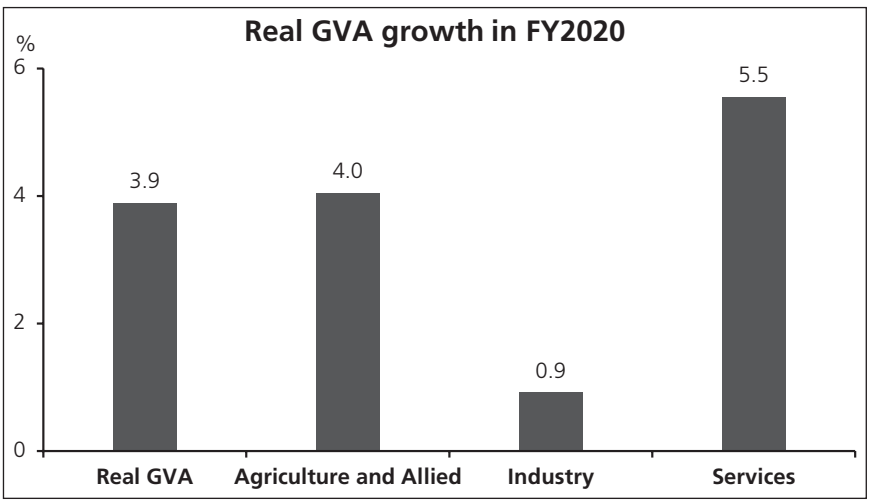
Management's Discussion and Analysis

MACRO-ECONOMIC ENVIRONMENT

India's macro fundamentals in FY 2020 were hampered by deterioration in investment and a sharp moderation in consumption spending along with uncertainties from the external environment. The IMF expects the global GDP growth to have weakened to 2.9% in 2019, declining from 3.6% in 2018 arising from a geographically broad-based decline in manufacturing activity owing to trade tensions between China and the USA. Even though uncertainties relating to US-China trade relations and Brexit has receded by the end of 2019, the COVID-19 pandemic has taken over in 2020. On the domestic front, while agrarian stress and the NBFC related stress were responsible for the weakness in consumption, investment remained weak owing to low capacity utilization, weakness in demand, and overleverage in the corporate sector. The balance sheets of the four key economic agents (corporate sector, financial sector including banks and NBFCs, government and quasi government agencies, and households) remain weak or have seen only marginal improvement. The problem which had started in 2012-13 as a corporate and bank balance sheet issue has become more broad–based with other NBFCs and HFCs also reeling under pressure. A slowing economy prompted the government to announce a slew of measures to pump up economic activity. The government reduced the base corporate tax rate to 22% from 30% for domestic companies and proposed a competitive 15% rate for new manufacturing units in September 2019. The government also reduced the GST rates, and announced measures to boost rural and infrastructure spending. The RBI also cut the policy rate sharply given the benign growth-inflation mix that existed for the large part of FY 2020. While economic activity was beginning to show some signs of improvement in the early 2020, the lockdown imposed to contain the spread of COVID-19 has dented economic activity sharply. Weaker global growth will also affect India's external sector performance. The lockdown to contain COVID-19 was accompanied by a tightening of financial conditions and since then the RBI has taken several measures to keep the finance flowing into the system.

As per the latest estimates, FY 2020 GDP growth moderated to 4.2% (as against 6.1% in FY 2019). On a value added basis, the real Gross Value Added (GVA) growth stood at 3.9% for FY 2020 as against 6% in FY 2019. Industrial sector growth softened to 0.9% in FY 2020 in comparison to 4.9% in FY 2019, and services sector growth slowed to 5.5% as against 7.7% in FY 2019. Agriculture and allied activities sector growth improved to 4% from 2.4% in FY 2019. On the expenditure side, private consumption growth moderated to a decade low of 5.3%, and investment growth contracted by (-)2.8%, the first contraction seen since FY 2003.

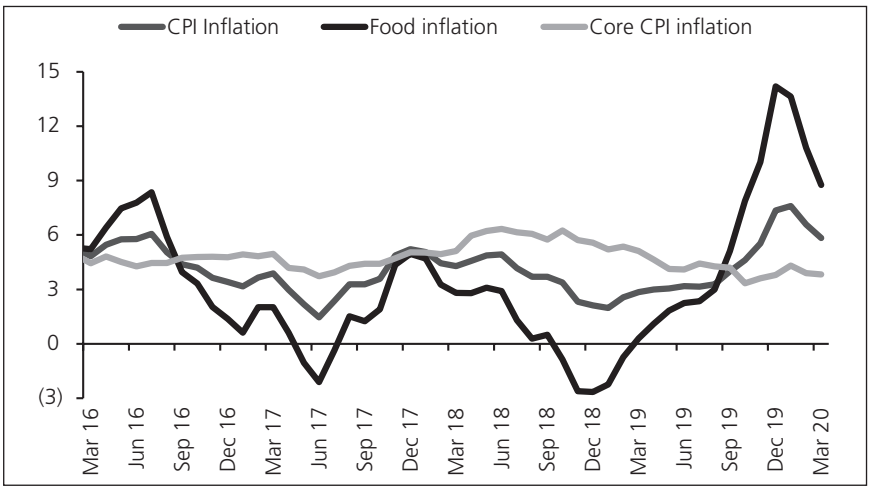


Source: CSO, Kotak Economic Research

Domestic Price Dynamics

The domestic price pressures were relatively contained in the first half of FY 2020 before spiking in the second half on account of higher food inflation. CPI inflation ranged between 3-7.6% and averaged 4.8% in FY 2020 as against 3.4% in FY 2019. The headline CPI inflation breached the upper tolerance ceiling of 6% by December 2019 and peaked at 7.6% in January 2020 before moderating to 5.8% in March 2020. Food inflation had primarily been spurred by vegetables owing to uneven distribution of rainfall and floods in certain regions. It, however, started to ease from January with the arrival of the Kharif produce. Food inflation ranged between 1.1-14.2% in FY 2020, with the March reading coming in at 8.8%. Meanwhile, core inflation has broadly remained under check given the tepid demand, even though the telecom tariff hike provided some upside for a few months. Sharp rise in gold prices owing to global growth uncertainty prevented core inflation from falling further. While the pass-through of collapse in international crude oil prices to domestic pump prices is still unfolding, its extent has been tempered by increases in excise duty/cess on petrol and diesel.

CPI inflation has started moderating owing to softening of food prices



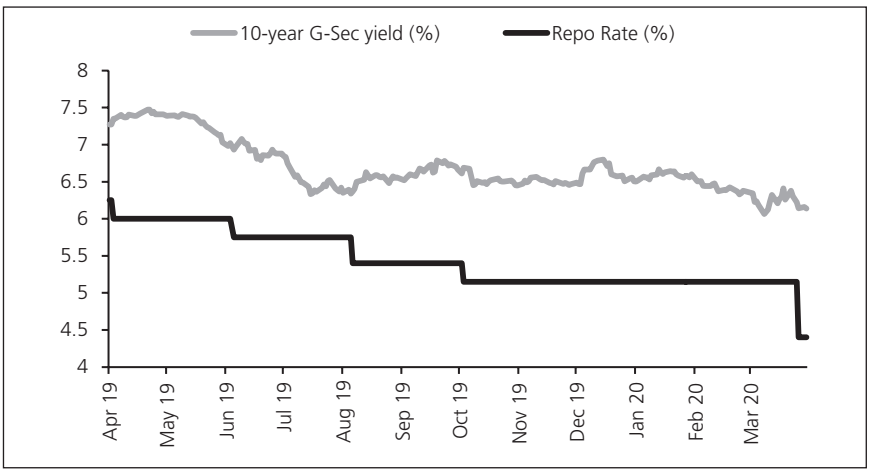
Source: CEIC, Kotak Economic Research

Monetary Policy and Interest Rates

In response to the decelerating growth, the RBI cut the repo rate significantly and undertook many liquidity related measures. In addition to OMOs, the RBI added FX USD-INR swaps, simultaneous purchase and sale of government securities under special OMOs, LTROs and TLTROs to its management repertoire. With inflation well under the RBI's comfort zone of 4% in the first half of FY 2020, the RBI delivered four interest rate cuts amounting to 110 bps until October. However, a sharp spike in food prices deterred the MPC from cutting rates further in the December and February policy. While domestic demand conditions continued to weaken, inflation rose sharply and breached the upper tolerance level of 6% from December 2019 till February 2020. The MPC therefore decided to keep interest rates unchanged, although it voted to retain the accommodative stance as long as necessary to revive growth. In its off-cycle meeting in March, the MPC noted that macroeconomic risks from the pandemic could be severe, both on the demand and supply sides, and stressed upon the need to do whatever is necessary to shield the domestic economy from the impact of the pandemic. The MPC reduced the policy repo rate by 75 bps to 4.4% of 75 bps and further eased the reverse repo rate by 90 bps to disincentivise banks from parking surplus with RBI. In the last few months, the RBI has also undertaken several measures to further improve liquidity, monetary transmission and credit flows to the economy, and provided relief on debt servicing

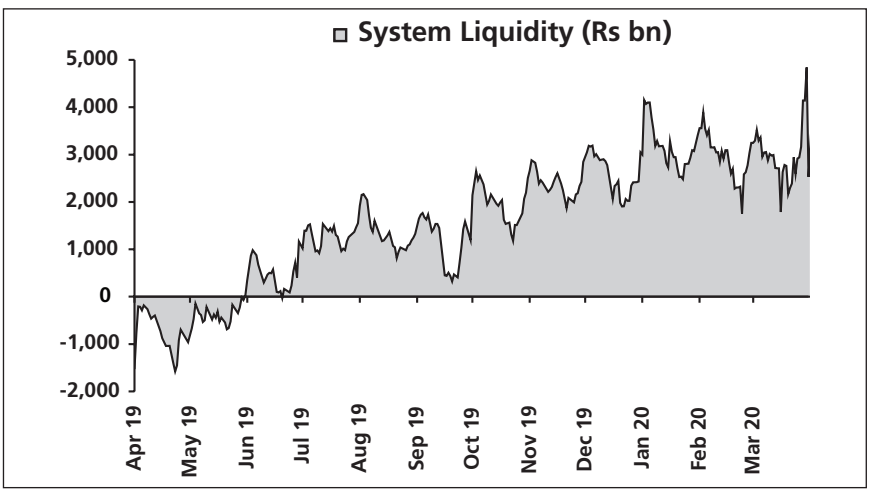
With respect to rates, bond markets benefited from the RBI's rate cut cycle and its intent to keep liquidity comfortably in surplus. Expectations of rate cuts in response to the benign growth-inflation mix, MPC's accommodative stance, RBI's surplus transfer, OMO purchases worth ₹ 525 billion, lower oil prices owing to heightened trade tensions, and positive sentiments arising from political stability after the comfortable victory of the ruling party supported the bond markets for most part of H1FY20. However, markets came under some stress from August owing to concerns of fiscal slippage arising from anticipation of a stimulus, and corporate tax rate cuts. MPC's decision to keep rates unchanged in December along with FPI selling owing to a pessimistic growth outlook further led to a rise in yields. Markets however got a respite later in December when special OMOs were announced. Markets also got a positive surprise after the Union Budget when the government refrained from additional market borrowing for FY 2020, despite an upward revision in the projected fiscal deficit. The announcement of long term repo operations (LTROs) to infuse additional liquidity at the policy rate also supported yields. However, sentiments have been dented after the outbreak of COVID-19 in anticipation of a strong fiscal policy response. Even though the MPC has cut the policy rate by 75 bps, yields at the longer end remain firm. The government has announced a record borrowing of ₹ 7.8 trillion for FY 2021 to meet its spending requirements. It has frontloaded its borrowing program to 62.6% of the total budgeted issuance, keeping open the option of additional borrowing (over the budgeted) in H2FY21.

The spread between Repo rate and Benchmark G-sec yield remains high owing to fiscal concerns



Source: Bloomberg, Kotak Economic Research

The system liquidity remains well in surplus



Source: RBI, Kotak Economic Research

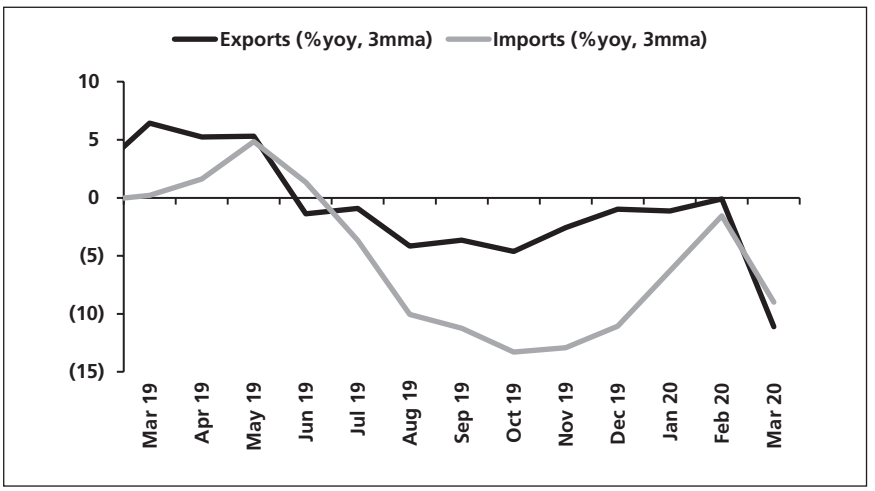
External Sector Dynamics and the USD/INR

The overall external position remains comfortable with the current account deficit well below the 3% of GDP threshold, beyond which vulnerability emerges. As per RBI data, for the first nine months of FY 2020, the current account deficit is at 1%, with the Q3FY20 print reporting a deficit of mere 0.2%. While export growth has been weak owing to weak global demand, imports have contracted at a sharper pace owing to the fall in oil prices and weak domestic demand. Meanwhile, the capital account surplus rose to 2.9% of GDP in 9MFY20 as against 1.7% in 9MFY19 on account of stronger foreign investment. Portfolio investment recorded a net inflow of US$ 15.1 billion in 9MFY20 as against an outflow of US$ 11.9 billion a year ago. Global financial markets, which remained buoyant on risk-on sentiments in Q4FY19, became volatile in early 2020 on sell-off pressures triggered by intensifying COVID-19 disruptions. India's portfolio flows recorded a sharp reversal in March with net outflows at US$16.6 billion compared to a net inflow of US$8.4 billion in 11MFY20. Forex reserves, although, have remained comfortable at US$475 billion by end of March 2020.

INR had a stable start to FY 2020 owing to expectations of policy continuity after the strong mandate of the incumbent government and expectations of major economic reforms. While sentiments had been dented after the July budget in which the government raised the FPI surcharge and did not announce any major measures to support the decelerating economic activity, corporate tax rate cuts and other measures announced later to support economic activity led to a revival in FPI flows. Accommodative policy of DM central banks and receding of trade tensions also supported the INR sentiments. The outbreak of COVID-19 has however triggered a sell-off across all risky assets and INR was no

exception. While many global central banks have eased their monetary policy significantly, including the Fed which has already cut rates by 150 bps in March 2020, RBI has had to intervene aggressively in the FX market to avoid sharp depreciation in INR. INR moved in a range of 68.29-76.28 during FY2020. Robust current account external conditions have aided sharp sell-off in INR.

