PILLAR III DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK (31.03.2018)
(BASEL III)

1. SCOPE OF APPLICATION (DF 1)

Karur Vysya Bank Limited is a Scheduled Commercial Bank which was incorporated on June 22, 1916 at Karur. The Bank has no subsidiaries. As on 31.03.2018, the Bank does not have investment in any insurance entity.

2. CAPITAL ADEQUACY AND CAPITAL STRUCTURE (DF 2)

Under Basel III 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, counter cyclical capital buffer etc.). Banks are required to maintain a minimum capital conservation buffer of 1.875% additionally from the year ended 31.03.2018.

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

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

The Bank's Tier I capital shall consist of Common Equity Tier I and admissible Additional Tier I capital. Common Equity Tier 1 (CET1) 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 Additional Tier I capital can be a maximum of 1.5%, thus making total Tier I capital to be at least 7%.

In addition to the minimum Common Equity Tier 1 capital of 5.5% of RWAs, banks are also required to maintain a Capital Conservation buffer (CCB) of 2.5% of RWAs in the form of Common Equity Tier 1 capital progressively from Financial Year 2016.

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>

The Bank has authorized share capital of Rs. 200 crore comprising of 100,00,00,000 equity shares of Rs. 2/- each. As on 31.03.2018 the Bank has Issued, Subscribed and Paid-up capital of Rs. 145.33 crore constituting 72,66,39,371 shares of Rs. 2/- each.

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

The Bank's Tier II capital includes general provision for standard assets and subordinated debt instruments (lower Tier II bonds) 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. Tier II capital will also include debt capital instruments issued by banks and premium, if any and Revaluation Reserves.

Tier II Subordinated Debt (Lower II bonds)

As on 31.03.2018, the Bank had an outstanding subordinated debt (Unsecured Redeemable Non-convertible subordinated lower Tier II Bonds) aggregating Rs. 1500 million, the details of which are stated below:

(Rs.in million)

Issue Series	Deemed Date of Allotment	Coupon Rate (% p.a.)	Tenor (in Months)	Amount as on 31.03.2018
I	September 25, 2009	9.86	120	1500.00

Composition of Capital – Tier I and Tier II:

(Rs.in million)

1. Tier I capital	
1.1 Paid-up share capital	1,453
1.2 Reserves	60,131
1.3 Gross Tier I capital (1.1 + 1.2)	**61,584**
1.4 Deductions	138
1.5 Total Tier I capital (1.3 - 1.4)	**61,446**
2. Tier II capital	
2.1 Subordinated Debt (Lower Tier II bonds)	1,500
2.2 General Provisions/IRA and Revaluation Reserves	1,828
2.3 Investment Reserve	533
2.4 Gross Tier II capital (2.1 + 2.2+2.3)	**3,861**
2.5 Deductions	1,600
2.6 Total Tier II capital (2.4 - 2.5)	**2,261**
3. Debt capital instruments eligible for inclusion in Upper Tier II capital	
3.1 Total amount outstanding	
3.2 Of which amount raised during the current year -	
3.3 Amount eligible to be reckoned as capital funds	
4. Subordinated debt eligible for inclusion in Lower Tier II capital	
4.1 Total amount outstanding	1,500
4.2 Of which amount raised during the current year -	
4.3 Amount eligible to be reckoned as capital funds	0
5. Other deductions from capital	
5.1 Other deductions from capital	
6. Total eligible capital	
6.1 Total eligible capital (1.5 + 2.6)	**63,707**

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 future projections / 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 :

- Credit Risk
- Market Risk
- Operational Risk
- Liquidity Risk
- Interest Rate Risk in the Banking Book
- Concentration Risk
- Strategic Risk
- 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 31.03.2018. 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 10.875% with regard to credit risk, market risk and operational risk.

