Management's Discussion & Analysis

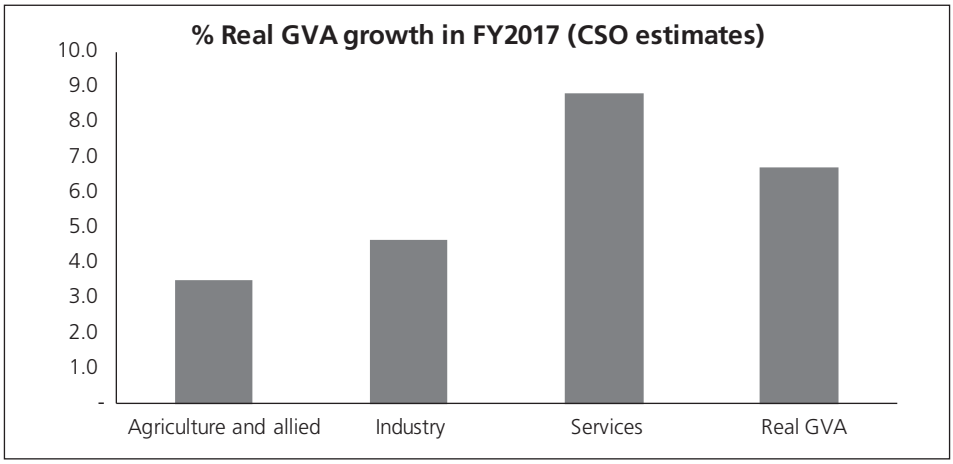
Macro-economic environment

Against the backdrop of global volatilities, India macro fundamentals continued to fare well in FY2017 and steady progress is being made with regard to India's own medium-term potential. FY2017 was marked by two major domestic policy developments, demonetisation of Specified Bank Notes (SBNs) i.e. ₹ 500 and ₹ 1,000 bank notes prevailing as on 8th November 2016 and the passage of the Constitutional amendment and follow-up legislation, paving way for GST implementation. On external sector front, current account deficit remains within comfortable limits. Fiscal consolidation at central government level has continued with an improvement in spending quality by shifting expenditures away from current to capital expenditures. However, state government finances appeared to be under stress in FY2017. Inflation eased further, which helped RBI ease 50 bps in FY2017.

Overall, the economic fundamentals have fared reasonably well in FY2017. Despite the short-term costs, Demonetisation holds the potential for long-term benefits. Over the medium term, consistent traction in policy reforms, increasing digitisation and successful GST implementation will improve India's growth potential.

The growth environment

On growth front, real GDP seems to have slowed in FY2017 from FY2016. As per CSO, the second advance estimate of growth for FY2017 stood at 7.1% as against the upwardly revised 7.9% in FY2016. On value added basis, real GVA (grossa value added) growth estimate for FY2017 has been revised down to 6.7% from 7.8%. On the positive side, the economy was buoyed by government consumption, as the 7th Pay Commission salary recommendations were implemented. Besides, a good monsoon helped keep agricultural production buoyant. However, private investment has remained anaemic. Ground realities, such as low capacity industrial utilisation, continued debt overhang of corporates and worsening NPA position of banking sector remain the biggest impediment to private investment. Demonetisation also seems to have further added, albeit marginally, to slowdown in growth. A part of real GVA growth slowdown in FY2017 owed to first half which slowed to 6.8% as against 8.1% in same period in FY2016. The Q3FY2017 – the period where demonetisation took place – slowed further to 6.6%.

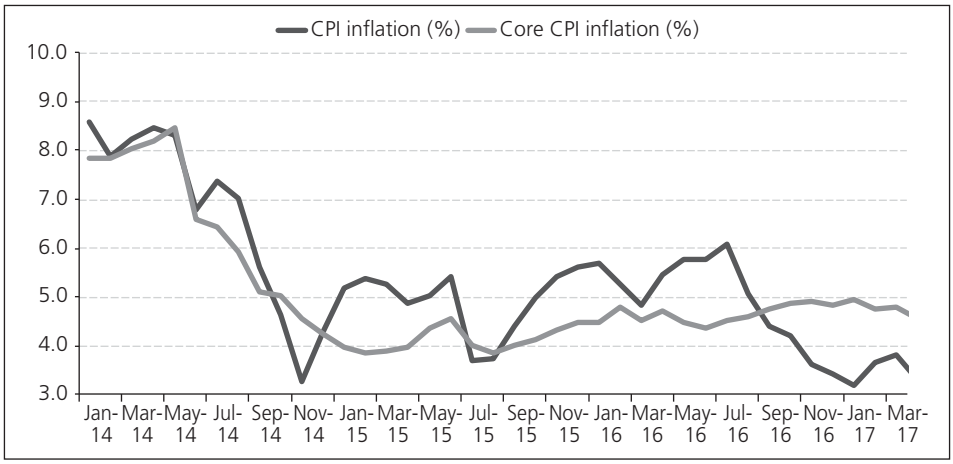


Source: CSO, Kotak Economic Research

Domestic price dynamics

The overall domestic price pressures remained contained in FY2017. The CPI inflation averaged 4.5% in FY2017 (as against 4.9% in FY2016), and has displayed a downward trend, largely helped by sharp correction in food inflation due to good Kharif and pulses production and managed vegetables inflation. Core CPI inflation, on the other hand, has averaged 4.7% in FY2017 as against 4.3% in FY2016. WPI inflation, on the other hand, picked up in FY2017 due to reversal of favourable base effect and pick in oil and other commodity prices. However, for the year as a whole, the CPI inflation was comfortably below the RBI's target of 5%, a trend partly likely to be helped by demonetisation. Despite easing headline CPI inflation, RBI has now shifted its stance to neutral from accommodative, premised on possible second-round impact of sticky-to-rising core inflation, tighter global financial conditions, foreign exchange volatility and higher commodity prices.

CPI inflation moderated further in FY2017 from the previous fiscal



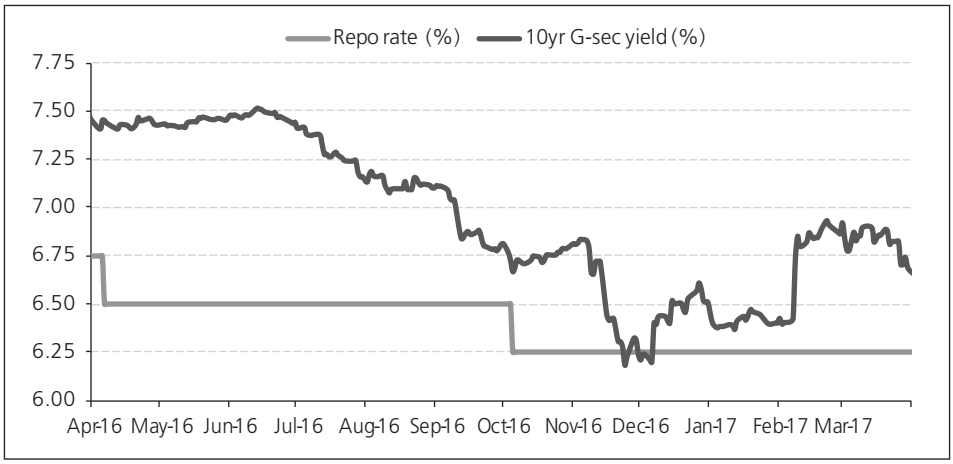
Source: CEIC, Kotak Economic Research

Monetary policy and interest rates

RBI continued with its accommodative stance in FY2017. It started the year by cutting repo rate by 25 bps in April 2016, with focus having moved to liquidity management in a bid to reach neutral banking system liquidity over a period of time. The new liquidity framework was designed to align (then tighter) liquidity conditions with accommodative monetary stance for smoother monetary policy transmission over the medium term. During the year, the disinflationary pressures continued but global event risks also kept RBI vigilant. The baton was passed to the new Monetary Policy Committee (MPC) regime headed by Dr. Urjit Patel as the new RBI Governor in October 2016. The MPC cut repo rate further by 25 bps to 6.25% in October, helped by plunge in food inflation momentum, partly owing to better food management by the Government. However, RBI kept its vigilance on inflation and continued to expect CPI inflation slightly above 5% in the coming months. However in December policy, RBI's tone turned relatively hawkish and RBI changed its stance from accommodative to neutral in the February 2017 policy, premised on upside risk to inflation, limited transient growth drag owing to demonetisation and global risks.

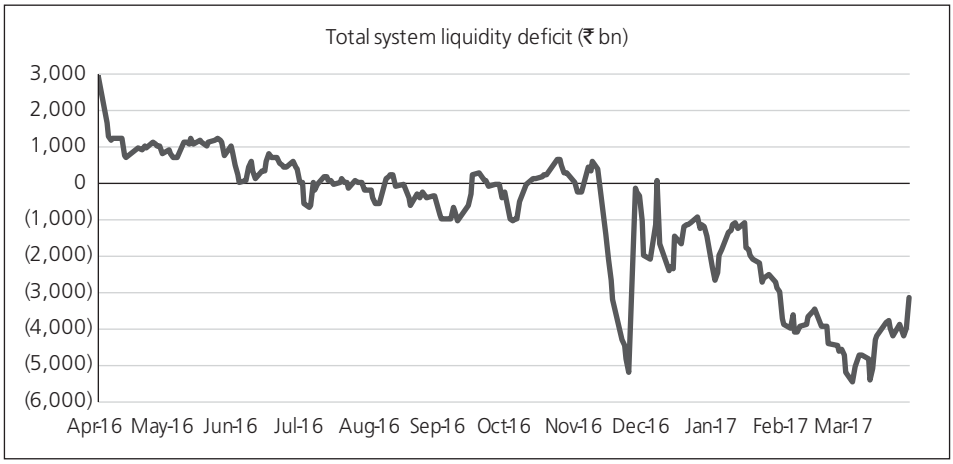
The bond yields started the year with a marginal downward bias, helped by rate cut in April policy and RBI's accommodative stance. Besides, OMO purchases in H1FY2017 also helped bond yields somewhat. However, the bond market dynamics changed dramatically since mid-June. The bond rally was initially triggered by news of former RBI Governor Rajan's exit on June 18, with markets seeming to interpret the change of guard as a shift towards potentially more dovish RBI regime. Besides India enjoyed the global spill over of BREXIT led global bond rally where markets globally believed a limited regional shock is going to result in a significantly easier stance for global monetary policy. The domestic bond rally continued with global rally till around October. However, global yields started hardening post October. November onwards, India rates market saw very divergent dynamics from rest of the world. Even as the global bond sell-off was triggered post the surprise US election outcome, Indian bonds rallied sharply owing to demonetisation of high denomination currency notes. Demonetisation led to consequent increase in banks' deposit base which boosted SLR demand, while strengthening rate cut hopes are amid slow growth and inflation, further helped bonds. The benchmark 10-yr paper yield saw the lows of 6.16% by ~end-November. Mid December onwards, yields started hardening as the demonetisation impact peaked for bonds, while global yields started hardening on Fed's relatively hawkish stance. Bonds further lost momentum after RBI sounded hawkish in December and eventually changed its stance to neutral from accommodative in February – signalling an end to the easing cycle. This unexpected move led to sharp sell-off in bonds. However, due to sudden short squeeze and year-end valuation buying helped bonds ease marginally in March. The benchmark 10-yr paper eased to ~6.68% to end the fiscal year, easing around ~79bps from end-March FY2016. The yield spread with repo rate narrowed to ~43 bps by end-March 2017.

The spread between Repo rate and Benchmark G-sec yield crashed sharply post demonetisation



Source: Bloomberg, Kotak Economic Research

The system liquidity saw a bumper surplus post demonetisation



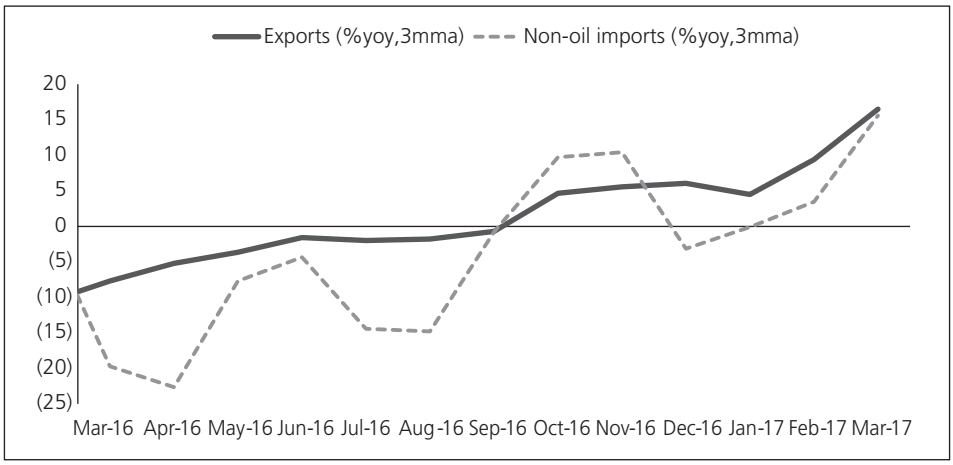
Source: Bloomberg, Kotak Economic Research

External sector dynamics and the USD/INR

It was another comfortable year on external sector front. The economy weathered the sizeable redemption of FCNR deposits in late CY2016, and global volatility associated with the US election and demonetisation. The current account deficit has declined to average 0.7% in first nine months of FY2017 (summing US$11.6 billion), with the last official 3QFY2016 print reporting a comfortable 1.4%. In FY2017, exports as reported by Ministry of Commerce and Industry stood at US$275.5 billion, against US$262.3 billion in the same period last year, registering a growth of 5%. Imports increased a tad 0.4%yoy (~US$ 382 billion), with oil imports increasing 4.5% and non-oil imports contracting a tad ~0.8%. While CAD has been comfortable, the Balance of Payment surplus appears to have increased marginally in FY2017, owing to better foreign portfolio inflows and steady FDI flows. Foreign exchange reserves have risen to US$370 billion by end-March 2017, and are comfortably above the standard norms for reserve adequacy.

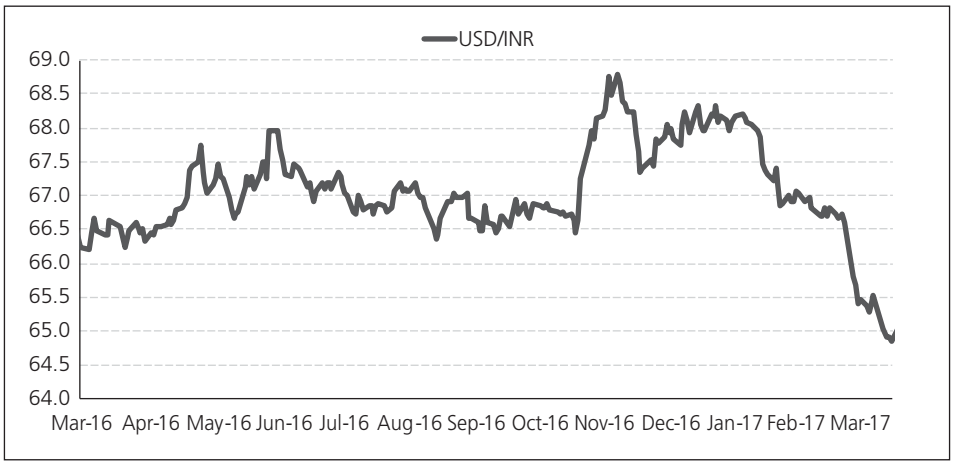
INR also remained mostly resilient, helped by improving macro fundamentals, particularly the external account. We saw bouts of sharp volatilities in INR in 3QFY2017 and in 4QFY2017. We saw INR weaken to ~68.80 against USD in 3QFY2017, partly due to global realignment of risks post US presidential election outcome. However, aided by surge in FII flows due to broad dollar weakness and loss of steam of global reflation there and UP election outcome and GST bill passage, INR saw a strong 4QFY2017. Rupee ended the year at 64.85, rallying by 4.7% by end-4QFY2017 from end 3QFY2017. However on an average, INR depreciated ~2.4% against USD in FY2017.

