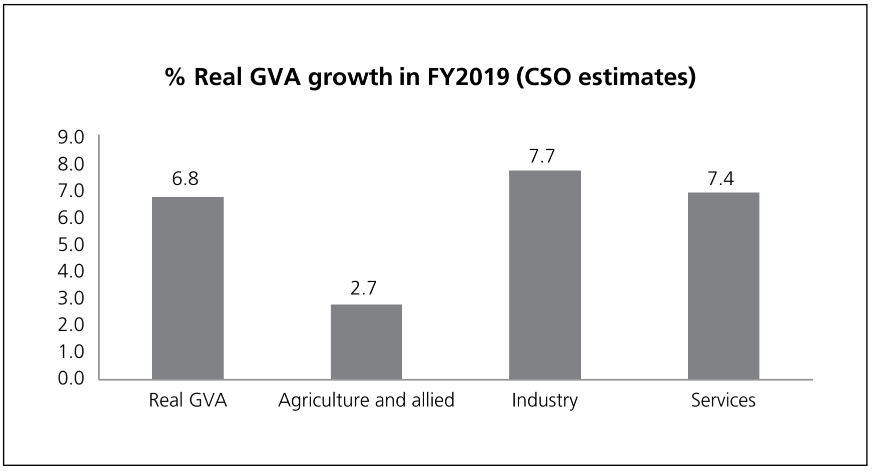
Management's Discussion & Analysis

MACRO-ECONOMIC ENVIRONMENT

India's macro fundamentals witnessed significant swings through FY 2019, with economic slowdown being more pronounced led by adverse currency movements, high commodity prices, weakening demand, farm distress and tight financial conditions aggravated by the non-banking financial crisis. Higher crude oil prices and synchronized global economic slowdown resulted in reassessment of the developed central bank monetary policy stance prompting risk-aversion and sharp capital outflows threatening India's financial stability.

On the macro economic front, the first half of FY 2019 saw India's growth strengthen sharply led by favourable base effect and sequential improvement witnessed after emerging from the impact of demonetisation and teething difficulties from the implementation of GST till FY 2018. The second half of FY 2019, however saw a material deceleration in growth indicators, with a clear distinction in trend visible across consumption and investment. While investment has gradually been picking up pace, private consumption related indicators have been witnessing fatigue in H2FY19.

Real GDP seems to have slowed in FY 2019 from FY 2018. As per the CSO, the second advance estimate of real GDP growth for FY 2019 stands at 7.0% as against 7.2% in FY 2018. On value added basis, real Gross Value Added (GVA) growth estimate for FY 2019 stands at 6.8% as against 6.9% in FY 2018. Industrial sector grew 7.7% in FY 2019 in comparison to 5.9% in FY 2018, while services sector grew 7.4% as against 8.1% in FY 2018. Agriculture and allied activities sector slowed to 2.7% from 5.0% earlier. The expenditure side GDP breakdown depicted that private investment has remained firm at 9.4% as against 10.4% earlier. Continuous improvement in capacity utilization bodes well for private investment. However, twin balance sheet problems of corporates and banks remain the biggest impediment to a sharp revival in private investment.



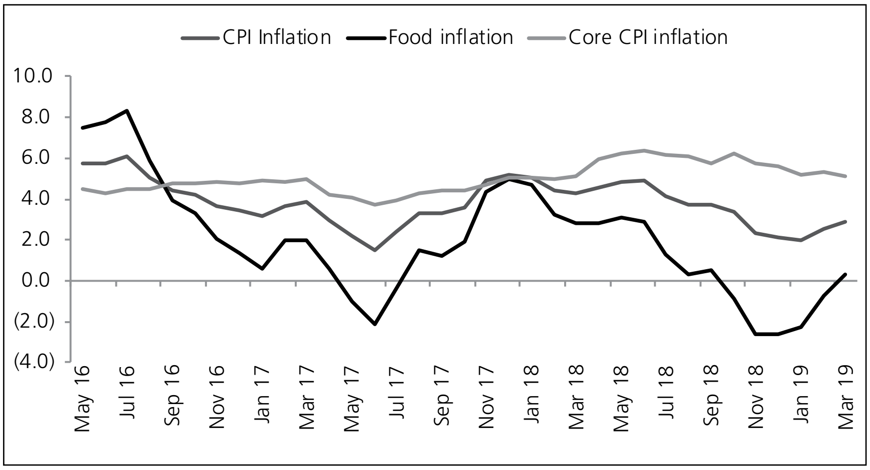
Source: CSO, Kotak Economic Research

DOMESTIC PRICE DYNAMICS

The domestic price pressures have remained broadly under control in FY 2019, with CPI inflation averaging 3.4% in FY 2019 as against 3.6% in FY 2018. Inflation peaked at 4.9% earlier in the year on the back of higher oil prices and elevated core inflation; however, global growth concerns led to a sharp moderation in oil prices and food prices entered into deflation resulting in CPI inflation moderating to a low of 2.0% in January 2019 even as core inflation remained sticky. While food inflation has averaged 0.2% in FY 2019, core inflation has averaged 5.8% in the same period. Oil prices experienced wild swings in FY 2019, collapsing by ~42% in December 2018 from a high of USD 86.74/bbl witnessed in October 2018 but have since recovered to USD68-71/bbl on account of production cuts implemented by the OPEC.

CPI inflation has now remained consistently below the RBI's target of 4% for the last nine months. Continued deflation in food items, a sharp fall in fuel inflation and some edging down of inflation excluding food and fuel contributed to the decline in headline inflation. The MPC, however, continues to remain cautious of upside risks to inflation from food and fuel inflation, volatility in financial markets, monsoons and the impact the union budget would have on disposable incomes.

CPI INFLATION REMAINS WELL UNDER CONTROL LARGELY LED BY FOOD DISINFLATION



Source: CEIC, Kotak Economic Research

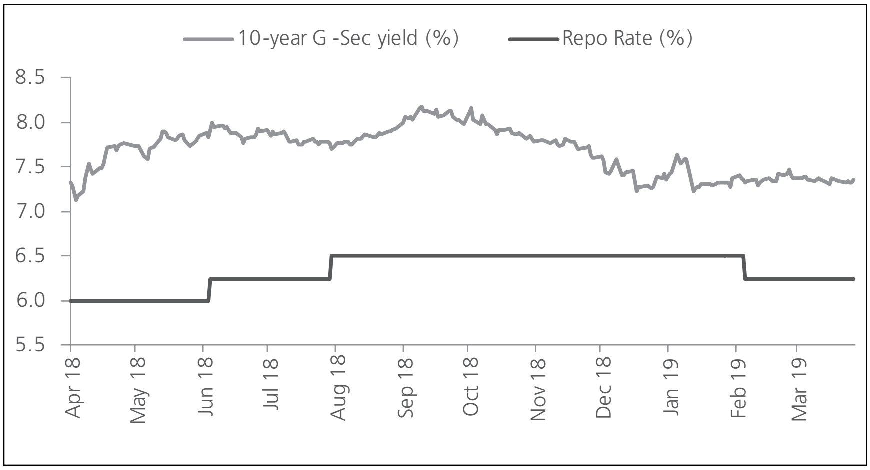
MONETARY POLICY AND INTEREST RATES

The RBI has maintained its vigil on inflation, hiking repo rate twice by 25 bps each in June and August 2018 when inflation had reached 4.9%, thereby exceeding the RBI's target of 4%. Sharp volatility in financial markets along with elevated core inflation later led the MPC to change its stance to 'calibrated tightening' from 'neutral' in October 2018. However, a sharp drop in food inflation along with a steep correction in oil prices, coupled with slowing growth led the MPC to change the stance back to 'neutral' in February 2019 and cut the repo rate by 25 bps.

The MPC acknowledged in its February statement that the short term outlook for food inflation remained benign, despite the adverse base effects. Even inflation across certain fuel components which had remained sticky and elevated had collapsed. The MPC also believed that the sharp rise in prices of education and health, components of the core CPI inflation basket, could be a one-off phenomenon. Taking into consideration these developments and assuming a normal monsoon in 2019, the MPC revised down its path of CPI inflation to 2.8% in Q4FY19, with risks broadly balanced around the central trajectory. The actual Q4FY19 average CPI inflation was lower than RBI's expectations at 2.5%. With inflation well within the RBI's target of 4%, the focus has shifted to addressing growth with the MPC acknowledging that there has been an opening of the output gap.

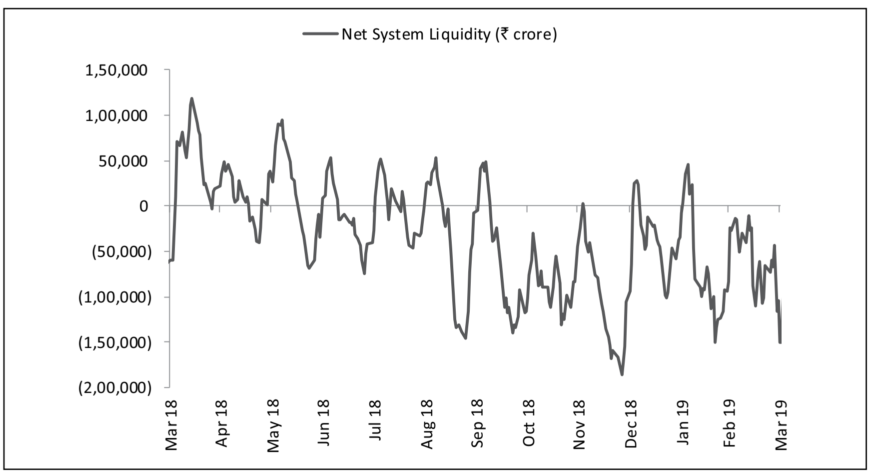
With respect to rates, the bond markets had a volatile FY 2019 led by flip-flops in the crude oil prices, INR and FPI flows and the consequent swings in the monetary policy stance. The benchmark 10-year yield had inched higher by around 110 bps to 8.23% in 1HFY19. However, aggressive OMO purchases in 2HFY19 along with correction in crude oil prices and benign inflation outturns eased the 10-year yield by 90 bps from the highs to end at 7.35%. Notably, increasing probability of rate cuts amid tepid growth-inflation mix along with FPI interest/OMO purchases (up to 5-year bucket) has softened the near end of the yield curve. Meanwhile, the government has announced a record borrowing of ₹ 7.1 trillion for FY 2020 to meet its spending requirements. It has also frontloaded its borrowing program to 62.3% of the total FY 2020 issuance, resulting in excess supply concerns in the far end and thus the steepening of the yield curve.

THE SPREAD BETWEEN REPO RATE AND BENCHMARK G-SEC YIELD REMAINS HIGH DESPITE THE REPO RATE CUT IN FEBRUARY



Source: Bloomberg, Kotak Economic Research

THE SYSTEM LIQUIDITY CONTINUED TO REMAIN IN DEFICIT THROUGH MOST OF H2FY19



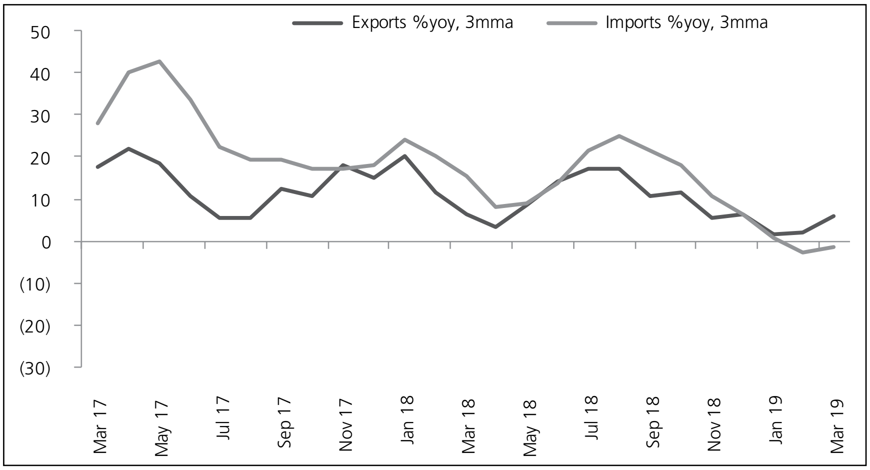
Source: RBI, Kotak Economic Research

EXTERNAL SECTOR DYNAMICS AND THE USD/INR

The current account deficit is expected to widen to 2.5% in FY 2019 as per the Budget 2020 Speech by the Finance Minister as against 1.8% in FY 2018 on the back of higher trade deficit resulting from higher oil prices. The overall external position remains comfortable with the current account deficit well below the 3% of GDP threshold, beyond which vulnerability emerges. As per the official release, for the first nine months of FY 2019, the current account deficit is at 2.6%, with the last official 3QFY19 print reporting a deficit of 2.5%. The capital account surplus came down to 1.8% of GDP in 9MFY19 as against 3.4% in 9MFY18 on account of portfolio outflows. Portfolio flows, however, recorded a sharp reversal in March with net inflows at USD 8.6 billion compared to USD 10.6 billion of outflows in 11MFY19. Meanwhile, net FDI inflows in FY 2019 increased to USD 34.6 billion from USD 30.2 billion in FY 2018. Forex reserves remain comfortable at USD 412 billion.

