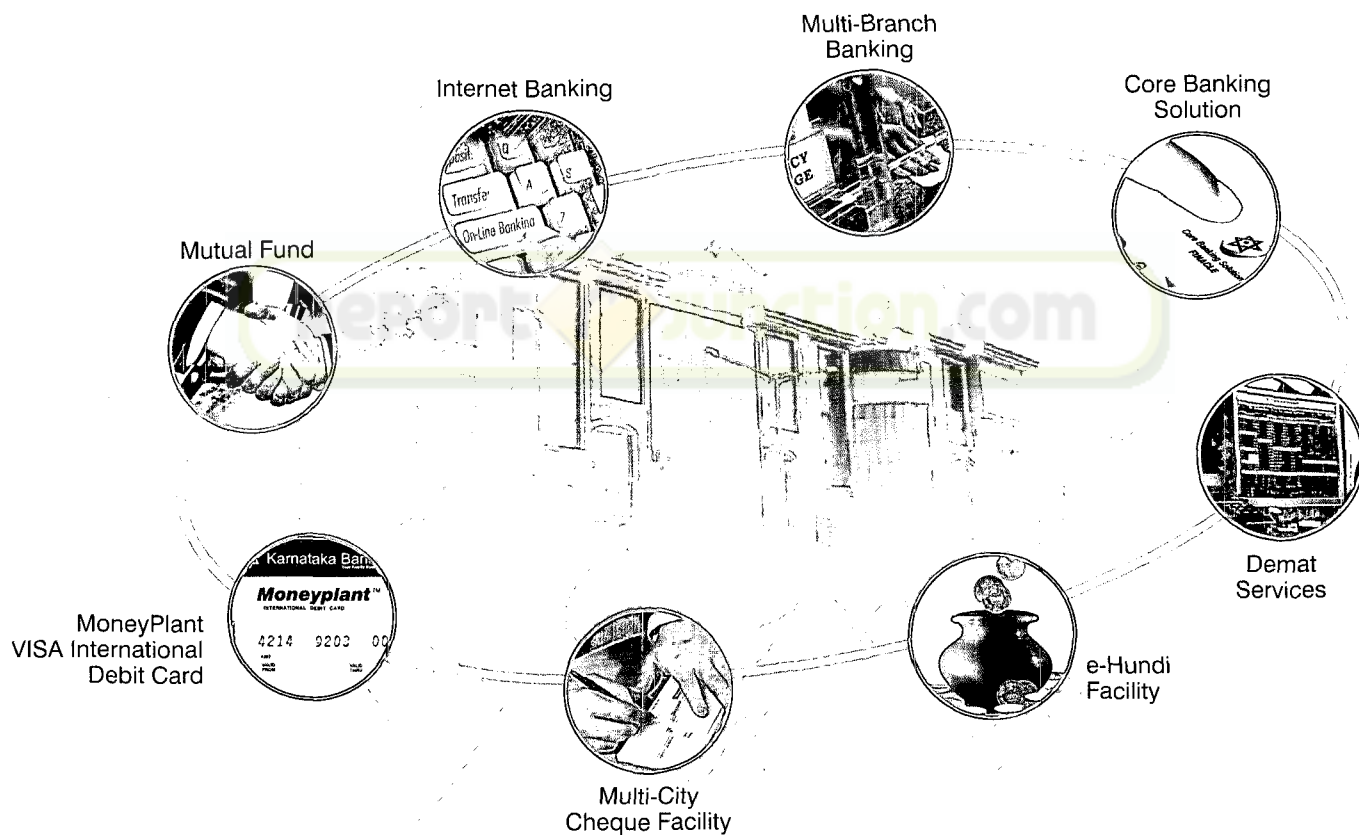


The Karnataka Bank Ltd.