Exports and imports, both improved during FY2017



Source: CEIC, Kotak Economic Research

INR appreciated sharply during 4QFY2017



Source: Bloomberg, Kotak Economic Research

Demonetisation

On 8th November, 2016, the Government of India announced the demonetisation of all existing ₹ 500 and ₹ 1,000 bank notes. As a result, RBI has withdrawn all the then prevailing ₹ 500 and ₹ 1,000 bank notes as legal tender effective from 9th November, 2016. This policy was introduced to, among other reasons, (i) lower cash circulation in the country as a means of counteracting corruption, which is often directly cash-linked and (ii) eliminate counterfeit money. The demonetisation period also saw a significant increase in digital banking channels, with first-time logins, net banking by value and volume, debit card and credit card customers, cheque book requests, all significantly increasing.

The immediately ensuing adverse impact, caused by limited cash availability, had a downward impact on some of the businesses of the Group, especially those with a non-urban and Business Banking focus. Consequently, the Group saw a short-term decrease in loan growth in our agricultural, tractor, loan against gold and Business Banking portfolios, most of which recovered in the next quarter of the year. The Bank also saw a significant increase in the number of credit cards issued.

Within the liabilities side of our business, the Bank saw a significant increase in current account deposits (CA), savings account deposits (SA) and sweep deposits, as a result of which CASA ratio of the Bank significantly improved. The Bank's standalone CASA ratio was 38.1% and 44.0% as of 31st March, 2016 and 31st March, 2017 respectively.

CONSOLIDATED FINANCIAL PERFORMANCE

The Bank along with its subsidiaries (the Group), offers a wide range of financial products and services to its customers. The key businesses are commercial banking, investment banking, stock broking, car finance, asset management, life insurance and general insurance.

The Group has seen a steady and sustainable shift in its overall business mix to relatively stable lending businesses from capital markets-driven revenue streams. The financing business now contributes to 85% of the consolidated PBT mix as compared to 43% in FY2008. The capital market business now contributes to around 8% of the consolidated PBT mix as compared to 53% in FY2008. The Insurance and Asset management contribution has increased to 7% in the current year consolidated PBT mix as compared to 4% in FY2008. The diversified business profile of the Group allows it to sustain healthy profitability despite cyclicality in some of its businesses. With the improved macro-economic conditions, the capital market business contribution to the profits of the Group can increase significantly.

The Group had a net worth of ₹ 38,490.8 crore as on 31st March, 2017 (₹ 33,360.6 crore as on 31st March, 2016) and book value per share at ₹ 209.1 (₹ 181.9 as on 31st March, 2016). The Group earned a Return on Average Assets (RoAA) of 1.95% in FY2017 (1.55% in FY2016). FY2016 included higher provisions on account of retiral benefits for erstwhile ING Vysya Bank (eIVBL) employees under Indian Banks' Association (IBA) structure, integration costs and additional provisions from eIVBL book.

The Bank and major entities of the Group continued to be rated "AAA" rating during the year.

The entity wise net worth of the Group is as follows:

(₹ in crore)

	31st March, 2017	31st March, 2016
Kotak Mahindra Bank	27,616.1	23,959.1
Kotak Mahindra Prime	4,227.1	3,851.7
Kotak Mahindra Investments	1,037.5	841.1
Kotak Securities	2,995.9	2,634.7
Kotak Mahindra Capital Company	493.2	447.6
Kotak Mahindra Old Mutual Life Insurance	1,824.7	1,521.4
Kotak Mahindra General Insurance	90.3	125.0
Kotak Mahindra AMC & Trustee Co	228.5	172.9
International Subsidiaries	693.7	623.9
Kotak Investment Advisors	276.9	270.9
Other Entities	354.0	42.7
Total	**39,837.9**	**34,491.0**
Add: Share in associates	749.7	679.5
Less: Minority, inter-company and other adjustments	2,096.8	1,809.9
Consolidated Net worth	**38,490.8**	**33,360.6**

The consolidated performance for FY2017 is as follows:

(₹ in crore)

Particulars	FY2017	FY2016
Total income	33,983.8	28,032.4
Consolidated networth	38,490.8	33,360.6
Earnings per share (diluted) (₹)	26.9	18.9
Book-value per share (₹)	209.1	181.9
Net interest margin (NIM) %	4.49%	4.37%
Return on average assets (RoAA)	1.95%	1.55%
Return on average networth %	13.80%	11.02%
Net NPA %	1.09%	0.93%
Consolidated capital adequacy ratio (CAR) %*	17.23%	16.97%
Tier I*	16.52%	16.11%

** Capital Adequacy Ratio and Tier I Ratio is computed as per Basel III norms issued by RBI.*

The financial results of subsidiaries are explained later in this discussion but a snapshot of the entity-wise Profit before Tax (PBT) and Profit after Tax (PAT) of the Group is as follows:

(₹ in crore)

	FY2017		FY2016	
	PBT	PAT	PBT	PAT
Kotak Mahindra Bank	5,148.1	3,411.5	3,123.7	2,089.8
Kotak Mahindra Prime	787.8	514.8	772.6	502.3
Kotak Mahindra Investments	290.1	196.4	235.9	153.9
Kotak Securities	543.3	361.3	381.0	250.7
Kotak Mahindra Capital Company	60.6	45.6	46.4	32.4
Kotak Mahindra Old Mutual Life Insurance	342.7	303.3	281.9	250.7
Kotak Mahindra General Insurance	(34.7)	(34.7)	(9.7)	(9.7)
Kotak Mahindra AMC & Trustee Co	84.0	55.7	90.3	72.0
International Subsidiaries	98.1	86.0	114.0	105.0
Kotak Investment Advisors	6.1	5.9	7.5	4.7
Others	7.9	5.3	2.4	1.6
Total	**7,334.0**	**4,951.1**	**5,046.0**	**3,453.4**
Minority Interest, Equity Affiliates and Others		(10.7)		5.4
Consolidated PAT		**4,940.4**		**3,458.8**

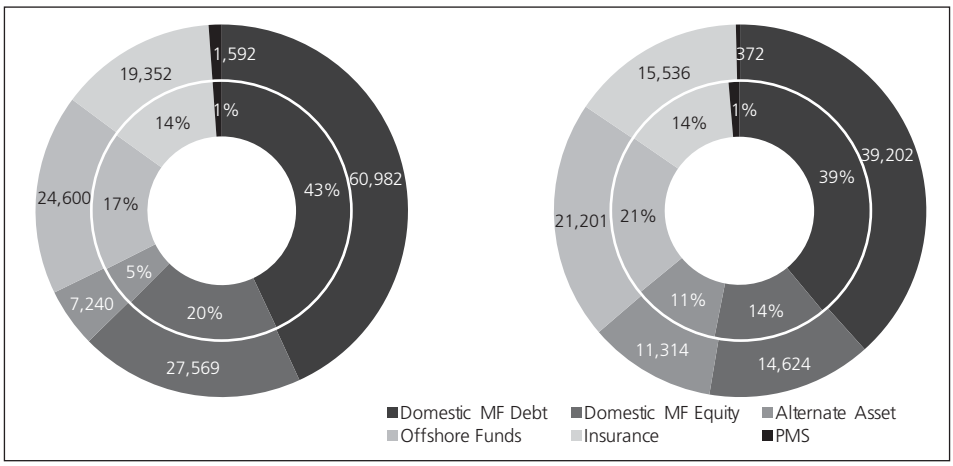
The contribution of the affiliates to the net profit of the Group is as follows:

(₹ in crore)

Name of the Company	Investment by Kotak Group	% shareholding of the Group	Group's share for FY2017
ACE Derivatives and Commodity Exchange Ltd	46.8	40.00%	0.2
Infina Finance Pvt Ltd	2.0	49.99%	57.4
Phoenix ARC Pvt Ltd	99.3	49.90%	11.3
Matrix Business Services India Pvt Ltd	1.7	19.77%	1.2

Assets under Management (AUM) as on 31st March, 2017 were ₹ 141,336 crore (previous year ₹ 102,249 crore), comprising assets managed and advised by the Group. The split of the AUM is as follows:

AUM - ₹ 141,336 crore – 31st March, 2017 **AUM - ₹ 102,249 crore – 31st March, 2016**



The Group has a wide distribution network through branches and franchisees across India, an International Business Unit at Gujarat International Finance Tec-City (GIFT city), Gujarat, and international offices in London, New York, Dubai, Abu Dhabi, Mauritius and Singapore. The Group has also received the RBI approval to set up a bank branch in Dubai International Financial Centre (DIFC).

Bank, Its Subsidiaries and Its Associates: Financial and operating performance

Bank Highlights

Kotak Mahindra Bank (the Bank) is the flagship company of the Kotak Group, and has a diversified business profile covering consumer loans, corporate finance and commercial vehicle financing. The Bank has launched its International Banking Unit (IBU) in GIFT city (Gandhinagar) in May, 2016, which offers foreign currency loans and deposits to corporates.

Profit before tax of the Bank for FY2017 was ₹ 5,148.1 crore as against ₹ 3,123.7 crore for FY2016. Profit after tax of the Bank was ₹ 3,411.5 crore in FY2017 compared with ₹ 2,089.8 crore in FY2016. The financial results of FY2016 were impacted by higher provision for retiral benefits for erstwhile ING Vysya Bank (eIVBL) employees under IBA structure, integration costs and additional provisions from eIVBL book. RoAA for FY2017 was 1.73% compared to 1.19% for FY2016.

PROFIT AND LOSS ACCOUNT

A synopsis of the Profit and Loss Account is presented below:

(₹ in crore)

Particulars	FY2017	FY2016
Net interest income	8,126.1	6,900.4
Other income	3,477.2	2,612.2
Net total income	**11,603.3**	**9,512.6**
Employee cost	2,744.6	2,804.0
Other operating expenses	2,873.9	2,667.5
Operating expenditure	**5,618.5**	**5,471.5**
Operating profit	**5,984.8**	**4,041.1**
Provision & contingencies (net)	**836.7**	**917.4**
- Provision on advances (net)	690.9	768.7
- Provision on other receivables	6.6	12.4
- Provision on investments	139.2	136.3
PBT	**5,148.1**	**3,123.7**
Provision for tax	1,736.6	1,033.9
PAT	**3,411.5**	**2,089.8**

Net Interest Income:

Net Interest Income (NII) of the Bank for FY2017 was ₹ 8,126.1 crore compared to ₹ 6,900.4 crore for FY2016. The Bank had a Net Interest Margin (NIM) of 4.49% for FY2017 compared to 4.30% for FY2016. The increase in NIM was primarily on account of:

- Decrease in cost of funds by around 70 bps primarily due to increase in average CASA deposits and decrease in cost of deposits;
- Increase in average advances by 13.7% and average earning investments by 9.1% and
- Interest on income tax refund received in FY2017.

The above increase was offset, in part, by decrease in yield on interest-earning assets by around 40 bps due to decrease in yield on advances and investments and higher reverse repo transactions with RBI and inter-bank balances.

Non-Interest Income:

The details of non-interest income is provided in the table below:

(₹ in crore)

Particulars	FY2017	FY2016
Commission, exchange and brokerage	2,120.7	1,764.4
Profit on sale of investments	441.6	213.2
Profit on exchange/derivative transactions	528.4	421.9
Profit on recoveries of non-performing assets acquired	229.6	113.0
Income from subsidiaries/associates	80.4	76.9
Dividend from subsidiaries	3.4	3.9
Others	73.1	18.9
Total other income	**3,477.2**	**2,612.2**

Non-interest income increased from ₹ 2,612.2 crore in FY2016 to ₹ 3,477.2 crore in FY2017 primarily due to:

- Increase in commission, exchange and brokerage income primarily on account of increase in loan processing fees, credit card fees and third party referral fees for insurance and mutual fund product distribution;
- Increase in profit on sale of investments primarily government securities and increase in profit on exchange/derivative transactions compared to previous year;
- Increase in profit on recoveries of non-performing assets acquired and
- Income received from sale of PSL certificates.

Employee Cost

Employee expenses of the Bank have decreased to ₹ 2,744.6 crore for FY2017 compared to ₹ 2,804.0 crore for FY2016 primarily due to -

- Lower provision for retiral benefits in FY2017 compared to FY2016 and
- This was offset, in part, by increase in staff strength to an employee base of around 33,000 as on 31st March, 2017 from around 31,400 as on 31st March, 2016.

Other Operating Expenses

Other operating expenses were ₹ 2,873.9 crore for FY2017 compared to ₹ 2,667.5 crore for FY2016 primarily on account of:

- Increase in the branch and ATM network, leading to higher infrastructure expenses i.e. premises cost and depreciation cost;
- Increase in repairs and maintenance primarily due to refurbishment of branches and relocation of eIVBL branches;
- Increase in charges levied by VISA due to increase in credit and debit card transactions;
- Expenses on purchase of PSL certificates and
- Increase in expenses like professional charges, brokerage and insurance expenses consistent with increase in business.

Provisions and Contingencies (excluding tax)

Provisions and contingencies (excluding tax) were ₹ 836.7 crore for FY2017 compared to ₹ 917.4 crore for FY2016 primarily due to:

- Lower specific provision in FY2017. Credit cost was 61 bps for FY2017 compared to 82 bps for FY2016 and
- This was offset in part, by increase in provision for standard assets and provision on security receipts.

The reportable segments of the Bank as per RBI guidelines are as under:

(₹ in crore)

Segment	FY2017	FY2016
Corporate / Wholesale Banking	2,670.4	2,030.4
Retail Banking	1,194.7	916.6
Treasury, BMU and Corporate Centre	1,283.0	176.7
PBT	**5,148.1**	**3,123.7**

BALANCE SHEET

The assets and liabilities composition of the Bank is as follows:

(₹ in crore)

Liabilities	31st March, 2017	31st March, 2016
Networth	27,616.0*	23,959.1
Deposits	157,425.9	138,643.0
- Current Account Deposits (CA)	27,760.8	23,281.7
- Savings Account Deposits (SA)	41,503.9	29,494.7
- Term Deposits (TD) Sweeps	10,078.5	6,947.5
- Other TDs	78,082.7	78,919.1
Borrowings	21,095.5	20,975.3
Other Liabilities and Provisions	8,452.6	8,682.4
Total	**214,590.0**	**192,259.8**

(₹ in crore)

Assets	31st March, 2017	31st March, 2016
Cash and Bank Balances	22,572.0	10,879.7
Investments	45,074.2	51,260.2
- Government Securities	36,189.9	40,761.0
- Other Securities	8,884.3	10,499.2
Advances	136,082.1	118,665.3
Fixed Assets and Other Assets	10,861.7	11,454.6
Total	**214,590.0**	**192,259.8**

** In accordance with AS 4 (revised) – "Contingencies and Events Occurring After the Balance Sheet Date", the impact of dividend declared will be given post shareholders' approval.*

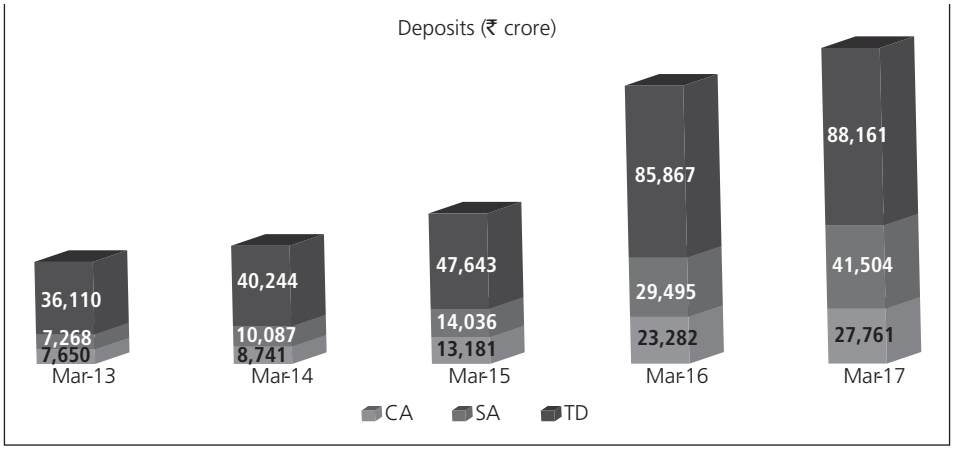
The Bank's capitalisation levels remain one of the strongest in the industry with overall CRAR at 16.8% (Tier I ratio of 15.9%) as compared to 16.3% as on 31st March, 2016 (Tier I ratio of 15.3%).