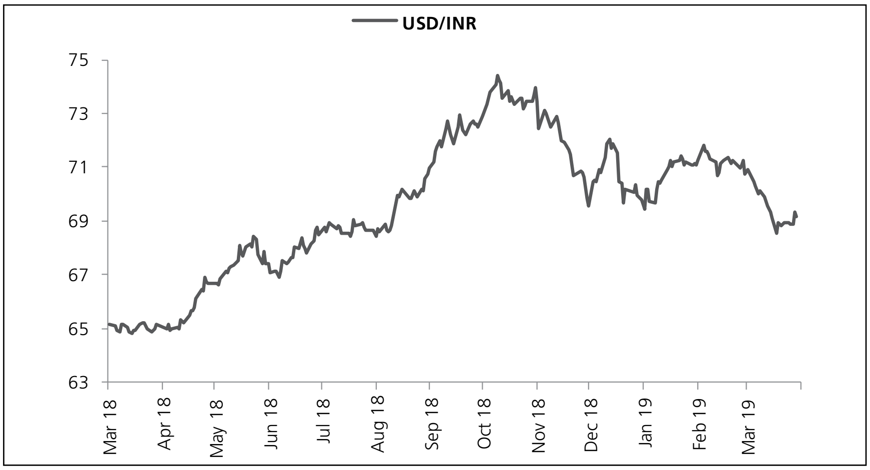
INR had a weak start to FY 2019, depreciating by ~12% to 74.48 on the back of rising oil prices and rising interest rates in the US. The Fed had hiked the rates four times by 25 bps each in 2018 on the back of strong growth and falling unemployment rate, before turning course in 2019 citing global growth concerns. Since India runs a current account deficit, it relies on capital inflows to fund its deficit; however, in the absence of any significant inflows into emerging economies and high crude oil prices, INR was continuously under pressure. However, oil prices started correcting significantly from November which led to a reversal in the rupee. From the lows of 74.48 seen in October 2018, INR gained considerably, reaching a high of 68.35 in mid-March 2019. The improvement in the foreign flows along with stable crude oil prices and expectations of policy continuation after the easing of border tensions have provided the much needed relief on the external balances front. INR averaged 69.89 against the Dollar in FY 2019 - depreciating by ~7.8% from the average seen in FY 2018. The depreciation in INR, however, was witnessed till Q3FY19 (by 6.6%). INR appreciated by 0.9% in Q4FY19.

IMPORTS GROWING FASTER THAN EXPORTS UNTIL OIL PRICES STARTED CORRECTING IN OCTOBER



Source: Bloomberg, Kotak Economic Research

INR GAINS AFTER CORRECTION IN OIL PRICES AND IMPROVED RISK SENTIMENT



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.

The financial results of the subsidiaries (excluding insurance companies) and associates used for preparation of the consolidated financial results are in accordance with Generally Accepted Accounting Principles in India ('GAAP') specified under Section 133 and relevant provision of Companies Act, 2013. The financial statements of such subsidiaries and associates have been prepared as per Indian Accounting Standards in accordance with the Companies (Indian Accounting Standards) Rules, 2015.

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, 2019	31st March, 2018
Kotak Mahindra Bank	42,898.4	37,481.7
Kotak Mahindra Prime	5,415.5	4,816.4
Kotak Mahindra Investments	1,589.5	1,382.5
Kotak Securities	3,978.8	3,526.9
Kotak Mahindra Capital Company	571.9	558.5
Kotak Mahindra Life Insurance	2,745.4	2,238.1
Kotak Mahindra General Insurance	107.8	97.7
Kotak Mahindra AMC & Trustee Co	582.9	332.8
Kotak Infrastructure Debt Fund	349.2	323.6
International Subsidiaries	1,008.8	813.1
Kotak Investment Advisors	355.1	337.7
Other Entities	213.5	155.2
Total	**59,816.8**	**52,064.2**
Add: Share in Affiliates	942.3	857.9
Less: Minority, inter-company and other adjustments	2,479.4	2,436.2
Consolidated Net worth	**58,279.7**	**50,486.1**

The consolidated performance for FY 2019 is as follows:

(₹ in crore)

Particulars	FY 2019	FY 2018
Total income	45,979.1	38,813.3
Consolidated PAT	7,204.1	6,201.0
Consolidated networth	58,279.7	50,486.1
Key Ratios		
Return on average assets (RoAA) %	1.99%	2.03%
Return on average networth %	13.34%	13.47%
Earnings per equity share (diluted) (₹)	37.7	32.7
Book-value per equity share (₹)	302.7	264.9
Net interest margin (NIM) %	4.27%	4.33%
Gross NPA %	1.94%	1.95%
Net NPA %	0.70%	0.86%
Consolidated Capital Adequacy Ratio (CAR) %*	17.89%	18.38%
Tier I*	17.48%	17.83%

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

The Group had capital and reserves of ₹ 58,279.7 crore as on 31st March, 2019 (₹50,486.1 crore as on 31st March, 2018) and book value per equity share at ₹ 302.7 (₹ 264.9 as on 31st March, 2018). The Group earned a Return on Average Assets (RoAA) of 1.99% in FY 2019 (2.03% in FY 2018). The Group's return on average networth was 13.34% for FY 2019 compared to 13.47% for FY 2018. One of the key reasons for low ROE of the group is low leverage (debt-to-equity) ratio. The Bank has been conservative and has been maintaining high capital adequacy ratio which results in low return on equity.

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 2019		FY 2018	
	PBT	PAT	PBT	PAT
Kotak Mahindra Bank	7,385.8	4,865.3	6,218.2	4,084.3
Kotak Mahindra Prime	905.1	599.3	901.9	589.6
Kotak Mahindra Investments	315.6	207.0	366.6	245.0
Kotak Securities	680.4	451.9	796.0	531.0
Kotak Mahindra Capital Company	92.9	63.1	101.5	65.3
Kotak Mahindra Life Insurance	590.8	507.2	471.2	413.4
Kotak Mahindra General Insurance	(34.9)	(34.9)	(32.6)	(32.6)
Kotak Mahindra AMC & Trustee Co	387.6	254.5	169.8	115.0
International Subsidiaries	170.3	148.2	133.7	114.4
Kotak Investment Advisors	17.1	17.4	10.8	10.9
BSS Microfinance	79.2	55.7	27.2	17.9
Others	29.3	28.5	17.1	16.2
Total	**10,619.2**	**7,163.2**	**9,181.4**	**6,170.4**
Add: Share from Affiliates		84.4		110.5
Less: Minority Interest and Others		43.5		79.9
Consolidated PAT		**7,204.1**		**6,201.0**

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 2019
ACE Derivatives and Commodity Exchange Ltd	47.6	40.00%	0.1
Infina Finance Pvt Ltd	1.1	49.99%	33.2
Phoenix ARC Pvt Ltd	100.0	49.90%	50.0
Matrix Business Services India Pvt Ltd*	1.9	19.77%	1.1

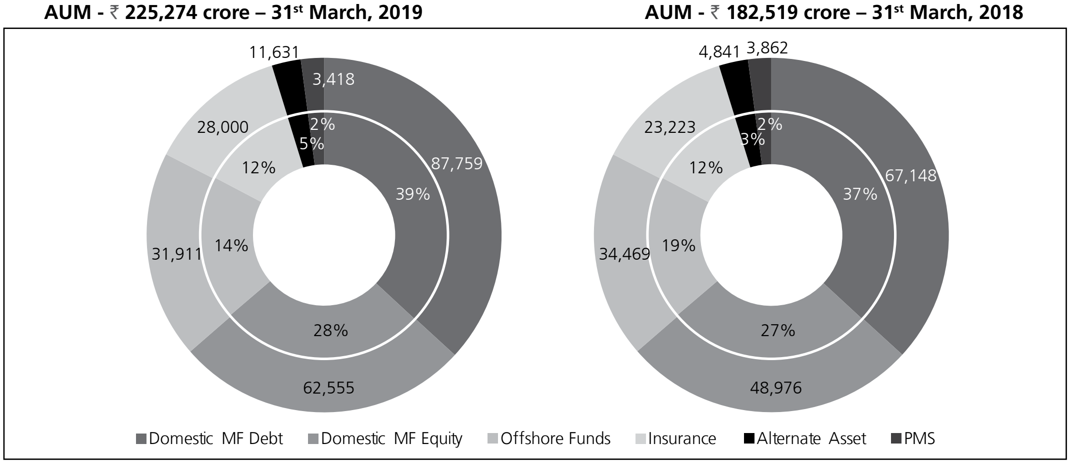
* *The Group has sold its entire stake in Matrix Business Services India Private Limited on 26th April, 2019 and accordingly it has ceased to be an associate of the Group from that date.*

Assets under Management (AUM) as on 31st March, 2019 were ₹ 225,274 crore (₹182,519 crore as on 31st March, 2018), comprising assets managed and advised by the Group.

Relationship value of Wealth and Priority business was ~ ₹ 270,000 crore as on 31st March, 2019 compared to ~ ₹ 225,000 crore as on 31st March, 2018.

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

AUM - ₹ 225,274 crore – 31st March, 2019 **AUM - ₹ 182,519 crore – 31st March, 2018**



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

BANK, ITS SUBSIDIARIES AND 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 the Bank. The treasury offers specialised products and services to these customer segments.

Profit before tax of the Bank for FY 2019 was ₹ 7,385.8 crore as against ₹ 6,218.2 crore for FY 2018. Profit after tax of the Bank was ₹ 4,865.3 crore in FY 2019 compared with ₹ 4,084.3 crore in FY 2018. RoAA for FY 2019 was 1.69%. The Bank's balance sheet crossed ₹ 300,000 crore and loans crossed ₹ 200,000 crore during FY 2019.

PROFIT AND LOSS ACCOUNT

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

(₹ in crore)

Particulars	FY 2019	FY 2018
Net interest income	11,259.0	9,531.7
Other income	4,604.0	4,052.2
Net total income	**15,863.0**	**13,583.9**
Employee cost	3,159.4	2,929.8
Other operating expenses	4,355.4	3,495.9
Operating expenditure	**7,514.8**	**6,425.7**
Operating profit	**8,348.2**	**7,158.2**
Provision & contingencies (net)	**962.4**	**940.0**
- Provision on advances (net)	965.0	737.2
- Provision on other receivables	11.1	5.9
- Provision on investments	(13.7)	196.9
PBT	**7,385.8**	**6,218.2**
Provision for tax	2,520.5	2,133.9
PAT	**4,865.3**	**4,084.3**

Net Interest Income:

Net Interest Income (NII) of the Bank for FY 2019 was ₹ 11,259.0 crore compared to ₹ 9,531.7 crore for FY 2018. The Bank had a Net Interest Margin (NIM), excluding dividend income and interest on income-tax refund, of 4.33% for FY 2019 compared to 4.37% for FY 2018. During the year:

- Yield on average earning assets increased from 9.1% in FY 2018 to 9.2% in FY 2019 primarily due to change in asset mix and increase in yield on advances

This was offset, in part, by

- Increase in cost of funds from 5.3% in FY 2018 to 5.5% in FY19 primarily due to increase in average deposits and average borrowings.

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

(₹ in crore)

Particulars	FY 2019	FY 2018
Commission, exchange and brokerage	3,390.8	2,764.5
Profit on sale of investments	70.9	212.3
Profit on exchange/derivative transactions	738.3	603.9
Profit on recoveries of non-performing assets acquired	179.7	213.1
Income from subsidiaries/associates towards shared services	82.4	82.1
Dividend from subsidiaries	45.1	7.6
Others	96.8	168.7
Total other income	**4,604.0**	**4,052.2**

Non-interest income increased from ₹ 4,052.2crore in FY 2018 to ₹ 4,604.0 crore in FY 2019 primarily due to:

- Increase in commission, exchange and brokerage income primarily on account of increase in direct banking fees and charges, loan processing fees, service charges on loans and credit card fees, offset, in part, by decrease in third party referral fees due to drop in commission on mutual fund distribution mainly on account of change in regulations;
- Profit on sale of investments decreased primarily due to loss on sale of Government Securities;
- Increase in profit on exchange/derivative transactions compared to previous year and
- Decrease in others is primarily due to lower income received from sale of Priority Sector Lending (PSL) certificates

In accordance with RBI communication, provision for mark-to-market depreciation on AFS and HFT investments continues to be presented under Provisions & Contingencies. If the provision for mark-to-market depreciation were treated as part of "Other Income", the adjusted non-interest income for the year would have been ₹ 4,667.7 crore (previous year ₹ 3,932.9 crore) and the cost-to-income ratio would have been 47.2% for FY 2019 and 47.7% for FY 2018.

Employee Cost
Employee cost of the Bank has increased to ₹ 3,159.4 crore for FY 2019 compared to ₹ 2,929.8 crore for FY 2018 primarily due to increase in employee base to ~ 41,900 as on 31st March, 2019 from ~ 35,700 as on 31st March, 2018.

