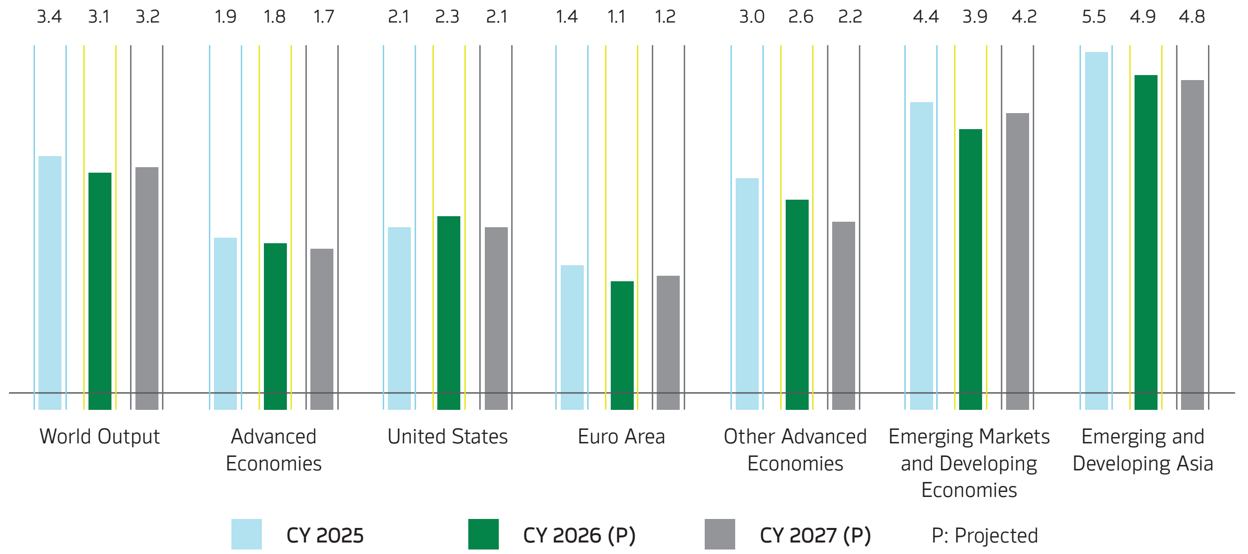
MANAGEMENT DISCUSSION & ANALYSIS

GLOBAL ECONOMY

The global economy remained resilient in FY 2025-26 despite rising geopolitical tensions, evolving trade policies, and significant tariff adjustments, particularly in the United States As the global economy advances through CY 2026, growth continues, albeit at a more tempered pace. According to the IMF's April 2026 World Economic Outlook, global growth is projected to moderate to 3.1% this year, then stabilize around 3.2% in 2027. This moderation reflects the gradual fading of post-pandemic recovery momentum and the normalization of earlier inventory accumulation cycles. At the same time, ongoing trade tensions and fluctuations in global energy markets remain key considerations for the economic outlook.

GDP Growth Projections (in %)



Outlook

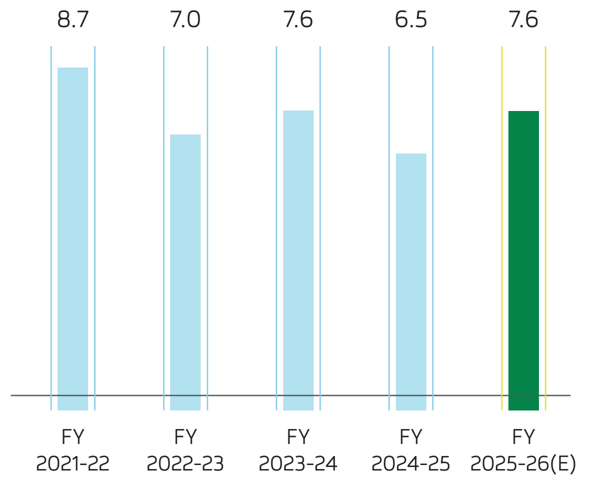
The global economic outlook remains influenced by evolving geopolitical, trade, and macroeconomic developments. Factors such as evolving trade relationships, geopolitical developments, fiscal constraints, and potential financial market volatility remain important considerations for policymakers and businesses. At the same time, ongoing changes, including the reconfiguration of global value chains and the growing adoption of diversified sourcing strategies, are contributing to greater supply chain resilience and adaptability.

INDIAN ECONOMY

India's economy remained resilient during FY 2025-26, supported by strong domestic fundamentals and broad-based sectoral growth, with real GDP estimated to have grown to 7.6%, according to the Second Advanced Estimates of the National Statistical Office (NSO). The projected growth underscores the strength of domestic demand and ongoing structural reforms supporting India's long-term development objectives, centered on higher productivity, inclusive development and long-term economic stability.

(Source: IMF World Economic Outlook Update, April 2026)

Real GDP Growth Rate (%)



E: Estimated

The growth environment was complemented by a decisive easing of monetary policy in the previous fiscal year. In its June 2026 meeting, the Reserve Bank of India's Monetary Policy Committee (MPC) kept the repo rate steady at 5.25% and maintained a neutral stance. This decision followed an aggressive easing cycle during FY 2025-26, with the repo rate being cut by a total of 125 basis points from 6.50% at the start of the fiscal year to the current level, to boost demand and enhance economic resilience.

Despite external challenges, domestic inflation stayed subdued throughout most of the previous fiscal year. Headline CPI inflation averaged about 2.1% in FY 2025-26, reaching multi-year lows mid-year, helped by steady vegetable prices and the disinflationary impact of GST rationalization. However, data released in May 2026 reflected a modest increase in inflationary pressures, with CPI inflation rising to 3.48% in April 2026, driven primarily by an uptick in food prices. While inflation remains within the Reserve Bank of India's target range, emerging supply-side pressures and evolving global developments have added complexity to the policy environment. As a result, monetary policy continues to require a balanced approach that supports economic growth while preserving price stability and broader macroeconomic stability.

Outlook

India's GDP growth is projected to remain robust at between 6.8% and 7.2% in FY 2026-27, according to the latest estimates from the Government of India and the Economic Survey 2025-26. Growth is expected to be supported by strong domestic consumption, a gradual recovery in private investment, ongoing infrastructure development, and continued policy reforms. These factors position India among the fastest-growing major economies globally.

INDIAN BANKING INDUSTRY

The Indian banking sector has strengthened considerably over recent years, supported by improved asset quality, stronger capitalization, and increased technology adoption. Following years of balance sheet repair and institutional strengthening, banks are now better positioned to support expanding economic activity and rising credit demand. A combination of policy-led reforms, tighter regulatory oversight, and stronger compliance standards has improved the sector's overall health and accountability. Simultaneously, the rapid integration of technologies has reshaped banking operations and customer engagement, enabling faster service delivery, wider financial access, and greater operational effectiveness. These developments have enhanced financial stability and improved the banking sector's capacity to support economic growth and investment activity.

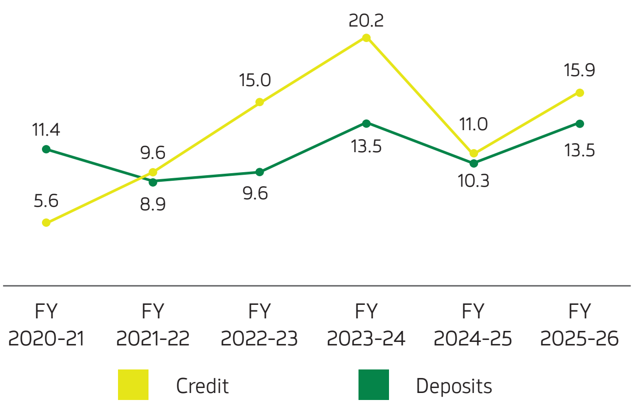
Key Metrics

Bank credit rebounded significantly, growing at 15.9% year-on-year (YoY) for FY 2025-26, up from 11% in the previous year. This robust growth is attributed to a supportive low-interest rate environment and a strong government-led capital expenditure push. While the industrial sector saw a sharp pickup (15%), the services sector led the expansion, fueled by high demand from NBFCs and commercial real estate.

Bank deposits grew by 13.5%, showing a steady recovery as banks increased deposit rates to bridge the credit-deposit gap and support lending momentum. While credit growth (15.9%) outpaces deposit growth (13.5%), the narrowing gap has forced banks to rely on higher-cost bulk deposits and certificates of deposit. This trend puts pressure on Net Interest Margins (NIMs) and necessitates a cautious approach to liquidity management to ensure long-term lending momentum remains sustainable.

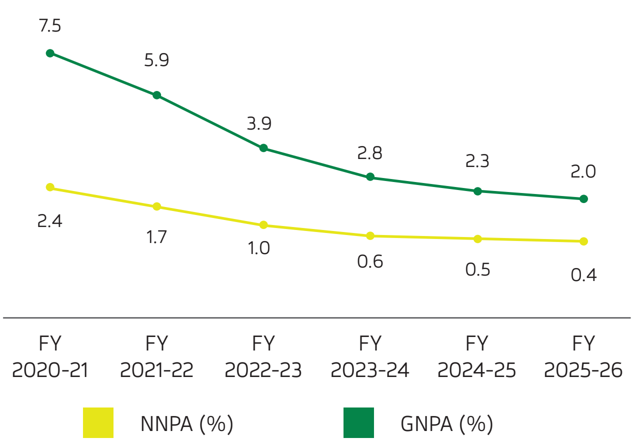
(Source: https://www.pib.gov.in/PressReleasePage.aspx?PRID=2233792&reg=3&lang=1, https://www.mospi.gov.in/uploads/PressRelease/CPI%20Press%20Release%20of%20April%202026.pdf)

BANKING INDUSTRY CREDIT GROWTH & DEPOSIT GROWTH TREND (%)



Asset quality in the sector has reached new historic milestones. The GNPA ratio of scheduled commercial banks dropped to a multi-decadal low of 2.0% as of March 2026. Net Non-Performing Assets (NNPAs) also reached a record low of 0.4%. This is supported by a robust Capital Adequacy Ratio (CRAR), which remains well above regulatory requirements at 16.8% in FY 2025-26, providing a significant buffer against potential shocks.

ENHANCED ASSET QUALITY AND STRONGER BALANCE SHEETS



Growth Propellers

Digital-First Experience & Open Finance

- **Open Finance Ecosystem:** Building upon the Account Aggregator (AA) framework, which now encompasses over 600 regulated entities, including banks and insurers, the financial ecosystem is transitioning toward Open Finance frameworks that facilitate consent-based data sharing, enabling financial institutions to deliver more tailored products and services.

- **Digital Rupee Adoption:** The gradual scaling of the Central Bank Digital Currency (e₹) is improving the efficiency of cross-border remittances and institutional settlements. By reducing transaction costs and friction, it is estimated to significantly enhance the liquidity and speed of the payments ecosystem.

AI-Led Transformation

- **Predictive Underwriting:** Advanced machine learning models utilize alternative data, including GST filing consistency, utility payments, and UPI transaction patterns, to assess creditworthiness. This shift is helping close India's US$ 530 Bn MSME credit gap, enabling lenders to approve loans for new-to-credit borrowers who were previously invisible to traditional scoring systems.

- **Liquidity & Risk Management:** AI-enabled analytics are now delivering between US$ 4–6 Bn in annual value across the Indian banking sector through optimized liquidity forecasting and operational efficiency. Treasury AIs are increasingly used to monitor real-time liquidity and trigger hedges within pre-approved limits, significantly reducing settlement friction.

- **Fraud Detection & Cybersecurity:** Banks are strengthening fraud prevention frameworks through AI-driven monitoring systems. These are capable of detecting suspicious transaction patterns and identity-related threats in real time, thereby enhancing customer protection and operational resilience.

DPI Evolution & Credit Democratization

- **Unified Lending Interface (ULI):** The rollout of the ULI has streamlined credit by onboarding over 64 lenders using 136 integrated data services. By integrating land

(Source: https://www.adb.org/sites/default/files/publication/1135881/ind-ado-april-2026.pdf, https://bfsitechsummit.in/ai-in-banking-india-2026/#:~:text=Banks%20and%20NBFCs%20are%20now,system%20just%20a%20year%20ago.)

records and transaction histories through standardized Unified Payments Interface, the ULI is estimated to unlock an additional US$ 130–170 Bn in economic value by reaching rural and semi urban populations.

- **Consent-Based Lending Ecosystem:** The Account Aggregator (AA) network has scaled to include over 250 Mn linked accounts, allowing for secure, consent-based data sharing. This framework, combined with a UPI ecosystem processing over 2,200 Crore transactions monthly, provides lenders with a real-time cash-flow view that is far more accurate than traditional bank statements.

Green & Sustainable Finance

- **Green Financing Opportunities:** The sustainable finance market in India reached US$ 653.76 Bn in 2025 and is projected to exhibit a CAGR of 14.44% through 2034. Banks are central to this expansion, with international social and green bonds, such as the €1 Bn issuance in FY 2024-25, allocating over 50% of funds specifically to Indian sustainable development.

- **Rising Green Infrastructure Investments:** Increasing investments in sustainable infrastructure are creating significant opportunities for India's sustainable finance market. Government-led initiatives in renewable energy, smart cities, EV charging networks, green buildings, and sustainable transportation are driving demand for green bonds and sustainability-linked financing. Public-private partnerships (PPPs), development finance institutions, and international investors are providing long-term capital to support large-scale climate-resilient infrastructure projects.

- **Growth of Green Bonds & Loans:** The expansion of green bonds and sustainability-linked loans is accelerating India's transition to a low-carbon economy. Regulatory support from SEBI and RBI, coupled with rising investor demand for ESG-focused investments, is driving capital inflows into renewable energy, green buildings, clean transportation, energy efficiency, and climate-resilient infrastructure. In June 2024, British International Investment (BII) and Symbiotics Investments launched a US$75 Mn Green Bond Fund to strengthen green lending and support MSME-focused clean energy projects. Sustainable finance instruments are also helping organisations reduce financial risks while generating long-term environmental and social benefits.

