PILLAR III DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK (30.06.2015)
(BASEL III)

1. SCOPE OF APPLICATION (DF 1)

KarurVysya Bank Limited is a scheduled commercial bank which was incorporated on June 22, 1916 at Karur. The Bank has no subsidiaries. As on June 30, 2015, 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, countercyclical capital buffer etc.).

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

Tier-I Capital:

The Bank's Tier I capital consists of Common Equity Tier I and Additional Tier I capital. CommonEquity 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 atleast 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.

Equity Capital

The Bank has authorized share capital of ₹ 200 crore comprising 20, 00, 00,000 equity shares of ₹10/- each. As on June 30,2015 the Bank has issued subscribed and paid-up capital of ₹ 121.86crore constituting 12,18,64,454 shares of ₹ 10/- each.

Tier-II Capital:

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 2 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 June 30 2015, the Bank had an outstanding subordinated debt (Unsecured Redeemable Non-convertible subordinated lower Tier II Bonds) aggregating ₹ 150 crore, the details of which are stated below:

(₹incrore)

Issue Series	Deemed Date of Allotment	Coupon Rate (% p.a)	Tenor (in Months)	Equivalent Amount as on 30th June 2015
I	September 25, 2009	9.86	120	150.00

Composition of Capital – Tier I and Tier II:

Particulars as on June 30, 2015 (₹ in crore)

1. Tier I capital	
1.1 Paid-up share capital	121.86
1.2 Reserves	4077.62
1.3 Gross Tier I capital (1.1 + 1.2)	4199.48
1.4 Deductions	13.48
1.5 Total Tier I capital (1.3 - 1.4)	**4186.00**
2. Tier II capital	
2.1 Subordinated Debt (Lower Tier II bonds)	150.00
2.2 General Provisions/IRA and Revaluation Reserves	205.64
2.3 Investment Reserve	53.00
2.4 Gross Tier II capital (2.1 + 2.2+2.3)	**408.64**
2.5 Deductions	85.75
2.6 Total Tier II capital (2.4 - 2.5)	**322.89**
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	-
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	-
5.1 Other deductions from capital	-
6. Total eligible capital	**4508.89**
6.1 Total eligible capital (1.5 + 2.6)	**4508.89**

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 business 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, 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. The Bank has continued parallel run of Basel II framework continuously tracking the exposures and studied the impact on Bank's Capital to Risk weighted Assets Ratio (CRAR) .

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 June 30, 2015. 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 9% with regard to credit risk, market risk and operational risk.

2.2 Capital Adequacyas on June 30, 2015

The total Capital to Risk Weighted Assets Ratio (CRAR) as per Basel III guide lines works to 13.19% as on June 30,2015 (as against minimum regulatory requirement of 9%). The Tier I CRAR stands at 12.25%. The Bank has followed the RBI guidelines in force, to arrive at the eligible capital, risk weighted assets and CRAR.

Capital requirements for Credit Risk, Market Risk and Operational Risk:

Particulars as on June 30, 2015

(₹ in crore)

1. Capital requirement for Credit Risk	2266.20
-Portfolio subject to Standardized Approach	2266.20
-Securitization exposures	0.00

2. Capital requirement for Market Risk	196.26
• Standardised Duration Approach	
○ Interest Rate Risk	100.74
○ Foreign Exchange Risk (Including gold)	3.60
○ Equity Risk	91.92

3.Capital requirement for Operational Risk	
• Basic Indicator Approach	271.95

Total capital requirements at 9% (1 + 2 + 3)	2734.41
Total capital	4508.89
CRAR %	13.19%
Tier-I CRAR %	12.25%

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 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:

Sr.No	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 Risk Management 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 Committee also oversees compliance with Pillar II requirements under Basel II such as ICAAP and Stress Test.

