Management's Discussion and Analysis

MACRO-ECONOMIC ENVIRONMENT

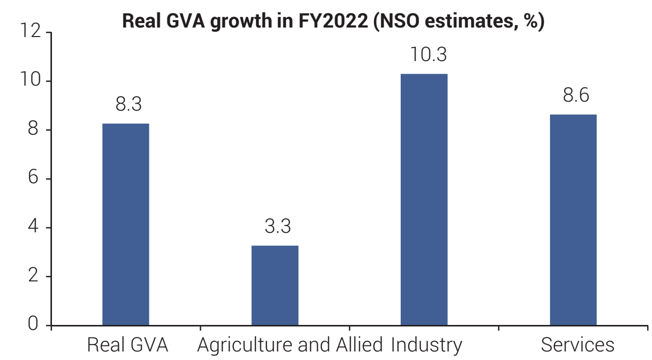
The world economy witnessed a sharp revival in economic activity in early 2021 led by worldwide relaxations in lockdown restrictions and pent-up demand. As per the International Monetary Fund (IMF), global GDP grew by 6.10% in 2021 as against a contraction of 3.1% in 2020. However, the economic prospects were evolving with a lopsided favourable pickup in activity amongst the advanced economies (AEs) compared to the emerging economies (EMEs). The divergence in economic outlook was primarily led by the large disparities in vaccine access and in policy support, especially after the global resurgence of the highly transmissible Delta variant further postponed the return to pre-pandemic normalcy. The different variants of pandemic outbreaks worsened the supply chain disruptions, further reinforcing the slow-growth high inflation trends. The persistence of supply-led inflation posing risk of inflation expectations getting un-anchored prompted several Central Banks's into frontloading its policy withdrawal in H1FY22.

In India, the start to FY 2021-22 was mired with the sharp rise in infections due to the spread of the Delta variant, resulting in localized lockdowns. However, the localized nature of the lockdowns helped minimize disruptions to activity. While a favourable base aided the sharp jump in Q1FY22 growth to 20.08% (2.53% in Q4FY21), the sequential momentum fell sharply across the board due to the second Covid wave. Real GVA growth contracted sequentially by 14.49% (compared to +6.05% qoq in Q4FY21). As expected, due to the mobility restrictions in place, service sector was most affected (with trade and transportation declining the most). The manufacturing sector though sequentially lower, remained above the corresponding pre-pandemic quarter levels (Q1FY20). As activity continued its recovery, after the waning of the second wave and the easing of mobility restrictions, Q2FY22 real GDP and GVA posted positive sequential growth across all categories except for government spending. In Q3FY22, while the momentum slowed, real GVA growth remained steady with a growth of 4.71% led by service sector pick-up of 8.10%. Despite a slower momentum, components of GVA were all higher than their levels in the corresponding pre-pandemic period (Q3FY20).

FY 2021-22 real GDP growth came in at 8.68% against -6.60% in FY 2020-21. On a value added basis, real GVA would grew by 8.11% against -4.80% in FY 2020-21. The industrial sector grew by 10.27% in line with NSO estimates compared to -3.26% in FY 2020-21. Service sector posted a growth of 8.44% (-7.82% in FY 2020-21).On the expenditure side, private consumption grew by 7.91%, government consumption by 2.57% and investments by 15.80%.

In order to support growth, keeping in mind the muted sequential momentum, the government's announcement of its pro-growth budget is expected to facilitate investments in infrastructure and manufacturing through its sector-specific proposals like government incentives under various production-linked incentive (PLI) schemes for 'new' sectors, tariff protection through judicious use of high customs duties in the case of select sectors, and establishment of policy framework to encourage private sector investment in emerging areas (clean energy). The focus of the Union Budget on the public capex cycle is expected to crowd-in private investment in due course.

FY 2021-22 Real GVA growth at 8.1%

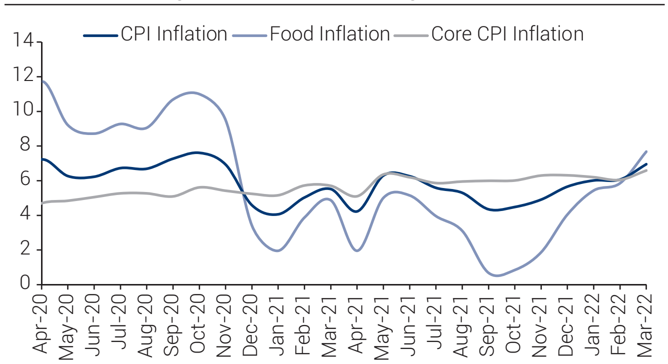


Source: CEIC, Kotak Economic Research

Domestic Price Dynamics

Inflation was very volatile in FY 2021-22 as the year started with a 4.23% reading in April 2021 and ended with 6.95% in March 2022, with five out of the twelve months exceeding the MPC's upper threshold of 6%. Persistence of supply chain disruptions, high food and fuel prices and pass-through of high input prices remained the primary drivers of high inflation. While tax cuts on fuel, supply side government interventions and favourable base effects helped ease pressures, the rise in inflation became more broad-based. Headline CPI inflation breached the 6% threshold of the MPC in May and June 2021 before moderating below 5% between September-November 2021. However, with the escalation of the Russia-Ukraine war, supply-side pressures worsened and commodity prices surged sharply, especially oil and gas. The oil prices moved up to more than USD 130/bbl before moderating lower near the USD 100/bbl mark. The Brent oil prices surged by 69.83% in FY 2022. The successive shocks to the global economy has led to a broad based sustained price increases across commodities - base metals, agriculture, input raw materials, fuels. The headline inflation has averaged 5.51% in FY 2021-22 against 6.18% in FY 2020-21, with the moderation aided only by favourable base effect. Food inflation ranged between 0.7-7.68%, averaging 3.80%. Meanwhile, the core inflation (CPI inflation excluding food and fuel) ranged between 5.10 -6.59%, averaging 6.08%.

CPI inflation averaged 5.5% in FY 2021-22 against 6.2% in FY 2020-21



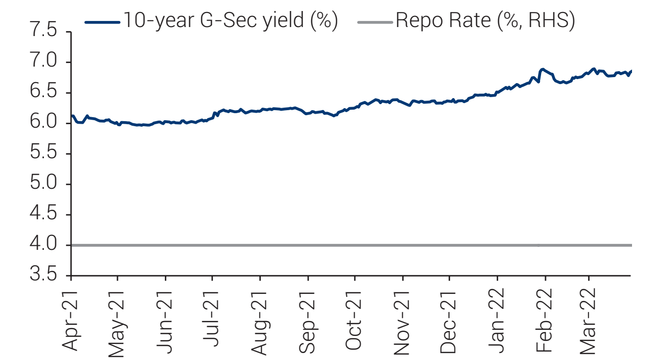
Source: CEIC, Kotak Economic Research

Going ahead, while the record high food grain production in FY 2021-22 should augment supply and enable some softening of food prices, the Bank expects the inflationary pressures to be skewed to the upside due to the persistence of global supply chain bottlenecks amidst the ongoing geopolitical conflicts along with resurgence of covid cases. There are clear risks of average inflation being higher than the MPCs upper threshold of 6% for the next two quarters which is expected to pose significant challenges for the MPC given that the Q4FY22 average inflation is already above the 6% threshold.

Monetary Policy and Interest Rates

RBI-MPC's heavy-lifting from the onset of the first wave of COVID-19 helped in stabilizing domestic financial markets. With rates and stance on an ultra-accommodative zone and the uncertainty with regard to how the economy will evolve from the pandemic, the MPC decided to shift its forward guidance to state-based rather than time-based in the April 2021 meeting. Further, the emergence of the risk of super reflationary cycle amongst the advanced economies in early 2021 disrupted the global financial market sentiments with spillovers witnessed in Indian markets as well, especially the bond markets. To mitigate the impact and ensure the orderly evolution of the yield curve with an objective to manage the heavy borrowing program smoothly, the RBI announced G-sec acquisition programme (G-SAP), a first time commitment by the Central Bank to upfront specify the amount of open market (OMOs) purchases of government securities. For Q1FY22, RBI announced ₹ 1 trillion of outright OMO purchases under G-SAP 1.0, with an intention to purchase ₹ 100 billion of State bonds too. Special refinance facilities of additional liquidity support of ₹ 500 billion for fresh lending during FY 2021-22 was extended to All India Financial Institutions (AIFIs) after ₹ 750 billion provided for in FY 2020-21. Additionally, the RBI restored the cash reserve ratio (CRR) to its pre-pandemic level of 4% of net demand and time liabilities (NDTL), effective 22nd May, 2021.

The spread between the repo rate and the 10-year benchmark G-Sec yield has widened

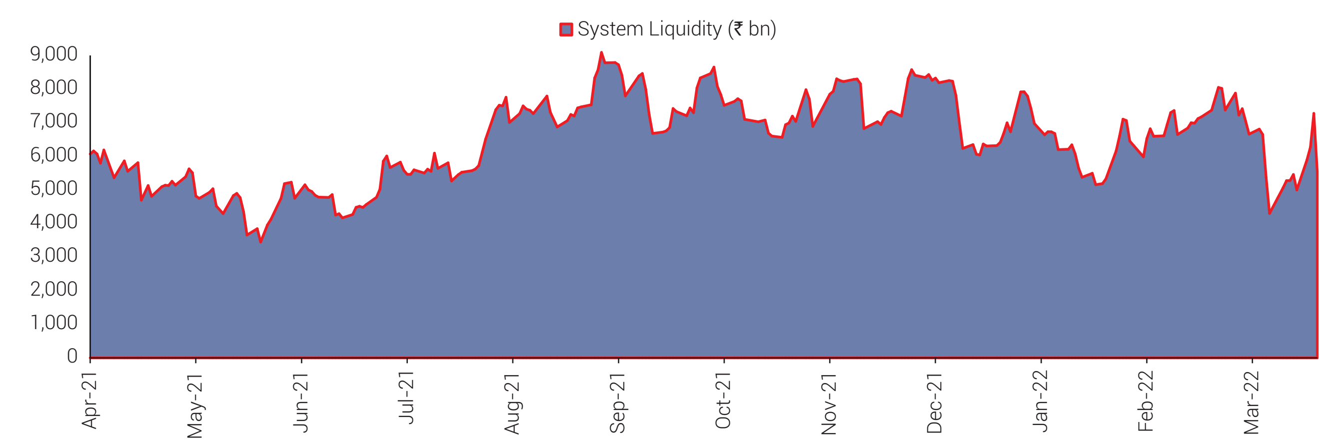


Source: Bloomberg, Kotak Economic Research

In Q2FY22, to continue with the accommodative stance with the objective of supporting the bond market, the RBI announced ₹ 1.2 trillion of outright OMO purchases under G-SAP 2.0. The RBI's support to the bond markets and the focus of the MPC to support growth over inflation continued till early September 2021 through continuation of the existing liquidity and policy stance. However, as the global supply shocks persisted posing sustained risk to inflation in the advanced economies (AEs), the central banks' acknowledged the need for early reversal in accommodative stance causing a stir in the bond markets. Rates globally saw the floor in mid-September 2021. Accordingly, the RBI began moving towards liquidity normalization and the G-Sap programme was discontinued by August 2021 given the then existing liquidity overhang. Instead, RBI conducted special OMO sale and purchases from September and later OMO sales (₹ 229.50 billion in H2FY22). In H1FY22, RBI has conducted net OMO purchases of ₹ 2.37 trillion (₹ 250 billion of T-Bills and SDLs and rest was Gsec). At the same time, the MPC decided to step up the use of Variable Rate Reverse Repo (VRRR) auctions, gradually increasing its quantum from ₹ 2 trillion in Q1FY22 to ₹ 7.50 trillion by 31st December, 2021.

RBI's rapid liquidity management through VRRRs led to a surge in the weighted average reverse repo rate to 3.99% (closer to the Repo rate which earlier was hovering near the reverse repo rate of 3.35%). Early halt of G-SAP 2.0, OMO sales in the secondary market along with adverse global conditions amidst escalating US bond yields and higher commodity prices unnerved the domestic bond markets. By mid-Q3FY22, some key AE central banks had turned hawkish (either starting their rate hike cycle or indicating an end to their asset purchase programme or indicating the timing of rate hikes). Further, weighing on the market sentiment was the announcement of significantly higher-than-expected gross market borrowing of ₹ 14.95 trillion in the FY 2022-23 budget and the absence of any mention of Indian bonds' inclusion in global bond indices. The yield on the 10-year benchmark moved from the years' low of 5.95% in May 2021 to 6.95% post the Union budget in February 2022. In a bid to mitigate the adverse impact, the RBI provided a very soft tone in the subsequent February policy reaffirming its stance of supporting durable growth and postponing the market expectation of early policy reversal. Additionally, auction and switch cancellations aided market sentiments towards the end of Q4FY22. However, the Russia-Ukraine war prompted a swift reversal in the RBI's stance in April 2022 with the focus reverting back to inflation over growth. Effectively, the benchmark 10-year yield rose by 67 bps during FY 2021-22 to end at 6.84%.

The system liquidity remains well in surplus



Source: RBI, Kotak Economic Research

External Sector Dynamics and the USD/INR

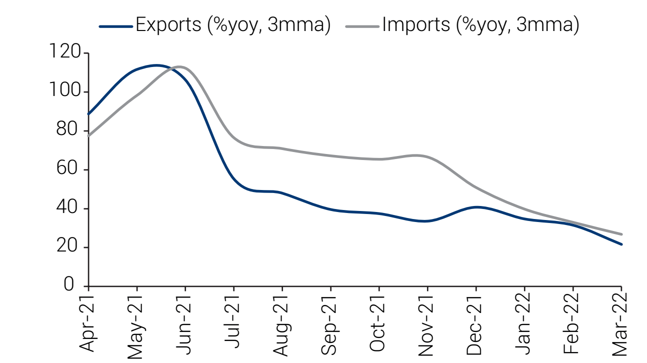
The external sector, while comfortable in Q1FY22, had started to come under pressure since Q2FY22 on account of the widening trade deficit and net capital outflows. As per the official release, for 9MFY22 the current account deficit is at 1.16% of GDP, with Q1FY2022 registering a surplus (0.91% of GDP) and while the following two quarters registering a deficit (-1.30% and -2.74%, respectively). With the recovery of domestic demand, import growth has outpaced export growth for most of FY 2022 even as exports have recorded their best year yet (crossing the US$400 billion-mark). The capital account, on the other hand, has remained in surplus territory till Q3FY22, with the 9MFY22 capital account registering a surplus of 3.88% of GDP aided by net foreign investment inflows in 9MFY22 (USD 24.95 billion), and Special Drawing Rights (SDRs) inflow from IMF in Q2FY22 (USD 17.86 billion). The external sector

started to show signs of weakness from 2HFY22 amidst elevated commodity prices and capital outflows on account of diverging monetary policies reaction functions. In FY 2021-22, net foreign portfolio investments have registered an outflow of USD 17.23 bn in compared to an inflow of USD 36.14 billion in FY 2021-22. Meanwhile net FDI flows have been robust at USD 39.38 billion in FY 2021-22.