Other Operating Expenses

Particulars	FY 2019	FY 2018
Rent, taxes and lighting	628.1	578.5
Printing and Stationery	91.4	87.1
Advertisement, Publicity and Promotion	119.5	110.5
Depreciation on Bank's property	366.9	302.7
Directors' fees, allowances and expenses	1.6	1.7
Auditors' fees and expenses	2.4	2.1
Law Charges	50.5	34.3
Postage, telephone etc.	168.7	138.9
Repairs and maintenance	399.6	382.9
Insurance	201.2	163.5
Travel and Conveyance	103.9	102.8
Professional Charges	793.6	623.1
Brokerage	280.0	220.1
Stamping Expenses	12.8	10.3
Other Expenditure	1,166.7	833.7
Reimbursement from Group companies	(31.5)	(96.3)
Total	**4,355.4**	**3,495.9**

Other operating expenses were ₹ 4,355.4 crore for FY 2019 compared to ₹ 3,495.9 crore for FY 2018. Increase in operating expenses is also on account of new initiatives taken by the Bank for which the cost was very small in the previous year. While there was increase in expenses on account of such initiatives, there was a corresponding increase in revenue also.

- Increase in premises cost and repairs and maintenance is primarily due to increase in branches and repairs and refurbishment of branches;
- Increase in brokerage and insurance expenses consistent with increased business volumes;
- Increase in professional charges is mainly on account of fees paid to business correspondents which is consistent with increased business volumes and
- Increase in other expenses is primarily on account of:
    - o Increase in credit card expenses mainly due to higher POS expenses, e-Comm acquiring business cost and increase in volume of card transactions;
    - o Increase in recovery expenses to improve collections and recoveries;
    - o Higher GST input credit write-off
    - o Expenses incurred on Consumer Durable business started in Bank from FY 2019

The Bank's Cost to Income ratio was at 47.4% for FY 2019 as compared to 47.3% for FY 2018.

Provisions and Contingencies (excluding tax)

Provisions and contingencies (excluding tax) were ₹ 962.4 crore for FY 2019 compared to ₹ 940.0 crore for FY 2018 primarily due to higher specific provision on loans in FY 2019 by ₹ 227.9 crore, offset, in part by decrease in provision on investments in FY 2019 by ₹ 210.6 crore.

Credit cost on Advances was 47 bps for FY 2019 compared to 43 bps for FY 2018.

BALANCE SHEET

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

(₹ in crore)

Liabilities	31st March, 2019	31st March, 2018
Networth	42,898.4	37,481.7
Deposits	225,880.4	192,643.3
- Current Account Deposits (CA)	38,901.0	32,245.8
- Savings Account Deposits (SA)	79,684.7	65,529.2
- Term Deposits (TD) Sweeps	14,776.6	11,909.8
- Other TDs	92,518.1	82,958.5
Borrowings	32,248.3	25,154.2
Other Liabilities and Provisions	11,145.0	9,654.2
Total	**312,172.1**	**264,933.4**

(₹ in crore)

Assets	31st March, 2019	31st March, 2018
Cash and Bank Balances	24,675.5	19,620.1
Investments	71,189.1	64,562.4
- Government Securities	58,063.0	51,757.7
- Other Securities	13,126.1	12,804.7
Advances	205,694.8	169,717.9
Fixed Assets and Other Assets	10,612.7	11,033.0
Total	**312,172.1**	**264,933.4**

The Bank's capital adequacy continue to be healthy with overall CRAR at 17.5% (Tier I ratio of 16.9%) as compared to 18.2% (Tier I ratio of 17.6%) as on 31st March, 2018.

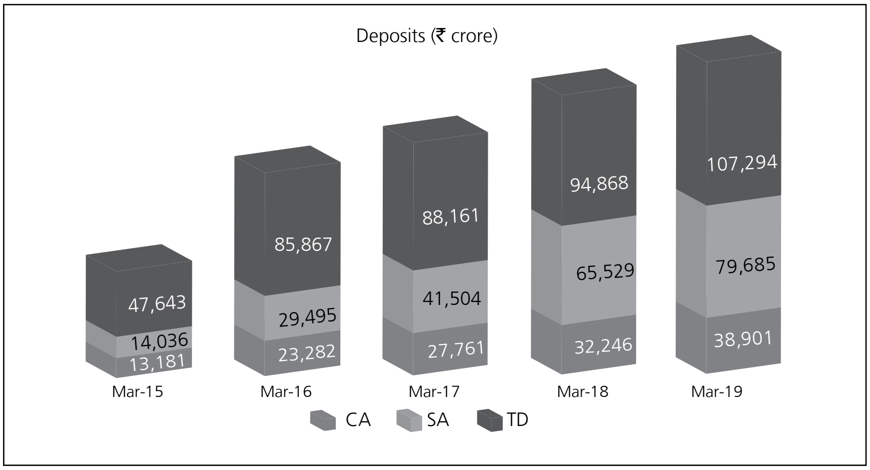
Deposits

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 ₹ 225,880.4 crore as on 31st March, 2019 compared to ₹ 192,643.3 crore as on 31st March, 2018. CASA deposits increased to ₹ 118,585.7 crore as on 31st March, 2019 to ₹ 97,775.0 crore as on 31st March, 2018. CASA ratio stood at 52.5% as on 31st March, 2019 compared to 50.8% as on 31st March, 2018.

Savings account grew by 21.6% to ₹ 79,684.7 crore and Current account grew by 20.6% to ₹ 38,901.0 crore. Term Deposits grew by 13.1% to ₹ 107,294.7 crore.

During FY 2019, average SA increased to ₹ 70,990.1 crore compared to ₹ 51,394.9 crore in FY 2018 and average CA increased to ₹ 28,741.5 crore from ₹ 24,009.9 crore in FY 2018. Average CASA increased by 32.3% with and average CASA ratio was at 49.3% for FY 2019.

CASA plus term deposits below ₹ 5 crore, account for 81% of the total deposits.



The numbers for 31st March, 2015 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, 2019	31st March, 2018
Corporate Banking	61,888.7	52,133.3
Commercial Vehicles & Construction Equipment (CV/CE)	19,705.8	15,201.7
Agriculture Division	26,991.5	22,915.6
Business Banking	18,215.4	18,269.0
Home Loans and Loan Against Property (LAP)	40,721.6	32,429.4
Small Business, Personal Loans & Credit Cards	33,164.2	25,129.2
Other Loans	5,007.6	3,639.7
Total Advances	**205,694.8**	**169,717.9**

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 91.1% as of 31st March, 2019 vs. 88.1% as of 31st March, 2018.

Asset Quality

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

The position of Gross and Net NPA is as under:

(₹ in crore)

Particulars	31st March, 2019	31st March, 2018
Gross NPA	4,467.9	3,825.4
Gross NPA %	2.14%	2.22%
Net NPA	1,544.4	1,665.1
Net NPA %	0.75%	0.98%

SMA2 outstanding as on 31st March, 2019 was ₹ 137.6 crore (0.07% of net advances) compared to ₹ 71.7 crore (0.04% of net advances) as on 31st March, 2018.

The provision coverage ratio, including technical write off, was 71.9% as of 31st March, 2019 as compared to 65.7% as on 31st March, 2018.

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

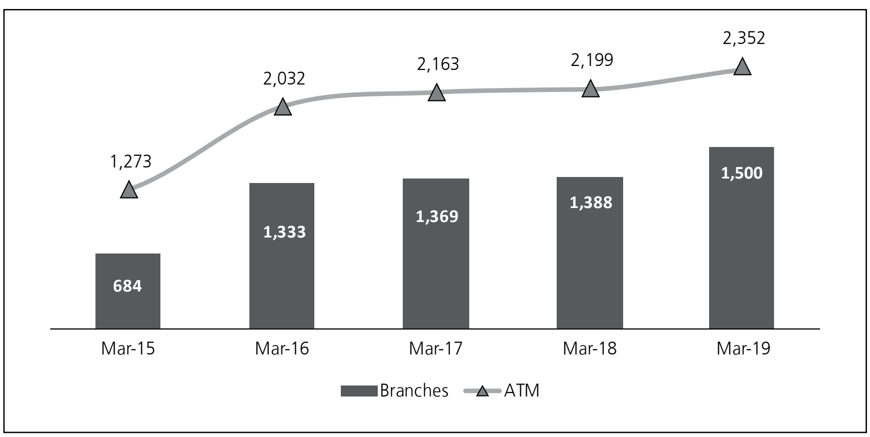
CONSUMER BANKING

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 1,500 branches and 2,352 ATMs as on 31st March, 2019.



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

The Bank rolled out several initiatives aimed at offering a superior and differentiated customer experience.

- The Bank strengthened its customer relationship management capability by setting up a new channel for phone based remote engagement, called VRM (Virtual Relationship Management) channel. This enables the Bank to carry a reach for wider coverage and helped us actively reach out to more than 6 lacs customers and service them across deposit, lending and investment needs.
- In the Retail Institutional Business, for segments like Housing Societies, Educational Institutes, etc. a range of services were introduced like Apartment management solution, smart card solution, closed loop payment solutions, etc. This has helped the Bank strengthen its relationship with this segment.

- Silk program for woman customers was extended to cover Salaried base and offers distinctive features like cash back on POS based transactions, linked a/cs for minors and discount on lockers.
- Proposition around Image debit cards was further strengthened with introduction of images of the Bank's brand ambassador Ranveer Singh and exclusive art work of renowned artist, Seema Kohli for its Silk program.
- A new current account proposition was launched specifically for constituents of APMC markets and will be available across the 2,400 markets in the country.
- For the Arthias segment in Punjab, a customized solution via Arthia Rupay card was launched and will help the Bank to build a significant market share in the state of Punjab.
- The Bank entered into a banking alliance with Govt procurement agency, HAFED in Haryana and NAFED at national level for mustard seed procurement. This will give a significant boost to the current account book linked to this line of business.
- The merchant acquiring line of business which was started in FY 2018, gained significant momentum in FY 2019, with the transaction thru put crossing 2 crore mark. Value added features like EMI facility on PoS were also offered.
- For customers desirous of investing in mutual funds, a convenient capability was made available in the form of online investment account. This feature can be availed thru netbanking, mobile banking and on the web.
- For the internationally aligned customers, ability to subscribe to forex card online, via net or mobile was made available.
- In line with the regulatory requirement, all the ATMs of the Bank, have been upgraded to become EMV compliant.
- As per the government mandate, the Bank has successfully set up aadhaar enrolment centers in 145 branches and also surpassed the transaction volume mandate given by UIDAI.
- The Bank also participated in the PM Gram Swaraj Abhiyan and achieved 100% of the targets under this program.
- The Bank launched India's first bilingual voice bot in Banking – Keya, that responds to customer's queries in English and Hindi. Keya handled 17 lacs calls without human assistance.
- In line with its commitment to enhance customer experience, the Bank joined Ripple's leading enterprise blockchain network (RippleNet) to provide impetus to its cross-border inward remittances. The Bank now uses Ripple's settlement solution, xCurrent, to provide its customers with real-time cross-border transactions in a safe and secure manner.
- FCNR deposits in Singapore Dollar (SGD) was re-introduced to provide NRI customers in Singapore the facility of placing deposit in India under the FCNR (B) scheme.
- The Bank participated in a host of events, ranging from business forums, sports leagues & industry awards, etc. to engage with the Mariner community in India.
- The Corporate salary business saw significant scale up in 2018-19 and it now services over 3.5 million customers across more than 25,000 corporates. Acquisition and servicing capability has been further streamlined to enable inroads in Tier 2 & 3 markets as well and will be the focus in 2019-20.

811:

- The Bank continued to ramp up its 811 acquisition numbers this year as well.
- This year to drive higher engagement with 811 customers, the Bank focussed on Cross selling its various products to the existing 811 customers.
- The Cross Sell ratio has doubled this year over last year whilst the Average balances have increased by 25%.

II. Customer Convenience

Customer convenience remains 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.

Transformation

- The Bank has significantly improved on turnaround time for service requests from 4 hours to immediate fulfilment through biometric and the omnichannel service framework that was implemented across web, mobile, net and branches. There have been 18L Requests processed online with a NPS of more than 50 across all channels and more than additional 30k requests being handled at the branch with an almost real time processing.
- DLMS (Deliverable Management System) has ensured a robust system for tracking deliveries and has helped in reduce 4.2k service requests being raised as well as a lower call handling time due to this platform. This will be now followed with an online channel integration where customer will be able to self-service.

- Robotics Process Automation has (RPA) automated 3.6k hours of manual processing effort creating efficiency and improved customer experience across 67k requests.
- The Bank is the 1st Bank to automate Cash and Vault registers in its branches, which lead to better controls, save time and Go Green. No physical cash registers required to be maintained at its branches
- Loans to pre-approved & Pre qualified customers enabled on Net Banking, Mobile Banking, on Phone, on SMS instantly. Customer can avail personal loan instantly through these channels.
- Implemented Credit Card Instant decisioning and Mobile app for Lead Management System for Personal Loans which is enabled with Business Rule Engine. This empowers the Bank's sales team to confirm sanctions upfront to customers.

Net Banking

- Enabled capability to open Investment account instantly
- New Payment/Transfer section is now live for Retail Individual customers; with new features like: One Time Fund transfer / 'Pay' and 'Repeat' Feature
- Net Banking physical password can be sent to customer's registered email ID as PDF document. The PDF document is PIN protected and PIN is sent to customer's registered mobile number
- Enable capability to apply for Forex Card online

Mobile Banking

- Revamped Home page which has increased feature discoverability as well as customer experience
- Payment Revamp – Revamped entire payment experience and introduced new features
- Enabled capability to open Investment account instantly
- Added tab for Assets where customer can see loan details, raise service requests etc.
- New features added like: Premature withdrawal of FD & RD; Outstanding to EMI & Balance Transfer EMI for Credit Card holders.