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 as on June 30, 2015:

Category Domestic	(₹ in crore)
Fund based	40802.78
Non fund based	4862.16
Total	**45664.94**

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: **(₹in crore)**

STATE	Fund Based
ANDHRA PRADESH	4847.42
CHANDIGARH	46.45
CHHATTISGARH	14.54
DELHI	2042.15
GOA	50.26
GUJARAT	1237.01
HARYANA	158.08
JHARKHAND	23.34
KARNATAKA	1740.08
KERALA	488.33
MADHYA PRADESH	128.42
MAHARASHTRA	3525.51
ORISSA	104.02
PONDICHERRY	163.68
PUNJAB	302.03
RAJASTHAN	149.00
TAMIL NADU	16533.35
TELANGANA	3775.17
UTTAR PRADESH	387.84
WEST BENGAL	1503.55
TOTAL	**37220.23**

4.4 Industry wise distributions of exposures as on June 30, 2015.

(₹ in crore)

Industry	Fund Based	Non fund based
MINING & QUARRYING	235.61	6.51
FOOD PROCESSING	1383.65	48.09
BEVERAGES & TOBACCO	104.72	1.19
TEXTILES	2973.72	196.71
LEATHER AND LEATHER PRODUCTS	24.95	0.19
WOOD AND WOOD PRODUCTS	279.43	57.63
PAPER AND PAPER PRODUCTS	199.99	202.18
PETROLEUM	48.05	0.62
CHEMICALS AND CHEMICAL PRODUCTS	832.83	30.68

RUBBER, PLASTIC AND THEIR PRODUCTS	189.85	7.82
GLASS & GLASSWARE	5.52	0.31
CEMENT & CEMENT PRODUCTS	366.04	8.87
BASIC METAL AND METAL PRODUCTS	1578.12	106.99
ALL ENGINEERING	591.41	84.47
VEHICLES, VEHICLE PARTS AND TRANSPORT EQUIP.	353.13	9.49
GEMS AND JEWELLERY	393.20	320.62
CONSTRUCTION	379.40	359.95
INFRASTRUCTURE	3192.04	623.91
OTHER INDUSTRIES	143.76	5.71
OTHERS	23944.83	2790.21
TOTAL	**37220.23**	**4862.16**

4 (e) Residual contractual maturity breakdown of assets as on June 30 2015:*

(Rs in crores)

Assets	Day 1	Day 2 To Day 7	Day 8 To Day 14	Day 15 To Day 28	Over28 days To 3 Months	Over 3 Months To 6 Months	Over 6 Months To 1 Year	Over 1 To 3 Years	Over 3 Years To 5 Years	Over 5 Years	Total
Cash	449.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	449.41
Balance with RBI	112.17	12.27	20.04	33.63	191.21	161.25	292.74	342.59	229.06	533.24	1928.20
Balance with other banks	66.01	0.34	0.00	0.00	0.00	0.00	0.00	7.43	0.00	0.00	73.79
Investments	3205.79	94.99	107.72	180.76	1052.77	876.71	1577.48	2186.36	1493.98	2981.94	13758.49
Advances - Performing	3123.27	239.61	502.34	690.47	2785.20	3065.98	6116.26	13694.80	2813.50	3475.74	36507.17
NPA (Gross) Including NPI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	344.63	381.58	726.21
Fixed Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	407.72	407.72
Other Assets	223.62	27.95	27.95	0.00	0.00	0.00	0.00	361.98	0.00	614.72	1256.22
Total	**7180.28**	**375.16**	**658.05**	**904.86**	**4029.18**	**4103.93**	**7986.48**	**16593.17**	**4881.17**	**8394.94**	**55107.22**

* As per ALM guidelines

Advances and Provisions:

(f) Gross NPA

Particulars as on 30.06.2015	₹ in crore
i. Substandard	344.63
ii. Doubtful 1	142.17
iii. Doubtful 2	15.77
Iv Doubtful 3	11.30
v. Loss	199.20
Total	**713.07**

g) Net NPAs	323.10

(h) NPA Ratios	
i. Gross NPAs to gross advances (%)	1.91%
ii. NPAs to Net Advances (%)	0.88%

(i) Movement of NPAs(Gross)	
i. Opening balance	677.78
ii. Additions during the year	212.42
iii. Reductions during the year	177.13
iv. Closing balance	**713.07**

