

ANNEXURE III

CORPORATE GOVERNANCE

Corporate Governance broadly refers to the set of systems, principles and processes by which a company is governed while fulfilling the goals and objectives of the company and also protecting the interest of all the stakeholders in the long run. It is based on principles such as conducting the business with integrity and fairness, being transparent in all transactions, making all the necessary disclosures and complying with all the applicable laws, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner. Your Directors' present below the Bank's Report on compliance of Corporate Governance requirements as prescribed under Regulation 17-27 read with Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015.

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 a 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

Board of Directors:

Composition of the Board: The Board of Directors of the Bank consists of 8 directors including the Managing Director. The constitution of the Board conforms to the provisions of Section 10 B of the Banking Regulation Act, 1949, Section 149 of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The Board consists of eminent persons drawn from specialized fields such as banking, finance, accountancy, law, agriculture & rural economy, cooperation & SSI and other areas as specified in the Banking Regulation Act 1949.

Details of directors as on 31.03.2017 is as under:

Name of the Director (Messrs/Mrs.)	Type of Director
P Jayarama Bhat	Managing Director & CEO
Ashok Haranalli	Independent
Usha Ganesh	Independent
Rammohan Rao Belle	Independent
B A Prabhakar	Independent
U R Bhat	Independent
Keshav K Desai	Independent
D Surendra Kumar	Non-Independent, Non-Executive

Mr. Ananthakrishna retired from the office of Part Time Non-Executive Chairman of the Bank on 26.10.2016 upon attaining upper age limit of 70 years of age. As on 31.03.2017, Mr. P. Jayarama Bhat was the Managing Director & CEO of the Bank. Pursuant to the approval received from the Reserve Bank of India, Mr. P Jayarama Bhat has been appointed as Part Time Non-Executive Chairman of the Bank w.e.f. 12.04.2017 (i.e. from the date of taking charge) and Mr. Mahabaleshwara M S as the Managing Director & CEO of the Bank w.e.f. 15.04.2017 (i.e. from the date of taking charge).

The newly appointed director Mr. D Surendra Kumar has been provided with familiarization programme and other Directors also undergo training in specialized areas such as IT Governance, Risk Management, and Corporate Governance etc., details of which are posted in the website of the Bank at the URL www.karnatakabank.com.

BOARD MEETINGS:

During the financial year ended March 31, 2017 the Board met 17 times on the following dates:

Sl. No.	Date of the meeting	Sl. No.	Date of the meeting
1	23.04.2016	10	28.10.2016
2	20.05.2016	11	09.11.2016
3	21.06.2016	12	08.12.2016
4	30.06.2016	13	29.12.2016
5	29.07.2016	14	23.01.2017
6	05.08.2016	15	17.02.2017
7	26.08.2016	16	18.03.2017
8	20.09.2016	17	27.03.2017
9	19.10.2016		

Details of the attendance of directors at the Board meetings during the year under report and at the last Annual General Meeting and directorships/committee positions held in other companies were as under:

Sl. No.	Name of the Director (Messrs/Mrs.)	No. of meetings attended	Whether attended the last AGM	Directorship in other public Limited Companies	Committee positions in other Public Limited Companies
1.	Ananthakrishna (Upto 26.10.2016)	09	YES	01	01
2.	P Jayarama Bhat	17	YES	NIL	NA
3.	T R Chandrasekaran (Upto 09.06.2016)	02	YES	01	01
4.	S V Manjunath (Upto 24.10.2016)	09	YES	NIL	NA
5.	D Harshendra Kumar (Upto 24.10.2016)	08	YES	NIL	NA
6.	Dr H Ramamohan (Upto 24.10.2016)	09	YES	NIL	NA
7.	Ashok Haranahalli	15	YES	NIL	NA
8.	Usha Ganesh	17	YES	NIL	NA
9.	Rammohan Rao Belle	17	YES	NIL	NA
10.	B A Prabhakar	17	YES	04	04
11.	U R Bhat	17	YES	08	03
12.	Keshav K Desai	17	YES	NIL	NA
13.	D Surendra Kumar (w.e.f. 29.12.2016)	04	NA	NIL	NA

Note: As per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, for the purpose of Committee positions held in other public limited companies, only Audit Committee and Stake holders Relationship Committee have been considered.