Conversational Banking

- On Whatsapp banking, improved user interface and added range of banking services; the top ones are:
  - Account Balance
  - Statement Requests
  - Credit Card Application Status
  - Transaction History
  - Check Book Requests
- Keya chatbot, the Bank's conversational banking platform, is now live 24*7 across Mobile Banking, Net Banking and Website
- Keya is trained to handle 21 types of service requests end-to-end and answer queries regarding products such as Credit/Debit Cards, 811, Accounts, Fixed Deposits/Recurring Deposits, Fund Transfer, Bill Payment and Personal Loan

Innovation Lab

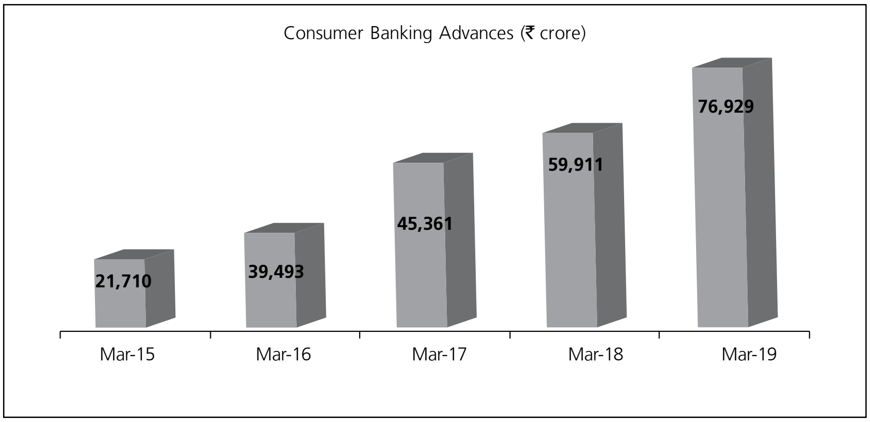
- One of the first banks to launch open banking platform for collaboration with fintech and enterprises Live with 50 + partners
- Launch of international remittance through Ripple
- Launch of Keya on Google Assistant
- Industry first UPI 2.0 hackathon along with NASSCOM and iSprit
- Participated in the World's Largest Hackathon. Smart India Hackathon, 2019 an initiative of government of India

ATM, Debit Cards & Payment Gateway

- In FY 2019, ATM network serviced 9.6 crore transactions
- The Bank upgraded all its ATM machines with Anti – Skimming software and it is amongst the first set of Banks to convert all its ATMs EMV complaint
- In FY 2019, POS spends grew at 55% with over all spends at ₹ 15,600 crore while ecom spends grew at 67% and international spends grown at 84%.
- Contactless payment transactions crossed 1 million and the Bank is featuring in top 3 Banks

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 are not comparable due to merger of eIVBL, effective 1st April, 2015.

Under the Consumer Assets portfolio, the Bank offers a wide range of products. Consumer book increased by 28% in FY 2019.

The Bank continued to focus on building a significant book from active engagement with existing liability customers of the Bank.

PRODUCTS AND SERVICES

The Bank rolled out several initiatives aimed at offering a superior and differentiated customer experience:

- Investment in tools like CRM (which will go live in Q1FY20) will help tracking and monitoring the progress of leads/enquiries more efficiently from customers of the Bank;
- On the Home Loans, with focus on the salaried segment, the Bank launched a 4 hour superfast home loan sanction process;
- Paperless acquisition of Credit Card customers through Sales App and other digital channels like Mobile and Net Banking saw a growth of 290% versus last year thus delivering a superior on-boarding journey to our customers;
- The Bank also started instant pre-approved Credit Card Offering to new 811 customers of the Bank;
- With all product initiatives, the spends for Credit Cards grew by 56%;
- On the Salaried Personal loans segment, loans on Mail and SMS was launched to enhance our bouquet of instant loan offering. Digital channels contributed to 32% of Salaried Personal loans.

CUSTOMER CONVENIENCE

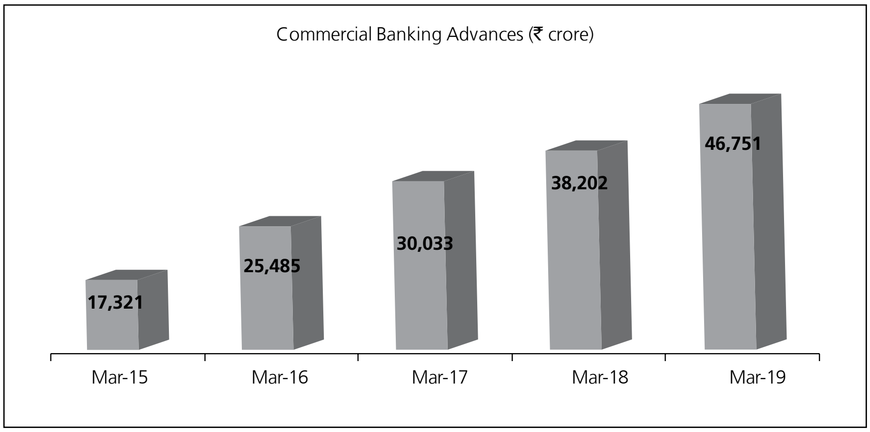
- Multiple self-serve features on Home Loan and Loan against Property on Mobile Banking were launched to help customers view their loan details on the Mobile App itself. This includes Information like tax certificate, disbursement and repayment details through a click of a button. The service, which went live in Jan'19 has already seen over 1 lac hits on the Mobile Banking App Loan section.

Transaction NPS & Relationship NPS are two key customer experience metrics tracked very closely across Retail Assets, and the Bank has seen significant progress on these metrics by end of Mar'19.

COMMERCIAL BANKING

The Commercial Banking business focuses on meeting the banking and financial needs of various segments. The Commercial Bank has specialised units which offer financial solutions in the areas of commercial vehicles, construction equipment, tractor, 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.

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



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

The Construction Equipment (CE) business reported significant growth and gained market share. CE business witnessed strong demand due to Government spending in the infrastructure sector, especially road construction & Metro. The YTD overall industry grew by ~25% major contribution is by earthmoving equipment. The rural demand is good and expected to continue so.

Commercial Vehicle (CV) business witnessed a slight drop in market share due to margin pressures. Change in load carrying norms by government also had a negative impact on CV business. Intensive competition is leading to fall in lending rates and increase in origination costs. The overall delinquency percentage of the CE portfolio has reduced, whereas some stress is witnessed in CV book. There was a demand for refinance on account of preference for BHARAT III & IV. Scrappage policy for >20 years old vehicles expected to get implemented from April 2020.

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. The MFI Segment remains robust as asset quality remains good. There was an upward trend expected in commodity prices on account of lower kharif output and higher MSP expectations by farmers. There is pressure on interest rates due to increased demand for PSL Agri assets.

Tractor Financing business witnessed double digit volume growth. Farmer's cash flow improved due to higher MSP and yields. Various state subsidy schemes and DBT helped small and marginal farmers. The overall delinquency percentage of the Tractor Finance portfolios has reduced.

Bank has expanded its Crop Loan business to Western and Central India. Debt waiver announcements in various states had a negative impact on recoveries. The industry was dominated by PSU banks due to their vast branch network.

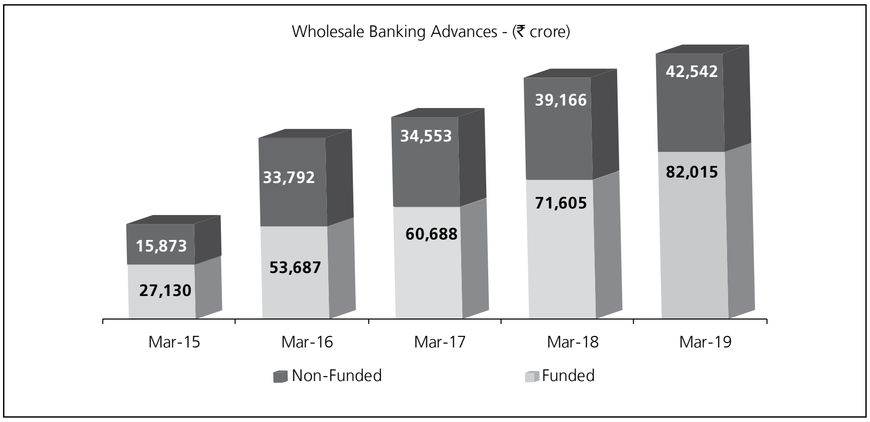
Branches in Semi-urban and Rural area comes under the umbrella of Commercial Bank. This network plays a crucial role in meeting the financial inclusion goals and credit demand of 'Bharat'. Branch network expanded and Liability book has grown at a healthy pace. Discontinuation of biometric sourcing led to downward impact on new account opening.

WHOLESALE 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, Small and Medium Enterprises, 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 past few years have witnessed significant disruptions in the wholesale banking space. Overall credit offtake in the industry has remained muted this year as well. Many banks are facing high NPAs in their corporate book. Competition is more intense in the higher rated corporates resulting in significant reduction in spreads for banks in this space. Despite these challenges, the Bank has been able to consistently deliver growth in the large corporate space through gain in market share. There has been equal focus on gaining new customers as well as gaining wallet share in existing customers. Growth in book has however been muted in the Small and Medium Enterprise (SME) space. The SME space had witnessed disruptions over the past couple of years due to Demonetization and rollout of GST and these manifested as stress in the Bank's book as well. During the year, the Bank rolled out a number of initiatives to stabilize the business and integrate it with the rest of the wholesale bank. Sufficient provisioning has been done on the SME book and going forward, the business is well poised to capture the growth opportunities in the market. Growth was also muted in certain other pockets where, the Bank was cautious in lending such as the real estate developer segment given the stress in the sector. The Bank compensated for this slowdown by ramping up exposure to lower risk businesses such as Lease Rental Discounting; however spreads were impacted by this mix change. The Bank was also cautious in its lending to Non-Banking Financial Institutions and changed its mix towards higher rated NBFCs given the challenges that the NBFC sector went through during the year.

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 are not comparable due to merger of eIVBL, effective 1st April, 2015.

During the year, there was significant pressure on spreads especially in the Bank's funded assets business. In the Non Fund business, focused efforts on pricing helped limit the impact of fall in spreads. The Bank compensated for the fall in asset spreads, to some extent, through strong growth in liability and fee based income including from GTS products such as the Current and Savings Accounts, Forex and Cash Management. Focus on productivity and efficiency have helped keep costs under control. Provisioning on some stressed cases, mainly in SME, has however impacted profitability.

Growth in the large corporate space was achieved without compromising on the health of the book. Exposure was confined to segments with credit comfort in terms of better rated exposure and industries with a positive outlook. This year, there was minimal additions to Gross NPA from this segment.

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 continued 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 Small and Medium Enterprises (SME) segment came into the Wholesale Banking fold this year. During the year, a number of initiatives were taken to stabilize the business and integrate it with the rest of the Wholesale Bank. Sufficient provisions have been made and the business is well poised for future growth.

The Bank has 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, NBFCs and others. The Custody business continued to witness strong growth despite market uncertainty seen during the second half of this year. The Bank is today one of India's largest domestic Custodians with AUC upwards of USD 30 billion and is strongly positioned in the India focused offshore funds space. The Custody business added a number of marquee AIF & PMS clients in the Domestic segment in addition to having a good market share amongst India based FPIs. The Bank also obtained a Professional Clearing Member (PCM) license to offer clearing services on the INDIA INX Exchange in GIFT City becoming the first bank custodian to do so. 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. Given the challenges that the NBFC sector went through during the year, the Bank was cautious in lending to this segment and changed its mix towards higher rated NBFCs.

The Bank was also cautious in lending to the real estate developer segment given the stress in the sector. The Bank compensated for this slowdown by ramping up presence in lower risk products such as Lease Rental Discounting. Spreads were however impacted due to this mix change.

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. Through the year, there has been a focused effort to capture greater market share in the CMS business from identified flagship accounts. The Bank launched various receivable solutions across C2B and B2B clients which witnessed a growth of more than 300% in flows through client accounts. Products like Smart Collect, API based e-collection offerings, customized value added solutions using NACH as clearing system have helped the Bank to acquire as well as increase its wallet share among various key clients. With focus on product development and building new age platforms, the Bank has been able to transact with major unicorn companies as their primary bankers. The Bank has also invested in product development for the Acquiring business and is now bankers to top aggregators in the E-Com space. The Bank was also the largest banking player for BBPS as a biller onboarding participant during the year. The Bank believe that, in this dynamic environment, bringing the best of solutions to clients will require engagement with solution providers in the country and the Bank has partnered with Fintechs to provide value added solutions. Current Account & Savings Account balances saw significant growth this year due to these innovative solutions and focused marketing efforts. On the Trade side, the funded and non-funded book continued a strong double digit growth momentum. Strong focus on fee income through trade flows led to a robust growth in fees earned through trade finance and services, with the wholesale business almost doubling this fee income. This robust growth has been fueled by a wide suite of products which is continuously being augmented through various digital initiatives and collaborations with various Fintech companies. Income from Forex has also shown significant growth. Income from liability and other GTS products has helped offset the fall in the spreads in the Bank's lending business to some extent.

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 too, there has been very little addition to the Gross NPA from the large corporate space. Risk Weighted Assets as a proportion of the asset book has been reducing over the years. There has been provisioning in the SME book this year. The SME business has been stabilized and is well poised to capture growth opportunities going forward.