Deposits

The core of the Bank's strategy is to build low cost and stable liability on which the Bank has been working over the past few years. The Bank's deposits grew to ₹ 157,425.9 crore as on 31st March, 2017 compared to ₹ 138,643.0 crore as on 31st March, 2016. CASA deposits increased to ₹ 69,246.7 crore as on 31st March, 2017 to ₹ 52,776.4 crore as on 31st March, 2016. The increase in CASA was largely due to:

- Synergies from the eIVBL merger, which helped the Bank to access larger customer base than it had before the merger;
- Demonetisation and
- High savings rate offered by the Bank.

CASA plus term deposits below ₹ 5 crore, account for 73% of the total deposits.



The numbers for 31st March, 2015 and prior are not comparable due to merger of eIVBL, effective 1st April, 2015.

Advances

The classification of advances of the Bank is as follows:

(₹ in crore)

Segment	31st March, 2017	31st March, 2016
Corporate Banking	41,703.1	34,277.5
Commercial Vehicles & Construction Equipment (CV/CE)	10,827.0	7,873.8
Agriculture Division	18,968.7	17,582.5
Business Banking	17,884.1	17,997.1
Home Loans and Loan Against Property (LAP)	26,120.9	23,009.4
Small Business, Personal Loans & Credit Cards	17,386.5	14,947.8
Other Loans	3,191.8	2,977.2
Total Advances	**136,082.1**	**118,665.3**

Advances as per RBI segmental classification:

(₹ in crore)

Segment	31st March, 2017	31st March, 2016
Retail	55,237.3	52,583.6
Corporate	80,844.8	66,081.7
Total	**136,082.1**	**118,665.3**

Advances have primarily been driven by growth in:

- Corporate Banking book as a result of the Bank's focus on growing its corporate loan portfolio;
- Commercial Vehicle and Construction Equipment book as a result of the Bank's conscious decision to increase its lending to these category of loans based on its risk assessment of these category of loans and also due to lower base effect and
- Retail advances - Small business, Personal Loans and Credit Cards as a result of a general increase in demand in these markets.

Asset Quality

While there has been some stress in segments such as Business Banking, Agriculture division, Personal Loans and Corporate accounts, the Bank has an overall healthy asset quality.

RBI had allowed a 60 or 90 days dispensation on recognition of NPAs during demonetisation. Banks were permitted to defer the downgrading of an account (across certain loans) that was standard on 1st November, 2016 and would have become NPA for dues payable during the period from 1st November, 2016 to 31st December, 2016 by 60 or 90 days. The Bank has deferred the downgrade of certain accounts as a result of this dispensation beyond 31st March, 2017.

The position of Gross and Net NPA is as under:

(₹ in crore)

Particulars	31st March, 2017	31st March, 2016
Gross NPA	3,578.6	2,838.1
Gross NPA %	2.59%	2.36%
Net NPA	1,718.1	1,262.0
Net NPA %	1.26%	1.06%

The net restructured advances considered standard as on 31st March, 2017 are ₹ 101.7 crore (0.07% of net advances). Further, during FY2017, the Bank has not sold any of its loans to Asset Reconstruction Company, no 5/25 loans, no rectification of standard asset and no new CDR case. Total SMA2 outstanding as on 31st March, 2017 was ₹ 130.8 crore (0.10% of net advances).

A brief analysis of the performance of various divisions of the Bank is as follows:

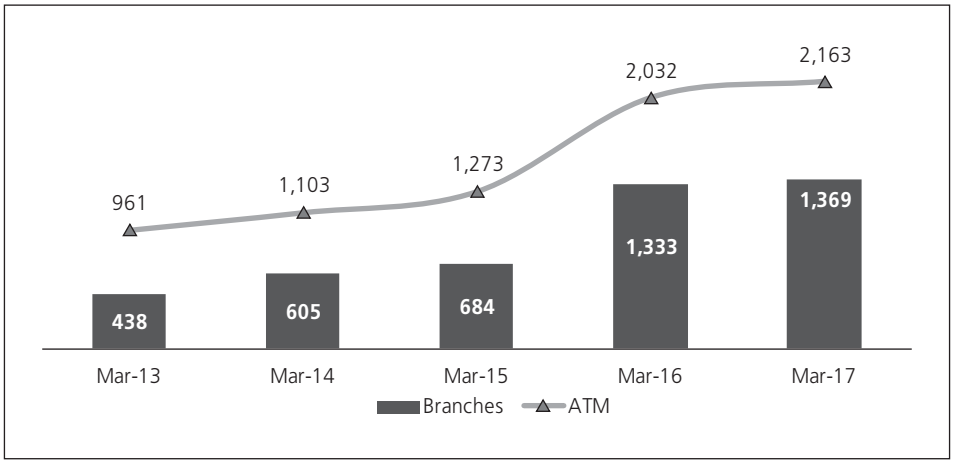
Consumer Banking

Branch Banking

The Bank has continued its growth journey powered by a calibrated expansion of its network, increase in deposit base, higher focus on segmental banking and cross dimensional qualitative initiatives.

Network

The Bank added 36 branches during FY2017 taking the total branch count to 1,369 branches across 689 locations and 2,163 ATMs as on 31st March, 2017.



The numbers for 31st March, 2015 and prior are not comparable due to merger of eIVBL, effective 1st April, 2015.

Key Initiatives

Some of the key initiatives taken during the year which helped provide a differential offering were:

I. Products and Services

- Kotak 811 - India's first mobile based account opening platform using Aadhar OTP, where customers can open an account with their Aadhaar details. This product is available within the mobile banking app, allowing the customers to proceed to digital banking services through the application seamlessly. Customers can set their PINs during the process and they also get a virtual debit card. It brings down the time taken to onboard a customer from 4-7 days to 2-3 minutes, thereby offering customer delight. It eliminates dependency on manual processes and brings down costs since the product has no physical deliverables.
- Bank focused on activities like Aadhaar penetration and digital activation of customers. Digital penetration on active base increased to 51.5%, while Aadhaar seeding is at 25% of the base.
- Strategy of segmented approach continues to yield benefits. Segment focused Savings programs like Silk, Grand and Junior continue to show significant growth YOY. Silk base at ₹ 1,942 crore grew by 95% over FY2016. Grand, our program for 55+ segment grew by 153% to ₹ 930 crore and Junior (Junior along with Guardian) grew by 135% to reach ₹ 1,212 crore. The MY FAMILY program, focused on enabling banking engagement of entire household, reaped excellent benefits with customer base growing to upward of 20,000 accounts and savings book of ₹ 219 crore in short span.
- Corporate Salary business introduced a niche team of Premier Acquisition Managers to tap every growing boutique and niche smaller firms in finance; technology and start-up segment and on-boarded over 35 large niche corporates this year.
- Privy League Program: The Privy League program now services more than 4.3 lac customers. A new tier- "Maxima" was launched across Commercial Bank branches to cater to customers in semi urban/ rural locations. A Privy League branded variant of the "Delight" credit card with exclusive benefits, was also launched for our Privy League Prima customers.

II. Customer Convenience

Digital Initiatives

Saving Account Transformation

- Launched Biometric based account opening for new to bank customers which can be accessed through an Android smartphone. This is a 10 minute account opening experience with no documentation and straight through processing by pulling Aadhaar data from UIDAI. 10,000+ accounts activated since inception.
- Revamped the existing Corporate Salary Tab Banking app for on-boarding customers quickly. Approx. 25% of the sourcing is done through this mode across 9 live locations by more than 400 users.
- Introduced a unified lead management system cum activity tracker. This can be accessed & updated "on the go" by the Acquisition team using an Android smartphone. Further this aids tracking of the lead lifecycle from creation to closure.

Mobile Banking

Launched Pre-approved Personal Loan on Mobile Banking for salaried customers. This enables a pre-qualified customer to get personal loan while logged into the Mobile Banking and the disbursed amount is instantly credited to customer's banking account.

- Launched Personal Loan in 72 hours on Mobile Banking for selected customers. Selected customers can apply within the app and, if approved, the amount will be disbursed into customer's bank account;
- Personal Loan on Credit Card for selected customers;
- Apply for Credit Card: Selected customers can apply for offered credit card. This is a completely paperless process and the card will be dispatched to customer's address on successful application;
- Activate/Deactivate Debit Card: Customer will be able to Activate or De-activate debit cards;
- ASBA (IPO) on Mobile Banking: Customers will be able to apply for IPOs and also know status of the bid and allocation details;
- Scan & Pay: Customers will be able to do card-less transactions on selected merchants by scanning QR code. Customer can select the debit or credit card from which the amount has to be deducted;
- UPI: Customer can create a VPA (Virtual Payment Address) for his Kotak accounts and also do a UPI transaction with any bank;
- Credit Card Limit Increase – Selected customers will be able to increase the limit on their credit card to the offered limit and
- Credit Card Upgrade – Selected customers will be able to upgrade their credit card to the offered card.

The Bank is amongst the top 5 banks in mobile transactions, both in terms of value and volume. The Bank's market share in mobile transactions is 3.9 % (₹ 6,705 crore) by value and 3.9% (44.7 lakh) by volume in Mar 2017

Net Banking

- Introduced option to update Profile details like mobile number, email ID, correspondence address, Aadhaar number etc. through Net Banking. Customer can instantly update the details online;
- Launched DigiLocker, which will enable customer to connect with Aadhaar base Digital locker seamlessly through Net Banking;
- Customer can now submit Form 15 G/H online through Net Banking and the waiver will get marked instantly in the system;
- Customer can enroll for Atal Pension Yojana online through Net Banking;
- Option to apply for Image Debit Card through Net Banking has been enabled;
- Launched Personal Loan in 72 hours on Net Banking for pre-approved customers. Loan amount will be disbursed within 72 hours and credited into customer's bank account and
- Preapproved Personal Loan on Credit Card to selected customers.

Innovation Lab

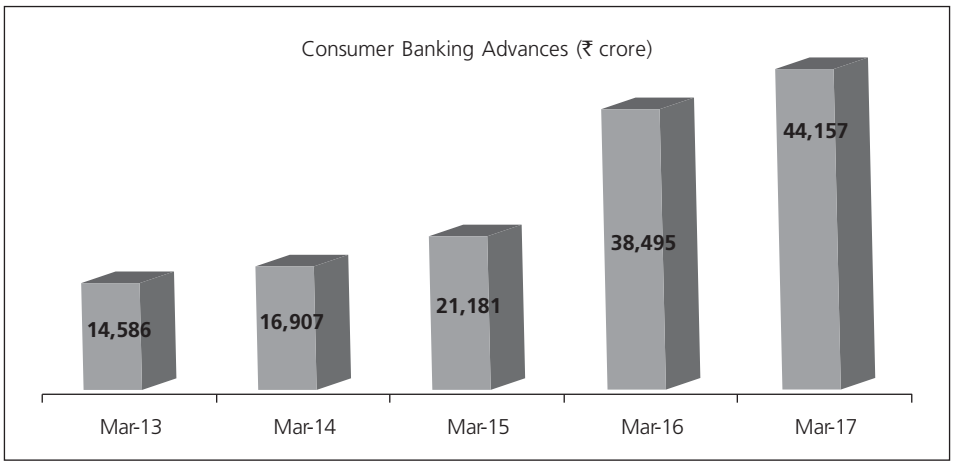
- Incubation of ideas and technologies – AI, Blockchain, Security and Analytics. Execution of proofs of concept for emerging use cases;
- Setup Design studio in Bengaluru to drive User Experience and UI engagement across all digital channels;
- Launched Digital Lending Challenge to identify potential FinTech partners for collaboration and
- Collaboration with NASSCOM to identify potential SME service providers for SME ecosystem.

Digital Payments

- Scan & Pay: Customers will be able to make paperless transactions to selected merchants by scanning the merchant QR code. This option is available for both mVISA and Bharat QR standards and the customer can select debit or credit card. Currently made available on Android.
- UPI: Customer can create a unique Virtual Private Address for his Kotak account and use the UPI framework to send and receive money to and from any bank in India.
    - mStore: Multiple new partnerships have been added to mStore to increase the number of eCommerce categories within the Kotak Mobile Banking App. These partnerships were with the following brands:
    - PVR: One of the top movie cinema franchises in India;
    - Flipkart: One of the most popular eCommerce marketplaces in India;
    - 10kya: One of the largest stores for your passion such as sports, adventure, hobbies, etc;
    - MobilePay: Make cashless payments at your nearest F & B stores and
    - Indiamags: One of the widest collection of magazine subscriptions.

Consumer Assets

The Consumer Assets business maintained its growth trajectory across the wide range of products offered by the Bank. Trend of Consumer Bank advances outstanding over the last five years is as below:



The numbers for 31st March, 2015 and prior are not comparable due to merger of eIVBL, effective 1st April, 2015.

Credit card business has 10.4 lakh cards in force as on 31st March, 2017. YoY spends have grown at 47.3%.

Under this portfolio, the Bank offers a wide range of products from secured and unsecured business loans to loans against properties to working capital finance. This business has grown its book by 16% in FY2017 with significant business coming from active engagement with existing liability customers of the Bank.

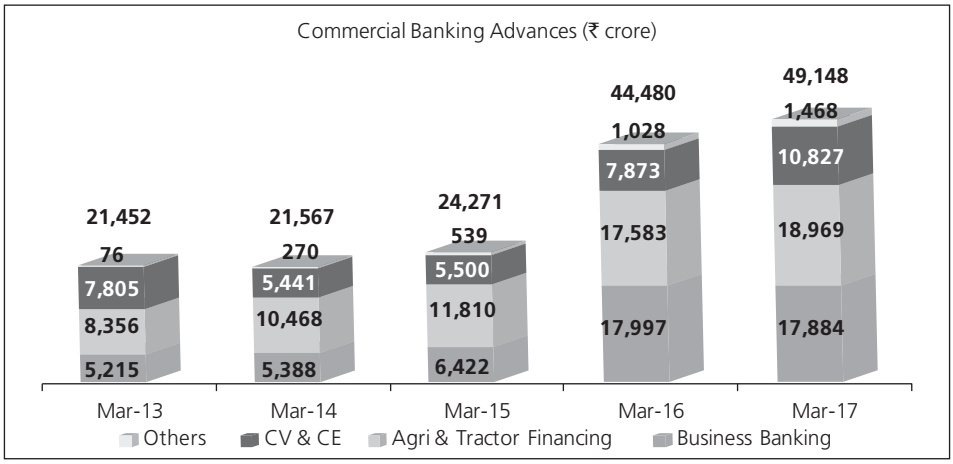
In FY2017, ATM network serviced 7.6 crore transactions, which is 22.8% more than last year. Of this, 6.3 crore were cash withdrawals.

POS spends for the year grew by 87% (including e-Commerce) with the overall spends at ₹ 5,919.2 crore and total spends through payment gateway for online shopping were a very healthy at ₹ 5,844.3 crore, a jump of 89.0% over last year. Transactions through Bill pay and Visa Money Transfer increased by 49.4% for a value throughput of ₹ 1,189.8 crore.

Commercial Banking

The Commercial Banking business focuses on meeting the banking and financial needs of various segments. It partners Small and Medium Enterprises (SMEs) across the country and provides financing in the manufacturing, trading and service industry. The Commercial Bank has specialised units which offer financial solutions in the areas of commercial vehicles, construction equipment, tractor, gold loans and agriculture business. It services the priority sector by providing finance for tractor, crop loans, small enterprises and allied agricultural activities. The business plays a significant role in meeting financial inclusion goals and financing deep into 'Bharat' through an expanding network of branches and associates.