Imports have contracted at a sharper pace



Source: Bloomberg, Kotak Economic Research

After a stable range in 9MFY20, INR came under pressure towards the end of FY2020

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 (as amended).

The novel coronavirus (COVID-19) pandemic continues to spread rapidly across the globe including India. On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. COVID-19 has taken its toll on not just human life, but business and financial markets too, the extent of which is currently indeterminable. Various governments, civil society and many organisations, including

the Bank, have introduced a variety of measures to contain the spread of the virus to protect lives and livelihood. On March 24, 2020, the Indian government announced a strict 21-day lockdown which was further extended on three occasions (up to May 31, 2020) to contain the spread of the virus. On 30th May, 2020, it was announced that the ongoing lockdown would be further extended till 30th June, 2020 in containment zones, with services resuming in a phased manner starting from 8th June, 2020. There is a high level of uncertainty about the time required for things to get normal. The extent to which COVID-19 pandemic will impact the Bank's operations and financial results is dependent on the future developments, which are highly uncertain, including among the other things any new information concerning the severity of the pandemic and any action to contain its spread or mitigate its impact whether government mandated or elected by the Bank.

The Group has made detailed assessment of its liquidity position for the next one year which factors uncertainties due to the current situation resulting in possible reduction in future fee income, delays in receipt of interest income, potential increase in credit risk on loans and advances portfolio.

The Group has further assessed the recoverability and carrying value of its assets comprising Investments, Advances, Fixed assets and Other assets as at balance sheet date, and has concluded that there are no material adjustments required in the financial statements, other than those already considered. Management believes that it has taken into account all the possible impact of known events arising from COVID-19 pandemic in the preparation of these financial statements. However, the impact assessment of COVID-19 is a continuing process given the uncertainties associated with its nature and duration. The Group will continue to monitor any material changes to future economic conditions.

The Group made a general provision of ₹ 714 crore relating to COVID-19 of which ₹ 650 crore pertains to standalone Bank.

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

The entity wise capital and reserves of the Group is as follows:

(₹ in crore)

Particulars	31st March, 2020	31st March, 2019
Kotak Mahindra Bank	49,015.3	42,898.4
Kotak Mahindra Prime	6,088.4	5,415.5
Kotak Mahindra Investments	1,859.6	1,589.5
Kotak Securities	4,528.8	3,978.8
Kotak Mahindra Capital Company	622.0	571.9
Kotak Mahindra Life Insurance	3,353.5	2,745.4
Kotak Mahindra General Insurance	164.7	107.8
Kotak Mahindra AMC & Trustee Co	886.4	582.9
Kotak Infrastructure Debt Fund	383.8	349.9
International Subsidiaries	1,229.6	1,008.8
Kotak Investment Advisors	364.8	355.1
Other Entities	275.7	213.5
Total	**68,772.6**	**59,817.5**
Add: Share in Affiliates	941.6	942.3
Less: Consolidated adjustments	2,580.1	2,480.1
Consolidated Capital and Reserves*	**67,134.1**	**58,279.7**

**Includes Preference Share Capital*

The Bank had got shareholders' approval for an issuance of upto 65 million equity shares. On 30th May, 2020, the Bank issued and allotted 6.5 crore equity shares to the eligible qualified institutional buyers at an issue price of ₹ 1,145 per equity share, aggregating to ₹ 7,442.5 crore pursuant to the Issue.

The consolidated performance for FY 2020 is as follows:

(₹ in crore)

Particulars	FY 2020	FY 2019
Total Income	50,365.7	45,979.1
Consolidated PAT	8,593.4	7,204.1
Consolidated Capital and Reserves	67,134.1	58,279.7
Key Ratios		
Return on average assets (RoAA) %	2.10%	1.99%
Return on average networth %	13.75%	13.28%
Earnings per equity share (diluted) (₹)	44.7	37.6
Book-value per equity share (₹)	348.3	302.7
Net interest margin (NIM) %	4.59%	4.24%
Gross NPA %	2.16%	1.94%
Net NPA %	0.70%	0.70%
Consolidated Capital Adequacy Ratio (CAR) %*	19.77%	17.89%
Tier I*	19.21%	17.45%

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

The Group had capital and reserves of ₹ 67,134.1 crore as on 31st March, 2020 (₹ 58,279.7 crore as on 31st March, 2019) and networth of ₹ 66,634.1 crore as on 31st March, 2020 (₹ 57,779.7 crore as on 31st March, 2019). The book value per equity share was at ₹ 348 as on 31st March, 2020 (₹ 303 as on 31st March, 2019), which increased to ₹ 374 post the capital raise in May 2020, net of issue expenses. The Group earned a Return on Average Assets (RoAA) of 2.10% in FY 2020 (1.99% in FY 2019). The Group's return on average networth was 13.75% for FY 2020 compared to 13.28% for FY 2019. The Bank has been conservative and has been maintaining high capital adequacy ratio which results in low return on equity.

The Bank and most of its subsidiaries have elected to exercise the option permitted under section 115BAA of the Income-tax Act, 1961 introduced by the Taxation Laws (Amendment) Act, 2019, during the fiscal year 2020, resulting in lower tax expense during FY 2020. 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)

Particulars	FY 2020		FY 2019	
	PBT	PAT	PBT	PAT
Kotak Mahindra Bank	7,804.7	5,947.2	7,385.8	4,865.3
Kotak Mahindra Prime	923.4	673.1	905.1	599.3
Kotak Mahindra Investments	368.5	270.1	315.6	207.0
Kotak Securities	738.4	550.0	680.4	451.9
Kotak Mahindra Capital Company	107.6	79.1	92.9	63.1
Kotak Mahindra Life Insurance	839.1	608.2	590.8	507.2
Kotak Mahindra General Insurance	(28.1)	(28.1)	(34.9)	(34.9)
Kotak Mahindra AMC & Trustee Co	454.3	336.8	387.6	254.5
Kotak Infrastructure Debt Fund	34.0	34.0	25.6	25.6
International Subsidiaries	138.8	118.8	170.3	148.2
BSS Microfinance	78.9	59.3	79.2	55.7
Others	16.2	12.6	20.8	20.3
Total	**11,475.8**	**8,661.1**	**10,619.2**	**7,163.2**
Add: Share from Affiliates		(13.7)		84.4
Less: Consolidated adjustments		54.0		43.5
Consolidated PAT		**8,593.4**		**7,204.1**

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 2020
ECA Trading Services Limited^	23.8	20.00%	0.4
Infina Finance Pvt Ltd	1.1	49.99%	(8.4)
Phoenix ARC Pvt Ltd	100.0	49.90%	(5.8)
Matrix Business Services India Pvt Ltd*	1.9	19.77%	0.1

^ Formerly known as ACE Derivatives & Commodity Exchange Limited. The Group has reduced its stake in ECA Trading Services Limited, an Associate company, from 40% to 20% on 18th March, 2020

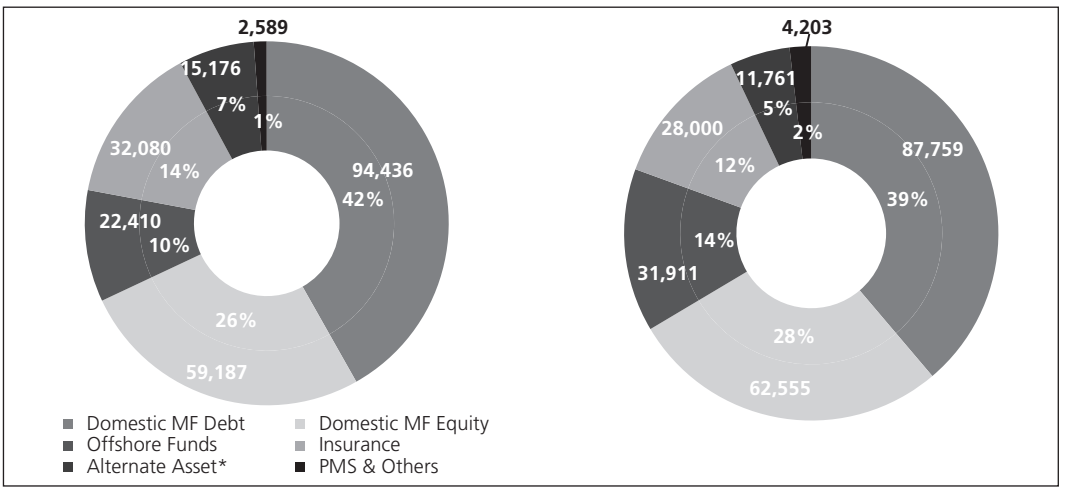
** The Group has sold its entire stake in Matrix Business Services India Private Limited on 26th April, 2019 and accordingly it has ceased to be an associate of the Group from that date*

Assets under Management (AUM) as on 31st March, 2020 were ₹ 225,878 crore (₹ 226,189 crore as on 31st March, 2019), comprising assets managed and advised by the Group.

Relationship value of Wealth, Priority and Investment Advisory business was ~ ₹ 270,000 crore as on 31st March, 2020 (~ ₹ 270,000 crore as on 31st March, 2019).

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

AUM - ₹ 225,878 crore – 31st March, 2020 **AUM - ₹ 226,189 crore – 31st March, 2019**



**including undrawn commitments, wherever applicable*

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 Bank has also started its operations in October 2019 at its first overseas branch at the 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 and also undertakes asset liability management as well as proprietary trading for the Bank.

Profit before tax of the Bank for FY 2020 was ₹ 7,804.7 crore as against ₹ 7,385.8 crore for FY 2019. Profit after tax of the Bank was ₹ 5,947.2 crore in FY 2020 compared with ₹ 4,865.3 crore in FY 2019. RoAA for FY 2020 was 1.87% compared to 1.69% for FY 2019.

PROFIT AND LOSS ACCOUNT

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

(₹ in crore)

Particulars	FY 2020	FY 2019
Net interest income	13,499.7	11,205.8
Other income	5,372.1	4,657.2
Net total income	**18,871.8**	**15,863.0**
Employee cost	3,877.6	3,159.4
Other operating expenses	4,973.3	4,355.4
Operating expenditure	**8,850.9**	**7,514.8**
Operating profit	**10,020.9**	**8,348.2**
Provision & contingencies (net)	**2,216.2**	**962.4**
- Provision on advances (net)	1,470.8	965.0
- General provision COVID-19 related	650.0	-
- Provision on other receivables	5.3	11.1
- Provision on investments	90.1	(13.7)
PBT	**7,804.7**	**7,385.8**
Provision for tax	1,857.5	2,520.5
PAT	**5,947.2**	**4,865.3**

Net Interest Income:

Net Interest Income (NII) of the Bank for FY 2020 was ₹ 13,499.7 crore compared to ₹ 11,205.8 crore for FY 2019. The Bank had a Net Interest Margin (NIM), excluding dividend income and interest on income-tax refund, of 4.6% for FY 2020 compared to 4.3% for FY 2019. During the year:

- The average interest earning assets increased by 12.5% from ₹ 259,174 crore for FY 2019 to ₹ 291,599 crore for FY 2020. Yield on earning assets improved marginally and remained at 9.2% in FY 2020.
- Cost of funds decreased from 5.5% in FY 2019 to 5.2% in FY 2020 primarily due to decrease in rates offered on savings account deposits and term deposits, resulting in a decrease in cost of deposits. The average CASA balances increased from ₹ 99,731 crore in FY 2019 to ₹ 119,355 crore in FY 2020, whereas the average borrowings decreased from ₹ 28,855 crore in FY 2019 to ₹ 25,825 crore in FY 2020.

Non-Interest Income:

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

(₹ in crore)

Particulars	FY 2020	FY 2019
Commission, exchange and brokerage	3,779.3	3,443.9
Profit on sale of investments	483.1	70.9
Profit on exchange on transactions (net) (including derivatives)	675.9	738.3
Profit on recoveries of non-performing assets acquired	148.5	179.7
Income from subsidiaries/associates towards shared services	89.6	82.4
Dividend from subsidiaries	51.8	45.1
Others	143.9	96.9
Total other income	**5,372.1**	**4,657.2**

Non-interest income increased from ₹ 4,657.2 crore in FY 2019 to ₹ 5,372.1 crore in FY 2020 primarily due to:

- Increase in commission, exchange and brokerage income primarily on account of increase in direct banking fees and charges, credit card fees and branch banking 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 and other referral fees;
- Profit on sale of investments increased primarily due to increase in profit on sale of Government Securities;
- Increase in others is primarily due to higher subvention income and higher income received from sale of Priority Sector Lending (PSL) certificates

This was offset, in part, by

- Decrease in Profit on exchange on transactions (net) (including derivatives) compared to previous year

Employee Cost

Employee cost of the Bank has increased to ₹ 3,877.6 crore for FY 2020 compared to ₹ 3,159.4 crore for FY 2019 primarily due to increase in employee base to ~ 50,000 as on 31st March, 2020 from ~ 41,900 as on 31st March, 2019, employee incentives and increase in retirement obligations. The retirement obligation relating to pension and gratuity increased mainly due to decrease in interest rates, increase in annuity rates by LIC and decrease in fair value of pension and gratuity fund.

Other Operating Expenses

(₹ in crore)

Particulars	FY 2020	FY 2019
Rent, taxes and lighting	677.9	628.1
Printing and Stationery	83.5	91.4
Advertisement, Publicity and Promotion	121.2	119.5
Depreciation on Bank's property	371.9	366.9
Directors' fees, allowances and expenses	1.8	1.6
Auditors' fees and expenses	2.4	2.4
Law Charges	51.7	50.5
Postage, telephone etc.	174.0	168.7
Repairs and maintenance	444.2	399.6
Insurance	233.4	201.2
Travel and Conveyance	98.0	103.9
Professional Charges	916.3	793.6
Brokerage	292.1	280.0
Stamping Expenses	12.7	12.8
Other Expenditure	1,522.2	1,166.7
Reimbursement from Group companies	(30.2)	(31.5)
Total	**4,973.1**	**4,355.4**

Other operating expenses were ₹ 4,973.1 crore for FY 2020 compared to ₹ 4,355.4 crore for FY 2019, primarily due to:

- 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:
    - Increase in credit card expenses mainly due to higher POS expenses, e-Comm acquiring business cost and increase in volume of card transactions;
    - Increase in recovery expenses to improve collections and recoveries;
    - Increase in GST input credit write-off
    - Higher CSR expenses

The Bank's Cost to Income ratio was at 46.9% for FY 2020 as compared to 47.4% for FY 2019.

Provisions and Contingencies (excluding tax)

Provisions and contingencies (excluding tax) were ₹ 2,216.2 crore for FY 2020 compared to ₹ 962.4 crore for FY 2019 primarily due to higher specific provision on loans, standard asset provisions and provision on investments in FY 2020. Provision on advances increased by ₹ 1,155.8 crore, which includes a general provision- COVID related of ₹ 650.0 crore, and provision on investments increased by ₹ 103.9 crore respectively.

The Bank has made a general provision of ₹ 650.0 crore relating to COVID-19 which is higher than required by RBI. ~26% of borrowers by value at account level have availed moratorium upto 30th April, 2020. The provision is made at ~ 10% at account level for the amounts overdue as on 29th February, 2020 and moratorium availed upto 30th April, 2020.

Credit cost on Advances was 97 bps for FY 2020 compared to 47 bps for FY 2019.

