Karnataka Bank Limited

August 17, 2026

Facilities/Instruments	Name of the Regulator[1]	Amount (₹ crore)	Rating[2]	Rating Action
Tier-II Bonds	SEBI	300.00	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Tier-II Bonds under Basel III are characterised by a point-of-non-viability (PONV) trigger, due to which investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI), and is a point at which, the bank may no longer remain a going concern on its own, unless appropriate measures are taken to revive its operations, and thus enable it to continue as a going concern. In addition, difficulties faced by a bank should be such that these are likely to result in financial losses and raising Common Equity Tier-I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

Rationale and key rating drivers

The reaffirmation of the rating assigned to Tier-II bonds of Karnataka Bank Limited (KBL) factors in KBL's long operational track record, comfortable capitalisation profile, adequate liquidity and its stable profitability track record. The bank has built and maintained a stable and granular retail deposit franchise. As on June 30, 2026, while current account saving account (CASA) formed a healthy ~32% share of total deposits, retail term deposits accounted for ~63% of total deposits. The capitalisation profile of the bank is supported by steady internal accruals, with the bank maintaining capital ratios well above the regulatory requirements.

However, the rating remains constrained by the bank's relatively moderate scale of operations and high geographical concentration, with a significant share of its business concentrated in a few southern states, particularly Karnataka. The rating also continues to be constrained by bank's moderate, although improving, asset quality profile. CARE Ratings Ltd. (CareEdge Ratings) takes note of gradual improvement in asset quality metrics and special mention accounts (SMA) balances, however, sustenance of the same and KBL's ability to contain slippages will continue to remain a key monitorable. KBL's ability to expand net interest margin (NIM) and contain its credit cost will be crucial for sustenance of profitability in the medium term.

CareEdge Ratings notes that FY26 witnessed several senior management exits, including the former Managing Director and Executive Director. However, the leadership transition did not have significant impact on KBL's operations, and financial performance, with experienced long-serving executives within KBL assuming key management responsibilities. The bank has maintained operational stability through this transition and has started exhibiting gradual improvement in business performance from Q4FY26 onwards.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade:

- Improving size of operations and asset quality while maintaining the profitability levels on a sustained basis.

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade:

- Deteriorating asset quality levels with gross non-performing assets (GNPA) remaining above 7% on a sustained basis.
- Declining capitalisation levels with tier-I capital adequacy ratio (CAR) remaining below 11.5% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CareEdge Ratings believes that the entity shall profitably scale up its operations while keeping credit costs under control over the near-to-medium term.

[1]SEBI: Securities and Exchange Board of India; RBI: Reserve Bank of India; MCA: Ministry of Corporate Affairs; IRDAI: Insurance Regulatory and Development Authority of India; PFRDA: Pension Fund Regulatory and Development Authority
[2]Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE Ratings Limited's publications.

Detailed description of key rating drivers

Key strengths

Long operational track record

Established in 1924 (completing 102 years of operations), KBL has a century-long track record in banking industry, with a strong presence in Karnataka, Maharashtra, Andhra Pradesh, and Tamil Nadu. The bank operates with a well-spread network of 976 branches and 1,469 ATMs/recyclers across India as on June 30, 2026, across 22 states and two union territories (UTs) in India. The widespread distribution network provides the bank with access to a diversified customer base comprising retail, agriculture, MSME, and corporate segments, while supporting consistent deposit mobilisation and credit growth. Over the years, KBL has leveraged its strong regional franchise to expand its footprint beyond its traditional markets and establish a pan-India presence.

Stable and granular resource profile

The bank continues to benefit from a stable and granular deposit franchise, with deposits constituting ~85% of total liabilities as on June 30, 2026. Its deposit profile remains strong, with over 93% of term deposits comprising retail deposits below ₹3 crore, reflecting a diversified and relatively stable funding base. Dependence on external borrowings remains limited and is largely restricted to Tier-II bonds, RBI borrowings, and refinance from financial institutions.

However, deposit growth remained subdued in FY26, with total deposits increasing by only ~4% to ₹108,779 crore as on March 31, 2026 (₹110,396 crore as on June 30, 2026), lagging the overall industry growth rate. The bank witnessed an improvement in its deposit mix, with the CASA ratio increasing to 33.61% as on March 31, 2026, from 31.75% as on March 31, 2025. The CASA proportion moderated slightly to 32.42% as on June 30, 2026, but continued to remain at a healthy level.

Supported by an improved funding mix, the bank's cost of deposits declined by 16 bps to 5.30% in FY26, from 5.46% in FY25. The credit-to-deposit (CD) ratio also increased to 75.21% as on March 31, 2026, from 73.03% as on March 31, 2025, and further increased to 77.09% as on June 30, 2026, indicating improved deployment of deposits into earning assets. KBL's ability to expand its deposit franchise will continue to remain a key monitorable.

Going forward, the bank's ability to further strengthen its CASA franchise and accelerate deposit mobilisation will remain critical in maintaining a competitive cost of funds.

