Management Discussion and Analysis

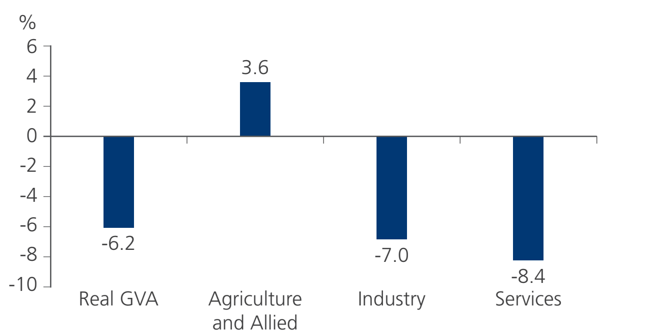
MACRO-ECONOMIC ENVIRONMENT

The pandemic resulted in an unprecedented health crisis, prompting countries to implement lockdowns that led to a meltdown in economic activity. In this situation, global GDP growth is expected to have contracted by 3.3% in 2020 as against 2.8% in 2019 as per the International Monetary Fund (IMF). Voluntary social distancing and lockdown restrictions brought steep income losses and dented consumer confidence worldwide. Firms became conservative in their investments when faced with negative demand shocks, supply interruptions, and uncertain future earnings prospects. Consequently, major economies except for China experienced a sizeable contraction in economic activity. On the positive front, the global policy response to an extent managed to cushion households from income losses and firms from the consequences of lockdowns and led to a sharp bounce back in activity and sentiments in H2CY2020.

India had implemented a nationwide lockdown in the second-half of March 2020 in response to the pandemic. This had strong repercussions for an already weak economy. The combined impact of demand compression and supply disruptions led to an unprecedented decline in fixed investment, private consumption and exports, with overall GDP contracting 24.4% in Q1FY21. Government expenditure only somewhat cushioned the deterioration. On the supply side, the nation-wide lockdown, social distancing norms and the exodus of migrant workers led to a steep decline in manufacturing and in construction activity. Trade and transportation went down to a fraction of their pre-Covid levels. Credit conditions also remained muted. The only silver lining was the resilience of agriculture on the back of strong rabi procurement, bolstered sowing of a range of kharif crops in Q1FY21 and normal monsoons. Given that the rural sector was relatively less affected by the first wave of infections, the policy support remained largely focused on providing temporary employment opportunities to returning migrant workers under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and ensuring adequate food supply. With the gradual unlocking of the economy from May/June 2020, signs of stabilisation appeared and real GDP growth recorded sequential upturn in Q2FY21 and regained positive growth in Q3FY21. Festive and pent-up demand also remained supportive of demand. On the supply side, the sustained resilience of agriculture was complemented by the momentum in manufacturing and services sectors. As a result, both GDP and Gross Value Added (GVA) growth turned positive from Q3FY21. Risks to economic activity continue with the second-wave of COVID-19 from March 2021.

Given the sharp meltdown in economic activity during H1FY21, FY 2021 GDP growth is expected at (-)7.3% (as against 4% in FY 2019-20), according to the NSO. On value added basis, the National Statistical Office (NSO) has projected real GVA growth at (-)6.2% for FY 2020-21 compared to 4.1% in FY 2019-20. Industrial sector growth is expected at (-)7% in FY 2020-21 in comparison to (-)1.2% in FY 2019-20, while services sector growth is expected at (-)8.4% as against 7.2% in FY 2019-20. The only support came from the agriculture and allied activities sector which grew at 3.6% as against 4.3% in FY 2019-20. On the expenditure side, private consumption growth and investment growth fell to a record low of (-)9.1% and (-)10.8%, respectively.

Real GVA growth in FY2021 NSO estimates



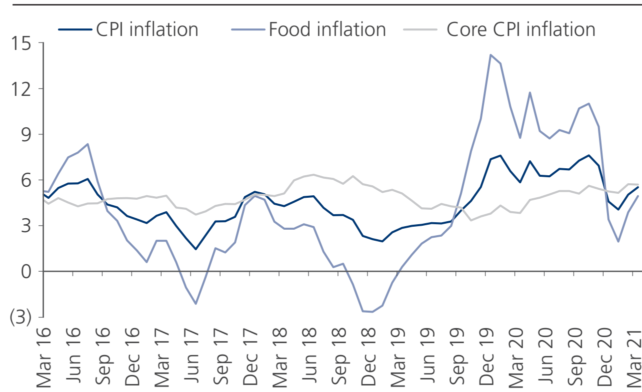
Source: CSO, Kotak Economic Research

To revive the economy, the government announced the Atmanirbhar Bharat Package to strengthen infrastructure logistics, capacity building, governance and administrative reforms. In addition, the government also legislated three important governance and administrative reforms to attract private investments in the agriculture sector and make it competitive. These measures represent long-awaited reforms in the agriculture sector, and successful implementation will play a key role. In order to boost domestic manufacturing, growth and employment, and to cut-down on import bill, the government introduced the production-linked incentive (PLI) scheme that aims to give companies incentives on incremental sales from products manufactured in domestic units. The government's push to domestic manufacturing through extension of the PLI scheme also complements its labour market reforms and corporate tax rates reduction announced earlier.

Domestic Price Dynamics

During the pandemic, while there was a rapid decline in demand, inflation readings hovered close to or above the RBI's upper limit of 6% for FY 2020-21 owing to non-monetary factors, such as supply disruptions in food, higher taxes on fuel, and increase in gold price. At the same time, inflation became more broad-based with higher food prices risking increasing inflation expectations and pushing core inflation higher. After breaching the upper tolerance threshold of 6% for six consecutive months (June-November 2020; April and May are regarded as a break in the series due to computational challenges), consumer price index (CPI) inflation fell in December 2020 and eased further in January 2021 to 4.1% on the back of a sharp correction in vegetable prices and softening of cereal prices. It has since rebounded to 5.5% in March amidst elevated core inflation and favourable base effects. Overall, headline CPI inflation ranged between 4.1-7.6% and averaged 6.2% in FY 2020-21 as against 4.8% in FY 2019-20. Food inflation ranged between 2-11.7% in FY 2020-21 with the March reading coming in at 4.9%.

CPI inflation averaged 6.2% in FY 2020-21 against 4.8% in FY 2019-20
(%)



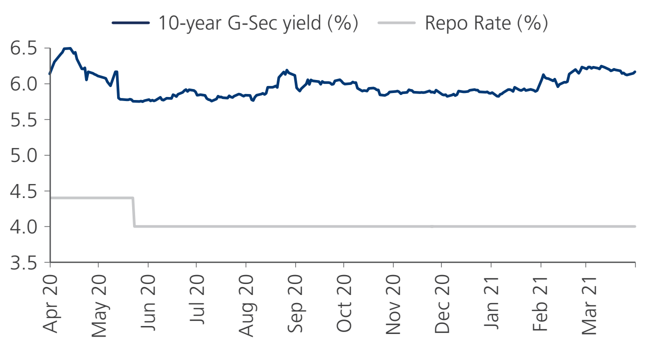
Source: CEIC, Kotak Economic Research

Going forward, while the incoming rabi harvest arrivals and the overall increase in domestic production in FY 2020-21 should augment supply and enable some softening of these prices, pump prices of petroleum products have remained high. The impact of high international commodity prices and increased logistics costs is being felt across manufacturing and services. Even as the Monetary Policy Committee (MPC) has acknowledged these upside risks to inflation, it expects the headline inflation to broadly remain within the target band in FY 2021-22 amidst muted demand and favourable base effects.

Monetary Policy and Interest Rates

To mitigate the economic and financial costs inflicted by the pandemic, the RBI did most of the heavy-lifting with the MPC cutting the policy repo rate by 40 bps to 4.0% on top of the sizeable cut of 75 bps in its 27th March, 2020 off-cycle meeting. The RBI also announced a range of other monetary, liquidity, credit easing and regulatory measures in the form of moratoriums, targeted long-term repo operations for corporates to maintain calm in the financial markets and ease fears of a liquidity squeeze. While these measures were successful, supply disruptions and other non-monetary factors like increase in gold price and retail prices of petrol and diesel pushed inflation well above the RBI's upper limit even as economic recovery remained at a nascent stage. In this context, the MPC noted that the revival of the economy assumed the highest priority as it expected headline CPI inflation to normalise with the easing of supply-side pressures. The MPC, therefore, decided to look through the inflation spike and unanimously voted to keep the repo rate unchanged and to continue with the accommodative stance into FY 2021-22 to revive growth on a durable basis and to mitigate the impact of the pandemic on the economy, while ensuring that inflation remained within the target going forward.

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



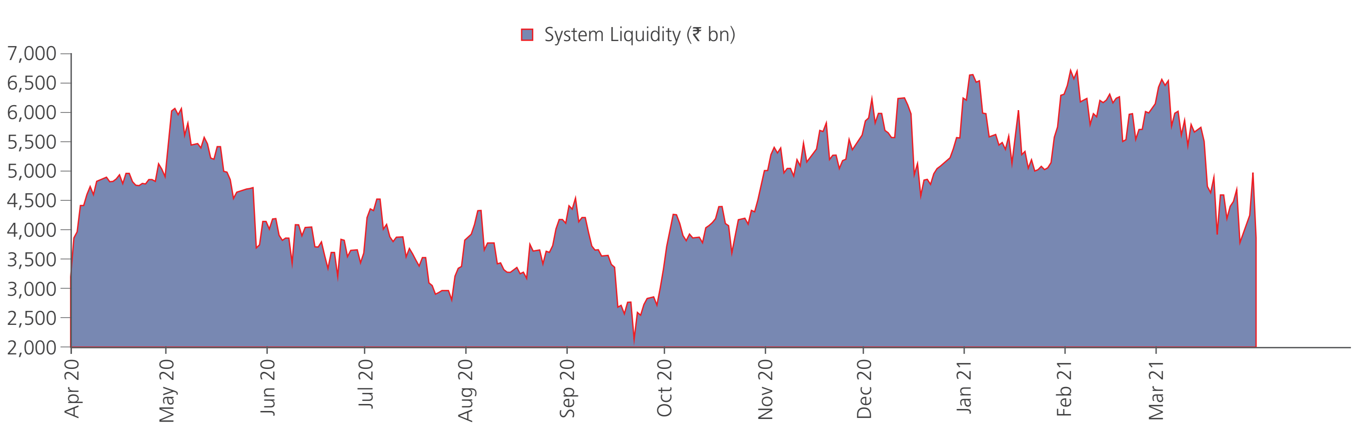
Source: CSO, Kotak Economic Research

RBI's actions helped in stabilising domestic financial markets during H1FY21 as trading volumes recovered, spreads narrowed leading to record corporate bond issuances and financial asset prices rebounded after a near collapse due to the implementation of the lockdown. Equity markets recovered strongly from panic sell-offs in March 2020 tracking global movements. Even the Rupee, which initially came under pressure with the spread of the pandemic, subsequently appreciated with the return of investor appetite for emerging market assets. In the credit market, transmission improved considerably, facilitated by rate cuts, abundant liquidity surplus and the introduction of the external benchmark system for the pricing of loans in select sectors. Markets remained buoyant even during H2FY21, fuelled by optimism around a speedy vaccine-led recovery. However, growing global inflation concerns amidst expectations of revival in global economic activity and pass-through of another stimulus package in the US sparked expectations of earlier than anticipated global policy normalisation and kept market sentiments subdued since February.

With respect to rates, despite pressure from record borrowings and elevated inflation, yields on government bonds moderated during Q1FY21 with the 10-year yield coming down by 25 bps in response to rate cuts and the conventional and unconventional measures taken by the RBI to enhance systemic liquidity and compress term spreads. Likewise, the corporate bond market, which experienced severe stress during March-April 2020, regained normalcy with decadal low yields and record primary market issuances. Yields on AAA-rated three-year bonds moderated significantly aided by surplus liquidity conditions, targeted long-term repo operations (TLTROs) and operation twist auctions. The fall in yields was also evident across issuer categories and credit ratings.

During Q2FY21, government bond yields exhibited a hardening bias due to a rise in fuel prices and higher inflation. In response, the RBI conducted five Operation Twist (OTs) during July-September and increased the limit of statutory liquidity ratio (SLR) securities kept under the held to maturity (HTM) category by 2.5% of net demand and time liability (NDTL) from 19.5% to 22.0%. During Q3FY21, the 10-year yield softened by 15 bps aided by introduction of on-tap TLTROs, open market operation (OMO) purchase auctions and OTs, along with the MPC's forward guidance on maintaining an accommodative monetary policy stance as long as necessary to revive growth on a durable basis. The extent of softening, however, was limited due to supply concerns, especially after the announcement that the Centre would borrow an additional ₹ 1.1 trillion to fund the shortfall in GST compensation for states. During Q4FY21, yields remained range bound until the budget on 1st February, 2021. Yields spiked following the announcement of larger than expected borrowing for both FY 2020-21 and FY 2021-22. Yields were under further pressure in the second-half of February in the wake of the sharp rise in US treasury yields and higher crude oil prices. However, the cancellation of the last scheduled G-sec auction, OMO purchases and OTs resulted in some moderation in yields towards the end of March.

The system liquidity remains well in surplus (₹ bn)



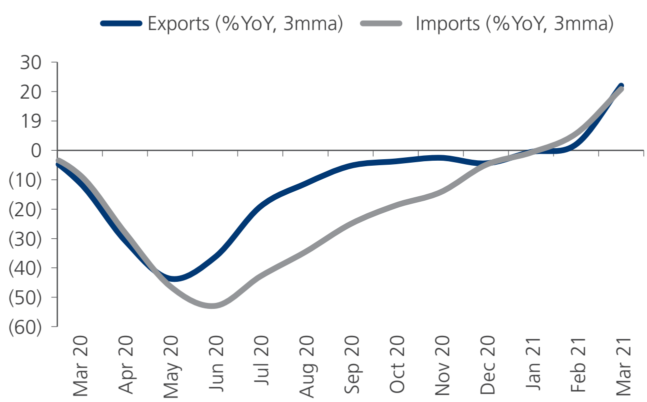
Source: RBI, Kotak Economic Research

External Sector Dynamics and the USD/INR

The overall external position remains comfortable with the current account balance having turned into surplus owing to a sharper deceleration in import activity compared to exports. As per the official release, for the first nine months of FY 2020-21, the current account surplus is at 1.7%, with the last official Q3FY21 print reporting a marginal deficit of 0.2%. While export growth has been weak owing to declining global demand, imports have contracted at a sharper pace owing to the correction in oil prices and weak domestic demand. Meanwhile, the capital account surplus rose to 2.7% of GDP in 9MFY21 on account of stronger foreign investment aided by the global accommodative policy stance. Portfolio investment recorded a net inflow of US$ 29 billion in 9MFY21 as against an inflow of US$ 15 billion in the same period a year ago. With FDI flows remaining buoyant, India's FX reserves rose by US$ 101 billion to around US$ 579 billion at the end of FY 2020-21.

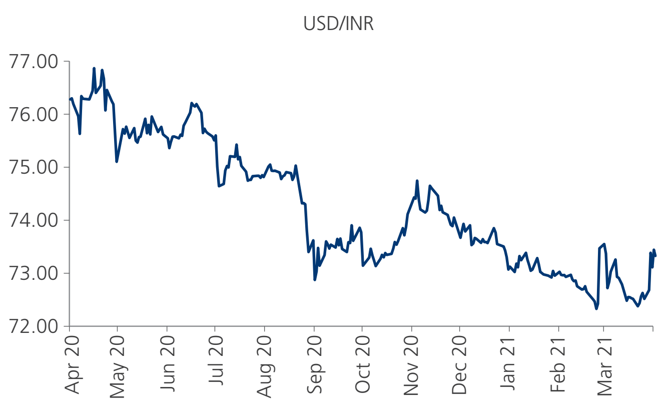
After depreciating to its lowest level of ₹ 76.81 on 22nd April, 2020, the INR subsequently appreciated owing to foreign portfolio investment (FPI) flow to the domestic equity market with the return of risk appetite for emerging market assets amidst a global accommodative policy stance and broad dollar weakness. The appreciation of the INR against the US dollar was, however, modest as compared with other emerging market peers owing to active RBI intervention. Expectations of a global growth revival on the back of positive vaccine-related developments were supportive of INR. After some depreciation in November 2020 owing to uncertainty with the second-wave of infections in the US, the INR again regained its trend of gradual appreciation and touched ₹ 72.29 on 24th February, 2021 amidst sustained strong FPI inflow. The INR depreciated somewhat thereafter due to elevated global financial market volatility on the back of rising US Treasury yields, higher crude oil prices and moderation in FPI inflows. INR moved in a range of ₹ 76.84-72.32 during FY 2020-21. On the whole, INR appreciated by 3.32% to end the year at ₹ 73.11.

