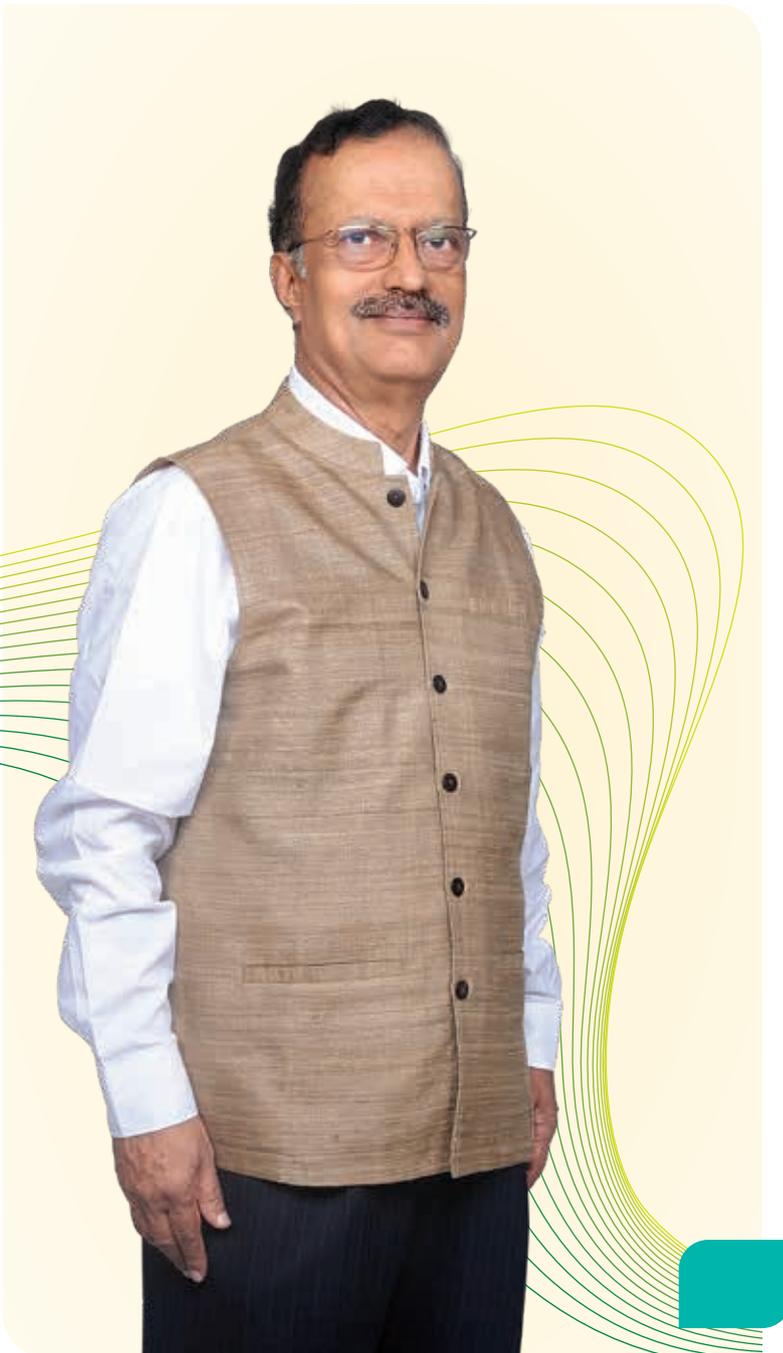


CHAIRMAN'S MESSAGE

Progressing towards a new growth paradigm



N. S. Srinath
Chairman

Dear Stakeholders,

Before discussing our performance for the year, I would like to wish all of you and your family the best of health and safety. We live in times where the world is grappling with an unprecedented health crisis. The COVID-19 pandemic has affected not just our lives but also the way in which we work, posing several challenges to our healthcare and financial ecosystems alike. However, the crisis has also ended up opening new frontiers of growth, with lessons for us all.

As I took to writing this letter aimed at bringing forth the highlights and salient features of our healthy performance for FY 2019-20, my thoughts kept going to one place only: our strong relationships in the market and the drive for results demonstrated by our people.

I believe we have acted with foresight and agility, which are our key strengths in view of the current macroeconomic conditions facing us. We continue to interact with our depositors, borrowers, various service providers and other stakeholders, including our employees, in order to ensure that our services remain uninterrupted. This has also helped us to identify opportunities for value creation.

With this background, I would revisit the year under review.

REVIEWING THE MACROECONOMIC SCENARIO

The Indian economy, though dealing with its own issues around slowing consumption demand, rising inflation, weak private sector capex, was still among the fastest growing large economies globally. However, by March 2020, the pandemic had arrived. The country went into a nation-wide lockdown from March 24, 2020. Owing to all these pressures, the country's GDP grew at a decade-low level of 4.2% in FY 2019-20. The government has announced a slew of measures to provide relief to small and medium enterprises and to revive the economy.

There is a silver lining, however. We are witnessing a bumper harvest; this, coupled with increased maximum selling prices for major food crops and oil seeds, holds the promise of agriculture growth. Further, as global MNCs consider diversifying their manufacturing operations outside China, India could emerge as a preferred destination given the low corporate tax rate, skilled population, relatively low wages and a large domestic market. A good monsoon, weakening inflation, falling crude oil prices and revival in consumption will augur well for the economy.

