

DIRECTORS' REPORT: 2017-18

The Board of Directors have pleasure in presenting the THIRTEENTH Annual Report together with Audited Balance Sheet and Profit and Loss Account of the Bank for the year ended 31st March, 2018

1. BRIEF INTRODUCTION

Karnataka Vikas Grameena Bank came into existence by a Govt of India Notification dated 12th September 2005 , amalgamating the four Regional Rural Banks sponsored by Syndicate Bank in the State of Karnataka namely : Malaprabha Grameena Bank, Bijapur Grameena Bank, Varada Grameena Bank and Netravathi Grameena Bank . The Bank operates in 57 talukas of nine districts, viz Bagalkot, Belgaum, Bijapur, Dakshin Kannada, Dharwad, Gadag, Haveri, Udupi and Uttara Kannada , catering to the financial needs of more than 79 lakh customers . As on 31st March 2018, the Bank had a total business of ₹ 23432 Crore , comprising of ₹ 12944 Crore Deposit and ₹ 10488 Crore Advance.

2. BRANCH NETWORK:

To make use of the vast potential available in increasing the business of the Bank through the fast growing rural areas, 15 new Branches were opened during the financial year, taking the total tally of Branches to 636. All these branches were opened in accordance with the liberalized guidelines of RBI.

Further, as per Reserve Bank of India directives, we have reclassified our branches as per Census 2011. The reclassified, Region-wise spread of branch network as at the end of the reporting year is as under:

Spread of Branch Network

Sl. No	Region	District	Rural	Semi-Urban	Urban	Total
01.	Bagalkot	Bagalkot	53	20	03	76
02.	Belgaum	Belgaum	33	09	12	54
03.	Bijapur	Bijapur	55	16	08	79
04.	Chikodi	Belgaum	35	24	00	59
05.	Dharwad	Dharwad	37	04	27	68
06.	Gadag	Gadag	43	13	04	60
07.	Gokak	Belgaum	40	17	00	57
08.	Haveri	Haveri	62	13	04	79
09	Kumta	Uttara Kannada & Dharwad	40	15	00	55
10	Mangalore	Udupi	17	03	03	23
		Dakshina Kannada	13	08	05	26
		TOTAL	428	142	66	636

3. SHARE CAPITAL

The Bank started functioning with a Capital base of ₹ 4.00 Crore by clubbing the paid up Capital of the four amalgamated RRBs subscribed by the Government of India, Government of Karnataka and Syndicate Bank in the ratio of 50:15:35 respectively. Apart from the above,

in order to strengthen the Bank, the above shareholders have infused additional share capital in the form of Share Capital Deposit to the extent of ₹ 19.97 Crore in the same ratio as mentioned above. In terms of NABARD circular No.65/IDD-09/2016 dated 30th March 2016, the amount held under Share Capital Deposit amounting to ₹ 19.97 crore is converted into Share Capital during the Financial year 2015-16.

The share Capital held by the Share Holders is as under :

Share Holders	Amount in ₹ crore
Government of India	11.99
Government of Karnataka	3.59
Syndicate Bank	8.39
Total	23.97

The Bank had improved its net worth by adding ₹ 102.29 Crore profit to the existing Reserves of ₹ 1567.11 Crore and the accumulated Reserves and Surplus of the Bank increased to ₹ 1669.40 Crore as on 31st March 2018.

Net Worth :

The Net worth of the Bank increased to ₹ 1693.37 Crore as at March 31, 2018 compared to ₹ 1591.08 Crore as at March 31, 2017

4. DEPOSITS:

The total deposits of the Bank reached a level of ₹ 12944.19 Crore as on 31/03/2018, registering a net increase of ₹ 942.92 Crore over the deposit level of the previous year. The comparative position of deposits as at 31/03/2018 vis-à-vis the previous year is as under:

Sl. No.	Category of Deposits	(₹ in Crore)		% of Growth
		March -2017 Amount	March -2018 Amount	
01.	Demand Deposits	4565.19	4672.57	2.35
02.	Time Deposits	7436.08	8271.62	11.24
	Total	12001.27	12944.19	7.86

- CASA Port folio: Efforts were continued to increase the share of low cost deposits (CASA). There was an addition of ₹ 107.38 Crore of CASA deposit during the year . The share of CASA deposits is 36.10% this year .
- The Bank had taken a conscious decision to discourage bulk deposits and also shed the deposits with high interest rates during the current year. Due to this, the cost of deposit has come down from 6.44% as on 31.3.2017 to 5.82% during the reporting year. Per Branch and Per Employee Deposits increased to a level of ₹ 20.35 Crore and ₹ 4.09 Crore respectively over the corresponding figures of previous year at ₹ 19.33 Crore and ₹ 4.06 Crore respectively.
- New Deposit Schemes introduced during 2017-18: Two new Deposit Products have been introduced during the financial year, viz, Vikas Santushti & Vikas Nidhi Certificate. Vikas Santushti is a unique product with overdraft facility from the date of deposit at an interest rate of 0.5% below applicable rate on normal Overdraft on Deposit. Under Vikas Nidhi Certificate, customers depositing odd amount will get

specified lump sum on maturity. We have canvassed 55967 accounts amounting to ₹ 449.88 Crore under the two schemes.

5. BORROWING AND REFINANCE:

The Bank made use of the refinance facility provided by NABARD / Sponsor Bank/ National Housing Bank and NSFDC under various types of Refinance Schemes. The Schemes implemented with refinance facility are monitored as per NABARD/Sponsor Bank / National Housing Bank and NSFDC guidelines and repayments are made as per time schedule. The details of refinance sanctioned, availed and outstanding are furnished in the following table:

(₹ in Crore)

Sl. No.	Institution and Type of Refinance	Limits Sanctioned for the year 2017-18	Availed during the year	Outstanding (including earlier limits)
1	NABARD			
01	ST –SAO	375.00	375.00	375.00
02	MT -Schematic	320.00	320.00	1293.45
II	Syndicate Bank	0	0	0
01	ST – SAO	800.00	800.00	131.42
III	National Housing Bank	0	0	96.10
IV	NSFDC	0	0	18.45
	TOTAL	1495.00	1495.00	1914.42

6. CASH & BALANCES WITH BANKS

Bank has fixed cash retention limit to all the branches and monitors the cash in hand position at regular intervals. Despite many constraints, Bank managed to maintain minimum cash balance in the branches. The balance for last three years and average cash to average deposits is given in the table below:

(Amount in Crore)

	As on 31.3.2016	As on 31.3.2017	As on 31.3.2018
Average cash	67.36	218.28	51.67
Average Deposit	10236.58	11626.92	12061.19
% of Average cash to Average Deposit	0.66	1.88	0.43

Branches were also permitted to open current account with different banks for different purposes like clearing transaction, cash management, remittance etc. Bank has maintained a current account with RBI Regional Office, Bangalore for the purpose of maintaining CRR. RTGS, NEFT, IMPS, AEPS and CTS clearing transactions are also routed through this account. The cash in hand and Balance with current account as at the end of the Financial Year is ₹ 83.04 Crore (previous year: ₹ 94.86 Crore) and ₹ 35.63 Crore (previous year ₹ 17.62 Crore) respectively.

Balance in Current account with RBI/ other banks are as under:

(Amount in Crore)

Current Account with	2016-17	2017-18
RBI	457.63	487.31
Syndicate Bank	6.33	6.42
Other Banks	11.29	29.21

7. INVESTMENTS:

Management of funds of the Bank was of prime importance amongst its other key areas of performance obligations ever since RRBs were directed to keep their SLR requirements in Government Securities and permitted to invest their surplus funds in other Securities, Bonds and Debentures within the parameters of directives/ guidelines issued by RBI/NABARD from time to time. With a system of monitoring the inflow and outflow of funds on day-to-day basis, the Bank has been able to manage the availability of surplus funds for the purpose of short term as well as long-term investments. The investment policy of the Bank is framed to maximize returns by judicious investment of surplus funds in profitable, safe and secure avenues. During the year, the Bank was able to earn an interest income of ₹ 409.75 Crore apart from ₹ 31.39 Crore from trading of securities alone.