Imports have contracted at a sharper pace



Source: CEIC, Kotak Economic Research

INR gains after correction in oil prices and improved risk sentiment



Source: Bloomberg, Kotak Economics 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 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 Indian subsidiaries (excluding insurance companies) and associates are prepared as per Indian Accounting Standards in accordance with the Companies (Indian Accounting Standards) Rules, 2015.

In addition to the widespread public health implications, the COVID-19 pandemic has had an extraordinary impact on macroeconomic conditions in India and around the world. During the previous year, people and economies around the world, witnessed serious turbulence caused by the first wave of the pandemic, the consequent lockdowns, the gradual easing of restrictions and the emergence of new variants of the virus. Although the government has initiated vaccination drives, COVID-19 cases have significantly increased in recent months due to the second-wave in India. Various state governments have again announced strict measures including lockdowns to contain this spread. As COVID vaccines get administered to more and more people, businesses in sectors impacted by the pandemic may gain momentum. However, the continuing and evolving nature of the virus has created uncertainty regarding estimated time required for businesses and lives to return to normal.

The Group continues to closely monitor the situation and in response to this health crisis, it has implemented protocols and processes to execute its business continuity plans, protect its employees and support its clients. The pandemic impacted lending business, distribution of third-party products, fee income from services or usage of debit/ credit cards and collection efficiency among others. It resulted in increase in customer defaults and consequently increase in provisions. The Bank and its subsidiaries, however, have not experienced any significant disruptions in the past one year and have considered the impact on carrying value of assets based on the external or internal information available up to the date of approval of consolidated financial results. The future direct and indirect impact of COVID-19 on the Group's businesses, results of operations, financial position and cash flows remains uncertain. The consolidated financial results do not include any adjustments that might result from the outcome of this uncertainty.

The Group held a general provision of ₹ 1,396 crore relating to COVID-19 of which ₹ 1,279 crore pertains to standalone Bank.

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

Entity-Wise Capital and Reserves of the Group

(₹ in crore)

Particulars	31st March, 2021	31st March, 2020
Kotak Mahindra Bank	63,727.0	49,015.3
Kotak Mahindra Prime	6,622.9	6,088.4
Kotak Mahindra Investments	2,117.4	1,859.6
Kotak Securities	5,321.4	4,528.8
Kotak Mahindra Capital Company	688.8	622.0
Kotak Mahindra Life Insurance	4,045.5	3,353.5
Kotak Mahindra General Insurance	191.3	164.7
Kotak Mahindra AMC & Trustee Co	1,232.7	886.4
Kotak Infrastructure Debt Fund	416.9	383.8
International Subsidiaries	1,340.0	1,229.6
Kotak Investment Advisors	404.8	364.8
Other Entities	301.7	275.7
Total	**86,410.4**	**68,772.6**
Add: Share in Affiliates	1,028.9	941.6
Less: Consolidated Adjustments	2,602.9	2,580.1
Consolidated Capital and Reserves*	**84,836.4**	**67,134.1**

**Includes Preference Share Capital*

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.

Consolidated Performance

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Total Income	56,814.8	50,365.7
Consolidated PAT	9,990.2	8,593.4
Consolidated Capital and Reserves	84,836.4	67,134.1
Key Ratios		
Return on Average Assets (RoAA) %	2.16%	2.10%
Return on Average Networth %	12.80%	13.75%
Earnings per equity share (diluted) (₹)	50.5	44.7
Book-value per equity share (₹)	425.5	348.3
Net Interest Margin (NIM) %	4.47%	4.59%
Gross NPA %	3.22%	2.16%
Net NPA %	1.23%	0.70%
Consolidated Capital Adequacy Ratio (CAR) %*	23.39%	19.77%
Tier I*	22.65%	19.21%

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

The Group had capital and reserves of ₹ 84,836.4 crore as on 31st March, 2021 (₹ 67,134.1 crore as on 31st March, 2020) and net worth of ₹ 84,336.4 crore as on 31st March, 2021 (₹ 66,634.1 crore as on 31st March, 2020). The book value per equity share was at ₹ 425.5 as on 31st March, 2021 (₹ 348.3 as on 31st March, 2020). The Group earned a Return on Average Assets (RoAA) of 2.16% in FY 2020-21 (2.10% in FY 2019-20). The Group's return on average net worth was 12.80% for FY 2020-21 compared to 13.75% for FY 2019-20. The Bank maintained high capital adequacy ratio in uncertain times, which resulted in lower return on equity.

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

Financial Results of Subsidiaries

(₹ in crore)

Particulars	FY 2020-21		FY 2019-20	
	PBT	PAT	PBT	PAT
Kotak Mahindra Bank	9,303.0	6,964.8	7,804.7	5,947.2
Kotak Mahindra Prime	720.4	534.7	923.4	673.1
Kotak Mahindra Investments	345.8	257.8	368.5	270.1
Kotak Securities	1,057.4	792.6	738.4	550.0
Kotak Mahindra Capital Company	110.9	82.3	107.6	79.1
Kotak Mahindra Life Insurance	897.5	691.9	839.1	608.2
Kotak Mahindra General Insurance	1.6	1.6	(28.1)	(28.1)
Kotak Mahindra AMC & Trustee Co	465.1	346.3	454.3	336.8
Kotak Infrastructure Debt Fund	33.1	33.1	34.0	34.0
International Subsidiaries	170.4	154.1	138.8	118.8
BSS Microfinance	30.9	23.2	78.9	59.3
Others	54.7	43.0	16.2	12.6
Total	**13,190.8**	**9,925.4**	**11,475.8**	**8,661.1**
Add: Share from Affiliates		87.3		(13.7)
Less: Inter-company and Other Adjustments		22.5		54.0
Consolidated PAT		**9,990.2**		**8,593.4**

Contribution of The Affiliates to the Net Profit of the Group

(₹ in crore)

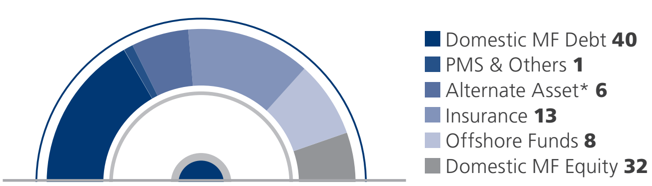
Name of the Company	Investment by Kotak Group	% shareholding of the Group	Group's share for FY 2020-21
ECA Trading Services Limited	23.8	20.00%	0.1
Infina Finance Pvt Ltd	1.1	49.99%	75.4
Phoenix ARC Pvt Ltd	100.0	49.90%	11.8

Assets under Management (AUM) as on 31st March, 2021 were ₹ 323,762 crore (₹ 225,878 crore as on 31st March, 2020), comprising assets managed and advised by the Group.

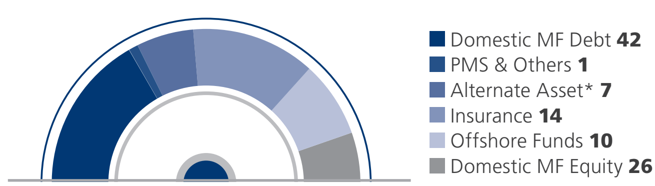
Relationship value of Wealth, Priority and Investment Advisory business was ~₹ 382,000 crore as on 31st March, 2021 (~₹ 270,000 crore as on 31st March, 2020).

Split of the Assets Under Management (AUM) Across the Group

AUM - ₹ 323,762 crore – 31st March, 2021 (%)



AUM - ₹ 225,878 crore – 31st March, 2020 (%)



including undrawn commitments, wherever applicable

The Group has a wide distribution network of branches and franchisees across India, an International Business Unit at Gujarat International Finance Tec-City (GIFT), overseas branch at the Dubai International Financial Centre (DIFC), and international offices in London, New York, Dubai, Abu Dhabi, Mauritius and Singapore.

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, wealth and recovery of acquired stressed assets. 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 (PBT) of the Bank for FY 2020-21 was ₹ 9,303.0 crore as against ₹ 7,804.7 crore for FY 2019-20. Profit After Tax (PAT) of the Bank was ₹ 6,964.8 crore in FY 2020-21 compared with ₹ 5,947.2 crore in FY 2019-20. RoAA for FY 2020-21 was 1.85% compared to 1.87% for FY 2019-20.

PROFIT AND LOSS ACCOUNT

A synopsis of the Profit and Loss Account

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Net Interest Income	15,339.6	13,499.7
Other Income	5,459.2	5,372.1
Net Total Income	**20,798.8**	**18,871.8**
Employee Cost	3,729.1	3,877.6
Other Operating Expenses	4,855.0	4,973.3
Operating Expenditure	**8,584.1**	**8,850.9**
Operating Profit	**12,214.7**	**10,020.9**
Provision & Contingencies (Net)	**2,911.7**	**2,216.2**
- Provision on Advances (Net)	1,876.0	1,470.8
- General Provision COVID-19 related	629.0	650.0
- Provision on Other Receivables	(1.6)	5.3
- Provision on Investments	408.3	90.1
PBT	**9,303.0**	**7,804.7**
Provision for Tax	2,338.2	1,857.5
PAT	**6,964.8**	**5,947.2**

Net Interest Income

Net Interest Income (NII) of the Bank for FY 2020-21 was ₹ 15,339.6 crore compared to ₹ 13,499.7 crore for FY 2019-20. The Bank had a Net Interest Margin (NIM), excluding dividend income and interest on income-tax refund, of 4.4% for FY 2020-21 compared to 4.6% for FY 2019-20. During the year:

- The yield on interest earning assets decreased from 9.2% for FY 2019-20 to 7.7% for FY 2020-21 mainly due to change in asset mix and decreasing interest rate scenario.
- Cost of funds decreased from 5.2% in FY 2019-20 to 3.8% in FY 2020-21 primarily due to decrease in rates offered on savings account deposits and term deposits, resulting in a decrease in cost of deposits.
- The average interest earning assets increased by 19.0% from ₹ 291,599 crore for FY 2019-20 to ₹ 347,068 crore for FY 2020-21.
- The average current and savings accounts (CASA) balances increased by 24.2% from ₹ 119,355 crore in FY 2019-20 to ₹ 148,293 crore in FY 2020-21, whereas the average borrowings increased from ₹ 25,823 crore in FY 2019-20 to ₹ 39,219 crore in FY 2020-21.

Further, RBI circular dated 7th April, 2021 required banks to refund/adjust the 'interest on interest' charged to the borrowers during the moratorium period, i.e. 1st March, 2020 to 31st August, 2020 in conformity with the Honourable Supreme Court of India judgement on 23rd March 2021. Pursuant to the said order and as per the RBI circular, the methodology for calculation of the amount of such 'interest on interest' was finalised by the Indian Banks Association (IBA). The Bank has created an estimated liability of ₹ 110.0 crore towards interest relief and has reduced the same from interest earned for the FY 2020-21.

Non-Interest Income

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Commission, Exchange and Brokerage	3,384.1	3,779.3
Profit on Sale of Investments	272.5	483.1
Profit on Exchange on Transactions (Net) (Including Derivatives)	1,233.4	675.9
Profit on Recoveries of Non-Performing Assets Acquired	172.1	148.5
Income From Subsidiaries/Associates Towards Shared Services	111.6	89.6
Dividend From Subsidiaries	15.6	51.8
Others	269.9	143.9
Total Other Income	**5,459.2**	**5,372.1**

Non-interest income increased from ₹ 5,372.1 crore in FY 2019-20 to ₹ 5,459.2 crore in FY 2020-21 due to:

- Increase in Profit on exchange on transactions (net) (including derivatives) compared to the previous year
- Increase in others is primarily due to higher income received from sale of Priority Sector Lending (PSL) certificates

  This was partly offset by:

- Decrease in commission, exchange and brokerage income primarily on account of decrease in credit card fees, service charges on loans and direct banking fees and charges, offset, in part, by increase in third-party referral fees and syndication income;
- Profit on sale of investments declined primarily due to decrease in profit on sale of Government Securities.

Employee Cost

Employee cost of the Bank has decreased to ₹ 3,729.1 crore for FY 2020-21 compared to ₹ 3,877.6 crore for FY 2019-20 primarily due to decrease in retirement obligations. The retirement obligation relating to pension and gratuity was higher in FY 2019-20 owing to lower interest rates, increase in annuity rates by LIC and decrease in return on retirement benefit funds. The above was offset, in part, by increase in employee base to 51,734 as on 31st March, 2021 from 50,034 as on 31st March, 2020 and employee incentives.

Other Operating Expenses

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Rent, Taxes and Lighting	687.4	677.9
Printing and Stationery	57.3	83.5
Advertisement, Publicity and Promotion	104.6	121.2
Depreciation on Bank's Property	366.8	371.9
Directors' Fees, Allowances and Expenses	2.0	1.8
Auditors' Fees and Expenses	2.6	2.4
Law Charges	46.3	51.7
Postage, Telephone etc.	174.3	174.0
Repairs and Maintenance	508.9	444.2
Insurance	323.7	233.4
Travel and Conveyance	52.2	98.0
Professional Charges	796.4	916.3
Brokerage	193.4	292.1
Stamping Expenses	4.9	12.7
Other Expenditure	1,555.0	1,522.2
Reimbursement from Group Companies	(20.9)	(30.2)
Total	**4,855.0**	**4,973.1**

Other operating expenses were ₹ 4,855.0 crore for FY 2020-21 compared to ₹ 4,973.1 crore for FY 2019-20, primarily due to:

- Decrease in professional charges mainly due to lower amount of fee payments to business correspondents, which is consistent with business volumes
- Decrease in brokerage expenses consistent with decreased business volumes
- Decrease in travel and conveyance expenses and printing and stationery expenses due to remote working during lockdown

  This was offset, in part, by:

- Increase in insurance expenses consistent with increased business volumes
- Increase in repairs and maintenance expenses due to increase in repairs and refurbishment of branches
- Increase in other expenses is primarily on account of:
  - Higher expenditure on corporate social responsibility (CSR) activities
  - Higher Priority Sector Lending Certificates (PSLC) expenses

  This was offset, in part, by:

  - Decrease in credit card expenses mainly due to lower POS expenses, cost of acquiring e-Commerce business and decrease in volume of card transactions
  - Decrease in ATM acquiring fees and subvention expenses

The Bank's Cost to Income ratio was at 41.3% for FY 2020-21 as compared to 46.9% for FY 2019-20.

Provisions and Contingencies (excluding tax)

Provisions and contingencies (excluding tax) were ₹ 2,911.7 crore for FY 2020-21 compared to ₹ 2,216.2 crore for FY 2019-20 primarily due to higher specific provision on loans (excluding COVID-19 related provisions) by ₹ 405.2 crore and provision on investments by ₹ 318.2 crore in FY 2020-21.

The Bank held a general provision of ₹ 1,279.0 crore relating to COVID-19.

Credit cost on Advances was 112 bps for FY 2020-21 compared to 97 bps for FY 2019-20. Excluding COVID-19 related provisions, credit cost on advances was 84 bps for FY 2020-21 compared to 67 bps for FY 2019-20.

Provision for tax

Provision for tax increased from ₹ 1,857.5 crore for FY 2019-20 compared to ₹ 2,338.1 crore for FY 2020-21 primarily due to higher profits in FY 2020-21.

BALANCE SHEET

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

(₹ in crore)

Liabilities	31st March, 2021	31st March, 2020
Capital and Reserves	63,727.0	49,015.3
Deposits	280,100.0	262,820.5
- Current Account Deposits (CA)	52,087.0	43,012.7
- Savings Account Deposits (SA)	117,225.7	104,608.6
- Term Deposits (TD) Sweeps	20,923.7	17,467.3
- Other TDs	89,863.6	97,731.9
Borrowings	23,650.6	37,993.3
Other Liabilities and Provisions	16,011.0	10,422.6
Total	**383,488.6**	**360,251.7**

(₹ in crore)

Assets	31st March, 2021	31st March, 2020
Cash and Bank Balances	39,626.5	53,292.3
Investments	105,099.2	75,051.5
- Government Securities	85,344.9	61,905.6
- Other Securities	19,754.3	13,145.9
Advances	223,688.6	219,748.2
Fixed Assets and Other Assets	15,074.3	12,159.7
Total	**383,488.6**	**360,251.7**

The Bank's capital adequacy continue to be healthy with overall CRAR at 22.3% (Tier I ratio of 21.4%) as compared to 17.9% (Tier I ratio of 17.3%) as on 31st March, 2020.