- **Climate Risk Integration:** The RBI's evolving climate finance framework, including the Master Direction on Climate Finance and Management of Climate Change Risks, is driving the integration of physical and transition climate risks into banks' lending and capital allocation decisions. This is enabling financial institutions to strengthen risk assessment and credit pricing practices while enhancing resilience against climate-related financial exposures. Compliance with these frameworks is also improving access to global ESG-linked capital markets, attracting sustainable investments and reinforcing the role of banks in financing India's low-carbon and climate-resilient growth agenda.

Women-Led Entrepreneurship & Inclusive Finance

- **Expansion of SHG-Based Financing:** The DAY-NRLM scheme has mobilized over 10 Crore rural women into 90 Lakh Self-Help Groups (SHGs). Thus, maintaining a repayment rate of over 98%. This network has successfully registered over 2 Lakh women-led Micro and Small Enterprises on Government procurement platforms, securing orders worth more than ₹80,000 Crore.

- **Entrepreneurship & Retail Ecosystems:** The Union Budget 2026-27 introduced SHE-Marts, community-owned retail outlets in every district to market products from women entrepreneurs. Additionally, the enhanced Tarun Plus loan category now provides up to ₹20 Lakh in collateral-free credit for successful repeat women borrowers.

(Source: https://ddnews.gov.in/en/ai-powered-financial-inclusion-reshaping-indias-digital-economy/#:~:text=ULI%20integrates%20multiple%20financial%20and,services%20across%2012%20loan%20journeys, https://www.imarcgroup.com/india-sustainable-finance-market, https://www.pib.gov.in/PressReleasePage.aspx?PRID=2235818&reg=3&lang=1#:~:text=The%20scheme%20has%20successfully%20mobilised,well%20the%20groups%20manage%20money.&text=These%20collaborations%20have%20helped%20Womaniya,surpassing%20the%203%25%20mandated%20target.)

Infrastructure-Led Credit Expansion

- **Corporate Credit Revival:** Large-scale investments in infrastructure, manufacturing corridors, logistics networks, and urban economic regions are supporting the revival of the private capital expenditure cycle. This is leading to increased demand for project financing and corporate credit.
- **Municipal & Urban Financing:** Growth is being decentralized toward City Economic Regions (CERs), with an allocation of ₹5,000 Crore per region. This emphasis on urban infrastructure is opening new avenues for banks in municipal bond underwriting and structured financing for Tier-II and Tier-III cities.

Governance & Ethical AI Framework

- **Algorithmic Transparency:** Financial institutions are increasingly adopting Explainable AI (XAI) frameworks to improve transparency in automated decision-making processes. This is particularly being done in areas such as credit assessment and customer profiling.
- **Data Protection & Sovereignty:** With the implementation of the Digital Personal Data Protection (DPDP) framework, banks are reinforcing data governance mechanisms focused on customer privacy, secure data storage, and consent-based usage practices.
- **Human Oversight & Accountability:** While automation continues to improve operational efficiency, banks are maintaining human oversight for critical financial decisions to ensure accountability, regulatory compliance, and balanced risk management.

Government Initiatives

The Union Budget for FY 2026-27 continues to emphasize growth acceleration, inclusive development, and stronger private-sector participation as key pillars of India's economic strategy. The following are the key announcements made in the Budget for FY 2026-27:

- **High-Level Committee on Banking:** A High-Level Committee will strengthen consumer protection and credit delivery, reducing litigation costs and improving banking efficiency.
- **Champion MSME Strategy:** The CGTMSE guarantee limit has doubled to ₹10 Crore, backed by a ₹10,000 Crore SME Growth Fund, encouraging banks to expand MSME lending with lower credit risk.
- **Infrastructure Capex Outlay:** The Government's capital expenditure outlay of ₹12.2 lakh crore for FY 2026-27 is expected to stimulate private sector investment, strengthen infrastructure creation, and generate sustained demand for corporate and infrastructure financing.
- **Kisan Credit Card (KCC) Expansion:** The KCC loan limit has increased to ₹5 Lakh, with ₹2 Lakh collateral-free, supporting rural credit growth and strengthening banks' Priority Sector Lending portfolios.
- **New Income Tax Act:** Effective 01st April 2026, the new Act simplifies tax administration while maintaining zero tax for eligible individuals earning up to ₹12 Lakh (₹12.75 Lakh for salaried taxpayers after standard deduction), supporting disposable incomes and consumption.
- **JAM Trinity:** With 58+ Crore Jan Dhan accounts and ₹3 Lakh Crore+ deposits, the JAM ecosystem continues to deepen financial inclusion and expand banks' low-cost deposit base.

Regulatory Landscape

The phased reduction of the Cash Reserve Ratio (CRR) by the Reserve Bank of India (RBI) was successfully completed in November 2025, bringing the rate down to 3.0%. This move injected approximately ₹2.5 Lakh Crore of primary liquidity into the system, significantly enhancing the Banks' capacity to support credit demand.

The RBI introduced several landmark frameworks in FY 2025-26 to boost digital security, transparency, and climate resilience:

- **Basel III & ECL Norms:** ECL-based provisioning from 01st April 2027 and strong 15-16% CRAR reinforce banks' resilience while supporting growth.
- **Active Liquidity Management:** Dynamic OMOs and VRR auctions helped maintain adequate liquidity and support strong credit growth.
- **Priority Sector Lending (PSL):** Integration of the Udyam Assist Platform (UAP) broadens formal credit access for micro-enterprises while helping banks meet PSL targets.
- **Mandatory 2FA:** Mandatory 2FA and Risk-Based Authentication (RBA) for digital payments strengthen security and reduce fraud.
- **RB-CRIS Implementation:** Operationalization of RB-CRIS equips banks with standardized climate risk data for stress testing and risk management.

(Source: https://www.drishtiias.com/daily-updates/daily-news-analysis/indias-infrastructure-financing#:~:text=Under%20the%20National%20Waterways%20project,to%20unlock%20agglomeration%2Dled%20growth, https://www.pib.gov.in/PressReleasePage.aspx?PRID=2221458, https://www.pib.gov.in/PressReleasePage.aspx?PRID=2241612)

- **Calamity Resolution Framework:** A structured rules-based framework for disaster-affected loans replaces ad hoc relief, improving transparency and consistency.
- **Integrated Ombudsman Cap:** Compensation limits increased to ₹30 Lakh (plus up to ₹3 Lakh for mental harassment), strengthening consumer protection.
- **MSME & MSE Lending Conduct:** Responsible lending norms for MSEs and UAP integration improve credit access while enhancing lending standards.
- **KYC & Fraud Risk Management:** Updated KYC and fraud norms strengthen reporting, cybersecurity, and IT outsourcing governance.
- **International Financial Services Centre (IFSC):** Extended tax benefits and a 15% post-holiday tax rate enhance the competitiveness of GIFT IFSC as a global financial hub.
- **Foreign Investment Liberalization:** The FPI limit for individual overseas investors has increased from 5% to 10%, supporting capital inflows.
- **Corporate Bond Market Development:** New market-making and liquidity frameworks deepen the corporate bond market and improve banks' liquidity management.
- **Education to Employment & Enterprise (EEE) Committee:** The EEE Committee will address skill gaps and assess AI's impact on banking and financial services.
- **Enhanced Nomination Facilities:** Depositors can now nominate up to four nominees, simplifying asset transmission and reducing unclaimed deposits.
- **Unified Digital Fraud Compensation:** A new framework shifts the burden of proof to banks and mandates dispute resolution within 10 days.
- **ATM & Cash Handling Reforms:** Revised ATM charges and stronger AML monitoring enhance cash transaction security and compliance.

Outlook

India's banking sector is expected to maintain stable growth supported by healthy asset quality, adequate capital levels, and sustained credit demand, marking a transition from the rapid recovery and expansion seen in recent years. With corporate balance sheets remaining strong and asset quality steadily improving, banks are now shifting focus toward sustaining growth through stronger deposit mobilization and digital-led lending.

A key challenge emerging for the sector is the changing savings behavior of Indian households. Increasing flows into capital markets through SIPs and demat accounts are reducing reliance on traditional bank deposits, bringing an end to the era of cheap and abundant CASA funds. As a result, banks are being pushed to adopt a more competitive deposit-first strategy and innovate beyond conventional fixed-deposit products to maintain liquidity.

The regulatory landscape is also set for a major shift with the implementation of the Expected Credit Loss (ECL) framework from 1st April 2027. The move toward proactive provisioning may lead to a temporary moderation in capital ratios, but it is expected to significantly strengthen the long-term resilience of bank balance sheets and improve risk management standards across the sector.

Despite these structural and regulatory changes, the sector's overall outlook remains strong, underpinned by a robust credit trajectory and superior asset quality. Credit growth is projected to stay healthy at 12-13%, fueled by resilient domestic demand and a significant uptick in private capital expenditure across the retail and MSME segments. Simultaneously, the GNPA ratio is expected to decline to around 1.9% by March 2027, driven by disciplined underwriting standards and more effective recovery mechanisms. Collectively, these factors indicate a favorable credit environment supported by disciplined underwriting standards and improving asset quality, suggesting that the banking system remains adequately capitalized and well-positioned to support economic activity and credit growth.

COMPANY OVERVIEW

Founded in 1916 by Shri M. A. Venkatarama Chettiar and Shri Athi Krishna Chettiar, Karur Vysya Bank ('KVB' 'the Bank' 'your Bank' 'we') has grown from a regional banking institution into one of India's most trusted Banks. For over a century, the Bank has partnered with entrepreneurs, merchants, agriculturists and households, supporting their progress through economic cycles. As financial aspirations have grown more diverse and dynamic, the Bank has continued to adapt, while staying anchored in relationship-led banking.

(Source: https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx, https://www.businessworld.in/article/india-s-bank-credit-growth-to-moderate-to-12-13-in-fy27-report-605931#:~:text=Household%20financialisation%20is%20irreversible%2C%20India's,deposit%20investing%2C%20the%20report%20said.)

Today, KVB is a dynamic, technology-driven institution with a strong presence across Commercial, Retail, Agriculture, Corporate and Treasury banking. By combining digital innovation with personalized service, the Bank continues to deliver seamless and meaningful banking experiences to millions of customers nationwide.

As of 31st March 2026, KVB served more than ten million customers through an extensive network of 901 branches and 2,213 ATMs and Bunch Note Recycler Machines (BNRMs) across India. Backed by a diverse portfolio of tailored financial solutions, the Bank remains committed to empowering individuals, businesses and communities at every stage of growth.

SWOT ANALYSIS

Strengths

- Granular retail deposit franchise
- Trusted legacy brand in core markets
- Strong RAM-led diversified business mix
- 900+ branch distribution with deep regional penetration
- Sustained profitability with improving RoA/RoE
- Best-in-class asset quality
- Comfortable capital buffer to support growth
- Established digital capabilities and partnership-driven execution

Weaknesses

- CASA ratio remains moderate
- Continued regional concentration despite pan-India presence
- Fee-income and affluent/liability ecosystem are still less scaled than larger universal banks

Opportunities

- Expand beyond core geographies
- Deepen CASA and fee-income cross-sell
- Scale alternate channels such as co-lending/partnerships
- Selectively capture manufacturing and supply-chain opportunities in industrial corridors

Threats

- Rising competitive intensity
- Margin pressure from funding costs and pricing
- Regulatory tightening on unsecured/risk weights
- Cyber/data risks
- Potential macro and sector-specific stress

Mitigations for Weaknesses and Threats

Geographical Presence

During FY 2025-26, the Bank significantly expanded its non-branch distribution channels. It prioritized API-based integrations with national Fintech partners and NBFCs to expand co-lending in a seamless and scalable manner.

- **Leveraging Regional Strengths:** The Bank's deep-rooted presence in Tamil Nadu, a major hub for manufacturing and textiles, gives it access to high-potential industries and business ecosystems. Its growing footprint in South, North and East further enables it to participate meaningfully in new-age growth opportunities.
- **Balanced Sectoral Diversification:** KVB maintains a well-diversified exposure across Southern markets, spanning sectors such as automobiles, electronics, textiles, IT and services. This calibrated approach helps the Bank mitigate concentration risks and enhance resilience against localized economic disruptions.
- **Hyper-local Digital Marketing:** Your Bank leverages data analytics to design targeted digital campaigns in non-core markets, strengthening brand recall and customer engagement.
- **Partnership Ecosystems:** Your Bank utilizes co-lending models to build a diversified loan book in regions where its physical branch infrastructure remains lean.

Rising Competitive Intensity

Amid intensifying competition from large private and public sector banks expanding deeper into rural India, KVB is strengthening its distinctive 'Relationship + Technology' approach. Through this, the Bank strives to deliver faster, smarter and more accessible banking experiences across markets.

- **MSME-focused Banking:** By enhancing its Digital Lending Engine (DLE), the Bank has significantly accelerated credit processing for existing MSME customers. This has helped reduce the Bank's loan turnaround time to less than 24 hours, enabling businesses to access timely financial support more easily.
- **Seamless Omni-channel Experience:** KVB continues to integrate its branch, mobile and web platforms into a unified ecosystem. Through this, the Bank ensures customers in rural and semi-urban regions enjoy the same seamless, technology-enabled banking experience as those in metropolitan centers.

Margin Resilience/CASA Ratio

Despite operating in a volatile interest-rate environment, including a 50-75 bps movement in the Repo Rate during the year, KVB demonstrated strong margin resilience. Your Bank even sustained Net Interest Margins (NIMs) close to the 4% mark.

- **Strengthening CASA Franchise:** The Bank's dedicated Retail Liability Group is focused on deepening low-cost deposit mobilization through high-value corporate salary relationships and the TASC segment. This segment comprises Trusts, Associations, Societies, and Clubs, supporting a more efficient cost-of-funds structure.
- **Sharper Yield Management:** The Bank, with over 85% of its loan portfolio concentrated in the RAM segment, covering Retail, Agriculture and MSME advances, continues to enhance portfolio quality. This, while generating stronger risk-adjusted returns through granular and diversified lending.

Data Breaches & Cybersecurity Threats

As digital transactions account for over 90% of total volume, the Bank has fortified its Cyber Defense Center (CDC) with advanced AI-driven tools.