Split of commercial advances over the last five years is as below:



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Following the merger with the erstwhile ING Vysya Bank, the SME/Business Banking portfolio was consolidated during the year, which has resulted in creating efficiency and a wider customer base. While the advances growth in SME/Business Banking is flat for the year ended 31st March, 2017, the demand from the sector has picked up in the last quarter. The stress levels in the sector stabilised considerably in the second half.

The Commercial Vehicle (CV), Construction Equipment (CE) and Tractor Finance businesses reported significant growth and gained market share in their respective businesses. The demand for commercial vehicles was primarily led by replacement and regulatory changes such as revised body specifications and transition from BSIII to BSIV. Further, Government spending in the infrastructure sector has led to a strong demand in the CE industry. The growth in the tractor finance portfolio was driven by higher tractor sales following a good monsoon. The overall delinquency percentage of the CV, CE and tractor finance portfolios has reduced.

The Agriculture Financing business continued its focus on the agriculture value chain funding for various agro processing activities. It has registered growth despite volatility and uncertainty in the commodities market. Further, the Bank has expanded its crop loan business, so far concentrated in Punjab and Haryana, to Western and Central India.

Branches in Semi-urban and Rural area comes under the umbrella of Commercial Bank. During the year bank completed integration of branches of eIVBL in these areas taking total strength to 440 branches under commercial bank (Out of total 1,369 bank branches). This network plays a crucial role in meeting the financial inclusion goals and credit demand of 'Bharat'.

Corporate Banking

The Bank's Wholesale Business has a number of business groups catering to various customer and industry segments viz. Conglomerates and Large Corporates, Mid-market Corporates, Financial Institutions, Multinational Corporates and Commercial Real Estate offering a wide range of banking services covering their working capital, medium term finance, trade finance, foreign exchange services, supply chain, cash management & other transaction banking requirements. The focus has been on customised solutions delivered through efficient technology platforms backed by high quality service. The Bank's core focus has been to acquire quality customers on a consistent basis and ensure value add through cross sell of the varied products and services.

The business strategy in the large corporate segment has been to build franchise with top tier corporates as well as deepen the existing relationships with synergies across business verticals. The mid-market strategy is clearly driven by targeted client acquisition and becoming one of the preferred bankers to the corporates. The Bank has put in place an Integrated Corporate and Investment Banking (CIB) model for conglomerates and large corporate groups. The year saw a stabilisation of the CIB model and the Bank has been able to increase both its banking wallet share and its investment banking business with these corporates.

Bank has focused on increasing its share of the large & mid corporate space. Given the slow credit off-take in the economy, the Bank has been focused on growth through growth of market share. There has been equal focus on gaining new customers as well as gaining wallet share in existing customers. In view of the macroeconomic scenario, exposure was confined to segments with credit comfort in terms of better rated exposure and industries with a positive outlook.

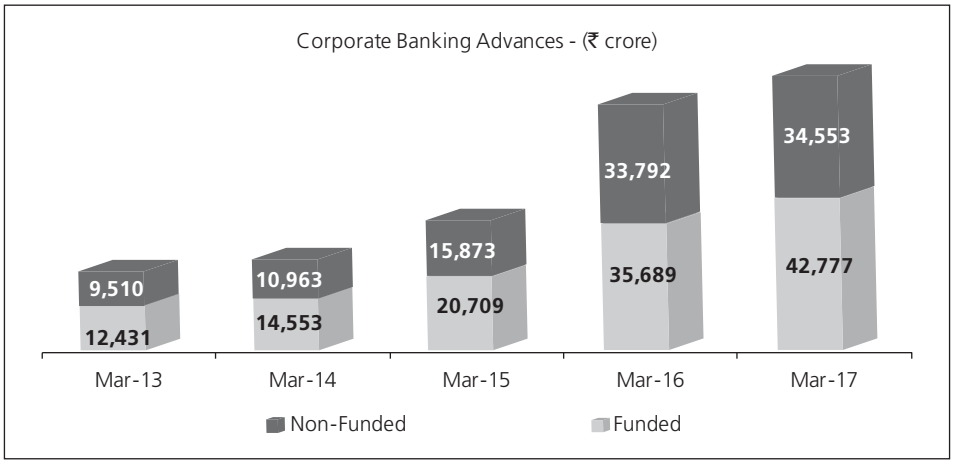
Transaction Banking Group in the Bank continued to focus on acquiring clients through in-depth understanding of client requirements and ability to deliver tailored solutions in both Trade & Cash Management businesses. Driven by innovation, leveraged on robust technology and specialised product solutions, the Bank has been able to consistently add value to transaction banking clients across Cash Management & Trade Services. This has helped its clients achieve optimised working capital & liquidity management benchmarks. We are active participants in the Global Trade Finance Program (GTFP) programme offered by IFC, Washington.

The Bank has been able to improve its share of fee based services, and to improve current account deposits. The product offering includes Documentary Credits, Bank Guarantees, Export Credit, Supply Chain Financing, Factoring, amongst others. The growth in fee based income was a result of higher trade, foreign exchange and debt syndication services. The growth in current account balances was driven by products like cash management services, supply chain management services, escrow account services and other transaction banking services.

Custody and other capital market linked businesses have witnessed a strong growth in the year on the back of robust capital markets and increased activity in both primary and secondary markets. The Bank provides a range of fund based and non-fund-based services to Capital Market intermediaries and custody and derivative clearing-services to domestic and foreign institutional-investors. The focus has been on product innovation and risk management through efficient technology platforms backed by high quality service.

The Bank has also set up its GIFT City branch this year and this has helped the Bank to participate in the syndication of overseas loans.

The mix between funded and non-funded for last five years is as follows:



The numbers for 31st March, 2015 and prior are not comparable due to merger of eIVBL, effective 1st April, 2015.

The Bank has put in place a Risk Adjusted Return on Capital (RaRoC) pricing model that has helped to optimise pricing and better judge the risk return balance. It is in part due to the findings from this RaRoC model that the Bank has consciously focused on growing the Fund Based book faster than the Non-Fund Based book.

The risk appetite of the bank mandates a well-diversified portfolio. The Bank has laid down exposure limits for various industries. These are reviewed periodically based on industry performance. The Bank has an industry research group that rates industries on an internal scale and defines the outlook towards various industries which forms an input to management in defining industry strategies.

The Bank continually monitors portfolio diversification through tracking of industry, group and company specific exposure limits. The entire portfolio is rated based on internal credit rating tool, which facilitates appropriate credit selection & monitoring. The portfolio continued to show robust characteristics throughout the year.

Treasury

Post-merger of eIVBL, the treasury teams have emerged stronger and started the year on a sure footing. However, event based volatility was probably the central theme of FY2017 which will be remembered by the markets for three major events - BREXIT, outcome of US presidential elections and Demonetisation of the Indian economy.

Expectations of lower interest rates, mildly correcting crude and commodity prices, sluggish growth in Euro zone, Japan and China were major themes at the beginning of FY2017. RBI continued on the path of accommodative policy in early part of FY2017; while the major Central Banks retained accommodative stance, the US FED stayed on a cautious path of policy normalisation. However, in the second half of FY2017, global reflation amid gradual economic recovery began shaping up the forward guidance of major Central Banks, raising concerns of more broad-based policy normalisation.

Global markets headed into 'risk-off' modes in the immediate term immediately after the above events. As further clarity on events emerged, some of the 'risk off' impacts were negated. Crude prices stabilised in the $50-$55 range. The US 10YT after touching a low of 1.3%, rebounded to 2.4% by end of year.

India remained a shiny spot in a global market which kept alternating between clouds and sunshine. Domestic markets – somewhat benefitted from global turmoil. Global investors put in about $8.5billion into Indian equity markets in FY2017.

USD-INR remained in the 66.00 – 68.25 in Q1FY2017. After an initial reaction to BREXIT, USD-INR stabilised in the 66.50 – 67.20 range; 10Y Gsec Yield also remained range bound in the earlier part of FY2017 between 7.4% – 7.6% even as RBI moved its liquidity stance to accommodative. Yields realigned lower between 6.7% – 6.9% by October 2016 led by expectations from change in helm at RBI. Front loaded Open Market Operations (OMO) purchases further supported the Indian bond markets.

Announcement of demonetisation by the Prime Minister on 8th November, 2016 took the markets by complete surprise. While global markets were reacting to the unexpected win of Mr. Trump in the US Presidential elections, Indian markets moved only on the domestic trails. Surge in system liquidity, business uncertainties and temporary blip in priorities were dominant during this period. In the initial fortnight – 8th November, 2016 to 24th November, 2016, Rupee weakened from 66.51 to 68.86 on account of a global USD rally following Trump victory in the US elections; 10Y Gsec Yield dipped from 6.8% to 6.2% following the deluge in banking system liquidity; NIFTY moved from 8,543 to 7,965. While India worked to make demonetisation a success, the world took notice of this massive effort. Foreign investors poured about $6.7 billion in equity markets in the last quarter – raising NIFTY to 9,173 at the end of FY2017. Additionally, $4.5 billion of inflows were seen in the debt market in Q4FY2017. The surge in foreign flows was aided by global risk-on led by Dollar weakness and loss of steam of global reflation story. Additionally, domestic factors like RBI's shift in monetary policy stance in February 2017 from "accommodative" to "neutral" and a strong political mandate for the ruling party in UP elections coupled with passage of the GST bill further aided the sentiments. Consequently, Rupee ended the year at 64.85, rallying by 4.7% in Q4FY2017, logging its best performance since 1975. 10Y Gsec Yield ended the year at 6.7%.

The Treasury Fixed Income Trading Desk – maintained a positive outlook balanced with abundant caution. The portfolio durations were efficiently moved in anticipation of the opportunity – within the overall risk framework and under the oversight of the Bank's Asset Liability Committee (ALCO), which also functions as the Investment Committee. Well thought and composed positions yielded a desired outcome for the year. The Primary Dealer (PD) desk at Treasury, in addition to gainful positioning on the Trading portfolio, also improved upon its capability of distribution and retailing of sovereign securities. The PD desk maintained its track record of surpassing its regulatory obligations of bidding and success ratios in primary auctions and trading volumes in the secondary market for Government Securities.

The Treasury FX Trading desk took measured and calibrated positions in an eventful market with positive outcomes.

The relative economic weakness in significant trade partner countries led to some slowing of export and import flows in India. Notwithstanding, Treasury successfully maintained its focus on expanding the foreign exchange flows from client businesses. Treasury also continued its endeavor in technology initiatives and continued to harness technology for delivering superior service to its customers.

The Treasury Bullion desk continued its strategy of building the annuity book of Gold Loans – achieving stability and sustained profitability. The Bank was adjudged "Best Bullion Bank in India" by Indian Bullion and Jewellers Association.

The Balance sheet Management Unit (BMU) continued to maintain a prudent stance on the ALM of the Bank. The RBI policy initiative of easing liquidity did result in ebbing of near term funding rates. Incremental system liquidity as a result of Demonetisation further added to liquidity surplus in the system. While efficiently meeting the reserve requirements and maintaining optimal funding mix, the BMU also successfully maintained appropriate liquidity buffers as per the norms of the Liquidity Coverage Ratio (LCR) guidelines.

The ALCO continued to maintain constant and close vigil on the Market Risk, Interest Rate and Liquidity Gaps, counterparty and country exposures.

Technology

The merger of all technology systems of the eIVBL with Kotak Mahindra Bank's systems was concluded. With this integration, all staff in the merged entity have a standardised technology environment to work in; from call center telephony to desktops and networks. This has enabled seamless communication and collaboration amongst the Bank's personnel. The merger and rationalisation of four data centers down to two data centers has resulted in streamlined technology operations with financial gains ensuing from the synergies. The Bank's customers are all now serviced out of a single set of business applications, ensuring a consistent experience to all customers of the merged entity.

The introduction of Digital products and services was key a focus throughout the Bank.

The Bank's retail customers' mobile experience was enriched with a full range capabilities from online shopping, restaurant payments, movies ticket booking and magazine subscriptions. Keeping up with the digital infrastructure introduced in the country, the Bank's customers have been provided with a wide variety of payment mechanisms to choose from, ranging from UPI, mVISA and Bharat QR code. While the traditional payment methods of NEFT and RTGS continued to see growth, the IMPS payment option, available to our customers 24 hours a day, is a much appreciated feature showing constantly increasing adoption throughout the year.

The culmination of the digital offerings in the year has been the '811' product on the mobile application. Enabling a new customer to simply download an application on her mobile phone, and open an account in less than 5 minutes. A first of its kind in the banking industry, the product has already seen much interest.

On the lending side, the commercial customers' experience of applying for a loan was enhanced by equipping the sales and relationship personnel, with mobile and tablet applications to accept loan application details and even make immediate initial loan eligibility information available to the customers.

The wealth management customers got a new mobile app for quick and easy access to investment information. In the digital arena, the corporate banking business focused on online merchant acquisition capability for their customers.

Considering the security concerns of a knowledgeable customer, they have been empowered to directly control the access to their debit cards. The mobile application and net banking provide functions that enable the customer to "turn off" her debit card when not in use, and "turn on" the card at the point of usage. Thus putting control, directly in the customers' hands.

To keep pace with the bank's digital initiatives, there is a constant need to raise the bar on information security. Several advanced security monitoring measures that track unrelated transactions and data streams for possible correlation and potential cyber threats were implemented. In accordance with RBI guidelines released in the year, the Bank's Cyber security policies and procedures were enhanced.

Subsidiaries Highlights

Kotak Mahindra Prime Limited (KMP)

KMP is primarily engaged in car financing; financing of retail customers of passenger cars, Multi-Utility Vehicles (MUVs) and term funding to car dealers. KMP finances new and used cars under retail loan, hire purchase and lease contracts. KMP is also engaged in finance against securities, corporate loans, developer finance and other lending. KMP has recently entered the consumer durable financing space.

The main stream of income for KMP is from car financing to customers and dealers. KMP also receives income from loans against securities, personal loans, corporate loans and developer funding, securitisation / assignment transactions and recovery of acquired non-performing assets.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
NII	1,017.1	967.3
Other Income	224.6	210.0
Total Income	**1,241.7**	**1,177.3**
PBT	787.8	772.6
PAT	514.8	502.3

(₹ in crore)

Particulars	31st March, 2017	31st March, 2016
Net Customer Assets	25,121.5	22,262.0
- Car advances	18,177.6	16,706.7
Net NPA %	0.4%	0.4%
ROAA %	2.0%	2.3%

The passenger car market in India grew by 8.2% for FY2017 similar to growth in FY2016. Total unit sales of cars and MUVs crossed 30.2 lakh units in FY2017 compared to 27.9 lakh units in FY2016. KMP added 130,070 contracts in FY2017 compared to 128,680 in FY2016.

Gross NPA was ₹ 216.8 crore (0.9% of gross advances) while net NPA was ₹ 91.5 crore (0.4% of net advances) as on 31st March, 2017. Further, the CAR as on 31st March, 2017 was 17.2% (18.2% as of 31st March, 2016).

Kotak Mahindra Investments Limited (KMIL)

KMIL is primarily engaged in finance against securities, corporate loans, developer finance and other activities such as holding long-term strategic investments. KMIL enables its customers to pursue ambitious growth strategies and execute value-creating transactions for mutual growth. KMIL's strategy has been of relationship management and penetration, continuous product innovation coupled with tight control on credit quality and effective risk monitoring and management. It is well positioned to harness all opportunities that may be offered in the current economic environment.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
NII	307.0	249.9
Other Income	40.7	29.7
Total Income	**347.7**	**279.6**
PBT	290.1	235.9
PAT	196.4	153.9

(₹ in crore)

Particulars	31st March, 2017	31st March, 2016
Net Customer Assets	6,905.9	4,794.9
Net NPA %	0.1%	0.1%
ROAA %	3.1%	3.4%

During FY2017, the customer assets increased to ₹ 6,905.9 crore as on 31st March, 2017 as compared to ₹ 4,794.9 crore as on 31st March, 2016. KMIL reported a growth of 27.6% in PAT to ₹ 196.4 crore for FY2017 compared to ₹ 153.9 crore for FY2016.