2.2 CAPITAL ADEQUACY AS ON 31.03.2018

The total Capital to Risk Weighted Assets Ratio (CRAR) as per Basel III guidelines works to 14.43 % as on 31.03.2018 (as against minimum regulatory requirement of 10.875%). The Tier I CRAR stands at 13.92 %. The Bank has followed the RBI guidelines in force 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	**40,444**
-Securitization exposures	-
2. Capital requirement for Market Risk	
Standardized Duration Approach	**2,684**
○ Interest Rate Risk	1,554
○ Foreign Exchange Risk (Including gold)	49
○ Equity Risk	1,081
3.Capital requirement for Operational Risk	
Basic Indicator Approach	**4,874**
Total capital requirements at 10.875% (1 + 2 + 3)	**48,002**
Total capital	**63,707**
CRAR %	14.43%
Tier-I CRAR %	13.92%
CET 1 %	13.92%

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 (BOD) approves the strategies and policies for Risk Management, based on recommendations of the Risk Management Committee (RMC) of the Board set up to focus upon risk management issues. The Risk Management Committee 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 (ALCO), the Operational Risk Management Committee (ORMC), Market Risk Management Committee (MRMC) and the Credit Risk Management Committee (CRMC) oversee specific risk areas. These committees in turn provide inputs for review by the Risk Management Committee (RMC) of the Board.

3.1 Risk Management Committee (RMC) of the Board:

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

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 Reserve Bank of India under Income Recognition, Asset Classification and Provisioning (IRAC) norms.

4.1.1. Credit Risk Management

Credit Risk Management Committee (CRMC) headed by MD & CEO 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 adopts an integrated approach to credit risk management, 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 adopts 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 economic 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 management 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	5,06,764
Non fund based	58,737
Total	**565,501**

Note:

1. Fund based credit exposure excludes Cash in hand, Balance with RBI, SLR investments shares, 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.

Exposures reported above include limits or outstanding whichever is higher, for other than term loans and NPAs. In case of terms loans and NPAs, the outstanding amount has been considered for this purpose.

4.3 Geographical Distribution of Credit:

(Rs.in million)

STATE	FUND BASED	STATE	FUND BASED
ANDHRA PRADESH	66,599	CHANDIGARH	735
CHHATTISGARH	299	DELHI	23,437
GOA	506	GUJARAT	15,615
HARYANA	3,638	JHARKHAND	243
KARNATAKA	26,483	KERALA	9,853
MADHYA PRADESH	1,887	MAHARASHTRA	33,471
ORISSA	1,596	PONDICHERRY	3,577
PUNJAB	2,264	RAJASTHAN	734
TAMIL NADU	211,219	TELANGANA	41,010
UTTAR PRADESH	3,368	UTTARAKHAND	23
WEST BENGAL	13,174	**TOTAL**	**459,731**

4.4 Industry wise distributions of exposures

(Rs.in million)

Industry	Exposures	
	Fund Based	**Non-Fund Based**
MINING & QUARRYING	1,872	376
FOOD PROCESSING	7,490	2,914
BEVERAGES & TOBACCO	1,799	81
TEXTILES	41,540	1,503
LEATHER AND LEATHER PRODUCTS	605	1
WOOD AND WOOD PRODUCTS	3,037	5,771
PAPER AND PAPER PRODUCTS	2,508	1,856
PETROLEUM	300	33
CHEMICALS AND CHEMICAL PRODUCTS	5,127	994
RUBBER, PLASTIC AND THEIR PRODUCTS	3,615	220
GLASS & GLASSWARE	580	50
CEMENT & CEMENT PRODUCTS	2,916	264
BASIC METAL AND METAL PRODUCTS	13,239	2,557
ALL ENGINEERING	6,236	1,455
VEHICLES, VEHICLE PARTS AND TRANSPORT EQUIP.	3,996	152
GEMS AND JEWELLERY	5,019	4,238
CONSTRUCTION	4,714	4,496
INFRASTRUCTURE	27,872	5,908
OTHER INDUSTRIES	3,795	506
OTHERS	323,471	25,361
TOTAL	**459,731**	**58,737**

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

(Rs.in million)

Industry	Fund based Facilities	Non-Fund based Facilities
TEXTILES	41,540	1,503
INFRASTRUCTURE	27,872	5,908
Total	**69,412**	**7,411**

4.6 Residual contractual maturity breakdown of assets*

(Rs.in million)