Deposits

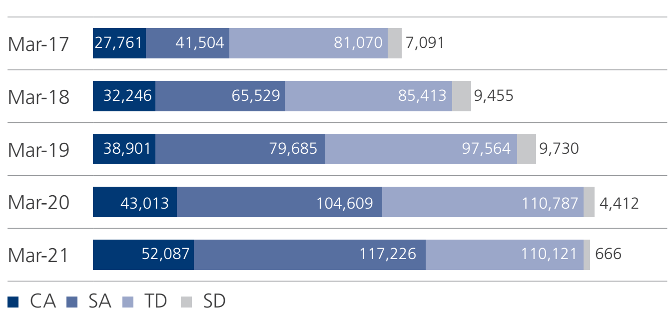
The Bank's strategy is based on its fundamental philosophy to build a low-cost and stable liability franchise and it has been successful over the past few years. The Bank's deposits grew to ₹ 280,100.0 crore as on 31st March, 2021 compared to ₹ 262,820.5 crore as on 31st March, 2020. CASA deposits increased to ₹ 169,312.7 crore as on 31st March, 2021 to ₹ 147,621.3 crore as on 31st March, 2020. CASA ratio stood at 60.4% as on 31st March, 2021 compared to 56.2% as on 31st March, 2020.

Savings account (SA) deposits grew by 12.1% to ₹ 117,225.7 crore and Current account (CA) deposits grew by 21.1% to ₹ 52,087.0 crore. Total Term deposits (TD), including certificate of deposits, de-grew by 3.8% to ₹ 110,787.3 crore. Certificate of deposits (CD) de-grew by 84.9% from ₹ 4,411.7 crore as on 31st March, 2020 to ₹ 666.1 crore as on 31st March, 2021.

During FY 2020-21, average SA increased by 27.0% to ₹ 108,811.9 crore in FY 2020-21 compared to ₹ 85,656.3 crore in FY 2019-20 and average CA increased by 17.2% to ₹ 39,481.4 crore in FY 2020-21 from ₹ 33,698.9 crore in FY 2019-20. CASA ratio stood at 60.4% as on 31st March, 2021 compared to 56.2% as on 31st March, 2020.

CASA plus term deposits below ₹ 5 crore account for 91% of the total deposits.

Deposits (₹ crore)



Advances

The classification of advances of the Bank is as follows:

(₹ in crore)

	31st March, 2021	31st March, 2020
Corporate Banking	59,125.9	64,563.6
Small and Medium Enterprises (SME)	19,957.5	20,291.1
Commercial Vehicles & Construction Equipment (CV/CE)	20,386.8	19,253.1
Agriculture Division – Others	23,741.3	21,188.5
Tractor Finance	9,418.3	7,568.6
Home Loans and Loan Against Property (LAP)	54,749.2	48,515.8
Consumer Bank Working Capital (Secured)	21,839.2	19,838.8
Personal Loans, Business Loans & Consumer Durables	7,024.0	9,754.2
Credit Cards	3,968.5	4,700.5
Other Loans	3,477.9	4,074.1
Total Advances	**223,688.6**	**219,748.2**
Credit Substitutes	15,168.4	9,222.5
Total Customer Assets	**238,857.0**	**228,970.7**

Advances grew at 1.8% to ₹ 223,688.6 crore as on 31st March, 2021 compared to ₹ 219,748.2 crore as on 31st March, 2020. Customer Assets grew at 4.3% to ₹ 238,857.0 crore as on 31st March, 2021 compared to ₹ 228,970.7 crore as on 31st March, 2020. The slow growth of advances was primarily due to conservative approach of the Group and subdued economic activity. Advances de-grew in the first-half of the year due to the intensity of the pandemic during that period. However, signs of improvement were seen in the second-half of the year and the Bank leveraged the opportunity with Advances in the second half of the year growing at ~ 18% (annualised). The growth in Advances was primarily due to home loans and loans against property (LAP), Agriculture Division, Tractor Finance and Commercial Vehicles/Construction Equipment as a result of an increase in demand in these segments. The Corporate Banking book decreased as a result of the Bank's conservative approach on growing its corporate loan portfolio to higher-rated corporates.

Unsecured Retail Advances as a percentage of net advances reduced to 5.8% as on 31st March, 2021 compared to 7.5% as on 31st March, 2020.

The Bank's credit deposit ratio stood at 79.9% as of 31st March, 2021 over 83.6% as of 31st March, 2020.

Asset Quality

While some stress has been observed 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, 2021	31st March, 2020
Gross NPA	7,425.5	5,026.9
Gross NPA %	3.25%	2.25%
Net NPA	2,705.2	1,557.9
Net NPA %	1.21%	0.71%

The provision coverage ratio, including technical write off, was 70.2% as of 31st March, 2021 as compared to 76.3% as of 31st March, 2020. Total provisioning towards advances (including specific, standard, COVID related, etc.) is 95% of the GNPA of the Bank.

Moratorium

In accordance with the RBI guidelines relating to COVID-19 Regulatory Package dated 27th March, 2020, 17th April, 2020 and 23rd May, 2020 and clarification issued by RBI through Indian Bankers Association dated 6th May, 2020, the Bank had granted moratorium on the payment of installments and/or interest, as applicable, falling due between 1st March, 2020 and 31st August, 2020 to eligible borrowers classified as Standard, even if overdue, as on 29th February, 2020. The moratorium period, wherever granted, was excluded from the number of days past-due for the purpose of asset classification under RBI's Income Recognition and Asset Classification norms.

The Bank held provisions as at 31st March, 2021 against the potential impact of customers impacted by COVID-19 pandemic, which is higher than the regulatory requirements.

Restructuring

In accordance with Resolution Framework for COVID-19 announced by RBI on 6th August, 2020, the Bank has implemented one-time restructuring for certain eligible borrowers and such borrowers are classified as Standard in accordance with the above framework. Total restructuring implemented by the Bank as on 31st March, 2021 was ₹ 435 crore; 0.19% of the net advances 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 12.14% of ANBC for this purpose for fiscal 2021 (FY 2019-20: 12.11%). 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, 2021, the Bank's total investment in such bonds was ₹ 6,314.5 crore (31st March, 2020: ₹ 5,201.7 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 2020-21 was ₹ 95,155.7 crore (FY 2019-20: ₹ 77,854.5 crore) constituting 43.95% (FY 2019-20: 40.37%) of ANBC, against the requirement of 40.0% of ANBC. The average lending to the agriculture sector was ₹ 37,568.2 crore (FY 2019-20: ₹ 30,512.3 crore) constituting 17.35% (FY 2019-20: 15.82 %) of ANBC against the requirement of 18.0% of ANBC. The average advances to weaker sections were ₹ 26,991.3 crore (FY 2019-20: ₹ 21,073.2 crore) constituting 12.47% (FY 2019-20: 10.93 %) of ANBC against the requirement of 10.0% of ANBC. Average lending to small and marginal farmers was ₹ 19,855.0 crore (FY 2020-21: ₹ 14,368.6 crore) constituting 9.17% (FY 2019-20: 7.45%) of ANBC against the requirement of 8.0% of ANBC. The average lending to micro enterprises was ₹ 18,320.0 crore (FY 2019-20: ₹ 15,107.8 crore) constituting 8.46% (FY 2019-20: 7.83%) of ANBC against the requirement of 7.5% of ANBC. The average lending to non-corporate farmers was ₹ 25,236.69 crore (FY 2019-20: ₹ 19,519.2 crore) constituting 11.65% (FY 2019-20: 10.12%) of ANBC against the requirement of 12.14% (FY 2019-20: 12.11% 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

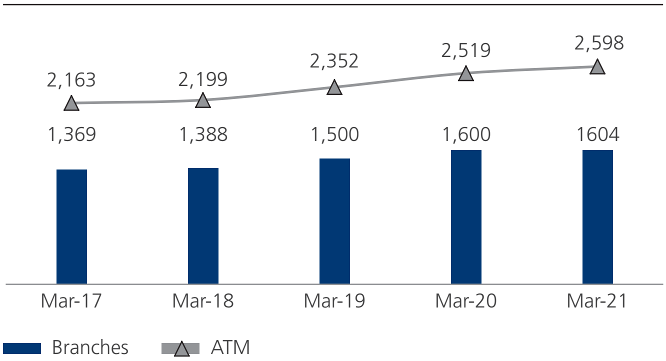
Branch Banking

In a year unlike any before, the Bank continued to roll out several initiatives aimed at offering a superior and differentiated customer experience.

Network

The Bank had 1,604 branches (excluding GIFT and DIFC) and 2,598 ATMs as on 31st March, 2021.

Branches and ATM growth



Key initiatives taken during the year are:

Products and Services

- Rolled out initiatives to make banking convenient, easy and secure for its customers. The Bank launched a "Zero-Contact Video KYC" Savings account
- launched "**Bank from Home**" campaign, which introduced various deals on essential items to its customers through alliance partners–daily newspaper, fitness at home, OTT platforms, exclusively curated offers on up-skilling and education. The Bank also supported its customers to transact in contact-less manner through its offerings like "Scan n Pay"and Cardless Cash withdrawals. It also tied up with partners to offer grocery services by integrating links via Mobile App – Kay Mall. Various campaigns were conducted to make customers aware of fraudulent transactions and how to avoid falling prey to fraudsters.
- For its retail as well as corporate salary customers, the Bank enabled multiple transactions and service request via Digital forms – thereby saving the customers' need to step out and take undue risks.

- Kotak Silk, our banking program designed especially for women, believes financial independence is the true independence for women. This International Women's Day (Mar 8, 2021), Silk launched its campaign #SheIsTheChange to financially empower women. The initiative included launch of its dedicated digital platform https://www.silkmoneymatters.com created to enhance financial knowledge among women and empower them towards managing finances & investments. A series of interactive webinars by experts on different aspects of financial management were also organized for all women customers.
- Under Corporate Salary segment, the Bank has launched an exclusive account for the Public Sector, Government bodies and Armed Force - **Salary Account for Public Services.** The account comes with host of benefits designed specifically to cater to the needs of this segment like Lifetime Free Zero Balance account. Customers can enjoy benefits even after retirement, Complimentary insurance covers such as Personal Accident Death cover, Partial / Permanent Disability cover, Education benefit to dependent child, Family banking, Investment account, Loans & Cards etc.
- Signed an MOU with **Indian Army** with an exclusive offer for the "Heroes of our country". It launched **Kotak UNI Account** for students pursuing professional courses from premier institutes. Every year large number of students graduate from various Universities / Institutes and join corporate India. With this offering, the Bank intends to co-create with the universities to ensure that the work force entering Corporate India is not just Skilled but also Financial Prudent. This programme comes with facilities such as Digital Banking with 180+ features on Kotak Mobile Banking App, Pay or recharge phone, DTH, or any bill, Scan & Pay* facility for contactless and cash free payments, #DreamDifferent Credit Card, benefits from curated brand offers and exciting deals. Most importantly this programme offers strong financial literacy through webinars/ seminars.
- Privy League Programme, the Bank's offering for the HNW banking, was extended to its HNW Asset customers. Under this, high net worth asset customers are offered exclusive Privy League membership and build a holistic relationship with the bank.
- For its premium customers under the exclusive Privy programme, the Bank enabled Konnect2RM, a missed call service enabling customers to connect with their Relationship Managers by giving missed call. This ensured customers one more way to access the Bank in these testing times.
- Bank launched unique Self On-boarding Digital Kits for the Corporate employees, whereby, using the QR interface, customer can complete the account set up journey.
- Introduced end-to-end eSignature and eStamping of documents, this solutions helps Bank to send all requirement documents to customer electronically and get esigned and stamped by customer and send us back. This brings speed and reduces customer physical touch points and seamlessly processed the documentation process.
- Implemented Valuation systems, which enables end-to-end automated process for property valuation, works a repository of properties and also provide property information report to management along with benchmark reports.
- Bank continues to actively participate in various Financial Inclusion initiatives. During the year, it was instrumental in the credit and distribution of COVID-19 subsidy package offered to women jandhan account holders under the Pradhan Mantri Garib Kalyan Yojana (PMGKY). Under this scheme an Ex-gratia payment of ₹ 500 was credited and distributed to women Jan Dhan account holders for three months starting from Apr'20.
- Actively participated in the PM Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi) scheme thereby offering loans upto ₹ 10,000 to meet the urgent need of working capital to street vendors to resume their business after impact of COVID-19 pandemic.
- Launched a dedicated toll-free number from UAE to cater to its large Non Resident customer base. With this addition, bank now offers toll-free service to its Non-Resident Indian customers from USA, Canada, UK, Singapore, Hong Kong, Australia and UAE. In line with the Bank's overall strategy to enhance the customer experience of its NRI clients, it launched a service for its Non-Resident Indian customers that enables them to interact with a Customer Service Representative 24/7, without having to go through the IVR menu options. This has significantly reduced the wait time for customers to speak to a bank representative.

811:

- The Bank continued to ramp up 811 acquisition numbers this year. It launched a Zero-Contact Video KYC based Saving account during the peak of the pandemic (on 18th May, 2020), when face to face meetings were difficult. This technology helps in completion of the KYC process for new customers without meeting in person. This enables seamless and quick process of KYC and provides better experience to customer.
- To extend the 811 brand, the Bank launched 811 Dream different credit card, which was backed by Fixed Deposit & thus available for all. This will help people with No bureau score to get their first credit card & build credit history.

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.

Digital Payments:

- New digital payment methods were introduced for the Bank's customers including Aadhaar enabled payments, UPI 2.0 allowing customers to create one-time mandates and apply for IPOs via the new UPI product enhancement from NPCI
- The app also became more comprehensive with new features like Forex card, Premature withdrawal of Fixed Deposit, Payday loan, Fastag, Insurance, UPI 2.0, Image credit card etc. and a number of in-app merchant partnerships like –Amazon (Multi-category), Flipkart (Multi-category including Groceries), Bigbasket (Groceries), Nykaaman (Fashion & Personal Care), Train Bookings via IRCTC (Travel), Flights Bookings via GoIBIBO (Travel), Bus Bookings via GoIBIBO (Travel), Hotel Bookings via GoIBIBO (Travel), Magazines via Indiamags.
- QR Code (UPI): Digital mode of payment: Generation of dynamic QR code with customer loan account no. and instalment amount. Customer can make payment through UPI on receipt of QR code, thereby improving collection efficiency and ensuring a contactless process.
- Number of key digital payment initiatives helped to get ranked amongst the Top 3 Banks in MeitY Digital Payments Annual Score card for FY 2020-21.

Transformation

- Net Promoter Score of 90+ in Branches across Digitised Service Requests
- New Requests have been added to help customers bank online including updating their address via Netbanking and changing their home branches to a closer and convenient branch
- The Bank saw manifold increase in enquiries over Keya Chatbot via its deliverable tracking system to provide them status of their deliverables like cheque book and debit card
- The Bank launched a cheque tracking portal for the status and image of the cheques
- Won the IDC Information Visionary award for the innovation in Cognitive machine reading solution for corporate banking funds transfer automation which has helped in speed and accuracy.
- The Robotics Process Automation processed 2X requests in FY 2020-21 YoY.

Net Banking

- New, revamped Net Banking was launched with new technology stack and new customer experience for key journeys
- Net Banking became more comprehensive with new features such as Positive Pay (Cheque Confirmation), Card Controls for Credit, Debit and Forex Cards, Address update and integration of additional Insurance products

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
- It has been made more secure with the new device registration process
- The App also been upgraded with new features like Send money abroad, eStatement, NPS, Insurance, and Amazon accessibility

Conversational Banking

- Keya Chatbot and WhatsApp Banking were scaled to start creating business impact and become mainstream digital channels by handling more products, services and related queries
- WhatsApp has become one of the important channels for the bank to communicate with customers for important service-related communications.
- WhatsApp channel has been upgraded to understand customer queries in natural language and leverage the existing knowledge of Keya chatbot to answer customer queries
- Keya chatbot has been enabled with Voice and Hindi language support to cater to more customers
- Keya Chatbot and WhatsApp handle queries about variety of products like Credit Card, Debit Card, Accounts, Fund Transfer, Bill Payment, NPS, Fixed Deposits, Loans and more. It also handles customer requests such as online tracking of packages, card on-off, credit card bill payment, recharge and loan statements

New business and new models

Digital Acquisition

- Zero-Contact Video KYC was launched for acquisition of Kotak 811 account. It proved to be a leading driver of new acquisition

Digital Lending

- Launched Overdue EMI payment through PSP applications like Google pay, Phone Pay etc. for all term loans.
- Enabled loan services i.e. Loan Information, Loan statement & repayment schedule on Whatsapp & Keya chatbot
- Enabled Digital Payment options for collections Ubona (call bot solution), Pay U (Payment link sent to customer) and Collection Sales application (all payment modes enabled).
- Launched end-to-end digital processing of personal loans (DIGI-PL) with online disbursal for existing to bank customers.
- Automated lien and SI process for due SPLN and CFB loans for effective collection process and reduce manual intervention
- Launched Digisign Pan Bank, a facility that offers customers the ease and convenience to digitally sign and execute documents with the bank without physical touchpoint
- Launched E2E Sanction process for Home Loans (Digi HL).