None of the Directors of the Board serves as members of more than ten Committees or they act as Chair persons of more than five Committees across all companies. None of the Directors are related inter-se.

Remuneration of Directors:

Pursuant to the Compensation Policy of the Bank, the Directors of the Bank were paid remuneration during the year under report. All the non executive directors were paid sitting fees for attending meetings of Board/Committee besides reimbursing travelling expenses wherever applicable and halting allowance at the rates fixed by the Board.

Mr. P. Jayarama Bhat, Managing Director & CEO, has been paid salary and other allowances as approved by the Reserve Bank of India vide their letter DBR. Appt. No.3631/08.40.001/2015-16 dated September 10, 2015 and approved by the members at the 91st Annual General Meeting held on July 16, 2015. The details of the remuneration paid to the Directors including Managing Director & CEO during the year ended March 31, 2017 are separately furnished as part of the report.

COMMITTEES OF THE BOARD:

In compliance with the regulatory requirements and for the operational convenience, the following committees were functioning in the Bank as on March 31, 2017.

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

In order to facilitate the Board to concentrate on policy matters and strategic planning, etc., the Board has delegated lending and non-lending powers up to the limits decided by the Board from time to time to the Executive Committee of Board of Directors. The Committee was headed by Mr. P Jayarama Bhat, Managing Director. The other members of the Committee were Messrs, Dr. H Ramamohan (upto 24.10.2016), Rammohan Rao Belle, B A Prabhakar and U R Bhat (w.e.f 19.10.2016). During the year under report, eight meetings of the EC were held during the financial year on 12.05.2016, 27.06.2016, 05.08.2016, 15.09.2016, 08.11.2016, 10.01.2017, 17.02.2017 and 18.03.2017. Details of the attendance at the meetings were as under:

Meetings record of the EC :

Name of the Director (Messrs)	No. of meetings attended
P Jayarama Bhat	8
Dr. H Ramamohan	4
Rammohan Rao Belle	8
B A Prabhakar	8
U R Bhat	4

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

The Bank had constituted an Audit Committee of the Board (ACB) in 1995 as per the directions of the Reserve Bank of India to look into the matters specified by RBI. The terms of reference of the ACB which include the following:

1. Oversight of the Bank's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommendation for appointment, remuneration and terms of appointment of auditors of the Bank.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
 - a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section (3) of section 134 of the Companies Act, 2013.
 - b. Changes, if any, in accounting policies and practices and reasons for the same
 - c. Major accounting entries involving estimates based on the exercise of judgment by management
 - d. Significant adjustments made in the financial statements arising out of audit findings
 - e. Compliance with listing and other legal requirements relating to financial statements
 - f. Disclosure of any related party transactions
 - g. Modified opinion(s) in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval.
6. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilization of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.
7. Reviewing, and monitoring the auditor's independence and performance, and effectiveness of audit process.
8. Approval or any subsequent modification of transactions of the Bank with related Parties.
9. Valuation of undertakings or assets of the Bank, wherever it is necessary.
10. Evaluation of internal financial controls and risk management systems.
11. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
12. Reviewing the adequacy of internal audit function if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
13. Discussion with internal auditors of any significant findings and follow up there on.

14. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
15. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
16. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.
17. To review the functioning of the whistle blower mechanism.
18. Approval of appointment of Chief Financial Officer after assessing the qualifications, experience and background etc of the candidate.
19. Carrying out any other function as is mentioned in the terms of reference of the audit committee.

Apart from the above, the ACB also considers such other matters as are prescribed by RBI either in the form of calendar of reviews or by separate circulars.

Pursuant to the retirement of Mr. T R Chandrasekaran on 09.06.2016, the Audit Committee was headed by Mr. B A Prabhakar, an Independent Director (w.e.f.23.06.2016). Other members of the ACB were Mrs. Usha Ganesh, Mr. Rammohan Rao Belle, Mr. B A Prabhakar and Mr. U R Bhat (w.e.f. 20.05.2016) and all the members of the ACB were financially literate. The Company Secretary acted as the secretary to the Committee. The Chief Financial Officer, Chief Compliance 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 were considered. During the financial year under review nine meetings of ACB were held on 26.04.2016, 19.05.2016, 23.06.2016, 28.07.2016, 17.09.2016, 08.11.2016, 10.01.2017, 23.01.2017 and 11.03.2017.