The gross investments of the Bank excluding FDs with Banks, decreased to ₹ 3561.26 Crore as on 31/03/2018 from ₹ 3800.89 Crore as on 31/03/2017 with an ID ratio of 27.51%. Details of the investment portfolio are as under:

(Amount in Crore)					
SI No	Approved Securities (SLR Securities)		2016-17	2017-18	
1	Govt securities		2784.37	2618.36	
2	Treasury bills		506.19	139.21	
3	Other approved securities		NIL	NIL	
	Total		3290.56	2757.57	
	Other Securities (Non – SLR Securities)				
1	Equities		2.97	1.75	
2	Bonds & Debentures		319.40	291.37	
3	Others (MF etc)		187.96	510.57	
	Total		510.33	803.69	
	GRAND TOTAL		3800.89	3561.26	

8. LOANS AND ADVANCES OUTSTANDING

Credit disbursement is an important activity of the Bank and the major income comes from interest on advances. During the year under report, total disbursement was to the extent of ₹ 5400.83 Crore. The outstanding level stood at ₹ 10487.55 Crore as on 31.3.2018.

Purpose-wise classification of outstanding Advances as on 31.03.2018 vis-à-vis the previous year is as under:

(₹ in Crore)					
SI No	Category of Advances	As on 31/03/2017	As on 31/03/2018	% Growth	% to total Advances
1	Primary Sector-Agriculture	6239.78	7069.34	13.29	67.41
2	Secondary Sector (SME)	1259.90	1473.45	16.95	14.05
3	Others	2078.31	1944.76	-6.43	18.54
	T O T A L	9577.99	10487.55	9.50	100.00

Beneficiary-wise classification of Advances as on 31.3.2018 vis-à-vis the previous year :

(₹ in Crore)

Sl No	Particulars	As on 31/03/2017	As on 31/03/2018	% Growth	% to Total Advances
1	Target group	4567.96	4991.75	9.28	47.60
2	Non-Target group	5010.03	5495.80	9.70	52.40
	TOTAL	9577.99	10487.55	9.50	100.00
3	SC/ST beneficiaries	984.56	1173.81	19.22	11.19
4	Minority beneficiaries	858.58	913.76	6.43	8.71
5	SF/MF/AL beneficiaries	3124.40	3281.14	5.02	31.29
6	Other Govt. Spon. Schemes	531.53	624.57	17.50	5.96
7	Women beneficiaries	1556.23	1667.73	7.16	15.90

The Bank has achieved CD Ratio of 81.02% as on 31.3.2018.

9. (a) SELF HELP GROUPS

The Bank has been extending finance to Self Help Groups since 1993. During the year 2017-18 credit linkage was provided to 3932 SHGs with an amount of ₹ 89.60 Crore. As on 31.03.2018, there were 17541 outstanding accounts under SHG involving an amount of ₹ 144.80 Crore .

The Bank has taken much care in capacity building of the SHG members by conducting training programmes through RSETIs/RUDSETIs. Apart from this, those members who displayed entrepreneurial qualities were imparted with specialized trainings in employment generating activities. During the year various activities like solar enterprise, bangle manufacturing units, weaving units, garland making units, churmuri making units, electrical appliances repairing units (TV and Mobile repairs units), napkins manufacturing, confectionary units, bakery units, besides other agricultural activities like floriculture, pomology, dairying etc were credit linked.

Anchor NGO Concept: Bank has signed MoU with various NGOs in its area of operation for formation and credit linkage of SHGs. Anchor NGOs identify & form SHGs, nurture them and help the groups in availing credit from the Bank for taking up economic activities. Also, NGOs help in recovery of SHG loans, for which Bank is paying service charges to them.

Further, selected branches having considerable SHG/JLG accounts were given special attention to improve credit linkage by reviving the dormant groups and giving timely and adequate finance to take up economic activities.

(b) JOINT LIABILITY GROUPS (JLGs):

The mid-segment, which predominantly performs agriculture related activities, requires a larger quantum of credit for longer duration than micro credit. "Joint Liability Groups" (JLGs), which provides support to groups of 4 to 10 members, caters to this segment. During the current year, the Bank has credit linked 664 JLGs by disbursing ₹ 13.26 Crore. Outstanding accounts under JLGs stood at 6022 involving an amount of ₹ 58.71 Crore .

Bank has signed an MoU with NABARD and Shree Kshetra Dharmasthala Rural Development Project (**SKDRDP**) for formation and credit linkage of JLGs.

(c) FARMERS' CLUBS:

With a motto of “development through credit”, Farmers’ Clubs are mainly responsible for technology transfer, awareness and capacity building. Farmers’ Clubs are used as instruments to improve agricultural practices including plant protection measures, propagation of solar energy, water harvesting and management, rural sanitation, better utilization of loans by borrowers and for improvement in recovery of bank loans.

Presently, the Bank has 81 Farmers’ Clubs operating in its area of operation. Various Extension Activities were conducted by the branches throughout the year in association with Farmers’ Clubs. Such activities have helped in increasing the level of knowledge of the villagers, as the focus is on dissemination of latest information useful to the farming community.

(d) PROPAGATION OF SOLAR ENERGY:

The Bank has been taking active part in the propagation of non-conventional sources of energy since 1994. The Bank has made a pioneering effort in conveying the message of usage of Solar Energy in rural areas.

The Bank has financed 289 Solar lighting, Water Heating Systems & Solar Water Pumping Systems amounting to ₹ 1.14 Crore during the year.

Apart from this, 200 Branches are running completely on Solar Energy and a Grid Connected Solar PV System of 25 KW capacity is installed on the rooftop of Head Office building.

(e) Green House / Poly House

Bank continued the scheme of financing for protected cultivation of flowers and vegetables. During the year 2017-18 Bank has financed 4 units amounting to ₹ 39 lakhs for Green/Poly House, thereby increasing the income level of farmers.

(f) Prime Minister Mudra Yojana (PMMY)

Bank continued to accord greater thrust for financing to MSMEs with emphasis on MUDRA loans (PMMY). The disbursement of loans under the said scheme during 2017-18 is mentioned below:

Sl	Category	No. of A/cs	Loan Amt. (Crore)
1	SHISHU	18453	77.72
2	KISHOR	38138	638.94
3	TARUN	1139	89.57
Total		57730	806.23

As a proactive measure to promote collateral free lending to MSMEs, the Bank is re-enrolled with the CGTMSE for providing collateral free loans to MSMEs up to ₹ 50.00 lakhs.

NEW Loan Products introduced during 2017-18:

(1) VIKAS SHE PLUS (Special Loan Scheme for Women to take up MSME Activities):

A special loan scheme for women customers of the Bank to take up MSME activities with a maximum loan limit of ₹ 2.00 lakh was launched on the International Women's day i.e., 8th March. The scheme focuses on empowering women customers of the Bank to take up economic activities under MSME so as to improve their standard of living by enabling them to support their families in financial matters. During the year, 2771 units amounting to ₹ 26.77 crore were sanctioned.

(2) VIKAS ANNAPOORNA (Scheme for financing Hotels/Restaurant under MSME):

Vikas Annapoorna is a loan product which helps setting up of Hotels/ Restaurants/ Dhabas/ Fast Food Centers/Catering Services etc., with a maximum loan limit of ₹ 10.00 lakhs without collateral (Compulsory coverage under CGTMSE). During the year, 2027 units amounting to ₹ 32.62 crore were sanctioned.

(3) VIKAS KRISHI SAMRUDDHI (Integrated Farming System):

A loan product meant for agriculturists to take up integrated farming. Under the scheme, farmers can take up Dairy farming, Sheep & Goat Farming, Poultry Farming, Bee Keeping along with construction of farm pond with a maximum loan of ₹ 2.00 lakh. During the year 2017-18, 578 units were sanctioned amounting to ₹ 5.48 crore .

(4) VIKAS GRIHA SNEHI , a unique loan scheme introduced for women customers of the Bank on the occasion of International Women's Day on 8th March 2017 for setting up of Modular kitchen has continued to do well and Bank has financed 483 units amounting to ₹ 8.08 crore during the F.Y. 2017-18.

10. FINANCIAL INCLUSION INITIATIVES:

Bank is actively implementing the Comprehensive Financial Inclusion under Mission Mode as per GOI/MOF/DFS letter No. 1.9.2014 dtd 04.07.2014 and created 857 Sub Service Area (SSA) to cover 2033 villages. Out of 857 SSA, 329 SSAs were covered through existing Bank Branches and remaining 528 SSAs through the services of Business Correspondents.

Service Providers: Integra and Atyati Technologies Private Ltd are the Technology Service Providers for BC model. We have entered into Service Level Agreement with them.