Provision for tax

Provision for tax decreased from ₹ 2,520.5 crore for FY 2019 compared to ₹ 1,857.5 crore for FY 2020 primarily due to decrease in corporate tax rates as Bank opted to exercise option of a lower tax rate, offset, in part, by higher profits in FY 2020.

BALANCE SHEET

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

(₹ in crore)

Liabilities	31st March, 2020	31st March, 2019
Capital and Reserves	49,015.3	42,898.4
Deposits	262,820.5	225,880.4
- *Current Account Deposits (CA)*	*43,012.7*	*38,901.0*
- *Savings Account Deposits (SA)*	*104,608.6*	*79,684.7*
- *Term Deposits (TD) Sweeps*	*17,467.3*	*14,776.6*
- *Other TDs*	*97,731.9*	*92,518.1*
Borrowings	37,993.3	32,248.3
Other Liabilities and Provisions	10,422.6	11,145.0
Total	**360,251.7**	**312,172.1**

(₹ in crore)

Assets	31st March, 2020	31st March, 2019
Cash and Bank Balances	53,292.3	24,675.5
Investments	75,051.5	71,189.1
- *Government Securities*	*61,905.6*	*58,063.0*
- *Other Securities*	*13,145.9*	*13,126.1*
Advances	219,748.2	205,694.8
Fixed Assets and Other Assets	12,159.7	10,612.7
Total	**360,251.7**	**312,172.1**

The Bank's capital adequacy continue to be healthy with overall CRAR at 17.9% (Tier I ratio of 17.3%) as compared to 17.5% (Tier I ratio of 16.9%) as on 31st March, 2019.

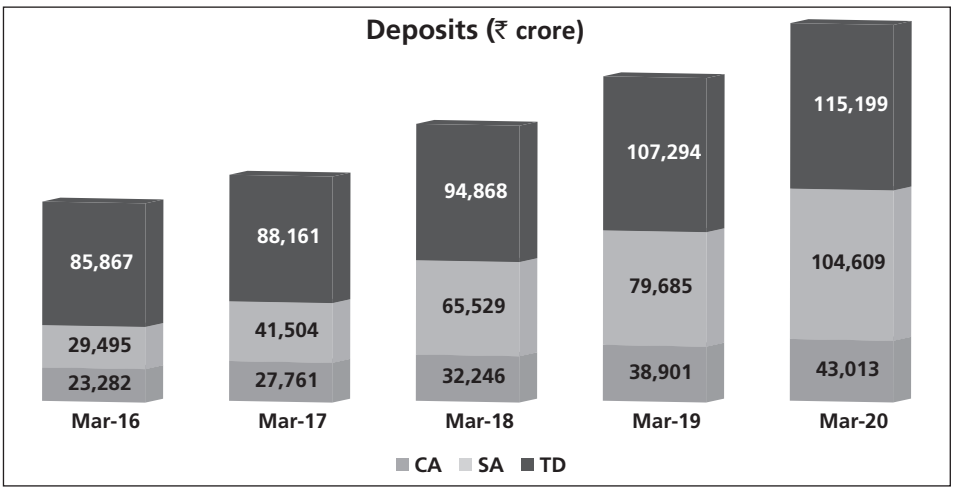
Deposits

The fundamental philosophy of the Bank's strategy is to build low cost and stable liability franchise on which the Bank has been working over the past few years. The Bank's deposits grew to ₹ 262,820.5 crore as on 31st March, 2020 compared to ₹ 225,880.4 crore as on 31st March, 2019. CASA deposits increased to ₹ 147,621.3 crore as on 31st March, 2020 to ₹ 118,585.7 crore as on 31st March, 2019. CASA ratio stood at 56.2% as on 31st March, 2020 compared to 52.5% as on 31st March, 2019.

Savings account deposits grew by 31.3% to ₹ 104,608.6 crore and Current account deposits grew by 10.6% to ₹ 43,012.7 crore. Total Term deposits, including certificate of deposits, grew by 7.4% to ₹ 115,199.2 crore. Certificate of deposits degrew by 54.7% from ₹ 9,730.8 crore as on 31st March, 2019 to ₹ 4,411.7 crore as on 31st March, 2020.

During FY 2020, average SA increased by 20.7% to ₹ 85,656.3 crore in FY 2020 compared to ₹ 70,989.6 crore in FY 2019 and average CA increased by 17.2% to ₹ 33,699.2 crore in FY 2020 from ₹ 28,741.5 crore in FY 2019. CASA ratio stood at 56.2% as on 31st March, 2020 compared to 52.5% as on 31st March, 2019.

CASA plus term deposits below ₹ 5 crore, account for 86% of the total deposits.



Advances

The classification of advances of the Bank is as follows:

(₹ in crore)

	31st March, 2020	31st March, 2019
Corporate & Business Banking	84,854.6	80,104.1
Commercial Vehicles & Construction Equipment (CV/CE)	19,253.1	19,705.8
Agriculture Division – Others	21,188.5	20,624.9
Tractor Finance	7,568.6	6,366.5
Home Loans and Loan Against Property (LAP)	46,880.7	40,721.6
Consumer Bank Working Capital (Secured)	19,838.8	19,350.1
Personal Loans, Business Loans & Consumer Durables	9,754.2	9,001.2
Credit Cards	4,700.6	4,103.1
Other Loans	5,709.1	5,717.5
Total	**219,748.2**	**205,694.8**

Advances grew at 6.8% to ₹ 219,748.2 crore as on 31st March, 2020 compared to ₹ 205,694.8 crore as on 31st March, 2019. The slow growth of advances was primarily due to conservative approach of the Group, lockdown impact due to COVID-19 towards the end of the year and subdued economic activity. However, the growth in Advances was primarily due to:

- Corporate Banking book as a result of the Bank's focus on growing its corporate loan portfolio to better rated corporates and
- Home loans & LAP, Tractor Finance and Credit Cards as a result of a general increase in demand in these segments

The Bank's credit deposit ratio stood at 83.6% as of 31st March, 2020 vs. 91.1% as of 31st March, 2019.

Asset Quality

While there has been some stress in segments such as Personal Loans, Business Loans & Consumer Durables, Working Capital, Credit cards, CV/CE and Agriculture division, the Bank has an overall healthy asset quality.

The position of Gross and Net NPA is as under:

(₹ in crore)

Particulars	31st March, 2020	31st March, 2019
Gross NPA	5,026.9	4,467.9
Gross NPA %	2.25%	2.14%
Net NPA	1,557.9	1,544.4
Net NPA %	0.71%	0.75%

SMA2 outstanding as on 31st March, 2020 was ₹ 96.5 crore (0.04% of net advances) compared to ₹ 137.6 crore (0.07% of net advances) as on 31st March, 2019.

If the Bank had not availed of the benefit of the moratorium granted by the RBI, GNPA as on 31st March, 2020 would have been higher by ~ ₹ 660 crore.

The provision coverage ratio, including technical write off, was 76.3% as of 31st March, 2020 as compared to 71.9% as of 31st March, 2019. Total provisioning towards advances (including specific, standard, COVID related provisions) is higher than the GNPA of the Bank.

Directed Lending

Priority Sector Lending and Investments

The RBI guidelines on priority sector lending require banks to lend 40.0% of their adjusted net bank credit (ANBC), to fund certain types of activities carried out by specified borrowers. Out of the overall target of 40.0%, banks are required to lend a minimum of 18.0% of their ANBC to the agriculture sector. Sub-targets of 8.0% for lending to small & marginal farmers (out of agriculture) and 7.5% lending target to micro-enterprises were introduced from fiscal 2016. Average lending to non-corporate farmers is notified by RBI on basis of the banking system's average level at the beginning of each year. RBI notified a target level of 12.1% of ANBC for this purpose for fiscal 2020 (FY2019: 12.0%). The banks are also required to lend 10.0% of their ANBC to certain borrowers under the 'weaker section' category. Priority sector lending achievement is evaluated on a quarterly average basis.

The shortfall in the amount required to be lent to the priority sectors and weaker sections may be required to be deposited in funds with government sponsored Indian development banks like the National Bank for Agriculture and Rural Development, the Small Industries Development Bank of India, the National Housing Bank, MUDRA Limited and other financial institutions as decided by the RBI from time to time. These deposits have a maturity of up to seven years and carry interest rates lower than market rates. At 31st March, 2020, the Bank's total investment in such bonds was ₹ 5,201.7 crore (31st March, 2019: ₹ 4,734.7 crore), which was fully eligible for consideration in overall priority sector lending achievement.

As prescribed in the RBI guideline, the Bank's priority sector lending achievement is computed on a quarterly average basis. Total average priority sector lending for FY 2020 was ₹ 77,854.5 crore (FY 2019: ₹ 71,251.9 crore) constituting 40.4% (FY 2019: 45.2%) of ANBC, against the requirement of 40.0% of ANBC. The average lending to the agriculture sector was ₹ 30,512.3 crore (FY 2019: ₹ 27,469.4 crore) constituting 15.8% (FY 2019: 17.4%) of ANBC against the requirement of 18.0% of ANBC. The average advances to weaker sections were ₹ 21,073.2 crore (FY 2019: ₹ 18,915.1 crore) constituting 10.9% (FY 2019: 12.0%) of ANBC against the requirement of 10.0% of ANBC. Average lending to small and marginal farmers was ₹ 14,368.6 crore (FY 2019: ₹ 13,266.2 crore) constituting 7.5% (FY 2019: 8.4%) of ANBC against the requirement of 8.0% of ANBC. The average lending to micro enterprises was ₹ 15,107.8 crore (FY 2019: ₹ 13,368.0 crore) constituting 7.8% (FY 2019: 8.5%) of ANBC against the requirement of 7.5% of ANBC. The average lending to non-corporate farmers was ₹ 19,519.2 crore (FY 2019: ₹ 17,580.0 crore) constituting 10.1% (FY 2019: 11.2%) of ANBC against the requirement of 12.1% (FY2019: 12.0% of ANBC). The above includes the impact of PSLCs purchased / sold by the Bank.

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

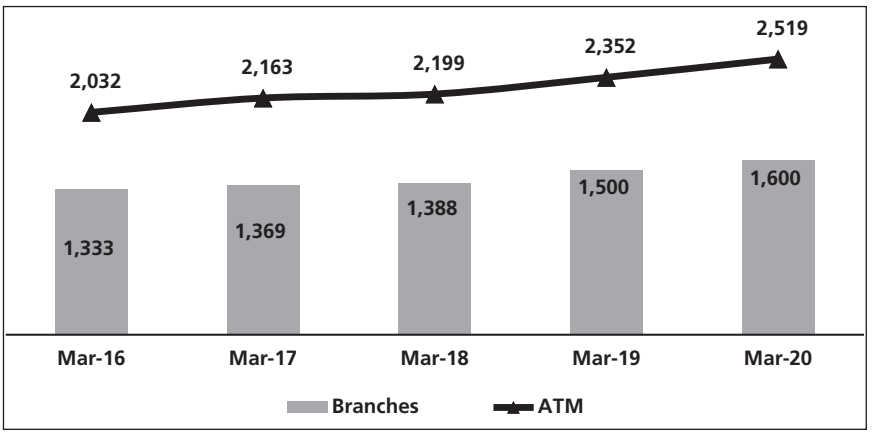
Consumer Banking

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 1,600 branches (excluding GIFT and DIFC) and 2,519 ATMs as on 31st March, 2020.



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.

- Banks investment in the phone based remote engagement through VRM (Virtual Relationship Model) yielded good results and bank has expanded this model and now serves over 0.8 million customers (across 10 languages) and provides them services across banking, deposit, lending and investment needs.
- After the new regulations on Aadhaar based account opening in Oct'2019, Bank has quickly enabled its officers to acquire new customers using Aadhaar based biometric acquisition. Now on monthly basis 30% of the customers (non 811) are acquired digitally using Biometric authentication.
- In order to ensure that banking relationship is also acquired along with start of an asset relationships, bank implemented a biometric process to open accounts for the consumer durable finance customers.
- Bank's exclusive woman oriented Silk program entered into an alliances with Sheros (exclusive for Woman Social Networking Platform with over 14 million users) to extend banking services to the customer base of Sheros. Bank holds live chats for Sheros fraternity where woman from various walks of life can ask and clarify their financial concerns.
- Bank has integrated its services with Ministry of Company Affairs (MCA) and has enabled customers coming to MCA portal for registration of their firm to select and open Current Account with the Bank online from the MCA portal.
- In the Retail Institutional Business, digitisation of payments for traditionally cash based segments like religious institutions was introduced by offering a collection solution based UPI & QR Code. This solution solves collection related requirement of clients and shall help bank to acquire new customers in this segment.
- In the last quarter, Bank launched an exclusive Salary offering for PSU and Govt bodies – this offering comes with exclusive features like Permanent & Partial Disability Cover and Education benefit. With this offering, bank intends to foray in this large salaried segment to increase its mark on salary business.
- For its premium Salary offering, Bank tied up with vHealth by Aetna (Indian Health Organization) and offered Family Health Care Benefits, like free Health Check-up, unlimited Tele-consultation with Doctors and discounts on various Health care benefits.
- Bank has actively taken part in various Financial Inclusion initiatives. It has partnered with multiple Corporate Business Correspondents, and operates with more than 300 customer service points across Chhattisgarh, Karnataka, Tamil Nadu, Andhra Pradesh & Telangana offering banking services and MGNREGA payments to Beneficiaries.
- To enhance the reach and to add convenience to people, Bank successfully set up 145 Aadhaar Enrolment Centres in its branch premises and surpassed the transaction volume mandated by Unique Identification Authority of India (UIDAI). As a result of these efforts, the Bank has been recognized by UIDAI as the Best Performing Private Bank for conducting highest average daily transactions.
- Bank has been awarded, twice, by the Pension Fund Regulatory Authority of India (PFRDA) as Best Performing Private Sector Bank for highest persistency of Atal Pension Yojana (APY) subscribers.

- The Bank is also taking significant leap in digital initiatives. The National Pension System (NPS) has started offering Kotak Mahindra Bank customers with online and paperless journey with e-signature for account opening. The Bank has integrated with the NSDL Website for this seamless journey.
- The Bank has also successfully enabled ASBA Application through UPI mode both as an Issuer Bank and as a Sponsor Bank, thereby reducing the physical movement of Broker ASBA Applications.
- In middle of the unprecedented lockdown due to the COVID-19 situation, Bank helped its Corporates customers to open the salary accounts for their new joinees using the Digital 811 accounts, this helped new joinees across corporates to open their accounts and get their salary credited without delays.

811:

- The Bank continued to ramp up its 811 acquisition numbers this year as well.
- The Bank increased focused on cross selling to these customer using newer digital channel like Whatsapp & Web Notifications as well as focussed on driving Digital channel adoption & transaction to better engage with existing 811 customers.
- The Bank launched the Video KYC initiative for Kotak 811 savings accounts on a pilot basis in May 2020. This initiative allows customers to open a Kotak 811 savings account from their home, following a video call with a bank executive who verifies the customer's KYC documents and records the customer's signature.

II. Customer Convenience

Customer convenience remains the core thread intertwining of the Bank's digital initiatives during the year. This year, Technology was leveraged to deliver customer experience, business efficiency, business collaborations and cybersecurity.