Meetings record of the ACB

Name of the Director (Messrs/Mrs.)	No. of meetings attended
T R Chandrasekaran	02
Usha Ganesh	09
Rammohan Rao Belle	09
B A Prabhakar	09
U R Bhat	07

3. Stakeholders Relationship Committee

A sub-committee of the Board constituted during the year 2002 to specifically look into the grievances of share holders/investors continued its functioning during the year ended March 31, 2017 also. The Committee was rechristened to align with the requirements of Companies Act, 2013 and the listing agreement entered into with the Stock Exchanges. The Committee was headed by Mr Ashok Haranahalli. The other members of the Committee were Mr Rammohan Rao Belle (w.e.f. 19.10.2016), Mr Keshav K Desai (w.e.f 20.05.2016) and Mr. D Surendra Kumar (w.e.f 27.03.2017). The Committee met twice during the financial year under report on 29.12.2016 and 27.03.2017 and reviewed all the complaints received from the shareholders and the investors.

Name & designation of the Compliance Officer:

Mr. Y. V. Balachandra, Company Secretary.

A total of 131 complaints were received from the Investors/Shareholders and all of them have been redressed satisfactorily. As required under the Listing Agreement a separate Email ID - investor.grievance@ktkbank.com had been maintained exclusively for the purpose of registering complaints by the investors. Bank was also prompt in uploading the Action Report in SEBI's online complaint redressal portal "SCORES".

4. 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 followup cases of fraud involving amounts of ₹1crore and above. The terms of reference of the Committee were as under:

- 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. Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly 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. quarterly to review and follow up all cases and also immediately on detection of any fraud involving amount of ₹1 crore and above.

The Committee meets quarterly to review and follow up of all cases and also immediately on detection of any fraud involving amount of ₹1 crore and above.

The Committee consisted of Messrs. Ananthkrishna (Chairman of the Committee up to 27.09.2016), P Jayarama Bhat (Chairman of the Committee w.e.f 29.12.2016), SV Manjunath (up to 24.10.2016), T R Chandrasekaran (up to 09.06.2016), B A Prabhakar, Rammohan Rao Belle (w.e.f 29.12.2016), U R Bhat (w.e.f 20.05.2016) and Keshav K Desai (w.e.f 19.10.2016). During the financial year under report, four meetings of the Committee were held on 22.06.2016, 27.09.2016, 29.12.2016 and 11.03.2017.

5. Integrated Risk Management Committee (IRMC)

A Board level sub-committee called the Integrated Risk Management Committee (IRMC) which was constituted on 24.12.2004 to devise a policy and strategy for integrated risk management containing various risk exposures of the Bank including credit risk and market risk continued its functioning during the year under report. The Committee was headed by Mr. Ananthkrishna (up to 17.09.2016) and then headed by Mr P Jayarama Bhat (w.e.f 08.12.2016) and other members of the Committee were Mr. B A Prabhakar (w.e.f 20.05.2016) and Mr. U R Bhat (w.e.f 20.05.2016).

The functions of the Committee include the review of risk profile of the Bank, evaluation of the overall risks faced by the Bank, develop policies and strategies for integrating risk management containing the credit, market and operational risk exposures etc., and ensure a smooth transition to the new Capital Adequacy Framework. IRMC met four times during the financial year on 22.06.2016, 17.09.2016, 08.12.2016 and 11.03.2017.

6. Nomination and Remuneration Committee (N&RC)

Pursuant to the Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the extant guidelines of Reserve Bank of India, Bank has constituted "Nomination & Remuneration Committee (N&RC)" w.e.f. 30.09.2014. The Committee consisted of Messrs Ananthkrishna (up to 26.10.2016), S V Manjunath (Chairman of the Committee up to 30.06.2016), Dr. H Ramamohan (up to 30.06.2016), T R Chandrasekaran (up to 09.06.2016), Rammohan Rao Belle, B A Prabhakar (w.e.f 19.10.2016), U R Bhat (w.e.f 19.10.2016) and Usha Ganesh (chairperson w.e.f 19.10.2016). During the financial year under report five meetings of the Committee were held on 23.04.2016, 30.06.2016, 29.12.2016, 10.01.2017 and 19.01.2017. The attendance record at the meeting is as under:

Name of the Director (Messrs/Mrs.)	No. of meetings attended
Ananthkrishna	2
T R Chandrasekaran	1
S V Manjunath	2
Dr H Ramamohan	2
Rammohan Rao Belle	5
B A Prabhakar	3
U R Bhat	3
Usha Ganesh	3

The terms of reference of the Committee include:

- i. Identification of persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down.
- ii. Undertake the due diligence of candidates before their appointment/re-appointment as directors.
- iii. Recommend to the Board appointment of directors and senior management personnel and removal.
- iv. Formulate the criteria for determining qualification, positive attributes and independence of a director, key managerial personnel and other employees.
- v. Recommend to the Board the policy for evaluation of performance of directors.