	Cash	Balanced with RBI	Balance with other banks	Investments	Advances Performing	NPA (Gross) Including NPI	Fixed Assets	Other Assets	Total
Day 1	7,259	447	5,554	29,032	27,532	0	0	3,093	72,918
2-7 Days	0	429	3,250	3,212	2,452	0	0	387	9,730
8-14 Days	0	341	0	1,745	4,300	0	0	387	6,773
15-30 Days	0	787	0	5,246	9,201	0	0	0	15,235
31 Days & upto 2 Months	0	1,317	0	6,963	12,590	0	0	0	20,871
Over 2 Months & upto 3 Months	0	1,365	0	8,204	19,078	0	0	0	28,647
Over 3 Months & upto 6 Months	0	2,149	0	12,256	34,337	0	0	0	48,742
Over 6 Months & upto 1 Year	0	4,042	0	23,646	54,802	0	0	0	82,491
Over 1 Year & upto 3 years	0	5,092	82	36,298	192,505	0	0	0	233,977
Over 3 Years & upto 5 years	0	1,432	0	9,938	32,943	11,260	0	0	55,573
Over 15 Years	0	4940	0	26,260	39,834	19,739	5,282	9,145	105,200
Total	**7,259**	**22,341**	**8,886**	**162,802**	**429,574**	**30,999**	**5,282**	**13,012**	

** As per ALM Guidelines*

4.7. Non Performing Advances and Provisions

(Rs.in million)

Particulars	Amount	
a) Gross NPA		
i. Substandard	11,265	
ii. Doubtful 1	11,477	
iii. Doubtful 2	6,195	
Iv Doubtful 3	99	
v. Loss	1,122	
Total	30,158	
b) Net NPAs	18,628	
c) NPA Ratios		
i. Gross NPAs to gross advances (%)	6.56%	
ii. Net NPAs to Net Advances (%)	4.16%	
d) Movement of NPAs (Gross)		
i. Opening balance 01.04.2017	14,838	
ii. Additions during the year	20,918	
iii. Reductions during the year	5,598	
iv. Closing balance 31.03.2018	30,158	
e) Movement of provisions for NPAs (excluding provision on Standard Assets)	Specific Provision	General Provision
i. Opening balance as on 01.04.2017	4,288	-
ii. Provision made during the year	10,246	-
iii. Write-off / write-back of excess provisions	3,625	-

iv. Closing balance 31.03.2018	10,909	-
f) Details of Write Offs and 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		437
g) Amount of Non-Performing Investments		841
h) Amount of provisions held for non-performing investments		533
(i) Movement of depreciation on investments		
1) Opening balance as on 01.04.2017		724
2) Provision made during the year (+)		633
3) Write-off/ write-back of excess provision during the year (including depreciation utilized on the sale of securities) (-)		0.00
4) Closing balance as on 31.03.2018		1,357

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	27	6	0
FOOD PROCESSING	3,189	1,180	220
BEVERAGES & TOBACCO (EXCLUDING TEA & COFFEE)	26	7	3
TEXTILES	2,045	963	1,038
LEATHER AND LEATHER PRODUCTS	9	3	7
WOOD AND WOOD PRODUCTS	77	20	0
PAPER AND PAPER PRODUCTS	39	8	0
PETROLEUM	7	1	0
CHEMICALS AND CHEMICAL PRODUCTS	274	65	8
RUBBER, PLASTIC AND THEIR PRODUCTS	810	129	10
CEMENT & CEMENT PRODUCTS	712	282	240
BASIC METAL AND METAL PRODUCTS	6,174	2,481	0
ALL ENGINEERING	254	49	0
VEHICLES, VEHICLE PARTS AND TRANSPORT EQUIP.	3,096	1,400	1
GEMS AND JEWELLERY	12	2	0
CONSTRUCTION	152	48	64
INFRASTRUCTURE	3,303	945	456
OTHER INDUSTRIES	73	21	16
OTHERS	9,879	3,299	1,562
TOTAL	**30,158**	**10,909**	**3,625**

4.7.2 Geography wise distribution of NPA and Provision

(Rs.in million)

Geography	Gross NPA	Specific Provision
Domestic	30,158	10,909
Overseas	0	0
Total	**30,158**	**10,909**

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 for the purpose of risk weighting their claims on the domestic entities for capital adequacy purpose:

i. CRISIL
ii. CARE
iii. ICRA
iv. India Ratings
v. Brickwork
vi. SMERA
vii. 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 credit rating agencies. Bank has not cherry picked ratings. Bank has not used one rating of a CRA (Credit Rating Agency) 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.

Notwithstanding the repayable on demand condition, cash credit exposures have been subjected to long-term rating.

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 Mitigates.

Bank has used only solicited rating from the recognized CRAs. In case the obligor has multiple ratings from CRAs, the Bank has a policy of choosing (if there are two ratings) lower rating.