- **Zero Trust Architecture:** Your Bank is transitioning toward a Zero Trust security framework. This is to ensure every access request is fully authenticated and encrypted.
- **Proactive Defense:** KVB has implemented Next-Gen Web Application Firewalls (WAF) and automated Host-based Intrusion Prevention Systems (HIPS) to neutralize threats in real-time.
- **Customer Protection:** Your Bank runs cyber awareness campaigns on a regular basis. It has also integrated Multi-Factor Authentication (MFA) for all high-value digital transactions.
- **Regulatory Compliance:** KVB undertakes 24x7 security monitoring, periodic vulnerability assessments, and quarterly audits by independent agencies. These measures help the Bank ensure compliance with and alignment to the evolving cybersecurity guidelines issued by the Reserve Bank of India (RBI).

Financial Overview

In FY 2025-26, Karur Vysya Bank posted a record performance, demonstrating its disciplined growth approach, robust risk management, and ongoing efforts to develop a resilient and sustainable business franchise.

The Bank's total business expanded to ₹2,14,420 Crore during the year, registering a robust year-on-year growth of 15%. The strong momentum across deposits and advances underscores KVB's ability to consistently deepen customer relationships, strengthen market presence and drive balanced growth across key business segments.

(in ₹ Crore)

Particulars	FY 2024-25	FY 2025-26	% Change
Total Business	1,86,569	2,14,420	15
Net Interest Income (1)	4,260	4,939	16
Other Income (2)	1,829	2,084	14
• Fee Income	965	1,050	9
• Others	864	1,034	20
Total Income (1 + 2)	6,089	7,023	15
Operating Expenses	2,877	2,948	2
• Employee Expense	1,449	1,434	(1)
• Other Operating Expense	1,428	1,514	6
Operating Profit	3,212	4,075	27
Provisions	621	755	22
Profit Before Tax	2,591	3,320	28
Tax (Net of DTA/DTL)	649	810	25
Net Profit	1,942	2,510	29

The Bank's Total Deposits grew by 13% during FY 2025-26, over the previous year, reaching ₹1,15,666 Crore. This growth was primarily driven by a 14% increase in Term Deposits to ₹84,544 Crore. Demand Deposits and Savings Deposits registered growth of 9% and 13%, respectively, while total CASA deposits increased from ₹27,832 Crore in the previous year to ₹31,122 Crore in FY 2025-26.

The Bank's Gross Advances recorded a strong 17% year-on-year growth, rising to ₹98,754 Crore during FY 2025-26. The growth momentum was driven by broad-based contributions across the Retail, Agriculture, MSME, and Commercial Banking segments, with RAM verticals accounting for ₹85,260 Crore of the overall advance portfolio. Your Bank continues to maintain strategic focus on expanding its retail franchise and granular commercial lending portfolio through specialized business units, targeted branch-level execution and technology-enabled customer acquisition initiatives.

Total Advances during FY 2025-26

Vertical	FY 2024-25	FY 2025-26	% Change
Commercial	30,730	34,279	12
Retail (Personal Banking)	20,896	26,197	25
Corporate	12,047	13,494	12
Agriculture	20,818	24,784	19
Total Advances	**84,491**	**98,754**	**17**

Capital Management

Your Bank continues to maintain a strong capital position, with an overall Capital Adequacy Ratio (CRAR) of 18.76% as of FY 2025-26. This is significantly above the regulatory minimum requirement prescribed by the RBI. The Bank's Tier-I Capital stood at 17.72%, reflecting a strong and resilient capital base to support future business growth. Further, the ratio of Risk Weighted Assets (RWA) to Total Assets remained healthy at 55% during the year.

Financial & Operating Ratios

Your Bank registered strong growth in both Net Interest Income and Other Income during FY 2025-26, driving a healthy increase in Total Income. Net Interest Income grew from ₹4,260 Crore in the previous year to ₹4,939 Crore in FY 2025-26. Other Income increased from ₹1,829 Crore in the previous year to ₹2,084 Crore in FY 2025-26, resulting in Total Income rising to ₹7,023 Crore.

Your Bank also recorded continued improvement across key performance indicators. Return on Assets (ROA) improved from 1.72% in FY 2024-25 to 1.93% in FY 2025-26. Return on Equity (ROE) increased from 16.28% in FY 2024-25 to 17.79% in FY 2025-26. This improvement was driven by business growth, better net interest margins, controlled opex and stable asset quality with low NPAs. Higher contribution from retail and gold loans, lower funding costs, controlled operating expenses, and strong recovery from written-off accounts further supported profitability and enhanced overall returns. Basic Earnings Per Share (EPS) for FY 2025-26 stood at ₹25.98 compared to ₹20.10 in the previous year, reflecting sustained profitability and improved operational efficiency.

Particulars	FY 2024-25	FY 2025-26	% Change
Book Value (₹)	148.17	145.95	(1.50)
Cost of Deposits (%)	5.61	5.56	(0.89)
Yield on Advances (%)	10.15	9.86	(2.86)
Yield on Funds (%)	8.93	8.80	(1.46)
Cost of Funds (%)	5.61	5.56	(0.89)
Net Interest Margin (%)	4.09	4.11	0.49
Cost to Income (%)	47.25	42.96	(9.08)

Details of the change in Return on Net Worth as compared to the previous financial year and reasons thereof

The Return on Net Worth/Return on Equity grew from 16.28% as of March 31, 2025 to 17.79% as of March 31, 2026 owing to growth in Net Profit.

Reason for significant changes (i.e., change of 25% or more as compared to the previous financial year) in key financial ratios

The operating Profits of the Bank for the Financial Year 2025-26 has improved by 27% to ₹4,075 Crore from the previous year figure of ₹3,212 Crore and the Net Profit for the Financial Year 2025-26, has increased by 29% to ₹2,510 Crore from ₹1,942 Crore registered during the previous financial year 2024-25. Due to growth in business and coupled with reduction in costs & increase in non interest income resulted in increase in operating profit.

Strategic Priorities for the Next Phase of Growth

As the Bank shapes its roadmap for the coming years, its strategic focus remains centered on building a future-ready, customer-centric and technology-enabled franchise. Your Bank aims to:

1. Strengthen customer relationships by delivering personalized, responsive and value-driven banking experiences across all touchpoints.
2. Offer a comprehensive suite of financial solutions tailored to the evolving needs of Retail, MSME, Agriculture and Corporate customers.
3. Enhance digital capabilities and automation initiatives to create faster, smarter and more seamless banking journeys.
4. Leverage the Bank's strong semi-urban and rural network to expand reach in underpenetrated geographies and unlock long-term growth opportunities.
5. Focus on product diversification, stronger yield optimization and prudent risk management to improve portfolio quality and sustainable returns.

Key Enablers Driving the Strategy

People

- Nurturing in house talent and induct fresh talent, where required, to complement in house capacity
- Continuous capacity building of human resources in specialized areas such as Credit, Treasury, Forex, Risk Management, Collections and Recovery
- Digital enablers for the sales force at the field level
- Talent acquisition through lateral hires wherever required
- Talent management through appropriate retention measures
- Promote ownership culture across verticals implement structured feedback and loyalty programs

Processes

- Driving end-to-end digitization to deliver seamless and efficient customer experiences
- Leveraging data analytics, business intelligence and automation tools to improve operational effectiveness and decision making
- Adopting emerging technologies, including Robotic Process Automation (RPA) and Artificial Intelligence (AI), to streamline workflows and improve scalability

Practices

- Reinforcing governance standards, compliance culture and enterprise-wide risk management frameworks
- Maintaining disciplined execution with strong oversight mechanisms across operations
- Concentrating on niche areas for growth
- Adopt best practices in MSME lending

Planning

- Optimizing deployment of capital and financial resources to support profitable growth
- Enhancing capital efficiency while ensuring access to competitive and diversified funding sources
- Focus on South and Western Markets to enhance the Bank's market reach and market share

Partnerships

- Expanding co-lending and strategic partnerships with NBFCs and fintech players
- Building integrated financial ecosystems through alliances that enable customers to access comprehensive banking and financial solutions under one platform
- Collaborate with external data providers for customer insights

BUSINESS VERTICALS OVERVIEW

COMMERCIAL BANKING GROUP

The Commercial Banking Group (CBG) continued to strengthen its position as a key growth driver for the Bank during FY 2025-26. This was done through focused expansion in the MSME segment, technology-led transformation and relationship-driven business acquisition. Backed by a diversified product suite spanning working capital finance, term loans, export credit, supply chain finance, TReDS, factoring, bank guarantees and letters of credit, the Group continued to enhance its ability to cater to the evolving financial requirements of Commercial and MSME customers.

Key Highlights

Product Innovation and Business Expansion

- Launched the 'GST Surrogate Master' product to provide GST turnover-based funding up to ₹200 Lakh without relying on financial statements.
- Introduced KVB Open Term Loan as a flexible financing solution for commercial entities.
- Introduced a dedicated 'Lead – SBG Business' role at Divisional Offices to improve coordination and drive business growth through Relationship Manager and Branch channels.
- Identified 24 MSME-focused branches under the SBG 2.0 initiative based on historical disbursement trends, growth potential and market opportunity to drive focused SME business development.

Outlook

- Relationship-led sourcing through the Small Business Group – Relationship Manager (SBG-RM) framework and focused MSME cluster penetration under SBG 2.0 are expected to support sustained portfolio growth across high-potential markets.
- Expansion of GST-based underwriting and cash flow-based lending products is expected to improve credit accessibility for underserved and emerging business segments.
- Continued investments in CRM, AI-driven monitoring tools and digital underwriting capabilities are expected to improve lead conversion, portfolio monitoring and customer retention.
- CRM Phase II planned for FY 2026-27 will focus on cross-vertical lead sharing and enhanced internal synergies to support incremental business generation.

CONSUMER BANKING DEPARTMENT

Your Bank addresses the diverse banking needs of individual customers through its Consumer Banking Department (CBD). To strengthen and accelerate growth in the retail segment, the Bank has established two dedicated verticals under CBD: Retail Assets and Liabilities. With a view to expand its reach beyond the traditional branch network, the Retail Assets vertical operates through both the Branch Channel and the Open Market Channel (OMC).

Retail Assets

Key Highlights

- Retail Assets strengthened its distribution footprint through the expansion of Direct Selling Agents (DSAs) and Direct Sales Teams (DSTs), supported by co-lending arrangements, Business Correspondent (BC) channels, and reference-based sourcing models
- Product offerings were aligned and benchmarked with industry standards and peer banks to enhance competitiveness and ensure greater market relevance
- Affordable Housing products were launched in January 2026 across Telangana, Andhra Pradesh, and Karnataka through the Feet-on-Street (FOS) model
- Pre-approved loan offerings were introduced for existing-to-bank (ETB) customers, demonstrating a strong repayment track record

Performance of Key Products in Retail Assets (₹ in Crore)

Particulars	FY 2025-26	FY 2024-25
Housing Loan	8,163	8,039
Retail-Jewel Loans	5,560	3,455
Mortgage (LAP) Loans	9,222	5,917
Vehicle Loans	816	1,027
Consumer Credit - BNPL	798	844
Personal Loans	253	238
Education Loans	131	152
Other Retail Loans	1,254	1,224
Total Retail Portfolio	26,197	20,896

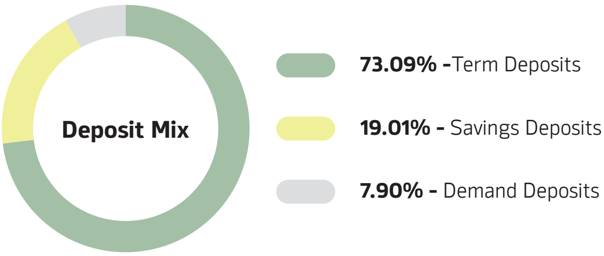
Outlook

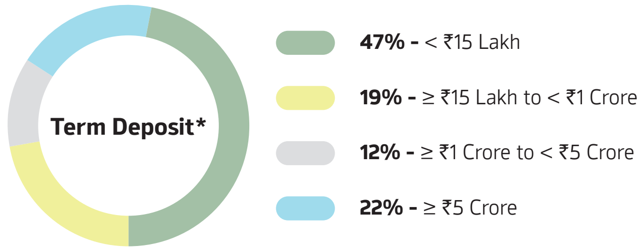
- Poised to launch a comprehensive Loan Against Mutual Funds solution featuring a fully digital end-to-end process.
- Your Bank aims to introduce industry-first features in its credit card offerings, with a strategic focus on High-Net-Worth Individuals (HNI) and affluent customer segments.
- Your Bank will continue to focus on high-yielding products such as Gold Loans and Loan Against Property (LAP), while simultaneously increasing penetration in Affordable Housing and Micro LAP segments to sustain portfolio yields.
- To strengthen customer acquisition, the Bank plans to cater to diverse customer segments through customized and segment-specific product offerings.
- The Affordable Housing product portfolio is being expanded to include financing for properties under Gram Panchayat limits, Low Loan-to-Value (LTV) products, Liquid Income Program offerings, and multiple variants under the Business Loan (BL) segment.
- Your Bank is also entering newer segments through co-lending arrangements in the used car financing space, thereby broadening its overall product basket.
- Co-lending partnerships are being further expanded across Affordable Housing, Business Loans (BL), Personal Loans (PL), and other emerging segments to enhance market reach and diversify product offerings.

Retail Liabilities

The Liability Business vertical contributes 54% of the Bank's total business. Your Bank has established dedicated sales teams across key segments, including Mass Banking, Corporate Salary, Priority Banking, Government Banking, Institutional Banking, and NRI segment . These teams focus on deepening customer relationships while expanding the Bank's Liabilities' franchise. In addition, the vertical actively builds strategic alliances within the fintech and payments ecosystem to develop innovative solutions, introduce new products, and enhance existing offerings.

Key Highlights





**Term Deposits by Banks, FCNR Deposits and Certificate of Deposits (CDs) not included*

Merchant Acquiring Ecosystem

Your Bank significantly strengthened its merchant acquiring ecosystem during FY 2025-26. This was made possible through a technology-led and partnership-driven approach aimed at building a scalable, transaction-oriented liability franchise. By leveraging digital payment ecosystems and merchant-led operating accounts, the Bank continues to deepen customer engagement while enhancing the granularity and stability of CASA balances.

API Banking and Fintech Synergies

Your Bank continues to strengthen its digital banking ecosystem by expanding API-led capabilities and deepening engagement with fintech partners. Recognizing the growing importance of embedded banking and platform-based financial services, the Bank has invested in scalable digital infrastructure. It is designed to support seamless integration, faster customer onboarding, and transaction-led liability growth.