While FPI inflows and the potential inclusion of Indian bonds in the global bond index strengthened the INR in Q1FY22, the currency came under pressure from Q2FY22 onwards as advanced economies began the process of raising policy rates to tackle elevated inflation. The RBI MPC also preferred to remain accommodative to help nurture growth and achieve durable recovery, especially as inflation mostly remained below the MPC's upper threshold limit of 6% (except in May and June 2021). INR continued to remain under depreciation pressure due to elevated global financial market volatility on the back of rising US Treasury yields, higher crude oil and other commodity prices and FPI outflows. Consequently, the INR average fell from 73.79 in Q1FY22 to 74.09 in Q2FY22 and to 74.95 in Q3FY22. The onset of the Russia-Ukraine war in February 2022, led to the worsening of global sentiments which weighed further on the INR pushing the Q4FY22 average further lower to 75.24. In FY 2021-22, the INR moved in the range of ₹ 72.44-76.97. On the whole, the INR depreciated by 3.66% to end the year at ₹ 75.79.

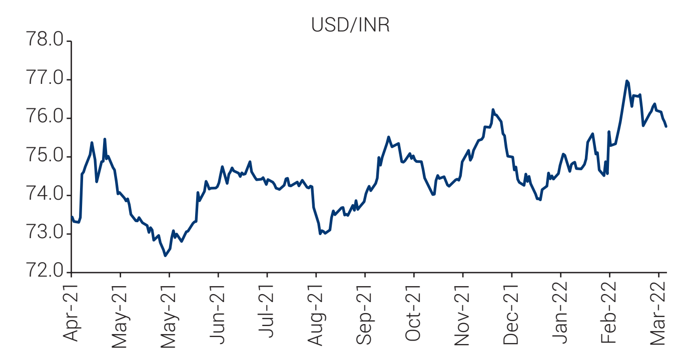
Overall, India's FX reserves stood firm at around USD 618 billion at the end of FY 2021-22. The robust external sector in H1FY22 created room for RBI to purchase around USD 40 billion of US Dollars, with the peak FX reserves being around USD 642 billion in September 2021. However, Dollar sales in H2FY22 to avert volatility in INR and adverse valuations has led to around USD 24 billion of fall in FX reserves from the peak.

Import growth has outpaced the healthy export growth



Source: CEIC, Kotak Economic Research

INR remains on a weaker footing amidst global uncertainties



Source: Bloomberg, Kotak Economic Research

CONSOLIDATED FINANCIAL PERFORMANCE[1]

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.

COVID-19 a global pandemic affected the world economy over last two years. The revival of economic activity has improved in FY 2021-22 supported by wide vaccination coverage, improved business outlook and relaxation of restrictions. Based on the improved outlook, the Bank and its subsidiaries have reversed COVID-19 related provision amounting to ₹ 835.49 crore during FY 2021-22. On a prudent basis, the Bank and its subsidiaries continue to hold provisions aggregating to ₹ 560.59 crore as at 31st March, 2022 against the potential impact of COVID-19 based on the circumstances at this point in time. The extent to which COVID19 pandemic will impact the Bank and its subsidiaries' results will depend on future developments owing to the nature and duration of COVID-19.

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, 2022	31st March, 2021
Kotak Mahindra Bank	72,456.47	63,726.97
Kotak Mahindra Prime	7,494.41	6,622.88
Kotak Mahindra Investments	2,488.54	2,117.40
Kotak Infrastructure Debt Fund	449.17	416.87
Kotak Securities	6,290.75	5,321.42
Kotak Mahindra Capital Company	885.47	688.83
Kotak Mahindra Life Insurance	4,389.20	4,045.47
Kotak Mahindra General Insurance	233.35	191.34
Kotak Mahindra AMC & Trustee Co	1,627.25	1,232.73
International Subsidiaries	1,539.31	1,339.99
Kotak Investment Advisors	763.45	404.85
Other Entities	418.20	301.68
Total	**99,035.57**	**86,410.43**

[1] *GRI 103-2, 103-3*

(₹ in crore)

Particulars	31st March, 2022	31st March, 2021
Add: Share in Associates	1,186.35	1,028.90
Less: Consolidated Adjustments	(3,087.85)	(2,602.85)
Consolidated Capital and Reserves*	**97,134.03**	**84,836.45**

Includes Preference Share Capital

Consolidated Performance

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Total Income	58,882.82	56,296.47
Consolidated PAT	12,089.39	9,990.20
Consolidated Capital and Reserves (As at year-end)	97,134.03	84,836.45
Key Ratios		
Return on Average Assets (RoAA) %	2.36%	2.16%
Return on Average Networth %	13.42%	12.80%
Earnings per equity share (diluted) (₹)	60.73	50.49
Book-value per equity share (₹)	486.90	425.55
Net Interest Margin (NIM) %	4.69%	4.47%
Gross NPA %	2.37%	3.22%
Net NPA %	0.71%	1.23%
Consolidated Capital Adequacy Ratio (CAR) %*	23.68%	23.38%
CET I*	22.70%	22.49%

As per Basel III norms issued by RBI

The Group had capital and reserves of ₹ 97,134.03 crore as on 31st March, 2022 (₹ 84,836.45 crore as on 31st March, 2021) The Group's return on average net worth was 13.42% for FY 2021-22 compared to 12.80% for FY 2020-21. 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 2021-22		FY 2020-21	
	PBT	PAT	PBT	PAT
Kotak Mahindra Bank	11,361.31	8,572.69	9,302.99	6,964.84
Kotak Mahindra Prime	1,179.79	885.51	720.40	534.71
Kotak Mahindra Investments	498.57	371.15	345.84	257.76
Kotak Infrastructure Debt Fund	32.35	32.35	33.10	33.10
BSS Microfinance	109.51	82.81	30.87	23.17
Kotak Securities	1,333.50	1,001.33	1,057.43	792.64
Kotak Mahindra Capital Company	315.70	244.75	110.94	82.28
Kotak Mahindra Life Insurance	596.49	425.38	897.47	691.93
Kotak Mahindra General Insurance	(82.98)	(82.98)	1.63	1.63
Kotak Mahindra AMC & Trustee Co	600.69	454.13	465.14	346.29
International Subsidiaries	154.94	118.13	170.36	154.14
Others	82.16	60.37	54.67	42.93
Total	**16,182.03**	**12,165.61**	**13,190.84**	**9,925.41**
Add: Share from Associates		157.57		87.31
Less: Inter-company and Other Adjustments		(233.79)		(22.51)
Consolidated PAT		**12,089.39**		**9,990.20**

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 2021-22
Infina Finance Pvt Ltd	1.1	49.99%	111.89
Phoenix ARC Pvt Ltd	100.0	49.90%	45.72

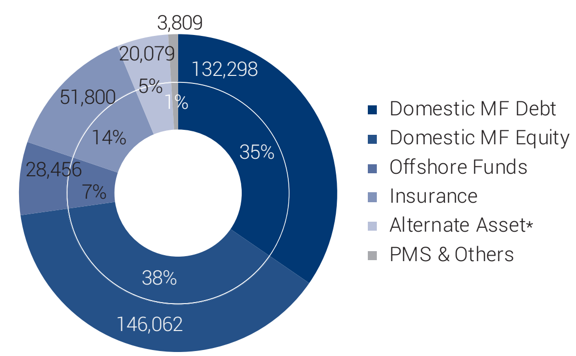
ECA Trading Services Limited is in the process of voluntary liquidation pursuant to resolution passed by its shareholders on 18th December, 2021 and hence it ceases to be an associate from that date.

Assets under Management (AUM) as on 31st March, 2022 were ₹ 382,504 crore (₹ 323,762 crore as on 31st March, 2021), comprising assets managed and advised by the Group.

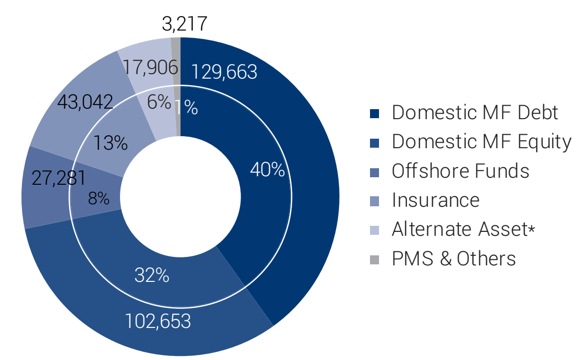
Relationship value of Private Banking, Priority and Investment Advisory business was ~ ₹ 641,000 crore as on 31st March, 2022 (~₹ 382,000 crore as on 31st March, 2021).

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

AUM - ₹ 382,504 crore – 31st March, 2022



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



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, retail banking 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 2021-22 was ₹ 11,361.31 crore as against ₹ 9,302.99 crore for FY 2020-21. Profit After Tax (PAT) of the Bank was ₹ 8,572.69 crore in FY 2021-22 compared with ₹ 6,964.84 crore in FY 2020-21. RoAA for FY 2021-22 was 2.13% compared to 1.85% for FY 2020-21.

PROFIT AND LOSS ACCOUNT

A synopsis of the Profit and Loss Account

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Net Interest Income	16,817.91	15,339.65
Other Income	6,354.35	5,006.51
Net Total Income	**23,172.26**	**20,346.16**
Employee Cost	4,582.35	3,729.13
Other Operating Expenses	6,539.04	4,855.01
Operating Expenditure	**11,121.39**	**8,584.14**
Operating Profit	**12,050.87**	**11,762.03**
Provision & Contingencies (Net)	**689.56**	**2,459.04**

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
- Provision on Advances (Net)	1,494.78	1,875.96
- General Provision COVID-19 related	(732.00)	629.00
- Provision on Other Receivables	18.15	(1.52)
- Provision on Investments	(91.37)	(44.40)
PBT	**11,361.31**	**9,302.99**
Provision for Tax	2,788.62	2,338.15
PAT	**8,572.69**	**6,964.84**

Net Interest Income

Net Interest Income (NII) of the Bank for FY 2021-22 was ₹ 16,817.91 crore compared to ₹ 15,339.65 crore for FY 2020-21. The Bank had a Net Interest Margin (NIM), excluding dividend income and interest on income-tax refund, of 4.62% for FY 2021-22 compared to 4.41% for FY 2020-21. During the year:

- The yield on interest earning assets decreased from 7.73% for FY 2020-21 to 7.43% for FY 2021-22 mainly due to decrease in yields of advances and investments and change in asset mix.
- Cost of funds decreased from 3.81% in FY 2020-21 to 3.23% in FY 2021-22 primarily due to decrease in rates offered on savings account deposits and term deposits and change in liability mix.
- The average interest earning assets increased by 4.57% from ₹ 347,049.15 crore for FY 2020-21 to ₹ 362,925.31 crore for FY 2021-22.

Non-Interest Income

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Commission, Exchange and Brokerage	4,554.79	3,384.08
Profit on Sale of Investments	(0.92)	272.53
Profit on Revaluation of Investments	(933.95)	(452.68)
Profit on Exchange on Transactions (Net) (Including Derivatives)	1,859.46	1,233.41
Profit on Recoveries of Non-Performing Assets Acquired	163.68	172.09
Income From Subsidiaries/Associates Towards Shared Services	117.78	111.56
Dividend From Subsidiaries	201.76	15.62
Others	391.75	269.90
Total Other Income	**6,354.35**	**5,006.51**

Non-interest income increased from ₹ 5,006.51 crore in FY 2020-21 to ₹ 6,354.35 crore in FY 2021-22 due to:

- Increase in commission, exchange and brokerage income mainly due to increase in services charges on loans, direct banking fees and charges, credit card fees, third party distribution income and referral fees.
- Increase in Profit on exchange on transactions (net) (including derivatives) compared to the previous year
- Increase in dividend income from subsidiaries
- Increase in others is primarily due to higher income received from sale of Priority Sector Lending (PSL) certificates

This was offset, in part, by:

- Lower profit on sale of investments
- Increase in mark-to-market provision on investments

Employee Cost

Employee cost of the Bank has increased to ₹ 4,582.35 crore for FY 2021-22 compared to ₹ 3,729.13 crore for FY 2020-21 primarily due to increase in employee count, employee incentives, offset, in part, by decrease in retirement obligations. The employee base increased from 51,734 as on 31st March, 2021 to 66,473 as on 31st March, 2022.

Other Operating Expenses

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Rent, Taxes And Lighting	718.06	687.39
Printing and Stationery	101.07	57.33
Advertisement, Publicity and Promotion	174.87	104.64
Depreciation on Bank's Property	380.99	366.77
Directors' Fees, Allowances and Expenses	2.82	2.05
Auditors' Fees and Expenses	3.55	2.62
Law Charges	26.79	46.32
Postage, Telephone Etc.	258.50	174.33
Repairs And Maintenance	625.43	508.86
Insurance	356.02	323.69
Travel and Conveyance	64.18	52.24
Professional Charges	1,162.19	796.37
Brokerage	485.87	193.41
Stamping Expenses	11.90	4.90
Other Expenditure	2,186.06	1,555.00
Reimbursement From Group Companies	(19.26)	(20.91)
Total	**6,539.04**	**4,855.01**

Other operating expenses were ₹ 6,539.04 crore for FY 2021-22 compared to ₹ 4,855.01 crore for FY 2020-21, primarily due to:

- Increase in brokerage expenses consistent with increased business volumes
- Increase in repairs and maintenance expenses due to increase in repairs and refurbishment of branches and increase in number of branches
- Increase in 811 acquisition cost and higher amount of fee payments to business correspondents, which is consistent with business volumes.
- Increase in promotional spends
- Increase in postage, telephone and printing and stationery expenses due to resumption of regular office work compared to remote working during FY 2020-21.
- Increase in other expenses is primarily on account of:
  - Increase in credit card expenses mainly due to higher POS expenses, credit card promotional/association charges and increase in volume of card transactions
  - Increase in ATM acquiring fees and subvention expenses
  - Increase in GST write-off expenses
  - Increase in recovery expenses and legal charges
  - Higher expenditure on corporate social responsibility (CSR) activities

The Bank's Cost to Income ratio was at 47.99% for FY 2021-22 as compared to 42.19% for FY 2020-21.

Provisions and Contingencies (excluding tax)

Provisions and contingencies (excluding tax) were ₹ 689.56 crore for FY 2021-22 compared to ₹ 2,459.04 crore for FY 2020-21 primarily due to lower specific provision on loans (excluding COVID-19 related provisions) by ₹ 381.2 crore and reversal of COVID-19 related provision of ₹ 732.00 crore compared to a provision of ₹ 629.00 crore in FY 2020-21. This, was offset, in part, by higher reversal of provision on investments by ₹ 46.97 crore in FY 2021-22.

The Bank held an aggregate COVID-19 related provision of ₹ 1,279 crore as of 1st April, 2021. Based on the improved outlook, the Bank has reversed provisions amounting to ₹ 732 crore during FY 2021-22. On a prudent basis, the Bank continues to hold provision of ₹ 547 crore as at 31st March, 2022 against the potential impact of COVID-19.

Credit cost on Advances (excluding COVID-19 related provisions) was 55 bps for FY 2021-22 compared to 84 bps for FY 2020-21.

Provision for tax

Provision for tax increased from ₹ 2,338.15 crore for FY 2020-21 to ₹ 2,788.62 crore for FY 2021-22 primarily due to higher profits in FY 2021-22.

