BASEL PILLAR III DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK (31.12.2021)

1. SCOPE OF APPLICATION (DF 1)

Karur Vysya Bank Limited is a Scheduled Commercial Bank which was incorporated on June 22, 1916 at Karur. As on 31.12.2021, the Bank does not have any subsidiaries.

2. CAPITAL ADEQUACY AND CAPITAL STRUCTURE (DF 2)

Banks are required to maintain a minimum Pillar 1 Capital to Risk-weighted Assets Ratio (CRAR) of 9% on an on-going basis (other than Capital Conservation Buffer (CCB), Counter Cyclical Capital Buffer (CCCB) etc.). Banks are also required to maintain CCB of 2.50% on an ongoing basis with effect from 01.10.2021, as per extant RBI guidelines.

Capital funds are classified into Tier-I and Tier-II capital under the capital adequacy framework.

<u>Tier-I Capital:</u>

Bank's Tier I capital shall consist of Common Equity Tier I (CET 1) and admissible Additional Tier I (AT 1) capital. CET 1 capital must be at least 5.5% of risk-weighted assets (RWAs) i.e. for Credit risk + Market risk + Operational risk on an ongoing basis and AT 1 capital can be a maximum of 1.5%, thus requiring total Tier I capital to be at least 7%.

In addition to the minimum CET 1 capital of 5.5% of RWAs, banks are also required to maintain CCB in the form of CET 1 capital, progressively from Financial Year 2015-16, to reach a level of 2.50% of RWAs, by 01.10.2021.

Tier I capital includes paid-up equity capital, share premium, statutory reserves, capital reserves, other disclosed free reserves and balance in Profit and Loss account at the end of the previous financial year. Profits in current financial year may be included in Tier I on fulfillment of certain conditions regarding incremental provisions for non-performing assets.

<u>Equity Capital</u>

Bank has an authorized share capital of Rs. 200 crore comprising of 100,00,00,000 equity shares of Rs. 2/- each. As on 31.12.2021 the Bank has Subscribed and Paid-up capital of Rs. 1599 million constituting 79,93,58,436 shares of Rs. 2/- each.

<u>Tier II Capital:</u>

Bank's Tier II capital includes provisions for standard assets and debt capital instruments (Tier II bonds) and other reserves eligible for inclusion in Tier II capital.

Provisions or loan-loss reserves held against future, presently unidentified losses, which are freely available to meet losses which subsequently materialize, will qualify for inclusion within Tier II capital.

<u>Tier II bonds</u>

Details of subordinated debt instruments issued by the Bank and outstanding as on 31.12.2021 are as under:

(Rs. in million)

Issue Series	Deemed Date of Allotment	Coupon Rate (% p.a.)	Tenor (in Months)	Amount as on 31.12.2021
1	March 12, 2019	11.95	123	4,870

Composition of Capital – Tier I and Tier II:

(Rs. in million)

1. Tier I capital	
1.1 Paid-up share capital	1,599
1.2 Reserves	66,319
1.3 Gross Tier I capital (1.1 + 1.2)	**67,918**
1.4 Deductions	744
1.5 Total Tier I capital (1.3 - 1.4)	**67,174**
2. Tier II capital	
2.1 Subordinated Debt	4,870
2.2 General Provisions and Revaluation Reserves	1,988
2.3 Investment Reserve & Investment Fluctuation Reserves	1,281
2.4 Gross Tier II capital (2.1 + 2.2 + 2.3)	**8,139**
2.5 Deductions	-
2.6 Total Tier II capital (2.4 - 2.5)	
3. Debt capital instruments eligible for inclusion in Basel III Tier II capital	
3.1 Total amount outstanding	4,870
3.2 Of which amount raised during the current year	-
3.3 Amount eligible to be reckoned as capital funds	4,870
4. Subordinated debt eligible for inclusion in Tier II capital	-
4.1 Total amount outstanding	-
4.2 Of which amount raised during the current year	-
4.3 Amount eligible to be reckoned as capital funds	-
5. Other deductions from capital	-
6. Total eligible capital (1.5 + 2.6 - 5)	**75,313**

2.1 CAPITAL ADEQUACY ASSESSMENT PROCESS

The Bank has a process for assessing its overall capital adequacy in relation to the Bank's risk profile and a strategy for maintaining its capital levels. The process ensures that the Bank has adequate capital to support all the material risks and an appropriate capital cushion. The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through robust risk management framework, control mechanism and an elaborate process for capital calculation and planning.

The Bank has formalized and implemented a comprehensive Internal Capital Adequacy Assessment Process (ICAAP). The Bank's ICAAP covers the process for assessment of the adequacy of capital to support current and projected business levels / risks.

The Bank has a structured process for the identification and evaluation of all risks that the Bank faces, which may have a material impact on its financial position. The Bank considers the following risks as material risks it is exposed to in the normal course of its business and therefore, factors these while assessing / planning capital:

1. Credit Risk	2. Market Risk	3. Operational Risk	4. Liquidity Risk
5. Interest Rate Risk in the Banking Book	6. Concentration Risk	7. Strategic Risk	8. Reputational Risk

The Bank has also implemented a Board approved Stress Testing Policy. Stress Testing involves the use of various techniques to assess the Bank's potential vulnerability to extreme but plausible ("stressed") business conditions. Typically, this relates, among other things, to the impact on the Bank's profitability and capital adequacy. Stress Tests are conducted on the Bank's on and off balance sheet exposures to test the impact of Credit risk, Market risk, Liquidity risk and Interest Rate Risk in the Banking Book (IRRBB). The stress test results are put up to the Risk Management Committee (RMC) of the Board for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of market conditions. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP. In line with the RBI guidelines for implementing the New Capital Adequacy Framework under Basel III, the Bank has successfully migrated to the framework from April 1, 2013.