Comfortable capitalisation profile

KBL's capitalisation profile has strengthened over the past supported by steady internal accruals and an equity raise of ₹1,500 crore by way of preferential allotment and qualified institutional placement (QIP) over three tranches in FY24. The bank's CAR increased to 21.10% as on June 30, 2026, from 20.07% as on March 31, 2026, and 19.85% as on March 31, 2025. Similarly, the Tier-I CAR improved to 19.86% as on June 30, 2026, compared to 18.68% as on March 31, 2026, and 18.35% as on March 31, 2025. The capital ratios remain comfortably above the regulatory requirements, providing a strong buffer for future growth. Capitalisation buffers available with KBL are expected to provide sufficient headroom to absorb impact of expected credit loss (ECL) transition.

Going forward, CareEdge Ratings expects the bank's capitalisation to remain comfortable and adequately support business expansion over the medium term.

Stable profitability profile

KBL has maintained a consistent track record of profitability over the past few years. However, profitability moderated in FY26 due to relatively subdued advance and deposit growth, pressure on lending yields. The bank's NIM declined to 2.50% in FY26 from 2.82% in FY25, primarily due to the softening of benchmark interest rates and the lag in repricing of deposits. Around 60% (June 2026) of the loan portfolio is linked to External Benchmark Lending Rates (EBLR), which are benchmarked to G-sec and T-bill yields, resulting in a faster repricing of advances compared to deposits.

Despite pressure on core interest income, the bank benefited from higher non-interest income, supported by treasury gains and recoveries from written-off accounts. This helped offset the moderation in interest income, resulting in a stable overall income profile in FY26. The bank also strengthened its provisioning coverage, leading to an increase in credit cost to 0.25% in FY26 from 0.16% in FY25.

Consequently, profit after tax (PAT) increased marginally by ~3% year-on-year to ₹1,311 crore in FY26, compared to ₹1,272 crore in FY25. The return on total assets (ROTA) remained healthy at 1.05% in FY26, against 1.08% in FY25. Cost-to-income ratio improved during the year, with ratio declining to 56.34% in FY26 from 60.11% in FY25.

In Q1FY27, the bank reported NIM improving to 2.89%, driven by improved yields on advances supported by higher disbursements in the retail, agriculture, and MSME (RAM) segments. KBL reported a PAT of ₹419 crore on a total income of ₹2,738 crore, translating into a ROTA of 1.29% for the quarter.

Going forward, the bank's ability to maintain asset quality and contain credit costs will remain critical for sustaining profitability. CareEdge Ratings expects KBL to maintain a ROTA above 1% over the near term, supported by stable asset quality, improving business momentum, and continued focus on operational efficiency. CareEdge Ratings expects impact of transition to ECL provisioning to be limited given KBL's healthy capitalisation and earnings profile.

Key weaknesses

Regionally concentrated business

KBL is one of the mid-sized banks in India with a steadily expanding scale of operations having total assets of ₹130,475 crore and total business of ₹195,497 crore (net advances and deposits) as on June 30, 2026. The bank has a strong regional franchise, particularly in Karnataka, which accounted for ~64% of its branches, and ~47% total credit exposure.

Geographical concentration remains relatively high, with top three states (Karnataka, Maharashtra, and Delhi) contributed 72% total credit exposure as on June 30, 2026. The bank has its presence in 22 states across 976 branches as on June 30, 2026. Top 20 exposure accounted for ~14% of gross advances and ~94% of tangible net worth as on June 30, 2026. Going forward, CareEdge Ratings expects the bank's advances and deposits to remain geographically concentrated over the medium term, supported by its established franchise, strong customer relationships, and competitive positioning in these markets. KBL's ability to further grow its advances in retail franchise and reduce reliance on bulky corporate exposures shall continue to remain a key monitorable.

Moderate, though improving, asset quality

KBL's asset quality remains moderate, despite on an improving trajectory, with the GNPA ratio declining to 2.58% as on June 30, 2026, compared to 2.78% as on March 31, 2026, and 3.08% as on March 31, 2025. Asset quality trends were further supported by lower incremental stress, as the slippage ratio improved to 0.56% (annualised) in Q1FY27, compared to 1.50% in FY26 and 1.71% in FY25.

The bank's provisioning profile also strengthened, with the PCR (excluding technically written-off accounts) improving to 67.03% as on June 30, 2026. Consequently, the net NPA (NNPA) ratio improved to 0.87%, from 0.98% as on March 31, 2026, and 1.31% as on March 31, 2025.

In addition, standard restructured advances declined to ₹763 crore as on June 30, 2026, from ₹806 crore as on March 31, 2026, and ₹995 crore as on March 31, 2025, which to an improvement in the bank's overall stressed asset profile, with gross stressed assets (GNPA+ standard restructured advances+ security receipts) reducing to 3.46%, compared to 3.75% as on March 31, 2026, and 4.36% as on March 31, 2025. KBL's SMA (SMA 1 + SMA 2) balances have also improved in FY26, from 2.25% as on March 31, 2024, to 1.4% as on March 31, 2026.