84th Annual Report
2007-2008



Board of Directors - ನಿರ್ದೇಶಕರ ಮಂಡಳಿ

Chairman & Chief Executive Officer

ಅಧ್ಯಕ್ಷರು ಮತ್ತು ಮುಖ್ಯ ಕಾರ್ಯ ನಿರ್ವಾಹಕ ಅಧಿಕಾರಿ



Sri Ananthakrishna
ಶ್ರೀ ಅನಂತಕೃಷ್ಣ



Sri D. Surendra Kumar
ಶ್ರೀ ಡಿ. ಸುರೇಂದ್ರ ಕುಮಾರ್



Sri I. Jagdish Rao
ಶ್ರೀ ಐ. ಜಗದೀಶ್ ರಾವ್



Sri Jairam G. Kimmane
ಶ್ರೀ ಜೈರಾಮ್ ಜಿ. ಕಿಮ್ಮನೆ



Sri M. Bheema Bhat
ಶ್ರೀ ಎಮ್. ಭೀಮ ಭಟ್



Sri S.R. Hegde
ಶ್ರೀ ಎಸ್.ಆರ್. ಹೆಗಡೆ



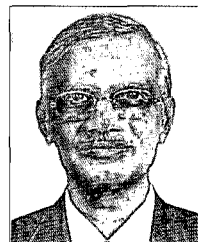
Sri R.V. Shastri
ಶ್ರೀ ಆರ್.ವಿ. ಶಾಸ್ತ್ರಿ



Sri U.R. Bhat
ಶ್ರೀ ಯು.ಆರ್. ಭಟ್



Sri T.S. Vishwanath
ಶ್ರೀ ಟಿ.ಎಸ್. ವಿಶ್ವನಾಥ್



Sri Sitarama Murty M.
ಶ್ರೀ ಸೀತಾರಾಮ ಮೂರ್ತಿ ಎಂ.



The Karnataka Bank Limited

(Regd. & Head Office: Mahaveera Circle, Kankanady, Mangalore – 2)

NOTICE TO THE MEMBERS

Notice is hereby given that the Eighty Fourth Annual General Meeting of THE KARNATAKA BANK LIMITED will be held as scheduled below:

Date : July 12, 2008
Day : Saturday
Time : 12 Noon
Place : Registered & Head Office
Karnataka Bank Ltd.,
Mahaveera Circle, Kankanady
Mangalore – 575 002

to transact the following businesses:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2008 and Profit & Loss Account for the year ended on that date together with the reports of the Auditors and the Directors thereon.
2. To declare dividend.
3. To appoint a Director in place of Shri M. Bheema Bhat, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Shri S. R. Hegde, who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Shri U. R. Bhat, who retires by rotation and being eligible offers himself for re-appointment.
6. To appoint auditors to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration. M/s Rao & Swami, Chartered Accountants, 2/1, Connaught Road, Bangalore – 560 052, one of the statutory central auditors, will be completing the term of 4 years as Statutory Central Auditors and will have to be rested for a period of 2 years as per extant guidelines of RBI. The Board proposes to appoint M/s Kamath & Rau, Chartered Accountants, Karangalpad, Mangalore – 575 003, the other retiring Statutory Central Auditor as Statutory Central Auditors of the Bank to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting. Necessary application seeking the approval of the Reserve Bank of India for the above appointment has been made.

SPECIAL BUSINESS

7. To consider the passing of the following resolution as an ORDINARY RESOLUTION with or without modifications.

"RESOLVED THAT in terms of Section 228 of the Companies Act, 1956, the Board of Directors be and is hereby authorised to appoint from time to time and in consultation with the Bank's Statutory Central Auditors one or more persons qualified for appointment as branch auditor/s to audit the accounts for the year ending 31st March, 2009 of such of the branches/offices of the Bank as are not proposed to be audited by the Bank's Statutory Central Auditors on such remuneration and subject to such terms and conditions as may be fixed by the Board of Directors".

