rich culture and great human resource pool will steer any organisation towards its highest achievable point. The future journey in the banking industry would be subjected to greater competition from new players in fintechs, startups and payment banks focussing on digital lending, as they are equipped with the best-in-class digital deliverables. However, we at Karnataka Bank are more focussed on collaboration and Cooperation to harness our competitiveness. Further, we assure our stakeholders that while achieving growth and profitability is essential, Consistency and Sustainability will be portrayed in our performance which will be the hallmark of 'New KBL'

Though the compliance culture, by and large, is imbibed in our DNA already, we are focussed on doing things right and doing them right all the time. The concept of 'Compliance First, Business Next' will continue to guide us in the coming years.

I take this opportunity to place my gratitude to our depositors, borrowers, employees, Board members and shareholders for their contributions to the growth of the Bank. I also thank the regulatory bodies like RBI and SEBI and the central and state governments for their continued guidance and support.

With a remarkable, admirable history as our backdrop, we are all set to carve our future. I am committing myself and 'Team KBL' to another 'Year of Business Excellence'.

Looking forward to your continued support and co-operation.

Yours faithfully

Mahabaleshwara M S
Managing Director & CEO