A MIXED YEAR FOR THE BANKING SECTOR

India's banking sector witnessed a credit growth of ~6% during FY 2019-20 (as against 13% in FY 2018-19), with the retail segment continuing to lead from the front and corporate segment remaining

Despite these challenges, we have recorded a resilient performance in the year. Healthy growth in the retail advances along with steady loan book in the agri segment offset the impact of a degrowth in the corporate credits. While net interest income remained largely stable, strong growth in non-interest income (on the back of good-performance by treasury) aided overall profitability.

under pressure. Asset quality pressures remained elevated during the year amid rising macroeconomic challenges. Further, the NBFC sector's woes continued with big names undergoing resolution process under the Insolvency and Bankruptcy Code (IBC). With a large private sector bank caught in crisis, the sector has come under increased scrutiny.

The Government of India as well as the Reserve Bank of India have taken several measures to support the economy and the banking sector. This includes the grant of moratorium on payment of interest and / or instalments by the borrowers, Guaranteed Emergency Credit Line to meet the additional credit needs of the business community, lowering risk weights for retail loans (excluding credit card loans) from 125% to 100% and ensuring transmission of lower policy rates to the end borrowers among others.

Going forward, the demand for credit and credit quality both could drop as consumption demand continues to weaken. In this scenario, banks are likely to adopt a cautious stance on incremental lending and significantly step up their focus on asset quality.

However, the agriculture & allied industries as well as the MSMEs will need short-term and long-term credit and provide growth opportunities for banks and NBFCs.

KVB PUTS UP A RESILIENT PERFORMANCE

Despite the challenges we have been facing, we have recorded a resilient performance in the year. Healthy growth in the retail advances along with a steady loan book in the agriculture segment has helped offset the impact of a degrowth in the corporate credit. While our net interest income remained largely unchanged, strong growth in non-interest income (on the back of good treasury performance) delivered overall profitability.

A key highlight of our performance was the improvement in asset quality ratios - Gross NPA and Net NPA which contracted versus the levels recorded in FY 2018-19. Our constant focus on enhancing our underwriting practices, adopting superior risk appraisal processes and pushing recoveries have paid off well.

The most interesting and rather an important achievement during the year, according to me, is growing

Highlights: FY 2019 - 20

68.90%
Provision Coverage Ratio (PCR)

17.17%
Capital Adequacy Ratio (CAR)

CHAIRMAN'S MESSAGE (CONTD)

Our NEO project is playing a prominent role in driving branchless growth.

our Provision Coverage (PCR) and Capital Adequacy Ratio (CAR). We surpassed our target PCR to reach 68.90% (from 56.86% in FY 2018-19) and improved our CAR to 17.17%, as against 16.00% in FY 2018-19. I am glad to note that these ratios have firmed up further during Q1 of the current fiscal.

MOVING FORWARD WITH RENEWED ZEAL

The year gone by has strengthened our resolve to improve our services and offerings for our valued customers. I am happy to share with you that we are the first bank in the country to disburse the Emergency Credit Line Guarantee Scheme (ECLGS) loans to MSMEs in the post lockdown scenario. We continue to be liberal in providing temporary enhancements in working capital, helping our customers to tide over these tough times.

In my speech at the AGM last year, I had highlighted the future of digital banking. I take pride in saying that KVB is among the early birds to pursue digital transformation, especially in lending and our digital stance is vindicated in a post-pandemic world. It lends us distinct strengths as we work to expand our digital offerings, providing customers with a seamless banking experience and driving efficiency across all our business functions. In this regard, our NEO project is playing a prominent role in driving branchless growth.

We have carried out a thorough stress testing of our exposures to various industries and we will continue to pursue select opportunities in segments signifying relatively lower risks, especially in the corporate and MSME sector. We are constantly monitoring slippages and are working to improve recoveries from NPA accounts.

Going forward, we expect our new business segments such as bullion to bring in growth over the medium to long term. We are also focusing on growing our gold loan and vehicle loan portfolio through tie-ups. The other important focus areas will be optimisation of expenses through various measures including centralised branch operations, digitalisation and more.

BUILDING ON OUR LEGACY OF TRUST

For us at KVB, the values of being fair, ethical and transparent in business are an absolute non-negotiable. This approach has helped us build time-tested, trustworthy relationships with all our stakeholders including customers, employees, business partners, and the society at large. We are thankful to our Board of Directors for their invaluable guidance and oversight.

While our Bank is all poised to set its sails to a new journey, I am glad to welcome three new members to our Board, who are recognised among the top talents in their respective domains - our new MD & CEO Shri B Ramesh Babu, whose long years of banking experience in SBI will add great value; Independent Directors on our Board Shri K G Mohan and Shri Dr HarshaVardhan, who are both seasoned professionals highly respected for their contributions in their fields of expertise.

To conclude, I would like to extend my heartfelt gratitude to each and every Kayveebian for their dedication to the organisation. Many of you exceeded the call of duty to contribute to KVB's success and wellbeing - my thanks to you and your family. I would like to thank the leadership team for demonstrating strong execution capabilities and our shareholders, our business partners, customers and other stakeholders for their continued support.

I am confident that together, we will take KVB to greater heights.

Best Regards,
N. S. Srinath