# Management's Discussion & Analysis

## MACRO-ECONOMIC ENVIRONMENT

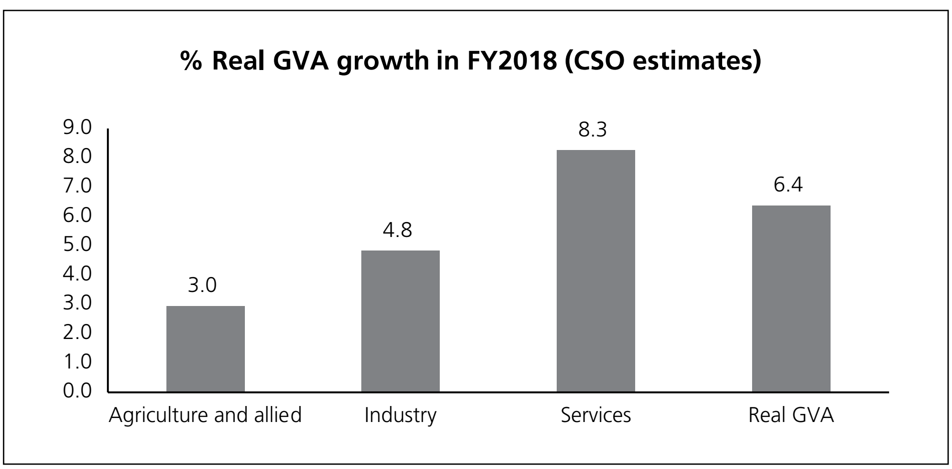
India macro fundamentals have seen steady structural progress over the last year, with transformational reforms like Goods and Services Tax (GST) being implemented in July 2017. This along with an approval of large public sector banks for recapitalisation package (about 1.2% of GDP) is likely to strengthen the growth potential in the medium run. India's growth potential has also been recognised globally. India jumped 30 spots in World Bank's Ease of Doing Business rankings, while India also saw a sovereign ratings upgrade by Moody's in FY 2018, the first in 14 years.

India growth indicators caught up late with the synchronized global growth (mostly in second half of the fiscal year), but there also came other anxieties regarding macro-economic stability in FY 2018 as fiscal deficit, current account deficit, and inflation were relatively higher than expected, albeit not threatening levels. However for the medium term, consistent traction in policy reforms, increasing digitisation and successful GST implementation etc. will help improve India's growth potential.

## THE GROWTH ENVIRONMENT

On the macro economic front, the first half of FY 2018 saw India's growth weakening even as the global growth advanced – largely reflecting impact of demonetisation and teething difficulties in the new GST regime. The second half of FY 2018 however saw a material improvement in growth indicators.

Overall on growth front, real GDP seems to have slowed in FY 2018 from FY 2017. As per the CSO, the second advance estimate of real GDP growth for FY 2018 stands at 6.6% as against 7.1% in FY 2017. On value added basis, real Gross Value Added (GVA) growth estimate for FY 2018 stands at 6.4% from 7.1% in FY 2017. Industrial sector grew 4.8% in FY 2018 from 6.8% in FY 2017, while services sector grew 8.3% from 7.5% in FY 2017. Agriculture and allied activities sector slowed to 3.0% from 6.3% earlier. The expenditure side GDP breakdown depicted that private investment has remained anaemic, even though some improvement is visible lately. 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.



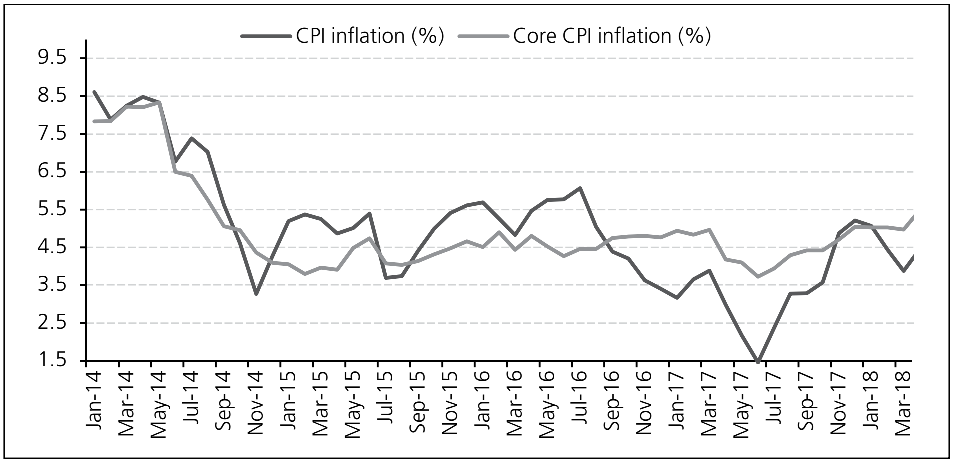

*Source: CSO, Kotak Economic Research*

## DOMESTIC PRICE DYNAMICS

The domestic price pressures remained overall contained in FY 2018. The CPI inflation averaged 3.6% in FY 2018 (as against 4.5% in FY 2017), and has displayed a downward trend, largely helped by sharp correction in food inflation, on the back of record high food production and effective price management of the Government. Core CPI inflation, on the other hand, has averaged 4.5% in FY 2018 as against 4.7% in FY 2017.

The year saw sharp inflation swings, with the headline print ranging 1.5%-5.2%. After having bottomed in June 2017, inflation peaked in December 2017 - crossing RBI's 4% target for the first time since November 2016. The upswing in inflation stemmed from rising global oil prices, unseasonal increases in the prices of fruits and vegetables, and the 7th Pay Commission housing rent allowances for the central government employees. However for the year as a whole, the CPI inflation was comfortably below the RBI's target of 4%.

**CPI INFLATION MODERATED FURTHER IN FY 2018 FROM THE PREVIOUS FISCAL**




*Source: CEIC, Kotak Economic Research*

## MONETARY POLICY AND INTEREST RATES

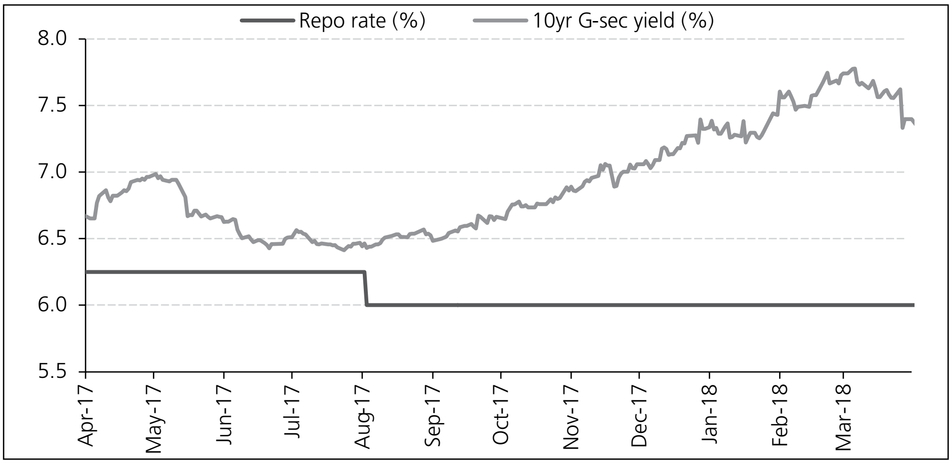
RBI kept its vigil on upside risks to inflation through FY 2018 but cut repo rate by 25bps in August 2017 as inflation undershot its expectations. It started the fiscal year on a cautious stance on inflation. However on policy front, it narrowed the policy corridor by 25 bps, increasing the reverse repo rate to 6.0% and reducing the MSF rate and the Bank Rate to 6.5%. The action on corridor was essentially to anchor the weighted average call rate closer to the repo rate.

By June 2017, RBI softened its policy tone on acknowledgement of the slower growth-inflation dynamics, but remained sceptical about a secular inflation downturn. In August 2017, RBI reduced the policy repo rate by 25 bps to 6.0%, with acknowledgement of the consistently downward trend of headline and core inflation trajectory. For rest of FY 2018, RBI kept the policy repo rate unchanged with concerns on upside risks to inflation going up emanating from: (1) staggered impact of HRA increases by states and its second round impact, (2) a global growth-led pressure on crude oil and other commodity prices, (3) possible increase in Minimum Support Price (MSP) for kharif crops as suggested in the budget, (4) fiscal slippage, and (5) tightness in financial conditions due to domestic fiscal developments and normalisation of Advanced Economies' monetary policy.

India rates market witnessed a strong bull-run in the beginning of FY 2018 partly helped by healthy demand from offshore investors. However since August 2017 bond yields increased sharply, reflecting a variety of factors, including (1) fears of faster domestic inflation normalisation and thus expectations of limited RBI accommodation, (2) fiscal slippage fears followed by flip-flop on market borrowings by the government, (3) worsening of bond demand-supply dynamics amid OMO sales, (4) tighter domestic liquidity expectations, and (5) policy normalisation in the US and other advanced nations.

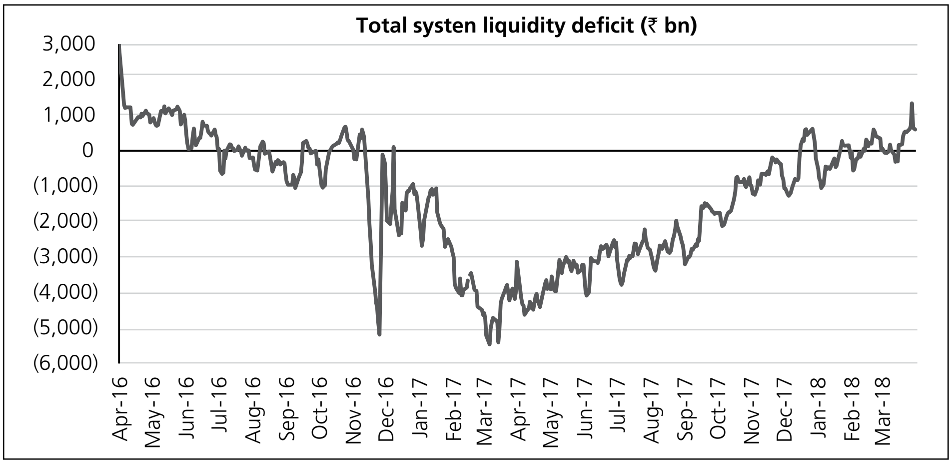
For the year as a whole, the benchmark 10-yr paper traded in the wide range of ~6.40-7.80%. After having seen the lows in July 2017, the bond yields peaked in early March 2018 and the 10-yr yield spread with repo rate widened to recent highs of 178bps. The bond yields corrected sharply by end-March 2018, helped by lower-than-expected central government market borrowing in first half of FY 2019 along with realignment of issuances at lower and higher end of the curve. The benchmark 10-yr paper eased to ~7.40% to end the fiscal year, with the spread narrowing to ~140bps.

**THE SPREAD BETWEEN REPO RATE AND BENCHMARK G-SEC YIELD WIDENED**




*Source: Bloomberg, Kotak Economic Research*

**THE SYSTEM LIQUIDITY SAW REVERSAL IN FY 2018 AS DEMONETISATION IMPACT FADED**



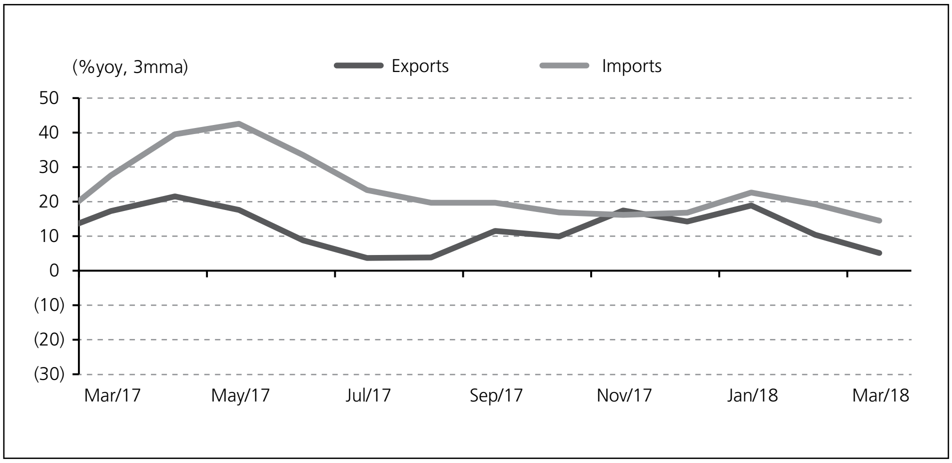

*Source: Bloomberg, Kotak Economic Research*

## EXTERNAL SECTOR DYNAMICS AND THE USD/INR

The current account deficit also widened in FY 2018 and as per the Economic Survey 2017-18 of Ministry of Finance, it is expected to average about 1.5-2.0% of GDP for the year as a whole. As per the official release, for the first nine months of FY 2018, the current account deficit has averaged ~1.9% of GDP, with the last official Q3FY18 print reporting a 2.0%. The trade deficit also deteriorated to average ~6.2% of GDP for the first nine months of FY 2018, as imports grew much faster than exports. Despite these developments, the overall external position remains robust. The current account deficit is well below the 3% of GDP threshold, beyond which vulnerability emerges. The capital account remained healthy, averaging ~3.4% of GDP in first nine months of FY 2018, helped by steady FPI and FDI flows. Meanwhile, foreign exchange reserves have reached a record level of approximately USD 424 billion by end-March 2018.

INR had a healthy run in FY 2018 in line with most emerging markets. The strength in INR was partly helped by steady FPI debt flows owing to better carry. USD/INR traded in the range of 63.37-65.71 through the year. We saw bout of volatility around September 2017, as global markets started to adjust to earlier-than-anticipated tighter monetary policy stance by the developed market central banks. However, the momentum improved by end-December 2017, but only to weaken again in mid-Q4FY18 as US Dollar made a slight comeback, helped by better US inflation and activity prints and expectations of faster Fed normalisation after the deal to increase federal government spending by USD 300 billion was passed. INR also weakened in February 2018 due to domestic issues. Firstly, the fears of MSCI excluding Indian stocks from their basket led to fears of equity outflows. Secondly, the concerns surrounding the banking frauds also exacerbated USD shortage fears in the immediate run. Besides, drying FPI flows also weighed on INR. INR ended FY 2018 at ~65.18 against the dollar (down only 0.5% from end-March 2017). However, INR averaged 64.46 against the Dollar in FY 2018 -- appreciating by ~4% from the average seen in FY 2017.

