



## THE KARNATAKA BANK LIMITED

(Incorporated on February 18, 1924 under the Indian Companies Act, 1913)  
Registered & Head Office: P.B.No. 599, Mahaveera Circle, Kankanady, Mangalore - 575 002  
Tel.: (0824) 2228222, Fax: (0824) 2225588  
(The registered and head office was shifted from P. B. No. 716, Kodialbail, Mangalore 575 003 to present registered office in September 2003)  
E-mail: [comsec@ktkbank.com](mailto:comsec@ktkbank.com); Website: [www.ktkbankltd.com](http://www.ktkbankltd.com)

**RIGHTS ISSUE OF 8,09,17,032 Equity Shares of Rs. 10/- each at a premium of Rs. 10/- per share (i.e. at a price of Rs. 20/- per share) in the ratio of two (2) equity shares for every one (1) equity share held on the Record date (i.e. January 20, 2005) aggregating Rs. 161.83 crores**

### GENERAL RISK

Investment in equity and equity related securities involve a degree of risk and investors should not invest any funds in this offer unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this offering. For taking an investment decision, investors must rely on their own examination of the Issuer and the offer including the risk involved. The securities have not been recommended or approved by Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or adequacy of this document. The attention of the investors is drawn to the statement of Risk Factors appearing on Page no. iv of the Letter of Offer.

### ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for, and confirms that this Letter of Offer contains all information with regard to the Issuer and the issue, which is material in the context of the issue, that the information contained in this Letter of Offer is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

### LISTING

The Equity Shares of the Bank are listed on Mangalore Stock Exchange, and the National Stock Exchange of India Ltd ("Designated Stock Exchange"). The Equity shares to be issued through this issue would also be listed on the Stock Exchanges mentioned above. The Bank has made applications for in-principle approval for listing to the Stock Exchanges. The Bank will make applications to these Stock Exchanges for permission to deal in and for an official quotation in respect of the Equity Shares arising out of the Issue. The details of all in-principle approval obtained from the respective Stock Exchanges have been furnished in this Letter of Offer. Pursuant to the application made under SEBI (Delisting of Securities) Guidelines, 2003, the Equity Shares of the Bank stand delisted from Bangalore Stock Exchange Limited with effect from November 24, 2004 vide BgSE letter 03/2004/971 dated November 24, 2004.

**Note: The attention of investor is drawn to the statement of Risk Factors appearing on page iv of this Letter of Offer.**

LEAD MANAGER TO THE ISSUE		REGISTRAR TO THE ISSUE	
	<b>SBI CAPITAL MARKETS LTD.</b> 202, Maker Tower 'E' Cuffe Parade, Mumbai 400 005 Tel: (022) 22189166, Fax: (022) 22188332 E-mail : <a href="mailto:karnataka.bankrights@sbicaps.com">karnataka.bankrights@sbicaps.com</a>		<b>ALPHA SYSTEMS (P) LTD.</b> 30, Ramana Residency 4th Cross, Sampige Road, Malleswaram, Bangalore 560 003 Tel: (080) 23460815/16/17/18, Fax: (080) 23460819 E-mail : <a href="mailto:ktkbankrights@vsnl.net">ktkbankrights@vsnl.net</a>
<b>ISSUE OPENS ON</b>		<b>: February 04, 2005</b>	
<b>LAST DATE FOR RECEIVING REQUESTS FOR SPLIT FORMS</b>		<b>: February 18, 2005</b>	
<b>ISSUE CLOSSES ON</b>		<b>: March 05, 2005</b>	



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## DEFINITIONS & ABBREVIATIONS

AGM	Annual General Meeting
Act	The Companies Act, 1956
Articles	Articles of Association of the Company
ARCIL	Asset Reconstruction Company of India Limited
bps	Basis points
Board	Board of Directors of Karnataka Bank Limited
BR Act	Banking Regulation Act, 1949
BGSE	Bangalore Stock Exchange
CAF	Composite Application Form
CAGR	Compounded Annual Growth Rate
CAR	Capital Adequacy Ratio
CDSL	Central Depository Services (India) Ltd.
Designated Stock Exchange	Means a stock exchange in which securities of the company are listed or proposed to be listed and which is chosen by the company for purposes of a particular issue under these guidelines. In the present rights issue being, National Stock Exchange of India Limited (NSE)
DICGC	Deposit Insurance and Credit Guarantee Corporation of India
DP	Depository Participant
DRT	Debt Recovery Tribunal
ECGC	Export Credit Guarantee Corporation
EPS	Earnings per share (on equity share capital )
FCNR	Foreign Currency Non-Resident Account
FEMA	Foreign Exchange Management Act, 1999
FII	Foreign Institutional Investor (registered with SEBI)
FY	Financial Year
Gol	Government of India
IT Act	Income-tax Act, 1961
Issue / Rights Issue / Offer	Means an issue of capital under sub-section (1) of Section 81 of the Companies Act, 1956, to be offered to the existing shareholders of the company through Letter of Offer. In the present rights issue being Issue of 8,09,17,032 Equity Shares of Rs. 10/- each at a premium of Rs. 10/- per share (i.e. at a price of Rs. 20/- per share) on rights basis to existing shareholders of the Bank in the ratio of two (2) equity shares for every one (1) equity share held on the Record date aggregating Rs. 161.83 crores
IPC	Indian Penal Code
KBL, the Bank, Issuer	The Karnataka Bank Limited
LoF(s)	Letter of Offer
Lead Manager	SBI Capital Markets Limited
Letter of Offer / Offer Document	Means Letter of Offer in case of a rights issue. In the present rights issue being Letter of Offer dated January 07, 2005 circulated to shareholders.



Memorandum and Articles	Memorandum and Articles of Association of the Bank
MGSE	Mangalore Stock Exchange
MDTD	Memorandum of Deposit of Title Deeds
NDS	Negotiated Dealing Settlement
NPA	Non Performing Assets
NRI	Non-Resident Indian
NSDL	National Securities Depository Ltd.
NSE	National Stock Exchange of India Limited
OCB	Overseas Corporate Body
PLR	Prime Lending Rate
RBI	Reserve Bank of India
Record date	January 20, 2005
Registrar to the Issue / Registrar	Alpha Systems (P) Ltd.
RTGS	Real Time Gross Settlement System
SARFAESI Act 2002 /Securitization Act	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
SEBI	Securities and Exchange Board of India established under provisions of section 3 of the Act.
SEBI guidelines	The Guidelines for Disclosure and Investor Protection issued by SEBI and subsequent amendments thereon
Stock Exchange	Stock Exchanges where rights issue pursuant to this letter of Offer are proposed to be listed being National Stock Exchange of India Limited and Mangalore Stock Exchange
The Act	Companies Act, 1956 (except for the purpose of the para on Tax Benefits)
The Board	Board of Directors of the Bank
The Issue	The present Rights Issue of 8,09,17,032 Equity Shares of Rs. 10/- each at price of Rs. 20/- per share aggregating Rs. 161.83 crores
yoy	year on year

In this Letter of Offer, the terms “we”, “us”, “our”, “the Bank”, “its”, “Bank’s”, “KBL”, “Issuer” or “the Company”, unless the context otherwise implies, refer to The Karnataka Bank Limited, a company incorporated on February 18, 1924 under the Indian Companies Act, 1913.

All references to “Rs.” refer to Rupees, the lawful currency of India. Any discrepancies in any table between total and the sums of the amount listed are due to rounding off.



## RISK FACTORS AND MANAGER'S PERCEPTION

Investors should consider the following risk factors together with all other information included in this Letter of Offer carefully, in evaluating Bank and its business before making any investment decision. Any projections, forecasts and estimates contained herein are forward looking statements and are based on certain assumptions that Bank consider reasonable. This Letter of Offer contains forward-looking statements that involve risks and uncertainties. Such statements can be identified by the use of forward-looking terminology such as "may", "believes", "will", "expect", "anticipate", "visualize", "estimate", "continue", "plan", "likely" or other similar words. Actual results could differ from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the following risk factors and elsewhere in this Letter of Offer.

However there are a few risk factors where the impact is not quantifiable and hence the same has not been disclosed in such risk factors.

This Letter of Offer also includes statistical and other data regarding the Indian Banking industry. This data was obtained from industry publications, reports and other sources that Bank and the Lead Manager believe to be reliable. Neither Bank nor the Lead Manager have independently verified such data.

### INTERNAL

#### 1. Non Performing Assets (NPAs)

As on March 31, 2004, the net NPAs of the Bank stood at 4.98% of its net advances amounting to Rs. 231.43 crores. Bank's NPAs can be attributed to several factors, including factors affecting industrial growth, a sharp decline in commodity prices, high level of debt in the financing of projects, and significant fall in interest rates in the Indian economy, which disincentivised repayments by customers.

Although Bank is increasing its efforts to improve collections and to foreclose on existing NPAs, there is no assurance that it will be successful in its efforts or that the overall quality of loan portfolio will not deteriorate in the future. If Bank is unable to control and reduce NPAs, its business, future financial performance and shareholders' funds could be adversely affected. For details on Non Performing Assets refer to page 50.

##### Management Perception

The net NPAs of the Bank have come down from 7.36% in March 31, 2003 to 4.98% as on March 31, 2004. Further, the bank is closely monitoring NPAs and has put in place NPA management plan for efficient recovery. The coverage ratio for NPAs of the bank as on March 31, 2004 stands at 61.34%.

#### 2. Regional concentration of the Bank

Karnataka Bank Ltd. has a regional concentration in southern and western parts of the country in terms of deposits and advances. Southern and Western regions account for around 90% of deposits and around 82% of advances as on March 31, 2004. If the credit or deposit business in these regions slows down significantly, Bank's assets and liabilities in other regions do not correspondingly increase, its operations and financials could be adversely affected.

##### Management Perception

The regional presence of the Bank may not be a hindrance to its growth prospects. The Bank has improved its branch network and business from the northern region over the years and plans to expand its branch network further. Despite regional concentration of the branch network, the overall deposits of the Bank have grown at a CAGR of 24.24% to Rs. 9406.94 crores and the advances have grown at a CAGR of 21.44% to Rs. 4667.92 crores during the past 10 years. The Bank has 371 branches as on September 30, 2004 with presence in 16 states and 2 Union Territories.

#### 3. Asset Liability Mismatch

A large portion of the funding of the Bank is in the form of short and medium term deposits. As a result, as on March 31, 2004 there is a cumulative mismatch of Rs. 1477.14 crore up to 1-year category and a mismatch of Rs. 1527.42 crore in 1-3 year category. In case, Bank is unable to find new deposits or roll over of deposited funds by the customer, liquidity position of the Bank may be severely affected. For more details on Asset Liability Management position refer to the para on "Asset Liability Management" on page 52 of the LoF.

##### Management Perception

As per the normal behavioural pattern and past experience, a large portion of the deposits gets rolled over. The Bank feels that in the event of these deposits not being rolled over, the fresh accretion of deposits would take care of the Asset Liability mismatches. In addition, the Bank has the cushion of investments of Rs. 2234.57 crores in the long-term (over 5 years) category, which can be utilized to correct any medium term mismatches. Moreover, the Bank has an active Asset Liability Management system in place to actively monitor and manage the duration and



liquidity mismatches. For more details on the Asset Liability position refer to the para on 'Asset Liability Management' on page 52 of the LoF.

#### **4. Credit Risk**

The Bank's main business of lending carries an inherent credit risk, which involves inability or unwillingness of a customer or a counterparty to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions. Though diversified loan portfolio is managed by personnel with experience in the respective areas and has in place appropriate Credit Appraisal/Control mechanism and Risk Management System, these procedures may fail. Also certain factors that are beyond Bank's control may increase credit risk. Any such failures or developments may have negative impact on its working results.

##### **Management perception**

The Bank has put in place a credit rating system under which the borrowal accounts of above Rs. 25 lakhs are rated on several parameters and the risk is priced with a suitable mark over PLR based on the credit rating. The Bank also has implemented an active Risk Management Policy aimed at mitigating various credit related risks. For other details on the credit risk management process in the Bank, the investors may refer to the para on 'Risk Management System' on page 56 of the Letter of Offer.

#### **5. Asset Concentration**

The top 5 industries account for 17.46% of the gross credit exposure of the Bank as on March 31, 2004. Also, the top ten corporate borrowers of the Bank account for about 12.62% of the total gross advances of the Bank as on March 31, 2004. The borrower-specific and industry-specific behaviour may potentially affect the overall asset quality of the Bank.

##### **Management Perception**

The Bank has put in place a credit monitoring mechanism to monitor the performance of its borrowers, regularly perform appraisal and do the requisite follow up. The top ten corporate borrowers of the Bank as mentioned above are Standard Assets as on March 31, 2004. As regards the industry concentration, it's been the policy of the Bank to diversify the assistance over different industries/promoters. Investors are advised to refer to para 'Industry-wise Outstanding' on page 45 of the LoF.

#### **6. Risk pertaining to Outstanding Litigation against the Bank**

##### **Cases filed against Bank**

###### *Criminal cases*

As on September 30, 2004, there were 9 criminal cases filed against the bank. The claims relating to criminal cases are not quantifiable.

###### *Civil Offences with claims of more than Rs.50 lacs*

As on September 30, 2004, there were 6 civil cases with claims of more than Rs. 50 lacs each filed against the bank. The total claim amount in these suits for the Bank is appx. Rs. 2035.86 lacs.

###### *Civil Offences with claims of less than Rs.50 lacs*

As on September 30, 2004, Bank has 176 civil cases and 68 complaints filed against it for claims below fifty lacs aggregating a total claim of Rs.293.27 lacs.

###### *Labour Laws*

As on September 30, 2004, there were 31 cases relating to service matters filed against Bank pending before various judicial authorities. The suits relating to labour laws are not quantifiable.

###### *Other Litigations*

As on September 30, 2004, there are 11 cases pertaining to determination of title of shares, where the bank has been served restraint order on the registration of transfer, etc. The bank is maintaining status quo in respect of those shares. These litigations are occurred during the normal course of business and pertaining to year from 1995 - 2002. There are no fresh cases instituted against the bank during 2003-04.



5 cases are also pending before banking ombudsman pending final adjudication.

**Cases filed by Bank**

As on September 30, 2004, Bank has filed 2514 cases for recovery of net balance of 241.53 crores.

**For more details, investors are advised to refer to para on 'Outstanding Litigation' on page 89 of the LoF.**

**7. Tax Disputes**

As on March 31, 2004, certain proceedings against the Bank related to Income Tax matters are pending in appeal with the Income Tax authorities. The net amount of disputed tax in respect of these proceedings is Rs.39.38 crores. Also, as on March 31, 2004, Interest Tax demands amounting to Rs. 0.15 crores and wealth tax demands of Rs 0.17 crores are pending in appeal with the Tax authorities.

8. As on March 31, 2004, the Bank has contingent liabilities to the extent of Rs. 1850.23 crores comprising claims against the Bank not acknowledged as debt (Rs. 10.48 crores), liability on account of outstanding forward exchange contracts (Rs. 1163.50 crores), guarantees given on behalf of constituents in India (Rs. 247.74 crores), acceptances, endorsements and other obligations (Rs. 283.65 crores) and other items for which the Bank has contingent liability (Rs. 144.86 crores).

**Management Perception**

The above contingent liabilities arise on account of normal business of the Bank and largely pertain to outstanding forward exchange contracts and guarantees given on behalf of constituents.

**9. Qualification by Auditors on financial statements**

The Indian Bank Association, of which the Bank is a member, has arrived at an agreement with bank Unions on 23<sup>rd</sup> November, 2004 whereby there will be a 13.25% hike in overall wage expenses with effect from November 2002. However, the Bank has not been able to determine the impact of the pending wage revision. Please refer para on "FINANCIAL PERFORMANCE OF THE BANK" on page 68.

**Management Perception**

As the detailed Memorandum of Understanding (MOU) on the various issues are yet to be worked out and conveyed to the Bank it has not been possible to quantify the effect of this wage revision on the financial statements. The Bank has made an adhoc provision of Rs. 3.5 Crores in the accounts for the period ended September 30, 2004. The Bank, considering its financial position does not foresee any difficulty in meeting the wage rise.

**10. Use of Limited Review figures for six months ended September 30, 2004**

6.18.1 of the SEBI (DIP) Guidelines, requires accounts to be drawn up for a period not earlier than six months of the date of issue of Letter of Offer together with a certificate from auditors that accounts have been examined and found correct. The financials appearing in Audit Report of the auditors dated November 26, 2004 for the six months ended September 30, 2004 are not audited. These figures are based on limited review carried out by auditors.

**11. Interest of Directors**

The Bank has sanctioned loan or advance to the relatives of directors in the ordinary course of business amounting to Rs.188.90 lakhs.

Further the directors of the Bank are interested to the extent of dividend which is distributed on the shares held by them and/or by their friends and relatives at the end of the financial year after necessary appropriation.

The directors are also interested to the extent of fees, if any, payable for attending meetings of the Bank and reimbursement of travelling and other incidental expenses, if any, for such attendance.

12. The shares of the Bank are not actively traded at the Mangalore Stock Exchange.

**Management Perception**

The Bank's shares are listed on the National Stock Exchange of India Ltd., besides being listed on the Mangalore Stock Exchange. The shares of the Bank are regularly traded on the National Stock Exchange besides being traded under the 'Permitted Securities Category' on the Stock Exchange, Mumbai (shares of the Bank are not listed





on the Stock Exchange, Mumbai).

### **13. Compliance under Basel II norms**

As and when Basel II norms become mandatory, all the banks operating in India are required to comply with the same. Basel II norms requires change in the existing weightage of risk weighted assets. Any change in the weightage of risk weighted assets may affect CAR of the bank. Any weightage adverse to the Bank might drag CAR below 9% stipulated by the RBI, which might affect the operations of the bank.

#### **Management Perception**

The CAR of the Bank as on March 31, 2004 was 13.03% and as such the Bank is comfortably placed in maintaining the required CAR. The present rights issue is to meet additional capital requirement which may arise due to implementation of Basel II norms and as such Bank do not foresee any difficulty in maintaining the required CAR.

### **14. Delays in enforcing collateral when borrowers default on their obligation to Bank**

Major portion of Bank's loans to retail customers is secured by tangible collaterals, predominantly vehicles and equipment financed by it. Although loans are collateralised, an economic downturn could result in a fall in realisable collateral values.

A portion of loans to corporate customers is secured by assets, including properties, plants and equipments. Loans to corporate customers also include working capital credit facilities that are typically secured by a first lien/charge on inventory, receivables and other current assets. In some cases, Bank may have taken further security of a first or second lien/charge on fixed assets, a pledge of financial assets like marketable securities, corporate guarantees and personal guarantees.

In the event a corporate borrower makes a reference to a specialised quasi-judicial authority called the Board for Industrial and Financial Reconstruction or a Corporate Debt Restructuring cell, foreclosure and enforceability of collateral can be stalled. These delays can last for several years leading to deterioration in the physical condition and market value of the collateral. Bank cannot guarantee that it will be able to realise the full value on its collateral, as a result of, among other factors, delays in bankruptcy foreclosure proceedings, defects in the perfection of collateral and fraudulent transfers by borrowers. A failure to recover the expected value of collateral security could expose Bank to a potential loss. Any unexpected losses could adversely affect Bank's business, future financial performance and shareholders' funds.

#### **Management Perception**

The SARFAESI Act has strengthened the ability of lenders to resolve non-performing assets by granting them greater rights as to enforcement of security and recovery of dues from borrowers including removal of reference to the Board for Industrial and Financial Reconstruction and stay thereto. Supreme Court of India has upheld the constitutional validity of the SARFAESI Act, and the Bank is gearing up to take action in large number of cases for recovery of its NPAs under the abovementioned act.

### **15. Risk in relation to internal controls and systems risk**

Bank has satisfactory internal controls and systems in place to detect and control fraud, mismanagement etc. However, there is no guarantee that it will keep on meeting its objective of detecting and controlling mismanagement and fraud, which in turn may have an adverse impact on the financial performance of bank.

#### **Management Perception**

Bank has already put in place well articulated internal control measures commensurate with the size of organisation and intricacies of the business risk.

### **16. Technological risk**

The Bank had adopted core banking solution networking 232 branches spread across 90 centres. Technological automation has enabled the Bank in offering customer-centric value-added products and services like Multi-Branch Banking (MBB), Flexi-term deposits (K-Flexi), ATM card - linked credit facility (K-power), collection of utility bills, etc. The bank has also launched its own ATM network in select cities. Any failure in technology systems, particularly for core banking solution and retail service product, could significantly affect its operations and the quality of customer service and this could result in business and financial losses.





### **Management Perception**

The Bank has already set up the state of the art Disaster Recovery System (DRS) at head office to fall back for data recovery in the event of any failure in its centralised data centre.

The Bank has already adopted Information Technology Security Policy to safeguard the irregularities and other frauds in Information Technology (IT) environment.

### **17. Ability to attract and retain talented and professional manpower**

An inability to attract and retain talented professionals or the resignation or loss of key management personnel may have an adverse impact on Bank's business and financial performance.

### **Management Perception**

The Bank's Human Resource Development (HRD) policy aims at bringing in new talent to meet the growing challenges in dynamic scenario in banking sector. Attempts have been made to recruit skilled and professional candidates and impart training to upgrade their skills. The attrition rate in the key management positions in the Bank is negligible.

## **EXTERNAL**

### **1. Sensitivity to the economy and extraneous factors**

The Bank's performance is highly correlated to the performance of the economy and the financial markets. The health of the economy and the financial markets in turn depends on the domestic economic growth, the state of the global economy and business and consumer confidence, among other factors. Any event disturbing the dynamic balance of these diverse factors would directly or indirectly affect the performance of the Bank including the quality and growth of its assets.

### **2. Competition from existing and new commercial Banks**

Competition in the financial sector has increased with the entry of new players and is likely to increase further as a result of further deregulation in the financial sector. The Bank may face competition both in raising resources and in deploying them.

### **Management perception**

The Bank has an established broad-based presence and has been taking steps to enhance customer satisfaction by upgrading skills, systems and technology to meet such challenges. The Bank is attempting to add quality assets on competitive terms. The Bank is also taking steps to broad base its product bouquet. For more details on the business environment of the Bank, investors are advised to refer to the para on 'Management Discussion and Analysis of Financial Results' on page 83 of the LoF.

### **3. Material Changes in regulatory policies**

Major changes in the Government/RBI policies relating to banking sector may have an impact on the operations of the Bank.

### **Management perception**

The policy changes may provide both opportunities and challenges for the Bank. The Bank has a long presence of more than 80 years in the banking sector and does not perceive policy changes to be a major threat.

### **4. Disintermediation in the financial markets**

Development of capital markets may result in disintermediation by current and potential borrowers whereby many companies may access the markets directly, thereby reducing their dependence on the banking system.

### **Management perception**

The Bank has a significant presence in the retail lending so as to broaden its borrower base. Further, disintermediation brings with it the opportunity for the Bank to expand its fee-based activities. The Bank has been endeavouring to develop a presence in several financial services to earn fee based income by focussing on businesses such as foreign exchange, treasury, investments, cash management etc., thus taking advantage of the disintermediation phenomenon.

**5. Forex risk**

Exchange rate fluctuations may have an impact on the Bank's financial performance. While Bank does not have significant foreign exchange exposures, it is exposed to fluctuation in foreign currency rates on unhedged exposure. Adverse movements in foreign exchange rates may also impact Bank's borrowers and this may, in turn, impact the quality of its exposure to these borrowers. Volatility in foreign exchange rates could adversely affect its business and future financial performance.

**Management Perception**

As per RBI guidelines, banks are not allowed to keep open position on their foreign exchange transactions beyond prescribed limits on a daily basis. Foreign exchange transactions beyond such limits, if any, must be squared off at the end of each day. Hence, the risk from exchange rate fluctuations is minimised. The Board of Directors of the Bank has also prescribed limits for gaps or mismatches in maturities of bank's foreign currency assets & liabilities and forward transactions in foreign exchange. The Bank operates within the limits fixed for gaps or mismatches in maturities of Bank's foreign currency assets and liabilities and forward transactions in foreign exchange, thus minimising the risks of mismatches in maturities and interest rates.

**6. Interest rate risk**

Interest rate volatility exposes the Bank to an interest rate risk or market risk. Such interest rate risk has a potential impact on net interest income or net interest margin as well as on the market value of the fixed income securities held by the Bank in its investment portfolio.

**Management perception**

These risks are inherent in the banking business. However, the Bank has put in place a system of regular review of lending and deposit rates in order to minimise the interest rate risk. The Asset Liability Management Committee of the Bank reviews the risk on a regular basis. Continuous risk management measures are initiated depending upon the movement in the market interest rates. The movement in the interest rates is closely monitored for appropriate action. For more details on the risk management procedures, investors are advised to refer to para on 'Risk Management System' on page 56 of the LoF.

7. The Bank is prohibited from doing trading activity in terms of section 8 of The Banking Regulation Act, 1949 which may act as an operational constraint.
8. In terms of Section 17 (1) of The Banking Regulation Act, 1949, every banking company shall create a Reserve Fund and shall, out of the balance of profit of each year as disclosed in the profit and loss account prepared under section 29 and before any dividend is declared, transfer to the Reserve Fund, a sum equivalent to not less than 20% of such profit
9. In terms of Section 19 of The Banking Regulation Act, 1949, there are some restrictions on the banking companies regarding opening of subsidiaries which may prevent the Bank from exploiting the emerging business opportunities.
10. In terms of Section 23 of The Banking Regulation Act, 1949, there are certain restrictions on the banking companies regarding opening of new place of business and transfer of existing place of business which may hamper the operational flexibility of the Bank.
11. In terms of Section 25 of The Banking Regulation Act, 1949, each banking company has to maintain assets in India not less than 75% of its demand and time liabilities in India which in turn may prevent the Bank from creating the overseas assets and exploiting overseas business opportunities.
12. There are large number of restrictions in The Banking Regulation Act, 1949, which may impair the flexibility of issuer's operations and affect/ restrict investors rights.
  - a. The banks can carry on business /activities as specified in the above Act. There is no flexibility to pursue profitable avenues if they arise in contrast with other companies where shareholders can amend the object clause to carry on activities profitable to the company.
  - b. There are restrictions in The Banking Regulation Act, 1949 regarding -
    - i. Management of a bank including appointment of directors



- ii. Borrowings and creation of floating charge thereby hampering leverage
  - iii. Expansion of business as branch needs to be licensed
  - iv. Disclosures in the profit and loss account and the balance sheet
  - v. Production of documents and availability of records for inspection by shareholders
  - vi. Reconstruction of bank through amalgamation, etc
- c. Some of the rights of the shareholders like application for relief in cases of oppression and mismanagement and voluntary winding up may not be available to shareholders of a bank.

**Notes to Risk Factors:**

- Networth of the Bank as on September 30, 2004 is Rs. 768.16 Crores. The size of the issue is Rs. 161.83 crores. The Book Value per share as on September 30, 2004 for Rs. 10/- face value is Rs. 190.02.
- The attention of the investors is drawn to section 12(2) of the Banking Regulation Act, 1949, subsequently amended by the RBI which states that: "No person holding shares in the banking company shall in respect of any shares held by him, exercise voting rights on poll in excess of 10% of the total voting rights of all the shareholders of the banking company."
- RBI circular no. DBOD.NO.BP.BC.80/21.02.067/2003-04 dated April 23, 2004 revised the guidelines on dividend payable by banks as under:
  - a) Only those banks which comply with the following minimum prudential requirements would be eligible to declare dividends without prior approval of RBI.
    - i. The bank should have :
      - CRAR of atleast 11% for preceding two completed years and the accounting year for which it proposes to declare dividend
      - Net NPA less than 3%
    - ii. The bank should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949.
    - iii. The bank should comply with the prevailing regulations/ guidelines issued by RBI, including creating adequate provisions for impairment of assets and staff retirement benefits, transfer of profits to statutory reserves and investment fluctuation reserve, etc.
    - iv. Reserve Bank should not have placed and explicit restrictions on the bank for declaration of dividends.
  - Quantum of dividend payable

Banks , which qualify to declare dividends upon compliance with the requirements set out above would be eligible to pay dividends without obtaining the prior approval of the Reserve Bank, subject to further compliance with the following:

    - (i) The dividend payout ratio does not exceed 33.33%.
    - (ii) The proposed dividend should be payable out of the current year's profit.
    - (iii) Dividend payout ratio is calculated as a percentage of 'dividend payable in a year' (excluding dividend tax) to 'net profit during the year'.
    - (iv) In case the profit for the relevant period includes any extra-ordinary profits/income, the payout ratio shall be computed after excluding such extra-ordinary items for reckoning compliance with the prudential payout ratio ceiling of 33.33%.
    - (v) The financial statements pertaining to financial year for which the bank is declaring a dividend should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.



● **NATURE AND INTEREST OF PROMOTERS / DIRECTORS**

No director of the Bank is interested in the appointment of the Lead Manager and Registrars. No director of the Bank is interested in any property acquired by the Bank within two years of the date of LoF or proposed to be acquired by it. The directors are not interested in any loan or advance given by the Bank to any person(s)/ company/companies nor are they beneficiaries of any loan or advance except as provided below:

**Rs in Lakhs as on 30.9.2004**

	Name	Relationship	FACILITY SANCTIONED			Asset classification
				Limit	Balance	
1.	K.G. Swarna latha	Sister of Sri K.G. Jairam	Term Loan	15.00	7.64	Standard
			Term loan	6.00	3.72	Standard
2.	S.V. Manjunath	Brother Inlaw of K.G.Jairam	Term loan	7.00	3.71	Standard
3.	Comat Infoscrite P.Ltd.	Smt. Pawana Jairam, Director of the company is wife of Mr.K.G. Jairam.	Term loan	95.00	15.19	Standard
			S.L	20.00	19.81	Standard
			B. G	2.50	2.50	Standard
4.	Ullal Balakrishna Bhat	Brother of U.V. Bhat	Term loan	30.00	28.00	Standard
	<b>AND</b>					
	Shailaja .U.Bhat		PSTL	9.40	9.40	Standard
5.	Dr. Rohit Rao	Son of Sri Ram Mohan Rao	DPN	4.00	4.09	Standard

PSTL - Priority sector term loan

DPN - Demand Promissory note

SL - Shipping Loan

BG - Bank Guarantee

The directors of the Bank are interested to the extent of dividend which is distributed on the shares held by them and/or by their friends and relatives at the end of the financial year after necessary appropriation. The directors are interested to the extent of fees, if any, payable for attending meetings of the Bank and reimbursement of travelling and other incidental expenses, if any, for such attendance.



## THE KARNATAKA BANK LIMITED

(Incorporated on February 18, 1924 under the Indian Companies Act, 1913)

Registered & Head Office: P.B.No. 599, Mahaveera Circle, Kankanady, Mangalore - 575 002

Tel.: (0824) 2228222, Fax: (0824) 2225588

(The registered and head office was shifted from P. B. No. 716, Kodialbail, Mangalore 575 003 to present registered office in September 2003)

E-mail: [comsec@ktkbank.com](mailto:comsec@ktkbank.com); Website: [www.ktkbankltd.com](http://www.ktkbankltd.com)

Dear Shareholder(s),

Your Board of Directors are pleased to make an offer of 8,09,17,032 Equity Shares of Rs. 10/- each for cash at a premium of Rs. 10/- per share (i.e. at a price of Rs. 20/- per share) aggregating Rs. 161.83 crores to the shareholders of the Bank on Rights basis in the ratio of two (2) equity shares of Rs. 10/- each for every one (1) equity share of Rs. 10/- each held on the Record date (i.e. January 20, 2005)

### GENERAL INFORMATION

#### Name and Address of the Bank

##### The Karnataka Bank Limited

Registered Office: P. B. No. 599, Mahaveera Circle, Mangalore 575 002

Tel.: (0824) 2228222, Fax: (0824) 2225588

E-mail: [comsec@ktkbank.com](mailto:comsec@ktkbank.com)

Website: [www.ktkbankltd.com](http://www.ktkbankltd.com)

#### IMPORTANT

1. The present Rights Issue is pursuant to the resolution passed by the Board at its meeting held on November 09, 2004.
2. This offer is applicable only to those equity shareholders of the Bank whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in the electronic form and on the Register of Members of the Bank in respect of shares held in physical form as on Record date i.e. January 20, 2005.
3. Please read this Letter of Offer (LoF) carefully. The instructions contained in the accompanying Composite Application Form (CAF) are an integral part of the conditions of this LoF and must be carefully followed, otherwise the application is liable to be rejected.
4. All inquiries in connection with this LoF or the accompanying CAF and requests for split forms must be addressed (quoting the Registered Folio Number, DP ID and Beneficiary ID, the CAF Number and the name of the first shareholder as mentioned on the CAF and superscribed "**Karnataka Bank Limited- Rights Issue**" on the envelope) to the Registrar to the Issue at the following address: Alpha Systems (P) Ltd., 30, Ramana Residency, 4th Cross, Sampige Road, Malleswaram, Bangalore 560 003, Tel: (080) 23460815/16/17/18, Fax: (080) 23460819, e-mail : [ktkbankrights@vsnl.net](mailto:ktkbankrights@vsnl.net) In case the original CAF is not received, or is misplaced by the applicant, the Registrar will issue a duplicate CAF on the request of the applicant who should furnish the Registered Folio Number/ DP ID and Beneficiary ID and his/her full name and address to the Registrar to the Issue. Please note that those who are making the application in the duplicate form should not utilise the standard CAF for any purpose including renunciation, even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications.
5. It is to be specifically noted that the issue of equity shares is subject to Risk Factors appearing on page no. iv of this LoF.
6. The Rights Issue will not be kept open for more than 30 days unless extended, in which case it will be kept open for a maximum of 60 days.

#### ELIGIBILITY FOR THE ISSUE

KBL is an existing listed bank whose equity shares are listed on NSE and MgSE. Bank is eligible to offer this Rights Issue in terms of clause 2.4.1 (iv) of the SEBI guidelines.



## DISCLAIMER CLAUSE

IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THE LETTER OF OFFER TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF STATEMENTS MADE OR OPINIONS EXPRESSED IN THE LETTER OF OFFER. SBI CAPITAL MARKETS LTD., THE LEAD MANAGER TO THE ISSUE, HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER / LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI GUIDELINES FOR DISCLOSURE AND INVESTOR PROTECTION IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE LETTER OF OFFER, THE LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE BANK DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE LEAD MANAGER, SBI CAPITAL MARKETS LTD. HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED DECEMBER 03, 2004, IN ACCORDANCE WITH SEBI (MERCHANT BANKERS) REGULATIONS 1992, WHICH READS AS FOLLOWS:

1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTE WITH COLLABORATORS, ETC., AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE DRAFT LETTER OF OFFER PERTAINING TO THE SAID ISSUE;
2. ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE BANK, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE BANK.

## WE CONFIRM THAT

- (A) THE DRAFT LETTER OF OFFER FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE
  - (B) ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND
  - (C) THE DISCLOSURES MADE IN THE DRAFT LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE.
3. WE CONFIRM THAT BESIDE OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE LETTER OF OFFER ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATION IS VALID;

THE FILING OF THE LETTER OF OFFER WITH SEBI DOES NOT, HOWEVER, ABSOLVE THE BANK FROM ANY LIABILITIES UNDER SECTION 63 OR 68 OF THE COMPANIES ACT 1956 OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP, AT ANY POINT OF TIME, WITH THE LEAD MANAGER(S) (MERCHANT BANKERS), ANY IRREGULARITIES OR LAPSES IN THE LETTER OF OFFER.

All information shall be made available by the Lead Managers and the Bank to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever.

The Bank, its directors or any of the associates or group companies, companies with which the directors of the Bank are associated as directors or promoters and the directors or person(s) in control of the promoting companies have not been prohibited from accessing the capital market under any order or direction passed by SEBI.

## DISCLAIMER CLAUSE OF THE NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Bank has made application vide HO.SEC.586/2004-05 dated December 03, 2004 to The National Stock Exchange of India Limited, seeking its in-principal listing approval of its equity shares offered through this LoF.

"As required, a copy of this Letter of Offer has been submitted to The National Stock Exchange of India Limited (hereinafter referred to as NSE). NSE has given vide its letter dated December 13, 2004, permission to the Issuer to use the Exchange's name in this Letter of Offer as one of the Stock Exchanges on which this Issuer's securities are proposed to be listed. The Exchange has scrutinised this Letter of Offer for its limited internal purpose of deciding on the matter of



granting the aforesaid permission to this Issuer. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Letter of Offer has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer, nor does it warrant that this Issuer's securities will be listed or will be continued to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of this Issuer, its promoters, its management or any scheme or project of this Issuer.

Every person who desires to apply for or otherwise acquire any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever."

#### **DISCLAIMER CLAUSE OF THE MANGALORE STOCK EXCHANGE**

Bank has made application vide HO.SEC.586/2004-05 dated December 03, 2004 to The Mangalore Stock Exchange, seeking its in-principal listing approval of its equity shares offered through this LoF

MgSE has given vide its letter no. Mse/LCF12/2004-05 dated December 09, 2004 permission to the Bank to use the name of the Exchange in this offer document as one of the Stock Exchanges on which the Bank's securities are proposed to be listed. The Exchange has scrutinized this offer document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Bank. The Exchange does not in any manner -

1. Warrant, certify or endorse the corrections of any of the contents of this offer document or
2. Warrant that this Bank's securities will be listed or will continue to be listed on the Exchange or
3. Take any responsibility for the financial or other soundness of this Bank, promoters, management or any other scheme or project of this Bank;

And it should not be for any reason be deemed or construed that this Offer Document has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Bank may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever, by reason of any loss which may be suffered by such person consequent to or in connection with such subscription / acquisition whether by reason of anything stated in the offer document or for any other reason whatsoever.

