Management's Discussion and Analysis[1]

MACRO-ECONOMIC ENVIRONMENT

As the world economy was beginning to settle for a year of normalization amidst the waning of the COVID pandemic, the global economic outlook turned awry yet again from the Russia-Ukraine war (just before onset of FY 2022-23). The immediate fallout of the conflict was felt globally with resurgence of supply disruptions and, consequently, a surge in commodity prices. Crude oil prices increased to near-USD 140/bbl amid sanctions placed on Russian oil exports and supply disruptions. Europe bore the brunt with an energy crisis intensifying the inflationary pressures and worsening growth prospects. In April 2022, the International Monetary Fund (IMF) pegged global Gross Domestic Product (GDP) growth for CY2022 at 3.6% - revising further lower to 3.4% in January 2023. To combat the multi-decadal high inflation trends, the global central banks embarked on a synchronized aggressive monetary tightening cycle, turning a nascent recovery from COVID19 disruptions into a growth erosion; increasing probability of global economies entering into recession.

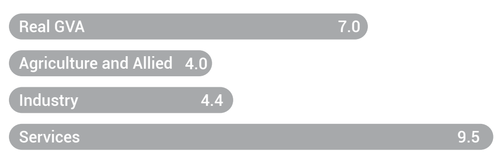
India started FY 2022-23 on a weaker footing with Q1FY23 real GDP growth surprising on the downside at 13.08% YoY despite favourable base effects (compared to expectation of 15.3%). The sequential momentum also contracted sharply by 8.95% QoQ led by declining government consumption and investments. Real Gross Value Added (GVA) growth contracted sequentially by 6.34% (compared to +5.16% in Q4FY22). The pick-up in real GVA growth was largely aided by service sector growth while manufacturing sector remained relatively weak. In Q2FY23, real GDP growth further moderated to 6.20% amid a waning of favourable base effects. However, the sequential momentum improved significantly by 3.57% QoQ. Real GVA growth moderated to 5.41% (while growing sequentially by 1.84%) with most categories posting positive growths, led by contact-based services, except for mining and manufacturing activity which contracted. In Q3FY23, real GDP and real GVA growth moderated further to 4.46% and 4.73%, respectively. All components registered positive growths barring the manufacturing sector which remained in contraction (although shallower vis-à-vis Q2FY23). However, real GDP growth at 6.06% surprised on the upside in Q4FY23 (compared to an expectation of 5%), buoyed by investments (Gross Fixed Capital Formation [GFCF]) growth at 8.92% and a sharp improvement in net exports. GVA growth in Q4FY23 was aided by services (largely contact-based services) and industrial activity (largely due to construction sector growth).

FY 2022-23 real GDP surprised on the upside at 7.24% (expectations of 7%) against 9.05% in FY 2021-22. On a value-added basis, real GVA grew by 7.01% compared to 8.80% in FY 2021-22. The industrial sector grew by 4.38% compared to 11.62% in FY 2021-22. Service sector growth improved to 9.46% from 8.81% in FY 2021-22. On the expenditure side, investments (GFCF) grew by 11.39%, followed by private consumption growth at 7.53%, and government consumption growth at 0.13%.

Union Budget (FY 2023-24) maintained focus on growth while also bringing fiscal consolidation into the picture. Apart from the increased focus on capital expenditure to support growth prospects, the central government also increased the attractiveness of the new personal income tax regime and made it the default regime. On capital expenditure and infrastructure, the government facilitated investment through higher allocation to railways and roadways, tariff protection through high judicious use of customs duties for select sectors, encouraging private sector investment in emerging areas (clean energy), and capital support to Oil Marketing Companies (OMCs). The government further rationalized high food and fertilizer subsidies and the elevated rural spending seen during the pandemic.

FY 2022-23 Real GVA growth at 7%

Real GVA growth in FY 2023 (%)

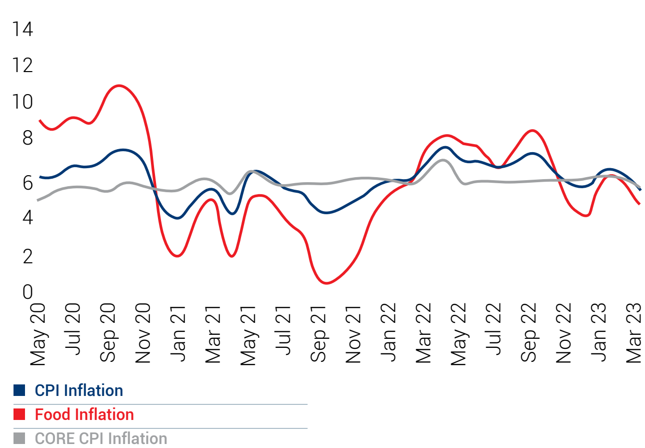


Source: CEIC, Kotak Economics Research

Domestic Price Dynamics

Over the course of FY 2022-23, headline consumer price index (CPI) inflation remained above the RBI Monetary Policy Committee's (MPC's) upper threshold of 6% for nine months – largely on account of supply disruptions (stemming from the Russia-Ukraine war and consequent high commodity prices) and adverse weather conditions causing high food inflation. Inflation surged to an eight-year high of 7.79% in April 2022 led mainly by food inflation and moderated to 6.71% in July 2022 before rising yet again to 7.41% in September. H1FY23 headline inflation averaged 7.16% - well above the MPC's upper threshold of 6%. During the same period, core inflation stayed sticky and elevated, reaching an eight-year high of 7.09% in April 2022, reflecting broad-based inflationary pressures. However, from mid-2022, the downturn in global commodity prices, along with lower food prices, pulled down inflation to sub-6% levels in November-December 2022. Brent crude oil prices declined by 26% in FY 2022-23 with prices falling across other commodities as well – base metals, agriculture, and raw materials. Barring the brief uptick in February 2023, inflation remained comfortable with the March 2023 print surprising on the downside at 5.66% led by a favourable base effect, and easing food and core inflation.

CPI inflation has averaged 6.66% in FY 2022-23 against 5.51% in FY 2021-22



Source: CEIC, Kotak Economic Research

Monetary Policy and Interest Rates

The monetary policy front involved two key surprises in FY 2022-23. First was the introduction of the Standing Deposit Facility (SDF) rate at 3.75% in April 2022 which replaced the reverse repo rate as the floor of the policy corridor and restored the policy corridor to its pre-pandemic width of 50 bps. The second was the off-cycle Monetary Policy Committee (MPC) meeting in

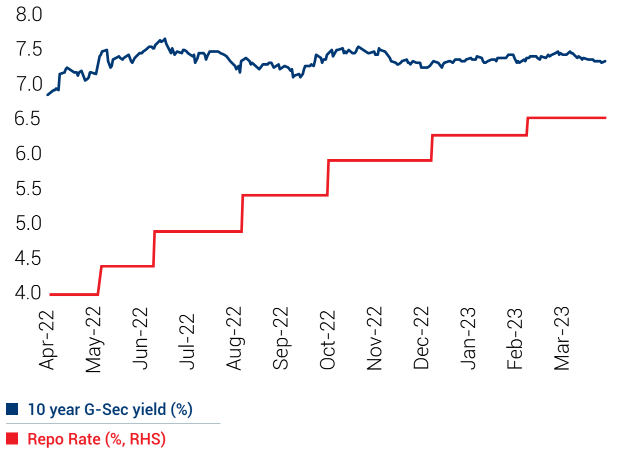
[1] *GRI 3-3*

May 2022 which kicked-off the rate hike cycle with a 40 bps repo rate hike to 4.4% and a 50 bps CRR hike to 4.5% (to drain excess liquidity). The May MPC meeting occurred in the aftermath of headline inflation reaching an eight-year high of 7.79% in April and was aimed at tempering inflationary pressures and preventing un-anchoring of inflation expectations. This coincided with the period where global inflation was trending higher following the Russia-Ukraine war. The start of the rate hike cycle in tandem with the US Federal Reserve's rate hikes also acted as a defence for INR. Following this, in the June policy, the repo rate was hiked by another 50 bps to 4.90% with the focus solely on *'withdrawal of accommodation'* from the previous stance of *'remain accommodative while focusing on withdrawal of accommodation'*. Following this, the RBI hiked the repo rate by another 160 bps to 6.50% by February 2023 even as dissent among the MPC members gradually increased (with two members voting for a pause in the February 2023 meeting).

As the RBI embarked on withdrawing the measures introduced during the pandemic, rate hikes were accompanied by tightening liquidity conditions. The banking system liquidity surplus reduced to ₹ 1,041 billion as on 31st March, 2023 compared to ₹ 5,540 billion as on 31st March, 2022, led by currency in circulation (CIC) drainage, cash reserve ratio (CRR) build-up, and the RBI's aggressive intervention through FX sales. Adding to the liquidity tightness was the occasional Open Market Operations (OMO) sales by the RBI in the secondary market to the tune of ₹ 350 billion. The widening credit-deposit gap further weighed on the banking system liquidity as credit growth increased sharply to 15% (from 8.6% as on end-March 2022) while deposit growth increased marginally to 9.6% (from 8.9% as on end-March 2022). Further weighing on the liquidity conditions and rates was the pandemic period stimulus of Long-term Repo Operations (LTROs) which started to mature in February 2023. However, to manage the tightening liquidity conditions, the RBI periodically conducted variable rate repo (VRR) auctions. All these developments have led to the operating weighted average overnight rate increasing by 209 bps in FY 2022-23 to 5.41% compared to 3.32% in FY 2021-22.

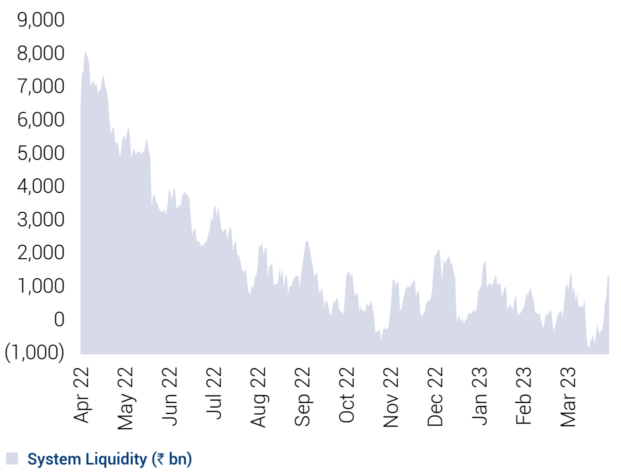
On the bond market front, market sentiments were mainly influenced by the trend in the US Treasury yields and elevated commodity prices, especially crude oil prices. In Q1FY23, bond markets came under immense pressure tracking rising US treasury yields amid Fed's aggressive rate hike cycle, elevated crude oil prices, and the heavy bond supply pressure (FY 2022-23 Union Budget's gross borrowing of ₹ 14.2 tn). The Indian 10-year benchmark yield rose to a yearly high of 7.62% in June 2022. However, following this, moderation in global commodity prices combined with adequate bond demand from long-term investors helped allay market concerns aiding the 10-year benchmark yields lower towards 7.08% in September 2022. In H2FY23, realignment of rate hike expectations by the US Fed saw US treasury yields climb higher which caused a reversal in the Indian 10-year benchmark yield towards 7.51%. Since then, the 10-year benchmark has traded in a range aided by sharply lower crude oil prices, and the announcement of the FY 2023-24 Union Budget's gross market borrowing of ₹ 15.4 trillion which came in line with market expectations. Further, the US banking crisis concerns in mid-March 2023 brought down the Fed's rate hike expectations sharply easing the US yield curve sharply slower. Overall, the yield on the Indian 10-year benchmark increased by 48 bps to end the year at 7.31%.

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



Source: Bloomberg, Kotak Economic Research

The system liquidity surplus has moderated sharply to near-neutral



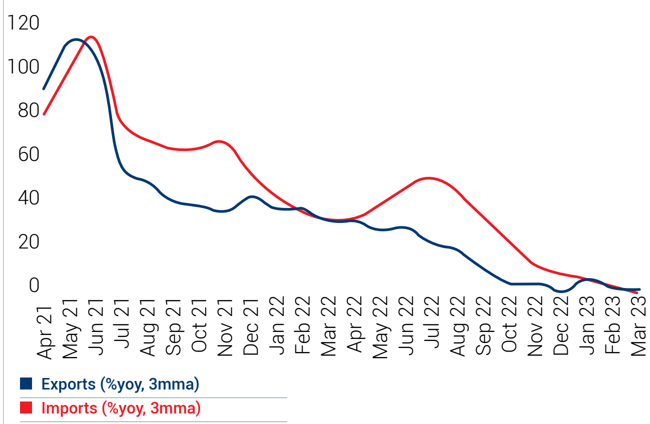
Source: RBI, Kotak Economic Research

External Sector Dynamics and the USD/INR

The external sector witnessed significant volatility in H1FY23 with pressures emanating from the Russia-Ukraine war and the synchronized global monetary tightening cycle. Widening of India's trade deficit amid elevated commodity prices, especially crude oil prices, kept the current account under pressure even as net services exports remained robust. Q1FY23 current account deficit widened to 2.12% of GDP (USD 18 billion) from the previous quarter at 1.55%. In Q2FY23, the current account deficit worsened, widening to 3.75% of GDP (USD 30.9 billion) led by moderating exports and increasing imports. Though foreign investment inflows improved, a sharp increase in banking capital outflows brought the capital account under stress (falling to USD 1.4 billion from USD 22 billion in Q1FY23). However, external pressures eased towards the end of Q2FY23 with global central banks nearing their peak policy rates amid increasing risks of recession. While exports in Q3FY23 witnessed moderation the fall in imports was sharper amidst easing global commodity prices and fading pent up demand. Further, net services exports along with private transfers rose to record quarterly highs which aided the narrowing of the current account deficit to USD 18.2 billion (2.16% of GDP). Further, a sharp inflow of banking capital aided the capital account's recovery to USD 30.2 billion. Consequently, after recording a deficit in Q2FY23, Balance of Payments (BOP) improved to a surplus of USD 11.1 bn in Q3FY23. Cumulatively, 9MFY23 current account deficit stood at 2.7% of GDP, with BOP deficit of USD 14.7 billion. Since January 2023, however, the trade deficit has started narrowing (barring a brief seasonal uptick in March). This has mainly been due to a larger decline in non-oil imports relative to non-oil exports, reflecting some weakening in domestic demand.