528 Micro ATMs are provided to BCs and all are carrying on AEPS and RuPay Card transactions. The transactions of BCs are being monitored through online dash board reports. Failed/reversed AEPS/RuPay Card transactions in HHMs of BCs are being monitored on daily basis.

Base Branch Managers are visiting the BC location once a week to monitor and guide the BC to increase both number and volume of transactions. The transactions of the BCs are being monitored by the base branch through Voucher Verification Report / transactions in BC Current account.

The Chairman, General Managers, Chief Managers and Regional Managers are visiting the FI Villages and motivating the staff and BCs to involve in the implementation of Financial Inclusion Plan and achieve inclusive growth as per the guidelines issued by DFS:MOF:GOI. We have further strengthened the system of reviewing and monitoring at RO and HO.

Review meeting of BCs with the base branch Manager is being conducted at all Regions and the performance of individual BC is being reviewed on a regular basis. All Regional Managers are conducting Bank Mitra monthly meeting.

AEPS ON US and OFF US are already implemented in all BC locations and transactions are happening at all BC points. Interoperability under AEPS is available at all BC locations.

The progress under BC transaction, AEPS & RuPay Card transaction and Card Activation, Aadhaar & Mobile number seeding is as under:

Particulars	Position as on 31.03.2018
Average BC transaction per BC per day	24
No. of AEPS transactions through BCs during the year	45,27,873
No of RuPay Cards transaction through BCs during the year	10,68,717
Total RuPay Debit Cards issued (PMJDY & General)	17,88,257
RuPay Card Activation	10,19,306 (57%)
No. of Active KCC a/cs	2,41,713
KCC RuPay cards issued	2,41,713
KCC RuPay activation	1,60,581(66%)

Bank Sakhi Model: In order to extend the services of Business Correspondents to each and every branch, Bank has appointed Bank Sakhi as a business correspondent. Under this model, a member of SHG, preferably a married woman, is identified to work as a Bank Sakhi, and provided with adequate training. KVGB is the first bank in Karnataka to introduce this model. As on date there are 104 Bank Sakhis in the Bank.

IMPLEMENTATION OF PRADHAN MANTHRI JAN- DHAN YOJANA:

All households coming under area of operation have been covered with opening of BSBD Accounts.

The progress under the scheme is as under;

Sl No.	Parameter	As on 31.03.2017	As on 31.03.2018
1	No. of PMJDY a/cs opened	15,30,020	15,55,975
2	No. of accounts with Zero balance	2,28,034	1,93,130
3	Balance in PMJDY (Rs. In lakhs)	51,415	60,438
5	No. of SSA	857	857
6	No. of Wards allotted	219	219
7	No. of SSA covered	857	857
8	No. of Wards covered	219	219
9	No. of Households	10,64,733	10,64,733
10	No. of Households covered	10,64,733	10,64,733
11	No. RuPay Cards issued	15,05,099	15,23,206
12	No of SSAs where Household survey is completed	857	857

13	No of Wards where Household survey is completed	219	219
14	No. of Accounts seeded with Aadhaar Number	13,51,164	15, 25,943
15	No. of Accounts seeded with Mobile Number.	904761 (59)	9, 46,386(69%)
16	No. of BSBDA accounts sanctioned with Overdraft facility	16,375	18,742
17	Total OD limit sanctioned (Rs. In lakhs)	738.10	776.36

The progress under Aadhaar & Mobile number seeding is as under:

Sl No	Particulars	Position as on 31.03.2018
1	Aadhaar seeding to active accounts (37 lakhs) - (Bank as a whole)	35,08, 505(94%)
2	Aadhaar Authentication	22,65,175(64%)
3	Mobile no. seeding to active accounts (37 Lakhs) - (Bank as a whole)	33, 32, 168 (89%)

DIGITALISATION:

Bank has covered 43 villages under 100% Digital villages. BC is working in these villages and transactions through AEPS, RuPay Card, Mobile App UPI-BHIM are regularly happening in these village.

107 more villages will be brought under 100% Digitalization before end of March 2019.

Each and every branch has been advised to conduct Grama Sabha in their service area villages to create awareness amongst the villagers on Aadhaar/Mobile number seeding to the accounts, issuance and activation of RuPay Cards and downloading mobile app of the Bank. The services of BC are utilized for activation of RuPay Cards and collection of Aadhaar /mobile number for which they have been incentivized.

Services of two Mobile ATM Vans are extensively used in villages where the services of BC are not available.

Financial Literacy Week:

Financial Literacy week from 5th June 2017 to 9th June 2017 was observed in 415 rural branches of all 10 Regions. The Financial Literacy week was focused on five broad themes :

1. **KYC:** For opening of small account without proof of identity and address, just by giving a recent photograph and enjoying the account balance of upto Rs 50000/-, Withdrawal upto Rs 10000/- per month and total credits upto Rs 1 Lakh per financial year.
2. **Credit Discipline:** Individuals having credit history can get one free full credit report including credit score, once in a year.
3. **Grievance Redressal:** If the bank does not resolve the complaint within a month, approach RBI's Banking Ombudsman.
4. **Unified Payment Interface platform:** A platform that allows seamless transfer of money on a real time basis between two bank accounts using KVG MOBILE APP.

5. ***99# USSD code:** A platform that allows seamless transfer of money on a real time basis between two Bank accounts using a smart phone without internet connectivity.

GOING DIGITAL-FINANCIAL LITERACY AND AWARENESS PROGRAMME:

Going Digital Programmes were conducted to reach a wider public through Financial Awareness Messages(FAME) and to create awareness amongst the public more particularly in rural area on two digital platforms, UPI and *99# (USSD), Financial Inclusion, PMJDY, Social Security Schemes, utilizing the services of Business Correspondents/Bank Mitras, digitalization, cashless/less cash transactions.

We had identified 89 rural branches for conduct of Special camps under “Going Digital”. The programmes were conducted on every Third Friday of each month after office hours. All branches were provided with the materials on Financial Awareness Messages supplied by the RBI and distributed them in the programme. 217 programmes were conducted and reached more than 8000 rural mass.

IMPLEMENTATION OF SOCIAL SECURITY SCHEMES

Bank has executed MOU with LIC of India and United India Insurance Co. Ltd. for implementation of Pradhan Mantri Jeevan Jyoti Bima Yojana and Pradhan Mantri Suraksha Bima Yojana respectively. Wide publicity is given through Press, Television, All India Radio, distribution of pamphlets and using two Mobile Vans. Camps and Pada Yatras have been organized and enrollment is made through camp mode. Training is given to BCs and ND Agents for canvassing the Insurance business.

The progress under the SSSs as on 31.03.2018 is as under;

Sl No.	Name of the Scheme	No. of eligible A/cs as per Scheme guidelines	Total No. of customers covered	No. of claims received	No. of claims settled
1	PMJJBY	12,03,611	3,20,730	1293	1263
2	PMSBY	17,47,681	9,24,750	221	206
3	APY	10,04,202	41,817	-	-

g) Bancassurance

Bank has entered into an agreement for distribution of Life Insurance products by signing a “Memorandum of Understanding” (MoU) with LIC of India, which is the leading Insurance Company in the country. During the year Bank has canvassed 173 policies with a premium of 60 lakhs. Bank has earned 42 lakhs non-interest income in the form of commission on new and renewed policies.

h) Micro Insurance

In association with LIC of India, Bank has introduced Micro Insurance to the customers of the Bank through all its 636 branches. Bank has canvassed 135 policies with a premium collection of Rs. 3,17,345 during the year.

i) Aadhaar Enrollment Centers:

Bank has established 62 Aadhaar Enrollment centers for carrying out Aadhaar Enrollment and Update facility at the Bank Branch premises. The centers were run by the Bank under Sponsor Bank EA code-0658, with Aadhaar Enrollment kits and the operators supplied by the vendors upto 31.03.2018.

UIDAI has appointed our Bank as Enrollment Agency with EA code-2763 on 16.1.2018 . The overall administration and monitoring of the Aadhaar Enrollment centers is to be done by the Bank with effect from 01.04.2018.