Demat Services

Your Bank has registered with National Securities Depository Limited as a Depository Participant (DP) and is offering demat services to the participants in the securities market. Your Bank has also tied up with M/s IDBI Capital Markets & Securities Limited M/s Religare Securities Ltd., M/s SMC Global Securities Limited and M/s Geojit Financial Services Limited for providing trading facilities.

Para-Banking and Wealth Management

Your Bank continued to strengthen its presence among High-Net-Worth individuals through its Para-banking and Wealth Management franchise during FY 2025-26, delivering robust growth in fee-based income streams while deepening customer engagement across affluent and emerging wealth segments. These initiatives are enhancing customer wallet share, diversifying revenue streams, and reinforcing the Bank's transition toward a more balanced and scalable business model.

Empowering Citizens through Government and Pension Schemes

KVB continues to play an important role in advancing the Government's financial inclusion and social security objectives by actively promoting insurance, pension, and welfare-oriented schemes across customer segments.

Details of Government Schemes

- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**
  Your Bank continued to expand coverage under PMJJBY, offering ₹2 Lakh life insurance cover to eligible customers. A pro-rata premium structure improved accessibility, helping drive enrollments to 1,19,417 as of 31st March 2026.

  Under Pradhan Mantri Suraksha Bima Yojana (PMSBY), the Bank strengthened insurance penetration among underserved customers by providing affordable accidental death and disability coverage. As of 31st March 2026, 2,75,197 customers were covered under the Scheme.

- **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**
  Aimed at the uninsured, this accidental death and disability cover is available for a highly affordable premium of just ₹20 per year. Our efforts have resulted in a massive base of 2,75,197 protected customers.

- **Atal Pension Yojana (APY)**
  Your Bank remains committed to supporting retirement security for individuals in the unorganized sector through the Atal Pension Yojana. During FY 2025-26, the Bank added 30,440 new subscribers under the Scheme, further strengthening its contribution toward long-term financial security and pension inclusion.

- **National Pension System (NPS) and NPS Vatsalya**
  Your Bank continues to promote digital-first pension solutions through seamless NPS account opening capabilities in partnership with KFintech. During

FY 2025-26, the Bank onboarded 2,074 customers under NPS. Additionally, the Bank actively promoted the newly introduced NPS Vatsalya scheme, which aims to encourage early retirement planning and wealth creation for minors. As of 31st March 2026, the Bank onboarded 293 customers under this initiative.

Outlook

- Your Bank continues to proactively address evolving market conditions and competitive pressures in the liability landscape through a balanced strategy focused on digital innovation, customer acquisition, and relationship deepening.
- The Bank's continued focus on retail liabilities, transaction banking ecosystems, and granular deposits is helping build a sustainable and resilient funding base capable of supporting long-term balance sheet growth.
- KVB remains committed to blending relationship banking with digital capabilities, data-driven decision-making, and scalable operating platforms to enhance customer experience and operational agility.

Digital Products

UPI & Sound Box

Your Bank sustained strong momentum in digital payments during the year, with UPI transactions crossing 1.98 Lakh Crore in outward payments and 1.74 Lakh Crore in inward payments. The continued expansion of UPI acceptance infrastructure, including sound box solutions, further reinforced the Bank's merchant payments ecosystem.

PoS

Your Bank accelerated the growth of its PoS business through increased deployments, reinstatement of PoS distribution, and the onboarding of new partners. The proposition was further strengthened through value-added offerings such as DCC, EMI, and rewards programs, enhancing merchant engagement and service differentiation.

FASTag

Since inception, the Bank has issued 5,83,671 FASTags. The business generated revenue of over ₹4.5 Crore and recorded wallet float balances in excess of Rs. 23 Crore, reflecting strong traction in the digital mobility payments segment.

Debit Cards

During FY 2025-26, the Bank issued 9,47,927 debit cards. Your Bank processed over 534 Lakh debit card transactions aggregating to more than Rs. 26,180 crore, highlighting the scale and continued relevance of its card-based payments franchise.

AGRICULTURAL BANKING GROUP (ABG)

Agriculture and allied activities remain the cornerstone of India's economy. It provides livelihoods to a substantial rural population and contribute meaningfully to national income, food security and inclusive growth. Your Bank actively supports this vital sector through a comprehensive credit portfolio. This portfolio encompasses crop production loans (Kisan Credit Cards), allied activity loans for fisheries, aquaculture and dairy, farm mechanization and land development loans. It also includes hi-tech and precision farming finance, agri infrastructure loans, food and agro processing credit, warehouse receipt loans, renewable energy loans, microfinance (shg/jlg), and agriculture gold loans.

Key Highlights

- The Agricultural Banking Group recorded a net portfolio growth of ₹3,961 Crore during FY 2025-26, reaching ₹24,658 Crore in total ABG portfolio, representing approximately 25% of the Bank's total advances and a year-on-year growth of 19%.
- ~91% of the agriculture portfolio comprises Agri-Jewel (Gold) loans, reflecting a strategic focus on highly liquid collateral that lowers credit risk and supports small and marginal farmers while meeting PSL requirements.
- Higher gold prices enhanced collateral coverage and asset quality. To manage volatility, the Bank adopted conservative LTV norms, periodic collateral revaluations, and disciplined underwriting, strengthening risk buffers and ensuring quality-led growth.
- KVB proactively aligned Agri-Jewel lending practices with evolving RBI guidelines, embedding regulatory requirements into product design and operational processes on LTV management, valuation standards, customer-centric fair practices, and portfolio governance, ensuring that recent regulatory relaxations translated into responsible credit growth.
- Digital Loan Origination System (LOS) for processing of agriculture advances (other than gold loans), enabling quicker turnaround time; migrated Agri Term Loans, Warehouse Receipt Loans (WHRL), and KCC processing from manual to digital LOS to improve the service delivery.
- Adopted a Relationship Manager (ARM)-driven model for sourcing Agri Gold loans and other agricultural advances; appointed dedicated Agricultural Officers (AOs) at agri-based cluster branches and Divisional Offices, with performance benchmarked against monthly disbursement targets, supported by regular reviews, rewards for achievers, and structured campaign-led market outreach.
- Under the Financial Inclusion program, the Bank served 159 locations through 156 Bank Mitras in rural locations and 3 Bank Mitras in urban locations, supported by 39 Ultra Small Branches, with 2,97,975 Basic Savings Bank Deposit Account (BSBD) as on 31st March 2026.
- Conducted 417 Financial Literacy Campaigns across rural, semi-urban, and urban areas during FY 2025-26, including the RBI Financial Literacy Week 2026.

Outlook

- Building on its strategic transformation, the Bank will maintain agriculture as a core, stable pillar of its RAM (Retail, Agri, MSME) portfolio, while driving relatively faster growth in Retail and MSME segments.
- Your Bank will focus on high-yield allied agriculture segments such as dairy, poultry, and fisheries, expand warehouse receipt financing, and strengthen its presence in high-growth markets.
- Greater emphasis will be placed on climate-resilient agriculture financing, supported by crop insurance coverage through Pradhan Mantri Fasal Bima Yojana (PMFBY) and partnerships such as Kshema General Insurance to protect borrowers from climate and weather risks.
- FinTech partnerships and digital platforms will be leveraged to enhance outreach, turnaround times, and customer experience through digital underwriting, scale of finance-based assessments, and analytics-driven lending.
- Planned initiatives include AI/ML-based pledged gold identification, top-up facilities for Agri Gold loans, UPI/QR-based repayments for Microfinance loans, and Re-KYC updates through business correspondents.
- Asset quality will be supported through enhanced risk models, tighter LTV monitoring, and integration of monsoon, mandi, and procurement data into risk dashboards, complementing the existing automated NPA tagging framework.

- CGFMU guarantee coverage on new microfinance loans will strengthen portfolio resilience, support prudent risk-taking, and enable sustainable growth.
- Your Bank will actively utilize government schemes, credit guarantee programs to improve borrower affordability and portfolio growth, while maintaining disciplined underwriting standards.

CORPORATE & INSTITUTIONAL GROUP (CIG)

The Corporate & Institutional Group (CIG) vertical operates through 9 Corporate Business Units (CBUs) located in Ahmedabad, Bangalore, Chennai, Coimbatore, Delhi, Hyderabad, Madurai, Mumbai, and Vijayawada. The CBUs are led by AGM- or DGM-level executives and supported by dedicated Relationship Managers and Credit Analysts.

Your Bank had made a strategic decision in FY 2024-25 to exit from Precious Metal Business. The division had outstanding balances of ₹41 Crore at the beginning of the year, which was reduced to nil during the year. The resources associated with the division were smoothly redeployed internally to other departments. Your Bank in the process of completing the closure formalities with respective authorities.

Key Highlights

- Corporate portfolio stood at ₹14,612 Crore, including Corporate Credit Substitutes.
- Corporate Advances grew by 12% YoY to ₹13,494 Crore.
- Corporate Credit Substitutes increased to ₹1,118 Crore.
- Average ticket size of the corporate book stood at ₹37.01 Crore.
- 88% of corporate loans were below ₹150 Crore, ensuring a granular portfolio mix.
- Improvement in yield achieved through calibrated exit from low-yield advances.
- Continued focus on non-fund-based business to improve return ratios.
- Strong internal rating profile with 69% of the corporate portfolio rated BBB and above.
- Asset quality remained strong with minimal SMA levels and controlled stress metrics across the portfolio.
- Relationship Managers continued to act as single points of contact for customers, ensuring seamless coordination and prompt resolution of requirements.

Outlook

- Focus on term loans for expansion and CAPEX requirements.
- Textile industry revival expected to create opportunities for deepening existing-to-bank (ETB) relationships as well as onboarding new-to-bank (NTB) clients.
- Focus on project finance opportunities in key real estate markets.
- Increased thrust on non-fund facilities to capital market players.
- Focus on the NBFC segment offering higher yields along with CMS cross-sell opportunities.
- Leveraging opportunities under Government initiatives such as Jal Jeevan Mission.
- Efforts were initiated to empanel the Bank as a clearing bank with all clearing corporations of exchanges.
- Expected benefits from FTA with the EU and trade agreements with the United States to support growth in export credit.

TRANSACTION BANKING GROUP (TBG)

The Transaction Banking Group (TBG) delivers end-to-end Cash Management Services (CMS) spanning collections, receivables, and payment solutions for corporates across all segments. Its electronic receivables platform, built on virtual accounts and bulk payment capabilities, streamlines financial operations and enhances efficiency.

Through its Supply Chain Finance (SCF) programs, TBG supports working capital requirements across diverse industries. Partnerships with leading FinTechs enhance its reach and enable innovative financing solutions. TBG also maintains an active presence across all RBI-licensed TReDS platforms, reinforcing its commitment to strengthening the credit ecosystem and meeting customers' evolving financing needs.

Key Highlights

- Launched and deployed multiple APIs, including Balance Inquiry, Transaction Status, and enhanced Statement APIs, alongside UPI Collect (Pay-in) and Multimode Payment APIs (Payout) to enable real-time collections and disbursements.
- Initiated implementation of UPI AutoPay and e-NACH under the Sponsor Bank model in collaboration with the National Payments Corporation of India (NPCI).
- Expanded customized APIs for the collection and payment business to improve customer stickiness and service experience.
- Deployed customized MIS solutions tailored to individual corporate customer requirements.

Outlook

- The SCF ecosystem is expected to undergo structural transformation in FY 2026-27, supported by Union Budget policy measures and RBI regulatory expansions.
- key growth drivers include MSME credit expansion, scaling of TReDS platforms, Fintech-Bank synergies, and regulatory push toward standardization in receivables financing.
- The CMS market will be driven by digital transformation and automation; the Bank will leverage this growth through further scaling of Host-to-Host (H2H) and API banking integrations that enable corporate treasuries to operate in real-time.
- Full LOS integration for all SCF sanction workflows will be completed, and real-time API banking and embedded finance capabilities will be scaled to improve processing speed and credit monitoring.
- FinTech partnerships will be deepened to accelerate digital innovation, with alignment to secure, consent-driven digital frameworks as guided by the Reserve Bank of India.

TREASURY

The Treasury Department of the Bank plays a central role in managing the Bank's financial assets, liabilities, liquidity, and market risk. In FY 2025-26, the department delivered steady performance while navigating a shifting interest rate environment with disciplined judgement. The investment portfolio grew meaningfully year-on-year, supported by calibrated duration positioning well-timed profit booking and maintaining full compliance with CRR and SLR requirements.

Key Highlights

- Gross investment portfolio increased by 21% year-on-year to ₹29,394 Crore as of 31st March 2026, compared to ₹24,206 Crore as of 31st March 2025
- The yield on investments remained stable during the year, ranging between 6.60% and 6.83%

Portfolio Category Composition

Portfolio Category	Composition	% of Total Portfolio
SLR Securities	Statutory Liquidity Ratio-compliant investments	91.68%
Non-SLR Portfolio	Debentures/CD/MF/CP/Security Receipts	7.39%
Non-SLR Portfolio	Shares	0.93%
Total Non-SLR Portfolio	Aggregate of all non-SLR investments	8.32%
Total Portfolio	**SLR + Non-SLR Investments**	**100.00%**

Outlook

- Your Bank intends to optimize duration positioning within the investment portfolio to benefit from potential improvement in NIMs and treasury gains.
- The Treasury will prioritize deployment of incremental funds into higher-yielding SLR and non-SLR instruments while maintaining a prudent risk profile in line with the Bank's ALM framework.
- Forex income is expected to grow through stronger participation in key trade corridors, deeper engagement with MSME exporters and importers, and expansion of product offerings.
- Key strategic priorities include
  - o Strengthening relationships with financial and capital market participants.
  - o Enhancing forex capabilities across high-potential branches.
  - o Optimizing money market strategies to improve overall yield on funds.

COLLECTIONS & ASSET QUALITY

The Collections & Assets Quality Department is responsible for safeguarding asset quality across Commercial, Retail, Agriculture, and Corporate lending portfolios. It oversees credit monitoring, early delinquency management, NPA recovery, and portfolio risk governance through an integrated framework aligned with RBI's IRACP norms. The Department leverages automated systems for NPA recognition, asset classification, and provisioning, ensuring accurate reporting and timely identification of stress. Analytics-driven risk segmentation, pre-due customer outreach, and continuous monitoring of Early Warning Signals enable proactive intervention through SMA tracking, borrower engagement, and corrective actions such as collateral enhancement and limit rationalization.