Gross NPA was ₹ 8.5 crore (0.1% of gross advances) while net NPA was ₹ 4.7 crore (0.1% of net advances) as on 31st March, 2017. Gross NPA were maintained at similar levels even after decent growth in customer advances. Further, the CAR as on 31st March, 2017 was 16.8% (18.2% as of 31st March, 2016).

Kotak Securities Limited (KS)

KS provides securities broking in cash equities, equity and currency derivatives segment, depository and primary market distribution services. KS is a member of BSE Limited, NSE Limited and Metropolitan Stock Exchange of India Limited. KS is also a depository participant of National Securities Depository Limited and Central Depository Services Limited and is also registered as a portfolio manager with Securities and Exchange Board of India. Further, KS is registered as Mutual Fund Advisor with Association of Mutual Funds in India and also acts as corporate agent of Kotak Mahindra Old Mutual Life Insurance Limited.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	1,184.3	974.6
PBT	543.3	381.0
PAT	361.3	250.7

The financial year started on muted expectations against the back drop of Cash Market Volumes in FY2016 being lower than that of FY2015. The new Government was soon completing 2 years and while there were expectations on their passing new legislations including GST, the loss in assembly elections in Delhi and in Bihar had put a dampener on these expectations. Oil prices had dropped to a low in December 2015 and was showing some increase. The lower oil prices continued to help the Indian economy in keeping fiscal deficit under control. The Rupee was stable over the immediately preceding half year and inflation was expected to be reined in. In the back drop of this scenario, corporate earnings were also expected to show improvement in the financial year.

The Sensex which closed at 25,342 as on 31st March, 2016 closed at 29,620 as on 31st March, 2017 with a high of 29,825 and low of 24,523. Similarly, the benchmark Nifty which closed at 7,738 as on 31st March, 2016 closed at 9,173 as on 31st March, 2017 with a high of 9,218 and low of 7,517.

Market average daily volumes increased to ₹ 24,511 crore in FY2017 from ₹ 20,247 crore in FY2016 for the Cash Segment, and increased to ₹ 382,066 crore in FY2017 from ₹ 264,107 crore in FY2016 for Derivatives Segment. There was an increase in the volumes in the Derivative Segment and the market mix further skewed in favour of Derivatives.

Institutional Equities division has strengthened its leadership position in the Broking Segment and more so among Domestic Brokers. While the Institutional cash segment volumes showed a modest growth, the Derivatives segment recorded a significant growth compared to FY2016, resulting in a further skew towards Derivatives. Yields across the client segments continued to remain under pressure. KS's strategy has resulted in a market share growth in the cash segment and has successfully executed a number of block trades. KS continued to invest in technology upgrading and introducing new products wherever required and increased its offering on Algo Trades. The Institutional Equity Research continued to be recognised for its in-depth high quality financial modeling, width of stock coverage and valuable investment insights, winning valuable votes from its clients.

Retail market volumes in Cash Segment and Equity Derivatives Segment, recorded a significant increase over the volumes recorded in FY2016. Gold prices showed a steady increase the middle of the third quarter before easing off; however prices at the year-end were higher than the previous year-end. Significant events during the year viz. BREXIT, US Elections and Demonetisation had an effect on the retail participation during certain parts of the year. While real estate has not shown a significant change, the inflows to Mutual Fund AUMs has seen a positive change in the second half of the year. KS's focus on Cash Segment led to an increase in market share on the increased market volumes. Given the rise in the retail derivative segment, KS has devised a suitable strategy to increase market share in this segment too.

KS has upgraded its customer on-boarding process and introduced digital options for the same. Customer acquisition resulted in addition of about 167,959 customers with a large part of them being online trading customers. The new Mobile Trading App launched during the year has been well received and KS is seeing a steady increase in trading volumes through the mobile app. KS also introduced a new web terminal for trading and enhanced its internet trading app – KEAT PRO. A number of other digital initiatives are being taken for customer convenience and delight as well as further efficiency in operations. KS had a total of 1,281 branches, sub-brokers and authorised persons as on 31st March, 2017. The number of registered sub-brokers / authorised persons stood at 2,332 for NSE and 1,971 for BSE.

Kotak Mahindra Capital Company Limited (KMCC)

KMCC is a leading, full-service investment bank in India offering integrated solutions encompassing high-quality financial advisory services and financing solutions. The services include Equity Capital Market issuances, M&A Advisory and Private Equity Advisory.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	135.9	113.8
PBT	60.6	46.4
PAT	45.6	32.4

Equity Capital Markets

In FY2017, the Indian Equity Capital Markets saw a significant uptick in primary market activity led by 25 IPOs. A total of ₹ 45,219 crore was raised across Initial Public Offerings (IPOs), Qualified Institutional Placements (QIPs) and Rights Issues, while ₹ 8,390 crore was raised from the secondary market through Offers for Sale (OFS) *(Source: Prime Database).*

KMCC successfully completed twelve marquee transactions, including 11 IPOs and 1 QIP, raising a total of ₹ 14,318 crore in FY2017 (Source: Prime Database).

The Equity Deals that were concluded by KMCC during the year include:

PNB Housing Finance IPO – ₹ 3,000 crore, Avenue Supermarts IPO – ₹ 1,870 crore, Laurus Labs IPO – ₹ 1,331 crore, L&T Infotech IPO – ₹ 1,236 crore, RBL Bank IPO – ₹ 1,213 crore, Varun Beverages IPO – ₹ 1,113 crore, Mahanagar Gas IPO – ₹ 1,039 crore, L&T Technology Services IPO – ₹ 894 crore, Ujjivan Financial Services IPO – ₹ 882 crore, Parag Milk Foods IPO – ₹ 751 crore, Bharat Financial Inclusion QIP – ₹ 750 crore and CL Educate IPO – ₹ 239 crore.

KMCC was ranked the #2 Book Running Lead Manager in IPOs and #5 across all Equity Offerings (IPOs, FPOs, QIPs, OFS, IPPs and Rights Issues) in FY2017 *(Source: Prime Database).*

Mergers & Acquisitions

The total M&A Advisory deal value in India for FY2017 stood at US$ 94 billion compared to US$ 55 billion in FY2016, while deal volumes decreased to 1,750 in FY2017 from 1,903 in FY2016 (Source: Bloomberg, as on 11th April, 2017). In FY2017, KMCC was ranked #1 by volume of deals and #2 by value of deals in the M&A league tables (Source: Bloomberg, as on 11th April, 2017; amongst investment banks only). KMCC advised on a diverse array of twenty-six M&A and Private Equity transactions across a wide range of products and sectors, for a total deal value of US$ 27 billion:

- Across products, ranging from Acquisitions, Divestments, Mergers, Private Equity investments, Restructuring, Delisting Offers, Buyback Offers and Open Offers; and
- Across sectors, ranging from Financial Services, Technology, Industrials, Telecom, Auto, Consumer, Infrastructure, etc.

Some of the key Advisory deals that were announced/concluded by KMCC during the year include:

- Financial Advisor to Tata Chemicals for the sale of its Urea Business to Yara International, Norway – ₹ 2,670 crore;
- Financial Advisor to Mahindra CIE for the Acquisition of Bill Forge; followed by equity investment in MCIE by shareholders of Bill Forge and PIA2 – ₹ 2,421 crore;
- Financial Advisor to JTEKT Corporation for the acquisition of 25.1% stake in Sona Koyo Steering Systems Limited from Sona Group followed by an open offer for the acquisition of 26% stake in Sona Koyo – ₹ 853 crore;

- Financial Advisor to Ingenico Group for the acquisition of 100% stake in TechProcess Payment Services;
- Financial Advisor to Accelya Holding World SL for the acquisition of Accelya by Warburg Pincus LLC – ₹ 3,518 crore;
- Financial Advisor to SBI Life for divestment of stake to KKR and Temasek – ₹ 1,794 crore;
- Financial Advisor to selling shareholders of AU Financiers for investment by domestic investors including Insurance companies, Investment Funds, Family offices and HNIs – ₹ 750 crore;
- Fairness Opinion to Aditya Birla Nuvo for the merger with Grasim Industries; followed by demerger of Financial Services Business – ₹ 53,038 crore;
- Manager to the Buyback Offer for Bharti Infratel – ₹ 2,000 crore and
- Advisor to the Committee of Independent Directors of Crompton Greaves Electricals for the Open Offer made by Amalfiaco along with MacRitchie Investments – ₹ 1,695 crore.

FY2017 has been a significantly action-packed year with tremendous growth in M&A deal activity and a slew of economic and structural reforms. Increasing confidence in the Indian economy, FDI reforms and a vibrant primary market have also helped in providing a further impetus to M&A deal activity.

The coming year has the potential to be the year of reckoning for India where implementation of structural policies and reforms such as the GST, seventh pay commission and one rank one pension (OROP) are expected to drive growth. Expected improvements in the banking sector, boost in private investments, pick up in rural demand, a robust primary market and improving utilisation rates across industries are likely to drive domestic growth. Globally, India continues to be the bright spot and this is likely to drive resilient growth in deal activity in FY2018 as well.

Kotak Mahindra Old Mutual Life Insurance Limited (KLI)

Kotak Mahindra Old Mutual Life Insurance is a 74:26 joint venture partnership between Kotak Mahindra Group and Old Mutual Plc, an international savings, wealth management and Insurance company based in UK. On 27th April, 2017, the Bank has executed a share purchase agreement with Old Mutual Plc. to acquire its 26% stake in KLI, subject to regulatory approvals.

Kotak Life Insurance is in the business of Life Insurance, annuity and providing employee benefit products to its individual and group clientele. KLI has developed a multi-channel distribution network to cater to its customers and markets through agency, alternate group and online channels on a pan-India basis.

Private insurance industry as a whole registered a growth of 22.0% on Total New Business Premium – Adjusted Premium Equivalent (APE) terms (Single 1/10), whereas KLI registered a growth of 26.8% on Total New Business Premium- APE terms. On the same basis, KLI market share stood at 6.2% of private industry.

On individual APE Basis (Single 1/10) KLI has posted 5th rank within private industry. The financial performance of Kotak Life Insurance for the current and previous financial year is given below:

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Gross Premium	5,139.5	3,971.7
First Year Premium (incl. Group and Single)	2,849.7	2,209.7
PBT – Shareholders' Account	342.7	281.9
PAT – Shareholders' Account	303.3	250.7

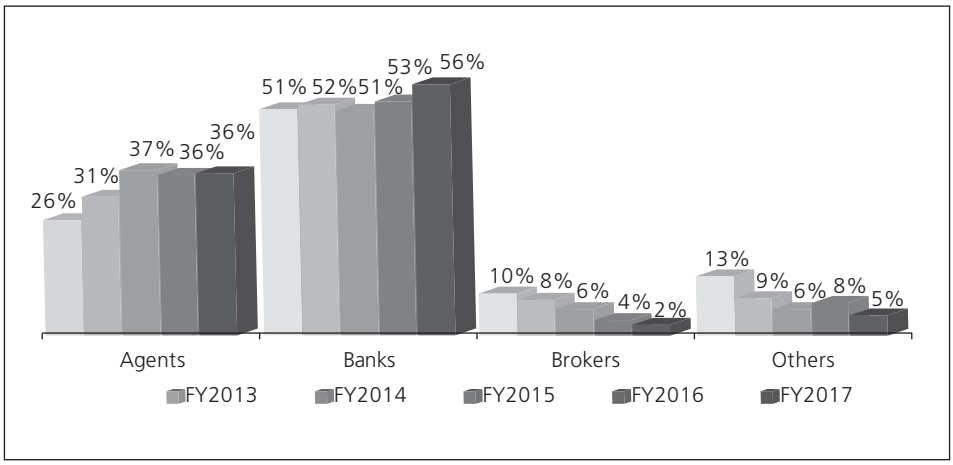
Revenue Performance

KLI has recorded a growth of 29.4% on the gross premium, mainly coming from Individual renewal premium. The summary of premiums is as under:

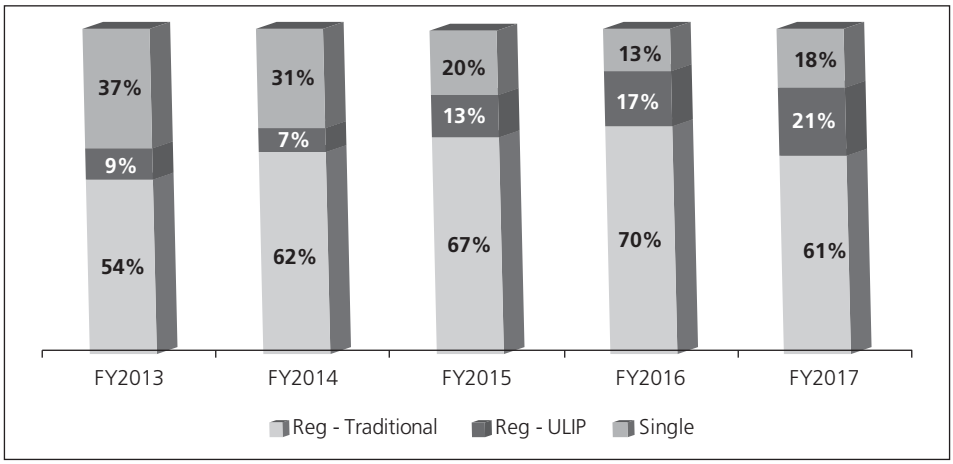
(₹ in crore)

Particulars	FY2017	FY2016
Individual Regular Premium	1,176.2	925.0
Individual Single Premium	260.4	138.7
Group Premium	1,413.1	1,145.9
Total New Business Premium	**2,849.7**	**2,209.7**
Renewal Premium	2,289.8	1,762.0
Gross Premium	**5,139.5**	**3,971.7**

Distribution Mix (Individual business)



Individual Product Mix



Alternate Channels and Agency channels posted a growth of 20.0% and 37.6%, respectively over the previous year at regular premium. Alternate channels growth was mainly led by Kotak Bank. The product mix of KLI has moved towards traditional products, from 53.7% in FY2013 to 61.1% in FY2017 of total Individual premium.

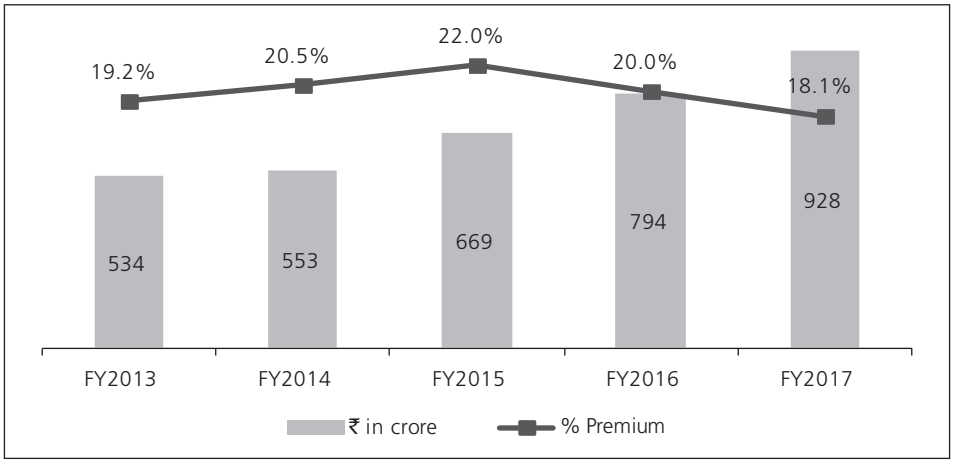
Profits and Solvency:

The networth of KLI increased by 19.9% to ₹ 1,824.7 crore from ₹ 1,521.4 crore. KLI has solvency ratio of 3.0 against requirement of 1.5.

Further, conservation ratio is 85.2% in FY2017 compared to 83.9% in FY2016. KLI has set up a dedicated retention team to improve the retention of the premiums of KLI.