The particulars of Aadhaar Enrollment Centers that functioned upto 31.03.2018 are as under:

Sl No.	Name of Service Provider	No. of centers allotted	No. of Centers
1	Karvy Data Management Services	04	04
2	BNK Capital Markets Ltd	05	05
3	Vee Technology	53	43
Total		62	52

11. IRAC NORMS

The Bank is following IRAC norms prescribed by Reserve Bank of India

a) Asset Classification

Classification and Provision for previous year and current year is furnished in the following table:

(Amount in Crore)

Asset Classification	As on 31.03.2017		As on 31.03.2018	
	Outstanding	Provision	Outstanding	Provision
Standard Assets	9184.06	27.57	9679.92	28.98
Sub Standard	124.50	12.45	261.73	26.17
Doubtful	249.95	111.21	524.39	255.40
Loss Assets	19.48	19.48	21.51	21.11
Total of Loans and advances	9577.99	170.71	10487.55	331.66

Against the statutory provisioning requirement of Rs.279.68 Crores for NPA, Bank has made 302.68 crores, which is (23crores) above the requirement. Provision coverage Ratio increased from 36.34% as on 31/03/2017 to 37.48% as on 31/03/2018.

b) Interest De-recognised

Data regarding interest de-recognised during the previous and current year is as under:

(Amount in Crore)

	Previous year 2016-17	Current Year 2017-18
De-recognised Income at the beginning of the year	115.58	187.66
Recovery during the year	19.35	62.30
Additions during the year	91.43	162.86
De-recognised Income at the end of the year	187.66	288.22

c) Provisions

Bank has made provision while finalizing the Balance Sheet under different heads of accounts like Standard asset, NPA, provision for Income Tax etc. Details of provision held for Non Performing Advance for the last three years are as under:

(Amount in Crore)			
Provision for NPA	31.03.2016	31.03.2017	31.03.2018
Provision made during the year	23.96	35.27	169.50
Cumulative Provision held	110.40	143.14	302.68

d) NPA Management

Classification-wise NPA for previous and current year is as under :

(Amount in Crore)		
	Previous year 31.3.2017	Current Year 31.03.2018
NPA at the beginning of the year	349.78	393.93
Recovery against NPAs during the year	116.07	452.66
Additions to NPA during the year	160.22	866.36
NPA at the end of the year	393.93	807.63

Net NPA as on 31.3.2018 is 4.96% as against 2.66% as on 31.3.2017.

12. LOANS DISBURSED DURING THE YEAR

During the year under report, the Bank had disbursed a total credit of ₹ 5400.83 Crore as against ₹ 5307.30 Crore disbursed during the previous year. The Bank has achieved 86% of its target under Service Area Plan of ₹ 6304 Crore. Out of the total loans disbursed during the financial year under report, the Bank had deployed ₹ 4456.03 Crore to priority sector and ₹ 944.80 Crore to non-priority sector as against ₹ 4401.43 Crore and ₹ 905.87 Crore respectively disbursed during the previous year.

The sector-wise performance of the Bank under disbursement of credit against Annual Credit Plan (ACP) target for the Year 2017-18 vis-à-vis the previous year is as under:

(₹ in Crore)				
Sl. No.	Sector	Actuals 2016-17	ACP Target for 2017-18	Actuals 2017-18
A	Priority Sector			
i)	Agriculture	3224.89	3750.85	3207.29
ii)	Allied Activities			
iii)	NFS/SSI	1176.54	1677.90	1248.74
iv)	Other Priority Sector			
	Total of Priority Sector	4401.43	5428.75	4456.03
B	Non Priority Sector	905.87	874.75	944.80
	Total Disbursement	5307.30	6303.50	5400.83
	Target group	3150.98		3206.51
	Non Target group	2156.32		2194.32
	SC/ST, Minorities	324.67		720.34
	SF/MF/AL	1357.77		1839.76

The Bank is implementing revised Kisan Credit Card Scheme with multi limit for 5 years as per guidelines issued by NABARD. All eligible farmers are covered under the KCC Scheme. During the year, the Bank had issued 188024 Credit Cards (Fresh & Renewals) with an amount of ₹ 2969.40 Crore .

Participation in Poverty Alleviation Programmes from 01/04/2017 to 31/03/2018:

The Bank's concern/commitment under various social obligations and Poverty Alleviation Programmes of the Central /State Government is evident from the figures given below:

Sl. No	Particulars	Applications received	Achievement during 2017-18
1	NRLM in place of SGSY	4604	4529
2	SC/ST Schemes	6412	6327
3	Minorities	447	402
4	PMEGP	321	309
5	Other Govt. Sponsored Schemes	2680	2643

13. RECOVERY OF LOANS

DCB for the following categories, along with age-wise, sector-wise classification of over dues as on 30.06.2017 is furnished below:

(Amount in Crore)

Sector	Outstanding		Over dues		% of Over dues	Less than 1 year		Above 1 year but less than 5 years		Above 5 years	
	A/cs	Amount	A/cs	Amount		A/cs	Amount	A/cs	Amount	A/cs	Amount
Farm Sector	352861	5884.62	101982	1273.36	21.63	38261	748.72	44902	470.53	18819	54.11
Non Farm Sector	354644	3707.88	41778	451.73	12.18	14091	133.15	19998	254.40	7689	64.18
Total	707505	9592.50	143760	1725.09	17.98	52352	881.87	64900	724.93	26508	118.29

During the year under report, the Bank adopted several recovery measures with special thrust on maintaining NPAs at minimum level. Notably, bank has made effective use of information system available in CBS environment, such as sending sms to customers where-ever the loan installment becomes due. Day-to-day monitoring of Special Monitored Accounts (SMAs) was done at Regional Office and Head Office level to ensure that accounts do not slip to NPA category. Several steps were initiated for NPA Management as enumerated below:

1) Introduction of Special OTS schemes:

a) Special OTS Scheme for Doubtful & Loss Assets: To bring down the relatively small loan accounts blocked under Doubtful and Loss Asset category, Bank introduced Special OTS Scheme for Doubtful & Loss Assets with book balance and sanctioned amount of Rs. 3.00 lakhs and below. Under this scheme, bank was able to recover Rs. 633.27 lakhs in 808 loan accounts. The scheme was in operation up to 31.3.2018.

b) Special OTS Scheme for Agricultural NPAs: Bank has helped the farming community to meet their short term and long term investment. Due to continuous drought / natural calamities over a period and heavy capitalization of interest due to rephasing of loans several times, bank

introduced Special OTS Scheme for Agricultural NPAs. Under the scheme, bank recovered 3790.37 lakhs in 2547 loan accounts. The Scheme was in operation till 31.3.2018. However Bank has extended this scheme up to 30.06.2018 as the farmers have not received their agriculture produces in time.

2) Nodal Officer Concept: During the year under report Bank continued the concept of Nodal Officers for business development and recovery of NPAs / borderline assets. Officers from Regional Offices and Head Office were designated as Nodal Officers. Each Nodal Officer was allotted certain branches having high NPAs. They were required to visit the allotted branches at regular intervals, review all the NPA / borderline assets (SMAs) and ensure appropriate steps to recover the amount.

3) Review of Performance: fortnightly / monthly review meeting / Video Conferences: The Chairman and the General Managers through Video Conference reviewed performance of the Nodal Officers and Managers of top 10 NPA branches of every Region at periodical intervals

4) Conducting of OTS camps: All the Regional Offices were directed to conduct “Mega OTS Camps” on every month. Since April 2017, all the Regional Offices have conducted such camps. During the financial year totally 9053 OTS proposals have been sanctioned with offer amount of Rs.93.66Crore.

5) Conducting Recovery Adalat Camps: All the Regional Offices were directed to conduct “Recovery Adalat Camps” during the year. All the Regional Offices have conducted such recovery Adalats. During the financial year totally 826 proposals have been sanctioned having book balance of Rs.2.67Crore

6) Invoking provisions of SARFAESI Act: Branches / Regional Offices were instructed to identify loan accounts afresh where SARFAESI action could be initiated and to follow up the accounts where action is already initiated until actual cash recovery / OTS or auction of securities. During the year Bank initiated action under SARFAESI Act in 1383 cases and recovered Rs.64.86Crore under 1115 accounts.