Innovation Lab

- Implementation of Nudges to provide actionable insights for customers in NB 2.0.
- Connected banking platform was launched and Zoho was onboarded as the first partner.

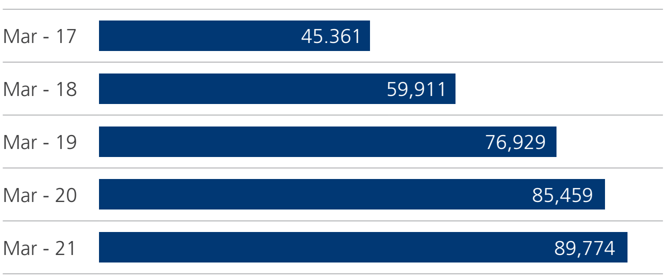
Consumer Assets

FY 2020-21 was a challenging period on the Consumer Assets side of the business with 2 phases of Moratorium, ECLGS and restructuring in-line with regulatory guidelines. However, the Bank was able to meet these challenges effectively, and business volumes showed momentum during H2FY21.

Under the Consumer Assets portfolio, the Bank offers a wide range of products. The key ones are home loans, loans against property, personal loans, gold loans, working capital loans (for small businesses). Consumer bank advances increased by 5.0% in FY 2020-21.

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

Consumer Banking Advances (₹ crore)



Products and Services

There were quite a few positives for the year:

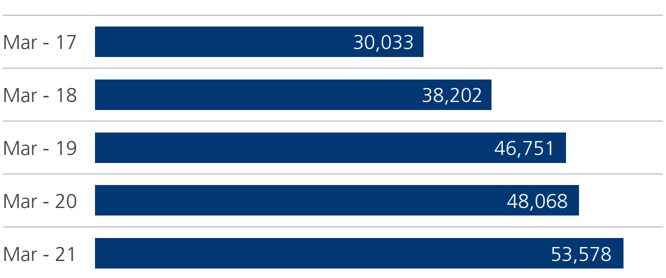
- The Home Loan business was a key focus area, and taking leadership position on interest rates, the Bank was able to significantly ramp up business volumes. The Home Loan business showed a positive growth in volumes despite almost negligible business in the first half of the year.
- For Credit cards, the Bank launched 4 new products in a year. These new cards (White, Zen, Mojo, 811 Secured) are benchmarked against the best card propositions in the industry and will help significantly reposition the offerings.
- Consumer Finance (CF) business continues to grow from strength to strength. March 21 saw the best ever volumes in the CF business.

Commercial Banking

The Commercial Banking business focuses on meeting the banking and financial needs of various segments. The Commercial Bank has specialised units which offer financial solutions in the areas of commercial vehicles, construction equipment, tractor, and agriculture business. It services the priority sector by providing finance for tractor, crop loans, 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:

Commercial Banking Advances (₹ crore)



Construction Equipment (CE) industry which was 24% down in FY 2019-20 reported decent growth in FY 2020-21 with initial hiccups, the overall industry withered the storm of COVID-19 and sector proved to be highly responsible for propelling India's overall development. It enjoys intense focus from Government and it plans to spend US$ 1.4 trillion on infrastructure during 2019-23 to have a sustainable development. Infra sectors such as roads, power, bridges, dams, water supply, irrigation, railways and urban infrastructure development are showing significant growth and order flow for contractors. Overall cash flow of contractors/ infra companies which are working for central governments and its bodies have been good. Overall delinquencies in CE business are showing sign of improvement month on month.

Commercial Vehicle (CV) business witnessed a drop in disbursement level in line with decline in CV industry numbers. The decline is primarily due to the impact of pandemic and the subsequent lock down. The Passenger segment, comprising Staff/ School bus transportation, tour & Travel and public transport operation, has been impacted the most. The overall delinquency percentage of the CV portfolio has increased.

Under Agri Business, the agro & food processing segments were benefitted by their status of being in the essential services and hence having a limited impact due to the lockdowns. The supportive government schemes ensured enhanced liquidity to these segments during a period of lengthening receivables due to COVID lockdowns. The segment saw significant demand rise for Term Loans for Capacity expansion and stocking given the enhanced demand for commodities.

FY 2020-21 saw one of the best monsoon seasons with the widest spread of rains across geographies and for the most effective period of time. Farmers, therefore, were assured of a bumper rabi output. This also ensured stability in prices of commodities which improved margins for processors. There was also increased demand in the logistics part of the Agri chain by way of loans for new warehouse / cold storage construction, pledge facilities, packaging units and for grading of agro commodities. The stress on portfolio quality was lesser due to the COVID crisis.

Key initiatives were made on the digital ways of doing businesses without having to come into physical contact. Digital documentation for sanction and legal acceptance of the terms for the government supported guarantee program was one such an initiative. Also the Government sponsored e-NAM for online payments between farmers and traders/processors was introduced. Kotak Bank was only one of the six banks shortlisted by the government to provide this facility. The bank was amongst the first to go live in this digital payment initiative.

In case of MFI, despite the moratorium announced, the segment saw improving repayments from their retail borrowers for much of the year and the collection efficiency had improved to over 95% by the end of the financial year. The segment however was impacted by the lockdown period of curtailed mobility and saw a flat portfolio growth rate. However the inflow of equity funding to MFIs, ample liquidity and improving collections ensured that the overall credit losses were contained.

During FY 2020-21, Tractor industry has shown high growth of 26.9% based on strong demand of tractors mainly due to timely and adequate monsoon and support of commodity prices. Kotak Tractor Financing business grown in line with Industry. There is a marginal impact on portfolio performance due to Loan moratorium and COVID-19 impact on cash flows of farmers due to lockdowns and other restrictions.

Bank has Crop Loan business presence in Punjab, Haryana and Western states. Portfolio quality in western markets is stable however Punjab witness high negative impact due to Kissan Union agitation in spite of good monsoon and better yields.

Wholesale Banking

The Bank's Wholesale Business has a number of business groups catering to various customer and industry segments, such as 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 and 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.

Wholesale Banking's experience in the two halves of this year stand in contrast to each other. During the first half of the year, in the face of significant challenges from COVID related economic disruptions, and as a prudent risk measure, the Bank was cautious in its exposures. While the Bank was measured in taking fresh long-term exposures, working capital utilisations were impacted due to a slowdown in economic activity. Assets and most of the fee income lines were therefore muted. As the first COVID-19 wave slumped and economic activity rebounded sharply, the Bank too started cautiously increasing its exposures and the second half of the year saw a return of growth in the Bank's Assets and most of the fee income streams.

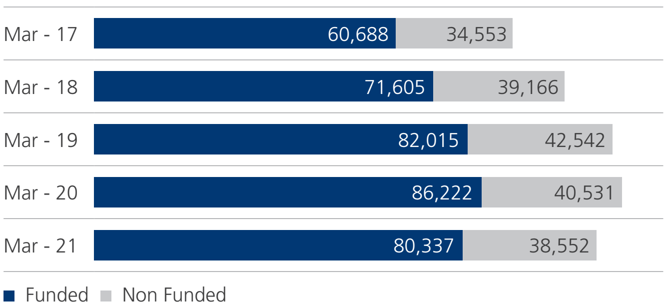
Despite such significant economic disruptions as seen during the pandemic, the Bank's portfolio has remained healthy. This has been facilitated by both the Bank's robust risk management practices and the manner in which corporate India handled the crisis. In the face of unprecedented COVID related challenges during the year, corporates, by and large, have proven to be more resilient than earlier envisaged. Companies focused on productivity and other efficiencies and cost reductions. Robust equity capital markets helped many of these corporates to also bolster their balance sheets and keep leverage at comfortable levels. Even as companies kept a tight leash on their balance sheets, the Bank continued its proactive approach towards risk and sought to rebalance its portfolio in response to the economic situation. Over the years, the Bank has ensured that growth has been achieved in a profitable manner without compromising the health of the book. Its portfolio is well-diversified and industry, group and company specific exposure limits are reviewed periodically. The entire portfolio is rated based on internal credit rating tool, which facilitates appropriate credit selection & monitoring. Exposure, over the years, has been confined to segments with credit comfort in terms of better rated exposure and industries with a positive outlook and where pricing has been adequate for the risk being underwritten. These practices helped ensure that the overall portfolio continued to show robust characteristics throughout the year and the Wholesale Bank, this year, witnessed one of its lowest credit costs in recent times despite this being such a disruptive year. The Bank continues to remain cautious and watchful of the risks posed by the second COVID-19 wave and will continue to take proactive steps to minimise the impact of these risks on the health of the book.

Even as Asset volumes remained volatile through the year, risk-return metrics were favourable though competitive pressures dampened placement yields a bit during the ending months. Over the years, the Bank has also continued to focus on non-credit income streams including liability income and from Transaction Banking services such as Cash Management and Forex services. This year too, Wholesale Current Account grew strongly due to the Bank's focus on granularity and Transaction Banking businesses and this helped reduce cost of funds and further improve Asset spreads.

The year also saw liquidity return to debt capital markets and this led to a significant uptick in corporates raising funds through these markets. Larger corporates started replacing their bank borrowings from funds raised in the capital markets through listed debentures and other instruments. In line with this trend, the Bank also significantly ramped up its investment portfolio in these debt instruments ensuring it has been able to gain a higher share of a shrinking wallet of such large corporates. The Bank assisted several customers in raising debt through these markets; thus, significantly growing its Debt Capital Market and Loan Syndication revenue stream.

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

Wholesale Banking Advances (₹ crore)



After a number of quarters of muted growth, the Bank has stabilised its lending to Small and Medium Enterprises (SMEs) and new customer acquisitions in this segment showed a significant ramp up in the second half of the year. This was achieved through a focused acquisition strategy and initiatives taken to reduce response times in credit underwriting. The Government's Emergency Credit Line Guarantee Scheme (ECLGS), under which disbursals were guaranteed by the Government, was also well received by the segment. Disbursals under this Scheme remained strong and has helped the Bank increase its exposures while making good use of the credit backstop provided by the Government guarantee.

The Financial Sector including the NBFC segment has been seen gaining from the policies of the Government and the Reserve Bank of India that were aimed towards keeping interest rates low and liquidity high. In response to this trend, the Bank has, in a calibrated manner, increased its exposures to the better rated Banking and NBFC customers and loans to this segment witnessed a strong growth this year.

In face of heightened risks, the Bank consciously focused on building a healthy and profitable business. The Bank has been particularly focused on ensuring the right risk return metrics. Pricing models such as Risk Adjusted Return on Capital (RaRoC) measurements have got ingrained in the system. Due to these initiatives, focus is high on ensuring the right risk-return balance and on maximising non-credit income streams. Risk Weighted Assets as a proportion to the overall book has fallen over the past few years, signifying a shift towards better rated corporates and less risky assets.

Improvement in productivity helped ensure costs were kept under control.

The Bank follows an integrated Corporate and Investment Banking approach to large conglomerates and corporate groups. Over the years, this strategy has helped strengthen the position the Bank with clients and increase the wallet share. This year, the Bank witnessed good growth in its non-credit business streams with these clients. It was awarded the 'Best Corporate & Investment Bank in India' by Asiamoney for the calendar year 2020. The Bank has won this award for the fourth time in the last five years and this is a testimony to its capabilities and business model.

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 to make significant inroads into identified corridors such as Singapore, Hongkong, Italy, Germany, Switzerland and Austria. The two-way co-operation agreement has also helped the Bank deliver cross border products to its clients in India. The Bank has also set up a Korea desk to cater to Korean clients in India and has been able to achieve significant success. Replicating this model, the Bank has now formed a dedicated desk to cater to newer MNCs entering India by offering end-to-end solutions by partnering with various agencies to co-create a sustainable ecosystem.

The Custody & Clearing business continued to grow during the year despite multiple lockdowns imposed in India as well as key FPI jurisdictions like the US, UK, Singapore, the Middle East and Hong Kong. The Domestic Custody business also grew at a fast pace during the year, and the Bank on-boarded a number of marquee PMS and AIF names in addition to a few large Family Office clients. The Bank is also seeing interest among its clients in the choice of GIFT City as a Fund jurisdiction and the Bank opened the first bank account for an AIF at its GIFT City branch this year.

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, digitisation, structured solutions and fee income.

During the year, the Bank endeavoured to provide its clients with a comprehensive product-suite to help their businesses grow in a sustainable and holistic manner. It was agile in implementing new and digital processes to address client requirements during the pandemic. Initiatives such as the Bank's investment on a single platform that supported end-to-end workflow, document management and transaction processing along with digitally signing Trade documents enabled moving thousands of customers from physical to digital in record time, in turn, helping them to seamlessly function. While the Trade industry faced multiple challenges during the year, starting from disruptions in the supply chain, to logistics issues to that of stretching of working capital cycles, the Bank overcame these challenges by innovating and simplifying the way it handled Trade for its customers. Despite the negative year on year growth for India's Trade industry, the Bank's funded trade book grew by double digits and its supply chain finance portfolio grew by over 50% year on year. To enhance customers' Forex experience, the Bank also digitised the registration process for FxLive onboarding, created a microsite to disseminate proprietary research to clients through web and messaging platforms and launched the Digital FX calendar which provides information on Fx and Money Markets in addition to providing a real time Economic calendar.

Across the Bank's Cash Management Services too, the focus was on digitising the customer's journey. It started with the roll out of the digital signatures initiative to process documents and daily transactions and continued with the implementation of new offerings like the APIs for B2B payments and reconciliation of virtual accounts and the Technical Service Provider model for AllPay acquiring. The digital focus of the Bank resulted in a 3x increase in payment customers, a 100x increase in number of BBPS transactions, a 15x increase in E-NACH mandate registrations and a 2x increase in number of transaction approvals through the Bank's corporate mobility solution as compared to the previous year. The Bank continued its focus on building a granular Current Account book in addition to increasing its focus across specialised offerings - Escrow, RERA and Nodal Accounts, which grew 30% year on year. Throughout the year, the Bank also continued on its journey towards providing a unified portal for all of its transaction banking customers by investing in new technologies and upgrading its processing engines.

In summary, a return of growth in Assets and Fee Incomes in the second-half of the year, favourable risk-return metrics through the year, strong liability incomes and controlled credit costs have helped the Wholesale Bank grow its profitability and maintain a healthy After Tax Return on Equity (ATROE) despite the many challenges faced during the year.

Wealth

The Bank's private banking arm, caters to a number of distinguished Indian families and is one of the oldest and the most respected Indian wealth management firms, managing wealth for 51% of India's top 100 families (Source: Forbes India Rich List 2020), with clients range from entrepreneurs to business families and professionals.

It provides an open architecture proposition to its customers, offering a plethora of wealth products. This business has a strong distribution capability for private clients through distribution/referral model across equities, fixed income & alternates catering to Ultra HNI and HNI (High Networth Individual) investors. In addition to comprehensive financial solutions, the division provides a strategic consolidated view on the client's overall portfolio, in addition to comprehensive financial solutions that go beyond investments. These also include banking and credit, consolidated reporting, referral for estate planning services etc. With an in-depth understanding of client requirements and expertise across various asset classes, this business offers the widest range of financial solutions.

In addition, the Bank has also built a large Priority Banking business, assisting mass affluent customers with products and solutions developed to meet their financial requirements. The total relationship value of Wealth, Priority and Investment Advisory offerings is ~₹ 382,000 crore (as of 31st March, 2021). It has added ~600 new families in 2020.

In 2020, a digital transformation journey was initiated as a tactical solution for enhancing customer service which has now become a part of long term strategic plan for the business. Bespoke development was done in partnership with a Fintech to create a platform to provide customized investment reports to clients. Low code platforms were used to create work flow automations with use cases like task automation and request tracking, ensuring higher service levels. The overall strategy is focused and devised to use digital solutions to improve client experience and enhance productivity of the business.

Kotak Wealth Management has been consistently featured as the Best Private Bank, India across multiple Global and Domestic Surveys, in 2020. Some of the recent accolades include:

- Best Private Bank, India by Euromoney Private Banking and Wealth Management Survey, 2021
- Best for Super Affluent Clients by Euromoney Private Banking and Wealth Management Survey, 2021
- Digital Private Bank of the Year' (India) by The Asset Triple A Digital Awards, 2021.

GIFT City

The GIFT City branch had commenced operations in FY 2016-17. The Branch caters to the funding needs and requirements of managing currency and 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 members at GIFT City.