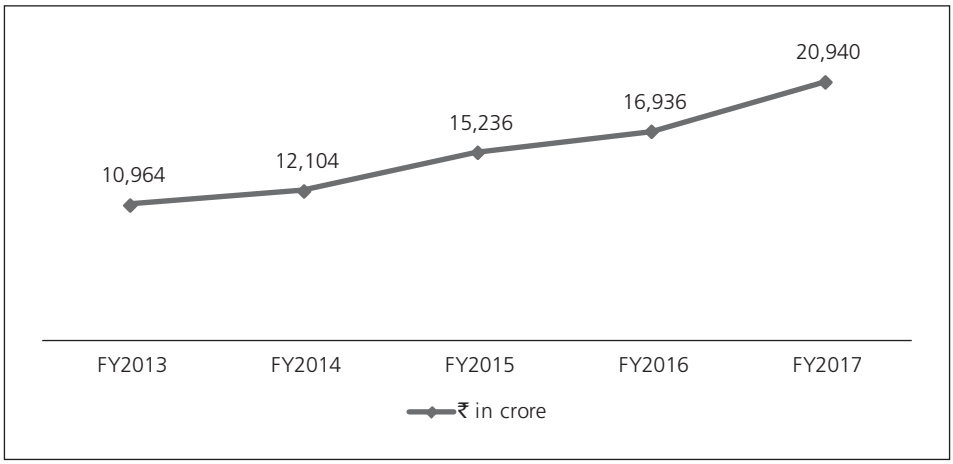
Cost Analysis:

Operating expense ratio (net of service tax) has improved to 18.1% as against 20.0% in previous year. KLI is putting in efforts to bring in variabalisation of cost so as to bring down its overall cost ratio.



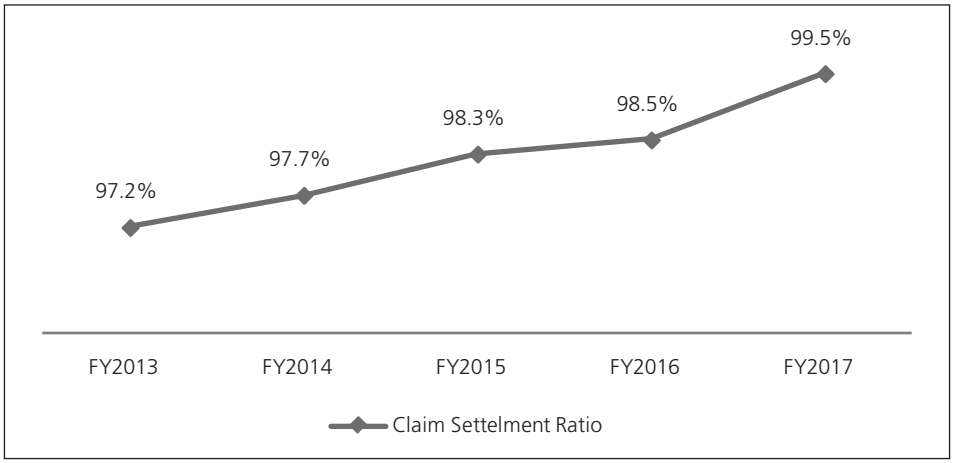
Assets Under Management:

KLI saw an increase in its AUM (including shareholders') by 23.6% YoY, to 20,940 crore in FY2017.



Claims Settlement Ratio:

Claims settlement ratio in FY2017 stood at 99.5% (FY2016 - 98.5%), which is one of the best in the industry.



Network:

KLI had 235 life insurance outlets across 170 locations. KLI has 96,729 life advisors, 14 Bancassurance partners and 167 brokers and corporate agency tie-ups.

Social and Rural Obligations:

KLI has written rural policies 64,608 (FY2016: 56,247) representing 21.5% of total policies against regulatory requirement of 20.0%. Further, KLI has covered 1,117,943 social lives against the regulatory requirement of 55,000. KLI takes the social sector target not as an obligation, but with a sense of duty to the community as a life insurance company.

Kotak Mahindra General Insurance Company Limited (KGI)

KGI was incorporated in December 2014 under Companies Act, 2013 as a 100% subsidiary of the Bank. KGI received its certificate of registration from Insurance Regulatory and Development Authority (IRDAI) in November 2015 and subsequently commenced operations in December 2015.

KGI is in the business of underwriting general insurance policies relating to Fire and Miscellaneous segments. Currently, the Bank and KMP are Corporate Agents of KGI for sourcing of insurance policies. KGI has also tied up with brokers for sourcing of insurance policies.

The general insurance industry as a whole registered a growth of 30.2%, in which the private sector (excluding standalone health insurance companies) grew by 35.1%. KGI has managed to grow its premium from ₹ 3.7 crore in FY2016 to ₹ 84.9 crore in FY2017. However, the growth numbers are not applicable as KGI commenced operations on 17th December, 2015.

Financial and Other Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Gross Premium	84.9	3.7
Loss Before and After Tax	(34.7)	(9.7)
Solvency Ratio	1.80	2.45

Revenue Review

KGI issued 101,058 numbers of policies (FY2016: 3,178) amounting to a gross written premium of ₹ 84.9 crore (FY2016: 3.7 crore).

Product Mix

Motor insurance contributed 84.0% to total premium and the rest was from Health and Commercial line of business.

Solvency

An insurance company is considered to be solvent if its assets are adequate and liquid to pay off claims/liabilities as and when they arise. Solvency ratio indicates company's claim/liability paying ability.

As on 31st March, 2017, the solvency ratio of KGI stood at 1.8 against the regulatory requirement of 1.5.

Investments

Investments of KGI as on 31st March, 2017 stood at ₹ 147.2 crore against the previous year amount of ₹ 114.4 crore.

Distribution Network

KGI has a network of 12 branches catering to more than 250 locations. KGI has registered 2 Corporate Agents, 11 Individual Agents and 89 Brokers.

Rural and Social Obligations

KGI has written a premium of ₹ 8.8 crore under rural obligation representing 11% of total premium. Further, KGI has covered 48 social lives against the regulatory requirement of 17.

Kotak Mahindra Asset Management Company Limited (KMAMC)

Kotak Mahindra Trustee Company Limited (KMTCL)

Kotak Mahindra Asset Management Company Limited (KMAMC) is the asset manager of Kotak Mahindra Mutual Fund ('KMMF') and Kotak Mahindra Trustee Company Limited (KMTCL) acts as the trustee to KMMF.

Financial Highlights

(₹ in crore)

Kotak Mahindra Asset Management Company Limited	**FY2017**	**FY2016**
Total Income	291.2	240.0
PBT	58.6	71.9
PAT	38.2	59.3
AAUM	77,091	54,745
Kotak Mahindra Trustee Company Limited	**FY2017**	**FY2016**
Total Income	26.6	19.4
PBT	25.4	18.4
PAT	17.5	12.7

FY2017 witnessed impressive growth for the Mutual Fund Industry, in terms of AUM. The Mutual Fund Industry Quarterly Average Assets Under Management (AAUM) grew by 35.0% to ₹ 1,834,960 crore in Q4FY2017 against ₹ 1,358,843 crore in Q4FY2016.

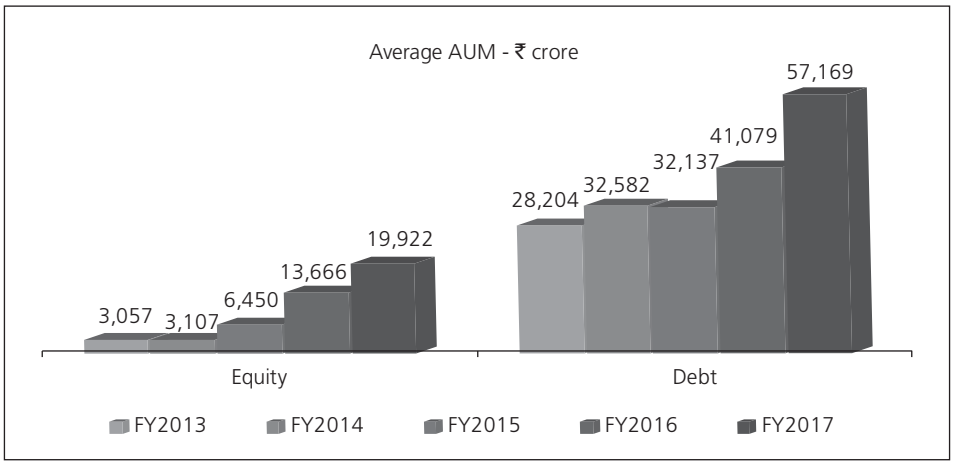
KMMF witnessed Quarterly AAUM increase of 57.4% at ₹ 92,440 crore for Q4FY2017 against ₹ 58,731 crore for Q4FY2016. KMMF was one of the fastest growing mutual fund in the industry in FY2017 across asset classes. This resulted in AAUM market share of 4.7%, in FY2017 compared to 4.2% in FY2016.

KMMF's total number of live non-gold fund SIPs increased significantly by 113.0% in FY2017 and stood at around 0.4 crore.

There has been a significant growth in the portfolio management activity during FY2017. The Company ended the year with AUM of ₹ 1,439.2 crore against ₹ 147.9 crore as on 31st March 2016.

The AAUM of the Industry for FY2017 was ₹ 1,648,649 crore against ₹ 1,315,347 crore in FY2016, a growth of 25.3%. The AAUM of the KMMF for FY2017 was ₹ 77,091 crore against ₹ 54,745 crore in FY2016, a growth of 40.8%. The overall net revenue from operations grew by 20.0% to ₹ 286.1 crore from ₹ 238.5 crore. The higher growth resulted in higher brokerage expenditure in the schemes. The overall costs grew to ₹ 232.6 crore in FY2017 against ₹ 168.0 crore in FY2016, a growth of 38.5% primarily due to the increase in business promotion expenses and distribution cost to acquire volume. Hence, the PBT dropped by 18.5% to ₹ 58.6 crore in FY2017 compared to ₹ 71.9 crore in FY2016.

The equity AAUM market share for FY2017 was 3.7% as against 3.2% in FY2016. The average AUM of AMC over years is given below:



The Funds managed by KMAMC continued to deliver consistent risk adjusted return to their investors over the long term.

Kotak Mahindra Pension Fund Limited (KMPFL)

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	2.2	2.1
PBT	(0.2)	0.3
PAT	(0.2)	0.3

During September 2016, PFRDA issued a fresh Request for Proposal (RFP) for selection of Pension Funds for NPS Private Sector Schemes in conjunction with PFRDA (Pension Fund) Regulations, 2015. It called for bids afresh with applications from the sponsors and allowed differential pricing by PFMs with a cap on investment management fee at 0.1% per annum. The current RFP gave Kotak Mahindra Bank Ltd. (Bank) an opportunity to apply as a sponsor, since KMAMC is its subsidiary.

An application was made by the Bank to PFRDA in October 2016 as a standalone sponsor for managing NPS assets and to directly hold KMPFL as a subsidiary rather as a step-down subsidiary of KMAMC. As per the current RFP the net worth of KMPFL should be minimum of ₹ 50 crore. The Bank acting as a Sponsor would infuse the additional net worth requirement.

PFRDA intimated the Bank of the commercial bid opening in November 2016, implying that the Bank had cleared the stages of Minimum Eligibility criteria and technical evaluation. The commercial bid of all the eligible nine sponsors were opened in November 2016, in the presence of all the qualifying participants. The fees bid by the Bank at 0.0895% is higher than the existing fees. PFRDA is yet to formally intimate the sponsor, which would require the Bank to submit acceptance of the terms and complete the requisite formalities.

KMAMC would continue to act as the Sponsor of KMPFL till the completion of the said RFP process.

Considering the low rates of management fees in Pension Fund Management Business, the revenue generated from the investment management activity for FY2017 is ₹ 0.02 crore (FY2016 - ₹ 0.01 crore). Investment Management Fees for Tier I and Tier II schemes are charged @ 0.01% p.a. and 0.0102% p.a. for NPS Lite scheme on the AUM on a daily basis inclusive of brokerage except Custodian Charges, applicable taxes and any other charges permitted by PFRDA from time to time.

There has been an increase in other income to ₹ 2.2 crore in FY2017 as compared to ₹ 2.1 crore in FY2016 and the costs have increased to ₹ 3.4 crore in FY2017 from ₹ 1.8 crore in FY2016, largely on account of cost due to increase in authorised share capital and employee remuneration. Resultantly, the Company has reported a loss during FY2017 of ₹ 0.2 crore against a PBT of ₹ 0.3 crore in FY2016.

Kotak International subsidiaries

Kotak International subsidiaries consist of following entities:-

1. Kotak Mahindra (UK) Limited
2. Kotak Mahindra (International) Limited
3. Kotak Mahindra, Inc.
4. Kotak Mahindra Financial Services Limited
5. Kotak Mahindra Asset Management (Singapore) Pte. Limited

The overseas subsidiaries have offices in UK, Singapore, UAE, US and Mauritius.

The international subsidiaries are mainly engaged in investment management, advisory services, dealing in securities, broker-dealer activities and investments on own accounts.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	240.4	238.6
PBT	98.1	114.0
PAT	86.0	105.0

FY2017 was dominated by unexpected events, globally and in India. Global events included the result of the United Kingdom (UK) referendum to leave the European Union (EU) in June 2016 and the presidential election in US in November 2016. In India, SBNs withdrawal was announced on 8th November, 2016 (enacting demonetisation of ₹ 500 and ₹ 1,000 denominated notes).

Net FPI inflows to the Indian capital markets were US$ 7.17 billion in FY2017, consisting of net inflows into equities of US$ 8.39 billion and net outflows from debt instruments of US$ 1.22 billion. The majority of inflows occurred in the fourth quarter (net inflows of US$ 11.20 billion), in particular in March 2017 (net inflows of US$ 9.14 billion). These significant inflows helped drive the strengthening of the INR against the USD towards the end of the year, with INR appreciating by 2.2% during the FY2017.

During the FY2017, the large cap NIFTY index gained 21.0% while the mid cap index gained 37.7% in United States Dollar terms – based on strong domestic flows into equity markets directly and via mutual funds and other financial products along with strong flows during fourth quarter of FY2017.

The asset management arm of the international subsidiaries continued its focus on consistent fund performance and generated returns in excess of its respective benchmarks. Also, it continued consolidating its relationships with institutional investors and expanded its global distribution network during the year.

AUM managed/advised by the international subsidiaries were at ₹ 27,894 crore (US$ 4.3 billion) as on 31st March, 2017.

Although the overall AUM has increased year on year, the average AUM of the open ended equity and debt funds which contributes the most to the revenue generated out of the fund management business fell resulting into a reduction in investment management income. However, this was offset by higher income from dealing in securities and other fee income. Hence, the total income earned by international subsidiaries increased marginally from ₹ 238.6 crore for FY2016 to ₹ 240.4 crore for FY2017. The operating expenses increased from ₹ 124.6 crore during FY2016 to ₹ 142.3 crore for FY2017 largely due to the higher staff costs. Consequently, PAT for FY2017 decreased to ₹ 86.0 crore from ₹ 105.0 crore for FY2016.

The Bank had set-up a subsidiary in Singapore in March 2014 namely, Kotak Mahindra Asset Management (Singapore) Pte. Ltd. (KMAMS) to exclusively undertake asset management activities. KMAMS obtained Capital Market Services License for fund management under the Securities and Futures Act (Chapter 289) from the Monetary Authority of Singapore (the "MAS") in March 2016. KMAMS commenced its operations in April 2017.

Kotak Investment Advisors Limited (KIAL)

KIAL is in the business of managing and advising funds across various asset classes namely (a) Private Equity (b) Real Estate (c) Infrastructure and (d) Listed Strategies.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	98.2	88.1
PBT	6.1	7.5
PAT	5.9	4.7

The aggregate domestic alternate assets managed by KIAL as on 31st March, 2017 were ₹ 3,946 crore. It managed nine domestic funds during the year. It also advised seven offshore funds during the year.