On the FX front, the INR had a volatile year, having depreciated by 7.77% in FY 2022-23. In H1FY23, global central banks' rate hikes (especially the US Federal Reserve's), elevated crude oil prices, and FPI outflows kept the INR under immense pressure. FPI's were net sellers to the tune of USD 15 billion in Q1FY23. The US Fed's rate hikes aided Dollar strength causing the DXY index to rise to a decadal high of 115-levels in Q2FY23. The INR, accordingly, depreciated to record low levels of ₹ 83.29. However, in H2FY23, risk sentiments improved with the nearing of the peak in the global monetary tightening cycle as global inflation started showing signs of moderation. With global commodity prices on a downtrend, especially with the sharp fall in crude oil prices, the INR improved to a near-two month high of ₹ 80.51 in early-November before closing the year at ₹ 82.18. Specifically, in Q4FY23, the INR gained 0.68% (after falling by 8.4% in 9MFY23) as the US banking crisis in March drastically lowered rate hike expectations and brought forward expectations of rate cuts by the US Fed in 2023.

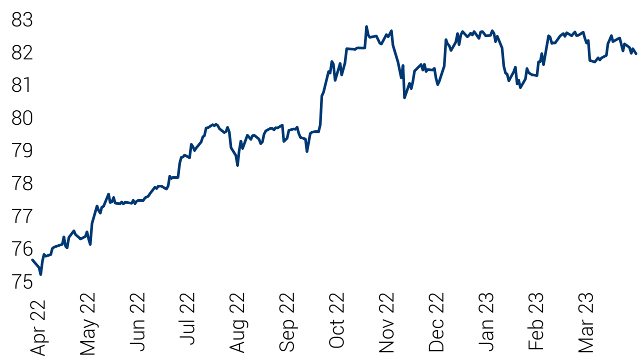
The gap between the import and export growth narrowed in H2FY23



Source: CEIC, Kotak Economic Research

INR remained on a weaker footing amidst global uncertainties

USD/INR



Source: Bloomberg, Kotak Economic Research

CONSOLIDATED FINANCIAL PERFORMANCE

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

The financial results of the subsidiaries and associates used for the preparation of the consolidated financial results are in accordance with Generally Accepted Accounting Principles in India ('GAAP') specified under Section 133 and relevant provisions of the Companies Act, 2013.

COVID, a global pandemic, affected the world economy in the last few years. The revival of economic activity improved in FY 2021-22 supported by relaxation of restrictions due to the administration of the COVID vaccines to the large population in the country.

During the year, domestic rating of fixed deposits and long term instruments issued by the Bank and the major entities in the Group continued to be rated "AAA".

Entity-Wise Capital and Reserves of the Group

(₹ in crore)

Particulars	31st March, 2023	31st March, 2022
Kotak Mahindra Bank	83,459.95	72,456.47
Kotak Mahindra Prime	8,305.90	7,494.41
Kotak Mahindra Investments	2,814.81	2,488.54
Kotak Infrastructure Debt Fund	476.20	449.17
Kotak Securities	7,107.97	6,290.75
Kotak Mahindra Capital Company	1,000.38	885.47
Kotak Mahindra Life Insurance	5,327.70	4,389.20
Kotak Mahindra General Insurance	341.07	233.35
Kotak Mahindra AMC & Trustee Co	2,107.51	1,627.26
International Subsidiaries	1,746.49	1,539.30
Kotak Investment Advisors	805.72	763.45
BSS Microfinance	626.63	329.42
Other Entities	88.10	88.78
Total	**114,208.44**	**99,035.57**
Add: Share in Associates	1,350.96	1,186.42
Less: Consolidated Adjustments	(3,305.31)	(3,087.96)
Consolidated Capital and Reserves*	**112,254.09**	**97,134.03**

**Includes Preference Share Capital*

Consolidated Performance

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Total Income	68,142.02	58,681.68
Consolidated PAT	14,925.01	12,089.39
Consolidated Capital and Reserves (As at year-end)	112,254.09	97,134.03
Key Ratios		
Return on Average Assets (RoAA) %	2.62%	2.36%
Return on Average Networth %	14.36%	13.42%
Earnings per equity share (diluted) (₹)	74.94	60.73
Book-value per equity share (₹)	562.55	486.90
Net Interest Margin (NIM) %	5.36%	4.69%
Gross NPA %	1.76%	2.37%
Net NPA %	0.41%	0.71%
Consolidated Capital Adequacy Ratio (CAR) %*	23.25%	23.68%
CET I*	22.27%	22.70%

**As per Basel III norms issued by the RBI*

The Group had capital and reserves of ₹ 112,254.09 crore as on 31st March, 2023 (₹ 97,134.03 crore as on 31st March, 2022). The Group's return on average net worth was 14.36% for FY 2022-23 compared to 13.42% for FY 2021-22. The Bank maintained a high capital adequacy ratio in uncertain times, which resulted in a 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 2022-23		FY 2021-22	
	PBT	PAT	PBT	PAT
Kotak Mahindra Bank	14,390.99	10,939.30	11,361.31	8,572.69
Kotak Mahindra Prime	1,110.06	828.96	1,179.79	885.51
Kotak Mahindra Investments	439.32	326.26	498.57	371.15
Kotak Infrastructure Debt Fund	27.83	27.83	32.35	32.35
BSS Microfinance	396.29	297.21	109.51	82.81
Kotak Securities	1,150.19	865.22	1,333.50	1,001.33
Kotak Mahindra Capital Company	192.48	149.28	315.70	244.75
Kotak Mahindra Life Insurance	1,462.72	1,053.31	596.49	425.38
Kotak Mahindra General Insurance	(117.28)	(117.28)	(82.98)	(82.98)
Kotak Mahindra AMC & Trustee Co	713.33	554.76	600.69	454.12
International Subsidiaries	90.32	76.31	154.94	118.13
Others	52.22	41.57	82.16	60.37
Total	**19,908.47**	**15,042.73**	**16,182.03**	**12,165.61**
Add: Share from Associate		144.57		157.52
Less: Inter-company and Other Adjustments		(262.29)		(233.74)
Consolidated PAT		**14,925.01**		**12,089.39**

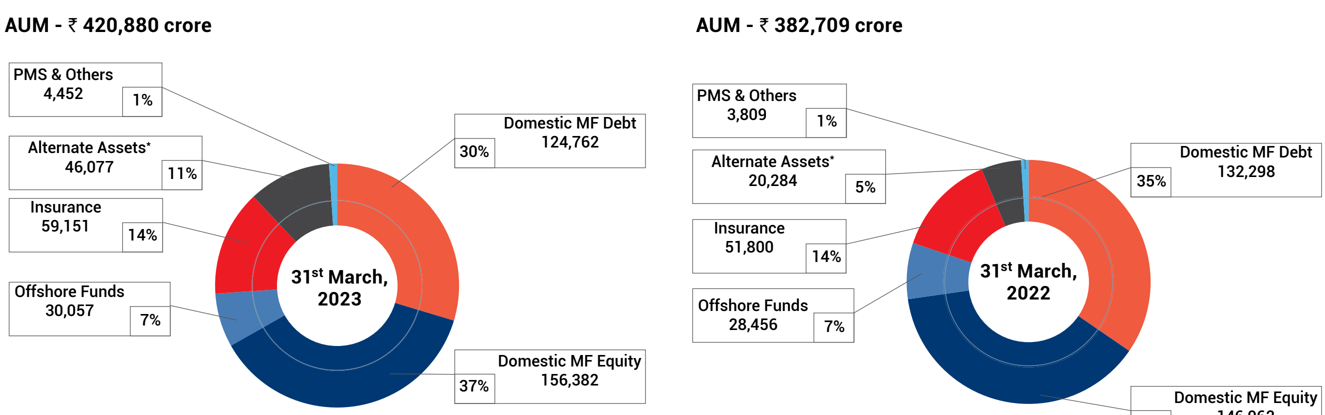
Contribution of the Affiliates to the Net Profit of the Group

(₹ in crore)

Name of the Company	Investment by Kotak Group	% shareholding of the Group	Group's share for FY 2022-23
Infina Finance Pvt Ltd	1.1	49.99%	60.50
Phoenix ARC Pvt Ltd	100.0	49.90%	84.07

Assets under Management (AUM), including undrawn commitments, as on 31st March, 2023 were ₹ 420,880 crore (₹ 382,709 crore as on 31st March, 2022), comprising assets managed and advised by the Group.

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



Includes 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 and Its Subsidiaries: 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, private 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, further it undertakes asset liability management as well as proprietary trading for the Bank.

Profit Before Tax (PBT) of the Bank for FY 2022-23 was ₹ 14,390.99 crore as against ₹ 11,361.31 crore for FY 2021-22. Profit After Tax (PAT) of the Bank was ₹ 10,939.30 crore in FY 2022-23 compared with ₹ 8,572.69 crore in FY 2021-22. RoAA for FY 2022-23 was 2.47% compared to 2.13% for FY 2021-22.

FINANCIAL PERFORMANCE

A synopsis of the Profit and Loss Account

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Net Interest Income	21,551.92	16,817.91
Other Income	7,083.05	5,985.92
Net Total Income	**28,634.97**	**22,803.83**
Employee Cost	5,519.83	4,582.35
Other Operating Expenses	8,267.16	6,170.61
Operating Expenditure	**13,786.99**	**10,752.96**
Operating Profit	**14,847.98**	**12,050.87**
Provision & Contingencies (Net)	**456.99**	**689.56**
- Provision on Advances (Net)	637.02	1,494.78
- General Provision COVID related	(159.55)	(732.00)
- Provision on Other Receivables	0.57	18.15
- Provision on Investments	(21.05)	(91.37)
PBT	**14,390.99**	**11,361.31**
Provision for Tax	3,451.69	2,788.62
PAT	**10,939.30**	**8,572.69**

Net Interest Income

Net Interest Income (NII) of the Bank for FY 2022-23 was ₹ 21,551.92 crore compared to ₹ 16,817.91 crore for FY 2021-22. The Bank had a Net Interest Margin (NIM), excluding dividend income and interest on income-tax refund, of 5.33% for FY 2022-23 compared to 4.62% for FY 2021-22. During the year:

- The yield on interest earning assets increased from 7.43% for FY 2021-22 to 8.49% for FY 2022-23 mainly due to an increase in the yields of advances and investments and a change in asset mix. 57% of the loan book as on 31st March 2023 is linked to the Repo rate up from 48% as on 31st March 2022. Repo rates have increased from 4.00% in March 2022 to 6.50% in March 2023.
- Cost of funds increased from 3.23% in FY 2021-22 to 3.71% in FY 2022-23 primarily due to a change in the liability mix and an increase in the interest rates of term deposits, certificate of deposits and borrowings.
- Average interest earning assets increased by 10.75% from ₹ 362,925.31 crore for FY 2021-22 to ₹ 401,932.08 crore for FY 2022-23.

Non-Interest Income

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Commission, Exchange and Brokerage	5,440.01	4,200.69
Profit on Sale/Revaluation of Investments	(976.80)	(934.87)
Profit on Exchange Transactions (Net) (Including Derivatives)	1,636.66	1,859.46
Profit on Recoveries of Non-Performing Assets Acquired	310.98	163.68
Income From Subsidiaries/Associates Towards Shared Services	122.33	117.78
Dividend From Subsidiaries	242.27	201.76
Others	307.60	377.42
Total Other Income	**7,083.05**	**5,985.92**

Non-interest income increased from ₹ 5,985.92 crore in FY 2021-22 to ₹ 7,083.05 crore in FY 2022-23 due to:

- Increase in commission, exchange and brokerage income mainly due to an increase in services charges on loans, direct banking fees and charges, credit card fees, third party distribution income and referral fees.
- Increase in Recoveries of Non-Performing Assets Acquired compared to the previous year

This was offset, in part, by:

- Lower profit on sale of Exchange Transactions (Net) (Including Derivatives)

Employee Cost

Employee cost of the Bank has increased to ₹ 5,519.84 crore for FY 2022-23 from to ₹ 4,582.35 crore for FY 2021-22, primarily due to increase in employee count, employee incentives, offset, in part, by a decrease in retirement obligations. The employee base increased from 66,473 as on 31st March, 2022 to 73,481 as on 31st March, 2023.

Other Operating Expenses

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Rent, Taxes And Lighting	825.47	718.06
Printing and Stationery	168.68	101.07
Advertisement, Publicity and Promotion	632.64	356.17
Depreciation on Bank's Property	461.73	380.99
Directors' Fees, Allowances and Expenses	3.57	2.82
Auditors' Fees and Expenses	3.88	3.55
Law Charges	43.57	26.79
Postage, Telephone Etc.	366.54	258.50
Repairs And Maintenance	929.35	625.43
Insurance	390.72	356.02
Professional Charges	1,647.68	1,162.19
Brokerage	707.83	485.87
Goods and Service Tax (GST) Expenses	509.47	331.33
Other Expenditure	1,592.10	1,381.08
Reimbursement From Group Companies	(16.07)	(19.26)
Total	**8,267.16**	**6,170.61**

Other operating expenses were ₹ 8,267.16 crore for FY 2022-23 compared to ₹ 6,170.61 crore for FY 2021-22, with the increase primarily in:

- Brokerage expenses consistent with increased business volumes
- Repairs and maintenance expenses due to an increase in number of branches/offices and refurbishments
- 811 acquisition cost and higher amount of fee payments to business correspondents, which is consistent with business volumes

- Promotional spends
- Technology spends
- Postage, telephone and printing and stationery expenses
- ATM acquiring fees and subvention expenses
- GST write-off expenses
- Recovery expenses and legal charges
- Expenditure on Corporate Social Responsibility (CSR) activities

The Bank's Cost to Income ratio was 48.15% for FY 2022-23 compared with 47.15% for FY 2021-22.