BALANCE SHEET

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

(₹ in crore)

Liabilities	31st March, 2022	31st March, 2021
Capital and Reserves	72,456.47	63,726.97
Deposits	311,684.11	280,100.05
- Current Account Deposits (CA)	64,661.98	52,086.98
- Fixed Rate Savings Account Deposits (SA)	117,908.39	106,100.64
- Floating Rate Savings Account Deposits (SA)	6,563.78	11,125.10
- Term Deposits (TD) Sweeps	21,905.59	20,923.65
- Other TDs	100,644.38	89,863.67
Borrowings	25,967.12	23,650.65
Other Liabilities and Provisions	19,320.69	15,992.50
Total	**429,428.40**	**383,470.16**

(₹ in crore)

Assets	31st March, 2022	31st March, 2021
Cash and Bank Balances	42,923.94	39,626.53
Investments	100,580.22	105,099.19
- Government Securities	75,135.09	85,344.87
- Credit Substitutes	21,227.48	15,168.40
- Other Securities	4,217.6	4,585.9
Advances	271,253.60	223,670.16
Fixed Assets and Other Assets	14,670.64	15,074.28
Total	**429,428.40**	**383,470.16**

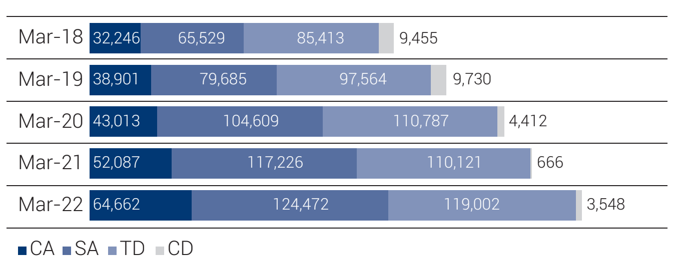
The Bank's capital adequacy continue to be healthy with overall CRAR at 22.69% (CET1 ratio 21.51%) as compared to 22.26% (CET1 ratio 21.20%) as on 31st March, 2021.

Deposits

The Bank's strategy is based on its fundamental philosophy to build a low-cost and stable liability franchise. The Bank's deposits grew to ₹ 311,684.11 crore as on 31st March, 2022 compared to ₹ 280,100.05 crore as on 31st March, 2021. CASA deposits increased to ₹ 189,134.14 crore as on 31st March, 2022 to ₹ 169,312.72 crore as on 31st March, 2021. CASA ratio stood at 60.68% as on 31st March, 2022 compared to 60.45% as on 31st March, 2021.

Fixed Rate Savings account (SA) deposits grew by 11.13% to ₹ 117,908.42 crore and Current account (CA) deposits grew by 24.14% to ₹ 64,661.98 crore. Total Term deposits (TD), including certificate of deposits, grew by 10.62% to ₹ 122,549.97 crore.

Deposits (₹ crore)



During FY 2021-22, average SA increased by 10.46% to ₹ 120,193.91 crore compared to ₹ 108,811.94 crore in FY 2020-21 and average CA increased by 26.07% to ₹ 49,775.84 crore from ₹ 39,481.36 crore in FY 2020-21.

CASA plus term deposits below ₹ 5 crore account for 89% of the total deposits.

Advances

The classification of advances of the Bank is as follows:

(₹ in crore)

	31st March, 2022	31st March, 2021
Corporate Banking	66,212.09	62,401.22
Small and Medium Enterprises (SME)	20,905.91	16,682.14
Commercial Vehicles & Construction Equipment (CV/CE)	22,489.91	20,377.49
Agriculture Division	25,207.49	21,707.89
Tractor Finance	10,765.83	9,411.0
Micro Finance	3,052.09	2,032.77
Home Loans and Loan Against Property (LAP)	76,076.63	54,749.16
Consumer Bank Working Capital (Secured)	26,444.30	21,839.22
Personal Loans, Business Loans & Consumer Durables	10,070.92	7,022.08
Credit Cards	5,572.05	3,968.51
Other Loans	4,456.38	3,478.68
Total Advances	**271,253.60**	**223,670.16**
Credit Substitutes	21,227.48	15,168.40
Total Customer Assets	**292,481.08**	**238,838.56**

Advances grew at 21.3% to ₹ 271,253.60 crore as on 31st March, 2022 compared to ₹ 223,670.16 crore as on 31st March, 2021. Customer Assets grew at 22.46% to ₹ 292,481.08 crore as on 31st March, 2021 compared to ₹ 238,838.56 crore as on 31st March, 2021. The growth in Advances was seen across all the segments with a higher contribution from retail banking from home loans and loans against property (LAP), consumer bank working capital (Secured), personal loans, business loans and consumer durables and credit cards as a result of an increase in demand in these segments.

The Bank's credit deposit ratio stood at 87.03% as of 31st March, 2022 over 79.85% as of 31st March, 2021.

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, 2022	31st March, 2021
Gross NPA	6,469.74	7,425.51
Gross NPA %	2.34%	3.25%
Net NPA	1,736.71	2,705.17
Net NPA %	0.64%	1.21%

Slippages for FY 2021-22 were ₹ 4,316 crore (FY 2020-21: ₹ 5,488 crore) whereas recoveries and upgrades were ₹ 4,042 crore (FY 2020-21: ₹ 2,462 crore). The provision coverage ratio, including technical write off, was 79.05% as of 31st March, 2022 as compared to 70.23% as of 31st March, 2021. Total provisioning towards advances (including specific, standard, COVID related, etc.) held as on 31st March, 2022 was ₹ 6,710 crore.

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.

Standard Restructured FB o/s under COVID resolution frameworks was ₹ 417 cr as at 31st March, 2022 [0.15% of Advances] and under MSME resolution frameworks was ₹ 788 cr as at 31st March, 2022 [0.29% of Advances]. The Bank has made an additional provision over regulatory requirement on standard restructured book of ₹ 120 crore (10% of the book).

Directed Lending

Priority Sector Lending and Investments

The RBI guidelines on priority sector lending require banks to lend 40.00% of their adjusted net bank credit (ANBC), to fund certain types of activities carried out by specified borrowers. Out of the overall target of 40.00%, banks are required to lend a minimum of 18.00% of their ANBC to the agriculture sector. Sub-targets of 9.00% for lending to small & marginal farmers (out of agriculture) and 7.50% 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 12.73% of ANBC for this purpose for fiscal 2022 (FY 2020-21: 12.14%). The banks are also required to lend 11.00% 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, 2022, the Bank's total investment in such bonds was ₹ 5,572.40 crore (31st March, 2021: ₹ 6,314.51 crore).

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 2021-22 was ₹ 98,905.01 crore (FY 2020-21: ₹ 95,155.68 crore) constituting 44.19% (FY 2020-21: 43.95%) of ANBC, against the requirement of 40.00% of ANBC.

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

Consumer Banking

Branch Banking

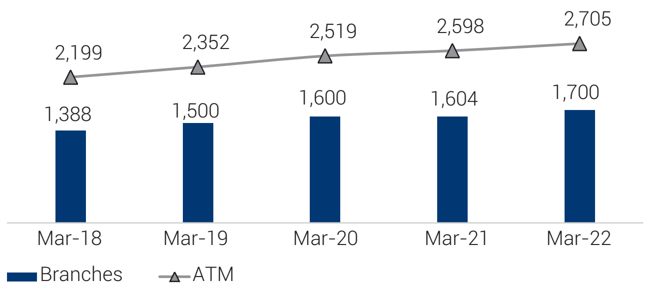
The Bank continued to roll out several initiatives aimed at offering a superior and differentiated customer experience.

Network

The Bank had 1,700 branches (excluding GIFT and DIFC) and 2,705 ATMs as on 31st March, 2022.

Introduced Micro ATM (Card + Pin) that will cut across geographies. Micro ATM services is a dedicated offering by the Bank appointed Business Correspondents (BC) to deliver basic banking services like cash withdrawal and balance inquiry. With this enablement, the Bank will widen its network presence for customers and increase the touchpoints across India, hence, ensuring its reach and enhanced customer service.

Branches and ATM growth



Key initiatives taken during the year are:

Products and Services

Launch of Pay your Contact – a new feature on the Kotak app that enabled customers to send money to a mobile number registered against any app. As just 1 of the 3 providers of this service, this brought immense value addition to the Bank's digitally savvy customers. The launch and the usage were supported by an aggressive channel and marketing campaign akin to e-com brands. In a short span of 9 months the daily transactions rose to 82,000 a day and 2.3 million a month (February 2022) and still growing. Further, product enhancements in this space will fuel future growth in transactions and also ensure a more loyal customer base

Kotak Silk, banking program designed especially for women, believes financial independence leads to true empowerment for women. This International Women's Day, Silk unveiled a unique sculpture #MeriUdaan as a tribute to Indian Women on their journey towards becoming 'Aatmanirbhar'. As a part of this initiative, Kotak Silk tied up with many influential women to share their journey towards financial independence and conducted webinars for customers to share information on financial success. The Bank also offered an enhanced value proposition that bundled a bouquet of product offers during this period, and felicitated its women customers at branches.

The Privy League Program of the Bank is the premium banking offering for the High Net worth Customers. Continuing with the agenda of expanding the programme outreach to meet the need states of newer customer segments, this flagship programme of the Bank has now been extended to Senior executives of Premium Corporates through an exclusive set of curated benefits. The Bank has also extended the exclusive Privy League Programme to high ranking defence and Police officials.

Kotak Grand, the banking program for senior citizens, tied up with Indian Health Organization to provide a Health Card to its customers, which entitled them to discounts on consultation, treatment and healthcare procedures.

The Bank improved on-boarding experience for its Savings customers during the current financial year by migrating to a new platform for assisted Biometric based account opening. The new platform offers seamless on-boarding experience to its customers with an improved User Interface, instant responses and a capability to handling higher business volumes. The Bank has also rolled out biometric account opening facility for 'Business Correspondent' channel in order to reach out and financially empower the unbanked masses.

The Bank managed to break new grounds in the mobility product – Fastag. Kotak FASTag count is now over 2 million with toll payment at nearly ₹ 145 crore for FY2021-22. In FY2021-22, the Bank has achieved best in industry growth rate and have multiplied its user base by 4 times acquiring more than 10% of all Fastag user added by the Industry.

Introduced end-to-end eSignature and eStamping of documents, these solutions help the Bank to send all requirement documents to customer electronically and get esigned and stamped by the customer and send it back to the Bank. This brings speed and reduces customer physical touch points and seamlessly process the documentation.

The Bank continues to actively participate in various Financial Inclusion initiatives:

Along with the existing 150 plus Aadhaar enrolment centres at branches, the Bank has also launched a new initiative of "Aadhaar on Wheels" – a mobile vehicle based services, which will allow the customer to Enrol / update Aadhaar with ease at a preferred location close to their residence or offices. Camps will be setup at pre-decided date and time at various locations such as housing societies, schools, colleges, government offices, etc. The said initiative has already been live in Pune, Surat, Mumbai, Delhi and the Bank is also planning to extend this facility at various other locations across Pan India.

The Bank has been leveraging various digital platforms with a view to provide a seamless services to its customers. The Bank has gone live with the Digital account opening solution for business correspondents wherein customers can open accounts using biometric e- KYC option and have opened over 55,000 accounts using this option.

The Bank has launched Atal Pension Yojana (APY) booking on mobile application in October 2021. With this enablement the Bank has already sourced over 9100 APY subscriptions for the year.

The Bank has also initiated a tie-up with various Milk Mandlis across Gujarat to provide banking solutions to the Milk Farmers and their families. With this the sale proceeds of the milk, poorer farmers will be credited directly in customer account at regular intervals and customers can access their funds using the Kotak ATM setup in the selected villages. So far four village cluster's had been identified and ATMs are already setup at these locations.

In partnership with PVR, the Bank launched a co-branded debit card i.e. Kotak PVR Debit Card. This Debit Card comes with a host of exclusive privileges, such as customers earn PVR reward points on every purchase carried out using their Kotak PVR Debit Card. Reward Points earned can then be redeemed at PVR outlets for food, beverages or movie tickets.

Education loan tie-up with leading NFBCs to provide lending for domestic and international education.

One of the mandatory requirements of German education/employment Visa is to earmark certain sustenance fund in a blocked account. KMBL is the only Indian bank, which has been authorized to provide such a facility. To ensure and enhance superior customer experience a German Portal has been launched, to service this request end to end digitally. This would ensure more applications move to its counters and along with that new customer base.

The Bank has rebranded/repositioned its current account product as a business banking solution account. The Bank has rolled out various initiatives for its business banking customers to make onboarding convenient and easy. Introduction of InstaKit for all business banking constitutions has now enabled the customer to transact immediately once the account is activated. Now a business banking customer can be onboard on various value added services with a tick on the account opening form. The Bank now provides connected banking solutions to its MSME customers enabling them to connect with various ERP service providers and Fintechs. Connected banking solutions will further enable a MSME to connect with industry specific ecosystem and help in improving the overall customer ease and experience. The Bank has successfully integrated itself with multiple data source systems and platforms digitally and now effectively uses publicly available information to cross sell and upsell its customers. The Bank is one of the banking partners on the website of Ministry of Corporate Affairs (MCA).

On World MSME day, the Bank has launched a campaign which celebrated the attitude of India's young entrepreneurs with a series of inspiring videos -'Empowering Business, Empowering You'.

The Bank has taken a big leap into creating a digital footprint in FY2021-22. The NRI customers of the Bank can now open Investment Accounts online. This is the most convenient and safe mode of opening investment accounts and to start investing in mutual funds. This initiative has led to a 3-fold rise in NRI investment account opening in the last six months of the fiscal year.

In early FY2021-22, the Bank enabled National Pension System ("NPS") on Mobile Platform both on Android and iOS Platforms. Currently, the Bank is among the only 2 Private Banks where such facility is being offered to the existing bank customer. With this enablement, of individual NPS account sourcing has moved to Mobile Banking, a big leap in digital initiatives by the Bank.

The Bank has a completely online mechanism to invest through Bank ASBA and UPI in IPO/FPO/Rights Issues/NCD/SGB. This proposition has been further sweetened with the introduction of instant online IPO Funding facility.

Kotak811, which started in March 2017 as a digital acquisition engine to acquire customers with zero balance savings accounts, now operates as a "Semi-Autonomous" Digital bank within the Bank with an additional focus on engagement and cross-sell. During FY2021-22, customer base grew by 50% YoY and cross-sell grew exponentially.

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 "Pay Your Contact" feature on the App uses UPI to enable customers to send money to a contact by selecting or entering the beneficiary's mobile number.

"Unified Dispute and Issue Resolution (UDIR)" allows customers to check UPI status and raise dispute from Third Party Application Providers (TPAP). Customers can set auto debit mandate from TPAPs. E-Rupi – prepaid voucher functionality via UPI. Customers can withdraw cash at POS using UPI. "Spendz" enables customers to do UPI transactions from pre-funded account.

Bharat Bill Payment System (BBPS) integration was taken live, enabling new categories like Housing Societies, Hospitals, Education, Clubs and Associations.

Transformation

The Bank has enhanced digital offerings on service requests across all digital channels with 65% of overall SRs happening via digital for instant processing. An automation CoE has been created to scale automation projects to enhance CX, risk mitigation and build 2X business efficiencies.

