Basel II (Pillar 3) Disclosures

1. Scope of Application

Pillar 3 disclosures apply to Kotak Mahindra Bank Limited (KMBL) and its consolidated entities for regulatory purposes, wherein KMBL is the controlling entity in the group.

Basis of Consolidation for capital adequacy

The consolidated capital adequacy is based on consolidated financial statements of Kotak Mahindra Bank and its subsidiaries, prepared in accordance with guidelines for consolidated accounting and other quantitative methods vide circular DBOD.No.BP.BC.72/21.04.018/2001-02 dated 25th February 2003 issued by Reserve Bank of India (RBI). The capital charge is computed as per RBI guidelines for implementation of the New Capital Adequacy Framework (Basel II) released in April 2007.

In accordance with the guidelines issued by RBI, the insurance subsidiary has been excluded from consolidation for the purpose of capital adequacy. The entities which carry on activities of financial nature are considered for consolidation for capital adequacy purpose as stated in the scope for preparing consolidated prudential reports laid down in RBI guidelines. The Bank consolidates all subsidiaries as defined in Accounting Standard -21 (AS-21) Consolidated Financial Statements on a line by line basis by adding together like items of assets, liabilities, income and expenses. Further, Bank's investments in Associates are consolidated using the equity method of accounting as defined by Accounting Standard – 23 (AS-23) Accounting for Investments in Associates in Consolidated Financial Statements. KMBL and its subsidiaries which have been consolidated, constitute the "Group". The list of subsidiaries / associates consolidated as per AS-21 alongwith their treatment in consolidated capital adequacy computation is as under:

Name of the Subsidiary	Country of Origin	Activity	Status of consolidation
Kotak Mahindra Prime Limited	India	Non Banking Finance Company	Fully consolidated
Kotak Securities Limited	India	Securities Broking	Fully consolidated
Kotak Mahindra Capital Company Limited	India	Investment Banking	Fully consolidated
Kotak Mahindra Old Mutual Life Insurance Limited	India	Life Insurance	Fully consolidated for financial reporting but not for capital adequacy. Investment deducted from regulatory capital for capital adequacy
Kotak Mahindra Investments Limited	India	Non Banking Finance Company	Fully consolidated
Kotak Mahindra Asset Management Company Limited	India	Asset Management Company – Mutual Funds	Fully consolidated
Kotak Mahindra Trustee Company Limited	India	Trustee of mutual funds	Fully consolidated
Kotak Mahindra (International) Limited	Mauritius	Brokerage and advisory services	Fully consolidated
Kotak Mahindra (UK) Limited	U.K	Brokerage and advisory services	Fully consolidated
Kotak Mahindra, Inc.	USA	Brokerage and advisory services	Fully consolidated
Global Investments Opportunities Fund Limited (GIOFL)*	Mauritius	Investment Company	Fully consolidated
Kotak Investment Advisors Limited	India	Asset manager of venture capital, private equity and similar funds	Fully consolidated
Kotak Mahindra Trusteeship Services Limited	India	Trustee of venture capital, private equity and similar funds	Fully consolidated
Kotak Forex Brokerage Limited	India	Foreign exchange brokerage services	Fully consolidated

Name of the Subsidiary	Country of Origin	Activity	Status of consolidation
Kotak Mahindra Pension Fund Limited	India	Pension fund management	Fully consolidated
Kotak Mahindra Financial Services Limited	Dubai	Advising on financial products for Middle East	Fully consolidated
Infina Finance Private Limited	India	Non Banking Finance Company	Consolidated by equity method
Phoenix ARC Private Limited	India	Securitisation and asset reconstruction	Consolidated by equity method
ACE Derivatives and Commodity Exchange Limited	India	Commodity Exchange	Consolidated by equity method
Matrix Business Services India Private Limited	India	Business service provider	Consolidated by equity method for financial reporting but not for capital adequacy purpose
Add Albatross Properties Private Limited	India	Real estate developer	Consolidated by equity method for financial reporting but not for capital adequacy purpose