Provisions and Contingencies (excluding tax)

Provisions and contingencies (excluding tax) were ₹ 456.99 crore for FY 2022-23 compared to ₹ 689.56 crore for FY 2021-22 primarily due to lower specific provision on loans (excluding COVID related provisions) by ₹ 857.77 crore. This, was offset, in part by a lower reversal of COVID related provision of ₹ 159.55 crore compared to ₹ 732.00 crore in FY 2021-22 and a lower reversal of provision on investments by ₹ 70.32 crore in FY 2022-23.

The Bank held an aggregate COVID related provision of ₹ 547.00 crore as of 1st April, 2022. Based on the improved outlook, the Bank has reversed provisions amounting to ₹ 159.55 crore during FY 2022-23. On a prudent basis, the Bank continues to hold provision of ₹ 387.45 crore as at 31st March, 2023.

Credit cost on Advances (excluding COVID and restructuring provisions) was 22 bps for FY 2022-23 compared to 48 bps for FY 2021-22.

Provision for tax

Provision for tax increased from ₹ 2,788.62 crore for FY 2021-22 to ₹ 3,451.69 crore for FY 2022-23, primarily due to higher profits in FY 2022-23.

BALANCE SHEET

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

(₹ in crore)

Liabilities	31st March, 2023	31st March, 2022
Capital and Reserves	83,459.95	72,456.47
Deposits	363,096.05	311,684.11
- Current Account Deposits (CA)	70,030.24	64,661.98
- Fixed Rate Savings Account Deposits (SA)	111,400.09	117,908.39
- Floating Rate Savings Account Deposits (SA)	10,384.93	6,563.78
- Term Deposits (TD) Sweeps	23,338.89	21,905.59
- Other TDs	147,941.90	100,644.38
Borrowings	23,416.27	25,967.12
Other Liabilities and Provisions*	19,890.21	19,320.70
Total	**489,862.48**	**429,428.40**

(₹ in crore)

Assets	31st March, 2023	31st March, 2022
Cash and Bank Balances	32,542.31	42,923.94
Investments	121,403.73	100,580.22
- Government Securities	89,852.54	75,135.09
- Credit Substitutes	27,108.81	21,227.48
- Other Securities	4,442.38	4,217.65
Advances	319,861.21	271,253.60
Fixed Assets and Other Assets	16,055.23	14,670.64
Total	**489,862.48**	**429,428.40**

**Includes Employees' Stock Options (Grants) Outstanding of ₹ 60.31 crore as on 31st March, 2023 (₹ 31.31 crore as on 31st March, 2022).*

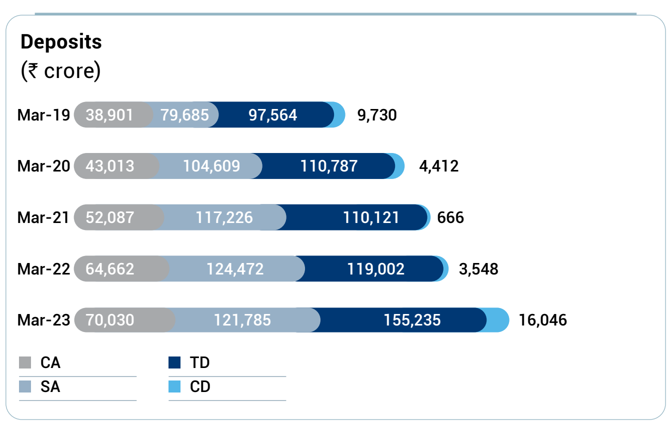
The Bank's capital adequacy continues to be healthy, with overall CRAR at 21.80% (CET1 ratio 20.64%) as compared to 22.69% (CET1 ratio 21.51%) as on 31st March, 2022.

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 ₹ 363,096.05 crore as on 31st March, 2023 compared to ₹ 311,684.11 crore as on 31st March, 2022. CASA deposits increased to ₹ 191,815.26 crore as on 31st March, 2023 compared to ₹ 189,134.14 crore as on 31st March, 2022. CASA ratio stood at 52.83% as on 31st March, 2023 compared to 60.68% as on 31st March, 2022.

Fixed Rate Savings account (SA) deposits stood at ₹ 111,400.09 crore and Current account (CA) deposits stood at ₹ 70,030.24 crore. Total Term deposits (TD), including certificate of deposits, grew by 39.76% to ₹ 171,280.79 crore.

CASA plus term deposits below ₹ 5 crore account for 82% of the total deposits.



Advances

The classification of advances of the Bank is as follows:

(₹ in crore)

	31st March, 2023	31st March, 2022
Corporate Banking	64,701.76	66,674.09
Small and Medium Enterprises (SME)	24,174.61	20,443.91
Commercial Vehicles & Construction Equipment (CV/CE)	27,785.68	22,489.91
Agriculture Division	27,546.63	25,200.01
Tractor Finance	13,908.74	10,765.83
Microfinance	6,225.00	3,059.56
Home Loans (HL) and Loan Against Property (LAP)	92,731.16	76,076.63
Consumer Bank Working Capital (Secured)	30,342.70	26,381.98
Personal Loans, Business Loans & Consumer Durables	15,773.02	10,133.23
Credit Cards (CC)	10,090.36	5,572.05
Other Loans	6,581.55	4,456.40
Total Advances	**319,861.21**	**271,253.60**
Credit Substitutes	27,108.81	21,227.48
Total Customer Assets	**346,970.02**	**292,481.08**

Advances grew at 17.92% to ₹ 319,861.21 crore as on 31st March, 2023 compared to ₹ 271,253.60 crore as on 31st March, 2022. Customer Assets grew at 18.63% to ₹ 346,970.02 crore as on 31st March, 2023 compared to ₹ 292,481.08 crore as on 31st March, 2022. Growth in Advances was seen mainly in the retail banking segment through home loans and loans against property (LAP), consumer bank working capital (Secured), personal loans, business loans, consumer durables and credit cards.

The Bank's credit deposit ratio stood at 88.09% as of 31st March, 2023 over 87.03% as of 31st March, 2022.

Asset Quality

The position of Gross and Net NPA is as under:

(₹ in crore)

Particulars	31st March, 2023	31st March, 2022
Gross NPA	5,768.32	6,469.74
Gross NPA %	1.78%	2.34%
Net NPA	1,193.30	1,736.71
Net NPA %	0.37%	0.64%

Slippages for FY 2022-23 were ₹ 3,990 crore (FY 2021-22: ₹ 4,316 crore) whereas recoveries and upgrades were ₹ 3,901 crore (FY 2021-22: ₹ 4,042 crore). The provision coverage ratio, including technical write off, was 83.77% as of 31st March, 2023 as compared to 79.05% as of 31st March, 2022. Total provisioning towards advances (including specific, standard, COVID related, etc.) held as on 31st March, 2023 was ₹ 6,508 crore.

Restructuring

In accordance with the Resolution Framework for COVID announced by the RBI on 6th August, 2020, the Bank had 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 the COVID resolution frameworks was ₹ 257.64 crore as at 31st March, 2023 (0.08% of Advances) and under MSME resolution frameworks was ₹ 460.25 crore as at 31st March, 2023 (0.14% of Advances). The Bank has maintained restructuring provision of ₹ 180.73 crore as on 31st March, 2023.

Directed Lending

Priority Sector Lending and Investments

The RBI guidelines on priority sector lending require banks to lend 40.0% of their adjusted net bank credit (ANBC), to fund certain types of activities carried out by specified borrowers. Out of the overall target of 40.0%, banks are required to lend a minimum of 18.0% of their ANBC to the agriculture sector. Sub-targets of 9.5% for lending to small and marginal farmers (out of agriculture) and 7.5% lending target to micro-enterprises were introduced from fiscal 2016. Average lending to non-corporate farmers is notified by the RBI on basis of the banking system's average level at the beginning of each year. The RBI notified a target level of 13.78% of ANBC for this purpose for fiscal 2022 (FY 2021-22: 12.73%). The banks are also required to lend 11.5% 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 such as 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. As at 31st March, 2023, the Bank's total investment in such bonds was ₹ 4,544.50 crore (31st March, 2022: ₹ 5,572.40 crore), which was fully eligible for consideration in overall priority sector lending achievement.

In FY 2016, the RBI introduced Priority Sector Lending Certificates (PSLCs) scheme to enable banks to achieve the priority sector lending target and sub-targets by purchase of PSLC instruments in the event of shortfall and at the same time incentivize the surplus banks; thereby enhancing lending to the categories under the priority sector. In FY 2022-23, the Bank has sold Priority Sector Lending Certificates (PSLCs) amounting to ₹ 58,383.75 crore (FY 2021-22: ₹ 54,567.00 crore) and purchased PSLCs amounting to ₹ 9,360.00 crore (FY 2021-22: ₹ 12,090.00 crore).

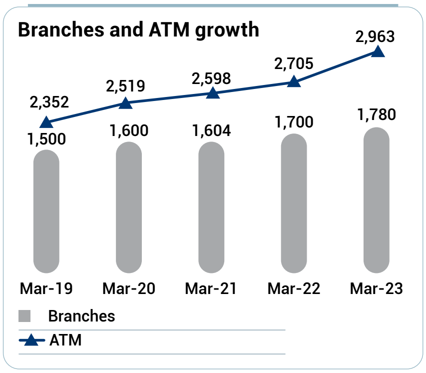
As prescribed in the RBI guideline, the Bank's priority sector lending achievement is computed on a quarterly average basis. Total average priority sector lending for FY 2022-23 was ₹ 114,217.85 crore (FY 2021-22: ₹ 98,905.01 crore) constituting 48.80% (FY 2021-22: 44.19%) of ANBC, against the requirement of 40.0% of ANBC.

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

Consumer Banking

Branch Banking

The Consumer Bank business services a wide spectrum of customers across domestic individuals and households, non-residents, small and medium business segments for a range of products from basic Savings and Current Accounts to Term Deposits, Credit Cards, Unsecured and Secured Loans, Working Capital, Digital Payments and Investments.



Network

As on 31st March, 2023, the Bank had 1,780 branches and 2,963 Automated Teller Machines ("ATMs") and Recyclers and 15,572 Micro ATM installations. The Bank also has a branch at Dubai International Financial Centre ("DIFC") and Gujarat International Finance Tec-City ("GIF T City"). In FY 2022-23, the Bank increased its physical presence across different formats.

Key initiatives taken during the year are:

Products and Services

The Bank always looks for innovative ways to add value in the investment experience of customers. In FY 2022-23, the Bank introduced Insta SIP, a quick and convenient way to book multiple SIPs. In Insta SIP, the customer can book SIPs in more than one mutual fund in just 2-3 steps. The Bank has also launched a digital assisted journey to take transaction requests from the customer, digitally. The Relationship Manager enters the transaction details in this digital transaction request form and sends it to the customer for authenticating the transaction. The Bank has also empowered the Do-It-Yourself or DIY customers to make informed investment decisions by providing them house views and fund factsheets on Internet Banking and Mobile Banking. FY 2022-23 has witnessed multiple regulatory announcements. From two-factor authentication of mutual fund transactions to nominee/opt-out of nomination declaration to validate Aadhaar based KYC process. The Bank has, in a timely manner, amended the digital process to comply with these regulations so as to provide seamless investment experience to its customers.

Privy League, the flagship programme of the Bank caters to High Net Worth customers, with features and benefits such as power packed cards, lifestyle benefits, preferential pricing and more. An enriched version of this programme was leveraged to craft a Premium Salary proposition, i.e., Kotak Crème which has been extended to Top Corporates that have a Salary Relationship with the Bank. The employees of the corporate customer are offered early access into this premium programme at reduced monthly salary levels, which enables them with a range of lifestyle and banking benefits like a Life time free premium credit card, Dining and Luxury Stay offers and much more.

Kotak Silk, the Bank's banking offer for women, was re-launched and re-positioned with specially curated new features to partner the woman customer in their financial journey. With preferential pricing on lockers and loans, a dedicated Query resolution desk, and exclusive lifestyle offers from popular brands such as Nykaa and Urban Company, Kotak Silk supports every life stage of the modern Indian Woman. The bank is also building dedicated platform for financial education among women and unveiled the "Meri Udaan Meri Pehchaan" sculpture in Gujarat-GiftCity ahead of International Women's Day commemorating the indomitable spirit of Self-reliant Indian women.

The Bank introduced Everyday Savings Account for the Upper Mass segment offering benefits such as flexibility of balances. #kharchepebachat promotes Savings whilst spending. The proposition packs in exclusive discounts in alliances with top service providers on a range of popular categories such as Groceries, Pharma, Apparel, Dining, Movies, Vacations and more to give customers higher value for their money.

This year, the Bank has improved the on-boarding experience for its Savings Accounts customers by transitioning to a new platform for assisted Biometrics-based account opening. The platform offers seamless on-boarding experience to the Bank's customers with an improved User Interface, instant responses and a capability to handle scale. The new account opening module has capabilities to co-originate other most relevant products such as Credit Card, ActivMoney, Spendz and Forex card and Hospi Cash at the point of account opening thus being able to efficiently meet a range of customer needs.

The Bank has also launched a DIY Savings account journey which opened up a new avenue of Online bank account opening for the Bank's customers, offering them an easier and quicker way to open their Savings accounts with zero paperwork and documentation, right from opening the savings account to carrying out transactions, end-to-end journey can be completed by the customers themselves.

The Bank was one of the few banks to be authorized for opening Salary Accounts for Indian Army, Indian Coast Guards and civilian employees of the Indian Navy. The Memorandum of Understanding ("MOU") was signed with the Indian Army for their Agniveer programme, Indian Coast Guards and with the Indian Navy for offering salary accounts to all the Coast Guard and civilian Naval personnel. Further, MOUs were signed with the Association of Scientific and Technical Officers of ONGC (ASTO) for opening salary accounts of their employees.

The Bank has launched three new Corporate Salary propositions namely 'Nation Builders Salary Account', an account exclusively curated to suit the unique banking and lifestyle needs of PSU and Government professionals; 'Kotak Creme', an enhanced banking proposition for employees of top corporates that gives them access to premium banking benefits and 'Everyday Account for Salaried Professionals', a product designed for millennials and early jobbers, offering value for money with power-packed benefits designed exclusively for the needs of customers who are value seekers.