(j) Movement of provisions for NPAs (excluding provision on Standard Assets)		
i. Opening balance		380.00
ii. Provision made during the year	(+)	123.96
iii. Write-off / write-back of excess provisions	(-)	123.96
iv. Closing balance		**380.00**

(₹incrore)

(k) Amount of Non-Performing Investments	13.14
(l) Amount of provisions held for non-performing investments	13.14

(m) Movement of depreciation on investments		
i. Opening balance as on 01.04.2015		46.88
ii. Add: Provision made during the quarter	(+)	18.98
iii.Less: Write-off/ write-back of excess provision during the quarter (including depreciation utilized on the sale of securities)	(-)	3.38
iv. Closing balance		**62.48**

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

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 Mitigants.

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 June 30,2015 are as follows:

(₹ in crore)

Particulars	Fund Based	Non Fund Based
Below 100% risk weight	30914.37	129.73
100% risk weight	8199.80	3625.39
More than 100% risk weight	4675.62	70.88
Total	**43789.79**	**3826.00**

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 from of Bank's own deposits, LICPolicies, 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 are 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 ofRoll-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 eligible collateral instruments are used for recognition in the comprehensive approach:

i. Cash (as well as certificates of deposit or comparable instruments, including fixed

deposit receipts, issued by the bank)

ii. Gold: Gold would include both bullion and jewellery
iii. Securities issued by Central and State Governments
iv. National Savings Certificates
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 where these are either:

    a) Attracting 100 per cent 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 per cent 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 CARE A3/ CRISIL A3/ India Ratings and Research Private Limited (India Ratings) A3/ICRA A3/Brickwork A3/SMERA A3 by a chosen Credit Rating Agency; and
    e) the bank holding the securities as collateral has no information to suggest that the issue justifies a rating below BBB(-) or CARE A3/ CRISIL A3/ India Ratings and Research Private Limited (India Ratings) A3/ICRA A3/Brickwork A3/SMERA A3 (as applicable) and;

    f) Banks should be sufficiently confident about the market liquidity of the security

viii) Units of Mutual Funds regulated by the securities regulator of the jurisdiction of the bank's operation 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 the instruments listed in this paragraph.

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 June 30,2015, 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:

The ALCO is the focal point for placing various notes/ reports with regard to liquidity risks.

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.

Particulars As on June 30, 2015	(₹ in crore)
Capital requirements for market risk	
Interest Rate Risk	100.74
Foreign Exchange Risk (Including gold)	3.60
Equity Risk	91.92
Capital requirement for Market Risk	196.26

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. The Bank is taking quantitative and qualitative steps in view of moving towards advanced approaches as prescribed by RBI.

Capital requirement for operational risk as per Basic Indicator Approach (BIA) as on June 30, 2015 is ₹ 271.95crore.

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 riskincluding 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:

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.

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.

Stress testing:

The Bank measures the impact on NII/ EaR after taking into account various possible movement ininterest rates across tenor and impact on the earnings is calculated for each of these scenarios.

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 getaffected. 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 crore)

Currency	100	200
INR	128.29	256.59

ii) Impact on economic value of equity:

Changes in interest rates (in bps)

(Rs in crore)

Currency	100	200
INR	57.76	115.53

* 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 NPA ratios, liquidity ratios, 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 as on June30, 2015 (₹ in crore)

	Notional Amount	Gross positive fair value of the contracts	Potential Future Exposure	Total Credit Exposure
Forward contracts	7329.53	7431.70	146.59	7578.29

12. Composition of Capital (DF 11)

(₹ in crore)