In accordance with the RBI's requirement, the Bank has continued to adopt Standardized Approach (SA) for Credit Risk and Basic Indicator Approach (BIA) for Operational Risk to compute capital as on 31.12.2021. Besides this, the Bank continues to apply the Standardized Duration Approach (SDA) for computing capital requirement for Market Risk. RBI has prescribed banks to maintain a minimum CRAR of 11.50% with regard to credit risk, market risk and operational risk as on 31.12.2021.

2.2 CAPITAL ADEQUACY AS ON 31.12.2021

The total Capital to Risk Weighted Assets Ratio (CRAR) as per Basel III guidelines works to 18.79% as on 31.12.2021 (as against minimum regulatory requirement of 11.50%). The Tier I CRAR stands at 16.76%. The Bank has followed the extant RBI guidelines to arrive at the eligible capital, risk weighted assets and CRAR.

<u>Capital requirements for Credit Risk, Market Risk and Operational Risk:</u>

(Rs. in million)

1. Capital requirement for Credit Risk	
-Portfolio subject to Standardized Approach	**36,873**
-Securitization exposures	-
2. Capital requirement for Market Risk	
Standardized Duration Approach	**2,230**
o Interest Rate Risk	937
o Foreign Exchange Risk (Including gold)	52
o Equity Risk	1,241
3.Capital requirement for Operational Risk	
Basic Indicator Approach	**6,981**
Total capital requirements at 11.50% (1 + 2 + 3)	**46,084**
Total capital	**75,313**
CRAR %	18.79
Tier-I CRAR %	16.76
CET 1 %	16.76

3. RISK EXPOSURE AND ASSESSMENT

The Bank is exposed to various types of risk such as Credit, Market, Operational, Liquidity, Interest Rate, Reputational, Legal and Strategic risk. The Bank has separate and independent Risk Management Department in place which oversees the management of all types of risks in an integrated fashion.

The objective of risk management is to have optimum balance between risk and return. It entails the identification, measurement and management of risks across the various businesses of the Bank. Risk is managed through framework defined in policies approved by the Board of Directors and supported by an independent risk management function which monitors and takes corrective action so that the Bank operates within its risk appetite. The risk management function attempts to anticipate vulnerabilities through quantitative or qualitative examination of the embedded risks in various activities. The Bank continues to focus on refining and improving its risk management systems. In addition to ensuring compliance with regulatory requirements, the Bank has developed robust internal systems for assessing capital requirements keeping in view the business objectives.

The Board of Directors approves the strategies and policies for Risk Management, based on recommendations of the RMC of the Board set up to focus upon risk management issues. The RMC of the Board reviews various aspects of risk arising from the businesses undertaken by the Bank. Operating level risk committees comprising of senior management viz. Asset Liability Management Committee, Operational Risk Management Committee, Market Risk Management Committee and the Credit Risk Management Committee oversee specific risk areas. These committees in turn provide inputs for review by the RMC of the Board.

3.1 Risk Management Committee of the Board:

The RMC of the Board is the primary tier to oversee implementation of Board approved strategies and policies, recommend setting up of tolerance limits wherever required, monitor implementation of strategies and policies, as well as adherence to prescribed tolerance limits etc. The RMC oversees the functioning of executive level committees for risk management.

3.2 Executive Level Committees:

At executive management level, the organizational responsibilities for implementing and monitoring Board approved strategies and policies and adhering to prescribed tolerance limits etc. are as under:

S.N.	Name of the committee	Focus Area	Chairman
1	Credit Risk Management Committee (CRMC)	All aspects of Credit Risk Management, Monitoring & Control	MD & CEO
2	Asset Liability Management Committee (ALCO)	All aspects of Asset Liability Management, Monitoring & Control, Interest rate review etc.	Chief Operating Officer (COO)
3	Market Risk Management Committee (MRMC)	All aspects of Market Risk Management, Monitoring & Control.	
4	Operational Risk Management Committee (ORMC)	All aspects of Operational Risk Management, Monitoring & Control.	

4. CREDIT RISK (DF 3)

4 .1 Credit risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

The Bank adopts the definition of 'past due' and 'impaired credits' (for accounting purposes) as defined by RBI under Income Recognition, Asset Classification and Provisioning (IRAC) norms.

4.1.1. Credit Risk Management

CRMC is the top-level functional committee for managing credit risk. The committee is responsible for implementation of Credit Policy approved by the Bank's Board. The committee considers and takes decision necessary to manage and control credit risk within the overall quantitative prudential limits approved by the Bank's Board. The Committee is entrusted with the responsibilities to formulate standards for presentation of credit proposals, financial covenants, rating standards and benchmarks.

The Bank has adopted an integrated approach to CRM, which encompasses:

- Establishment and articulation of corporate priorities
- Institution and inculcation of an appropriate credit culture
- Determination of specific credit risk strategy and profile
- Implementation of appropriate credit risk controls
- Monitoring the effectiveness of credit risk controls

The Bank has implemented the Standardized approach for regulatory capital measurement for credit risk.

4.1.2. Credit Risk Strategy and Risk Profile:

The Bank has adopted a credit risk strategy and risk appetite, which is in line with its risk taking ability to ensure conservation and growth of shareholder funds, with a proper balance between risk and reward. Financial resources are allocated to optimize the risk reward ratio.