## EXPORTS SLOWED DOWN AMID GST LED ADJUSTMENTS WHILE IMPORTS REMAINED FIRM




*Source: CEIC, Kotak Economic Research*

## INR DEPRECIATED DURING 4QFY18 AND REVERSED THE GAINS MADE IN Q3FY18


*Source: Bloomberg, Kotak Economic Research*

## CONSOLIDATED FINANCIAL PERFORMANCE

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

Due to improvements in performance of capital markets during the year, the subsidiaries contribution to the consolidated PBT improved from 29.8% in FY 2017 to 32.3% for FY 2018.

During the financial year ended 31st March, 2018, the Bank has issued 6.2 crore equity shares of ₹ 5 each for cash pursuant to a Qualified Institutional Placement (QIP) at ₹ 936.00 per equity share aggregating to ₹ 5,803.2 crore. The Group had a net worth of ₹ 50,486.1 crore as on 31st March, 2018 (₹ 38,490.8 crore as on 31st March, 2017) and book value per share at ₹ 264.9 (₹209.1 as on 31st March, 2017). The Group earned a Return on Average Assets (RoAA) of 2.03% in FY 2018 (1.95% in FY 2017).

## ACQUISITIONS DURING THE YEAR

In September, 2017, the Bank acquired 99.49% of BSS Microfinance Limited (BSS) (formerly known as BSS Microfinance Private Limited) for an aggregate consideration of ₹ 139.2 crore, of which ₹ 116.7 crore has been paid till date and the balance is partly deferred and partly contingent. BSS has been consolidated from that date. The remaining stake of 0.51% was acquired in March 2018 for a consideration of ₹ 0.5 crore and it is now a 100% subsidiary of the Bank.

In October 2017, the Bank acquired the entire 26% equity stake held by Old Mutual Plc in Kotak Mahindra Life Insurance Company Limited (formerly known as Kotak Mahindra Old Mutual Life Insurance Limited) for a cash consideration of ₹ 1,292.70 crore. The Bank with its subsidiaries now holds 100% of the equity shareholding of Kotak Mahindra Life Insurance Company Limited.

The Bank and the major entities in 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, 2018 | 31st March, 2017 |
|---|---|---|
| Kotak Mahindra Bank | 37,481.7 | 27,616.1 |
| Kotak Mahindra Prime | 4,816.4 | 4,227.1 |
| Kotak Mahindra Investments | 1,382.5 | 1,037.5 |
| Kotak Securities | 3,526.9 | 2,995.9 |
| Kotak Mahindra Capital Company | 558.5 | 493.2 |
| Kotak Mahindra Life Insurance | 2,238.1 | 1,824.7 |
| Kotak Mahindra General Insurance | 97.7 | 90.3 |
| Kotak Mahindra AMC & Trustee Co | 332.8 | 228.5 |
| Kotak Infrastructure Debt Fund | 323.6 | 309.0 |
| International Subsidiaries | 813.1 | 693.7 |
| Kotak Investment Advisors | 337.7 | 276.9 |
| Other Entities | 155.2 | 44.0 |
| **Total** | **52,064.2** | **39,837.9** |
| Add: Share in Affiliates | 857.9 | 749.3 |
| Less: Minority, inter-company and other adjustments | 2,436.2 | 2,096.4 |
| **Consolidated Net worth** | **50,486.1** | **38,490.8** |

The consolidated performance for FY 2018 is as follows:

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Total income | 38,813.3 | 33,983.8 |
| Consolidated PAT | 6,201.0 | 4,940.4 |
| Consolidated networth | 50,486.1 | 38,490.8 |
| Earnings per share (diluted) (₹) | 32.7 | 26.9 |
| Book-value per share (₹) | 264.9 | 209.1 |
| Net interest margin (NIM) % | 4.30% | 4.49% |
| Return on average assets (RoAA) % | 2.03% | 1.95% |
| Return on average networth % | 13.47% | 13.80% |
| Net NPA % | 0.86% | 1.09% |
| Consolidated Capital Adequacy Ratio (CAR) %* | 18.38% | 17.23% |
| Tier I* | 17.83% | 16.52% |

* *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)

| | FY 2018 | | FY 2017 | |
|---|---|---|---|---|
| | PBT | PAT | PBT | PAT |
| Kotak Mahindra Bank | 6,218.2 | 4,084.3 | 5,148.1 | 3,411.5 |
| Kotak Mahindra Prime | 901.9 | 589.6 | 787.8 | 514.8 |
| Kotak Mahindra Investments | 366.6 | 245.0 | 290.1 | 196.4 |
| Kotak Securities | 796.0 | 531.0 | 543.3 | 361.3 |
| Kotak Mahindra Capital Company | 101.5 | 65.3 | 60.6 | 45.6 |
| Kotak Mahindra Life Insurance | 471.2 | 413.4 | 342.7 | 303.3 |
| Kotak Mahindra General Insurance | (32.6) | (32.6) | (34.7) | (34.7) |
| Kotak Mahindra AMC & Trustee Co | 169.8 | 115.0 | 84.0 | 55.7 |
| International Subsidiaries | 133.7 | 114.4 | 98.1 | 86.0 |
| Kotak Investment Advisors | 10.8 | 10.9 | 6.1 | 5.9 |
| Others | 44.3 | 34.1 | 7.9 | 5.3 |
| **Total** | **9,181.4** | **6,170.4** | **7,334.0** | **4,951.1** |
| Add: Share from Affiliates | | 110.5 | | 70.2 |
| Less: Minority Interest and Others | | 79.9 | | 80.9 |
| **Consolidated PAT** | | **6,201.0** | | **4,940.4** |

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

(₹ in crore)

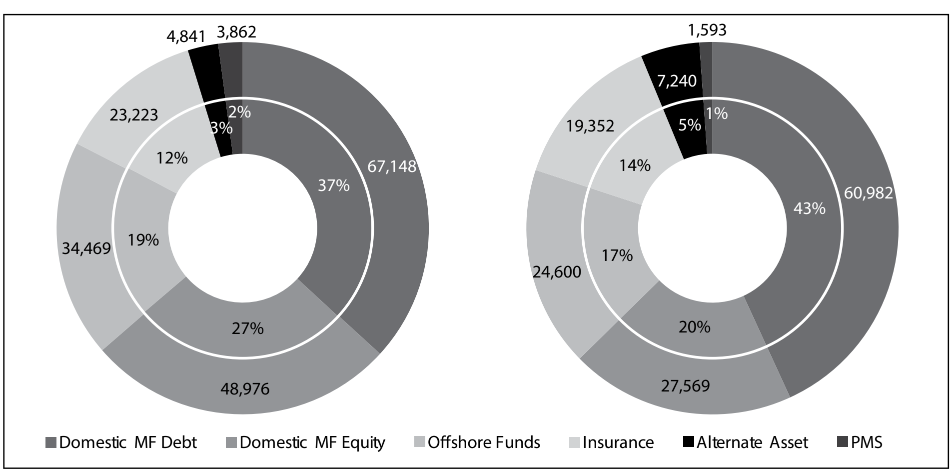
| Name of the Company | Investment by Kotak Group | % shareholding of the Group | Group's share for FY 2018 |
|---|---|---|---|
| ACE Derivatives and Commodity Exchange Ltd | 47.6 | 40.00% | 0.3 |
| Infina Finance Pvt Ltd | 1.1 | 49.99% | 94.8 |
| Phoenix ARC Pvt Ltd | 100.0 | 49.90% | 14.4 |
| Matrix Business Services India Pvt Ltd | 1.9 | 19.77% | 1.0 |

Assets under Management (AUM) as on 31st March, 2018 were ₹ 182,519 crore (₹ 141,336 crore as on 31st March, 2017), comprising assets managed and advised by the Group.

Relationship value of Wealth and Priority business above ₹ 225,000 crore as on 31st March, 2018.

The split of the assets under management (AUM) across the group is as follows:

**AUM - ₹ 182,519 crore – 31st March, 2018** **AUM - ₹ 141,336 crore – 31st March, 2017**



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, California, Dubai, Abu Dhabi, Mauritius and Singapore. The Group has also received the RBI approval to set up a 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. The principal business activities of the Bank are organised into consumer banking, commercial banking, corporate banking, treasury, and other financial services. The consumer, commercial and corporate banking businesses correspond to the key customer segments of our Bank. The treasury offers specialised products and services to these customer segments.

Profit before tax of the Bank for FY 2018 was ₹ 6,218.2 crore as against ₹ 5,148.1 crore for FY 2017. Profit after tax of the Bank was ₹ 4,084.3 crore in FY 2018 compared with ₹ 3,411.5 crore in FY 2017. RoAA for FY 2018 was 1.73%.

## PROFIT AND LOSS ACCOUNT

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

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Net interest income | 9,531.7 | 8,126.1 |
| Other income | 4,052.2 | 3,477.2 |
| **Net total income** | **13,583.9** | **11,603.3** |
| Employee cost | 2,929.8 | 2,744.6 |
| Other operating expenses | 3,495.9 | 2,873.9 |
| **Operating expenditure** | **6,425.7** | **5,618.5** |
| **Operating profit** | **7,158.2** | **5,984.8** |
| **Provision & contingencies (net)** | **940.0** | **836.7** |
| - Provision on advances (net) | 737.2 | 690.9 |
| - Provision on other receivables | 5.9 | 6.6 |
| - Provision on investments | 196.9 | 139.2 |
| **PBT** | **6,218.2** | **5,148.1** |
| Provision for tax | 2,133.9 | 1,736.6 |
| **PAT** | **4,084.3** | **3,411.5** |

### Net Interest Income:

Net Interest Income (NII) of the Bank for FY 2018 was ₹ 9,531.7 crore compared to ₹ 8,126.1 crore for FY 2017. The Bank had a Net Interest Margin (NIM) of 4.34% for FY 2018 compared to 4.49% for FY 2017. The decrease in NIM was primarily on account of:

- Due to decrease in yield on average earning assets
    - Significant surplus liquidity which was invested in lower yielding short-term assets
    - Maintenance of Liquidity Coverage Ratio (LCR) at Group level and
    - Repricing of lending book

This was offset, in part, by

- Decrease in cost of funds primarily due to increase in average CASA deposits and decrease in cost of deposits
- Average advances increased by ~ 20% and average earning investments by ~ 12%

**Non-Interest Income:**

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

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Commission, exchange and brokerage | 2,764.5 | 2,120.7 |
| Profit on sale of investments | 212.3 | 441.6 |
| Profit on exchange/derivative transactions | 603.9 | 528.4 |
| Profit on recoveries of non-performing assets acquired | 213.1 | 229.6 |
| Income from subsidiaries/associates | 82.1 | 80.4 |
| Dividend from subsidiaries | 7.6 | 3.4 |
| Others | 168.7 | 73.1 |
| **Total other income** | **4,052.2** | **3,477.2** |

Non-interest income increased from ₹ 3,477.2 crore in FY 2017 to ₹ 4,052.2 crore in FY 2018 primarily due to:

- Increase in commission, exchange and brokerage income primarily on account of increase in loan processing fees, service charges, credit card fees and referral fees including referrals for third party products distribution;
- Increase in profit on exchange/derivative transactions compared to previous year;
- Increase in others is primarily due to income received from sale of Priority Sector Lending (PSL) certificates

The above was offset in part, by decrease in profit on sale of investments primarily government securities.

**Employee Cost**

Employee expenses of the Bank have increased to ₹ 2,929.8 crore for FY 2018 compared to ₹ 2,744.6 crore for FY 2017 primarily due to -

- Increase in employee base to ~ 35,700 as on 31st March, 2018 from ~ 33,000 as on 31st March, 2017
- Higher provision for retiral benefits in FY 2018 primarily due to change in gratuity ceiling from ₹ 10 lakh to ₹ 20 lakh, impact of ₹ 82 crore

**Other Operating Expenses**

Other operating expenses were ₹ 3,495.9 crore for FY 2018 compared to ₹ 2,873.9 crore for FY 2017 primarily on account of:

- Increase in expenses on account of 811 initiative. 811 allows customers to open a bank account in less than five minutes by simply downloading an app on their mobile phone and using Aadhaar-based OTP authentication process.
- Increase in brokerage and insurance expenses consistent with increase in business
- Increase in repairs and maintenance primarily due to refurbishment of branches
- Increase in expenses due to increase in volume of card transactions and
- Expenses on purchase of PSL certificates to meet certain priority sector lending sub-targets.

The Bank's Cost to Income ratio improved to 47.3% as of 31st March, 2018 as compared to 48.4% as of 31st March, 2017.

**Provisions and Contingencies (excluding tax)**

Provisions and contingencies (excluding tax) were ₹ 940.0 crore for FY 2018 compared to ₹ 836.7 crore for FY 2017 primarily due to:

- Higher provision on investments in FY 2018
- Increase in provision for standard assets on account of increase in loan book

Credit cost was 55 bps for FY 2018 compared to 61 bps for FY 2017.

RBI vide its circular DBR.No.BP.BC.102/21.04.048/2017-18 dated 2nd April, 2018 granted banks an option to spread provisioning for mark-to-market losses on investments held in AFS and HFT for the quarters ended 31st December, 2017 and 31st March, 2018. The circular states that the provisioning for each of these quarters may be spread equally over up to four quarters, commencing with the quarter in which the loss was incurred. The Bank has recognised the entire net mark-to-market loss on investments in the respective quarters and has not availed of the said option.