Reflecting the improvement in asset quality and stress metrics, the net stressed assets-to-net worth ratio declined to 11.42% as on June 30, 2026, from 13.21% as on March 31, 2026, and 17.90% as on March 31, 2025. Going forward, CareEdge Ratings expects the bank's asset quality to remain stable over the near term, supported by prudent underwriting practices, strengthened monitoring mechanisms, and improving recovery trends.

Liquidity: Adequate

The liquidity profile of the bank remained adequate with no negative cumulative mismatches in time buckets up to one year per asset liability maturity (ALM) statement as on June 30, 2026. KBL had excess statutory liquidity ratio (SLR) investments of ~₹1,919 crore as on June 30, 2026 (1.74% of net demand and time liabilities). KBL's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remained comfortable at 173.20% and 148.12%, respectively, for quarter ended June 30, 2026, against the minimum regulatory requirement of 100%. The bank has access to systemic liquidity by way of RBI's liquidity adjustment facility (LAF) and marginal standing facility (MSF) schemes.

Environment, social, and governance (ESG) risks

Although KBL's service-oriented business model limits its direct exposure to environmental risks, credit risk may arise if operations of asset class of the portfolio are adversely impacted by environmental factors. The bank has a well-articulated and structured board approved environment, social, and governance (ESG) policy. The bank has formed ESG Committee of Executives oversees implementation of the bank's ESG Policy. Accordingly, the bank lends/invests in key sectors, such as MSME and agriculture, infrastructure, power (including solar and wind), and manufacturing among others to provide responsible and sustainable finance.

Social risks in the form of cybersecurity threat or customer data breach or mis-selling practices can affect KBL's regulatory compliance and reputation and hence remain a key monitorable. The bank is engaged in providing finance for farming activities that has helped to uplift the socioeconomic status of farming community especially in southern part of the country.

Governance risks factor in the lapses in the internal financial controls and the recent exits of the key management personnel. The bank's board consists of 11 directors, with eight independent directors including two female directors.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Banks
Financial Ratios - Financial Sector
Rating Basel III - Hybrid Capital Instruments issued by Banks

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Private sector bank

KBL is a Mangalore-based, old private sector bank, which was set up in 1924. As on June 30, 2026, the bank operated through a network of over 976 branches (of which 626 branches are in Karnataka) and 1,469 ATMs and cash recyclers, spread across 22 states and two Union Territories, serving a customer base of over 14 million. All the branches are under Core Banking Solution since 2007. The bank offers a comprehensive suite of banking products and services across retail, agriculture, MSME, corporate banking, treasury, and digital banking segments. As on June 30, 2026, the bank had net advances of ₹85,101 crore and deposits of ₹110,396 crore.

Particulars (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)	March 31, 2026 (A)	Q1FY27 (UA)
Total income	9,617	10,283	10,321	2,738
Profit after tax (PAT)	1,306	1,272	1,311	419
Total assets	115,118	120,049	129,357	130,475
Net interest margin (NIM) (%)	3.09	2.82	2.50	2.89
Gross non-performing assets (NPA) (%)	3.53	3.08	2.78	2.58
Net NPA (%)	1.58	1.31	0.98	0.87
Capital adequacy ratio (CAR) (%)	18.00	19.85	20.07	21.10

A: Audited; UA: Unaudited; Note: these are latest available financial results
All calculations per CareEdge Ratings.
Net worth and total assets are net of revaluation reserve and deferred tax.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

For complexity level of instruments rated refer to Annexure-1

Lender details: Annexure-4

Disclosure on facilities/instruments and name of the regulators:
A list of facilities / instruments falling under the purview of various financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by CareEdge Ratings on its website. A link to the same has been provided below for ready reference:

https://www.careratings.com/activities_and_regulators

Note: For facilities or instruments falling under the purview of FSRs other than Securities and Exchange Board of India (SEBI), the grievance / dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Annexure-1: Details of instruments/facilities

Name of the Instrument	Name of the Regulator	Complexity Level	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Bonds-Tier II Bonds	SEBI	Complex	INE614B08054	30-Mar-2022	10.70	30-Mar-2032	300.00	CARE A+; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2026-2027	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024
1	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (23-Aug-23)
2	Bonds-Tier II Bonds	LT	-	-	-	-	1)Withdrawn (21-Aug-24)	1)CARE A; Stable (23-Aug-23)
3	Bonds-Tier II Bonds	LT	300.00	CARE A+; Stable	-	1)CARE A+; Stable (20-Aug-25)	1)CARE A+; Stable (21-Aug-24)	1)CARE A; Stable (23-Aug-23)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities
Not applicable

Annexure-4: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CareEdge Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the Reserve Bank of India. With an equitable position in the Indian capital market, CareEdge Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CareEdge Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CareEdge Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit. For more information: www.careratings.com

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