There is a clearly articulated definition of acceptable credit risk, based upon:

- Identification of target markets/segments
- Establishing of characteristics of desirable customers within the target market
- Assessing whether adequate resources are available to support the business
- Ensuring that all legal and regulatory requirements are complied with
- Ensuring that the portfolio is consistent with the Bank's strategy and objectives especially in relation to risk concentration, maturity profile and liquidity management

4.1.3 Credit Risk Controls:

Credit risk controls focus on identification, measuring, monitoring and managing the assumed risks and include:

- A documented credit policy and credit risk rating policy
- Approval process with delegated authorities
- Asset quality and risk rating system and its verification
- Effective loan disbursement mechanism to minimize the legal risk
- Effective loan administration to ensure past-due management and bad loan detection
- A loan review mechanism
- Portfolio management tools to manage portfolio risks

Management of credit risk is at three levels:

- Strategic or Portfolio level, so as to ensure that no single event can have a significant adverse impact.
- Established credit policy to have a minimum standard for assuming risk
- Reliance on the competence of trained staff to make sound credit decisions

The Bank relies upon formal and conventional credit risk assessment, viz.:

- The ability and willingness of borrowers to repay.
- Dependence primarily on cash flows for repayment with security taken to provide a secondary source of repayment.
- Quality of data and analysis thereof forms the basis of assessment and not external reputation or unsubstantiated beliefs.
- Rational assessment of probability of default and assessment of 'Worst Case Scenario'.
- Transparency and communication of all relevant facts (negative as well as positive) necessary for making an informed credit decision.
- Documentation of all assessment, rationale and decisions.
- Know Your Customers 'KYC' forms the bedrock of initiating and sustaining any relationship.

4.2 Total gross credit risk exposure:

(Rs. in million)

Category : Domestic	**Amount**
Fund based	6,67,035
Non fund based	29,402
Total	**6,96,437**

Note:

1. Fund based credit exposure excludes cash in hand, balance with RBI, investments in shares and bonds etc., deposits placed with NABARD, SIDBI & NHB, fixed and other assets.

2. Non-fund based exposure includes outstanding Letter of Credit, Acceptances and Bank Guarantee exposures.

Exposure includes credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). The sanctioned limits or outstanding, whichever is higher, is reckoned for arriving at the exposure limit. In case of fully drawn term loans (i.e. where there is no scope for further drawal of any portion of the sanctioned limit), the outstanding is treated as the exposure.

4.3 Geographical Distribution of Credit:

(Rs. in million)

STATE	FUND BASED	STATE	FUND BASED
ANDHRA PRADESH	82,947	MAHARASHTRA	60,130
BIHAR	98	ORISSA	1,239
CHANDIGARH	551	PONDICHERRY	4,119
CHHATTISGARH	114	PUNJAB	1,110
DELHI	13,177	RAJASTHAN	308
GOA	364	TAMILNADU	2,75,701
GUJARAT	15,086	TELANGANA	45,142
HARYANA	3,865	UTTARAKHAND	102
JHARKHAND	107	UTTAR PRADESH	2,042
KARNATAKA	33,571	WEST BENGAL	7,185
KERALA	10,096	**TOTAL**	**5,57,926**
MADHYA PRADESH	872		

4.4 Industry wise distribution of exposures

(Rs. in million)

Industry	Fund Based	Non-Fund Based
MINING & QUARRYING	4,586	372
FOOD PROCESSING	18,878	2,179
BEVERAGES & TOBACCO	2,422	20
TEXTILES	45,500	2,164
LEATHER AND LEATHER PRODUCTS	668	5
WOOD AND WOOD PRODUCTS	4,108	1,863
PAPER AND PAPER PRODUCTS	4,850	280
PETROLEUM	285	9
CHEMICALS AND CHEMICAL PRODUCTS	5,645	126
RUBBER, PLASTIC AND THEIR PRODUCTS	5,124	92
GLASS & GLASSWARE	347	18
CEMENT & CEMENT PRODUCTS	3,949	101
BASIC METAL AND METAL PRODUCTS	9,808	1,835
ALL ENGINEERING	7,444	1,518
VEHICLES, VEHICLE PARTS AND TRANSPORT EQUIPMENT	2,525	101
GEMS AND JEWELLERY	9,047	938
CONSTRUCTION	5,624	1,463
INFRASTRUCTURE	25,617	5,266
OTHER INDUSTRIES	3,110	107
OTHERS	4,57,326	10,945
TOTAL	**6,16,863**	**29,402**

4.5 Exposure to Industries in excess of 5% of total exposure

(Rs. in million)

Industry	Fund based Facilities	Non-Fund based Facilities
TEXTILES	45,500	2,164
Total	**45,500**	**2,164**

4.6 Residual contractual maturity breakdown of assets*

(Rs. in million)

Residual Maturity		Cash	Bal. with RBI	Bal. with other banks	Investments	Advances (Performing)	Gross NPA + NPI	Fixed Assets	Other Assets	Total
Day 1		6,199	558	144	20,085	22,856	-	-	2,795	52,637
2-7 Days		-	481	1,497	13,372	5,794	-	-	349	21,493
8-14 Days		-	439	1,491	9,818	5,345	-	-	349	17,442
15-30 Days		-	774	-	3,533	13,052	-	-	-	17,359
31 Days & upto 2 Months		-	1,387	1,485	6,333	23,140	-	-	-	32,345
Over	Upto									
2 Months	3 Months	-	1,207	5,500	6,076	22,085	-	-	-	34,868
3 Months	6 Months	-	3,241	6,030	14,846	63,219	-	-	-	87,336
6 Months	1 Year	-	6,078	-	28,523	71,096	-	-	-	105,697
1 Year	3 Years	-	6,294	16	42,167	185,195	-	-	-	233,672
3 Years	5 Years	-	3,207	-	19,039	39,624	6,894	-	-	68,764
Over 5 Years		-	2,918	-	14,239	67,644	33,351	4,885	8,910	131,947
Total		**6,199**	**26,584**	**16,163**	**178,031**	**519,050**	**40,245**	**4,885**	**12,403**	