PBT of the Bank as per reportable segments based on RBI guidelines are as under:

(₹ in crore)

| Segment | FY 2018 | FY 2017 |
|---|---|---|
| Corporate / Wholesale Banking | 2,984.5 | 2,694.8 |
| Retail Banking | 1,510.7 | 1,194.7 |
| Treasury, BMU* and Corporate Centre | 1,723.0 | 1,258.5 |
| **PBT** | **6,218.2** | **5,148.1** |

* *Balance Sheet Management Unit*

## BALANCE SHEET

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

(₹ in crore)

| Liabilities | 31st March, 2018 | 31st March, 2017 |
|---|---|---|
| Networth | 37,481.7 | 27,616.1 |
| Deposits | 192,643.3 | 157,425.9 |
| - Current Account Deposits (CA) | 32,245.8 | 27,760.8 |
| - Savings Account Deposits (SA) | 65,529.2 | 41,503.9 |
| - Term Deposits (TD) Sweeps | 11,909.8 | 10,078.5 |
| - Other TDs | 82,958.5 | 78,082.7 |
| Borrowings | 25,154.2 | 21,095.5 |
| Other Liabilities and Provisions | 9,654.2 | 8,452.5 |
| **Total** | **264,933.4** | **214,590.0** |

(₹ In crore)

| Assets | 31st March, 2018 | 31st March, 2017 |
|---|---|---|
| Cash and Bank Balances | 19,620.1 | 22,572.0 |
| Investments | 64,562.4 | 45,074.2 |
| - Government Securities | 51,757.7 | 36,189.9 |
| - Other Securities | 12,804.7 | 8,884.3 |
| Advances | 169,717.9 | 136,082.1 |
| Fixed Assets and Other Assets | 11,033.0 | 10,861.7 |
| **Total** | **264,933.4** | **214,590.0** |

The Bank's capitalisation levels remain one of the strongest in the industry with overall CRAR at 18.2% (Tier I ratio of 17.6%) as compared to 16.8% (Tier I ratio of 15.9%) as on 31st March, 2017.

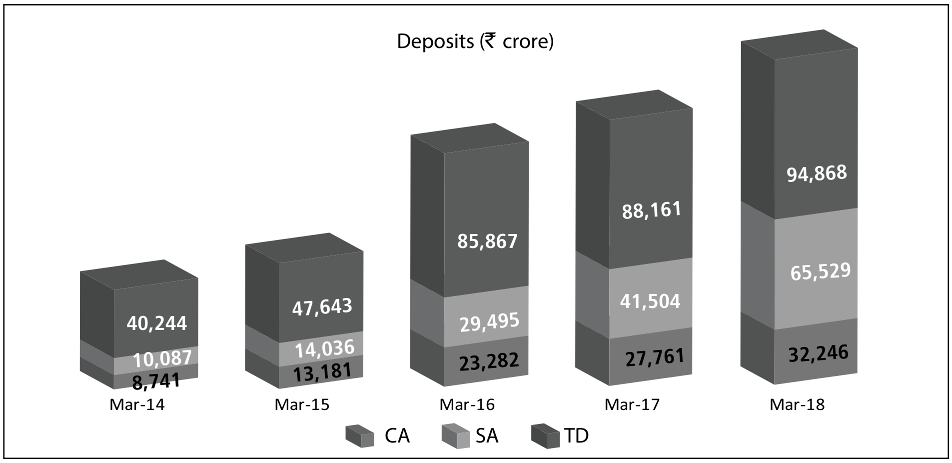
Networth of the Bank increased from ₹ 27,616.1 crore as on 31st March, 2017 to ₹ 37,481.7 crore as on 31st March, 2018 primarily due to QIP issuance done by the Bank in FY 2018.

### Deposits

The fundamental philosophy 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 ₹ 192,643.3 crore as on 31st March, 2018 compared to ₹ 157,425.9 crore as on 31st March, 2017. CASA deposits increased to ₹ 97,775.0 crore as on 31st March, 2018 from ₹ 69,246.7 crore as on 31st March, 2017.

Savings account grew by 57.9% to ₹ 65,529.2 crore and Current account grew by 16.2% to ₹ 32,245.8 crore. Term Deposits grew by 7.6% to ₹ 94,868.3 crore. During FY 2018, average SA increased by 55% and average CA increased by 20%.

CASA plus term deposits below ₹ 5 crore, account for 77% of the total deposits.




*The numbers for 31st March, 2015 and prior are not comparable due to merger of erstwhile Ing Vysya Bank Limited (eIVBL), effective 1st April, 2015.*

**Advances**

The classification of advances of the Bank is as follows:

(₹ in crore)

| | 31st March, 2018 | 31st March, 2017 |
|---|---|---|
| Corporate Banking | 52,133.3 | 41,703.1 |
| Commercial Vehicles & Construction Equipment (CV/CE) | 15,201.7 | 10,827.0 |
| Agriculture Division | 22,915.6 | 18,968.7 |
| Business Banking | 18,269.0 | 17,884.1 |
| Home Loans and Loan Against Property (LAP) | 32,429.4 | 26,120.9 |
| Small Business, Personal Loans & Credit Cards | 25,129.2 | 17,386.5 |
| Other Loans | 3,639.7 | 3,191.8 |
| **Total Advances** | **169,717.9** | **136,082.1** |

Advances as per RBI segmental classification:

(₹ in crore)

| Segment | 31st March, 2018 | 31st March, 2017 |
|---|---|---|
| Retail | 70,316.1 | 55,237.3 |
| Corporate | 99,401.8 | 80,844.8 |
| **Total** | **169,717.9** | **136,082.1** |

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
- Retail advances - Small business, Personal Loans, Home loans, LAP and Credit Cards as a result of a general increase in demand in these markets

The Bank's credit deposit ratio stood at 88.1% as of 31st March, 2018 vs. 86.4% as of 31st March, 2017.

**Asset Quality**

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

The position of Gross and Net NPA is as under:

(₹ in crore)

| Particulars | 31st March, 2018 | 31st March, 2017 |
|---|---|---|
| Gross NPA | 3,825.4 | 3,578.6 |
| Gross NPA % | 2.22% | 2.59% |
| Net NPA | 1,665.1 | 1,718.1 |
| Net NPA % | 0.98% | 1.26% |

SMA2 outstanding as on 31st March, 2018 was ₹ 71.7 crore (0.04% of net advances) compared to ₹ 130.8 crore (0.10% of net advances) as on 31st March, 2017.

The provision coverage ratio as per RBI was 65.7% as of 31st March, 2018 as compared to 61.4% as on 31st March, 2017.

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

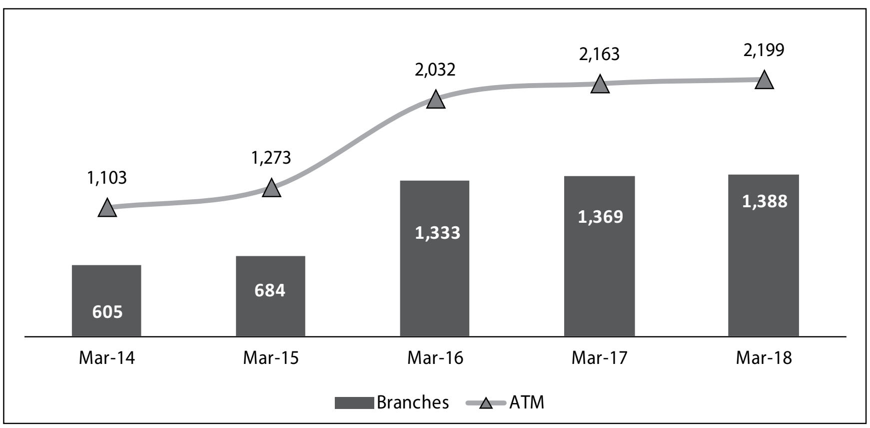
## CONSUMER BANKING

### 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 had 1,388 branches and 2,199 ATMs as on 31st March, 2018.




*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 were:

**I. Products and Services**

- On **Savings Account**, the Bank continued to grow 3 times as compared to industry growth with focus across all key segments, i.e. mass (through Digital), Mass Affluent & HNI. The Bank launched the biometric account opening process for Savings account across branches, which helped boost both productivity of the channel and customer experience on speed of account opening. The Bank continued to focus on Women (through SILK), Minors (through Junior), 55+ (through Grand) and the overall Family (through My Family) as key segments for growth in the savings space. The Bank is also in the process of rolling out a modified Relationship Model framework, to ensure that the volume of customers being acquired are managed effectively. This should be rolled out by Q1FY19.
- The Bank also launched the revamped Privy League Program across its Branch and Priority channel to ensure better customer coverage and service. Now all branches of the Bank can source and manage Privy League customers. Further, to ensure higher levels of customer service, the Bank's existing Relationship Value (RV) construct was simplified and upgrade process between various tiers was made simpler.

- On **Current Account**, the Products under the head were restructured. New product launches (such as Startup & GTA) and Simplification of Account opening process through introduction of Current Account Insta Kit / Biometric helped the Bank to acquire more than 1.63 lakh customers in FY 2018.
    - o Exclusive tie-ups with Incubators/Co-working spaces for sourcing Startups helped the Bank to onboard 3,600 Startups through recently launched Startup program.
- Merchant Acquiring business was launched in FY 2018 to cater to the retail payments acceptance requirement of business banking customers. Point of Sale (POS) terminals and Bharat QR were the products launched under this business. Bank currently provides 3 terminal models to merchants – GPRS (sim based POS terminal), PSTN (wired line based POS terminal) and DigiPOS (printer less POS terminal). During the year, the Bank installed 7,262 POS terminals and 2,160 Bharat QR decals (QR stickers).
- **811:** On 8$^{th}$ November, 2016 (8/11), the government announced a move to demonetise of ₹ 500 and ₹ 1,000 notes, with the aim of pushing the country towards digital transactions. Following on this announcement, the Reserve Bank of India (RBI) introduced an Aadhaar-based One Time Password (OTP) authentication process for bank account opening.

  Kotak Bank was the first bank in India to integrate the newly introduced Aadhaar-based OTP authentication process for savings account opening on mobile. 811 is a unique, full-service digital banking ecosystem on mobile, designed around the ideas of simplicity and ease of use. Using the Aadhaar OTP guidelines for account opening issued by the RBI, 811 allows customers to open a bank account in under 5 minutes, by simply downloading an app on their mobile phone. The product has no balance commitment, zero charges on digital transactions, and a competitive interest rate of up to 6% on account balances.

## II. Customer Convenience

Customer convenience was the core thread intertwining of the Bank's digital initiatives during the year. Sales force automation, transformation activities, net banking, mobile banking, conversational banking, innovation lab initiatives were targeted towards making banking easier for customers and in the process also enabled to reduce operating cost for the Bank.

**Sales Force Automation –**

- Biometric based account opening launched last year:
    - Has improved TAT of account opening from 7 days to 2 hours;
    - Productivity of the Sales and Operations team enhanced by 1.7 times for SA;
    - Cost of account opening reduced substantially;
    - 67% of Individual Savings accounts sourcing moved to the Biometric mode;
    - Individual current account sourcing has been introduced through biometric mode;
    - Ended FY 2018 with approx. 6 lakh+ new to bank accounts and approx. 16.5 lakh Full KYC;
- Corporate Salary account opening has recently been introduced through biometric route. In the first month, the Bank achieved activations of 11K+ accounts
- Currently 4.5 lakh leads are created by approx. 6,500+ users in the android smartphone based lead management application and activity tracker (Kotak Smart Assist) every month. This helps sourcing staff to track and maintain end to end flow of leads. Total 43.4 lakh leads got created in KSA in FY 2018, out of which 7% leads has been marked converted. 34% leads are of X-Sell products.

**Transformation –**

- Physical service requests are a passe; now top requests are omni-channel, paperless and instant with savings of backend operations hours. 5.14 lakh Service Requests have been handled by API driven implementation.
- Digital Branches in Mumbai (Andheri – Lokhandwala), Gurgaon (Badshapur) , Jaipur and Hyderabad (Kavuri Hills) have gone one step forward in creating the paperless digital ambience for its customers to self-service in its 24X7 lobby, enjoy assisted service.
- DLMS (Deliverable Management System) will enable deliverable management in a way as to make the location of the consignment available on real time basis. This will also help in cost optimisation with regards to operational resources and also by reducing dependency on high cost couriers.
- Robotics Process Automation has (RPA) automated 11.5k hours of efforts with a 90%+ reduction of TAT creating efficiency and improved customer experience.

**Net Banking –**

- Enabled option to update FATCA through Net Banking
- Option to book Rail tickets has been enabled on Net Banking
- Customer can register GSTIN and make GST payment through Net Banking
- Option to apply for Travel Card through Net Banking has been enabled
- Customer can now attach document while using Secure mail in Net Banking

- Customer will be able to instantly Switch ON / OFF credit card
- Customer can instantly Activate / Deactivate Passbook facility online
- Introduced option to buy Kotak Health Insurance and track policy details online

**Mobile Banking –**

- Fast and easy login using Biometric Authentication on applicable devices (Fingerprint authentication in Android, Touch ID in iPhone, Face ID in iPhone X)
- Scan n Pay: Launched Bharat QR for scan based cardless payments. And now, customer can use Biometric for amount less than 2K
- 811 customer can opt to get free credit score during account opening journey and basis the score and credit check, get a credit card instantly
- User can switch on, switch off their credit or debit cards to have enhanced security and control
- Message Board: A widget in home screen for contextual messages to customer
- mStore: option to book train ticket
- Profile Update: Under Project Velocity, customer can now real-time update Mobile number, Email ID, PAN, Aadhaar from the app itself
- Customer can apply for Kotak Health Insurance online

**Conversational Banking –**

- We have officially launched banking services on Whatsapp and is one of the first Banks to start using official Whatsapp services to connect with its customers
- We have started to share 811 digital welcome kit with our customers who are opening Kotak Mahindra Bank's 811 saving account online. The digital welcome kit talks about the features and benefits of the 811 account.
- Subsequently, customers will receive account related alerts and will also be able to reply and ask their transaction related details and perform basic service requests
- Conversation banking with Keya AI powered Chatbot will be a new addition to our digital family addressing the top reasons for customer contacting our frontline channels for assistance related to credit & debit card and 811 queries

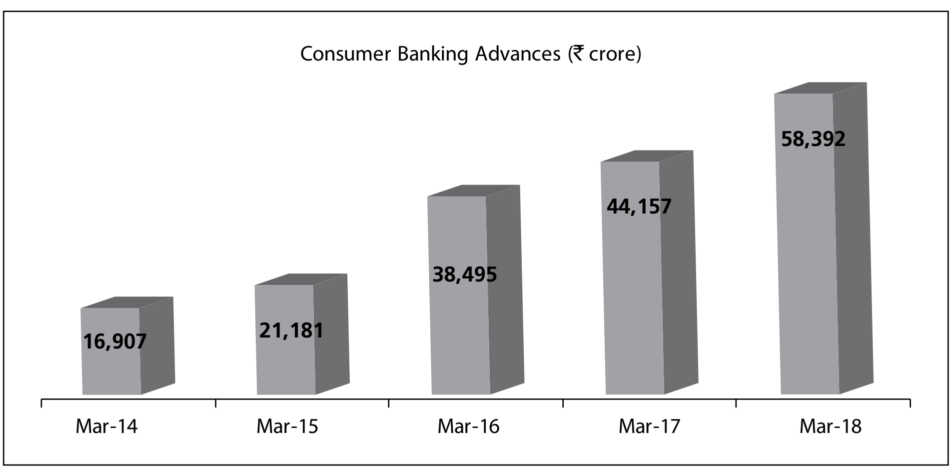
**Innovation Lab –**

The Bank forged multiple relationships across the industry spectrum, including with multiple fintechs across AI, automation, lending and payments. The purpose and strategy around the partnerships is to aid the digital transformation of the Bank

- Evaluation and Incubation of ideas and technologies across AI, Blockchain, API Banking
- Launch of Kotak Payment CO-CREATION Program with NASSCOM
- Collaboration with Fintech Valley Vizag and Global Fintech HUB – Govt of Maharashtra

## 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 1.4 million cards in force as on 31st March, 2018. YoY spends have grown at 60%, while consumer card spends have grown at 70%.

