

 **Karnataka Bank Ltd.**

Estd : 1924

CIN : L85110KA1924PLC001128

Regd. & Head Office
P.B. No. 599, Mahaveera Circle
Kankanady, Mangalore – 575 002

Phone : 0824 - 2228222 Fax : 0824-2225588
Website : www.karnatakabank.com
email : info@ktkbank.com

SECRETARIAL DEPARTMENT

13.05.2017

HO/SEC/131/2017-18

1. The Manager
Listing Department
National Stock Exchange Of India Limited.,
Exchange Plaza,C-1, Block G
Bandra-Kurla Complex,
Bandra (E), MUMBAI-400 051
2. The General Manager,
BSE Limited
Corporate Relationship Dept
Phiroze Jeejeebhoy Towers,
Dalal Street,
MUMBAI-400 001

Dear Sir,

Reg: The audited financial results for the year ended March 31, 2017

Please find enclosed copy of the audited financial results for the year ended 31.03.2017 approved by the Board of Directors at the meeting held on 13.05.2017. The Board has recommended dividend @ ₹ 4/- per share for the above period.

Thank You,

Yours faithfully,



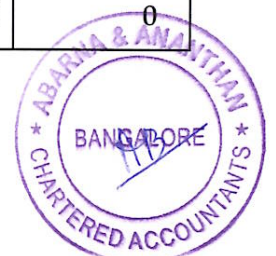
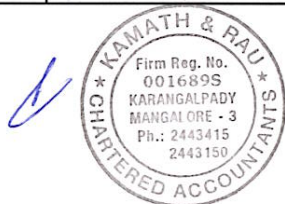
COMPANY SECRETARY

ANNEXURE-1

AUDITED FINANCIAL RESULTS FOR THE QUARTER AND YEAR ENDED MARCH 31, 2017

(Rs. in crore)

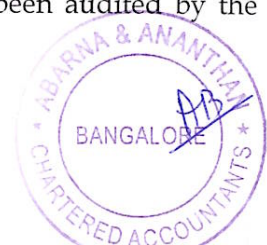
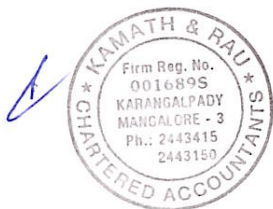
| | | Quarter ended | | | Year ended | |
|-----|--|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | | 31.03.2017 Audited | 31.12.2016 Reviewed | 31.03.2016 Audited | 31.03.2017 Audited | 31.03.2016 Audited |
| 1 | Interest Earned (a+b+c+d) | 1294.50 | 1323.93 | 1277.67 | 5185.40 | 4992.21 |
| a) | Interest/Discount on advances/ bills | 903.52 | 983.58 | 951.67 | 3793.56 | 3700.48 |
| b) | Income on Investments | 372.29 | 305.06 | 297.77 | 1298.23 | 1189.90 |
| c) | Interest on balances with Reserve Bank of India and other interbank funds | 0.19 | 0.17 | 0.93 | 2.19 | 2.60 |
| d) | Others | 18.50 | 35.12 | 27.30 | 91.42 | 99.23 |
| 2 | Other Income | 311.69 | 133.59 | 170.01 | 809.34 | 542.86 |
| 3 | TOTAL INCOME (1+2) | 1606.19 | 1457.52 | 1447.68 | 5994.74 | 5535.07 |
| 4 | Interest expended | 942.33 | 947.42 | 917.94 | 3694.78 | 3689.34 |
| 5 | Operating expenses (i+ii) | 334.59 | 338.24 | 275.37 | 1304.16 | 991.20 |
| i) | Employees Cost | 122.71 | 176.75 | 105.49 | 601.03 | 443.02 |
| ii) | Other operating Expenses | 211.88 | 161.49 | 169.88 | 703.13 | 548.18 |
| 6 | TOTAL EXPENDITURE ((4+5) excluding provisions & Contingencies) | 1276.92 | 1285.66 | 1193.31 | 4998.94 | 4680.54 |
| 7 | Operating Profit before provisions & contingencies (3-6) | 329.27 | 171.86 | 254.37 | 995.80 | 854.53 |
| 8 | Provisions (other than tax) and Contingencies | 160.40 | 100.60 | 112.50 | 527.85 | 326.53 |
| 9 | Exceptional Items | 0.00 | 0.00 | 0.00 | 0.00 | 0 |
| 10 | Profit (+)/Loss (-) from Ordinary Activities before tax (7-8-9) | 168.87 | 71.26 | 141.87 | 467.95 | 528.00 |
| 11 | Tax Expense | 30.50 | 2.74 | 35.08 | 15.69 | 112.71 |
| 12 | Net Profit (+)/Loss (-) from Ordinary activities after Tax | 138.37 | 68.52 | 106.79 | 452.26 | 415.29 |
| 13 | Extraordinary Items (net of tax) | 0.00 | 0.00 | 0.00 | 0.00 | 0 |