For NPA accounts, recovery efforts are led by eight Asset Recovery Branches and supported by specialized legal enforcement and asset sale teams under Stressed Assets Management Department (SAMD). Resolution strategies include SARFAESI actions, DRT proceedings, OTS settlements and and ARC sales, with technical write-offs undertaken in line with RBI guidelines while preserving recovery rights. Your Bank also strengthens portfolio quality through close coordination between SAMD, business, and risk teams, supported by prudent underwriting, calibrated LTV and FOIR norms, risk-based pricing, concentration monitoring, and post-disbursement controls to minimize incremental stress and improve overall asset quality.

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
GNPA	6.03	2.27	1.40	0.76	0.75
NNPA	2.30	0.74	0.40	0.20	0.19
PCR	80.27	92.14	94.85	96.81	96.45
Credit Cost	1.26	1.45	0.65	0.71	0.77

Outlook

- Your Bank aims to further reduce the SMA pipeline through strengthened early-bucket collection mechanisms and watchlist-based action plans, with a target of bringing SMA 30+ below 0.15% of advances.
- Your Bank aims to sustain the declining trend in standard restructured advances while facilitating timely upgradation of eligible accounts to the standard category.
- A disciplined and conservative underwriting approach will be maintained in relatively vulnerable segments such as unsecured retail and BNPL, while continuing calibrated growth in secured and granular portfolios including jewel loans, mortgage/LAP, and MSME advances.
- Provisioning buffers will be preserved through timely NPA recognition and incremental provisioning, with a continued focus on maintaining Provision Coverage Ratio (PCR) above 95%.
- Advanced analytics will be leveraged for sharper risk segmentation in collections, supported by expanded pre-due digital outreach initiatives and improved cure rates in the 1-30 DPD bucket.
- Post-disbursement monitoring mechanisms, collateral revaluation cycles, and documentation standards will be further strengthened to minimize operational slippages.

MARKETING & BRANDING

Karur Vysya Bank's marketing and communications function in FY 2025-26 operated as a strategic enabler of brand equity, customer engagement, and institutional credibility. Your Bank executed integrated campaigns around key milestones including the 900th branch inauguration, Foundation Day, the KVB Corp App launch, and new deposit product introductions, ensuring consistent messaging across physical and digital channels.

To know more, read page 86 of the narrative

OPERATIONS VERTICAL

The Operations Department at Karur Vysya Bank serves as the backbone of the Bank's day-to-day functioning. It oversees general banking operations, digital banking channels, customer service, and estate management across the branch and back-office network. Its mandate extends beyond process execution to actively driving efficiency, cost discipline, regulatory compliance, and customer experience improvements across all touchpoints.

The Department's operating philosophy is built on three pillars: centralization, digitization, and continuous process refinement. By progressively centralizing high-volume back-office activities, digitizing manual workflows, and reviewing processes through a structured governance framework, the department enables the Bank to scale its business without a proportional increase in headcount or cost.

Oversight of branch operations is exercised through a network of Divisional Offices, with Divisional Operating Officers (DOOs) responsible for monitoring all operational aspects within their jurisdiction with the help of Branch Operation Managers (BOMs). Performance is tracked on a monthly basis against defined scorecards covering key operational metrics along with central direction issued wherever corrective action is essential.

To know more about Customer Service, read Page 75 of the narrative

INFORMATION TECHNOLOGY

The Bank's technology function continued to play a strategic role in driving business growth, enhancing operational efficiency, and ensuring regulatory compliance. During FY 2025-26, the department sustained 99% uptime across critical applications, delivered key customer-facing technology launches, completed all regulatory compliance implementations on schedule, and was recognized by the Indian Banking Association (IBA) with awards for Best IT Risk Management and Best Digital Financial Inclusion.

All technology decisions are governed by the IT Strategy and Digital Transaction Monitoring (ITS and DTM) Committee, which operates under IT Policy v12.0. The Committee oversees the IT strategy roadmap, technology investments, audit observations, remediation of high-risk findings, and operational resilience, integrating strategy, risk, audit, and compliance into a single oversight framework.

Infrastructure, Reliability and Architecture

The Bank's technology platform is built on a modernized, auto-scaling architecture designed for reliability, availability, and scalability, supporting 24x7 service delivery across mobile banking, internet banking, ATMs, UPI, and payment gateways.

With 97% of transactions now served digitally, the Centralized Operations Unit standardizes back-office processing and absorbs routine tasks from branches, enabling branch staff to focus on acquisition and relationship management. This has directly contributed to cost-to-income improvement, while branches progressively transition from transaction centers to advisory and digital enablement hubs.

Customer-facing Technology Launches

- **Interoperable Cardless Cash Withdrawal:** Introduced at selected ATMs, enabling withdrawals up to ₹10,000 per day through scanning QR code and UPI PIN authentication without using physical cards, while leveraging NPCI-UPI interoperability and reducing card skimming risk.
- **KVB Corp Mobile Banking Application:** Launched for corporate customers, IMPS/NEFT/RTGS, tax payments, loans, deposits, bill payments, FASTag, and e-services, with future expansion into collections, transaction banking, e-commerce, and a Super App ecosystem.
- **GST Payment through UPI:** Enabled GST payments through the GST portal using BHIM, Paytm, Google Pay, and other UPI apps for real-time mobile-based tax payments with lower processing time.
- **Instant Video KYC:** Enabled near real-time upgrade from Low KYC to Full KYC through fully paperless and branch-free onboarding, reducing turnaround time and application drop-offs.
- **KVB Netshield Soft Token:** Launched Soft Token Authenticator app in addition to hardware RSA tokens. This authenticator app features device and SIM binding, while improving low-network usability and lowering token management costs.
- **Re-KYC Digitalization and E-Mandates:** Shifted periodic Re-KYC updates to the DLite app and replaced paper NACH mandates with NPCI OnMags-based E-Mandates using Aadhaar, PAN, or Customer ID authentication without manual intervention. Debit card-based implementation is planned for FY 2025-26.
- **HMS Ticketing, Biometric CPU, and SMS Optimization:** Introduced SLA-based workflow tracking for branches and back offices, enabled faster biometric customer profile updates, and reduced communication costs through AI-powered SMS character and trigger optimization.

Digital Channels and Customer Engagement

- **KVB DLite:** Offers 150+ banking services on a single platform; recorded 7 Mn downloads, 2.5 Mn average monthly transactions, and 1 Mn MAUs as of March 2026, with planned UI/UX redesign, AI-led personalization, gamification, financial wellness tools, and virtual assistant integration.
- **GenZ Mobile App:** To be launched in partnership with a fintech to offer savings account opening and basic banking services for GenZ customers, with phased expansion planned based on acquisition outcomes.

Artificial Intelligence, Analytics and Automation

- AI/ML-based early warning systems and risk-scoring models are being deployed on loan accounts, supported by a real-time enterprise-wide data foundation for earlier stress detection and proactive portfolio management.
- AI-driven hyper-personalized communication supports use cases such as pre-approved personal loan nudging, FASTag Re-KYC, and insurance cross-sell through interaction-based time and channel optimization.
- Key use cases include employee chatbot assistants, GenAI-enabled call center automation, agentic AI-based payment reconciliation, autonomous middle-office workflows for underwriting and contract generation, legacy code modernization, and synthetic data generation for stress testing.
- Controls include RAG-based verified sourcing, hallucination watchdog models, Explainable AI (XAI), Human-in-the-Loop (HITL) oversight, and full source traceability, with all GenAI models classified as high-risk assets under the Bank's Model Risk Policy, requiring documentation, audit lineage, and transparency standards.

Cybersecurity

The Bank's cybersecurity posture is built on a multi-layered, defense-in-depth architecture. Customer data protection is ensured through advanced encryption, data masking, tokenization, Data Leak Prevention, Privileged Access Management, and Multi-Factor Authentication. Your Bank maintained ISO 27001:2022 certification through re-certification during the year, with VAPT assessments conducted regularly and at every new application launch.

Operationally, 24x7 Security Operations Centers (SOCs) with SIEM tools provide continuous threat monitoring and immediate triage. Regular red-teaming exercises and tabletop simulations test incident response playbooks across technical, legal, and communications teams. Collaborative threat intelligence and rigorous third-party oversight further strengthen structural resilience. Employee and customer cybersecurity education addresses the human element of security risk. Zero-Trust architecture is part of the forward cybersecurity roadmap.

Fintech Partnerships

Fintech partnerships with Razorpay, Bill Desk, and Cashfree are evolving beyond payment gateways to API-integrated orchestration layers that manage authentication, checkout, and the end-to-end payment lifecycle, while the Bank explores agentic, AI-driven payments and cross-border settlement opportunities through PA-CB licenses.

Unified Lending Interface and Credit Technology

The Bank's Loan Origination System is fully digitized with end-to-end workflow through partner API integrations. As RBI's Unified Lending Interface (ULI) gains traction, the Bank is positioning itself as an early adopter by migrating services to the platform and leveraging datasets such as land records and tax data to accelerate credit appraisal for rural and MSME borrowers through plug-and-play data access.

Regulatory Compliance and IT Governance

All key regulatory compliance initiatives during FY 2025-26 were completed within prescribed timelines.

Outlook

- Focus on scalability enhancement, cost optimization, and improved disaster recovery capabilities.
- Deployment of AI-driven fraud detection, autonomous reconciliation, and predictive credit risk models.
- Migration to microservices architecture with AI-led personalization, gamification, and virtual assistant integration.
- Accelerating rural and MSME credit appraisal through unified lending interface integration.
- Deployment of employee chatbots, call centre automation, and agentic reconciliation across payment channels

CALL CENTRE

Your Bank operates a dedicated contact center that serves customers round the clock, 365 days a year. The center handles inbound queries, requests, and complaints through calls, emails, and chat, while its outbound arm drives tele collections, tele sales, and proactive customer engagement. The inbound unit, Phone Banking, is the primary interface for customer requests, queries, and complaints across voice, email, and chat.

The outbound unit performs outbound calls to customers on behalf of the Bank which includes welcome calls, tele sales, and tele collection for pre due and post due.

Outlook

- Exploring a hybrid service model that combines AI-driven voice bots for routine queries with seamless handoff to live agents for complex or sensitive interactions.
- The Phone Banking IVRS is being revamped, and a dedicated Credit Card IVRS is in the pipeline.
- Digital collections capabilities are also being developed.

RISK MANAGEMENT

Your Bank has put in place a comprehensive risk management architecture commensurate with the size, scale, and complexity of its operations. The risk governance structure provides clear accountability and effective oversight across all material risk categories. Your Bank has further strengthened its risk culture through well-defined policies and processes, including a dedicated Policy on Risk Culture and the incorporation of risk and compliance parameters into Key Result Areas (KRAs). All business decisions and processes are undertaken in accordance with the Bank's risk policies, which are formulated in line with regulatory requirements, reviewed by the compliance function, and approved by the Board. Ongoing risk management initiatives support informed decision-making and enhance the Bank's ability to respond to emerging risks.

Governance and Risk Oversight

Risk governance is anchored at the Board level through the Risk Management and Asset Liability Management Committee (RM & ALM). The Board is supported by specialized committees that provide focused oversight of credit, market, liquidity, operational, and information technology/cyber risks, ensuring effective supervision and timely escalation of risk issues.

Your Bank operates under a clearly articulated Three Lines of Defence model:

- **First Line of Defense:** Business units are responsible for identifying, owning, and managing risks within the approved risk appetite and limits.
- **Second Line of Defense:** Independent Risk Management and Compliance functions provide oversight, challenge, and policy guidance to ensure adherence to the regulatory and internal risk framework.
- **Third Line of Defense:** Internal Audit provides independent assurance on the adequacy and effectiveness of risk management practices, internal controls and governance processes.

Risk Management Policy Framework

The Bank's Risk Management Policy has been formulated through a structured and comprehensive process that involves the identification of material risks inherent in its business activities, assessment of their potential impact, and the establishment of appropriate control mechanisms to mitigate such risks. The Policy provides a consistent and integrated framework for managing risks across the Bank and is aligned with regulatory guidance issued by the Reserve Bank of India as well as leading industry practices.

The Risk Management Policy is underpinned by the following core principles:

- **Clearly Defined Risk Appetite Framework (Raf):** The Policy articulates the Bank's risk appetite, setting out acceptable levels of risk exposure across key risk categories and providing clear boundaries for business activities.
- **Alignment with Strategy and Capital Planning:** Risk management practices are closely aligned with the Bank's strategic objectives, business plans, and capital planning processes, ensuring that growth initiatives are undertaken within the approved risk appetite.
- **Integration into business processes:** Risk considerations are embedded into key decision-making processes, including credit appraisal, treasury and investment operations, product development, and business expansion initiatives.
- **Strong Governance and Accountability:** The Policy establishes clear governance structures, roles, and responsibilities to ensure effective oversight, accountability, and escalation of risk-related matters.

The Risk Management Policy is subject to periodic review and enhancement to reflect changes in the regulatory environment, market dynamics, technological developments, and emerging risk trends. Any revisions to the Policy are approved by the appropriate governance forums to ensure continued relevance and effectiveness.

Implementation of the Policy is supported by a robust governance and internal control framework. Risk exposures across the Bank are monitored through periodic Management Information Systems (MIS), dashboards, and key risk indicators, enabling timely identification of emerging risks. Your Bank conducts enterprisewide stress testing exercises to assess its resilience under adverse economic and business scenarios. The results of these stress tests are integrated into the Internal Capital Adequacy Assessment Process (ICAAP) and liquidity planning frameworks, thereby strengthening the Bank's ability to withstand potential stress events.

Any breaches of approved risk limits are promptly identified and escalated in accordance with defined governance protocols, ensuring timely corrective actions. Through this comprehensive risk management framework, the Bank seeks to maintain a balanced risk profile, enhance resilience, and support sustainable growth while safeguarding stakeholder interests.

Risk Appetite and Board Oversight

The RAF defines acceptable levels of risk across key risk categories and provides clear boundaries for business activities. Risk limits, tolerance thresholds, and key risk indicators are monitored on an ongoing basis, with defined escalation mechanisms for any breaches. The Board periodically reviews the RAF and the Bank's risk profile in the context of changes in the operating environment, strategic priorities, and regulatory landscape, ensuring that the Bank's risk posture remains aligned with its capital strength and long-term objectives.