8. To consider the passing of the following resolution as an ORDINARY RESOLUTION with or without modifications.

"RESOLVED THAT Shri Sitarama Murty M be and is hereby appointed as a Director of the Bank whose period of office is subject to retirement by rotation".

9. To consider the passing of the following resolution as a SPECIAL RESOLUTION with or without modifications.

RESOLVED THAT pursuant to Section 94 of the Companies Act, 1956 read with Article 15 (1)(a) of the Articles of Association of the Bank, the Authorized Share Capital of the Bank be and is hereby increased from the existing Rs. 150,00,00,000/- divided into 15,00,00,000 Equity shares of Rs. 10/- each to Rs. 200,00,00,000/- divided into 20,00,00,000 Equity Shares of Rs. 10/- each and in that connection, the Clause 5 of the Memorandum of Association of the Bank be and is hereby amended to read as under:

"The Authorised share capital of the Bank is Rs. 200,00,00,000/- divided into 20,00,00,000 Equity shares of Rs. 10/- each".

10. To consider the passing of the following resolution as a SPECIAL RESOLUTION with or without modifications.

RESOLVED THAT pursuant to Section 31 and other applicable provisions, if any, of the Companies Act 1956, the Article 3(a) of the Articles of Association of the Bank be and is hereby amended to read as under:

"The Authorised share capital of the Bank is Rs. 200,00,00,000/- divided into 20,00,00,000 Equity shares of Rs. 10/- each".

11. To consider the passing of the following resolution as a SPECIAL RESOLUTION with or without modifications.

"RESOLVED THAT pursuant to the provisions of Section 81 and other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modifications or re-enactment thereof, for the time being in force), and subject to the Guidelines issued by the Securities and Exchange Board of India (SEBI) and subject to the provisions of Listing Agreements entered into with the Stock Exchanges where the shares of the Company (also called the Bank) are listed and the provisions of Memorandum and Articles of Association of the Bank and subject to such other approvals, consents and permissions as may be necessary and subject to such terms and conditions and modifications as may be stipulated by any of them while granting such approvals, consents and permissions and which may be agreed to by the Board of Directors of the Bank (hereinafter referred to as "the Board" which term shall include any Committee constituted by the Board for the time being exercising the powers conferred on such Committee by the Board) in its absolute discretion, consent of the Bank be and is hereby accorded to the Board to offer, issue and allot to the shareholders on RIGHTS basis or to their renouncees, if any, equity shares of the face value of Rs. 10 (TEN) each for cash at a price of Rs. 100 (One hundred) per share including the premium of Rs. 90 (Ninety) per share in the ratio of ONE equity share for every FIVE equity shares, fractional entitlements, if any, being disregarded, held on the record date, which date to be decided by the Board in due course, on such terms and conditions including modification/s

as may be decided and deemed appropriate by the Board at the time of issue and allotment in consultation with the Lead Managers.

RESOLVED FURTHER that the equity shares to be so offered, issued and allotted shall rank pari-passu in all respects with the existing shares of the Bank including dividend.

RESOLVED FURTHER that the shares so issued shall be listed on the Stock Exchanges where the existing shares of the Bank are listed.

RESOLVED FURTHER that such shareholders who fail to lodge their application forms as prescribed in the rights issue offer document on or before the last date for acceptance of applications as provided in such document will be deemed to have declined their respective entitlements to the rights shares and the Board be and is hereby authorized to dispose of such entitlements in favour of any other person/s as the Board in its absolute discretion thinks most beneficial to the Bank.

RESOLVED FURTHER that for the purpose of giving effect to resolution, the Board or a Committee, be and is hereby authorized on behalf of the Bank to do all such acts, deeds, matters and things as it may, in its absolute discretion, deems necessary or desirable.