#### **DELISTING OF EQUITY SHARES FROM BANGALORE STOCK EXCHANGE LIMITED**

Pursuant to the application made under SEBI (Delisting of Securities) Guidelines, 2003, the Equity Shares of the Bank stands delisted from Bangalore Stock Exchange Limited with effect from November 24, 2004 vide their letter 03/2004/971 dated November 24, 2004.

#### **DISCLAIMER IN RESPECT OF JURISDICTION**

This Letter of Offer has been prepared under the provisions of Indian Laws and the applicable rules and regulations there under. Any disputes arising out of this issue will be subject to the jurisdiction of the appropriate Court(s) in Mangalore, State of Karnataka, India only.

This offer of equity shares is made in India to persons resident in India and NRIs and FIIs subject to requisite approvals. This Letter of Offer does not, however, constitute an offer to sell or an invitation to subscribe to equity shares offered hereby in any other jurisdiction to any person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any person into whose possession this Letter of Offer comes is required to inform himself/herself about and to observe any such restrictions.

#### **GENERAL DISCLAIMER**

The Issuer accepts no responsibility for the statements made otherwise than in the Letter of Offer or in the advertisements or any other material issued by or at the instance of the Issuer and that anyone placing reliance on any other source of information would be doing so at his/her own risk. Issuer also accepts that no selective or additional information would be available for a section of investor in any manner whatsoever but not limited to presentations, meetings, etc.

Issuer is obliged to keep the public informed of any material changes till the listing and trading of rights issue takes place.

#### **AUTHORITY FOR THE PRESENT ISSUE**

This offer of equity shares is made pursuant to the resolution passed by the Board of Directors on November 9, 2004 in the ratio of 2 equity shares of Rs. 10/- each for every 1 share held on the Record date (i.e. January 20, 2005) at a





premium of Rs. 10/- per share.

#### **GOVERNMENT/RBI APPROVALS**

- Reserve Bank of India (hereinafter referred to as 'RBI') has issued Banking License (License No. Bang.5) under section 22(1) of the Banking Regulation Act, 1949, vide its letter dated April 4, 1966, to The Karnataka Bank Ltd., to enable it to carry on banking business in India. It must be distinctly understood, however, that in issuing the license, the RBI - does not undertake any responsibility for the financial soundness of the bank or for correctness of any of the statements made or opinion expressed in this connection.
- As per circular No. DBOD.No.PSBS.BC.79/16.13.100/2001-02 dated March 20, 2002, issued by the Department of Banking Operations and Development, RBI, RBI approval is not required by private sector bank for rights issue.

The license issued by the RBI enables the Bank to continue to undertake the present operations and no further approvals or licenses are required to continue the present business.

#### **FILING**

The draft LoF has been filed with Securities and Exchange Board of India (SEBI), Mittal Court, Nariman Point, Mumbai 400021 for its observations and SEBI has given its observations. The final LoF will be filed with the Mangalore Stock Exchange and National Stock Exchange of India Limited (Designated Stock Exchange).

#### **LISTING**

The existing Equity Shares of the Bank are listed on the Mangalore Stock Exchange and The National Stock Exchange of India Ltd (Designated Stock Exchange). The Equity Shares to be issued through this Issue would also be listed on the Stock Exchanges mentioned above. We have made application for in-principal approval for listing to the Stock Exchanges. We will make application to these Stock Exchanges for permission to deal in and for an official quotation in respect of the Equity Shares arising out of the Issue. The details of all in-principal approvals obtained from the respective Stock Exchanges shall be furnished at the time of filing the final Letter of Offer. We have made an application vide HO.SEC.586/2004-05 dated December 03, 2004 to above mentioned stock exchanges.

If the permission to deal in and for an official quotation of the securities is not granted by the Designated Stock Exchange mentioned above, within six weeks from the Issue Closing Date, the Bank shall forthwith repay, without interest, all monies received from the applicants in pursuance of this Letter of Offer. If such money is not repaid within eight days after the Bank becomes liable to repay it, then the Bank and every Director of the Bank who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money, with interest, as prescribed under Section 73 of the Act.

#### **IMPERSONATION**

As a matter of abundant caution, attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68 A of the Act, which is reproduced below:

"Any person who

- (a) makes in a fictitious name an application to a company for acquiring or subscribing for any shares thereon; or
- (b) otherwise induces a company to allot or register any transfer of shares therein to him or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years."

#### **MINIMUM SUBSCRIPTION**

If the Bank does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within 42 days from the date of closure of the issue. If there is delay in the refund of subscription by more than 8 days after the Bank becomes liable to pay the subscription amount (i.e. forty two days after the closure of the Issue), the Bank will pay interest for the delayed period, at rates prescribed under sub-sections (2) and (2A) of Section 73 of the Companies Act, 1956.

#### **UNDERWRITING ARRANGEMENT**

The present Rights Issue is not underwritten.

#### **INTEREST IN CASE OF DELAY IN DESPATCH OF LETTERS OF ALLOTMENT / REFUND ORDERS**

The Bank will issue and despatch the Letter of Allotment/Share Certificates and/or Letter of Regret, alongwith the Refund Order or credit the allotted shares to the respective beneficiary accounts, if any, within a period of six weeks from the date of closure of the Issue. If such monies are not repaid within eight days from the day the Bank becomes



liable to pay, it shall, as stipulated under Section 73(2A) of the Act, be required to pay interest on the same at a rate of 15% p.a. In accordance with the SEBI guidelines, the Bank will ensure that the dispatch of Letter of Allotment/Refund Order of value exceeding Rs.1,500 would be sent by registered post/speed post to the sole/first applicant's registered address and adequate funds for the purpose shall be made available to the Registrars by the issuer Bank. Refund Orders up to the value of Rs.1,500 would be sent under Certificate of Posting.

Further, the Bank shall dispatch allotment advice, share certificate, refund order and give benefit to the Beneficiary Account with Depository Participants and submit the listing documents to the stock exchanges within two working days of finalization and adoption of basis of allotment.

Such Refund Orders would be marked "Account Payee only" and would be drawn in favour of the sole/first applicant. Adequate funds would be made available to the Registrar to the Issue for dispatch of Letters of Allotment/share certificates/refund orders.

#### **RESTRICTION ON TRANSFER OF SHARES**

As per RBI circular PSBS.BC.349/16.13.100/1999-2000 dated September 21, 1999, any acquisition of shares by a person or group which would take his or its holding to a level of 5% or more of the total paid up capital of the bank (or such percentage as may be prescribed by the RBI from time to time) should be with the prior approval of RBI.

#### **ISSUE PROGRAMME**

The subscription list will open at the commencement of banking hours and will close at the close of banking hours on the dates mentioned below.

<b>ISSUE OPENS ON</b>	<b>: February 04, 2005</b>
<b>LAST DATE FOR RECEIVING REQUESTS FOR SPLIT FORMS</b>	<b>: February 18, 2005</b>
<b>ISSUE CLOSING ON</b>	<b>: March 05, 2005</b>

#### **LEAD MANAGER TO THE ISSUE**

##### **SBI Capital Markets Ltd.**

202, Maker Tower 'E'  
Cuffe Parade  
Mumbai 400 005  
Tel: (022) 22189166, Fax: (022) 22188332  
E-mail : [karnataka.bankrights@sbicaps.com](mailto:karnataka.bankrights@sbicaps.com)

#### **REGISTRARS TO THE ISSUE**

##### **Alpha Systems (P) Ltd.**

30, Ramana Residency  
4th Cross, Sampige Road, Malleswaram  
Bangalore 560 003  
Tel: (080) 23460815/16/17/18, Fax: (080) 23460819  
E-mail : [ktkbankrights@vsnl.net](mailto:ktkbankrights@vsnl.net)

#### **COMPANY SECRETARY & COMPLIANCE OFFICER**

##### **Mr. Y.V. Balachandra**

Company Secretary  
The Karnataka Bank Ltd.  
P. B. No. 599, Mahaveera Circle,  
Mangalore 575 002  
Tel.: (0824) 2228222, 2228182, Fax: (0824) 2225588  
E-mail: [comsec@ktkbank.com](mailto:comsec@ktkbank.com)

#### **LEGAL ADVISORS TO THE ISSUE**

##### **P. Madhava Rao**

Advocate, 'Pushpa Vihar'  
Bunts Hostel Road  
Mangalore 575 003  
Tel: (0824) 2443723

#### **AUDITORS OF THE BANK**

##### **Rao & Swami**

Chartered Accountants  
2/1, Connaught Road,  
Bangalore - 560 052  
Tel/Fax: (080) 2260230

##### **P. Ishwara Bhat & Co.**

Chartered Accountants  
Flat #107, Swiss Complex,  
#33, Race Course Road, Bangalore 560 001  
Tel/ Fax: (080) 2263246, 2265346

#### **BANKERS TO THE ISSUE**

##### **The Karnataka Bank Limited**

P. B. No. 599, Mahaveera Circle  
Mangalore 575 002  
Tel.: (0824) 2228222, Fax: (0824) 2225588  
E-mail: [comsec@ktkbank.com](mailto:comsec@ktkbank.com)



**Note :** Investors are advised to contact the Registrar to the Issue / Compliance Officer in case of any pre-issue / post-issue related matters such as non-receipt of Letter of Offer/ Letter of Allotment / CAF / share certificate(s) / refund orders / demat credit, etc.

#### **CREDIT RATING**

Since the present issue is of equity shares, credit rating is not required.

#### **TRUSTEES**

This being an issue of equity shares, appointment of Trustees is not required.

#### **UNDERTAKING BY THE BANK**

The Bank undertakes

- a) That the complaints received in respect of the Issue shall be attended to by the Bank expeditiously and satisfactorily;
- b) That all steps for completion of the necessary formalities for listing and trading at all stock exchanges where the securities are to be listed are taken within the specified time.
- c) That the funds required for despatch of refund orders/allotment letters/certificates by registered post shall be made available to the Registrar to the Issue
- d) That the certificates of the securities/refund orders shall be despatched within specified time.
- e) That no further issue of securities shall be made till the securities offered through this Letter of Offer are listed or till the application moneys are refunded on account of non-listing, undersubscription, etc.

#### **UTILISATION OF ISSUE PROCEEDS**

The Board of Directors undertake that

- a) All monies received out of issue of shares to shareholders on Rights basis shall be transferred to separate bank account other than the bank account referred to in sub-section (3) of section 73;
- b) Details of all monies utilised out of the issue referred to in sub-item a) shall be disclosed under an appropriate separate head in the balance-sheet of the Bank indicating the purpose for which such monies had been utilised; and
- c) Details of all unutilised monies out of the issue of shares, if any, referred to in sub-item(a) shall be disclosed under an appropriate separate head in the balance-sheet of the Bank indicating the form in which such unutilised monies have been invested.

The funds received against this Rights Issue will be kept in a separate bank account and the Bank will not have any access to such funds unless it satisfies the National Stock Exchange of India Limited with suitable documentary evidence that the minimum subscription of 90% of the Issue has been received by the Bank.



## CAPITAL STRUCTURE

(as on September 30, 2004 in Rs.)

	Face Value	Issue Amount
<b>A. Authorised capital</b>		
15,00,00,000 Equity Shares of Rs. 10/- each	150,00,00,000	
<b>B. Issued capital</b>		
4,04,79,344 Equity Shares of Rs. 10/- each	40,47,93,440	
<b>C. Subscribed Capital</b>		
4,04,41,266 Equity Shares of Rs. 10/- each	40,44,12,660	
<b>D. Paid up capital</b>		
4,04,24,716 Equity shares of Rs. 10/- each	40,42,47,160	
<b>E. Present issue</b>		
8,09,17,032 Equity Shares of Rs. 10/- each at a premium of Rs. 10/- per Share	80,91,70,320	161,83,40,640
<b>F. Paid-up capital after the issue</b>		
12,13,41,748 Equity Shares of Rs. 10/- each	121,34,17,480	
<b>G. Share premium account</b>		
Before the issue	78,71,54,460	
After the issue	159,63,24,780	

**Notes:*****Issued Capital***

1. The issued capital of 4,04,79,344 equity shares consists of
  - a. 33800 equity shares comprising of -
    - i. 16900 shares kept in abeyance in the bonus issue of shares during the year 2002-03
    - ii. 16900 shares kept in abeyance in the rights issue of shares during the year 2002-03
  - b. 4128 shares in the rights issue kept in abeyance during 1995 which have since been lapsed
  - c. 150 shares in the rights issue kept in abeyance during 2003 rights issue which have since been lapsed.

***Subscribed Capital***

The subscribed capital includes 16550 shares, which were allotted in 1995 public issue but forfeited on 10/10/1998 for non-payment of allotment money.

***Present Issue***

- a. The present issue of rights shares is in the ratio of two shares of Rs. 10 each for every one share held on the record date i.e. January 20, 2005.
- b. In addition to the paid up capital of 4,04,24,716 equity shares, 33800 shares kept in abeyance on account of earlier issues are considered to arrive at the adjusted paid up capital of 40458516 equity shares. 33800 equity shares comprises of:
  - i. 16900 shares kept in abeyance in the bonus issue of shares during the year 2002-03
  - ii. 16900 shares kept in abeyance in the rights issue of shares during the year 2002-03
- c. Total number of shares in the present issue in the ratio of 2 (two) equity shares for every 1 (one) equity share held on adjusted paid up capital of 4,04,58,516 equity shares is 8,09,17,032 equity shares.

**NOTES****1. Share Capital history since incorporation**

<b>Date /period of Allotment</b>	<b>No. of Shares</b>	<b>Cumulative no. of shares</b>	<b>Remarks</b>
18.2.1924- At incorporation	1544	1544	Shares taken up by the subscribers to M/A
1924	5678	7222	Subscription at par
1925	1442	8664	-do-
1926	244	8908	-do-
1927	454	9362	-do-
1928	166	9528	-do-
1929	238	9766	-do-
1930	1698	11464	-do-
1931	948	12412	-do-
1932	198	12610	-do-
1933	826	13436	-do-
1934	1208	14644	-do-
1935	1512	16156	-do-
1936	790	16946	-do-
1937	3170	20116	-do-
1938	1012	21128	-do-
1939	1126	22254	-do-
1940	512	22766	-do-
1941	1436	24202	-do-
1942	436	24638	-do-
1943	7742	32380	-do-
1944	2620	35000	-do-
1946	15000	50000	-do-
1952	41480	91480	-do-
1953	8520	100000	-do-
1964	100000	200000	-do-
31.8.1977	100000	300000	-do-
27.9.1978	200000	500000	-do-
21.7.1982	200000	700000	-do-
16.1.1986	300000	1000000	-do-
29.12.1988	500000	1500000	-do-
31.3.1990	3000000	4500000	Rights issue at par
14.12.1995	4490350	8990350	Public issue at a price of Rs. 120 per share
14.12.1995	4494410	13484760	Rights issue at a price of Rs. 60 per share
26.8.1996	1462	13486222	Allotment of shares in the Rights issue of 1995 which were kept in abeyance u/s 206A of the Companies Act, 1956
14.11.2002	13462372	26948594	Allotment of Bonus shares out of share premium amount.
31.3.2003	13468372	40416966	Allotment of rights shares at a premium of Rs. 15 per share
26.9.2003	6950	40423916	Allotment of Equity Shares on release of bonus shares kept in abeyance u/s 206A of the Companies Act, 1956 in 2002-03 bonus issue.
17.2.2004	800	40424716	Allotment of Equity Shares on release of rights shares kept in abeyance u/s 206A of the Companies Act, 1956 in 2002-03 rights issue.

**Notes:**

- (i) The shares issued and allotted prior to 1990 were of the face value of Rs. 20/- each. The Face value of the shares was split to Rs. 10 each. The shares allotted prior to 1990 are disclosed as equivalent shares of Rs 10/- each in the above table.
  - (ii) Shares allotted on 14.12.1995 in the public issue have been arrived at after deducting 16550 shares which were forfeited on 10.10.1998 for non payment of allotment money due.
  - (iii) All shares since incorporation have been allotted for cash except for bonus shares allotted on November 14, 2002.
  - (iv) Bank has allotted bonus shares on 14.11.2002 by utilising the share premium amount. Bonus shares were issued in the ratio of 1 (one) bonus share for 1 (one) existing fully paid up equity share held. On 26.9.2003, bank has allotted 6950 equity shares out of 23850 bonus entitlements kept in abeyance during bonus issue in 2002. As on date bonus entitlements in respect of 16900 equity shares are still in abeyance.
  - (v) 13486222 equity shares of Rs. 10 each at a premium of Rs. 15 per share were allotted on rights basis in the ratio of 1 (one) share for every (2) two equity shares held after bonus shares allotment. During the rights issue entitlement in respect of 17850 shares were kept in abeyance u/s 206A of the Companies Act, 1956. On 17.2.2004, bank has allotted 800 equity shares out of 17850 rights entitlements kept in abeyance during rights issue in 2003. Also, rights entitlements in respect of 150 equity shares have lapsed. As on date rights entitlements in respect of 16900 equity shares are still in abeyance.
2. Since there is no identifiable promoter, the provisions relating to promoters contribution, lock in of promoters shares, promoters aggregate shareholding and entitlement in the Rights issue are not applicable. The Directors of the Bank hold 31791 equity shares of the Bank amounting to 0.08% of the share capital of KBL.
  3. The authorised share capital of the Bank at the time of incorporation was Rs. 25,000 and was increased to Rs. 20 crores through a resolution passed at the Extraordinary General Meeting on September 15, 1994. The authorised capital was further increased to 50 crores divided into 5,00,00,000 equity shares of Rs. 10/- each vide the resolution passed at the Annual General Meeting on August 22, 2002 and to Rs. 150 crore divided into 15,00,00,000 equity shares of Rs. 10 each vide resolution passed at the Annual General Meeting on 29.7.2004.
  4. The shareholding pattern of the Bank as on 30.9.2004 is as follows:

Name	Pre Issue shareholding pattern		Post Issue Shareholding pattern	
	No. Of shares	%	No. Of shares	%
Promoters	NIL	NIL	NIL	NIL
FII	1015539	2.51	3046617	2.51
NRIs	1175463	2.91	3526389	2.91
Mutual Funds	1772747	4.39	5318241	4.39
Banks, Insurance Companies & Financial Institutions	441400	1.09	1324200	1.09
Private Corporate Bodies	5035079	12.46	15105237	12.46
Individuals	30659830	75.84	91979490	75.84
Clearing Members	276160	0.68	828480	0.68
Trust	48498	0.12	145494	0.12
<b>Total</b>	<b>40424716</b>	<b>100</b>	<b>121274148</b>	<b>100</b>

**Note:** The present issue of rights shares is in the ratio of two shares of Rs. 10 each for every one share held on the record date i.e. January 20, 2005. For this purpose in addition to the paid up capital of 4,04,24,716 equity shares, the shares held in abeyance on account of earlier issues being 16900 shares each on account of bonus issue and rights issue has also been considered to arrive at the adjusted paid up capital of 40458516 equity shares. Thus, total number of shares entitled for the present rights issue in the ratio of 2 (two) equity shares for every 1 (one) equity share held is 8,09,17,032 equity shares.

The post issue number of shares of 12,12,74,148 equity shares (mentioned in Note 4) does not includes 67600 rights entitlement on 33800 equity shares in abeyance. Hence after release of 67600 rights entitlements on abeyed shares, post issue paid up capital will amount to 12,13,41,748 equity shares.



5. The Bank has not revaluated its assets since its inception in 1924 and hence issue of shares out of revaluation reserve does not arise.
6. The Bank has not issued any shares for consideration other than cash except the capitalisation of share premium for issue of bonus shares. Refer Notes 1 above.
7. The number of shareholders of the as on 31.12.2004 is 72540.
8. The directors of the Bank have not undertaken/financed directly or indirectly transactions in the shares of the Bank in the last 6 months from the date of filing of LoF with Stock Exchange.
9. The shareholders of the Bank do not hold any warrants, options or convertible loans or any debentures-which would entitle them to acquire further shares of the Bank.
10. The Bank shall not make further issue of capital till the shares of the present issue are listed or application moneys refunded on account of the failure of the issue. The Bank does not intend to alter the capital structure by way of split of the denomination of the shares or issue of shares on a preferential basis or issue of bonus or rights or public issue shares or any other securities within a period of 6 months from the date of opening of the present issue.
11. The attention of the investors is drawn to section 12 (2) of the Banking Regulation Act 1949, as amended which states that: "No person holding shares in the banking company shall in respect of any shares held by him, exercise voting rights on poll in excess of 10% of the total voting rights of all the shareholders of the banking company."
12. There is no buy back or standby arrangement for the purchase of equity shares offered through this Letter of Offer by the directors or lead merchant bankers.
13. There are no outstanding 'bridge loans' or any other financial arrangements which will be repaid out of the proceeds of the current issue.

**14. Top Ten shareholders****Top 10 Shareholders as on the date of Stock Exchange filing (as on 04.01.2005)**

<b>Name of Investors</b>	<b>Shares</b>	<b>% shareholding</b>
1. Goldman Sachs Investments (Mauritius) I Ltd.	738339	1.83
2. Medvin Finance Pvt Ltd	560000	1.39
3. Prudential ICICI Trust Ltd-Emerging Star Fund	548570	1.36
4. R L P Securities Pvt Ltd.	500040	1.24
5. Karvy Stock Broking Ltd.	497280	1.23
6. HDFC Trustee Company Ltd.-HDFC Capital Builder Fund	425000	1.05
7. Satabdi Investments Pvt. Ltd.	385000	0.95
8. Shrine Finance Investments Pvt. Ltd.	365000	0.90
9. United India Insurance Company Ltd.	320550	0.79
10. Corporate Infrastructure Services Ltd.	292646	0.72

**Top 10 shareholders 10 days prior to Stock Exchange filing (as on 24.12.2004)**

<b>Name of Investors</b>	<b>Shares</b>	<b>% shareholding</b>
1. Goldman Sachs Investments (Mauritius) I Ltd.	738339	1.83
2. Medvin Finance Pvt Ltd	560000	1.39
3. Karvy Stock Broking Ltd.	504888	1.25
4. R L P Securities Pvt Ltd.	500040	1.24
5. Prudential ICICI Trust Ltd-Emerging Star Fund	456000	1.13
6. HDFC Trustee Company Ltd.-HDFC Capital Builder Fund	425000	1.05
7. Satabdi Investments Pvt. Ltd.	385000	0.95
8. Shrine Finance Investments Pvt. Ltd.	365000	0.90
9. United India Insurance Company Ltd.	320550	0.79
10. Corporate Infrastructure Services Ltd.	292646	0.72



**Top 10 shareholders 2 years prior to Stock Exchange filing**

<b>Name</b>	<b>No. Of shares</b>	<b>% shareholding</b>
1. Indian Syntas Investments (P) Ltd.	372786	1.38%
2. Prudential ICICI Trust Limited : Tax Plan	244670	0.91%
3. United India Insurance Company Ltd.	213700	0.79%
4. Meenakshi Narayana Investments (P) Ltd.	132524	0.49%
5. Sonal Share and Stock Brokers	130000	0.48%
6. J. K. Modi	122967	0.46%
7. H. B. Jairaj	101300	0.38%
8. T. Rakesh Kumar	100646	0.37%
9. Peerless General Finance & Investments Ltd.	80000	0.30%
10. Talma Chemical Industries Pvt. Ltd.	80000	0.30%



## TERMS OF THE PRESENT ISSUE

The Bank is offering on rights basis through this Letter of Offer 8,09,17,032 Equity Shares of Rs. 10 each at a premium of Rs. 10 per share aggregating to Rs. 161.83 crores. The equity shares are being offered, subject inter alia, to the terms of this Letter of Offer, the CAF, the provisions for listing as specified in the guidelines issued by NSE, MgSE and the GOI from time to time, the terms and conditions stated in allotment letters/share certificates to be issued, the provisions of the BR Act, to the extent applicable, SEBI Guidelines and the provisions of the Depositories Act, 1996, to the extent applicable.

### AUTHORITY FOR THE ISSUE

This offer of equity shares is being made pursuant to the resolution passed by the Board of Directors on November 9, 2004 in the ratio of 2 equity shares of Rs. 10/- each for every 1 share held on the Record date (i.e. January 20, 2005) at a premium of Rs. 10/- per share.

As per circular No. DBOD.No.PSBS.BC.79/16.13.100/2001-02 dated March 20, 2002, issued by the Department of Banking Operations and Development, RBI, RBI approval would not be required for Rights issues by both listed and unlisted banks.

### BASIS OF OFFER

In accordance with the Board resolution referred to above, equity shares are being offered on Rights basis in the ratio of 2 equity shares of Rs. 10/- each for every 1 equity share of Rs. 10/- each at a premium of Rs. 10/- per share to all the equity shareholders whose names appear as beneficial owner as per the list to be furnished by depositories in respect of the shares held in electronic form and on the Register of Members of the Bank in respect of the shares held in physical form at the close of business hours on the Record date. Such shareholders are entitled to apply for equity shares on rights basis.

### RIGHTS ENTITLEMENT

As your name appears as beneficial owner as per the list to be furnished by depositories in respect of the shares held in electronic form and on the Register of Members of the Bank in respect of the shares held in physical form as an equity shareholder on the Record date (i.e. January 20, 2005), you are offered equity shares as shown in Part A of the enclosed Composite Application Form.

### OFFER TO PROMOTERS/ NON RESIDENT SHAREHOLDERS

As per notification No. FEMA 20/2000-RB dated May 3, 2000, RBI has given general permission to Indian companies to Issue Rights/Bonus shares to Non-Resident Indians etc. Hence the Bank does not need permission from RBI for Issue of shares to Non-Resident Indians etc, up to their entitlement.

### PRINCIPAL TERMS OF THE EQUITY SHARES

#### **Face Value**

Each Equity Share shall have the face value of Rs. 10 each.

#### **Issue Price**

Each equity share of the face value of Rs.10 each is being offered at Rs. 20 each (including premium of Rs.10 per share).

#### **Entitlement ratio**

The Equity Shares are being offered on rights basis to the existing Equity Shareholders in the ratio of 2 Equity Shares of Rs. 10 each for every 1 Equity Share of Rs. 10 each held as on the Record Date. Rights Entitlement on shares held in electronic form in the pool account of the clearing members on the Record Date will be released to the beneficial owners as and when the details are furnished by depositories and such claimants are requested to -

- (i) Approach the concerned depository through the clearing member of the Stock Exchange with requisite details; and



(ii) Depository in turn should furnish details of the beneficial position to the Registrars

Only upon receipt of the aforesaid details, Rights Entitlement of the claimant shall be determined.

In case the beneficial positions are not furnished before the closure of the issue, the rights entitlement in respect of such shares would lapse.

### **RANKING OF EQUITY SHARES**

The equity shares allotted pursuant to this Issue shall rank pari-passu in all respects with the then existing equity shares of the Bank, including dividend, if any to be declared for the year ending March 31, 2005.

### **RIGHTS OF THE EQUITY SHAREHOLDERS**

The rights available to the shareholders of the Bank under the Act are subject to the provisions of the BR Act. The rights include the following:

- a) Right to receive dividend, if declared
- b) Right to attend general meetings and exercise voting powers, unless prohibited by law
- c) Right to vote personally or by proxy, unless prohibited by law
- d) Right to receive offers for rights shares and be allotted bonus shares, if issued
- e) Any other rights available under the Companies Act, 1956

Note: Only the registered equity shareholders or in case of the joint holders, those shareholders, whose names appear first in the Register of members /list of beneficial owners shall be entitled to above mentioned rights.

### **RESTRICTION ON TRANSFER OF EQUITY SHARES**

As per RBI circular DBOD No. PSBS.BC.349/16.13.100/99-2000 dated September 21, 1999, any acquisition of shares by a person or group which would take his or its holding to a level of 5% or more of the total paid up capital of the Bank (or such percentage as may be prescribed by the RBI from time to time) should be with the prior approval of RBI.

### **COMPLIANCE WITH SEBI GUIDELINES**

The Bank shall comply with all disclosures and accounting norms as specified by SEBI from time to time.

### **ACCEPTANCE OF OFFER**

You may accept and apply for the Equity shares offered hereby to you wholly or in part by filling up Part "A" of the CAF and submitting the same together with the application money in the prescribed manner to the Bankers to the Issue mentioned on the reverse of the CAF or to the Registrars to the Issue, as the case may be, before the close of banking hours on the Issue closing date or such extended time as specified by the Board in this regard.

### **ADDITIONAL EQUITY SHARES**

You are also eligible to apply for additional equity shares over and above the number of equity shares offered to you, provided that you have applied for all the equity shares offered without renouncing them in whole or in part in favour of any other person. If you desire to apply for additional Equity Shares, please indicate your requirement in Block IV of Part 'A' of the CAF. Renouncees applying for all the Equity Shares renounced in their favour may also apply for additional Equity Shares. As per the notification issued by RBI under FEMA, existing non-resident shareholders may apply for issue of additional equity shares over and above the rights entitlements and the bank may allot the same subject to condition that overall issue of shares to non-resident in the total paid up capital of the bank does not exceed the sectoral cap. The Board of Directors may at its absolute discretion, agree to such terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares, subject to the same conditions including restrictions in regard to the repatriability as are applicable to the original shares against which Rights shares are issued. Where the number of Equity Shares applied for exceeds the number available for allotment, the allotment of shares would be made in consultation with the Designated Stock Exchange.

**Renouncee (s) shall have the right to apply for additional shares.**



## OPTION TO RECEIVE THE RIGHTS EQUITY SHARES IN DEMATERIALISED FORM

Applicants have the option to hold the equity shares in electronic form under the depository system. The Bank has signed an agreement with National Securities Depository Limited (NSDL) on October 16, 2000 and with Central Depository Services (India) Ltd. (CDSL) on October 14, 2000 which enables an investor to hold and trade in securities in a dematerialised (electronic/demat) form, instead of holding equity shares in the form of physical certificates. Equity shares being offered through this Rights Issue will be admitted to NSDL and CDSL, when allotted.

Applicants may note that they have the option to subscribe to the Rights equity shares in demat or physical form, or partly in demat and physical form, in the same application, in the space provided. No separate applications for demat and physical shares are to be made. If such application is made, the applications for physical shares will be treated as multiple application and rejected accordingly. In case of partial allotment, allotment will be first done in demat form, and the balance, if any, will be allotted in physical form. The equity shares of the Bank have been included in the Compulsory Demat list with effect from November 27, 2000 as per SEBI directives for all classes of investors. Hence, investors may note that the equity shares of the Bank can be traded on the stock exchanges only in demat form.

The procedure for opting for this facility for allotment of equity shares arising out of this Issue in electronic form is as under:

1. Open a Beneficiary Account with any Depository Participant (care should be taken that the Beneficiary Account should carry the name of the holder in the same manner as is exhibited in the records of the Bank. In case of joint holding, the Beneficiary Account should be opened carrying the names of the holders in the same order and style as are appearing in the records of the Bank). In case of Investors having various folios in the Bank with different joint holders, the investors will have to open separate beneficiary accounts for such holdings. This step need not be adhered to by those shareholders who have already opened such Beneficiary Account(s).
2. For shareholders holding shares in dematerialised form as on the Record date, the beneficial account number shall be printed on the CAF. For those who open accounts later or those who change their accounts and wish to receive their Rights equity shares by way of credit to such account the necessary details of their beneficiary account should be filled in the space provided in the CAF. It may be noted that the allotment of equity shares arising out of this Issue can be received in demat form even if the original equity shares of the Bank are not dematerialised. Nonetheless, it should be ensured that the Depository Account is in the name(s) of the shareholders and the names are in the same order and style as are appearing in the records of the Bank.
3. Responsibility for correctness of applicant's age and other details given in the CAF vis-à-vis those with the applicant's Depository Participant, would rest with the applicant. Applicants should ensure that the names of the applicants and the order in which they appear in CAF should be same as registered with the applicant's Depository Participant.
4. If incomplete/incorrect Beneficiary Account details are given in the CAF or where the investor does not opt to receive the Rights equity shares in demat form, the Bank will issue equity shares in the form of physical certificate(s).
5. The Rights equity shares allotted to investors opting for demat form, would be directly credited to the Beneficiary Account as given in the CAF after verification. Allotment advice, refund order (if any) would be sent directly to the applicant by the Registrar to the Issue but the confirmation of the credit of the Rights equity shares to the applicant's Depository Account will be provided to the applicant by the Registrar.
6. Renouncees can also exercise this option to receive equity shares in the demat form by indicating in the relevant block and providing the necessary details about their Beneficiary Account.

**NOTE: Shareholders/applicants are advised to apply for receiving the new equity shares that may be allotted to them in the demat form only, since trading in the equity shares of the Bank is permissible only in the demat form.**

## RENUNCIATION

As an equity shareholder, you have the right to renounce your entitlement to the equity shares in full or in part in favour of one or more person(s). Your attention is drawn to the fact that the Bank shall not allot and/or register any equity shares in favour of:

- a) More than three persons including joint holders;
- b) Any Trust or Society (unless the same is registered under the applicable Trust Laws or the Societies Registration Act, 1860 or any other laws and is authorised under its constitution to hold equity shares in a Bank);



- c) Partnership firm(s) or their nominee(s);
- d) Minors
- e) HUFs

The right of renunciation is subject to the express condition that the Board shall be entitled in its absolute discretion to reject the request for allotment to renouncee(s) without assigning any reason thereof.

**Any of the following renunciations:**

- a) From Resident(s) to Non-Resident Indian(s)
- b) From Non-Resident Indian(s) to Resident(s)
- c) From Non-Resident Indian (s) to Non-Resident Indian(s)

is also subject to the renouncer(s)/renouncee(s) obtaining the necessary approval of the RBI under the provisions of the Foreign Exchange Management Act, 1999 and other applicable laws and such permission should be attached with the CAF.

**Renouncee(s) have the right to apply for additional shares provided they have accepted the shares renounced in their favour in full. The renouncee cannot further renounce his/her entitlement.**

**PROCEDURE FOR RENUNCIATION**

**a) To renounce the whole offer in favour of one renouncee**

If you wish to renounce the offer indicated in Part A, in whole, please complete Part B of the CAF. In case of joint holding, all joint holders must sign Part B of the CAF. The person in whose favour renunciation has been made should complete and sign Part C of the CAF. In case of joint renouncees, all joint renouncees must sign this part of the CAF.

**b) To renounce in part/or to renounce the whole to more than one renouncee**

If you wish to either accept this offer in part and renounce the balance or renounce the entire offer in favour of two or more renouncees, the CAF must be first split into requisite number of forms. For this purpose you will have to apply to the Registrars to the Issue. Please indicate your requirement of split forms in the space provided for this purpose in Part D of the CAF and return the entire CAF to the Registrars to the Issue so as to reach them latest by the close of business hours on the last date of receiving requests for split forms. On receipt of the required number of split forms from the Registrar, the procedure as mentioned in para(a) above shall have to be followed.

In case the signature of the shareholder(s) who has renounced the Rights Shares, does not agree with the specimen registered with the Bank, the application will be rejected and the Rights offer will lapse.

**c) Renouncee(s)**

The person in whose favour the equity shares are renounced should fill in and sign Part C and submit the entire CAF to the Bankers or to the collection centres to the Issue on or before the closing date of the Issue along with the application money.

**d) Change and/or introduction of additional holders**

If you wish to apply for equity shares jointly with any other person or persons, not more than three, who is/are not already joint holders with you, it shall amount to renunciation and the procedure as stated above for renunciation shall have to be followed. Even a change in the sequence of the name of joint holders shall amount to renunciation and the procedure, as stated above for renunciation shall have to be followed.

However, this right of renunciation is subject to the express condition that the Board of Directors of the Bank shall be entitled in its absolute discretion to reject the request for allotment from the renouncee(s) without assigning any reason therefor.

**Please note that:**

- a) Part A of the CAF must not be used by any person(s) other than those in whose favour this offer has been made. If used otherwise, this will render the application invalid.
- b) Request for split form should be made in multiples of 50 equity shares only and one split form for the balance shares, if any.



- c) Only the person to whom this Letter of Offer has been addressed and not the renouncee(s) shall be entitled to apply for split forms. Forms once split cannot be split again.
- d) Split form(s) will be sent to the applicant(s) by post at the applicant's risk.

#### HOW TO APPLY

Application should be made only on the enclosed CAF provided by the Bank. The enclosed CAF should be complete in all respects, as explained in the INSTRUCTIONS indicated in the CAF before submitting it to the Bankers to the Issue or the collection centres. Different parts of the CAF should not be detached under any circumstances. Detailed instructions as to how to apply have been given in the CAF.