Details of accounts where SARFAESI Act is initiated is as under:

Particulars	(In Crore)	
	No of Accounts	Amount
Position as on 01.04.2017	1328	70.79
Fresh notices issued during the financial year	1383	78.38
Recovery made during the financial year	1115	64.86
Outstanding as on 31.3.2018	1596	84.31

7) Recovery of Written Off accounts through Business correspondents and ND Agents: Recovery under written off accounts was also given due importance by the Bank. Bank formulated special incentive scheme for recovery of bad debts, written off accounts (outside negotiated settlement) through Business Correspondents and Nirantara (Pigmy) Deposit Agents and Ex-staff. The scheme has been effective from 25.08.2014. Under the scheme, the BCs and ND Agents are eligible for commission of 10% on actual recoveries. During the financial year Bank could recover ₹ 0.48 Crore under written off accounts.

14. WRITE-OFF OF LOANS

NPAs classified as Loss Assets , which continued as NPAs for a minimum period of three years in the books of accounts were considered for write off up to the Book Balance of ₹ 75,000/- as

per the Board approved Policy. Loss Assets written off during the years 2017 and 2018 are as under:

(Amount in Crore)		
Year	No of accounts	Amount written off
31.03.2017	311	0.78
31.03.2018	811	2.87

15. COMPREHENSIVE CROP INSURANCE

Pradhan Mantri Fasal Bima Yojana & Restructured Weather Based Crop Insurance Scheme (WBCIS) are implemented in the area of operation of the Bank since 2016-17 Kharif and during 2017-18 Kharif & Rabi Seasons. A total of 147728 farmers are covered under the schemes by remitting premium of ₹ 31.31 crore.

16. INCOME EARNED

During the year, the aggregate revenue income of the Bank increased to ₹ 1541.42 Crore as against ₹1521.12 Crore of previous year. The bank had earned Trading Income from investment portfolio to the extent of ₹ 31.39 Crore during the year. Bank also earned income of Rs.24.40 crore (previous year: ₹ 16.89 Crore) from sale of Priority Sector Lending Certificates (PSLC) during the year.

The break-up of income earned during 2018 as compared to 2017 is as under:

(Amount in Crore)				
Sl. No.	Particulars	2016-17	2017-18	% of growth
01	Income on Advances	967.60	966.17	-0.15
02	Income from Investments	236.14	198.09	-16.11
03	Income from other Investments (including FDs)	191.64	228.98	19.48
04	Income from trading of securities /sale of PSLC	47.90	55.79	16.47
05	Other Income	77.84	92.39	18.69
	Total	1521.12	1541.42	1.33

17. EXPENDITURE INCURRED

During the year, the aggregate revenue expenditure incurred by the Bank is ₹ 1439.13 Crore as against the expenditure of ₹ 1367.37 Crore incurred for the previous year. The details of interest paid on deposits, borrowings, establishment and other expenditure incurred for the year 2017-18 in comparison to the expenses incurred during 2016-17 are as under:

(Amount in Crore)				
Sl. No.	Particulars	2016-17	2017-18	% increase
01	Interest on Deposits	748.40	702.33	-6.16
02	Interest on Borrowings	175.58	147.27	-16.12
03	Establishment	246.64	250.33	1.50
04	Other Operating expenditure	92.79	105.49	13.69
05	Provisions & Contingencies	103.96	233.71	124.81
	Total	1367.37	1439.13	5.25

PROFITABILITY :

The Net Profit of the Bank as on 31.03.2018 stands at ₹ 102.29 Crore after making provision of ₹ 233.71 Crore towards tax and other provisions .

18. FINANCIAL RATIOS

In order to remain competitive and shore up reserves, the Bank is always striving to reduce costs and earn profits. The financial ratios worked out on average working funds as on 31/03/2018 and that of the previous year are as under :

Sl.	Ratios	2016-17	2017-18
1	Financial Return	8.99	8.48
2	Financial Cost	5.95	5.17
3	Financial Margin (1-2)	3.04	3.31
4	Operating Cost	2.19	2.17
5	Miscellaneous Income as % to working fund	0.81	0.90
6	Operating Profit (3+5-4)	1.66	2.04
7	Risk Cost	0.67	1.42
8	Net Margin (6-7)	0.99	0.62

Capital to Risk Asset Ratio (CRAR %) for the year 2017-18 is 16.66 (previous year: 17.64)

19. TRANSFER PRICE MECHANISM

Calculation of Ultimate Profit/Loss (TPM) as at March 2018

We have calculated TPM to arrive at the number of Loss Making Branches as on 31.03.2018 by adopting the same procedure as that of our Sponsor Bank. The details of Operational Profit & Loss and Ultimate Profit/Loss making branches, which have completed their operations of 1 year and above (611 Branches) as at 31.03.2018 are as under :

Category of Branches	Total Branches	Profit Making Branches		Loss Making Branches	
		Operational	TPM	Operational	TPM
Urban	66	10	66	56	0
Semi Urban	140	91	140	49	0
Rural	415	331	415	84	0
TOTAL	621	432	621	189	0

Note: 15 Branches which have not completed operations of one year are excluded.

20. ACHIEVEMENTS UNDER MOU 2017-18

Planning for future growth with committed efforts to achieve results are the essential ingredients of good business proposition. The Action Plan prepared for the year 2017-18 became the Memorandum of Understanding with Sponsor Bank. The performance under important parameters in comparison with targets is furnished below:

(Rupees in Crore)			
Sl. No.	Particulars	Target for 2017-18	Achievement as on 31/03/2018
1	Business	24505	23432

2	Deposits	13682	12944
4	Ratio of Demand Deposit to Total Deposits	38.04	36.10
5	Advances Outstanding	10823	10488
7	Priority Sector Advances	9788	9434
9	Credit Deployment	6500	5400
10	Disbursement to Priority Sector advances	5400	4456
12	Total Income		1541
13	Total Expenditure		1205
14	Operating Profit	275	336
15	Net Profit	177	102
16	NPA	541	808
794	Per Branch Business	37.7	36.84
18	Per Employee Productivity	7.78	7.41
19.	CD Ratio	79.10	81.02
20.	No Frill Accounts	***	3204970

21. COMPUTERISATION / AUTOMATION / TECHNOLOGY INITIATIVES

Bank has introduced various IT initiatives in the FY 2017-18. The customers of the bank can leverage on these new products to avail 24*7 banking services.

Following is a brief description of new initiatives introduced by the bank during the year:

UPI (Unified Payment interface):

UPI is a payment system that allows money transfer between any two bank accounts by using a smart-phone through a "single identifier" which can be a virtual address like an email ID, mobile number or Aadhar number. UPI allows a customer to pay directly from a bank account, without having to type credit card details, IFSC code, or net banking/wallet passwords. It was introduced in the Bank with effect from 01.12.2017. An average of 1000 UPI transactions are carried out by our customers every day.

e-Commerce:

Electronic Commerce (e-Commerce) is a transaction of buying or selling online. It was introduced with effect from 14th September 2017. An average of 500 e-Commerce transactions are carried out by our customers every day.

Instant Pin for ATM cards:

- Customers can instantly avail pin mailers for their personalized Rupay debit/VKCC cards.
- The waiting time for a new/duplicate pin mailer is reduced to 24 hours from the previously required 7 days time.

This facility was introduced on 18th March 2018.

Demographic Authentication:

- UIDAI a regulatory body for Aadhar in India has stipulated that all banks should authenticate the customer's data available in the database by comparing it with UIDAI's database.
- Bank initiated the process with effect from 01.12.2017 and was able to authenticate 64% of Aadhar seeded accounts.

USSD:

USSD services were introduced with effect from 01.12.2017 to that segment of the customers who were not accustomed to smart phones. Customers can avail banking services by typing *99# on their GSM phones.