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 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 31.03.2018 are as follows:

(Rs.in million)

S No.	Risk Weight	Fund Based	Non Fund Based
1	Below 100%	366,050	14,476
2	100%	121,592	18,624
3	More than 100%	54,663	10,629
	Total (1 + 2 + 3)	**542,305**	**43,729**

6. CREDIT RISK MITIGATION: Disclosures for Standardized Approach (DF 5)

6.1 The Bank has adopted Credit Risk Mitigation (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 credit risk mitigation 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 credit risk mitigation techniques are as under:

i. No transaction in which Credit Risk Mitigation (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 –

i. Cash margins and fixed deposit receipts of the counterparty with the Bank
ii. Gold bullion and jewelry
iii. Securities issued by Central and State Governments
iv. National Savings Certificates, Kisan Vikas Patras
v. Life insurance policies with a declared surrender value of an insurance company which is regulated by an insurance sector regulator.
vi. Debt securities rated by a chosen Credit Rating Agency 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.
vii) Debt securities not rated by a chosen Credit Rating Agency 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 Credit Rating Agency; and

viii) 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 31.03.2018 the Bank does not have any securitization exposure as originator.

8. MARKET RISK IN TRADING BOOK (DF 7)

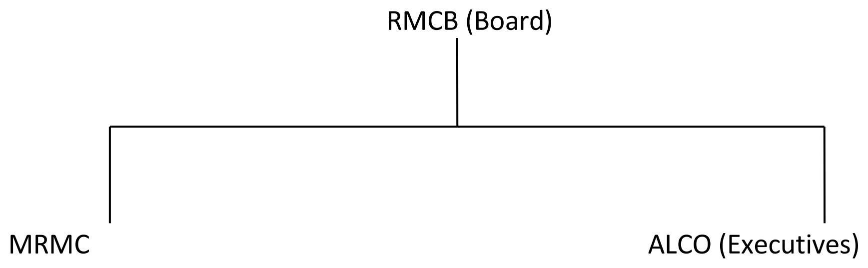
Market risk refers to the uncertainty of future earnings resulting from changes in interest rates, foreign exchange rates, market prices and volatilities. The Bank assumes market risk in its lending and deposit taking businesses and in its investment activities, including position taking and trading. 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 Reserve Bank of India prudential 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 its regulator in compliance with regulatory requirements.

Measurement - The Bank has devised various risk metrics for measuring market risk. These are reported to Asset Liability Management Committee. 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.

<u>The capital requirements for market risk are detailed below:</u>

(Rs.in million)

S No.	Risk Category	Capital Charge
1	Interest Rate Risk	1,554
2	Foreign Exchange Risk (Including gold)	49
3	Equity Risk	1,081
	Capital requirement for Market Risk (1 + 2 + 3)	2,684

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 Basic Indicator Approach (BIA) as on 31.03.2018 is Rs. 4,874 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. Interest Rate Risk in Banking Book 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 Asset liability Management Committee , 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 Asset Liability Management Committee (ALCO), a strategic decision making body constituted by Board, 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 interest rate risk in banking book, 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 Earnings at Risk 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 tables show 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.

i) Impact on NII:
Changes in interest rates (in bps)

(Rs.in million)

Currency	100 bps	200 bps
INR	244	488

ii) Impact on economic value of equity:
Changes in interest rates (in bps)

(Rs.in million)

Currency	100 bps	200 bps
INR	977	1953

* 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, Networth etc., are taken into consideration while assigning the limit. Credit exposure is monitored to ensure it does not exceed the approved credit limit.

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	59265	59701	1194	60895

12. Composition of Capital (DF 11)

(Rs.in million)

Common Equity Tier1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus (share premium)	22,252
2	Retained earnings	5,426
3	Accumulated other comprehensive income (and other reserves)	33,906
4	*Directly issued capital subject to phase out from CET1 (only applicable to non-joint*	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	
6	**Common Equity Tier1 capital before regulatory adjustments**	61,584
Common Equity Tier1 capital : regulatory adjustments		
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	
9	Intangibles (net of related tax liability)	
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	82
16	Investments in own shares(if not already netted off paid-up capital on reported balance sheet)	
17	Reciprocal cross-holdings in common equity	56
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	
23	*of which: significant investments in the common stock of financial entities*	
24	*Of which :mortgage servicing rights*	
25	*Of which: deferred tax assets arising from temporary differences*	
26	National specific regulatory adjustments(26a+26b+26c+26d)	
26a	*of which:* Investments in the equity capital of unconsolidated insurance subsidiaries	
26b	*Of which:* Investments in the equity capital of unconsolidated non- financial subsidiaries	