12. To consider the passing of the following resolution as a SPECIAL RESOLUTION with or without modifications.

"RESOLVED THAT pursuant to the provisions of Section 81 and other applicable provisions, if any of the Companies Act, 1956 (including any amendment thereto or re-enactment thereof, for the time being in force), Banking Regulation Act, 1949, Foreign Exchange Management Act, 1999, SEBI (Disclosure and Investors Protection) Guidelines 2000 (The Guidelines), Listing Agreement and in accordance with the provisions of the Memorandum and Articles of Association of the Company (also called the Bank) and such other approvals/permissions as may be necessary, the Board of Directors of the Bank (hereinafter referred to as "the Board") or a Committee of Directors (hereinafter referred to as "the Committee") constituted/to be constituted by the Board to exercise its powers including the powers conferred by this Resolution, be and is hereby authorized to offer, issue and allot, by way of Qualified Institutions Placement (QIP) to Qualified Institutional Buyers (QIBs) in terms of Chapter XIII-A of the Guidelines, whether or not such investors are existing Members of the Bank, through one or more tranches, such number of equity shares of face value of Rs. 10 (Ten) each as may be decided by the Board at the appropriate time at such price or prices including premium on each share, as the Board or the Committee of the Board may determine in accordance with the Guidelines and where necessary in consultation with the Lead Managers and such that aggregate amount to be raised from the issue and allotment of such equity shares shall not exceed Rs. 500 (Five hundred) crore.

RESOLVED FURTHER that the QIP issue shall be completed within 12 months from the date of passing of this resolution or any other applicable provision.

RESOLVED FURTHER that the allotment to each Qualified Institutional Buyer (QIB) in the proposed QIP issue will not exceed 5% (Five percent) of the paid up capital of the Bank after such issue.

RESOLVED FURTHER that the relevant date for determining the floor price of the Equity shares to be issued by way of this QIP shall be 12-6-2008.

RESOLVED FURTHER that the Equity shares so issued shall rank pari-passu with the existing Equity shares of the Bank in all respects including dividend.

RESOLVED FURTHER that for the purpose of giving effect to any offer, issue or allotment of Equity shares, the Board or a Committee be and is hereby authorized on behalf of the Bank to do all such acts, deeds, matters and things as it may, in its absolute discretion, deems necessary or desirable

for such purpose, including without limitation, signing of any agreement, the determination of the terms thereof, for entering into arrangements for managing, underwriting, marketing, listing and trading, to issue placement documents(s), and to sign all deeds, documents and writings and to pay any fees, commissions, remuneration, expenses relating thereto and with power on behalf of the Bank to settle all questions, difficulties or doubts that may arise in regard to such offer(s) or issue(s) or allotment(s) as it may, in its absolute discretion, deem fit".

Note:

- (i) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE BANK.
- (ii) Proxies if any, duly completed in the prescribed proxy form shall be deposited at the Registered Office of the Bank at least 48 hours before the time appointed for holding the meeting or any adjournment thereof.
- (iii) The Register of Members and Share transfer books of the Bank will remain closed from 5-7-2008 to 12-7-2008 (both days inclusive).

By order of the Board of Directors

Registered Office:
Mahaveera Circle
Kankanady, Mangalore – 2
Date: June 12, 2008

Y. V. Balachandra
Company Secretary

NOTE:

1. The relevant explanatory statement pursuant to Section 173 of the Companies Act, 1956, in respect of the special business set out above is annexed.
2. Members are requested to immediately notify change of their address, if any, to the Registrar & Share Transfer Agent of the Bank M/s Alpha Systems (P) Ltd., 30, Ramana Residency, 4th Cross, Sampige Road, Malleshwaram, Bangalore – 560 003 in respect of shares held in physical form. In case the shares are held in electronic form (demat), changes, if any, in their addresses shall be communicated to the Depository Participants (DPs) where the beneficiary account is maintained.
3. Members are requested to be in their seats at the meeting hall before the scheduled time of commencement of the Annual General Meeting.
4. Members who have not encashed their dividend warrants of the previous years are hereby requested to encash the same at the earliest. The unclaimed dividend will be transferred to the Investors Education and Protection Fund as per the provisions of Section 205C of the Companies Act, 1956.
5. Members desiring any information about the annual accounts at the meeting are requested to write to the Bank so as to reach the Bank at least 5 days in advance of the Annual General Meeting.
6. Article 74A of the Articles of Association of the Bank states that any suit by a member or members relating to any Annual General Meeting or Extraordinary General Meeting of the Bank or any meeting of its Board of Directors or a Committee of Directors or to any item of business on the agenda of any such meeting shall be subject to the exclusive jurisdiction of courts in Mangalore city.