Under the Consumer Assets portfolio, the Bank offers a wide range of products. This business has grown its book 32.2% in FY 2018 with significant business coming from active engagement with existing liability customers of the Bank.

**ATM, Debit Cards & Payment Gateway:**

In FY 2018, ATM network serviced 9.3 crore transactions, which is 21.3% more than last year. Of this, 7.6 crore transactions were cash withdrawals.

POS spends for the year grew by 45% with overall spends at ₹ 8,562 crore while e-Commerce spends grew by 75% with overall spends at ₹ 2,801 crore and international spends grew by 80% with overall spends at ₹ 602 crore.

The Bank has also enabled various card payment methods as mentioned below and are amongst the top banks in adoption of these payment methods.

**Samsung Pay:**

Enables customers to pay through their debit/credit cards in a fast, convenient and secure manner through their compatible Samsung Galaxy Smartphones on the merchant terminals. More than 25K customers have already registered their cards on Samsung Pay in last 6 months.

**Contactless Payments:**

Latest card payment technology that enables customers to pay by just tapping their cards at merchant terminals in a fast and convenient way without needing the PIN for transactions upto ₹ 2000 in India. Over 4 lakh contactless debit cards have already been issued in last financial year.

**Scan & Pay with Bharat QR:**

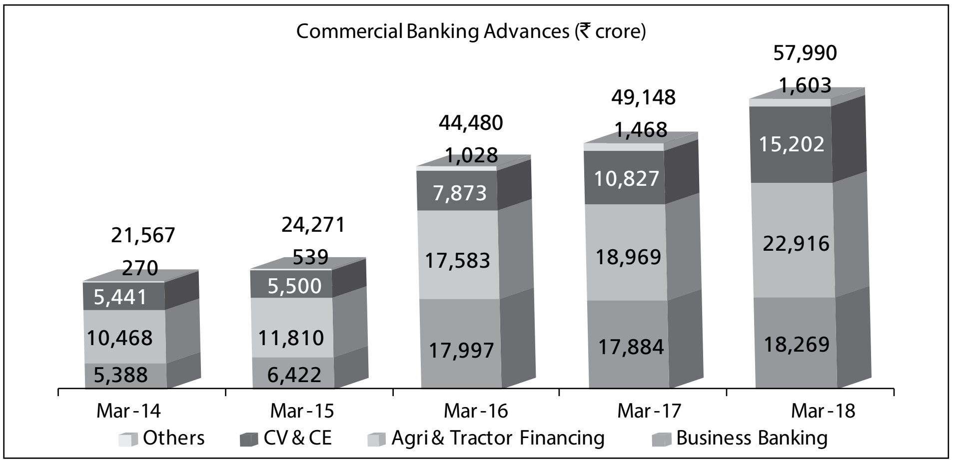
Customers are able to make paperless transactions to merchants by scanning the merchant Bharat QR code through debit or credit cards. The feature is enabled on Kotak Mobile Banking App.

Total spends through payment gateway for online shopping were a very healthy at ₹ 10,376.4 crore, a jump of 78.0% over last year. Transactions through Bill pay and Visa Money Transfer increased by 23.4% for a value throughput of ₹ 1,463.1 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:




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

Advances growth in Business Banking is almost flat for the year ended 31st March, 2018. The stress level in the sector is impacting book growth.

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 regulatory changes such as stringent implementation of CMVR (Body) rules, strict implementation of overloading rules in business intensive regions like North. Further, Government spending in the infrastructure sector has led to a strong demand in the CE industry with focus on road construction, railways & Metros. The growth in the tractor finance portfolio was driven by higher tractor sales following a forecast of normal 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. This network plays a crucial role in meeting the financial inclusion goals and credit demand of 'Bharat'.

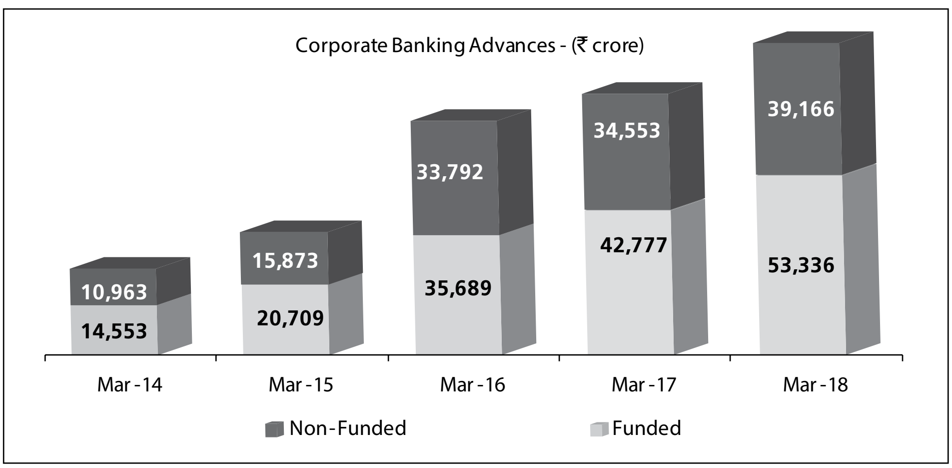
## CORPORATE BANKING

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 Corporate 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 year has witnessed significant disruptions in the corporate banking space. Overall credit offtake in the industry has been muted. Many banks are facing high NPAs in their corporate book. With more capital from banks, mutual funds and NBFCs chasing the higher rated corporates, this space is witnessing significant reduction in spreads for banks. Despite these challenges, the Bank has been able to consistently deliver growth through gain in market share. There has been equal focus on gaining new customers as well as gaining wallet share in existing customers.

While the asset book has grown at a healthy pace, during the year, spreads in both fund and non-fund businesses have been significantly compressed. This fall has been partly compensated by the strong growth in GTS products such as the Current and Savings Accounts, Forex and Cash Management. Focus on productivity and efficiency have helped keep costs under control. However, accelerated provisioning on a few legacy stressed cases have impacted profitability.

The mix between funded and non-funded (Letter of Credit and Bank Guarantees) 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 an Integrated Corporate and Investment Banking (CIB) model for conglomerates and large corporate groups. The CIB model has ramped up well and the Bank has been able to increase both its banking wallet share and its investment banking business with these corporates. More accounts were brought under the CIB coverage this year.

Given the potential disruptions facing banks in the large corporate space from NPAs, high leverage in the industry and low spreads in better positioned corporates, the Bank had muted its growth ambitions from the large corporate space this year. Exposure was confined to segments with credit comfort in terms of better rated exposure and industries with a positive outlook.

In the mid corporate space, the Bank has been focused on increasing its share by targeting client acquisitions and becoming one of the preferred bankers to these corporates. The year has seen strong growth for the Bank from this space. The mid corporate book has held up well since the last few years with low history of defaults.

The Bank has entered into a co-operation agreement with ING Bank globally covering a number of countries which is expected to aid the Bank in targeting greater number of multinational corporates in India. Dedicated marketing efforts have helped the Bank to make significant inroads into identified corridors such as the Korea-India, Italy-India and Germany-India corridors. The Bank continues to extend this focus to other regions as well.

In the financial institutions space, the Bank has added a number of customers across segments including capital market players, insurance companies, mutual funds, private equity players, correspondent banks and others. 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 is today one of India's largest domestic Custodians with AUC upwards of USD 27 billion and is strongly positioned in the India focused offshore funds space. This year, the Custody business has added a number of marquee clients in the offshore funds space and has also gained significant traction in the domestic custody space. In the Insurance segment, focused marketing efforts have enabled the Bank to make significant progress with some large insurance companies. Other verticals such as the correspondent banking and banking with mutual funds and private equity funds have also ramped up well.

The Bank's strategy in the corporate real estate space has been to focus and ramp up presence with high quality developers where credit comfort is high. The business continues to generate strong returns on equity.

Transaction Banking Group in the Bank continues 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 and 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. This year, Current Account & Savings Account balances saw significant growth through innovative solutions and focused marketing efforts and early to launch products such as Smart Collect and Mibor Linked Savings Account. Trade funded book continued to show strong growth and maintained an average of over ₹ 10,000 crore this year. The cash management business is ramping up well and the business has won a number of awards this year. Income from Forex has also shown significant growth.

The Bank has robust risk management systems in place and has ensured that the growth has been achieved in a profitable manner without compromising the health of the book. At a time when most corporate banks in the industry are facing huge NPAs, the Bank has kept a tight control on asset slippages. This year, the Wholesale Banking division has had to take accelerated provisioning on a few legacy stressed cases due to regulatory changes and this has impacted profitability for the year. However, except for these few legacy cases, there has been very little addition to Gross NPAs from new cases in the last few years. Risk Weighted Assets as a proportion of the asset book has been reducing over the years. Use of pricing models such as the Risk Adjusted Return on Capital have helped optimise pricing and better judge the risk return metrics. 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. This year, the Bank has also introduced Economic Value Added (EVA) measurement that will help understand the true value derived from each client and bring greater focus on non-asset income streams.

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.

## GIFT CITY

The Bank's branch at the IFSC Center in Gujarat International Fin-Tech City (GIFT City branch), had commenced operations in FY 2017. The GIFT City branch has enabled the Bank to cater to the overseas funding needs of the Bank's corporate customers. The loan book of the Branch has grown at a healthy pace in FY 2018, with a significant portion being medium term loans to overseas entities across multiple geographies. Loans from the GIFT branch are also subject to the rigorous and conservative credit underwriting standards of the Bank. The Branch is also supporting the stock exchanges in the GIFT City by providing account and clearing services to the Exchanges and its participants.

## TREASURY

The surplus liquidity residual from Demonetisation in FY 2017 gradually moved into the neutral to negative zone by the end of FY 2018. Shift in Monetary policy stance by the Reserve Bank of India [RBI] from accommodative to neutral in its February 2017 meeting, together with developed economies looking to normalise the easy monetary policy regimes in the respective geographies, set the tone for the markets in FY 2018.

Initial apprehensions on GST implementation and settling pangs later, led to concerns on growth and fiscal slippages. While the RBI cut policy rates by 25bps in August, 2017, the sovereign yields rose in the second half on account of rising yields in the developed markets, OMO sales by RBI and apprehensions of higher supply due to expected fiscal slippages. Resurgent commodity & energy prices – especially crude prices, focused the spot light on inflationary expectations and fiscal deficit. Concerns manifested as bearish sentiments in the debt markets, leading to a steepening of the sovereign yield curve [IN10YT (70bps↑): 6.7% - 7.4%; IN2YT (40bps↑): 6.5% - 6.9%]. Corporate debt also witnessed increased spreads over the sovereign yields.

The Foreign Currency [FX] markets broadly trended on the USD weakness for the earlier part of the year and USD strength in the latter part, ending at 65.15 from a level of 64.87 a year ago, remaining in a range of 63.25-65.40 for the year. The Rupee reacted to a range of geo-political events [viz. US-North Korea tensions, Iran negotiation on sanctions, Syrian crisis, Trade War scare etc.], US Economic data [leading to speculations on the pace of Policy normalisation] and movements in the US yields [US10YT (40bps↑): 2.34% - 2.74%]. With about 0.4% depreciation for the year it fared a tad better than its Asian peers.

NIFTY moved from 9,174 to 10,113. Continued efforts towards improving business environment, formalisation of the Indian markets, resurgence of growth and demand saw healthy flows from investors – both global and domestic, into the market. The year also saw a healthy resurgence of primary issuances [IPO], mobilizing about ₹ 84,300 crore. NIFTY reached a record high of 11,130 in Jan 2018 on the back of strong interest from Domestic and overseas investors. Sovereign upgrade by Moody's in November 2017 buoyed sentiments. Q4FY2018 saw modest correction in NIFTY levels - led by dips in global equity markets; the NIFTY returns were about 10% for the year.

The Treasury Fixed Income Trading Desk – started the year with a positive outlook. Careful data backed analysis saw the desk take a cautionary approach and timely trimming the portfolio durations in anticipation of the market volatility. Duration strategies adopted earlier in the year were replaced by shorter tenor carry strategies. Well thought and composed positions yielded desired outcomes. 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 successfully met its regulatory obligations of bidding and success ratios in primary auctions and trading volumes in the secondary market for Government Securities.

In a market interspersed with events, FX Trading desk, took measured and calibrated positions. Additionally, it facilitated efficient pricing for FX requirements of the Bank's customers. Treasury FX Sales Desk continued efforts to deepen and expand its customer reach with favorable outcomes. The desk focused on technological solutions, pricing efficiency, process optimisation and fine-tuning of desk organisation to deliver experiential service to its customers, yielding significant increase in flows and revenues.

The Treasury Bullion desk continued building the annuity book of Gold Loans – achieving stability and sustained profitability. The equity desk took measured calls on the market, principally focusing on the primary market offerings.

The Balance sheet Management Unit (BMU) maintained a cautious stance while managing the funding and ALM requirements of the Bank. The BMU desk maintained enhanced focus on the emergent market liquidity situation. The desk successfully maintained adequate and appropriate liquidity, as also the various regulatory reserves requirements.

The Technology team within the Treasury ably maintained and enhanced systems including Straight Through Processing [STP], archiving and data access so as to ensure efficient and error free operations within Treasury.

The Bank's Asset Liability Committee (ALCO), which also functions as the Investment Committee, maintained a cautious approach with a conservative risk appetite in its supervision of Market Risk, Interest Rate and Liquidity Gaps, counterparty and country exposures.

## TECHNOLOGY

This year, technologies were leveraged to deliver customer experience and business efficiency.