22. INTEREST RATES**A) Interest rates on Deposits –**

Keeping in view the liquidity position of the bank, commitments under MoU and the stiff competition from other co-players in the market , ALCO suggests upward/downward revision in the rate of interest as and when required. The applicable interest rate for different periods on deposits of less than ₹ 1.00 Crore for bulk deposits. of ₹ 1 Crore & above is as under :

Interest rates on Domestic Term Deposits

Sl.No	Period	Less than 1 Crore	1 Crore & above
1	07 days to 14 days	5.25	5.00
2	15 days to 29 days	5.25	5.00
3	30 days to 45 days	5.50	5.00
4	46 days to 60 days	6.00	5.75
5	61 days to 90 days	6.25	5.75
6	91 days to 120 days	6.50	6.10
7	121 days to 180 days	6.50	6.10
8	181 days to 269 days	6.75	6.10
9	270 days to 364 days	6.75	6.10
10	One year only	7.00	6.25
11	Above 1 year and incl of 2 years	6.75	6.00
12	Above 2 years and less than 3 years	6.75	6.00
13	3 years & above & less than 5 years	6.50	6.00
14	5 years and less than 6 years	6.25	5.75
15	6 years and above	6.25	5.75

*Again, to discourage bulk deposits, differential interest rates are set for bulk deposits. (ie term deposit of ₹ 1 Crore & above)

- Additional interest of 0.50% over the card rate is payable to Resident Indian Senior Citizen on Domestic Term Deposits upto Rs.1.00 crore and with maturity tenor of one year and above only.
- Employees/eligible ex-employees are eligible for an additional interest of 1% over the card rate irrespective of the amount and tenor of deposit.
- Eligible ex-employees, who are Senior Citizens and eligible for an additional interest of 1% payable to employees/eligible ex-employees are also eligible for an additional

interest of 0.50% payable to Resident Indian Senior Citizens on domestic term deposits upto Rs.1.00 crore and with maturity tenor of one year and above only.

Non Resident Indian Deposits (NRE/NRO Rupee Deposits)

Period of deposit	Rate of interest p.a.
1 Year (Exact)	6.50
Above 1 Year to up to 2 Years	6.50
Above 2 Years up to 5 Years	6.60
Exact 5 years	6.50
Above 5 years to 10 years	6.50

- Additional interest to Employees/Eligible Ex-Employees and Senior Citizens as applicable to Domestic Term Deposits is not applicable on NRE Deposits
- Penalty for premature renewal of NR Rupee Term Deposits – 1.00% of applicable interest rate on NRE Term Deposits.

B) Interest rates on Advances:

The rate of interest on Advances is fixed taking into consideration the rate of interest at Sponsor Bank, cost of deposits and the competitive rates prevailing in commercial banks in the area of operation of the Bank. Presently, the rate of interest on various products of the bank as on 31.3.2018 is as follows:

No	Priority Sector Advances	Particulars	RoI
1a	KCC/CROP LOANS including VKSCC JL under Interest Subvention – Applicable rate of Interest up to one year from the date of disbursement or due date or date of payment / renewal, whichever is earlier.	a. Up to Rs.3.00 lakh	7.00
		b. Above Rs.3,00 lakh	12.50
1b	KCC/CROP LOANS(After one year of disbursement) / Pledge (i.e. Produce) Loan– Normal rate of interest.	a. Up to Rs.1.00 lakhs	11.00
		b. Above Rs.1.00 lakh upto 3.00 lakh	12.00
		c. Above Rs. 3.00 lakh	12.50
2 a	Agri Term Loans/allied activities (including purchase of Agriculture land, Commercial production of Organic inputs, Vikas Bahumukha)	Up to Rs. 2.00 lakh	12.00
		Above Rs.2.00 lakh -	12.50
2 b	Tractor / Trailer , Agricultural equipments	Irrespective of Loan amount	13.75
3a	Rural Artisans, Cottage Industries, Tertiary Sectors including loan to Retail Traders, Small Business and Other Self Employed, Professionals and Medical Practitioners, Swarojagar Credit Card, Rural Godown, Cold storage, Kisan Seva Kendras, other Non farm sectors including Loans extended to Educational Institutions & SRTO	Up to Rs.5.00 lakh	11.50
		Above Rs. 5.00 lakh	12.00
3b	Vikas Sanjeevini	Above Rs.2.00 lakh	12.00
4a	Public Housing loans / Farm House	For loans up to Rs 10.00 lakh	9.00
4b	House repairs up to Rs. 1.00 lakh in Rural / Semi Urban Areas & up to Rs.2.00 lakh in		

	Urban Areas and Rural Sanitation Facility.	For loans of Rs 10.00 lakh and above	8.75
5	Education Loans	a Up to Rs 4,00,000	12.50
		b. Above Rs 4.00,000	13.00
6	Self Help Groups *	Irrespective of Loan Amount	12.50
7	Joint Liability Groups	Irrespective of Loan Amt.	12.00
8	Solar Lighting	Irrespective of Loan Amt.	12.25
9	Solar Water heating	Irrespective of Loan amount	12.50
10	General Credit Cards (GCC)	Irrespective of Loan amount	13.00
12	Vikas Janashakti	Irrespective of Loan Amt.	14.50
13	Vikas Annapoorna	Max. up to Rs.10,00,000	12.00
14	Vikas Krishi Samruddhi (IFS)	Max. up to Rs.2,00,000	12.00
15	Vikas Griha Snehi	Max. up to Rs.2,00,000	10.00
16	Vikas She Plus	Max. up to Rs.2,00,000	11.00
Non Priority Sector Advances		Particulars	RoI
1	Loans to Wholesale Dealers, Commission Agents & Contractors	a. Up to Rs. 2,00,000/-	13.50
		b. Above Rs.2, 00,000	14.00
2	Loans to Real Estate Developers and all other commercial / NPS Advances	Irrespective of Loan amount	14.75
3	Mortgage Loan	Irrespective of Loan amount	13.00
4	Ware House receipt loans. (Other than Produce Loan)	Repayment period more than 6 months irrespective of loan amount.	14.00
5	Loans and Advances against NSC/KVP/LIC Policies (Surrender Value)	Irrespective of amount	13.50
6	Loans for Salaried Class & others (Irrespective of loan amount).	a. Purchase of Consumer Durables and Demand Loans.	14.00
		b. For purchase of vehicles (2/4Wheelers for personal Use)	10.50
7	DL to Nirantara Deposit Agents	Irrespective of loan amount	12.50
8	DL to Agriculturists	As per Scheme	14.50
9	Branch Premises Loans	Irrespective of the Amount	14.00
10	DL on security of Nirantara Deposit A/cs	Up to Rs.1, 50,000/-	14.50
11	Cheque Discounting / Purchasing	Irrespective of amount	16.00
12	Debit balances in SB / Current accounts	Irrespective of amount from the date of over draws.	18.00
13	Loans on Deposits on Nirantara Deposit	Irrespective of the amount	10.00
14	Jewel Loans (Agri / Non Agri sanctioned after vide Ho Cir no 93/34/2014/Adv Dt 01.7.14)	Irrespective of Loan Amount	11.00
15	LD on Term Deposits	2 % above Deposit Rate	

16	Staff Loans	DL/ODC/CDLF (w.e.f. 02.03.2016)	9.70
		Vehicle Loans (w.e.f. 04.08.2017)	8.00
		Housing Loan (w.e.f. 04.08.2017)	7.00
17	Vikas Santushti-ODD	1.50% above the Deposit Interest rate	
18	Vikas Mahila Snehi	Irrespective of the amount	10.00

- Finer rate of interest up to 3% p. a below the card rate for high value advances is offered as per Board approved policy

23. NON FUND BUSINESS

- Issuing of Demand Drafts** : Bank is having a total of 636 branches as on 31.3.2018. All branches are permitted to issue DDs on our own branches. Further, all our branches are permitted to issue DD on 275 designated branches of Syndicate Bank. Since November 2012, Bank has extended the fund transfer facility to customers under NEFT/RTGS . Through this transaction, Bank has earned income of ₹ 1.00 Crore as on 31.3.2018.
- Cheques Purchased /discounted (CDP)** : All branches are permitted to carry out transactions like purchase / discount of cheques of the customers as per the stipulated guidelines. As on 31.3.2018, outstanding balance under the head cheque discounted was ₹ 1.12 Crore . From this CDP transaction, Bank has earned ₹ 0.20 Crore during the year.
- Issue of Bank Guarantee** : To increase the non fund business and non interest income of the Bank, separate sanctioning powers are delegated to branches to issue Financial Bank Guarantees. As on 31.3.2018, outstanding balance under Bank Guarantee was ₹ 27.14 Crore. Bank has earned an income of ₹ 0.11 Crore through issue of Bank Guarantees during the year.
- Collection of bills /cheques** : All our branches are permitted to carry out the transactions of collection of Bills/cheques of our customers. Rural branches are attached to nearby taluka or district centre branches where those city branches are linked with MICR collection centres. Apart from this, our Hubli main, Belgaum main, Mangalore main, Udupi Main, Vijayapura, Bagalkot (Navanagar), Gadag, Sirsi and Nippani branches are members of CTS collection centres. As on 31.03.2018, the outstanding balance under collection of bills/cheques is ₹ 4.78 Crore Through this transaction, bank has earned an income of ₹ 0.42 Crore during the year.
- Commission under Bancassurance:** Under Bancassurance, the bank is selling life & non-life insurance products of Life Insurance Corporation of India & United India Insurance Company Limited. During the year, an amount of ₹ 1.29 Crore is earned under the above arrangement.
- Commission under PMJJBY & PMSBY:** Bank actively participated in the social security schemes of Government of India and earned a commission of ₹ 0.96 Crore during the year
- Locker Position:** Bank has provided Locker facility in selected 79 branches. It has also provided Locker Plaza at 2 branches in Dharwad and one at Navanagar (Bagalkot). An amount of Rs.0.33 crore is earned during the year from hiring lockers.