CommonEquityTier1capital: instrumentsandreserves		
1	Directlyissuedqualifyingcommonshare capitalplusrelatedstock surplus(sharepremium)	1336.79
2	Retainedearnings	
3	Accumulatedothercomprehensiveincome(andotherreserves)	2862.70
4	*Directlyissuedcapital subject tophaseoutfromCET1(only applicabletonon-jointstockcompanies)*	
5	Commonshare capitalissuedbysubsidiariesandheldbythirdparties (amount allowed in group CET 1)	
6	**CommonEquityTier1capitalbeforeregulatoryadjustments**	4199.49
	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	6.06
11	Cash-flow hedgereserve	
12	Shortfallofprovisionstoexpectedlosses	
13	Securitizationgainonsale	
14	Gains andlossesduetochangesinowncreditriskonfairvalued liabilities	
15	Defined-benefitpensionfundnetassets	
16	Investmentsinownshares(ifnotalreadynettedoffpaid-upcapitalon reportedbalancesheet)	
17	Reciprocalcross-holdingsincommonequity	7.43
18	Investmentsinthecapitalofbanking,financialandinsuranceentities thatareoutsidethescopeofregulatoryconsolidation,netof eligible Shortpositions,wherethebankdoesnotownmorethan10% of the issuedsharecapital(amountabove10%threshold)	
19	Significant investmentsinthecommon stockofbanking,financialand insurance entitiesthatareoutsidethescopeofregulatory consolidation, netofeligibleshortpositions(amountabove10% threshold)	
20	Mortgageservicingrights(amountabove10%threshold)	
21	Deferred tax assets arising from temporary differences(amount above10%threshold,netofrelatedtaxliability)	
22	Amountexceedingthe15%threshold	
23	*of which: significant investments in the common stock of financialentities*	
24	*Ofwhich :mortgageservicingrights*	
25	*Ofwhich:deferredtaxassetsarisingfromtemporarydifferences*	
26	Nationalspecificregulatoryadjustments(26a+26b+26c+26d)	
26a	*of which:* Investments in the equity capital of unconsolidated insurancesubsidiaries	
26b	*Ofwhich:*Investmentsintheequitycapitalofunconsolidatednon-financialsubsidiaries	
26c	*Ofwhich:*Shortfallintheequitycapitalofmajorityownedfinancial entitieswhichhavenotbeenconsolidatedwiththebank	
26d	*Of which:* Un amortised pension funds expenditures	
27	Regulatoryadjustmentsapplied to Common Equity Tier 1 due to insufficientAdditionalTier1andTier2tocoverdeductions	
28	**TotalregulatoryadjustmentstoCommon EquityTier1**	13.49
29	**CommonEquityTier1capital(CET1)**	4186.00
Additional Tier1capital: instruments		
30	DirectlyissuedqualifyingAdditionalTier1instrumentsplusrelated stocksurplus(sharepremium)(31+32)	
31	Ofwhich: classifiedasequityunderapplicableaccountingstandards	
32	Of which: classified as liabilities under applicable accounting standards(PerpetualdebtInstruments)	
33	*Directly issued capital instruments subject to phase out from*	