Customer account opening experience was enhanced by the launch of the "digital native, downloadable" 811 account, which can be opened in 5 minutes. The 811 journey was further enriched, with a paperless credit card opening capability. By leveraging biometric technology, the entire process was made paperless and sales productivity was increased by 60%. Biometric account opening was then extended to corporate salary accounts and for onboarding individual current accounts.

Loan account processing was enriched with the launch of Instant personal loans, Superfast home loans and Instant business loans. For customers who prefer non-digital channels, a "Loan on Phone" capability was provided. A new mobile application was launched to facilitate the sales team's customer interaction for credit card applications.

The Bank's wealth management customers' digital experience was enhanced with the initiation of 'Kotak Smart Solutions' mobile application for portfolio viewing and management. A comprehensive content repository and sharing platform that enables SMS and WhatsApp based information sharing in real time was enabled.

Multiple digital payment methods were introduced for the Bank's customers including Visa Paywave, Samsung Pay, Bharat QR, UPI, BBPS (Bharat Billpayment System), AEPS (Aadhaar Enabled Payment System) and FasTag – enabling more cashless payments and strong commitment to the country's Digital India journey.

In addition to innovation in customer account opening and payments, this year saw a number of new technology foundations being laid down to facilitate state of the art capability for the future.

Modern responsive site technology, content management and website analytics have been implemented to facilitate the launch of a new customer centric web portal. Improved customer experience has been evident, in the 30% increased customer traffic on the website.

A foundation for Natural Language Processing (NLP) was laid down and enabled the launch of 'Keya' the first Artificial Intelligence (AI) powered Voicebot in the banking sector. Developed on a library of millions of phone banking conversations, 'Keya' services customers in English and Hindi and facilitates the resolution of customer queries in a single interaction. 'Keya' will also soon be available on the mobile to enrich the 811 and other customer journeys.

Since "data is the new oil", the ability to manage and analyse data becomes key. Hence, strategic technology initiatives this year were the implementation of an upgraded Enterprise Data Warehouse and a Big Data platform. These platforms facilitate the Bank's ability to use analytics to provide personalised customer experience with improved service and customised offers.

The Bank's ability to collaborate with external merchants, developers and service providers has been enhanced with the implementation of an "API Manager". The technology facilitates rapid time to market for integrating in a secure and simplified manner with all entities outside the Bank. The resulting interface to the customer with information and services from third parties and the Bank, provides a holistic, seamless end user experience.

Employees, the internal customers, were also a focus with the launch of a new "Redscape" intranet, and "Edcast" a platform to share digital experiences and facilitate employees in their customer interaction. Robotics and biometrics were employed to automate customer service processes to provide faster turnaround times for the customer and improved employee productivity.

As always, cybersecurity and customer data protection were a priority, keeping pace with increased digital interactions with customers. New security measures were initiated from the customer interface through step up authentication for device authentication, to server protection through deep security measures.

## SUBSIDIARIES HIGHLIGHTS

### Kotak Mahindra Prime Limited (KMP)

KMP is primarily engaged in vehicle 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, consumer durables and other lending.

**Financial Highlights**

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Net Interest Income | 1,115.0 | 1,017.1 |
| Other Income | 255.6 | 224.6 |
| **Total Income** | **1,370.6** | **1,241.7** |
| PBT | 901.9 | 787.8 |
| PAT | 589.6 | 514.8 |

(₹ In crore)

| Particulars | 31st March, 2018 | 31st March, 2017 |
|---|---|---|
| Net Customer Assets | 28,017.5 | 25,184.3 |
| - Car advances | 20,103.8 | 18,177.6 |
| Net NPA % | 0.37% | 0.36% |
| RoAA % | 2.0% | 2.0% |

The passenger car market in India grew by 7.7% for FY 2018 compared to 8.2% growth in FY 2017. Total unit sales of cars and MUVs crossed 32.5 lakh units in FY 2018 compared to 30.2 lakh units in FY 2017. KMP added 139,776 contracts in FY 2018 compared to 130,070 in FY 2017.

Gross NPA was ₹ 241.4 crore (0.86% of gross advances) while net NPA was ₹ 102.9 crore (0.37% of net advances) as on 31st March, 2018. Further, the capital adequacy ratio as on 31st March, 2018 was 17.7% (17.2% as of 31st March, 2017).

### 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 | FY 2018 | FY 2017 |
|---|---|---|
| Net Interest Income | 303.9 | 270.3 |
| Other Income | 122.0 | 80.8 |
| **Total Income** | **425.9** | **351.1** |
| PBT | 366.6 | 290.1 |
| PAT | 245.0 | 196.4 |

(₹ In crore)

| Particulars | 31st March, 2018 | 31st March, 2017 |
|---|---|---|
| Net Customer Assets | 7,900.1 | 6,999.9 |
| Net NPA % | 0.01% | 0.07% |
| RoAA % | 3.0% | 3.1% |

The customer assets increased to ₹ 7,900.1 crore as on 31st March, 2018 as compared to ₹ 6,999.9 crore as on 31st March, 2017. KMIL reported a growth of 24.7% in PAT to ₹ 245.0 crore for FY 2018 compared to ₹ 196.4 crore for FY 2017.

Gross NPA was ₹ 4.2crore (0.05% of gross advances) while net NPA was ₹ 0.7 crore (0.01% of net advances) as on 31st March, 2018. Further, the capital adequacy ratio as on 31st March, 2018 was 18.9% (16.8% as of 31st March, 2017).

**Kotak Securities Limited (KS)**

KS provides securities broking services 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 Life Insurance Company Limited.

**Financial Highlights**

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 1,654.6 | 1,238.7 |
| PBT | 796.0 | 543.3 |
| PAT | 531.0 | 361.3 |

The financial year FY 2017 saw a growth in Cash Market volumes and there were expectations of FY 2018 seeing a rise in volumes due to various macro-economic events.

The Sensex closed at 32,968 as on 31st March, 2018 compared to 29,620 as on 31st March, 2017, with a high of 36,283 and low of 29,319. Similarly, the benchmark Nifty which closed at 9,173 as on 31st March, 2017 closed at 10,113 as on 31st March, 2018 with a high of 11,130 and low of 9,103.

Market average daily volumes (ADV) increased to ₹ 33,630 crore for FY 2018 from ₹ 24,511 crore for FY 2017 for the Cash Segment, and increased to ₹ 670,670 crore for FY 2018 from ₹ 382,066 crore for FY 2017 for Derivatives Segment.

Retail market volumes in Cash Segment and Equity Derivatives Segment, recorded a significant increase over the volumes recorded in FY 2017. Gold prices recorded the lowest price in July 2017 for the current financial year but showed a sharp rise since February 2018. Significant macro-economic events during the year had an effect on the retail participation during certain parts of the year. Real estate continues to be a drag and on the other hand retail participation in Mutual Funds including SIP as an investment tool has become very popular. Mutual Fund AUMs have seen record highs. The Company's focus on Cash Segment saw it further increase market share on the increased market volumes. Market share of Kotak Securities in the cash segment was 8.5% for FY 2018.

Customer acquisition resulted in addition of ~ 2.6 lakh customers with a large part of them being online trading customers. Further simplification of onboarding is underway and could see a further increase in client acquisition. The mobile trading application continues to be a leader in the market. Further, functionality and extensions have been introduced during the year. A number of other digital initiatives and products were introduced to increase ease of customer access and customer convenience. The total outlets stood at 1,325 at the end of the financial year. The number of registered sub brokers / authorised persons stood at 1,782 for NSE and 1,289 for BSE.

Institution market volumes for both Cash and Derivative Segments showed a growth in current year. Institutional Equities division continues its leadership position in the market emerging as a leader among the domestic players. Yields across the client segments continued to remain under pressure with Mutual Funds having a regulatory ceiling in paying commissions. MiFID II has been made applicable from January 2018. The Company has assessed the situation and made necessary arrangements with affected clients to ensure that there is minimal effect on business. The Company has executed a number of block trades and distributed a large number of IPOs, QIPs and Open Offers.

Technology investment continues and KS has the capability to cater to a wide cross section of clients including providing DMA to low latency clients. During the year, KS saw a 142% growth in Mobile cash ADV and a 130% growth in Mobile Total ADV. Derivative Plus product was launched with enhanced leverage up to 200 times across online platforms. The Institutional Equity Research has increased the width of stock coverage and is focusing on increasing it further. The Research and Sales have been recognised by various clients in voting for them. The Institutional Equities team was ranked #1 in Institutional Investors' Survey on Broking Firms All India for Research and Sales. It was also #1 Local Brokerage and #1 Overall Country Research Asiamoney Brokers Poll for India 2017.

**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 | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 181.0 | 135.9 |
| PBT | 101.5 | 60.6 |
| PAT | 65.3 | 45.6 |

**Equity Capital Markets**

In FY 2018, the Indian Equity Capital Markets saw a significant uptick in primary market activity led by 45 IPOs and 52 QIPs. A total of ₹ 2,03,057 crore was raised across Initial Public Offerings (IPOs), Qualified Institutional Placements (QIPs) Rights Issues, Offers for Sale (OFS), Institutional Placement Programs (IPPs), Block Deals and Infrastructure Investment Trusts (InVITs) (Source: Prime Database).

KMCC successfully completed 27 marquee transactions, including 10 IPOs, 12 QIPs, 2 OFSs, 2 Rights Issues and 1 Block Deal raising a total of ₹ 103,208 crore in FY 2018. KMCC was ranked the #1 Book Running Lead Manager across all Equity Offerings in FY 2018. (Source: Prime Database).

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

**IPO:** General Insurance Corp of India - ₹ 11,257 crore, New India Assurance - ₹ 9,586 crore, SBI Life Insurance - ₹ 8,389 crore, Bandhan Bank - ₹ 4,473 crore, Godrej Agrovet - ₹ 1,157 crore, Lemon Tree Hotels - ₹ 1,039 crore, Indian Energy Exchange - ₹ 1,001 crore

**OFS:** PNB Housing Finance - ₹ 1,306 crore, Interglobe Aviation - ₹ 1,265 crore

**RIGHTS ISSUE:** Tata Steel - ₹ 12,704 crore, Piramal Enterprises - ₹ 1,978 crore

**QIP:** SBI – ₹ 15,000 crore, Kotak Mahindra Bank - ₹ 5,803 crore, PNB - ₹ 5,000 crore, Piramal Enterprises CCD -₹ 4,996 crore, Bajaj Finance - ₹ 4,500 crore, Federal Bank - ₹ 2,500 crore, HDFC - ₹ 1,896 crore, Edelweiss - ₹ 1,528 crore, Apollo Tyres - ₹ 1,500 crore, Mahindra Finance - ₹ 1,056 crore.

**Mergers & Acquisitions**

The total M&A Advisory deal value in India for FY 2018 stood at USD 82 billion vis-à-vis USD 94 billion in FY 2017, while deal volumes remained more or less flat at 1,769 in FY 2018 from 1,788 in FY 2017.(Source: Bloomberg, as on 18th April, 2018)

In FY 2018, KMCC was ranked #3 by volume of deals and #5 by value of deals in the M&A league tables (Source: Bloomberg, as on 18th April, 2018; amongst investment banks only). KMCC advised on a diverse array of nine M&A transactions across a wide range of products and sectors, for a total deal value of USD 3.7 billion:

- Across products, ranging from Acquisitions, Divestments, Mergers, Private Equity investments, Restructuring, Buyback Offers and Open Offers;
- 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 Birlasoft and CK Birla Group for acquisition of ITSS business of KPIT Technologies through merger and open offer – ₹ 4,535 crore
- Financial Advisor to HDFC Limited for sale of HDFC Realty and HDFC Developers to Quikr

- Fairness Opinion to IDFC bank for merger between IDFC Bank and Capital First
- Manager to Buyback offer of Infosys Limited (₹ 13,000 crore), Unichem Laboratories (₹ 886 crore), Pidilite Industries (₹ 500 crore)
- Transaction Advisor to American Tower Corporation for the acquisition of 20,000 communications sites from Vodafone India Ltd and Idea Cellular Ltd – ₹ 7,850 crore
- Financial Advisor to Karam Chand Thapar Group for the sale of wind assets (aggregating 103 MW) to ReNew Power
- Financial Advisor to Kotak Mahindra Bank for acquisition of 26% stake in Kotak Mahindra Life Insurance Company Limited from Old Mutual Plc – ₹ 1,293 crore

After a great year with multiple big-ticket deals in FY 2017, M&A was subdued a bit this year, witnessing a dip in terms of both volume and value. The M&A activity in FY 2018 was mainly driven by consolidation and the outlook remains bullish for the coming year.

In addition to traditional M&A drivers, such as consolidation and market penetration, disruptive pressures, such as technological innovation and digitalisation, will increasingly trigger deal activity.

Additionally, the Insolvency and Bankruptcy Code (IBC) is expected to see domestic deals emerging from restructuring activities and distressed asset sale. (Source: Grant Thornton)

**Kotak Mahindra Life Insurance Company Limited (KLI) (formerly known as Kotak Mahindra Old Mutual Life Insurance Limited)**

Kotak Mahindra Old Mutual Life Insurance Limited was a 74:26 joint venture partnership between Kotak Mahindra Group and Old Mutual Plc, based in UK. In April 2017, the Bank executed a share purchase agreement with Old Mutual Plc. to acquire its 26% stake in KLI, subject to regulatory approvals. The transaction was consummated in October 2017. KLI became a 100% subsidiary of the Bank.

KLI 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 15.0% on Total New Business Premium – Adjusted Premium Equivalent (APE) terms (Single 1/10), whereas KLI registered a growth of 22% on Total New Business Premium- APE terms. On the same basis, KLI market share stood at 5.9% of private industry.

On individual APE Basis (Single 1/10) KLI has posted 5th rank within private industry. KLI market share for Individual New Business premium (APE terms) increased from 4.2% for FY 2017 to 4.4% for FY 2018 among private insurers. The financial performance of KLI for the current and previous financial year is given below:

**Financial Highlights**

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Gross Premium | 6,598.7 | 5,139.5 |
| First Year Premium (incl. Group and Single) | 3,404.2 | 2,680.3 |
| PBT – Shareholders' Account | 471.2 | 342.7 |
| PAT – Shareholders' Account | 413.4 | 303.3 |

The Indian Embedded Value (EV) was ₹ 5,824 crore as on 31st March, 2018. This is computed based on the principles prescribed by APS10. The methodology, assumptions and results have been reviewed by Willis Towers Watson Actuarial Advisory LLP.