*** As per ALM Guidelines***

4.7 Non Performing Advances and Provisions

(Rs. in million)

Particulars	Amount	
a) Gross NPA		
i. Substandard	6,895	
ii. Doubtful 1	6,547	
iii. Doubtful 2	11,786	
iv. Doubtful 3	6,393	
v. Loss	7,254	
Total	**38,875**	
b) Net NPA	13,556	
c) NPA Ratios		
i. Gross NPAs to Gross Advances (%)	6.97	
ii. Net NPAs to Net Advances (%)	2.55	
d) Movement of NPA (Gross)		
i. Opening balance 01.04.2021	41,429	
ii. Additions during the year	6,211	
iii. Reductions during the year	8,765	
iv. Closing balance 31.12.2021	38,875	
e) Movement of provisions for NPA	Specific Provision	General Provision
i. Opening balance as on 01.04.2021	23,656	-
ii. Provision made during the year	6,917	-
iii. Write-off / write-back of excess provisions	5,900	-
iv. Closing balance 31.12.2021	24,673	-

f) Write Offs / Recoveries that have been booked directly to the income statement	
i. Write Offs that have been booked directly to the income statement	-
ii. Recoveries that have been booked directly to the income statement	55
g) Amount of Non-Performing Investments	1,370
h) Amount of provisions held for Non-Performing Investments	1,266
i) Movement of depreciation on investments	
i. Opening balance as on 01.04.2021	3,100
ii. Add - Provision made during the year	754
iii. Less - Write-off/ write-back of excess provision during the year (including depreciation utilized on the sale of securities)	52
iv. Closing balance as on 31.12.2021	**3,802**

4.7.1 Major Industry break up of NPA

(Rs. in million)

Industry	Gross NPA	Specific Provision	Write Off during the current period
MINING & QUARRYING	121	22	-
FOOD PROCESSING	977	537	-
BEVERAGES & TOBACCO (EXCLUDING TEA & COFFEE)	27	10	-
TEXTILES	1,949	978	1
LEATHER AND LEATHER PRODUCTS	194	107	-
WOOD AND WOOD PRODUCTS	1,057	582	-
PAPER AND PAPER PRODUCTS	317	205	-
PETROLEUM	2	1	-
CHEMICALS AND CHEMICAL PRODUCTS	694	383	-
RUBBER, PLASTIC AND THEIR PRODUCTS	2,881	2,514	-
CEMENT & CEMENT PRODUCTS	1,754	1,630	-
BASIC METAL AND METAL PRODUCTS	1,097	560	249
ALL ENGINEERING	385	350	-
VEHICLES, VEHICLE PARTS AND TRANSPORT EQUIP.	476	379	1,611
GEMS AND JEWELLERY	1,188	695	-
CONSTRUCTION	140	50	-
INFRASTRUCTURE	3,091	2,255	1,403
OTHER INDUSTRIES	106	63	-
TOTAL	**16,456**	**11,321**	**3,264**

4.7.2 Geography wise distribution of NPA and Provision

(Rs. in million)

Geography	Gross NPA	Specific Provision
Domestic	38,875	24,673
Overseas	-	-
Total	**38,875**	**24,673**

5. CREDIT RISK: DISCLOSURES FOR PORTFOLIO SUBJECT TO THE STANDARDIZED APPROACH (DF 4)

5 (a). The Bank has used the ratings of the following domestic external Credit Rating Agencies (CRA) for the purpose of risk weighting Bank's claims on the domestic entities for capital adequacy purpose:

1. CRISIL	2. CARE	3. ICRA	4. India Ratings	5. Brickwork	6. SMERA	7. Infomerics

5 (b). A description of the process used to transfer public issuer ratings onto comparable assets in the banking book:

Bank has used short term ratings for assets with maturity upto one year and long-term ratings for assets maturing after one year as accorded by the approved external CRAs. Bank has not cherry picked ratings. Bank has not used one rating of a CRA for one exposure and another CRA's rating for another exposure on the same counterparty unless only one rating is available for a given exposure.

Cash credit exposures have been rated as long-term facility, notwithstanding the repayable on demand condition.

If an obligor has a long term external credit rating that warrants RW (Risk Weight) of 150%, all unrated exposures on the same obligor whether long or short is assigned the same 150% RW unless mitigated by recognized Credit Risk Mitigants.

Bank has used only solicited rating from the recognized CRAs. In case the obligor has multiple ratings from CRAs, the rating to be used is selected as per RBI guidelines.

If there is only one rating by a chosen CRA for a particular claim, that rating is used to determine the risk weight of the claim.

If there are two ratings accorded by chosen CRAs that map into different risk weights, the higher risk weight is applied.

If there are three or more ratings accorded by chosen CRAs with different risk weights, the ratings corresponding to the two lowest risk weights is referred to and the higher of those two risk weights is applied. i.e., the second lowest risk weight.

Where RW associated with the rating by a CRA for a specific investment instrument is lower than one corresponding to unrated exposure, but the Bank's exposure is not in that instrument but some other debt, the RW for the rated exposure has been applied to Bank's unrated exposure provided the latter ranks pari-passu or senior to the specific rated exposure and the maturity of Bank's claim is not later than the rated exposure.