- vi. Recommend to the Board on the remuneration of Whole Time Directors/Chief Executive Officers, etc.
- vii. To administer the Employee Stock Option Scheme of the Bank.

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 Directors and also a policy on remuneration of Directors.

Remuneration Policy

The Bank has adopted a policy on compensation of Whole Time Directors/Chief Executive Officers etc. which aims at attracting and retaining the right candidates in the Bank. The policy is designed to support key business strategies and provide reasonable remuneration commensurate with the performance of the Bank taking into account alignment of compensation with prudent risk taking etc.

Remuneration of Whole Time Director/ Managing Director & CEO

The remuneration of the Managing Director & CEO of the Bank is recommended by the Nomination and Remuneration Committee (N&RC) to the Board for approval in accordance with the aforesaid policy. The Board of Directors considers the recommendation of the N&RC and 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 areas duly aligning it to the risk, cost to income ratio etc. In case the variable pay is substantial i.e. 50 percent or more of the fixed pay, the provision of deferment is also applicable. As a Policy, prudential limit for variable pay is also envisaged as it is limited to 70 percent of the fixed pay.

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. No compensation in the form of profit related commission was paid to the Non-Executive Directors/Independent Directors during the year under report.

7. Customer Service Committee

With a view to strengthen the corporate governance structure and also mount innovative measures for enhancing the quality of customer service and improving the level of customer satisfaction for all categories of clientele at all times, the Reserve Bank of India has suggested Banks to constitute a Customer Service Committee of the Board in compliance with the recommendations of Committee on Procedures and Performance Audit on Public Service (CPPAPS). Accordingly Customer Service Committee was constituted on 25.09.2004. The role of the Committee is to address the formulation of a comprehensive deposit policy, product approval process, annual survey of deposit or satisfaction, tri-annual audit of such services and to review the performance of the Ad-hoc committee periodically. The Committee continued its functioning during this year also. The Committee consisted of Mr.P Jayarama Bhat, Chairman and other members of the Committee were Messrs D Harshendra Kumar (upto 24.10.2016), Dr. H Ramamohan (upto 24.10.2016), Keshav K Desai (w.e.f. 20.05.2016) and D Surendra Kumar (w.e.f. 27.03.2017). The Committee met twice on 27.06.2016 and 28.12.2016 during the financial year under report. The Committee also invites customers to the meetings to get their feedback about the customer services in the Bank.

8. Internal Capital Adequacy Assessment Committee (ICAAC)

In order to review and recommend to the Board, the capital plan of the Bank and laydown the capital planning process and responsibilities as well as contingency planning for dealing with deviations and unexpected events and matters incidental thereto, ICAAC had been constituted in the Bank. The Committee consisted of Mr. Ananthakrishna, Chairman (upto 27.10.2016) and Mr P Jayarama Bhat, Chairman (w.e.f 28.12.2016) and the other members of the committee were Messrs Rammohan Rao Belle and U R Bhat (w.e.f 20.05.2016). Mr. Mahabaleshwara M S, Chief General Manager, who is the head of the ICAAP Function Committee, was also a member of the Committee. Five meetings of the Committee were held during the financial year under report on 22.06.2016, 19.08.2016, 13.10.2016, 28.12.2016 and 16.02.2017.

9. Committee for IT Strategy and Governance

A Board level Committee on IT Strategy and Governance 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., continued its functioning during the year under report. The Committee consisted of Messrs Ananthakrishna, Chairman, (upto 17.09.2016), P Jayarama Bhat and Rammohan Rao Belle (Chairman of the Committee w.e.f 30.12.2016).