The customer now has the options of tracking his cheques on the cheque portal and updating the address via Net Banking channel. Inward remittances have now an improved turnaround time by almost 75%. TAT for eGBO services for corporates has been improved by 50%.

Net Banking

Constant improvement of the revamped Net banking platform is the focus. New loan products in the form of Insta Business loan, DigiOD and Loan against securities. Pre-approved offers in insurance and KGI Health Premier, KLI Health Shield, Kotak Assured Savings Plan and a revamped Policy section. Revamped one-stop service request section with 70+ options.

Mobile Banking

Kotak Mobile Banking offers a feature rich Mobile Banking experience with 250 + features live. App continues to be amongst the Top rated Banking app in both IOS and Android.

Support for vernacular languages has been added, starting with Hindi and more to follow. New payment features were launched such as Pay your Contact, Gifting, Positive pay confirmation, and foreign remittance, while empowering consumers with controls across PG limits, transaction limits and quick access to report frauds and raise disputes. Other new launches include Smart EMI, Insta Overdraft, NPS and pre-approved offers for all products.

- Among the top rated banking apps on app stores with an iOS rating of 4.8 and Android rating of 4.4
- Monthly active user growth of 40% YoY
- Growth of 123% in transaction volumes and 53% in transaction value YoY

Conversational Banking

Keya and WhatsApp Banking have emerged as mainstream banking channels, with improved responsiveness of the contact centre and providing frictionless and convenient services to Kotak customers. 811 customers can now enquire about features and charges. Customers can do Mobile and DTH recharges. AI NLP capabilities have been improved resulting in 95% accuracy in query responses.

New business and new models

A dedicated app for merchants has been launched, called Kotak.biz. This enables merchants to accept Cards, Bharat QR and UPI payments through their own mobiles. Payswiff is the Bank's technology partner for its Merchant App – Kotak.biz. The partnership with Pine Labs has enabled the Bank to foray into some of the largest retailers in the country. Mosambee and Ezetap partnerships have enabled the Bank to offer versatile payment options built on the Android platform.

Digital Lending

Focus is on digitalizing end-to-end journeys, from product discovery to loan servicing. New journeys have been built to apply for loan products across the various digital channels. All platforms and downstream systems are being migrated to more robust systems in order to enhance these offerings and improve customer experience. A new home search platform and various calculators have been launched on the website. Various digital enablers were implemented to improve the efficiency of internal channels and reduce TAT for fulfilling loan applications.

Innovation Lab

End consumers using partner software can now access Kotak banking services directly from their business applications. Enabled balance enquiry and bank statement as the first services.

Kotak Bank has joined the Account Aggregator ecosystem to empower customers to control access to their data for their own benefit. AA ecosystem data is to be utilized in lending journeys to start with OCEN platform has also been integrated for real time cashflow-based lending to existing customers.

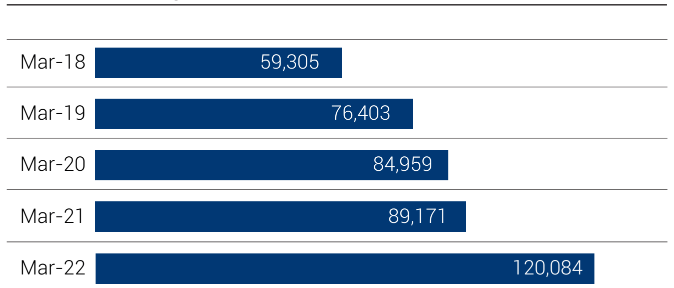
Consumer Assets

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 34.67% in FY2021-22.

Consumer Assets team scaled up business across both Unsecured Lending, Credit Cards & Home Loans/LAP inspite of the business impact in April-May 2022 on account of Covid 2.0.

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

Home Loan business volumes grew YoY by 129% backed by a strong campaign highlighting the Bank's rate benefit.

Credit Card business posted strong volume growth in the 2nd half of the FY, crossing 12 lakh cards for the year. The credit business also launched a co-brand card partnering with Indigo airlines. The business also launched Veer card dedicated to the armed forces on Rupay platform.

Personal loans business also posted strong volume growth YoY.

Consumer Finance Business is now clocking over 50,000 loans per month (on an average) with focus on both online and offline business.

On the Business Banking Assets front, the Bank also launched its Healthcare Finance vertical for a targeted approach to meet the financial needs of this segment.

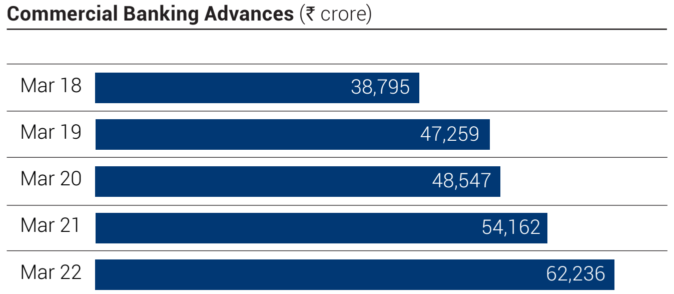
Multiple digital journeys for customer acquisition on assets and cards have been undertaken and will go live during FY2022-23.

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, gold loans 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)



Commercial Equipment (CE)

India's CE industry, currently the 3rd largest in the world, witnessed a drop of 15% over last FY. The decline was primarily due to the impact of pandemic in first half of the year along with irregular cash flows from State government and its agencies. Major impact of cash flow was faced by retail and smaller contractors.

The Bank's disbursement witnessed 20% growth and improvement in market share over last year.

With improvement in economy and tax collection, the Bank is hopeful that cash flows in current FY will improve significantly and so will demand for CE equipment. GOI push on infrastructure with increased budgetary allocation and key announcement like GATI SHAKTI, Ghar Ghar Jal Mission along with Road and Railways are few things which will keep the industry vibrant for future. Overall order flows are improving and so is the pace of work and utilisation of equipment at ground level. The overall delinquencies percentage in CE retail portfolio has marginally increased but major improvement was seen in the March quarter.

Commercial Vehicle (CV)

The Bank's CV business has witnessed 54% disbursement growth with increase of 26% in CV industry numbers. This has led to achieving higher market share in CV industry. The Passenger segment, comprising staff/ school bus transportation, tour and travel and public transport operation, has seen some recovery in Q4FY22 and is poised for stronger recovery going forward. The overall delinquency percentage of the CV portfolio has come down along with reduction in GNPA numbers.

Agri Business

The Agribusiness continued to show growth despite a first quarter halt to business activities due to the COVID wave 2. The year saw inflationary rise in commodity prices and a significant demand rise for all agro commodities resulting into request for incremental funding needs by all customers. This year, the Bank also completed the digitisation of the onboarding and renewal experience for the customer, thus requiring very limited physical contact/presence of the customer for their banking activities. The business focus towards priority sector assets resulted in further increase in PSL qualifying assets in the division's portfolio. PSL assets now account for 80% of the division's portfolio. A spurt in demand, recommencement of eateries and increased travel also saw an improvement in the turnover and business activities of its clients. The recoveries could have been higher but for the late commencement of the courts. The business however faced interest rate pressure due to intense competition.

The division also focussed on a couple of new initiatives like the Agri Infra Fund / AMI, a biometric oriented retail farmer onboarding app and empanelment with govt. agencies for FPO lending. The business also witnessed increasing traction on the e-NAM platform.

Micro Finance

The microfinance segment saw a significant resurgence, growing at over 60% on advances on YoY basis. The portfolio quality also saw improved collection efficiency to over 95% on a monthly basis and a return to almost normal status of fresh loan disbursements. This segment had been severely impacted by the lockdowns and stoppage of business due to COVID for the past two years.

Tractor Finance

Tractor industry has de-grown by 6% in last financial year mainly impact of price increase and also due to very high growth in FY 2020-21. The Bank's Tractor Financing business has grown better than the industry, YoY growth in disbursement of 8%, improved market share in new tractors and also focus on new products and customer segments. There is a marginal impact on portfolio performance due to COVID-19 impact on cash flows of farmers.

Crop Loan

The Bank has Crop Loan business presence in Punjab, Haryana and Western states of India. Portfolio quality has improved in last year due to better resolution and collection focused manpower structure .Better monsoon and good crop yields have also helped in resolution.

Gold Loan

In last year, the Bank expanded Gold loan branches to 400, now 24% of its branches are active for Gold loan processing.

Wholesale Banking

The Bank's Wholesale Business has a number of units catering to various customer and industry segments, including major Indian corporates, conglomerates, financial institutions, public sector undertakings, multinational companies, new age companies, small and medium enterprises and realty businesses offering a wide range of banking services covering their working capital, medium term finance, trade finance, foreign exchange services, other transaction banking requirements, custody services, debt capital markets and treasury services. 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.

This year too, due to the 2nd and the 3rd wave, the Wholesale Banking business faced Covid related challenges. As economic activity rebounded, the Bank navigated this period by judiciously balancing growth and prudent risk management. Working capital utilisations remained muted during the year led by the general approach of corporates to deleverage and bring better efficiency in their working capital management. Robust equity capital markets helped many of these corporates to also bolster their balance sheets and keep leverage at comfortable levels. Companies were, by and large, agile in increasing productivity and reducing costs. 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.

The Bank addressed these growth challenges by remaining focussed on both adding new customers in a profitable manner as well as increasing wallet share with existing customers and ended the year with well-diversified growth across all customer segments.

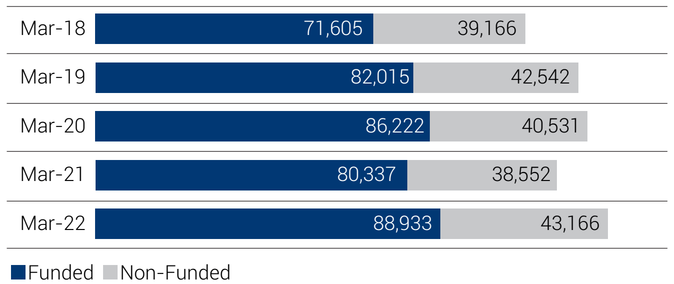
A focussed approach towards priority sector lending led to healthy growth in priority sector advances. A significant ramp up was seen in SME during the year through focussed acquisition strategy and several initiatives to reduce response times. The Bank also increased its exposures to NBFC customers and loans to this segment witnessed a strong growth.

Liquidity returned to the 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 enabling it 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.

Income from other non-credit income streams including from Forex, Cash Management and other Transaction Banking products too grew well.

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

Wholesale Banking Advances (₹ crore)



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 of the Bank with clients and increase the wallet share. The Bank witnessed good growth in its non-credit business streams with these clients with improved customer service and product innovations.

There has also been greater focus on increasing the liability side of our business, mainly core current account and other non-risk income streams. Assets under custody grew substantially, given IPO traction and huge PE inflows. 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 by our internal credit rating tools, which facilitates appropriate credit selection & monitoring. Exposure, over the years, has been confined to segments with credit comfort in terms of better rated exposure, 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 again witnessed low credit cost, delivering continued improvement in the risk reward ratio. Pricing models such as Risk Adjusted Return on Capital (RaRoC) measurements are now embedded in the system. Due to these initiatives, focus is high on ensuring the right risk-return balance and on maximising non-credit income streams. The Bank's focus on Risk management has helped the business to optimise its Risk Weighted assets as a percentage of Assets over the past few years. Improvement in productivity helped ensure costs were kept under control.

The Bank has a co-operation agreement with ING Bank globally covering a number of countries which helps the Bank in targeting a greater number of multinational corporates in India. Dedicated marketing efforts have helped the Bank to make significant inroads into identified corridors such as Singapore, Hong Kong, 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, offering end-to-end solutions by partnering with various agencies to co-create a sustainable ecosystem.

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.

The Bank endeavours to provide its clients with a comprehensive product-suite to help their businesses grow in a sustainable and holistic manner. The Bank was also agile in implementing digital signatures and other online platform solutions for execution of customer documentation. During the year, the Cash Management Portal was upgraded, the online trade portal went live, and digital on-boarding of custody end clients was launched. The Bank launched Kotak FYN, its new enterprise portal exclusively for Business Banking and Corporate clients. Kotak FYN aims to provide customers with a seamless experience and a unified view across all product platforms. The portal enables paperless transactions and the facility to track transactions end-to-end. 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 good growth in Assets and Fee Incomes, 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 challenges faced during the year.

The Bank continues to focus on strengthening its organisation platform and placing the Corporate Bank in a strong position in the market.

Private Banking

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 over half of India's top 100 families (Source: Forbes India Rich List 2021), 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 Private Banking, Priority Banking and Investment Advisory offerings is ~ ₹ 641,000 crore (as of 31st March, 2022). It has added ~700 new families in 2022.

- Focus on Digital & Technology has resulted in enhanced productivity and improved customer experience from onboarding and transaction processing to servicing perspective. The continuous engagement and feedback mechanism with all stakeholders has led to sustained process improvement.
- Customer centricity and bespoke development are the two key pillars of Kotak Private banking:
  - o Kotak Private banking implemented low-code platform and cloud-based solutions to ensure quick time to execution and scalability
  - o It works with both fintechs and wealthtechs to ensure that it can fulfil both bespoke developments as well as adapt to technological trends and functionalities
- It services wealth clients and provides them with soft skills and functional trainings.

Kotak Private banking 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 for Serving Business Owners, India by Euromoney Private Banking and Wealth Management Survey, 2022
- Best Private Bank for Entrepreneurs – Global by Global Finance Private Bank Awards 2022
- Best Private Bank, India by FinanceAsia Country Awards, 2021
- Best for High Net Worth Clients, Asia by Asiamoney Private Banking Awards, 2021
- Best Private Bank - Digital Innovation & Services, India by Asian Private Banker Awards for Distinction, 2021

GIFT CITY

The GIFT City branch commenced operations in FY 2017. The GIFT Branch caters to the banking needs – including requirements of managing currency and interest rate risks, of the Bank's overseas customers and import funding as per extant guidelines. Additionally, the branch also caters to the account and clearing requirements for the Exchange & its members at GIFT IFSC.

International Financial Services Centres Authority [IFSCA] - a unified regulator, augments the landscape with its vision to provide a world-class regulatory environment and fostering ease of doing business at IFSC. The branch is regulated by the IFSCA.

The Branch operates from the domestic operations of the Bank, building on the infrastructure of support services basis a formal SLA. Global excess liquidity and relatively stable global rates provided the Branch with an opportunity to build a short tenor investment portfolio. The Branch has established transactional relationships with leading players in the Asia Pacific region. In addition to the building of the bond portfolio, the Branch also built on its Advances portfolio - growing at about 25% YoY in USD terms (~ 30% in INR terms), while maintaining prudence in credit & underwriting standards.

The Branch is also working on extending its product & client reach in consultation with the regulator at GIFT. For FY 2021-22, the Branch operated efficiently, seamlessly [with only intermittent disruptions on account of COVID] – maintaining high standards of operational efficiency, prudence and heightened vigil.

DIFC BRANCH

DIFC Branch – the Bank's first overseas branch at Dubai International Financial Centre [DIFC], Dubai, started operations in October 2019; in addition to providing clients a choice of international destination for offshore banking services, DIFC Branch also complements the Bank with ability to advise and arrange global investment products, provide loans and accept deposits with overseas customers that qualify the professional client criteria of the DFSA.