24. OTHER PARTICULARS

A. INSPECTION AND AUDIT

- 1) Inspection of Branches/Offices:

1. In terms of Comprehensive policy for internal Inspection adopted by the Bank, the Regular inspection of 329 branches is conducted during the year against the target of 380. Further, Preventive vigilance inspection of 79 branches and Short inspection of 122 against the target of 125 branches have been conducted.
2. The Audit of Investment Portfolio of the Bank is conducted on monthly basis by the external auditors and report is submitted to NABARD and Sponsor Bank.
3. Special thrust is given for strict adherence to KYC norms and Prevention of Money Laundering activities as per extant guidelines
4. Regional Audit Committees at Regional Offices have been monitoring the pending position of inspection Reports, Seepage of Income and Internal Control/housekeeping of branches at quarterly intervals.
5. Inspection of Head Office Divisions and all Regional Offices is conducted during the year.
6. An information systems Audit Policy was framed based on RBI/Sponsor Bank guidelines, according to which, Audit was conducted along with the Regular Inspection of the Branches.

2) Audit Committee of the Board:

Audit Committee of the Board has been functioning with the following members:

1. RBI Nominee director as Chairman of the Committee
2. NABARD Nominee Director
3. Sponsor Bank Nominee Director
4. Central Government Nominee Director (there was no nomination from Central Govt during the year)
5. Shri Vivek Shripati Mahindrakar : Chartered Accountant, Dharwad.

The General Manager of the Bank is Convener of the meeting. The Committee met four times during the year to review the position of inspection, audit and other related matters.

3) Inspection rating of Branches

The position of Inspection rating as on 31.3.2018 in comparison with previous year is furnished below:

Inspection rating	Rating	No. of Branches as on 31.03.2017	No. of Branches as on 31.03.2018
Excellent	AA	60	55
Outstanding	A	342	364
Above Average	B	196	202
Average	C	0	0
New Branches where inspection was not conducted	-	23	15
Total		621	636

4) Audit Cell:

- **Concurrent Audit:** Concurrent Audit is conducted in selected 125 branches of the bank having large business on monthly basis and compliance of the observations is ensured. The concurrent Audit function is outsourced to the empanelled Chartered Accountant firms.
- **IS Audit:** IS Audit is conducted by IT officers of the respective Regional Offices along with the Regular Inspection with a separate checklist designed for the purpose.

- **Compliance Audit:** The system of Compliance Audit as prevailing in Sponsor Bank is being followed in the Bank. We have conducted Compliance Audit of 13 branches during the year.
- **Portfolio Audit:** As per the policy adopted by the Bank, credit limit of ₹ 25 lakh and above are brought under the purview of Portfolio Audit. We have conducted Portfolio Audit of 244 units during the year.

5) Off-Site Monitoring Cell:

The business of the Bank is wholly covered under Core Banking Solutions platform. The Bank is exposed to various kinds of operational risks due to increased dependency on information technology. The OFF-SITE MONITORING CELL (OMC) has been set up at Head office with the following objectives:

- To strengthen the Internal control systems of the Bank to cope with the CBS operations and mitigate operational risk.
- To adopt better and speedier warning methods to Branches and to the staff concerned for violations and irregularities in operations with particular reference to credit exposures and house-keeping.
- To ensure collection of legitimate income due to the Bank.
- To suggest to the management better measures to strengthen internal control.
- To assist Operational Risk Management Committee in identifying, monitoring and mitigating operational risks.

Due to the effective functioning of OMC, the incidence of frauds is minimized. The seepage of income is curtailed and we were able to detect seepage of ₹ 12,10,954/- during the year.

6) NABARD Inspection:

The inspection of the Bank as on 31.3.2017 was conducted by NABARD during the period from 12.06.2017 to 30.06.2017. The detailed compliance to the observations was submitted to NABARD with the approval of the Board of Directors in the 73rd Board Meeting held on 27th September 2017.

7) Vigilance Cell

Vigilance Cell headed by Chief Vigilance Officer deputed from Sponsor Bank is functioning at Head Office, Dharwad as an extended arm of the Central Vigilance Commission under the guidance of Chief Vigilance Officer of the Sponsor Bank.

Vigilance Cell is established to assist the Head of the organization in all Vigilance matters. The role of Vigilance Department / CVO is broadly divided into two parts, namely (i) Preventive and (ii) Punitive.

Accordingly, Vigilance Department believes strongly in "Prevention is better than Cure" and undertakes to (i) examine the existing Rules, Regulations, Systems and Procedures of the Bank to eliminate / minimize the scope for corruption and malpractices (ii) to identify sensitive fraud

prone areas and keep a vigil on the personnel posted in such areas (iii) to conduct surprise / preventive vigilance exercises' to detect system failures and existence of corruption / malpractices and suggest measures to plug the loopholes and to ensure observance of conduct Rules relating to integrity of the officers like: scrutiny of Annual Property Returns, Benami transactions etc.

Under Punitive Vigilance, the Department undertakes (i) Speedy processing of vigilance cases at all stages right from charge-sheet to final decision of the Disciplinary Authority. (ii) Filing of complaints with the Investigating Agencies (Police/ CBI) and assisting them for speedy investigation and filing of charge sheet in the Court of Law till final order.

Department has conducted Preventive Vigilance Exercise in 79 Branches. Observations of this exercise are reviewed and placed before the General Manager for rectification. Wherever necessary , Vigilance Department has placed systemic Notes to the Management to initiate measures to plug the loopholes detected during the course of Preventive Vigilance Exercise in the existing systems , procedures & guidelines.

As per the directions of the Central Vigilance Commission , Bank has a Whistle Blower Policy in place.

Bank has set an ambitious target of covering 25% of the Branches (ie 160 branches) under Preventive Vigilance Exercise for the financial year 2018-19 as the Bank firmly believes in "Prevention is better than Cure".

B) INTER BRANCH RECONCILIATION

1. All Current Accounts maintained with Banks by branches are reconciled and tallied up to 31.03.2018
2. All Inter Branch Accounts are reconciled up to 31.03.2018
3. DDs issued on Syndicate Bank are reconciled up to 31.03.2018
4. All Inter Branch DDs are reconciled up to 31.03.2018
5. Reconciliation of RTGS / NEFT Funding a/c is reconciled on day-to-day basis

C) HUMAN RESOURCES DEVELOPMENT:

Cordial Industrial Relations continued to prevail in the Bank. Periodical meetings were held with the recognized Trade Unions. Periodical meetings were continued to be held with the recognized trade unions and SC/ST Employees Welfare Association.

Training:

The Training is viewed as a investment on human capital and Bank has given prime importance for training the staff and improving the Human Resources. The Bank has well established Rural Banking Training Centre for conducting various training programmes covering all categories of staff. Apart from this Bank is utilizing the training programmes offered by the Training Institutes like BIRD Lucknow, BIRD- Mangalore, CAB Pune, SIBM Manipal, IDRBT Hyderabad etc., by deputing Officers to these Institution.

The number of staff trained during the year is as under :

Sl. No.	Particulars	Number of staff trained			
		Officers	Office Asst.(M)	Office Attendants(M)	Total
1	Internal Training	884	143	25	1052
2	External Training	50	--	--	50
	TOTAL	934	143	25	1102

Recruitment :

During the year 2017-18 vacancies were created under various cadres for direct recruitment and steps were taken to fill these vacancies as per the Regional Rural Banks (Appointment and Promotion of Officers & Employees) Rules 2017, framed by Government of India . The details of number of candidates recruited under said recruitment process is as under :

Sl. No.	Category	No. of vacancies filled
1	Officer Scale II	31
2	Officer Scale I	344
3	Office Assistants(M)	129
	TOTAL	504

Promotions:

Promotion vacancies were created under various cadres and during the year following promotions were effected in accordance with Regional Rural Banks (Appointment & Promotions of Officers and Employees) rules. 2017. As per the Man Power Planning Sponsor Bank had cleared 5 Scale V vacancies in the Bank. Accordingly first time 5 Officers of Scale IV were promoted to Scale V cadre.