Transformation

- The first Bank in the entire ecosystem to launch the new NPCI eMandate API method as part of the eNACH product as both a Destination Bank as well as a Sponsor Bank which allows for both consumers and corporates associated with Kotak to have a seamless experience in creating/approving recurring payment collection requests via the NPCI eMandate platform.
- The leading Bank on the Bharat Bill Payment System to acquire Billers onto the platform as a Biller Operating Unit. On the digital consumer payments, Kotak continues to serve customers with seamless in-channel payment experiences via Fund Transfers and Bill Payments/Recharges which is the primary transacting channel for most Bank consumers.
- New digital payment methods were introduced for the Bank's customers including UPI 2.0 allowing customers to create one-time mandates and apply for IPOs via the new UPI product enhancement from NPCI.
- In order to serve salaried customer segment of the Bank, a new product "Kotak PayDay Loans" was launched which offers short term single installment loans to customers. Customers can avail the loans instantly during the month by using digital channels. Repayment of the loan is basis the date on which customers get their salary.
- Account opening journey had to undergo change in Nov 2019 basis the revised PMLA guidelines. Besides Branch and Sales channel, other sales units of the bank like Group Relation (GR) team, Consumer Durable group, Housing and Personal Loan users were enabled for this mode of sourcing. Self on boarding for corporate salary customers will also be made live soon.

Net Banking

- Kotak Net Banking experience was further enhanced with features such as Deliverables tracking using KEYA Chatbot, Re-KYC update for low risk customers and option to authenticate using Kotak Mobile Banking App instead of OTP (One Time Password) while logging into Net Banking.

Mobile Banking

- Mobile banking app continues to be one of the highest rated iOS app with 4.8 rating and Android app is at 4.3 rating.
- The App has been made more user friendly and saw improved customer experience with new Billpay, Loan & Insurance section.
- The App also became more comprehensive with new features like Forex card, Premature withdrawal of Fixed Deposit, Payday loan, Fastag, Insurance, Ola, UPI 2.0, Image credit card etc.
- Bank also launched innovative features like 'SIRI' and "Google Assistant" option for fetching account balance using voice command.

Conversational Banking

- Newer channels, Keya Chatbot and WhatsApp Banking, scaled to start making business impact and become mainstream digital channels by handling more products and services.
- WhatsApp has become one of the important channels for the bank to communicate with customers for important communications like welcome kits. Bank is building more such journeys for customers to receive important information as well as perform additional service requests.

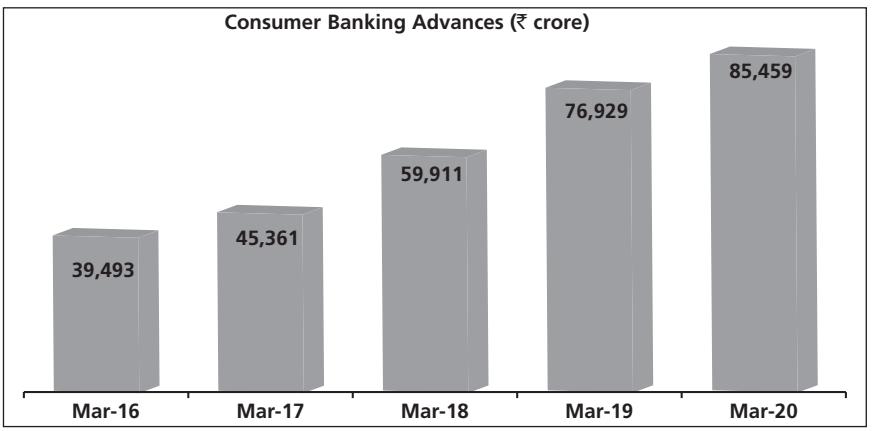
- One of the first Indian banks to offer banking services on Whatsapp which allows customers to get services on WhatsApp without installing any app or visiting any webpages.
- Keya Chatbot uses conversational banking approach and Natural Language Processing (NLP) to interact with customers and is enabled on all digital channels, viz. Mobile App, www.kotak.com website and Net Banking.
- Keya Chatbot handles queries about variety of products like Credit Card, Debit Card, Accounts, Fund Transfer, Bill Payment, NPS, Fixed Deposits, Home Loan and Personal Loan. It also handles customer requests such as online tracking of packages, card on-off, and credit card bill payment.

Innovation Lab

- Within KayMall (In-app commerce platform), Kotak was is one of the first Banks to launch a direct integration with OLA Cabs allowing Bank customers to seamlessly book travel via Cabs in addition to Trains, Flights and Buses.
- Started collaboration with large external digital platforms to develop a new channel for instant loan disbursals for its existing customers. One such collaboration has been done with Google i.e Google Pay, where customer can avail pre-approved Personal loans by using Google Pay platform which is instantly credited to customers Kotak Bank account.
- Project Velocity which aimed at servicing through biometric means was a hit with customers and branches with a high Net Promoter Score (NPS) of 86+ till March Industry.
- Participated in the World's Largest Hackathon. Smart India Hackathon, 2019 an initiative of government of India
- Robotics Process Automation has helped process 4 lakh+ service requests in FY 2019-20.
- Kotak Innovation Lab based out of Bangalore has been awarded Best Innovation Centre by The Asian Banker.

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:



Under the Consumer Assets portfolio, the Bank offers a wide range of products, key ones being home loans, loans against property, personal loans, gold loans, working capital loans (for small businesses). Consumer bank advances increased by 11.1% in FY 2020.

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:

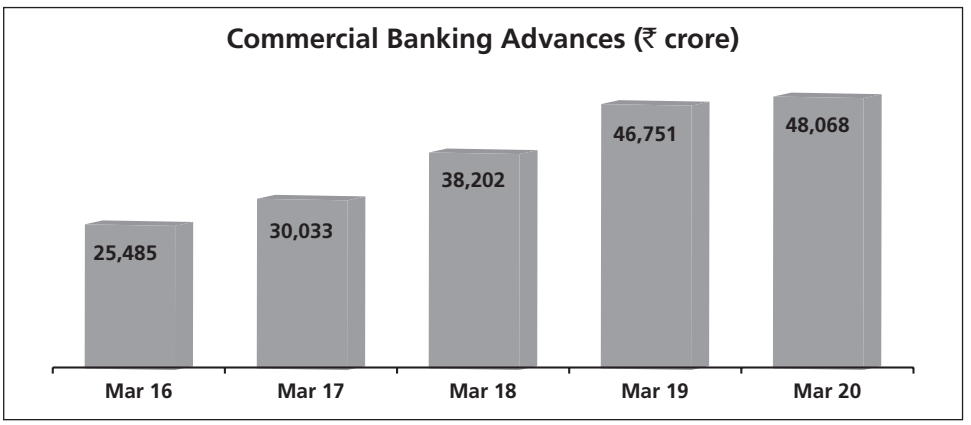
- In the Consumer Lending Business, Bank continues to build its market share in the Consumer Finance Product. Have launched Debit Card -EMI thereby expanding our EMI footprint across all form factors – Small Ticket Instalment Loans, Purchase on Debit Card and Credit Card. The Bank is also offering EMI on e-commerce platforms. It has also ventured into lifestyle space that includes Premium Furniture and Furnishings, Modular Kitchens, Course & Certificate expenses, Tuition Fees, Dentistry, Skin & Hair Care, Personal Care etc.
- FY 2020 continued to be strong for the Bank's Credit Card business. Spend volumes have grown by 22% y-o-y. Real time EMI journey has been built for offering higher affordability and unlocking higher purchasing power for Cardholders. The business also delivered a unique experience for customers through a "Do-it-yourself" journey wherein customers can apply for a Credit Card backed by a Term Deposit on-the-fly in a completely paperless manner. Bank has also amplified visibility for the Kotak brand across all PVR properties, rebranding of all IMAX properties as Kotak IMAX has also been done.

- In the Home Loan & Loan against Property (LAP) space, Bank has expanded footprint to cover over 150 cities/towns across India. The bank launched CRM to build on its Lead Management System, during the year FY 19-20, for Home Loan, LAP & Business Loans. Across Consumer Assets, the Bank has continued to invest in strengthening its technology platforms, most of which will go live in FY 2021, to improve its digital capability, customer experience and response time as it scales up volumes.

Commercial Banking

The Commercial Banking business focuses on meeting the banking and financial needs of various segments. The Commercial Bank has specialized 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, to small enterprises and for 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:



Construction Equipment (CE) industry which reported decent growth since 2014, showed signs of slowdown as overall Industry was down by 24% YoY. Demand was muted because of continues volatility and uncertainty of payments from most of the government bodies. New project allocation was slow from departments like NHAI etc. Rural demand continues to be better than other segments. Overall delinquency percentage of the CE portfolio witnessed some stress in last FY.

Commercial Vehicle (CV) business witnessed a drop in disbursement level in line with decline in CV industry numbers. The decline is primarily due to change in load carrying norms by government and slowing economic activities. Moreover the transition from BHARAT III to IV could not prepone the demand due to various factors. The CV division has been able to retain the market share. The overall delinquency percentage of the CV portfolio has increased.

The Agri Business sectors continued to show growth in the background of a slowing economy. The Kharif season was washed out with floods impacting multiple geographies. It impacted collections from Micro finance portfolio in the first half of the year. The Agri sector was a lead indicator to the slowing economy due to falling real estate prices and fall in commodity prices. The cycle is now near completion with expectation of good Rabi crop yields.

Agro processing activities have shown modest growth due to subdued commodity prices. Credit offtake was flat due to the absence of new CAPEX demand. Overall YOY portfolio growth is expected to be in the range of 14% to 18% due to market share improvement due to lack of lending activities by NBFC and PSU banks. Interest margins improved as cost of funds became cheaper. Overall profitability likely to see improvement also on account of rise in other incomes.

The MFI segment has been impacted in growth first by monsoons and by regional issues that impacted recoveries. The delinquency levels were higher on YoY basis. The Bank has continued to see recoveries in its stressed cases as our recovery actions are now close to fruition. The portfolio delinquency in this sector is projected to be better than other sectoral SME portfolios.

During FY 2020, Tractor industry declined by 10%. However Kotak Tractor Financing business witnessed double digit volume growth, primarily more coverage in UP & WB and market share growth across all states. Due to good rainfall in last year, portfolio performance was better than last year. Farmer's cash flow improved due to water availability, higher MSP and better yields.

Bank has Crop Loan business presence in Punjab, Haryana and Western states. Debt waiver announcements in various states had a negative impact on recoveries. With good monsoon and better yields in Rabbi crop cycle, the Bank expects some improvement in portfolio quality. It is also dependent on impact of COVID-19 in rural India, which is unclear currently.

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. Re-introduction of biometric sourcing led to positive impact on new account opening. Growth in the Net Promoter Score resulted in enhanced customer satisfaction.

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, 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. This year too, overall credit offtake in the industry was muted given the economic slowdown that was visible across sectors including auto & auto-ancillaries, telecom and real estate. The Bank has a higher exposure to working capital and short term finance and these saw a fall in utilizations including in cash credit and overdraft facilities. Domestic trade finance including vendor financing was also impacted.

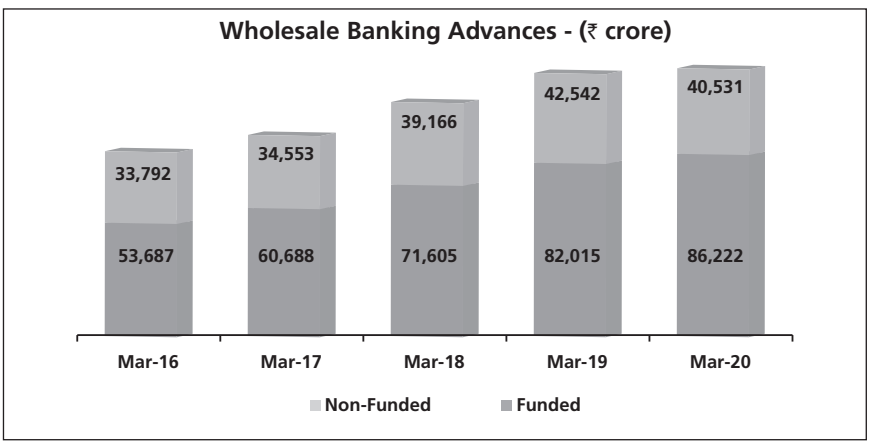
After a number of quarters of muted growth, the Bank had stabilized its lending to Small and Medium Enterprises (SMEs) and new customer acquisitions in this segment was showing a healthy turnaround. This was achieved through an overhaul of the acquisition channel and a focused approach to reducing response times in credit underwriting. While the Bank has always had a robust credit evaluation framework, the Bank has sought to further boost these processes through use of analytical models. Early results from deployment of these analytical solutions has been encouraging and the Bank expects to continuously review and strengthen these models going forward. However, the disruption to businesses from the COVID-19 lockdown at the end of the year impacted growth from this segment. The Bank is cautiously evaluating the impact on this segment of the COVID-19 lockdown and future growth strategy will be suitably redesigned to address these risks.

In the large corporates segment, the economic slowdown was compounded by elevated risks in the system characterized by certain large default events that took place during the year in the industry. In the face of this uncertain environment, the Bank was focused on managing concentration risks and decided to be cautious in increasing its exposures. The Bank remained cautious in lending to the Non-Banking Financial Institutions (NBFC) segment too in the face of tight liquidity conditions in the sector and while the Bank continued to take exposures to better managed and better rated NBFCs, growth in overall exposures to the sector was moderated.

The result was a muted Asset growth for the year. The disruption in businesses due to COVID-19 lockdown at the end of the year further impacted Asset growth.

Over the years, the Bank has also been cautious in increasing its Non Fund exposures given the poor pricing that is prevalent for such products as compared to their risk and capital requirements.

The mix between funded and non-funded (Letter of Credit and Bank Guarantees) for last five years is as follows:



In face of heightened risks, the Bank has consciously focused on building a healthy and profitable business. The Bank has been particularly focused on ensuring the right risk return metrics. Pricing models including Risk Adjusted Return on Capital (RaRoC) and Economic Value Add (EVA) measurements have got ingrained in the system. Due to these initiatives, Asset Spreads continued to improve during the year. This was achieved despite a fall in the Risk Weighted Assets as a proportion to the overall book signifying a shift towards better rated corporates and less risky assets.

The Bank has also increased its focus on non-credit income streams including liability income and from Transaction Banking services such as Cash Management and Forex services all of which grew at a healthy rate. Cross sell metrics improved. Wholesale deposits including from CASA grew strongly in the year due to the Bank's focus on granularity in addition to implementation of multiple complex and structured solutions across its escrow and nodal offerings. There was also an increased focus on providing the best in class structured solutions to central and state governments, which further contributed to the CASA book. This growth in CASA deposits has helped reduce cost of funds and improve Asset spreads further. During the year, the Bank also ramped up its Loan Syndication including on high yield deals and income from this stream grew significantly.

Improvement in productivity helped ensure costs were kept under control.

The Bank follows an integrated Corporate & Investment Banking approach to large conglomerates and corporate groups. Over the years, this strategy has helped position us much stronger with its clients and has helped increase its wallet share with these clients. This year too, the Bank has witnessed good growth in its non-credit business streams with these clients. The Bank was awarded the 'Best Corporate & Investment Bank in India' by Asiamoney for the calendar year 2019. The Bank has won this award for the third time in the last four years and this is a testimony of its capabilities and business model.