Loans made from GIFT City branch are also subject to the same rigorous and conservative credit underwriting standards and prudence of the Bank. In FY 2020-21, the focus at GIFT City branch stayed focused on maintaining credit quality, while maintaining the quality of service to its short/medium term trade loans borrowers. In FY 2020-21, the loan book mix changed favourably to short-term Trade loans.

For most of FY 2020-21, there were continued intermittent disruptions due to COVID pandemic in the state. The GIFT City branch – while intermittently working offline through the disruptions maintained seamlessly continued operations, operational efficiency and prudence. The Branch maintained heightened vigilance through the year.

The International Financial Services Centres Authority [IFSCA] was set-up as a unified regulator with a vision to promote ease of doing business in IFSC and provide a world-class regulatory environment. The IFSCA started its operations in H2FY21, working towards revamping and stream lining the operational guidelines for banks in the IBU leading to opening of new vistas. GIFT City branch is working towards augmenting its resourcing to benefit from incremental opportunities at the IFSC.

DIFC Branch

DIFC Branch - the Bank first overseas branch at Dubai International Financial Centre [DIFC], Dubai started operations in Oct 2019; DIFC Branch complements the Bank ability to advise & arrange global investment products, provide loans and accept deposits from its overseas wealth and private banking customers that qualify the Professional client criteria of the DFSA.

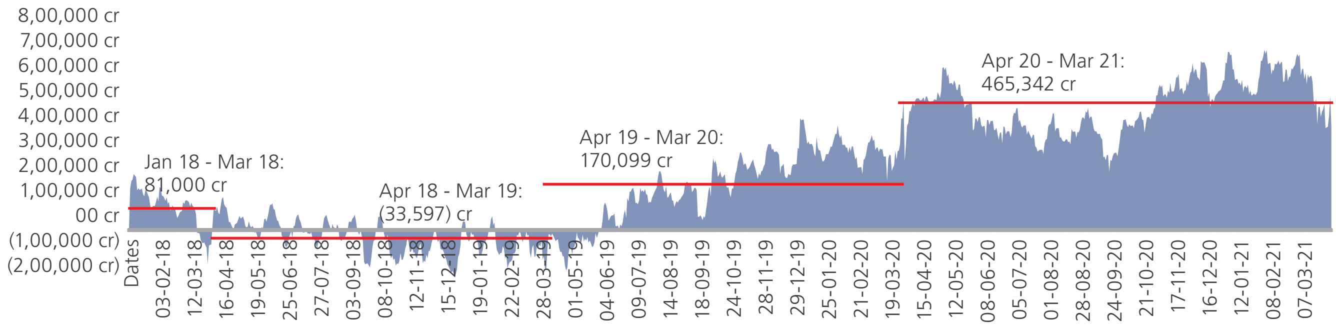
Shortly after initiating business operations at DIFC branch, international trade and traffic started disrupting due to COVID19 pandemic. Global disruptions slowed customer on-boarding process due to restrictions on international couriers, meeting etc. and hence the consequent KYC related delays. However, through the disruptions, the branch maintained continuity of extant operations and client on-boarding. The branch reviewed its business focus and product mix amidst raging global pandemic and market volatility and adopted a cautious approach. In FY 2020-21, the branch business was marginally lower than expected, it added value to business groups and international services of the Bank.

Treasury

India embarked on lockdowns in stages during March 2020 to break the viral chain. Disruption in markets and to businesses at large was unprecedented. Globally, Central banks responded with accommodative policies and high liquidity infusion; while fiscal response globally was one of undertaking higher public spend and consequently higher fiscal deficit. Markets reacted in the entire spectrum of fear, anxiety and hope in FY 2020-21. Ensuing volatility and pockets of segmental disconnects was the central theme of the markets in FY 2020-21. This not only caused risks, it also generated segmental and market specific opportunities.

	Open	High	Low	Close	Range
Yield on 10yr Indian Govt Bond	6.24	6.51	5.72	6.17	0.79
Yield on 10yr US Treasury Bond	0.66	1.77	0.5	1.74	1.27
Indian Rupee	75.96	76.91	72.27	73.11	4.64
EUR / USD	1.1	1.23	1.07	1.17	0.16
GOLD (USD/Troy ounce)	1,577	2,075	1,569	1,708	506
BRENT Crude	19.3	71.4	35.7	63.5	35.7
NIFTY	8,584	15,431	8,056	14,691	7,375

The adjoining table gives the extent of movement in key market benchmarks for FY 2020-21. The range [difference between the High and Low] is representative of the volatility during the year.



Net System Liquidity [incl.MSS]; *Source: Kotak Mahindra Bank Research*

In India, the RBI pursued the policy of accommodative policy, with systemic liquidity being maintained in very comfortable zone. In the hope that extra liquidity will compel banking institutions to take liquidity driven exposure decisions and expanding credit.

The RBI also extended the Long-Term Repos (LTROs) and Targeted Long Term Repo (TLTRO) providing directed liquidity. While offtakes were not significant, it added to the market comfort on available liquidity.

In a pandemic-marred year, the Treasury teams, like their colleagues in other parts of the Bank, came together, rising above personal struggles, joined hands to deliver a seamless output. Even in an extended period of 'Work From Home' environment. Treasury team emerged a closer-knit unit—testimony to the blend of professional and human touch.

Bank Treasury started the year on a very conservative note and progressively built upon strategy of aligning customer flows and managing surplus liquidity. As per prudence norms, the Treasury maintained more than adequate liquidity in the period for meeting any eventuality. Treasury – across various desks, increased investments into short duration and liquid portfolio, gainfully deploying the surplus liquidity aligned with the liquidity & liability strategy of the Bank consistent with the external environment.

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.

Fueled by high global liquidity, the FPI inflows in FY 2020-21 were about US$ 35 billion; supported by flow-backed demand, market indices negated fall of early CY2020 and rose to fresh highs. Notwithstanding interim volatility, primary markets also saw healthy offtake. Treasury equity desk took measured calls on the market, principally focusing on the primary market offerings.

In a market interspersed with events, bouts of volatility mirroring global currency movements followed by RBI's efforts to smoothen volatility - FX Trading desk took measured and calibrated positions. The FX desk - in addition to facilitating customer flows, facilitated efficient pricing for FX requirements of the Bank's customers.

Consequent to COVID related disruptions, customer FX flow was significantly impeded in the initial part of the year. The Treasury FX Sales desk had reached out to its customers - helping in understanding of the markets, management of FCY flows and providing efficient products & pricing. Customer volumes and profitability stabilised and subsequently normalised in the latter part of the year. The FX Sales desk continued on its efforts on technology based solutions, pricing efficiency, process optimisation and fine-tuning of desk organisation to deliver experiential service to its customers.

The Bullion desk continued building the annuity book of Gold Loans – achieving stability and sustained profitability.

High systemic liquidity, lower credit demand & appetite resulted in increased liquidity with the Bank – as also with the banking system. While some increase in liquidity buffer was necessitated given the challenging business environment in the pandemic hit year, the BMU managed balancing liquidity deployment with yield optimisation and protection of the liability franchise. The Balance sheet Management Unit (BMU) maintained heightened vigil while managing funding, Liquidity & Interest Rate Risks and regulatory investments of the Bank. Regulatory requirements on reserves and liquidity ratios were maintained above the stipulated thresholds.

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 and reporting capabilities. Amidst choppy markets and intermittent pandemic disruptions, seamless continuation of operations at the Bank Treasury is a testimony of the Bank's agility, preparedness and resilience of its systems and processes.

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

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 2020-21	FY 2019-20
Net Interest Income	1,211.7	1,229.5
Other Income	220.4	290.3
Total Income	**1,432.1**	**1,519.8**
PBT	720.4	923.4
PAT	534.7	673.1

(₹ In crore)

Particulars	31st March, 2021	31st March, 2020
Net Customer Assets	21,803.9	24,864.3
- Car advances	15,800.8	17,480.1
Net NPA %	1.66%	0.60%
RoAA %	2.1%	2.3%

The passenger car market in India de-grew by 1.5% for FY 2020-21 compared to 17.4% de-growth in FY 2019-20. The sale of cars and MUVs at 27.16 lakh units in FY 2020-21 compared to 27.60 lakh units in FY 2019-20. KMP added 62,134 contracts in FY 2020-21 compared to 72,311 contracts in FY 2019-20.

PBT for FY 2020-21 at ₹ 720.4 crore was lower than ₹ 923.4 crore for FY 2019-20 primarily due to increase in retail losses and provisions and decrease in overall asset. NIM for FY 2020-21 was 5.0% compared to 4.3% for FY 2019-20.

KMP held COVID-19 related general provision of ₹ 90 crore as on 31st March, 2021. Gross NPA was ₹ 788.7 crore (3.55% of gross advances) while net NPA was ₹ 362.0 crore (1.66% of net advances) as on 31st March, 2021 on account of lower collections/recoveries due to the pandemic. Further, the capital adequacy ratio as on 31st March, 2021 was 29.4% (24.3% as of 31st March, 2020).

Kotak Mahindra Investments Limited (KMIL)

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

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. Given the lockdown in Q1, Real Estate was expected to be among the worst impacted industries. While Q1FY21 did see a sharp fall in residential sales, quarters post the lockdown saw a sharp rise which took most industry experts by surprise. The same was driven by a combination of factors such as government support (reduction of stamp duty in Maharashtra being one example), low home loan rates and improving affordability index. While access to liquidity remains a challenge for the industry, the leading players in most large cities have benefited from improving collections. The impact of COVID-19 on commercial real estate segment is still open to debate. Work from Home has meant significantly lower office attendance – whether this is a sustainable trend is yet to be seen. FY 2020-21 saw a sharp reduction in Grade A building leasing and that too was driven by pre-leased deals agreed before the lockdown. Large developers are re-jigging their expansion plans in this segment.

KMIL continues to be judicious about the real estate developers that it works with and remains confident of the quality of the lending book. The asset quality has not deteriorated through FY 2020-21 but at the same time, KMIL continues to closely monitor the COVID-19 second wave and its potential impact on the industry.

Loans against shares: Given the RBI letter to the holding company directing the group to stop providing services such as loan against shares and IPO financing through its NBFC subsidiaries, this business is on the decline. In line with the regulatory guidance, KMIL continue to service the loans that are already disbursed. As expected, this part of the book continues to decline.

Corporate Lending: KMIL is focusing on increasing the non-LAS part of its Corporate Lending book. M&A, PE exits / acquisitions and promoters' needing liquidity to expand offers it significant opportunity to grow this part of the book.

Financial Highlights

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Net Interest Income	354.5	361.7
Other Income	74.0	91.9
Total Income	**428.5**	**453.6**
PBT	345.8	368.5
PAT	257.8	270.1

(₹ In crore)

Particulars	31st March, 2021	31st March, 2020
Net Customer Assets	6,795.4	5,874.6
Net NPA %	0.57%	0.67%
RoAA %	3.5%	2.9%

Customer assets increased to ₹ 6,795.4 crore as on 31st March, 2021 as compared to ₹ 5,874.6 crore as on 31st March, 2020. However, average earning customer assets decreased from ₹ 7,889.6 crore in FY 2019-20 to ₹ 5,747.9 crore in FY 2020-21, causing a drop of 4.8% in PAT to ₹ 257.8 crore for FY 2020-21 from ₹ 270.1 crore in FY 2019-20. NIM for FY 2020-21 was 5.6% compared to 4.3% for FY 2019-20.

KMIL held COVID-19 related general provision of ₹ 27 crore as on 31st March, 2021. Gross NPA at ₹ 62.0 crore (0.92% of customer assets) while net NPA was ₹ 38.3 crore (0.57% of customer assets) as on 31st March, 2021. The capital adequacy ratio as on 31st March, 2021 is 33.2% (29.4% as of 31st March, 2020).

Kotak Securities Limited (KS)

Kotak Securities provides broking services in equity cash and derivatives segments, commodity derivatives, currency derivatives, depository and primary market distribution services. Kotak Securities is a member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), 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 (NSDL) and Central Depository Services Limited (CDSL) and is also registered as a portfolio manager with Securities and Exchange Board of India (SEBI). Further, it is registered as a Mutual Fund Advisor with Association of Mutual Funds in India. The company having composite license issued by IRDA also acts as Corporate Agent of Kotak Mahindra Life Insurance Company Limited and Kotak Mahindra General Insurance Company Limited.

Financial Highlights

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Total Income	2,019.6	1,690.0
PBT	1,057.4	738.4
PAT	792.6	550.0

The Sensex closed at 49,509 as on 31st March, 2021 compared to 29,468 as on 31st March, 2020, with a high of 52,516 and low of 27,500. Similarly, the benchmark Nifty which closed at 8,598 as on 31st March, 2020 closed at 14,691 as on 31st March, 2021 with a high of 15,431 and low of 8,056.

The financial year FY 2020-21 saw volume growth in cash market and equity derivative segment over FY 2019-20. Market average daily volumes (excluding proprietary segment) increased to ₹ 48,523 crore for FY 2020-21 from ₹ 29,704 crore for FY 2019-20 for the cash segment, and to ₹ 1,481,155 crore for FY 2020-21 from ₹ 937,508 crore for FY 2019-20 for NSE derivatives segment.

Kotak Securities average daily volumes (excluding proprietary segment) in cash market has increased to ₹ 4,518 crore for FY 2020-21 from ₹ 2,972 crore for FY 2019-20. Kotak Securities average daily volumes (excluding proprietary segment) in NSE Derivative Market has increased to ₹ 28,544 crore for FY 2020-21 from ₹ 18,912 crore for FY 2019-20. Kotak Securities cash market share (excluding proprietary segment) decreased to 9.3% for FY 2020-21 compared to 10.0% in FY 2019-20. Overall market share of Kotak Securities decreased to 1.4% for FY 2020-21 compared to 1.7% for FY 2019-20.

With the help of seamless digital account opening, Kotak Securities increased its client acquisition by 69% (YoY) and the NSE active client base increased from 5.72 lakh in FY 2019-20 to 7.43 lakh in FY 2020-21. The Kotak Securities Trade Free Plan (TFP) accounted for 61% of the total acquisitions in the period Nov'20 to Mar'21. Due to the continued thrust on digital, mobile trading application of Kotak Securities, saw a massive adoption resulting in 121% growth in the trading volume through the Kotak Securities Mobile app.

Further, during the year following digital products and platforms were launched:

- With this plan, intra-day trading is free and clients can open Do-It-Yourself (DIY) accounts instantly without any additional cost and begin trading in just 60 minutes.
- Launched a new Direct Mutual Fund Platform that enables clients to invest in mutual funds through the direct route at a lower expense ratio.
- Enabled investments in the US stock market with its Global investing platform. The platform has a complete online onboarding process and remittance capabilities.

The company today has a national footprint of 1,450 branches, franchisees and satellite offices across 350 cities in India serving its customers.The cumulative number of registered authorised persons stood at 1,716 for NSE and 1,387 for BSE.

The Institutional Equities division registered a significant growth in revenues and continues to be the leader in both the cash equities and derivatives segments. Institutional market volumes during FY 2020-21 witnessed a strong growth in the cash as well as the derivatives segment. Although yields across the client segments continued to be under pressure, the Company was able to hold on to the yields during the year. The Company continued 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 and improving operational efficiency. The Institutional Equities Research team continues to be rated highly by institutional clients and it continues to further enhance its leadership position through incisive research on companies, sectors and themes.

Awards and Recognitions

In FY 2020-21, Kotak Securities was adjudged as Top Business Performers in 3 segments Offer For Sale (OFS), Offer To Buy (OTB) and Primary Market Segment by BSE.

Kotak Mahindra Capital Company Limited (KMCC)

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

Financial Highlights

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Total Income	202.2	228.8
PBT	110.9	107.6
PAT	82.3	79.1

Equity Capital Markets

In FY 2020-21, the Indian Equity Capital Markets witnessed a record fundraising year completing 32 IPOs, 1 FPO, 32 QIPs, 35 OFS and 20 Rights. A total of ₹ 244,910 crore (vs ₹ 147,974 crore in FY 2019-20) was raised across Initial Public Offerings (IPOs), Qualified Institutional Placements (QIPs), Further Public Offering (FPO), Rights Issues, Offers for Sale (OFS) and Block Deals dominated by large issuances. Post the impact of COVID-19 on the first few months of FY 2020-21, the record surge in activity can be primarily attributed to monetary and fiscal stimulus by central banks globally and locally leading to an FII inflow of US$ 38 billion into Indian markets in FY 2020-21. Capital markets initially witnessed mega-QIPs by Banks and NBFCs, followed by a resumption in IPO activity in the latter half of FY 2020-21. *(Source: Prime Database).*

KMCC successfully completed 28 marquee transactions, including 8 IPOs, 13 QIPs, 4 Block Deals, 1 FPO and 2 Rights Issues raising a total of ₹ 155,580 crore in FY 2020-21. Kotak was the left lead banker to India's largest IPO of the year and GCBRLM to India's largest ever Capital Markets transaction (World's largest Rights Issue by a non-financial institution). Kotak also led India's first ever REIT follow-on transaction during this period.