INFORMATION ABOUT DIRECTORS RETIRING BY ROTATION AND SEEKING RE-APPOINTMENT AT THE ANNUAL GENERAL MEETING

In terms of the requirements of the Listing Agreement, the following information is furnished about the Directors retiring by rotation and seeking re-appointment at this Annual General Meeting:

Item No. 3: Re-appointment of Shri M. Bheema Bhat

Shri M. Bheema Bhat is a Fellow Member of the Institute of Chartered Accountants of India practicing independently in Chennai. He has more than 36 years of practical experience in the field of Finance, Accountancy and Audit. He has been Director of the Bank since 28-9-2002.

Shri M. Bheema Bhat was a member of the National Executive Committee of All India Federation of Tax Practitioners, Mumbai and also a member of Professional Development Committee of ICAI, New Delhi. He was the Chairman of SIRC of ICAI during the years 1985 and 1986. He is the Vice President of The Society of Auditors, Chennai.

The Bank has gained from the vast experience and knowledge of Shri M. Bheema Bhat. His re-appointment as a Director on the Board of the Bank is expected to provide substantial value addition to the Bank in achieving its future objectives.

Shri M. Bheema Bhat holds 4481 equity shares of the Bank and does not hold directorship in any other Company.

Item No. 4: Re-appointment of Shri S. R. Hegde

Shri S. R. Hegde holds B.A., LL.B. Degrees from Karnataka University. He joined the Reserve Bank of India in the year 1974 as a Legal Officer. He was holding the position of Legal Adviser-in-Charge, Legal Division DNBS before his retirement in the year 2002. At present he is practicing as an Advocate in Bangalore besides being a Panel Advocate and Retainer for several Banks and National level institutions. He is also an independent trustee of Sahara Mutual Fund.

Shri S. R. Hegde has an in-depth knowledge of Law and was a member of Task Force constituted by RBI to review the Exchange Control Regulations in India. The report of the Task Force was finally resulted in the legislation of FEMA. He has also undergone several training programmes and workshops like, Legislative Drafting conducted by International Law Institute at Washington D.C. in U.S.A. and a programme on 'Bank Reconstructing and Governance' during October 2001 conducted by International Law Institute, Washington, D.C., U.S.A. to name a few.

Shri Hegde has also drafted a number of draft legislations, hundred of species of delegated legislations like statutory directions, orders, notifications etc.

The knowledge and expertise of Shri S. R. Hegde in law and related matters is well known and widely appreciated. His re-appointment as a Director on the Board of the Bank is expected to provide substantial value addition to the Bank in achieving its future objectives.

Shri S. R. Hegde holds 150 equity shares of Rs. 10 each of the Bank and does not hold directorship in any other Company.

Item No. 5: Re-appointment of Shri U. R. Bhat

Shri U. R. Bhat is one of India's well-known investment advisors and is presently the Managing Director of Dalton Capital Advisors (India) Pvt. Ltd., an investment advisory company of the Dalton group, London – a global investment management firm. Prior to this, he was the Chief Investment Officer of

Jardine Fleming in India – that later became JP Morgan, India – for 7 years advising the India dedicated funds of the Flemings group. Shri U. R. Bhat holds an M.Sc. from Indian Institute of Technology, Kanpur and has attended advanced courses on Finance at the Harvard Business School, Boston. He is a Fellow of the Chartered Institute of Bankers, London. He has been writing a well-regarded monthly editorial column for the last several years in the Economic Times, the world's largest financial daily. He has been closely involved in formulating policies for benchmark indices for the Stock Exchange, Mumbai as a member of its Index Committee.