| | | Quarter ended | | | Year ended | |
|------|--|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | | 31.03.2017 Audited | 31.12.2016 Reviewed | 31.03.2016 Audited | 31.03.2017 Audited | 31.03.2016 Audited |
| 14 | Net Profit (+)/Loss (-) for the period (12-13) | 138.37 | 68.52 | 106.79 | 452.26 | 415.29 |
| 15 | Paid up equity share capital (Face value Rs 10/-) | 282.62 | 282.62 | 188.46 | 282.62 | 188.46 |
| 16 | Reserves excluding revaluation reserves (as per balance sheet of previous accounting year) | 4859.97 | ---- | 3502.12 | 4859.97 | 3502.12 |
| 17 | Analytical Ratios | | | | | |
| i) | Percentage of shares held by Government of India | Nil | Nil | Nil | Nil | Nil |
| ii) | Capital Adequacy Ratio (%) | 13.30 | 13.19 | 12.03 | 13.30 | 12.03 |
| iii) | Earnings per share (EPS) (Rs) before extraordinary items(Net of Tax Expenses) * Not Annualized. | | | | | |
| | - Basic EPS | 4.90* | 2.98* | 5.06* | 19.38 | 19.68 |
| | - Diluted EPS | 4.90* | 2.98* | 5.06* | 19.38 | 19.68 |
| | Earnings per share (EPS) (Rs) after extraordinary items(Net of Tax Expenses) * Not Annualized. | | | | | |
| | - Basic EPS | 4.90* | 2.98* | 5.06* | 19.38 | 19.68 |
| | - Diluted EPS | 4.90* | 2.98* | 5.06* | 19.38 | 19.68 |
| iv) | NPA Ratios as on date | | | | | |
| | Gross NPA | 1581.59 | 1560.23 | 1180.40 | 1581.59 | 1180.40 |
| | Net NPA | 974.73 | 1065.66 | 795.47 | 974.73 | 795.47 |
| | % of Gross NPA | 4.21 | 4.30 | 3.44 | 4.21 | 3.44 |
| | % of Net NPA | 2.64 | 2.99 | 2.35 | 2.64 | 2.35 |
| | Return on Assets | 0.85 | 0.44 | 0.76 | 0.74 | 0.76 |

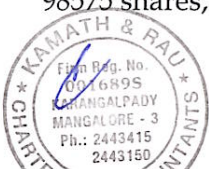
Notes forming part of the audited financial results for the quarter and year ended March 31, 2017

- The above financial results for the quarter/ year ended March 31, 2017 have been reviewed by the Audit Committee of the Board in its meeting held on May 12, 2017 and approved by the Board of Directors in its meeting held on May 13, 2017. The same have been audited by the



Statutory Central Auditors of the Bank in line with the guidelines issued by the Reserve Bank of India and as per the Listing Agreement with the Stock Exchanges.