You may exercise any of the following options with regard to the equity shares offered to you, using the enclosed CAF:

Option Available	Action Required
1. Accept whole or part of your entitlement without renouncing the balance.	Fill in Block III and sign Part A ( <i>all joint holders must sign</i> )
2. Accept your entitlement to all the equity shares offered to you and apply for additional equity shares.	Fill in and sign Part A including Block IV relating to additional shares ( <i>all joint holders must sign</i> )
3. Renounce your entitlement to all the equity shares offered to you, to one person (joint renouncees are considered as one).	Fill in and sign Part B ( <i>all joint holders must sign</i> ) indicating the number of equity shares renounced and hand it over to the renouncee. The renouncees must fill in and sign Part C ( <i>all joint renouncees must sign</i> ).
4. Accept a part of your entitlement to the equity shares offered to you and renounce the balance to one or more renouncee(s).  OR  Renounce your entitlement to all the equity shares offered to you to more than one renouncee.	Fill in and sign Part D ( <i>all joint holders must sign</i> ) for the required number of split forms and send the CAF to the Registrars to the Issue so as to reach them on or before the last date for receiving requests for split forms.  Splitting will be permitted only once. Request for split forms must be in multiples of <b>50 Equity shares</b> only and one split form for the balance shares, if any. On receipt of the split form take action as indicated below.  a) For the equity shares you wish to accept, if any, fill in and sign Part A.  b) For the Equity shares you wish to renounce, fill in and sign Part B indicating the number of equity shares renounced and hand it over to the renouncees. Each of the renouncees should fill in and sign Part C for the equity shares accepted by them.
5. Introduce joint-holder or change the sequence of joint holder	This will be treated as a renunciation.

Applicants must provide information in the CAF as to their savings bank/current account number and the name of the bank with whom such account is held, to enable the Registrar to print the said details in the refund orders after the names of the payees. Failure to comply with this may lead to rejection of the application. Bank account details furnished by the depositories will be printed on the refund warrant in case of shares held in electronic form.

**Applicants must write their CAF Number at the back of the cheque/demand draft.**

#### MARKET LOT

The market lot for Equity Shares held in Demat Mode is one share. In case of physical certificates, the Bank would issue one certificate for the Equity Shares allotted to one person ("Consolidated Certificate"). In respect of Consolidated Certificate, the Company will, only upon receipt of a request from the Equity Shareholder, split such Consolidated Certificate into smaller denomination within 1 months time in conformity with the clause 3 of the Listing agreement. No fee would be charged by the Bank for splitting the Consolidated Certificate.



## **ISSUE OF DUPLICATE SHARE CERTIFICATE**

If any Equity Share(s) is/are mutilated or defaced or the pages for recording transfers of Equity Share are fully utilized, the same may be replaced by the Bank against the surrender of such Certificate(s). Provided, where the Equity Share Certificate(s) are mutilated or defaced, the same will be replaced as aforesaid only if the Certificate numbers and the Distinctive numbers are legible.

If any Equity Shares Certificate is destroyed, stolen or lost, then upon production of proof thereof to the satisfaction of the Company and upon furnishing such indemnity/ surety and/or documents as the Company may deem adequate, duplicate Equity Share Certificate(s) shall be issued.

## **UNIQUE IDENTIFICATION NUMBER - MAPIN**

In terms of SEBI (Central Database of Market Participants) Regulation, 2003 as amended from time to time ("said Regulations") and SEBI Notification dated November 25, 2003 and July 30, 2004, no specified intermediaries, its related persons as mentioned in Regulation 4 of the said regulations shall subscribe to securities which are proposed to be listed in any recognized stock exchange unless such specified intermediaries, its related persons, have been allotted unique identification numbers.

Provided however that SEBI by its notification dated 17th August 2004 has specified 30th June 2005 as the extended date within which such promoters or directors of specified intermediaries, as are resident outside India, shall obtain Unique Identification Number.

In terms of SEBI (Central Database of Market Participants) Regulation, 2003 as amended from time to time ("said Regulations") and SEBI Notification dated July 30, 2004, no specified investor being a body corporate shall subscribe to securities which are proposed to be listed in any recognized stock exchange unless such specified investor, its promoters and directors have been allotted unique identification numbers.

In case of specified investor being a body corporate, the above para shall not apply to such specified investor who has applied for allotment of a unique identification number before December 31, 2004, till the disposal of its application or, where it has filed an appeal, till the disposal of the appeal, as the case may be.

SEBI has by press release dated 31st December 2004 bearing PR No. 344 /2004 extended the notified date for the purposes of obtaining unique identification numbers for specified investors being bodies corporate whose promoters or directors are persons resident outside India to 31st December 2005.

Furthermore SEBI vide its circular no. MAPIN-1/2005 dated January 4, 2005 has stated that:

"The SEBI (Central Database of Market Participants) Regulations, 2003 were notified on November 20, 2003. Pursuant to the notification dated July 30, 2004 issued under the captioned Regulations, SEBI has, inter-alia, specified in terms of sub-regulation (2) of regulation 6 that "All investors being bodies corporate as 'specified investors', along with their promoters and directors are required to obtain a UIN before December 31, 2004".

However, it is clarified that "wherever the President of India / Central Government / State Government is a promoter, it is exempted from the requirement of obtaining a UIN under regulation 6(2) of SEBI (Central Database of Market Participants) Regulations, 2003".

In terms of the above it shall be compulsory for specified intermediaries and specified investors being bodies corporate making application in this issue to give their unique identification number.

Applications from bodies corporate as mentioned above and specified intermediaries, which are not in compliance with the above regulations and any subsequent regulations/ notifications/ circulars/ guidelines/ clarifications if any, issued by SEBI shall be liable to be rejected.

## **NOMINATION**

As per section 109A of the Act, a sole Equity Shareholder or first Equity Shareholder, along with other joint Equity Shareholders [being individual(s)] may nominate any person(s) who, in the event of the death of the sole holder or all the joint-holders, as the case may be, shall become entitled to the Equity Shares. A Person, being a nominee, becoming entitled to the Equity Shares by reason of the death of the original Equity Shareholder(s), shall be entitled to the same advantages to which he would be entitled if he were the registered holder of the Equity Shares. Where the nominee is a minor, the Equity Shareholder(s) may also make a nomination to appoint, in the prescribed manner, any person to become entitled to the Equity Share(s), in the event of death of the said holder, during the minority of the nominee. A nomination shall stand rescinded upon the sale of the Equity Share by the person nominating. A transferee will be entitled to make a fresh nomination in the manner prescribed. When the Equity Share is held by two or more persons, the nominee shall become entitled to receive the amount only on the demise of all the holders. Fresh nominations can





be made only in the prescribed form available on request at the registered office of the Bank or such other person at such addresses as may be notified by the Bank. The applicant can make the nomination by filling in the relevant portion of the CAF.

**Only one nomination would be applicable for one folio. Hence, in case the Shareholder(s) has already registered the nomination with the Company, no further nomination need to be made for Equity Shares to be allotted in this Issue under the same folio.**

In case the allotment of Equity Shares is in dematerialised form, there is no need to make a separate nomination for the Equity Shares to be allotted in this Issue. Nominations registered with respective DP of the applicant would prevail. If the applicant requires to change the nomination, they are requested to inform their respective DP.

## **NOTICES**

All notices to the Equity Shareholder(s) required to be given by the Bank shall be published in one English National daily with wide circulation, one Hindi national newspaper and a regional language daily in Mangalore being the place where the registered office of the Bank is situated.

## **MODE OF PAYMENT**

### **FOR RESIDENT SHAREHOLDERS**

Only one mode of payment per application should be used. The payment must be either in cash (not more than Rs.20000) or by cheque/demand draft drawn on any of the banks (including a co-operative bank), which is situated at and is a member or a sub member of the Bankers Clearing House located at the centre indicated on the reverse of the CAF where the application is to be submitted. The payment against the share application should not be effected in cash if the amount to be paid is Rs. 20,000/- or more, as per Section 269 SS of the Income-Tax Act. In case payment is effected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon.

Outstation cheques/money orders/postal orders will not be accepted and CAFs accompanied by such cheques/money orders/postal orders are liable to be rejected.

All cheques/drafts accompanying the CAF should be drawn in favour of **“Karnataka Bank Ltd. A/c. KBL - Rights Issue”** and crossed **“A/C Payee only”**. No receipt will be issued for application money received. The Bankers to the Issue/Collecting Bank/Collection centres will acknowledge receipt of the same by stamping and returning the acknowledgement slip at the bottom of the CAF.

Applicants residing at places other than places where the Collection Centres have been opened by the Bank for collecting applications, are requested to send their applications together with Demand Draft (net of DD charges) favouring the **“Karnataka Bank Ltd. A/c. KBL - Rights Issue”** payable at Bangalore, directly to the Registrars to the Issue by REGISTERED POST so as to reach them on or before the closure of the Issue. The Bank or the Registrars will not be responsible for postal delays, if any.

New demat account shall be opened for holders who have had a change in status from Resident Indian to NRI.

### **APPLICATION BY NON-RESIDENT INDIAN SHAREHOLDERS**

#### **Application on non-repatriation basis**

As regards the application by NRI shareholders, the following further conditions shall apply:

Payment by NRIs/FIIs must be made by demand draft/cheque payable at Bangalore or funds remitted from abroad in any of the following ways:

#### **Application on repatriation basis (only by existing shareholders and renouncees having the requisite permission of RBI)**

- a) By Indian Rupee drafts purchased from abroad and payable at Bangalore or funds remitted from abroad; OR
- b) By cheque/draft on a Non-Resident External Account (NRE) or FCNR Account; OR
- c) Rupee draft purchased by debit to NRE/FCNR Account maintained elsewhere in India and payable in Bangalore; OR
- d) FIIs registered with SEBI must remit funds from special non-resident rupee deposit account.

All cheques/drafts submitted by NRIs/ FIIs should be drawn in favour of **“Karnataka Bank Limited A/c. KBL - Rights Issue - NR”** payable at Bangalore and must be crossed **“A/c Payee only”** for the amount payable.



A separate cheque or bank draft must accompany each application form. Applicants may note that where payment is made by drafts purchased from NRE/FCNR accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/FCNR account should be enclosed with the CAF. In the absence of the above the application shall be considered incomplete and is liable to be rejected. In case where repatriation benefit is available, dividend and sales proceeds derived from the investment in shares can be remitted outside India, subject to tax, as applicable according to the Income-tax Act, 1961 and subject to the permission of the RBI, if required.

In the case of NRI's who remit their application money from funds held in FCNR/NRE Accounts, refunds and other disbursements, if any shall be credited to such account details of which should be furnished in the appropriate columns in the CAF. In the case of NRIs who remit their application money through Indian Rupee Drafts from abroad, refunds and other disbursements, if any will be made in US Dollars at the rate of exchange prevailing at such time subject to the permission of RBI. The Company will not be liable for any loss on account of exchange rate fluctuation for converting the Rupee amount into US Dollars or for collection charges charged by the applicant's Bankers.

Applications received from NRs (Non-Residents), NRIs and persons of Indian origin resident abroad, for allotment of Equity Shares shall be inter-alia, subject to the conditions imposed from time to time by the RBI under the Foreign Exchange Management Act, 1999 (FEMA) in the matter of refund of application moneys, allotment of Equity Shares, issue of Letter of Allotment / Share Certificates, Warrant Certificate, dividends, etc.

#### **Application on non-repatriation basis**

As far as NRIs holding shares on non-repatriation basis are concerned, in addition to the ways specified above, payment may also be made by way of cheque drawn on Non-Resident (ordinary) account or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Bangalore. In such cases, the allotment of Equity shares will be on non-repatriation basis.

All cheques/drafts submitted by NRIs/ FIIs should be drawn in favour of **"Karnataka Bank Limited A/c. KBL - Rights Issue - NR"** payable at Bangalore and must be crossed **"A/c Payee only"** for the amount payable. The CAF duly completed together with the amount payable on application must be deposited with the collecting bank indicated on the reverse of the CAF before the close of banking hours on the Issue closing date. A separate cheque or bank draft must accompany each application form.

Applicants may note that where payment is made by drafts purchased from NRE/FCNR/NRO accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been Issued by debiting the NRE/FCNR/NRO account should be enclosed with the CAF. Otherwise the application shall be considered incomplete and is liable to be rejected.

**Note:** In case where repatriation benefit is available, dividend and sales proceeds derived from the investment in shares can be remitted outside India, subject to tax, as applicable according to the Income-tax Act, 1961.

In case shares are allotted on non-repatriation basis, the dividend/sale proceeds of the equity shares cannot be remitted outside India.

The CAF duly completed together with the amount payable on application must be deposited with the collecting bank indicated on the reverse of the CAF before the close of banking hours on the aforesaid Issue closing date. A separate cheque or bank draft must accompany each application form.

In case of applications received from Non-Resident Indians, refunds and other distribution, if any, will be made in accordance with the guidelines/rules prescribed by RBI as applicable at the time of making such remittance and subject to necessary approvals.

#### **GROUND'S FOR TECHNICAL REJECTION**

Applicants are advised to note that applications are liable to be rejected on technical grounds, including the following:

1. Amount paid does not tally with the amount payable for;
2. Bank account details (for refund) are not given;
3. Age of renounces not given;
4. Applications by Minors;
5. PAN or GIR Number not given if application is for Rs. 50,000 or more;
6. In case of application under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted



7. If the signature of the existing shareholder does not match with the one given on the CAF;
8. CAF are not submitted by the applicants within the time prescribed as per the instructions in the CAF and the Letter of Offer
9. Applications not duly signed by the sole/joint applicants;
10. OCBs who cannot apply in terms of RBI restrictions;
11. Applications accompanied by Stockinvest;
12. In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the applicants (including the order of names of joint holders), the depository participant's identity (DP ID) and the beneficiary's identity;
13. Applications by ineligible Non-residents (including on account of restriction or prohibition under applicable local laws).
14. MAPIN number not given if applied by corporate entities.

#### **GENERAL**

- a) Please read the instructions printed on the enclosed CAF carefully.
- b) The CAF would be printed in black ink for all shareholders.
- c) Application should be made on the printed CAF, provided by the Bank except as under the head "Application on Plain Paper" in this Letter of Offer and should be completed in all respects.
- d) The CAF found incomplete with regard to any of the particulars required to be given therein, and/or which are not completed in conformity with the terms of this Letter of Offer are liable to be rejected and the money paid, if any, in respect thereof will be refunded without interest and after deduction of bank commission and other charges, if any.
- e) The CAF must be filled in English and the names of all the applicants, details of occupation, address, father's/ husband's name must be filled in block letters.
- f) Signatures should be either in English or Hindi or the languages specified in the Eighth Schedule to the Constitution of India. Signatures other than in the aforesaid languages or thumb impression must be attested by a Notary Public or a Special Executive Magistrate under his/her official seal.
- g) The CAF together with cheque/demand draft should be sent to the Bankers to the Issue/collection centres or to the Registrars and not to the Bank or Lead Managers to the Issue. Applicants residing at places other than cities where the branches of the Bankers to the Issue have been authorised by the Bank for collecting applications, will have to make payment by Demand Draft payable at Bangalore and send their application forms to the Registrars to the Issue by REGISTERED POST after deducting DD and postal charges. If any portion of the CAF is detached or separated, such application is liable to be rejected.
- h) In case of applications for a total value of Rs. 50,000/- or more, i.e. The total number of securities applied for multiplied by the Issue price, is Rs. 50,000/- or more the applicant or in the case of application in joint names, each of the applicants, should mention his/her permanent account number allotted under the Income-Tax Act, 1961 or where the same has not been allotted, the GIR number and the Income-Tax Circle/Ward/District. In case where neither the permanent account number nor the GIR number has been allotted, the fact of non-allotment should be mentioned in the application forms. Application forms without this information will be considered incomplete and are liable to be rejected.
- i) In case of an application under Power of Attorney or by a body corporate or by a society, a certified true copy of the relevant Power of Attorney or relevant resolution or authority to make investment and sign the application along with the copy of the Memorandum & Articles of Association and/or bye laws must be lodged with the Registrars to the Issue giving reference of the serial number of the CAF. In case the above referred documents are already registered with the Bank, the same need not be furnished again; however, the serial number of registration or reference of the letter, vide which these papers were lodged with the Bank must be mentioned just below the signature(s) on the application. In no case should these papers be attached to the application submitted to the Bankers to the Issue. Also applications received after Issue closing date are liable to be rejected.
- j) In case of joint holders, all joint holders must sign the relevant part of the CAF in the same order and as per the specimen signature(s) recorded with the Bank. Further, in case of joint applicants who are renouncees, the number of applicants should not exceed three.
- k) In case of joint applicants, reference, if any, will be made in the first applicant's name and all communication will be addressed to the first applicant at the address given in the CAF.



- l) The shareholders must sign the CAF as per the specimen signature recorded with the Bank.
- m) Application(s) received from Non-Resident/NRIs, or persons of Indian origin residing abroad for allotment of Equity shares shall, inter alia, be subject to conditions, as may be imposed from time to time by the RBI under FEMA in the matter of refund of application money, allotment of equity shares, subsequent Issue and allotment of Equity shares, dividend, export of share certificates, etc. In case a Non-Resident or NRI shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.
- n) All communication in connection with application for the equity shares, including any change in address of the shareholders should be addressed to the Registrars to the Issue quoting the name of the first/sole applicant shareholder, folio numbers /beneficiary identity number and CAF number.
- o) Split forms cannot be re-split.
- p) Only the person or persons to whom equity shares have been offered and not renouncee(s) shall be entitled to obtain split forms.
- q) **Bank Account Details:** It is mandatory for the applicant to mention the applicant's savings bank/current account number and the name of the bank with whom such account is held in the space provided in the CAF, to enable the Registrars to the Issue, to print the said details in the refund orders after the name of the payees. Such applications not containing the above details are liable to be rejected.
- r) **Payment by cash:** The payment against the share application should not be effected in cash if the amount to be paid is Rs. 20,000/- or more. In case payment is effected in contravention of this, the application will be deemed invalid and the application money will be refunded and no interest will be paid thereon. Payment against the application if made in cash, subject to conditions as mentioned above, should be made only to the Bankers to the Issue.

#### **AVAILABILITY OF DUPLICATE CAF**

In case the original CAF is not received, or is misplaced by the applicant, the applicant may request the Registrar to the Issue, for issue of a duplicate CAF, by furnishing the registered folio number, DP ID Number, Client ID Number and their full name and address. Please note that those who are making the application in the duplicate form should not utilize the original CAF for any other purpose including renunciation, even if it is received /found subsequently. Thus, in case the original and duplicate CAFs are lodged for subscription, allotment will be made on the basis of the duplicate CAF and the original CAF will be ignored.

#### **APPLICATION ON PLAIN PAPER**

A shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Rights Issue on plain paper, along with an Account Payee Cheque drawn on a local bank at Bangalore/Draft payable at Bangalore and send the same by Registered Post directly to the Registrars to the Issue.

The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Bank, must reach the office of the Registrars to the Issue before the date of closure of the Issue and should contain the following particulars:

1. Name of the Issuer
2. Name of the shareholder including joint holders
3. Address of sole /first holder
4. Folio Number/DP ID number and client ID number
5. Number of shares held as on Record date
6. Certificate numbers and Distinctive numbers, if held in physical form
7. Number of Rights Equity Shares entitled
8. Number of additional equity shares applied for, if any
9. Total number of equity shares applied for
10. Amount payable on application
11. Particulars of Cheque/Draft enclosed
12. Savings/Current Account Number and Name and Address of the Bank where the shareholder will be depositing the refund order, and



13. PAN/GIR number and Income Tax Circle/Ward/District where the application is for equity shares of a total value of Rs. 50,000/- or more for the applicant and for each applicant in case of joint names.
14. In case of Non-resident shareholders, NRE/FCNR/NRO account no., Name and address of the bank and branch
15. Signature of shareholders to appear in the same sequence and order as they appear in the records of the Bank

Payments in such cases should be through a cheque/demand draft payable at Bangalore to be drawn in favour of the **"Karnataka Bank A/c KBL- Rights Issue"** and the marked **"A/c Payee"** in case of resident shareholders and non-resident shareholders holding on nonrepatriable basis. Payment in case of non-resident shareholders holding on repatriable basis shall be drawn in favour of the **"Karnataka Bank A/c KBL- Rights Issue - NR"** and the marked **"A/c Payee"**. The envelope should be superscribed **"KBL - Rights Issue"**.

Please note that those who are making the application on plain paper shall not be entitled to renounce their rights and should not utilise the CAF for any purpose including renunciation even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications. The Bank shall refund such application amount to the applicant without any interest thereon.

#### **LAST DATE FOR SUBMISSION OF CAF**

The last date for receipt of the CAF by the Banker to the Issue at its Collecting Branches, together with the amount payable, is on or before the close of banking hours on March 05, 2005. The Board will have the right to extend the said date for such period as it may determine from time to time but not exceeding sixty days from the date the Issue opens. If the CAF together with the amount payable is not received by the Banker to the Issue/Registrars to the Issue at its Collection Branches on or before the close of banking hours on or before March 05, 2005, the offer contained in this Letter of Offer shall be deemed to have been declined, and the Board shall utilise this entitlement for allotting the Equity Shares as mentioned below under the heading "Basis of Allotment".

#### **BASIS OF ALLOTMENT**

1. The Board, subject to provisions contained in this Letter of Offer and the Articles of Association of the Bank will proceed to allot the equity shares in the following order of priority:
  - a) Full allotment to those shareholders who have applied for their rights entitlement either in full or in part and also to the renouncee(s) who has/have applied for Equity shares renounced in their favour, in full or in part.
  - b) To the shareholders who having applied for all the Equity shares offered to them as their entitlement rights, have also applied for additional equity shares, provided there is an undersubscribed portion after making full allotment in (a) above. The allotment of such additional shares will be made with reference to the number of equity shares held by those shareholders on the Record date within the overall size of the Rights Issue in consultation with the Designated Stock Exchange.
  - c) To renouncees who having applied for all the shares renounced in their favour have applied for additional shares, provided there is a surplus remaining after (a) and (b) above.
2. After taking into account the allotments made under 1(a), 1(b) and 1(c) above, if there is still any undersubscription, the unsubscribed portion shall be disposed off by the Board or Committee of Directors authorised in this behalf by the Board upon such terms and conditions and to such person/persons and in such manner as the Board/Committee may in its absolute discretion deem fit.

The basis of allotment shall be finalised by the Board in consultation with NSE, which is the Designated Stock Exchange, within a period of 42 days from the date of closure of the Issue. In case of delay in allotment the Company shall, as stipulated under Section 73(2A) of the Act, be required to pay interest on the same at a rate of 15% p.a.

No oversubscription shall be retained by the Bank.

#### **DISPOSAL OF APPLICATION & APPLICATION MONEY**

The Board reserves its right to accept or reject any application, in whole or in part, and in case the concerned application is not made in terms of this Letter of Offer.

In case an application is rejected in full, the whole of the application money received will be refunded to the first named applicant. Wherever an application is rejected in part, the balance of application money, if any, after adjusting any money due on shares allotted, will be refunded to the first named applicant within six weeks from the date of closure of the subscription list in accordance with Section 73 of the Act. If there is delay in refund of application money by more





than 8 days after the Bank becomes liable to pay (i.e. forty two days after the closure of Issue), the Bank will pay interest for the delayed period at the rate prescribed under subsection (2) and (2A) of Section 73 of the Act.

The subscription monies received in respect of this Issue will be kept in a separate bank account and the Bank will not have access to nor appropriate the funds until it has satisfied NSE with suitable documentary evidence that minimum subscription of 90% of the application money for the Issue has been received.

**No separate receipt will be issued for the application money. However, the Banker to the Issue at its collecting branches physically receiving the application will acknowledge its receipt by stamping and returning the perforated acknowledgement slip at the bottom of each CAF. Except for the reasons stated under "GROUNDS FOR TECHNICAL REJECTIONS" in this Letter of Offer and subject to valid application, acknowledgement of receipt of application money given by the bankers to the issue shall be valid and binding on issuer and other persons connected with the Issue.**

#### **ALLOTMENT / REFUND**

Equity Share certificates / Letters of Allotment or Letter(s) of Regret together with refund orders exceeding Rs 1,500/-, if any, will be dispatched by registered post/speed post at the sole/first named applicant's address within 42 days from the date of the closing of the subscription list. Refund orders upto Rs 1,500/- will be dispatched under the Certificate of Posting. Adequate funds will be made available to the Registrars for the purpose.

In case of those shareholders who have opted to receive their Right Entitlement Shares in dematerialised form by using electronic credit under the depository system, an advice regarding the credit of the Equity Shares shall be given separately.

If such money is not repaid within 8 days from the day the Bank becomes liable to pay it, the Bank shall pay that money with interest as stipulated under Section 73 of the Act.

Refunds will be made by cheques or pay orders drawn on the bank(s) appointed by the Bank as refund bankers. Such instruments will be payable at par at the places where applications are accepted. Bank charges, if any, for encashing such cheques or pay orders will be borne by the applicants.

#### **INTEREST IN CASE OF DELAY IN ALLOTMENT/DESPATCH**

The Bank agrees that:

1. Allotment of securities offered shall be made within 42 days of the closure of the rights Issue;
2. The Bank shall pay interest @ 15% per annum if the allotment has not been made and/or the allotment letters/refund orders have not been despatched to the investors within 42 days from the date of the closure of the Issue.

#### **LETTERS OF ALLOTMENT / EQUITY SHARE CERTIFICATES/REGRET LETTERS/REFUND ORDERS**

The Bank will issue, or credit the allotted securities to the respective DP accounts or despatch Letter of Allotment/Share Certificates/and/or Letter of Regret along with refund orders, if any, at the registered address of the first named applicant within a period of six weeks from the date of closure of the Issue, by Registered Post. If such money is not repaid, within 8 days from the day the Bank become liable to pay it, the Bank shall, as stipulated under Section 73 (2 A) of the Act, pay that money with interest @ 15% p.a. Letter of Allotment/Share Certificates/Refund Orders above the value of Rs. 1500, will be despatched by Registered Post to the sole/first applicant's registered address. However, Refund Orders for value not exceeding Rs. 1500 shall be sent to the applicants under Certificate of Posting. Such cheques or pay orders will be payable at par at all the centres where the applications were originally accepted and will be marked "**A/C Payee**" and would be drawn in the name of a sole/first applicant. Adequate funds would be made available to the Registrars to the Issue for this purpose.

Particulars of the applicant's Savings/Current Bank Account should be given in the space provided therefor in the application form so as to enable the Registrars to print the same on the refund order, if any.

#### **As regards allotment/refund to NRIs, the following further conditions shall apply:**

In case of NRIs, who remit their application monies from funds held in NRE/FCNR accounts, refunds and/or payment of dividend and other disbursement, if any, shall be credited to such accounts, details of which should be furnished in the CAF and as furnished by the depository in case shares are held in electronic form. Subject to the approval of the RBI, in case of NRIs, who remit their application monies through Indian Rupee draft purchased from abroad, refund and/or payment of dividend and any other disbursement, will be made net of bank charges/commission in U.S. Dollars, at the rate of exchange prevailing at such time and shall be credited to such accounts, details of which should be furnished in the CAF as furnished by the depository in case shares are held in electronic form. The Bank will not be responsible for any loss on account of exchange fluctuations for converting the Indian Rupee amount into U.S. Dollars. The share



certificates for the Equity shares will be sent by registered post at the address of the NRI applicant.

**BANK ACCOUNT DETAILS OF THE APPLICANT**

Applicants who are holding shares in physical form are advised to provide information as to their savings/current account number and the name of the Bank with whom such account is held in space provided in the Composite Application Form to enable the Registrar to print the said details in the Refund Orders, if any, after the names of the payees. Application not containing such details is liable to be rejected.





## TAX BENEFITS

M/s. P. Ishwara Bhat & Co., Chartered Accountants and M/s. Rao & Swami, Chartered Accountants vide their letter dated November 26, 2004 have advised under the Income Tax Act, 1961, Gift Tax Act, 1957, Wealth Tax Act, 1957 for the time being in force, the following tax benefits which will inter alia, be available to the bank and its members. Tax benefit report has been reproduced as under.

### I TAX BENEFITS TO THE BANK

There is no additional benefits arising to the Bank under the Income Act, 1961 by issue of right equity shares to the existing shareholders.

### II TO THE SHAREHOLDERS OF THE BANK

#### TAX BENEFITS UNDER THE INCOME TAX ACT, 1961

##### 1. To all the Shareholders

###### 1.1. Income:

In terms of Section 10(34) of the Income Tax Act, 1961, any income by way of dividends referred to in Section 115-O (i.e., dividends declared, distributed or paid on or after 1 April 2003) received on the shares of the Bank is exempted from tax.

###### 1.2. Taxation of Long Term capital Gains

1.2.1. Where the Bank's shares are sold after being held for not less than twelve months, any income arising from such transfer, i.e. long term capital gains, will be computed under Section 48 after deducting the indexed cost of acquisition from the full value of consideration.

1.2.2. In terms of Section 10(38) of the Income Tax Act, 1961, long term capital gains, is exempt if such transaction is chargeable to securities transaction tax under Chapter VII of the Finance (No.2) Act, 2004.

1.2.3. In cases not covered under section 10 (38) of the Act, long term capital gains, will not be charged to tax under Section 54EC of the Income Tax Act, 1961 subject to the conditions and to the extent specified therein, if the capital gains are invested within a period of 6 months after the date of such transfer for a period of at least 3 years in bonds specified under that Section.

1.2.4. In cases not covered under section 10 (38) of the Act, long term capital gains, will not be charged to tax under section 54ED of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, if the capital gains are invested in shares of an Indian Company forming part of an eligible public issue, within a period of 6 months after the date of such transfer and held for a period of at least one year. Eligible public issue means issue of equity shares which satisfies the following conditions, namely-

- (a) the issue is made by a public company formed and registered in India;
- (b) the shares forming part of the issue are offered for subscription to the public;

###### 1.3. Taxation of Short Term Capital Gains

Under Section 111A of the Income Tax Act, 1961 if the Bank's shares are sold after being held for a period less than twelve months, any income arising from such transfer, i.e. short term capital gains, will be taxed at a rate of 10% (plus applicable surcharge), if such transaction is chargeable to securities transaction tax under Chapter VII of the Finance (No.2) Act, 2004.

##### 2. Benefits restricted to Shareholders who are Individuals or HUFs who are beneficial owners of the shares.

In cases not covered under section 10 (38) of the Act, long term capital gains arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the Bank will not be charged to tax under section 54F of the Income Tax Act, 1961 in proportion to the extent the net consideration from such transfer are used for purchase of residential house property within a period of one year before and two years after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer subject to other conditions prescribed.

##### 3. Benefits to all Non-Resident Shareholders

Under the first proviso to section 48 of the Income Tax Act, 1961, in case of a non resident, in computing the capital gains arising from transfer of shares of the Bank acquired in convertible foreign exchange (as per exchange control regulations) protection is provided from fluctuations in the value of rupee in terms of foreign currency in



which the original investment was made. Cost indexation benefits will not be available in such a case. The capital gains/loss in such a case is computed by converting the cost of acquisition, sales consideration and expenditure incurred wholly and exclusively in connection with such transfer into the same foreign currency which was utilized in the purchase of the shares.

**4. Benefits restricted to Shareholders who are Non-Resident Indians**

Under section 115-I of the Act, a non-resident Indian (i.e. an individual being a citizen of India or person of Indian origin who is not a 'resident') has an option to be governed by the provisions of Chapter XII-A of the Income Tax Act, 1961 viz. "Special Provisions Relating To Certain Incomes of Non-Residents" which are as follows:-

- a. Under section 115E of the Income Tax Act, 1961, where shares in the Bank are acquired or subscribed for in convertible Foreign Exchange by a Non Resident Indian, capital gains arising to the non-resident on transfer of shares held for a period exceeding 12 months shall (in cases not covered under section 10(38) of the Act) be concessorally taxed at the flat rate of 10% (Plus applicable Surcharge) (without indexation benefit).
- b. Under provisions of section 115F of the Income Tax Act, 1961 long term capital gains (in cases not covered under Section 10(38) of the Act) arising to a non-resident Indian from the transfer of shares of the Bank subscribed to in convertible Foreign Exchange shall be exempt from Income tax, if the net consideration is reinvested in specified assets within six months from the date of transfer. If only part of the net consideration is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted into money within three years from the date of their acquisition.
- c. Under provisions of section 115G of the Income Tax Act, 1961 it shall not be necessary for a Non-Resident Indian to furnish his return of income if his income chargeable under the Act, consists of only investment income or long term capital gains or both arising out of assets acquired, purchased or subscribed in convertible foreign exchange and tax deductible at source has been deducted there from.

**5. Benefits available to Shareholders who are Foreign Institutional Investors (FIIs)**

The Income by way of long term capital gains (not covered under section 10(38) of the Act) realized by FIIs on sale of shares in the Bank would be taxed at the rate of 10% as per section 115AD of the Income Tax Act, 1961.

**B. TAX BENEFITS UNDER THE WEALTH TAX ACT, 1957**

Shares of company held by the shareholder are presently not treated as an asset within the meaning of section 2(ea) of Wealth Tax Act 1957, hence no Wealth Tax will be payable on the market value of shares of the company held by the shareholder of the Company.

**Notes:**

1. All the above benefits are as per the current tax law as amended by the Finance Act, 2004.
2. The stated benefits will be available only to the beneficial owners of the shares
3. In respect of non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the Double Taxation Avoidance Agreements, if any, between India and the country in which the non resident has fiscal domicile.
4. The Gift Tax Act, 1957 is not applicable to gifts made after October 1st, 1998. Hence Gift Tax is presently not payable on gift of shares .
5. In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax consequences of his/her participation in the scheme.

**PARTICULARS OF THE ISSUE****OBJECTS OF THE ISSUE**

The present Offer is made to augment the Tier I capital of the Bank. The objects of the issue are:

- To improve the capital adequacy ratio by augmenting Tier I capital
- To augment long term financial resources; and
- To meet issue expenses

**Banks estimated capital requirement**

Banks capital adequacy ratio position as at March 31, 2004 was 13.03%, as against the RBI stipulation of 9%. The detail of capital vis-à-vis risk weighted assets for the last five financial years are as under:

(Rs. In crores)					
Financial Year ended March 31,	2000	2001	2002	2003	2004
Eligible Tier I Capital	305.98	349.71	413.99	509.20	577.83
Eligible Tier II Capital	11.42	9.86	69.29	100.29	142.67
<b>Total Capital</b>	<b>317.40</b>	<b>359.57</b>	<b>483.28</b>	<b>609.49</b>	<b>720.50</b>
Total Risk-Adjusted Assets	2875.81	3162.44	3729.40	4533.94	5528.55
Capital Adequacy Ratio (%)	11.04	11.37	12.96	13.44	13.03

Banks capital adequacy ratio has shown increase over past five years from 11.04% on March 31, 2000 to 13.03% on March 31, 2004. The increase was primarily on account of improvement in total capital represented by Tier I and Tier II capital. Bank is comfortably placed in terms of prescribed Capital Adequacy norms of 9% by RBI.

Bank is gearing up to meet the challenges of Basel II accord as and when implemented. Effective risk management is critical to the bank's success. Basel II accord provides for reclassification of risk adjusted components, weightage of components etc. Bank also visualise the changing scenario in Risk Management vis-à-vis operational risk, technological risk, infrastructure risk, disaster recovery management, credit risk, market risk, and need for taking proactive approach to retain its competitiveness. The present rights issue will further strengthen the capital adequacy ratio, tier I capital and help meeting the changing scenario in post Basel II period.

**Augmenting long term resources**

The present rights issue is expected to achieve the objective of augmenting Tier I capital of Bank. Bank may use portion of Issue proceeds to fund infrastructure growth including expansion of branch network, other distribution channels and technological upgradation of branches.

**Issue Expenses**

The portion of the Rights Issue proceeds will be used to meet Issue expenses estimated at Rs. 1.00 crores. Following are the estimated issue expenses.

(Rs. in crore)	
Particulars	Amt.
Lead Manager's Fee	0.115
Registrar's charges	0.055
Printing of issue material	0.095
Postage on dispatch of CAF	0.16
Notice publication	0.20
Consolidated stamp duty on Share Certificate (SC)	0.035
Printing of SC/ Allotment advice/ refund order	0.015
Publication of basis of allotment	0.20
Corporate action fee to depository	0.025
Others	0.10
<b>TOTAL</b>	<b>1.00</b>



## **OVERVIEW OF THE BANKING SECTOR**

*The information presented in this section has been extracted from publicly available documents, which have not been prepared or independently verified by the Bank, the Lead Manager or any of their respective affiliates or advisors.*

### **Industry Structure**

Prior to 1991, India's banking system was almost entirely owned by the Government, with the exception of 22 private sector banks (which were considered too small to be nationalised) and the foreign banks. After the economic crisis in 1991, the process of financial reforms has resulted in the banking system moving from a totally administered sector into a more market-driven system. This was a result of the recommendations contained in the report of the Narasimham Committee set up in 1991. In line with the established objectives of the banking sector reforms which include improving the macro economic policy framework, improving the financial health and competitive position of banks, building the financial infrastructure relating to supervision, audit technology and legal framework and improving the level of managerial competence and quality of human resources, the reforms include progressive tightening of prudential norms for asset quality and capital adequacy in line with international norms, deregulation of interest rates, reducing the statutory co-option of bank deposits to finance Government deficits, liberalising the entry norms for new intermediaries, and the development of new institutions (for trading, clearing and settlement of debt market transactions, forex and derivative instruments, credit information bureaus and asset reconstruction companies). The key drivers for this success within the Indian Banking sector have been a clear focus on the emerging opportunities in retail banking, technology architecture, relationship based approach in Corporate/Treasury, Capitalisation and a Quality Management Team.