Mirroring some of the initiatives in the Savings Account space, the Bank has also introduced new variants of Debit Card to deliver superior features and experience to customers, namely, Nation Builders Debit Card on the Rupay platform, Everyday Debit Card, also on the Rupay platform.

The Bank enhanced its automated online outward remittance platform to improve customer experience and enhance operational efficiency. With the new system upgrades, 70% of the cross border outward remittances transactions are now being processed online, directly by the customers. The Bank has also forged successful strategic partnerships with international investment brokers such as INDmoney, BSC arm-INDIAINX Global Access on Kotak Remit, to facilitate individual customers for outward remittance for the purpose of capital investments abroad.

The Bank has launched Digital Current Account opening for small businesses (Sole Proprietorships and Individuals) as an assisted journey, which empowers the acquisition teams to open Current Accounts for these customers in a seamless manner. With the capability of opening the Current Account on the same day using instant KYC verification, this journey provides a simple and intuitive user interface to the acquisition teams and an account opening flow designed to provide a "wow" experience to the target segment of customers.

To acquire high-value accounts, the Bank has launched the ActivMoney Current Account, an account with a default auto-sweep facility where customers can earn interest through Sweep TD on the idle funds in their Current Account. Now Business Banking customers of the Bank can avail of curated offers through associated brands to take care of all the nitty-gritty of their business through the Offers Beyond Banking platform - a digital platform to address the non-banking needs of SMEs. It comes across various categories such as Business Management and Marketing, Taxation and Legal, Human Resource, Supply Chain and Logistics and many more.

The Bank has been pushing the envelope in the field of Digital Payments with a host of new POS and QR products and solutions targeted at Merchants. The Bank has launched the Merchant One Current Account for the retail segment. This is an all-in-one Current Account that caters to the banking and other business-related needs of MSMEs, including small retailers. It helps MSMEs and store owners bill, create a customer database, run campaigns/offers, track payments and inventories, place orders and more – all digitally. It is a unique proposition that helps merchants digitise their daily business processes through smart automation. It also empowers retailers to collect payments conveniently using POS or mobile through QR, UPI, or card or by sending secure payment links. The Bank has also entered into a strategic tie-up with American Express, thus enabling our POS Merchants to collect high value payments from Amex cardholders. The Bank has launched market leading services such as 365 Day settlements for POS Merchants and Instant Settlement for UPI transactions – both adding to a superlative Merchant experience. The Bank has continued to enhance the Kotak.biz Merchant app by launching link-based payments, multi-user capability and Voice-based notifications. The Bank is one of the first banks to enable acceptance for Digital Rupee.

On Father's Day, Bank presented #DadMySuperstar – a candidly shot heart-warming video that showed the son behind the superstar Ranveer Singh through the lens of his father, Mr. Jagjit Singh. The video depicted the special bond between a father and a son and a father's important role in his son's journey towards his dream. The video garnered 9.5 million views.

The Bank has implemented behavioural biometrics on Net Banking and Payment Gateway as advanced security feature. The Proof of Concept (POC) is initiated on the Mobile Banking app. This also makes Kotak Mahindra Bank to be first domestic bank to comply with the RBI guidelines on Digital Payment Security Controls dated 18th February 2021.

The Bank has implemented One-Time Password for Fallback transactions for Kotak Debit card holders using Kotak Bank ATMs to prevent skimming frauds. This has helped in complete prevention of skimming frauds for these transactions. It has also helped in complying with the RBI guidelines on Digital Payment Security Controls dated 18th February 2021 offering multi facto authentication for ATM fallback transactions for this category of transactions.

The Bank was felicitated with an award from the PFRDA (regulator) on its Q3 FY 2022-23 NPS Performance (National Pension System). With the Digital Initiative taken up by the Bank in last financial year to open NPS accounts via Mobile Banking (MB) App, the Bank was able to successfully source 80% of Individual NPS accounts via Kotak MB App. Kotak is among the top-3 Private Banks in the industry on its NPS Performance and contributing towards making India a pension-enabled society.

In an effort to enhance the General Insurance (GI) product offering on the Insurance platform, the Bank was first in the industry to make available Floater options proposition for small ticket group plans. The Bank has also made GI products available during the biometric account on-boarding process.

The Bank has also made live the Do-It-Yourself (DIY) journeys for Pradhan Mantri Bima schemes, PMJJBY and PMSBY on the Mobile banking and Net banking platforms.

The Bank has implemented CBDC- RBI initiative (Central Bank Digital Currencies) for merchants to collect money through CBDC and customer can pay through CBDC app.

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

The Bank has introduced Vernacular language option in Net Banking (Dashboard, Account and Deposits). It helps to connect with target audience in a more effective manner resulting in exceptional user experience.

From 2021, Kotak811 operates as a "Semi-Autonomous" Digital Bank within Kotak Bank, with additional focus on service, user experience, engagement and cross-selling. As of FY 2022-23, Kotak811 had over 1.7 crore customers residing in more than 1,000 cities and towns across India. In FY 2022-23, while the Customer base grew by approximately 42% YoY, cross-selling grew by approximately 72%. Similarly, while the Book Value increased by 32%, overall Throughput increased by 81% in FY 2022-23 (YoY). These metrics quantify the focus on cross-selling and engagement. Kotak811 has also started contributing meaningfully to the Bank across various parameters - In FY2022-23, 72% of new Savings A/c were acquired by Kotak811 and over 50% of Credit Cards, Unsecured Loans, Trading Accounts and Recurring Deposits were cross sold to Kotak811 customers.

Kotax

To bring forward the convenience of easy and seamless tax payments, the Bank got empanelled as an Agency Bank and started collecting both Direct (Income Tax) and Indirect (GST and Customs) taxes on behalf of the RBI. Now all bank customers can pay their taxes directly from their Kotak Bank accounts online. More so, the Bank widened its horizons to customers of all Banks by listing as a payment gateway on the recently-launched income tax department's TIN 2.0 platform (https://eportal.incometax.gov.in/) - thus becoming one of the first banking institutions to allow customers of all Banks to pay direct taxes via a variety of modes such as domestic credit cards, domestic debit cards, internet banking, UPI, as well as international credit cards with a Bank of their choice through the Kotak payment gateway. As digital transactions are being encouraged and scaled up across ecosystems, Bank is making strides into opening a plethora of options to further ease tax-paying journey for individual tax payers.

Mobile Banking

Kotak Mobile Banking has 265+ features live and continues to be amongst the top rated banking app in both iOS and Android. Features launched this year include Marathi Language Support, Kotak Smart Life, RM connect, Private portfolio for wealth customers, Revamped deposits journey, UPI Collect request on Home page, PMJJBY & PMSBY, Insta Life cover and Revamped OneView. Security features such as Malicious app detection and Behavioural biometrics for fraud monitoring were added.

Conversational Banking

Raise a dispute being one among the top calls on contact centre has been enabled on both Keya & WhatsApp thereby reducing the calls in terms of transaction disputes. WhatsApp is also used as a companion application by contact centre agents to complement their voice calls, this resulted in reduction of repeated calls and increased Net Promotor Score. WhatsApp is now secured with additional factor authentication that opens the opportunity to enable payment related services on WhatsApp.

Net Banking

Various features were added to Net banking. They include Interest Certificate; GST summary and tax invoice; PMJJBY and PMSBY in insurance; NRI service requests; RM eKonnect; Offer Zone that allows customers to see credit card, debit card and net banking offers, new and improved service request section, multi-language support (Hindi); grievance redressal option on Dashboard; fixed deposit and outward remittance for GIFT customers' "Kotax": Information repository on tax payment with option to initiate payments and track application which enables easy application status tracking for recent applicants of Personal Loan. In addition, the appearance and interface of the Offers Section of the Kotak website has been improved significantly during this period.

Digital Payments

The Bank through various drives and campaigns has encouraged customers to use Kotak Mobile Banking App, Scan QR codes and make payments via UPI, Bill Payment and Recharge. Kotak Bank did joint drive with the RBI - "Har Payment Digital" - leveraging social media platform for awareness on digital payment modes.

Other Initiatives

Three types of new service requests were introduced; ReKYC, tracking of outward cheques and Manage transaction alerts on digital channel.

The Bank introduced an insurance product with real-time processing over the counter using biometric authentication.

Consumer Assets

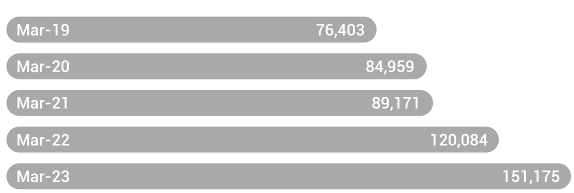
Consumer Assets have shown strong growth in both Secured and Unsecured segment with YoY growth of 26%. The secured portfolio has grown by 20% YoY while the unsecured Segment has grown by 65% YoY.

The Bank has invested heavily in FY 2022-23 in developing digital and analytical capabilities backed by strong technology. This has started yielding results in the form of improved customer experience and cost efficiencies.

Mortgage business continued to grow well during the year with 22% YoY growth. The Bank has also launched a Loan Origination System (LOS) for Home Loans reducing Turnaround Time from login to disbursement.

The Bank, under its digital-first strategy, launched real-time Working Capital Finance for MSMEs that are registered on Government's e-Marketplace (GeM) Sahay – a platform that connects sellers with lenders.

Consumer Banking Advances
(₹ in crore)



The Bank launched digital loans for merchants using Kotak POS terminals with a daily and weekly EMI option for making the repayment. This ensures better cash flow management for the merchant.

The Bank integrated an end-to-end digital supply chain finance journey for distributors and retailers buying from OEMs (Original Equipment Manufacturers) on B2B platforms.

Digital lending for SMEs is one of the key focused segments. With compelling digital propositions in SME lending featuring shorter approval and disbursement TAT, we addressed the target market with reduced cost and improved customer experience. Other launches included Actyv.ai, Digi OD Renewal, Unsecured PO financing/ invoice financing through OCEN, and Insta POS Prime, business loan for POS-based merchants.

The Bank has developed scorecards and machine learning models that help identify the right segments of customers for unsecured lending thereby improving the overall no. of products sold per customer. The Bank has also achieved 90%+ Personal Loans in number terms being serviced end-to-end digitally thus providing enhanced customer experience.

Credit Card Segment has registered growth of 81% YoY. Credit Card outstanding crossed ₹ 10,000 crore as at March 2023. Bank's market share in terms of No. of outstanding Credit Cards has grown YoY from 4.2% to 5.8% as at end of March 2023. DIY journey has been made live and a significant contribution from overall card issuance is coming from this channel.

The Bank has launched a co-branded card in partnership with 'Indian Oil' and also launched 'White Reserve Metal Card' exclusively for the premium segment of customers, thus widening the Bank's suite of offerings for Credit card customers.

Kotak White Credit card tied up as presenting sponsor for The Backstreet Boys: DNA world Tour in India, which allowed an exclusive 48 hour access to the Pre-sale of Concert tickets and also enjoys 25% off, upto maximum of ₹ 7,500.

The Bank launched a new co-branded Credit Card, in association with METRO Cash and Carry India, – 'METRO Kotak Credit Card', which provides easy, interest-free credit facility, for up to 48 days to over 3 million registered METRO India customers.

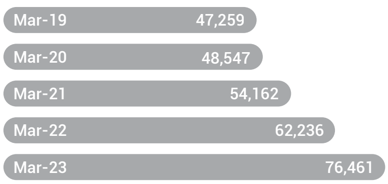
The Bank has gone live on Account Aggregator ecosystem. Bank's focus is including AA in lending and Personal Finance Management (PFM) journey. Currently Bank is live in DIY lending journey – HL, CC and assisted journey – HL, BL, LAP. In API Banking, Bank is live on more than 360 API (both public and private) on the API platform. Bank is live with 115+ partners. Bank has 2x partner growth over previous year.

Commercial Banking

The Bank's Commercial Banking business focuses on meeting the banking and financial needs of various segments; with specialised units offering financial solutions in the areas of Commercial Vehicles ("CV"), Construction Equipment ("CE"), Tractor and Farm Equipment ("Tractor"), SMEs operating in the Agri Value Chain and Microfinance. The majority of the customers that this business serves in these segments is in semi-urban and rural area and form part of the priority sector. This business plays a significant role in meeting the financial inclusion goals by financing deep into 'Bharat'.

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

Commercial Banking Advances
(₹ in crore)



Commercial Vehicle (CV)

The CV industry continued its growth momentum in FY 2022-23, registering ~34% growth YoY in unit terms, although the first three quarters of this year did not see sequential growth in unit sales. Overall operator economics continue to be fine with freight demand remaining good and improvement in availability of return load. However, a few segments that depend upon EXIM traffic and E-commerce business have started to show some slowdown. Within CV, the passenger (bus) segment has grown more than 100% YoY, coming out of the COVID impact, and all verticals such as Staff, School and Tours and Travels are displaying increased demand. The Bank has grown its CV business quite strongly during this period and disbursements have grown at almost double of industry growth. This has helped the bank grow its market share in FY 2022-23. Collection efficiency continues to be stable and back to the pre-pandemic levels. As a result, the GNPA has come down.

Construction Equipment (CE)

The CE industry registered a healthy growth of ~30% YoY. Healthy allocation towards capital spending by the government, coupled with ambitious targets under the National Infrastructure Pipeline helped the ramp-up in spending towards infrastructure development in segments such as roads, metros, railways, mining and sanitation. Apart from this, improvement in the overall macroeconomic environment led to a strong revival in construction activities and pickup in demand for CE assets. The Bank's disbursements also followed the healthy industry growth and grew at the same pace. As the cash flows in the segment improved during the year, the delinquency levels also improved and remained under control.

Tractor and Farm Equipment (Tractor)

The Tractor industry grew by a healthy ~12% YoY in FY 2022-23 backed by multiple years of healthy monsoon and aided by labour shortage. The Bank has grown the Tractor business well, led by a strong pick-up in disbursements, better than the industry growth, and thus improved its market share. The Bank crossed the milestone of disbursing 1 lakh plus new Tractor loans since the inception of the tractor business. Small and marginal farmers constitute more than 75% of these loans demonstrating the Bank's continued commitment to making a difference in their lives and livelihood. The focus on new products/customer segments and on deeper geographies aided the effort. Collection efficiency for the business is now better than the pre-COVID period for the portfolio acquired post-COVID.