Kotak Listed Strategies maiden fund called 'The India Whizdom Fund' (IWF) has drawn down 50% of the committed amount in FY2017. The fund adopts a long term approach and combines its private equity and public market experience to invest in Indian listed equities.

Kotak Mahindra Trusteeship Services Limited (KMTSL)

KMTSL acts as a trustee to domestic venture capital funds and private equity funds. It also acts as a trustee to estate planning trusts, in which it assists in setting up private trusts for high net worth individuals to achieve their succession and financial planning.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	6.1	4.2
PBT	2.8	1.4
PAT	1.9	1.0

Kotak Infrastructure Debt Fund Limited (KIDFL, formerly known as Kotak Forex Brokerage Limited)

KIDFL, formerly into forex broking business, was converted into the infrastructure debt financing business after approval from RBI. The regulatory approval for registration as a non-banking financial company from RBI has been received in April 2017.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	8.2	0.2
Profit/(Loss) Before Tax	5.1	(0.1)
Profit/(Loss) After Tax	3.4	(0.1)

KIDFL increased its equity share capital during the year by ₹ 305.9 crore to meet capital requirement stipulated by RBI to act as infrastructure debt financing company. The income for FY2017 increased mainly due to interest income on fixed deposits. This was offset, in part, by increase in expenses mainly due to the filing fees, share issue expenses and other miscellaneous expenses paid in relation to increase in share capital.

IVY Product Intermediaries Ltd (IVYPIL)

IVYPIL is engaged in marketing and distribution of various financial products/services of the Bank.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	0.5	6.7
PBT	0.4	0.7
PAT	0.3	0.5

Associates Highlights

Infina Finance Private Limited

Infina Finance Private Limited is a non-banking financial company engaged in the business of investments, trading in securities and providing finance mainly against securities.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	277.0	328.3
PBT	162.7	245.4
PAT	114.9	162.4
Share of Kotak Group	57.4	81.2

The profit for the current year is lower due to lower profit on trading in securities compared to previous year.

Phoenix ARC Private Limited

Phoenix ARC Private Limited is in the asset reconstruction business and provides stress asset recovery service to banks and NBFCs.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	85.4	71.7
PBT	34.9	31.9
PAT	22.6	21.2
Share of Kotak Group	11.3	10.5

PAT of the Company increased by 6.6%. The limited growth is due to higher borrowing costs and provision for diminution in value of investments.

During the year, CRISIL has maintained its 'AA/stable' rating to Phoenix ARC Private Limited which signifies high credit quality.

Matrix Business Services India Private Limited

Matrix Business Services India Private Limited is into verification and risk mitigation business where it verifies people and products under two major domains:

i. People: Employee Background Check – Verification and validation of the credentials of employees coming on board like residence, academic, prior employment, drug, court, database, etc.

ii. Products: Audit and Assurance – Verification and validation of the products right from the Depot level to the Retailer level. It also does claim processing and distributor due diligence under this domain.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	56.0	50.1
PBT	9.4	7.2
PAT	6.4	5.1
Share of Kotak Group (post adjustments)	1.2	1.0

The income of the Company grew by 14.5% which was on account of new customers and increase in the volume from the existing customers. PAT has increased by 20.8% YoY.

ACE Derivatives and Commodity Exchange Limited

The Company is a demutualised national level multi commodity exchange. Due to regulatory constraints on raising fresh capital and continuing losses, the Company discontinued trading operations on 31st May, 2015. The Company is considering various options including surrendering the exchange license. The Company for the year ended 31st March, 2017 has made a marginal profit.

Financial Highlights

(₹ in crore)

Particulars	FY2017	FY2016
Total Income	0.9	1.4
Profit/(Loss) After Tax	0.4	(2.3)
Share of Kotak Group (post adjustments)	0.2	0.1

Risk Management

A. Risk Management

The Group manages Risk under an Enterprise wide Risk Management (ERM) framework that aligns risk and capital management to business strategy, protects its financial strength, reputation and ensures support to business activities for adding value to customers while creating sustainable shareholder value. The ERM framework lays down the following components for effective Risk Management across the Group:

- An Independent Risk organisation and governance structure with a clear common framework of risk ownership and accountability;
- Governance standards and controls to identify, measure, monitor and manage risks and
- Policies to support and guide risk taking activities across the Group.

The Independent Risk function is headed by the Group Chief Risk Officer (CRO) who reports directly to the Vice Chairman and Managing Director of the Group. The Risk function provides an independent and integrated assessment of risks across various business lines.

The risk management process is the responsibility of the Board of Directors which approves risk policies and the delegation matrix. The Board is supported by the Risk Management committee which is chaired by an independent Director. It is also supported by various management committees as part of the Risk Governance framework. The Bank and every legal entity in the Group, operates within overall limits set by the Board and Committees to whom powers are delegated by the Board. Every quarter, the Group CRO reports to the Board, on the risk appetite levels and the risk profile. Besides this, formal updates on various portfolios are provided to the Board periodically.

The Bank and major entities of the Group continued to be rated "AAA" rating during the year, reflecting the group's strong financial risk profile, sound asset quality and strong capital adequacy.

B. Capital Adequacy

The Group's approach to capital adequacy is driven by strategic and organisational requirements while taking into account the regulatory and macro-economic environment. Capital management involves an on-going review of the level of capitalisation against key objectives and to maintain a strong capital base to support the planned business growth and risks inherent in various businesses. The strong Tier I capital position of the Group is part of the overall business strategy and a source of competitive advantage. It provides assurance to regulators and credit rating agencies, while protecting the interests of depositors, creditors and shareholders.

Capital utilisation is monitored every quarter and senior management considers the implications on capital, prior to making strategic decisions. The Bank and each legal entity in the Group were capitalised above internal and regulatory minimum requirements at all times during the year, including under stress conditions.

C. Risk Appetite

The risk appetite is set by the Board and is a top-down process consisting of specific quantitative and qualitative factors and provides an enforceable risk statement on the amount of risk the Group is willing to accept in support of its financial and strategic objectives. Risk appetite forms a key input to the business and capital planning process by linking risk strategy to the business strategy, through a set of comprehensive indicators. Performance against defined risk appetite is measured every quarter and action is taken as needed, to maintain balance of risk and return. The framework is operational at the consolidated level as well as for key legal entities. The overall Bank risk appetite have been cascaded to key business segments thereby ensuring that the Bank's aggregate risk exposure is within its desired risk bearing capacity. The Risk appetite statements are reviewed annually and the financial plans are tested against the risk appetite to ensure alignment.

D. Credit Risk

Credit risk arises as a result of failure or unwillingness on part of customer or counterparties' to fulfil their contractual obligations. These obligations could arise from wholesale, retail advances, off balance sheet items or from investment and trading portfolio by way of issuer risk in debt paper, counterparty risk on derivative transactions and downgrade risk on non SLR investments and OTC contracts.

The Bank has a comprehensive credit risk framework defined by Credit policies & Standards that sets out the principles and control requirements under which the Bank extends credit to customers in various business divisions. The policies and standards cover all stages of the credit cycle including Origination; client ratings, risk assessment; credit approval; risk mitigation; documentation, administration, monitoring and recovery. The Bank has credit approving authorities and committee structures and a set of formal limits for the extension of credit, linked to the risk levels of the borrower and transaction. The delegation of authority is reviewed atleast annually.

Wholesale and retail portfolios are managed separately owing to difference in the risk profile of the assets. Wholesale lending is managed on a name-by-name basis for each type of counterparty. Credit rating models provide a consistent and structured assessment, which, supplemented with expert judgement determines Credit Approval. Wholesale credit is monitored at an aggregate portfolio, industry and individual client level. All wholesale accounts are reviewed atleast once, annually with updated information on financial position, market position, industry and economic condition and account conduct. Besides client account reviews, sectoral exposures, outlook and performance of borrower within sectors are monitored and reported to senior management.

Retail advances being mainly schematic lending (for e.g. vehicle loans, mortgage loans, etc.) within pre-approved parameters for small value loans, are managed on a portfolio basis. In retail and schematic lending, credit assessment is typically done using a combination of client scoring, product policy, external credit reporting information where available and is also supplemented by Credit officer's judgement. Parameters like loan to value, borrower demographics, income, loan tenor, etc. determine the credit. Business-specific credit risk policies and procedures including client acceptance criteria, approving authorities, frequency of reviews, as well as portfolio monitoring frameworks and robust collections and recovery processes are in place.

The Bank's credit process is divided into three stages - pre-sanction, sanction and post-sanction.

At the pre-sanction stage, the independent credit function conduct credit appraisal and assign a borrower credit rating based on internal rating model. The credit rating takes into consideration the borrowers current and anticipated financial position and other relevant risk factors like Business risk, Industry and Management quality. The Bank has operationalised various rating models depending upon the borrower size and segment. Each credit rating assigned maps into a borrower's probability of default. The borrower rating is supplemented by the facility rating system, which considers mitigants, such as collateral and guarantees. At a minimum, two independent credit officers are involved in the rating decisions and the ratings are finalised by a senior credit officer.

In the post sanction process, the Credit Administration team processes documentation, on the completion of which, credit is disbursed. There is regular reporting on portfolio distribution by risk grades, monitoring of covenants prescribed as part of sanction and pending documentation if any.

An independent loan review team conducts reviews of credit exposures covering compliance to internal policies, sanction terms, regulatory guidelines, account conduct and suggests remedial measures to address irregularities, if any. The Bank has implemented an enterprise wide Early Warning Signal (EWS) framework that considers various financial and non-financial parameters to identify signs of credit weakness at an early stage. In case of loans where there is significant deterioration, the Bank employs various recovery mechanisms, including transferring the account to an internal unit specialised in managing problem accounts, to maximise collection from these accounts.

E. Collateral and Credit Risk Mitigation

Credit Risk mitigation in the Bank, begins with proper customer selection through assessment of the borrower, along financial and non-financial parameters, to meet commitments. The Bank uses a number of methods to mitigate risk in its credit portfolio, depending on suitability of the mitigant for the credit, legal enforceability, and type of customer and the Bank's experience to manage the particular risk mitigation technique.

Common credit risk mitigation techniques are facility structuring, obtaining security/collateral, guarantees and lending covenants. While unsecured facilities may be provided, within the Board approved limits for unsecured lending, collateral is taken wherever needed, depending upon the level of borrower risk and the type of loan granted.

The Bank has an approved Collateral management policy that sets out the acceptable types of collateral, valuation framework and the hair cut applicable. The haircut applied depends on collateral type and reflects the risk due to price volatility, time taken to liquidate the asset and realisation costs. The main types of collateral/security taken include cash & cash equivalents, immovable property, movable fixed assets, inventory and receivables. Guarantees from higher rated entities are also obtained in cases where credit worthiness of the standalone borrower is not sufficient to extend credit.

Legal enforceability of collateral obtained is critical in risk mitigation. The Bank has specific requirements in its internal policies with regards to appropriate legal documentation. The Credit Administration and Legal function ensure that there is adequate legal documentation, in line with internal policies, to establish recourse to any collateral, security or other credit enhancements.

F. Credit Risk Concentration

To avoid undue concentration in credit exposures and maintain diversification, the Bank operates within Board approved limits or operational controls in its loan portfolio that include:

- Single/Group borrower and Substantial exposure limits;
- Sector and Industry limits;
- Exposure limits on below investment grade accounts and
- Country/Bank exposure limits

Exposures are monitored against approved limits to guard against unacceptable risk concentrations, and appropriate actions are taken in case of any excess.

Concentration is also monitored in geographic locations in the retail portfolio, types of credit facilities and collaterals. The risk appetite of the Bank mandates a diversified portfolio and has suitable metrics for avoiding excessive concentration of credit risk.

G. Market Risk in Trading Book

Market Risk is the risk that earnings or capital will be adversely affected by adverse changes in market factors such as interest rates, foreign exchange rates, volatilities, credit spreads, commodity and equity prices. The Board Approved Investment Policy sets out the Investment Philosophy of the Bank and approach to Market Risk Management. The Asset Liability Management Committee (ALCO) of the Bank oversees the Market Risks and approves the market risk & limit framework, allocation of limits to countries, counterparties, banks and desks and reviews the risk monitoring systems and risk control procedures. Additionally, the Bank has a Senior Management Committee for derivatives that is responsible for approval of product structures and its oversight.

The Bank has a comprehensive limit-framework including sensitivity measures like PV01, Duration, Delta, Gamma, Vega, etc. and other limits like loss-limits, value-limits, gap-limits, deal-size limits and holding-period limits.

Valuation of the portfolio is done on a conservative basis at the bid/offer rate, as appropriate. Market Liquidity of the trading portfolio is assessed and an appropriate deduction is made from Tier I capital towards illiquidity, if any.

The Bank uses a Value-at-Risk (VaR) based on historical simulation and a confidence level of 99% to quantify the potential price risk in the portfolio. Additionally, to assess the tail risk, the Bank computes Expected Shortfall. Value-at-Risk limits have been set on all trading portfolios. The VaR model is periodically validated through a process of back testing and has been independently validated by an external agency. The Bank also uses metrics like stressed Value-at-Risk and periodically performs Stress testing & Scenario Analysis to measure the exposure of the Bank to extreme, but plausible market movements.

H. Counterparty Credit Risk

Counterparty Credit Risk (CCR) is the risk that the counterparty to a transaction could default before final settlement of the transaction's cash flows. An economic loss would occur if the transaction or portfolio of transactions with the counterparty has a positive economic value for the Bank at the time of default.

The CCR exposure is calculated on a daily basis, using Current Exposure Method. Limits for interbank counterparties are set on the basis of an internal model, approved by the ALCO. CCR limits for other counterparties are set on the basis of their internal ratings, Loan Equivalent Ratio, business requirements and are approved by the appropriate sanctioning authorities.

The Bank has an approved framework to evaluate the Suitability of the customer and Appropriateness of the derivative to the client's hedging requirements. The Group computes Credit Valuation Adjustment, which captures the risk of mark to market losses due to deterioration in the credit worthiness of the counterparty.

With a view to reduce counterparty and systemic risk, there are regulatory initiatives directing OTC trades to be cleared through Central Counterparties (CCPs). The Bank has a dedicated team that manages the interface with CCPs and understands the implications of the risk transfer from being distributed among individual bilateral counterparties to CCPs. The Bank operates within ALCO approved limits on individual CCP.

I. Interest Rate Risk in Banking Book (IRRBB)

IRRBB arises from mismatches in re-pricing of interest rate sensitive assets (RSA), rate sensitive liabilities (RSL) and rate sensitive off-balance sheet items in the banking book. Bank assesses and manages interest rate risk in its banking book as well as including trading book.

ALCO is the guiding body for management of IRRBB in the Bank and sets the overall policy and risk limits. Balance Sheet Management Unit (BMU), which is part of the treasury, is entrusted with the responsibility of managing IRRBB and uses Funds Transfer Pricing (FTP) to transfer risk from business units to centralised treasury. No interest rate risk is retained within any business other than treasury.

As interest rate risk can impact both net interest income (NII) and value of capital, it is assessed and managed from both earning and economic perspective. Bank uses earnings at risk (EaR) as a short term risk indicator to assess the sensitivity of NII and NIM to change in interest rates. From an economic perspective, which is a long term risk indicator, it uses duration approach to determine the sensitivity of economic value of equity (EVE) to changes in interest rates.

J. Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due without adversely affecting its financial condition. Liquidity is managed through the Group Liquidity policy, which is designed to maintain high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations while maintaining a diversified funding profile.

Asset Liability Management Committee (ALCO) of the Bank defines its liquidity risk management strategy and risk tolerances. Balance Sheet Management Unit (BMU) of the Bank is responsible for managing liquidity under the liquidity risk management framework.

Liquidity risk is assessed in the Bank from both structural and dynamic perspective and the Bank uses various approaches like Stock approach, cash flow approach & stress test approach to assess it. Bank has also set prudential internal limits in addition to regulatory limits on liquidity gaps, call borrowing, interbank liabilities, etc. Cash flow management is critical for liquidity risk management and the Bank has developed models for

predicting cash flows for products with indeterminate maturity, products with embedded options, contingents, etc. The outcome of the models are periodically back tested to test their effectiveness.