Use of pricing models such as the Risk Adjusted Return on Capital have helped optimise pricing and better judge the risk return metrics throughout the Wholesale Bank. It is in part due to the findings from this RaRoC model that the Bank has consciously focused on growing the Fund Based book faster than the Non-Fund Based book. The Bank has in place Economic Value Added (EVA) measurement tools that 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 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 in Gujarat International Fin-Tech City (GIFT City branch), had commenced operations in FY 2017. The Branch caters to the funding needs and requirements of managing currency & interest rate risks of the Bank's overseas corporate customers. The Branch is also supporting the IFSC infrastructure at GIFT City by providing account and clearing services to the Exchanges and its participants at GIFT.

Loans from the GIFT City branch are also subject to the same rigorous and conservative credit underwriting standards and prudence of the Bank. The loan book of the GIFT City branch grew at a healthy pace in FY 2019, catering to trade (import) & medium term loans across multiple geographies.

TREASURY

From a markets viewpoint, FY 2019 was a year of two halves, a year of volatility emanating from both global and domestic events, business factors and economic parameters.

In the first half, the narrative was dominated by rising crude prices. Brent rose to about USD 86; the INR depreciated from about ₹65/ $ to over ₹74/ $ in October 2018; IN10Yr G-Sec rose from about 7.4% in April 2018 to about 8.2% in September 2018. The Reserve Bank of India increased the policy rates in two tranches of 25bps each in June & August 2018, eventually changing its stance to Calibrated Tightening from Neutral Stance in October 2018.

In the second half, the narrative was largely dominated by scare on global growth and US–China Trade row. Brent fell sharply - to a low of about USD 50 in December 2018, closing flat for the year at around USD 68; IN10Yr G-Sec dipped from about 8.2% in September 2018 to about 7.2%; INR appreciated to about ₹68.4/ $, closing the year at about ₹69.2/ $; the RBI reduced the policy rate by 25bps in February 2019 and changed the stance to Neutral from Calibrated Tightening. Another 25bps was reduced in the RBI policy on April 4th, 2019. Credit issues precipitated by the event of IL&FS Group default and rating downgrade witnessed widening of credit spreads and waning of liquidity in the Non-Banking Financial Institutions [NBFI] debt papers.

System liquidity kept alternating but remained largely in the deficit zone, with the RBI resorting to large purchase under Open Market Operations [OMO] to infuse durable liquidity. The RBI added FX Swap to its arsenal of liquidity infusion towards the end of FY 2019 and infused about ₹ 35,000 cr in a well bid 3year FX swap. This infusion also helped bring down term rate structure in the market towards the end of the year.

The equity markets however remained largely unaffected for FY 2019, except for a brief period coinciding with the initial period of the NBFI precipitation, gaining about 15% for the FY 2019, with the NIFTY closing FY 2019 at about 11623. However, the NIFTY gains for FY 2019 were largely confined to large cap stocks.

The Treasury Fixed Income Trading Desk, with a positive outlook, careful data backed analysis and a cautious approach, anticipated & managed the trading portfolio durations optimally. 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 outcome. The desk focused on technological solutions, pricing efficiency, process optimisation and fine-tuning of desk organization to deliver experiential service to its customers, yielding significant increase in flows and revenues.

The 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 contributed by not only maintaining Treasury applications through the year, but also by delivering enhanced technology solutions towards increased efficiency, enhanced computational, monitoring & reporting capabilities.

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, business efficiency, business collaborations and cybersecurity.

The Bank's Mobile banking app continues to be the highest rated iOS app with a 4.8 rating. The App saw improved customer experience the upgrade of the home page and payment section. It also became more comprehensive with new features like Forex card section, Premature withdrawal of FD/RD, Loan section and Online investment account opening.

Newer channels, Keya Chatbot and WhatsApp Banking, were launched, which use conversational banking approach to interact with customers. Keya Chatbot is enabled on all digital channels, viz. Mobile App, kotak.com website and Net Banking. Keya Chatbot is able to handle queries about products like Credit Card, Debit Card, Accounts, Fund Transfer, Bill Payment and Personal Loan. Kotak Bank is the first Indian bank to offer banking services on Whatsapp, which allows customers to get services on WhatsApp without installing any app or visiting any webpages. Search and discovery use cases have been enabled on Google Assistant thru voice based interaction.

The Bank's Net Banking features were also further enhanced with an upgraded payment experience, Online Investment Account opening, Forex Card section, purchase of insurance policies online and refreshed Home page for notifications.

Multiple digital payment methods were introduced for the Bank's customers including Visa Paywave, Samsung Pay, Bharat QR, UPI, BBPS (Bharat Bill Payment System) for Consumers & for Billers, AEPS (Aadhaar Enabled Payment System), AadhaarPay and FASTag – enabling more cashless payments for consumers, merchants, corporates, fintechs, billers etc. and reinforces Kotak's commitment to the country's Digital India journey. Several new products were launched including AEPS and AadhaarPay, which have enabled last-mile payments for Business Correspondent Agents and have also allowed the Bank to service customers of any Bank for services like Cash Withdrawal and Payments. For the second consecutive year, Kotak has been ranked amongst the Top 5 Banks in MeitY's 'Digital Payments Achievement Dashboard' (based on a point-scoring methodology) and has overachieved targets set by MeitY for FY 2019 on Digital Payments transactions.

Robotics Process Automation where the Bank has completed more than 2 lakh transactions across multiple processes and Cognitive Machines Reading are the next scaleup areas which are taking shape in India and are said to bring in a culture of basic routine tasks being automated.

Ecosystem collaborations are enabled through the Bank's Open banking platform. The Bank has enabled lending and payments api products through the platform. The Bank has on boarded about 100+ partners across lending and payment products.

Technologies were put in place to provide support for customer lending. Starting with a Lead Management System to accept loan enquires, and track them, to systems to support loan application evaluation and a "business rule engine" that uses analytics to assist in disbursement decisions. The systems will provide a base for processing of a wide spectrum of different types loans from simple personal loans to the more complex housing loans in the coming years.

The foundation for Natural Language Processing (NLP) laid down last year to launch 'Keya', the first Artificial Intelligence (AI) powered Voicebot in the banking sector was further leveraged. The use of IVR was replaced by conversational banking, so that the customer's experience on calling the Bank's contact center was simplified and enhanced. A "Virtual Relationship Manager" capability was also introduced, to enable customers to telephonically connect to their personalised service manager.

Employee engagement and productivity was emphasized with several technology initiatives. On-boarding new employees became smoother with the introduction of a mobile application called KLAPP to provide all the information needs of new recruits. Employee training and learning received a boost with an analytics based system to provide progress insights and MIS. An artificial Intelligence based Intelligence response system (KAIRA) was launched to assist employees respond to customer.

Regulatory requirements were a major focus area. All the Bank's ATMs were upgraded to eliminate XP based systems, to ensure better virus and malware protection. In keeping with RBI guidelines all the ATMs were made chip and pin card compliant within the required timelines to ensure that customers transactions on the ATMs are have an extra layer of security.

With increased focus on digital solutions and heightened cybersecurity concerns, there is a need for constant innovation in the information security area. New solutions were implemented to mitigate the risk of APT (Advanced Persistent Threat) attacks. The solution detects and prevents custom malicious code being sent over the network into the Bank's environment.

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, two-wheeler finance and other lending.

Financial Highlights

(₹ in crore)

Particulars	FY 2019	FY 2018
Net Interest Income	1,103.5	1,115.0
Other Income	288.1	255.6
Total Income	**1,391.6**	**1,370.6**
PBT	905.1	901.9
PAT	599.3	589.6

(₹ In crore)

Particulars	31st March, 2019	31st March, 2018
Net Customer Assets	28,267.4	28,017.5
- Car advances	20,270.9	20,103.8
Net NPA %	0.44%	0.37%
RoAA %	2.0%	2.0%

The passenger car market in India grew by 2.8% for FY 2019 compared to 7.7% growth in FY 2018. Total unit sales of cars and MUVs crossed 33.42 lakh units in FY 2019 compared to 32.5 lakh units in FY 2018. KMP added 135,802 contracts in FY 2019 compared to 139,776 in FY 2018.

The NBFC sector experienced liquidity problems in September 2018. This not only resulted in increase in borrowing costs but also KMP had to maintain surplus liquidity for sometime which had impact on the bottomline. The liquidity concerns in NBFC sector eased post January 2019.

PBT for FY 2019 at ₹ 905.1 crore was higher than ₹ 901.9 crore for FY 2018 primarily due to dividend income on preference shares, recoveries in car finance portfolio, offset, in part by, decrease in income on investment in surplus funds and higher specific provisions. NIM for FY 2019 was 4.0% compared to 4.1% for FY 2018.

Gross NPA was ₹ 287.4 crore (1.01% of gross advances) while net NPA was ₹ 124.6 crore (0.44% of net advances) as on 31st March, 2019. Further, the capital adequacy ratio as on 31st March, 2019 was 19.4% (17.7% as of 31st March, 2018).

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's Real Estate finance team offers one of the most trusted dedicated real estate finance platforms in the country with expertise across all key asset classes. From structuring complex transactions to broadening the access to capital, its comprehensive financing and expert execution have made KMIL a leading choice for real estate developers and investors for over a decade. KMIL is well positioned to harness all opportunities that may be offered in the current economic environment.

Financial Highlights

(₹ in crore)

Particulars	FY 2019	FY 2018
Net Interest Income	292.5	303.9
Other Income	94.2	122.0
Total Income	**386.7**	**425.9**
PBT	315.6	366.6
PAT	207.0	245.0

(₹ In crore)

Particulars	31st March, 2019	31st March, 2018
Net Customer Assets	9,242.3	7,900.1
Net NPA %	0.3%	0.01%
RoAA %	2.3%	3.0%

The customer assets increased to ₹ 9,242.3 crore as on 31st March, 2019 as compared to ₹ 7,900.1 crore as on 31st March, 2018. KMIL reported a decrease of 15.5% in PAT to ₹ 207.0 crore for FY 2019 compared to a growth of 24.7% in PAT to ₹ 245.0 crore for FY 2018 as FY 2018 included capital gains of ~ ₹ 46 crore. Further, there was decrease in interest income due to decrease in yield on advances and lower processing fees in FY 2019. NIM for FY 2019 was 3.5% compared to 4.0% for FY 2018. KMIL also maintained surplus liquidity for sometime post September 2018, due to liquidity concerns for NBFC sector impacting profits of KMIL.

Gross NPA at ₹ 33.8 crore (0.37% of customer assets) while net NPA was ₹ 26.9 crore (0.29% of customer assets) as on 31st March, 2019. Further, the capital adequacy ratio as on 31st March, 2019 was 18.4% (18.9% as of 31st March, 2018).

Kotak Securities Limited (KS)

KS is in securities broking business providing services in Equity cash and derivatives segments, Commodity derivatives, Currency derivatives, depository and primary market distribution services. KS is a member of BSE Limited, National Stock Exchange of India Limited, National Commodity & Derivatives Exchange Limited, Multi Commodity Exchange Limited, and Metropolitan Stock Exchange of India Limited. KS is also a depository participant with 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 2019	FY 2018
Total Income	1,582.4	1,654.6
PBT	680.4	796.0
PAT	451.9	531.0

The Sensex closed at 38,673 as on 31st March, 2019 compared to 32,968 as on 31st March, 2018, with a high of 38,990 and low of 32,973. Similarly, the benchmark Nifty which closed at 10,113 as on 31st March, 2018 closed at 11,623 as on 31st March, 2019 with a high of 11,760 and low of 10,004.

The financial year FY 2019 saw a flat volume growth in Cash Market where as the equity derivative segment continued its robust growth over FY 2018. Market average daily volumes (ADV) increased to ₹35,180 crore for FY 2019 from ₹ 33,768 crore for FY 2018 for the Cash Segment, and increased to ₹ 958,067 crore for FY 2019 from ₹ 670,670 crore for FY 2018 for Derivatives Segment.

KS Average Daily Volumes increased from ₹ 13,691 crore for FY 2018 to ₹ 26,203 crore for FY 2019. KS continued its focus on Cash Segment which resulted in the increase in its market share to 9.1% from 8.5% in FY 2018. Overall market share of KS increased to 2.6% for FY 2019 compared to 1.9% for FY 2018.

During the year KS launched FIT (Free Intraday Trading), a subscription based product, targeted at online customers. It also launched biometric based account opening process during the year. These resulted in a higher customer acquisition for the year. The FY 2019 show an addition of ~ 2.87 lakh customers with a large part of them being online trading customers. KS also launched commodity brokerage services and direct mutual fund platform during FY 2019.

The mobile trading application provided by KS, with enhanced features and functionality continues to be a leader in the market. Trading volume through mobile app show a growth of more than 150% in cash segment. During the year, KS initiated significant technology projects across campaign, analytics and core platforms. KS continues to invest in Technology to maintain its leadership position and has taken several initiatives to enhance the customer experience across channels.

The total outlets stood at 1,328 at the end of the financial year. The number of registered authorised persons stood at 1,875 for NSE and 1,385 for BSE.