Agri Business

In the Agri value chain, during the year prices of most essential agro commodities such as Basmati rice, wheat, maize and tur continued to increase to their highest levels due to lower stocks in India, weather related losses during pre-harvest and international shortages linked to the war and weather. Farmers in India have also shown the capacity to hold onto their harvest output on expectation of higher price realization. Demand for credit among traders and processors therefore remained positive. The Food and Agro trading and processing segment also saw improved margins due to consumption demand. The strong focus among banks for loans to this segment ensured that despite rising interest rates announced by the regulator, banks could only pass part of the rate increase to the customers and this affected the margins for this business. Overall quality of credit in the segment showed improvement with higher past default recoveries and reduced fresh impairments. The Bank continued to focus on implementing digital initiatives to reach to small and marginal farmer by working on API based small loan for the dairy farmers.

Microfinance

Conducive regulatory and policy environment for Microfinance led to a strong growth for the industry during the year. The bank continued on its path of growth momentum and grew at more than 100% while extending the outreach of the business in new locations across 11 states (6 of which were added during the year). The business also crossed the 1 million-customer mark during the year. With the rural economy and livelihoods on a path of recovery, leaving the uncertainties of COVID behind, collection efficiency for the business saw a significant improvement with reduction in both delinquency and GNPA levels.

Gold Loan

The Bank continued its expansion strategy in the Gold Loan Business. Gold loans are now available in 541 branches, covering 30% of the total branch network of the Bank. As a result, disbursements grew by ~50% during the year.

Crop Loan

The Bank's Crop Loan NPA recovery and portfolio quality improved in comparison with the last year due to better resolution and collection focus. Better monsoon and good crop yields aided the same.

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, structured financing solutions 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-selling of the varied products and services.

In FY 2022-23, the winding down of COVID linked packages by regulators across the world resulted in a rapid rise in the policy rates, which, understandably, led to volatility and sharp corrections in the debt markets. There was an associated movement in the MCLRs across tenure buckets. The wholesale business was able to pass on the increase in rates at the interest reset dates pre-defined in the underlying contracts. For new facilities, the wholesale business was served well by its historical focus on risk – return metrics such as RAROC which ensured that business segments did not lose sight of appropriate margins while trying to achieve book growth.

The Bank continued the positive momentum from the previous year by maintaining a focus on acquiring new customers in a profitable manner. The addition of New-to-Bank customers across assets and liabilities continued to be healthy across segments in FY 2022-23. In addition to focussing on new clients, the business segments also continued their efforts to increase wallet share with existing top tier clients with an aim to improve the overall quality of income. This has further strengthened the foundations of the Bank to offer comprehensive solutions to corporate banking customers.

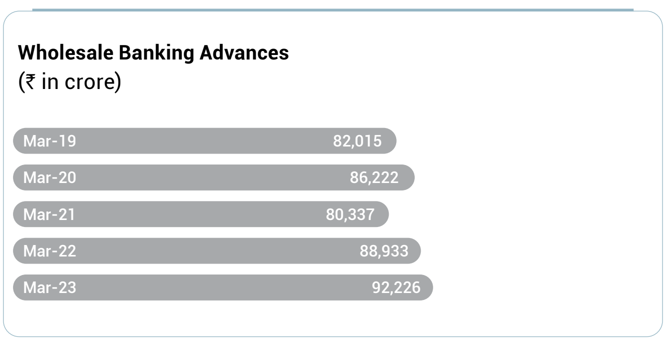
A focussed approach towards priority sector lending led to healthy growth in priority sector advances. The Bank has also focussed on building the assets through investment in NCDs and CPs, saving incremental priority sector obligations. Due to the rise in interest rates in the year, the investment book saw a mark-to-market loss in the P&L for FY 2022-23.

The ramp-up in SME continued during the year through focussed acquisition strategy and several initiatives to further improve response times.

In addition to direct lending to its clients, the Bank arranged for debt for its clients from the capital as well as loan markets. The assistance to clients in a challenging market enabled the business to protect its DCM and loan syndication revenue.

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

Trend of wholesale banking advances in the last five years is as below:



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 Bank's position 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.

The increase in the cost of funds has got the focus back on liabilities and liquidity management. The focus on increasing the liability side of our business, mainly core current account, term deposits and other non-risk income streams continued in line with the overall intention to improve the quality of income from our clients.

Assets under custody experienced mixed trends, with major foreign outflows counterbalanced by increased activity in domestic portfolio management services (PMS) and domestic alternative investment funds (AIFs).

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, the 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 in the past few years.

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 Germany, Switzerland, Austria, Italy, France, Nordic region, Taiwan and Korea. The Bank also has 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 focus in Global Transaction Services (GTS). With its long-term strategy of providing an integrated portal across all its product suites.

The Bank has been agile in introducing a digital signature facility and online platform solutions for documentation. This initiative has made it easier for clients to sign documents electronically and has streamlined the documentation process.

The Bank has continued its journey to provide a unified portal for customers by investing in new technologies and upgrading its processing engine The Bank launched Kotak fyn, its new enterprise portal exclusively for Business Banking and Corporate clients. The offering entered its second phase with major updates and additions like additional customer friendly features such as EDPMS/IDPMS settlements, Inward modelling, end-to-end field mapping. This upgrade has improved the speed and efficiency of the system, resulting in a better user experience for clients. Kotak fyn is game changer with integrated one stop digital platform for all business banking needs. Kotak fyn's innovative, intuitive user interface with several industry first features will further provide superior banking experience. Kotak fyn is available to all its customers for collections and liquidity related transactions.

The key product initiatives other than phase II of fyn included the launch of 'Paperless Exports', White Label Supply Chain platform and TReDS process automation using BOTs. On the CMS front, the Bank has reshaped the architecture to provide best in class solutions across all CMS products. The Bank now has the ability to offer personalized solutions and cater to varied needs of each of its customers. The Bank also became the 1st bank to complete the UPMS certification with the NPCI.

As a result of this customer-focused approach and investments in technology, the Corporate Banking team has already seen significant improvements in key product usage metrics in the fiscal year. The Bank's vision is to go beyond normal and create unique experiences by offering best-in-class product suite to its clients.

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 preserve its profitability and maintain a healthy After Tax Return on Equity (ATROE) despite the challenges faced during the year.

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 private banking firms, managing wealth over half of India's top 100 families (Source: Forbes India Rich List 2021), with clients ranging from entrepreneurs to business families and professionals.

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

The private banking arm has added ~711 new families in FY 2022-23.

- Focused on technological initiatives both at the client level and at the internal team level with the aim of enhancing productivity and customer experience, coupled with improving cost efficiencies and reducing TAT
- Launched Réserve, a new Savings programme by Kotak Private Banking for an elevated banking experience
- Continued to build the new brand theme of 'Live Your Purpose' through unique client engagements throughout the year
- Strengthened existing propositions through new tie ups in the Alternate space

Kotak Private banking has been consistently featured as the Best Private Bank, India across multiple Global and Domestic platforms. Some of the recent accolades include:

- Asiamoney Private Banking Award 2023 - Best for Wealth Transfer/Succession Planning (India)
- The Asset Triple A Digital Awards 2023 - Digital Private Bank of the Year (India)
- PWM/The Banker's Global Private Banking Awards 2022 - Best Private Bank in India
- The Asset Triple A Private Capital Awards 2022 - Best Private Bank (India)

GIFT CITY

The GIFT City branch commenced operations in FY 2016-17. The GIFT Branch caters to banking needs – including requirements of managing currency and interest rate risks of the Bank's overseas customers and import funding as per extant guidelines. The branch also caters to the account and clearing requirements of the exchange and its members at GIFT IFSC.

The branch is regulated by International Financial Services Centres Authority (IFSCA), the unified regulator for GIFT IFSC, which also provides regulatory oversight and fosters ease of doing business at IFSC.

The branch operates with defined governance, administrative and functional framework. It has carefully curated a portfolio spread from short and long term trade loans, working capital and long term client loans, investments in bonds, deposits and borrowings, leading to continued growth in profitability, while also maintaining high standards of controls and governance. Additionally, the branch is actively improving its technology platforms to enhance client experience including net banking and digital journey. It is also actively working on extending its product bouquet and client reach.

DIFC BRANCH

The Bank's branch at the Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates, started operations in October 2019. The DIFC branch is authorised by the Dubai Financial Services Authority (DFSA) as a Category 1 licensed entity, enabling it to accept deposit from non-UAE residents and provide loans to individuals and corporates who qualify as professional client as per the DFSA rules. The DIFC branch complements the Bank with its ability to advise and arrange global investment products to its clients through its tie-up with various third-party service providers.

In FY 2022-23, the branch consolidated its offering by facilitating the opening of offshore bank accounts for its customers – including resident Indians. The branch is also focused on providing credit facilities by way of term loans and working capital financing to its clients during FY 2022-23.

Treasury

FY 2021-22 saw the initiation of COVID normalization process in a phased manner. As the normalisation process gathered further momentum in FY 2022-23, central banks across the world grappled with a sharp increase in inflation. Led by the US Federal Reserve, central banks in the developed and emerging economies responded to the inflation threat with sharp increases in policy rates through the year. Markets swayed between inflation and slow down concerns through the year, ending the year with greater risks and pricing of an impending economic slowdown in major economies.

The Reserve Bank of India ("RBI") also aligned with the global central banks. Acting in consonance, the Monetary Policy Committee (MPC) started with an unexpected mid-policy interest rate hike in May 2022. In response, the 10Y Benchmark yield rose to a high of 7.62% by June 2022 from 6.83% in March 2022. After the initial surprise recoil, 10Y Gilts ebbed and ranged between 7.20% and 7.40% for the year.

The currency market witnessed unprecedented strengthening of the US dollar against other global currencies. The USD index (a benchmark of USD exchange rate against a basket of currencies) rose by about 17% to a high of 114.10 by September 2022 from 98.31 in March 2022. The EUR lost about 13%, falling to 0.96 in September 2022 from 1.10 in March 2022. Indian Rupee (INR) also depreciated by about 10% to 83.02 in October 2022 from 75.79 in March 2022, settling in a broad range of 80.50–83.00. Throughout the period of market turbulence, the RBI actively intervened in the markets (both currency and liquidity) to curb excess volatility.

Market levels in FY 2022-23

	Open	High	Low	Close	Net change
10y India GILT yield	6.84	7.62	6.84	7.31	6.9%
10y US GILT yield	2.34	4.24	2.34	3.47	49.3%
USD/INR	75.79	83.02	75.33	82.34	8.6%
US Dollar Index	98.31	114.10	98.31	102.51	4.3%
EUR/USD	1.1067	1.1033	0.9802	1.0839	0.02%
Nifty	17465	18813	15361	17360	(0.6)%
Gold (USD per Troy ounce)	1937	1993	1622	1969	1.7%

Source: Bloomberg

The trading desks (FX and Derivatives desk, Equities desk and Fixed Income desks) took calibrated positions as markets jostled between global volatility and the RBI's intervention. Treasury optimised trading strategies - balancing for the elevated risk environment and increased book churn.

The Treasury Primary Dealer (PD) desk was able to achieve its regulatory targets of retail distribution, trading volumes and auction bidding for Government securities and T-Bills successfully.

In this period of excessive volatility, the treasury teams increased client coverage and service to its FX customers for conversion and hedging of their exposures. The FX sales desk continued its efforts on technology-based solutions, pricing efficiency, process optimisation and fine-tuning of desk organisation to deliver experiential service to its customers.

Foreign exchange flows from customers caught up with pre-pandemic levels and activity was good for most part of the year. However, in the latter half - flows started plateauing in response to signs of a global slowdown. Forward premia shrunk on account of shrinking interest rate differentials between the USD and the INR.

The Bullion desk continued building the annuity book of gold loans, providing stability and sustained profitability.

System liquidity depleted from large surplus to a minor deficit towards the latter half, while the banking system's credit grew. The Balance Sheet Management Unit (BMU) managed the liquidity requirements of the Bank optimally and efficiently, ensuring adequate liquidity and ALM to support the needs for credit and investment. The liquidity ratios remained above prudential internal thresholds.

The BMU maintained heightened vigil while managing Liquidity and Interest Rate Risks and regulatory investments of the Bank.

The Technology team within the treasury contributed by not only maintaining treasury applications through the year, but also by delivering enhanced technology solutions towards improving customer experience, offering new products and upgrading to more sophisticated systems.

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 and counterparty and country exposures.

Subsidiaries Highlights

Kotak Mahindra Prime Limited (KMP)

KMP is primarily engaged in vehicle financing including financing of retail customers of passenger cars, Multi-Utility Vehicles (MUVs) and 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, loan against property and other lending.

Financial Highlights

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Net Interest Income	1,695.43	1,456.68
Other Income	352.25	330.77
Total Income	**2,047.68**	**1,787.45**
PBT	1,110.06	1,179.79
PAT	828.96	885.51

(₹ In crore)

Particulars	31st March, 2023	31st March, 2022
Net Customer Assets	28,792.68	24,250.76
- Car advances	23,178.36	18,157.35
Net NPA %	0.83%	1.56%
RoAA %	2.77%	3.32%
Capital Adequacy Ratio %	28.39%	30.07%
Tier I %	27.72%	29.24%
COVID provision held	2.08	6.43

The passenger car market in India grew 26.73% in FY 2022-23 compared to 12.68% growth in FY 2021-22. Sales volume of cars and MUVs crossed 38.79 lakh units in FY 2022-23 compared to 30.60 lakh units in FY 2021-22. KMP added 99,884 contracts in FY 2022-23 compared to 76,956 contracts in FY 2021-22.

PBT for FY 2022-23 at ₹ 1,110.06 crore was lower than ₹ 1,179.79 crore for FY 2021-22 primarily due to brokerage charge on account of the change in accounting policy. Further, there was higher reversal of COVID provision in FY 2021-22 amounting to ₹ 83.93 crore. NIM for FY 2022-23 was 5.82% compared to 5.65% for FY 2021-22.