The Value of New Business (VNB) for FY18 was ₹ 522 crore and the VNB margin was 29.3%.

**Revenue Performance**

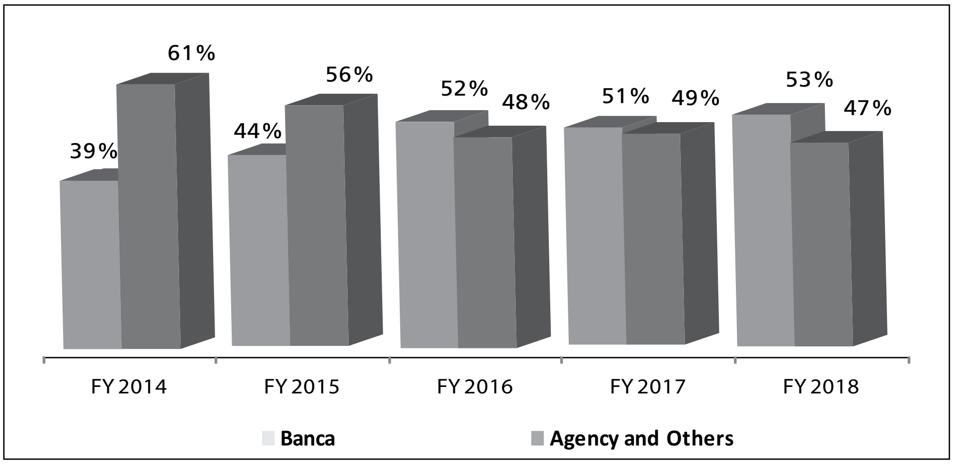
KLI has recorded a growth of 28.4% on the gross premium, mainly coming from Individual renewal premium. The summary of premiums is as under:

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Individual Regular Premium | 1,530.4 | 1,176.2 |
| Individual Single Premium | 441.5 | 260.4 |
| Group Premium | 1,432.4 | 1,243.7 |
| **Total New Business Premium** | **3,404.2** | **2,680.3** |
| Renewal Premium | 3,194.5 | 2,459.2 |
| **Gross Premium** | **6,598.7** | **5,139.5** |

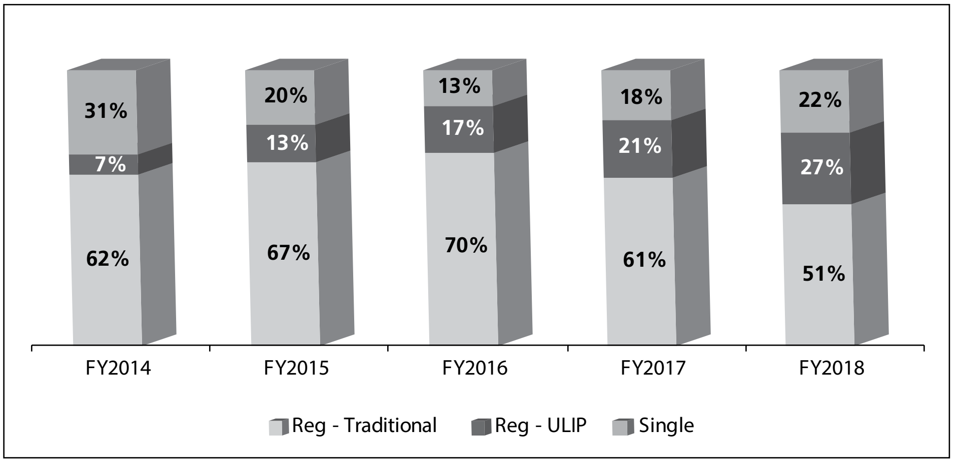
KLI had implemented 'Genie', a tablet based end to end sales solution. In FY 2018, 77% of the individual policies were sourced using Genie vs 29% in FY 2017.

**Distribution Mix (Individual business APE (Single 1/10))**




Alternate Channels and Agency channels posted a growth of 32.5% and 27.7%, respectively over the previous year at regular premium. Alternate channel's growth was mainly led by Kotak Mahindra Bank Limited. This year KLI tied up with South Indian Bank having more than 850 branches.

**Individual Product Mix**




KLI has balanced product mix in individual regular premium, 66% traditional and 34% ULIP.

The share of Risk Premium was 22% to the Total New Business Premium. Sum assured increased by 25% Year on Year basis.

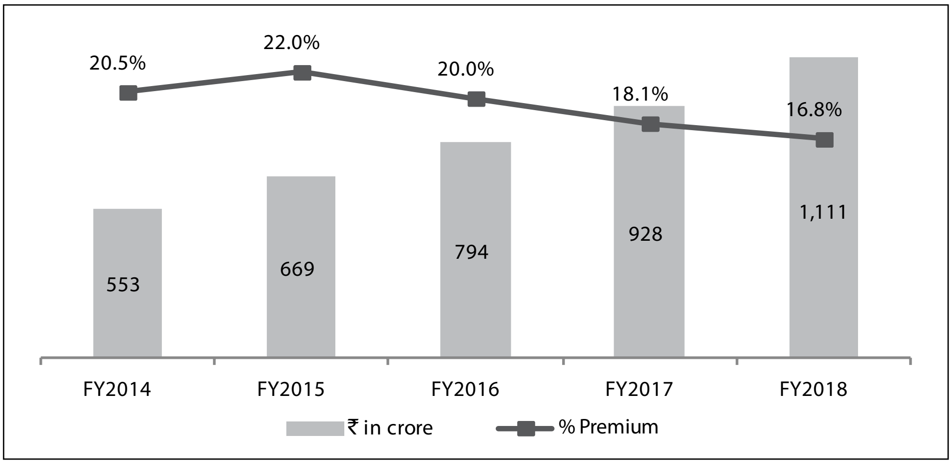
**Profits and Solvency**

The networth of KLI increased by 22.6% to ₹ 2,238.1 crore as on 31st March, 2018 from ₹ 1,824.7 crore as on 31st March, 2017. KLI has solvency ratio of 3.05 against a requirement of 1.50.

Further, conservation ratio is 87.1% in FY 2018 compared to 85.2% in FY 2017. KLI has set up a dedicated retention team to improve the retention of the premiums of KLI. As of Feb'18, the persistency was – 85.2% (13th month), 75.5% (25th month), 71.2% (37th month), 69.6% (49th month) and 61.7% (61st month).

**Cost Analysis**

Operating expense ratio (net of service tax) has improved to 16.8% as against 18.1% in previous year. This was possible by a 28.4% Year-on-Year growth in total premium in FY 2018 and is also attributed to improved productivity in addition to increase in distribution strength.

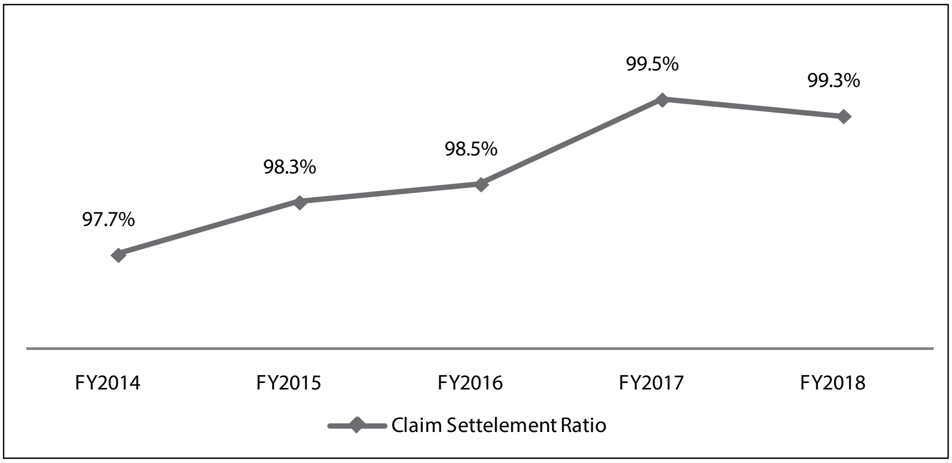



**Assets Under Management**

KLI saw an increase in its AUM (including shareholders') by 20% YoY to ₹ 25,128 crore in FY 2018.

**Claims Settlement Ratio**

Claims settlement ratio in FY 2018 stood at 99.3% (FY 2017-99.5%).




**Network**

KLI had 227 life insurance outlets across 151 locations. KLI has 94,688 life advisors, 23 Bancassurance partners and 145 brokers and corporate agency tie-ups.

**Social and Rural Obligations**

KLI has written rural policies 73,710 (FY 2017: 64,629) representing 21.8% of total policies against regulatory requirement of 20.0%. Further, KLI has covered 1,178,281 social lives more than the regulatory requirement of 405,229. 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 as a 100% subsidiary of the Bank. KGI received its certificate of registration from Insurance Regulatory and Development Authority of India (IRDAI) in November 2015 and subsequently commenced operations in December 2015. KGI completed its second full year of operations at the end of FY 2018.

KGI is in the business of underwriting general insurance policies relating to Fire and Miscellaneous segments. KGI sources Insurance policies through agents, brokers and online channels.

The general insurance industry as a whole registered a growth of 17.5%, in which the private sector (excluding standalone health insurance companies) grew by 21.6%. KGI grew its premium from ₹ 82.0 crore in FY 2017 to ₹ 185.4 crore in FY 2018 at a growth rate of 126%.

**Financial and Other Highlights**

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Gross Written Premium (GWP) (including re-insurance) | 188.1 | 84.9 |
| Loss Before and After Tax | (32.6) | (34.7) |
| Combined Ratio | 122% | 147% |

**Revenue Review**

KGI issued double the number of policies to 2.5 lakh in FY 2018 from 1.0 lakh in FY 2017 amounting to a gross direct premium excluding re-insurance of ₹ 185.4 crore (FY 2017: 82.0 crore).

**Product Mix**

Product mix of KGI for Motor, Health and Others has moved from 84:15:1 in FY 2017 to 75:17:8 in FY 2018.

**Distribution Mix**

Bancassurance Channel grew from ₹ 50.8 crore in FY 2017 to ₹ 109.7 crore in FY 2018 registering a 116% growth and Multi Distribution channel grew from ₹ 31.3 crore in FY 2017 to ₹ 75.7 crore in FY 2018 registering a 142% growth. Digital and online business grew at 133% compared to same period last year.

**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 the Company's claim / liability paying ability.

As on 31st March, 2018, the solvency ratio of KGI stood at 1.88 against the regulatory requirement of 1.50.

**Investments**

Investments of KGI as on 31st March, 2018 stood at ₹ 248.9 crore against the previous year amount of ₹ 147.2 crore, a growth of 69%.

**Distribution Network**

KGI has a network of 15 branches catering to more than 250 locations. KGI has registered 5 Corporate Agents, 58 Individual Agents, 120 Point of Sale agents and 190 Brokers.

**Rural and Social Obligations**

KGI has written a premium of ₹ 10.2 crore under rural obligation representing 5.5% of total premium. Further, KGI has covered 1,941 social lives against the regulatory requirement of 1,117.

**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 | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 518.9 | 291.2 |
| PBT | 124.5 | 58.6 |
| PAT | 81.2 | 38.2 |
| AAUM | 115,399 | 77,091 |
| **Kotak Mahindra Trustee Company Limited** | **FY 2018** | **FY 2017** |
| Total Income | 46.4 | 26.6 |
| PBT | 45.3 | 25.4 |
| PAT | 33.8 | 17.5 |

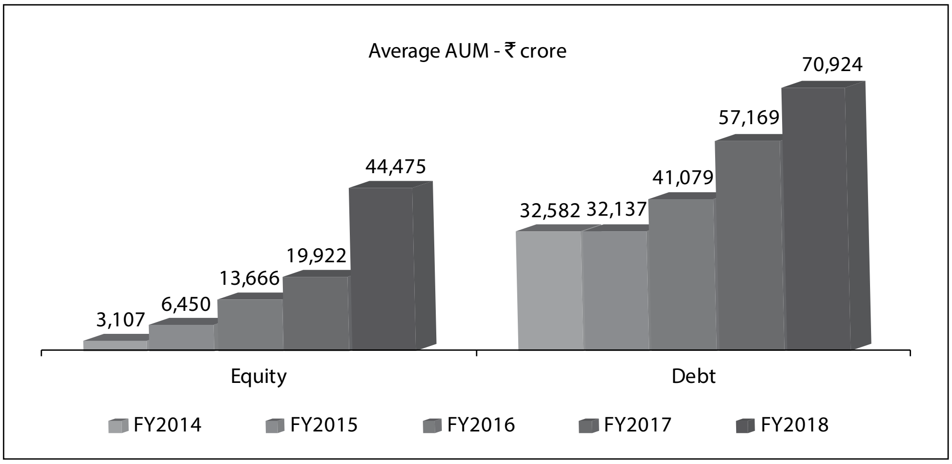
The growth in the mutual funds industry continues at an impressive pace. The industry registered a growth of 26% for FY 2018 with the Quarterly Average Assets Under Management (QAAUM) for Q4FY18 at ₹ 23.1 lakh crore.

On the basis of percentage growth in QAAUM, KMAMC is among the fastest growing Mutual Fund houses. The QAAUM which stood at ₹ 124,691 crore for Jan-Mar 2018 has seen growth of around 35% YoY and 270% in last 3 years. KMAMC continues to be the 7th largest Fund House in the country in terms of QAAUM. Market share in QAAUM has grown to 5.41% from 3.7% from 3 years back. The cumulative number of non-gold SIPs with the mutual fund stood at 9.7 lakh at the financial year end as compared to 4.0 lakh in FY 2017.

The AAUM of KMAMC for FY 2018 was ₹ 115,399 crore against ₹ 77,091 crore in FY 2017, a growth of 50%. Consequently, the overall revenue from operations grew by 75% to ₹ 502.0 crore from ₹ 286.1 crore. The overall costs grew to ₹ 393.0 crore in FY 2018 against ₹ 232.6 crore in FY 2017, a growth of 70%. Hence, the overall profit before tax has increased to ₹ 124.5 crore in FY 2018 compared to ₹ 58.6 crore in FY 2017.

There has been a significant growth in the discretionary portfolio management activity during FY 2018. KMAMC ended the year with discretionary AUM of ₹ 3,761.9 crore against ₹ 1,439.8 crore as on 31st March, 2017.