The formal banking system in India comprises the RBI, Commercial Banks, Regional Rural Banks and the co-operative banks. In the recent past, private non-banking finance companies also have been active in the financial system, and are being regulated by the RBI.

### **Reserve Bank of India**

The RBI, established in 1935, is the central banking and monetary authority in India. The RBI manages the country's money supply and foreign exchange and also serves as a bank for the Government of India and for the country's commercial banks. In addition to these traditional central banking roles, the RBI undertakes certain developmental and promotional roles. The RBI issues guidelines on various areas including exposure standards, income recognition, asset classification, provisioning for non-performing assets, investment valuation and capital adequacy standards for commercial banks, long-term lending institutions and non-bank finance companies. The RBI requires these institutions to furnish information relating to their businesses to the RBI on a regular basis.

The Scheduled Commercial Banks (SCBs) comprise of:

### **Public Sector Banks (PSBs)**

The banking sector in India has been characterised by the predominance of PSBs. They include the State Bank of India and its associate banks, 19 nationalised banks and 196 regional rural banks. The aggregate loan assets of all PSBs stood at Rs. 66,1975 crores at end FY 04 accounting for 73.39% of loan assets of all SCBs in India and their total operating profits amounted to Rs. 39,475 crores. The PSBs' large network of branches enables them to fund themselves out of low-cost deposits.

### **Private Sector Banks**

In July 1993, as part of the banking sector reform process and as a measure to induce competition in the banking sector, the RBI permitted entry by the private sector into the banking system. At end FY 04, the total loan assets of private sector banks aggregated Rs. 177,420 crores and accounted for 19.70% of the total loan assets of all SCBs and their total operating profits amounted to Rs. 8,209 crores. The share of private sector banks in total loan assets has increased from 18.77% at end FY 03 to 19.70% at the end of FY 04 mainly due to the increase in the loan assets of new private sector bank.

### **Foreign Banks**

As on June 30, 2004, there are 33 foreign banks operating in India with 215 branches. Some foreign banks have also set up representative offices in India. Foreign banks operate only in urban cities and metropolitan cities and have 28 and 97 respectively in those areas. As on March 2004, deposits of foreign banks stood at 15.1%. At end FY 04, the loan assets of foreign banks aggregated Rs. 62,632 crores and accounted for 6.95% of the total assets of all SCBs and their total operating profits of the foreign banks as on March 31, 2004 amounted to Rs. 4,987 crores.

### **Co-operative Banks**

Co-operative banks cater to the financing needs of agriculture, small industry and self-employed businessmen in urban



and semi-urban areas of India. The state land development banks and the primary land development banks provide long-term credit for agriculture. In the light of liquidity and insolvency problems experienced by some co-operative banks in fiscal 2001, the RBI undertook several interim measures, pending formal legislative changes, including measures related to lending against shares, borrowings in the call market and term deposits placed with other urban co-operative banks. Presently the RBI is responsible for supervision and regulation of urban cooperative societies, and the National Bank for Agriculture and Rural Development for State Co-operative Banks and District Central Cooperative Banks.

The maturity profile of deposits, advances and Total Income between the various banks at the end of financial year 2004, within the commercial bank segment was as under: **(Per centage)**

Asset/Liability	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8	9
<b>I. Deposits</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
a) Up to 1 year	34.2	34.4	49.4	51.2	53.4	50.7	53.4	46.2
b) Over 1 year to 3 years	44.7	37.8	39.2	37.1	41.9	42.9	42.6	45.6
c) Over 3 years to 5 years	9.4	11.7	5.3	4.4	1.9	4.0	3.9	0.7
d) Over 5 years	11.7	16.1	6.1	7.3	2.8	2.4	0.1	7.5
<b>II. Borrowings</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
a) Upto 1 year	74.9	82.4	82.9	89.7	45.7	46.4	87.4	85.3
b) Over 1 year to 3 years	14.9	14.0	13.2	5.3	39.2	36.4	12.4	11.9
c) Over 3 years to 5 years	5.5	2.6	2.1	2.8	6.6	8.3	0.0	2.5
d) Over 5 years	4.7	1.0	1.8	2.2	8.5	8.9	0.2	0.3
<b>III. Loans &amp; Advances</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
a) Upto 1 year	39.3	40.0	43.5	40.5	36.1	35.4	64.7	57.3
b) Over 1 year to 3 years	35.2	33.0	36.1	36.1	29.6	31.0	22.1	16.3
c) Over 3 years to 5 years	11.7	12.1	8.8	10.3	12.9	12.5	5.9	7.7
d) Over 5 years	13.8	14.9	11.6	13.1	21.4	21.1	7.3	18.7
<b>IV. Investments</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
a) Upto 1 year	12.3	10.4	18.9	18.0	44.9	45.0	46.6	45.8
b) Over 1 year to 3 years	13.7	11.8	14.6	10.2	29.0	27.3	24.8	30.7
c) Over 3 years to 5 years	15.8	14.5	9.6	10.4	6.3	6.6	12.4	8.5
d) Over 5 years	58.2	63.3	56.9	61.4	19.8	21.1	16.2	15.0

(Source - Report on Trends and Progress of Banking in India, 2004 -RBI)

The maturity structure of assets and liabilities of commercial banks showed a combination of various concerns of banks pertaining to business expansion, liquidity management, cost of funds, return on assets, asset quality, and also risk appetite in an industrial upturn. For all bank groups, the maturity structure of loans, and advances depicted synchronicity with that of deposits. However, there is some difference between the maturity structure of deposits and that of investments across banks. PSBs hold a greater part of their investment in higher maturity bucket, in particular, in the more than five-year maturity bucket as compared with private sector and foreign banks, which hold a major portion of investment in the upto one-year maturity bucket.

A trend that portends well for Indian banking sector is the growth of credit in retail segments like housing and consumer durables and the fall in the market share of NBFCs in retail businesses. This growing retail assets opportunity would drive future credit growth for banks. India also maintains a comparatively low deposit/GDP ratio. This presents opportunities for banks to scale up their deposit base by targeting under-banked and under-penetrated second and third tier towns.

With increased competition in the corporate banking industry due to entry of foreign banks and new private sector banks, the sector has witnessed a squeeze in margins. In a move to safeguarding their margins, the banks are looking at retail banking as a potential growth area.



The composite spreads/returns for FY 04 of the various categories of banks in the Banking Industry are as below:

Bank Groups	Interest Income		Interest Expended		Spread	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
Scheduled Commercial Banks	1,40,742.48	1,44,028.37	93,596.27	87,566.84	47,146.21	56,461.53
Public Sector Banks	1,07,232.05	1,09,496.25	69,852.59	65,764.53	37,379.46	43,731.72
Nationalised Banks	66,368.04	68,539.86	42,645.95	40,369.38	23,722.09	28,170.48
State Bank Groups	40,864.01	40,956.39	27,206.64	25,395.15	13,657.37	15,561.24
Old Private sector banks	8,919.79	9,120.37	6,327.22	5,981.87	2,592.57	3,138.50
New private sector banks	15,633.01	16,421.42	12,361.45	11,548.19	3,271.56	4,873.23
Foreign banks	8,957.63	8,990.33	5,055.01	4,272.25	3,902.62	4,718.08

(Source - Report on Trends and Progress of Banking in India, 2004 -RBI)

The spread or the net interest income, defined as the difference between interest income and interest expenses, constitutes an important indicator of efficiency of banks since it drives a wedge between interest received by depositors and the interest charged to borrowers on their loans. The spread of SCBs recorded a sustained growth; it increased by 19.8 per cent in 2003-04 as against an increase of 19.5 per cent in 2002-03. Most bank groups had recorded a double-digit increase in the spread. The increase in spreads of private sector and foreign banks was sharper than that of PSBs.

### Non-Performing Assets

The key NPA parameters for the various banks within the Scheduled Commercial Bank segment during the financial years 2001, 2002, 2003 and 2004 is as under :

(Amount of Rs.)

Bank Group/Year	Cross Advances	Cross NPAs			Net Advances	Net NPAs		
		Amount	Percent to Cross Advances	Percent to total Assets		Amount	Percent to Net Advances	Percent to total Assets
1	2	3	4	5	6	7	8	9
<b>Scheduled Commercial Banks</b>								
2001	5,58,766	63,741	11.4	4.9	5,26,328	32,461	6.2	2.5
2002	6,80,958	70,861	10.4	4.6	6,45,859	35,554	5.5	2.3
2003	7,78,043	68,717	8.8	4.0	7,40,473	32,671	4.4	1.9
2004	9,02,026	64,786	7.2	3.3	8,62,643	24,617	2.9	1.2
<b>Public Sector Banks</b>								
2001	4,42,134	54,672	12.4	5.3	4,15,207	27,977	6.7	2.7
2002	5,09,368	56,473	11.1	4.9	4,80,681	27,958	5.8	2.4
2003	5,77,813	54,090	9.4	4.2	5,49,351	24,867	4.5	1.9
2004	6,61,975	51,538	7.8	3.5	6,31,383	18,860	3.0	1.3
<b>Old Private Sector Banks</b>								
2001	39,738	4,346	10.9	5.1	37,973	2,771	7.3	3.3
2002	44,057	4,851	11.0	5.2	42,286	3,013	7.1	3.2
2003	51,329	4,550	8.9	4.3	49,436	2,740	5.5	2.6
2004	57,908	4,392	7.6	3.6	55,648	2,140	3.8	1.8
<b>New Private Sector Banks</b>								
2001	31,499	1,617	5.1	2.1	30,086	929	3.1	1.2
2002	76,901	6,811	8.9	3.9	74,187	3,663	4.9	2.1
2003	94,718	7,232	7.6	3.8	89,515	4,142	4.6	2.2
2004	1,19,511	5,963	5.0	2.4	1,15,106	2,717	2.4	1.1
<b>Foreign Banks</b>								
2001	45,395	3,106	6.8	3.0	43,063	785	1.8	0.8
2002	50,631	2,726	5.4	2.4	48,705	920	1.9	0.8
2003	54,184	2,845	5.3	2.4	52,171	921	1.8	0.8
2004	62,632	2,894	4.6	2.1	60,506	900	1.5	0.7





Notes : Constituent items may not add up to the totals due to rounding off.

Source : 1. Balance sheets of respective banks.

2. Returns submitted by respective banks.

(Source - Report on Trends and Progress of Banking in India, 2004 -RBI)

There was a notable reduction in the ratio of non-performing assets (NPAs) to advances in response to various initiatives, such as improved risk management practices and greater recovery efforts, driven, inter alia, by the recently enacted Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

The level of non-performing loans is recognised as a critical indicator for assessing banks' credit risk, asset quality and efficiency in allocation of resources to productive sectors. Reflecting the success of financial sector reforms, regulatory and supervisory process, in particular, banks have made substantial progress in cleaning up the NPAs from their balance sheets

In 2003-04, there was a remarkable improvement in the asset quality of SCBs. Despite the switchover to 90-day delinquency norm with effect from March 2004, the gross NPAs of SCBs declined in absolute terms for a second year in succession. The gross NPAs of SCBs declined by 5.6 per cent in 2003-04 as against a decline of 3.0 per cent in 2002-03. Due to significant provisioning, the net NPAs declined substantially by 24.7 per cent during 2003-04 as against a decline of 8 per cent in 2002-03. The decline in NPAs is evident across bank groups. During 2003-04, reductions outpaced additions in the NPAs account. For SCBs, the decline in gross NPAs was accompanied by the decline in doubtful and loss assets by 8.8 per cent and 15.0 per cent, respectively.

The ratio of net-NPAs to net advances of SCBs declined from 4.4 per cent in 2002-03 to 2.9 per cent in 2003-04. All bank groups witnessed a decline in the ratio of net NPAs to net advances in 2003-04. Among bank groups, the old private sector banks had the highest net NPAs ratio at 3.8 per cent followed by public sector banks, new private banks and foreign banks.

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI), Act 2002 seeks to deal with Securitisation of assets, setting up of the Asset Reconstruction Company (ARCs), and enforcement of security interest, thus paving the way for speedy recovery of non-performing assets.

### **New Paradigms in the Indian Banking Industry**

#### **a. Changing nature of corporate banking**

The corporate banking business has become increasingly competitive, with most banks targeting large corporate clients for loans and fee-based services. This has caused a fall in margins as well as non-fund business margins. Going forward, success will hinge on maximizing value from corporate relationships through a range of product offerings.

#### **b. Retail Banking- huge growth potentialities**

Traditionally, the retail market has been overlooked as a Low Cost Deposits segment. However, structural changes in last couple of years resulted in significant growth in retail lending business. Factors which induce the focused growth of retail business are as follows:

- i. Changing lifestyles, strong economic growth prospects coupled with higher disposable income etc. contributing towards the changing demographics.
- ii. Indian retail market is still miniscule and nascent compared to Asian peers, in terms of per capita usage of retail product offerings such as housing finance, credit cards, auto loans, consumer finance etc.
- iii. Other factors like the mammoth size of the Indian market couple with an unexplored base for retail finance products.
- iv. Increasing propensity of the urban populace to take credit.

#### **c. Technology offering the competitive edge**

Technology has revolutionized the delivery chains for financial products and services with ATMs, Home Banking, Telephone banking which have replaced banking only at branches. Operating on a strong technology platform is increasingly becoming imperative for the launch of innovative products and services by banks in today's e-age.

#### **d. Mergers and Acquisitions**

The domestic banking sector has witnessed mergers and acquisitions take place both in public sector banks (owing to the need to support weak banks) and private sector banks (focused towards the need to expand). Apart from providing the private players an effective route to fortify their reach and presence in the sector, merger and acquisition trend may also intensify the proposed reduction in government shareholding in public sector banks and provide international banks an opportunity to expand business in India.





## The New Basel Accord

The need for better risk management, which led to the agreement on the New Basel Accord, which will replace the existing Basel 1 rules by the end of 2006.

The finalized set up of Basel 2 will have 3 pillars,

1. Minimum capital requirements
2. Supervisory review of capital adequacy and
3. Market discipline and Public disclosure

### Pillar 1: Minimum capital requirements

The first pillar sets out the parameters for minimum capital requirement. Just like Basel I, the new Accord also requires banks to maintain the capital as a percentage of the risk weighted assets. But the definition of risk weighted assets is made scientific with better emphasis for credit and market risk and introduction of an explicit treatment for operational risk. These norms are proposed to be implemented in stages as indicated below:

Type of risk	Stages for Implementation
Credit Risk	Standardised Approach Foundation Internal Rating Based Approach Advanced Internal Rating Based Approach
Market Risk	BCBS approach or Standardised Approach
Operational Risk	Basic Indicator Approach Standardised Approach Advanced Measurement Approach

#### a) Credit Risk :

As per Basel II there are 2 approaches to credit risk management, Standardized, and Internal Rating Based (IRB). The latter may be Foundation or Advanced.

- **Standardised approach** : In the Standardised approach, the various types of assets are first classified on the basis of their credit risk rating and risk weights are assigned as predetermined for each of these rating categories instead of a common risk weight for the assets, making it more risk sensitive when compared to the existing approach.
- **Internal Rating Based (IRB) Approach** : The Internal Rating Based (IRB) approach is based on measures of Expected Loss (EL) and Unexpected Loss (UL). The risk weight functions as aforesaid will produce capital requirement for UL. The EL is a function of Probability of default (PD), Loss Given Default (LGD) and exposure at Default (EAD). In the Foundation IRB, the values are assigned through the inputs provided by the bank as well as the Regulatory Authority. The PD will be calculated by the bank and the values for LGD, EAD will be set by the Regulator depending upon the maturity and the granularity of advances (concentration pattern).

#### b) Market risk

There is only one approach, the Standardised approach to market risk management. The bank's balance sheet is required to be divided into two categories banking book and trading book. The trading book will comprise of the investments in 'Held for trading' and 'Available for Sale' categories. The remaining assets will make up the banking book. On banking book, the bank would continue to calculate the risk weighted assets as being done hitherto taking the risk weightage at 0, 20, 50 or 100 percent as the case may be to take care of the credit risk. On the trading book, the capital charge will be maintained in a phased manner over a period of next 2 years- on 'held for trading' category by March 2005 and on 'Available for sale' category by March 2006. The capital requirement on trading book will constitute two separately calculated charges, specific risk (akin to credit risk on banking book) and general market risk. The specific risk charge is graduated for various exposure from 0% for government, 0.30% to 1.80% (depending on residual maturity) for claims on banks, 4.5% on investments in mortgage backed securities of residential assets recognized by NHB and securitized paper pertaining to infrastructure and 9% for other claims. The capital requirement for the general market risk is measured by calculating the price sensitivity or the modified duration with due disallowance for matched position in each time band.



**c) Operational Risk:**

Basel II contains two simpler approaches to operational risk, the Basic Indicator approach and the Standardized approach and one Advanced Measurement approach.

- **Basic Indicator Approach** : In the **Basic Indicator approach**, the average annual gross income (interest and non interest excluding realized profits/ losses from the sale of securities in the banking book and extraordinary or irregular items), taking into account the gross income for the last three years will be calculated and 15% ( Alpha) thereof will be the minimum capital requirement. This value multiplied by 12.5 (100/8) will be the value to be added to the risk weighted assets of the bank.
- **Standardized Approach** : In the **standardized approach** the income will be bifurcated into 8 business lines and the value of the multiplier (Beta) will be provided by the Regulator. If the bank is unable to allocate the activity to a particular business line then the income relating to that activity will be subject to the highest beta factor. Under the **Advanced Measurement approach**, the capital requirement will equal the risk measure generated by the bank's internal operational risk measurement system. But this approach can be adopted only after approval from the supervisor. Here the capital charge is a function of expected losses, calculated based on the probability of operational risk, the average loss given that event occurs and the exposure indicator that scales the banks exposure to a particular line of activity.

**Pillar 2: Supervisory review of capital adequacy:**

Pillar 2 introduces two critical risk management concepts: the use of economic capital and the enhancement of corporate governance, encapsulated in the following four principles:

**Principle 1:** Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels. The key elements of this rigorous process are;

- i) Board and senior management attention
- ii) Sound capital assessment
- iii) Comprehensive assessment of risks
- iv) Monitoring and reporting and
- v) Internal control review

**Principle 2:** Supervisors should review and evaluate Banks internal capital adequacy assessment and strategies as well as their ability to monitor and ensure their compliance with regulatory capital ratios. Supervisor should take appropriate supervisory action if they are not satisfied with the result of this process. This could be achieved through :

- i) On site examination or inspections
- ii) Off site review
- iii) Discussion with Bank management
- iv) Review of work done by external auditors and
- v) Periodic reporting

**Principle 3:** Supervisors should expect Banks to operate above the minimum regularity capital ratios and should have the ability to require banks to hold capital in excess of the minimum.

**Principle 4:** Supervisor should seek to intervene at an early stage to prevent capital from falling below the minimum level required to support the risk characteristics of a particular Bank and should require rapid remedial action if capital is not maintained or restored.

Prescription under Pillar 2 seek to address the residual risk not adequately covered under Pillar 1 such as concentration risk, interest rate risk in banking book, business risk and strategic risk. Stress testing is recommended to capture events risks. Pillar 2 also seeks to ensure that internal risk management process in the banks is robust enough. The combination of Pillar 1 & Pillar 2 attempt to align regulatory capital with economic capital.

**Pillar 3: Market discipline and Disclosures**

The purpose of pillar 3 is to complement the minimum capital requirements of pillar 1 and the supervisory review process addressed in pillar 2. The focus of Pillar 3 on market discipline is designed to compliment the minimum capital requirement (Pillar 1) and the supervisory review process (Pillar 2) . With this Basel Committee seeks to enable market participants to assess key information about Banks risk profiles and level of capitalization thereby encouraging market discipline through increased disclosures. Public disclosure assumes greater importance in helping Banks and supervisors to manage risk and improve stability under the new provisions which place reliance on internal methodologies providing Banks with greater discretion in determining their capital needs.



## HISTORY

### BRIEF HISTORY AND MANAGEMENT OF THE BANK

The Bank was incorporated on February 18, 1924 as The Karnataka Bank Ltd at Mangalore in Karnataka state to cater to the banking needs of the South Kanara Region. The certificate to commence business was obtained on May 23, 1924. The Bank has shifted its Registered and Head Office from P.B.No.716, Kodialbail, Mangalore - 575 003 to P.B.No.599, Mahaveera Circle, Kankanady, Mangalore - 575 002 in September 2003.

The bank has set its vision statement to be 'A technology savvy, customer centric progressive Bank with a national presence, driven by highest standards of corporate governance and guided by sound ethical values'. Towards achievement of this, the Bank is committed to the best practices in corporate governance to protect the interest of shareholders, depositors and customers.

The Bank was promoted by Late Shri B.R. Vysarayachar and other leading members of the South Kanara Region. Under the able guidance of Shri K.S.N. Adiga, the second Chairman of the Bank who held the post for a period of 21 years from 1958 to 1979, the Bank made significant progress thereby providing a strong foundation and as a result grew in stature in terms of number of branches, deposits, advances etc. Over the years bank grew with the merger of Sringeri Sharada Bank Ltd., Chitladurg Bank Ltd. And Bank of Karnataka. At present the Bank provides wide gamut of financial services to cater to the needs of trade, industry, commerce and agriculture.

### MAIN OBJECTS OF THE BANK

The Main Objects of the Bank, as set out in its Memorandum of Association are as follows:

- a) To establish and carry on the business of the Bank, where of the Head office or place of business shall be in Mangalore with such branches or agencies as may from time to time be determined upon.
- b) To carry on the business of banking in all its branches and departments including the borrowing or raising or taking up of money, the discounting, buying and selling of and dealing in Government securities, bills of exchange, hundies, promissory notes and other negotiable and transferable instruments and securities, the granting and issuing of letters of credit and circular notes, buying and selling of and dealings in bullion and specie, such as gold, silver etc, the negotiating of loans and advances, the receiving of money and valuables on deposit, or for safe custody or otherwise the lending or advancing of money on promotes, on the security of jewels, Government Securities, Port Trust Bonds, Municipal debentures, shares or debentures of any other companies, insurance policies, or other valuable securities, or merchandise or any other movable property and also on the security of immovable property, by deposit of title deeds or otherwise the collecting and transmitting of money and securities and the transacting of all kinds of agency business, commonly transacted by Bankers.
- c) To take or acquire the whole or any part of any business similar to that this Bank or any business which this Bank is authorized to carry on and such other business which is capable of being conducted to the benefit directly or indirectly of this Bank.
- d) To purchase or otherwise acquire any sites with or without building thereon, erect or construct buildings and repair and improve them for the purpose of investment or otherwise as may be determined upon.
- e) Generally to purchase, take on lease or in Exchange, hire or otherwise acquire any immovable or movable property and any rights or privileges which the Bank may think necessary or convenient with reference to any of the objects, for which the Bank is established or acquisition of which may seem calculated to facilitate to the realization of any securities held by the Bank or to prevent or diminish any apprehended loss or liability.
- f) To take shares or otherwise acquire shares in Banking Companies or in other joint stock business companies or guaranteed corporations at the discretion of the Directors.
- g) To encourage, assist and finance any and every description of financial, commercial, mercantile, industrial, manufacturing and agency business undertakings, and operations at the discretion of the Directors.
- h) To take or concur in the taking up of all such steps and proceedings as may seem best calculated to uphold and support the credit of the Bank.
- i) To establish and support or aid in the establishment and support of associations, institutions, funds, trusts, and conveniences calculated to benefit employees or ex-employees of the Bank, or the dependents or connections of such persons, to grant pensions and allowances and to make payments towards insurance and to set apart and appropriate from the annual net profits, towards the general, mental, moral and physical advancement of the members of the Dravida Brahmin Community, such sums as may be deemed fit.
- j) To sell and dispose of the entire undertaking of the Bank but not part of it only for such consideration as the Bank may think fit either for cash or shares, debentures, or securities of any other company having objects all together or in part similar to those of this Bank.
- k) To sell, manage, develop, exchange, lease, mortgage, dispose of, turn to account, or otherwise deal with all or any part of the property and rights of the bank.



- (l) To do all or any of the above things as principals, agents, contractors, trustees or otherwise and by or through trustees, agents or otherwise.
- (m) To do all such other things as are incidental or conducive to the attainments of the above objects.
- (n) To engage in all or any one or more of the forms of business enumerated in Section 6 (1) of the Banking Regulation Act, 1949.
- (o) "To open, establish, maintain and operate currency chests and small coins depots on such terms and conditions as may be required by the Reserve Bank of India established under the Reserve Bank of India Act, 1934, and enter into all administrative or other arrangements for undertaking such functions with the Reserve Bank of India"

The main object clause of the Memorandum of Association of the Bank enables it to undertake the activities for which the funds are being raised and the activities which it has been carrying on till date. There have been no changes in object clause since the previous rights issue of bank in 2002-03.

**Some of the significant milestones since 1990s:**

Year	Milestones / Achievements
1995	Public cum Rights Issue aggregating Rs.81 crores
1997	300th branch inaugurated at Bangalore - Vijayanagar
1998-99	Platinum Jubilee Year
2000	350th branch opened at Mysore - Vivekanandanagar
2000	Signed MOU with Infosys Technologies for implementation of FINACLE - Core Banking Solution
2000	First FINACLE branch operationalised
2002	Maiden Bonus Issue of shares in the ratio 1:1
2002	Pact with Corporation Bank for sharing ATM's
2002	Bank took up Corporate Agency for distribution of products of MetLife Insurance Co.ore
2003	Registered and Head Office of the Bank shifted to the present premises at Mahaveera Circle, Kankanady, Mangalore - 575 002
2003	Rights Issue in the ratio 1:2 aggregating Rs. 33.72 crores
2003	Bank took up Corporate Agency for distribution of products of Bajaj Allianz General Insurance Co Ltd.
2003	Banks ATM Moneyplant launched
2004	Completion of FINACLE at 200 branches

**STOCK MARKET DATA**

While the shares are listed in Mangalore Stock Exchange apart from being listed on NSE the shares of the Bank are not frequently traded on Mangalore Stock Exchange. Movement of share prices of the Bank at National Stock Exchange (NSE) are given below.

Period	Low (Rs)	High (Rs)	Total No. of shares traded during the period
January, 2004	108.35	139.85	10861675
February, 2004	100.65	117.60	3137682
March, 2004	106.25	131.60	10048498
April, 2004	123.60	140.40	8086236
May, 2004	88.55	128.40	5794897
June, 2004	81.75	90.80	2504985
July, 2004	81.70	91.50	2310788
August, 2004	72.70	83.50	1446971
September, 2004	78.95	89.40	3295653
October, 2004	86.65	93.15	2667823
November, 2004	91.65	125.05	7714968
December, 2004	123.00	216.85	54378833

(Source: www.nseindia.com)



The closing price of the shares was Rs.113.50 on NSE on November 10, 2004, one day after the day on which the Board of Directors approved the Rights Issue.

Following are the particulars of market prices of the Bank during the preceding three years from November 01, 2001 to December 31, 2004.

- High - Rs. 242.90 on December 20, 2004
- Low - Rs. 52.05 on November 02, 2002
- Average price Rs. 123.75

#### **PREVIOUS PUBLIC/RIGHTS ISSUES BY THE BANK**

The Bank had made a rights issue of equity shares aggregating Rs. 33.72 crores in March 2003, the details of which are given below:

Type of Issue	Rights Issue of equity shares
Amount of Issue	Rs.33.72 crore
Year of Issue	2002-03
Closing Date	March 18, 2003
Date of Despatch of share certificates	April 03, 2003
Date of Despatch of refund orders	April 03, 2003
Date of Listing on the Mangalore Stock Exchange	April 08, 2003

#### **Promises v/s Performance**

##### **a) 1995- Public cum Rights Issue**

The Bank had made a composite Public cum right issue of shares aggregating Rs.81 crores during the year 1995.

*Objects to the Issue*

- 1) Augment the networth of the Bank for complying with capital adequacy norms keeping in mind the projected asset growth
- 2) Improve the limits of prudential exposure by the bank

The projections made in the Prospectus /LoF and the actual performance are given hereunder :

(Rs. In crores)

Particulars	31.03.1996		31.3.1997		31.3.1998	
	Projections	Actuals	Projections	Actuals	Projections	Actuals
Deposits	1700	1855	2200	2510	2750	3408
Advances	1020	1185	1320	1449	1650	1818
Capital	13.50	13.46	13.50	13.49	13.50	13.50
Share premium A/c	72.00	71.64	72.00	71.89	72.00	71.98
Reserves	49.00	57.60	70.00	92.09	103.00	142.49
Total net owned funds	134.50	142.70	155.50	177.47	188.50	227.97
Net profit	20.00	25.24	30.00	40.71	40.00	58.16
Book value per share (Rs)	99.63	105.70	115.19	131.43	139.62	168.92
Earning per share (Rs)	14.81	18.70	22.22	30.15	29.53	43.07
Risk Weighted Assets	1000	1156.33	1300	1548.36	1600	1903.76
Capital adequacy ratio (%)	13.45	12.74	11.96	12.27	11.78	13.23

As can be seen, performance of the Bank compares well with the projections made in the Prospectus /LoF for the last issues.

##### **b) 2003- Rights Issue**

The bank came out with Rights issue of 1,34,86,222 equity shares of Rs.10/- each at a premium of Rs.15/- per share in 2002-03 in the ratio of one (1) equity share for every two (2) equity shares aggregating 33.72 crores.



The objects of the issue were:

<b>Particulars</b>	<b>Rs. in crores</b>
To augment networth of the bank and to meet capital adequacy	32.97
To meet issue expenses	0.75
<b>Total issue proceeds</b>	<b>33.72</b>

With a view to further strengthen the capital adequacy ratio as prescribed under The Basel Capital Accord I which was adopted by India in 1992, the Bank had come out with the above Rights issue in the year 2003. This accord was based on the concept of a capital ratio maintained as a percentage of risk weighted assets. The accord covered two types of risks, credit risk and market risk. Based on the various risk weights, Banks were required to maintain capital at a minimum of 9%.

The capital adequacy ratio prior to rights issue was 12.96% in 2002 and the same was improved to 13.44% post issue by March 31, 2003.

No future projections were made in the 2003 rights issue.



## BUSINESS

The Karnataka Bank Ltd., a technology savvy and value based Bank, commenced its business on May 23, 1924. As on September 30, 2004 the Bank has a network of 371 branches. The Bank provides various services like Multi Branch Banking at its 232 branches situated in 90 locations. Bank has 12 ATMs of their own and shares around 750 ATMs of Corporation Bank.

The Bank has positioned itself as a professionally managed Bank with presence in all major financial and growth centres, aimed at providing value added services to various segments of the market ranging from individuals, firms, corporates to financial institutions and banks. The bank has already taken up corporate agency for distribution of life insurance and general insurance products and propose to market units of mutual fund and gilts. Bank has also entered into agreement with M/s. Western Union Money Transfer for money transfer of customers from overseas location. The bank is planning to bring more number of branches under centralised network and launch new products and delivery channels like debit cards, demat services, internet banking, etc. The RTGS had already been commissioned for online fund transfer which will be used for fund transfer for customers in days ahead.

The Bank continues to build on its experience and reviews its business plans and policies on an on-going basis and decides its business focus accordingly. The Bank had introduced a number of new products to ensure that customer needs in various segments of the markets are fulfilled. The Bank also has a strong focus and thrust in Retail Banking covering both assets and deposits.

The performance of the Bank over last 10 years is summarised in the following table (figures in Rs in crores, except if mentioned otherwise)

Year	Capital & Reserves	Deposits	Advances	Gross Earnings	Net Profit	Dividend Paid ( % )	No. of Branches	No. of Employees	Net NPAs (%)	Capital Adequary (%)
1994-95	39.24	1333.68	812.29	174.80	12.58	25	287	3483	4.01	5.95
1995-96	142.71	1855.31	1185.42	255.33	25.24	30	295	3642	2.38	12.69
1996-97	177.47	2510.59	1449.70	372.27	40.71	40	306	3638	2.76	12.23
1997-98	227.96	3408.35	1818.29	477.78	58.16	45	324	3925	3.06	13.23
1998-99	261.71	4382.11	2046.63	539.67	42.45	45	338	3929	4.99	10.85
1999-00	311.87	5174.17	2451.43	650.29	40.71	45	347	4075	5.73	11.04
2000-01	349.88	6075.50	2828.22	743.37	45.41	45	354	4084	6.93	11.37
2001-02	441.98	7001.48	3417.55	984.26	91.13	60	357	4144	5.90	12.96
2002-03	583.40	8291.72	3899.70	1050.70	110.12	22	360	4320	7.36	13.44
2003-04	698.15	9406.94	4667.92	1118.74	133.17	40	370	4300	4.98	13.03
10 Yr. CAGR	37.69%	24.24%	21.44%	22.91%	29.97%	-	2.86%	2.37%		

**Source : Annual report of Bank**

## OPERATIONS

In terms of overall size, the total assets of the Bank increased from Rs. 9264.83 crores (as of March 31, 2003) to Rs.10576.63 crores (as of March 31, 2004). The deposits of the Bank grew from Rs.8291.72 crores to Rs.9406.94 crores during the same period, registering a growth of 13.45% and the advances grew from Rs.3899.70 crores to Rs.4667.92 crores, registering a growth of 19.70%. The net NPAs of the bank decreased from 7.36% as on March 31, 2003 to 4.98% as on March 31, 2004. However, capital adequacy ratio has shown marginal decline from 13.44% to 13.03% during the same period due to increase in risk weighted assets.

## BRANCH NETWORK OF THE BANK

The total number of branches as on September 30, 2004 stood at 371 spread over in 16 states and 2 Union Territories. The Bank presently offers multi-banking facility at 232 branches/offices at 90 locations. With a view to offer-specialised services and meet customer expectations, the Bank has opened specialised branches for forex, industrial and agriculture finance business. In addition, the Bank has 8 regional offices. During the half year ended September 30, 2004, the Bank has opened 2 branches, however, one of the branch was merged with existing branch taking the total number of branches to 371.



**AREA -WISE & STATE-WISE NO. OF BRANCHES**

<b>State wise branch distribution</b>		
1	Andhra Pradesh	28
2	Delhi	9
3	Chhattisgarh	1
4	Goa	4
5	Gujarat	5
6	Haryana	3
7	Karnataka	252
8	Kerala	11
9	Madhyapradesh	1
10	Maharashtra	21
11	Orissa	1
12	Punjab	4
13	Rajasthan	1
14	Tamilnadu	24
15	Uttar Pradesh	2
16	West Bengal	2
<b>Union Territory</b>		
1	Chandigarh (U. T)	1
2	Pondicherry (U. T)	1
<b>Total</b>		<b>371</b>

<b>Sr. no</b>	<b>Area wise</b>	<b>No. of branches</b>
1.	Rural	93
2.	Semi-Urban	86
3.	Urban	106
4.	Metro	86
	<b>TOTAL</b>	<b>371</b>

**Foreign Exchange Business**

The Bank has a centralised International Banking Division at Mumbai to support International Trade business undertaken by its Branches. The branches are well equipped with sophisticated infrastructure to efficiently handle transactions and are SWIFT enabled for speedy conduct and execution of transactions. The Bank arranges Medium/Long term Foreign Currency loans, short-term finance through Letters of Credit, Loans against Foreign Currency Liabilities etc.

The bank has introduced "GOLD CARD" scheme for credit worthy exporters with sound track record for easy availability of export finance. The scheme enables following benefits:

1. Concession in rate of interest on rupee credit
2. Stand by limit of 20% of sanctioned limits to meet urgent working capital needs
3. Priority in meeting Packing Credit in Foreign Currency (PCFC), Foreign Currency Demand Loan (FCDL) and concessional charges /fee structure including processing charges.

The Bank's internal control systems, backed by strong technical support, help it to provide efficient and cost effective support to its operations, customer service, executive information and to enhance profitability.



## **Personal Banking**

The Bank offers a total value package, a one-stop shop for all banking needs of customers. The Bank thoroughly research customer needs and create the right solution, with speed and efficiency, for their maximum benefit.

Bank is committed to providing customized services designed to suit individual requirements of its customers like deposits, loans, life insurance, utility bill payments etc.

### **Multi-Branch Banking:**

Multi Branch Banking is a special facility that allows customers to operate their Savings or Current account in any city through a Network of branches other than the branch where they have their account. At present, this facility is available at 232-networked branches across the country. Multi City cheques payable at PAR, a unique technology driven service is available for three types of current accounts named Money Ruby, Money Sapphire and Money Diamond where in cheques will be payable at par in 90 centres across the country. Specially designed personalized cheque-book will be made available to these current accounts.

The Multi Branch Banking account has many features including Cash withdrawals at non-base branch (other than the branch where the account is maintained) up to a certain limit per day. The scheme also provides for fast collection of cheques and speedy transfer of funds. The Multi Branch Banking account gives flexibility and convenience to the customers throughout the country.

### **Money Plant ATMs:**

With the network of more than 750 ATMs across the country brought with special tie-up arrangement with Corporation Bank, customers can access account from any Karnataka Bank ATMs or Corporation Bank ATMs.

Customers can link their various accounts across different Karnataka Bank Networked Branches to a single Moneyplant Card. This gives a facility to use one card to access & withdraw from any accounts of Karnataka Bank.

### **K-Flexi Deposit Scheme:**

#### ***Flexibility of a Savings account with higher returns.***

Whenever the balance in Savings account increases beyond the stipulated level (at present Rs.10,000), the amount beyond stipulated level will get transferred to term deposit account in multiples of Rs.5,000/- for a period specified by the customer and earn interest applicable to term deposits of that period.