26c	*Of which:* Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank	
26d	*Of which:* Unamortized pension funds expenditures	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier1 and Tier2 to cover deductions	
28	**Total regulatory adjustments to Common Equity Tier1**	138
29	**Common Equity Tier1 capital (CET1)**	61,446
Additional Tier1 capital: instruments		
30	Directly issued qualifying Additional Tier1 instruments plus related stock surplus (share premium) (31+32)	
31	Of which: classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)	
32	Of which: classified as liabilities under applicable accounting standards (Perpetual debt Instruments)	
33	*Directly issued capital instruments subject to phase out from Additional Tier I*	
34	Additional Tier1 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 Tier1 capital before regulatory adjustments**	
Additional Tier1 capital: regulatory adjustments		
37	Investments in own Additional Tier1 instruments	
38	Reciprocal cross-holdings in Additional Tier1 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)	
41a	*of which:* Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries	
41b	*Of which:* Shortfall in the Additional Tier1 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 Tier1 capital (AT1)**	
44a	**Additional Tier1 capital reckoned for capital adequacy**	
45	**Tier1 capital(T1=CET1+Admissible AT1)(29+44a)**	61,446
Tier2 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*	0
48	Tier2 instruments (and CET1 and AT1 instruments not included in rows5or34) 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	2,361
51	**Tier 2 capital before regulatory adjustments**	2,361

Tier 2 capital: regulatory adjustments		
52	Investments in own Tier2 instruments	
53	Reciprocal cross- holdings in Tier2 instruments	100
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)	
56a	*of which:* Investments in the Tier 2 capital of unconsolidated insurance subsidiaries	
56b	*Of which:* 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**	**100**
58	**Tier 2 capital (T2)**	2,261
58a	**Tier2 capital reckoned for capital adequacy**	2,261
58b	**Excess Additional Tier1 capital reckoned as Tier2 capital**	
58c	**Total Tier2 capital admissible for capital adequacy (58a+58b)**	2,261
59	**Total capital (TC=T1+Admissible T2) (45+58c)**	63,707
60	**Total risk weighted assets (60a+60b+60c)**	441,397
60a	*Of which: total credit risk weighted assets*	371,898
60b	*Of which: total market risk weighted assets*	24,684
60c	*Of which: total operational risk weighted assets*	44,815
Capital ratios and buffers		
61	Common Equity Tier1 (as a percentage of risk weighted assets)	13.92%
62	Tier1 (as a percentage of risk weighted assets)	13.92%
63	Total capital (as a percentage of risk weighted assets)	14.43%
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)	7.375%
65	*Of which: capital conservation buffer requirement*	1.875%
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 risk weighted assets)	6.545%
National minima (if different from Basel III)		
69	National Common Equity Tier1 minimum ratio (if different from Basel III minimum)	7.375%
70	National Tier1 minimum ratio (if different from Basel III minimum)	7%
71	National total capital minimum ratio (if different from Basel III minimum)	10.875%

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)	1,827
77	Cap on inclusion of provisions inTier2 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 inTier2 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)

S. N.		
1	Issuer	KARUR VYSYA BANK LIMITED
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE036D09013
3	Governing law(s) of the instrument	Indian Law Regulatory Treatment
4	Transitional Basel III rules Subordinated	Tier 2 Bonds
5	Post-transitional Basel III rules	Ineligible
6	Eligible at solo/group/ group & solo	Solo
7	Instrument type	Tier 2 Debt Instruments
8	Amount recognized in regulatory capital (Rs. in million), as of most recent reporting date.	1500
9	Par value of instrument (Rs. in million)	1 million
10	Accounting classification	Liability
11	Original date of issuance	25.09.2009
12	Perpetual or dated	Dated
13	Original maturity date	25.09.2019
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
17	Coupons / dividends	coupon
18	Fixed or floating dividend/coupon	Fixed
19	Coupon rate and any related index	9.86% p.a.
20	Existence of a dividend stopper	No
21	Fully discretionary, partially discretionary or Mandatory	Mandatory
22	Existence of step up or other incentive to redeem	No
23	Noncumulative or cumulative	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	No
32	If write-down, write-down trigger(s)	NA
33	If write-down, full or partial	NA
34	If write-down, permanent or temporary	NA
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	YES
38	If yes, specify non-compliant features	Tenor less than 10 years; does not have point of Non Viability Trigger