Institutional Equities division further consolidated its leadership position in the market amongst the domestic players. Yields across the client segments continued to be under pressure. Impact of MiFID II regulation, which became applicable from January 2018, unfolded during the year. KS, however, successfully negotiated with the clients and saw a significant improvement in revenues, particularly from European clients. Institutional division executed a number of block trades and distributed a number of IPOs, QIPSs and Open Offers. Further it continued to invest in Technology to upgrade its IT infrastructure with a special focus on developing new algos for the Derivatives segment. Institutional Equities Research continues its leadership position and is well respected within the industry. The Research and Sales teams continued to get higher recognition thru votes received from various clients.

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 2019	FY 2018
Total Income	176.0	181.0
PBT	92.9	101.5
PAT	63.1	65.3

Equity Capital Markets

In FY 2019, the Indian Equity Capital Markets witnessed a significant slowdown in primary market activity compared to previous fiscal completing 28 OFS, 14 IPOs and 13 QIPs. A total of ₹ 56,864 crore (vs ₹ 203,057 crore in FY 18) was raised across Initial Public Offerings (IPOs), Qualified Institutional Placements (QIPs), Rights Issues, Offers for Sale (OFS), Block Deals, Infrastructure Investment Trusts (InVITs) and Real Estate Investment Trusts (REITs) (Source: Prime Database).

KMCC successfully completed 14 marquee transactions, including 5 IPOs, 5 Block Deals, 2 QIPs, 1 OFSs and India's First ever Real Estate Investment Trust (REIT) raising a total of ₹ 32,983 crore in FY 2019. Kotak led the largest IPO, largest REIT IPO, largest QIP and largest Block of the year - a unique distinction in a volatile market environment.

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

IPO: HDFC AMC - ₹ 2,800 crore, Varroc Engineering - ₹ 1,955 crore, Indostar Capital Finance - ₹ 1,844 crore, Credit Access Grameen - ₹ 1,131 crore, TCNS Clothing - ₹ 1,125 crore

REIT: Embassy Office Parks - ₹ 4,750 crore

OFS: Coal India Limited - ₹ 5,274 crore

QIP: DLF - ₹ 3,173 crore, Magma Fincorp - ₹ 500 crore

Blocks: Kotak Mahindra in two tranches (₹ 7,161 crore in Feb 2019 and ₹ 1,440 crore in Nov 2018), Mahanagar Gas - ₹ 760 crore, Wipro - ₹ 684 crore, Magma Fincorp - ₹ 385 crore

Mergers & Acquisitions and Private Equity Advisory

The total M&A Advisory deal value in India for FY 2019 stood at USD 138.5 billion vis-à-vis USD 88.2 billion in FY 2018, while deal volumes increased to 1,936 in FY 2019 from 1,831 in FY 2018.(Source: Bloomberg, as on April 16, 2019)

In FY 2019, KMCC was ranked #4 by volume of deals and #15 by value of deals in the M&A league tables (Source: Bloomberg, as on April 16, 2019; amongst investment banks). 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 5.4 billion (not considering deals where values have not been disclosed):

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

The uptick in activity in the market in FY 2019 could largely be attributed to a number of factors, including deals in the stressed asset space, consolidation across sectors, increasing activity by sovereign wealth funds and a surge in big-ticket transactions. For FY 2020, traditional M&A drivers, such as consolidation and market penetration along with convergence of various sectors with tech, stronger governance, insolvency cases and increased FDI will increasingly trigger deal activity.

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

- Financial Advisor to TPG and Shriram Group for 100% sale of stake in Vishal Mega Mart to Partners Group and Kedaara Capital
- Financial Advisor for 100% sale of stake in Comstar to Blackstone
- Financial Advisor to Excel Crop Care for merger with Sumitomo Chemical India – ₹ 3,593 crore
- Financial Advisor to State Bank of India for sale of 4% stake in SBI General Insurance to Axis AIF and PremjiInvest – ₹ 482 crore
- Financial Advisor for restructuring of healthcare business of Max India and Radiant Life - ₹ 7,242 crore
- Financial Advisor to Prabhat for sale of its dairy business to Lactalis - ₹ 1,700 crore
- Financial Advisor for sale of stake in Star Health to Westbridge AIF, Rakesh Jhunjhunwala & Madison Capital
- Manager to Buyback offer of Infosys (₹ 8,260 crore), Tech Mahindra (₹ 1,956 crore), Smartlink Holdings (₹ 67 crore)
- Manager to the Open Offer for acquisition of 26% stake in Next Mediaworks Limited by HT Media Limited - ₹ 47 crore
- Fairness Opinion to Bandhan Bank for merger of Bandhan Bank and GRUH Finance

Kotak Mahindra Life Insurance Company Limited (KLI)

Kotak Mahindra Life Insurance Company Limited (KLI), a 100% subsidiary of Kotak Bank 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.

Network

KLI has 243 life insurance outlets across 150 locations. KLI has 124,500 life advisors, 33 Bancassurance partners and 157 brokers and corporate agency tie-ups.

Financial Highlights

The financial performance of KLI is given below:

(₹ in crore)

Particulars	FY 2019	FY 2018
Gross Premium	8,168.3	6,598.7
First Year Premium (incl. Group and Single)	3,977.1	3,404.2
PBT – Shareholders' Account	590.8	471.2
PAT – Shareholders' Account	507.2	413.4
Solvency Ratio	3.02	3.05

The Indian Embedded Value (IEV) was ₹ 7,306 crore (31st March, 2018: ₹ 5,824 crore) as on 31st March, 2019. 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 FY 2019 was ₹ 799 crore and the VNB margin was 36.9%.

The networth of KLI increased by 22.6% to ₹ 2,745.4 crore as on 31st March, 2019 from ₹ 2,238.1 crore as on 31st March, 2018. KLI has solvency ratio of 3.02 against a requirement of 1.50.

Revenue Performance

KLI has recorded a growth of 23.8% on the gross premiums. The summary of premiums is as under:

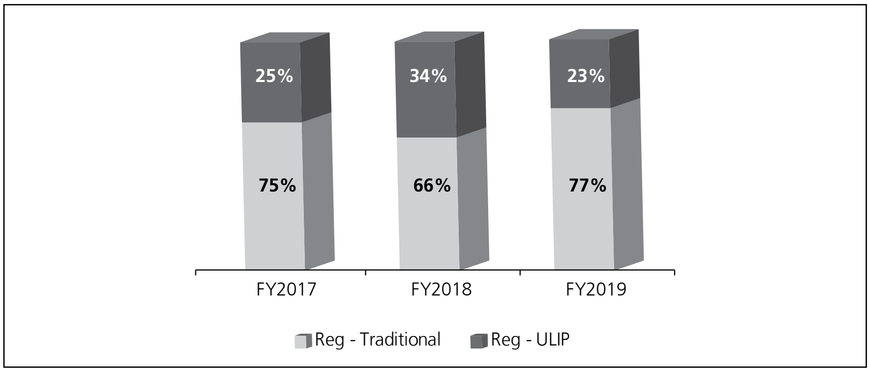
(₹ in crore)

Particulars	FY 2019	FY 2018
Individual Regular Premium	1,616.2	1,530.4
Individual Single Premium	515.4	441.5
Group Premium	1,845.5	1,432.4
Total New Business Premium	**3,977.1**	**3,404.2**
Renewal Premium	4,191.2	3,194.5
Gross Premium	**8,168.3**	**6,598.7**

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

The distribution mix for Individual business APE (Single 1/10), is 48% for the Bancassurance channel and 52% for Agency & other channels.

Individual Regular Product Mix



Product mix of KLI for FY 2019 in individual regular premium is 77% traditional business and 23% ULIP.

The share of Risk Premium was 26.2% in the Total New Business Premium. Sum assured increased by 23.7% YoY basis.

Conservation & Persistency

Conservation ratio is 86.9% in FY 2019 compared to 87.1% in FY 2018. In FY 2019 the persistency is 87.1% (13th month), 77.0% (25th month), 67.8% (37th month), 65.8% (49th month) and 60.0% (61st month).

Industry comparison

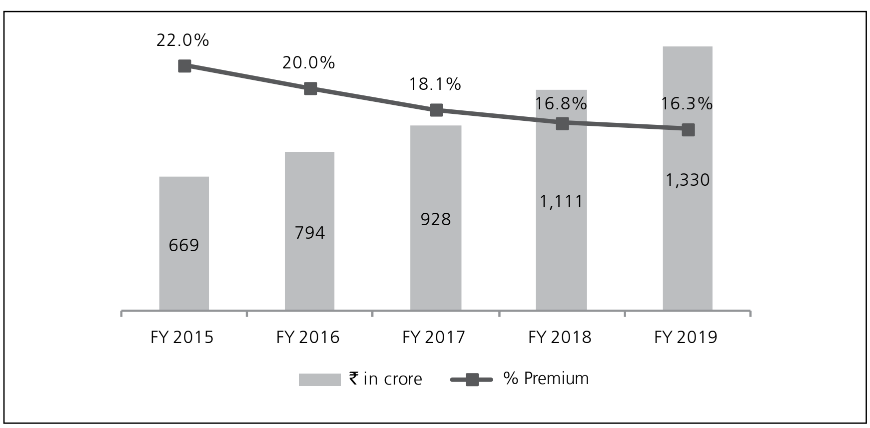
KLI registered a growth of 11% on total New Business Premium - APE terms (Adjusted Premium Equivalent (Single 1/10)) while overall insurance industry as a whole registered a growth of 11% and private insurance industry registered a growth of 13% on the same basis. KLI market share stood at 5.8% of private industry. On an individual APE Basis (Single 1/10), KLI has a market share of 4.2% of private industry.

Claims Settlement Ratio

The individual claims settlement ratio for FY 2019 stood at 97.4% (FY 2018: 93.7%). The group claims settlement ratio for FY 2019 stood at 99.1% (FY 2018: 99.7%). The overall Claims settlement ratio in FY 2019 stood at 99.0% (FY 2018: 99.3%).

Cost Analysis

Operating expense ratio has improved to 16.3% as against 16.8% in previous year. This was possible by a 23.8% YoY growth in total premium in FY 2019 and improved productivity in FY 2019.



Assets Under Management

KLI saw an increase in its AUM (including shareholders' AUM) by 20.6% YoY to ₹ 30,310 crore in FY 2019.

Digital Initatives
KLI had implemented 'Genie', a tablet based end to end sales solution. In FY 2019, 87.9% of the individual policies were sourced using Genie vs 77% in FY 2018.

KLI has Implemented Smart sell – A Pre Marketing, engagement and productivity app, and is used by 42% of its active Life Advisors in its first year of implementation.

Social and Rural Obligations
KLI has written rural policies 81,972 (FY 2018: 73,710) representing 24% of total policies against regulatory requirement of 20%. Further, KLI has covered 1,005,351 social lives more than the regulatory requirement of 433,968.

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 third full year of operations at the end of FY 2019.

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 13.0% till March 2019, in which the private sector (excluding standalone health insurance companies) grew by 24.7%. KGI grew its premium from ₹ 185.4 crore in FY 2018 to ₹ 301.1 crore in FY 2019 registering a growth of 62%.

Financial and Other Highlights

(₹ in crore)

Particulars	FY 2019	FY 2018
Gross Written Premium (GWP) (including re-insurance)	303.8	188.1
Loss Before and After Tax	(34.9)	(32.6)
Claims Ratio	68.1%	71.7%
Combined Ratio	114.6%	122.1%

Revenue Review
KGI issued more than double the number of policies totaling to 7.2 lakh in FY 2019 from 2.5 lakh in FY 2018 amounting to a gross direct premium excluding re-insurance of ₹ 301.1 crore (FY 2017: 185.4 crore).

Product Mix
In order to maintain a balanced product mix, KGI product mix for Motor, Health and Others has moved from 75:17:8 in FY 2018 to 66:25:9 in FY 2019.

Distribution Mix
Bancassurance Channel grew from ₹ 109.7 crore in FY 2018 to ₹ 171.7 crore in FY 2019 registering a 56% growth and Multi Distribution channel grew from ₹ 75.7 crore in FY 2018 to ₹ 129.4 crore in FY 2019 registering a 71% growth. Digital and online business grew at 41% 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, 2019, the solvency ratio of KGI stood at 1.86 against the regulatory requirement of 1.50.

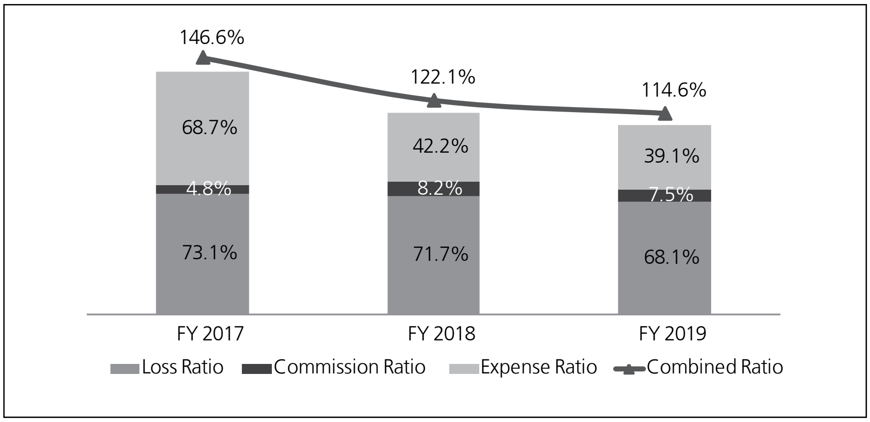
Investments
Investments of KGI as on 31st March, 2019 stood at ₹ 414.3 crore against the previous year amount of ₹ 248.9 crore, registering a growth of 66%.