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 there have been significant corporate defaults in the industry, the Bank has kept a tight control on credit costs. The Bank ensures that its portfolio is well diversified and has specified industry, group and company specific exposure limits that are reviewed periodically. The entire portfolio is rated based on internal credit rating tool, which facilitates appropriate credit selection & monitoring. The overall portfolio continued to show robust characteristics throughout the year. Exposure was confined to segments with credit comfort in terms of better rated exposure and industries with a positive outlook and where pricing was adequate for the risk being underwritten. Slippages were under control during the year though recoveries were impacted due to the slowdown in the economy.

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 Singapore, Hongkong, Italy, Germany, Switzerland, Belgium & Netherlands. The Bank continues to extend this focus to other regions as well. The two way co-operation agreement has also helped the Bank deliver cross border products to its clients in India.

The Custody business continues to grow both in terms of AUC as well as new clients added during the year. The Bank remains one of India's largest local Custodians despite the volatility in the listed markets in the last 6-12 months. The Bank on-boarded a number of marquee FPIs, AIFs and PMS Clients during the year who started using its Custody, Clearing and Fund Accounting solutions. The Bank also implemented a new Fund Accounting software during the year with minimal disruption to clients and this is expected to be a good driver of new business going forward.

The Bank continues its strong momentum in Global Transaction Services (GTS). With its long term strategy of providing an integrated portal across all its product suites, the Bank continued its focus on innovation, digitization, structured solutions and fee income.

The Bank has built a strong franchise of funded trade business through both domestic and export finance products with a special focus on the SME segment. The Bank has leveraged its presence as an International Banking Unit in GIFT City to offer import finance and structured finance solutions to clients. The core trade system was also upgraded to build a robust platform allowing for state of the art API integrations, data analytics and product customization capabilities, while also paving the way for a customer focused front-end trade interface to be launched in the coming year. A digital vendor financing solution was also implemented to enable paperless financing of invoices.

Within Cash Management Services, the Bank continued its trend of providing the best in class solutions across the C2B and the B2B segments. Products like Bharat Bill Payment Services (BBPS), Corporate Mobility Solutions, Quickcheck, Kotak Collect, API based e-collections and payments and UPI 2.0 have helped the Bank to increase its wallet share among key existing and new clients, while also contributing significantly to fee income. The Bank also partnered with Fintechs to provide API based and valued added services, to enhance customers' experience. The Bank continued increasing its presence across the ecommerce segment through continued investments in acquiring solutions, which have helped it to be the leading banker to some of the top ecommerce aggregators. The Bank also launched, in record time, its FastTag acquiring product and has gained a significant market share across the national toll plazas.

In summary, improved Asset spreads, strong growth in non-credit income streams and robust risk management practices resulting in tight control on credit costs has helped the Bank post a healthy RoE from the Wholesale Banking business for 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. In FY2020, the focus at GIFT City branch remained on delivery of quality service to its short / medium term trade loans borrowers, while maintaining prudent mix of tenor and credit in the term loan book. Despite the implementation of the COVID-19 lockdown, the Branch remained operational and well placed for seamlessly servicing the credit requirements of its customers.

DIFC Branch

The Bank inaugurated its first overseas branch at Dubai International Financial Centre [DIFC], Dubai after successfully obtaining license approvals from Dubai Financial Services Authority [DFSA] in Oct 2019. With this, the Bank complemented its ability to advise and arrange global investment products, provide loans and accept deposits from its overseas wealth & private banking customers that qualify the Professional client criteria of the DFSA. The branch has successfully completed internal processes for on-boarding of clients and is business ready. Due to enhanced market volatility, the Branch maintained a conservative approach in its pursuit of business.

Treasury

The prudence in markets in the latter part of FY 2019 now seems not to be for no reason after all. The Bank treasury was able to forebode events in store for FY2020.

The easing of interest rates from the latter part of 2019 chugged into the earlier part of FY 2020. However, FY2020 would probably be remembered in posterity for market turmoil – first due to temporary moratorium on a new age private sector bank and later by the adverse impact on global economies on account of COVID-19.

Central banks across the world reacted in a predictable easing of policies. The Risk-off trades not only caused equity & debt market volatility, commodity markets also witnessed spikes. While market segments reacted differently, significant retraction of foreign flows from India in the month of Mar 2020 was by far the most notable outcome.

The table below gives the extent of movement in key market benchmarks for FY 2020.

	Open	High	Low	Close	Range
Yield on 10yr Indian Govt Bond	7.36	7.50	5.98	6.14	1.52
Yield on 10yr US Treasury Bond	2.43	2.61	0.31	0.67	2.30
Indian Rupee	69.36	76.27	68.29	75.54	7.98
EUR / USD	1.12	1.15	1.06	1.10	0.09
GOLD (USD/Troy ounce)	1,293	1,703	1,266	1,577	437
BRENT Crude	67.58	73.40	21.65	22.71	51.75
NIFTY	11,665	12,428	7,512	8,557	4,916

Source: Kotak Mahindra Bank Research

While liquidity in the system stayed between adequate and abundant, the tenor & credit spreads widened. The RBI added Long Term Repos (LTROs) & Targeted Long Term Repo (TLTRO) in its arsenal of providing liquidity in the April 2020.

Treasury Fixed Income Trading Desk, with a positive outlook, careful data backed analysis and a cautious approach, anticipated & managed the trading portfolio durations optimally and with agility. Well thought and composed positions yielded desired outcomes. The Primary Dealer (PD) desk at Treasury, in addition to gainful positioning on the Trading portfolio, improved upon the distribution and retailing of sovereign securities. The PD desk also successfully met its regulatory obligations of bidding and success ratios in primary auctions and trading volumes in the secondary market for Government Securities.

Notwithstanding the volatility in equity markets, FY2020 also witnessed healthy primary offerings, with SBI Cards & Payments Services - a very large offering, being well received – even as it edged into COVID-19 period. The equity desk took measured calls on the market, principally focusing on the primary market offerings.

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 further built on the franchise, doubled efforts to widen and expand its customer reach with positive outcomes. 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 Balance sheet Management Unit (BMU) continued its cautious stance while managing the funding, ALM and regulatory investments of the Bank. The BMU desk specifically focussed on liquidity parameters in an event based year. 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.

Amidst turbulent markets, seamless continuation of operations at the Bank Treasury - despite the COVID-19 lockdown, reaffirmed Bank's agility, preparedness and resilience of its systems & processes.

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

TECHNOLOGY

Technology, this year, was leveraged to deliver customer experience, business efficiency, business collaborations and cybersecurity.

Mobile banking app continues to one of the highest rated iOS app with 4.8 rating and Android app is at 4.3 rating. The App has been made more user friendly and saw improved customer experience with new Billpay, Loan & Insurance section. The App also became more comprehensive with new features like Forex card, Premature withdrawal of Fixed Deposit, Payday loan, Fastag, Insurance, Ola, UPI 2.0, Image credit card etc. Bank also launched innovative features like 'SIRI' and "Google Assistant" option for fetching account balance using voice command.

Newer channels, Keya Chatbot and WhatsApp Banking, were scaled to start making business impact and become mainstream digital channels by handling more products and services.

Keya Chatbot uses conversational banking approach and Natural Language Processing (NLP) to interact with customers and is enabled on all digital channels, viz. Mobile App, www.kotak.com website and Net Banking. Keya Chatbot is able to handle queries about variety of products like Credit Card, Debit Card, Accounts, Fund Transfer, Bill Payment, NPS, Fixed Deposits, Home Loan and Personal Loan. It also handles customer requests such as online tracking of packages, card on-off, credit card bill payment. It also allows customer to explore and apply for new products such as credit card, personal loan, debit card.

WhatsApp has become one of the important channels for the bank to communicate with customers for important communications like welcome kits. Bank is building more such journeys for customers to receive important information as well as perform additional service requests. The Bank has been one of the first Indian banks to offer banking services on Whatsapp which allows customers to get services on WhatsApp without installing any app or visiting any webpages.

Kotak Net Banking experience was further enhanced with features such as Deliverables tracking using KEYA Chatbot, Re-KYC update for low risk customers and option to authenticate using Kotak Mobile Banking App instead of OTP (One Time Password) while logging into Net Banking.

Kotak was the first Bank in the entire ecosystem to launch the new NPCI eMandate API method as part of the eNACH product as both a Destination Bank as well as a Sponsor Bank which allows for both consumers and corporates associated with Kotak to have a seamless experience in creating/approving recurring payment collection requests via the NPCI eMandate platform.

Kotak is also the leading Bank on the Bharat Bill Payment System to acquire Billers onto the platform as a Biller Operating Unit. On the digital consumer payments, Kotak continues to serve customers with seamless in-channel payment experiences via Fund Transfers and Bill Payments/ Recharges which is the primary transacting channel for most Bank consumers.

New digital payment methods were introduced for the Bank's customers including UPI 2.0 allowing customers to create one-time mandates and apply for IPOs via the new UPI product enhancement from NPCI.

Within KayMall (In-app commerce platform), Kotak was is one of the first Banks to launch a direct integration with OLA Cabs allowing Bank customers to seamlessly book travel via Cabs in addition to Trains, Flights and Buses.

For the third consecutive year, Kotak Bank has overachieved targets set by MeitY for FY 2019-20 on Digital Payments transaction @ ~107% of target achievement.

Bank has also started collaboration with large external digital platforms to develop a new channel for instant loan disbursals for its existing customers. One such collaboration has been done with Google i.e Google Pay, where customer can avail pre-approved Personal loans by using Google Pay platform which is instantly credited to customers Kotak Bank account.

In order to serve salaried customer segment of the Bank, a new product "Kotak PayDay Loans" was launched which offers short term single installment loans to customers. Customers can avail the loans instantly during the month by using digital channels. Repayment of the loan is basis the date on which customers get their salary.

Biometric based savings account opening was suspended through this platform post the APEX court ruling last year. However, post revision of UIDAI guidelines for biometric savings account, same was made live for Savings and Corporate Salary accounts post Aug 2019.

Account opening journey had to undergo change in Nov 2019 basis the revised PMLA guidelines. Besides Branch and Sales channel, Other sales units of the Bank like Group Relation (GR) team, Consumer Durable group, Housing and Personal Loan users were enabled for this mode of sourcing. Self onboarding for corporate salary customers will also be made live soon.

Certain digital initiatives of the Bank were relaunched this year basis the revised guidelines on Aadhaar viz. Project Velocity which aimed at servicing through biometric means was a hit with customers and branches with a high Net Promoter Score (NPS) of 86+ till March and was awarded at the CII DX Summit & Awards for Best Practice in Customer Experience. In addition, the bank has enabled debit card, cheque book, PINS tracking on Keya chatbot with a massive 4 lakh requests monthly average. Robotics Process Automation has helped process 4 lakh+ service requests in FY 2019-20.

The Bank's Kotak Innovation Lab based out of Bangalore has been awarded Best Innovation Centre by The Asian Banker.

Kotak Open Banking platform has enabled 100+ partnership across different lending and payments product since its incubation. Kotak Mahindra API Store has been declared as a RUNNER-UP in Infosys Finacle Client Innovation Awards for 2019.

Apart from above; the bank's technology direction has been formulated to address six areas of strategic importance viz. Platform Building, Modernization and Refresh of Legacy, Analytics and Reporting, Cyber Security & Regulatory, Technology Operations Automation and Adoption of Emerging Technologies.

The Bank has initiated specific initiatives in each of the areas to ensure productivity, efficiency and customer experience improves significantly and is an ongoing process. Investments are being made to leverage Cloud, DevOps, Big Data, Face Recognition etc. Core Banking, Credit Card Platform, Retail Assets, Treasury systems are areas which are being modernized.

Cyber Security, Fraud Detection is a continuous evolving space. The Bank invests significantly in technologies to be at the forefront to prevent, detect and act in situations arising from it.

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 2020	FY 2019
Net Interest Income	1,229.5	1,103.6
Other Income	290.3	288.0
Total Income	**1,519.8**	**1,391.6**
PBT	923.4	905.1
PAT	673.1	599.3

(₹ in crore)

Particulars	31st March, 2020	31st March, 2019
Net Customer Assets	24,864.3	28,267.4
- *Car advances*	*17,480.1*	*20,270.9*
Net NPA %	0.60%	0.44%
RoAA %	2.3%	2.0%

The passenger car market in India degrew by 17.4% for FY 2020 compared to 2.8% growth in FY 2019. The sale of cars and MUVs crossed 27.60 lakh units in FY 2020 compared to 33.42 lakh units in FY 2019. KMP added 72,309 contracts in FY 2020 compared to 91,733 in FY 2019.

PBT for FY 2020 at ₹ 923.4 crore was higher than ₹ 905.1 crore for FY 2019 primarily due to improvement in spreads due to lower cost of borrowings and profit on sale of investments, offset, in part by, increase in retail losses and provisions and general provision due to COVID-19. NIM for FY 2020 was 4.3% compared to 3.8% for FY 2019.

Gross NPA was ₹ 397.6 crore (1.60% of gross advances) while net NPA was ₹ 147.6 crore (0.60% of net advances) as on 31st March, 2020. Further, the capital adequacy ratio as on 31st March, 2020 was 24.3% (19.4% as of 31st March, 2019).

Kotak Mahindra Investments Limited (KMIL)

KMIL is primarily engaged in real estate developer finance, corporate loans, finance against securities, 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.

Real Estate: The real estate industry remains largely regional play with only a handful of players having a meaningful presence in more than a couple of cities. At the same time, the past few years have seen consolidation with a few large developers increasing their share in their respective market. The tightening of liquidity to NBFCs post the IL&FS crisis has meant a tightening of liquidity to the real estate developers also which, coupled with subdued prices, has enhanced the challenges being faced by the industry.

KMIL continues to be judicious about the real estate developers that it works with and remains confident of the quality of the lending book. At the same time, COVID-19 pandemic has directly impacted the industry and KMIL continues to closely monitor developments in the industry.

Loans against shares: FY20 (especially the last quarter) was arguably one of the most volatile years in the Indian stock market. That, KMIL was able to come out of this unscathed, reflects the quality of the lending book and robustness of its operations.

During the year, holding company received a letter from RBI directing to stop providing services such as loan against shares and IPO financing, through its NBFC subsidiaries. However, RBI has allowed these subsidiaries to continue to service the loans that are already disbursed. Given this direction, KMIL expects this book to continue decline going forward.

Financial Highlights

(₹ in crore)

Particulars	FY 2020	FY 2019
Net Interest Income	361.7	289.3
Other Income	91.9	97.4
Total Income	**453.6**	**386.7**
PBT	368.5	315.6
PAT	270.1	207.0

(₹ in crore)

Particulars	31st March, 2020	31st March, 2019
Net Customer Assets	5,874.6	9,242.3
Net NPA %	0.67%	0.29%
RoAA %	2.9%	2.3%

Customer assets decreased to ₹ 5,874.6 crore as on 31st March, 2020 as compared to ₹ 9,242.3 crore as on 31st March, 2019 primarily due to change in regulations. Better gross interest margins and reduction in corporate tax rate helped KMIL report increase of 30.5% in PAT to ₹ 270.1 crore for FY 2020 from ₹ 207.0 crore in FY 2019. NIM for FY 2020 was 4.3% compared to 3.7% for FY 2019.