KMCC was ranked No. 1 in IPOs in FY 2020-21 having led 8 out of 10 IPOs more than ₹ 1,000 crore with ~80% market share. KMCC had a 64% market share in FY 2020-21 across all ECM transactions. *(Source: Prime Database)*

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

IPO: Gland Pharma - ₹ 6,480 crore, Mindspace Business Parks REIT - ₹ 4,500 crore, Brookfield India REIT - ₹ 3,800 crore, Computer Age Management Services (incl. Pre-IPO) - ₹ 3,000 crore, UTI Asset Management - ₹ 2,160 crore, Indigo Paints - ₹ 1,169 crore, Home First Finance - ₹ 1,154 crore, Burger King India (incl. Pre-IPO) - ₹ 1,067 crore

Rights: Reliance Industries - ₹ 53,124 crore, Mahindra & Mahindra Financial Services - ₹ 3,089 crore

FPO: Yes Bank - ₹ 15,000 crore

QIP: ICICI Bank - ₹ 15,000 crore, HDFC Ltd - ₹ 14,000 crore, Kotak Mahindra Bank - ₹ 7,443 crore, Godrej Properties - ₹ 3,750 crore, Embassy Office Parks REIT - ₹ 3,685 crore, PI Industries - ₹ 2,000 crore, Max Healthcare Institute - ₹ 1,200 crore, Apollo Hospitals - ₹ 1,170 crore, Phoenix Mills - ₹ 1,100 crore, PVR - ₹ 800 crore, SRF - ₹ 750 crore, Varroc Engineering - ₹ 699 crore, VMart Retail - ₹ 375 crore

Blocks: Kotak Mahindra Bank - ₹ 6,944 crore, Bharat Petroleum Corp - ₹ 5,525 crore, Phoenix Mills - ₹ 833 crore, Coromandel International - ₹ 470 crore

Mergers & Acquisitions and Private Equity Advisory

The total M&A Advisory deal value in India for FY 2020-21 increased to US$ 124 billion vis-à-vis US$ 100 billion in FY 2019-20, while deal volumes decreased to 2,035 in FY 2020-21 from 2,170 in FY 2019-20. (Source: Bloomberg, as on 3rd April, 2021)

In FY 2020-21, KMCC was ranked #5 by volume of deals and #8 by value of deals in the M&A league tables (Source: Bloomberg, as on 12th April, 2021). KMCC advised on a diverse array of 12 M&A transactions across a range of products and sectors, for a total deal value of US$ 6.6 billion (not considering deals where values have not been disclosed).

- Across products, ranging from Acquisitions, Divestments, Mergers, Private Equity investments, Restructuring, Demerger, Buyback Offers
- Across sectors, ranging from Industrials, Real Estate, Financial Services, Healthcare, Specialty Chemicals, Technology, etc.

Deal values in FY 2020-21 shown growth of ~24% vis-à-vis the previous year despite disruptions like COVID-19 pandemic. While the total values of deals witnessed healthy increase in FY 2020-21, the deal volumes witnessed decline from FY 2019-20 levels. Private equity funds accounted for around 33% of the transactions by value and constituted significant part of India's M&A activity.

The deal activity during FY 2020-21 was largely contributed by inbound minority investments in the Digital, TMT and Consumer sectors. Investment by financial sponsors, including control transactions, is expected to drive to the deal activity during FY 2021-22 as well. Consolidation, including deals in distress situations, was another major driver for M&A transactions in FY 2020-21 and the trend is expected to continue in FY 2022. Other factors such as investment by global strategic players, divestment of non-core assets, restructuring are also expected to drive the M&A activity in FY 2022.

Some of the key advisory deals that were announced by KMCC during the financial year include:

- Financial advisor and fairness opinion provider to Samvardhana Motherson International in group reorganisation
- Buyside advisor to Embassy REIT for its acquisition of Embassy Tech Village
- Fairness opinion provider to Tata Motors for subsidiarisation of passenger vehicles business
- Fairness opinion provider for sale of Indo Gulf Fertilizers by Grasim Industries
- Sellside financial advisor to Star Health and Allied Insurance Company for fund raise via private placement
- Buyside advisor to Piramal Pharma for its acquisition of 100% stake in Hemmo Pharmaceuticals
- Manager to buyback through tender offer process of Majesco Limited
- Sellside advisor to Utkarsh Small Finance Bank for private equity investment led by Olympus Capital
- Transaction advisor and fairness opinion provider for proposed reorganisation of India based US business undertaking and consumer business undertaking by Cipla Limited
- Exclusive financial advisor to Signet Excipients on acquisition by IMCD India (100% subsidiary of IMCD N.V.)

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.

The financial performance of KLI for the current and previous financial year is given below.

Network

KLI had 230 life insurance outlets across 140 locations. KLI has 109,321 life advisors, 41 bancassurance partners and 222 brokers and corporate agency tie-ups.

Financial Highlights

The financial performance of KLI is given below:

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Gross Premium	11,100.2	10,340.1
First Year Premium (incl. Group and Single)	5,256.5	5,105.8
APBT – Shareholders' Account	897.5	839.1
PAT – Shareholders' Account	691.9	608.2
Solvency Ratio	2.90	2.90

The Indian Embedded Value (IEV) was ₹ 9,869 crore (31st March, 2020: ₹ 8,388 crore) as on 31st March, 2021. 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 2020-21 was ₹ 691 crore and the VNB margin was 28.6%.

The net worth of KLI increased by 20.6% to ₹ 4,045.5 crore as on 31st March, 2021 from ₹ 3,353.5 crore as on 31st March, 2020.

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 7.4% on the gross written premium from renewal premium and Individual new business. The summary of premiums is as under:

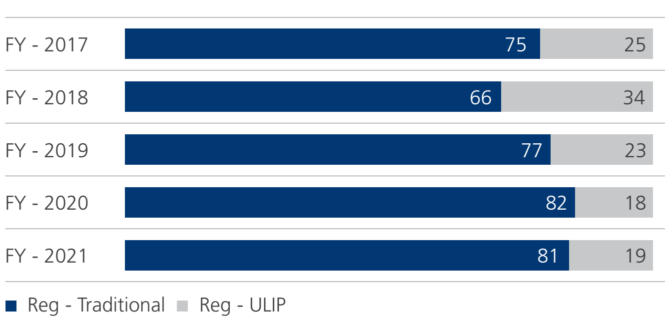
(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Individual Regular Premium	1,693.4	1,561.7
Individual Single Premium	1,251.2	837.0
Group Premium	2,311.9	2,707.1
Total New Business Premium	**5,256.5**	**5,105.8**
Renewal Premium	5,843.7	5,234.3
Gross Premium	**11,100.2**	**10,340.1**

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

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

Individual Regular Product Mix (%)



Product mix of KLI in individual regular premium inclines towards traditional business being 81% and 19% ULIP.

Protection Share

Protection share as % of Individual New Business and Total Group Business stood at 26.6%. Individual Protection share increased from ₹ 78.3 crore in FY 2019-20 to ₹ 105.6 crore in FY 2020-21.

Group Product Mix

The group employer-employee business has grown by 33.3% in FY 2020-21 over FY 2019-20. However due to COVID, the group Credit business and group fund business has de-grown by 13.2% and 18.2% respectively. The overall group business has de-grown by 12.4% in FY 2020-21 over FY 2019-20 from ₹ 2,989.6 crore in FY 2019-20 to ₹ 2,619.2 crore in FY 2020-21.

Conservation and Persistency

Conservation ratio is 85.0% in FY 2020-21 compared to 88.9% in FY 2019-20. KLI has set up a dedicated retention team to improve the retention of the premiums of KLI. As of Mar'21, the persistency was – 89.6% (13th month), 79.2% (25th month), 72.2% (37th month), 67.3% (49th month) and 58.0% (61st month).

Industry Comparison

On individual APE Basis (Single 1/10) KLI has posted 8th rank within private industry. KLI market share for Individual New Business premium (APE terms) is 4.0% for FY 2020-21 among private insurers.

On group APE Basis (Single 1/10) KLI has posted 2nd rank within private industry. KLI market share for Group New Business premium (APE terms) is 14.7% for FY 2020-21 among private insurers.

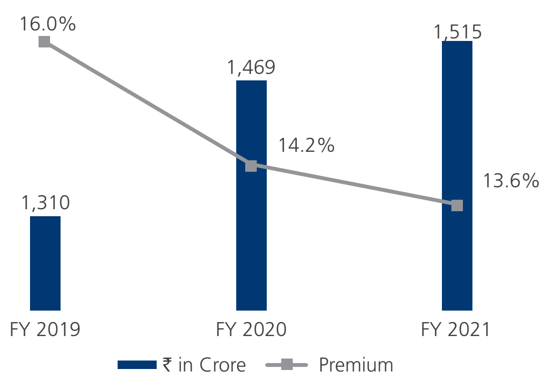
In FY 2020-21 Private insurance industry as a whole registered a growth of 8.2% on Total New Business Premium – Adjusted Premium Equivalent (APE) terms (Single 1/10), KLI registered a de-growth of -3.1% on Total New Business Premium- APE terms. On the same basis, KLI market share stood at 5.9% of private industry.

Claims Settlement Ratio

The individual claims settlement ratio for FY 2020-21 stood at 98.5% (FY 2019-20: 96.4%) while the group claims settlement ratio for FY 2020-21 stood at 99.4% (FY 2019-20: 99.3%).

Cost Analysis

Operating expense ratio has improved to 13.6% as against 14.2% in previous year. This was possible by a 7.4% YoY growth in total premium in FY 2020-21 and is also attributed to improved productivity while maintaining cost around the same level as the previous year.



Assets Under Management

KLI saw an increase in its AUM (including shareholders) by 33.2% YoY to ₹ 46,518.1 crore in FY 2020-21.

Digital Initiatives

- Digital on-boarding of customers through Genie, continues to remain above 95%.
- Smart Nudges to improve customer engagement and performance were launched in Boost for advisors, a mobile app for productivity improvement and higher engagement. Boost has been extended to more front-end sales user groups, where it helps in visibility and improving business and team performance.
- KLI Recruit a completely digital advisor-onboarding platform, was launched to provide convenience to prospective advisors.
- 'Digipro' was launched in Q4, enabling completely digital customer onboarding. Video calling for verification now includes digital liveliness check and face match technology.
- Insta-claims was launched in the group business to expedite claims settlement and improve customer experience.
- As customer usage of digital servicing tools like whatsapp and chatbot increases, newer services such as policy document download and premium calculators have been added.

Social and Rural Obligations

KLI has 77,394 written rural policies (FY 2019-20: 71,835) representing 22.7% of total policies against regulatory requirement of 20%. Further, KLI has covered 6,736,586 (FY 2019-20: 2,690,177) social lives which is 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 and Miscellaneous segments. KGI sources Insurance policies through agents, brokers and online channels.

The general insurance industry as a whole registered a YoY growth of 5.2% in FY 2020-21, in which the private sector (excluding standalone health insurance companies) grew by 7.6%. KGI grew its premium (excluding re-insurance) from ₹ 433.3 crore in FY 2019-20 to ₹ 544.0 crore in FY 2020-21, registering a growth of 25.5%.

Financial and Other Highlights

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Gross Written Premium (GWP) (including re-insurance)	548.3	436.4
Profit/(Loss) Before and After Tax	1.6	(28.1)
Claims Ratio	67.0%	68.8%
Combined Ratio	107.1%	112.5%

Revenue Review

For the year KGI registered a growth of 25% by issuing 22.6 lakh number of policies in FY 2020-21 against 18.1 lakh number of policies in FY 2019-20.

Product Mix

In order to maintain a balanced product mix, KGI product mix for Motor, Health and Others has moved from 58:31:11 in FY 2019-20 to 52:38:10 in FY 2020-21.

Distribution Mix

For the year Bancassurance Channel grew by 42% from ₹ 184.8 crore in FY 2019-20 to ₹ 262.8 crore in FY 2020-21. Including FIG growth at 27%, Multi Distribution channel registered 24% growth from ₹ 190.5 crore in FY 2019-20 to ₹ 237.1 crore in FY 2020-21.

Solvency

As on 31st March, 2021, the solvency ratio of KGI stood at 1.95 against the regulatory requirement of 1.50.

Investments

Investments of KGI as on 31st March, 2021 stood at ₹ 931.8 crore against the previous year amount of ₹ 676.5 crore, registering a growth of 37.7%.

Distribution Network

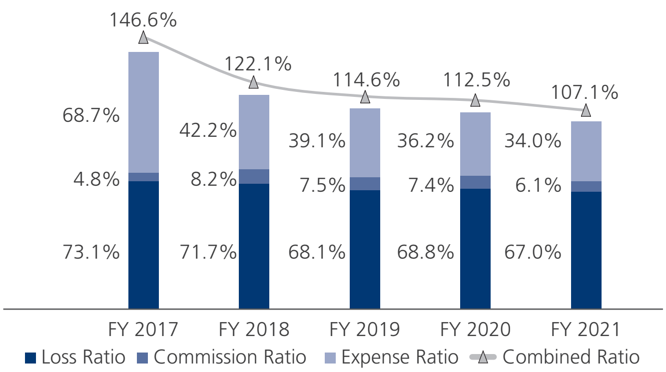
KGI has a network of 19 branches catering to more than 300 locations. KGI has registered 25 Corporate Agents, 130 Individual Agents, 419 Point of Sale agents and 18 Micro Insurance Agents.

Rural and Social Obligations

KGI has written a premium of ₹ 59.2 crore under rural obligation representing 10.9% of total premium. Further, KGI has covered 91,331 social lives against the regulatory requirement of 57,898.

Improving Financial Performance

In the last four financial years, the Company has steadily improved on its Claims and Combined Ratio which is depicted in the graph given below.



Claim Servicing

The number of claims settled by the Company has increased from ~ 50,000 in 2020 to ~ 56,000 in 2021 an increase of 12%.

Kotak Mahindra Asset Management Company Limited (KMAMC) and Kotak Mahindra Trustee Company Limited (KMTCL)

KMAMC is the asset manager of Kotak Mahindra Mutual Fund (KMMF) and KMTCL acts as the trustee to KMMF.

Financial Highlights

(₹ in crore)

Kotak Mahindra Asset Management Company Limited	FY 2020-21	FY 2019-20
Total Income	602.3	603.2
PBT	396.0	394.1
PAT	294.8	291.8
AAUM	202,826	173,394

Kotak Mahindra Trustee Company Limited	FY 2020-21	FY 2019-20
Total Income	71.8	62.0
PBT	69.1	60.2
PAT	51.5	45.0

The mutual fund industry registered a YoY growth of 19.2% YoY in Q4FY21 over Q4FY20 with the Quarterly Average Assets under Management (QAAUM) for Q4FY21 at ₹ 32.37 lakh crore.

During the same period, on the basis of percentage growth in QAAUM, KMAMC was amongst the third fastest growing Mutual Fund House – within the top 10 Fund Houses ranked by QAAUM. The QAAUM of KMMF which stood at ₹ 234,798 crore for Jan-Mar 2021 has seen growth of around 26% in Q4FY21 over Q4FY20. KMAMC jumped one rank and is now the 5th largest Fund House in the country in terms of QAAUM as on 31st March, 2021 vis-à-vis 31st March, 2020. Market Share in QAAUM has grown to 7.25% in Q4FY21 from 6.86% in Q4FY20 and 5.41% in Q4FY19. The annual AAUM of KMAMC for FY 2020-21 was ₹ 202,826 crore against ₹ 173,394 crore FY 2019-20, a growth of 17%.

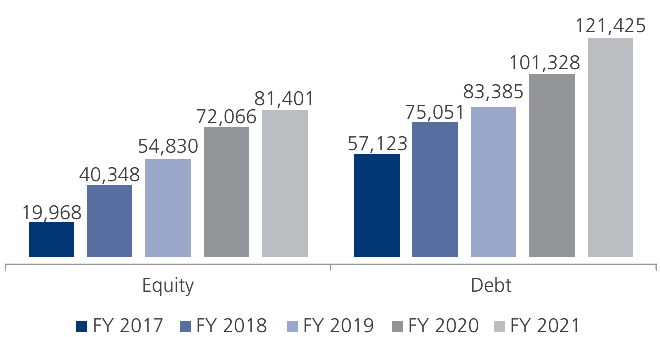
KMAMC has 25.9 lakh unique investors basis the RTA data against industry of 227 lakh, a market share of 11.38% in March 2021, against a share of 11.1% in March 2020.