2. For the preparation of these financial results, the Bank has followed the same accounting policies and generally accepted practices adopted for the preparation of audited financial statements for the year ended March 31, 2016.
3. The above financial results have been arrived at after considering the provision for loan losses, provision for un-hedged foreign currency exposure and depreciation on investment consistent with the bank's policy read with RBI guidelines. Provision for employees' retirement benefits like pension and gratuity and other contingencies for the current period have been estimated and provided for. Provision for income tax has been made on actual basis.
4. As per RBI guidelines, Bank has spread over the short fall of Rs 75.08 Crore in the sale value of the financial assets over the Net Book Value on sale of assets to Securitization Companies / Reconstruction Companies over a period of 8 quarters during FY 2015-16, out of which Rs. 53.90 crore has been amortized up to March 31, 2017 leaving an unamortized sum of Rs. 21.18 crore. Further, out of the total shortfall of Rs.94.12 crore on account of financial assets sold to Securitization Companies / Reconstruction Companies during FY2016-17, the bank has amortized a sum of Rs.36.80 crore up to March 31, 2017, leaving an unamortized sum of Rs.57.32 crore. Aggregate unamortized amount as on March 31, 2017 is Rs. 78.50 crore.
5. In terms of RBI circular DBR No BP.BC 1/21.06.201/2015-16 dated July 1, 2015 Pillar III disclosures under Basel III Capital Regulations have been made available on our web site at the following link: <http://karnatakabank.com/ktk/BaselDisclosures.jsp#>. These disclosures have not been subjected to audit by the Statutory Central Auditors.
6. There are no stock Options outstanding as the Employee Stock Options scheme of the Bank has come to an end on October 21, 2016.
7. During the year ended March 31, 2017, the bank has issued 9, 42, 35,441 equity shares of Rs 10 each at a price of Rs 70 per share including the premium of Rs 60 per share in the ratio of 1:2 (ie ONE equity share for every TWO equity shares held as on the record date i.e October 25, 2016) aggregating Rs 659.65 crore on rights basis. After keeping in abeyance entitlements to the extent of 98575 shares, the Board has allotted 9, 41, 36,866 equity shares on December 8, 2016.



8. During the year ended March 31, 2017 the Land and Buildings of the bank were revalued to reflect the present market value based on the reports of external independent valuers and approved by the Board of Directors and Rs.423.53 crore being the net increase in value thereof have been credited to Revaluation Reserve Account. On account of this, additional depreciation of Rs. 3.14 crore has been included in depreciation of the period. In accordance with RBI circular DBR.No.BP.BC.83/21.06.201/2015-16 on Basel III capital regulations dated March 1, 2016, revaluation reserve has been considered in Core Equity Tier- I capital at a discount of 55%.
9. The Board of Directors at its meeting May 13, 2017, proposed a dividend at Rs 4 per equity share (ie., 40%) on expanded capital (previous year at Rs 5 per share (ie., 50%)) subject to the approval of members at the ensuing Annual General Meeting . In accordance with the revised Accounting Standard (AS) -4 'Contingencies and Events occurring after the Balance Sheet Date' as notified by the Ministry of Corporate Affairs through amendments to companies (Accounting Standards) Amendment Rules ,2016 dated March 30, 2016, the Bank has not accounted proposed dividend of Rs 113.04 crore (previous year Rs 94.23 crore) and corporate dividend tax of Rs 23.01 crore (previous year Rs 19.18 crore) as a liability , as at March 31, 2017 . In arriving at the capital fund for the computation of CRAR as of March 31 ,2017 the Bank has reduced proposed dividend and corporate dividend tax thereon.
10. The provision coverage ratio as at 31st March 2017 stood at 54%.(48.39% as on March 31, 2016)
11. During the year, the Bank has sold Government Securities from Held to Maturity category exceeding 5% of the book value of the investments held in HTM category at the beginning of the year. As on 31st March 2017, the book value of SLR investments held under the Held to Maturity category was Rs 11520.31 crores, which shows Mark -to- Market appreciation of Rs 165.76 crores.
12. Tax provisions including deferred tax liability for the financial year 2016-17 have been computed as per Income Computation and Disclosure Standards (ICDS) notified u/s 145 (2) of the Income Tax ,1961 on 29th September 2016.
13. The Reserve Bank of India (RBI) vide DBR.BP.BC.No. 63/21.04.018/2016-17 dated 18th April 2017, has prescribed certain additional disclosure to be made under "Notes to Accounts" for the reference period i e , FY 2015-16 . Neither the additional provisioning requirements assessed by



RBI nor the additional Gross NPA's identified by RBI exceeds 15 percent of the published net profits after tax and incremental Gross NPA's respectively of the Bank.