Gross NPA was ₹ 564.23 crore (2.11% of gross advances) while net NPA was ₹ 237.61 crore (0.91% of net advances) as on 31st March, 2023.

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 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 2022-23 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 its Corporate Lending book. 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 2022-23	FY 2021-22
Net Interest Income	443.92	427.27
Other Income	80.34	141.22
Total Income	**524.26**	**568.49**
PBT	439.32	498.57
PAT	326.26	371.15

(₹ In crore)

Particulars	31st March, 2023	31st March, 2022
Net Customer Assets	9,689.25	7,170.33
Net NPA %	0.49%	0.48%
RoAA %	3.26%	4.13%
Capital Adequacy Ratio %	28.65%	34.59%
Tier I %	27.15%	32.19%
COVID provision held	0.09	7.17

PBT for FY 2022-23 at ₹ 439.32 crore was lower than ₹ 498.57 crore for FY 2021-22 primarily due to decrease in investment profit and discontinuation of LAS and OD business. Further, there was a higher reversal of COVID provision in FY 2021-22 amounting to ₹ 19.56 crore.

Customer assets increased to ₹ 9,689.25 crore as on 31st March, 2023 as compared to ₹ 7,170.33 crore as on 31st March, 2022. PAT declined 12.1% to ₹ 326.26 crore for FY 2022-23 from ₹ 371.15 crore in FY 2021-22. NIM for FY 2022-23 was 5.06%.

Gross NPA and Net NPA as on 31st March, 2023 was at ₹ 86.12 crore (0.94% of Advances) and ₹ 47.73 crore (0.52% of Advances) respectively.

Kotak Securities Limited (KS)

Kotak Securities Limited (KS) provides broking services in equity cash and derivatives segments, commodity derivatives, currency derivatives, depository and primary market distribution services. KS is a member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), National Commodity and 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 the 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 the 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 2022-23	FY 2021-22
Total Income	2,473.87	2501.66
PBT	1,150.19	1,333.50
PAT	865.22	1,001.33

PAT for FY 2022-23 at ₹ 865.22 crore is lower than ₹ 1,001.33 crore for FY 2021-22 primarily due to lower brokerage income pursuant to lower market volumes in cash segment, increase in employee cost and technology cost.

FY 2022-23 witnessed volume growth in equity derivatives, currency and commodity segments but a volume decline in the cash market segment versus FY 2021-22. Market average daily volumes (excluding proprietary segment) increased to ₹ 7,223,485 crore for FY 2022-23 from ₹ 3,552,488 crore for FY 2021-22. Consequently, KS volumes also have gone up in the derivatives segment while they have reduced in cash segment.

Kotak Securities market share (excluding proprietary segment) for FY 2022-23 was:

- 5.54% compared to 2.85% in FY 2021-22 for NSE derivatives segment
- 10.55% compared to 10.58% in FY 2021-22 for cash segment

Note: Market share excludes proprietary segment volumes

KS digital only plans - Trade Free and Trade Free Youth, collectively accounted for 47.94% of overall KS acquisition, and 75.29% of derivatives market volume in FY 2022-23. Due to the continued thrust on digital, the mobile trading application of KS registered a massive adoption, resulting in 423% growth in the trading volume through the Kotak Securities Mobile apps.

Multiple initiatives were adopted to improve KS value proposition. The key initiatives are given below:

- As part of the Start-up Investments division, we acquired assets of FundExpert for scaling the IFA-led distribution business, invested in fintech start-up BankSathi for deepening financial inclusion in India and invested in fintech start-up Multipl for promoting savings mindset among millennials and first time investors. After acquiring assets of TradeGyani in FY2021-22, KS set up an Innovation Lab and within 10 months launched the first product - StockIt, a platform for basket investing
- Simplified account opening journey for Kotak Bank customers by reducing steps from 11 to 6
- Deployed Pay off analyser – a feature to analyse positions across different price, time and risk based scenarios for Equity and Currency derivatives
- Launched a Self-service platform to help customers close basic requests quickly and digitally with no human intervention required. Journey improvement across services has helped KS fulfil 78.30% of customer service requests digitally for the period Q4 FY23
- A new platform was launched for statements, where all KS customers can access the statements in a user friendly, responsive and adaptive User Interface
- Devised a social media strategy with a fresh content approach that educates, engages and promotes the brand as opposed to only highlighting product and service benefits. The growth in key platforms is given below:
    - Instagram followers grew by 13.8% from 40.5k to 46.1k
    - YouTube subscribers increased by 46.8% from 85.1k to 126k
    - LinkedIn followers grew by 23.4% from 119k to 146.6k

As on 31st March, 2023, KS had a national footprint of 1,443 branches and franchisees across 372 cities in India serving its customers. The cumulative number of registered authorised persons stood at 2,141 for the NSE and 1,671 for the BSE.

Awards and Recognitions

- 2nd Annual NBFC and Fintech excellence awards - Best Analytics Driven Project, Stock Broking category (by Quantic India)
- Winner of CFO100 2023 Roll of Honour - Hiren Vora (by CFO-India)
- Institutional Member for Outstanding Contribution Award (by NCDEX)
- Finnoviti Award – Digital Transformation with Kotak NEO (by Banking Frontiers)

The Institutional Equities division of KS continued to be in the leadership position in both the cash equities and derivatives segments. Market volumes in cash equities for the institutional segment remained flat in FY 2022-23 compared to FY 2021-22 whereas the derivatives segment saw 88% growth, mainly due to an increase in Index options category. Primary market activity in relation to IPOs and QIPs saw a large decline compared to FY 2021-22. However, KS continued to maintain its leadership position in primary market distribution. KS saw very strong growth in execution of block trades during the year. The Institutional Equities Research Team has added new sectors and companies to its list of coverage. It plans to expand its coverage further. KS has been upgrading its IT infrastructure by investing in latest technology across segments to improve operational efficiencies and maintain its leadership position in the institutional segment.

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 2022-23	FY 2021-22
Total Income	323.93	439.91
PBT	192.48	315.70
PAT	149.28	244.75

Equity Capital Markets

In FY 2022-23, Indian Equity Capital Markets witnessed a slowdown in IPO activity on account of challenging macros at global and domestic levels. Deal activity was dominated by secondary sell-downs through block deals, which more than doubled in FY 2022-23 as compared to FY 2021-22, on account of lock-up expiries of record number of IPOs being executed in FY 2021-22 and continued investor interest to back companies with an established track record. Domestic institutional investors continued to support the markets with an inflow of US$ 31.9 billion versus an FPI outflow of US$ 6.6 billion during FY 2022-23. A total of ₹ 82,677 crore (versus ₹ 200,630 crore in FY 2021-22, down 59% YoY) was raised in FY 2022-23 across deals other than blocks i.e. Initial Public Offerings (IPOs), Qualified Institutional Placements (QIPs), Further Public Offering (FPO), Rights Issues and Offers for Sale (OFS). Consumer and Healthcare sectors saw the maximum number of capital market deals being executed on the back of strong investor response.

KMCC was ranked no. 1 in IPOs more than ₹ 800 crore, having led 10 out of 17 such IPOs with a 83% market share. Kotak continued to be the Left Lead Banker of Choice having led marquee transactions such as LIC, Delhivery, Global Health, Rainbow Children's Medicare and Sula Vineyards.

KMCC successfully completed 11 transactions, including 10 IPOs and 1 QIP raising a total of ₹ 40,846 crore in FY 2022-23. Kotak led several marquee transactions such as the Largest IPO in the Indian capital markets: ₹ 20,557 crore IPO of Life Insurance Corporation of India, the first ever secondary QIP: ₹ 3,547 crore in Macrotech Developers (Lodha).

Top equity deals that were concluded by KMCC during the year include:

IPO: Life Insurance Corporation of India – ₹ 20,557 crore, Delhivery – ₹ 5,235 crore, Global Health IPO + Pre-IPO – ₹ 2,688 crore, KFin Technologies IPO + Pre-IPO – ₹ 1,600 crore, Five-Star Business Finance – ₹ 1,589 crore, Rainbow Children's Medicare – ₹ 1,581 crore, Campus Activewear – ₹ 1,400 crore, Sula Vineyards – ₹ 960 crore, Bikaji Foods International – ₹ 881 crore, Aether Industries – ₹ 808 crore

QIP: Macrotech Developers – ₹ 3,547 crore

Mergers & Acquisitions and Private Equity Advisory

The total M&A Advisory deal value in India for FY 2022-23 increased to USD 183 billion from USD 145 billion in FY 2021-22, while deal volumes decreased to 3,067 in FY 2022-23 from 3,701 in FY 2021-22. The average deal size for FY 2022-23 increased to USD 91 million from USD 60 million in FY 2021-22 (Source: Bloomberg, as on 14th April, 2023).

In FY 2022-23, among the investment banks, KMCC was ranked #3 by volume of deals and #4 by value of deals in the M&A league tables (Source: Bloomberg, as on 14th April, 2023). KMCC advised on a diverse array of 18 M&A transactions across a range of products and sectors, for a total deal value of USD 61.4 billion (not considering deals where values have not been disclosed):

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

Deal values in FY 2022-23 grew ~26% vis-à-vis the previous year despite rising interest rate environment. In FY 2022-23, financial sponsors accounted for about 29% of the transactions by value (excluding HDFC group merger) versus 39% in FY 2021-22 and continue to constitute a significant part of India's M&A activity.

The deal activity in FY 2022-23 was largely contributed by domestic majority, inbound majority and minority investments and restructurings, in the financial services and technology sectors. Simplification of corporate structure, consolidation by market leaders, building adjacencies by acquisition of new business, and acquisitions by private equity funds were major drivers for M&A transactions in FY 2022-23 and the trend is expected to continue in FY 2023-24. Other factors such as investment by global strategic players, buyouts and exits by private equity funds, consolidation within various industries, disinvestment initiatives by the government and divestment of non-core assets are also expected to drive the M&A activity in FY 2023-24.

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

- Sell-Side advisor for sale of Bain Capital's stake in J M Baxi Ports & Logistics to Hapag-Lloyd
- Sell-Side advisor to Vistaar Finance Private Limited for sale of controlling stake to Warburg Pincus
- Sell-Side advisor for sale of majority control of US based Helpware Inc. to EIR Partners, a US PE Fund
- Sell-Side advisor to Pickrr Technologies Private Limited in relation to its acquisition by BigFoot Retail Solutions Private Limited
- Sell-Side advisor for sale of 100% stake of Tufropes and business undertaking of India Nets to Aimia Inc and Paladin PE
- Sell-Side advisor to Hector Beverages Private Limited and Sequoia Capital for investment round led by GIC
- Sell-Side advisor for sale of Unison Enviro (Ashoka Gas), owned by Ashoka Buildcon Limited and Morgan Stanley Infra Fund to Mahanagar Gas Limited
- Buy-Side advisor to Advent International for acquisition of controlling stake in Suven Pharmaceuticals & manager to the open offer
- Buy-Side advisor to Actis LLP for acquisition of 400MW operating solar power assets of Atha group
- Manager to the Delisting-cum-Takeover Offer, first of its kind, by Blackstone for R Systems International Ltd.
- Buy-Side advisor to Saudi Agricultural & Livestock Investment Corporation for its investment in LT Foods and sale of its stake in Daawat to LT Foods
- Financial advisor to HDFC in relation to merger of HDFC Limited with HDFC Bank Limited
- Exclusive Financial advisor to Mahindra Lifespace Developers Limited for the joint venture to acquire and develop industrial and logistics assets
- Financial advisor to Amara Raja Batteries Limited (ARBL) for demerger of Plastic Component for Battery Business of Mangal Industries Limited in to ARBL
- Exclusive Financial advisor to Mahindra & Mahindra Limited for its partnership with Mutares to transform Peugeot Motorcycles (Leading ICE & Electric 2W brand)
- Financial advisor for merger of Butterfly Gandhimathi Appliances Limited with Crompton Greaves Consumer Electricals Limited
- Manager to the Buyback Offer by Infosys Limited through open market route
- Manager to the Buyback Offer to the shareholders of Birlasoft Limited through tender offer 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, bancassurance and other 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 289 life insurance outlets across 149 locations. KLI has 112,697 life advisors, 23 Bancassurance partners and 194 brokers and corporate agency tie-ups.

Financial Highlights

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Gross Premium Income	15,320.46	13,015.11
First Year Premium (Incl. Group and Single)	7,668.67	6,142.77
Profit Before Tax – Shareholders' Account	1,462.72	596.49
Profit after Tax – Shareholders' Account	1,053.31	425.38
Solvency Ratio (as on 31st March)	2.83	2.73

The Indian Embedded Value (IEV) was ₹ 12,511 crore as on 31st March, 2023 (31st March, 2022: ₹ 10,679 crore). 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 2022-23 grew by 53.4% from ₹ 895 crore to ₹ 1,373 crore and the VNB margin was 38.8%.

Networth of KLI increased by 21.38% to ₹ 5,327.70 crore as on 31st March, 2023 from ₹ 4,389.20 crore as on 31st March, 2022.

An insurance company is considered to be solvent if its assets are adequate and liquid to pay off claims/liabilities as and when they arise. Solvency ratio indicates the Company's claim/liability paying ability. KLI has solvency ratio of 2.83 against a regulatory requirement of 1.50.

Revenue Performance

KLI recorded 17.71% growth in the gross written premium, mainly coming from Individual regular premium and Group premium. The summary of premiums is given below:

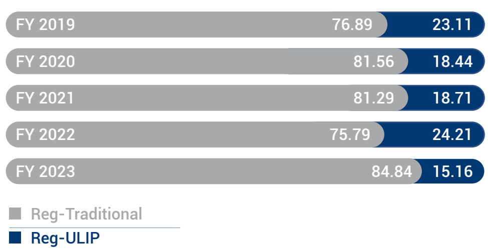
(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Individual Regular	2,592.72	1,980.81
Individual Single	1,359.23	1,320.28
Group Premium	3,716.72	2,841.68
Total New Business Premium	**7,668.67**	**6,142.77**
Renewal	7,651.79	6,872.35
Gross Premium	**15,320.46**	**13,015.12**

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

The distribution mix for Individual business APE (Single 1/10), is 49.12% for the Bancassurance channel and 58.88% for Agency & other channels.