The Risk Appetite Framework was reviewed and refined during the year to ensure clearer articulation of qualitative and quantitative risk boundaries across key risk categories, including credit, market, liquidity, operational, and reputational risks.

Greater emphasis was placed on cascading risk appetite limits to business units through clearly defined Key Risk Indicators (KRIs) and operating thresholds. RAF metrics were also integrated into senior management dashboards and Board-level reporting, strengthening risk-informed decision-making across the organization.

Proactive Risk Identification and Assessment

The Risk Management function adopts a proactive and forward-looking approach to identifying vulnerabilities at both the transaction level and the portfolio level. Risks are assessed using a combination of quantitative tools, qualitative assessments, stress testing, scenario analysis, and expert judgment. This enables early identification of potential stress points, concentration risks, and adverse trends, supporting timely management actions.

At the transaction level, risk assessments focus on policy compliance, underwriting standards, product structures, and control effectiveness. At the portfolio level, periodic reviews are undertaken to assess sectoral exposures, geographic concentrations, borrower risk profiles, and migration trends, ensuring that the Bank maintains a balanced and diversified risk profile.

Risk Measurement, Systems, and Analytics

Your Bank continues to strengthen its risk measurement and monitoring capabilities through continuous enhancement of models, analytics, and Management Information Systems (MIS). Emphasis is placed on automation of risk processes to improve data quality, timeliness, and consistency in risk reporting. These initiatives support informed decision-making by senior management and the Board.

Enhancements to risk measurement systems are undertaken not only to meet evolving regulatory expectations but also to support optimal capital utilization and improved risk adjusted returns.

Integration with Capital and Performance Management

Risk management is closely integrated with the Bank's capital management and performance evaluation processes. Risk assessments and stress testing outcomes feed into the Internal Capital Adequacy Assessment Process (ICAAP), ensuring that capital buffers remain commensurate with the Bank's risk profile under both normal and stressed conditions.

Your Bank continued to enhance its ICAAP, with strengthened stress testing and scenario analysis covering adverse macroeconomic, sectoral, and institution-specific stress conditions. Stress testing outcomes were more closely linked to capital buffers and liquidity planning, reinforcing the Bank's ability to withstand stressed environments. Governance over ICAAP assumptions, methodologies, and documentation was further strengthened in line with supervisory expectations.

Risk Culture and Continuous Improvement

Your Bank continued to strengthen its risk culture through formal policies, inclusion of risk and compliance parameters in performance evaluation frameworks, and a strong 'tone from the top' by senior management. Ongoing training and awareness programs were conducted across the organization on risk management, fraud prevention, compliance, and ethical conduct. Enhanced use of MIS, dashboards, and structured management reviews supported greater risk ownership and accountability across all levels of the organization.

Risk Monitoring Tools

- **Risk and Control Self-Assessment (RCSA):** Conducted regularly across products, processes, business activities, and support functions, RCSAs assess inherent and residual risk levels and identify control gaps. Controls are tested in proportion to the underlying risk, with immediate remediation triggered wherever gaps are found.

- **Key Risk Indicators (KRIs):** KRIs track shifts in the operational risk profile across key business and support functions. Measured quarterly against defined thresholds, they serve as early triggers for review and corrective action. Thresholds are periodically refreshed, and new KRIs are introduced as the risk landscape evolves.
- **Early Warning Signals (EWS):** A comprehensive set of EWS is monitored continuously, with findings shared with relevant business verticals by the Credit Monitoring Team. Specialized applications, supplemented by an in-house analytics-driven EWS tool built on internal operational data, enable systematic tracking of the loan portfolio to preserve asset quality.
- **Red Flagged Accounts (RFA):** Borrower accounts exhibiting multiple EWS triggers are classified as Red Flagged Accounts and subjected to enhanced monitoring over a six-month observation period. Based on performance assessment, accounts are either de-escalated or escalated for fraud classification, strictly in accordance with regulatory guidelines.
- **Root Cause Analysis:** Comprehensive root cause analysis is conducted on significant risk events to identify systemic weaknesses, strengthen controls, and prevent recurrence.

Role of Technology in Managing Risk: CLS - LOS (Loan Origination System)

Technology is a key enabler of KVB's risk management framework, enhancing the efficiency, accuracy, and timeliness of risk identification, assessment, monitoring, and reporting. The Bank's credit processing is fully digitized through its Loan Origination System (LOS), which integrates automated bureau checks, bank statement analysis, GST data validation, and income verification, supported by robust scorecards and workflow-based processes. Field investigations and document verification are conducted through a dedicated Fraud Control Unit (FCU), reducing manual intervention and strengthening origination controls. Internal credit ratings are generated through a Business Rule Engine (BRE) as a mandatory pre-sanction assessment and are further supplemented by CRISIL ICON ratings and portfolio monitoring tools.

Your Bank strengthened its IT and cyber risk governance through periodic risk assessments, vulnerability testing, and enhanced incident response preparedness.

Operational resilience initiatives were aligned with Business Continuity Planning (BCP) and Disaster Recovery (DR) frameworks for critical systems. Collaboration between IT, Risk, and Business functions was further enhanced to proactively manage technology-driven risks.

Enterprise Risk Management

Your Bank has established a robust and integrated Enterprise Risk Management (ERM) framework to ensure the systematic identification, assessment, monitoring, and mitigation of risks in a proactive manner. The framework is aligned with the regulatory guidance issued by the Reserve Bank of India and is embedded across the Bank's strategic planning, capital management, and long-term value creation processes. The Enterprise Risk Management framework was further strengthened through an enhanced Enterprise-Wide Risk Assessment (EWRA) covering all business, support, and control functions. The risk register was refreshed to capture emerging and evolving risks, including those arising from macroeconomic uncertainty, technology adoption, and changing regulatory expectations. ERM outcomes were periodically presented to the RM & ALM Committee, enabling informed oversight and timely strategic direction.

Your Bank has implemented an Enterprise Fraud Risk Management Solution (EFRMS) as a core component of its payment fraud risk management framework. The solution plays a critical role in strengthening the Bank's ability to detect, prevent, and mitigate fraud risks in a timely and effective manner, particularly in an increasingly digital and transaction-intensive operating environment.

EFRMS enables continuous and real-time monitoring of transactions by leveraging transaction surveillance and customer profiling capabilities. EFRMS extends to transactions carried out through the Bank's digital channels, ensuring comprehensive coverage of fraud risks arising from customer-initiated, system-driven, and process-related activities. This enterprise-wide coverage supports effective management of fraud risks associated with digital banking products, payment systems, and technology-enabled services.

Alerts and risk indicators generated by the EFRMS are reviewed, analyzed, and acted upon in accordance with the Bank's structured risk management processes.

The governance and operation of EFRMS are guided by the Board-approved EFRM Policy, which provides the overarching framework for fraud risk management. The Policy defines roles and responsibilities, escalation protocols, reporting mechanisms, and oversight structures, ensuring alignment with the Bank's broader Enterprise Risk Management (ERM) framework and regulatory expectations. Periodic reporting on fraud risk trends, EFRMS effectiveness, and key observations is placed before senior management and the Board-level committees, enabling effective oversight and governance.

Credit Risk

Macro factors such as economic slowdown, geopolitical tensions, and stress in specific industries, along with micro-level factors, including underwriting processes and recovery mechanisms, continue to influence credit risk management.

Credit Risk Management

- Your Bank has a Credit Risk Management function, independent of business operations, supported by Board-approved policies and prudential exposure limits for industries, single and group borrowers, and sensitive sectors.
- The Early Warning System (EWS) framework was strengthened to enable timely identification and monitoring of stressed and vulnerable accounts, including exposures under consortium and multiple banking arrangements. Enhanced oversight of rating migration, watch-list accounts, and exit strategies for high-risk exposures contributed to proactive portfolio risk management.
- Robust credit underwriting standards, effective risk mitigation measures, post-disbursement monitoring, and a strong collection and recovery framework ensure that credit risk remains within acceptable levels.
- Divisional Credit Risk Officers are positioned at divisional offices to provide independent, groundlevel assessment and transaction specific insights on credit proposals.
- Internal credit risk rating is mandatory for all credit proposals, with defined hurdle rating grades for new and takeover exposures.
- Credit exposures are monitored on an ongoing basis to ensure compliance with policy ceilings and limits approved by the Board.
- The Analytics team provides comprehensive portfolio analytics, insights, and forward-looking assessments to senior management to support informed policy and business decisions.
- Periodic portfolio reviews, industry and sectoral studies, and product level assessments are conducted to capture emerging risks and facilitate timely course correction.

Digitization of Credit Underwriting

- Your Bank has implemented a structured Loan Origination System (LOS) to digitize and strengthen the credit underwriting process.
- The LOS enables improved turnaround time (TAT) controls, enhanced underwriting capability through analytical inputs, and end-to-end digital workflows for effective risk mitigation.
- Automated bureau checks, system-driven due diligence, and sanity validations help minimize onboarding and fraud risks.
- Data-driven gating conditions, tested using historical bank data, and well-designed scorecards reduce subjectivity and enhance consistency in credit decision-making.
- Performance of digital portfolios across retail and commercial segments is periodically reviewed to initiate timely corrective actions.

Governance, Monitoring, and Risk Optimization

- Credit risk policies are reviewed periodically in line with regulatory requirements and the Bank's evolving risk profile.
- A comprehensive delegation of powers framework is in place, with defined matrices for risk and non risk deviations.
- Pricing is governed by a spread policy linked to internal ratings and scores, factoring in credit risk premium, business strategy premium, and tenor premium.
- The committee based credit approval process promotes qualitative deliberation, collective judgment, and a holistic evaluation of credit proposals.
- The Portfolio Quality Index (PQI) is used to monitor the performance of business units and relationship officers.
- Risk Adjusted Return on Capital (RAROC) is used as a key performance metric to support optimal capital allocation and risk calibrated growth.
- The Model Risk Management framework enables assessment, monitoring, and mitigation of risks arising from credit and analytical models.
- Your Bank has a Country Risk Management Policy and proactively monitors developments in countries where it has exposure.
- An ESG Policy has been adopted to address climaterelated risks and promote environmentally responsible, low carbon, and sustainable banking operations.

Market Risk

Market risk primarily arises from the Bank's trading activities in interest rate instruments, equity markets, and foreign exchange markets. Your Bank has established a comprehensive framework comprising Board-approved policies and defined practices for effective management of market risks.

Mitigation Steps

- Market risk is managed through comprehensive Board-approved policies that define risk limits across trading desks, instruments, and portfolios. These policies prescribe exposure caps, triggers, and escalation mechanisms to ensure prudent deployment of investment funds.
- Your Bank has established an independent Mid Office function, operating as a risk control unit and reporting to the Chief Risk Officer (CRO), ensuring independence from front office treasury activities.
- The Mid Office independently monitors treasury operations from both market risk and operational risk perspectives and reports directly to the Risk Management Department (RMD) at the Central Office.
- Well-defined policies govern activities exposed to market risk and liquidity risk, including position limits, stop loss limits, and dealer-wise and product-wise exposure limits, enabling effective control over trading activities.
- The risk framework also addresses liquidity risk arising from the banking book, trading book, and off balance sheet exposures, ensuring a holistic view of balance sheet and contingent risks.
- Your Bank has articulated risk appetite limits for key market risk components, including interest rate risk, equity price risk, foreign exchange risk, and spread risk.
- Market risk is monitored using a combination of quantitative and sensitivity based tools, including stress testing, Modified Duration, Present Value of a Basis Point (PVBP), Value at Risk (VaR), position limits, stoploss limits, Net Overnight Open Position (NOOP) limits, and Aggregate Gap Limits (AGL).
- Stress testing and scenario analysis are conducted periodically to assess the impact of adverse movements in interest rates, exchange rates, equity prices, and market liquidity under both normal and stressed conditions.
- Your Bank continues to enhance its market risk monitoring framework in line with evolving regulatory guidance, including increased focus on Interest Rate Risk in the Banking Book (IRRBB) and intraday liquidity risk management.
- Capital charge for market risk is currently computed under the Standardized Duration Approach (SDA), in accordance with regulatory prescriptions.

Liquidity & Interest Rate Risk

Liquidity risk refers to the potential inability to fund asset growth, meet reductions in liabilities, or fulfill obligations as they become due, without incurring unacceptable losses.

Interest rate risk arises from fluctuations in market interest rates that affect the Bank's earnings through changes in Net Interest Income (NII) and the market value of equity through variations in the economic value of interest rate-sensitive assets, liabilities, and off-balance-sheet positions.

Mitigation Steps

- The Banks Asset Liability Management (ALM) Policy provides a comprehensive framework for managing liquidity risk and interest rate risk, with clearly defined risk appetite and tolerance limits approved by the Board. Your Bank has also established mechanisms to monitor and manage intraday liquidity risk.
- The ALM framework aims to strengthen the balance sheet through proactive assessment of market dynamics, timely capture of emerging signals, and optimization of value creation, while ensuring compliance with regulatory requirements.
- Your Bank conducts behavioral studies of non-contractual assets and liabilities, including embedded customer options. The outcomes are used to improve maturity profiling and manage structural gaps more effectively.
- The Asset Liability Committee (ALCO) reviews pricing of assets and liabilities at least on a monthly basis, and more frequently as required, while monitoring adherence to liquidity risk and interest rate risk limits.
- Liquidity risk is assessed using maturity gap analysis and stock ratio limits, while interest rate risk is evaluated through impact analysis on Net Interest Income (NII) and Economic Value of Equity (EVE). These are supported by a comprehensive stress testing framework covering both liquidity and interest rate risk scenarios.
- Your Bank monitors its liquidity position using the Liquidity Coverage Ratio (LCR) to ensure availability of adequate unencumbered High-Quality Liquid Assets (HQLA) to meet obligations under a 30day stress scenario.
- Net Stable Funding Ratio (NSFR) is used to promote longerterm resilience by ensuring that assets are funded through stable and sustainable sources.
- A robust Contingency Funding Plan (CFP) is in place to ensure access to adequate liquidity under stressed conditions. The CFP is reviewed quarterly by the ALCO and the Board as a forward-looking risk mitigation measure.
- Country risk and counterparty (bank) exposure limits are reviewed periodically to address evolving geopolitical and counterparty specific risks.