Gross NPA at ₹ 63.2 crore (1.07% of customer assets) while net NPA was ₹ 39.4 crore (0.67% of customer assets) as on 31st March, 2020. The capital adequacy ratio as on 31st March, 2020 was 29.4% (18.4% as of 31st March, 2019).

Kotak Securities Limited (KS)

KS is in securities broking business providing broking 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 2020	FY 2019
Total Income	1,690.0	1,582.4
PBT	738.4	680.4
PAT	550.0	451.9

The Sensex closed at 29,468 as on 31st March, 2020 compared to 38,673 as on 31st March, 2019, with a high of 42,273 and low of 25,638. Similarly, the benchmark Nifty which closed at 11,623 as on 31st March, 2019 closed at 8,598 as on 31st March, 2020 with a high of 12,430 and low of 7,511.

The financial year FY 2020 saw a marginal volume growth in Cash Market where as the equity derivative segment continued its robust growth over FY 2019. Market average daily volumes (ADV) increased to ₹ 39,267 crore for FY 2020 from ₹ 35,180 crore for FY 2019 for the Cash Segment, and increased to ₹ 1,404,030 crore for FY 2020 from ₹ 958,067 crore for FY 2019 for Derivatives Segment.

KS Average Daily Volumes in cash market has increased to ₹ 3,562 crore for FY 2020 from ₹ 3,210 crore for FY 2019. KS Average Daily Volumes in Derivative Market has decreased to ₹ 15,571 crore for FY 2020 from ₹ 22,994 crore for FY 2019. KS continued its focus on cash segment

and maintained its market share at 9.1% in FY 2020 similar to FY 2019. Overall market share of KS decreased to 1.7% for FY 2020 compared to 2.6% for FY 2019 primarily on account of decrease in market share in derivative segment.

With the help of digital account opening mobile app, KS continued to acquire large part of customers digitally resulting into addition of ~ 2.89 lakh customers for FY 2020. 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 saw a growth of more than 128%.

Digital is the key focus. KS is continuing to invest in digitising different processes and operations. This includes digital acquisition and activation of accounts, automating different processes to avoid manual input, as well as upgrading existing tech infrastructure. There is also investment in enhancing the mobile trading application provided by KS as well as the website trading platform keeping in mind increased self-trading behavior.

The total outlets stood at 1,315 at the end of the financial year. The number of registered authorised persons stood at 1,735 for NSE and 1,370 for BSE.

Institutional Equities division gained market share in the cash segment and maintained its leadership position in both the cash equities and derivatives segments. Institutional market volumes for the cash segment showed a moderate growth during the year, whereas the derivatives segment volumes grew by more than 100% over the previous year. However, yields across the client segments continued to be under pressure. The Company maintained its leadership position in distribution of IPOs, QIPs and open offers and maintained its strong position in execution of block trades. It continued to invest in technology to upgrade its IT infrastructure with a special focus on developing new algorithms for better execution. The Institutional Equities Research team continues to be the rated highly by institutional clients and further enhanced its leadership position through incisive research on companies, sectors and themes.

Awards and Recognitions

During the year, the Company was adjudged the Best Broker for the year 2019 by FinanceAsia Country Awards, Best Brokerage house in the Institution segment for the year 2019 by Asiamoney. The Company also received the award for the Best Overall Research house for the year 2019 by Asiamoney.

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 2020	FY 2019
Total Income	228.8	176.0
PBT	107.6	92.9
PAT	79.1	63.1

Equity Capital Markets

In FY 2020, the Indian Equity Capital Markets witnessed a revival in primary market activity from the previous fiscal completing 26 OFS, 13 IPOs, 13 QIPs and 13 Rights. A total of 147,974 crore (vs 68,914 crore in FY 2019) was raised across Initial Public Offerings (IPOs), Qualified Institutional Placements (QIPs), Rights Issues, Offers for Sale (OFS), Block Deals and Infrastructure Investment Trusts (InVITs) dominated by large issuances. The revival in activity can be primarily attributed to increase in mega QIP and Rights offerings. *(Source: Prime Database)*.

KMCC successfully completed 13 marquee transactions, including 4 IPOs, 5 QIPs, 2 Block Deals, 1 OFS and 1 Rights Issue raising a total of ₹ 59,729 crore in FY 2020. Kotak was the left lead banker to India's largest IPO and largest Rights Issue of the year.

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

IPO: SBI Cards & Payments - ₹ 10,341 crore, Polycab India - ₹ 1,345 crore, Metropolis Healthcare - ₹ 1,204 crore, Ujjivan Small Finance Bank - ₹ 1,000 crore

Rights: Vodafone Idea - ₹ 25,000 crore

OFS: Avenue Supermarts - ₹ 3,428 crore

QIP: Bajaj Finance - ₹ 8,500 crore, Avenue Supermarts - ₹ 4,098 crore, Godrej Properties - ₹ 2,100 crore, Varun Beverages - ₹ 900 crore, PVR - ₹ 500 crore

Blocks: Gruh Finance Ltd. - ₹ 1,007 crore, Kalpataru Power Transmission - ₹ 306 crore

Mergers & Acquisitions and Private Equity Advisory

The total M&A Advisory deal value in India for FY 2020 stood at USD 100 billion vis-à-vis USD 139.2 billion in FY 2019, while deal volumes increased to 2,149 in FY 2020 from 2,002 in FY 2019. (Source: Bloomberg, as on 6th April, 2020)

In FY 2020, KMCC was ranked #2 by value of deals and #4 by volume of deals in the M&A league tables (Source: Bloomberg, as on 16th April, 2020; amongst investment banks). KMCC advised on a diverse array of 13 M&A transactions across a range of products and sectors, for a total deal value of USD 7.8 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, Education, Technology, Industrials etc.

The uptick in activity in the market during FY 2020 could largely be attributed to a number of factors, including deals in the stressed asset situations, increasing investment activity by financial investors including private equity.

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

- Financial Advisor to ArcelorMittal for acquisition of Essar Steel India Ltd. -India's Largest IBC Recovery
- Sale of Cancer Treatment Services International by AHH to Varian Medical Systems
- Financial Advisor to Air Water Inc. (Japan) for acquisition of Praxair's eastern India business
- Financial Advisor to Air Water Inc. (Japan) for Acquisition of Linde's South India business
- Financial Advisor to Aakash Educational Services Ltd. for minority stake sale to Blackstone
- Open offer to the shareholders of KPIT Technologies Ltd.
- Merger of PHCPL (subsidiary) with Phoenix Mills Ltd.
- Series D equity investment in Samunnati Financial by Nuveen
- Secondary stake sale in Fabindia Overseas Pvt. Ltd.
- Fairness Opinion on demerger of TCL Cables Pvt. Ltd. from Torrent Power Ltd.
- Buyback offer to the shareholders of The Great Eastern Shipping Company
- Buyback offer to the shareholders of Aster DM Healthcare Ltd.
- Financial advisor to Everstone for divestment of stake in Aparajitha Corporate Services Pvt. Ltd. to promoters

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 had 245 life insurance outlets across 152 locations. KLI has 124,690 life advisors, 40 Bancassurance partners and 201 brokers and corporate agency tie-ups.

Financial Highlights

The financial performance of KLI is given below:

(₹ in crore)

Particulars	FY 2020	FY 2019
Gross Premium	10,340.1	8,168.3
First Year Premium (incl. Group and Single)	5,105.8	3,977.1
PBT – Shareholders' Account	839.1	590.8
PAT – Shareholders' Account	608.2	507.2
Solvency Ratio	2.90	3.02

The Indian Embedded Value (IEV) was ₹ 8,388 crore (31st March, 2019: ₹ 7,306 crore) as on 31st March, 2020. 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 2020 was ₹ 643 crore and the VNB margin was 28.8%.

The networth of KLI increased by 22.1% to ₹ 3,353.5 crore as on 31st March, 2020 from ₹ 2,745.4 crore as on 31st March, 2019.

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. KLI has solvency ratio of 2.90 against a regulatory requirement of 1.50.

Revenue Performance

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

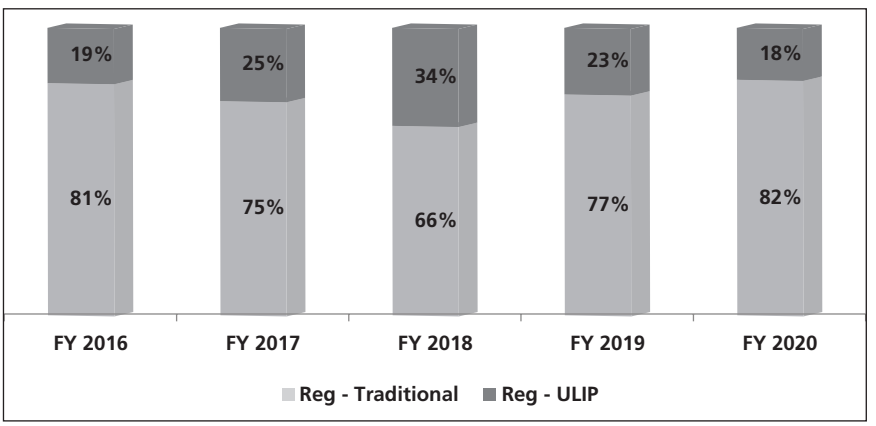
(₹ in crore)

Particulars	FY 2020	FY 2019
Individual Regular Premium	1,561.7	1,616.2
Individual Single Premium	837.0	515.4
Group Premium	2,707.0	1,845.5
Total New Business Premium	**5,105.8**	**3,977.1**
Renewal Premium	5,234.3	4,191.2
Gross Premium	**10,340.1**	**8,168.3**

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

The distribution mix for Individual business APE (Single 1/10), is 44% for the Bancassurance channel and 56% for Agency & other channels.

Individual Regular Product Mix



Product mix of KLI for FY 2020 in individual regular premium is 82% traditional business and 18% ULIP.

Protection Share

Protection share as % of Individual New Business and Total Group Business stood at 28.7%. It increased from ₹ 1,281.1 crore in FY 2019 to ₹ 1,548.1 crore in FY 2020.

Group Product Mix

While the overall group business has grown by 43.4% in FY 2020 over FY 2019, the group traditional business has grown by 85.4% from ₹ 349.0 crore in FY 2019 to ₹ 647.1 crore in FY 2020.

The group cover business has also grown by 21.3% over FY 2019 from ₹ 1,033.8 crore to ₹ 1,254.5 crore in FY 2020.

Conservation & Persistency

Conservation ratio is 88.9% in FY 2020 compared to 86.9% in FY 2019. KLI has set up a dedicated retention team to improve the retention of the premiums of KLI. As of Feb'20, the persistency was 87.8% (13th month), 79.6% (25th month), 71.2% (37th month), 65.4% (49th month) and 61.5% (61st month).

Industry comparison

In FY 2020, private insurance industry as a whole registered a growth of 9.1% on Total New Business Premium – Adjusted Premium Equivalent (APE) terms (Single 1/10). KLI registered a growth of 23.5% on Total New Business Premium- APE terms. On the same basis, KLI market share stood at 6.6% of private industry with a growth of 13.2% over FY 2019.

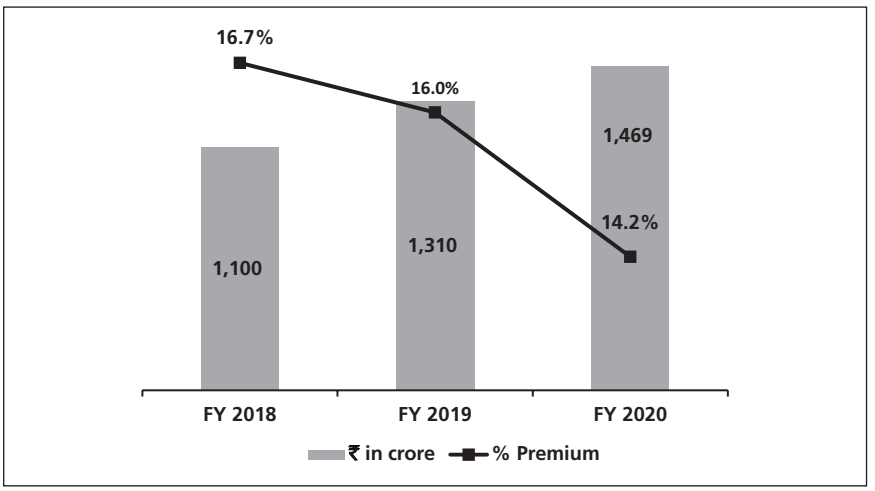
KLI is the sixth largest private sector life insurer in terms of individual first year premiums and overall first year premiums for FY2020.

Claims Settlement Ratio

The overall claims settlement ratio in FY 2020 stood at 99.2% (FY 2019: 99.0%). The group claims settlement ratio for FY 2020 stood at 99.3% (FY 2019: 99.1%). The individual claims settlement ratio for FY 2020 stood at 96.4% (FY 2019: 97.4%).

Cost Analysis

Operating expense ratio has improved to 14.2% as against 16.0% in previous year. This was possible by a 26.6% Year-on-Year growth in total premium in FY 2020 and is also attributed to improved productivity in addition to increase in distribution strength.



Assets Under Management

KLI saw an increase in its AUM (including shareholders' AUM) by 15.2% YoY to ₹ 34,914.5 crore in FY 2020.

Digital Initatives

KLI had implemented 'Genie', a tablet based end to end sales solution. In FY 2020, 90.9% of the individual policies were sourced using Genie vs 87.9% in FY 2019.

Smart sell – A Pre Marketing, engagement and productivity app, is being used by 96.4% of active Life Advisors in its 2nd year of usage.

On-board advisors are provided with Mobility solution digitally which has led to 99.9% of applications received via digital medium in Q4FY20.

Approx. 60,000 logins in March 20 for recently launched online self-service portal, enabling retail customers to raising service requests, conveniently paying their renewal premiums and get policy information.

Social and Rural Obligations

KLI has written rural policies 71,835 (FY 2019: 81,972) representing 22.7% of total policies against regulatory requirement of 20%. Further, KLI has covered 2,690,117 social lives more than the regulatory requirement of 5% total lives. KLI takes the social sector target not as an obligation, but with a sense of duty to the community as a life insurance company.

Kotak Mahindra General Insurance Company Limited (KGI)

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

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

The general insurance industry as a whole registered a growth of 11.7% till March 2020, in which the private sector (excluding standalone health insurance companies) grew by 12.1%. KGI grew its premium (excluding re-insurance) from ₹ 301.1 crore in FY 2019 to ₹ 433.4 crore in FY 2020 registering a growth of 44%.

Financial and Other Highlights

(₹ in crore)

Particulars	FY 2020	FY 2019
Gross Written Premium (GWP) (including re-insurance)	436.4	303.8
Loss Before and After Tax	(28.1)	(34.9)
Claims Ratio	68.8%	68.1%
Combined Ratio	112.5%	114.6%

Revenue Review

KGI issued more than double the number of policies totaling to 18.1 lakh in FY 2020 from 7.2 lakh in FY 2019 amounting to a gross direct premium excluding re-insurance of ₹ 433.4 crore (FY 2019: 301.1 crore).

Product Mix

In order to maintain a balanced product mix, KGI product mix for Motor, Health and Others has moved from 66:25:9 in FY 2019 to 58:31:11 in FY 2020.