The promotions effected during the year are as under:

Sl. No.	Category	No. of Promotion effected
1	Officers Scale IV to Scale V	05
2	Officers Scale III to Scale IV	18
3	Officers Scale II to Scale III	18
4	Officers Scale I to Scale II	39
5	Office Assistant (M) to Officer Scale I	12
6	Office Attendant to Office Assistant.	35
	TOTAL	127

Staff Strength:

The Staff strength of the Bank under various cadres is as under ;

Sl. No.	Category	Strength as at 31.3.2018
1	Officers Scale V	05
2	Officers Scale IV	47
3	Officers Scale III	141
4	Officers Scale II	317

5	Officer Scale I.	979
6	Office Assistants	1235
7	Office Attendants	439
	TOTAL	3163

Welfare measures for SC/ST Staff:

The Bank has nominated a senior official of the Bank as Liaison Officer for facilitating Redressal of grievances of SC/ST employees as well as implementation of Reservation guidelines. The Bank follows the reservation Policy for SCs/STs as prescribed by Govt. of India from time to time. The SC/ST/OBC employees eligible for promotion to higher grade/Scale were provided with pre-promotion training during the year under report.

25. EXTENSION ACTIVITIES UNDERTAKEN BY THE BANK

The well-being of people living in rural areas is at the root of sustainable development. Therefore, to make our surroundings a better place, the Bank works along with Govt. Departments, local bodies and local people by organizing various extension activities . These include activities that are useful to the farming community like: health check up camps , awareness campaigns on hygiene and sanitation, sponsoring youth to RUDSETI/SIRD for entrepreneurship trainings, conducting Grama Sabhas for educating the masses on banking / digital banking services etc.

A. Social initiatives

Rejuvenation of Tanks:

In a bid to make a lasting contribution to society, the Bank had taken up revival of two big lakes in association with NABARD. These lakes are situated in Karajola village of Vijayapura District (measuring about 32 acres) and Gaddanakere village of Bagalkot District (measuring nearly 7 acres). Saplings were planted on the periphery of the water tank to improve greenery in these villages, after the tanks were cleaned. Both tanks were dedicated to the villagers on 5th June 2017, on the occasion of the World Environment Day. In doing so, the Bank has conveyed the message - “Every village tank must be saved and passed on to the next generation”.

Green Initiatives

With the intention of popularizing afforestation programmes among people, especially with students, the Bank conducted “Vanamahotsava” under the umbrella of its unique programme “Vraksha Laksha Yojana” at various centers of its service area. A mega programme was organized at Dharwad in which Mr. M I Ganagi, Chief General Manager: NABARD had participated.

Education Initiatives

Education is the key to help young people to succeed in life. The Bank endorses the philosophy that “No deserving student should be deprived of education for lack of funds.” Towards this end, the Bank encourages rural meritorious students by giving away cash prizes every year under its Grameena Pratibha Puraskar Yojana.

Creation of Awareness:

- With a view to create awareness /interest in the Indian Banking Industry, awareness on financial literacy and financial inclusion , quiz competitions for college/school level students were held .
- The Bank has organized several Grama Sabhas and door-to-door campaigns for educating the masses about banking/digital services of the Bank.
- Bank has organized several informative meetings like:
 - Builder’s Meet
 - Senior Citizen’s meet
 - Women’s meet
 - Farmers meet
 - Customer’s meet.
 - Organized Mela under Mudra Yojana

“Swachhta Pakhwada”

Swachhata Pakhwada was started in April 2016 by the Government of India with the objective of bringing a fortnight of intense focus on the issues and practices of Swachhata by engaging GOI Ministries/ Departments in their jurisdictions. Accordingly, as per directions received from DFS, the Bank conducted a “Swachhta Pakhwada” and with the involvement of all the members of the staff of Head Office/ Regional Office Dharwad, cleaned a public park in the city of Dharwad.

(B) Image Building and Publicity:

To get a wider reach and to build a good image, the Bank has undertaken many initiatives like adopting bus-stops and important circles in the district headquarters. The Bank has erected a few hoardings at prominent places. The Bank had also participated in Krishimela, organized by the University of Agricultural Sciences, Dharwad and Horticulture University , Bagalkot by putting up a stall of the Bank . The Bank continues to have cordial relationship with print as well as electronic media. All these efforts have yielded good publicity through-out the year, which has helped the Bank to become a household name in its area of operation.

(C) Rating by BCSBI

BCSBI has a system of conducting visits to selected bank branches /processing centers to verify the position regarding ground level implementation of the Code of Bank’s Commitment to Customers and the Code of Bank’s Commitment to Micro and Small Enterprise (MSE). Apart from code implementation, they also cover areas like Transparency, Customer Feedback, Grievance Redressal, Awareness among staff etc. For the first time, BCSBI had conducted such a survey in selected 28 Regional Rural Banks (RRBs) including our Bank.

Following the survey, BCSBI has assigned “Above Average” rating with a total score of 83 to our Bank, which is the highest score amongst the 28 RRBs surveyed. BCSBI has appreciated the efforts made by the Bank in Code compliance.

(D) Awards received during the year 2017-18

The Bank received the following awards during the year:

- (a) Best performance award instituted by NABARD for credit linkage of JLGs with innovative ideas during the years 2015-16 and 2016-17 given at a function held on 11 August 2017
- (b) **SKOCH award** in its 48th Summit held on 19th June 2017 under the following categories :
1. Technology development
 2. Digitalisation
 3. Agriculture Insurance
- (c) **SKOCH award** in its 49th Summit held on 9th September 2017 under the following categories :
1. Outreach
 2. Technology deployment

The selection procedure for the SKOCH awards involved presentations and voting.

26. BOARD ADMINISTRATION:

Following changes in the composition of the Board of Directors have taken place during the year:

- Shri K Ramachandra Bhat , Deputy General Manager, Syndicate Bank, Regional Office, Hubli joined in place of Shri S. Basavaiah, DGM, Sponsor Bank Nominee Director, who attained superannuation on 30.4.2017.
- Smt Varsha Bajpai Deputy General Manager, RBI Bengaluru, joined in place of Shri G Jeyakumar , Deputy General Manager, RBI Nominee Director
- Shri A V Joshi, Deputy General Manager, RO NABARD, joined in place of Shri A P Nanda , Deputy General Manager, NABARD Nominee Director
- Shri P Viswanatha Reddy AGM Sponsor Bank Joined in place of Shri B R Hiremath, AGM, Sponsor Bank Nominee Director
- Shri PavanKumar Malapaty IAS DS-3 to GOK , Finance Department – State Govt Nominee Director in place of Smt Sindhu B IAS, Deputy Secretary to GOK and Special Officer (Banking) , Finance Department – State Govt Nominee Director

Smt Snehal R IAS CEO Zilla Panchayat, Dharwad continued to be on the Board since last year.

The Board places on record its appreciation of the valuable services rendered by all the Directors who demitted office as Directors on the Board of the Bank.

Board of Directors met 6 times during the year under report, in conducting the regular business of the Bank in addition to business conducted through circulation of Notes 8 times.

27. ACKNOWLEDGEMENTS:

The Board acknowledges the support and guidance extended by the Government of India, Reserve Bank of India, NABARD and Government of Karnataka.

The Board is sincerely grateful to Syndicate Bank, the Sponsor Bank, for the support and guidance extended to the Bank through-out the year.

The Board also wholeheartedly acknowledges the support of the customers and well wishers for their continued patronage which has enabled the Bank to further develop the business relationship.

The Board places on record its sincere thanks to the Central Auditors M/s Paranjape Phadnis & Co, Belagavi and the team of Branch Auditors appointed by the Government of India, Ministry of Finance, in terms of Sub Section (1) and (2) of Section 19 of the RRBs Act 1976, for conducting the audit smoothly and in time .

Finally, the Board places on record their appreciation to all officers/employees for their dedication, commitment and contribution towards the growth of the Bank.

For and on behalf of Board of Directors of

Karnataka Vikas Grameena Bank

(S Ravindran)
CHAIRMAN