KMAMC ended the year with discretionary AUM under the portfolio management business of ₹ 1,645 crore as on 31st March, 2021 against ₹ 1,597 as on 31st March, 2020.

There is a marginal increase in revenue from operations to ₹ 599.3 crore from ₹ 596.0 crore. The overall costs reduced to ₹ 206.3 crore in FY 2020-21 against ₹ 209.0 crore in FY 2019-20. Hence, the overall profit before tax has increased to ₹ 396.0 crore in FY 2020-21 compared to ₹ 394.1 crore in FY 2019-20.

The trend of average AUM of KMAMC over years is given below.

Average AUM - ₹ crore



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 2020-21	FY 2019-20
Total Income	3.8	3.3
PBT	0.45	0.07
PAT	0.21	0.06
AUM	1,572	991

The Company manages nine schemes. During the year, the general business environment has been good for Pension Funds with the industry keeping up the momentum in line with the previous financial year. The combined assets under management (AUM) on 31st March, 2021 were ₹ 1,572 crore (₹ 991 crore as of 31st March, 2020) a growth of 58.6%. The overall pension fund industry AUM (including the private and public sector) has grown from ₹ 417,477 crore as on 31st March, 2020 to ₹ 578,024 crore as on 31st March, 2021, a growth of 38.6% and the private sector industry AUM has grown from ₹ 13,239 crore as on 31st March, 2020 to ₹ 25,809 crore as on 31st March, 2021, a growth of 94.8%.

Considering the low rates of management fees in Pension Fund Management Business, the revenue generated from the investment management activity for FY 2020-21 is ₹ 0.13 crore (FY 2019-20 - ₹ 0.09 crore).

KMAMC and Kotak Bank have applied to PFRDA under the revised RFP dated December 2020, which is under consideration of the authorities.

There has been an increase in other income to ₹ 3.7 crore in FY 2020-21 as compared to ₹ 3.6 crore in FY 2019-20 primarily on account of increase in profit from sale of investments. The costs have increased to ₹ 3.4 crore in FY 2020-21 from ₹ 3.3 crore in FY 2019-20. KMPFL has reported a profit before tax during FY 2020-21 of ₹ 0.45 crore as compared to ₹ 0.07 crore in FY 2019-20.

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. KIAL develops and invests in unique and interesting investment opportunities relevant to the Indian markets and financing requirements of businesses.

Financial Highlights

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Total Income	140.8	119.9
PBT	50.5	12.4
PAT	40.0	9.7

During the year, KIAL has received new capital commitments of around ₹ 3,836 crore. The aggregate alternate assets managed / advised (including undrawn commitments, wherever applicable) by KIAL as on 31st March, 2021 were ₹ 17,906 crore. It managed 17 domestic funds, advised 1 domestic fund and 6 offshore funds during the year.

Of the new capital commitments received during the year, the Kotak Performing RE Credit Strategy Fund completed its first & final close with commitments of ₹ 2,760 crore from a large marque sovereign wealth fund and a global insurance company. This Fund will target both early stage and late stage real estate projects in residential, commercial, retail, warehousing and hospitality sectors. KIAL also raised commitments from three open ended funds - two under the Optimus brand to garner ₹ 712 crore and the third of ₹ 364 crore for India Whizdom Fund II. KIAL also continues to actively deploy capital in the Indian special situations, credit and distressed space through Kotak Special Situations Fund (KSSF) and in the Indian real estate space through its existing real estate funds/ mandates. Despite Covid-related restrictions, deployed significant capital across 6 portfolio investments from KSSF. These investments were made across real estate, chemicals, technology, cement and pharmaceuticals space. KSSF also acquired Prius Commercial Projects Private Limited (Prius), its maiden investment under the Insolvency and Bankruptcy Code (IBC).

KIAL also has Investment Advisory business for Private Clients with ₹ 16,938 crore assets under Advice as on 31st March, 2021.

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 2020-21	FY 2019-20
Total Income	9.8	9.2
PBT	3.4	3.4
PAT	2.6	2.5

Kotak International subsidiaries

Financial Highlights

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Total Income	331.1	307.3
PBT	170.4	138.8
PAT	154.1	118.8

Kotak International subsidiaries consist of following entities:-

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

The international subsidiaries have offices in UK, Mauritius, USA, UAE and Singapore.

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

The funds managed or advised by the International Subsidiaries are India centric equity and debt funds and target investors from across the globe seeking to invest into India. Though the International Subsidiaries have the right blend of products to be offered to global investors through its network of sub- distributors, it is heavily dependent on the performance of the Indian capital markets and funds, other product manufacturers and also the investment appetite of the global investors seeking to invest into India.

Business update

The closing assets managed/ advised (AUM) by the International Subsidiaries increased from ₹ 23,430.9 crore (US$ 3.1 billion) as on 31st March, 2020 to ₹ 28,237.0 crore (US$ 3.9 billion) as on 31st March, 2021 on account of mark-to-market gains net of redemptions from investors witnessed during the year.

As regards the bond dealing business, higher than normal volatility witnessed at the start of FY 2020-21 following the onset of the COVID-19 pandemic in the previous year reduced eventually due to liquidity infusion by central banks resulting in asset price inflation and one directional markets. This led to fall in revenue for the year. The volumes and income generated from dealing in securities also declined due to lower investor participation in stressed and high yield bonds which was witnessed during the previous year.

Financial update

The total income earned by international subsidiaries increased from ₹ 307.3 crore during the FY 2019-20 to ₹ 331.1 crore during the current year increasing by ₹ 23.8 crore.

Global fixed income securities had witnessed panic selling and corresponding fall in prices during March 2020 after the World Health Organisation (WHO) declared COVID-19 as a global pandemic. However, during the current year, the prices bounced back which led to high revenue through recovery of marked-to-market losses on own investments recognised in FY 2019-20 by ₹ 82.2 crore. These gains were partly offset by lower income from dealing in fixed income securities by ₹ 15.7 crore and dividend income by (earned in FY 2019-20) ₹ 29.5 crore.

The overall expenses decreased from ₹ 168.5 crore during the previous year to ₹ 160.7 crore during the current year.

Resultantly, the profit before tax for the year stood at ₹ 170.4 crore versus a profit of ₹ 138.8 crore for the previous year.

Kotak Infrastructure Debt Fund Limited (KIDFL)

KIDFL, is the infrastructure debt financing company. KIDFL provides long term finance to infrastructure projects. It provides long term finance to infrastructure projects and has been able to forge relationships with multiple Infrastructure developers.

KIDF continues to be judicious about credit underwriting and selection of customers. COVID-19 pandemic has impacted all industries; 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 2020-21	FY 2019-20
Total Income	76.1	81.7
PBT / PAT	33.1	34.0

Customer Assets decreased to ₹ 734.9 crore as on 31st March, 2021 compared to ₹ 785.2 crore as on 31st March, 2020.

IVY Product Intermediaries Ltd (IVYPIL)

At present, IVYPIL earns income from investment of its surplus money in fixed deposits.

Financial Highlights

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Total Income	0.4	0.4
PBT	0.3	0.4
PAT	0.1	0.3

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 has 353 branch offices across Karnataka, Maharashtra, Madhya Pradesh, Tamilnadu and Bihar. Loans originated by BSS are eligible for priority sector advances of the Bank.

Financial Highlights

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Total Income	205.8	197.1
PBT	30.9	78.9
PAT	23.2	59.3

It also provides first loss default guarantee to Bank on the loans originated by it. The PBT is lower compared to previous year, mainly on account of increase in credit costs due to increase in COVID-19 related delinquencies.

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 2020-21	FY 2019-20
Total Income	276.6	149.1
PBT	202.3	(16.1)
PAT	150.9	(16.9)
Share of Kotak Group	75.4	(8.4)

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

Phoenix ARC Private Limited

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

Financial Highlights

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Total Income	166.3	193.9
PBT	38.7	(9.7)
PAT	23.7	(11.7)
Share of Kotak Group	11.8	(5.8)

Profit after tax of the company saw an increase due to substantially better recoveries in this year, which led to increase in profits and decline in provision for diminution in value of investments during FY 2020-21.

ECA Trading Services 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 2020-21, the Company has made a profit primarily from investment of surplus money. The Company was not engaged in any business activity in FY 2020-21.

Financial Highlights

(₹ in crore)

Particulars	FY 2020-21	FY 2019-20
Total Income	0.6	1.4
PAT	0.3	1.1
Share of Kotak Group (post adjustments)	0.1	0.4

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 organisation 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 a 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 Bank's second line risk management function is responsible for monitoring the risk management and reviewing the risks that the bank is exposed to and ensures that the management and the Board is sufficiently informed of the risk exposure.

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 Chief Risk Officer (CRO), who is appointed by the Board of Directors and reports directly to the MD & CEO, heads the independent risk function in the Bank. 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. A Group Risk Management committee (GRMC) is constituted to ensure that there is a holistic view of risks at overall Group level. The Board has 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 I capital by the total of on-balance sheet assets and off-balance sheet items at their credit equivalent values. The strong Tier I 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. During the year, the Bank and each legal entity in the Group placed emphasis on capital and liquidity to ensure that they were capitalised above internal and regulatory minimum requirements at all times, 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 key risk appetite measures 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.

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.

Credit and investment decisions must comply with established policies, guidelines, business rules and risk assessment tools used to help make these decisions. Managing credit risk is the responsibility of several levels of employees - from those who deal directly with clients to authorising officers. 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. Authorities are delegated to positions commensurate with their function and the level of credit knowledge and judgement that employees holding that position are required to possess. 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 without compromising business continuity or finances. Off balance sheet transactions are subjected to the same rigorous credit analysis as on balance sheet transactions. Appropriate levels of collateralisation 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 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 conducts 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. While collateral cannot replace a rigorous assessment of a borrower's ability to meet obligations, it is an important complement. 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 realisation 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. Through periodic monitoring, analysis and reporting, the Bank ensures that the overall risk in the portfolio is diversified and consistent with the risk appetite mandate while achieving financial objectives.

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, implied volatilities, credit spreads, commodity and equity prices. The Board Approved Investment Policy sets out the Investment Philosophy of the Bank and its 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. The Bank's Board Committee for Derivative Products and Senior Management Committee for Derivatives are responsible for the oversight of the client derivatives business.

The Bank has a comprehensive market risk limit-framework including limits on sensitivity measures like PV01, Duration, Option Greeks (Delta, Gamma, Vega etc.) and other limits like VaR limits, loss-triggers, value-limits, gap-limits, deal-size limits, tenor restrictions 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 even monitored on an intraday basis.

Liquidity of the trading portfolio is assessed and an appropriate deduction is made from Tier I 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%. Value-at-Risk limits have been set on all major 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 intensity of the impact depends largely on timing mismatches in the maturity and repricing of assets and liabilities and off-balance sheet positions. The aim of managing interest-rate risk is to limit the sensitivity of the balance sheet to interest rate fluctuations. 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.

During the year, the management of structural balance sheet risk has allowed the Bank to mitigate the negative impact of the downward trend in interest rates and the volatility experienced as a result of the effects of COVID-19.

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 or not being able to finance growth of its assets without incurring a substantial increase in costs. The efficient management of liquidity is essential to the Group in order to retain the confidence of the financial markets and maintain the sustainability of the business. 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. The organisation strives to maintain a long-term funding structure in line with the liquidity of its assets, with maturity profiles that are compatible with the generation of stable and recurrent cash flows, so that the balance sheet can be managed without liquidity strains in the short term. The funding of lending activity is fundamentally carried out using stable customer funds.

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. The framework is designed to maintain liquidity resources that are sufficient in amount, quality and funding tenor profile to support the liquidity risk appetite. 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 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. Limit setting and transfer pricing are tools designed to control the level of liquidity risk taken and drive the appropriate mix of funds.

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 and interbank liabilities among others. 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, prioritising 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.

In view of the exceptional conditions due to COVID-19, the RBI vide notification dated 17th April, 2020, reduced the LCR requirement to 80%. The LCR requirement reset to 90% on 1st October, 2020 and is 100% from 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 2021. The Group is on track to meet the NSFR requirements as per the RBI guidelines.

To supplement the monitoring of liquidity risk under normal business conditions, a framework has been designed to prevent and manage liquidity stress events. 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 maximise 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 minimise adverse impact on the Bank.

K. Operational Risk

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

The Board of Directors, Risk Management Committee and the Operational Risk Executive Committees (ORECs) 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. Further, an Executive level Fraud Risk Management Committee has been constituted under the chairmanship of the Chief Risk Officer.

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 certain key 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, cyber drills were conducted to assess the effectiveness of the prevention, detection and response controls. 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. Risk Assessments were conducted and various measures are implemented to enhance the 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 minimise the impact of any incidents.

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 in 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 and 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 emphasises 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.

During the year, in the context of COVID-19, the Bank maintained its focus on customers and culture. The Bank implemented measures to support customers and ensure continuity of service. The Bank supported its employees in these unprecedented conditions, adapting its controls and risk management processes in view of the significant levels of remote working throughout the year.

P. Risk Culture

Culture and values are a priority area for the Group. Risk culture refers to desired attitudes and behaviours 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 organisation. 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, prioritisation 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.

The enterprise risk management framework outlines the methodology used to manage the risks inherent in its activities, while ensuring the outcomes of risk-taking are aligned with its overall strategy and mandate. The framework reinforces a risk culture across the organisation that ensures a high level of risk awareness and makes risk management an integral part of organisational decision-making. The Bank's risk management practices and culture enables it to take the risks necessary to fulfill its mandate while ensuring the organisation is financially sustainable.

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 ICAAP was enhanced to include greater detail and more in-depth analysis. 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.

During the year, the Bank ran a range of internal stress scenarios to determine potential outcomes of the COVID-19 pandemic, which informed management actions. The aim of the tests was to identify key vulnerabilities that were most relevant and material to the business model and to assess the resilience of key balance sheet metrics including capital adequacy and liquidity. The balance sheet capital adequacy and liquidity remain resilient based on internal stress test outcomes.

S. COVID-19

The COVID-19 pandemic is the one of the most severe public health crisis in modern history. The outbreak and its effect on the global economy affected its customers, and the future effects of the outbreak remain uncertain. Many business models and income were impacted by the economic downturn caused by the COVID-19 outbreak, requiring them to take support from both governments and banks. The government responded at unprecedented levels to protect public health, economy and livelihoods, through a combination of lockdowns to limit the spread of infection and to avoid overburdening the healthcare system. The lockdowns restricted public life and led to a significant decline in sales in many sectors, such as restaurants, hotels, recreation, transportation, tourism and retailing. Different areas of economic policy, such as monetary policy and fiscal policy have operated in synergy during the crisis. Throughout the pandemic, the Bank has continued to support its customers and maintained its levels of service as its people, processes and systems responded to changes in the operating environment. The strong balance sheet and liquidity position also helped it to support its customers.

Compliance

The Bank has, since inception, a well-established and comprehensive compliance framework and structure to identify, monitor and manage the Compliance Risk in the Bank. The framework, policy and the structure are also adhering to all the regulatory prescriptions issued by the RBI in this regard. 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 periodically to ensure that all the supervisory and regulatory instructions are interpreted and implemented in letter and spirit. This also helps exchange of views on best practices and to understand compliance risk across the Group. 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. Compliance is given utmost importance with the tone from the Top and Senior Management of the Bank and subsidiaries are directly monitoring the same.

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 skilled, experienced and 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 and functions i.e. Consumer, Commercial, Wholesale, Treasury (for domestic and overseas operations) and audit of Operations units, Risk and support functions, Information Security Audits, Information Technology audits, IT Governance & Infrastructure 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 critical areas of 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 as well as through its own staff.

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, 2021, the employee strength of Group was over 73,000 as compared to over 71,000 Kotakites a year ago. The standalone Bank had over 51,700 employees as on 31st March, 2021.

In the FY 2020-21, there was increased focus on employee wellness, work life balance, engagement and development. With its undeterred efforts and exceptional employee initiatives, the Bank is now certified as a **'Great Place to Work'** by the GPTW institute. Key areas where several employee initiatives were introduced and re-engineered are as follows:

A. Employee Health & Wellness:

Bank has championed Health and Wellness drives with the initiative, **#HumFitKotakHit**. It has addressed a holistic welfare of Kotakites, including Physical, Social, Financial and Emotional welfare.