### **Deposit Products:**

Bank's basket of financial products include Abhyudaya cash certificate, Fixed deposits, Ready money deposit, Soulabhya deposit, Cumulative deposit, Platinum lakhpathi, Insurance linked savings bank deposit, K-Flexi deposit, Resident foreign currency(domestic) account, NRI services, Senior citizens deposit scheme.

### **Loan Products:**

Bank's product suite include Vidyanidhi education loan scheme, Apna ghar home loans, Car finance scheme, Varthak loans, Easy ride, Scheme for salaried persons, Udyog mithra, Niveshan loans, Krishi card, K-Power, Lease 'n' Encash, Suvarna Nidhi, InstaCash, VahanaMitra etc.,

## **Business Banking**

Bank understand the dynamics of competition in today's fast changing world. Bank also understand the growth need of every business irrespective of the size. It offers a variety of tailor made Banking products to help customer business get the edge in this competitive environment.

Bank provides **Working Capital Finance, Term Loans and Infrastructure Finance**, by providing these type of finances to start an industry, working capital, both fund based and non-fund based suited to all sectors of Industry.

## **Insurance Services**

In conformity with our endeavour to become a financial supermarket and to provide total financial solutions to our customers, the Bank has diversified into the marketing of life insurance products of MetLife India Insurance Co. Pvt. Ltd, an affiliate of MetLife, the 136 year old, largest life insurance company in the USA.

Bank offers a wide range of solutions in the areas like children's education & wedding, retirement, protection of housing loan repayments, etc. At present 352 branches are designated to do Life Insurance Business.

Bank has also entered into a memorandum of understanding with Bajaj Allianz General Insurance Co. Ltd. (BAGICL) for distribution of their general insurance products through our branches.



## Infrastructure Finance

Bank provides financing for all kinds of infrastructure projects, such as, Power Generation, Transmission & Distribution, Road constructions, Construction of Bridges on the Road / Railway Lines, Air/ Sea Port-development activities, Telecom, Water supply system, Urban Development etc.

## Working Capital Finance

Subject to Loan policy of the bank and RBI, Bank provide Fund Based credit facilities such as Cash Credit, Overdraft, and Discounting & Purchasing of Bills etc. Export and Import Finance. We also provide Non Fund based credit facilities such as Letter of Credit, Bank Guarantees (Performance / Financial) etc.

## Term Loans:

Subject to Loan policy of the bank and RBI, Bank provide Fund Based finance for capital expenditure / acquisition of fixed assets towards setting up / capacity expansion of a business or industrial unit. Bank also provide Non Fund based finance in the form of Deferred Payment Guarantee (DPG) for acquisition of fixed assets towards setting up of / capacity expansion of a business or industrial unit Finance under Technology up gradation scheme.

## DETAILS OF THE SOURCE OF FUNDS

### Deposits

The total deposits of the Bank as on March 31, 2004 grew to Rs 9406.94 crores from Rs 8291.72 crores in the corresponding previous year registering a growth of 13.45%. The deposits for following years are as under: (Rs. in crores)

As on March 31	2001	2002	2003	2004	Half year ended 30.9.04
Deposits	6075.50	7001.48	8291.72	9406.94	9250.75
Growth					
- Amount	901.33	925.98	1290.24	1115.22	-156.19
- Percent	17.42%	15.24%	18.43%	13.45%	-1.66%
Cost of Deposits (%)	9.52%	9.29%	8.58%	7.33%	6.07%

The cost of the deposits has been declining over past 5 years and has come down from 9.52% on March 2001 to 7.33% on March 2004. The decline in cost of deposit is due to maturity of high cost deposit accepted during the Platinum jubilee year of the bank (1998-99) and/renewal of deposit at reduced rate of interest. Further, decline is also attributed to softer interest regimes prevailing in the past 5 years.

The average cost of deposits is shown in the following table

Particulars	Average Cost of Deposit (%)				
	2000	2001	2002	2003	2004
Current Deposits	0.00	0.00	0.00	0.00	0
Savings Deposits	3.64	3.27	3.30	3.28	2.88
Term Deposits	12.13	11.26	10.79	9.90	8.55

The deposit mix of the bank for the last five years is as follows:

Year ended March 31,	(Rs. in crores)				
	2000	2001	2002	2003	2004
Current deposits	401.74	394.78	399.99	465.87	568.76
Savings Bank Deposits	694.37	795.12	908.48	1069.67	1338.94
Term Deposits }					
Other types of Deposits }	4078.06	4885.60	5693.01	6756.18	7499.24
<b>Total</b>	<b>5174.17</b>	<b>6075.50</b>	<b>7001.48</b>	<b>8291.72</b>	<b>9406.94</b>

**The Maturity Profile of Deposits**

The maturity profile in the last 3 Years is as under

(Rs. in crores)

Year ended March 31	2004		2003		2002	
	Rs. in crores	Percentage (%)	Rs. in crores	Percentage (%)	Rs. in crores	Percentage (%)
Upto 1 year	4664.34	49.58	4236.21	51.09	3636.32	51.94
1 year to 3 years	4107.70	43.67	3570.68	43.06	3066.91	43.80
3 years to 5 years	260.87	2.77	306.44	3.70	170.42	2.43
Over 5 years	374.03	3.98	178.39	2.15	127.83	1.83
<b>Total</b>	<b>9406.94</b>	<b>100</b>	<b>8291.72</b>	<b>100</b>	<b>7001.48</b>	<b>100</b>

**Category-wise break-up of Term Deposits**

The category-wise break-up of term deposits as on March 31, 2004 is given below

(Rs. in crores)

Maturity	Retail	Wholesale	Total
1-14 days	452.97	5.09	458.06
15-28 days	92.17	17.60	109.83
29 days to 3 months	1006.09	67.77	1073.86
3 - 6 months	851.11	86.85	937.96
6 - 12 months	1302.96	263.54	1566.50
1 - 3 years	1202.36	1214.39	2416.75
3 - 5 years	60.79	199.15	259.94
Over 5 years	193.84	158.72	352.56
<b>Total</b>	<b>5162.29</b>	<b>2013.17</b>	<b>7175.46</b>

Note: 1) Wholesale Deposits are taken as individual Deposits of Rs.15 lacs and above

2) Inter bank deposits are excluded.

**Borrowings****Top Borrowings of the Bank**

The borrowings of the Bank as on March 31, 2004 are given below:

Name	Outstanding Amount (Rs. in crore)	Interest Rate (%)	Duration for which the loan facility is available	Date of borrowing	Repayment Terms
SIDBI*	0.63*	13.00-15.50	—	—	—
NABARD*	26.04*	6.50-14.25	—	—	—
ICICI Singapore	91.35	2.65, 2.85, 2.30	90 days and above	06/01/2004	On Demand
ICICI London	21.75	2.13	90 days	11/02/2004	On Demand
Union Bank of California	8.70	1.87	91 days	26/01/2004	On Demand
Bank of New York, Singapore	4.35	1.61	90 days	16/03/2004	On Demand
Syndicate Bank, London	21.75	1.81	91 days	31/03/2004	On Demand
Commerz Bank Offshore	8.70	1.45	91 days	31/03/2004	On Demand

\* Refinance Facility



The borrowings of the Bank as on September 30, 2004 were as under:

Name	Outstanding Amount (Rs. in crore)	Interest Rate (%)	Duration for which the loan facility is available	Date of borrowing	Repayment Terms
SIDBI*	0.40*	8.25-13.50	—	—	—
NABARD*	8.62*	6.50-14.25	—	—	—
ICICI Singapore	45.28	2.30	364 days	25/03/2004	On Demand
Bank Muscat Saog, Oman	9.06	2.01	184 days	17/05/2004	On Demand
UBOCI New York	9.06	2.36188	92 days	26/07/2004	On Demand
Commerze Bank A.G.	15.85	2.03	91 days	30/07/2004	On Demand
Bank Muscat Saog, Oman	9.06	2.39	180 days	05/08/2004	On Demand
Syndicate Bank, London	13.58	2.15	91 days	31/08/2004	On Demand
Syndicate Bank, London	4.53	2.28	91 days	07/09/2004	On Demand
ICICI Singapore	27.16	3.285	181 days	10/09/2004	On Demand
Bank of New York, Singapore	4.53	2.38	88 days	13/09/2004	On Demand
Syndicate Bank, London	13.58	2.25	91 days	14/09/2004	On Demand
Syndicate Bank, London	4.53	2.30	91 days	29/09/2004	On Demand
Other-Corporation Bank	0.07	-	-	-	-
<b>TOTAL</b>	<b>165.31</b>				

\* Refinance Facility

#### Servicing Behaviour

The Bank has not defaulted in the payment of interest and repayment of principle to other banks, institutions, deposit holders etc. The Bank has not defaulted in meeting statutory dues, institutional dues and dues on fixed deposits and other arrears.

#### DETAILS OF DEPLOYMENT OF FUNDS

##### Advances

The advances of the Bank for the last four years are as under

(Rs. in crore)

As on March 31	2001	2002	2003	2004
Advances (Net)	2828.22	3417.55	3899.70	4667.92
Annual Growth				
- Amount	376.79	589.32	482.15	768.22
- Percent	15.37%	20.84%	14.11%	19.70%

The advances portfolio of the Bank grew by 19.70% to Rs.4667.92 crore in FY04 from Rs.3899.70 crore in FY03. The table below sets forth approvals and disbursements by category of financing of the Bank in the last four years.

##### Approvals

The approvals of the Bank are as under

(Rs. in crore)

Year	2001	2002	2003	2004
Loan	1794.00	1909.00	2779.80	4125.47
Bank Guarantee	136.14	237.09	304.89	306.51
Letter of Credit	470.30	343.66	246.69	699.64
Deferred Payment Guarantee	-	-	-	-



Sector-wise sanctions &amp; disbursements for the year are as under :

(Rs. in crore)

	2001		2002		2003		2004	
	SANC.	DISB.	SANC.	DISB.	SANC.	DISB.	SANC.	DISB.
Agriculture	82	82	81	80	64	64	182	181
SSI	356	354	414	412	418	418	498	498
Other Priority Sector	175	174	195	195	255	255	368	318
<b>Total Priority Sector</b>	<b>613</b>	<b>610</b>	<b>690</b>	<b>687</b>	<b>737</b>	<b>737</b>	<b>998</b>	<b>997</b>
Industry (M & L)	413	412	457	456	581	581	650	650
Whole Sale Trade	174	172	193	191	195	192	309	301
Other Sectors	602	600	577	575	590	590	652	640
<b>Grand Total</b>	<b>1802</b>	<b>1794</b>	<b>1917</b>	<b>1909</b>	<b>2103</b>	<b>2100</b>	<b>2609</b>	<b>2588</b>
Of which Export Credit	391	391	490	489	480	480	518	518

**DEPLOYMENT OF GROSS BANK CREDIT**

The sector wise deployment of gross bank credit as on March 31, 2004 is as follows (Rs. in crore)

	Industry	Amount	Exposure To Gross Bank Credit
1	Food Credit	100	1.99
2	<b>Non Food Credit :</b>	<b>4916</b>	<b>98.00</b>
2 a	Medium & Large Scale Industry	1083	21.60%
2 b	Wholesale Trade	305	6.08
2 c	Priority Sector	1987	40.00
2 d	Export Credit	568	11.32
2 e	Other Sectors	973	19.40
<b>Total ( 1+ 2)</b>		<b>5016</b>	<b>100.00</b>

**Sector wise Advances**

The assets portfolio of the Bank is well diversified. The Bank's exposure to any single borrower/ group is well within the exposure limits prescribed by RBI. In case of certain industries which are not doing well world-wide presently, the Bank has restricted its exposures and is closely monitoring such accounts.

<b>As On 31.03.2004</b>	<b>(Rs. in Crores)</b>
Agriculture	508.45
Small Scale Industries (SSI)	754.61
Other Priority sector	647.11
Large	439.27
Medium	395.46
Export (excluding SSI)	293.40
Others	1629.62
<b>TOTAL</b>	<b>4667.92</b>



### Industry-wise Outstanding

The Industry-wise outstanding as on March 31, 2004 is given below

(Rs in crore)

Industry	Outstanding to the Industry	Outstanding to the Industry as % of Total Outstanding Advances	Total outstanding of the top 10 companies in the industry as % of total outstanding to the Industry
Cotton Textiles	290.09	6.21	30.05
Chemicals, Dyes, Drugs & Pharmaceuticals	126.40	2.71	28.48
Rice, Flour & Dal Mills	137.28	2.94	10.40
Other Textiles	179.15	3.84	6.75
Other Engineering	82.10	1.76	25.07
Paper & Paper Products	97.64	2.09	27.48
Gems & Jewelry	96.52	2.07	5.18
Cement & Cement Products	82.46	1.77	44.22
Iron & Steel	53.63	1.15	100.00
Food & Food Products	51.10	1.09	21.50
Metal & Metal Products	65.95	1.41	5.59
<b>Infrastructure:</b>			
Power	96.48	2.07	100.00
Telecommunication	66.62	1.43	100.00
Roads & Ports	80.08	1.72	100.00

### Exposures to Top 10 companies

The exposure of the Bank to the top 10 companies is as under (Rs. in crores)

The exposure of the Bank to the top 10 companies is as under as on 31/03/2004

(Rs. in crore)

Sr. No.	Borrower	Industry	Amount Outstanding (Rs. In cr.)	% to total advances	Quality of Asset	Rate of Interest % p.a.
1.	Borrower 1.	Various industries like Manufacturing of machinery for oil industry, Property Development etc.	F 110.53	2.20	Std.	5.40%
2.	Borrower 2	Infrastructure Project Financing	F 96.03	1.91	Std	8.00%
3.	Borrower 3	Housing Finance, Banking, Insurance	F 90.00	1.79	Std	5.40%
4.	Borrower 4	Construction of building, Roads and factories	F 41.67 NF 38.00	0.83	Std	11.50% & 10.00%
5.	Borrower 5	Irrigation	F 70.50	1.41	Std	9.50% & 8.64%
6.	Borrower 6	Processors & Exporters of Basmati & Non Basmati Rice	F 49.42 NF 14.69	0.99	Std	8.00%
7.	Borrower 7	Processors & Exporters of Basmati & Non Basmati Rice	F 54.57 NF 5.15	1.09	Std	8.00%
8.	Borrower8	Mfg. of submerged Arc Welding Pipes	F 20.00 NF 38.39	0.40	Std	8.00% & 12.00%
9.	Borrower 9	Transportation	F 50.00	1.00	Std	8.00%
10	Borrower 10	Infrastructure in Tele communication	F 50.00	1.00	Std	7.50%

(F: Fund based, NF: Non-fund based)

\* percentage of total advance represents percentage of Fund based advance to total gross advances. Non fund based facility are not included in the calculation of percentage of total advance.





The exposure of the Bank to the top 10 companies is as under (Rs. in crore) (as on 30/09/2004)

Sr. No.	Borrower	Industry	Amount Outstanding (Rs. In cr.)	% to total advances*	Quality of Asset	Rate of Interest p.a.
1.	Borrower 1.	Housing Finance Banking, Insurance, Asset Management, Securities, Real Estate Services	F 90.39	1.74	Std.	5.40 %
2.	Borrower 2	Infrastructure Project Financing	F 85.05	1.64	Std	8.00%
3.	Borrower3	Construction of buildings, roads and factories	F 39.45 NF 38.00	0.76	Std	11.50% & 10.00%
4.	Borrower4	Transportation	F 70.30	1.35	Std	8.00%
5.	Borrower5	Banking	F 33.97 NF 36.03	0.65	Std	8.00%
6.	Borrower6	Mfg. of submerged Arc welding pipes	F 20.00	0.38	Std	8.00% & 12.00%
7.	Borrower7	Processors & Exporters of Basmati & Non Basmati Rice	F 38.00 NF 18.93	0.73	Std	7.50% & 12.00%
8.	Borrower8	Infrastructure-Power General	F 55.43	1.07	Std	6.50%
9.	Borrower9	Civil Engineers/contractors	F 30.18 NF 24.00	0.58	Std	13.00% & 8.00%
10	Borrower10	Mfg. CD Rom	F 50.00 NF 1.00	0.96	Std	Libor + 0.75

(F: Fund based, NF: Non-fund based)

\* percentage of total advance represents percentage of Fund based advance to total gross advances. Non fund based facility are not included in the calculation of percentage of total advance.

#### Exposure to top 5 business groups

The exposure of the Bank to the top five business groups as on March 31, 2004 is as under : **(Rs. in crores)**

Borrower	Amt. Outstanding		% to total advances *
	Fund based	Non Fund based	
Group 1	96.39	1.07	1.92
Group 2	90.13	-	1.80
Group 3	63.96	8.42	1.28
Group 4	90.39	38.39	1.80
Group 5	54.27	48.00	1.08

\* percentage of total advance represents percentage of Fund based advance to total net advances. Non fund based facility are not included in the calculation of percentage of total advance.

#### TOP 5 GROUP EXPOSURE AS ON 30.9.2004

**(Rs in crores)**

SI No	Name of the Group	Total credit exposure (total fund bases and non fund based)	Group exposure as % to Bank's net owned funds
1	Group 1	170.62	23.68
2	Group 2	99.55	13.82
3	Group 3	59.04	8.19
4	Group 4	57.43	7.97
5	Group 5	56.99	7.91
	<b>Total</b>	<b>443.63</b>	<b>61.57</b>

\* Net owned fund for the purpose of computation of exposure limits was Rs. 720.49 Crores as on 31.3.2004.

**EXPORT CREDIT**

As per the current Reserve Bank of India norms, lending to export should be 12% of total credit, against which the exposure of the Bank is 12.52% constituting Rs.568.00 crore during the year ended March 31, 2004. The Bank continues to encourage export credit with particular emphasis on small and medium sized exporters.

The details of the past five years is given as under

(Rs. in crores)

Year ended March 31	2000	2001	2002	2003	2004
Amount	422.68	421.28	435.07	488.78	568.00
% of Export Credit to Net Credit	17.24	14.90	12.73	13.41	12.42

**PRIORITY SECTOR LENDING**

In respect of priority sector lending, Bank has financed 42.62% of net bank credit towards funding priority sector as against the RBI guidelines of 40% of net bank credit. The Bank has been endeavouring to increase the exposure to priority sector without diluting the quality of the assets. The Bank has been funding priority sector on a selective basis since the risk associated in lending to this sector is relatively high. Details of Sector-wise distribution of Priority Sector Credit for the last five years is given below

(Rs in crores)

Year ended March 31	2000	2001	2002	2003	2004
Agriculture	267.11	289.60	329.27	400.67	522.49
Small Scale Industry	491.43	503.12	559.71	624.66	804.07
Other Priority Sector Advance	157.48	160.68	305.83	475.66	660.69
Total Priority Sector Advance *	916.02	953.40	1194.81	1500.93	1987.25
% to Net Bank Credit **	44.08	40.00	40.23	42.53	42.62

\* As per published Balance Sheet

\*\* This is calculated by taking into account Priority sector advances and investment in RIDF, SIDBI etc and after deducting FCNR (B) and NRNR deposits from net advances of the Bank as per RBI guidelines.

**Investments**

The Bank has an integrated Treasury with state-of-the-art technology manned by high profile dealers well supported by world class information, communication and risk management systems. The Treasury department plays an active role in management of Banks' liabilities, mismatches in structural/interest rate sensitive asset/liability flows and to ensure reduction in cost of funds and enhance profitability. Apart from the main objective of adherence to statutory liquidity ratio (SLR) requirements, the banks investment department functions keeping in mind the following objectives.

1. Optimise returns and minimise risk in view of changing market conditions and future outlook
2. To identify and diversify into new investment areas to improve profitability and spread the risk
3. Adherence to all the provision /regulations stipulated by regulatory authority

Treasury operations of banks have undergone sea change over the last 3 years. While volumes and depth in the securities market have multiplied over the period largely due to the introduction of electronic trading platform (NDS system) and holding of securities in electronic form, the income from treasury operations has become an important revenue stream.

New products having varied features are introduced in the market rapidly giving more flexibility to the fund managers to deploy the funds. Risk management tools are being used to mitigate various risk arising out of treasury transaction.

Reserve Bank of India has already introduced Real time gross settlement system during this year, which is expected to bring radical changes in payment systems giving scope for newer products and services.



The following table shows pattern of investments in the last three years

(Rs. in crores)

As on March 31	2002	2003	2004
Gross Investments	3467.15	4432.61	4878.91
<b>SLR Investments total</b>	<b>2873.99</b>	<b>3416.09</b>	<b>3008.97</b>
- Permanent Investments /Held to maturity	758.58	768.66	1123.03
- Current Investments /Available for sale	2115.41	2647.43	1885.94
Current Investments to total SLR Investments (%)	73.61	62.68	77.50

The Following table shows aggregate value of quoted and unquoted Non-SLR Investments

(Rs. in crores)

Particulars	2002	2003	2004
Quoted Non SLR investments	443.47	842.78	1809.44
Unquoted Non SLR investments	149.69	580.86	60.50

#### Unique Identification Number - MAPIN

In terms of SEBI (Central Database of Market Participants) Regulation, 2003 as amended from time to time, read with SEBI Notifications dated November 25, 2003 and July 30, 2004, no specified investor being a body corporate (other than a body corporate whose promoters or directors are persons resident outside India - as per SEBI Press Release PR No. 344/2004 dated 31st December, 2004) shall subscribe to securities which are proposed to be listed in any recognized stock exchange unless such specified investor, its promoters and directors have been allotted unique identification numbers (UINs).

The Bank has already been allotted identification number and all the directors of the Bank have applied for allotment of unique identification numbers (UINs) and thus is eligible to deal in primary and secondary market.

#### Comparative analysis of Interest bearing Assets and Liabilities

A table showing average balances and interest rates of interest earning assets and interest bearing liabilities for the last three financial years is given below

(Rs in crores)

Year ended	2002			2003			2004		
	Avg. Bal.	Interest	Avg. Rate	Avg. Bal.	Interest	Avg. Rate	Avg. Bal.	Interest	Avg. Rate
Average interest earning assets	6985.62	743.24	10.64	8394.64	811.47	9.67	9697.03	848.45	8.75
Average interest bearing liabilities	6503.42	602.76	9.27	7733.79	656.61	8.49	8747.19	634.77	7.26

#### CONTROL SYSTEM IN THE BANK

The Bank has well defined Control Systems in all critical areas of operation i.e. Corporate Credit, Forex, Treasury, Retail Finance which are documented and reviewed from time to time. The Bank also has a full fledged Internal Inspection & Audit machinery through which all branches are put under regular inspection encompassing the whole range of activities, i.e. Appraisal Policies & Procedures, Credit Management, Risk Management, FOREX, Customer Focus, Customer Complaints, Adherence to various Rules and Regulations, Business Development and Control, Quality of Management, Use of Delegated Authority, Internal Housekeeping, Income Leakages, etc. The policies related to advances, investments, foreign exchange are reviewed by the Board of Directors on a regular basis. The inspection and audit of branches are reviewed by the Audit Committee of the Board (ACB) on a regular basis and the compliance to audit reports are followed up closely.

#### ASSET CLASSIFICATION, INCOME RECOGNITION & PROVISIONING

In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts. Accordingly the Reserve Bank of India has revised from time to time prudential norms for assets classification and income recognition.



Under the existing prudential norms, loan assets are broadly classified into 2 categories namely performing and non-performing. Performing assets are those on which the Bank recover interest charges/installments of principal amount within a period of two quarters from the due date. The loan account in which irregularity regarding payment of principal or interest continues for a period beyond 2 quarters are classified as non-performing assets (NPAs). However, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where interest and/ or instalment of principal remain overdue for a period of more than 90 days.

The loan assets classification is summarised below :

Category	Definition
A. Performing Standard Assets	An asset which is currently performing and in respect of which interest and principal payments are received regularly and where arrears of interest and principal, if any, do not exceed 90 days from the due date.
B. Non Performing Assets	A non-performing asset (NPA) shall be a loan or an advance where interest and/ or instalment of principal remain overdue for a period of more than 90 days. Further banks are required to classify non-performing assets into the following three categories based on the period for which the asset has remained non-performing and the realisability of dues:
i. Sub-standard assets	With effect from March 31, 2001, substandard asset is one which has been a NPA for a period less than or equal to 18 months. However, w.e.f March 31, 2005, substandard asset is one which has been an NPA for a period less than or equal to 12 months.
ii. Doubtful assets	With effect from March 31, 2001, doubtful asset is one which has been a NPA for a period exceeding 18 months. However, w.e.f March 31, 2005, doubtful asset is one which has remained substandard category for 12 months.
iii. Loss assets	A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

When an account is classified as an NPA, interest already debited to the account is de-recognised and further interest accrued is on cash basis.

Provisions are arrived on all outstanding advances, as under:

- Standard Assets:** From the year ending 31.03.2000, the banks should make a general provision of a minimum of 0.25 percent on standard assets on global loan portfolio basis.
- Sub-standard Assets:** A general provision of 10 percent on total outstanding should be made without making any allowance for DICGC/ECGC guarantee cover and securities available. The 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10 per cent, i.e., a total of 20 per cent on the outstanding balance.
- Doubtful Assets:**

Unsecured Assets - 100% of the outstanding amount

Secured Assets - provision may be made on the following basis, at the rates ranging from 20 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful

Period for which advance has remained in doubtful category	Provision requirement (%)
Up to one year	20
One to three years	30
<b>More than three years</b>	
(i) outstanding stock of NPAs as on March 31, 2004	- 60 per cent with effect from March 31, 2005 - 75 per cent with effect from March 31, 2006 - 100 per cent with effect from March 31, 2007
(ii) advances classified as 'doubtful more than three years' on or after April 1, 2004	100 percent with effect from March 31, 2005



- d) **Loss Assets** : The entire asset should be written off. If the assets are permitted to remain in the Books for any reason, 100 percent of the outstanding should be provided for.

#### Non-performing assets

Details of Non-performing assets of the Bank are as under (Rs in crores):

As on March 31	2002	2003	2004
Gross NPA at the beginning of the year	320.89	373.52	538.01
Additions during the year	84.31	218.07	132.33
Reduction during the year			
a) Upgradation	13.29	7.63	10.95
b) Cash recovery	17.09	25.00	34.31
c) Compromise & Write off	1.30	20.95	26.51
Gross NPA at the end of the year	373.52	538.01	598.47
Provisions	164.23	240.85	347.63
Interest Suspense	0.00	0.00	0.00
DICGC/ECGC balance	8.23	11.09	19.40
Net NPA at the end of the year	201.06	286.07	231.44
Net Advances	3417.55	3899.70	4667.92
Percentage of Gross NPA to Gross Advances	10.43	12.99	11.93
Percentage of Net NPA To Net Advances	5.90	7.36	4.98

#### Assets Classification

The assets classification of Performing and Non-performing Assets is shown below

(Rs. in crores)

As on March 31	2000	2001	2002	2003	2004
Standard	2307.34	2625.86	3208.26	3602.54	4417.08
Substandard	100.41	93.56	101.49	160.30	127.61
Doubtful	86.08	181.35	218.38	277.42	327.85
Loss	36.66	45.98	53.65	100.29	143.01
<b>Gross NPAs *</b>	<b>223.15</b>	<b>320.89</b>	<b>373.52</b>	<b>538.01</b>	<b>598.47</b>
<b>Gross Advances *</b>	<b>2530.49</b>	<b>2946.75</b>	<b>3581.78</b>	<b>4140.55</b>	<b>5015.55</b>

Net of Technical Write Off and unrealized interest

Classification of assets (%) as on March	2000	2001	2002	2003	2004
Standard	91.18	89.11	89.57	87.01	88.07
Sub-Standard	3.97	3.18	2.83	3.87	2.54
Doubtful	3.40	6.15	6.10	6.70	6.54
Loss	1.45	1.56	1.50	2.42	2.85
Gross NPAs	8.82	10.89	10.43	12.99	11.93
Gross Advances	100.00	100.00	100.00	100.00	100.00

**Industry Classification of top ten Non Performing Assets**

The details of industry classification of top ten non-performing assets as on March 31, 2004 is given below:

Industry	Amount (Rs. in crores)	% to the gross Advances	Asset quality as on March 31, 2004
1. Cement products	78.10	1.56	Loss asset
2. Vegetable oil	21.72	0.43	Doubtful secured 2
3. Other engineering	18.29	0.36	Doubtful secured 1
4. Paper	16.72	0.33	Doubtful secured 1
5. Chemicals	15.09	0.30	Doubtful secured 3
6. Other textiles	12.83	0.26	Doubtful secured 2
7. Electronics	12.39	0.25	Sub-standard
8. Pharmaceuticals	11.41	0.23	Loss
9. Other textiles	7.26	0.14	Loss
10. All Others	3.19	0.06	Doubtful secured 2

**Sector / Industry analysis of gross Non Performing Assets**

A sector-wise analysis of gross Non Performing Assets for the last four years is shown below (Rs. in crores):

Industry	2001		2002		2003		2004	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Large & Medium Industry	83.75	26.10	86.54	23.17	320.39	59.55	368.81	61.63
Small Scale Industries	58.48	18.22	72.23	19.34	107.55	19.99	115.27	19.26
Priority Sector (Agriculture)	28.80	8.98	26.05	6.97	40.20	7.47	52.39	8.75
Other	149.86	46.70	188.70	50.52	69.87	12.99	62.0	10.36
<b>TOTAL</b>	<b>320.89</b>	<b>100</b>	<b>373.52</b>	<b>100</b>	<b>538.01</b>	<b>100</b>	<b>598.47</b>	<b>100</b>

**NPA MANAGEMENT STRATEGY OF THE BANK**

The prime objective of our NPA Management Policy is to bring about a qualitative improvement in our credit portfolio so as to improve yield on total advances and to reduce Gross and Net NPA. The containment of non-performing advances is a cause of concern of all banks. The Bank has taken targeted efforts under the Securitisation Act, 2002 for recovery of NPAs. With the revival and growth of the economy, the Bank is confident of recovering bad loans and containing the NPAs at a manageable level. Recovery Department, exclusively set up for recovery of NPAs, has taken up effective measures to contain the level of NPAs.

The accounts once identified as NPAs are closely monitored for recovery. Some of the monitoring and recovery actions involved are:

- 1) Exposure is structured for the firm repayment schedule of the borrower wherever possible.
- 2) Immediately on default, the bank officials will visit the borrower regularly for recovery.
- 3) Constant follow up and co-ordination with lawyers/solicitors to ensure speedy disposal of cases and execution of decrees, wherever applicable.
- 4) Where adequate recovery is not feasible by disposal of hypothecated/mortgaged assets, a one-time negotiated settlement is considered.
- 5) Identification of regular defaulters and pro-active approach for exit from relationship.
- 6) Reduce the exposure by increasing the margin gradually for subsequent Bills/Letters of Credit
- 7) In case borrower is not giving firm repayment schedules, civil suits are initiated for recovery of Bank dues in High Court/DRT.



- 8) For speedy recovery legal proceedings like winding up petition, filing of criminal cases, seeking attachment of personal properties of the guarantors etc. are initiated. Such accounts and legal cases are periodically reviewed. Practical view is taken in accepting the settlement proposals in cases of accounts where the realisable value of security is negligible or much less than the exposure.

To supplement its ongoing efforts to effectively contain and recover the non-performing advances, the Bank has also set up asset recovery Branches (ARB) at Mumbai and Chennai. With the recent judgement of the Supreme Court upholding the validity of the SARFAESI Act 2002, the Bank's thrust will be on speedy takeover and disposal of the assets of defaulting borrowers, charged to the Bank. Negotiations are also on with the ARCIL for sale of some of the impaired assets for an early resolution.

**The Bank has initiated action under SARFAESI Act, 2002 and the following table summarises the progress report of the same as on 30-9-2004**

Sl.No	Particulars	No. of Accounts	Amount (Rs. in crore)
1.	Notices issued	167	143.36
2.	Accounts closed /Restored to Standard Category after issue of notice	43	9.63
3.	Accounts under negotiation for Amicable Settlement	29	13.25
4.	Accounts wherein charged properties have been taken possession (altogether 17 immovable properties)	7	2.40
5.	Accounts identified for taking possession of the charged properties before January 2005	43	10.41
6.	Suit filed after issuing Notice	29	86.36

#### ASSET LIABILITY MANAGEMENT

##### Maturity Pattern of Assets and Liabilities

The maturity pattern of assets and liabilities as on March 31, 2004 is given below (Rs. in crores)

	1-14 Days	15-28 Days	29 Days - 3 Months	Over 3 Months to 6 Months	Over 6 Months to 12 Months	Over 1 Year to 3 years	Over 3 Years to 5 Years	Over 5 Years	Total
<b>Loans &amp; Advances</b>	263.54	121.02	425.23	623.90	304.25	1366.49	416.79	1146.69	4667.91
<b>Investments</b>	165.52	47.08	294.57	260.52	386.82	1134.09	355.74	2234.57	4878.91
<b>Deposits</b>	677.66	189.34	1186.47	1038.16	1572.70	4107.70	260.87	374.03	9406.93
<b>Borrowings</b>	21.76	8.70	56.69	30.10	47.67	11.41	4.91	2.04	183.28
<b>Foreign Currency Assets</b>	57.30	28.90	116.35	126.37	4.38	0.00	0.00	0.00	333.30
<b>Foreign Currency Liabilities</b>	41.79	12.36	65.60	39.21	74.92	47.95	0.00	0.00	281.83

##### Asset-Liability mis-match

The following table shows the asset-liability mis-match for the last three years:

(Rs. In crores)

Year	1-14 days	15-28 days	29 days to 3 months	3 months to 6 months	6 months to one year	One year to 3 years	3 years and upto 5 years	5 years & above
<b>2003-04</b>	-147.27	-3.77	-360.49	-97.30	-868.31	-1527.42	630.50	2374.06
<b>2002-03</b>	-12.88	44.20	45.39	-409.71	-972.20	-1232.75	434.96	2102.99
<b>2001-02</b>	82.36	87.19	279.97	70.13	-1878.04	-1203.71	430.80	2131.30

The Bank has also put in place a comprehensive Asset Liability Management policy. It has adopted the Traditional Gap





Analysis method for measuring and managing the Market Risk specially the Liquidity Risk and Interest Rate Risk. The statements of Structural Liquidity and Interest Rate sensitivity are prepared on a monthly basis and the statement on Dynamic Liquidity is prepared on a fortnightly basis and the resultant reports are used to measure and manage the market risks.

### Structural Liquidity

The structural liquidity as on March 31 for the last three years is given below :

(Rs in crores)

	Total inflows			Total outflows			Mismatch		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
1-14 days	679.34	497.56	518.93	826.61	510.44	436.57	-147.27	-12.88	82.36
15-28 days	200.79	232.94	195.54	204.56	188.74	108.35	-3.77	44.20	87.19
29 days and upto 3 months	917.36	929.50	874.63	1277.85	884.11	594.66	-360.49	45.39	279.97
Over three months and upto 6 months	981.72	731.94	558.27	1079.02	1141.65	488.14	-97.30	-409.71	70.13
Over 6 months and upto 1 year	762.52	802.57	353.98	1630.83	1774.77	2232.02	-868.31	-972.20	-1878.04
Over 1 year and upto 3 years	2660.51	2409.62	1892.45	4187.93	3642.37	3096.16	-1527.42	-1232.75	-1203.71
Over 3 year and upto 5 year	902.11	752.36	809.72	271.61	317.40	378.92	630.50	434.96	430.80
Over 5 years	3472.27	2908.34	2737.04	1098.21	805.35	605.74	2374.06	2102.99	2131.30
<b>Total</b>	<b>10576.62</b>	<b>9264.83</b>	<b>7940.56</b>	<b>10576.62</b>	<b>9264.83</b>	<b>7940.56</b>			

### Fixed and Floating Rate Liabilities

The liabilities and assets as on 31.03.2004 are given below :

(Rs. in crores)

Liabilities	FIXED	FLOATING	TOTAL
Deposits	9406.94	0.00	9406.94
Borrowings	183.28	0.00	183.28
<b>Other Liabilities*</b>	263.15	0.00	263.15
Bills Payable	3.09	0.00	3.09
Int. Accrued	22.02	0.00	22.02
Subordinate Debt	0.00	0.00	0.00
<b>Assets</b>			
Investments	4875.41	3.50	4878.91
Advances	860.35	3807.56	4667.91
Others**	1029.81	0.00	1029.81



\* Including provision of Rs. 76.23

\*\* Including fixed assets, other assets, cash and cash with Bank

### Financial Ratios and other Financial Information

The financial ratios and other financial information for the Bank for the last five years are given below

(Rs. in crores except figures given in %)

Year ended March 31,	2000	2001	2002	2003	2004
Average Interest Earning Assets	4833.36	5599.50	6985.62	8394.64	9697.03
Average Interest Rate for the above (%)	11.96	11.68	10.64	9.67	8.75
Interest Income	578.04	653.89	743.24	811.47	848.45
Average Interest Bearing Liabilities	4509.91	5278.42	6503.42	7733.79	8747.19
Average Interest Rate for the above (%)	10.28	9.51	9.27	8.49	7.26
Total interest expenses	463.83	501.89	602.76	656.61	634.77
Average Interest Bearing Rupee Liability	4509.91	5278.42	6503.42	7733.79	8747.19
Average Interest Rate for the above (%)	10.28	9.51	9.27	8.49	7.26
<b>Ratio of average interest earning assets to average interest bearing liabilities</b>	1.07	1.06	1.07	1.09	1.11
Interest expenses apportioned to interest earning assets	9.60	8.96	8.63	7.82	6.55
Net interest income	114.21	152.00	140.48	154.86	213.68
Net interest margin (%)	2.21	2.53	1.90	1.76	2.13
Gross yield (%)	12.60	12.37	13.31	11.95	11.15
Average cost of loan funds (%)	10.30	9.14	8.04	6.13	4.78
Interest spread (%)	1.68	2.17	1.37	1.18	1.49
Return on average assets (%) (after tax)	0.79	0.76	1.23	1.25	1.33
Average share capital and reserves to average total assets	5.56	5.51	5.35	5.83	6.38
EPS	30.19	33.67	67.57	40.83	32.93

Definitions:

1. Net Interest Margin: Net interest income divided by Avg. total assets
2. Gross yield: Total Income divided by Avg. total assets
3. Average cost of loan funds: Interest expended on borrowings divided by Avg. borrowings
4. Interest spread: Avg. yield minus Avg. cost of funds
5. Return on Avg. assets (after tax): PAT divided by Avg. total assets
6. EPS: PAT divided by number of equity shares

### CAPITAL ADEQUACY RATIO (CAR)

With a view to adopting the Basle Committee framework on capital adequacy norms which takes into account the elements of risk in various types of assets in the balance sheet as well as off-balance sheet business and also to strengthen the capital base of banks, Reserve Bank of India decided in April 1992 to introduce a risk asset ratio system for banks (including foreign banks) in India as a capital adequacy measure.