Distribution Network
KGI has a network of 17 branches catering to more than 275 locations. KGI has registered 13 Corporate Agents, 94 Individual Agents, 161 Point of Sale agents and 4 Micro Insurance Agents.

Rural and Social Obligations
KGI has written a premium of ₹ 15.7 crore under rural obligation representing 5.2% of total premium. Further, KGI has covered 58,496 social lives against the regulatory requirement of 1,941.

Improving Financial Performance

In the last three financial years, the company has steadily improved on its Claims and Combined Ratio which is evident depicted from the graph given below:



Claim Servicing

The number of claims settled by the Company has increased from ~ 14,800 in 2018 to ~ 27,000 in 2019 an increase of 82%.

The Company has an equitable and robust claim settlement practice which is evident in the claim settlement ratio which has improved from 95% in 2018 to 97% in 2019.

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 2019	FY 2018
Total Income	655.0	518.9
PBT	337.1	124.5
PAT	218.1	81.2
AAUM	138,214	115,399
Kotak Mahindra Trustee Company Limited	**FY 2019**	**FY 2018**
Total Income	52.0	46.4
PBT	50.5	45.3
PAT	36.5	33.8

The growth in the mutual funds industry continued albeit with a relatively modest pace in FY 2019. The industry registered a growth of 6% for FY 2019 with the Quarterly Average Assets Under Management (QAAUM) for Q4FY19 at ₹ 24.5 lakh crore.

The QAAUM which stood at ₹ 150,271 crore for Jan-Mar 2019 has seen growth of around 20% YoY and 157% 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 6.1% from 4.3% from 3 years back. The cumulative number of non-gold SIPs with the mutual fund stood at 11.92 lakh at the financial year end as compared to 9.7 lakh in FY 2018.

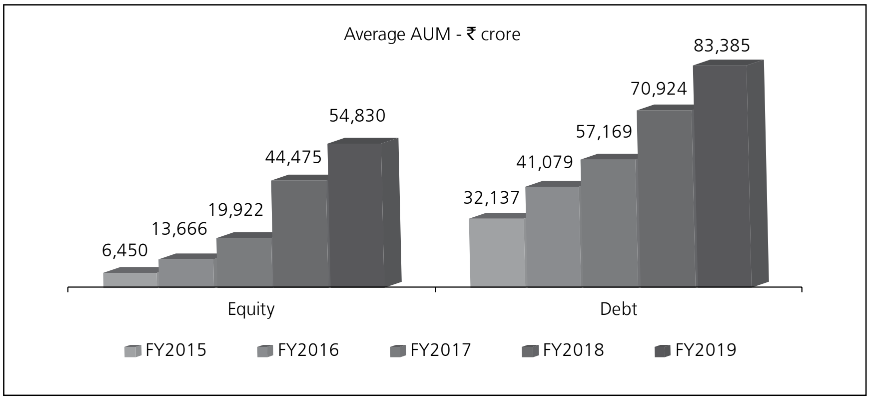
KMAMC has 18.75 lac unique investors basis the RTA data against industry of 192.86 lacs, a market share of 9.7%., against a share of 8.8% in March 18.

KMAMC ended the year with discretionary AUM under the portfolio management business of ₹ 3,332 crore against ₹ 3,762 crore as on 31st March, 2018.

The AAUM of KMAMC for FY 2019 was ₹ 138,214 crore against ₹ 115,399 crore in FY 2018, a growth of 20% against industry growth of 11%. Consequently, the overall revenue from operations grew by 26% to ₹ 655.0 crore from ₹ 518.9 crore. The overall costs reduced to ₹ 317.9 crore in FY 2019 against ₹ 394.4 crore in FY 2018, largely due to reduction in the business promotion expenses primarily on account of change in the regulations i.e no upfront commissions and all scheme payments to be paid from Schemes only. Hence, the overall profit before tax has increased to ₹ 337.1 crore in FY 2019 compared to ₹ 124.5 crore in FY 2018.

KMAMC ended the year with discretionary AUM of ₹ 3,332.2 crore against ₹ 3,761.9 crore as on 31st March, 2018.

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 2019	FY 2018
Total Income	2.9	2.5
PBT	0.07	(0.05)
PAT	0.07	(0.05)
AUM	784	536

KMPFL manages nine schemes. The combined assets under management (AUM) on 31st March, 2019 were ₹ 784 crore (₹ 536 crore as of 31st March, 2018), a growth of 46.3%. The overall pension fund industry AUM (including the private and public sector) has grown from ₹ 234,579 crore as on 31st March, 2018 to ₹ 318,214 crore as on 31st March, 2019, a growth of 35.70 % and the private sector industry AUM has grown from ₹ 5,682 crore as on 31st March, 2018 to ₹ 9,827 crore as on 31st March, 2019, a growth of 73%.

Considering the low rates of management fees in Pension Fund Management Business, the revenue generated from the investment management activity for FY 2019 is ₹ 0.06 crore (FY 2018 - ₹ 0.04 crore). As per press reports, there are plans to make the licences on tap for this sector with increased rates for management fees and Points of service.

There has been an increase in other income to ₹ 2.8 crore in FY 2019 as compared to ₹ 2.4 crore in FY 2018 primarily on account of increase in profit from sale of investments. The costs have increased marginally to ₹ 2.8 crore in FY 2019 from ₹ 2.5 crore in FY 2018. Consequently, KMPFL has reported a profit during FY 2019 of ₹ 0.07 crore as compared to a loss of ₹ 0.05 crore in FY 2018.

KOTAK INTERNATIONAL SUBSIDIARIES

Financial Highlights

(₹ in crore)

Particulars	FY 2019	FY 2018
Total Income	347.0	297.7
PBT	170.3	133.7
PAT	148.2	114.4

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.

FY 2019 was relatively a difficult and challenging year on account of global and domestic headwinds. Debt markets saw periods of volatility due to risk of rising inflation on the back of crude prices, temporary liquidity squeeze after default by a major Non-Banking Financial Company (NBFC) in India and Foreign Portfolio Investor (FPI) outflows which recovered towards the end-of-the year as crude prices receded and inflation were subdued owing to low food inflation. In equity markets, the large cap NIFTY index increased 8% in USD terms and out-performed other comparable markets.

On the global front, the past year was dominated by trade negotiations between US and China, volatile crude prices and fragile macro-economic positions in certain emerging markets. On the domestic front, much of focus was on pace of normalization post GST-implementation, impact of rising crude prices on current account deficit and consequent depreciation of INR versus USD, stress in system liquidity after default of a major NBFC and political uncertainty due to upcoming general elections and election in other key states.

On political front, the ruling Government in India lost to the single largest opposition in four key states during the year. This coupled with the upcoming general elections in India may add to volatility in the markets.

While elections are key macro variable from near term perspective, market focus will subsequently shift towards economic fundamentals, overall governmental policies and corporate earnings.

Net FPI flows into the Indian equity markets were USD 1.5 billion during FY 2019 compared to USD 3.4 billion in FY 2018.

The average AUM increased from ₹ 28,428.8 crore (USD 4.4 billion) in FY 2018 to ₹ 34,631 crore (USD 5.0 billion) in FY 2019.

The AUM of offshore funds managed or advised by the Offshore Subsidiaries saw a net outflow of ₹ 1,505 crore (USD 0.2 billion) in FY 2019 as compared to inflow of ₹ 6,785 crore (USD 1.0 billion) in FY 2018.

The closing assets managed / advised (AUM) by the international subsidiaries reduced from ₹ 35,572.9 crore (USD 5.5 billion) as on 31st March, 2018 to ₹ 32,997.7 crore (USD 4.8 billion) as on 31st March, 2019. This was largely due to negative movement of markets and outflows from the debt funds it managed.

The offshore subsidiaries have built a strong distribution network across geographies both in terms of distributors and key accounts. The funds have investments from across the major geographies like Japan, Europe, US and Middle East and continued to make inroads to new geographies like South Korea during the year.

The overall revenue increased primarily on account of higher investment management & advisory income commensurate with the growth in AUM by ₹ 34.0 crore, higher income from investments by ₹ 8.4 crore and interest income by ₹ 6.5 crore. The total income earned by international subsidiaries increased from ₹ 297.7 crore during the FY 2018 to ₹ 347.0 crore during the current year. The operating expenses increased from ₹ 143.6 crore during the previous year to ₹ 157.3 crore during the current year largely due to the higher staff costs. The offshore subsidiaries have successfully controlled other operating costs.

Resultantly, the profit before tax for the year stood at ₹ 170.3 crore versus a profit of ₹ 133.7 crore for the previous year.

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 2019	FY 2018
Total Income	85.3	91.9
PBT	17.1	10.8
PAT	17.4	10.9

During the year, KIAL has received new capital commitments of around ₹ 50 billion. The aggregate domestic alternate assets managed by KIAL as on 31st March, 2019 were ₹ 10,547 crore. It managed 15 domestic funds during the year. It also advised 5 offshore funds during the year. During the year, KIAL successfully exited all investments in its Managed Account Fund.

Of the new capital commitments received during the year, KIAL has received commitment of ₹ 36 billion for a new distressed asset fund from a sovereign wealth fund. It will target both pre-stress and distressed opportunities, with a key focus on providing financial support to pre-stress businesses to prevent them from entering insolvency. Also, it has launched a commercial office development platform, which will be anchored by a sovereign wealth fund with a commitment of ₹ 13 billion, in partnership with a leading Bengaluru based real estate developer. It is one of the largest dedicated commercial office development platforms announced in India. It's strategy is to develop greenfield projects as well as acquire under construction and completed assets across key commercial office markets in India.'

Kotak Mahindra Trusteeship Services Limited (KMTSL)

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

Financial Highlights

(₹ in crore)

Particulars	FY 2019	FY 2018
Total Income	9.1	6.5
PBT	3.3	2.4
PAT	2.4	1.7

Kotak Infrastructure Debt Fund Limited (KIDFL)

KIDFL, is the infrastructure debt financing company. KIDFL provides long term finance to infrastructure projects and has completed one year of satisfactory operations. In its first full year of operations, KIDFL was able to forge relationships with marquee clients and build a robust asset book diversified across various Infrastructure sub-sectors.

Financial Highlights

(₹ in crore)

Particulars	FY 2019	FY 2018
Total Income	63.6	24.8
PBT / PAT	25.6	14.4

In its first full year of operations, Customer Assets increased to ₹ 672.3 crore compared to ₹ 429.3 crore as on 31st March, 2018.

IVY Product Intermediaries Ltd (IVYPIL)

IVYPIL is investing surplus money in FDs. IVYPIL is not engaged in any business activity.

Financial Highlights

(₹ in crore)

Particulars	FY 2019	FY 2018
Total Income	0.4	0.3
PBT	0.3	0.3
PAT	0.2	0.2

BSS Microfinance Limited (BSS)

BSS is a wholly owned subsidiary of Kotak Mahindra Bank Limited (KMBL) and is working as Business Correspondent (BC) of the Bank. BSS facilitates Microfinance Loans to Rural and Semi-urban poor women and is having 176 branch offices across Karnataka, Maharashtra, Madhya Pradesh and Tamilnadu. Loans originated by BSS are eligible for priority sector advances of the Bank and about 56% of the loans originated during the financial year are Agri & Animal husbandry. During the year, BSS received approval from RBI for cancellation of its NBFC license.

Financial Highlights

(₹ in crore)

Particulars	FY 2019	FY 2018*
Total Income	139.4	128.2
PBT	79.2	32.7
PAT	55.7	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 2019	FY 2018
Total Income	176.4	388.5
PBT	94.1	275.5
PAT	66.4	189.7
Share of Kotak Group	33.2	94.8

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

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 2019	FY 2018
Total Income	241.0	177.3
PBT	138.2	51.3
PAT	100.2	28.8
Share of Kotak Group	50.0	14.4

PAT of the Company saw an increase of 3.5 times. This increase is due to substantially better recoveries in this year, which led to increase in fees and profits during FY 2019. The 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 2019	FY 2018
Total Income	63.0	56.3
PBT	7.5	7.9
PAT	5.4	5.4
Share of Kotak Group (post adjustments)	1.1	1.0

The Group has sold its entire stake in Matrix Business Services India Private Limited on 26th April, 2019 and accordingly it has ceased to be an associate of the Group from that date.

ACE Derivatives and Commodity Exchange Limited (Unaudited)

The Company is a demutualised national level multi commodity exchange and discontinued trading operations in May 2015. It received SEBI approval in December 2018 for surrender of exchange license. The Company for the year ended 31st March, 2019 has made a marginal profit primarily from investment of surplus money.

Financial Highlights

(₹ in crore)

Particulars	FY 2019	FY 2018
Total Income	0.8	1.0
PAT	0.3	0.7
Share of Kotak Group (post adjustments)	0.1	0.3

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 MD & CEO 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 independent review, 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 MD & CEO 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 performance against risk appetite 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, robust liquidity 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 shareholders. In addition to the regulatory risk-based capital framework, the Group is also subject to minimum Leverage Ratio requirement. The leverage ratio is calculated by dividing Basel III tier 1 capital by the total of on-balance sheet assets and off-balance sheet items at their credit equivalent values. The strong tier 1 position of the group ensures a high leverage ratio for the group.