The Bank has gained from the vast experience and knowledge of Shri U. R. Bhat. His re-appointment as a Director on the Board of the Bank is expected to provide substantial value addition to the Bank in achieving its future objectives.

Shri U. R. Bhat holds 3000 equity shares of the Bank.

Shri U. R. Bhat is also on the Boards of Repro India Ltd., and Edelweiss Asset Management Company Ltd.

EXPLANATORY STATEMENT

(Pursuant to Section 173 of the Companies Act, 1956)

In conformity with Section 173(2) of the Companies Act, 1956, the following explanatory statement sets out the material facts relating to Item No. 7 to 12 appearing in the accompanying notice dated June 12, 2008.

Item No. 7

As per Clause (a) of Sub-section (3) of Section 228 of the Companies Act, 1956, General Meeting of the shareholders may authorise the Board of Directors to appoint branch Auditors for the purpose of audit of branches/offices by persons qualified to act as Auditors under Section 226 in consultation with the Statutory Central Auditors of the Bank.

It is proposed to authorise the Board to appoint branch auditors for the year ending 31-3-2009 on the terms and conditions including the remuneration payable to them in consultation with the Bank's Statutory Central Auditors.

The Board of Directors recommend resolution for approval by the members.

None of the Directors is interested in this item of business.

Item No. 8

The maximum number of directors permissible under the Articles of Association of the Bank is 15. The Board of Directors appointed Shri Sitarama Murty M. as an Additional Director of the Bank on 30-11-2007 under Section 260 of the Companies Act, 1956. Accordingly, he will hold the office as Director up to the ensuing Annual General Meeting.

A notice in accordance with Section 257 of the Companies Act, 1956, has been received from a member proposing the candidature of Shri Sitarama Murty M. for the office of Director, together with the requisite fee as prescribed.

Born on 19-12-1943, Shri Sitarama Murty M. B.Sc.(Hons), M.Sc.(Electronics) and CAIIB, has over 37 years banking experience in five banks of the State Bank Group including 9 years at the Management level and as a Managing Director of State Bank of Mysore during the period October 2000 to December 2003. He was on the Board of Saraswathi Grameena Bank and Sathavahana Grameena Bank in

Andhra Pradesh during the years 1981 to 1984. He was a director on the Board of the Haryana Vidyut Prasaran Nigam during 1998-2000, when the reforms were under way in the electrical sector.

Shri Sitarama Murty M has rich experience in Credit, International Banking, Foreign Exchange, Money Markets, Funds Management, Agricultural Finance, Rural Development etc. He was the co-author of Book "Computerisation of Banking Operations in India (1990) and published paper on "Forecasting Exchange Rates" in the book International Monetary, Banking & Trade Systems & Economic Development – NIBM Pune in the year 1992. He has also written more than 75 articles published in the newspapers – The Economic Times, Financial Express, The Hindu, The Hindu Business Line, The Commerce etc.

At present Shri Sitarama Murty M is also on the Board of M/s Aurobindo Pharma Ltd., Hyderabad and a member of its Audit Committee of Board of Directors.

Shri Sitarama Murty M holds 150 shares of the Bank.

The knowledge and expertise of Shri Sitarama Murty M in the field of Banking is well known and widely appreciated. His appointment as a Director on the Board of the Bank is expected to provide substantial value addition to the Bank in achieving its future objectives.

Except Shri Sitarama Murty M none of the Directors of the Bank is interested in this item of business.

The Board of Directors recommend the resolution for approval by the members.