Individual Product Mix



This year product mix of KLI in individual regular premium inclines towards Traditional business being 84.84% and 15.16% of ULIP.

Protection Share

Protection share as a percentage of Individual New Business and Total Group Business stood at 38.47%.

Overall protection business for FY 2022-23 grew 42.82% from ₹ 2,153.92 crore to ₹ 3,076.17 crore YoY.

Group Business

The group business comprising of Group term, Group Credit life business and Group Fund business (Including renewals) grew 24.33% in FY 2022-23 to ₹ 4,044.94 crore from ₹ 3,253.27 crore in FY 2021-22.

Conservation and Persistency

The conservation ratio stood at 86.76% in FY 2022-23 compared to 89.36% in FY 2021-22. As of February 2023, the persistency was 84.51% (13^{th} month), 73.02% (25^{th} month), 67.61% (37^{th} month), 63.61% (49^{th} month) and 51.43% (61^{st} month).

Industry Comparison

On individual APE Basis (Single 1/10) KLI registered 29.15% growth against private insurance industry growth of 24.15% and overall industry growth of 18.71%. On individual APE, KLI held 8^{th} rank within the private industry. KLI's market share for Individual New Business premium (APE terms) is 3.99% for FY 2022-23 among private insurers.

On group APE Basis (Single 1/10) KLI's market share for Group New Business premium (APE terms) stood at 10.37% for FY 2022-23 among private insurers. On group APE, KLI held 4^{th} rank within the private industry.

In FY 2023 Insurance industry as a whole registered a growth of 17.62% on Total New Business Premium – Adjusted Premium Equivalent (APE) terms (Single 1/10), KLI registered a growth of 18.18% on Total New Business Premium- APE terms. On the same basis, KLI market share stood at 5.04% of private industry.

Claims Settlement Ratio

The individual claims settlement ratio for FY 2022-23 stood at 98.25% while the group claims settlement ratio for FY 2022-23 stood at 99.60%.

Assets Under Management

KLI saw an increase in its AUM (including shareholders') by 15.70% YoY to 64,284.83 crore in FY 2022-23.

Digital Initatives

KLI mainly focused on below areas

- DIY (Do-It-Yourself) journeys on KLI Website, Bank mobile & net banking for key savings & protection products
- 4.8 mn (78%) customer service transactions processed digitally in FY 2022-23
- 98.9% of policies* sourced through Online platforms and Genie app in FY 2022-23

**Individual policies (non-rural)*

Social and Rural Obligations

KLI has written 80,975 rural policies in FY2022-23 (FY 2021-22: 77,609), representing 23.35% of total policies against regulatory requirement of 20%. Further, KLI covered 8,063,445 social lives in FY 2022-23 (FY 2021-22: 9,580,400), 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 the 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 16.41% YoY growth in FY 2022-23, in which the private sector (excluding standalone health insurance companies) grew by 20.22%. KGI grew its premium (excluding re-insurance) from ₹ 742.47 crore in FY 2021-22 to ₹ 1,134.09 crore in FY 2022-23, registering 52.75% growth.

Financial and Other Highlights

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Gross Written Premium (GWP) (including re-insurance)	1,148.30	753.88
Profit/(Loss) Before and After Tax	(117.28)	(82.98)
Claims Ratio	69.50%	77.04%
Combined Ratio	121.25%	121.91%

Revenue Review

KGI's Motor business grew 32.95% from ₹ 388.03 in FY 2021-22 to ₹ 515.89 crore in FY 2022-23, Health business grew 75.43% from ₹ 275.53 crore in FY 2021-22 to ₹ 483.37 crore in FY 2022-23, Commercial business grew 66.25% from ₹ 84.19 crore in FY 2021-22 to ₹ 139.97 crore in FY 2022-23

Product Mix

In order to maintain a balanced product mix, KGI product mix for Motor, Health and Others has moved from 52:37:11 in FY 2021-22 to 45:42:12 in FY 2022-23.

Distribution Mix

The Bancassurance Channel grew 36.44% from ₹ 266.54 crore in FY 2021-22 to ₹ 363.66 crore in FY 2022-23 and including FIG growth stood at 44.50%. The Multi-distribution channel grew37.08% from ₹ 303.24 crore in FY 2021-22 to ₹ 415.68 crore in FY 2022-23 and the Digital channel grew 117.24% from ₹ 110.98 crore in FY 2021-22 to ₹ 241.08 crore in FY 2022-23.

Solvency

As on 31st March, 2023, the solvency ratio of KGI stood at 1.83 against the regulatory requirement of 1.50.

Investments

Investments of KGI as on 31st March, 2023 stood at ₹ 1,743.80 crore against the previous year amount of ₹ 1,231.13 crore, registering 41.64% growth.

Distribution Network

KGI has a network of 25 branches catering to more than 300 locations. KGI has 33 corporate agents, 3694 individual agents, 5697 point of sale agents, 498 brokers, 19 web aggregator and 22 micro insurance agents.

Rural and Social Obligations

KGI has written a premium of ₹ 130.24 crore under rural obligation representing 11.48% of the total premium. Further, KGI has covered 295,683 social lives against the regulatory requirement of 131,017.

Claim Servicing

The number of claims settled by the Company has increased from ~87,600 in FY 2021-22 to ~155,400 in FY 2022-23, up 77.39%. KGI won Best Claims and Service Experience - FICCI FINCON Insurance Awards.

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 2022-23	FY 2021-22
Total Income	943.66	771.13
PBT	605.85	455.51
PAT	474.77	338.94
AAUM	287,058	272,938

(₹ in crore)

Kotak Mahindra Trustee Company Limited	FY 2022-23	FY 2021-22
Total Income	111.82	148.49
PBT	107.48	145.18
PAT	79.99	115.18

The mutual fund industry registered 8.33% YoY growth in FY 2022-23 over FY 2021-22 with the Annual Average Assets under Management (AAUM) for FY 2022-23 standing at ₹ 39.95 lakh crore.

During the same period, on the basis of AAUM, KMAMC was ranked no. 5 in the industry. The AAUM of KMMF stood at ₹ 287,058 crore for FY 2022-23, up 5.2%from ₹ 272,938 crore in FY 2021-22. AAUM Market Share was 7.2% in FY 2022-23 (7.4% FY 2021-22).

KMAMC has 45.17 lakh unique investors (on the basis of RTA data) against the industry's 376.83 lakh, a market share of 12.0% in March 2023, versus 11.7% in March 2022.

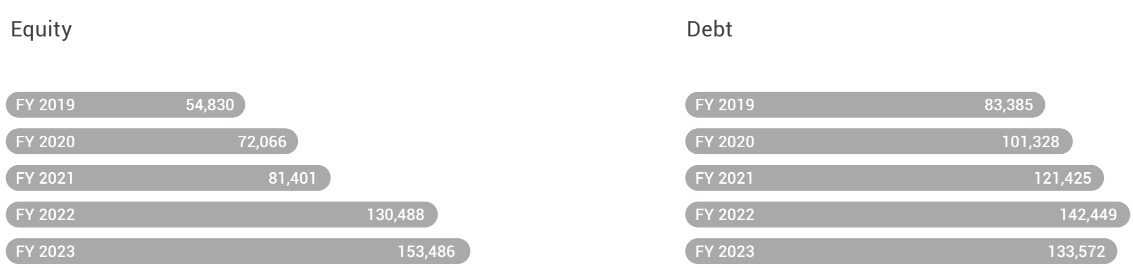
KMAMC ended the year with AUM under the portfolio management business of ₹ 1,595.98 crore as on 31st March, 2023 versus ₹ 1,579.45 as on 31st March, 2022.

In FY 2022-23, the Company launched four open ended funds and eight passive strategies.

Revenue from operations increased to ₹ 803.21 crore in FY 2022-23 from ₹ 768.41 crore in FY 2021-22, largely on account of an increase in AAUM. The overall costs increased to ₹ 337.81 crore in FY 2022-23 from ₹ 315.62 crore in FY 2021-22. FY 2022-23 had a long-term capital gain of around ₹ 130 crore. Hence, the overall PBT increased to ₹ 605.85 crore in FY 2022-23 compared to ₹ 455.51 crore in FY 2021-22.

For KMTCL, the reduction in PBT was due to a long-term capital gain of ₹ 46.59 crore booked in FY 2021-22.

Average AUM
(₹ in crore)



Kotak Mahindra Pension Fund Limited (KMPFL)

Financial Highlights

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Total Income	3.13	3.39
PBT	(3.49)	(1.54)
PAT	(3.49)	(1.54)
AUM	2,856	2,230

The Company manages nine schemes under the National Pension System. It had total assets under management (AUM) of ₹ 2,855.81 crore as at 31st March, 2023, up 28% from ₹ 2,229.93 crore as on 31st March, 2022. The overall pension fund industry AUM (including the private and public sector) has grown by about 22% YoY to ₹ 898,343 crore as on 31st March, 2023.

The Company's equity fund (NPS Tier 1) was among the top-2 best performing equity funds in the NPS industry (NPS Tier 1) over 1, 3, 5, 7 & 10-year periods as on 31st March 2023. The Company's government securities fund (NPS Tier 1) was among the top-2 best performing government securities funds in the NPS industry over 10-year period as on 31st March, 2023.

Revenue from operations increased to ₹ 2.23 crore in FY 2022-23 from ₹ 1.48 crore in FY 2021-22, primarily on account of the increase in AAUM. The overall costs increased to ₹ 6.62 crore in FY 2022-23 from ₹ 4.93 crore in FY 2021-22. Hence, there is a loss of ₹ 3.49 crore in FY 2022-23 as compared to loss of ₹ 1.54 crore in FY 2021-22.

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 such as (a) Private Equity (b) Real Estate (c) Infrastructure (d) Special Situations and Credit and (e) Investment Advisory. It is among the select alternate asset managers in India to be present across these asset classes and managing a large number of active funds in these asset classes.

The aggregate alternate assets managed/advised by KIAL as on 31st March, 2023 were ₹ 45,869 crore. It managed 26 domestic funds, advised 1 domestic fund and 5 offshore funds during the period. KIAL has Investment Advisory business for Private Clients and had ₹ 71,314 crore Assets Under Advice as on 31st March, 2023.

Financial Highlights

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Total Income	322.38	243.96
PBT	51.95	79.42
PAT	42.27	58.65
AUM*	45,869	20,079

**Alternate assets managed/advised*

During the year KIAL received new capital commitments for 8 new funds totalling ₹ 29,557 crores.

Brief details about the major new funds launched during the year under review:

- Kotak Strategic Situations Fund II will provide strategic solution capital across growth and value companies. The sector-agnostic fund will provide equity, debt capital and hybrid.
- Kotak Data Centre Fund is the first India-focused Data Centre fund to partner with Data Centre operators to tap the fast-growing Digital Infrastructure opportunity in the country.
- Kotak Infrastructure Fund will invest in operating infrastructure projects by providing senior, secured credit.
- Kotak Real Estate Fund X is an opportunistic fund which can invest across various real estate asset classes and capital stack i.e. both debt and equity. The fund will primarily target investments in residential real estate.
- Kotak Performing Credit Strategy Fund I would be creating a portfolio of quality office assets.
- Kotak Private Credit Fund ("KPCF") will be focusing on the performing credit space, providing debt to growth-oriented companies with established business models in the midmarket space to secure mid to high teen returns.

Kotak Mahindra Trusteeship Services Limited (KMTSL)

KMTSL, incorporated on 31st March, 2000, acts as a trustee to domestic venture capital funds, alternate investment funds. KMTSL also offers Kotak's Estate Planning Services and with a legacy of over 16 years in this field, KMTSL has been instrumental in setting up private family trusts for many families across India, catering to a diverse mix of industries and sectors.

Kotak's Estate Planning Services plays an important role in providing a comprehensive platform covering the entire gamut of financial products and services for Ultra High Net Worth Individual (UHNI) and High Net Worth Individual (HNI) clients, comprising entrepreneurs, business families, and professionals. It also acts as a trustee to estate planning trusts, in which it assists in setting up private trusts for High-Net Worth individuals to achieve their succession and financial planning.

Financial Highlights

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Total Income	14.05	11.93
PBT	3.51	3.99
PAT	2.63	3.04

Kotak International Subsidiaries

Financial Highlights

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

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Total Income	270.27	324.05
PBT	90.32	154.94
PAT	76.31	118.13

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

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, other product manufacturers and also the investment appetite of the global investors seeking to invest into India.

Business Update

The closing assets managed/ advised by the International Subsidiaries was USD 3.77 billion (₹ 30,982.11 crore) as on 31st March, 2023 compared to USD 3.89 billion (₹ 29,448.23 crore) as on 31st March, 2022. The net inflows into funds was offset by the fall in capital markets in India (mostly on account of depreciation of Indian Rupee against the US Dollar). The average AUM (AAUM) was USD 3.62 billion (₹ 29,103.93 crore) as on 31st March, 2023 compared to USD 4.02 billion (₹ 29,978.29 crore) as on 31st March, 2022.

Income from bond dealing business increased marginally in FY 2022-23 over previous year due to increase in market volatility.

Financial Update

The total income earned by International Subsidiaries decreased to ₹ 270.27 crore in FY 2022-23 from ₹ 324.05 crore during the FY 2021-22.

The lower income from investment management (largely due to lower AAUM), advisory and other services (₹ 55.78 crore) and mark-to-market loss on investments (₹ 9.46 crore) was offset by higher interest income (₹ 7.36 crore) and higher income from dealing securities (₹ 5.14 crore).

The overall expenses increased to ₹ 179.95 crore in FY 2022-23 from ₹ 169.11 crore in FY 2021-22.

PBT stood at ₹ 90.32 crore in FY 2022-23 versus ₹ 154.94 crore in FY 2021-22.

Kotak Infrastructure Debt Fund Limited (KIDFL)

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

During the year, KIDFL 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 2022-23	FY 2021-22
Total Income	74.92	73.58
PBT/PAT	27.83	32.35

Customer Assets increased by 58% to ₹ 980.61 crore as on 31st March, 2023 compared to ₹ 620.35 crore as on 31st March, 2022 mainly due to higher disbursement.