Some of the roles and responsibilities of this Committee include:

- Approving IT strategy and policy documents
- Ensuring that the management has put an effective strategic planning process in place
- Ratifying that the business strategy is indeed aligned with IT strategy
- Ensuring that the IT organizational structure complements the business model and its direction

- Ascertaining that management has implemented processes and practices to ensure that the IT delivers value to the business
- Ensuring IT investments represent a balance of risks and benefits and that budgets are acceptable
- Monitoring the method that management uses to determine the IT resources needed to achieve strategic goals and provide high-level direction for sourcing and use of IT resources
- Ensuring proper balance of IT investments for sustaining bank's growth
- Becoming aware about exposure towards IT risks and controls and evaluating effectiveness of management's monitoring of IT risks
- Assessing Senior Management's performance in implementing IT strategies
- Issuing high-level policy guidance (e.g. related to risk, funding, or sourcing tasks)
- Confirming whether IT or business architecture is to be designed, so as to derive the maximum business value from IT
- 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

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

Four meetings of the Committee were held during the financial year under report on 23.06.2016, 17.09.2016, 30.12.2016 and 27.03.2017.

10. Corporate Social Responsibility (CSR) Committee

Pursuant to Section 135 of the Companies Act, 2015, a separate Committee has been constituted by the Board on 24.03.2014 to formulate and recommend to the Board 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 and to formulate policy on CSR activities. The said Committee continued its functioning during the year under report.

Besides Mr.P Jayarama Bhat, who was the head of the Committee, the Committee consisted of Mrs. Usha Ganesh (w.e.f. 29.12.2016), Mr. Keshav K Desai (w.e.f 29.12.2016) and Mr. D Surendra Kumar (w.e.f. 27.03.2017) as its members. During the year the Committee met once on 29.12.2016. Necessary disclosure pursuant to subsection 4 of Section 135 of the Companies Act, 2013 read with Companies (CSR) Rules 2014, has been furnished in Annexure VI and also posted in our website.

11. Review Committee for identification of Wilful Defaulters:

As per the RBI Guidelines, the Bank has constituted a Review Committee for Identification of Wilful defaulters on 19.02.2015 for considering the representation from the borrowers and review the order of the internal committee constituted for identification of wilful defaulters. The Committee consisted of Mr P Jayarama Bhat, MD & CEO, as Chairman and Mr. Ashok Haranahalli, Mr. B A Prabhakar and Mrs Usha Ganesh (w.e.f. 20.05.2016), Independent Directors of the Bank as Members. There was no occasion for the aforesaid committee to meet during the reporting period.

12. Review Committee for Non-Cooperative borrowers:

The Bank had also constituted a Review Committee for Non-Cooperative borrowers and consisted of Mr P Jayarama Bhat as Chairman and Mr. Ashok Haranahalli, and Mrs Usha Ganesh, Independent Directors of the Bank as Members. During the year the Committee met once on 29.12.2016.

BOARD LEVEL PERFORMANCE EVALUATION

As required under the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, 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 (i.e. Managing Director & CEO of the Bank), 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 Committees of the Board.

EVALUATION CRITERIA

Bank aligned its performance evaluation templates in line with SEBI Guidance Note dated January 5, 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 requirements etc.

Committees of the Board:

The performance of the Committees of the Board was evaluated taking into consideration the terms of reference of each Committee, periodicity of meetings, collective judgement and contribution by each committee in meeting 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 and CEO etc.

Managing Director & CEO:

While evaluating the performance of the Managing Director & CEO, performance in key financial and non-financial areas such as achieving the business targets, meeting stakeholders' 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 specialisation, attendance record at the meetings of the Board and the Committees thereof, value addition in the decision making process in the meeting, their ability to get updated their knowledge about the business and regulatory environment in which the Bank is functioning, leading to bringing independent judgements and safe guarding the interest of stakeholders, etc.

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 etc. The Committees meet regularly to take decisions on respective matters.

ANNUAL GENERAL MEETINGS:

Venue and the date of the last three annual general meetings were as under:

Year	Venue	Date	Day	Time	Whether any Special resolution/s passed
2016	Registered Office of the Bank, Mangaluru	28.07.2016	Thursday	11.30 a.m.	No
2015	Registered Office of the Bank, Mangaluru	16.07.2015	Thursday	11.30 a.m.	Yes
2014	Registered Office of the Bank, Mangaluru	09.08.2014	Saturday	11.30 a.m.	No

* No special resolution was passed in the previous year through postal ballot.