If either the issuer or a single issue has been rated warranting RW equal or higher than unrated claim, a claim on the same issuer which is unrated but ranks pari-passu or junior to the rated exposure has been assigned the same RW as the rated exposure.

No recognition of Credit Risk Mitigation (CRM) technique has been taken into account in respect of a rated exposure if that has already been factored by the CRA while carrying out the rating.

For exposure amounts after risk mitigation subject to the standardized approach, amount of the Bank's outstanding (rated and unrated) in the following three major risk buckets as well as those that are deducted as on 31.12.2021 are as follows:

(Rs. in million)

S.N.	Risk Weight	Fund Based	Non Fund Based
1	Below 100%	4,49,993	9,742
2	100%	1,07,089	10,049
3	More than 100%	46,646	2,751
	Total (1 + 2 + 3)	**6,03,728**	**22,542**

6. CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDIZED APPROACH (DF 5)

6.1 The Bank has adopted CRM techniques and Collateral Management (CM) guidelines issued by RBI under Master circular – Prudential guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF).

The Bank has utilized CRM in the form of Bank's own deposits, LIC Policies, National Saving Certificate and gold, wherever the collateral is identifiable, marketable & enforceable and complies with RBI requirements. Sovereign exposures and Sovereign guaranteed exposures are risk weighted as per RBI directives.

The general principles applicable for use of CRM techniques are as under:

i. No transaction in which CRM techniques are used has been assigned higher capital requirement than as otherwise identical transaction where such techniques are not used.

ii. The Bank has taken care to see that effects of CRM are not double counted. To ensure this no additional supervisory recognition of CRM for regulatory capital purposes is made available on claims for which an issue-specific rating is used that already reflects that CRM.

iii. Principal-only ratings will not be allowed within the CRM framework. The rating should cover principal and interest.

The Bank has, therefore, put in place robust procedures and processes to control these risks, including strategy, consideration of the underlying credit, valuation, policies and procedures systems, control of roll-off risks, and management of concentration risk arising from the use of CRM techniques and its interaction with the Bank's overall credit risk profile.

6.2 Eligible Financial Collateral:

The following collaterals are used as risk mitigants –

1. Cash margins and fixed deposit receipts of the counterparty with the Bank
2. Gold bullion and jewelry
3. Securities issued by Central and State Governments
4. National Savings Certificates, Kisan Vikas Patras
5. Life insurance policies with a declared surrender value of an insurance company which is regulated by an insurance sector regulator.
6. Debt securities rated by a chosen CRA in respect of which the banks should be sufficiently confident about the market liquidity and where they are either:
    a) Attracting 100% or lesser risk weight i.e. rated at least BBB (-), when issued by public sector entities and other entities (including Banks and Primary Dealers); or
    b) Attracting 100% or lesser risk weight i.e. rated at least PR3/P3/F3/A3 for short-term debt instruments.
7. Debt securities not rated by a chosen CRA in respect of which the Banks should be sufficiently confident about the market liquidity where these are:
    a) Issued by a Bank
    b) Listed on a recognized exchange
    c) Classified as senior debt
    d) All rated issues of the same seniority by the issuing Bank are rated at least BBB(-) or A3 by a chosen CRA
8. Units of Mutual Funds regulated by the securities regulator of the jurisdiction of the bank's operation and mutual funds where:
    a) Price for the units is publicly quoted daily i.e., where the daily NAV is available in public domain; and
    b) Mutual fund is limited to investing in permitted instruments listed.

6.3 Total exposure covered by guarantees/credit derivatives Nil

7. SECURITIZATION EXPOSURES (DF 6)

As per RBI guidelines on Securitization exposure, investments by banks in securitized assets, representing loans to various categories of priority sector, except 'others' category, are eligible for classification under respective categories of priority sector lending (PSL) depending on the underlying assets.

As on 31.12.2021 the Bank does not have any securitization exposure as originator.

8. MARKET RISK IN TRADING BOOK (DF 7)

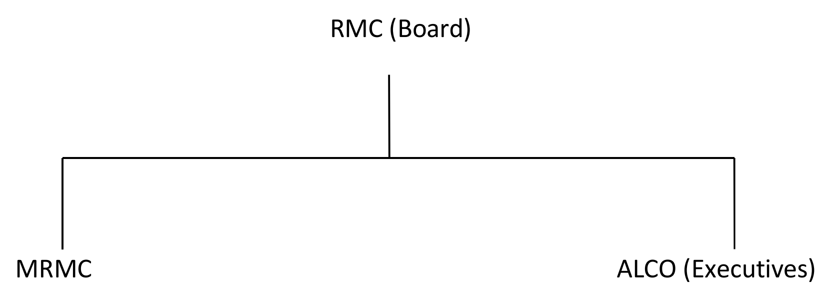
Market risk refers to the uncertainty of future earnings resulting from changes in interest rates, foreign exchange rates, market prices and volatilities. The Bank assumes market risk in its lending and deposit taking businesses and in its investment activities, including position taking and trading. The market risk is managed in accordance with the investment policies, which are approved by the Board. These policies ensure that operations in securities, foreign exchange and derivatives are conducted in accordance with sound and acceptable business practices and are as per the extant regulatory guidelines, laws governing transactions in financial securities and the financial environment. Market Risk in Trading Book is assessed as per the Standardized Duration approach. The capital charge for Held for Trading (HFT) and Available for Sale (AFS) portfolios is computed as per RBI guidelines.