The Branch, during FY 2021-22, embarked its journey to enable integrate India services for offshore customers – enlarging the canvas for operations. The Branch also initiated its client lending operations in FY 2021-22 while strengthening its Private banking offering by way of product diversification and international tie ups. Given a transient business environment in the global markets, the Branch is calibrating its scaling up of operations with a cautious and prudent approach.

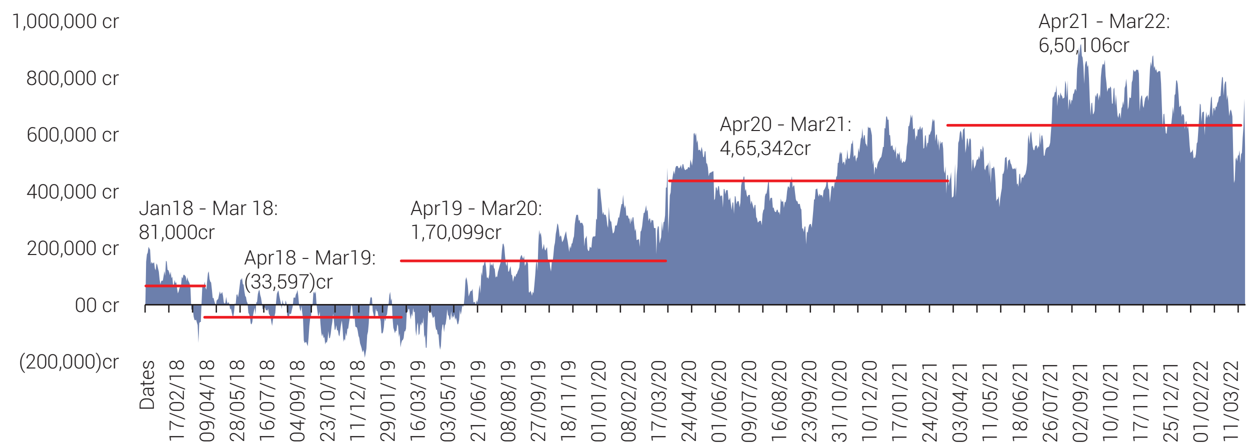
Treasury

FY 2021-22 may be best characterised as the year of preparing to transition from COVID related disruptions towards normalisation and pangs of global realignments. The year saw the inertia of extra accommodative central bank policies starting to give way to phased normalisation - global liquidity [as also in India] presaging to wane; global interest rates heralding ascension; impact of return of demand but supply yet to be restored manifesting in threat of inflation.

	Open	High	Low	Close	Net Move	Range
Yield on 10yr Indian Govt Bond	6.20	6.96	5.96	6.84	0.64 ↑	1.00
Yield on 10yr US Treasury Bond	1.74	2.56	1.13	2.35	0.61 ↑	1.43
Indian Rupee	73.17	77.16	72.31	75.90	2.73 ↑	4.85
EUR / USD	1.1730	1.2266	1.0804	1.1065	(0.07) ↓	0.15
GOLD (USD/Troy ounce)	1,708	2,070	1,684	1,937	229 ↑	386
BRENT Crude	63.12	139.13	61.25	107.91	45 ↑	77.88
NIFTY	14,798	18,604	14,151	17,465	2,666 ↑	4,453

Horizon: FY2022; Source: Refinitiv

Markets in India also swayed with global cues. The adjoining table gives the extent of movement in key market benchmarks for FY 2021-22. The range [difference between the High and Low] is indicative of the volatility during the year.



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

FY 2021-22 witnessed a cruel second COVID wave and a milder third wave, with makings of gradual opening up post unprecedented disruptions. Through most of FY 2021-22, the regulators globally continued with the accommodative and supportive policies. In India too, the systemic liquidity grew from levels of the previous year. However, by the end of FY 2021-22, the early signs of withdrawal of the liquidity and 'ultra'-accommodation appeared on the horizon. Benchmark yields started pulling up and tenor flattening also started becoming more conspicuous. Lag in recovery of supply lines manifested in rising inflation globally. In this context, the Ukraine – Russia flare only set back the supply chain recovery. Led by spiking of commodity prices – inflation started to morph into a stickier mire. The MPC and RBI - used the available policy tools to effectively anchor the markets for most part of the year, wrapping up a large government borrowing program with élan.

Segmental disconnects, turning tides and volatility were the central theme of the markets in FY 2021-22. Pockets of opportunity required agility and alacrity. The Bank's Treasury fared well in this period, delivering high revenues – second year in a row. Marred by pandemic disruptions, the Treasury teams – matched colleagues at other parts of the Bank, in displaying grit, determination; rising above personal struggles, joining hands to deliver a seamless and efficient outcomes.

The Bank's Treasury began the year on a conservative tone 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 preparedness for any eventuality. Across various desks, Treasury's investment strategy aligned with emerging liquidity situation - maintained higher investments of short duration liquid assets.

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.

FY 2021-22 was characterised by domestic demand led buoyancy in the equity markets and healthy amount of capital raising in form of IPOs. Treasury Equity desk took measured calls on the market with a modest portfolio - a profitable mix of primary and secondary markets, delivering value to the Bank.

In a market interspersed with events, bouts of volatility mirroring global currency movements and accompanied by RBI's efforts to smoothen volatility - FX Trading desk continued its measured stance with calibrated position taking, delivering remarkable outcomes. The FX desk also facilitated customer flows and market requirements of the Bank's customers.

As the economy re-opened through the year, the customer FX flows recouped – almost to the pre-pandemic levels. The Treasury FX Sales team reached out to Bank's customers - helping in understanding of the markets, efficient channelling of flows through the Bank with the help of array of products, pricing efficacy and efficient servicing. 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 – providing stability and sustained profitability.

Higher systemic liquidity with a waning bias, budding credit demand & appetite resulted in better deployment of surplus liquidity. The Balance Sheet Management Unit (BMU) managed the liquidity needs of nascent credit growth and liquidity buffers along with deployment at optimal yields. The duration of combined investments of Fixed Income Prop Desk & BMU Desk stood at about 1.2 years at the end of FY 2021-22. The BMU maintained heightened vigil while managing Liquidity and Interest Rate Risks and regulatory investments of the Bank. Regulatory requirements on reserves and liquidity ratios were maintained well 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 corporate loans, developer finance, two-wheeler finance and other lending.

Financial Highlights

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Net Interest Income	1,456.68	1,211.69
Other Income	330.77	220.38
Total Income	**1,787.45**	**1,432.08**
PBT	1,179.79	720.40
PAT	885.51	534.71

(₹ In crore)

Particulars	31st March, 2022	31st March, 2021
Net Customer Assets	24,250.76	21,803.91
- Car advances	18,157.35	15,800.81
Net NPA %	1.56%	1.66%
RoAA %	3.32%	1.99%
Capital Adequacy Ratio %	30.07%	29.39%
Tier I %	29.24%	28.44%

The passenger car market in India grew by 12.68% for FY 2021-22 compared to 1.58% de-growth in FY 2020-21. The sale of cars and MUVs crossed 30.60 lakh units in FY 2021-22 compared to 27.16 lakh units in FY 2020-21. KMP added 76,956 contracts in FY 2021-22 compared to 61,878 contracts in FY 2020-21.

In Q2FY22, the Company acquired standard car finance portfolio of ~ ₹ 1,100 crore from Volkswagen Finance Private Limited (VWFPL). Further, in Q3FY22, the Company acquired standard car finance portfolio of ₹ 425 crore from Ford Credit India Private Limited (FCIPL).

PBT for FY 2021-22 at ₹ 1,179.79 crore was higher than ₹ 720.40 crore for FY 2020-21 primarily due to higher disbursements, income from acquisition of portfolio from VWFPL and FCIPL, covid provision reversal, lower loss provisions and higher investment profits. NIM for FY 2021-22 was 5.65% compared to 4.96% for FY 2020-21.

Gross NPA was ₹ 797.44 crore (3.56% of gross advances) while net NPA was ₹ 377.24 crore (1.71% of net advances) as on 31st March, 2022.

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.

Real Estate: KMIL's Real Estate finance team offers one of the most trusted 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 solutions have made it a leading choice for real estate developers and investors for nearly a decade. KMIL is well-positioned to harness all opportunities that are available in the current economic environment.

Given the depth of its coverage, it is able to capture the growth opportunities offered by the all-round growth in the residential market across major cities. Its asset quality has remained strong through FY 2021-22 even as it ensure strong growth in this space. KMIL continues to be judicious about the borrowers that it works with and remain confident of its asset quality.

Corporate Lending: KMIL is focusing on increasing the non-LAS part of its Corporate Lending book. M&A, PE exits / acquisitions / leveraged buyouts across sectors with a focus on senior secured performing credit at holding / operating company level. Besides, the Company has identified new areas of growth like Venture Debt Funding to meet business requirement of new age companies and start-ups and continue to build the lending portfolio in education space.

Financial Highlights

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Net Interest Income	427.27	354.49
Other Income	141.22	73.96
Total Income	**568.49**	**428.45**
PBT	498.57	345.84
PAT	371.15	257.76

(₹ In crore)

Particulars	31st March, 2022	31st March, 2021
Net Customer Assets	7,170.33	6,795.44
Net NPA %	0.55%	0.62%
RoAA %	4.13%	3.54%
Capital Adequacy Ratio %	34.59%	33.16%
Tier I %	32.19%	30.07%

PBT for FY 2021-22 at ₹ 498.57 crore was higher than ₹ 345.84 crore for FY 2020-21 primarily due to higher disbursements, covid provision reversal and higher investment profits.

Customer assets Increased to ₹ 7,170.33 crore as on 31st March, 2022 as compared to ₹ 6,795.44 crore as on 31st March, 2021. Increase of 43.9% in PAT to ₹ 371.15 crore for FY 2021-22 from ₹ 257.76 crore in FY 20202-21. NIM for FY 2021-22 was 6.10% compared to 6.02% for FY 2020-21.

Gross NPA and Net NPA as on 31st March, 2022 was at ₹ 66.87 crore (1.05% of Advances) and ₹ 34.76 crore (0.55% of Advances) respectively.

Kotak Securities Limited (KS)

Kotak Securities Limited (KSL) provides broking services in equity cash and derivatives segments, commodity derivatives, currency derivatives, depository and primary market distribution services. KSL 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. KSL 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 is having a composite license issued by IRDA and 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 2021-22	FY 2020-21
Total Income	2501.66	2021.05
PBT	1,333.50	1,057.43
PAT	1,001.33	792.64

PBT for FY 2021-22 at ₹ 1,333.50 crore was higher than ₹ 1,057.43 crore for FY 2020-21 primarily due to higher brokerage income supported by market volumes, higher interest income on margin funding, higher IPO income, offset, in part, by increase in borrowings cost, employee cost and technology costs.

The financial year FY 2021-22 witnessed a volume growth in cash market, equity derivative, currency segment and volume de-growth in commodity segment over FY 2020-21. Market average daily volumes (excluding proprietary segment) for FY 2021-22 increased from ₹ 1,529,679 crore for FY 2020-21 to ₹ 3,552,488 crore for FY 2021-22.

Kotak Securities average daily volumes (excluding proprietary segment) for FY 2021-22 has increased to:

- ₹ 5,428 crore from ₹ 4,518 crore for FY 2020-21 for cash segment
- ₹ 91,642 crore from ₹ 22,331 crore for FY 2020-21 for NSE equity options segment
- ₹ 8,036 crore from ₹ 6,214 crore for FY 2020-21 for NSE equity futures segment

Kotak Securities market share (excluding proprietary segment) for FY 2021-22 increased to:

- 10.58% compared to 9.31% in FY 2020-21 for cash segment
- 2.69% compared to 1.59% in FY 2020-21 for NSE options segment
- 9.03% compared to 7.80% in FY 2020-21 for NSE futures segment

Note: Market share excludes BSE derivatives and proprietary segment volumes

With the help of seamless digital account opening, KS witnessed an increase in its client acquisition by 79% (YoY) and the NSE active client base increased from ₹ 7.43 lakh in FY 2020-21 to ₹ 12.56 lakh in FY 2021-22. Kotak Securities' Trade Free Plan (TFP) accounted for 65% of the total acquisitions during FY 2021-22. Due to the continued thrust on digital, mobile trading application of KS, registered a massive adoption resulting in 380% growth in the trading volume through the Kotak Securities Mobile app.

Multiple initiatives were adopted to improve KS value proposition. Provided below are the key initiatives:

- A subscription based 'No Brokerage Plan' was launched to encourage youth to experience the markets without worrying about brokerage
- Trade Free Max Plan was introduced that offered Margin Trading Facility at 7.75% per annum i.e. one of the most competitive rates in the industry
- Launched 'Ace Portfolios' that offers curated portfolios from Registered Investment Advisors to our clients
- Set up an investment fund to partner with Fin-Techs through product collaborations, investments and acquihires. Acquired TradeGyani and investments done in Kredent Infoline Ltd and Flipitmoney
- Research reports are made available in video and crisp PDF documents, to enable better access and improved understanding
- Revamped and migrated the entire platform stack – Mobile app, Web platform and Desktop platform to enhance user trading experience
- To be future ready, launched a second platform stack Neo in March 2022. This is a cloud-based platform built on latest technologies and practices. It is aimed to pivot Kotak Securities Limited as a leader in digital offerings
- Enhanced online journey to facilitate seamless account opening under six minutes. 44% of DIY accounts opened in Q4FY22, are completely digital i.e. opened without any assistance. The application process was further enriched with the ability to offer multiple pricing plans and customize basis user profile
- To enhance customer inbound call experience, migrated telephony to cloud with multilingual IVR capability
- Launched multi-lingual chat-bot in 9 languages for 15 self-service options
- Digital servicing has been made available to self-update Nominee, bank, mobile, email-id, address and activate trading segment

As on 31st March, 2022, KS had a national footprint of 1,476 branches, franchisees and referral co-ordinators across 376 cities in India serving its customers. The cumulative number of registered authorised persons stood at 2,152 for NSE and 1,744 for BSE.

The Institutional Equities division of KS registered a stellar growth in revenues and showed very strong performance in distribution of IPOs, QIPs, open offers and execution of block trades. The Institutional Equities research team is highly rated by institutional clients across sectors and it continues to add new sectors and companies to its coverage list. KS continues to upgrade its IT infrastructure through investment in cutting-edge technology in order to further improve the quality of trade execution for its institutional clients and enhance overall operational efficiency.

Awards and Recognitions

- The Best Stock Broking Company of The Year (By Quantic India)
- Best Cloud Initiative – Stock Broking category (By Quantic India)

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 2021-22	FY 2020-21
Total Income	439.91	202.22
PBT	315.70	110.94
PAT	244.75	82.28

Equity Capital Markets

In FY 2021-22, the Indian Equity Capital Markets continued to witness strong momentum in fundraising completing 53 IPOs, 1 FPO, 29 QIPs, 22 OFS and 10 Rights Issues. A total of ₹ 2,03,327 crore (vs ₹ 2,70,139 crore in FY 2020-21) was raised across Initial Public Offerings (IPOs), Qualified Institutional Placements (QIPs), Further Public Offering (FPO), Rights Issues and Offers for Sale (OFS). FY 2021-22 saw exceptional response in IPOs and ensured successful completion of some of the marquee IPOs in the New Age Tech sector such as Zomato, FSN E-commerce (Nykaa), PB Fintech and Sona BLW Precision Forgings among others. Other sectors such as Consumer, Financials, Healthcare, Real estate and Speciality Chemicals also witnessed strong investor response. Domestic Institutional Investors continued to support the markets with an inflow of USD 29 billion vs an outflow of USD 17 billion from FIIs.