**GIOFL is a collective investment scheme set up as a fund in Mauritius with the status of a limited company under the Mauritius Companies Act. In terms of constitution and private placement memorandum. GIOFL has classes of redeemable participating shares. Each class of participating shares has its own Balance Sheet and Profit and Loss account. The Profit / Loss of each such class belongs to the participating shareholders of that class. KMBL owns 100% of the management share and management shareholder is not entitled to any beneficial interest in the profit / loss of various classes nor is required to make good any shortfall. In substance there are no direct or indirect economic benefits received by the management shareholders. The substance over form must prevail. Accordingly, the Group consolidates management shares of the entity having regard to substance over form of the entity.*

a. Capital Deficiencies

As at 31st March 2013 the Bank and all its subsidiaries are adequately capitalised. The Bank maintains an oversight over its subsidiaries through its representation on their respective Boards and the Management Committee of the Bank is regularly updated.

b. Investment in Insurance subsidiary

The Group's investment in insurance subsidiary as at 31st March 2013 is deducted from regulatory capital for capital adequacy purpose under Basel II as given below:

₹ in crore

Name of the Entity	% shareholding of the Group	Investment value
Kotak Mahindra Old Mutual Life Insurance Limited	74%	377.62

The quantitative impact on regulatory capital of using risk weights investments versus using the deduction method is given below:

₹ in crore

Method	Quantitative Impact
Deduction method	377.62
Capital at 10% based on risk weighted assets	37.76

2. Capital Structure

The capital adequacy norms issued by RBI classify capital funds into Tier-I and Tier-II capital. Tier-I capital includes paid-up equity capital, statutory reserves, other disclosed free reserves, capital reserves and elements of Tier-II capital include investment reserve, general provision and loss reserve, eligible upper Tier-II instruments and subordinate debt instruments (lower Tier -II bonds). Group has issued debt instruments that form part of Tier-II capital. The terms and conditions that are applicable for these instruments comply with the stipulated regulatory requirements.

Equity capital

KMBL has authorized share capital of ₹ 400.00 crore comprising 80,00,00,000 equity shares of ₹ 5 each. As on 31st March 2013, KMBL has issued, subscribed and paid-up equity capital of ₹ 373.31 crore, constituting 74,66,09,026 number of equity shares of ₹ 5 each. KMBL shares are listed on the National Stock Exchange and the Bombay Stock Exchange. The GDRs issued by KMBL are listed on Luxembourg Stock Exchange. During the year KMBL has also allotted equity shares to employees under its Employee Stock Option Plan. The provisions of the Companies Act, 1956 and other applicable laws and regulations govern the rights and obligations of the equity share capital of KMBL.

Details of Upper Tier II and Lower Tier II Capital

Group has issued debt instruments that form a part of Tier II capital. The terms and conditions that are applicable for these instruments comply with the stipulated regulatory requirements. The upper Tier II bonds have an original maturity of 15 years with call option after 10 years. The interest on upper Tier II bonds is payable annually. The upper Tier II debt instruments have a step-up clause on interest payment ranging up to 50 bps.

Upper Tier II capital

₹ in crore

Date of Allotment	Date of Redemption	Rate of Interest	Amount
22-Mar-07	15-Jun-22	LIBOR + 155 bp till 15-Jun-2017, LIBOR + 255 bp till 15-Jun-2022	244.28*
30-Aug-07	30-Aug-22	9.95%	31.00
30-Aug-07	30-Aug-22	9.95%	5.00
7-Sep-07	7-Sep-22	10.30%	100.00
Total Upper Tier II capital			**380.28**

* USD 45 million converted to INR @ ₹ 54.285 to a US Dollar (prevailing exchange rate as on 31st March 2013).

Subordinated Debt

The lower Tier II Subordinated bonds issued by Bank have an original maturity between 5 to 15 years. The lower Tier II Subordinated bonds issued by a subsidiary have an original maturity between 6 to 10.5 years and interest on these lower Tier II capital instruments is payable annually.

