

September 14, 2010

**CARE REAFFIRMS RATING ASSIGNED TO LOWER TIER II BONDS
OF KARNATAKA BANK LIMITED**

CARE has reaffirmed 'CARE A+' [Single A Plus] rating assigned to Lower Tier II Bonds of Karnataka Bank Limited.

Instrument	Amount (Rs. crore)	Rating ¹	Remarks
Lower Tier II Bond Issues	350	CARE A+	Reaffirmed

Rating Rationale

The rating factors in Karnataka Bank's (KBL) long track record of operations, improving margins (Net Interest Margins) since Q3FY10 and expected capital issuance in FY11. The rating is constrained by bank's small size, regional concentration and weak asset quality. KBL's ability to improve its asset quality, profitability parameters and strengthen its capital base in a timely manner are key rating sensitivities.

Company Profile

Karnataka Bank is a small-sized, widely held, old private sector bank set up in 1924. The asset base of KBL stood at Rs.27,035 crore as on March 31,2010. As on March 31, 2010, the bank had 464 branches and 217 ATM outlets. All the branches have been networked under core banking solution. Karnataka accounted for around 68% of the total business of KBL. In FY10, KBL reported profit of Rs.167 crore on Total income of Rs.2355 crore.

As on June 30, 2010, the deposits stood at Rs.23970 crore and advances stood at 14470 crore. The Gross NPA ratio stood at 3.84% and Net NPA ratio stood at 1.20%. The bank posted comfortable capitalisation levels with CAR of 12.31% as on June 30, 2010. In Q1FY11, the bank reported a Net Profit of Rs.46 crore on a Total Income of Rs.613 crore.

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CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

¹ Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications

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