Market risk management objectives:

The objectives of market risk management are as follows:

- Management of liquidity
- Management of interest rate risk and exchange rate risk.
- Proper classification and valuation of investment portfolio
- Adequate and proper reporting of investments and derivative products
- Compliance with regulatory requirements

Structure and organization of the market risk management function:



Strategies and processes:
To comply with the regulatory guidelines and to have independent control groups there is clear functional separation of:

- Trading (Front office)
- Monitoring and control (Middle office) and
- Settlements (Back office)

The strategy/guidelines for controlling market risk include:

- Direct involvement of experienced line management
- Stringent controls and limits
- Strict segregation of front, middle and back office duties
- Comprehensive periodical reporting of positions
- Regular independent reviews of all controls and limits
- Rigorous testing and auditing of all pricing, trading and risk management

The scope and nature of risk reporting and measurement systems:

Reporting – The Bank periodically reports on the various investments and their related risk measures to the senior management and the committees of the Board. The Bank also periodically reports to RBI in compliance with regulatory requirements.

Measurement – The Bank has devised various risk metrics for measuring market risk. These are reported to ALCO. Some of the risk metrics adopted by the Bank for monitoring its risks are Value-at-Risk, Earnings at Risk, Modified Duration, Stop Loss limits amongst others.

The capital requirements for market risk are detailed below:

(Rs. in million)

SN	Risk Category	Capital Charge
1	Interest Rate Risk	937
2	Foreign Exchange Risk (Including gold)	52
3	Equity Risk	1,241
	Capital requirement for Market Risk (1 + 2 + 3)	**2,230**

9. OPERATIONAL RISK (DF 8)

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The Bank has put in place a Board approved Operational Risk Management Policy which outlines overall framework for management of Operational Risk.

The Bank manages Operational Risk by way of adopting best practices in processes as well as products. Utmost importance is given on communication and understanding of processes at transactional level and compliance to same are monitored through effective internal audits.

The Bank's selection of personnel and systems of rewarding performance are aligned to meet Bank's stated key priorities. There is a commitment to training and upgrading of staff skills. Strong 'ownership' of exposures is encouraged, through rewards as well as strong accountability.

The Bank understands the criticality of business continuity in the event of any undesirable/ unforeseen incident and has put in place an exhaustive Business Continuity Plan (BCP) in place which is subject to periodic drills. The Bank has robust Information Technology set up with Disaster Recovery (DR) site for critical functions and backups. Further there is a strict adherence to Information Security Policy across the Bank.

As per the mandate from RBI, the Bank is following the Basic Indicator Approach (BIA) for assessment of Operational Risk Capital.

Capital requirement for operational risk as per BIA as on 31.12.2021 is Rs.6,981 million.

10. INTEREST RATE RISK IN BANKING BOOK (DF 9)

Interest Rate Risk in the Banking Book (IRRBB):

Interest rate risk is the potential change in Net Interest Income (NII) or Economic Value of Equity (Balance Sheet impact), caused by unexpected changes in market interest rates. Since NII or Net Interest Margin (NIM) of Bank is dependent on the movements of interest rates, any mismatches or gaps in the cash-flows on re-pricing dates exposes Bank's NII or NIM to interest rate risk. IRRBB results from an unavoidable position or gap arising from Bank's normal day to day business by holding assets and liabilities in different maturities and different re-pricing dates.

Risk management framework and monitoring:

The Board of the Bank, through ALCO , has overall responsibility for management of risks and it sets limits and policies for management of liquidity risk, market risk including foreign exchange, interest rate and equity risk. The ALCO, a strategic decision making body, headed by Chief Operating Officer and comprising of senior executives of the Bank is responsible for deciding the mix and maturity profile of the assets and liabilities, recommendation of risk policies, setting up of prudential limits to manage the risks and ensuring compliance with the limits set by the Board. The ALM policy of the Bank includes the prudential limits on interest rate risk, liquidity risk, foreign exchange risk and equity risk.

Risk Management Department is monitoring the limits laid down in the ALM Policy through various reports.

Risk measurement and reporting framework:
As a part of its regular activities, ALCO manages the impact of the IRRBB, through various limits, reports and tools such as interest rate sensitive gaps, Earnings at risk analysis, duration gap analysis, stress testing, etc. detailed as follows:

a) Interest rate sensitivity:
The interest rate gap risk, at any given date, is the risk arising from the mismatches in the assets & liabilities over the different time intervals. These mismatches or gaps are arrived at after matching rate sensitive assets and rate sensitive liabilities in the particular time bucket taking into account all assets and liabilities (including off Balance Sheet exposure). The rate sensitive assets and liabilities are grouped in the buckets as per the residual maturity or re-pricing date, whichever is earlier and is reported on monthly basis. The gap indicates whether net interest income is positively or negatively impacted by a change in interest rates and the magnitude of the gap approximates the change in net interest income for any given interest rate shift. Limits are fixed on individual gaps.

b) Earnings at Risk Analysis (EaR):
The gaps in the report indicates whether the Bank is in a position to benefit from rising interest rates by having a positive gap (RSA > RSL) or whether it is in a position to benefit from declining interest rates by a negative gap (RSL > RSA). The Bank monitors the EaR on NII for 2% change in interest rates on the open periodic gaps.

c) Stress testing:
The Bank measures the impact on NII/ EaR after taking into account various possible movement in interest rates across tenor and impact on the earnings is calculated for each of these scenarios.

d) Duration gap analysis:
Movement in the interest rates also have a long-term impact on the market value of equity of the Bank, as the economic value of the Bank's assets, liabilities and off-Balance Sheet positions get affected. Duration is a measure of interest rate sensitivity of assets, liabilities and also equity. It may be defined as the percentage change in the market value of an asset or liability (or equity) for a given change in interest rates. Thus, Duration Gap Analysis measures by how much the market value of equity of a firm would change for the possible change in the interest rates.