Distribution Mix

Bancassurance Channel grew from ₹ 171.7 crore in FY 2019 to ₹ 242.9 crore in FY 2020 registering a 41% growth and Multi Distribution channel grew from ₹ 129.4 crore in FY 2019 to ₹ 190.5 crore in FY 2020 registering a 47% growth.

Solvency

As on 31st March, 2020, the solvency ratio of KGI stood at 2.13 against the regulatory requirement of 1.50.

Investments

Investments of KGI as on 31st March, 2020 stood at ₹ 681.8 crore against the previous year amount of ₹ 414.3 crore, registering a growth of 65%.

Distribution Network

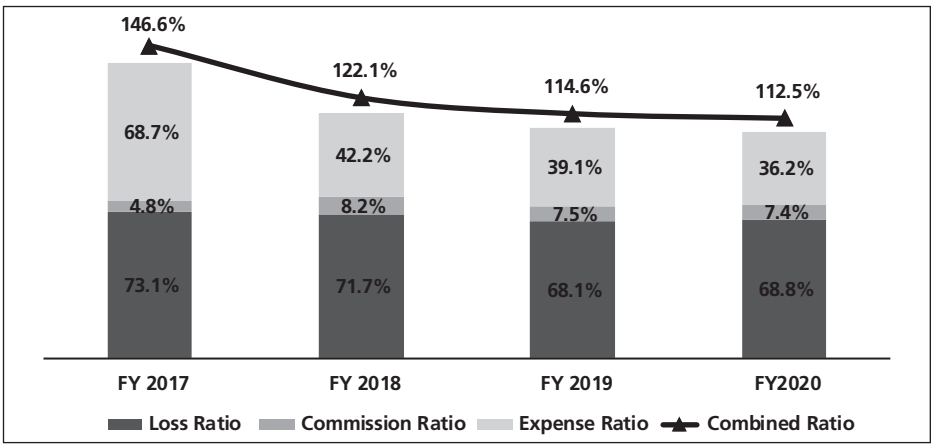
KGI has a network of 18 branches catering to more than 275 locations. KGI has registered 25 Corporate Agents, 121 Individual Agents, 311 Point of Sale agents and 16 Micro Insurance Agents.

Rural and Social Obligations

KGI has written a premium of ₹ 23.6 crore under rural obligation representing 5.5% of total premium. Further, KGI has covered 146,708 social lives against the regulatory requirement of 21,727.

Improving Financial Performance

In the last four 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 ~ 27,000 in 2019 to ~ 46,550 in 2020 an increase of 72%.

The Company has an equitable and robust claim settlement practice which is evident in the claim settlement ratio of 95% in 2020.

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 2020	FY 2019
Total Income	603.2	655.0
PBT	394.1	337.1
PAT	291.8	218.1
AAUM	173,394	138,215
Kotak Mahindra Trustee Company Limited	**FY 2020**	**FY 2019**
Total Income	62.0	52.0
PBT	60.2	50.5
PAT	45.0	36.5

The growth in the mutual funds industry continues unabated. The industry registered a growth of 10.4% YOY in Q4FY20 over Q4FY19 with the Quarterly Average Assets under Management (QAAUM) for Q4FY20 at ₹ 27.0 lakh crore.

During the same period, on the basis of percentage growth in QAAUM, KMAMC was amongst the fourth fastest growing Mutual Fund House – within the top 10 Fund Houses ranked by QAAUM. The QAAUM which stood at ₹ 186,480 crore for Jan-Mar 2020 has seen growth of around 24% in Q4FY20 over Q4FY19 and 102% over last three years. KMAMC jumped one rank and is now the 6th largest Fund House in the country in terms of QAAUM as on 31st March, 2020 vis-à-vis 31st March, 2019. Market Share in QAAUM has grown to 6.9% in Q4FY20 from 6.1% in Q4FY19 and 5.0%, 3 years back. The AAUM of KMAMC for FY 2020 was ₹ 173,394 crore against ₹ 138,214 crore in FY 2019, a growth of 25% against industry growth of 10%.

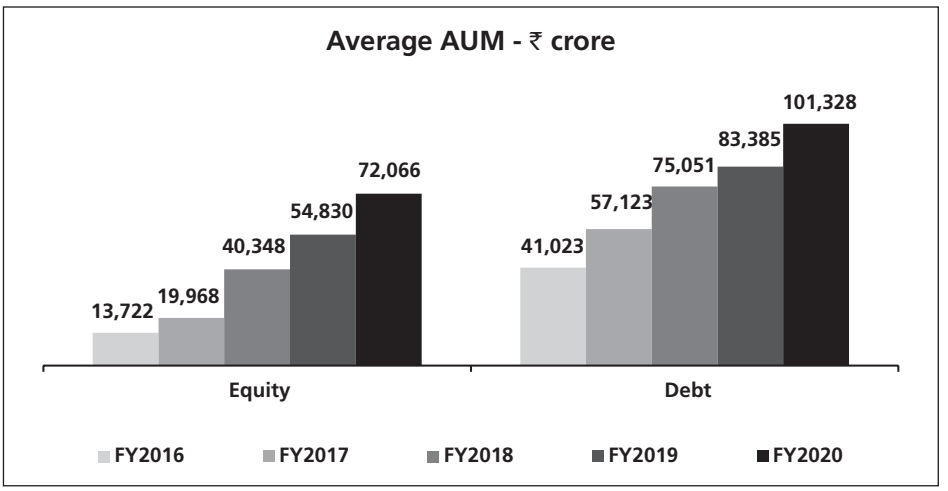
KMAMC has 23.1 lac unique investors basis the RTA data against industry of 208.0 lacs, a market share of 11.1%, against a share of 9.7% in March 2019.

KMAMC ended the year with discretionary AUM under the portfolio management business of ₹ 1,597 crore against ₹ 3,332 crore as on 31st March, 2019 largely due to the turbulent markets and sharp fall in Feb-Mar 20.

The key regulatory changes during the year was the rationalization of the scheme Total expense ratio's (TER's). Also with effect from October 2018, all scheme related expenses had to be paid from schemes and not from AMC, which was to be factored in pricing of direct plans. Further, no upfront commissions could be paid.

The overall revenue from operations reduced by 8.5% to ₹ 596.0 crore from ₹ 651.1 crore, largely due to the regulatory changes on TER's and commission payouts. The overall costs reduced to ₹ 209.0 crore in FY 2020 against ₹ 317.9 crore in FY 2019, 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 ₹ 394.1 crore in FY 2020 compared to ₹ 337.1 crore in FY 2019. The increase in profit after tax is also due to decrease in corporate tax rates.

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 2020	FY 2019
Total Income	3.3	2.9
PBT	0.07	0.07
PAT	0.06	0.07
AUM	991	785

KMPFL manages eight schemes. The combined assets under management (AUM) on 31st March, 2020 were ₹ 991 crore (₹ 785 crore as of 31st March, 2019) a growth of 26.2%. The overall pension fund industry AUM (including the private and public sector) has grown from ₹ 318,214 crore as on 31st March, 2019 to ₹ 417,477 crore as on 31st March, 2020, a growth of 31.2% and the private sector industry AUM has grown from ₹ 9,827 crore as on 31st March, 2019 to ₹ 13,239 crore as on 31st March, 2020, a growth of 34.7%.

Considering the low rates of management fees in Pension Fund Management Business, the revenue generated from the investment management activity for FY 2020 is ₹ 0.09 crore (FY 2019 - ₹ 0.06 crore).

There has been an increase in other income to ₹ 3.3 crore in FY 2020 as compared to ₹ 2.8 crore in FY 2019 primarily on account of increase in profit from sale of investments. The costs have increased to ₹ 3.3 crore in FY 2020 from ₹ 2.8 crore in FY 2019. Consequently, KMPFL has reported a profit before tax during FY 2020 of ₹ 0.07 crore similar to that of FY 2019.

Kotak International subsidiaries

Financial Highlights

(₹ in crore)

Particulars	FY 2020	FY 2019
Total Income	310.4	347.0
PBT	138.8	170.3
PAT	118.8	148.2

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, USA, 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.

Most of the FY 2020 was dominated by trade negotiations between US and China, weaker than expected economic growths in emerging market and in recent months moderating interest rates globally. Indian economy also witnessed some moderation in growth.

Though the capital markets witnessed some buoyancy on account of the various reform measures announced by the Government, the conditions prevalent across other geographies lead to outflows from the funds managed by the international subsidiaries during the year.

The outbreak of COVID-19 in China during early January and its spread across the world in a span of three months had a severe impact on the capital markets across the world and India was not an exception.

The situation also remains fluid across the world where the international subsidiaries have offices and carry from there the distribution of funds and other businesses. Since the start of the pandemic the international subsidiaries have witnessed fall in the AUM of funds managed.

The average AUM decreased from ₹ 34,631 crore (USD 5.0 billion) in FY 2019 to ₹ 32,413 crore (USD 4.6 billion) in FY 2020.

The AUM of offshore funds managed or advised by the Offshore Subsidiaries saw a net outflow of ₹ 2,897 crore (USD 0.4 billion) in FY 2020 as compared to outflow of ₹ 1,505 crore (USD 0.2 billion) in FY 2019.

The closing assets managed / advised (AUM) by the international subsidiaries reduced from ₹ 32,997.7 crore (USD 4.8 billion) as on 31st March, 2019 to ₹ 23,430.9 crore (USD 3.1 billion) as on 31st March, 2020. This was due to fall in Indian capital markets (majority of which was witnessed during the month of March 2020 as the aftermath of COVID-19 pandemic) and outflows from equity and debt funds. Though international subsidiaries could establish newer relationships through its London office, it continued to witness outflows from Japan one of its key markets.

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.

The income from dealing in securities increased from ₹ 22.6 crore in FY 2019 to ₹ 43.9 crore during FY 2020. A wider client coverage resulting from diversifying beyond India into other country credits, taking lead in trading India high yield credits emanating from the stress in Corporate India & a higher level of volatility in the market led to substantial scaling up of volumes & revenues in the dealing in securities business.

The total income earned by international subsidiaries decreased from ₹ 347.0 crore during the FY 2019 to ₹ 310.2 crore during the current year falling by ₹ 36.8 crore. The overall revenue decreased primarily on account of lower investment management & advisory income due to lower AUM, mark-to-market losses on investments of ₹ 48.5 crore mainly due to a panic selling amongst global fixed income securities witnessed during the month of March 2020. These losses were, offset, in part, by higher income from dealing in securities by ₹ 21.3 crore, dividend income of ₹ 29.5 crore and higher interest income on term deposits by ₹ 3.9 crore. The operating expenses decreased from ₹ 176.7 crore during the FY 2019 to ₹ 171.6 crore during FY 2020 primarily due to decrease in employee costs, offset, in part, by increase in other operating expenses.

Resultantly, the profit before tax for the year was at ₹ 138.8 crore versus a profit of ₹ 170.3 crore for the previous year.

Kotak Investment Advisors Limited (KIAL)

KIAL, an alternate assets manager, is in the business of managing and advising funds across the following asset classes namely (a) Private Equity (b) Real Estate (c) Infrastructure (d) Listed Strategies (e) Special Situations and Credit, and (f) Investment Advisory. It is amongst select alternate asset managers in India to be present across these six asset classes and managing large number of active funds in these asset classes.

Financial Highlights

(₹ in crore)

Particulars	FY 2020	FY 2019
Total Income	119.9	85.3
PBT	12.4	17.1
PAT	9.7	17.4

During the year, KIAL has received new capital commitments of around ₹ 3,622 crore. The aggregate alternate assets managed / advised (including undrawn commitments, wherever applicable) by KIAL as on 31st March, 2020 were ₹ 15,176 crore. It managed 18 domestic funds, advised 1 domestic fund and 6 offshore funds during the year. KIAL also started Investment Advisory business for Private Clients and has ₹ 14,029 crore assets under Advice as on 31st March, 2020.

Of the new capital commitments received during the year, the Special Situations and Credit fund completed its second close with additional commitments of ₹ 2,657 crore including from a large marque sovereign wealth fund. This Fund will participate across credit lifecycles of companies and projects by providing unique solutions for financing gaps seen in the industry and made its maiden investment during the year. KIAL also raised two open ended funds under the Optimus brand to garner ₹ 965 crore within a span of 4 months. KIAL also continues to actively deploy capital in the Indian real estate space with investments in real estate credit and commercial / office assets space.

While on one hand KIAL is working with investors' mandate to seek attractive opportunities arising from the current market dislocation, on the other hand it is using its balance sheet and team competence to invest in innovative health tech solutions. KIAL is proud that some of its early stage investments are playing a leading role in the war on COVID-19.

Mynvax, a Biotech Company incubated at Indian Institute of Science, is developing recombinant influenza vaccine for human influenza virus. It is one of the six Indian companies developing a vaccine candidate for COVID-19. Niramai is a provider of Breast Cancer screening solution based on an AI algorithm using thermal imaging technique. It has developed an automated non-contact group Fever Test by leveraging its expertise in AI & thermal imaging, which can be used for public mass screening of potential COVID-19 patients. Healthians is a fast growing technology led asset light company providing at-home service for pathological tests. The company is using its phlebotomist fleet for collection of specimen for COVID-19 testing and has also set-up a drive-thru collection center in Delhi-NCR for COVID-19 sample collection. Mylab, a company assisted by KIAL in April 2020, is focused on development & manufacturing of affordable molecular diagnostic kits. It was the first Indian company to get approval for COVID-19 testing kit from the Indian Council of Medical Research (ICMR).

Kotak Mahindra Trusteeship Services Limited (KMTSL)

KMTSL acts as a trustee to domestic venture capital, private equity and alternate investment 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 2020	FY 2019
Total Income	9.2	9.1
PBT	3.4	3.3
PAT	2.5	2.4

Kotak Infrastructure Debt Fund Limited (KIDFL)

KIDFL, is the infrastructure debt financing company. KIDFL provides long term finance to infrastructure projects and has completed three year of satisfactory operations. KIDFL has been able to forge relationships with marquee clients and build a robust asset book in Infrastructure sectors.

KIDF continues to be judicious about credit underwriting and selection of customers. COVID-19 pandemic has impacted all industries across however the fact that only one customer has requested for moratorium reflects the quality of book the Company has built. It continues to closely monitor the developments.

Financial Highlights

(₹ in crore)

Particulars	FY 2020	FY 2019
Total Income	81.7	63.6
PBT / PAT	34.0	25.6

Customer Assets increased to ₹ 785 crore compared to ₹ 672 crore as on 31st March, 2019.

IVY Product Intermediaries Ltd (IVYPIL)

At present, IVYPIL is not engaged in any business activity. IVYPIL is earning income from investment of its surplus money in fixed deposits.

Financial Highlights

(₹ in crore)

Particulars	FY 2020	FY 2019
Total Income	0.4	0.4
PBT	0.4	0.3
PAT	0.3	0.2

BSS Microfinance Limited (BSS)

BSS is a wholly owned subsidiary of Kotak Mahindra Bank Limited (KMBL) and working as Business Correspondent (BC) of the Bank. BSS facilitates Microfinance Loans to Rural and Semi-urban poor women and having 239 branch offices across Karnataka, Maharashtra, Madhya Pradesh, Tamilnadu and Bihar. Loans originated by BSS for Bank are reckoned for priority sector advances requirements of Bank.