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 March 31, 2017. 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.

STATUTORY COMPLIANCE, PENALTIES AND STRICTURES:

There were no instances of non-compliances by the Bank, levy of penalties and strictures imposed by Stock Exchanges, RBI and SEBI / other regulatory authorities on any matter during the year under report.

MEANS OF COMMUNICATION:

The quarterly/ half yearly/ annual results are published in the leading national English dailies such as Business Standard, The Hindu, Business Line, Financial Express, Economic Times etc. and vernacular newspapers such as Udayavani etc. The results were also posted on our website www.karnatakabank.com. In view of this, no separate half-yearly declaration of financial performance to the shareholders has been made.

SHAREHOLDERS' INFORMATION:

A. Annual General Meeting:

Day : Monday
Date : July 17, 2017
Time : 11.30 AM
Venue : The Karnataka Bank Ltd.
Regd. & Head Office
Mahaveera Circle, Kankanady
Mangaluru - 575002.

B. Book closure: July 10, 2017 to July 17, 2017 (Both days inclusive)

C. 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:

- Quarter ending June, 30 2017: July, 2017
- Quarter ending Sept. 30, 2017: October, 2017
- Quarter ending Dec. 31, 2017: January, 2018
- Quarter ending March 31, 2018: May, 2018

D. Dividend: The Board of Directors has recommended a dividend of ₹4/- per share for the year ended March 31, 2017 (i.e. 40 per cent on paid up capital) and subject to approval by the AGM to be held on July 17, 2017, the same will be paid to the shareholders holding shares as on July 17, 2017 in respect of shares held in physical form and to the beneficial holders of shares as on July 9, 2017 in electronic form.

Dividend Payment Date: Between July 18, 2017 and July 24, 2017

As per the provisions of Section 205A of the Companies Act, 1956, the unclaimed dividend for the financial year 2008-09 of ₹45,74,376/- has been transferred to the Investor Education and Protection Fund established by the Central Government. The following Table gives the position of unclaimed dividend from the year 2009-10 as on 31.03.2017.

Year	Unclaimed dividend (₹)	Date of declaration	Last date for claiming dividend
2009-2010	39,07,280	31.07.2010	30.08.2017
2010-2011	39,99,333	23.07.2011	22.08.2018
2011-2012	58,56,798	30.08.2012	29.09.2019
2012-2013	68,26,708	06.07.2013	05.08.2020
2013-2014	79,52,396	09.08.2014	08.09.2021
2014-2015	1,01,72,195	16.07.2015	15.08.2022
2015-2016	1,09,70,085	28.07.2016	27.08.2023

Demat Suspense Account: Pursuant to schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, after sending three reminder letters in respect of unclaimed shares to the shareholders at the latest available address, Bank had transferred these unclaimed shares to a separate demat suspense account. The summary of shares transferred and released in favour of shareholders is furnished below:

The Voting rights on these shares shall remain frozen till such shares are claimed by the rightful owner.

Particulars	No. of shareholders	Total Number of shares
Number of shareholders and the outstanding shares in the suspense account lying at the beginning of the year.	2082	196767
Shareholders who approached us for transfer of shares from suspense account during the year	16	4928
Shareholders to whom shares were transferred from suspense account during the year:	16	4928
Number of shareholders and the outstanding shares in the suspense account lying at the end of the year.	2066	191839

E. Listing of shares:

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

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

The Bank has paid the annual listing fees for the year 2016-17 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 Exchanges every quarter.

Stock Code :

Trading symbol on the NSE : KTKBANK

Scrip code on BSE : 532652

ISIN at NSDL/CDSL : INE614B01018

Share transfer procedure:

The shares of the Bank being traded in dematerialized form are transferable through the depository system. The share transfers in physical form are processed by the Share Transfer Agent- M/s Integrated Registry Management Services Pvt Ltd (demerged from M/s Integrated Enterprises (India)Ltd., w.e.f. 17.02.2017) and approved by the Managing Director & CEO at least once in a fortnight. There were no share transfer requests pending for transfer as on March 31, 2017.

