BASEL II – PILLAR 3 DISCLOSURES (as on 30th September 2012)

Table DF-1

Scope of application

Qualitative Disclosures

a) The name of the Top bank in the group to which the Framework applies.

THE KARUR VYSYA BANK LIMITED

b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (i) that are fully consolidated; (ii) that are pro-rata consolidated; (iii) that are given a deduction treatment; and (iv) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).

The Bank is not having any subsidiary

Quantitative Disclosures

c) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries.

Not applicable

d) The aggregate amounts (e.g. current book value) of the bank's total interests in insurance entities, which are risk-weighted as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction.

Not applicable

Table DF – 2

Capital Structure

Qualitative Disclosures

a) Summary information of capital instruments eligible for inclusion in Tier I or Tier II

- Tier I capital includes Equity share capital, Reserves comprising of Statutory reserve, Capital Reserve, Share Premium, Revenue Reserve, Special Reserve and balance in profit and loss account Quarterly/ Half yearly Profits (Unaudited) and Tax benefit on Special Reserve are deducted as per RBI guidelines.

- Tier II Capital consists of Tier II Bonds – Subordinated Debt and General Provisions

Quantitative Disclosures

b) The amount of Tier I capital as on 30.09.2012.

Particulars	Amount (Rs. in Crore)
Paid up Equity Share Capital	107.18
Reserves	2879.74
Innovative Instruments	NIL
Other Capital Instruments	NIL
Amounts deducted from Tier I Capital (Unaudited Half yearly Profit and Tax Benefit on special reserve)	(309.52)
Total Tier I Capital – (A)	**2677.40**

c) The total amount of Tier II capital (net of deductions from Tier II Capital).

Particulars	Amount (Rs. in Crore)
Tier II Bonds (Subordinated Debt)	150.00
General Provisions	120.60
Total Tier II Capital – (B)	**270.60**

d) Debt Capital instruments eligible for inclusion in Upper Tier II Capital

Total Amount outstanding - NIL
Of which amount raised during the current year - NIL
Amount eligible to be reckoned as capital funds - NIL

e) Subordinated debt eligible for inclusion in Lower Tier II Capital

Total amount outstanding - Rs.150 Crore
of which amount raised during the current year - Rs. NIL
Amount eligible to be reckoned as capital funds - Rs.150 Crore

f) Other deductions from capital, if any - NIL

g) Total eligible capital (Tier I & Tier II) (A) + (B) - Rs.2948.00 Crore

Table DF – 3

Capital Adequacy

Qualitative Disclosures

- Policy on Internal Capital Adequacy Assessment Process has been put in place. The policy states the Bank's intention to maintain CRAR above the minimum level prescribed by RBI.
- Capital requirement for current business levels and framework for assessing capital requirement for future business levels has been made.
- CRAR has been worked out based on Basel II guidelines
- Tier I CRAR of 12.72% is above the minimum requirement of 6% as per RBI guidelines.
- Tier II capital is within the stipulation of 50% of Tier I Capital.
- Total CRAR is above the minimum requirement of 9%.
- Bank maintained capital in terms of Revised Framework above the prudential floor viz higher of
    - Minimum capital required as per the Revised Framework;
    - 80% of the minimum capital required to be maintained as per the Basel I framework;

Quantitative Disclosures

a) Capital requirement for Credit Risk (@9% CRAR):

- Portfolio subject to standardized approach : Rs.1588.86 Crore
- Securitization exposures : NIL

b) Capital requirements for market risk (@9% CRAR):

- Standardized duration approach:

  - Interest rate risk : Rs. 115.98 Crore
  - Foreign exchange risk (including gold) : Rs. 4.50 Crore
  - Equity risk : Rs. 31.38 Crore

c) Capital requirements for operational risk (@9% CRAR):

- Basic indicator approach : Rs. 154.21 Crore

d) Total CRAR is 14.00% and Tier I Capital Ratio is 12.72%

Table DF-4

Credit Risk – General Disclosures

a) Qualitative Disclosures

- The Bank had put in place Credit Policy & Risk Management Policy where all the credit aspects have been included. The policies stipulate borrower/ credit standards, standards for loan collateral/guarantor acceptance, portfolio management, risk based pricing of loans & advances, loan review mechanism, credit audit, risk concentrations, risk monitoring and evaluation, provisioning and regulatory/legal compliance.
- Bank has adopted the Income Recognition and Asset Classification norms of the regulator.
- The Bank identifies the risks to which it is exposed and applies rating models to measure, monitor and control these risks. Bank considers rating of a borrowal account as an important tool to measure the credit risk associated with any borrower and accordingly a two dimensional credit rating system was adopted.
- The Bank mitigates the concentration risk by (a) fixing exposure limits for single and group borrowers and (b) industry wise exposure limits.
- Credit risks and compliance to risk limits are monitored on bank wide basis.
- The Bank follows IRAC norms as per RBI guidelines for identifying the past due and impaired assets

Quantitative Disclosures

b) Total gross credit risk exposures, Fund based and Non-fund based separately.