The average AUM of KMAMC 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 | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 2.5 | 2.2 |
| PBT | (0.05) | (0.22) |
| PAT | (0.05) | (0.22) |
| AUM | 536.2 | 312.1 |

KMPFL manages 9 schemes. AUM as on 31st March, 2018 were ₹ 536.2 crore (₹ 312.1 crore as of 31st March, 2017) a growth of 71.8%. The overall pension fund industry AUM (including the private and public sector) has grown from ₹ 174,560.9 crore as on 31st March, 2017 to ₹ 234,579.0 crore as on 31st March, 2018, a growth of 34.4% and the private sector industry AUM has grown from ₹ 3,085.5 crore as on 31st March, 2017 to ₹ 5,682.5 crore as on 31st March, 2018, a growth of 84.2%.

Considering the low rates of management fees in Pension Fund Management Business, the revenue generated from the investment management activity for FY 2018 is ₹ 2.5 crore (FY 2017 - ₹ 2.2 crore).

There has been an increase in other income to ₹ 2.4 crore in FY 2018 as compared to ₹ 2.2 crore in FY 2017 primarily on account of increase in profit from sale of investments. The costs have increased marginally to ₹ 2.5 crore in FY 2018 from ₹ 2.4 crore in FY 2017. Consequently, KMPFL has reported a loss during FY 2018 of ₹ 0.05 crore compared to a loss of ₹ 0.22 crore in FY 2017.

**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 international subsidiaries have offices in UK, Mauritius, US, UAE and Singapore.

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 | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 297.7 | 240.4 |
| PBT | 133.7 | 98.1 |
| PAT | 114.4 | 86.0 |

Kotak Mahindra Asset Management (Singapore) Pte. Limited, a subsidiary in Singapore which was set up exclusively to undertake asset management activities commenced its operations from 1st April, 2017.

The asset management arm of the international subsidiaries strengthened its distribution network in Japan further during the year with few major players onboarding the funds managed and distributed by International subsidiaries on their platform. It witnessed healthy flows into the funds from Europe and also made inroads to new geographies such as Thailand.

AUM managed / advised by the international subsidiaries increased to ₹ 35,572.9 crore (USD 5.5 billion) as on 31st March, 2018 compared to ₹ 27,198.1 crore (USD 4.2 billion) as on 31st March, 2017 on account of net inflows of ₹ 6,710 crore (USD 1.0 billion) into open-ended equity as well as debt funds which contribute to most of the revenue generated from investment management.

The overall revenue increased on account of higher investment management income commensurate with the growth in AUM and advisory fees.

However, this was partially offset by lower income from dealing in securities. Hence, the total income earned by international subsidiaries increased from ₹ 240.4 crore for FY 2017 to ₹ 297.7 crore for FY 2018. The operating expenses increased from ₹ 142.3 crore during FY 2017 to ₹ 164.0 crore for FY 2018 largely due to the higher staff costs. Accordingly, PAT for FY 2018 increased to ₹ 114.4 crore from ₹ 86.0 crore for FY 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 | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 91.9 | 98.2 |
| PBT | 10.8 | 6.1 |
| PAT | 10.9 | 5.9 |

The aggregate domestic alternate assets managed by KIAL as on 31st March, 2018 were ₹ 4,841 crore. It managed nine domestic funds during the year. It also advised seven offshore funds during the year. During the year, out of the nine funds managed by KIAL, it has successfully wound up 3 funds.

**Kotak Mahindra Trusteeship Services Limited (KMTSL)**

KMTSL acts as a trustee to domestic venture capital funds and private equity and realty 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 | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 6.5 | 6.1 |
| PBT | 2.4 | 2.8 |
| PAT | 1.7 | 1.9 |

**Kotak Infrastructure Debt Fund Limited (KIDFL)**

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

**Financial Highlights**

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 24.8 | 8.2 |
| Profit/(Loss) Before Tax | 14.4 | 5.1 |
| Profit/(Loss) After Tax | 14.4 | 3.4 |

The income for FY 2018 increased mainly due to interest income on loans and debentures. There was an increase in the operating expenses in FY 2018 primarily due to borrowings and staff and related costs as KIDFL commenced its operations in current year.

**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 | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 0.3 | 0.5 |
| PBT | 0.3 | 0.4 |
| PAT | 0.2 | 0.3 |

**BSS Microfinance Limited (formerly known as BSS Microfinance Private Limited) (BSS)**

In September, 2017, the Bank acquired 99.49% of BSS for an aggregate consideration of ₹ 139.2 crore, of which ₹ 116.7 crore has been paid till date and the balance is partly deferred and partly contingent. BSS has been consolidated from that date. The remaining stake of 0.51% was acquired in March 2018 for a consideration of ₹ 0.5 crore and it is now a 100% subsidiary of the Bank.

BSS, earlier engaged in Microfinance activities as a registered NBFC, is now acting as a Business Correspondent for the Bank, in respect of, Microfinance Loans and other related activities.

**Financial Highlights**

(₹ in crore)

| Particulars | FY 2018* |
|---|---|
| Total Income | 128.2 |
| PBT | 32.7 |
| PAT | 21.3 |

* *Represents full year numbers. However, the Bank acquired BSS w.e.f 27th September, 2017*

**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 against securities.

**Financial Highlights**

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 388.5 | 277.0 |
| PBT | 275.5 | 162.7 |
| PAT | 189.7 | 114.9 |
| Share of Kotak Group | 94.8 | 57.4 |

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

**Phoenix ARC Private Limited**

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

**Financial Highlights**

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 177.3 | 85.4 |
| PBT | 51.3 | 34.9 |
| PAT | 28.8 | 22.6 |
| Share of Kotak Group | 14.4 | 11.3 |

PAT of the Company increased by 27.1%. The increase in income was primarily due to increase in trusteeship fees and resolution incentive fees received during FY2018. Increase in fees is a result of the substantial acquisitions made in the last 3-4 years. This increase in income was offset, in part, by higher borrowing costs and provision for diminution in value of investments.

**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 (Unaudited)**

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 56.3 | 56.0 |
| PBT | 7.9 | 9.4 |
| PAT | 5.4 | 6.4 |
| Share of Kotak Group (post adjustments) | 1.0 | 1.2 |

The decrease in the profits of the Company was due to increase in staff costs.

During the year, the Company bought back 104,100 shares @ 960 per share, resulting in a reduction in Share Capital and Reserves and Surplus of ₹ 11.9 crore.

**ACE Derivatives and Commodity Exchange Limited (Unaudited)**

The Company is a demutualised national level multi commodity exchange. The Company discontinued trading operations on 31st May, 2015 and has applied to SEBI for surrendering of exchange license. The Company for the year ended 31st March, 2018 has made a marginal profit primarily from investment of surplus money.

**Financial Highlights**

(₹ in crore)

| Particulars | FY 2018 | FY 2017 |
|---|---|---|
| Total Income | 1.0 | 0.9 |
| Profit/(Loss) After Tax | 0.7 | 0.4 |
| Share of Kotak Group (post adjustments) | 0.3 | 0.2 |

## RISK MANAGEMENT

### A. Risk Management

The Group views risk management as a core competency and tries to ensure sound management of risks through timely identification, assessment and 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 supports the VC & MD and CRO in embedding strong risk management and risk culture. 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
- Policies to support and guide risk taking activities across the Group
- Risk Appetite statements
- Standardised risk metrics and risk reports to identify and communicate and risks
- Periodic stress testing to assess the impact of adverse business conditions on earnings, capital and liquidity

The Bank has adopted the three lines of defence model towards risk management. Business units and the independent risk management function, work in collaboration to ensure that business strategies and activities are consistent with the laid down policies and limits. Responsibilities for risk management at each line of defence are defined, thereby providing clarity in the roles and responsibilities towards risk management function.

At the first line of defence are the various business lines that the Bank operates, who assume risk taking positions on a day to day basis within approved framework and boundaries.

The second line of defence is made up of Risk Management, Finance and Compliance functions. This line provides assurance, challenge and oversight of the activities conducted by the first line and periodic reporting to the Board.

The third line of defence is the audit function that provides an independent assessment of the first and second line of defence and reports to the audit committee of the Board.

The risk management framework based on the three lines of defence governance model is further strengthened by a strong risk culture that is present at all levels.

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 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. Such regular and transparent risk reporting and discussion at senior management level, facilitates communication and discussion of risks and mitigating strategies, across the organisation. The Board continued to provide oversight the management's efforts to balance growth and prudent risk management, while creating value for stakeholders.

During the year, the Bank and major entities of the Group continued to be rated "AAA", 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 long-term stability, 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. Strong capitalisation also enables the Group to take advantage of attractive business opportunities. The Group strives to strike a balance between the need for retaining capital for strength and growth, while providing an adequate return to our shareholders.

Capital planning is an important element of overall financial planning and capital requirements of businesses are assessed based on the growth plans. The Capital utilisation & requirement is monitored every quarter to ensure sufficient capital buffer above regulatory and internal requirement. 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. The risk appetite statements cover all key risk factors and define the boundaries of risk taking. The risk appetite is a key building block of our risk management culture and risk management framework. 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. The Risk appetite statements are reviewed annually and the financial plans are tested against the risk appetite to ensure alignment. To ensure the organisation stays within its risk appetite, performance against approved risk appetite is measured every quarter and reviewed by the Senior Management, RMC & Board. 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.

## D. Credit Risk

Of the various types of risks which the Group assumes, credit risk contributes to the largest regulatory capital requirement. 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 Group assumes credit risk in a wide range of lending and other activities in diverse markets.

The Group has a comprehensive top down credit risk framework defined by Credit policies & Standards that sets out the principles and control requirements under which credit is extended 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 Group aims to have a consistent approach across legal entities when measuring, monitoring and managing credit risk.

The Group 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 at least annually.

The Credit philosophy in the Bank mandates that lending is based on credit analysis, with full understanding of the purpose of the loan and is commensurate to customer financials and ability to repay.

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 and borrower Group. Credit rating models provide a consistent and structured assessment, which, supplemented with expert judgment determines Credit Approval. Wholesale credit is monitored at an aggregate portfolio, industry, individual client and borrower Group level. Annual credit reviews of borrowers are a key credit control measure and all wholesale accounts are reviewed at least once, annually with updated information on financial position, market position, industry economic condition and account conduct. Besides client account reviews, sectoral outlook and performance of borrower within sectors are monitored and reported to senior management.

Retail portfolios typically consist of a large number accounts of relatively small value loans. They comprise of mortgage loans, vehicle loans, personal loans, credit cards, small business loans etc. These are mainly schematic lending within pre-approved parameters. The credit assessment in such portfolios is typically done using a combination of client scoring, product policy, external credit reporting information such as credit bureaus where available and is also supplemented by Credit officer's judgment. Internal historical information from previous borrowers also forms an input into credit decisions. There are specific guidelines for each product and the credit decision will take into account the parameters like loan to value, borrower demographics, income, loan tenor, availability of guarantors etc.

Retail clients are monitored on a portfolio basis. 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, begins with proper customer selection through assessment of the borrower, along financial and non-financial parameters, to meet commitments. The Group uses a number of methods to mitigate risk in its credit portfolio (on and off balance sheet), depending on suitability of the mitigant for the credit, legal enforceability, type of customer and internal experience to manage the particular risk mitigation technique. Common credit risk mitigation techniques are facility structuring, obtaining security / collateral, guarantees and lending covenants. Mitigating mechanisms like syndication, loan assignments as well as reduction in the amount of credit granted are also used. 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 haircut 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. Valuations are updated, depending on the type of collateral, legal environment and creditworthiness of the borrower. 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, to improve recoveries in the event of a default. The Bank has specific requirements in its internal policies with regards to security verification and appropriate legal documentation. The Credit Administration and Legal function ensure that there is timely registration, 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 & Substantial exposure limits
- Sector and Industry limits
- Exposure limits on below investment grade accounts
- Country / Bank exposure limits

The Bank has defined internal limits for managing borrower concentrations, which are tighter than regulatory norms. Exposures are monitored against approved limits to guard against unacceptable risk concentrations, and appropriate actions are taken in case of any excess. Concentration limits represent the maximum exposure levels the Bank will hold on its books. Besides controlling fresh exposure generation, loan sell-downs are used as a key tool in managing concentrations. Concentration levels in the credit portfolio are reported to senior management. Based on evaluation of risk and stress in various sectors, the Bank identifies stressed sectors and makes provisions for standard assets at rates higher than the regulatory minimum, in such sectors.

Concentration is also monitored in geographic locations in the retail portfolio, delinquency trends, 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 changes in market variable 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 approves the market risk & limit framework, allocation of limits to business units 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 the oversight of the client Derivatives business.

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.

The independent Market Risk Management unit that reports directly to the Group Chief Risk Officer ensures that all market risks are identified, assessed, monitored and reported for management decision making. The unit is responsible for identifying and escalating any risks, including limit breaches on a timely basis.

Liquidity of the trading portfolio is assessed and an appropriate deduction is made from Tier 1 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. 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 consists primarily of risk inherent in ALM activities and relates to the potential adverse impact of changes in market interest rates on future net interest income. 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. The Group 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. Measuring interest rate risk in the banking book, includes conventional parallel yield curve shifts as well as scenarios in which the curvature of the yield curve changes.

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 management strategies and practices are reviewed to align with changes to the external environment, including regulatory changes, business conditions and market developments. Actual and anticipated cash flows generated are monitored to ensure compliance with limits. Liquidity risk tolerance is an integral part of the Board approved risk appetite statements.

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 this risk. 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 intraday 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) aims to promote short-term resilience of a bank's liquidity risk profile and measures the extent to which a Banking Group's High-quality liquid assets (HQLA) are sufficient to cover short-term expected cash outflows in a stressed scenario, over the next 30 calendar days. The expected cash outflows are arrived by applying specific run off rates, prescribed by the regulator, against outstanding liabilities and off-balance sheet commitments. These outflows are partially offset by inflows, which are calculated at regulatory prescribed inflow rates. The HQLA have to meet the defined eligibility criteria laid down by the regulator. The Group monitors and manages the composition of liquid assets to ensure diversification by asset class, counterparty and tenor.

The LCR guidelines provide phased timelines for compliance. Currently, the regulatory requirement for LCR is 90% on a daily average basis, and going up to 100% from 1$^{st}$ January, 2019. The Group is currently well above the minimum regulatory requirement for the LCR. The Group considers the impact of its business decisions on the LCR and regularly monitors this as part of the liquidity risk management framework.