KMCC successfully completed 36 transactions, including 19 IPOs, 4 QIPs, 9 Block Deals, 2 Rights Issues, 1 OFS and 1 InVIT raising a total of ₹ 1,16,556 crore in FY 2021-22. KMCC continued to be the Left Lead Banker of Choice having led large IPO transactions like Zomato. Star Health, FSN E-Commerce Ventures Ltd, PB Fintech, Sona BLW Precision Forgings etc.

KMCC was ranked No. 1 in IPOs more than ₹ 1,500 crore having led 16 out of 20 such IPOs. KMCC had a 55% market share in FY 2021-22 across all ECM transactions. (Source: Prime Database). Top Equity Deals that were concluded by KMCC during the year include:

IPO: Zomato - ₹ 9,375 crore, Star Health & Allied Insurance - ₹ 6,019 crore, PB Fintech - ₹ 5,710 crore, Sona BLW Precision Forgings - ₹ 5,500 crore, FSN E-Commerce Ventures Ltd - ₹ 5,350 crore, Adani Wilmar - ₹ 3,600 crore, Vedant Fashions - ₹ 3,149 crore, CarTrade Tech - ₹ 2,999 crore, Aptus Value Housing Finance - ₹ 2,780 crore, Aditya Birla Sun Life AMC - ₹ 2,768 crore, Macrotech Developers - ₹ 2,500 crore, Krishna Institute of Medical Sciences - ₹ 2,144 crore, Vijaya Diagnostic Center - ₹ 1,894 crore, Devyani International - ₹ 1,838 crore, Clean Science & Technology - ₹ 1,547 crore, Glenmark Lifesciences - ₹ 1,514 crore, Rategain Travel Technologies - ₹ 1,336 crore, C.E. Info Systems - ₹ 1,040 crore, GR Infraprojects - ₹ 962 crore.

Rights: Bharti Airtel Ltd - ₹ 20,987 crore, Indian Hotels Co. Ltd - ₹ 1,982 crore.

OFS: ONGC - ₹ 3,017 crore.

InVIT: NHAI InVIT - ₹ 5,046 crore.

QIP: Macrotech Developers LTD. - ₹ 4,000 crore, Aarti Industries - ₹ 1,200 crore, Route Mobile - ₹ 868 crore, Brigade Enterprises - ₹ 500 crore.

Mergers & Acquisitions and Private Equity Advisory

The total M&A Advisory deal value in India for FY 2021-22 increased to USD 151 billion vis-à-vis USD 126 billion in FY 2020-21, while deal volumes increased to 3,700 in FY 2021-22 from 2,084 in FY 2020-21. (Source: Bloomberg, as on 13th April, 2022)

In FY 2021-22, amongst the investment banks, KMCC was ranked #4 by volume of deals and #2 by value of deals in the M&A league tables (Source: Bloomberg, as on 13th April, 2022). KMCC advised on a diverse array of 17 M&A transactions across a range of products and sectors, for a total deal value of USD 9.6 billion (not considering deals where values have not been disclosed):

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

Deal values in FY 2021-22 shown growth of ~20% vis-à-vis the previous year despite disruptions like COVID-19 pandemic and geo-political conflicts. In FY 2021-22, financial sponsors accounted for around 41% of the transactions by value vis-à-vis 33% in FY 2020-21 and constituted significant part of India's M&A activity.

The deal activity during FY 2021-22 was largely contributed by inbound minority investments in the Digital and financial services sectors. Consolidation by market leaders, divestment of non-core assets and acquisitions by new age technology companies were major drivers for M&A transactions in FY 2021-22 and the trend is expected to continue in FY 2022-23. Other factors such as investment by global strategic players, exits by private equity funds, restructuring and simplification of corporate structures are also expected to drive the M&A activity in FY 2022-23.

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

- Sell-side advisor to the Founders of the Billdesk (IndiaIdeas.com Ltd.) for acquisition of Billdesk by PayU (payments and fintech business of Prosus N.V.)
- Buy-side advisor to Tata Digital for acquisition of Supermarket Grocery Supplies (BigBasket)
- Buy-side advisor to API Holdings and advisor to the open offer for acquisition of controlling stake in Thyrocare Technologies
- Financial advisor for preferential allotment in IRB Infrastructure Developers
- Financial advisor & fairness opinion provider to Tata Consumer Products for reorganization with Tata Coffee
- Sell-side advisor to Fortum for divestment of 500 MW solar PV assets and greenfield partnership for future assets
- Buy-side advisor & manager to the open offer to Crompton Greaves Consumer Electricals for acquisition of controlling stake in Butterfly Gandhimathi Appliances
- Buy-side advisor to Delhivery for acquisition of SpotOn Logistics Pvt. Ltd
- Manager to the open offer by Pantone Finvest Ltd. (Tata group) for acquisition of controlling stake in Tejas Networks
- Sell-side advisor to Kogta Financial for Series D funding round and exit to IIFL fund
- Buy-side advisor to Tata Digital for acquisition of 1MG Technologies
- Sell-side advisor to Encube Ethicals and Multiples PE for investment by Quadria Capital in Encube Ethicals
- Sell-side advisor to iD Fresh Food & Helion Venture Partners for investment by NewQuest Capital Partners in iD Fresh Food
- Fairness opinion to Brookfield India REIT for acquisition of grade A office asset in Noida
- Manager to the Buyback offer to the shareholders of Infosys through open market route
- Manager to the Buyback offer to the shareholders of The Great Eastern Shipping Company through open market route

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 253 life insurance outlets across 147 locations. KLI has 110,730 life advisors, 23 Banc assurance partners and 213 brokers and corporate agency tie-ups.

Financial Highlights

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Gross Premium Income	13,015.11	11,100.22
First Year Premium (Incl. Group and Single)	6,142.77	5,256.51
Profit Before Tax – Shareholders' Account	596.49	897.47
Profit after Tax – Shareholders' Account	425.38	691.93
Solvency Ratio (as on)	2.73	2.90

The Indian Embedded Value (IEV) was ₹ 10,679 crore (31st March, 2021: ₹ 9,869 crore) as on 31st March, 2022. 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 2022 was ₹ 895 crore and the VNB margin was 31.1%.

Networth of KLI increased by 8.50% to ₹ 4,389.20 crore as on 31st March, 2022 from ₹ 4,045.47 crore as on 31st March, 2021. KLI has solvency ratio of 2.73 against a regulatory requirement of 1.50.

PBT (Shareholders') of the Company for FY 2021-22 stood at ₹ 596.49 crore compared to ₹ 897.47 crore in FY 2020-21. The lower profit is primarily on account of higher death claims reported to the Company during the second wave of COVID-19 wherein there was an unprecedented increase in fatalities in the country. Overall death claims (net of reinsurance) increased from ₹ 1,013.41 crore in FY 2020-21 to ₹ 1,679.73 crore in FY 2021-22.

Revenue Performance

KLI has recorded a growth of 17.25% on the gross written premium, mainly coming from renewal premium and Group New business. The summary of premiums is as under:

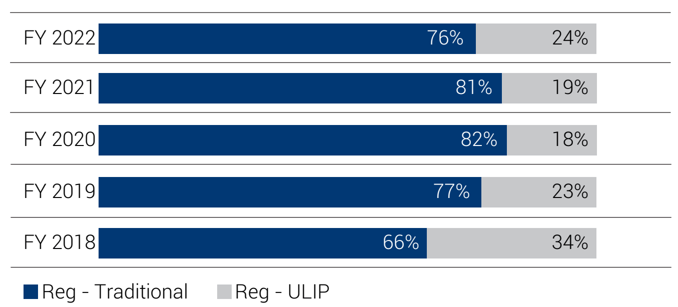
(₹ in crore)

Particulars	During FY 2022	During FY 2021
Individual Regular	1,980.81	1,693.35
Individual Single	1,320.28	1,251.25
Group Premium	2,841.68	2,311.91
Total New Business Premium	**6,142.77**	**5,256.51**
Renewal	6,872.35	5,843.71
Gross Premium	**13,015.11**	**11,100.22**

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

The distribution mix for Individual business APE (Single 1/10), is 51.40% for the Bancassurance channel and 48.60% for Agency & other channels.

Individual Regular Product Mix



This year product mix of KLI in individual regular premium inclines towards traditional business being 75.79% and 24.21% of ULIP.

Protection Share

Protection share as % of Individual New Business and Total Group Business stood at 32.86%. Overall protection business for FY 2021-22 has grown by 45.40% from ₹ 1,481.41 crore to ₹ 2,153.92 crore YoY.

Group Product Mix

The group employer-employee business has grown by 34.02% and group Credit business has grown by 54.75%. The overall group business has grown by 24.21% in FY 2021-22 over FY 2020-21 from ₹ 2,619.17 crore in FY 2020-21 to ₹ 3,253.27 crore in FY 2021-22.

Conservation & Persistency

Conservation ratio has improved to 89.36% in FY 2021-22 compared to 85.00% in FY 2020-21. KLI has set up a dedicated retention team to improve the retention of the premiums of KLI. As of Feb'22, the persistency was –82.35% (13th month), 75.23% (25th month), 65.94% (37th month), 62.07% (49th month) and 51.47% (61st month).

Industry comparison

KLI has registered a growth of 16.19% against insurance industry growth of 15.75%. KLI market share for Individual New Business premium (APE terms) is 3.84% for FY 2021-22 among private insurers. KLI market share for Group New Business premium (APE terms) is 12.24% for FY 2021-22 among private insurers.

Claims Settlement Ratio

Both individual and group settlement ratio's for FY 2021-22 has shown improvement over FY 2020-21. The individual claims settlement ratio for FY 2021-22 stood at 98.82% (FY 2020-21: 98.50%) while the group claims settlement ratio for FY 2021-22 stood at 99.58% (FY 2020-21: 99.43%).

Assets Under Management

KLI saw an increase in its AUM (including shareholders') by 19.44% YoY to ₹ 55,562.61 crore as on 31st March, 2022.

Digital Initatives

KLI focused on below 4 areas

- Customer experience
  - Digital servicing deepened: >70% service requests through digital channels
  - Rapid issuance project: >36% cases saw one-day policy issuance in Feb-Mar 2022
- Distributor engagement
  - KLI Recruit – advisor onboarding platform with OCR, OTP-based consent, online payment – saw 100% adoption
  - Boost – advisor mobile app with full business visibility – saw >25,000 new registrations
- New business opportunities
  - Deepened integration with Policybazaar: 27% more same-month issuance in Mar 22 compared to Nov 21
  - D2C journeys covering Term, Health, ULIP and Annuity enabled and/or enhanced
  - D2C journeys for KMBL customers (in mobile or net banking platform) covering Term, Health, Savings and ULIP enabled and/or enhanced
- Data as an asset
  - Embarked on organization-wide Data Warehouse project: structured and unstructured data in a single repository
  - Propensity model for cross-sell utilized by sales channels

Social and Rural Obligations

KLI has written rural policies 77,609 (FY 2021: 77,394) representing 22.82% of total policies against regulatory requirement of 20%. Further, KLI has covered 9,580,400 (FY 2021: 6,736,586) 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 on 20th December, 2014 under Companies Act, 2013 as a 100% subsidiary of Kotak Mahindra Bank Limited. The Company received certificate of registration from Insurance Regulatory and Development Authority (IRDAI) on 18th November, 2015 with registration no. 152 and subsequently commenced operations on 17th December, 2015.The Company is in the business of underwriting general insurance policies relating to Fire, Marine and Miscellaneous lines of business.

The general insurance industry as a whole registered a YoY growth of 11.05% in FY 2021-22, in which the private sector (excluding standalone health insurance companies) grew by 11.89%. KGI grew its premium (excluding re-insurance) from ₹ 543.99 crore in FY 2020-21 to ₹ 742.47 crore in FY 2021-22, registering a growth of 36.49%.

Financial and Other Highlights

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Gross Written Premium (GWP) (including re-insurance)	753.88	548.29
Profit/(Loss) Before and After Tax	(82.98)	1.63
Claims Ratio	77.04%	66.99%
Combined Ratio	121.91%	107.13%

Revenue Review

For the year KGI registered a growth of 52.77% by issuing 34.53 lakh number of policies in FY 2021-22 against 22.60 lakh number of policies in FY 2020-21.

Product Mix

In order to maintain a balanced product mix, KGI product mix for Motor, Health and Others has moved from 53:38:9 in FY 2020-21 to 51:38:11 in FY 2021-22.

Distribution Mix

For the year Bancassurance Channel grew by 18.27% from ₹ 262.81 crore in FY 2020-21 to ₹ 310.82 crore in FY 2021-22 and including FIG growth at 22.44%. Multi Distribution channel registered 56.76% growth from ₹ 236.18 crore in FY 2020-21 to ₹ 370.24 crore in FY 2021-22.

Solvency

As on 31st March, 2022, the solvency ratio of KGI stood at 1.79 against the regulatory requirement of 1.50.

Investments

Investments of KGI as on 31st March, 2022 stood at ₹ 1,231.37 crore against the previous year amount of ₹ 932.11 crore, registering a growth of 32.11%.

Distribution Network

KGI has a network of 19 branches catering to more than 300 locations. KGI has registered 22 Corporate Agents, 1712 Individual Agents, 2592 Point of Sale agents and 21 Micro Insurance Agents.

Rural and Social Obligations

KGI has written a premium of ₹ 97.71 crore under rural obligation representing 13.16% of total premium. Further, KGI has covered 244,570 social lives against the regulatory requirement of 71,741.

Claim Servicing

The number of claims settled by the Company has increased from ~ 56,000 in 2021 to ~ 89,000 in 2022, an increase of 58.92%. Also, during the year the Company has settled Covid-19 claims amounting to ₹ 31 crore.

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 2021-22	FY 2020-21
Total Income	771.13	602.29
PBT	455.51	395.99
PAT	338.94	294.83
AAUM	272,938	202,826

(₹ in crore)

Kotak Mahindra Trustee Company Limited	FY 2021-22	FY 2020-21
Total Income	148.49	71.83
PBT	145.18	69.14
PAT	115.18	51.45

The mutual fund industry registered a YoY growth of 20.0% YOY in Q4FY22 over Q4FY21 with the Quarterly Average Assets under Management (QAAUM) for Q4FY22 at ₹ 38.84 lakh crore.

During the same period, on the basis of percentage growth in QAAUM, KMAMC was the fifth fastest growing Mutual Fund House – and ranked no. 5 in industry. The QAAUM of KMMF which stood at ₹ 286,478 crore for Jan-Mar 2022 has seen growth of around 22% in Q4FY22 over Q4FY21. Market Share in QAAUM has grown to 7.37% in Q4FY22 from 7.25% in Q4FY21 and 6.86% in Q4FY20. The annual AAUM of KMAMC for FY 2021-22 was ₹ 272,938 crore against ₹ 202,826 crore FY 2020-21, a growth of 35%.