Item No. 9 & 10

In order to support and sustain the current rate of growth and to meet regulatory requirements of capital as envisaged in the Basel II accord, augmenting the capital fund of the Bank is very much essential on an on going basis. The Capital to Risk Weighted Assets Ratio as on March 31, 2008 was at 12.17% under Basel I and it would be around 10.5% under Basel II framework. In order to augment capital fund, Bank may enter the capital market by issue of equity shares.

The present authorized and paid up capital of the Bank is Rs. 150 Crore and Rs. 121.35 Crore respectively. It is proposed to increase the authorized share capital of the Bank from Rs. 150 crore to Rs. 200 crore to facilitate further issue of equity shares. Resolution set out in Item Nos. 9 and 10 are for the purpose of altering the Memorandum and Articles of Association dealing with Authorised share capital of the Bank.

The Board of Directors recommend the resolution for approval by the members.

None of the Directors is interested in this item of business.

Item No. 11

In order to augment long term funds, the Board of Directors of the Bank propose to issue further shares to the shareholders on Rights basis in the ratio of ONE equity share for every FIVE equity shares held on the record date, the record date to be fixed by the Board in due course. These shares will be issued for cash at a price of Rs. 100 (One hundred) per share including the premium of Rs. 90 (Ninety) per share. Through the issue the Bank proposes to raise Rs. 243 Crore. This will enable the Bank to expand its business and improve the Capital to Risk Weighted Assets Ratio (CRAR).

The resolution set out in the notice seeks members consent for the issue of shares on Rights basis and to authorize the Board to dispose of the unsubscribed portion of the issue, if any, to any other person who may or may not be the member of the Bank. The Rights offer to the shareholders may result in

fractional entitlements which shall be ignored and the same may be disposed of by the Board in such manner as it deem fit.

The Directors of the Bank may be deemed to be concerned or interested in the resolution to the extent of the entitlements for shares that may be offered to them on Rights basis or otherwise applied and allotted to them.

The Board of Directors recommend the resolution for approval by the members.

Item No. 12

The Bank proposes, inter-alia, to issue equity shares through the mechanism of Qualified Institutions Placement (QIP) in accordance with Chapter XIII-A of the Securities and Exchange Board of India (Disclosure and Investors Protection) Guidelines, 2000. It is proposed to issue and allot, in one or more tranches, such number of equity shares at such price as the Board of the Bank may determine from time to time, in such a way that the aggregate amount to be raised shall not exceed Rs. 500 crore. These shares will be issued only to Qualified Institutional Buyers (QIBs) as per the SEBI Guidelines and there will not be any issue to retail individual investors. The issue price, proportion and timing of the issue will be decided by the Board in due course.

As per Chapter XIII-A of the SEBI Guidelines, the issue of equity shares on QIP basis can be made at a price which is not less than the higher of the following:

1. The average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the six months preceding the "relevant date".
2. The average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the two weeks preceding the "relevant date".

The relevant date for the above purpose will be June 12, 2008, which is thirty days prior to the date of holding General Meeting of the shareholders for considering the proposed issue.

Section 81 of the Companies Act, 1956, inter-alia, provides that whenever it is proposed to increase the subscribed capital by a further issue and allotment of shares, such shares shall be offered to the existing shareholders of the company in the manner laid down in the said section, unless the shareholders decide otherwise in a general meeting.

Accordingly, the consent of the shareholders is being sought pursuant to the provisions of Section 81 and all other applicable provisions of the Companies Act, 1956, SEBI Guidelines and in terms of the provisions of the Listing Agreement with Stock Exchanges for authorizing the Board to issue, offer and allot equity shares as stated in the resolution through QIP in such manner and upon such terms and conditions as the Board may in its absolute discretion deems fit.

The Board of Directors recommend the resolution for approval by the members.

None of the Directors is interested in this item of business.

Registered Office:
Mahaveera Circle
Kankanady
Mangalore – 2

By order of the Board of Directors

Y. V. Balachandra
Company Secretary

Date: June 12, 2008