- Bank has launched a monthly Fitness allowance with effect from December 1, 2020, thereby creating a culture of fitness for Kotak employees by encouraging them to update their fitness goals online, driving focus on their health and well-being.
- Doctors, counsellors, psychiatrists, nutritionists are available online for all Kotakites. Online yoga, Zumba, meditation and mindfulness were conducted to help Kotakites combat physical and mental stress.
- Introduced **'Special Leave COVID-19 Positive'** of upto 15 days which is over and above the leave balance.

- All Kotakites are covered under **Term life + Personal accident policy** and also **Mediclaim** policy. The employee's share of the Mediclaim insurance premium is waived off.
- By way of Virtual Connect, Bank reached out to Kotakites in Branch banking through **Employee Outreach Programme**, to check on them and their families during the lockdown phase and whether they needed any assistance of any kind.
- Bank is also **reimbursing Covid tests** expenses for Kotakites and their families.
- **828 Guidelines** was introduced ensuring that no work related emails or messages are sent to Kotakites between 8 pm and 8 am.
- **Remote working policy** has been introduced offering hybrid working opportunities to Kotakites with Remote Working **allowance** to cover wi-fi and other work related furnishing expenses.
- **Emotional Assistance Programme** was launched to support and guide Kotakites emotionally.

B. Diversity and Inclusion:

- Bank has created an opportunity for multi-generations with current average age of 32 years, creating an opportunity for younger talent across grades. Around 65% of Kotakites are in their 40s at senior levels, thereby creating a balance at all levels.
- Bank also revamped the D&I agenda and formed the **D&I Council** representing leaders from all businesses in the Bank lead by Shanti Ekambaram, Group President-Consumer Bank. The D&I Council aims to drive changes in the culture, policies, processes and systems to build an Inclusion focused work environment.
- "Kotak Mahindra Bank" is one of the best amongst the competition on Gender Diversity in the Banking sector with current gender diversity close to 1/4th of its employee population.
- Regional **R&R events** were organised where Kotak Wonder Women (KWW) were felicitated under 4 different categories.
- The Bank has designed a Kotak Wonder Women **coaching intervention** which is a journey spread over 6-8 months for senior women leaders across Kotak group.
- To promote diversity, Bank has introduced special **Talent Acquisition initiatives** such as, exclusive women recruitment drives with preference of women candidates, including replacement of positions with women candidates and hiring women for remote working roles.
- The Bank launched a **Digital Learning platform** exclusively for Kotak Wonder Women in collaboration with Everywoman – a UK based Gender Diversity organisation with specially curated content based on 9 themes focusing on challenges faced by women in corporate life.
- **Employee Assistance Programme** was introduced for all KWW.
- **Eve talk** was launched to discuss topics such as managing work life balance, transition from a manager to a leader, handle a bad day at work, discuss challenges and offer solutions.

C. Employee Engagement Initiatives:

- On 21st November, 2020 the Bank celebrated **35 years of Kotak Foundation Day** virtually, with more than 25,000 Kotakites participating online along with their families. During the event, bank launched the annual **Kotak Infinity awards**, had a talent contest - **Kona Kona Kalakaar** besides live quiz by host Siddharth Kannan, live music by singer Palash Sen and live address by the MD & CEO, Uday Kotak.
- It is said, that to form any new habit it takes 21 days and so inspired from that belief the **Kotak 21 Day challenge** was introduced to encourage managers to initiate fun activities within their teams ahead of the 35th Kotak Foundation Day.
- Bank has also strengthened the platform for top down communication. At the same time created listening opportunity for voice of Kotakites through **'My Kotak My Say'** a bi-annual employee engagement survey engaging the 'Great Place to Work Institute'. Other channels of listening have been strengthened such as **Meet Forums and Town Halls.**
- Bank has also introduced **Kotak Young Leader Committee (KYLC)** where young managers are selected and given an opportunity to work as independent entrepreneurs on various projects and shadow the Kotak Leadership Team (KLT) and Group Management Council (GMC).
- Bank launched **Channel-K,** a fortnightly digital channel for and by Kotakites with an objective to communicate important news and events, entertain and showcase the infinite talent at Kotak.
- Besides, Kotakites at regional levels celebrated festivals and other occasions ensuring Covid Safety Protocols.

D. Employee Development:

- The crisis period of COVID-19 expedited the Bank's move and investments towards adopting new practices, and moving to a **Digital video-based** approach. Digital Video based Induction is a major transition for onboarding the new joiners in their first week of joining to make them role-ready and ensure a seamless experience post joining.
- Following the pandemic, a flagship certification program was launched for all people managers called **K-MAP** for effective team management, team development and culture building. Around 80% managers got covered in FY 20-21.
- The **New Age manager programme** was successfully introduced in the months following the lock down which addressed the challenges of dealing with virtual team management, virtual stake holder management and growth mindset.

- **"Kotak DigiQ: Propelling Transformation & Disruption through Digital"** for the senior team at Consumer Bank was designed to address the emerging requirement for senior business leaders to make them aware of adoption of digital in business, anchored by senior global business faculty from leading B-Schools such as Cornell, University of Wisconsin, IIM-Ahmedabad among others. All Kotakites participated in DigiQ before end of FY 2020-21.
- **K-League** Harvard programme was launched for the KLT which is focused on a Learning Series spread over 6-8 months which would leverage the expertise, thought leadership and research content from the **Harvard Ecosystem**. Over 60 leaders from Kotak Group are undergoing this programme.

E. Talent Acquisition Strategy:

- Bank has implemented Oracle Recruiting Cloud (ORC), one single platform for all recruitment activities and moving recruitment towards paperless process.
- Relaunched the internal job posting programme - Kotak Fast Track, to attract internal talent for new growth opportunities, reduce attrition and save cost of hiring.
- In-house sourcing has doubled, resulting in less cost towards consultant hiring.

F. Other initiatives:

- The Bank has revamped the Code of Conduct policy, amended existing policies and introduced new HR policies**.**
- 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 for key roles.
- Performance Management System and **PRAISE** process has been revamped and My Agreed Commitment **(MAC)** framework has replaced the BSC method of appraisals.

BANK'S BUSINESS STRATEGY

There are nine key strategic drivers identified by the Bank, as set forth below, to ensure that it maintains its leadership position:

1. Technology at the Core: Investing in cutting edge technology for both infrastructure and applications with a dual objective: 'run the Bank' and 'change the Bank'

The Bank recognises the importance of building technology capabilities focused on providing improved customer experience, increasing employee productivity, improving operational performance, capabilities for superior regulatory compliance and proactive risk management. The Bank's investment in technology are focused towards following business imperatives:

1.1. Adoption of emerging technology

1.2. Automation in development and technology operations

1.3. Platform convergence

1.4. Strengthen capabilities in cyber security

1.5. Regulatory compliance

1.6. Analytics and reporting for decision making and improved customer interactions

1.7. Modernisation of legacy systems

2. Leadership in digital capabilities: Continue journey on best-in-class digital processes and interface at speed

2.1. Digital customer acquisition and servicing: The Bank recognises the importance of digital capabilities for scaling up its pace of customer acquisition and providing a best-in-class customer experience.

With a promise of quick account opening through an entirely digital journey, at any time of the day, Kotak 811 continues to be instrumental in driving acquisition of savings account customers for the Bank. Across many other products, as part of its core digital focus, the Bank is investing to create simplified, technology-driven journeys and processes for customer acquisition and servicing.

2.2. Best-in-class digital banking experience: In FY 2020-21 the Bank undertook a complete revamp of its net-banking platform to make it more user friendly, faster, safer and more convenient. The Bank will continue to invest in digital transaction channels for enhancing customer acquisition, safety, servicing, transaction processing capability, especially across payments and transfers.

2.3. Partnerships with Fintechs: In order to remain at the cusp of fast evolving technologies in the areas of customer acquisition, customer servicing and customer experience, the Bank will actively partner with multiple Fintechs and other such startups.

2.4. 'Digital Everything' experience: The Bank aims to head towards a 'Digital Everything' experience and plans on continuing to invest in delivery of multiple products and services through an integrated value proposition across acquiring, lending & transactions.

3. Customer centricity: Keep customer at the core of the business in order to provide a positive experience and build long term relationships

The Bank has and will continue to be customer-centric using technology as core by building enablers across customer acquisition, customer experience and customer deepening (cross-sell) and provide a frictionless experience for customers through comprehensive products and services ecosystems.

3.1. Customer Acquisition

The Bank believes that digital banking experience, and trust and convenience of branch presence are amongst the most important factors influencing customers' choice of banks. The Bank proposes to take a 'Phygital' approach to expansion and plans to undertake a measured growth of its branch network, focusing on value creation, and to expand customer reach. At the same time, Kotak 811 and other digital banking initiatives will continue to be the main driver of customer acquisition. This 'Phygital' strategy will help the Bank consolidate its experience of conventional and modern banking to make customers' journey seamless and complete.

3.2. Customer Experience

The Bank endeavours 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.

The Bank wants to add a delightful experience layer at all customer touchpoints to potentially surpass customer expectations. Towards this, the Bank has invested across various customer engagement channels such as virtual relationship manager, Keya – voice and chat bot and WhatsApp banking. Further, process capabilities such as paperless and biometric processing will help the Bank in creating a 'Customer Wow' experience.

The Bank relentlessly pursues 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. The Bank tracks "Net Promoter Score" on a regular basis and uses it as a basis for understanding the customer delight, loyalty and satisfaction levels with the Bank.

3.3. Customer Deepening (cross-sell)

The Bank aims to strengthen its data and analytics capability, leading to improved actionable customer insights. The Bank believes that such investments in advanced analytics shall improve product holding by anticipating customer needs and uptiering risk analytics on lending (both for smarter lending and portfolio management). Additionally, enhanced customer experience is also expected to lead to higher cross-selling of products.

3.4. Ecosystem Play

The Bank believes that a comprehensive products and services ecosystem provides frictionless experience driving customer stickiness and enables the Bank in increasing customer wallet share. The Bank intends to combine existing products and services, creating a platform wherever needed and provide ecosystems across customer categories such as 811 ecosystem (digital accounts and loans for technologically savvy millennial population), Cherry by Kotak (artificial intelligence powered multi-asset investment advisory platform launched by Kotak group company) and Lending ecosystem (banking layer on top of business applications for the business banking customers)

4. Expanding access to low cost liabilities

The Bank has and will continue to fund its loan growth objectives largely by growing the retail deposit base, in particular savings & current deposits. The Bank has grown its CASA ratio from 38.1% as of 31st March, 2016 to 60.4% as of 31st March, 2021, which is amongst the highest in the Indian banking industry. Retail depositors form 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 amongst 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. Whilst the Bank has reduced its interest rates in more recent years, its interest rates are still higher than a number of its peers.

It 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, optimising 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 customised 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 current accounts and retail deposits to the Bank, which will expand its pool of low-cost and stable funding.

5. Pursue advances growth ensuring right asset quality additions at risk adjusted pricing and appropriate risk management

5.1. Advances

The Bank's strategy is centred on risk adjusted returns with a sharp focus on 'Return of Capital' along with return on capital and sustainable balance sheet growth, led by retail advances and maintaining a high-quality diversified asset portfolio.

The Consumer Banking vertical is expected to remain a key driver of the Bank's overall growth strategy. The Bank aims to strengthen its data and analytics capability, leading to improved actionable customer insights. The Bank believes that such investments in advanced analytics shall improve product holding by anticipating customer needs and up tiering risk analytics on lending (both for smarter lending and portfolio management). The Bank is also focused on a 'Digital Everything' experience by providing end-to-end digital journeys with digital onboarding, straight through approvals with decision engines enabled by integrated core systems, digital disbursement, servicing though digital channels and collections driven by a digital platform. The Bank believes that this strategy will enable it to build relationships in areas far beyond its physical outreach.

The Bank aims to increase its focus on increasing the lending towards RBI defined priority sector lending through providing finance for Tractor, Crop loans, Small Enterprises, allied agricultural activities and microfinance for women borrowers.

The core focus of wholesale business is to acquire quality customers, delivering customised solutions through efficient technology platforms backed by high quality service. The Bank would continually monitor its portfolio diversification through the tracking of industry, group and company specific exposure limits. Additionally, the Bank aims to increase its Environmental, Social and Corporate Governance (ESG) consciousness by considering ESG as one of the metrics while evaluating credit and portfolio composition. The Bank will continue to use Risk Adjusted Return on Capital (RaRoC) model for pricing its advances. RaRoC model ensures that the return earned is appropriately adjusted for expected losses, firm's expenses and taxes and capital deployed.

5.2. Risk Management

The Bank strongly believes in doing everything to ensure the safety of its depositors' savings entrusted to it. To meet the same, the Bank has instituted a rigorous process of managing risk and recovery at the heart of its lending practices. The Bank views appropriate credit risk management as the foundation for providing risk-adjusted returns.

The Bank 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. A disciplined credit risk management approach has enabled the Bank to build a diversified portfolio of high-quality assets with acceptable levels of credit cost. The Bank will continue to improve its credit risk procedures to keep its credit cost within acceptable levels.

6. Executing with discipline – efficiency, productivity and capital

6.1. Cost efficiency: The Bank will continue to expand its market share across businesses, bringing scale efficiency. Additionally, the Bank will continue to invest in various digital initiatives and technology infrastructure to acquire customers, enhance customer experience, and make internal operations more efficient. A comprehensive digital strategy will allow the Bank to deepen relationship with the customers and automate processes bringing cost-efficiency over the medium to long term.

6.2. Operational risk management: The objective of operational risk management at the Bank is to manage and control operational risk within targeted levels as defined in the risk appetite laid down by the Board and reduce losses resulting from inadequate or failed internal processes, people and systems or from external events.

6.3. Employee productivity: The Bank works towards continuously improving employee productivity levels and has identified technology, automation and 'do-it-yourself' as critical enablers to achieving the same. Automating repetitive tasks not only helps in reducing costs, but also improves turnaround time, creating customer wow and increased wallet share and improving operating leverage.

6.4. Capital: The Bank plans its capital requirements with the objective to meet its regulatory and business requirements striking a balance between risk/reward on the capital to be deployed. The Bank will continue to maintain Tier-I capital in excess of the regulatory required Tier-I capital and will continue to ensure that Credit to Deposit ratio remains within acceptable levels.

7. Approaching financial inclusion as an opportunity

The Bank believes that Financial Inclusion is a major step towards inclusive growth. It helps in the overall economic development of the underprivileged population.

The Bank focuses on meeting the banking and financial needs of customer segments beyond metro and urban centres and services the priority sector by providing finance for Tractor, Crop loans, Small Enterprises and Allied agricultural activities and microfinance for women borrowers. The Bank intends to increase geographical presence by leveraging its digital ecosystem and tying up with channel partners. With rising rural incomes and strong demand, the Bank believes that there exists a potential for robust growth across product lines.

The Bank aims to deepen access to financial products and services under various Government led initiatives in a sustainable manner. Under its financial inclusion plan, key products and services offered by the Bank include:

- Basic Saving Bank Deposit Accounts offered to customers in the lower income brackets
- Distribution of government sponsored protection schemes
- Lending in low income segments through government sponsored schemes and offering services such as Aadhar Enabled Payment Systems through its branch and BC network

The Bank will increase its focus on converting these activities into sustainable opportunities over the long run.

8. **Attracting, retaining and building a team of talented, engaged and motivated employees in an agile structure**

The Bank believes that one of the keys to its success is the ability to recruit, retain, motivate and develop talented and experienced professionals. In 2021, the Bank received 'Great Place to Work' Award from the Great Place to Work Institute for its 'High-Trust and High-Performance Culture'.

The Bank intends to continue its focus on recruitment and cultivation of a high-quality, professional, and empowered workforce through initiatives such as:

- training and development programmes for employees to enhance professional knowledge and upskilling of capabilities
- enhancing management and employee incentive programmes to align compensation with performance
- creating an encouraging work atmosphere
- enhancing employee engagement

The Bank aims to design an organisation for the future by:

- reorganising leadership cadre to bring out higher focus on technology orientation and customer orientation
- creating an agile structure with
  - younger talented employees on faster growth paths
  - fewer and flatter reporting structures
- improving diversity in the workforce to have a variety of perspectives

This will help the Bank in becoming a product, technology and innovation led customer centric organisation.

9. **Leverage strong standing to pursue inorganic opportunities**

The Bank 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 Bank 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 Bank 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. The Bank will pursue these inorganic growth opportunities where it sees the ability to add value for its stakeholders and customers.

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
- Enhance the impact of Financial Inclusion

Threats

- Delay in vaccination of entire country
- Uncertainty persisting due to pandemic and far more attention to it at the cost of other diseases
- 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
- Talent management and training them for the right culture

Going forward, the 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 capitalise 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.