The following table shows the impact on NII and economic value of equity for a given change in the interest rates. The impact is calculated assuming parallel shifts in the yield curve across all time buckets.

(Rs. in million)

Currency = INR (*)	**100 bps**	**200 bps**
Impact on NII	529	1,058
Impact on economic value of equity	924	1,848

** No major exposure in foreign currencies*

11. GENERAL DISCLOSURES FOR EXPOSURES RELATED TO COUNTER PARTY CREDIT RISK (DF 10)

Counterparty exposure:
Counterparty credit risk in case of derivative contracts arises from the forward contracts. The subsequent credit risk exposures depend on the value of underlying market factors (e.g., interest rates and foreign exchange rates), which can be volatile and uncertain in nature. The Bank does not enter into derivative transactions other than forward transactions.

Credit limits:
The credit limit for counterparty bank is fixed based on their financial performance as per the latest audited financials. Various financial parameters such as Capital, Net worth etc., are taken into consideration while assigning the limit. Credit exposures are monitored to ensure that they do not exceed the approved credit limits.

Credit exposures on forward contracts:
The Bank enters into the forward contracts in the normal course of business for positioning and arbitrage purposes, as well as for its own risk management needs, including mitigation of interest rate and foreign currency risk. Derivative exposures are calculated according to the current exposures method.

Credit exposure:

(Rs. in million)

	Notional Amount	Gross positive fair value of the contracts	Potential Future Exposure	Total Credit Exposure
Forward contracts	53,251	53,508	1,070	54,578

12. COMPOSITION OF CAPITAL (DF 11)

(Rs. in million)

Common Equity Tier 1 (CET 1) capital instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	22,254
2	Retained earnings	11
3	Accumulated other comprehensive income (other reserves)	45,653
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	-
6	**CET 1 capital before regulatory adjustments**	**67,918**
CET 1 capital : regulatory adjustments		
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9	Intangibles (net of related tax liability)	468
10	Deferred tax assets	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitization gain on sale	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-up capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	8
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-

	of which :	
23	Significant investments in the common stock of financial entities	-
24	Mortgage servicing rights	-
25	Deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments(26a+26b+26c+26d)	-
26a	Investments in the equity capital of unconsolidated insurance subsidiaries	-
26b	Investments in the equity capital of unconsolidated non - financial subsidiaries	-
26c	Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank	-
26d	Unamortized pension funds expenditures	268
27	Regulatory adjustments applied to CET 1 due to insufficient AT1 and Tier2 to cover deductions	-
28	**Total regulatory adjustments to CET 1**	744
29	**Common Equity Tier1 capital**	67,174
30	Directly issued qualifying Additional Tier1 instruments plus related stock surplus (share premium) (31+32)	-
	of which :	
31	Classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)	-
32	Classified as liabilities under applicable accounting standards (Perpetual debt Instruments)	-
33	Directly issued capital instruments subject to phase out from Additional Tier I	-
34	AT 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	*of which:* instruments issued by subsidiaries subject to phase out	-
36	**Additional Tier 1 (AT 1) capital before regulatory adjustments**	-
37	Investments in own AT 1 instruments	-
38	Reciprocal cross-holdings in AT 1 instruments	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments (41a+41b)	-
	of which	
41a	Investments in the AT 1 capital of unconsolidated insurance subsidiaries	-
41b	Shortfall in the AT 1 capital of majority owned financial entities which have not been consolidated with the bank	-
42	Regulatory adjustments applied to Additional Tier1 due to insufficient Tier 2 to cover deductions	-
43	**Total regulatory adjustments to Additional Tier1 capital**	-
44	**Additional Tier 1 capital (AT1)**	-
44a	**Additional Tier 1 capital reckoned for capital adequacy**	-
45	**Tier1 capital (T1 = CET 1 + AT 1) (29+44a)**	**67,174**
Tier 2 capital instruments and provisions		
46	Directly issued qualifying Tier2 instruments plus related stock surplus	-
47	Directly issued qualifying Tier 2 instruments subject to phase out	4,870
48	Tier2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties(amount allowed in group Tier2)	-

49	*of which:* instruments issued by subsidiaries subject to phase out	-
50	Other Reserves and Provisions	3,269
51	**Tier 2 capital before regulatory adjustments**	**8,139**
Tier 2 capital : regulatory adjustments		
52	Investments in own Tier2 instruments	-
53	Reciprocal cross- holdings in Tier2 instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments (56a+56b)	-
	of which:	
56a	Investments in the Tier 2 capital of unconsolidated insurance subsidiaries	-
56b	Short fall in the Tier2 capital of majority owned financial entities which have not been consolidated with the bank	-
57	**Total regulatory adjustments to Tier2 capital**	**-**
58	**Tier 2 capital (T2)**	**8,139**
58a	**Tier2 capital reckoned for capital adequacy**	**8,139**
58b	**Excess AT 1 capital reckoned as Tier2 capital**	**-**
58c	**Total Tier2 capital admissible for capital adequacy (58a+58b)**	**8,139**
59	**Total capital (TC = T1 + Admissible T2) (45+58c)**	**75,313**
60	**Total risk weighted assets (60a+60b+60c)**	**4,00,736**
60a	Total credit risk weighted assets	3,20,636
60b	Total market risk weighted assets	19,392
60c	Total operational risk weighted assets	60,708
	Capital ratios and buffers	
61	Common Equity Tier1 (as a percentage of risk weighted assets)	16.76%
62	Tier1 (as a percentage of risk weighted assets)	16.76%
63	Total capital (as a percentage of risk weighted assets)	18.79%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation plus counter cyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	8.00%
65	*Of which: capital conservation buffer requirement*	2.50%
66	*Of which: bank specific counter cyclical buffer requirement*	-
67	*Of which: G-SIB buffer requirement*	-
68	Common Equity Tier1 available to meet buffers (as a percentage of RWAs)	8.763%
	National minima (if different from Basel III)	
69	National Common Equity Tier1 minimum ratio (if different from Basel III minimum)	8.00%
70	National Tier1 minimum ratio (if different from Basel III minimum)	7%
71	National total capital minimum ratio (if different from Basel III minimum)	11.50%
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financial entities	-
73	Significant investments in the common stock of financial entities	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	Applicable caps on the inclusion of provisions in Tier2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	1,987