₹ in crore

Date of Allotment	Date of Redemption	Rate of Interest	Amount
26-Oct-04	26-Apr-13	90 bps over 1 year benchmark yield, 7 day average INBMK set in advance	10.00
2-Nov-04	2-May-13	7.50%	50.00
8-Nov-04	8-May-13	7.50%	17.20
8-Nov-04	8-May-13	90 bps over 1 year benchmark yield, 7 day average INBMK set in advance	0.50
17-Nov-04	17-May-13	7.50%	1.00
1-Jun-05	1-Jun-15	7.85%	36.40
2-Jun-05	2-Jun-15	7.70%	29.90
29-Sep-05	29-Sep-15	7.50%	22.00
3-Oct-05	3-Oct-15	7.50%	15.00
25-Oct-05	25-Oct-15	7.50%	3.00
19-Jun-06	19-Jun-16	8.90%	18.00
19-Jun-06	19-Jun-16	8.90%	14.90
14-Nov-06	14-Apr-17	9.10%	10.00
14-Nov-06	14-Apr-17	9.10%	10.00
20-Nov-06	20-Apr-17	9.10%	2.10
20-Nov-06	20-Apr-17	9.10%	5.00
6-Dec-06	6-May-17	9.00%	50.00
25-Jan-07	25-Apr-17	9.50%	4.50

Date of Allotment	Date of Redemption	Rate of Interest	Amount
25-Jan-07	25-Apr-17	9.50%	5.00
6-Feb-07	6-May-17	9.50%	7.10
21-Feb-07	21-May-17	9.50%	2.30
21-Feb-07	21-May-17	9.50%	1.00
16-Mar-07	16-May-17	10.15%	60.00
9-Jul-07	9-May-18	10.25%	10.80
9-Jul-07	9-May-18	10.25%	25.00
23-Oct-07	23-Apr-13	10.85%	6.40
23-Oct-07	23-Apr-18	11.10%	19.10
24-Oct-07	24-Apr-13	10.85%	2.50
7-Feb-08	7-Aug-18	10.00%	8.10
7-Feb-08	7-Aug-18	10.00%	5.60
19-Feb-08	19-Aug-18	10.00%	0.80
29-Feb-08	29-Aug-18	10.00%	0.70
3-Mar-08	3-Sep-18	10.00%	0.40
15-May-08	13-Nov-18	10.00%	28.60
23-Jun-08	23-Dec-18	10.00%	7.50
23-Jun-08	30-Dec-18	11.00%	8.90
14-Jul-08	14-Jan-19	11.00%	0.50
31-May-10	30-Nov-20	10.10%	22.00
29-Jun-10	30-Nov-20	10.10%	3.00
30-Aug-10	30-Aug-17	10.10%	12.00
7-Apr-11	7-Apr-21	9.31%	150.00
31-May-11	22-Dec-17	10.70%	5.00
31-May-11	22-Jun-21	10.50%	17.10
30-Jun-11	30-Jun-21	10.50%	18.50
15-Jan-13	13-Jan-23	10.50%	25.00
Total subordinated debt			**752.40**

a. Amount of Tier I and Tier II Capital

₹ in crore

		Amount
(a)	**Tier I Capital**	
	Paid-up share capital	373.31
	Reserves and Surplus excluding translation and investment reserve	14,547.24
	Deductions:	
	Investment in paid-up capital of subsidiaries / associates (50%)	190.64
	Intangible assets other than Goodwill	288.03
	Goodwill	3.42
	Net Tier I Capital	**14,438.46**
(b)	Total eligible Tier II Capital	933.34
(c)	Debt instruments eligible for inclusion in Upper Tier II Capital	
	Total amount outstanding	380.28
	Of which raised during the current financial year	-
	Amount eligible to be reckoned as capital	380.28
(d)	Subordinated debt eligible for inclusion in Tier II capital	
	Total amount outstanding	752.40

		Amount
	Of which raised during the current financial year	90.00
	Amount eligible to be reckoned as capital	553.06
(e)	General Provisions and loss reserves	265.50
(f)	Investment reserve	41.10
	Deductions:	
	Investment in paid-up capital of subsidiaries / associates (50%)	190.64
	Net Tier II Capital	**1,049.30**

b. Total eligible capital as at 31st March 2013

₹ in crore

	Amount
Tier I Capital	14,438.46
Tier II Capital	1,049.30
Total eligible Capital	**15,487.76**

3. Capital Adequacy

In accordance with the guidelines of the Reserve Bank of India, the Group has adopted standardised approach for credit risk, basic indicator approach for operational risk and standardised duration approach for market risk for computing capital adequacy.