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 01.04.2016 to 31.03.2017 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 2016	114.24	99.20	22366912	7979.90	7546.45
May 2016	128.45	107.35	50841471	8178.50	7706.55
June 2016	140.80	124.65	47457662	8287.75	8088.60
July 2016	156.05	143.05	42070368	8666.30	8323.20
Aug 2016	156.90	139.40	70949375	8786.20	8544.85
Sep 2016	159.10	143.50	44823372	8952.50	8591.25
Oct 2016	157.80	120.45	61548174	8769.15	8520.40
Nov 2016	127.05	101.45	63479684	8626.25	7929.10
Dec 2016	113.45	104.50	56476435	8261.75	7908.25
Jan 2017	123.00	113.45	43671719	8641.25	8179.50
Feb 2017	137.80	114.45	89905151	8939.50	8716.40
Mar 2017	141.70	135.45	78015380	9173.75	8897.55

Trading statistics on BSE

Month	Share Price		No. of Shares Traded	S&P BSE Sensex	
	High	Low		High	Low
Apr 2016	114.10	99.40	2668149	26064.12	24673.84
May 2016	128.60	107.05	5861221	26725.60	25101.73
June 2016	141.20	124.50	7204311	27020.66	26395.71
July 2016	156.00	143.05	6556696	28208.62	27126.90
Aug 2016	156.80	139.25	6771115	28452.17	27697.51
Sep 2016	159.05	143.80	4744536	29045.28	27827.53
Oct 2016	157.80	120.30	6627911	28334.55	27529.97
Nov 2016	126.85	101.35	9287288	27876.61	25765.14
Dec 2016	113.45	104.70	5878294	26747.18	25807.10
Jan 2017	123.05	113.35	4713098	27882.46	26595.45
Feb 2017	137.70	114.55	9061078	28892.97	28141.64
Mar 2017	141.70	135.55	9056883	29648.99	28832.45

Distribution of shareholding as on 31st March 2017.

Shares holding of nominal value of			Share holders		Share Amount	
₹			Number	% to Total	₹	% to Total
(1)			(2)	(3)	(4)	(5)
Upto	5,000		108985	74.50	155054520	5.49
5,001	-	10,000	15219	10.40	114863910	4.06
10,001	-	20,000	10120	6.92	147825870	5.23
20,001	-	30,000	4034	2.76	100854120	3.57
30,001	-	40,000	1975	1.35	69462180	2.46
40,001	-	50,000	1345	0.92	61280230	2.17
50,001	-	1,00,000	2478	1.69	174344780	6.17
1,00,001	and above		2126	1.45	2002373860	70.85
Total			146282	100.00	2826059470	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 Depository Ltd. and Central Depository 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. 93.38 percent of the equity shares of the Bank are in demat form as on 31.03.2017.

Registrar & Share Transfer Agent:

The Bank has appointed **Integrated Registry Management Services Pvt Ltd** (demerged from M/s. Integrated Enterprises (India) Ltd.) as common Share Transfer Agent for both physical and electronic shares. Therefore, all communications relating to share transfer, dividend, change of address for shares held in physical form and dematerialisation 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: alfint@vsnl.com or irg@integratedindia.in

Debenture Trustee :

In respect of the sub-ordinated debt instruments issued in the previous years and outstanding as on 31st March 2017, 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 6631 1776
 Email: itsl@idbitrustee.co.in Website: www.idbitrustee.com

Non-mandatory (Discretionary) requirements

The compliance status 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.	Complied with.
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.
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)	Bank follows Risk Based Internal Audit as per the extant guidelines of Reserve Bank of India and periodical report thereof is submitted to the Audit Committee of the Board.

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, 2017.

Mahabaleshwara M.S.
Managing Director & CEO

Place : Hubballi
Date : June 17, 2017

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To the members of The Karnataka Bank Limited.

We have examined the records of The Karnataka Bank Ltd., 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 financial year ended 31st March 2017.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Bank for ensuring the compliance of conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

We have conducted our examination on the basis of the relevant records and documents maintained by the Bank and furnished to us for our review and the information and explanations given to us by the Bank.

Based on such examination, in our opinion, the Bank has complied with the conditions of Corporate Governance, as stipulated in aforesaid Regulations.

We further 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 Kamath & Rau
Chartered Accountants
Firm Regn. No. 001689S

Sd/-
(Srinivas S Kamath)
Partner - M. No.201716

Place : Mangaluru
Date : May 13, 2017

For Abarna & Ananthan
Chartered Accountants
Firm Regn. No. 000003S

Sd/-
(Abarna Bhaskar)
Partner - M. No.025145