Operational Risk

Operational risk arises from inadequate or failed internal processes, controls, systems, procedures, employee errors, external events, or a combination of these factors.

Mitigation Steps

- Your Bank has implemented a Board-approved Operational Risk Management Framework (ORMF) in line with RBI guidelines, which is fully integrated with the Bank's overall Enterprise Risk Management framework.
- The ORMF is structured around the principles of Prepare and Protect, Build Resilience, and Learn and Adapt, ensuring proactive risk identification, operational resilience, and continuous improvement.
- The framework covers the entire operational risk lifecycle, including risk identification, assessment, monitoring, mitigation, loss data management, reporting to senior management and the Board, and Business Continuity Management.
- Your Bank follows the Three Lines of Defense model, with Business Units as the first line, the Organizational Operational Risk Function (OORF) as the second line, and Internal Audit as the third line, in line with RBI expectations on independence and oversight.
- A robust internal control framework is in place, supported by documented policies, standard operating procedures, segregation of duties, defined authority structures, and clear reporting lines.
- Your Bank has a comprehensive audit framework, including internal, concurrent, information security, credit, revenue, and statutory audits, which supports independent evaluation of controls and identification of control gaps.
- Operational risk loss events are systematically captured from business units, consolidated, analyzed, and reviewed periodically by the Operational Risk Management Committee, enabling trend analysis and corrective actions.
- The Risk Management Department conducts root cause analysis of significant operational risk events, identifies control weaknesses, and implements preventive and corrective measures to avoid recurrence.

- Key Risk Indicators (KRIs) and risk and control assessments are used to monitor operational risk exposures and strengthen controls on an ongoing basis.
- All new products, process changes, and outsourcing arrangements are subject to prior risk assessment through designated committees, with independent risk evaluation and mitigation recommendations.
- Your Bank has a Business Continuity and Disaster Recovery (BCP & DR) framework, aligned with regulatory requirements, to ensure continuity of critical operations during disruptions.
- Board-approved Reputation Risk Management Policy is in place to identify, monitor, and mitigate reputational risks arising from operational, compliance, and conduct-related events.

Fraud Risk

Financial institutions, in general, and banks, in particular, are vulnerable to various forms of fraud perpetrated by internal and external factors. All banks continuously undertake initiatives to strengthen internal control systems and procedures to safeguard against fraud.

Mitigation Steps

Bank has put in place a fraud risk management policy and standard operating procedure clearly defining the roles and responsibilities of all the related stakeholders in the matters relating to detection/identification, classification and reporting of frauds to RBI, other regulatory bodies, Board of the Bank and Sub committees of the Board, process of investigation, apart from recovery including insurance claims, provisioning, disciplinary action against the fraudsters, and closure of fraud, among others.

The framework provides for prevention, early detection, and timely reporting of frauds to the Reserve Bank of India, other regulators, law enforcement agencies, the Board, and its Committees, with defined timelines and adherence to principles of natural justice.

- Your Bank has established a dedicated Fraud Prevention and Management Cell (FPMC) to oversee fraud risk management across all business and operational areas. The FPMC operates independently of business functions and reports to the Chief Risk Officer (CRO), thereby ensuring objectivity, independence, and strong risk oversight. The FPMC periodically places comprehensive fraud risk reports before the Board and Board level committees, facilitating effective governance, oversight, and timely decision-making. Fraud risk management is treated as a continuous process, with a strong focus on early detection, root cause analysis, corrective action, and strengthening of control mechanisms to minimize recurrence.
- Your Bank has implemented multiple layers of control and surveillance to manage fraud risk effectively. All branches and operating units are subject to concurrent, internal, and other audits, supplemented by periodic on-site inspections and reviews conducted by Divisional Heads, Divisional Operating Officers, and Central Office officials. These measures form part of the Bank's overall operational risk control framework and enable continuous monitoring of processes, transactions, and compliance with internal policies.
- The Bank's Fraud Risk Management Policy, supported by detailed standard operating procedures, provides a comprehensive framework for identifying, assessing, controlling, monitoring, and reporting fraud risks. The framework ensures timely reporting to senior management, the regulator, and law enforcement agencies, as applicable. It also provides for continuous surveillance and proactive risk mitigation to manage potential losses arising from both internal and external fraud events. Strategic oversight and macro level guidance on fraud risk management are provided by the Board and its committees, reinforcing a strong governance structure.
- Oversight of fraud risk management is provided by a Special Committee of the Board for Fraud Monitoring and Followup of cases of Frauds (SCBMF), which reviews fraud cases, root cause analysis, and recommends measures to strengthen controls and reduce recurrence.
- Root cause and gap analysis are undertaken for fraud incidents to identify control weaknesses and implement additional safeguards, including changes to processes, systems, and products.
- Early Warning Signals (EWS) are analyzed on an ongoing basis, including transaction patterns and behavioral indicators, and findings are shared with concerned business and operational verticals.

- Both internal data and relevant public domain information are used as part of preventive and monitoring mechanisms.
- Digital and online transactions are monitored through the Enterprise Fraud Risk Management (EFRM) system, enabling realtime alerts and preventive actions such as customer confirmation, transaction blocking, or escalation, as required.
- Select large loan accounts exhibiting multiple EWS are subjected to enhanced monitoring and detailed review over defined periods, with appropriate corrective actions initiated based on outcomes.
- Your Bank places strong emphasis on the Whistle Blower Mechanism, encouraging employees to report suspected irregularities, including frauds and operational risk events. Ongoing initiatives are undertaken to enhance awareness of safe banking practices, particularly in the context of increasing digital adoption. These initiatives include dissemination of safety-related messages through SMS and emails, as well as targeted fraud awareness campaigns across multiple channels such as website banners, mobile application push notifications, and social media platforms.

ESG and Emerging Risks

Environmental, Social, and Governance (ESG) risks were progressively integrated into the broader risk management framework, with particular focus on climate-related and reputational risks. ESG policies were periodically reviewed with risk vetting to ensure alignment with regulatory guidance and stakeholder expectations. Initial steps were taken towards embedding ESG considerations into credit appraisal and strategic risk assessments. Through a structured ESG risk assessment framework, these factors are now evaluated as an integral part of the overall credit appraisal process, reinforcing focus on responsible and sustainable lending practices.

Guided by this approach, the Bank has consciously identified specific sectors for inclusion in an exclusion list, ensuring that business engagements reflect dedication to minimizing environmental and social risks at a portfolio level. Additionally, the Bank has begun incorporating ESG focused assessments into its investment decisions for bonds, further aligning our investment strategy with long-term sustainability goals and ethical stewardship.

Integrated Risk Management Framework

Mitigation Steps

The objective of Integrated Risk Management is to enable the Bank to identify, measure, monitor, and manage risks and capital on a holistic and enterprise wide basis across all business activities. The integrated approach recognizes the interconnected nature of risks and ensures that individual risk types are not assessed in isolation but in terms of their cumulative impact on the Bank's financial position, capital adequacy, and resilience.

Your Bank acknowledges that credit, market, liquidity, and operational risks are inherently interwoven, with Pillar II risks having the potential to materially influence Pillar I risks. Operational risk, in particular, is an all-pervasive risk embedded in every product, process, and activity of the Bank. Accordingly, risk management is carried out through a well structured and centralized framework that captures risk interdependencies and provides a consolidated view of the Bank's overall risk profile.

Integrated Risk Management supports effective decision-making by aligning risk assessment with the Risk Appetite Framework, capital planning, and strategic objectives. The framework forms the foundation of the Bank's ICAAP, ensuring that adequate capital buffers are maintained against all material risks under normal and stressed conditions. Through this approach, the Bank seeks to enhance risk adjusted performance, optimize capital utilization, and support sustainable growth while remaining compliant with regulatory requirements.

Commodity Price Risks and Foreign Exchange Risks and Hedging Activities

Commodity price risk arises from adverse movements in the prices of commodities such as gold and other precious metals. Your Bank manages this risk within a comprehensive market risk framework governed by the Board-approved Market Risk Management Policy and Integrated Treasury Policy, which together define the risk control framework for managing commodity price risk and foreign exchange risk.

The Board has prescribed a set of prudential risk limits to manage foreign exchange exposures, including the overall Net Overnight Open Position (NOOP) limit, stop-loss limits for trading activities, Aggregate Gap Limit (AGL), and Value at Risk (VaR) limits. These limits are monitored on an ongoing basis to ensure that exposures remain within the approved risk appetite and control framework.

In respect of commodity linked exposures, the Bank has stipulated appropriate margin requirements for lending against commodities. A robust monitoring mechanism is in place to assess the adequacy of margins on a continuous basis, taking into account movements in prevailing commodity prices, thereby mitigating potential market-driven risks.

Your Bank uses derivative instruments such as forward contracts and foreign exchange swaps to hedge currency and interest rate risks arising from foreign currency balance sheet exposures and customer-related transactions.

All such activities are undertaken within the overall risk limits and governance framework approved by the Board. The management of treasury products and related activities is governed by Board-approved policies, ensuring prudent risk management, regulatory compliance, and effective oversight.

Climate Risk

Climate risks are broadly classified into two categories:

Transition Risks

Risks arising from factors such as:

- Changes in policies and regulations.
- Technological advancements.
- Shifts in consumer preferences.

Physical Risks

Risks arising from both chronic and acute impacts of climate change, including:

- Long-term changes in temperature.
- Precipitation pattern variations.
- Agricultural productivity changes.
- Sea level rise.
- Increased frequency and intensity of severe events such as heatwaves, floods, cyclones, and wildfires.

KVB recognizes the significant impact of climate-related risks across credit, operational, market, and reputational domains. Your Bank is aligning its practices with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Climate-related scenario analysis and stress testing exercises are being conducted by incorporating relevant climate factors into stress-testing frameworks.

Risk Exposure and Assessment

Your Bank is exposed to various types of risks, including Credit Risk, Market Risk, Operational Risk, Liquidity Risk, Interest Rate Risk, Reputational Risk, Legal Risk, and Strategic Risk. To manage these risks effectively, the Bank has established an independent Risk Management Department that oversees risk management through an integrated framework.

The objective of the risk management function is to maintain an optimal balance between risk and return. This involves identifying, measuring, monitoring, and managing risks across the Bank's various business activities. Risk management is carried out through a framework defined in Board-approved policies and supported by an independent risk management function that continuously monitors and takes corrective action to ensure risk exposure remains within the Bank's approved risk appetite.

KVB seeks to proactively identify vulnerabilities through both quantitative and qualitative assessments of embedded risks across various activities. Your Bank continues to strengthen and refine its risk management systems. In addition to ensuring compliance with regulatory requirements, the Bank has developed robust internal systems to assess capital requirements and align them with overall business objectives.

The Board of Directors approves the Bank's risk management strategies and policies based on recommendations from the RM & ALM Committee. The following Committees review various aspects of risk arising from business operations:

- Asset Liability Management Committee (ALCO).
- Credit Risk Management Committee (CRMC).
- Market Risk Management Committee (MRMC).
- Operational Risk Management Committee (ORMC).

These committees provide inputs and recommendations for review by the RM and ALM Committees of the Board.

Asset Liability Management Committee (ALCO)

Committee Focus Area

All aspects of Asset Liability Management, Monitoring, Control, and Interest rate review, among others.

Chairman

Executive Director

Key Functions/Responsibilities

- Study all ALM-related returns and statements prescribed by RBI.
- Provides framework for management of liquidity risk and interest rate risk.
- Pricing for both deposits and advances.
- Decide on the desired mix of incremental assets and liabilities.
- Decide on the desired maturity profile of the incremental assets and liabilities and contingency funding plan.
- Determine the structure, responsibilities, and controls for managing liquidity risk and for overseeing the liquidity positions.
- Discuss on future direction of interest rate movements and decide on funding mix between fixed vs floating rate funds, wholesale vs retail deposits, money market vs capital market.
- Review the impact of NII and MvE due to interest rate risk in banking book.
- Review and recommend the Transfer Pricing Mechanism (TPM).
- Any other matters related to market risk and liquidity risk.

Credit Risk Management committee (CRMC)

Committee Focus Area

All aspects of Credit Risk Management, Monitoring and Control.

Chairman

MD & CEO

Key Functions/Responsibilities

- Recommend and review of Credit Policy, internal rating policy and other credit risk related policies.
- Recommend for introduction of new internal rating models/score cards and review.
- Review of exposures to various industries – exposure ceiling vis-à-vis actual.
- Review of stress tests conducted on CRAR under different scenarios.
- Discuss regulatory guidelines and the actions taken by the verticals.
- Peruse credit-related frauds and suggest mitigation measures.
- Study concentration in advances portfolio.
- Review the rating migration in the internal and external ratings of borrowers
- Any other matters related to credit risk.

Market Risk Management Committee (MRMC)

Committee Focus Area

Aspects of Market Risk Management, Monitoring and Control.

Chairman

Chief Financial Officer

Key Functions/Responsibilities

- Setting guidelines for market risk measurement, management, and reporting.
- Ensuring that market risk management processes (including people, systems, operations, limits, and controls) satisfy the Bank's Policy.
- Reviewing and recommending market risk limits, including triggers/stop-losses for traded and accrual portfolios.
- Monitoring interest rate risk, equity price risk and forex risk and to take control measures.
- Take note of market risk related regulatory guidelines and to take necessary action.
- Discuss market related events/occurrences, and movement of various benchmarks, among others.

Operational Risk Management Committee (ORMC)

Committee Focus Area

All aspects of Operational Risk Management, Monitoring and Control.

Chairman

Executive Director

Key Functions/Responsibilities

- Implement and monitor the Operational Risk Management framework approved by the Board.
- Develop policies, processes and procedures for managing various operational risk in the Bank's material products, activities, processes, and systems.
- Review and recommend the development and implementation of operational risk methodologies.
- Review of Key Risk Indicators (KRI) and Risk and Control Self - Assessment (RCSA).
- Perusal of frauds including cyber frauds, near miss events and related matters.
- Discuss and study the impact of loss data collected.
- Peruse the minutes of various operational risk related executive committees and providing guidance.
- Any other matters related to operational risk.