14. Disclosure about investor complaints: Complaints at the beginning of the period 1; Received during the period 49; Disposed off during the period 50; Unresolved as on Mar 31, 2017: Nil.
15. Corresponding previous period figures have been regrouped/ rearranged wherever necessary to make them comparable with current period figures.



Mahabaleshwara M S
Managing Director & C.E.O

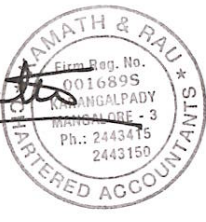
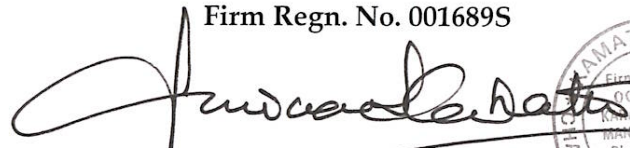


For Abarna & Ananthan
Chartered Accountants
Firm Regn No 000003S



(Abarna Bhaskar)
Membership No. 025145

For Kamath & Rau
Chartered Accountants
Firm Regn. No. 001689S



(Srinivas S Kamath)
Membership No. 201716

Place: Mangaluru

Date: 13th May 2017

SEGMENT RESULTS FOR THE QUARTER AND YEAR ENDED 31.03.2017

| Segmentwise Results | 3 Months ended | | | Year ended | |
|--|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | 31.03.2017 Audited | 31.12.2016 Reviewed | 31.03.2016 Audited | 31.03.2017 Audited | 31.03.2016 Audited |
| | (Rs. in Crore) | | | | |
| Segment Revenue | | | | | |
| (a) Treasury Operations | 541.00 | 354.41 | 331.00 | 1642.55 | 1299.25 |
| (b) Corporate Banking | 416.93 | 470.72 | 425.75 | 1814.36 | 1745.57 |
| (c) Retail Banking | 569.87 | 587.78 | 614.64 | 2281.72 | 2242.83 |
| (d) Other Banking Operations | 78.39 | 44.61 | 76.29 | 256.11 | 247.42 |
| Total | 1606.19 | 1457.52 | 1447.68 | 5994.74 | 5535.07 |
| Segment Results (after Provisions before Tax) | | | | | |
| (a) Treasury Operations | 220.86 | 55.44 | 0.50 | 442.87 | 67.94 |
| (b) Corporate Banking | -63.27 | 0.26 | -7.45 | -56.12 | 134.83 |
| (c) Retail Banking | 36.27 | 53.48 | 162.21 | 165.19 | 394.03 |
| (d) Other Banking Operations | -12.34 | -23.24 | -2.38 | -34.23 | -26.56 |
| Total | 181.52 | 85.94 | 152.88 | 517.71 | 570.24 |
| Less: Unallocable Expenditure | 12.64 | 14.68 | 11.01 | 49.76 | 42.24 |
| Profit before Tax and exceptional items | 168.88 | 71.26 | 141.87 | 467.95 | 528.00 |
| Capital employed | | | | | |
| (a) Treasury Operations | 2027.23 | 2182.81 | 1384.74 | 2027.23 | 1384.74 |
| (b) Corporate Banking | 1314.61 | 1205.94 | 933.17 | 1314.61 | 933.17 |
| (c) Retail Banking | 1589.10 | 1516.69 | 1182.50 | 1589.10 | 1182.50 |
| (d) Other Banking Operations | 105.27 | 109.83 | 113.23 | 105.27 | 113.23 |
| (e) Unallocated | 106.37 | 67.74 | 76.94 | 106.37 | 76.94 |
| Total | 5142.58 | 5083.01 | 3690.58 | 5142.58 | 3690.58 |