KMAMC has 39.2 lakh unique investors basis the RTA data against industry of 337 lakh, a market share of 11.7% in March 2022, against a share of 11.4% in March 2021.

KMAMC ended the year with discretionary AUM under the portfolio management business of ₹ 1,227 crore as on 31st March, 2022 against ₹ 1,645 as on 31st March, 2021.

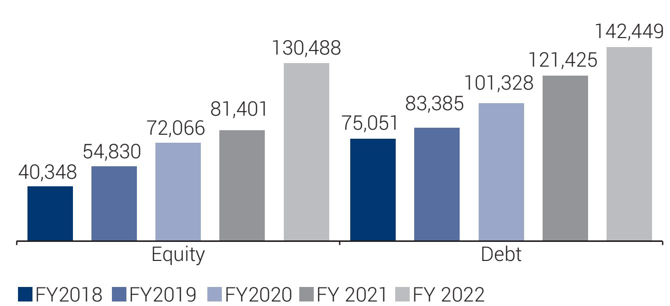
It launched its maidan Alternate Investment Fund – Kotak India Renaissance Fund 1 in Feb 2022 and the corpus as on 31st March was ₹ 204.45 crore.

There is an increase in revenue from operations to ₹ 768.41 crore from ₹ 599.29 crore largely on account of increase in AAUM. The overall costs increased to ₹ 315.62 crore in FY 2021-22 against ₹ 206.29 crore in FY 2020-21. Hence, the overall profit before tax has increased to ₹ 455.51 crore in FY 2021-22 compared to ₹ 395.99 crore in FY 2020-21.

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

For KMTCL, the growth in PBT is also partially due to the Long term capital gain of ₹ 46 crore booked in FY 2021-22 on account of switch made of its long term investments in Kotak Mahindra Mutual Fund schemes , for better returns, other than the normal growth in trustee fees due to increase in AAUM.

Average AUM (₹ crore)



Kotak Mahindra Pension Fund Limited (KMPFL)

Financial Highlights

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Total Income	3.39	3.81
PBT	(1.54)	0.45
PAT	(1.54)	0.21
AUM	2,230	1,572

The Company manages nine schemes under the National Pension System. The Company had total assets under management (AUM) of ₹ 2,230 crore as at the end of the financial year, a growth of 42% over the previous year (₹ 1,572 crore). The overall pension fund industry AUM (including the private and public sector) has grown by over 27% year-on-year to ₹ 736,593 crore as on 31st March 2022.

The Government debt fund (NPS Tier 1) for FY 2021-22 and among the top two best performing Equity funds (NPS Tier 1) for the financial year. Besides, it was the top performing equity fund (NPS Tier 1) over 10-year period and among the top two the best performing equity funds (NPS Tier 1) over 3 and 7-year periods as on 31st March 2022.

PFRDA has, vide their letter dated 19th April, 2021, approved the transfer of 46.7% of equity shareholding of the Company held by KMAMC whereby the Bank will become co-sponsor of KMPFL with 51% shareholding along with KMAMC with 49% shareholding.

Further, in response to Request for Proposal (RFP) dated 23rd December, 2020 issued by Pension Fund Regulatory and Development Authority (PFRDA), a proposal was submitted by KMBL and KMAMC as co-sponsors on 20th January, 2021 for managing NPS Corpus through existing Pension Fund Company –KMPFL. PFRDA has approved the sponsors vide letter of appointment dated 19th May, 2021 and issued a Certificate of registration no. PFRDA/PF/2021/006 dated 1st June, 2021 which shall remain valid unless suspended or cancelled by the Authority. Under the terms of the RFP, the revised Investment Management Fees as applicable w.e.f. 1st June, 2021 is as follows (prior it was charged at 0.01% p.a for Tier I and Tier II schemes and 0.0102% p.a. for NPS Lite Scheme – Govt Pattern);

Slabs of AUM (₹ in crore)	Investment Management Fees
Upto 10,000 crore	0.09%
10,001-50,000 crore	0.06%
50,001- 150,000 crore	0.05%
Above 1,50,000 crore	0.03%

There has been an increase in revenue from operation to ₹ 1.48 crore in FY 2021-22 as compared to ₹ 0.13 crore in FY 2020-21 primarily on account of increase in rate of Management fees from 0.01% to 0.09%. The overall costs increased to ₹ 4.93 crore in FY 2021-22 against ₹ 3.36 crore in FY 2020-21. Hence, there is a loss of ₹ 1.54 crore in FY 2021-22 as compared to PBT of ₹ 0.45 crore in FY 2020-21.

Kotak Investment Advisors Limited (KIAL)

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

Financial Highlights

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Total Income	243.96	140.84
PBT	79.42	50.50
PAT	58.65	40.03
AUM	20,079	17,906

During the year, KIAL has received new capital commitments of around ₹ 2,940 crore. The aggregate alternate assets managed / advised (including undrawn commitments, wherever applicable) by KIAL as on 31st March, 2021 were ₹ 20,079 crore. It managed 19 domestic funds, advised 1 domestic fund and 6 offshore funds during the year.

Of the new capital commitments received during the year, the Kotak Pre-IPO Opportunities Fund completed its first and final close with commitments of ~ ₹ 2,000 crore. The Kotak Pre-IPO Opportunities Fund will target high-quality companies across sectors, especially with a strong technology focus, robust unit economics, scalable business models and exit visibility. The focus will be on technology oriented companies including technology-enabled companies in traditional industries. KIAL also raised further commitments in AIFs under the Optimus brand to garner ₹ 940 crore. 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. KSSF has committed around 90% of the USD billion dollar corpus across real estate, chemicals, technology, cement, data center, roads and pharmaceuticals space

KIAL also has Investment Advisory business for Private Clients with ₹ 63,005 crore assets under Advice as on 31st March, 2022.

Kotak Mahindra Trusteeship Services Limited (KMTSL)

KMTSL acts as a trustee to estate planning trusts set up by high net worth individuals to achieve their succession and financial planning. It also acts as a trustee to domestic venture capital, private equity and alternate investment funds.

Financial Highlights

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Total Income	11.93	9.77
PBT	3.99	3.40
PAT	3.04	2.56

Kotak International Subsidiaries

Financial Highlights

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Total Income	324.05	331.11
PBT	154.94	170.36
PAT	118.13	154.14

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 (KMFSL)

The international subsidiaries have offices in Singapore, UK, Mauritius, US and UAE. During FY 2021-22, KMFSL redomiciled from Dubai International Financial Centre to Abu Dhabi Global Markets in UAE. The Company has been granted a prudential "Category 4" license by the Financial Services Regulatory Authority (FSRA) in FY 2021-22.

The international subsidiaries 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 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 ₹ 28,236.97 crore (USD 3.86 billion) as on 31st March, 2021 to ₹ 29,448.23 crore (USD 3.89 billion) as on 31st March, 2022. The increase in AUM on account of positive movements in Indian capital markets was offset by redemptions witnessed in the funds. The redemptions were mainly because of profit taking and dividend payouts (as per the fund's dividend policy).

As regards the bond dealing business, FY 2021-22 remained subdued mainly due to lack of volatility across the globe and also concerns over real estate sector in China.

Financial update

The total income earned by international subsidiaries marginally reduced from ₹ 331.11 crore during the FY 2020-21 to ₹ 324.05 crore during FY 2021-22, drop of ₹ 7.06 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. The prices subsequently bounced back during FY 2020-21 which led to high revenue through recovery of marked-to-market losses on own investments recognised at the start of the pandemic in March 2020. Resultantly, the income from investments during FY 2021-22 was lower by ₹ 40.02 crore when compared with previous year.

This was partly offset by higher income from investment management, advisory and other services (₹ 35.33 crore) and higher interest income from investments and dividend income (₹ 7.57 crore). Income from dealing in securities was lower as mentioned above by ₹ 9.90 crore.

The overall expenses increased marginally from ₹ 163.18 crore during the previous year to ₹ 166.85 crore during the current year.

Resultantly, PBT for the year stood at ₹ 154.94 crore compared to a profit of ₹ 170.36 crore for the previous year.

Kotak Infrastructure Debt Fund Limited (KIDFL)

KIDFL, is an Infrastructure Debt Fund, set up under NBFC route. It is engaged in providing finance for infrastructure projects, with more than one year of satisfactory operational history.

During the year, KIDFL has forged strong relationships with multiple infrastructure clients. It continues to be judicious about credit underwriting and selection of customers.

Financial Highlights

(₹ in crore)

Particulars	FY 2021-22	FY 2020-21
Total Income	73.58	76.20
PBT / PAT	32.35	33.10

Customer Assets decreased to ₹ 620.35 crore as on 31st March, 2022 compared to ₹ 734.94 crore as on 31st March, 2021 mainly due to repayments.

IVY Product Intermediaries Limited (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	0.30	0.35
PBT	0.29	0.32
PAT	0.22	0.12

BSS Microfinance Limited (BSS)

BSS is a wholly owned subsidiary of KMBL and working as Business Correspondent (BC) of the Bank. BSS facilitates Microfinance Loans to Rural and Semi-urban poor women and having 400 branch offices across Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu 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	268.25	205.81
PBT	109.51	30.87
PAT	82.81	23.17

It also provides first loss default guarantee to Bank on the loans originated by it. The PBT is higher compared to previous year, mainly on account of increase in AUM and decrease in provisions.

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 2021-22	FY 2020-21
Total Income	494.97	276.60
PBT	307.36	202.26
PAT	223.82	150.89
Share of Kotak Group	111.89	75.43

The profit for the current year is higher due to increase in Loan against shares book as compared to previous year and Prop trading.

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 2021-22	FY 2020-21
Total Income	226.00	166.29
PBT	130.37	38.68
PAT	91.62	23.67
Share of Kotak Group	45.72	11.81

PAT of the Company saw an increase due to substantially increase in revenue from fee income during FY 2021-22.

RISK MANAGEMENT[2]

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. Risk management is a key internal process and is aimed at ensuring the profitability of business activity by ensuring control of the risk level and maintaining it within the risk tolerance. Risk management capabilities are critical in sustaining the current growth and profitability. The Group has continued to develop and fine-tune relevant policies, tools and processes and over the years, enhanced risk management system and processes to be in compliance with the changing regulatory requirements. The Group manages Risk under an Enterprise wide Risk Management (ERM) framework that aligns risk and capital management to business strategy, protects its financial strength, reputation and ensures support to business activities for adding value to customers while creating sustainable shareholder value. The ERM policy sets the approach for Risk Management and is adopted by legal entities in the group, with suitable modifications, as appropriate for their individual businesses. The policy guides the organization of the risk management function and the identification, measurement, management and reporting of risks. The ERM policy is complemented by policies that are aligned to individual risks. These specific policies set the principles, standards and core requirements for the effective management of those risks. The ERM framework supports the MD & CEO and CRO in embedding strong risk management and risk culture. The ERM framework lays down the following components for effective Risk Management across the Group

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

Periodic stress testing to assess the impact of adverse business conditions on earnings, capital and liquidity

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

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

The second line of defence is made up of Risk Management, Finance and Compliance functions. This line provides independent review, challenge and oversight of the activities conducted by the first line and periodic reporting to the Board. The 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. A disciplined, structured and integrated approach is adopted to managing risks. 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 Risk Management Committee (RMC) and the Board, on the performance against risk appetite and the risk profile. Besides this, formal updates on various portfolios are provided to the RMC, Board periodically. Such regular and transparent risk reporting and discussion at senior management level, facilitates communication and discussion of risks and mitigating strategies, across the organisation. The RMC and Board members are appropriately qualified to discharge their responsibilities, have appropriate balance of industry knowledge, skills, experience, professional qualifications and relevant technical, financial expertise in risk disciplines or businesses.

The risk management processes of the Bank's subsidiaries are the responsibility of their respective boards. A Group Risk Management committee (GRMC) ensures 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.

[2] *GRI 102-15*

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

B. Capital Adequacy

The Group's approach to capital adequacy is driven by strategic and organisational requirements while taking into account the regulatory and macro-economic environment. Capital management involves an on-going review of the level of capitalisation against key objectives and to maintain a strong capital base to support long-term stability, planned business growth and risks inherent in various businesses. The strong Tier I capital position of the Group is part of the overall business strategy and a source of competitive advantage. It provides assurance to regulators and credit rating agencies, while protecting the interests of depositors, creditors and shareholders. Strong capitalisation also enables the Group to take advantage of attractive business opportunities. The Group strives to strike a balance between the need for retaining capital for strength and growth, while providing an adequate return to shareholders. The Group sets an internal capital adequacy ratio target that includes a discretionary cushion in excess of the minimum regulatory requirement.

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

Capital planning is an important element of overall financial planning and capital requirements of businesses are assessed based on the growth plans. The Capital utilisation & requirement is monitored every quarter to ensure sufficient capital buffer above regulatory and internal requirement. Senior management considers the implications on capital, prior to making strategic decisions. 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. These provide guidance in the formulation of business-specific credit policies and standards. 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 authorizing 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 collateralization is obtained based upon the nature of the transaction and the credit quality, size and structure of the borrower.

The Group evaluates the credit of every loan applicant and guarantor before approving any loan. The evaluation and approval process differs depending on whether the loan is a wholesale loan or a retail loan. The wholesale and retail portfolios are also 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. Wholesale borrowers are assessed individually, and further reviewed and evaluated by experienced credit managers who consider relevant credit factors and supplement it with their expert judgment in the final determination of the borrower's risk. Depending on exposure and credit rating, levels of authority are defined so that credit decisions are always made at a level adequate to the risk involved. 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 of accounts of relatively small value loans. They comprise of mortgage loans, vehicle loans, personal loans, credit cards, small business loans etc. These are mainly schematic lending within pre-approved parameters. The credit assessment in such portfolios is typically done using a combination of client scoring, product policy, external credit reporting information such as credit bureaus where available and is also supplemented by Credit officer's judgment. Internal historical information from previous borrowers also forms an input into credit decisions. There are specific guidelines for each product and the credit decision will take into account the parameters like loan to value, borrower demographics, income, loan tenor, availability of guarantors etc.

Retail clients are monitored on pools of homogeneous borrowers and products. Business-specific credit risk policies and procedures including client acceptance criteria, approving authorities, frequency of reviews, as well as portfolio monitoring frameworks and robust collections and recovery processes are in place.

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

At the pre-sanction stage, the independent credit function 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. Credit approval procedures follow the check-and-balance principle. There is a multi-level credit approval process requiring loan approval at successively higher levels depending on the size and collateral of the proposal.

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 realization costs. Collateral values are assessed at the time of loan origination by an independent unit and the valuations are updated, as per policy, depending on the type of collateral, legal environment and creditworthiness of the borrower. In cases where the value of collateral has materially declined, additional collateral may be sought to maintain the cover as per sanction terms.

The main types of collateral / security taken include cash & cash equivalents, immovable property, movable fixed assets, inventory and receivables. Guarantees from higher rated entities are also obtained in cases where credit worthiness of the standalone borrower is not sufficient to extend credit. Guarantees that are treated as eligible credit risk mitigation are monitored along with other credit exposures to the guarantor.