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 2022-23	FY 2021-22
Total Income	0.32	0.30
PBT	0.24	0.29
PAT	0.16	0.22

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. It has 652 branch offices across 11 states in India (Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Bihar, Uttar Pradesh, Rajasthan, Gujarat, Chhattisgarh, Jharkhand and Odisha). Loans originated by BSS are eligible for priority sector advances of the Bank. It also provides first loss default guarantee to the Bank on the loans originated by it.

Financial Highlights

(₹ in crore)

Particulars	FY 2022-23	FY 2021-22
Total Income	633.10	283.18
PBT	396.29	109.51
PAT	297.21	82.81

Disbursements grew to ₹ 6,597 crore in FY 2022-23 from ₹ 2,894 crore in FY 2021-22. Further, Profit grew to ₹ 297.21 crores in FY 2022-23 from ₹ 82.81 crores in FY 2021-22. The higher PBT was mainly due to increase in AUM and a decrease in provisions.

RISK MANAGEMENT

A. Risk Management

The Group views risk management as a core competency and tries to ensure sound management of risks through timely identification, assessment and management. Risk management is a key internal process and is aimed at ensuring that the results of the activities that imply assuming a risk are consistent with the strategies and risk appetite and that adequate balance exists between the risk and benefit in order to maximize the value for the shareholders. 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 and CEO and the CRO in embedding strong risk management and risk culture. The ERM framework lays out 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 and manage it 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 second line is responsible for frameworks, policies, appetite and limits, which the first line must adhere to and comply with in their operations. This line is also responsible for monitoring the risk management and reviewing the risks that the bank is exposed to and ensures that management and the Board are sufficiently informed of the risk exposure.

The third line of defence is the audit function, which provides independent assurance at the institutional level on the design and operation of the internal control, risk management and control processes through the first and second lines of defence independent assessment of the first and second lines 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 and 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 function has separate units responsible for the management of credit risk, market risk, operational risk, liquidity and interest rate risk, group risk and technology risk. Each of these units reports to the CRO.

The Group has a well-established risk management structure, which includes the Board of Directors, supported by an experienced senior management team and various management committees as part of the Risk Governance framework. The risk management process is the responsibility of the Board of Directors, which approves risk policies and the delegation matrix. 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 and Board periodically. Such regular and transparent risk reporting and discussion at the 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 and 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.

As of date, the Bank and major entities of the Group continue 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 and 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 set in a manner to facilitate sustainable growth and to manage risks in a way that sustains the confidence of all internal and external stakeholders.

The risk appetite is a key building block of the Bank's risk management culture and framework. Risk Appetite forms a key input to the business and capital planning process by linking risk strategy to business strategy, through a set of comprehensive indicators. The Risk appetite statements are reviewed by senior management who recommend them 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 the risk appetite. Performance against the approved risk appetite is measured every quarter and reviewed by the Senior Management, RMC and 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 and 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. Internally developed credit rating models provide a consistent and structured assessment. The credit rating model consider a variety of criteria (quantitative, qualitative, financial and non-financial) to standardize credit decisions and focus on the quality of borrowers. Financial considerations include financial variables and ratios based on customer's financial statements and non-financial considerations include, among other things, the industry to which the borrower's businesses belong, the borrower's competitive position in its industry, its operating and funding capabilities, the quality of its management, technological capabilities and labor relations. 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, transaction history with the Bank and other financial institutions, income, loan tenor, availability of guarantors and other relevant credit information.

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 delinquency status of borrowing accounts, a key indicator of credit quality, are closely monitored. An account is considered delinquent when payment has not been received in full, by the payment due date. Any delinquent account, including a revolving credit facility with limit excesses, is monitored and managed through a disciplined process by officers from business units and the collections function.

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 Review framework that considers various financial and non-financial parameters to identify signs of credit weakness at an early stage. Depending on the nature of the signals detected by the early warning system, a borrower may be classified into different internal attention levels. 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. The approaches may range from auction of borrower securities, court proceedings, sale of assets or corporate restructuring as needed.

E. Collateral and Credit Risk Mitigation

Credit Risk mitigation, begins with proper customer selection through the 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 the 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 such as syndication, loan assignments and 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 and 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.

The 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. The collateral obtained is released on repayment of all dues or on collection of the entire outstanding credit facility, provided no other existing right or lien for any other claim exists against the borrower.

F. Credit Risk Concentration

Credit concentrations are managed at two levels: portfolio level and individual credit level. 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 and 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 and 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 and limit framework, the allocation of limits to business units and 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 and 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 and 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 has 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 and 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, that 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 and 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.

Settlement risk is the risk of losing the principal on a financial contract due to default by the counterparty, after irrevocable instructions for a transfer of a principal amount or security, but before receipt of the corresponding payment or security is confirmed. This risk is managed by close supervision of settlement transactions or by settling transactions on a delivery vs payment basis where possible, based on accepted market practices.

With a view to reduce counterparty and systemic risk, there are regulatory initiatives directing OTC trades to be cleared through Central Counterparties (CCPs). Derivative transactions are cleared through Central Counterparties, where possible, to reduce counterparty credit exposure through netting and the margining process. 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. The ongoing availability of this type of funding is dependent on a variety of factors such as general economic conditions, confidence of depositors in the economy, in the financial services industry, and in the Group, availability and extent of deposit guarantees, as well as competition between banks or with other products such as mutual funds, for deposits.

Asset Liability Management Committee (ALCO) of the Bank defines its liquidity risk management strategy and risk tolerances. Balance Sheet Management Unit (BMU) of the bank is responsible for managing liquidity under the liquidity risk management framework. The framework is designed to maintain liquidity resources that are sufficient in amount, quality and funding tenor profile to support the liquidity risk appetite. Liquidity risk management strategies and practices are reviewed to align with changes to the external environment, including regulatory changes, business conditions and market developments. Actual and anticipated cash flows generated are monitored to ensure compliance with limits. Liquidity risk tolerance is an integral part of the Board approved risk appetite statements.

There is an internal funds transfer pricing mechanism under which each business is allocated the full funding cost required to support its assets, Businesses that raise funding are compensated at an appropriate level for the liquidity benefit provided by the funding. Limit setting and transfer pricing are tools designed to control the level of liquidity risk taken and drive the appropriate mix of funds.

Liquidity risk is assessed in the Bank from both structural and dynamic perspective and the bank uses various approaches like Stock approach, cash flow approach and 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 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.

M. 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.

N. Conduct Risk

Conduct risk means any action that would cause harm to consumer protection, market integrity or competition. The Bank has identified conduct risk arising out of: Manipulation of financial benchmarks/markets, Mis-selling, Fair dealing with customers and Compliance with laws of the land. Minimising conduct risk is critical to achieving long term business goals and meeting regulatory standards. The Bank has processes for managing conduct risk and policies that guide staff in dealing with prevention of conflict of interest, employee conduct and dealing with proprietary and confidential information, so that they conduct themselves ethically and in compliance with the law. Product approval, product review processes, Suitability and appropriateness policies, are some of the measures embedded in the Bank's framework to mitigate conduct risk. Conduct Risk is managed by maintaining a positive and dynamic culture that 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.

O. Risk Culture

Culture and values are a priority area for the Group. Risk culture refers to desired attitudes and behaviours relative to risk taking. The Group embeds a strong risk culture, through clear communication and appropriate training for employees. The objective is to develop a disciplined risk culture where managing risk is a responsibility shared by all employees. The Group only assumes those risks that can be managed, with clear understanding of the implications. Senior Management receives regular and periodic information on various matters for the respective business lines and clearly communicate their plans, strategy and expected outcomes to team members. The Bank has a structured induction programme for new employees to help them in understanding various businesses across the Group and how risk management culture and practices support in building and sustaining the 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 fulfil its mandate while ensuring the organization is financially sustainable.

P. Internal Capital Adequacy Assessment Process ('ICAAP')

Every year, the Group undertakes the Internal Capital Adequacy Assessment Process ('ICAAP'), which provides management with a view of overall risks, assessment and capital allocated to cover the risks. The ICAAP is linked to overall business planning and establishes a strategy for maintaining appropriate capital levels. ICAAP is an assessment of all significant risks (Pillar II), other than Pillar I risks, to which the Group is exposed 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 and Pillar II risks.

Q. Stress Testing

Stress testing is a key element of the ICAAP and an integral tool in the Risk Management framework as it provides management a better understanding of how portfolios perform under adverse economic conditions. Stress testing is integral to strengthening the predictive approach to risk management and supplements other risk management tools by providing an estimate of tail risks.

The Bank has a Board approved Stress testing policy which is aligned to regulatory guidelines and covers material risks. Indicative stress scenarios are defined in the policy. Liquidity stress tests are also part of this framework and aim to ascertain whether the Bank has recourse to adequate liquidity to withstand the impact of approved stress scenarios. As actual events can sometimes be more severe than anticipated, management considers additional stresses outside these scenarios, as necessary. Reverse stress testing is used to explore extreme adverse events that would cause capital adequacy to fall below the internal capital threshold. While this identifies likely scenarios with an unacceptably high risk, there will be suitable measures to prevent or mitigate these that the Bank may implement.

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. Pandemic, War and Inflation

Pandemic-related disruptions of supply chains, manufacturing bottlenecks and general supply and demand conditions, as well as the war in Ukraine, have contributed to high inflation across many countries. Central banks have continued to tighten monetary policy, primarily in response to high inflation and policy rates are now at their highest levels since the financial crisis. High rates of inflation and the risk of regional or global recessions may affect economies, financial markets and market participants worldwide. Inflationary pressures may potentially increase certain operating expenses, adversely affect consumer sentiment and consequent higher market interest rates may result in lower values financial of assets and increase borrowing costs and interest paid on deposits. With a strong balance sheet and adequate liquidity position, the Group is well positioned to navigate the current economic environment and 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 the SEBI/IRDAI/PFRDA. As prescribed by the RBI, the 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/consultancy 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, 2023, the employee strength of Group was over 103,000 as compared to over 90,000 Kotakites a year ago. The Standalone Bank had over 73,000 employees as on 31st March, 2023.

In FY 2022-23, 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:

The Bank has championed Health and Wellness initiatives. 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 and online wellness initiatives such as yoga, meditation, zumba, quiz sessions, etc. The Bank also has Doctor Consultation; Nutritionist and Emotional Assistance Programme along with discounts on Pharmacy on its Health to the Power Infinity site. Doctors and Nutritionist are also available on call and in house.
- The Bank launched the Annual Health Screening Policy for all Kotakites above 40 years of age/ above certain grades. The Bank has tied up with Metropolis, NM Medical and Apollo Hospital and Clinics for the various tests covered under the Annual Health Screening Programme.
- All Kotakites are covered under Term life + Personal accident policy and also Mediclaim policy. 100% premium for medical insurance is borne by Kotak.
- Emotional Assistance Programme was continued to support and guide Kotakites emotionally and these services can be availed by their family members.
- Regular updates on the pandemic including COVID and Post COVID Recovery tips, webinar on understanding the Impact of Omicron, Announcements and guidelines on precautionary measures are sent to all Kotakites.

B. Diversity and Inclusion:

- The Bank has created an opportunity for multi-generations with current average age of 31.2 years, creating an opportunity for younger talent across grades.
- The Bank has tied up with a leading day care benefit management provider to provide crèche facilities and launched Day Care Policy applicable from the next financial year to set a reliable support system to take care of their children while they are working.
- The Bank also amended travel policy to provide higher level entitlements for women employees and bear travel expenses for a caregiver, if she is travelling with an infant of upto 1 year of age.
- The Bank also launched Kotak Wonder Women (KWW) Meet All to provide all women employees an opportunity to network and excel as a group.
- Continued supporting KWW during critical life phases through our unique New Mother Benefit Policy for Kotak Wonder Women. 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. In FY 2022-23, 640 KWW availed benefit under the policy.
- As an equal opportunity employer, we ensured that there is significant women participation in the workforce. We ran multiple campaigns across businesses to promote women membership and hired fresh women graduates from campuses. 2,300+ women were hired with STEM qualification. The average age of women new joiners was 26.6 years and around 59.7% of the total women hired were from Non-Banking industries.

- The Bank has been focussing on increasing the gender diversity with 26.4% women employees currently.
- Regional R&R events were organised where 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. Top 40 applicants across the bank were selected through a rigorous selection process and are being mentored by KLT and go through specific IDP.
- **Eureka:** Eureka is the idea generation portal where employees can submit open ideas or for specific business problems. The Bank successfully launched various themes during this FY and have got feedback in terms of ideas from our employees.
- **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. Phase 1 saw a participation from 96% of the branches. Top 8 branches were selected as final winners by the KLT panel.
- **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 3rd time in September 2022, with an overall 76% response rate organisation-wide. 79% of Kotakites today believe that Kotak is a Great Place to Work®! (up from 77% in the previous year). We have also been certified as 'One of India's Best Employers Among Nation-Builders' by Great Place to Work® Institute.
- **K-Applaud Policy:** The Bank has encouraged a culture of appreciation via monetary and non-monetary reward programmes through K-Applaud, Kotak's Rewards and Recognition platform. The platform is available to employees on Kotak Worklife Mobile App/Portal. Employees can appreciate their peers and can also avail discounts on various brands on the platform.
- **Foundation Day:** On 21st November 2022, the Bank celebrated 37th Kotak Foundation Day virtually and physically. More than 10,000 Kotakites participated online along with their family members. The physical event was celebrated with the presence of entire Kotak Leadership and all the winners of Kotak Infinity Awards and Kona Kona Kalakaar were felicitated in this event. We also launched a 21 day challenge to encourage managers to initiate fun activities within their teams ahead of the 37th Kotak Foundation Day.
- Kotakites at regional levels celebrated festivals and other occasions at respective offices.

Strategy

Refer page 36 for Strategy in the Integrated Annual Report 2022-23.

Safe Harbour

This document contains certain forward-looking statements based on current expectations of Kotak Mahindra Bank's 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 Bank's management 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.