PART B: GEOGRAPHIC SEGMENTS: There is only one Segment i.e. Domestic Segment



ANNEXURE 2

AUDITED FINANCIAL RESULTS FOR THE QUARTER/YEAR ENDED MARCH 31, 2017

| Particulars | (Rs in Crore) | | |
|---|-------------------------------------|------------------------------|-------------------------------------|
| | Quarter ended 31.03.2017 | Year ended 31.03.2017 | Quarter ended 31.03.2016 |
| Total income from operations (net) | 1606.19 | 5994.74 | 1447.68 |
| Net Profit / (Loss) from ordinary activities after tax | 138.38 | 452.26 | 106.79 |
| Net Profit / (Loss) for the period after tax (after Extraordinary items) | 138.38 | 452.26 | 106.79 |
| Equity Share Capital | 282.62 | 282.62 | 188.46 |
| Reserves excluding Revaluation Reserve (as shown in the Balance Sheet of previous year) | 4859.97 | 4859.97 | 3502.12 |
| Earnings Per Share (before extraordinary items) (of Rs 10/- each) | | | |
| Basic : | 4.90* | 19.38 | 5.06* |
| Diluted: | 4.90* | 19.38 | 5.06* |
| Earnings Per Share (after extraordinary items) (of Rs 10/- each) | | | |
| Basic : | 4.90* | 19.38 | 5.06* |
| Diluted : | 4.90* | 19.38 | 5.06* |

*Not annualized

Note: The above is an extract of the detailed format of Quarterly Results filed with the Stock Exchange under Regulation 33 of the SEBI (Listing and Other Disclosure Requirements) Regulations, 2015. The full format of the Quarterly/Nine Months Financial Results is available on the Stock Exchange websites. BSE: <http://www.bseindia.com>, NSE: <http://www.nseindia.com>, Bank website: <https://www.karnatakabank.com/index.jsp>

For and on behalf of Board of Directors



Mahabaleshwara M S

MANAGING DIRECTOR & CEO



Place: Mangaluru

Date: 13th May 2017.

SUMMARY BALANCE SHEET AS ON 31ST MARCH 2017

(Rs in crores)

| | As on 31.03.2017 | As on 31.03.2016 |
|--|---------------------|---------------------|
| CAPITAL AND LIABILITIES | | |
| Capital | 282.62 | 188.46 |
| Reserves and Surplus | 4859.97 | 3502.12 |
| Deposits | 56733.11 | 50488.21 |
| Borrowings | 832.62 | 1051.48 |
| Other Liabilities and Provisions | 1418.23 | 1270.06 |
| TOTAL | 64126.55 | 56500.33 |
| ASSETS | | |
| Cash and balances with Reserve Bank of India | 2929.27 | 2645.62 |
| Balances with Banks and Money at Call & Short Notice | 344.76 | 399.30 |
| Investments | 20219.73 | 16256.65 |
| Advances | 37003.65 | 33902.45 |
| Fixed Assets | 720.57 | 306.64 |
| Other Assets | 2908.57 | 2989.67 |
| TOTAL | 64126.55 | 56500.33 |



Kamath & Rau

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Near Bunts Hostel,
Karangalpadu,
Mangaluru - 575003

Abarna & Ananthan

Chartered Accountants,
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2nd Phase, B.S.K. 3rd Stage,
Bengaluru - 560085

INDEPENDENT AUDITORS' REPORT

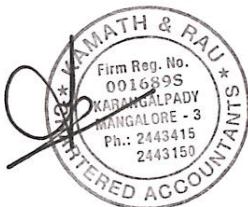
To the Members of The Karnataka Bank Limited

Report on the Financial Statements

1. We have audited the accompanying financial statements of The Karnataka Bank Limited ('the Bank'), which comprise the Balance Sheet as at 31st March 2017, the Profit and Loss Account, the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information. Incorporated in these Financial Statements are the returns of 34 branches audited by us, 757 branches / offices audited by Branch Auditors.