77	Cap on inclusion of provisions in Tier 2 under standardized approach	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022)		
80	*Current cap on CET1 instruments subject to phase out arrangements*	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-
84	*Current cap onT2 instruments subject to phase out arrangements*	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-

13. MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS (DF-13)

SN	Particulars	Tier II bonds
1	Issuer	KARUR VYSYA BANK LIMITED
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE036D08015
3	Governing law(s) of the instrument	Indian Laws
4	Transitional Basel III rules	Not Applicable
5	Post-transitional Basel III rules	Eligible
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Subordinated Tier II – Debt Instruments
8	Amount recognized in regulatory capital (Rs. in million), as of most recent reporting date.	4,870
9	Par value of instrument (Rs. in million)	0.1
10	Accounting classification	Liability – other borrowings
11	Original date of issuance	12.03.2019
12	Perpetual or dated	Dated
13	Original maturity date	12.06.2029
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	12.03.2024; redemption at par
16	Subsequent call dates, if applicable	On every anniversary after 12.03.2024
17	Coupons / dividends	Coupon
18	Fixed or floating dividend/coupon	Fixed
19	Coupon rate and any related index	11.95% p.a.
20	Existence of a dividend stopper	No
21	Fully discretionary, partially discretionary or Mandatory	Fully discretionary
22	Existence of step up or other incentive to redeem	No
23	Noncumulative or cumulative	Non-Cumulative
24	Convertible or Non-convertible	Non-Convertible
25	If convertible, conversion trigger(s)	NA
26	If convertible, fully or partially	NA
27	If convertible, conversion rate	NA
28	If convertible, mandatory or optional conversion	NA

29	If convertible, specify instrument type convertible into	NA
30	If convertible, specify issuer of instrument it converts into	NA
31	Write-down feature	Yes
32	If write-down, write-down trigger(s)	Point of non-viability trigger
33	If write-down, full or partial	Full
34	If write-down, permanent or temporary	Permanent
35	If temporary write-down, description of write-up mechanism	NA
36	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All depositors and other creditors
37	Non-compliant transitioned features	NA
38	If yes, specify non-compliant features	NA

14. FULL TERMS AND CONDITIONS OF REGULATORY CAPITAL INSTRUMENTS (DF-14)

Instrument	Terms & Conditions	
Unsecured Redeemable Non-Convertible Tier II Bonds – INE036D08015	Issue size	Rs. 4870 million
	Face Value	Rs. 0.1 million per bond
	Date of Allotment	12th March 2019
	Maturity	12th June 2029
	Call Option	On 5th anniversary from deemed date of allotment and annually thereafter
	Coupon	11.95%
	Interest payment	Annual

15. LEVERAGE RATIO DISCLOSURES (DF-17)

(Rs. In million)

	Item	**Leverage ratio framework**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	7,76,118
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(744)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (1 + 2)**	7,75,374
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	16
5	Add-on amounts for PFE associated with all derivatives transactions	274
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(-)
8	(Exempted CCP leg of client-cleared trade exposures)	(-)
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(-)
11	**Total derivative exposures (sum of 4 to 10)**	290
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-

14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of 12 to 15)**	-
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	1,35,817
18	(Adjustments for conversion to credit equivalent amounts)	1,07,322
19	**Off-balance sheet items (17 + 18)**	**28,494**
Capital and total exposures		
20	**Tier 1 capital**	**67,174**
21	**Total exposures (3 + 11 + 16 + 19)**	**8,04,158**
22	**Basel III leverage ratio**	**8.35%**

16. LIQUIDITY COVERAGE RATIO (DF-18)

(Rs. in million)

	Particulars	**Total Unweighted Value (average)**	**Total Weighted Value (average)**
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		1,58,272
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	4,73,699	36,167
(i)	Stable deposits	2,24,067	11,203
(ii)	Less: stable deposits	2,49,632	24,964
3	Unsecured wholesale funding, of which:	74,400	17,000
(i)	Operational deposits (all counterparties)	-	-
(ii)	Non-operational deposits (all counterparties)	74,400	17,000
(iii)	Unsecured debt	-	-
4	Secured wholesale funding	-	-
5	Additional requirements, of which	50,700	9,824
(i)	*Outflows related to derivative exposures and other collateral requirements*	162	162
(ii)	*Outflows related to loss of funding on debt products*	-	-
(iii)	*Credit and liquidity facilities*	49,940	9,479
6	Other contractual funding obligations	169	169
7	Other contingent funding obligations	429	14
8	**Total Cash Outflows**		**62,991**
Cash Inflows			
9	Secured lending (e.g. reverse repos)	12,958	-
10	Inflows from fully performing exposures	16,348	8,607
11	Other cash inflows	243	243
12	**Total Cash Inflows**	29,549	**8,850**
			Total Adjusted Value
13	**TOTAL HQLA**		1,58,272
14	**Total Net Cash Outflows**		54,141
15	**Liquidity Coverage Ratio (%)**		292.33%