Credit Risk Exposures	Amount (Rs. in Crore)
Fund Based *	37218.84
Non Fund Based	10866.25
Total	**48085.09**

* *includes loans/advances, fixed assets, other assets, cash, balance with RBI and investments.*

c) Geographic distribution of exposures, Fund based and Non-fund based separately.

a. Overseas - NIL
b. Domestic

Amount (Rs. in Crore)

Fund Based	Non Fund Based	Total
37218.84	10866.25	**48085.09**

d) Industry-wise exposures as on 30.09.2012

Amount (Rs. in Crore)

Industry	Fund Based		Non Fund Based	
Coal	54.36			
Mining	125.73			
Iron & Steel	1048.79			
Other Metal and Metal Products	151.06			
All Engineering	285.63			
of which Electronics		53.64		
Cotton Textiles	1009.73			
Other Textiles	807.93			
Sugar	4.92			
Tea	2.17			
Food Processing	645.33			
Vegetable Oils & Vanaspati	161.71			
Beverages and Tobacco	76.35			
Paper and Paper Products	76.30			
Rubber, Plastic and related Products	205.29			
Wood and Wood Products	151.78			
Glass and Glassware	8.85			
Chemicals and Chemical Products	530.84			
of which Fertilizers		79.15		
of which Petrochemicals		155.87		
of which Drugs & Pharmaceuticals		264.25		
Cement and Cement Products	93.05			
Leather and Leather Products	2.76			
Gems and Jewellery	197.42			
Construction	127.33			
Petroleum and Nuclear Fuels	25.01			
Vehicles, Vehicle Parts and Transport Equipments	307.37			
Infrastructure	3013.07			
of which Energy		1714.98		
of which Telecommunications		60.84		
of which Roads & Ports		349.64		
Other Industries	473.34			
Residuary Other Advances	16091.07			
Total Advances	**25677.19**			

e) Residual Contractual maturity breakdown of assets*

(Rs. In Crore)

Inflow Group	Cash, Balance with RBI & Balances with Other Banks	Investments	Advances	Fixed Assets & Other Assets
Day 1	704.01	2771.74	1161.12	210.12
Day 2 To Day 7	25.81	127.54	73.92	26.27
Day 8 To Day 14	67.14	343.14	82.87	26.27
Day 15 To Day 28	85.95	147.96	234.68	0.00
Over28 days To 3 Months	242.82	949.51	995.21	0.00
Over 3 Months To 6 Months	115.47	606.71	704.56	0.00
Over 6 Months To 1 Year	348.96	1798.59	7786.48	0.00
Over 1 To 3 Years	367.56	2580.19	10180.72	0.00
Over 3 Years To 5 Years	189.54	1068.83	2435.42	0.00
Over 5 Years	184.81	1071.05	2022.21	868.29
Total	**2332.07**	**11465.26**	**25677.19**	**1130.95**

** as per ALM Guidelines*

f) **Gross NPAs:**

Particulars	Amount (Rs. in Crore)
Substandard	101.02
Doubtful 1	42.47
Doubtful 2	63.83
Doubtful 3	15.49
Loss	99.93
Total	**322.74**

g) **Net NPAs:**

Particulars	Amount (Rs. in Crore)
Gross NPAs	322.74
Less: Provisions (including ECGC & float. Provision)	242.57
Net NPAs	80.17

h) **NPA Ratio :**

Particulars	Ratios
Gross NPAs as a ratio to Gross Advances	1.26%
Net NPAs as a ratio to Net Advances	0.32%

i) **Movement of NPAs (Gross)* :**

Particulars	Amount (Rs. in Crore)
Opening Balance as on 01.04.2012	320.99
Additions during the period	137.60
Reductions during the period	135.85
Closing Balance as on 30.09.2012	322.74

* NPA exclude interest held in suspense in accordance with RBI guidelines dated September-24, 2009 under reference DBOD.No.BP.BC.46/21.04.048/2009-10.

j) **Movement of Provisions for NPAs:**

Particulars	Amount (Rs. in Crore)
Opening Balance as on 01.04.2012	201.51
Provisions made during the period	53.24
Provisions released on account of recoveries and used for new additions	33.19
Write off/ Write Back of excess provisions	18.20
Closing Balance as on 30.09.2012	203.36

k) Amount of Non performing Investments 4.07

l) Amount of provisions held for Non –performing Investments 4.07

m) Movement of Provisions for depreciation on investments

Particulars	Amount (Rs. in Crore)
Opening Balance as on 01.04.2012	71.11
Add: Provisions made during the period	0.00
Less: Write Off/ Write Back of excess provisions during the period	50.69
Closing Balance as on 30.09.2012	20.42

Table DF – 5

Credit Risk: Disclosures for portfolios subject to the Standardized Approach

Qualitative Disclosures

a) For portfolios under the standardized approach:

The following external rating agencies approved by Reserve Bank of India for the purpose of rating under Basel II norms are taken on record by our Bank to facilitate the customer for getting the rating;

1. CRISIL Limited
2. ICRA Limited
3. CARE Limited
4. FITCH India
5. Brickwork Ratings India Limited
6. SME Rating Agency of India Limited

Brickworks Ratings and SME rating Agency was added during the reporting period. No agency has been deleted by the Bank during present period. The services of the above agencies are used for the purpose of both Funded and Non-Funded Exposure.