As per license conditions the Bank is required to maintain minimum capital of 10 percent of its risk-weighted assets. Under the Basel I guidelines, Bank is required to maintain at least 50% as Tier I Capital. As per the RBI Basel II guidelines under NCAF, Bank's are encouraged to maintain minimum Tier I Capital ratio of 6.0%.

In terms of RBI guidelines on New Capital Adequacy Framework (NCAF), Capital is required to be maintained at the higher of Basel II minimum capital requirement or 80% of the minimum capital requirement computed under the Basel I framework. For the year ended 31st March 2013, the minimum capital required to be maintained by the Bank as per Basel II guidelines is higher than that required at 80% of the capital requirements under Basel I guidelines. The Bank has worked out CAR based on Basel-I and Basel-II guidelines and CAR is above the regulatory minimum level of 10%.

Approach to Capital Adequacy Assessment to support business activities

The diversified business activities require the Group to identify, measure, aggregate and manage risks effectively and to allocate capital among its businesses appropriately. The risk management framework lays emphasis on the Group's risk philosophy, proper organisational structure, risk and reward balance and is supported by dedicated monitoring and risk measuring mechanism. The Key risks the Group is exposed to are Credit Risk, Market Risk, Interest Rate Risk, Liquidity Risk and Operational risk.

Basic principles and risk and capital management

The Bank undertakes sound risk management in achieving its purpose, objectives and strategies. The Board of Directors approves risk appetite for the Bank. The approved risk appetite sets the boundaries for risk taking. Performance against approved Risk Appetite is reviewed periodically by the Risk Management Committee and the Board. Development of the risk strategy and risk appetite is an ongoing process and is based on past experience and future plans. The risk strategy is consistent with the Board's overall risk tolerance, management's expertise in each business unit and the total financial amount that the Bank is prepared to place at risk of loss (capital at risk).

The Management Committee provides overall risk management supervision for the consolidated Group as a whole. Various risk committees, namely Risk Management Committee, Asset Liability Management Committee (ALCO), Credit Committee, First Tier Audit Committee, Information Security Committee etc, review specific risk areas and supervise the activities of enterprise wide risk management.

Other capital adequacy assessment aspects:

- The Bank supplements the Capital Adequacy computation by performing stress tests, based on Scenarios approved by its Risk Management Committee, to assess how its businesses perform under stress conditions. These tests help the Bank to design appropriate risk response to meet stressed conditions. During the year after considering the results of the stress tests and key sensitivities, capital adequacy position of the Bank is above regulatory and internal target capital ratios.
- The Bank has an ICAAP Policy that covers Pillar II risks. During the year, the Bank prepared its annual ICAAP outcome and was well capitalized to cover Pillar I & Pillar II risks.

Capital requirements for various risk categories as at 31st March 2013

₹ in crore

Items		Amount
(a)	Capital requirements for credit risk	
	Portfolios subject to standardised approach	7,328.74
	Securitisation exposures	-
(b)	Capital requirements for market risk	
	Using standardised duration approach	
	Interest rate risk	624.40
	Foreign exchange risk (including gold)	20.00
	Equity position risk	303.64
(c)	Capital requirements for operational risk	
	Measured using basic indicator approach	823.03
	Total capital required at 10%	9,099.81
	Total capital funds of the Group	15,487.76
	Total risk weighted assets	90,998.07
Capital adequacy ratio		**17.02%**

Computed as per Basel II guidelines

4. Credit Risk

Credit risk arises as a result of failure or unwillingness on part of customer or counterparties' to fulfil their contractual obligations. These obligations arise from wholesale, retail advances and off balance sheet items. Credit risks also emanate from investment and trading portfolio by way of issuer risk in debt paper, settlement risk on OTC trades and downgrade risk on non SLR investments and OTC contracts.