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

Instrument	Terms & Conditions	
Unsecured Redeemable Non- Convertible Subordinated Lower Tier- II Bonds - INE036D09013	Issue size	Rs. 1500 million
	Face Value	Rs. 1 million per bond
	Date of Allotment	25th September 2009
	Maturity	25th September 2019
	Coupon	9.86%
	Interest payment	Half yearly

15. DISCLOSURES ON REMUNERATION (DF 15)

Qualitative Disclosures:

a) **Information relating to the composition and mandate of the Nomination and Remuneration Committee (NRC):**

The Nomination & Remuneration Committee (NRC) of the Board consists of five Directors. The Composition complies with RBI guidelines, provisions of Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 (‘SEBI LODR’).

The mandate of Nomination and Remuneration Committee includes:

1. Recommendation of appointment/reappointment of Directors, MD&CEO/WTD of the Bank.

2. Recommending to the Board a policy relating to the remuneration for the MD&CEO/WTD, Part-time (Non-Executive) Chairman of the Bank and President & COO.

3. Devising a policy on diversity of Board Of Directors;

4. Framing of guidelines for the ESOS and considering granting of ESOS, administering and supervising the ESOS with particular reference to quantum of options to be granted, grant price, vesting price, exercise period etc., to the eligible employees.

5. No external consultants' advice had been sought by the Bank in the remuneration process.

6. Compensation Policy of the Bank, approved by the Board, pursuant to the guidelines issued by RBI. The Policy is applicable to the MD&CEO/WTD, Non-Executive Directors, Part-time (Non-Executive) Chairman and President&COO. All other employees' upto Scale III cadre are covered under Industry level Bi-partite settlements of IBA.

7. To perform any other functions or duties as stipulated by the Companies Act, RBI, SEBI, Stock Exchanges and any other regulatory authority or under any applicable laws as may be prescribed from time to time.

b) Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy:

NRC is entrusted with the responsibility of recommending to the Board an appropriate compensation payable to the Part-time (Non-Executive) Chairman, MD&CEO/WTD and the President & COO in the light of the guidance from the regulator from time to time.

The Compensation payable to MD&CEO/WTD of the Bank is divided into fixed and variable components. The fixed remuneration represents a significant proportion of total remuneration taking into account all relevant factors including the prevalent industry practices. Variable pay shall relate to the performance of the Bank and there is proper balance between fixed pay and variable pay. Variable pay must be paid on the basis of achievement of certain basic targets such as reaching business figures including net profits and other qualitative factors taking into account the extraordinary items, appropriate risk management and efficient consumption of capital and comparison of results with industry performance.

The Bank being party to IBA, Bipartite settlement process, has currently given its mandate to cover all employees till the Scale III cadre. The Bank shall ensure that the salary package payable to Risk takers and Control function staffs shall be in line with RBI guidelines.

c) Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks:

NRC may use a wide variety of measures of credit, market and liquidity risks in implementation of risk adjustment. The risk adjustment methods should preferably have both quantitative and judgmental elements. Bank has system of measuring and reviewing these risks.

The risk parameters used for setting of performance objectives and for measuring performance which includes besides financial performance, adherence to internal processes and compliance. Compensation is effectively aligned in both fixed and variable pay. There is a proper balance between fixed and variable pay. Bank shall not offer any guaranteed bonus based on its performance in tune with the sound risk management principles. The Bank shall not grant any severance pay to the MD&CEO/ WTD and Bank shall not provide any facility or fund or permit MD&CEO/ WTD to insure or hedge his/her compensation structure to offset the risk alignment effects embedded in the compensation package.

d) **Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration:**

Bank would ensure that the compensation is adjusted to all types of risk, symmetrical with risk outcomes as well as sensitive to the time horizon of risk.

The variable pay could be in cash, stock linked instruments or a mix of both. Variable pay shall relate to the performance of the Bank.

Variable pay is considered only for MD & CEO/WTD of the Bank. Variable pay shall not exceed 40% of the fixed pay in any year.