34	AdditionalTier1instruments (andCET1instruments notincludedin row 5) issued by subsidiaries and held by third parties (amount allowedingroupAT1)	
35	*Ofwhich:instrumentsissuedbysubsidiaries subject tophaseout*	
36	**AdditionalTier1capitalbeforeregulatoryadjustments**	
	AdditionalTier1capital:regulatoryadjustments	
37	InvestmentsinownAdditionalTier1instruments	
38	Reciprocalcross-holdingsinAdditionalTier1instruments	
39	Investmentsinthecapitalofbanking,financialandinsuranceentities thatareoutsidethescopeofregulatoryconsolidation,netofeligibleshortposition s,wherethebankdoesnotownmorethan10%oftheissued common share capital of the entity (amount above 10%threshold)	
40	Significantinvestments inthecapitalofbanking,financialand insurance entities that are outside the scope of regulatory consolidation(netofeligibleshortpositions)[10]	
41	Nationalspecificregulatoryadjustments(41a+41b)	
41a	*of which:* Investments in the Additional Tier 1 capital of unconsolidatedinsurancesubsidiaries	
41b	*Ofwhich:*ShortfallintheAdditionalTier1capitalofmajorityowned financialentitieswhichhavenotbeenconsolidatedwiththebank	
42	RegulatoryadjustmentsappliedtoAdditionalTier1duetoinsufficient	
43	**TotalregulatoryadjustmentstoAdditionalTier1capital**	
44	**AdditionalTier1capital(AT1)**	
44a	**AdditionalTier1capitalreckonedforcapitaladequacy[11]**	
45	**Tier1capital(T1=CET1+AdmissibleAT1)(29+44a)**	4186.00
	Tier2capital:instrumentsandprovisions	
46	Directly issued qualifying Tier2 instruments plus related stock surplus	150.00
47	*Investment Reserve*	53.00
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	Provisions	205.64
51	**Tier 2 capital before regulatory adjustments**	408.64
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier2 instruments	
53	Reciprocal cross- holdings in Tier2 instruments	10.00
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)	75.75
55	Significant investmentsin the capital 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**	85.75
58	**Tier 2 capital (T2)**	322.89
58a	**Tier2 capital reckoned for capital adequacy**	322.89
58b	**Excess Additional Tier1 capital reckoned as Tier2 capital**	
58c	**Total Tier2 capital admissible for capital adequacy (58a+58b)**	322.89
59	**Total capital (TC=T1+Admissible T2) (45+58c)**	4508.89
60	**Total risk weighted assets (60a+60b+60c)**	34180.17
60a	*Of which: total credit risk weighted assets*	28327.55
60b	*Of which: total market risk weighted assets*	2453.29
60c	*Of which: total operational risk weighted assets*	3399.33
Capital ratiosand buffers		
61	Common Equity Tier1 (as a percentage of risk weighted assets)	12.25%
62	Tier1 (as a percentage of risk weighted assets)	12.25%
63	Total capital (as a percentage of risk weighted assets)	13.19%
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)	5.50%
65	*Of which: capital conservation buffer requirement*	
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)	6.75%
National minima(if different from Basel III)		
69	National Common Equity Tier1 minimum ratio (if different from Basel III minimum)	5.50%
70	National Tier1 minimum ratio (if different from Basel III minimum)	7%
71	National total capital minimum ratio (if different from Basel III minimum)	9%
Amountsbelowthethresholdsfordeduction(beforeriskweighting)		
72	Non-significantinvestmentsin the capitalofotherfinancialentities	
73	Significantinvestmentsinthecommonstockoffinancialentities	
74	Mortgageservicingrights(netofrelatedtaxliability)	
75	Deferredtaxassetsarisingfromtemporarydifferences(netofrelated taxliability)	
Applicablecapsonthe inclusionofprovisions inTier2		
76	Provisionseligible for inclusionin Tier 2 in respect of exposures subjecttostandardizedapproach(priortoapplicationofcap)	205.64
77	CaponinclusionofprovisionsinTier2under standardized approach	
78	Provisionseligible for inclusionin Tier 2 in respect of exposures subjecttointernalratings-basedapproach(priortoapplicationofcap)	

79	CapforinclusionofprovisionsinTier2underinternalratings-based approach	
Capitalinstruments subject tophase-outarrangements(onlyapplicablebetween June31,2017andJune31,2022)		
80	*CurrentcaponCET1instrumentssubjecttophaseoutarrangements*	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptionsandmaturities)*	
82	*CurrentcaponAT1instrumentssubjecttophaseoutarrangements*	
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions andmaturities)*	
84	*CurrentcaponT2instrumentssubjecttophaseoutarrangements*	
85	*Amount excluded from T2 due to cap (excess over cap after redemptionsandmaturities)*	

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13. Main Features of Regulatory Capital Instruments

S.No		
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 LawRegulatory 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 (₹ in million, as of most recent reporting date.	1500
9	Par value of instrument `	10 LACS
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 typeimmediately 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

Instrument	Terms & Conditions	
Unsecured Redeemable Non- Convertible Subordinated Lower Tier- II Bonds - INE036D09013	Issue size	₹150 crore
	Face Value	₹10 lakhs per bond
	Date of Allotment	25th September 2009
	Maturity	25th September 2019
	Coupon	9.86%
	Interest payment	Half yearly

Leverage Ratio (Consolidated) (Rs.in crs)

Tier I Capital	4186.00
Exposure Measure	59102.77
Leverage Ratio	7.08%