Credit risk is managed in the Bank through committees that approve credit and an enterprise wide risk management framework which sets out policies and procedures covering the measurement and management of credit risk.

The Bank's credit policies and process notes articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance. These policies define the Bank's overall credit sanction criteria, including the general terms and conditions. The policies / processes generally address such areas as target markets / customer segmentation, qualitative-quantitative assessment parameters, portfolio mix, prudential exposure ceilings, concentration limits, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms etc. They take cognisance of prudent and prevalent banking practices, relevant regulatory requirements, nature and complexity of the Bank's activities, market dynamics etc.

The Bank's credit exposure is primarily categorised into retail and wholesale borrowers. Retail exposure is mostly loans to individuals and small businesses. These may be asset backed or on unsecured basis. Wholesale borrowers are internally categorised as belonging to corporate, mid-markets and financial institutional group. Retail credit lending is largely decentralised and based on predefined parameters and managed through product definition and portfolio monitoring. Wholesale credit exposures are managed through credit appraisal by an independent credit risk team and post sanction monitoring.

Credit risk management processes

Credit risk management is an integral part of the management and governance process within the Bank. The Bank focuses on ensuring that credit risk taking is in line within approved policies, while meeting risk-reward objectives. The Bank expects to achieve its earnings objectives and to satisfy its customers' needs while maintaining a sound portfolio. Credit exposures are managed through target market identification, appropriate credit approval processes, post-disbursement monitoring and remedial management procedures. Periodic portfolio review, clear identification of early warning signals and prompt action on the legal and recovery front ensure a healthy credit portfolio. Timely and in-depth research on industries and sectors ensure that funds are directed to positive outlook sectors. Adverse developments in sectors are tracked to facilitate timely actions. The Bank also constantly reviews its concentration across borrowers, groups, portfolio segments, geography, maturity, sectors and ratings. This helps the Bank maintain a well diversified portfolio. The Bank has also put in place a rating based approval matrix for sanctioning wholesale loans.

Nature of reporting and measurement systems

Credit Rating is an integral part of the lending decision. The Bank has a two scale internal rating model for wholesale exposures that assigns obligor ratings & facility ratings. The rating model is capable of rating large and emerging corporates, traders, brokers, NBFCs, Real Estate clients and service sector clients. Ratings are supported by financial analysis and combined with Credit Head's judgment to arrive at the final rating for a borrower / counterparty. The Bank uses an 18 point scale to grade borrowers.

The obligor rating provides an estimate of the probability of default of the borrower in the next year. The obligor rating is independent of the type / nature of facilities and collaterals offered. The obligor rating consists of quantitative and qualitative factors and includes assessment of customer's financial position, industry in which the borrower operates, business & management risks.

The facility ratings take into account structuring features of specific facilities and the collaterals offered. The facility rating provides an estimate of the loss given default for the facility (LGD).

The product of the Obligor rating (PD) and Facility rating (LGD) provides an estimate of the Expected loss against each facility.

The rating model is being further enhanced to give required inputs to estimate Probability of Default (PDs) and Loss Given Default (LGDs) based on the Bank's own experience.

The Bank has strong governance on the rating models and framework for changes to the model or enhancements. Performance of the internal rating model is reviewed periodically.

On the retail side, the bank has processes for risk assessment of retail loan exposures. The Bank is constantly improving the quality of origination through better understanding of its portfolio and improved underwriting standards. Portfolio delinquency trends are monitored periodically.

The Bank has a defined stress testing policy that lays down the framework for stress testing. On Credit Risk, the framework covers Corporate as well as Retail portfolio and the portfolios are stressed on approved scenarios to assess the impact of stress conditions on profitability and capital adequacy. The stress tests are performed periodically, as per the policy guidelines and results of these stress tests are placed to the RMC & Board.