While computing the CAR, the balance sheet assets, non-funded items and other off-balance sheet exposures are assigned weights according to the prescribed risk weights and banks have to maintain unimpaired minimum capital funds equivalent to the prescribed ratio on the aggregate of the risk weighted assets and other exposures on an ongoing basis.

**Capital**

For the purpose of calculating CAR, capital of a bank is divided into two classes, namely Tier-I capital and Tier-II capital.

**Tier - I:** Tier-I capital comprises of (i) Paid-up capital, statutory reserves, and other disclosed free reserves, if any. (ii) Capital reserves representing surplus arising out of sale proceeds of assets.

**Tier -II:** Tier-II capital comprises of undisclosed reserves and cumulative perpetual preference shares, Revaluation reserves, general provision and loss reserves, hybrid debt capital instruments, subordinated debt (with an initial maturity of at least five years),. For the purpose of calculating the total capital for CAR, the sum of Tier-I capital and Tier-II capital is taken, with the condition that the Tier-II capital should not be more than Tier I capital.

**Risk Weighted Assets**

Risk adjusted assets would mean weighted aggregate of funded and non-funded items. Degrees of credit risk expressed as percentage weightings, have been assigned to balance sheet assets and conversion factors to off-balance sheet items.

**Minimum requirement of Capital Funds**

Banks were required to maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) norm of 8 percent on an ongoing basis up to the year ending 31 March 1999. With effect from the year ending 31 March 2000, banks are required to maintain a minimum CRAR of 9 percent on an ongoing basis.

**Capital Adequacy Position of the Bank**

The Bank has not defaulted on the maintenance of Capital Adequacy Ratio. The Bank's capital adequacy ratio was 13.03% as on March 31, 2004 as against the stipulated norm of 9%. Details of capital vis-à-vis risk weighted assets for the last three financial years are as under

(Rs in crore)

	2000	2001	2002	2003	2004
Tier I Capital	305.98	349.71	413.99	509.20	577.83
Tier II Capital	11.42	9.86	69.29	100.29	142.67
<b>Total Capital</b>	<b>317.40</b>	<b>359.57</b>	<b>483.28</b>	<b>609.49</b>	<b>720.50</b>
Total Risk Adjusted Assets	2875.81	3162.44	3729.40	4533.94	5528.55
CAR(%)	11.04%	11.37%	12.96%	13.44%	13.03%

The financial ratios/ capital adequacy ratios and disclosures regarding NPAs given in this document confirm to RBI norms.



## **RISK MANAGEMENT SYSTEM**

The prime objective of the Bank is to optimise the profitability by managing risks and enhance the Shareholders' value. The risks that the bank is exposed to are Credit, Market and Operational risks. Risk management deals with identifying, assessing and managing the principal risks. In the area of Risk Management, a comprehensive study has been undertaken for Corporate Risk management and well-defined policies, procedures and practices are put in place.

The bank has a risk management system that is centralized with a 3 track committee approach. An Integrated Risk Management Committee (IRMC), evaluates the overall risk faced by the bank and directly reports to the board of directors. Credit Policy Committee (CPC) deals with credit policies and procedures and the Asset Liability Management Committee (ALCO) deals with Asset Liability Management (ALM) and investment policy of the bank. The Operational Risk Management Committee (ORMC) formulates policies and procedures for managing operational risk.

The Bank has formulated a comprehensive lending policy by incorporating various parameters and prudential limits to manage and control default, transaction, intrinsic and concentration risk. The credit exposures are taken after subjecting the proposals to various risk factors such as financial risk, industry risk, management risk, etc. The bank has developed an asset quality credit risk rating system which helps to assess the borrowers credit risk and to price the loans on the risk of the borrower.

The Bank analyses the migration of borrowers in various risk rating categories to gauge the quality of the loan portfolio. In addition to the above, the bank also conducts periodical review of the loan assets to ascertain conduct of the accounts. The Bank conducts periodical Credit Audit, Concurrent Audit, Stock Audit, etc., to limit the magnitude of credit risk. Risk focused Internal Audit has also been implemented.

The Bank has put in place comprehensive Asset Liability Management policy and Investment policy. It has adopted traditional gap analysis method for measuring and managing the market risk especially the liquidity risk and interest rate risk.

The Bank has recently finalized its "Road Map to Basel-II" in line with the RBI guidelines in moving towards a more scientific Integrated Risk Management Approach and to align the capital of the Bank with its risk profile.

The portfolio mix is decided both in terms of returns and composition of the individual cases. Due diligence is done to cover the market, credit and operating risks. Lending norms are clearly laid out which translated into a credit grading and finally to acceptability of the proposal.

The Bank is cautious in building its loan portfolio and lays more emphasis on Risk Assessment. Besides complying with all general prudential norms laid down by RBI, the Bank has conservative internal prudential norms for lending. The Bank's exposure to any single borrower does not exceed total permissible exposure limits stipulated by RBI.

The Board of Directors has delegated the powers of lending - both fund based and non-fund based limits to various functionaries and also to a Committee of Directors for speedy decisions.

### **Credit Risk Assessment Procedures**

The clients are targeted based on clear norms, which seek to filter the undesirables at the entry level. The credit exposures are taken after subjecting the proposals to various risk factors such as financial risk, industry risk, management risk etc. Periodical review of account is conducted to ascertain conduct of the accounts. The Bank is also active in financing of purchase of Two Wheelers, Commercial vehicles and others vehicles.

The Bank offers a gamut of services to meet the entire credit requirements of the Corporates under one roof. These services include Fund Based and Non-fund Based credit facilities, Export Finance, Correspondent Banking & Trade Finance Services, A detailed Credit Policy encompassing all the products and services offered is in place with guidelines for Risk Management.

## **INFORMATION TECHNOLOGY**

The Bank has taken various pro-active technology Initiatives to maintain its competitive edge in the Indian Banking Industry. The bank had adopted core-banking solution Finacle in 2000 envisaging "Anytime/Anywhere Banking" and networking 221 branches/ offices upto March 31, 2004. Technological automation has enabled the Bank in offering customer-centric value-added products and services like Multi-Branch Banking (MBB), Flexi-term deposits (K-Flexi), ATM card - linked credit facility (K-power), collection of utility bills, etc. The Bank firmly believes in providing High Class Banking Services by adopting latest technology. The bank is planning to bring more number of branches under the centralized network and launch new products and delivery channels like debit cards, demat services, Internet banking, Cashtech for fast collection of cheques etc., while focusing on its retail banking initiatives.

The bank has already launched its own ATM network in select cities. With a view to increase the reach the bank has entered into ATM sharing arrangement with Corporation Bank which enables the customers of the bank to access their



accounts through 750 ATMs of Corporation bank. Bank has already put in place the necessary infrastructure and expertise for switching over to Real Time Gross Settlement System (RTGS) benefiting the clients of bank by reducing transaction time and settlement risk. Bank is planning to become member of National Financial Switch (NFS) Network launched by Institute for Development and Research in Banking Technology (IDRT).



**SUBSIDIARY AND GROUP COMPANIES**

**SUBSIDIARY COMPANIES**

The Karnataka Bank Ltd. does not have any subsidiary company.

**GROUP / ASSOCIATE COMPANIES**

The Bank has no group companies/associate companies

**MANAGEMENT****BOARD OF DIRECTORS**

The details of the Board of Directors of the Bank are given in the following table (as on 30.09.2004)

<b>Name (Age in years), Designation and Address</b>	<b>Qualifications</b>	<b>Experience</b>	<b>Nature of interest in other Companies/Firms</b>
Mr. Ananthakrishna (59) (S/o T Narayana Rao) <i>Chairman &amp; Chief Executive Officer</i> Swarna Deepa Apartment Bejai Church Road, Mangalore 575 004	M.Sc.	33 years banking sector experience	NIL
Mr. B V Acharya (70) * (S/o Ramachandra Acharya) <i>Director</i> 42, Jayamahar Extension, 5th Main Bangalore 560 046	B.A., B.L	Designated as Senior Advocate by the High Court of Karnataka. Served as Advocate-General of the State twice once in 1990 and again in 1993-94	NIL
Mr. K S Bhat (65) (S/o K Krishna Bhat) <i>Director</i> Flat No. 408, C Block, Raheja Residency, 7th Cross, 8 'C' Main, Koramangala, Bangalore 560 034	M.A. Dip. in French	Retired as Chief Post Master General, Karnataka Circle	Nil
Mr. I Ramamohan Rao (70) (S/o Inna Subba Rao) <i>Director</i> No 23, National Media Centre, Nathupur, Gurgaon Haryana 122 002	M.A., L.L.B	Retired as Principal Information Officer ( in the status of Special Secretary to Govt. of India) on 31.1.1992	NIL
Mr. M R Mayya (73) (S/o M Krishnaya) <i>Director</i> C-61, Luis Apartment, Road No. 86, Opp. Portuguese Church, Dadar (W) Mumbai 400 028	M.A.	Former Executive Director of Bombay Stock Exchange, Mumbai (served as Executive Director for 10 years) , retired from Govt. services in august, 1998 as Additional Economic Advisor	1. UTI Investment Advisory Services Ltd 2. BOB Capital Markets Ltd. (Chairman) 3. Central Depository Services (India) Ltd.
Mr. U V Bhat (70) (S/o Ullal Ramachandra Bhat) <i>Director</i> "ANANDA LAHARI", No.11-2-102 D, Kadabettu, Udupi - 576 101	B.A., B.L.	Former Chairman of Karnataka Bank (between 1993-1995). Before joining the Bank he retired from the services of Govt. of India as Principal Chief Controller of Accounts in the Central Board of Excise & Customs (CBEC)	NIL
Mr. D Surendra Kumar (53) (S/o D Rathnavarma Heggade) <i>Director</i> No. 55, Vittal Mallya Road Bangalore 560 001	B.A.	Industrialist having wide experience in field of small scale industry, cooperation and rural economy and agriculture	1. Kuduma Fasteners (P) Ltd. (Managing Director) 2. Rathnatraya Finance & Investments (P) Ltd. 3. Shrutha Builders - Partner 4. Mythri Developers - Managing Partner 5. Byduvally Estate - Partner





Mr. I. Jagdish Rao (65) (S/o I Rama Rao) <i>Director</i> "SOUMYA KUTEER", No. 46, 2nd Cross T P Venugopal Layout, R. T. Nagar Bangalore 560 032	M.Sc, C.A.I. I. B. Diploma in French	Former General Manager of SBI (SBICAPS). Over 30 years of banking experience	NIL
Mr. K.G. Jairam (41) S/o K.T. Gundappa Gowda) <i>Director</i> "ANANYA", 100 Ft. Road, Vinoba Nagar, Shimoga 577 204	B.Com.	Agriculturist/Planter/Businessman	1. Comat Technologies (P) Ltd Managing Partner - a) Kimmane Gundappa & Sons b) Kimmane Gundappa & Co.
Mr. M. Bheema Bhat (59) S/o Mittur Thimmanna Bhat <i>Director</i> 30-A/8, "K" Block, I Avenue Annanagar East, Chennai 600 102	B.Com., F.C.A.	Practicing Chartered Accountant since 1971 in Chennai. He is a partner in M/s. P Gopalkrishna Rao, Chartered Accountants, Chennai. His professional achievements include: 1) Member of Southern India Regional Council (SIRC) of ICAI for two terms 2) Chairman of SIRC of ICAI during 1985-86 3) Former member of Professional Development Committee of ICAI, New Delhi 4) Vice President - The Society of Auditors, Chennai 5) Member of the National Executive Committee of All India Federation of Tax Practitioners, Mumbai	NIL

\* Mr. B.V. Acharya, Independent Non-Executive Director has ceased to be the Director of the Bank with effect from November 26, 2004 on completion of his term of 8 years as per the Banking Regulation Act, 1949.

Except the Chairman and CEO, no other directors of the Bank have received any compensation or remuneration other than Directors sitting fees for attending Board/Committee meetings, the details of the same are as follows:

Name of Directors	Year ended 31.03.2004 (Rs.)	6 months ended 30.09.2004 (Rs)
B V Acharya	55,000	33,000
K S Bhat	84,000	19,000
I Ramamohan Rao	79,000	39,000
M R Mayya	63,000	33,000
U V Bhat	86,000	48,000
D Surendra Kumar	83,000	51,000
I Jagdish Rao	78,000	45,000
K G Jairam	50,000	25,000
M Bheema Bhat	71,000	42,000
<b>TOTAL</b>	<b>6,49,000</b>	<b>3,35,000</b>



## Corporate Governance

The provisions of Corporate Governance are applicable to KBL from the financial year 2001-02. The Bank has already implemented all the applicable Corporate Governance Codes w.e.f. March 31, 2002 with respect to broad basing of the Board, constituting of various committees etc. The details of the major initiatives undertaken by the Bank are given below:

**Board of Directors:** The Board of Directors of the Bank consists of 10 directors (as on March 31, 2004) including the Chairman who is the Chief Executive Officer. The constitution of the Board is in accordance with the provisions of Section 10B of the Banking Regulation Act, 1949. The Board consists of eminent personalities drawn from specialized fields like banking, finance, accountancy, law and other fields as specified in the said Act. All the directors on the Board are independent directors.

**Committees of the Board:** The Board of Directors has constituted the following Committees of Directors:

1. **Executive Committee of the Board of Directors:** In order to facilitate the Board to concentrate on policy matters and strategic planning etc., an Executive Committee of Board of Directors has been constituted with certain lending and non-lending powers. The Committee is headed by the Chairman and the Chief Executive Officer. The other members of the Executive Committee are:

Mr. Ananthakrishnan	Chairman and CEO
Mr. U.V. Bhatt	Independent Non Executive Director
Mr. D. Surendra Kumar	Independent Non Executive Director
Mr. I. Jagdish Rao	Independent Non Executive Director

2. **Committee for the Information Technology (IT) Strategy:** The Bank has constituted a Committee on July 29, 1999 headed by the Chairman to recommend appropriate IT strategy to be adopted in the Bank and to oversee the IT implementation in the Bank. Mr.K.S. Bhat is the other member in the above committee.
3. **Audit Committee of the Board of Directors:** The Bank had constituted an Audit Committee of the Board in 1995 as per the directions of the RBI to look into those matters specified by it. The functioning of the Committee was modified to fall in line with the requirements of the listing agreement and the Companies Act, 1956. The terms of reference of the Committee include overseeing the Bank's financial reporting process ensuring correct, sufficient and credible disclosure of financial information, recommending appointment and removal of external auditors and fixing of their fees, reviewing with management the annual financial statements, the adequacy of internal audit function and the Bank's financial and risk management policies. Audit Committee is also responsible for functions as prescribed u/s. 292A of the Act and clause 49 of the Listing Agreement with the stock exchange. As on September 30, 2004 the following were the members of the members of the Audit Committee :

Mr. K.S. Bhat	Independent Non Executive Director
Mr. I. Ramamohan Rao	Independent Non Executive Director
Mr. D. Surendra Kumar	Independent Non Executive Director
Mr. M. Bheema Bhat	Independent Non Executive Director - Chairman of the committee

4. **Shareholders/Investors Grievance Committee:** The Bank has constituted a sub-committee of the Board to specifically look into the grievances of the investors and the shareholders. 11 complaint were pending for redressal for the quarter ended 30.9.2004. However, the same were redressed during the first week of October 2004 to the satisfaction of investors. The Committee is headed by Shri I Ramamohan Rao and the other members of the committee are Shri K.S. Bhat and Shri M.R. Mayya.

5. **Fraud Monitoring Committee:**

As per the directions of the Reserve Bank of India, the Board has constituted a special Committee on 17.2.2004 exclusively dedicated to the monitoring and following up of cases of fraud involving amounts of Rs.1 crore and above. The terms of reference of the Committee are as under:

- a. Identify the systems lacunae, if any, that facilitated perpetration of the fraud and put in place measures to plug the same.
- b. Identify the reasons for delay in detection, if any, reporting to top management of the Bank and RBI.
- c. Monitor progress of CBI/Police investigation, and recovery position.



- d. Ensure that staff accountability is examined at all the levels in all the cases of frauds and staff side action, if required, is completed quickly without loss of time.
- e. Review the efficacy of the remedial action taken to prevent recurrence of frauds such as strengthening of internal controls.
- f. Put in place other measures as may be considered relevant to strengthen preventive measures against frauds.

The Committee is functioning under the Chairmanship of Shri Ananthakrishna. The other members of the Committee as on September 30, 2004 were Shri B V Acharya Shri K S Bhat, Shri U V Bhat and Shri M Bheema Bhat.

#### **Committees of Executives**

Apart from the Board Committees the Bank has also constituted several committees of executives like Asset and Liability Management Committee (ALCO), Investment Management Committee, Credit Management Committee, Integrated Risk Management Committee etc. The Committees meet regularly to take decisions on respective matters.

#### **NATURE AND INTEREST OF PROMOTERS / DIRECTORS**

No director of the Bank is interested in the appointment of the Lead Manager and Registrars. No director of the Bank is interested in any property acquired by the Bank within two years of the date of LoF or proposed to be acquired by it. The directors are not interested in any loan or advance given by the Bank to any person(s)/ company/ companies nor are they beneficiaries of any loan or advance except as provided below as on 30.9.2004:

Name	Relationship	Facility sanctioned (Rs. in lakhs)			Asset classification
			Limit	Balance	
1. K.G. Swarna latha	Sister of Sri K.G. Jairam	Term Loan	15.00	7.64	Standard
		Term loan	6.00	3.72	„
2. S.V. Manjunath	Brother Inlaw of K.G.Jairam	Term loan	7.00	3.71	Standard
3. Comat Infoscribe P.Ltd.	Smt. Pawana Jairam Director of the co. is wife of K.G. Jairam	Term loan	95.00	15.19	Standard
		S.L	20.00	19.81	„
		B. G	2.50	2.50	„
4. Ullal Balakrishna Bhat	Brother of U.V. Bhat	Term loan	30.00	28.00	Standard
<b>AND</b>					
Shailaja .U. Bhat		PSTL	9.40	9.40	„
5. Dr. Rohit Rao	Son of Sri Ram Mohan Rao	DPN	4.00	4.09	Standard

PSTL - Priority sector term loan

DPN - Demand Promissory note

SL - Shipping Loan

BG - Bank Guarantee

The directors of the Bank are interested to the extent of dividend which is distributed on the shares held by them and/or by their friends and relatives at the end of the financial year after necessary appropriation. The directors are interested to the extent of fees, if any, payable for attending meetings of the Bank and reimbursement of travelling and other incidental expenses, if any, for such attendance.

**CHANGES IN DIRECTORS**

The changes in the directors of the Bank in the last three years are given below:

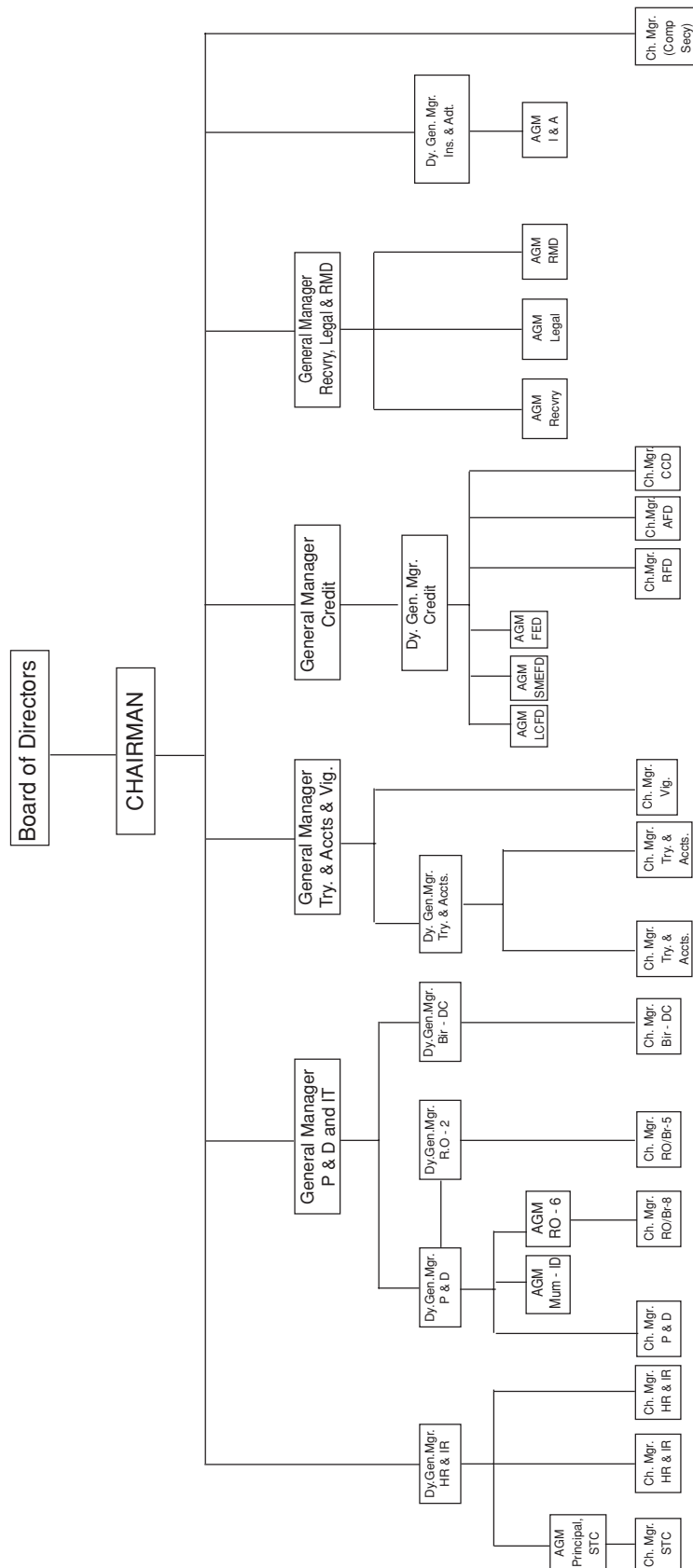
<b>S.No.</b>	<b>Name of Director (Mr.)</b>	<b>Date of Appointment/ Resignation/completion of term</b>	<b>Reason for Change</b>
2001-02	U.V. Bhat	02.08.2001	Appointed as Director at the AGM u/s Section 257 of the Companies Act, 1956.
	D. Surendra Kumar	02.08.2001	—do—
	I. Jagdish Rao	02.08.2001	—do—
	K.G. Jairam	02.08.2001	—do—
2002-03	A. Krishna Kumar Kodgi	25.06.2002	Completed the term of 8 years as provided under B R Act.(Section 10A [2-A]
	M. Bheema Bhat	28.09.2002	Appointed as a Director by the Board u/s 260 of the Companies Act, 1956.
2003-04	M. Bheema Bhat	31.7.2003	Appointed as a Director at the AGM u/s 257 of the Companies Act, 1956.
	K N Ramasubramanian	19.1.2004	Completed the term of 8 years as provided under B R Act.(Section 10A [2-A]
	Mr. B. V. Acharya	26.11.2004	completion of his term of 8 years as per the Banking Regulation Act, 1949



## ORGANISATION STRUCTURE

The organisation structure of the Bank is as follows:

### Organisational Setup as on 01-09-2004



**KEY MANAGERIAL PERSONNEL**

The day to day operations of the Bank are looked after by the Chairman & CEO who is assisted by an experienced and able team comprising General Managers, Deputy General Managers and others. Bank has identified following key management personnel the brief details of whom are as under:

Name	Designation & Functional area	Qualification	Experience in the Bank (years)	Date of appointment	Previous employment
Mr. Ananthakrishna	Chairman & CEO	M.Sc	33	11.7.2000 (assumed Charge on 13.7.2000)	Hindustan Aeronautics Ltd., Bangalore
Mr. P. Jayaram Bhat	General Manager-P&D and I.T.	M.Sc, CAIIB	31	17.1.1973	Govt. Higher Secondary School, Mulki
Mr. M. Gopalakrishna Bhat	General Manager-Treasury & Accounts and Vigilance Cell	M.Com.	32	11.4.1972	—
Mr. N.S. Chakker	General Manager-Credit	B.Sc., PGDBM	33	9.3.1971	—
Mr. Jayagopal Yekkar	General Manager-Legal, Recovery & Risk Management Dept	B.Sc., CAIIB	29	29.10.1975	—

Except the Chairman and CEO the above persons are on rolls of the Bank as permanent employees. The Bank also has in place a regional structure where regional heads are administratively and functionally responsible for all products in their respective regions. The regional heads are senior officials of the Bank.

**Following are the details of compensation paid to key management personnel during the period 1.4.2004 to 30.9.2004**

Name	Total cost to Bank in Rs.
Mr. Ananthakrishna	915120
Mr. Jayarama Bhat	211590
Mr. Gopalakrishna Bhat	201092
Mr. N S Chakker	209037
Mr. Jayagopal Yekkar	199886

**SHAREHOLDING OF KEY MANAGEMENT PERSONNEL (KMP)**

The aggregate shareholding of key management personnel along with relatives as on November 19, 2004 was 7708 shares. The table provides details of shareholding of key management personnel with their relatives.

Name of KMP and their relatives	Designation of KMP / Relationship with KMP	Number of shares held on November 19, 2004
Mr. Ananthakrishna	Chairman & CEO	2100
Mr. P. Jayram Bhatt	GM - Planning & Development & IT	350
Mr. M. Gopala Krishna Bhatt	GM - Treasury, Accounts & Vigilance	1471
Mr. N.S. Chakker	GM - Credit	1000
Mr. Jayagopal Yekkar	GM - Legal, Recovery & Risk Management Dept.	1087
Mrs. Renuka devi	Wife of Mr. Ananthakrishna	200
Mr. T. Jagdish Rao	Brother of Mr. Ananthakrishna	700
Mr. T. Shreenivasa Rao	Brother of Mr. Ananthakrishna	400
Mr. T. Ganesha Rao	Brother of Mr. Ananthakrishna	400

**CHANGES IN KEY MANAGEMENT PERSONNEL**

The changes in the key management personnel in the last three years are given below:

Name of Employee	Date of Appointment/ Resignation/ completion of term	Designation	Reason for Change
Shridhara M. Shetty	31.3.2003	Chief General Manager	Retired from services.

**HUMAN RESOURCES**

The total manpower strength of the Bank as on March 31, 2004 was 4300. The manpower position of the Bank for the last five years is as under:

As at March 31	Total no. of employees	No. of branches
2000	4075	347
2001	4084	354
2002	4144	357
2003	4320	360
2004	4300	370

The Bank's employees are its key assets and they have been a major contributing factor in the performance of the Bank. To provide a qualitative and timely service the Bank continued to stress on aspects like efficiency, prompt and quick service to its customers. Necessary training has been imparted to the staff members both at the Staff training College of the Bank and at specialised out side organizations to upgrade the skill of the employees. Adequate training has been imparted for up gradation of skills to operate improved technology.

**RBI INSPECTION**

The Bank's activities are governed by Banking Regulation Act, 1949. RBI, as a supervisor, oversees the activities of the Bank. RBI conducts an annual financial inspection of the Bank. Simultaneously, branch inspection is also carried out. Discussions with the management of the Bank also form a part of the inspection and surveillance process. The Bank is audited by statutory auditors approved by RBI.

**CHANGES IN AUDITORS IN THE LAST THREE YEARS**

M/s. Kamath & Rau , Chartered Accountants, Karangalpaday, Near Bunts Hostel, Mangalore-575003, retired after completing their term, as one of the Statutory Central Auditors of the Bank at the Annual General Meeting of the Bank held on July 29, 2004. As per the extant RBI guidelines the normal term of appointment of auditors is maximum of four years.

M/s P Ishwara Bhat & Co , Chartered Accountants, # 107, Swiss Complex # 33, Race Course Road, BANGALORE-560001 and M/s Rao & Swami, Chartered Accountants, 2/1 , Connaught Road, Bangalore- 560052 were appointed jointly as Statutory Central Auditors of the Bank at the Annual General Meeting held on July 29, 2004 for the year 2004-05.

**PREVIOUS ISSUES OF PROMOTERS**

Not applicable since there are no identifiable promoters.

**INVESTOR GRIEVANCES AND REDRESSAL SYSTEM**

All the complaints received from the investors are being attended by the Banks share transfer agent, M/s. Alpha Systems Private Limited, Bangalore. Company Secretary being Compliance Officer monitors the redressal of the complaint at periodic interval. Normally complaints are attempted to be disposed off within a week of receipt of complaints. A sub-committee of the Board also reviews the redressal of investor grievance periodically.

Investors may contact the Compliance Officer in case of any pre-issue / post-issue related matters such as non-receipt of Letter of Offer/ Letter of Allotment / CAF / share certificate(s) / refund orders / demat credit, etc. The Bank has appointed Mr. Y.V. Balachandra as the Compliance Officer.





Complaint letters should be either type written or legibly hand written quoting Folio number /beneficiary account number, application number, number of shares applied for, name and address of the first applicant, name and address of the Bank, Branch where application was submitted with date thereof, and the date of receipt by the Registrars to the Issue in case application was sent by Post. Envelopes containing the complaints should be addressed to:

**Mr. Y.V. Balachandra**

Company Secretary

The Karnataka Bank Ltd.

P. B. No. 599, Mahaveera Circle, Kankanady, Mangalore 575 002

Tel.: (0824) 2228222, 2228182, Fax: (0824) 2225588

E-mail: comsec@ktkbank.com



**FINANCIAL PERFORMANCE OF THE BANK  
AUDITORS REPORT**

The Board of Directors  
The Karnataka Bank Ltd.  
Regd. & Head Office, Mangalore 575 002.  
Dear Sirs,

We were engaged to report on the financial information of The Karnataka Bank Limited (the Bank) annexed to this report, which is required to be prepared in accordance with Clause B of Part II of Schedule II of the Companies Act, 1956 and Clause 6.18 of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (the Guidelines) issued by Securities and Exchange Board of India (SEBI) in pursuance of section 11 of the Securities and Exchange Board of India Act 1992, to the extent they are not inconsistent with the Banking Regulation Act, 1949 (the Banking Regulation Act). This financial information is proposed to be included in the offer document of the Bank in connection with its proposed rights issue of equity shares of Rs. 10 each at a premium of Rs. 10 per share in the ratio of 2:1.

We have examined the following financial information relating to the Bank to be included in the Letter of Offer as approved by the Board and annexed to this report:

- 1) The financial statements for the five years ended March 31, 2004 and for the half year ended September 30, 2004 in Parts I & II of Annexure A.
- 2) The dividends declared by the Bank in respect of the five financial years ended March 31, 2004 in Part III of Annexure-A
- 3) Break up of Investments made by the Bank in Part IV of Annexure-A.
- 4) Various financial ratios in Part V of Annexure A.
- 5) Significant Accounting Policies adopted by the Bank, other information and Notes to Accounts for the five years ending March 31, 2004 and for the half year ended September 30, 2004 in Part I & II of Annexure B.
- 6) The Capitalisation Statement in Part I, Statement of Taxes ( Tax Shelter Statement) in Part II and Principal terms of Borrowings in Part III of Annexure-C.

For the purpose of the above examination and this report we have placed reliance on the following:

1. The audited financial statements of your Bank for the five financial years ended March 31, 2004, being the last date to which the accounts of the Bank have been made up and audited by the Auditors of the Bank for those respective years. These statements have been prepared in accordance with the provisions of the Banking Regulation Act, 1949.
2. The Profit & Loss Account for the half-year ended September 30, 2004 and the Balance Sheet as at that date of the Bank approved by the Board of Directors on 25th November, 2004 which have been examined by us and found correct with reference to the records furnished at Head office. We have not expressed an opinion on these accounts, as they have not been audited. The financial results published by the Bank for the half year ended September 30, 2004, pursuant to clause 41 of the listing agreement with the stock exchanges have been subjected to a limited review to obtain moderate assurance that these results do not contain material misstatements.

The Bank has no subsidiary company. There are no discontinued activities of the Bank during the period covered in our report having a material impact on the accounts.

Particulars of significant changes in accounting policies and practices of the Bank during the period of five financial years ended March, 31, 2004 are given in Part III of Annexure-B, together with the impact to the extent quantified in the financial statements in the year of change. Your attention is also drawn to the Note on Events Occurring after the Balance Sheet Date in Part III that the Bank has not been able to determine the impact of the pending wage revision.

Adjustments have not been carried out in each of the accounting years preceding the year of each change of accounting policy or for the impact of the wage revision, as the necessary information was not available with the Bank or it was not found practicable. Subject to the same we confirm that the Statement of Profits and Assets & Liabilities of The Karnataka Bank Ltd., have been prepared by the Bank in accordance with the requirements of Clause B of Part II of Schedule II of the Companies Act, 1956 and Clause 6.18 of the SEBI (Disclosure & Investors Protection) Guidelines, 2000 as amended till date after charging all expenses and making adjustments and re-grouping which in our opinion are appropriate.