The Bank leaves the choice of rating agencies to the customers and does not recommend any specific agency. External Rating of the borrowers done at the behest of borrowers is accepted by the Bank.

Quantitative Disclosures

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

(Rs. in Crore)

Risk Weight	**Rated**	**Unrated**	**Total**
Below 100%	2222.00	18445.22	20667.22
100%	1625.21	6779.56	8404.77
More than 100%	1595.31	1227.45	2822.76
Total Outstanding after mitigation	**5442.52**	**26452.23**	**31894.75**
Deducted (as per Risk Mitigation)	-	7498.34	7498.34

Table DF – 6

Credit risk mitigation: Disclosures for standardized approach

Qualitative Disclosures

a) The Bank has put in place Credit Risk Mitigation & Collateral Management Policy with the primary objective of (i) Mitigation of credit risks and enhancing awareness of identification of appropriate collateral taking into account the spirit of Basel II / RBI guidelines and (ii) Optimizing the benefit of credit risk mitigation in computation of capital charge as per approaches laid down in Basel II / RBI guidelines.

   The Bank in general relies on Risk Mitigation techniques like collateral and insurance cover, higher margins, ceiling on exposures, loan covenants, forward cover, Escrow mechanism and Loan Participation.

Bank accepts guarantees from individuals, Central and State governments, and Corporates with considerable net worth. Only guarantees issued by entities with a higher rating than of the counterparty shall be accepted to get the protection for the counter party exposure.

The Bank recognizes the following Financial Collateral (FC) for Credit Risk Mitigation.

a) Cash or Cash Equivalent (Bank Deposits/certificate of Deposits issued by the Bank, etc.);
b) Gold including Bullion and Jewellery;
c) Securities issued by Central and State Governments;
d) Kisan Vikas Patras and National Savings Certificates;
e) Life Insurance Policies with a declared surrender value;
f) Debt securities rated by a recognized Credit Rating Agency; and
g) Units of Mutual Fund

Concentration Risk in Credit Risk Mitigation: All types of securities eligible for mitigation are easily realizable financial securities. As such, presently no limit/ceiling has been prescribed to address the concentration risk in credit risk mitigants recognized by the Bank.

Quantitative Disclosers

b) For each separately disclosed credit risk portfolio the total exposure (after, where applicable, on or off balance sheet netting), that is covered by eligible financial collateral after the application of haircuts is given below:

(Rs. In Crore)

Portfolio Category	Financial Collateral	Quantum of exposure covered
1. Funded – Credit	Bank's own deposits	651.13
2. Funded – Credit	Gold Jewels	6365.58
3. Non Funded	Bank's own deposits	500.26

c) For each separately disclosed portfolio, the total exposure (after, on balance sheet netting) that is covered by Guarantees:

(Rs. In Crore)

Portfolio Category	Guaranteed by	Quantum of exposure covered
Funded Credit	ECGC	666.30
Funded Credit	Central Government	464.53
Funded Credit	State Government	97.48

Table DF - 7

Securitization: Disclosure for Standardized Approach

Qualitative Disclosures: The Bank has not undertaken any securitization activity.

Quantitative Disclosures: NIL

Table DF- 8

Market risk in trading book

Qualitative Disclosures

a) Market Risk in trading book is assessed as per the Standardized duration method. The capital charge for HFT and AFS is computed as per Reserve Bank of India prudential guidelines.

Quantitative Disclosures

b) The capital requirements for:

Interest rate risk	:	Rs. 115.98 Crore
Equity position risk	:	Rs. 31.38 Crore
Foreign exchange risk	:	Rs. 4.50 Crore

Table DF – 9

Operational Risk

Qualitative Disclosures

The Bank has put in place important policies like Operational Risk Management, Information System Security, Know Your Customer (KYC) and Anti Money Laundering (AML), Business Continuity and Disaster Recovery Management. The updated manuals on all important functional areas have been circulated to the branches. Risk Based Internal Audit was conducted in 255 branches of the Bank during the half year ended 30.09.2012.

The Operational Risk Management Policy outlines the Organization Structure and covers the process of identification, assessment, measurement and control of various operational risks. Internal control mechanism is in place to control and minimize the operational risks.

Capital charge for operational risk is computed as per the Basic Indicator Approach. The average of the gross income, as defined in the New Capital Adequacy Framework guidelines, for the previous 3 years i.e. 2011-12, 2010-11 and 2009-10 is considered for computing the capital charge. The required capital is Rs.154.21 Crore

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Table DF – 10

Interest rate risk in the banking book (IRRBB)

Qualitative Disclosures

a) Interest Rate Risk on Banking Book is captured in ICAAP, and is an annual exercise. The ICAAP policy articulates the methodology for the calculation and stress testing of IRRBB.

Quantitative Disclosures

b) The assets and liabilities are arranged in various time buckets based on the sensitivity to interest rate and a shock of 200 basis points is adopted on the RSA-RSL. The result is below the 20% benchmark prescribed by RBI.