The Bank also manages its intra-day liquidity positions so that payments and settlement obligations are met on a timely basis. The Bank dynamically manages the queue of payments, forecasts the quantum and timing of cash flows, prioritizing critical payment transactions, assessing the drawing power of intra-day liquidity facilities, etc.

The Bank follows a scenario based approach for liquidity stress testing to evaluate the impact of stress on the liquidity position. The Liquidity Coverage Ratio (LCR) measures the extent to which a Banking Group's High-quality liquid assets are sufficient to cover short-term cash outflows in a stressed scenario, over the next 30 calendar days. The Group monitors and manages the composition of liquid assets to ensure diversification by asset class, counterparty and tenor. The Group is currently well above the minimum regulatory requirement for the LCR.

Bank's contingency liquidity plan (CLP) approved by ALCO and the Board plays an important role in its liquidity risk management framework. It incorporates early warning indicators (EWIs) to forewarn emerging stressful liquidity conditions. The plan also defines actions to respond to liquidity stresses of varying severity to minimise adverse impact on the Bank.

K. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The objective of operational risk management at the Bank is to manage and control operational risk in a cost effective manner within targeted levels as defined in the risk appetite. The centralised and independent operational risk management function manages this risk as guided by the Board approved operational risk management policy.

The Board of Directors, Risk Management Committee and the Operational Risk Executive Council (OREC) (Bank wide and in the business units) have overall oversight function for operational risk management. The Group level IT Security Committee provides direction for mitigating the operational risk in IT security. There is a group wide IT security programme (ARISTI) to ensure complete data security and integrity. There is also a Committee on Frauds, which reviews all frauds above a threshold amount.

The Business Units and support functions, are accountable for operational risks and controls in their respective areas which they manage under the policies, standards, processes, procedures; and operational risk management framework laid down by the independent ORM function.

The Bank has an internal framework for reporting and capturing operational risk incidents, which also includes 'near misses'. Significant incidents reported are investigated to assess weaknesses in controls and identify areas for improvement. The Bank has a Whistle blower policy and platform, which is open to employees and vendors for raising their concerns, with full confidentiality, on any fraud, malpractice or any other untoward activity or event.

Disaster recovery and Business Continuity Plans (BCP) have been established for significant businesses to ensure continuity of operations and minimal disruption to customer services. These plans are periodically tested and reviewed to ensure their effectiveness.

Risk transfer via insurance is a key strategy to mitigate operational risk exposure at the Bank. The Operational Risk team helps assess the quantum of insurance cover required and aligns it to the Bank's current and projected operational risk exposures.

L. Cyber-security Risk

The Bank has committed significant resources to protect the security of its systems, software, networks and other technology assets through security programs, with the goal of maintaining overall cyber resilience that prevents, detects and responds to threats such as data breaches, malware, unauthorised access and denial-of-service attacks. Cyber security attacks could be aimed at the Bank or at third parties with which Bank does business or that facilitate the Bank's business activities (e.g., outsourced parties, vendors). Rise in digitisation and increased use of mobile devices can also be sources of cyber security risk especially when client activities and systems are beyond the Bank's own security and control systems. The Bank constantly monitors the environment including cyber threats, emerging regulatory requirements around cyber risks and mitigation strategies. The Bank regularly conducts tests to assess the robustness of its cyber defences to minimise the impact of any incidents that may occur and provides regular updates to the Senior Management. New digital product offerings are thoroughly assessed for cyber risks prior to roll out.

M. Reputation Risk

Reputation risk is the risk of current or prospective loss arising from stakeholder's adverse experience while dealing with the institution or which resulted in an adverse perception of the institution. Reputation Risk can arise from a variety of sources including direct sources like poor financial performance and indirect sources like increased operational risk or control failures. Managing reputation is a priority area for the Group and there is Zero tolerance for knowingly engaging in any activity that has potential for unacceptable reputational risk. The Group ERM policy lays down the framework to ensure reputation is managed effectively and consistently across the group. The reputation risk management process is integrated with the Internal Capital Adequacy Assessment Process and a scorecard approach, based on expert judgement, is used to assess various reputation risk drivers and the overall level of reputation risk.

N. Conduct Risk

Conduct risk means any action that would cause harm to consumer protection, market integrity or competition. The Bank has identified conduct risk arising out of: Manipulation of financial benchmarks/markets, Mis-selling, Fair dealing with customers & Compliance with laws of the land. The Bank has established processes for managing conduct risk and has policies that guide staff in dealing with prevention of conflict of interest, employee conduct and dealing with proprietary and confidential information, so that they conduct themselves ethically and in compliance with the law. Conduct risk management is incorporated into HR practices, including recruiting, training, performance assessment, promotion and compensation processes. The Group places Zero tolerance on instances of professional or personal misconduct. Conduct risk is assessed in the ICAAP through a scorecard that considers the various drivers of conduct risk.

O. Internal Capital Adequacy Assessment Process ('ICAAP')

Every year, the Group undertakes the Internal Capital Adequacy Assessment Process ('ICAAP'), which provides management with a view of overall risks, assessment and capital allocated to cover the risks. The ICAAP is linked to overall business planning and establishes a strategy for maintaining appropriate capital levels. ICAAP is an assessment of all significant risks (Pillar II), other than Pillar I risks, to which the Bank is exposed. Once the risks are identified, the Group determines the method and extent of risk mitigation. Risk mitigation takes place through strengthening policies, procedures, improving risk controls and having suitable contingency plans. Finally, the Group determines the risks that will be covered by capital and the level of capital sufficient to cover those risks. The ICAAP outcomes are reviewed by senior management and formally approved by the Board. During the year, the Group was adequately capitalised to cover Pillar I and Pillar II risks.

P. Stress Testing

Stress testing is a key element of the ICAAP and an integral tool in the Risk Management framework as it provides management a better understanding of how portfolios perform under adverse economic conditions. Stress testing is integral to strengthening the predictive approach to risk management and is a key component in managing risks.

The Bank has a Board approved Stress testing policy which is aligned to regulatory guidelines and covers material risks. Indicative stress scenarios are defined in the policy as actual events can sometimes be more severe than anticipated, management considers additional stresses outside these scenarios, as necessary. The Bank carries out Reverse Stress testing across key risk areas to test the stress levels at which capital falls below the internal capital threshold.

The results of stress are interpreted in the context of our internal risk appetite for capital adequacy and reported to management and the Board. The stress testing exercise provides an opportunity to develop suitable mitigating response prior to onset of actual conditions exhibiting the stress scenarios. The ICAAP integrates stress testing with capital planning and during the year, the Bank was above regulatory and internal target capital ratios under all approved stress scenarios.

Compliance

An independent and comprehensive compliance structure addresses the Bank's compliance and reputation risks. In addition, all key subsidiaries of the Bank have an independent compliance function. The Compliance officials of the Bank and the Group interact on various issues including the best practices followed by the respective companies. The compliance function is responsible for all aspects of regulatory compliance across the Bank. There are dedicated resources deployed to focus on areas like KYC/AML, review and monitoring and provide guidance on regulatory issues to the line functions.

During the current year, the merger of erstwhile ING Vysya Bank's (eIVBL) Core Banking System (CBS) was completely integrated with the Kotak Mahindra Bank's CBS i.e., Finacle. Post this, the Anti-Money Laundering System of the Bank which is meant for the purpose of monitoring and reporting of transactions under PMLA, 2002 has been tracking the transactions of the unified customer base. The reports required to be filed under the PMLA are filed on a consolidated basis pertaining May 2016 and onwards.

The compliance framework, approved by the Board, broadly sets out the compliance risk management processes and tools to be used by businesses, management and compliance officers for managing its compliance risks. Apart from the Bank's compliance framework, the Bank and all the subsidiaries have their own compliance manuals. The Compliance team supports top management and manages and supervises the compliance framework along with providing compliance assistance to various businesses/support functions. The Bank has a new product/process approval policy and all new products/processes or modifications to the existing product/processes are approved by the Compliance so as to satisfy that these products are in compliant with the RBI regulations.

The Compliance Department continues to approve all the new processes and new products to ensure that the same are in line with the regulatory prescriptions. Compliance Department senior executives are members of various internal and external committees, which enables them to monitor the compliance risk of the institution effectively.

The Bank uses the knowledge management tools for monitoring the changes in existing regulations as well as new regulations. The Bank also looks at regulatory websites and participates in industry working groups that discuss evolving regulatory requirements. In-house compliance newsletter keeps the employees abreast of the key regulatory updates affecting the businesses of the Bank and its subsidiaries. Compliance also disseminates the changes in the regulations by way of compliance alerts to all the employees. Training on compliance matters is imparted to employees on an ongoing basis

both online and classroom. The Compliance Department keeps the management/Board informed about important compliance related matters through monthly, quarterly and annual compliance reviews.

Internal Controls

The Bank's internal audit department assesses business and control risks of all branches and businesses to formulate a risk-based internal audit plan, as recommended by the RBI. The audit process followed is as below:

An annual risk-based internal audit plan is drawn up on the basis of risk profiling of the Bank's branches and businesses/departments which is approved by the audit committee.

The audit plan is prioritised based on areas and branches which pose a higher risk to the Bank and such areas and branches are targeted for more frequent audits. The Internal Audit policy includes the risk assessment methodology which provides for coverage of all auditable areas once in three years.

After assessing the overall risk of a branch or business or department, the Bank takes corrective measures to minimise the risk. Most businesses have an internal Risk Containment Unit or Internal Controls Cell to assess the efficacy of the controls put in place to mitigate identified risks and to identify new risks. Senior officers also assess and evaluate the mitigating measures taken by the branch during their visits.

Post issue of audit reports there is a detailed process for monitoring of progress on implementation of action plans.

Status of resolution tracking is reported to senior management as well as to audit committee of the board on a periodic basis and a formal report on pending issues is issued once every half-year.

The Bank has laid down internal financial controls and that such internal financial controls are adequate and were operating. To this effect, the Bank has laid down a framework, which has been approved by the Audit Committee of the Board, which broadly comprises of four elements viz. Entity Level Controls, General Computer Controls, Fraud Risk Management and Policies and Procedures. These four elements are then further broken up into various components. For each of the components various checklists/risk control matrix are prepared with linkages to the financial statements which have a material bearing. These controls are then tested for their operating effectiveness.

The Bank takes corrective actions to minimise the design risk, should there be any. Senior officers of the Bank are involved in taking corrective actions. Results of the management testing and corrective action plan are placed before the Audit Committee for their information, guidance and monitoring.

Human Resources

As on 31st March 2017, the employee strength of the Bank along with its subsidiaries was around 44,000 as compared to around 42,000 employees a year ago. The Bank standalone had around 33,000 employees as on 31st March 2017. The average age of the employees is around 31 years. Average gender diversity is 21% women to 79% male employees.

With successful completion of culture integration, the Bank launched multiple employee initiatives. The primary focus was on delivering a premium employee experience and building organisational capabilities.

"Premium Employee experience", this aspiration was actualized by the launch of 'Redscape', HR Portal for all employees. This interactive platform has been designed to enable our employees to be: 1) more connected – to their leaders, colleagues and team members, 2) more engaged – through learning and interaction with like-minded professional across the bank and 3) more productive – through convenient access to several HR services. What is really exciting is that we are pioneers in the Banking Industry to create such a responsive and interactive portal of this scale. Self Service being the critical focus in phase one, we further plan to design more innovative and engaging solutions to digitally connect with employees.

With the same intent of Premium employee experience, we also focused on solidifying the on-boarding experience on our new joinees with the agenda of creating a seamless experience of settling in the new organisation and more importantly new role. The process is most appreciated by the new joinees, with 93% of respondent said they would readily recommend Kotak to family and friends.

With our ongoing quest of exploring opportunities to identify and develop Talent, the Bank further strengthened its existing Talent Management Framework, making it more robust and futuristic in perspective. The Bank and its subsidiaries continued to provide a framework that enables learning, skill-building and growth to a pool of highly committed employees aligned to the firm's vision and engaged in delivering best in class products and services in our next phase of growth.

To enhance the active engagement, the Bank launched a new employee engagement framework -"RED- Realize Every Dream". RED comprises of 4 D model- Dialogue, Demonstrate, Develop and Deliver. Multiple initiatives (Online as well as Off Line) were designed for employees to experience RED in its true sense.

The Bank continued it's focus development and productivity of front line sales force. Structured engagement interventions are done along with line managers in branch banking and acquisition. There has also been a major thrust on building sales and functional competencies and over 11,000+ employees have gone through training interventions for the same in the last one year.

The Bank continues to leverage the pre-trained manpower channels through tie ups with educational institutions for good quality manpower at frontline roles in branch banking.

Focused leadership mindshare continues on the gender diversity agenda to attract, nurture and grow women employees amongst fresh hires, provide a nurturing and enabling environment and develop women leaders across all management levels.

Outlook

Some of the key opportunities and threats in the economic and financial environment are as follows:

Opportunities

- Achieve a larger share in the growing digital economy;
- Capitalise on opportunities arising from the increase in NPAs and stressed assets in the Indian Financial Industry;
- Opportunities in the under penetrated Life and General Insurance space;
- Being part of the India's growth story. Being part of the "Make in India" opportunities;
- Participate in growth in non-urban India – "The Bharat" and
- Financial inclusion.

Threats

- Volatile external and global environment;
- Competition from the newer models of banks and
- Attracting and retaining talent and training them for the right culture.

Going forward, banks will need to move towards the mandated higher capital standards, stricter liquidity and leverage ratios and a more cautious approach to risk. This implies that Indian banks will need to improve efficiency even as their costs of doing business increase. They will need to refine their risk management skills for enterprise-wide risk management. In addition, banks need to have in place a fair and differentiated risk pricing of products and services, since capital comes at a cost. This involves costing, a quantitative assessment of revenue streams from each product and service and an efficient transfer-pricing mechanism that would determine capital allocation.

Due to the demonetisation and digitization push by the Government, banks will also need to develop their digital banking infrastructure to provide mobile and online services to their customers. These services would not only have to facilitate online payments and transactions, but also the creation of new accounts and the checking of existing accounts.

During FY2017, NPAs rose sharply across the industry. Banks need to effectively utilise the various measures put in place by the RBI and the Government for the resolution and recovery of bad loans in order to reduce the NPAs on their books. They also have to strengthen their due diligence, credit appraisal and post-sanction loan monitoring systems to minimise and mitigate the problem of increasing NPAs in FY2018 and beyond.

Outlook for Kotak Group

Kotak Mahindra Group's results for the financial year demonstrate the strong fundamental growth in India. However, concerns remain on the global economic scenario's impact on the Indian economy. The Group believes that with sound risk management and strong capital adequacy ratio, India of the future offers opportunities for growth.

The Bank will look forward to capitalise on inorganic opportunities, including acquisition and resolution of stressed assets through, amongst others, potentially participating in a "Bad Bank", and additional avenues of organic growth such as opportunities in digital expansion, domestic lending, international lending and investments, for growth of subsidiaries.

Safe Harbour

This document contains certain forward-looking statements based on current expectations of Kotak Mahindra management. Actual results may vary significantly from the forward-looking statements contained in this document due to various risks and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India and outside India, volatility in interest rates and in the securities market, new regulations and government policies that may impact the businesses of Kotak Mahindra Group as well as its ability to implement the strategy. Kotak Mahindra does not undertake to update these statements.

This document does not constitute an offer or recommendation to buy or sell any securities of Kotak Mahindra Bank or any of its subsidiaries and associate companies. This document also does not constitute an offer or recommendation to buy or sell any financial products offered by Kotak Mahindra, including but not limited to units of its mutual fund, life insurance policies and general insurance policies.

All investments in mutual funds and securities are subject to market risks and the NAV of the schemes may go up or down depending upon the factors and forces affecting the securities market. The performance of the sponsor, Kotak Mahindra Bank Limited, has no bearing on the expected performance of Kotak Mahindra Mutual Fund or any schemes there under.

Figures for the previous year have been regrouped wherever necessary to conform to current year's presentation.