**For P. ISHWARA BHAT & CO.**  
CHARTERED ACCOUNTANTS,

**For RAO & SWAMI**  
CHARTERED ACCOUNTANTS,

**(P. ISHWARA BHAT)**  
M No. 19716  
PARTNER

**(H. ANIL KUMAR)**  
M No 22329  
PARTNER

Place: Bangalore  
Date: November 26, 2004



ANNEXURE - A

Part I: Statement of Profits

(Rs. in crores)

Particulars	2000	2001	2002	2003	2004	Half year ended 30.09.04
<b>I Income</b>						
<b>1 Interest Earned</b>						
1.1 Interest and Discount on Advances	301.54	346.59	389.09	399.94	416.82	224.41
1.2 Income on Investment	243.01	259.36	317.53	389.75	405.16	185.25
1.3 Interest on Balances with RBI and other inter-bank lendings	32.17	41.41	35.42	19.04	18.33	7.09
1.4 Interest on income tax	Nil	Nil	Nil	1.34	6.73	0.03
1.5 Others	1.31	6.53	1.20	1.40	1.41	3.01
<b>2 Other Income</b>						
2.1 Commission, Exchange & Brokerage	39.98	43.11	45.61	48.16	53.25	28.32
2.2 Profit on Exchange Transactions (net)	9.89	9.42	10.32	12.13	13.98	7.03
2.3 Profit on Sale of Investments (net)	16.17	30.32	179.74	173.75	196.31	97.30
2.4 Profit on Sale of Land, Building & Other Assets (net)	0.10	0.12	-0.21	-0.08	-0.18	-0.08
2.5 Lease Income	3.68	3.47	2.31	2.10	1.67	-0.16
2.6 Miscellaneous Income	2.44	3.04	3.25	3.17	5.25	3.53
<b>Total Income</b>	<b>650.29</b>	<b>743.37</b>	<b>984.26</b>	<b>1050.70</b>	<b>1118.73</b>	<b>555.73</b>
<b>II Expenses</b>						
<b>1 Interest Expended</b>						
1.1 On Deposits	446.59	489.90	592.44	644.55	622.33	267.69
1.2 On RBI/Inter-Bank Borrowings	8.86	7.03	6.53	8.20	7.27	0.82
1.3 On Others	8.37	4.96	3.79	3.86	5.17	2.55
<b>2 Payments to and Provisions for employees</b>	<b>75.28</b>	<b>71.77</b>	<b>88.97</b>	<b>89.21</b>	<b>94.05</b>	<b>54.05</b>
<b>3 Amortization of VRS expenditure</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>4 Rent, Taxes &amp; Lighting</b>	<b>7.42</b>	<b>8.59</b>	<b>9.04</b>	<b>11.11</b>	<b>12.73</b>	<b>6.92</b>
<b>5 Insurance</b>	<b>2.65</b>	<b>2.78</b>	<b>3.52</b>	<b>4.27</b>	<b>3.62</b>	<b>4.06</b>
<b>6 Printing &amp; Stationery</b>	<b>1.43</b>	<b>1.46</b>	<b>1.59</b>	<b>1.86</b>	<b>2.13</b>	<b>1.11</b>
<b>7 Advertisement</b>	<b>0.33</b>	<b>0.46</b>	<b>0.60</b>	<b>1.58</b>	<b>2.23</b>	<b>0.66</b>
<b>8 Postage, Telegrams, Telephones etc.</b>	<b>1.05</b>	<b>1.24</b>	<b>1.81</b>	<b>2.24</b>	<b>2.10</b>	<b>1.22</b>
<b>9 Repairs &amp; Maintenance</b>	<b>1.73</b>	<b>1.24</b>	<b>2.38</b>	<b>3.45</b>	<b>5.14</b>	<b>3.75</b>
<b>10 Law Charges</b>	<b>0.07</b>	<b>0.08</b>	<b>0.10</b>	<b>0.10</b>	<b>0.37</b>	<b>0.44</b>
<b>11 Directors' Fees, Allowances, Expenses</b>	<b>0.10</b>	<b>0.15</b>	<b>0.13</b>	<b>0.13</b>	<b>0.20</b>	<b>0.07</b>
<b>12 Auditors Fees &amp; Expenses (including branch auditors)</b>	<b>0.24</b>	<b>0.25</b>	<b>0.32</b>	<b>0.34</b>	<b>0.42</b>	<b>0.26</b>
<b>13 Other Expenditure</b>	<b>7.28</b>	<b>8.49</b>	<b>10.31</b>	<b>11.48</b>	<b>14.33</b>	<b>8.08</b>
<b>14 Depreciation on Bank's Properties</b>	<b>8.08</b>	<b>8.90</b>	<b>11.85</b>	<b>14.95</b>	<b>16.85</b>	<b>8.48</b>
<b>Total Expenses</b>	<b>569.48</b>	<b>607.30</b>	<b>733.38</b>	<b>797.33</b>	<b>788.94</b>	<b>360.16</b>
Gross Profit before provision for tax & extraordinary items	80.81	136.07	250.88	253.37	329.79	195.57
<b>Less:</b>						
Extraordinary items	Nil	Nil	Nil	Nil	Nil	Nil



Gross Profit before provision for tax	80.81	136.07	250.88	253.37	329.79	195.57
Provisions and Contingencies **	22.55	90.66	159.75	143.25	196.62	125.56
Net Profit	58.26	45.41	91.13	110.12	133.16	70.01
Balance of Profit/(Loss) Brought forward	0.01	0.04	0.00	0.01	0.01	0.00
Transfer from Investment Reserve	Nil	Nil	21.45	8.48	0.72	0.00
Transfer from Investment Fluctuation Reserve	Nil	5.35	Nil	Nil	Nil	Nil
Prior Period Adjustment	Nil	Nil	Nil	Nil	Nil	Nil
Profit Available for Appropriation	58.27	50.80	112.58	118.61	133.89	70.01
<b>APPROPRIATIONS</b>						
Transfer to Statutory Reserve	29.58	30.00	60.00	60.00	67.00	N.A
Transfer to Revenue & Other Reserve	15.90	14.11	16.98	2.32	2.40	N.A
Transfer to/from Investment Fluctuation reserve	5.35	Nil	27.50	46.25	46.25	N.A
Dividends to shareholders	6.07	6.07	8.09	8.89	16.17	N.A
Rate of Dividend (%)	45	45	60	22.00	40.00	N.A
Dividend Tax	1.33	0.62	0.00	1.14	2.07	N.A
Balance carried to Balance Sheet	0.04	0.00	0.01	0.01	0.00	70.01

(\*\* Not Annualised)

## **ANNEXURE A**

### **Part II: Statement of Assets and Liabilities**

(Excluding Revaluation Reserve on Fixed Assets)

(Rs. in crores)

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Half year ended 30.9.2004</b>
<b>A Assets</b>						
1 Cash in hand	41.39	47.50	45.62	43.82	56.21	70.38
2 Balances with RBI	486.94	346.37	296.06	393.46	332.57	493.65
3 Balances with Banks in India	487.84	407.69	254.02	173.20	266.75	163.49
Balances with Banks outside India	10.48	43.51	47.32	25.31	8.77	22.23
4 Money at Call & Short Notice	Nil	Nil	NIL	Nil	85.00	Nil
5 Investments in India	2062.78	2787.01	3467.15	4432.61	4878.91	4590.98
Investments outside India	Nil	Nil	Nil	Nil	Nil	Nil
Total Investments	2062.78	2787.01	3467.15	4432.61	4878.91	4590.98
Advances						
6 Advances in India	2451.43	2828.22	3417.55	3899.70	4667.92	4810.12
Advances outside India	Nil	Nil	Nil	Nil	Nil	Nil
Total Advances	2451.43	2828.22	3417.55	3899.70	4667.92	4810.12
7 Fixed Assets	71.66	76.89	74.33	79.11	93.17	92.23
8 Other Assets	129.75	139.60	160.88	217.62	187.33	336.82
<b>Total (A)</b>	<b>5742.27</b>	<b>6676.79</b>	<b>7762.93</b>	<b>9264.83</b>	<b>10576.63</b>	<b>10579.90</b>



<b>B. Liabilities</b>						
1 Demand Deposits						
From Banks	4.62	3.76	2.66	3.39	4.20	1.83
From Others	397.12	391.01	397.33	462.47	564.56	600.70
2 Savings Deposits	694.37	795.12	908.48	1069.68	1338.94	1424.76
3 Term Deposits						
From Banks	379.26	312.15	170.88	294.11	300.63	177.31
From Others	3698.80	4573.45	5522.13	6462.07	7198.61	7046.15
Total Deposits (1+2+3)	5174.17	6075.49	7001.48	8291.72	9406.94	9250.75
4 Borrowings						
In India	133.77	130.26	96.81	131.04	26.68	9.09
Outside India	Nil	Nil	Nil	34.30	156.60	156.22
Total Borrowings	133.77	130.26	96.81	165.34	183.28	165.31
5 Other Liabilities & Provisions	122.46	121.16	222.65	224.36	288.26	395.68
6 Subordinate debts	Nil	Nil	Nil	Nil	Nil	Nil
Total ( B )	5430.40	6326.91	7320.94	8681.42	9878.48	9811.74
C. Net Assets (C = A - B)	311.87	349.88	441.99	583.41	698.15	768.16
Represented by:						
D. Capital	13.50	13.50	13.50	40.43	40.43	40.43
E. Reserves & Surplus						
1. Statutory Reserve	150.00	180.00	240.00	300.00	367.00	367.00
2. Capital Reserve/share premium	71.98	71.98	71.98	78.72	78.72	78.72
3. Investment Fluctuation	5.35	Nil	27.50	73.75	120.00	120.00
Reserve						
4. Revenue & Other Reserves	71.00	84.40	89.00	90.50	92.00	92.00
5. Balance of Profit & Loss						
Account (Adjusted)	0.04	0.00	0.01	0.01	0.00	70.01
Total (E)	298.37	336.38	428.49	542.98	657.72	727.73
F. Total ( D + E )	311.87	349.88	441.99	583.41	698.15	768.16



Contingent Liabilities	2000	2001	2002	2003	2004	Half year ended 30.9.04
1) Claims against the Bank not acknowledged as Debts	7.38	7.22	14.62	8.66	11.11	9.39
Less: Margin	0.60	0.58	0.64	0.67	0.62	0.90
	6.78	6.64	13.98	7.99	10.49	8.49
2) Liability for partly paid Investments	Nil	Nil	Nil	Nil	Nil	Nil
3) Liability on account of outstanding Forward Exchange contracts	2642.04	1421.13	1063.93	881.00	1163.50	1219.90
4) Guarantees given on behalf of constituents	158.45	188.76	267.07	311.34	390.92	419.85
Less: Margin	63.17	84.86	108.80	118.57	143.18	153.59
	95.28	103.90	158.27	192.77	247.74	266.26
5) Acceptance, endorsements and other obligations	169.91	162.67	182.30	236.59	323.61	436.83
Less: Margin	24.48	45.23	20.00	33.66	39.96	53.64
	145.43	117.44	162.30	202.93	283.65	383.19
6) Other items for which the bank has contingent liability	34.95	63.23	35.25	123.61	144.86	60.27
Total (net)	2924.48	1712.34	1433.73	1408.29	1850.23	1938.11
Total Gross (including margin in items)	3012.73	1843.01	1563.17	1561.20	2034.00	2154.73
BILLS FOR COLLECTION	228.22	363.39	366.06	251.43	264.20	142.38

Details of Disputed Income Tax Liability

Rs. in crore

Year ended March 31,	2000	2001	2002	2003	2004	Half year ended 30.9.04
1) a) Disputed income tax liability included under Contingent Liability: item no. (1)	0	0	4.83	0.28	2.25	0
b) Disputed tax liability paid under Protest	5.59	6.76	12.54	21.11	37.13	39.05
c) Disputed tax liability fully provided for	0	0	0	0	0	0
d) Disputed tax liability shown under Contingent Liability: item no (6)	13.11	0	0	0	0	0
Total disputed tax liability	18.70	6.76	17.37	21.39	39.38	39.05

**ANNEXURE A**

## Part III

**Details of Dividend paid: -**

(Rs. in crore)

Year ended March 31,	2000	2001	2002	2003	2004
Dividend paid (%)	45	45	60	22	40
No of Equity Shares of Rs.10 each	13486222	13486222	13486222	40416966	40424716
a) Amount of Dividend paid	6.07	6.07	8.09	8.89	16.17
b) Dividend Tax paid	1.33	0.62	0.00	1.14	2.07
c) Amount of total Dividend paid(a+b)	7.40	6.69	8.09	10.03	18.24

**ANNEXURE A**

## Part IV

**Details of Investment: -**

(Rs. in crore)

Year ended March 31,	2000	2001	2002	2003	2004
SLR Investment	1389.16	2224.96	2874.00	3416.09	3008.97
Non SLR Investment	673.62	562.05	593.15	1016.52	1869.94
Total Investment	2062.78	2787.01	3467.15	4432.61	4878.91

**ANNEXURE A****Part V: Financial Ratios**

Period ended	31.03.2000	31.03.2001	31.03.2002	31.3.2003	31.3.2004	30.9.2004
Earning Per Share (Rs.)	30.19	33.67	67.57	40.83	32.93	17.32*
Net Asset Value per Share (Rs.)	231.25	259.43	327.73	144.35	172.70	190.02
Return on Net Worth (%)	14.20	13.72	23.02	21.48	20.78	9.55*

\*Not Annualised

**ANNEXURE B****Part I: Significant Accounting Policies****1. GENERAL:**

The accompanying financial statements have been prepared on historical cost basis in conformity with the prevalent statutory provisions and standard accounting practices except wherever otherwise stated.

**2. REVENUE RECOGNITION:**

Income and expenditure are generally accounted for on accrual basis except Income on non-performing assets which is recognised to the extent realised as per prudential norms issued by RBI and receipt of commission, exchange, rent on safe deposit lockers all of which are accounted on cash basis.

**3. INVESTMENTS: .**

Investments have been presently classified under the heads "Held to Maturity" and "Available for Sale" and have been valued in accordance with the RBI guidelines. The value net of depreciation has been shown in the Balance Sheet. The excess of acquisition cost over the face value of securities under "Held to Maturity" is amortised over the remaining period of Maturity.

**4. ADVANCES:**

All outstanding advances are reviewed and classified under 4 categories namely  
 Standard Assets  
 Sub-Standard Assets  
 Doubtful Assets and





#### Loss Assets

Provision for Non-performing and Standard Advances has been made on the basis of asset classification and provisioning requirement under the prudential norms laid down by the Reserve Bank of India. Advances shown in the Balance Sheet are net of provisions (including Floating Provision) for Non Performing Advances and unrealised interest.

#### 5. FIXED ASSETS

Premises and other fixed assets have been shown at cost as reduced by depreciation written off to date.

6. **DEPRECIATION:** - Depreciation on fixed assets has been provided on written down value method as per the rates specified under Schedule -XIV of the Companies Act 1956, except in respect of computers where depreciation is provided at a flat rate of 33.33 % as per RBI guidelines. Depreciation on assets purchased during the year has been computed upto the end of the year including for the entire month in which the asset was capitalised, and on assets sold/scraped, upto the end of the month in which it is sold/scraped. Depreciation of leased assets has been spread over the Primary Lease Period as per RBI guidelines.

#### 7. FOREIGN CURRENCY TRANSACTIONS:

- a) Outstanding Forward Exchange contracts and NOSTRO accounts have been evaluated as per FEDAI Guidelines, as advised by the Reserve Bank of India, and the resultant gain or loss is recognised in the Profit and Loss account.
- b) Borrowings in foreign currency outstanding as on 31.03.2004 have been valued as per Accounting Standard 11.

#### 8. STAFF BENEFITS:

Provision for payment of Gratuity and Pension are made on actuarial basis and paid to the concerned funds and leave encashment benefit payable at a future date to the employees has been accounted on accrual basis as per actuarial valuation.

#### 9. INCOME TAX :

The provision for tax for the year comprises of current tax liability and deferred tax liability which recognises, subject to the consideration of prudence, timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

#### SEGMENT REPORTING:

The Bank has recognised the Business Segments as the Primary Reporting Segments and Geographical Segments as Secondary Segments in accordance with the RBI guidelines in compliance with the Accounting Standard 17.

The Business Segments have been divided into (a) Banking Operations and (b) Treasury Operations.

- (iii) The Geographical Segments consists only of the Domestic Segment, as the Bank does not have any foreign branches.

#### NET PROFIT

The net profit disclosed in the Profit & Loss Account is after making necessary provisions for taxes, NPA, Standard Advances, Investments and reversing of the unrealised income accounted on Non-Performing Assets as per RBI guidelines.

#### ANNEXURE B

##### Part II: Notes on Accounts

#### NOTES ON ACCOUNTS FORMING PART OF THE BALANCE SHEET AS ON AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2004

##### 1. Reconciliation of Branch Adjustments and Balancing of Subsidiary Ledgers.

- a) Reconciliation of branch adjustments accounts has been completed upto 31-03-2004 and steps are being taken to give effect to consequential adjustments of pending items.
- b) Balancing of subsidiary ledgers pending in a few branches is in progress.



**2. Prior period items (Accounting Standard 5): -**

There are no significant prior period items required to be disclosed.

**3. Segment reporting (Accounting Standard 17):**

The bank has identified two business segments, viz. Treasury and Banking Operations. Treasury Operations mainly comprise of surplus SLR & Non SLR investments and Banking Operations comprise of all other activities. Interest and other costs have been allocated on reasonable basis.

(Rs. in Crore)

Business Segments	Treasury		Other Bank Operations		Total	
Particulars	31.03.2004	31.03.2003	31.03.2004	31.03.2003	31.03.2004	31.03.2003
Revenue	409.20	392.68	709.54	658.02	1118.74	1050.70
Result	140.22	125.37	83.85	65.71	224.07	191.08
Unallocated expenses					22.61	18.87
Profit before tax					201.46	172.21
Income tax					68.30	62.09
Net profit					133.16	110.12
<b>Other information</b>						
Segment Assets	2665.58	2459.64	7780.43	6692.92	10446.01	9152.56
Unallocated Assets					130.62	112.27
Total Assets					10576.63	9264.83
Segments Liabilities	2573.91	2430.14	7764.51	6680.24	10338.42	9110.38
Unallocated Liabilities					238.21	154.45
Total Liabilities					10576.63	9264.83

**4. Related Party Disclosure (Accounting Standard 18):**

There is no related party transaction other than remuneration of Rs. 11,22,107/- paid to Sri Ananthakrishna, Chairman and Chief executive Officer.

**5. Deferred Tax Assets and Liabilities - Accounting Standard 22:** - The Bank has recognised Deferred Tax liabilities. However, as a measure of prudence, deferred tax assets have not been recognised. The major components of the deferred tax liabilities are as follows: -

**Timing Differences:**

(Rs. in crore)

**Deferred Tax Liabilities**

	As on 31.03.2004	As on 31.03.2003
Depreciation on fixed assets	14.26	11.58
Interest income	0.00	22.30
Total	14.26	33.88

**6. Earning per share (Accounting Standard 20):**

	31.03.2004	31.03.2003
i) Earning per share Rs.	32.93	40.83
ii) Net Profit as per Profit and Loss Account Rs. In crore	133.17	110.12
iii) No of Equity Shares (weighted Avg.)	40441616	26972444

The weighted average share includes 16,900 bonus shares (Previous year 23,850) yet to be issued pending claim.

The Net profit for the year has been used as the numerator and the weighted average number of equity shares as denominator in calculating the earning per share.

**7. Corporate Debt Restructuring of Loans & Advances: -****(Rs. in crore)**

	<b>31.03.2004</b>	<b>31.03.2003</b>
Total Amount of Standard Loans & Advances	14.40	0.00
Total Amount of Sub Standard Loans & Advances	2.84	0.00
Total Amount of Doubtful Advances	0.00	0.00
<b>TOTAL</b>	<b>17.24</b>	<b>0.00</b>

**8. a.) Investments in:****(Rs. in crore)**

	<b>31.03.2004</b>	<b>31.03.2003</b>
Equity Shares	8.07	3.68
Preference Shares	4.00	4.99
Convertible Debentures	0.00	0.00
Equity Oriented Mutual Fund	0.00	0.00
Aggregate Advances Against Share *	0.43	0.63

\* Excluding Loans to individuals against Collateral of shares for personal purpose

**b) Issuer Composition Of Non-SLR Investments as on 31.03.2004.****(Rs in Crore)**

No	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	PSU's	995.58	297.48	0.00	28.68	413.80
2	FI's	354.35	88.00	0.00	10.00	109.93
3	Banks	62.32	55.05	0.00	13.19	25.68
4	Private Corporates	377.03	120.81	0.00	13.94	262.04
5	Subsidiaries/Joint Ventures	0.00	0.00	0.00	0.00	0.00
6	Others	93.01	0.00	0.00	78.00	93.01
7	Provision held towards depreciation	-12.35	xxx	xxx	xxx	xxx
	<b>Total</b>	<b>1869.94</b>	<b>561.34</b>	<b>0.00</b>	<b>143.81</b>	<b>904.46</b>

**c) Non Performing Non-SLR Investments as on 31.03.2004.****(Rs in Crore)**

<b>PARTICULARS</b>	<b>AMOUNT</b>
Opening Balance	12.35
Additions during the year since 1 <sup>st</sup> April 2003	0.00
Reductions during the above period	0.00
Closing Balance	12.35
Total Provisions held	12.35

**9. Total finance extended for Margin Trading as on 31.03.2004: Nil****10. Tax demands under appeal: -****(Rs. in crore)**

	<b>31.03.2004</b>	<b>31.03.2003</b>
Income Tax	39.38	21.38
Interest Tax	0.15	0.15
Wealth Tax	0.17	0.17



As against these, payments made in protest and included under 'other assets' Rs. 37.13 crore 0.15 crore and Rs.0.17 crore respectively (Previous year Rs.21.11 crore, Rs.0.15 crore and 0.17 crore respectively). No provision is considered necessary in respect of these demands, as the Bank has been advised that there are good chances of success in appeals/ considering favourable appellate orders on identical issues for earlier assessments.

#### 11. Intangible Assets (Accounting Standard 26):

Computer Software acquired on or after 01.04.2003 is amortised over a period of 3 years on pro-rata basis under straight-line method. During the year 2003-2004 cost of software acquired is Rs.1.27 crore and the amount amortised is Rs.0.42 crore.

#### 12. Repo transactions (Method of Accounting):

Monies received / paid during the year on Repo transactions are credited/debited to Investment and reversed on maturity of the transactions. Costs and revenue thereon are accounted as interest expenditure / income. Repo transactions outstanding at the year end are not considered as the investments of the Bank. Monies received on such outstanding transactions are first appropriated towards Investment Account at book value and the balance amount is transferred to Sundry Liabilities.

The particulars of Repo transactions are as under :

(Rs in crore)

Outstanding during the Year

Particulars	Minimum	Maximum	Daily Average	As on 31.03.2004
Securities purchased under reverse Repo	25.00	30.00	0.45	30.00

#### 13. ADDITIONAL DISCLOSURE:

In terms of RBI guidelines, the following additional disclosures have been made.

##### Capital Adequacy:

The Bank has complied with Capital Adequacy Norms prescribed by the Reserve Bank of India. Capital Adequacy ratio as on 31.03.2004 works out to 13.03% (Previous year 13.44%)

	31.03.2004	31.03.2003
Capital Adequacy Ratio — Tier - I	10.45%	11.23 %
Capital Adequacy Ratio — Tier - II	2.58%	2.21 %

Provisions and contingencies comprise of:

(Rs. in crore)

	31.03.2004	31.03.2003
i) Provision made towards NPAs / 90 days Norms/ Standard Advances / 12 months Sub-Standard as per RBI guidelines	127.97	80.91
ii) Provision towards Income tax	68.30	52.00
iii) Provision towards deferred taxation for the year.	0.00	10.08
iv) Provision for Wealth tax	0.01	0.01
v) Provision for others	0.34	0.25
Total	196.62	143.25



Percentage of Net NPA's to Net Advances as on 31.03.2004 works out to 4.98%. (Previous year 7.36 %)

Significant performance indicators

	31.03.2004	31.03.2003
i) Interest Income to working funds	8.45%	9.23 %
ii) Non-interest income to working funds	2.69%	2.72 %
iii) Operating profits to working funds	3.29%	2.88 %
iv) Return on Assets	1.34%	1.29 %
v) Business per employee Rs. in crore	3.20	2.75
vi) Profit per employee Rs. in crore	0.03	0.03

e) Lending to sensitive sector:

(Rs. in crore)

	31.03.2004	31.03.2003
a) Capital Market sector	8.86	1.29
b) Real Estate sector	143.84	116.12
c) Commodity sector	269.84	226.08
Total	422.54	343.49

f) Maturity Pattern

(Rs. in crore)

	1-14 Days	15-28 Days	29 Days 3 Months	Over 3 Months to 6 Months	Over 6 Months to 12 Months	Over 1 Year to 3 years	Over 3 Years to 5 Years	Over 5 Years	Total
Loans & Advances	263.54	121.02	425.23	623.90	304.26	1366.49	416.79	1146.69	4667.92
Investments	165.52	47.08	294.58	260.52	386.82	1134.09	355.74	2234.56	4878.91
Deposits	677.66	189.34	1186.47	1038.16	1572.70	4107.71	260.87	374.03	9406.94
Borrowings	21.76	8.70	56.69	30.10	47.66	11.41	4.92	2.04	183.28
Foreign Currency Assets	57.30	28.89	116.35	126.37	4.38	0.00	0.00	0.00	333.29
Foreign Currency Liabilities	41.79	12.36	65.60	39.21	74.92	47.95	0.00	0.00	281.83

g) Movements in Non-performing Accounts:

(Rs. in crore)

	Gross NPA	Net NPA
a) Opening Balance as on 01.04.2003	538.01	286.08
b) Additions during the year	132.23	92.53
	<b>670.24</b>	<b>378.61</b>
c) Deductions/Repayment/Write-off	71.77	147.18
d) Closing Balance as on 31.03.2004	598.47	231.43

h) Movement in NPA provisions:-

(Rs. in crore)

	31.03.2004	31.03.2003
1 Opening balance	240.85	164.23
2 Add: Provisions made during the year	142.50	105.68
3 Less: Write off/write back during the year	35.72	29.06
4 Closing balance	347.63	240.85



i) Provisions for depreciation on investment: (Rs. in crore)

	31.03.2004	31.03.2003
1 Opening balance	13.07	21.55
2 Less: Transfer to Profit & Loss Account	0.72	8.48
3 Closing balance	12.35	13.07

j) Restructured Loans (Rs. in crore)

	31.03.2004	31.03.2003
1. Total Amount of Loan subjected to Re-structuring	10.10	9.19
2. Total Amount of Standard Assets Subjected to Re-structuring	10.10	8.82
3. Total Amount of Sub-Standard Assets subjected to re-structuring	0.00	0.37
4. Total amount of Doubtful Assets subjected to re-structuring	0.00	0.00

14. Premises include buildings in possession and occupation of the Bank pending execution of title deeds and/or Co-operative Societies yet to be formed amounting to Rs.0.22 crore (Previous year Rs.0.22 crore)
15. Previous year's figures have been regrouped/rearranged/given in brackets wherever necessary to conform to the current year classifications.

**BASIS OF COMPILATION OF FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30.09.2004: -**

All the significant accounting policies of the Bank have been generally followed in compiling these accounts with the following exceptions: -

- As per actuarial valuation, gratuity and pension benefits is only made at end of the year. These have been provided on the basis of estimate.
- Certain expenses, which are yet to be incurred, have been allocated to the half-year based on estimate of annual cost
- Pending quantification in respect of the impact of the wage revision agreement between Indian Banks' Association and employees an adhoc provision of Rs. 3.5 Crores is held as at September 30, 2004.

**ANNEXURE B**

**Part III:**

**A. PARTICULARS OF SIGNIFICANT CHANGES IN ACCOUNTING POLICIES/PRACTICES DURING THE FIVE CONSECUTIVE FIVE FINANCIAL YEARS ENDED 31.03.2004.**

- During the five consecutive financial years ended 31st March 2004, various guidelines were issued by the Reserve Bank of India on Income Recognition, Assets Classification, Provisioning in respect of Standard Assets/Non-Performing Advances, Other Assets, Classification of Investments, Valuation thereof, Treatment of Depreciation on Investments/Fixed/Leased Assets. Necessary amendments in the accounting policies have been carried out by the Bank in the relevant years, to be in conformity with the Reserve Bank of India guidelines. Adjustment to Profit/Loss, Assets and Liabilities of the Bank arising from the compliance with the aforesaid directives have not been carried out, as it is not practicable.
- In the accounts for the financial year ended 31.03.2002:
  - the bank has changed the accounting for leave encashment from 'Pay as you go basis' to accrual basis. Accordingly a sum of Rs.9.16 crore is debited to the profit and loss account towards accrued leave encashment provision required as at 31st March 2002 per actuarial valuation. The adjustment required to be made for each of the prior financial years covered in this report could not be ascertained.
  - The Bank complied with AS 22 "Accounting for Taxes on income" issued by the ICAI. Consequently the Bank recognised the cumulative deferred tax liability of Rs.11.56 crore relating to the period upto 31.03.2001 by transferring from revenue reserves. Further the deferred tax liability of Rs.12.24 crore relating to current year was also recognised in the accounts.



3. In the accounts of the financial year ended 31.03.2001:

- a) The method of depreciation on computers was changed as per RBI guidelines and depreciation written off for the year was lower by Rs.0.69 crore.
- b) Investments, which were earlier, held as current investments and market to market were reclassified as Held to Maturity and Available for Sale and valued accordingly. Effect of the change could not be quantified.

#### B. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Indian Bank's Association, of which Karnataka Bank Ltd. is a member, has arrived at an agreement on 23rd November, 2004 by which there will be a 13.25% hike in overall wage expenses with effect from November 2002. As the detailed MOU on the various issues are yet to be worked out and conveyed to the Bank it has not been possible to quantify the effect on the financial statements. An adhoc provision of Rs. 3.5 Crores has been made and held in the accounts for the period ended September 30,2004.

#### ANNEXURE C

##### Part I: Capitalisation Statement

(Rs. in crore)

	Pre-issue as at 31.03.2004 (Audited)	Post issue
<b>Borrowings</b>		
Short Term Debt	156.61	156.61
Long Term Debt	26.67	26.67
Total Debt	183.28	183.28
<b>Shareholders funds</b>		
Share capital		
- Equity	40.43	121.35
Less Calls in arrears	0.00	0.00
- Preference	0.00	0.00
Share premium	78.72	159.64
Reserves & Surplus	579.60	579.60
Less Miscellaneous expenditure not written off	0.00	0.00
<b>Total Shareholders Funds</b>	698.15	860.59
Long term Debt/Equity ratio (in %)	3.82	3.10

#### ANNEXURE C

##### Part II: Statement of Taxation (Tax Shelter)

(Rs. in crores)

Year ended March 31	2000	2001	2002	2003	2004
Tax Rate(%)	38.50	39.55	35.70	36.75	35.88
Profit as per Profit & Loss Account	58.26	45.41	91.13	110.12	133.17
1 Tax at actual rate	22.43	17.96	32.53	40.47	47.77
2 Adjustments					
I Permanent Differences					
i) Disallowances					
Provision for Income tax	11.98	15.25	81.85	62.09	68.30
Others	5.25	-0.02	9.41	3.84	4.34
ii) Other adjustments					
Dividend Income	-7.46	-9.90	-2.29	-0.92	-0.48
Int. on tax free/Infrastructure bonds	-17.13	-12.81	-4.83	-4.37	-3.36
Others	-5.41	-0.69	0.02	0.00	0.00
Total I	-12.77	-8.18	84.17	60.63	68.79





	II Temporary Differences					
	I) Disallowances					
	Provisions for NPA's etc	22.77	37.20	77.90	80.91	127.97
	Provision for depreciation on investment	0.00	38.17	0.00	0.00	0.00
ii)	Other adjustments					
	Int. accrued but not due on securities	-15.74	-7.25	-34.16	-27.77	0.00
	Lease Income (net)	3.70	3.42	1.27	0.36	0.83
	Provision for Bad debts 36(1)(viii)	-22.77	-37.20	-52.55	-80.91	-100.99
	Bad debts written off 36(1)(vii)	-0.29	-0.45	-0.99	-20.37	-25.96
	Depreciation on Investments	0.00	-32.92	21.45	8.48	-22.45
iii)	Diff. In Tax & Book Dep. On fixed Assets	-2.71	-4.30	-2.16	-0.46	-1.65
	Total II	-15.04	-3.33	10.75	-39.76	-22.24
	Net Adjustments (I +II)	-27.82	-11.51	94.93	20.86	46.55
3	Tax burden/(Saving) thereon					
	From Permanent Differences	-4.92	-3.23	30.05	22.28	24.68
	From Temporary Differences	-5.79	-1.32	3.84	-14.61	-7.98
	Total	-10.71	-4.55	33.89	7.67	16.70
4	Tax on profits before extraordinary items	11.72	13.41	66.42	48.14	64.47
5	Tax provision made in books	11.98	15.25	81.85	62.09	68.30
	(a) Current Tax Provision	11.98	15.25	69.61	52.00	68.30
	(b) Deferred Tax Provision*	0.00	0.00	12.24	10.09	0.00

\*The Bank has adopted AS-22 Accounting for Taxes on Income from the year ended 31 March 2002

**ANNEXURE C**

Part III:

**Principal terms of Borrowings**The borrowings of the Bank as on **March 31, 2004** all of which are unsecured are given below:

Name	Outstanding Amount (Rs. in crore)	Interest Rate (%)	Duration for which the loan facility is available	Date of borrowing	Repayment Terms
<b>In India</b>					
SIDBI*	0.63*	13.00-15.50	Various Periods	Various Dates	—
NABARD*	26.04*	6.50-14.25	Various Periods	Various Dates	—
Temporary Overdrafts with Other Banks	0.01	Various rates	On Demand	Various Dates Dattes	On Demand
<b>Total</b>	<b>26.68</b>				
<b>Outside India</b>					
ICICI Singapore	91.35	2.65, 2.85, 2.30	90 days and above	06/01/2004	On Demand
ICICI London	21.75	2.13	90 days	11/02/2004	On Demand
Union Bank of California	8.70	1.87	91 days	26/01/2004	On Demand
Bank of New York, Singapore	4.35	1.61	90 days	16/03/2004	On Demand
Syndicate Bank, London	21.75	1.81	91 days	31/03/2004	On Demand
Commerz Bank Offsghore	8.70	1.45	91 days	31/03/2004	On Demand
<b>Total</b>	<b>156.60</b>				

\* Refinance Facility for various schemes



## MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL PERFORMANCE

Shareholders should read the following discussion of Bank's financial condition and results of operations together with audited financial statements for each of the financial year ended March 31, 2001, 2002, 2003 and 2004, including the notes thereto and the reports thereon, which appear elsewhere in this Letter of Offer. The following discussion is based on audited financial statements for financial year 2001, 2002, 2003 and 2004, which have been prepared in accordance with Indian GAAP, and on information available from other sources. Our financial year ends on March 31 of each year, so all references to a particular fiscal are to the twelve-month period ended March 31 of that year. Unless otherwise indicated, all financial and statistical data relating to the banking industry in the following discussion are derived from various industry reports.

### Overview of Income and Expenses

(Rs. in crores)

Particulars		Unaudited HY September, 03	HY September, 2004
I	<b>Income</b>		
	<b>1 Interest Earned</b>		
	1.1 Interest and Discount on Advances	201.41	224.41
	1.2 Income on Investment	208.80	185.25
	1.3 Interest on Balances with RBI and other inter-bank lendings	9.19	7.09
	1.4 Interest on income tax	0	0.03
	1.5 Others	0.62	3.01
	<b>Total Interest earned</b>	<b>420.02</b>	<b>419.79</b>
	<b>2 Other Income</b>		
	2.1 Commission, Exchange & Brokerage	24.96	28.32
	2.2 Profit on Exchange Transactions (net)	6.54	7.03
	2.3 Profit on Sale of Investments (net)	140.42	97.30
	2.4 Profit on Sale of Land, Building & Other Assets (net)	-0.02	-0.08
	2.5 Lease Income	0.28	-0.16
	2.6 Miscellaneous Income	2.70	3.53
	<b>Total Other Income</b>	<b>174.88</b>	<b>135.94</b>
	<b>Total Income</b>	<b>594.90</b>	<b>555.73</b>
II	<b>Expenses</b>		
	<b>1 Interest Expended</b>		
	1.1 On Deposits	317.19	267.69
	1.2 On RBI/Inter-Bank Borrowings	4.76	0.82
	1.3 On Others	2.89	2.55
	<b>Total interest expended</b>	<b>324.84</b>	<b>271.06</b>
	<b>2 Payments to and Provisions for employees</b>	<b>48.98</b>	<b>54.05</b>
	<b>4 Rent, Taxes &amp; Lighting</b>	<b>6.68</b>	<b>6.92</b>
	<b>5 Insurance</b>	<b>2.30</b>	<b>4.06</b>
	<b>6 Printing &amp; Stationery</b>	<b>1.26</b>	<b>1.11</b>
	<b>7 Advertisement</b>	<b>1.18</b>	<b>0.66</b>
	<b>8 Postage, Telegrams, Telephones etc.</b>	<b>1.06</b>	<b>1.22</b>
	<b>9 Repairs &amp; Maintenance</b>	<b>2.90</b>	<b>3.75</b>

**The Karnataka Bank Limited**

10	Law Charges	0.04	0.44
11	Directors' Fees, Allowances, Expenses	0.07	0.07
12	Auditors Fees & Expenses (including branch auditors)	0.22	0.26
13	Other Expenditure	7.00	8.08
14	Depreciation on Bank's Properties	7.57	8.48
<b>Total Operating expenses</b>		<b>79.26</b>	<b>89.10</b>
<b>Total Expenses</b>		<b>404.10</b>	<b>360.16</b>
Gross Profit before provision for tax & extraordinary items		190.80	195.57
Less: Extraordinary items		Nil	Nil
<b>Gross Profit before provision for tax</b>		<b>190.80</b>	<b>195.57</b>
Provisions and Contingencies **		121.63	125.56
<b>Net Profit</b>		<b>69.17</b>	<b>70.01</b>

**Income**

Income as a component in Bank's operations constitutes of Interest Income and Other income.

*Interest Income*

An important measure of Bank's performance is reflected in interest earned. Interest income is dependant on volumes of advances and interest rates. For the Bank, interest income mainly comprises of Interest and Discount on advances and Income on investment. Interest and Discount on advances refer to interest income earned on advances disbursed and discounting of bills purchased in the ordinary course of business. The Bank has also invested in government securities on which it is earning interest.

*Other income*

Other income of the Bank mainly comprises of Commission, brokerage, profit on sale of investment in ordinary course of business, profit on foreign exchange transactions etc.

*Interest expended*

Interest expended mainly comprises of interest paid on deposits and other borrowings.

*Operating expenses*

Other expenses mainly comprises of staff cost and administration and operating cost like rent charges, printing, electricity, etc incurred in normal course of business.

**Significant items of income and expenditure during HY Sept'04 (comparison of financials for the half year ended Sept'04 with Sept'03).***Interest Income*

Interest income has remained relatively flat from Rs.420.20 crore for half year ended September 2003 to Rs. 419.79 crore for half year ended September 2004. Interest and discount on advances registered 11.42% increase from Rs. 201.41 crore for half year ended September 2003 to Rs. 419.79 crore for half year ended September 2004. However, income from investment has declined by 11.28% from Rs. 208.8 crore for half year ended September 2003 to Rs. 185.25 crore for half year ended September 2004. In absolute terms other components of interest income have not shown much variation.

*Other Income*

Other income of the Bank has declined by 22.27% from Rs. 174.88 crores for half year ended September 2003 to Rs.135.94 crore for half year ended September 2004. The decrease in other income is on account of decrease in treasury operations.

*Interest expended*

Total interest expended had declined by 16.56% from Rs. 324.84 crores for half year ended September 2003 to Rs. 271.06 crores for half year ended September 2004. Decrease in interest expenditure can be attributed to decrease in the cost of funds in the same period.