Besides LCR, the Basel III liquidity framework also envisage the Net Stable Funding Ratio (NSFR), which measures the ratio between available stable funding (>1 year) and the required stable funding (> 1 year) to support long-term lending and other long term assets. The BIS, in October 2014, released the final guidelines for NSFR and aims for an NSFR of at least 100% as of 2018. For banks in India, RBI released the final guidelines on NSFR in May 2018. The Bank is on track to meet the NSFR requirements as per the final Basel III framework guidelines. For banks in India, RBI released the draft guidelines on NSFR in May 2015 and the final guidelines are awaited.

Bank's contingency liquidity plan (CLP) approved by ALCO and the Board plays an important role in its liquidity risk management framework. The CLP incorporates early warning indicators (EWIs) to forewarn emerging stress liquidity conditions. The plan establishes lines of responsibility and also defines strategies and actions to respond to liquidity stress events 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) 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 Operational Risk Management (ORM) function. The ORM function defines standardised tools and techniques such as Risk and control self-assessment (RCSA) to identify and assess operational risks and controls. The RCSA programme is executed by Business and support functions in accordance with the standards established by the ORM function. The ORM team provides independent challenge to the RCSAs and evaluates the residual risks. Key Risk Indicators (KRIs) are defined and tracked to monitor trends of operational risk parameters. Internal audit and Internal Control teams provide oversight and assurance that activities are conducted as per laid down guidelines.

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 to review and provide inputs on insurance coverage basis trends and triggers emerging from unusual events or changes in risk profile basis introduction of new products or developments in the external environment.

**L. Technology Risks**

The Bank has committed significant resources to manage technology risk. A layered technology architecture is implemented to manage risks due to system failures, cyber-attacks etc. Disaster recovery and Business Continuity Plans (BCP) have been established and various functional and technology initiatives have been taken to enhance system resiliency.

End of Life/out of support systems pose operational and security risks such as vendor support, patch, bug fixes etc. The Bank has a process for planned upgrades of out of support systems.

Effective access control mechanism is a key technology control to prevent unauthorised access. The access to business applications is provisioned by an independent team. The access is provided based on the roles and segregation of duties. Technology and Operational controls are implemented to manage privileged access to systems.

Cyber threats and the associated risks in the external environment have increased and the Bank works continuously to improve processes and controls to mitigate these risks. Cyber resilience framework is based on the principle of prevent, detect, respond and recover established to mitigate the threats such as data breaches, malware, denial-of-service attacks etc.

New digital product offerings are thoroughly assessed for cyber risks prior to roll out. During the year, the Bank strengthened its Cyber Security Framework and Cyber Crisis Management plan. The Bank has also done the self-attestation of the SWIFT customer security programme and complies with all the mandatory SWIFT security guidelines.

The Bank constantly monitors the technology risk environment, emerging regulatory requirements and mitigation strategies.

Ongoing audits/tests are conducted to assess the robustness of its technology controls and minimize the impact of any incidents.

The bank periodically conducts audits/tests to assess the robustness of its technology controls to minimise the impact of any incidents that may occur and provides regular updates to the Senior Management.

**M. Digitalisation**

Technology is rapidly changing the way financial services entities operate and is a key disruptor for the industry. The Groups focus continues to be on digital and is aimed at leveraging digital technology to provide a best in class experience for our customers while simultaneously enhancing productivity and risk management. During the year, the Group expanded its digital capabilities to new deposit account opening, decisioning on certain credit cards, new insurance and investment products. The Group believes that technology driven changes in operations will lead to gains through increasing efficiency and reduction in error rates. The competitive environment is also evolving, with new entrants, fintechs targeting parts of the financial services value chain. The Group will continue to invest in front end and back end technology and digital infrastructure to further enable digital offerings, improve client experience and increase efficiency.

**N. Reputation Risk**

Trust is the foundation for the banking industry and is critical to building a strong customer franchise. 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 / loss of Trust on the institution. Reputation Risk can arise from a variety of sources including direct sources like poor financial performance, poor governance and indirect sources like increased operational risk or control failures. Reputation is critical to achieving Group Objectives and targets and damage to it can have negative effects on our business. Managing reputation is a priority area for the Group and there is Zero tolerance for knowingly engaging in any activities that are not consistent with our values, Code of Conduct or policies and have the potential for unacceptable regulatory or reputational risk. The Group ERM policy lays down the framework to ensure reputation is managed effectively and consistently across the Group. This is supplemented by business procedures for identifying and escalating transactions that could pose material reputation risk, to senior management. Each employee has the responsibility to consider the impact on reputation of the Group, when engaging in any activity. The framework seeks to proactively identify and avoid areas that may result in potential damage to reputation and guidelines for managing crisis situations, if a reputation risk incident has occurred. The reputation risk management process is integrated with the Internal Capital Adequacy Assessment Process and a scorecard approach, based on expert judgment is used to assess various reputation risk drivers and the overall level of reputation risk.

**O. 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. Minimising conduct risk is critical to achieving long term business goals and meeting regulatory standards. 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. Product approval, product review processes, Suitability and appropriateness policies, are some of the measures embedded in our framework to support mitigate conduct risk. Conduct Risk is managed by maintaining a positive and dynamic culture that emphasizes acting with integrity. Respective policies ensure that business decisions are guided by standards that take into account right conduct apart from commercial considerations. 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.

**P. 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 Group 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 & Pillar II risks.

**Q. 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 supplements other risk management tools by providing an estimate of tail 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. Liquidity stress tests are also part of this framework and aim to ascertain whether the Bank has recourse to adequate liquidity to withstand the impact of approved stress scenarios. As actual events can sometimes be more severe than anticipated, management considers additional stresses outside these scenarios, as necessary. Reverse stress testing is used to explore extreme adverse events that would cause capital adequacy to fall below the internal capital threshold.

The results of stress tests 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 with regard to adherences to various regulators prescriptions including reputation risks. In addition, all key subsidiaries of the Bank have independent Compliance Function. The Compliance officials of the Bank and the Group interact on various issues including the best practices followed by these subsidiary companies. Guidance or directions are extended to the subsidiary companies Compliance Officers, keeping in the mind the overall responsibility of the Bank as the Holding Company. 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.

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 Board approved New Products/Process approval policy and all new products/processes or modifications to the existing product/processes are approved by Compliance by satisfying that these products are in compliant with not only various RBI regulations but that of SEBI / IRDAI / PFRDA. As prescribed by RBI, Bank has a system of compliance review of its new products within six months of its launch to satisfy that all the regulatory prescriptions have been adhered to. These Review reports are issued to the concerned businesses / Product Heads.

The Compliance Department ensures that the applicable regulatory prescriptions apart from Anti-Money Laundering / Combating Financing of Terrorism / KYC aspects are dovetailed in to the new products / processes notes. Compliance Department senior executives are members of various internal and external committees, which enable 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 has adequate internal controls, driven through various policies and procedures which are reviewed periodically. 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 of the operating and business units, also monitor the mitigating measures taken.

The Bank has Internal Audit and Compliance functions which are responsible for independently evaluating the adequacy of all internal controls and ensuring operating and business units adhere to internal processes and procedures as well as to regulatory and legal requirements. The audit function also proactively recommends improvements in operational processes and service quality. Bank takes corrective actions to minimise the design risk, should there be any. To ensure independence, the internal audit function has a reporting line to the Chairman of the Audit Committee of the Board and a dotted line reporting to the Vice Chairman and Managing Director. The Audit Committee of the Board also reviews the performance of the audit and compliance functions and reviews the effectiveness of controls and compliance with regulatory guidelines.

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.

## HUMAN RESOURCES

As on 31st March, 2018, the employee strength of the Bank along with its subsidiaries was ~ 50,000 as compared to ~ 44,000 employees a year ago. The Bank standalone had ~ 35,700 employees as on 31st March, 2018. The average age of the employees is around 32 years. Average gender diversity is 21% women to 79% male employees.

The year had a prime focus on driving culture assimilation, digital adoption and customer centricity.

With continued focus on delivering "Premium Employee experience", various HR Processes were evolved through the year. Launch of learning platform for byte size learning and on the learning capability was one such step towards driving the employee experience and need to keep the organisation ready for tomorrow's capabilities.

Culture initiatives were driven from learnings and inputs received through Employee Net Promoters Score (eNPS) and exit interview feedback from independent body. Kotak' values check continues to be part of the annual appraisal process in addition to various initiatives driven on culture assimilation in the organisation.

Employee connect and engagement have been central to all the initiatives driven in the organisation with bringing in a central and uniform experience drive across all locations. Driving fun and engagement through sessions or events organised towards various festivals or critical days, the focus was also diverted to wellbeing of the employees. Health and wellness initiatives increased with wellness platform launched for employees PAN India along with facilities like doctors on site and large premises, facilities for health checkup and vaccinations at the large premises were set up. Stress Management, Yoga session, Hobby sessions were organised in large premises for employees. The reach was enhanced with a higher rigor on building effective communication with the employees at large.

With gender diversity being one of the key agendas, there were various initiatives launched towards this. Some of the engagement initiatives like a 2 hour radio show, Motivational speakers for guidance on work life balance and breaking the glass ceiling and self-defense programs were launched. For creating more awareness amongst the employees the programs were launched through digital and ILT bases sessions on awareness towards POSH.

Managerial capability building has continued to be a key agenda driven through the years and the same has continued to remain at the central stage of behavioral training interventions. The effort on productivity improvement and functional competency development has also seen increased intervention this year with adoption of mobile first digital platform (KLAPP) launched for sales force. KLAPP helped to reach out to employees allowing access to information at their finger tip.

## MEDIUM-TERM AND LONG-TERM STRATEGY

**Expanding market share in Indian financial services with Group's established offerings**

Group aims to expand its market share in Indian financial services by increasing its customer base across all entities. The Bank will continue to be main customer acquisition engine and aim to leverage customer growth achieved at the Bank. Bank is also focusing on its digital platform, such as our recently introduced "811" mobile application, to target the mass markets across India. The digital offerings will position Bank well to capitalise on growth in India's banking and financial services sector arising from India's emerging middle class and growing number of bankable households. With 1,388 branches across India as of 31st March, 2018, Bank has a widespread distribution network, through which it can offer its products and services to a broad range of customers, while maintaining profitability.

Group's diversification across financial products and services, coupled with organizational structure and culture, gives an ability to offer various products and services from across businesses to expanding base of banking customers. The life insurance business has been growing through a multi-pronged strategy of entering new geographical markets, cross selling to Group's customer base, introducing new products to cater to underpenetrated customer segments, increase the number of life insurance advisers licensed and tying up with new distributors.

In asset management business, the focus has been to deepen penetration through increased distribution tie-ups across channels, increasing accounts under the regular saving systematic investment plans ("SIPs") and further improving performance of existing funds. These initiatives are expected to help in increasing customer base further and also aid in increasing AUM.

Kotak Securities, stock broking Subsidiary, has worked with the Bank to leverage on the banks client base to extend broking services. Kotak Securities has also tied up with some other banks to offer broking services to their clients. It uses digital marketing to generate customer leads and has also introduced a number of initiatives to simplify customer on boarding. This is in addition to new products that it launches regularly in line with customer needs.

**Focus on Additional Avenues of Organic Growth**

In addition to benefiting from the overall growth in India's economy and financial services industry, Group aims to increase market share by continuing to focus on our competitive strengths, including our strong brand and our extensive network, to increase its market penetration. It also aim to deepen our market penetration by pursuing new opportunities in our commercial, corporate and retail lending businesses, as well as by growing various non-banking businesses.

In addition, Group has set up an infrastructure debt financing company to increase its corporate loan book through avenues such as infrastructure lending. Group has also made an entry into the area of consumer durable finance, which holds significant growth potential given increasing household disposable incomes and increased awareness. Moreover, Group aims to expand its international presence through an increased focus on its international lending portfolio, through its international banking unit in GIFT City and through the opening of an overseas bank branch in Dubai, for which RBI approval has been received.

Group also aim to increase the share of contribution from its complementary non-banking businesses, such as insurance and securities broking. Group sees an immense opportunity in the under-penetrated life insurance space. Life insurance business is well poised to capitalise on the same. The Group also made life insurance subsidiary fully owned by buying out minority shareholder. Group is targeting higher growth through a planned foray into new geographies and customer segments, introducing new tools to improving front-line productivity and retention, increased numbers of life insurance advisors licensed by us and new distribution tie-ups.

**Leverage our strong standing to pursue inorganic opportunities**

Group actively seeks inorganic growth opportunities in the Indian financial services space. These opportunities can take various forms, including acquisitions, mergers, joint ventures, strategic investments and asset purchases. To this end, Group will seek inorganic growth opportunities in businesses or assets that are aligned to its business across its product and service lines. Group will pursue these inorganic growth opportunities where Group see the ability to add value for its stakeholders and customers and also grow its footprint across the Indian banking and financial services chain.

Continue our investments in technology

Group believes that increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of reaching its customers and running its businesses. Group has therefore adopted a four-pronged digital strategy, focusing on (i) acquiring customers, (ii) enhancing its customer experience, (iii) making its internal business operations more efficient, and (iv) enhancing its cyber security and data protection framework.

Group is continuously investing in technology as a means of improving our customers' experience, offering them a range of products tailored to their financial needs and making it easier for them to interact with us. Group has launched internet and mobile based applications across most of its product and service portfolios, and it will continue to invest in creating a superior technology infrastructure to support its digital strategy. A comprehensive digital strategy will provide benefits in developing long-term customer relationships by allowing customers to interact with it and access their accounts wherever and whenever they desire.

On the operational side, investments in internal systems and security technology lead to enhanced customer satisfaction, and therefore enhance competitiveness. Accordingly, Group will continue to invest in technology in order to improve banking operations and efficiency, to reduce errors arising out of manual intervention and to carry out regular IT audits which are reviewed by committees of Board. Group will continue to invest in cyber security network and privacy protection systems, in order to supplement its growth and increase the robustness of data security framework.

## OUTLOOK

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

## OPPORTUNITIES

- Power a digital growth engine in a digital economy; including in non-urban India ' The Bharat'
- Implementing and leveraging new technologies including branch transformation
- Differentiating through service and customer centricity
- 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;
- Financial inclusion.

## THREATS

- Volatile external and global environment;
- Fast moving alternative players to banking, Tech giants, fintech companies
- Competition from the newer models of banks and
- Talent management 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.

During FY 2018, 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 FY 2019 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 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.