For the Part-time (Non-Executive) Chairman of the Bank, only fixed pay/ salary is payable apart from the sitting fees payable for attending the Board or Board Committee Meetings.

In the event of negative growth of the bank and or the relevant line of business in any year, the deferred compensation shall be subjected to malus and clawback arrangements in tune with the RBI guidelines.

e) **A discussion of the bank's policy on deferral and vesting of variable remuneration and a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting:**

For MD & CEO/WTD: If the variable pay is significant, then the bank would defer the payment over a period of three years.

f) **Description of the different forms of variable remuneration (i.e. cash, shares, ESOPs and other forms) that the bank utilizes and the rationale for using these different forms:**

The Bank has paid only fixed remuneration to MD&CEO/WTD for the year 2017-18 as per RBI approval.

NRC may recommend/grant a reasonable number of Stock Options under the ESOS to MD&CEO/WTD while granting ESOS as per SEBI Regulation. ESOS shall not form part of the total compensation of MD&CEO/WTD as per the Compensation Policy.

The Bank shall not grant any severance pay (other than the terminal benefits and gratuity as per the provisions) to the MD&CEO/WTD.

Bank shall not provide any facility or funds or permit MD&CEO/WTD to insure or hedge his/her compensation structure to offset the risk alignment effects embedded in the compensation package.

1. **Quantitative Disclosures on Remuneration (The quantitative disclosures should only cover Whole Time Directors / Chief Executive Officer/ Other Risk Takers):**

Particulars	2017-18	2016-17
a) Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.	5 Meeting and remuneration of Rs. 4.80 lakh	3 Meeting and remuneration of Rs. 2.80 lakh
b) Number of employees having received a variable remuneration award during the financial year.	Nil	Nil
c) Number and total amount of sign-on awards made during the financial year.	Nil	Nil
d) Details of guaranteed bonus, if any, paid as joining / sign on bonus	Nil	Nil
e) Details of severance pay, in addition to accrued benefits, if any.	Nil	Nil
f) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	Nil	Nil
g) Total amount of deferred remuneration paid out in the financial year.	Nil	Nil
h) Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.	Nil	Nil
i) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	Nil	Nil
j) Total amount of reductions during the financial year due to ex-post explicit adjustments.	Nil	Nil
k) Total amount of reductions during the financial year due to ex- post implicit adjustments.	Nil	Nil

16. 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)	669,291
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	137
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	669,154
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	138
5	Add-on amounts for PFE associated with all derivatives transactions	264
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 lines 4 to 10)**	402
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 lines 12 to 15)**	
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	183,262
18	(Adjustments for conversion to credit equivalent amounts)	128,736
19	**Off-balance sheet items (sum of lines 17 and 18)**	**54,526**
Capital and total exposures		
20	**Tier 1 capital**	**61,446**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**724,082**
	Leverage ratio	
22	**Basel III leverage ratio**	**8.49**

17. LIQUIDITY COVERAGE RATIO

(Rs. in million)

Particulars		**Total Unweighted Value (average)**	**Total Weighted Value (average)**
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		93,836
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	367,694	35,147
(i)	Stable deposits	32,451	1,623
(ii)	Less stable deposits	335,243	33,524
3	Unsecured wholesale funding, of which:	57,881	7,471
(i)	Operational deposits (all counterparties)	-	-
(ii)	Non-operational deposits (all counterparties)	57,881	7,471
(iii)	Unsecured debt	-	-
4	Secured wholesale funding		-
5	Additional requirements, of which	77,112	6,881
(i)	*Outflows related to derivative exposures and other collateral requirements*	-	-
(ii)	*Outflows related to loss of funding on debt products*	-	-
(iii)	*Credit and liquidity facilities*	77,112	6,881
6	Other contractual funding obligations	1,070	1,070
7	Other contingent funding obligations	3,734	112
8	**Total Cash Outflows**		50,682
Cash Inflows			

9	Secured lending (e.g. reverse repos)	819	-
10	Inflows from fully performing exposures	6,917	4,319
11	Other cash inflows	-	-
12	**Total Cash Inflows**	7,736	4,319
			Total Adjusted Value
13	**TOTAL HQLA**		93,836
14	**Total Net Cash Outflows**		46,363
15	**Liquidity Coverage Ratio (%)**		202.39%

(Quarterly details are given under Item No. 6 of Schedule 18- Notes to Accounts).