Financial Highlights

(₹ in crore)

Particulars	FY 2020	FY 2019
Total Income	197.1	139.4
PBT	78.9	79.2
PAT	59.3	55.7

It also provides first loss default guarantee to Bank on the loans originated by it. PBT is marginally lower compared to previous year, mainly on account of increase in credit costs due to increase in delinquency and increase in employee cost due to accelerated branch expansion, offset, in part, by increase in business volumes.

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 2020	FY 2019
Total Income	149.1	176.4
PBT	(16.1)	94.1
PAT	(16.9)	66.4
Share of Kotak Group	(8.4)	33.2

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 and provision on investments.

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 2020	FY 2019
Total Income	193.9	241.0
PBT	(9.7)	138.2
PAT	(11.7)	100.2
Share of Kotak Group	(5.8)	50.0

The Company has incurred a loss in the current year due to increased provisioning for diminution in value of investments and increase in interest costs.

ECA Trading Services Limited (formerly known as ACE Derivatives and Commodity Exchange Limited) (Unaudited)

Ace Derivatives and Commodity Exchange Limited ('The Company') was a demutualised national level multi commodity exchange and discontinued its operations as commodity exchange with effect from 31st May, 2015. The Exchange received SEBI approval on 21st December, 2018 for surrender of its license. Post SEBI approvals, the Company changed its name from Ace Derivatives and Commodity Exchange Limited to ECA Trading Services Limited with effect from 18th September 2019. The Company has changed its business to trading of all commodities in spot and futures markets. For FY 2020, the Company has made a profit primarily from sale of property and investment of surplus money.

Financial Highlights

(₹ in crore)

Particulars	FY 2020	FY 2019
Total Income	1.4	0.8
PAT	1.1	0.3
Share of Kotak Group (post adjustments)	0.4	0.1

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 policy sets the approach for Risk Management and is adopted by legal entities in the group, with suitable modifications, as appropriate for their individual businesses. The policy guides the organization of the risk management function and the identification, measurement, management and reporting of risks. The ERM policy is complemented by policies that are aligned to individual risks. These specific policies set the principles, standards and core requirements for the effective management of those risks. 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. All employees are responsible for understanding and managing risks within the context of their individual roles and responsibilities.

The independent Risk function is headed by the 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 an experienced executive management team and 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 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 has an oversight of 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. The Group sets an internal capital adequacy ratio target that includes a discretionary cushion in excess of the minimum regulatory requirement.

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 set the "Tone from the Top" and cover all key risk factors and clearly 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 by senior management who recommend it to the Board for approval. Annual 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 has 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 areas that are well understood and where there is sufficient expertise, resources and infrastructure to effectively measure and manage the risk and balance risk with reward.

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. Parameters for new underwritings are clearly specified and internal ratings are assigned when a credit is initially approved. The ratings 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 pools of homogeneous borrowers and products. 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 a separate risk rating assigned at the facility level that takes into consideration additional factors, such as security, seniority of claim, structure, and any other form of approved credit risk mitigation. 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. Periodic inspections of physical collateral are performed where appropriate and where reasonable means of doing so are available. 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 market risk & limit framework, the allocation of limits to business units & desks, the risk monitoring systems and risk control procedures. Additionally, the Bank has a Senior Management Committee for Derivatives – which 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 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. Major limits like PV01, Bond Position Limits, Desk-wise Fx Position limits, Greek limits etc. are monitored on an intraday 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 Value-at-Risk (VaR) to quantify the potential price risk in the portfolio. The VaR model is based on historical simulation and a confidence level of 99%. 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. Diversification of funding sources is a key element of the funding strategy and funding sources are well diversified by source, instrument, term and geography. The choice of funding sources and instruments is based on a number of factors, including relative cost and market capacity as well as the Group's objective to achieve an appropriate balance between the cost and the stability of funding.

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 is 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.

As of FY 2020, the regulatory requirement for LCR is 100%, on a daily average basis. In view of the exceptional conditions due to COVID-19, the RBI vide notification dated 17 April 2020, reduced the LCR requirement to 80%. The LCR requirement will be reset to

90% on 1st October 2020 and 100% on 1st April 2021. The Group is well above the minimum regulatory requirement for the LCR. The Group considers the impact of its business decisions on the LCR and regularly monitors the LCR 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 October 2020. The Group is on track to meet the NSFR requirements as per the RBI 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 an appropriate governance structure, 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 and on an ongoing basis.

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 taken various measures to enhance its overall security framework.

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, including fintechs targeting parts of the financial services value chain. The Group 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, which results 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. Risk culture refers to desired attitudes and behaviors relative to risk taking. The Group embeds a strong risk culture, through clear communication and appropriate training for employees. The objective is to develop a disciplined risk culture where managing risk is a responsibility shared by all 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. All employees are required to be familiar with risk management policies relevant to their roles and responsibilities and it is their responsibility to escalate potential risk issues to senior management, on a timely basis. The risk culture in the group lays emphasis on responsible business practices, prioritization of customers' needs and appropriate disclosures. Risk is taken into consideration when preparing business plans and when launching new products. 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 operating procedures. 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 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 has put in place Compliance tracking and Monitoring system to ensure that the regulatory instructions are implemented effectively within the organisation. 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, if any.

Audit department adopts a risk based audit approach in congruence with the RBI's Guidelines on Risk Based Internal Audit (RBIA) and carries out audits across various businesses, i.e. Consumer, Commercial, Wholesale, Treasury (for domestic and overseas operations) 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. An oversight on the operations is also kept through off-site monitoring. Further, critical units of the Bank are subjected to Independent Concurrent Audit process by reputed external audit firms.

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, 2020, the employee strength of Group was ~ 71,000 as compared to ~ 60,000 employees a year ago. The standalone Bank had ~ 50,034 employees as on 31st March, 2020.

With increased employee there has been renewed focus on bringing in diverse workforce in Bank during the year. Gender diversity moved from 23% women to 24% by the financial year end. Majority of the increase has been through the hiring at front line roles. Bank also revamped the D&I agenda and formed the council that consists of leaders from various segments of the Bank and Shanti Ekambaram – Group President – Consumer Bank leads it. Council has been instrumental in launching short term and long-term plan for building gender diverse workforce at various levels of the Bank.

Bank continued on its digitization and automation journey. Bank continues to drive more and more employee and manager self-service to enhance accessibility for all HR Processes. To increase efficiency, automation and centralisation, Bank has transitioned HR operations and many more processes to shared service. Bank has also started the journey through BOT for HR process automations.

Engagement has been key for your retention and growth. Bank has continued the focus on manager-led programs and theme-based regional initiatives like Leadership Connect/Town Hall, Webcast, Meet 5 for building manager connect and skip level engagement. Bank has also strengthen the platform for top down communication at the same time create listening opportunity for voice of employees through eNPS surveys.

As they say it takes 21 days to build a habit, your Bank had rolled out the plan for manager led engagement through #21DayChallenge. Employees are the greatest assets and their well-being directly translates to your Bank's well-being. Keeping this in mind, your Bank has championed Health and Wellness drives with the initiative, #HumFitKotakHit. This initiative has been pivotal in ensuring your bank remains a positive and healthy workspace at all times. Various health and wellness related initiatives were launch through online and onsite interactions.

Talent identification and building leadership pipeline has continued to be one of the key focus for your Bank during the year. The talent management framework has been revamped and a rigorous talent review process has been implemented at the senior level to ensure talent classification and succession planning.

Learning and development has continued to be priority for the bank. Bank has continued to enhance capability at leadership level with programs for clearing Digital Blur, various People-Manager programs for your functional and behavioural skill building at all levels. Increased focus on e-learning for delivering programs at various stages of employee lifecycle was continued.

The end of the financial year witnessed the COVID-19 outbreak. Bank bulked up planning for the BCP by rolling out work from home facility, ensuring essential staff and essential services operational in branch and back offices. Creating awareness, communicating DOs and DON'Ts to the employees has been one of the key agenda towards the end of the financial year.

MEDIUM-TERM AND LONG-TERM STRATEGY

Enhancing Customer Experience and Trust

The Group aims to be amongst the most trusted financial services conglomerates in India and has continuously striven to create an ethos of trust across all the businesses. To measure trust in all businesses, the Group utilizes the 'net promoter score' methodology to measure the willingness of its customers and employees of the Group to recommend its services. The Group tracks this score on a regular basis and use it as a basis for understanding the customer delight and loyalty and employee satisfaction levels with the Group.

Further, the Group endeavors to enhance customer experience through the development and delivery of a large array of financial products and services, using cost-efficient, convenient-to-access, and easy-to-use delivery channels, including various digital and technological initiatives (such as improved digital experience for the customers through an improved user interface). The Group believes that this strategy will enable it to build relationships with highly engaged and satisfied customers, which will contribute to its future growth. As a part of this strategy, the Group has created simplified, technology-driven processes for several products and services (for example, account opening, fixed deposits, credit cards, personal loans, seamless internet banking, and UPI transactions).

The Group also aims to strengthen its data and analytics capability, leading to improved actionable customer insights. The Group will continue to introduce additional features across its digital transaction channels which will make banking and other services easier and more convenient. This will further enhance the customer experience, which the Group believes, will lead to higher cross-selling of products, thereby contributing to the future growth and profitability.

Expanding market share in all segments of financial services in India

The Group aims to expand its market share in Indian financial services by increasing the customer base across the Group. While the recent rapid and diffuse spread of COVID-19 and the lockdown imposed by the Indian government has negatively impacted the growth in the Indian financial services industry, the Group intends to continue to pursue a strategy of measured growth in the short to medium term.

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, subject to regulatory restrictions.

As part of the future growth strategy of the Bank, the Bank plans to undertake a measured growth of its branch network to expand customer reach, focusing on value creation.

At the same time, the digital banking initiatives will continue to be the main driver of its customer acquisition strategy going forward. In particular, the Kotak 811 mobile application is aimed at the mass market across India and has significantly increased the Bank's customer base since launch. The Groups believes that digital offerings will position it well to capitalise on the expected growth in India's financial services sector resulting from the emerging middle class, technologically savvy millennial population and growing number of bankable households. Further, the subsidiaries of the Bank also have their independent digital customer acquisition and servicing platforms, in the areas of asset management, life insurance, securities broking as well as general insurance.

Going forward, the Group will continue to invest in various digital initiatives and technology infrastructure to enhance customer experience and improve its cross-selling capabilities in a cost-effective manner. The Group believes a comprehensive digital strategy will provide benefits in developing long-term customer relationships by allowing customers to interact and access their accounts wherever and whenever they desire. The Group also intends to further enhance the coverage of the existing digital initiatives.

The non-Bank businesses have 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 different customer segments. For the insurance business, the focus has also been on increasing the number of insurance advisers, and tying up with new distributors. For the asset management business, the focus has additionally been to increase accounts under the regular saving SIPs and further improving the performance of existing funds.

The Group also aims to expand its international presence through an increased focus on the international lending portfolio, which comprises an international banking unit in GIFT City and the first overseas bank branch in Dubai.

Continue to expand access to low-cost liabilities

The Bank aims to fund its loan growth objectives largely by growing the retail deposit base (in particular current deposits). Retail depositors are an important source of low-cost and stable funding for the Bank. The Bank focuses on leveraging its strengths and expanding the base of retail savings. The Bank was among the first banks to raise interest rates over the prevalent 4% on domestic savings deposits after the RBI deregulated interest rates on savings deposits in 2011, which helped to drive a rise in its savings deposit base. The Bank's CASA Ratio of 56.2% as of March 31st 2020, is amongst the highest in the banking industry in India. Whilst the Bank has reduced its interest rates in recent times, the interest rates are still higher than a number of peers.

The Bank plans to continue expanding its retail banking business by growing its distribution network, increasing its customer base, diversifying its banking product mix, providing banking convenience to customers, optimizing digital channels, and offering differentiated products and solutions to meet the specific needs of customers.

Further, the Bank aims to expand its current deposits by providing lending solutions, a range of customized products including wealth products targeted at the owners, promoters and directors of corporate customers, salary accounts and cash management and liquidity management solutions.

The Bank believes that its customer-specific orientation will result in an increase in retail deposits to the Bank, which will expand its pool of low-cost and stable funding. The Bank's cost of funds was 5.2% for FY2020 as compared to 5.5% for FY2019.

Attract, retain and build a team of talented, engaged and motivated employees

The Group believes that one of the keys to its success is the ability to recruit, retain, motivate and develop talented and experienced professionals, particularly as it seeks to expand the distribution network and offer new products and services. The employees are important, and the Group will continue to provide an encouraging work environment and promote career aspirations that can be realized by consistent performance and loyalty to its core values. The Group intends to continue to focus on the recruitment and cultivation of a high-quality, professional, and empowered workforce through:

- the provision of training and development programs for employees to enhance professional knowledge and capabilities;
- the enhancement of management and employee incentive programs to align compensation with employee performance;
- the creation of an encouraging work atmosphere; and greater employee engagement.

Disciplined risk management leading to strong asset quality

The Group believes that it has put in place comprehensive risk assessment processes and diligent risk monitoring and remediation procedures, which has helped it in maintaining a high-quality asset portfolio.

The Group believes that an important element in building a sustainable franchise is to embed conservatism in its internal policies and practices. The goal is to continually improve the risk management procedures, risk evaluation, rating methodology, and monitoring and control mechanisms to maintain the quality of the Group's loan and investment portfolios.

Underwriting forms the core of banking. As the Group believes in ensuring that the depositors' money is well protected, the process of managing risk and recovery is at the heart of its lending practices. The Group, therefore views risk management as the foundation for providing risk-adjusted returns. For example, the wholesale banking division has been monitoring risk-adjusted ROE at the individual customer level. Having the right framework in place has helped identify, assess, and manage risks well in time and allocate capital among the businesses appropriately.

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. The Group will seek inorganic growth opportunities in businesses or assets that either enable it to expand its market share; allow entry into an industry, customer or geographic segment that it is currently not present in; or provide with new capabilities. In addition, the Group will also evaluate opportunities that may arise in the stressed assets space, across different segments of the financial services industry.

The Group will pursue these inorganic growth opportunities where it sees the ability to add value for its stakeholders and customers. 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 will also actively seek opportunities of making minority investments in businesses where it would derive financial value from business models which are not managed by it.

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 which includes rural India
- Implement and leverage new technologies for business transformation
- Differentiate the Kotak Brand through the services provided and put customer centricity at the forefront
- Capitalise on opportunities arising from increasing NPAs and stressed assets in the Indian Financial Industry
- Leverage opportunities in the under-penetrated Life and General Insurance space; and
- Enhance the impacts of Financial Inclusion

Threats

- Uncertainty arising due to COVID-19 pandemic
- A 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, Bank 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. Also, 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.

Outlook for Kotak Group

Kotak Group's results for the financial year demonstrate the strong fundamental growth in India. However, concerns remain on the extent to which the recent COVID-19 outbreak will impact Indian economy, financial markets and liquidity. The Group believes that with sound risk management and a strong capital adequacy ratio, it is well positioned to capitalize on the growth opportunities offered by India of the future.

The Group aims to expand its market share in Indian financial services by increasing the customer base across the Group, and enhancing the customer experience, which will lead to higher cross-selling of products, thereby contributing to the future growth and profitability.

The Group will actively seek inorganic growth opportunities in the Indian financial services space. The Group will seek inorganic growth opportunities in businesses or assets that either enables it to expand its market share; allows entry into an industry, customer, or geographic segment that the Group is currently not present in; or provides it with new capabilities.

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.