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 the Bank's 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. Regular monitoring of risk exposures is carried out to ensure that risk taking activity remains within 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 from business operations. Off balance sheet transactions are subjected to the same rigorous credit analysis as on balance sheet transactions. Appropriate levels of collateralization is obtained based upon the nature of the transaction and the credit quality, size and structure of the borrower.

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, sector outlook and performance of borrowers 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 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 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 hair cut applicable. The haircut applied depends on collateral type and reflects the risk due to price volatility, time taken to liquidate the asset and realization costs. Collateral values are assessed at the time of loan origination by an independent unit and the valuations are updated, as per policy, depending on the type of collateral, legal environment and creditworthiness of the borrower. In cases where the value of collateral has materially declined, additional collateral may be sought to maintain the cover as per sanction terms. 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. Guarantees that are treated as eligible credit risk mitigation are monitored along with other credit exposures to the guarantor.

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 variables 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 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 reports directly to the Group Chief Risk Officer and 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 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 over a one-year period, 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.

There is an in internal funds transfer pricing mechanism under which each business is allocated the full funding cost required to support its assets, Businesses that raise funding are compensated at an appropriate level for the liquidity benefit provided by the funding.

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.

Currently, the regulatory requirement for LCR is 100%, on a daily average basis. 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 RBI has prescribed NSFR of at least 100% from 1st April 2020. The Group is on track to meet the NSFR requirements as per the final guidelines.

The bank has a contingency liquidity plan (CLP) approved by ALCO and the Board, that plays an important role in its liquidity risk management framework. The CLP incorporates early warning indicators (EWIs) to forewarn emerging stress liquidity conditions and to maximize the time available to undertake appropriate mitigating strategies. The plan establishes lines of responsibility, contact lists to facilitate prompt communication with all key internal and external stakeholders and also defines strategies and possible actions to conserve or raise additional liquidity, under stress events of varying severity, to minimize 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 Committee (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. 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 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 conducted cyber drills to assess the effectiveness of the prevention, detection and response mechanisms. Several initiatives were taken to impart and assess the security awareness of employees/contractors. The bank has enhanced its threat hunting capabilities to proactively detect malicious behavior/anomalies in the IT Infrastructure. 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.

M. Digitalisation

Technology is rapidly changing the way financial services entities operate and is a key disruptor for the industry. The Group focus continues to be on digital and is aimed at leveraging digital technology to provide a best in class experience for its 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 continues 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 most often results from the poor management of other risks and 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 its 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 its 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. While reputation risk can be difficult to quantify, the Bank has adopted a scorecard approach, based on expert judgment, 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 processes for managing conduct risk and 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 the Bank's framework to 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. Risk Culture

Culture and values are a priority area for the Group. The Group embeds a strong risk culture, through clear communication and appropriate training for employees. The Group only assumes those risks that can be managed, with clear understanding of the implications. Senior Management receives regular and periodic information on various matters for the respective business lines and clearly communicate their plans, strategy and expected outcomes to team members. The Bank has a structured induction programme for new employees to help them in understanding various businesses across the Group and how risk management culture and practices support in building and sustaining the organization. Employees are accountable for the risks they and it is their responsibility to escalate issues to senior management, on a timely basis. The risk culture in the group lays emphasis responsible business practices, prioritization of customers' needs and appropriate disclosures. These objectives are backed by suitable policies and processes for implementation.

Q. 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 and covers the consideration of whether additional capital is required, based on internal assessment. 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.

R. 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 the Bank's 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. Businesses have an Internal Risk Control Unit or Internal Controls functions 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 function which is responsible for independently evaluating the adequacy and effectiveness of all internal controls, Information Security controls, Risk management, Governance systems & processes and is manned by appropriately qualified personnel. The Bank has Information Systems Audit team in place, as a part of its Internal Audit team, to identify and address Technology and IT-related Security issues commensurate with the nature and complexities of its operations. The Internal Audit department and Compliance function ensure business units adhere to internal processes and procedures as well as to regulatory and legal requirements and provide timely feedback to Management for corrective action. The audit function also proactively recommends improvements in operational processes and service quality. The Bank takes corrective actions to minimise the design risk, should there be any.

Audit department adopts a risk based audit approach and carries out audits across various businesses, i.e. Consumer, Commercial, Wholesale, Treasury and audit of Operations units, Risk Functions, Centre Functions, Support Functions, Information Security Audits, in order to independently evaluate the adequacy and effectiveness of internal controls on an ongoing basis and pro-actively recommending enhancements thereof.

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 Managing Director & CEO. The Audit Committee of the Board also reviews the performance of the Audit & Compliance functions and reviews the effectiveness of controls & compliance with regulatory guidelines.

HUMAN RESOURCES

As on 31st March, 2019, the employee strength of the Bank along with its subsidiaries was ~ 60,000 as compared to ~ 50,000 employees a year ago. The Bank standalone had ~ 41,750 employees as on 31st March, 2019.

With increased employee there has been renewed focus on bringing in diverse workforce in Bank during the year. Gender diversity moved from 21% women to 23% by the financial year end. Majority of the increase has been through the hiring at front line roles. While organization has aged a year the employee base has gone younger with the average age moving from 33 years to 31 years by March 19.

As the Bank had begun its journey toward digital adoption couple of years back, the year has seen additional achievements in this area. Bank has launched mobile app based platform KLAPP for enhancing employee experience during the onboarding process. The Journey for this engagement starts from the offer acceptance to the joining date as Pre Joining Journey and from joining to 180 days as Post Joining Journey. This enables bank to interact and hand hold the transition of prospective candidate to employee seamlessly. KLAPP platform allows interaction & a personalized onboarding plan for the employees based on their role. Enhances visibility of the onboarding process and helps in taking data backed decisions supported by survey and a robust feedback mechanism for quicker assimilation in the organization.

Extending the digital journey to wellbeing has been another big achievement during the year for bank. Bank revamped the digital portal for wellness to another mobile first solution. The platforms aids to bring the focus on physical and mental wellbeing of the employees. Along with app-based interactions, wellbeing camps were organized through the year around areas of awareness about health risk, prevention plans in form of tests, vaccinations, and tracking of health parameters & wellbeing – both physical and mental. Aligning to appeal the millennial employees various contemporary fitness forms of dance, yoga, fitness sessions, runners group etc. were organized.

With “Kona Kona Kotak” branch network being spread out various online platform for engagement were launched during the year. These has been through the occasions of Independence Day, Republic Day and other regional festivals. One of the unique engagement plan the Bank had launched during the month of March was Make March Memorable. It covered interventions to promote appreciation, happiness flash mobs and Women’s Week celebrations.

With Kotak Group turning 33 years old, "I am 33, I am Kotak" program was launched for employees for sharing their experience about their association with Kotak. Top 33 stories were shortlisted and these employees had an opportunity to interact with the Leadership.

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 organization.

Talent Building for future ready workforce has been Bank's focus since couple of years. Gearing up mid to senior level employees for the digital disruptive environment through the Digital Blurr program has been focus for the year along with design thinking programs & Digi-talk interactions. Mobilizing internal talent to take up mid to senior leadership position has been the Bank's agenda, while external hiring continued to supply talent for frontline roles.

Organization structure and spans have been focus for last few years and bank has made further investments in evaluating effectiveness of the organization structure to provide for effective decision-making and career management for senior leaders in the organization. Bank also invested in various assessment and psychometric tools for evaluating candidates on culture fit and competency requirement based on the role they have been hired. The journey has been made to evaluate the skill / competency gaps in the employees to upskill the employee base to required level for enhancing productive workforce.

MEDIUM-TERM AND LONG-TERM STRATEGY

Expanding market share in Indian financial services with established offerings

The Group aims to expand its market share in Indian financial services by increasing the customer base across the Group. The Bank will continue to be the main customer acquisition engine and the Group aims to leverage customer growth achieved at the Bank by offering banking customers products and services offered by its other businesses. To drive growth at the Bank, the focus is particularly on its digital platforms, such as "811" mobile application, to target the mass markets across India. The Group believes that digital offerings will position it 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 1,500 branches across India as of 31st March, 2019, the Group has a widespread distribution network, through which it can offer products and services to a broad range of customers while maintaining profitability. The Group plans to have a measured growth of its branch network. Value creation rather than size alone will be our business driver.

The diversification across financial products and services, coupled with its organizational structure and culture, provides the Group with an ability to offer various products and services from across businesses for expanding the base of banking customers. The Group believes that this will position it well to increase the proportion of customers' total spending that it captures.

The insurance business has been growing through a multi-pronged strategy of entering new geographical markets, cross-selling to the Group's customer base, introducing new products to cater to underpenetrated customer segments, increase the number of insurance advisers licensed and tying up with new distributors.

In the asset management business, the focus has been to deepen penetration through increased distribution tie-ups across channels, increasing accounts under the regular saving SIPs and further improving the performance of existing funds. As a result, the consolidated Assets under management has grown from ₹ 182,519 crore for 31st March, 2018 to ₹ 225,274 crore for 31st March, 2019, including insurance and alternate investments. These initiatives are expected to help increase the customer base further and also aid in increasing the AUM.

Kotak Securities, the stockbroking subsidiary, has worked with the Bank to leverage on the bank's 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 onboarding. 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, the Group aims to increase its market share by continuing to focus on its competitive strengths, including strong brand and extensive network, to increase market penetration. It also aims to deepen market penetration by pursuing new opportunities in commercial, corporate and retail lending businesses, as well as by growing the various non-banking businesses.

Within the banking business, it aims to continue harnessing synergies provided by the eIVBL merger to increase its strength in Business Banking and to grow the corporate loan book. In addition, the Group has set up an infrastructure debt financing company to increase the corporate loan book through avenues such as infrastructure lending. The Group has made an entry into the area of consumer durable finance, which it believes holds significant growth potential given increasing household disposable incomes and increased awareness. Moreover, the group aims to expand the international presence through an increased focus on international lending portfolio, through international banking unit in GIFT City and through the opening of an overseas bank branch in Dubai, for which it has received an in-principle approval from RBI and has submitted an application for the same to the Dubai Financial Services Authority, which is under their consideration.

The Group aims to be amongst the most trusted financial services company. It has created an ethos of trust across all its constituents. The Group believes that adhering to high standards of compliance and corporate governance is an integral part of building trust.

The Group is not just focused on increasing market penetration in the banking business. It also aims to increase the share of contribution from complementary non-banking businesses, such as insurance and securities broking.

The Group sees an immense opportunity in the under-penetrated insurance space. The insurance business is well poised to capitalise on the same. It is targeting higher growth through a planned foray into new geographies and customer segments, introducing new tools for improving front-line productivity and retention, increased numbers of insurance advisors licensed and new distribution tie-ups.

Leverage strong standing to pursue inorganic opportunities
The Group will actively seek 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, the Group will seek inorganic growth opportunities in businesses or assets that are aligned to its business across product and service lines. The Group will pursue these inorganic growth opportunities where it sees the ability to add value for the stakeholders and customers and also grows its footprint across the Indian banking and financial services chain. For example, from time-to-time in the past the Group has acquired portfolios from other banks, such as international banks exiting their India businesses, to expand its deposit and loan portfolios. The Group also acquired BSS Microfinance Limited, which was in the business of microfinance. The Group will also seek out partners and investors for particular businesses and asset classes to diversify the risk of launching new businesses and also benefit from the expertise or track record of such partners and investors in these businesses.

The Group believes that the successful integration of eIVBL demonstrates its strong ability to execute complex and large transactions.

Capitalize on opportunities arising from the increase in NPAs and stressed assets in the Indian banking industry
In recent years, the level of NPAs and stressed assets across the Indian banking sector has risen substantially. RBI has, post its asset quality review in 2015, introduced various guidelines to banks on ways to handle stressed assets and methods to improve the financial condition of banks. These guidelines cover different aspects such as revisions in rules pertaining to the sale of NPAs, restructuring of stressed assets and availability of data on industry level position of stressed assets. The Bank is among the few banks in India to buy NPAs from other banks and financial institutions and considers opportunities in the stressed assets space to be of interest. It believes that there could be strategic investment opportunities in the form of setting up and operating an entity focused on purchasing and restructuring of these portfolios. It has and will actively seek out and look to participate in this opportunity either on its own or with a consortium of banks and investors. The Group is evaluating opportunities to invest in the proposed bad loan asset management company.

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

The Group is continuously investing in technology as a means of improving the customers' experience, offering them a range of products tailored to their financial needs and making it easier for them to interact with the Group. It 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. It believes additional investments in technology infrastructure to further develop the digital strategy will allow it to cross-sell a wider range of products on its digital platform in response to customers' needs and thereby expand its relationship with customers across a range of customer segments. The Group believes 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, it believes that investments in internal systems and security technology lead to enhanced customer satisfaction, and therefore enhances its competitiveness. Accordingly, the Group is continuing to invest in technology in order to improve its 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 the Board. It is also continuing to invest in cybersecurity network and privacy protection systems, in order to supplement the growth and increase the robustness of its 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;

- Expanding market share in Indian financial services by increasing the customer base across the group;
- 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 and
- Financial inclusion.

Threats

- Volatile external and global environment;
- Threat of fraud and cyber attacks;
- 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 last few years, 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 2020 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 actively seek 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.