Legal enforceability of collateral obtained is critical, to improve recoveries in the event of a default. The Bank has specific requirements in its internal policies with regards to security verification and appropriate legal documentation. Periodic inspections of physical collateral are performed where appropriate and where reasonable means of doing so are available. The Credit Administration and Legal function ensure that there is timely registration, adequate legal documentation, in line with internal policies, to establish recourse to any collateral, security or other credit enhancements.

F. Credit Risk Concentration

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

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

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

Concentration is also monitored in geographic locations in the retail portfolio, delinquency trends, types of credit facilities and collaterals. The risk appetite of the Bank mandates a diversified portfolio and has suitable metrics for avoiding excessive concentration of credit risk. 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 of possible economic loss arising from adverse changes in market risk factors such as interest rates, foreign exchange rates, credit spreads, commodity & equity prices and implied volatilities. Market Risk in the Bank is managed through the Board Approved Investment Policy – which sets out the Investment Philosophy of the Bank and its approach to Market Risk Management. The Risk Management Committee of the Bank approves and reviews performance against the Bank's Market Risk Appetite. 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 the Senior Management Committee for Derivatives are responsible for the oversight of the 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 Value at Risk (VaR) limits, loss-triggers, value-limits, gap-limits, deal-size limits, tenor restrictions and holding-period limits.

The 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 deviations & limit breaches on a timely basis. Major market risk limits like PV01, Bond Position Limits, Desk-wise Fx Position limits, Greek limits etc. are monitored on an intraday basis. The market risk control framework is enhanced by systems, policies & procedures.

The Bank uses Value at Risk (VaR) to quantify the potential loss from adverse moves in the financial markets. The VaR model is based on historical simulation and a confidence level of 99% for a one-day holding period. The effectiveness of the VaR model is periodically evaluated through a process of back-testing. The Bank periodically performs Stress testing & Scenario analysis to measure the exposure of the Bank to extreme, but low probability market movements.

H. Country and Counterparty Credit Risk

Country Risk is the risk of loss that the bank faces, which is specifically attributed to events in a specific country. Country risk may be triggered by deterioration of economic conditions, political and social turmoil, asset nationalization or expropriation, government's refusal to pay external debt, foreign exchange control or currency depreciation in a country or a region.

The Bank has a Board approved Country Risk Policy, which takes into account direct and indirect risk (both funded and non-funded exposures) for the purpose of identifying, measuring, monitoring and controlling country risk. As per the Policy, ALCO of the Bank is empowered to approve country limits.

Financial institutions are interrelated because of trading, clearing, counterparty, funding or other relationships. The Bank has exposure to many counterparties in the financial industry, directly and indirectly, including clearing houses, commercial banks, investment banks, mutual funds, and other clients with which it regularly executes transactions. The Bank is exposed to counterparty risk arising from the potential inability of counterparties, to fulfil their obligations under transactions.

The Bank manages these exposures through careful selection of market counterparts as well as by placing concentration limits on particular counterparty exposures.

As per the Investment Policy of the bank, ALCO of the bank fixes counterparty limits for inter-bank participants based on their capital adequacy, resource raising ability, asset quality, earning, management & systems evaluation, liquidity and so on. These limits are reviewed from time to time. Pre-settlement credit risk for traded products arising from a counterparty potentially defaulting on its obligations is generally quantified by evaluation of the market price plus potential future exposure. This is used to calculate the regulatory capital and is included within the overall credit limits to counterparties for internal risk management.

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 ensure that exposure to fluctuations in interest rates is kept within acceptable limits. The Group assesses and manages interest rate risk in its banking book as well as including trading book.

ALCO is the guiding body for management of IRRBB in the bank and sets the overall policy and risk limits. Balance Sheet Management Unit (BMU), which is part of the treasury, is entrusted with the responsibility of managing IRRBB and uses Funds Transfer Pricing (FTP) to transfer risk from business units to centralised treasury. No interest rate risk is retained within any business other than treasury. Measuring interest rate risk in the banking book, includes conventional parallel yield curve shifts as well as scenarios in which the curvature of the yield curve changes.

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

J. Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due without adversely affecting its financial condition 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 organization 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 in internal funds transfer pricing mechanism under which each business is allocated the full funding cost required to support its assets. Businesses that raise funding are compensated at an appropriate level for the liquidity benefit provided by the funding. 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, interbank liabilities, etc. Cash flow management is critical for liquidity risk management and the Bank has developed models for predicting cash flows for products with indeterminate maturity, products with embedded options, contingents, etc. The outcome of the models is periodically back tested to test their effectiveness.

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

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

The Group is well above the minimum regulatory requirement of 100% 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 NSFR came into effect from October 1, 2021 and the Group is well above the regulatory requirement of 100%.

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 maximize the time available to undertake appropriate mitigating strategies. The plan establishes an appropriate governance structure, lines of responsibility, contact lists to facilitate prompt communication with all key internal and external stakeholders and also defines strategies and possible actions to conserve or raise additional liquidity, under stress events of varying severity, to minimize adverse impact on the Bank.

K. Operational Risk

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

The Board of Directors, Risk Management Committee and the Operational Risk Executive 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 key 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. Bank has enhanced its security monitoring and incident response capability by implementing advanced solution with extensive AI/ML functionality.

Thematic assessments were conducted for IMPS and API management systems. Several initatives were taken to enhance the security posture such as 2 factor authentication for critical systems, secure remote access etc.

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

Ongoing audits/tests are conducted to assess the robustness of its technology controls and minimize the impact of 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 & Compliance with laws of the land. Minimising conduct risk is critical to achieving long term business goals and meeting regulatory standards. The Bank has processes for managing conduct risk and policies that guide staff in dealing with prevention of conflict of interest, employee conduct and dealing with proprietary and confidential information, so that they conduct themselves ethically and in compliance with the law. Product approval, product review processes, Suitability and appropriateness policies, are some of the measures embedded in the Bank's framework to mitigate conduct risk. Conduct Risk is managed by maintaining a positive and dynamic culture that emphasizes acting with integrity. Respective policies ensure that business decisions are guided by standards that take into account right conduct apart from commercial considerations. Conduct risk management is incorporated into HR practices, including recruiting, training, performance assessment, promotion and compensation processes. The group places zero tolerance on instances of professional or personal misconduct. Conduct risk is assessed in the ICAAP through a scorecard that considers the various drivers of conduct risk.

During the year, in the context of continuing impact 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 behaviors relative to risk taking. The Group embeds a strong risk culture, through clear communication and appropriate training for employees. The objective is to develop a disciplined risk culture where managing risk is a responsibility shared by all employees. The Group only assumes those risks that can be managed, with clear understanding of the implications. Senior Management receives regular and periodic information on various matters for the respective business lines and clearly communicate their plans, strategy and expected outcomes to team members. The Bank has a structured induction programme for new employees to help them in understanding various businesses across the Group and how risk management culture and practices support in building and sustaining the organization. All employees are required to be familiar with risk management policies relevant to their roles and responsibilities and it is their responsibility to escalate potential risk issues to senior management, on a timely basis. The risk culture in the group lays emphasis on responsible business practices, prioritization of customers' needs and appropriate disclosures. Risk is taken into consideration when preparing business plans and when launching new products. These objectives are backed by suitable policies and processes for implementation.

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 organization 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 organization 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. The ICAAP is periodically 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.

R. COVID-19

The COVID-19 pandemic is the worst public health crisis in modern history. The Covid-19 outbreak and its effect on the global economy affected 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. Going forward, the impact is expected to be less severe, with the expected normalisation and given that most economic sectors are allowed to operate. The ongoing vaccination programme as well as fiscal and monetary support, is expected to lift sentiment and growth. Throughout this period, 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 put in place 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 control designs placed 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 an Internal Audit (IA) function that is responsible for independently evaluating the adequacy and effectiveness of all internal control designs and implementation, risk management, governance systems and processes. IA is manned by appropriately skilled, experienced and qualified personnel. This team of IA includes qualified Information technology, data security and cyber security related risks personnel as well.

The Internal Audit department and Compliance function ensure business units adhere to internal processes and procedures as well as to the 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, wherever necessary. The Bank takes corrective actions to minimise the design risk, if any.

The IA department adopts a risk based audit approach in congruence to the RBI Guidelines on Risk Based Internal Audit (RBIA). Audits are conducted across various businesses and functions i.e. Consumer, Commercial, Wholesale, Treasury (for domestic and overseas businesses). This include audit of Operations units, Risk and Support functions, Information Security Audits, Information Technology audits, IT Governance and Infrastructure audits etc. These are conducted 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 continuous off-site monitoring (COM) using centralised data led analysis and exception monitoring within IA. Further, using a risk based approach, critical units of the bank including retail branches are subjected to Independent Concurrent Audit process in line with the RBI guidelines. These concurrent audits are conducted through reputed external CA firms under the supervision of IA team of the bank. The senior leadership and the Audit Committee of the Board regularly review the IA reports and concurrent audit reports along with COM findings and their remediation.

The IA function ensures dynamic reviews of risk classifications of auditable areas and IT elements within the bank using its Risk Based Audit Plan and calendar. These reviews take into consideration the banks' overall strategic plans, risk trends as well as risk classifications evaluated periodically by the Strategy, Risk and Information Risk management functions of the bank.

Proactive and collaborative work practices amongst Compliance, Risk, Fraud Control and Internal Audit functions of the bank are ensured using cross-functional committee representations for these functions.

To ensure Independence, the Internal Audit function has a reporting line to the Chairman of the Audit Committee of the Board with a dotted line reporting to the Joint Managing Director of the bank. The Audit team and the Compliance team undergo regular training both in-house and external to build the required subject matter expertise across domains of business, risks, technology and regulations. The Audit Committee of the Board reviews the effectiveness of controls, compliance with regulatory guidelines as also the performance of the Audit and Compliance functions in the Bank and provides guidance and direction that may be required.

Human Resources

As on 31st March, 2022, the full time employee strength of the Group was over 90,000. The standalone Bank had over 66,000 full time employees as on 31st March, 2022.

In the FY 2021-22, there was increased focus on process automation, employee wellness, engagement and development. With its undeterred efforts and exceptional employee initiatives, the bank has been certified as a **'Great Place to Work'** again 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.

- Various health and wellness related initiatives were launched through online and onsite interactions such as Employee Outreach program, Covid test reimbursements for Kotakites and their families, Special Leave - COVID-19 positive and online wellness initiatives such as yoga, meditation, Zumba, quiz sessions, etc.
- Offering fitness allowance through the 'Health to the Power Infinity' programme (#HumFitKotakHit), thereby creating a culture of fitness for Kotakites by encouraging them to update their fitness goals online, driving focus on their health and wellbeing.

- 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.
- 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.
- **Emotional Assistance Programme** was continued to support and guide Kotakites emotionally.

B. Diversity and Inclusion:

- Bank has created an opportunity for multi-generations with current average age of 31.1 years, creating an opportunity for younger talent across grades.
- Bank also framed the Diversity and Inclusion Statement. The statement is aligned with the principles laid out in its employee code of conduct, prevention of sexual harassment (POSH) policy, whistle blower policy, human rights and anti-discrimination policy, attendance and leave and equal employment opportunity policy.
- Launched policies such as New Mother Benefit Policy for Kotak Wonder Women to promote gender equity. The policy aims to provide assistance to Kotak Wonder Women returning to work, to help set up a reliable support system for them to take care of their infants.
- The Bank has been focussing on increasing the gender diversity with currently 1/4th base of women
- Regional **R&R events** were organised where Kotak Wonder Women (KWW) were felicitated under different categories.
- **Employee Assistance Programme** was continued for all KWW.

C. Employee Engagement Initiatives:

- **Kotak Young Leaders Council –** The Bank actively engages with young talent through this flagship initiative where young Kotakites become change makers and thinkers. It is a valuable learning opportunity where the chosen few who become the council get to interact with the leadership team and work as a cohort with them.
- **Eureka:** The Bank has revamped the innovation, idea generation portal where Kotakites can submit open ideas or for a specific business problems. These ideas are evaluated and the best ideas are rewarded and implemented across the organization. The platform is also available on the Kotak Worklife Mobile app, on the go to all Kotakites.
- **Kotakathon @ Eureka:** The Bank launched a hackathon named Kotakathon @ Eureka, with the single most critical objective, of how we can create highest levels of Customer Obsession in our minds, which helps us deliver real value to our customers. This was a challenge for the Branch Banking Business of Consumer Bank in identifying problem areas, and propose solutions to issues that our customers are facing.
- **My Kotak My Say:** The Bank has been strengthening the platform for top down communication. At the same time, the Bank has created a listening opportunity for Kotakites to voice through, 'My Kotak My Say', a bi-annual employee engagement survey engaging with the 'Great Place to Work® Institute'. My Kotak My Say Survey was conducted for the 2nd time in August 2021, with an overall 76.15% response rate org wide. 77% of Kotakites today believe that Kotak is a Great Place to Work (Increased from 72 %in previous year). We have also been certified twice in a row by Great Place to work® Institute
- **K-Applaud Policy:** The Bank has launched K-Applaud, Rewards and Recognition platform. Through this platform, the Bank has been promoting a culture of appreciation via monetary and non-monetary reward programs. The platform is available to Kotakites on Kotak Worklife Mobile App/ Portal. Kotakites can appreciate their peers and can also avail discounts on various brands on the platform
- **Employee Volunteering Policy:** The Bank launched the Employee Volunteering Policy in FY 2021-2022 to enable and inspire Kotakites to utilize their time and skills in socially impactful volunteering activities, thereby, driving a positive change in our communities through physical/virtual volunteering and payroll giving.
- Besides, Kotakites at regional levels celebrated festivals and other occasions ensuring Covid Safety Protocols.

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 60.7% as of 31st March, 2022, 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. Bank has been certified as 'One of India's Best Employers Among Nation-Builders' by Great Place to Work® Institute in 2021.

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
- investing in employee wellbeing

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
  - o younger talented employees on faster growth paths
  - o fewer and flatter reporting structures
- improving diversity in the workforce to have a variety of perspectives
- embracing digital workplace driving employee collaboration, productivity and innovation

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 fast growing digital economy including in rural India, , by building best in class digital processes and interface at speed
- Leverage talent and implement cutting edge technologies for business transformation
- Differentiate the Kotak Brand by keeping customer at the core in order to provide a positive experience and build long term relationship
- Approaching Financial Inclusion as an opportunity
- Leverage strong standing to pursue inorganic opportunities

Threats

- A volatile external and global environment, including uncertainty around inflation and interest rates
- Cyber and operational resiliency
- Data infrastructure and technology resilience
- Fintech players specializing in niche areas of banking, including payments and alternative credit, challenging traditional ways of accessing financial products and services
- Increasing level of integration with third parties and risk management thereof
- 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 twin global headwinds of high inflation and increasing interest rates. Federal Reserve increased its benchmark interest rates by 50bps in May 2022, which is the largest rate move since 2000 and is in response to burgeoning inflation pressure. Reserve Bank of India has also raised the repo rates by 90 bps (including 40 bps in an off cycle hike) and is expected to continue to further monetary policy measures to anchor inflation expectations. The Bank will continually evaluate its strategy against the macro-economic realities as they evolve, and will respond with a view to grow its business as a sustainable franchise. 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.

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