*Operating expenses*

Operating expenses have by 12.41% from Rs. 79.26 crores for the half year ended September 30, 2003 to Rs. 89.10 crores for the half year ended September 30, 2004. Increase in operating expenses is mainly on account of increase in provisions and payment to employees including adhoc provision for pay revision.

*Net Profit*

Net profit of the bank has shown increase marginal from Rs.69.17 crore for the half year ended Sept. 2003 to Rs. 70.01 crore for the half year ended Sept. 2004 showing an increase of 1.21%. Net profit has gone up relatively on account of greater reduction in total expenditure of bank than to the total income of the bank.

The total income of bank has gone down by 6.59% from Rs. 594.90 crore for the half year ended Sept. 2003 to Rs. 555.73 crore for the half year ended Sept. 2004 whereas total expenditure has declined by 10.88% from Rs. 404.10 crore for the half year ended Sept. 2003 to Rs. 360.16 crore for the half year ended Sept.2004. Provision on account of contingencies has increased from Rs. 121.63 crore for the half year ended Sept.2003 to Rs. 125.56 crore for the half year ended Sept. 2004.

(Rs. in crores)

Particulars		2001	2002	2003	2004
I	<b>Income</b>				
1	<b>Interest Earned</b>				
1.1	Interest and Discount on Advances	346.59	389.09	399.94	416.82
1.2	Income on Investment	259.36	317.53	389.75	405.16
1.3	Interest on Balances with RBI and other inter-bank lendings	41.41	35.42	19.04	18.33
1.4	Interest on income tax	0	0	1.34	6.73
1.5	Others	6.53	1.20	1.40	1.41
	<b>Total Interest earned</b>	<b>653.89</b>	<b>743.24</b>	<b>811.47</b>	<b>848.45</b>
2	<b>Other Income</b>				
2.1	Commission, Exchange & Brokerage	43.11	45.61	48.16	53.25
2.2	Profit on Exchange Transactions (net)	9.42	10.32	12.13	13.98
2.3	Profit on Sale of Investments (net)	30.32	179.74	173.75	196.31
2.4	Profit on Sale of Land, Building & Other Assets (net)	0.12	-0.21	-0.08	-0.18
2.5	Lease Income	3.47	2.31	2.10	1.67
2.6	Miscellaneous Income	3.04	3.25	3.17	5.25
	<b>Total Other Income</b>	<b>89.48</b>	<b>241.02</b>	<b>239.23</b>	<b>270.28</b>
	<b>Total Income</b>	<b>743.37</b>	<b>984.26</b>	<b>1050.70</b>	<b>1118.73</b>
II	<b>Expenses</b>				
1	<b>Interest Expended</b>				
1.1	On Deposits	489.90	592.44	644.55	622.33
1.2	On RBI/Inter-Bank Borrowings	7.03	6.53	8.20	7.27
1.3	On Others	4.96	3.79	3.86	5.17
	<b>Total interest expended</b>	<b>501.89</b>	<b>602.76</b>	<b>656.61</b>	<b>634.77</b>
2	Payments to and Provisions for employees	71.77	88.97	89.21	94.05
3	Amortization of VRS expenditure	Nil	Nil	Nil	Nil
4	Rent, Taxes & Lighting	8.59	9.04	11.11	12.73
5	Insurance	2.78	3.52	4.27	3.62
6	Printing & Stationery	1.46	1.59	1.86	2.13
7	Advertisement	0.46	0.60	1.58	2.23



8	Postage, Telegrams, Telephones etc.	1.24	1.81	2.24	2.10
9	Repairs & Maintenance	1.24	2.38	3.45	5.14
10	Law Charges	0.08	0.10	0.10	0.37
11	Directors' Fees, Allowances, Expenses	0.15	0.13	0.13	0.20
12	Auditors Fees & Expenses (including branch auditors)	0.25	0.32	0.34	0.42
13	Other Expenditure	8.49	10.31	11.48	14.33
14	Depreciation on Bank's Properties	8.90	11.85	14.95	16.85
	<b>Total Operating expenses</b>	<b>172.6</b>	<b>211.06</b>	<b>220.54</b>	<b>233.72</b>
	<b>Total Expenses</b>	<b>607.30</b>	<b>733.38</b>	<b>797.33</b>	<b>788.94</b>
	Gross Profit before provision for tax & extraordinary items	136.07	250.88	253.37	329.79
	<b>Less:</b>				
	Extraordinary items	Nil	Nil	Nil	Nil
	Gross Profit before provision for tax	136.07	250.88	253.37	329.79
	Provisions and Contingencies	90.66	159.75	143.25	196.62
	<b>Net Profit</b>	<b>45.41</b>	<b>91.13</b>	<b>110.12</b>	<b>133.16</b>

**Comparison of significant items of income and expenses for the financial year ended March 31, 2004 and the financial year ended March 31, 2003.**

*Interest Income*

Interest income has gone up by 4.56% Rs. 811.7 crores for 2002-03 to Rs. 848.45 crores for the year ended 2003-04. Increase in interest income is attributed to increase in interest and discount on advances and income from investment. The total interest on advances registered 4.22% rise from Rs. 399.94 crores to Rs. 416.82 crores. The increase in interest on advances can be attributed to increase in the total advances from Rs. 3899 crores in 2002-03 to Rs. 4667.92 crore in 2003-04. Income from investment has gone up by 3.95% to Rs. 405.16 crores in 2003-04 from Rs. 389.75 crore during corresponding previous year. Investments registered an increase by appx. 10% from Rs. 4432.61 crore in 2002-03 to Rs. 4478.91 crore in 2003-04. Interest on income tax increased from Rs. 1.34 crore in 2002-03 to Rs. 6.73 crore in 2003-04. Other components of interest income have not shown much variation.

*Other Income*

Other income of the Bank has increased by 12.98% from Rs. 239.23 crores in 2002-03 to Rs.270.28 crores in 2003-04. Increase in other income is mainly attributed to increase in profits from treasury operations, commission and brokerage and profit on forex transactions.

Riding on excellent market conditions prevailing during 2003-04 couple with favourable interest rate regime, profit on sale of investments in normal course of business rose by 12.99% from Rs. 173.75 crores in 2002-03 to Rs. 196.31 crores in 2003-04. Commission and borkerage has marginally improved from Rs. 48.16 crore in 2002-03 to Rs. 53.25 crore. Other components of income have remained almost same during 2002-03 and 2003-04.

*Interest expended*

Total interest expended had declined by 3.33% from Rs. 656.61 crores in 2002-03 to Rs. 634.77 crores in 2003-04. Decrease in interest cost is on account of decrease interest cost on deposit by 3.45% from Rs.644.55 crore in 2002-03 to Rs. 622.33 crore in 2003-04. Interest on deposit has decreased inspite of deposits increasing from Rs. 8291 crore in 2002-03 to Rs. 9406.94 crore in 2003-04. The decrease in interest on deposit is attributed to decrease in cost of deposit from 8.58% in 2002-03 to 7.33% in 2003-04. Other components of interest cost are almost same in 2002-03 and 2003-04.

*Operating expenses*

Operating expenses have increased by 5.98% from Rs.220.54 crores in 2002-03 to Rs.233.72 crore in 2003-04. Increase in operating cost is attributed to overall increase in administrative cost in the normal course of business.

**Net Profit**

Net profit of the bank has increased from Rs. 110.12 crore in 2002-03 to Rs. 133.16 crore in the year 2003-04 showing an increase of 20.92%. Net profit has gone up on account of increase in total income of bank and decrease in total expenditure of bank.

The total income of bank has gone up by 6.48% from Rs.1050.70 crore in 2002-03 to Rs.1118.73 crore in 2003-04 whereas total expenditure has declined by 1.05% from Rs. 797.33 crore in 2002-03 to Rs. 788.94 crore in 2003-04. Provision on account of contingencies has increased from Rs. 143.25 crore in 2002-03 to Rs. 196.62 crore in 2003-04 on account more prudent provisioning towards NPAs.



**Comparison of significant items of income and expenses for the financial year ended March 31, 2003 and the financial year ended March 31, 2002**

*Interest Income*

Interest income has increased by 9.18% to Rs. 811.47 crores for 2002-03 from Rs. 743.24 crores for the year ended 2001-02. Increase in interest income is attributed to increase in interest and discount on advances and income from investment. The total interest on advances registered 2.78% rise from Rs.389.09 crores in 2001-02 to Rs. 399.94 crores in 2002-03. The increase in interest on advances can be attributed to increase in the total advances from Rs. 3417.55 crores in 2001-02 to Rs. 3899.70 crore in 2002-03. Income from investment has gone up by 22.75% to Rs. 389.75 crores in 2002-03 from Rs.317.53 crore during corresponding previous year. Interest on balances with RBI decreased from Rs. 35.42 crores in 2001-02 to Rs. 19.04 crore in 2002-03.

*Other Income*

Other income of the Bank has declined marginally by 0.75% from Rs. 241.02 crores in 2001-02 to Rs.239.23 crores in 2002-03. Stagnancy in other income is on account of increase in commission and brokerage and corresponding decrease in profit on sale of investment. All other components of other income remained almost constant.

Commission and brokerage has increased by 5.59% from Rs. 45.61 crores in 2001-02 to Rs. 48.16 crore in 2002-03. Correspondingly, profit on sale of investments has declined from Rs. 179.74 crore in 2001-02 to Rs. 173.75 crore in 2002-03.

*Interest expended*

Total interest expended had increased by 8.93% from Rs. 602.76 crores in 2001-02 to Rs. 656.61 crores in 2002-03. Increase in interest cost is on primarily account of increase in deposits from Rs. 7001.48 crore in 2001-02 to Rs. 8291.72 crore in 2002-03. However, Cost of deposit has come down from 9.29% in 2001-02 to 8.58% in 2002-03.

*Operating expenses*

Operating expenses have increased by 4.49% from Rs.211.06 crores in 2001-02 to Rs.220.54 crore in 2002-03. Increase in operating cost is attributed to overall increase in administrative cost in the normal course of business.

*Net Profit*

Net profit of the bank has increased to Rs. 110.12 crore in 2002-03 from Rs. 91.13 crore in the year 2001-02 showing an increase of 20.84%.

The total income of bank has gone up by 6.75% to Rs.1050.70 crore in 2002-03 to Rs.984.26 crore in 2001-02 similarly total expenditure has increased by 8.72% to Rs. 797.33 crore in 2002-03 from Rs. 733.38 crore in 2001-02. Provision on account of contingencies has decreased from Rs. 159.75 crore in 2001-02 to Rs. 143.25 crore in 2002-03 on account decrease in the provision towards income tax and deferred taxation.

**Comparison of significant items of income and expenses for the financial year ended March 31, 2002 and the financial year ended March 31, 2001**

*Interest Income*

Interest income has shown an increase of 13.66% to Rs. 743.24 crores for 2001-02 from Rs. 653.89 crores for the year ended 2000-01. Increase in interest income is attributed to increase in interest and discount on advances and income from investment. The total interest on advances registered 12.26% rise from Rs. 346.59 crores in 2000-01 to Rs. 389.09 crores in 2001-02. The increase in interest on advances can be attributed to increase in the total advances from Rs. 2828.22 crores in 2000-01 to Rs. 3417.55 crore in 2001-02. Income from investment has rose impressively by 22.42% to Rs. 317.53 crores in 2001-02 from Rs. 259.36 crore during corresponding previous year. Investments registered an increase by 22.61% from Rs. 2787.01 crore in 2000-01 to Rs.3467.15 crore in 2001-02. Interest on balances with RBI has decreased from Rs. 6.53 crore in 2000-01 to Rs. 1.20 crore in 2001-02.

*Other Income*

Other income of the Bank has increased impressively by 169.35% from Rs. 89.48 crores in 2000-01 to Rs.241.02 crores in 2001-02. Increase in other income is mainly attributed to increase in profits from treasury operations.

Profit on sale of investments in normal course of business rose by 492.81% from Rs.30.32 crores in 2000-01 to Rs.179.74 crores in 2001-02. Commission and brokerage has marginally improved from Rs.43.11 crore in 2000-01 to Rs.45.61 crore in 2001-02. Other components of income have not shown much variation during 2000-01 and 2001-02.

*Interest expended*

Total interest expended had increased by 20.10% from Rs. 501.89 crores in 2000-01 to Rs. 602.76 crores in 2001-02.





Increase in interest cost is on account of increase in interest cost on deposit by 20.93% from Rs.489.90 crore in 2000-01 to Rs. 592.44 crore in 2001-02. Increase in Interest on deposit is due to increase in deposit from Rs. 6075.49 crore in 2000-01 to Rs. 7001.48 crore in 2001-02.

*Operating expenses*

Operating expenses have increased by 22.28% from Rs.172.60 crores in 2000-01 to Rs.211.06 crore in the year 2001-02. Increase in operating cost is attributed to overall increase in administrative cost in normal course of business.

*Net Profit*

Net profit of the bank has increased from Rs. 45.41 crore in 2000-01 to Rs. 91.13 crore in the year 2001-02 showing an increase of 100.68%. Net profit has gone up on account of increase in total income of bank and decrease in total expenditure of bank.

The total income of bank has gone up by 32.41% from Rs.743.37 crore in 2000-01 to Rs.984.26 crore in 2001-02 whereas total expenditure has increased by 20.76% from Rs. 607.30 crore in 2000-01 to Rs. 733.38 crore in 2001-02. Provision on account of contingencies has increased from Rs. 90.66 crore in 2000-01 to Rs. 159.75 crore in 2001-02 on account more prudent provisioning towards NPAs.

**Other matters**

*Unusual or infrequent events and transactions*

Other than as described in this Letter of Offer, particularly in "Management's Discussion and Analysis of Financial Condition and Results of Operations", to our knowledge there are no events that may be described as unusual or infrequent events and transactions.

*Significant economic / regulatory changes*

Other than as described in this Letter of Offer, particularly in "Risk Factors" and "Business", there are no significant economic / regulatory changes that materially affect or are likely to affect the income from continuing operations.

*Known trends and uncertainties*

Other than as described in this Letter of Offer, there are no trends or uncertainties that have or had or are expected to have a material adverse impact on revenues or income of the Company from continuing operations.

*Future relationship between costs and income*

Other than as described in this Letter of Offer, there are no known factors which will have a material adverse impact on our operation and finances.

*Extent of material increase in net sales or revenue*

Refer para "Business" on page 38 and "Management Discussion and Analysis of Financial Performance" on page 83 of this LoF.

*New product or business segment*

Other than as described in this Letter of Offer, the Bank has not launched any new product or has entered into business segments.

**OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS**

Against the Promoters, Associate, Group companies and Subsidiaries

Not applicable, since no identifiable promoter or promoter group exists. The bank does not have any associate companies, group companies, subsidiaries belonging to the bank.

**Cases filed Against the Bank**

Save and except as stated below, there are no outstanding litigation, disputes, penalties against the Bank, including tax liabilities, economic offences, criminal or civil prosecutions launched against the Bank, for any offence irrespective of whether or not specified in Paragraph 1 of Part I of Schedule XIII of the Companies Act, 1956;

**Litigation involving Criminal Cases**

	Background	Principal Parties	Place of Litigation	Charges/ allegation	Ref. no. of Case Date instituted	Current Status	Court before which the litigation are pending
1	Complainant, a customer of Bikkodu branch, had given a cheque for collection drawn on our branch. Proceeds has not credited to his account	V.D. Souza	Bikkodu	U/s. 409, 418 & 420 IPC, The cheque for Rs. 2,21,264/- given for collection on 01-02-2000 drawn on our branch, has not credited to his account	PCR 20/2000 30.8.00	Proceedings stayed.	Civil Judge (JRD) and JMFC, Belur
2	The Bank advanced to one M/s. Kaveri Paints on the security of Site and Building of the complainant.	Mrs. Asia Khatum	Bangalore	U/s. 463, 464, 468, 429, 419, 379, 506, R/W Sec. 34 IPC The signature taken on the MDTD of the complainant was not of her signature and it was forged.	CC 14596/ 2000, CRP 1509/02 22.7.00	Proceeding stayed	VI additional Chief Metropolitan Magistrate Bangalore
3	Branch has advanced to Deepak Singh & others, obtaining the Joint family properties as the security.	Ratan Singh	Hospet	U/s. 418, 420, 423, 116 DC R/W Sec. 34 IPC Complainant alleging that, his brothers Pravin Singh, Deepak Singh & Dilip Singh have created document and borrowed a sum of Rs. 57,35,000/- with active connivance of the Bank and also the Revenue Officer.	Crime No. 6/2002, CrI.P. 896/02 8.1.02	Criminal Petition filed by the Bank dismissed. The case is pending.	Additional Civil Judge (Jr.Dn.) & JMFC Hospet.
4	Case related to discounting of an Irrevocable transferable documentary letter of Credit for US \$72201. On presentation of the Bills, they were not honoured and the bank has kept in discounted amount in Term Deposits.	M/s. Universal Enterprises	Ernakulam	U/s. 409, 465, 468. R/W Sec. 120B & 34 IPC The bank negotiated a Letter of Credit and credited a sum of Rs. 22,77,018/- into the complainant account and converted into a Fixed Deposit. Even after the maturity of Fixed Deposit, bank is illegally holding the deposit.	CC 3479/2001 02.01.01	Proceedings stayed.	Chief Judicial Magistrate Court, Ernakulam



5.	M/s Hegde Traders, Sagar, availed credit facilities from our branch on the security of hypothecation of stock and co-obligation of one Shri Tukaram Shet who deposited title deeds of his property since, there was some irregularities in the account the then manager paid the dues and closed the account. The loan documents were assigned to the manager.	Tukaram Sagar Anantha Shet	U/s. 406, 420, R/W. Sec. 34 We assigned the documents to the manager fraudulently	CC 229/2000 27.06.98	Case is pending.	JMFC & Civil Judge, Sagar
6.	Complainant was allowed to use a portion of Veranda in the bank premises at Andheri. Now claiming right and insisting for transfer deed.	Vishnu Mumbai Mordani Vs. KBL	Complaint alleging breach of trust and cheating.	CC No. 2064/S/ 2000 CrI. Appln. No. 1028/01 11.10.00	Pending	Metropolitan magistrate's 44th Court at Mumbai High Court of Judicature Mumbai
7.	Complainant availed credit facilities, on security of shares - on closure of the loan a/c. Branch Manager has not returned the documents. Post dated cheques and share certificates.	Roopchand Pune Chantmal Chajjed	W/S 409, 420, 424 R/W 9.34 IPC - Complaint alleging branch of trust and cheating.	RCC 189/00 4-10-2002	Pending before the Court.	JMFC Court No.4 Pune
8.	Our Udupi-Car Street Branch had granted facilities to CCI Ltd. on the security of the shares of various Companies Corporate Guarantee of M/S Chitrakala Investmdnts Trade business Finance Ltd. on breach of loan repayment. Bank has liquidated shares.	Chitrakala Udupi Investments Trade & Business & Finance Ltd.	U/S 409, 406, 420 & 12/00 34IPC Complainant had alleging branch of trust and cheating.	CC 7692/ 2003	Pending before the Court.	Civil Judge (Jr.Dn) & JMFC Udupi.
9.*	Complainant is a customer of our Mangalore-Balmatta Road Branch. She was introduced to the branch by one Mr.Anup Kumar Baglodi who is the brother of the Branch Manager. There was some financial transaction between Mr. Anup Kumar Baglodi and others with complainant and it restituted in filing of criminal complaint by her against them.	Gracy Amelda Mangalore Mascarenhas	U/S 406, 386, 506 (ii) 418, 420(B) R/00 Sec. 34 IPC.	C.R.No. 239/03	Pending before Police.	Sub- Inspector of Police Pandesh- wara, Mangalore.

\* The police have filed B-report and the case stands closed on October 14, 2004



## Litigation involving Civil Offences

## Details of cases, suits or writs with claims of more than Rs. 50 lacs (as on 30-09-2004)

	Suit no./ Forum and date of filing	Complainant/ Branch Name Claim Amount	Subject Matter	Remarks
1	3242/90 High Court, Mumbai, 25.10.90	Ashwin A. Bhuva Fort, Mumbai  Rs. 137.78 lacs	The party has availed Credit facilities with the Bank by pledging marbles. On default, Bank has disposed off the marbles, has credited the proceeds to the loan account and closed the account.	The party has filed a suit against the Bank alleging that the Bank has acted illegally in disposing off the pledged marbles without giving due notice.  The Bank has taken stand that it has disposed off pledged marbles after giving due notice, in exercise of the right of the pawnee, for the best available price. Bank filed written statement on 02.02.96. Suit is yet to come up for hearing.
2	3243/90 High Court, Mumbai 25.10.90	Pankaj Industrial Corporation, Fort Mumbai  Rs. 252.58 lacs	The party has availed credit facilities with the Bank by pledging marbles. On default, Bank has disposed off the Marbles and credited the proceeds to the loan account and closed the account.	The party has filed a suit against the Bank alleging that the Bank has acted illegally in disposing off the pledged marbles without giving due notice  The Bank has taken stand that it has disposed off pledged marbles after giving due notice, in exercise of the right of the pawnee, for the best available price. Bank filed written statement on 02.02.96. Suit is yet to come up for hearing.
3	220/2001 High Court, Calcutta April, 2001	Tata Iron and Steel Company Ltd., Delhi Overseas Rs. 255.03 lacs	The Bank has opened letter of credit and refused the payment, since the bills were discrepant.	The party has filed a suit against the Bank alleging that the Bank has rejected the payment against the documents negotiated under the letter of credit opened by the Bank.  The Bank has taken stand that documents were found to be discrepant and hence the branch refused the payment of the bills received under the above letter of credit. The Bank filed written statement. Suit is yet to come up for hearing.
4	OA.681/95 DRT, Bangalore 27.03.92	M/s. Car Beauty & M/s.Poly moulds Bangalore City market / Wilson Garden  Rs.557.47 lacs	M/s. Car Beauty and M/s.Poly moulds availed credit facilities and defaulted in payment. Bank seized hypothecated goods and instituted suit.	Counter claim by the party in recovery suit filed by the Bank
5	OA.68/96 DRT, Bangalore	M/s.Agro Pvt. Ltd., Bangalore K.G. Road  Rs. 51.15 lacs	M/s. Agro Private Ltd. availed credit facilities and defaulted in payment.	Counter claim by the party in the suit for recovery filed by the Bank
6	OA 66/00 DRT, Mumbai Misc. Application No.40/2004	M/S Maharaja Fibres and Filaments Limited.  Rs.781.85 lakhs	M/S Maharaja Fibres had availed credit facilities and defaulted in payment.	Counter claim by the party in the suit for recovery filed by the Bank



The Bank has 176 civil cases and 68 complaints for claims below fifty lacs aggregating a total claim of Rs.293.27 lacs.

**Litigation involving Statutory Offences**

**Details of pending Income Tax cases as on 31.03.2004**

(Rs. in crores)

Sl.No.	Assessment year	Nature of Disputes	Amount Rs.	Tax thereon	Latest Position
1	1990-91	Computation u/s. 115J Additional Tax	0.27	0.14 0.08	Pending at CIT (Appeals) Pending at ITO level
2	1992-93	a) Bad debts w/off  (b) Additional Tax	0.39	0.20  0.02	Allowed at ITAT level. Order giving effects to the above is yet to be received -do-
3	1996-97	(a) Bad debts w/off (b) Dep. On leased assets Dep. On leased assets (c) Amortisation of premium (d) Public issue expenditure (e) Interest u/s220/234	1.76 0.25 1.45 0.45 1.22	0.81 0.12 0.67 0.21 0.56 0.62	Pending at ITAT Referred back to AO Pending at ITAT Pending at ITAT Pending at ITAT Pending before JCIT
4	1997-98	(a) Bad debts w/off (b) Exp. On Tax free income (c) Public issue expenditure (d) Interest u/s220/234 (e) Diff. In int. recd. & receivable on investment	0.38 0.08 0.09  19.21	0.16 0.03 0.04 4.02 8.26	Pending at ITAT Pending at ITAT Pending at ITAT  Appeal pending before CIT(Appeals)
5	1998-99	(a) Expenditure on Tax free Income (b) Diff. In int. recd. & receivable on investment  (c) Interest u/s220/234	0.03 12.98  	0.01 4.54  1.81	Pending at ITAT Appeal pending before CIT(Appeals) -do-
6	1999-00	(a) Expenditure on Tax free Income (b) Diff. In int. recd. & receivable on investment  (c) Interest u/s220/234	0.34 11.18  	0.12 3.91  1.14	Pending at ITAT Appeal pending before CIT(Appeals) -do-
7	2000-01	(a) Unrealised Lease rentals  (b) Expenditure on Tax free bonds (c) Diff. In int. recd. & receivable on investment (d) Bad debts written off (e) Difference in exempt income (f) Interest u/s220/234	0.49  1.23 15.73 0.29 0.06  	0.19  0.47 6.07 0.11 0.02 0.56	Appeal pending before CIT(Appeals) -do- -do- -do- -do- -do-
8	2001-02	(a) Unrealised Lease rentals (b) Expenditure on Tax free bonds (c) Diff. In int. recd. & receivable on investment (d) Bad debts written off (e) Difference in exempt income (f) Prior period expenses (g) Additional tax  <b>Grand Total</b>	0.32 0.79 7.25 0.45 0.53 0.01  <b>77.23</b>	0.13 0.31 2.87 0.18 0.21 0.00 0.46 <b>39.05</b>	Appeal pending before -do- -do- -do- -do- -do- -do-

**Labour Laws**

Following are the cases filed against Bank relating to Labour laws:

<b>Filed with</b>	<b>No. of cases</b>
Supreme Court	1 case
High Court	15 cases
C.G.I.T	8 cases
Civil courts	7 cases

**Defaults**

The Bank has not defaulted in the payment of interest and repayment of principle to other Banks, Financial Institutions, deposit holders etc. The Bank has not defaulted in meeting statutory dues, institutional dues and dues towards instrument holders like debentures, fixed deposits, and other arrears.

Other than above there are no disputes/litigation towards tax liabilities or any criminal or civil prosecutions against Bank for any offence, economic or otherwise.

**Other Litigations**

There are 11 cases pertaining to determination of title of shares, where the bank has been served restraint order on the registration of transfer, etc. The bank is maintaining status quo in respect of those shares. These litigations are occurred during the normal course of business and pertaining to year from 1995 - 2002. There are no fresh cases instituted against the bank during 2003-04.

5 cases are also pending before banking ombudsman pending final adjudication.

**Against the Directors**

There are no outstanding litigation/ proceedings, disputes or penalties against the directors, including tax liabilities, economic offences or civil prosecution for any offence, irrespective of whether specified under any enactment in Paragraph 1 of Part I of Schedule XIII, of the Companies Act, 1956 or any other liability in their personal capacity.

There is no litigation against the directors involving violation of statutory regulations or criminal offences. No proceedings have been initiated against the Directors for any economic offence. No investigation has been taken up by the Securities and Exchange Board of India/ Stock Exchange against any of the directors.

**Against any other Company or Bank**

The bank confirms that there are no litigations against any other company or bank whose outcome could have material adverse impact on the financial and operational aspects of bank.

**Cases filed By the Bank**

In the normal course of business, Bank has filed 2514 suits before courts, for recovering an net balance of Rs. 241.53 crore.

**BASIS FOR ISSUE PRICE****Qualitative factors**

1. Banks with 80 years of existence
2. Professionally managed bank with a track record of profitability
3. Uninterrupted dividend track record since 1974
4. Consistent growth in Deposits (CAGR 24.24%), Advances (CAGR 21.44%) and Gross Earnings (CAGR 29.97%) in the past 10 years
5. The Bank has 232 computerised branches spread across 90 centres and extends "Anywhere Banking Services" in all these centres
6. Branch network of 371 branches spread over 16 states and 2 Union Territories.
7. Diversified products including financing of Two Wheelers, Commercial Vehicles and others to Corporate finance, Export Finance etc.
8. Capital Adequacy Ratio of 13.03% (FY04) as compared to 13.44% (FY03), above the minimum of 9% prescribed by RBI
9. The Book Value of the Bank is Rs. 190.02 per share and EPS of Rs 17.32 per share (not annualised) as on September 30, 2004

**Quantitative factors****1. Earning per Share (EPS)**

Financial Year	EPS (Rs.)	Weight used
2001-2002	67.57	1
2002-2003	40.83	2
2003-2004	32.93	3
Weighted Average for last three years: Rs. 41.34		

2. Price Earnings Ratio (P/E Ratio) in relation to Offer price of Rs. 20/- per share

Based on the EPS of Rs. 32.93 for the financial year March 31, 2004 the P/E ratio in relation to Offer price of Rs. 20 per share is 0.61.

On fully diluted equity base post issue P/E ratio in relation to Offer price of Rs.20 per share is 1.82

3. Industry P/E Ratio

Highest	26.2
Lowest	2.6
Average (Industry Composite)	11.1

(Source: Capital Market- Vol.XIX/18 dated Nov8 - 21, 2004)

**4. Return on Networth**

Financial Year	RONW (%)	Weight used
2001-2002	23.02	1
2002-2003	21.48	2
2003-2004	20.78	3

Weighted average for the last three years: 21.39%





5. Minimum return on post issue networth required to maintain pre-issue EPS of Rs. 32.93 is 46.43%.

6. Net Asset Value (NAV) per share

As at 31.03.2004	Rs.172.70
After the Issue	Rs. 70.90
Issue Price	Rs. 20.00

7. Comparison of accounting ratios of Bank with Industry average and accounting ratios of peer group for 2003-04:

Bank	EPS (Rs.)	P/E	RONW (%)	NAV (Rs.)
Bank of Rajasthan	6.2	9.3	24.2	28.6
Federal Bank	60.6	6.0	23.1	292.9
Karur Vysya Bank	88.2	3.7	25.4	395.6
Lakshmi Vilas Bank	35.0	4.0	19.6	196.9
South Indian Bank	17.4	6.0	23.6	92.7
United Western Bank	10.2	4.9	11.6	94.0
Peer group average	36.27	5.65	21.25	183.45
Karnataka Bank	32.93	0.61*	20.78	172.70

(Source: Capital Market- Vol.XIX/18 dated Nov8 - 21, 2004)

\* P/E range is arrived by calculating P/E based on Issue price of Rs.20 per share.

Peer group average is simple average of above multiples

*The Lead Managers believe that the issue price of Rs.20 per share is justified in view of the above qualitative and quantitative parameters. The investors may also want to peruse the risk factors and financials of the Bank including important profitability and return ratios, as set out in the Auditors Report in the Letter of Offer to have more informed view about the investment proposition.*

**WORKING RESULTS AND OTHER INFORMATION**

Information as required to be given vide Ministry of Finance circular No. F2/5/SE/76 dated February 5, 1977 read with circular of even number dated March 8, 1977 is given below:

1. Working results of the Bank (unaudited) for the quarter ended December 2004 given below:

Particulars	Amount in Rs. in Crore
Interest earned	642
Other Operating Income	183
Total Income	825
Profit Before Depreciation & Tax	297
Depreciation	12
Provisions & Contingencies (including provision for tax)	185
Net Profit	100

2. There are no material changes and commitments affecting the financial position of the Bank since the date of the last Balance Sheet save as mentioned in the Letter of Offer.

3. (a) Week-end Prices for the last four weeks on the National Stock Exchange is as follows:

31.12.2004	Rs. 208.00
24.12.2004	Rs. 203.00
17.12.2004	Rs. 207.30
10.12.2004	Rs. 146.50

- (b) Current price of the equity shares of the Bank on the National Stock Exchange as on January 06, 2004 is Rs. 213.95/-.

**PARTICULARS REGARDING LISTED COMPANIES UNDER THE SAME MANAGEMENT WHICH HAVE MADE CAPITAL ISSUES DURING THE LAST THREE YEARS**

There are no listed companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956, which have come out with a Public or a Rights Issue.

**Material Developments**

In the opinion of the Directors, since the date of the last financial statements as disclosed in the Letter of Offer, no circumstances have arisen which materially and adversely affect or are likely to affect the trading or profitability of the Bank, or the value of its assets, or its ability to pay its liabilities, within next twelve months.

**EXPERT OPINION**

Save and except as stated in this Letter of Offer, the Bank has not obtained any expert opinions.

**OPTION TO SUBSCRIBE**

Other than the present Rights issue, the Bank has not given any option to subscribe for any equity shares of the Bank. As mentioned elsewhere, the investor shall have the option either to receive the security certificates in physical form or to hold the securities with a depository in electronic form.



## **MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION**

The contracts referred to below (not being contracts entered into in the ordinary course of business carried on by the Bank or entered into more than two years prior to the date of the Letter of Offer) which are or may be deemed to be material have been entered into by the Bank. Copies of these contracts, together with the copies of the documents referred to below, may be inspected at the Registered and Head Office of the Bank between 10.00 A.M. and 12.00 noon on any working day of the Bank from the date of the Letter of Offer until the date of closing of the subscription list.

### **MATERIAL CONTRACTS**

1. Engagement letter dated November 19, 2004 received from the Bank appointing SBI Capital Markets Ltd. to act as Lead Managers to the Issue. .
2. The Memorandum of Understanding with the Lead Manager dated the November 29, 2004.
3. Letter from Alpha Systems (P) Ltd. dated November 20, 2004 offering their services to act as Registrars to the Issue and the Bank's acceptance thereto.
4. The Memorandum of Understanding with the Registrar to the Issue dated November 22, 2004.
5. Copy of RBI letter no DBOD No. 29/08.40.001/2003-04 dated July 08, 2003 granting approval for appointment of Mr. Anantkrishna as Chairman and CEO of the Bank.
6. Copy of the Board Resolution dated December 02, 2004, approving the draft Letter of Offer to be filed with SEBI.

### **MATERIAL DOCUMENTS**

1. Memorandum and Articles of Association of the Bank.
2. Certificate of Incorporation dated February 18, 1924, and Certificate of Commencement of Business dated May 23, 1924 .
3. Copy of the resolutions passed in the Board Meetings on November 9, 2004 approving the Rights Issue.
4. Banking License from RBI under section 22(1) of the Banking Regulation Act, 1949, vide their letter dated April 4, 1966 to enable the Bank to carry on banking business in India.
5. Power of Attorneys from all the directors of the Bank authorising Chairman and CEO to sign the Offer document.
6. Copy of the Resolution passed in the Board Meeting held on November 25, 2004 authorising a committee to take all actions necessary in respect to the Issue.
7. Annual Reports of the Bank for the years 1999-2000, 2000-01, 2001-02, 2002-03 and 2003-04.
8. The Auditors Certificate dated November 26, 2004 as set out therein and their certificate of tax benefits dated November 26, 2004.
9. Tripartite Agreement between the Central Depository Services (India) Ltd., The Bank and Alpha Systems (P) Ltd. dated October 14, 2000.
10. Tripartite Agreement between the National Securities Depository Ltd., The Bank and Alpha Systems (P) Ltd. dated October 16, 2000.
11. Consent from M/s P. Ishwara Bhat & Co. and M/s. Rao & Swami, the Auditors to the Bank, dated November 26, 2004 for inclusion of their report on the Accounts in the form and context in which they appear in the Letter of Offer and also on the Tax Benefits mentioned therein.
12. Consents in writing of the Directors, Company Secretary, Lead Manager, Legal Advisors, Registrars and Bankers to the Issue as referred to in their respective capacities.
13. Copy of certificate of registration of SEBI dated April 8, 2004 granting "Bankers to Issue" status.
14. Resolution passed by the Board of Directors at their meeting held on November 25, 2004 authorizing Chairman of the Bank to sign the LoF and to carry out the necessary actions in respect to the Rights Issue for and on behalf of the Board.
15. Letter vide 03/2004/971 dated November 24, 2003 from Bangalore Stock Exchange intimating the delisting of equity shares of the bank pursuant to Bank's application made under Voluntary Delisting of Equity Shares - SEBI (Delisting of Securities) Guidelines, 2003.
16. Copies of letter made to NSE and MgSE seeking in-principal approval for listing of rights shares.
17. Copies of in-principal listing aproval dated December 09,2004 and December 13, 2004 from MgSE and NSE respectively for giving their consent for inclusion of thier name in LoF.
18. Copy of the Board Resolution dated January 07, 2005, approving the Letter of Offer to be filed with Stock Exchange.



**DECLARATION**

All the relevant provisions of the Act, and the guidelines issued by the Government or the guidelines issued by SEBI established under the Securities and Exchange Board of India Act 1992, as the case may be, have been complied with and no statement made in the Letter of Offer is contrary to the provisions of the Act or the Securities and Exchange Board of India Act, 1992 or rules made thereunder or guidelines issued (including the SEBI Guidelines), as the case may be.

Yours faithfully

On behalf of the Board of Directors of **The Karnataka Bank Limited**

**Sd/-**

Mr. Anantkrishna (Chairman and CEO)

**Sd/-**

Mr. K.S. Bhat (Director)\*

**Sd/-**

Mr. I. Ramamohan Rao (Director)\*

**Sd/-**

Mr. M.R. Mayya (Director)\*

**Sd/-**

Mr. U.V. Bhat (Director)\*

**Sd/-**

Mr. Surendra Kumar (Director)\*

**Sd/-**

Mr. I. Jagdish Rao (Director)\*

**Sd/-**

Mr. K.G. Jairam (Director)\*

**Sd/-**

Mr. M. Bheema Bhat (Director) \*

\*Through the duly constituted Power of Attorney Mr. Anantkrishna

Place : Mangalore

Dated : January 07, 2005