INFORMATION SECURITY GROUP (ISG)

The Information Security Group (ISG) safeguards the Bank's information assets, including systems, data, and networks, against internal and external threats through robust security controls, policies, and technologies aligned with regulatory and industry standards. Its responsibilities include information security governance, regulatory compliance, SOC monitoring, incident management, application, cloud, data, endpoint and network security, threat intelligence, cyber forensics, vulnerability management, and security assessments. ISG is also adopting advanced technologies and frameworks, including Artificial Intelligence (AI), Machine Learning (ML), and Zero Trust, to further enhance the Bank's cybersecurity resilience and overall security posture.

Key Highlights

- Your Bank leverages advanced technologies and security frameworks to proactively identify, assess, and mitigate cyber threats before they impact business operations.
- Cyber resilience is strengthened through periodic cyber drills, independent security audits, and automated real-world attack simulations to ensure continuous preparedness against evolving threats.
- KVB proactively aligns its internal security policies and controls with evolving regulatory guidelines and directives issued by RBI, SEBI, NCIIPC, PFRDA, and IRDAI.
- Your Bank focuses on strengthening the human firewall through specialized training programs for Information Security professionals and organization-wide cyber awareness initiatives for employees.
- Your Bank conducted the 'Digital Self-Defense Campaign' across multiple locations in Trichy, creating awareness on phishing attacks, OTP scams, fraud impersonation and other cyber threats.
- Cyber threat-based awareness posters were circulated to customers on every Cyber Jagrookta Diwas (CJD), observed on the first Wednesday of every month.

Outlook

- Your Bank remains committed to a 'Security First' philosophy focused on strengthening cybersecurity resilience and ensuring secure digital operations.
- Operational resilience is being enhanced through scalable infrastructure support and periodic Disaster Recovery (DR) drills to ensure uninterrupted service availability during cyber incidents and operational disruptions.
- As part of Continuous Assurance and Dynamic Risk Management, the Bank has implemented robust encryption standards along with advanced data protection techniques. These techniques include data masking and tokenization to safeguard sensitive customer information.
- Your Bank maintains compliance with globally recognized standards, including ISO 27001:2022 and PCI DSS v4.0.1.
- Your Bank continuously evaluates and integrates emerging security solutions to strengthen data protection, cybersecurity controls, and overall information security capabilities.
- Artificial Intelligence (AI) and Machine Learning (ML) technologies are being progressively leveraged to enhance security monitoring, improve threat detection capabilities, and effectively address the evolving landscape of sophisticated cyber threats.

HUMAN RESOURCES

By nurturing employee development through a strong values-based culture, the Bank builds a workforce that remains highly engaged, customer-centric, and aligned with its long-term vision for sustainable growth.

For more details, please refer to Page 64 of Human Capital in Narrative

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Inspection and Audit function plays a vital role in evaluating and ensuring the adequacy of internal controls, risk management practices, and governance processes within the Bank. It independently assesses the effectiveness of operational controls, regulatory compliance, and the Bank's risk management framework. Through these assessments, the function identifies potential weaknesses and inefficiencies in business processes and ensures that adequate safeguards are in place to mitigate operational and financial risks.

The Internal Audit function is responsible for ensuring adherence to regulatory requirements, internal policies, and established procedures. It also provides proactive recommendations to strengthen operational processes, enhance internal controls, and improve governance standards across the organization.

Audits are conducted across branches, business units, and back-office operations, with emphasis on operational and risk-sensitive functions. The scope also includes information security, IT governance, and infrastructure to ensure a comprehensive assessment of compliance, operational efficiency, and system effectiveness.

The Audit Committee of the Board oversees the effectiveness of the internal audit function. The Committee reviews audit activities, provides functional guidance, evaluates the performance of the Inspection and Audit functions, and offers strategic direction to strengthen audit processes and governance standards across the Bank.

Audit Policies and Staffing

The Internal Audit Policy provides the framework governing the Bank's audit activities. It is periodically reviewed by the Audit Committee and approved by the Board to ensure alignment with regulatory requirements and industry best practices. The policy defines the procedures, standards, and methodologies to be followed to maintain consistency, reliability, and thoroughness in audit activities.

The Audit Team comprises skilled and experienced professionals, including specialists in Information Technology (IT), Cybersecurity, and various banking operations and functions. This diverse expertise enables the audit function to comprehensively cover all operational areas, including traditional banking activities, complex IT systems, and digital security functions.

Types of Audits Conducted

Your Bank undertakes multiple categories of audits, including the following:

- **Risk-Based Internal Audits (RBIA):** These audits focus on identifying and assessing risks in key areas such as credit and operational risk, with emphasis on existing regulatory and critical controls. RBIA evaluates the effectiveness of risk mitigation measures and identifies potential control gaps before they become significant concerns.
- **Surprise Audits:** These unannounced audits are conducted to detect irregularities and hidden issues that may not emerge during scheduled audits, thereby ensuring continuous vigilance.
- **Revenue Audits:** Revenue audits verify that the Bank's revenue streams are properly managed, accurately collected, appropriately reported, and compliant with financial reporting standards.
- **Concurrent Audits:** Concurrent audits are conducted across high-priority areas, including major branches, corporate and business banking units, and key back-office operations. These audits provide real-time assurance of compliance with internal policies and regulatory requirements, while helping mitigate operational, compliance, and financial risks through continuous monitoring. In line with the Board-approved Auditor Appointment Policy, the Bank engages external auditors for concurrent audits, leveraging their independent expertise to enhance objectivity, professionalism, and audit quality.
- **Credit Audits:** Credit audits evaluate large credit exposures as part of the Bank's loan review process. These audits ensure effective management of credit risk and verify that loan sanctioning and post-sanction activities are completed in compliance with regulatory guidelines.
- **Jewel Re-appraisals:** Your Bank periodically conducts re-appraisals of jewels pledged against jewel loans to confirm that the purity and type of pledged ornaments meet prescribed standards. Mystery shopping exercises are also undertaken to verify adherence to established jewel assessment and evaluation standards.
- **Process Audits:** Process audits assess the design and effectiveness of specific business processes. These audits evaluate operational efficiency, internal controls, regulatory compliance, and risk mitigation measures. They also identify inefficiencies, control gaps, and improvement opportunities to strengthen operational effectiveness.

- **Information Systems (IS) Audits:** Your Bank maintains a Board-approved IS Audit Policy, reviewed annually to ensure the security and compliance of its information systems. IS audits cover data centers, applications, technical infrastructure, and back-office systems, assessing security, performance, integrity, and cyber resilience. For critical IT governance and cybersecurity areas, the Bank engages specialized external experts, including CERT-In empanelled firms.
- **Vendor Audits:** To manage risks associated with outsourced activities, the Bank conducts annual vendor audits covering both IT and non-IT service providers. These audits also assess compliance with information security standards.
- **Other Audits:** Your Bank also undertakes management audits for central office verticals and divisional offices, and regularly inspects currency chests to ensure secure cash handling operations in line with RBI guidelines.

Focus on Digitalization and New Business Areas

With increased participation in digital business models such as co-lending, direct assignments, and micro-finance loans, the internal audit function has expanded its oversight in these areas. The off-site Audit Mechanism enables continuous monitoring of critical operations, particularly across the loan lifecycle. This mechanism helps ensure efficient execution of processes and facilitates timely identification of discrepancies or control gaps. Through digital tools, the Bank monitors post-sanction activities and prepares units for future on-site audits, thereby reducing turnaround time and operational risks. Digitalization has improved operational efficiency and enhanced the Bank's ability to respond quickly to emerging concerns.

Risk-Based Approach and Technology Integration

Your Bank follows a risk-based audit methodology in accordance with RBI guidelines for RBIA. This approach prioritizes audit focus on areas with higher risk exposure or potential vulnerabilities, ensuring efficient allocation of resources toward critical risk mitigation.

The audit function extensively uses technological tools, IT systems, and automated monitoring mechanisms to improve audit efficiency. These tools support the identification of branches and business units requiring inspection, monitoring, and auditing, and ensure compliance with internal policies. Technology integration also improves the precision, coverage, and effectiveness of risk identification and mitigation processes through data-driven audit practices.

The Bank's audit, risk management, and governance framework is comprehensive and systematic, emphasizing proactive risk mitigation, continuous monitoring, and adherence to regulatory and internal standards. Through advanced technology adoption, external expertise, and risk-based audit methodologies, the Bank maintains strong operational effectiveness, compliance standards, and security practices.

Key Highlights

- RBIA for all identified branches and business units for FY 2025-26 was completed.
- A comprehensive Risk Assessment Model was developed and implemented, incorporating inputs from all audits.
- Compliance processes for audits were simplified through the revamped audit application.
- Concurrent Audit coverage extended to 70.20% of the Bank's total advances, including jewel loans.
- Off-site surveillance was strengthened through the inclusion of new areas under continuous near-real-time monitoring.
- Continuous off-site monitoring was implemented in selected areas to reduce credit risk and strengthen compliance culture.
- IT-related process audits and thematic audits were conducted to ensure adherence to the Bank's policies and guidelines.
- The scope of various audits was reviewed to ensure inclusion of key regulatory aspects.

Outlook

- The Internal Audit function will continue shifting toward a proactive and forward-looking risk assessment model, with greater focus on early risk identification and timely preventive action.
- Audit methodologies will be further strengthened to deliver short, focused reviews of high-risk areas, enabling faster responsiveness and coverage of critical risk domains.
- Your Bank will expand the use of predictive analytics to identify emerging risks and anomalies at an early stage. Data-driven insights will support proactive risk mitigation and informed decision-making.
- Automation of routine and high-volume audit tasks will be accelerated to improve efficiency and consistency, allowing audit teams to focus on strategic and high-impact areas.
- Training and capability-building initiatives will strengthen in-house expertise in analytics and automation, enhancing the audit team's technological proficiency and effectiveness.
- Internal Audit will continue reinforcing its role as an important early warning mechanism within the Bank's governance framework by providing timely risk alerts and actionable insights to Management and the Board.
- Collaboration with other assurance functions will be further strengthened to ensure coordinated and comprehensive risk coverage, thereby improving governance and control effectiveness.

COMPLIANCE

The Compliance function is a core pillar of KVB's governance architecture, operating independently of business units while working in close coordination with internal control and risk management systems. Its mandate spans regulatory adherence, mitigation of compliance and reputational risks, and embedding a strong compliance culture across the organization. The department is headed by the Chief Compliance Officer (CCO), a member of senior management, who reports directly to the Managing Director & CEO and has independent access to the Board and the Audit Committee. The Audit Committee engages with the CCO one-to-one every quarter, reinforcing the independence and integrity of the compliance function. Compliance status and key regulatory developments are reported periodically to Management, the Audit Committee, and the Board.

Consistent implementation across business units is enabled through joint impact assessments, cross-functional working groups, and standardized implementation frameworks. Business Compliance Officers maintain continuous engagement with operational teams, while structured training programs and advisory support help address practical implementation challenges effectively.

Compliance Policy Framework

Your Bank has implemented a comprehensive Compliance Policy approved by the Board, which serves as the overarching framework for managing compliance risk across the organization. During the year, the Compliance Policy was revised to strengthen the Bank's compliance philosophy and reinforce its commitment to maintaining the highest standards of regulatory adherence. The Policy is reviewed periodically to ensure continued alignment with regulatory developments and evolving industry best practices. Key elements of the framework include:

- An independent Compliance Department responsible for monitoring regulatory compliance, conducting compliance testing, and providing advisory support to business units.
- Appointment of a Chief Compliance Officer entrusted with oversight of the overall compliance framework and responsibility for reporting significant compliance matters to senior management and the Board.
- Periodic compliance risk assessments to evaluate the adequacy and effectiveness of internal controls, with key observations presented to the Audit Committee or the Board, wherever applicable.
- Ongoing employee training programs, structured monitoring and escalation mechanisms, and timely policy revisions to incorporate regulatory changes and emerging compliance requirements.
- Strong focus on fostering a robust compliance culture based on clear accountability, ethical conduct, and uncompromising adherence to regulatory standards across all levels of the organization.

Key Highlights

- Process-Integrated Controls.
- Enhanced Control Testing.
- Analytics-Driven Oversight.
- Compliance Culture Strengthening.

Outlook

- Expanding technology-enabled and risk-based compliance monitoring through increased adoption of RegTech solutions.
- Strengthening the Compliance Risk Management Framework through continuous monitoring, timely identification of gaps, root cause analysis, and structured tracking of remediation measures.
- Enhancing regulatory change management capabilities and improving readiness for integration with advanced regulatory technology platforms.
- Promoting organization-wide ownership of compliance through structured training programs, awareness initiatives, and deeper engagement with business and operational teams.
- Periodic review of governance frameworks to reinforce accountability, transparency, and proactive risk management, along with enhanced engagement with regulators and industry bodies.

DISCLOSURE OF ACCOUNTING TREATMENT

The financial statements are prepared following the going concern concept, on historical cost basis and conform to the Generally Accepted Accounting Principles (GAAP) in India which encompass applicable statutory provisions, regulatory prescriptions and extant disclosure norms prescribed by the Reserve Bank of India (RBI) from time to time, notified Accounting Standards (AS) issued under Section 133 of the Companies Act, 2013, read together with Companies (Accounting Standards) Rules, 2021 and current practices prevailing in the banking industry in India. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year, except for the accounting for employee share-based payments, which is explained under the policy for employee benefits.

CAUTIONARY STATEMENT

Certain statements in the 'Management Discussion and Analysis' section describing the Bank's objectives, projections, estimates, expectations, or predictions may constitute 'forward-looking statements' within the meaning of applicable securities laws and regulations. These statements are based on certain assumptions and expectations of future events and are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied. Important factors that may influence actual outcomes include changes in economic and political conditions in India and globally, fluctuations in interest rates and financial markets, changes in laws, regulations, and government policies, competitive developments, and other incidental or unforeseen circumstances that may affect the Bank's operations or its ability to implement strategic initiatives. Your Bank undertakes no obligation to publicly update or revise any forward-looking statements on the basis of subsequent developments, information, or events. Figures relating to previous years have been regrouped or reclassified wherever necessary to conform to the current year's presentation. This document is intended solely for informational purposes and should not be construed as an offer, invitation, solicitation, or recommendation to buy, sell, or deal in any financial products or securities offered by the Bank.