Management's Responsibility for the Financial Statements

2. The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.



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2nd Phase, B.S.K. 3rd Stage,
Bengaluru - 560085

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit.
4. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.
5. We conducted our audit of the Bank including its branches in accordance with Standards on Auditing ('the Standards') specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.
6. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Bank's Directors, as well as evaluating the overall presentation of the financial statements.
7. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Opinion

8. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013 in the manner so required for banking companies and give a true and fair view in conformity with accounting principles generally accepted in India:



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Abarna & Ananthan

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2nd Phase, B.S.K. 3rd Stage,
Bengaluru - 560085

- a. In case of the Balance Sheet, of the state of affairs of the Bank as at 31st March, 2017;
- b. In case of the Profit and Loss Account of the profit for the year ended on that date; and
- c. In case of the Cash Flow Statement, of cash flows for the year ended on that date.

Emphasis of Matter

9. We draw attention to Note of the Financial Statements, regarding deferment of loss of Rs.78.51 Crores on sale of advances to Asset Reconstruction Companies.

Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

10. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014.
11. As required by sub section (3) of section 30 of the Banking Regulation Act, 1949, we report that:
 - a. we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
 - b. the transactions of the Bank, which have come to our notice, have been within the powers of the Bank;
 - c. the returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit.
12. Further, as required by section 143(3) of the Act, we further report that:
 - i. we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - ii. in our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from branches not visited by us;
 - iii. the reports on the accounts of the branch offices audited by branch auditors of the Bank under section 143(8) of the Companies Act 2013 have been sent to us and have been properly dealt with by us in preparing this report;



Kamath & Rau

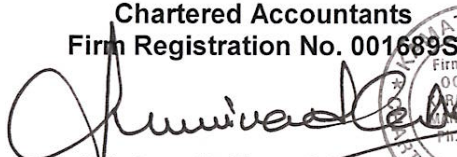
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- iv. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account and with the returns received from the branches not visited by us;
- v. in our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, to the extent they are not inconsistent with the accounting policies prescribed by RBI;
- vi. on the basis of written representations received from the directors as on 31st March 2017 taken on record by the Board of Directors, none of the directors is disqualified as on 31st March 2017 from being appointed as a director in terms of Section 164 (2) of the Act; and
- vii. with respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure A".
- viii. with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - a. the Bank has provided for pending litigations having an impact on its financial statements – Refer Schedule 18 – Note 6;
 - b. the Bank does not have any long-term contracts including derivative contracts- Refer Schedule 18 – Note 1.3.3(ii) to the financial statements; and
 - c. there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Bank.


For Kamath & Rau
Chartered Accountants
Firm Registration No. 001689S


Srinivas S. Kamath - Partner
Membership No. 201716



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


Abarna Bhaskar - Partner
Membership No. 025145



Place : Mangaluru

Date : 13th May 2017

Kamath & Rau

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Annexure A to the Independent Auditor's Report of even date on the Financial Statements of The Karnataka Bank Limited

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

1. We have audited the internal financial controls over financial reporting of The Karnataka Bank Limited ('the Bank') as at 31st March 2017 in conjunction with our audit of the financial statements of the Bank for the year ended on that date.

Management's Responsibility for Internal Financial Controls

2. The Bank's Board of Directors is responsible for establishing and maintaining internal financial controls based on "the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') issued by the Institute of Chartered Accountants of India ('the ICAI')".

These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 ('the Act').

Auditor's Responsibility

3. Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') and the standards on Auditing ('the Standards'), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls



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over financial reporting was established and maintained and if such controls operated effectively in all material respects.

4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls over Financial Reporting

6. A bank's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A bank's internal financial control over financial reporting includes those policies and procedures that:
 - a. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank;
 - b. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and
 - c. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.



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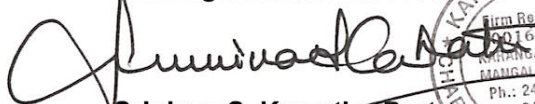
Inherent Limitations of Internal Financial Controls over Financial Reporting


7. Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

8. In our opinion, the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31st March 2017, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note issued by the ICAI.

For Kamath & Rau
Chartered Accountants
Firm Registration No. 001689S


Srinivas S. Kamath - Partner
Membership No. 201716



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


Abarna Bhaskar - Partner
Membership No. 025145



Place : Mangaluru

Date : 13th May 2017