Concentration of credit risk arises when a number of obligors are engaged in similar activities, or operate in the same geographical areas or belong to the same industry sector. The risk appetite of the Bank mandates a well-diversified portfolio and the Bank operates within Board approved limits in its loan portfolio that cover Obligor concentration, Group concentration, Substantial exposures, Sector & Industry concentration & Unsecured lending. These limits are monitored periodically and reported to senior management. Assessment of credit concentration risk is part of the Bank ICAAP.

The Bank prepares its risk profile on a periodic basis and monitors the level of credit risk (Low / Moderate / High) and direction of change in credit risk (increasing / decreasing / stable) at the portfolio level on a regular basis. The risk profile is reported to the senior management and the Board.

Credit Risk Management Principles

The Bank measures and manages its credit risk based on the following principles:

- The extension and renewal of any credit facility to a particular borrower requires credit approval at the appropriate authority level. The approval authorities policy indicates the sanctioning authorities and the rating tool helps the authorities in such decisions.
- The approval of all limits to counterparties should be in line with the corporate credit policy and credit risk mitigation policy of the bank. Such approval should generally be within the Bank's portfolio guidelines and credit strategies.
- The credit worthiness of borrowers is regularly reviewed and monitored. Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimise the potential loss to the bank.

Definition and classification of non-performing assets (NPA)

The Bank classifies its advances into performing and non-performing advances in accordance with extant RBI guidelines.

A NPA is defined as a loan or an advance where;

- Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan;
- The account remains 'out of order' – in respect of an overdraft / cash credit (OD/CC); and
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

Out of Order

An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power for a continuous period of 90 days. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

Overdue

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. A sub-standard asset is one, which has remained NPA for a period less than or equal to 12 months. An asset is classified as doubtful if it has remained in the sub-standard category for a period exceeding 12 months. A loss asset is one where loss has been identified by the Bank or internal or external auditors or during RBI inspection but the amount has not been written off fully.

The loans of subsidiaries have been classified as non-performing in accordance with the guidelines prescribed by their respective regulators.

Total credit risk exposures as at 31st March 2013

₹ in crore

Overall credit exposure	Fund based	Non-fund based	Total
Total gross credit exposures	66,737.76	10,986.60	77,724.36

Includes all entities considered for Basel II capital adequacy computation

Credit exposure include term loans, working capital facilities (i.e. funded facilities like cash credit, demand loans, temporary limits and non-funded facilities like letter of credits, acceptances and guarantees).

Geographic distribution of exposures as at 31st March 2013

₹ in crore

Exposures	Fund based	Non-fund based	Total
Domestic	66,737.76	10,977.83	77,715.59
Overseas	-	8.77	8.77
Total	**66,737.76**	**10,986.60**	**77,724.36**

Includes all entities considered for Basel II capital adequacy computation

Industry-wise distribution of exposures

₹ in crore

Industry	Fund based	Non-fund based	Total
Auto loans	20,714.86	-	20,714.86
Personal loans	3,063.58	-	3,063.58
Home loans / Loan against property	10,338.40	-	10,338.40
Credit cards	309.12	-	309.12
Other retails loans	12,749.54	-	12,749.54
Iron and steel	293.78	308.34	602.12
Engineering	753.82	1,340.58	2,094.40
Chemical, dyes, paints etc	962.49	973.19	1,935.68
Construction	3,383.56	411.40	3,794.96
Automobiles	1,955.23	670.93	2,626.16
Infrastructure	3,492.98	2,447.65	5,940.63
NBFC's	1,857.09	2.04	1,859.13
Other industries (i)	6,863.31	4,832.47	11,695.78
Total	**66,737.76**	**10,986.60**	**77,724.36**

Includes all entities considered for Basel II capital adequacy computation

[i] *Other industries include entities from sectors such as cotton textiles, sugar, food processing, vegetable oils and vanaspati, paper and paper products, rubber and rubber products, cement, IT-related, gems and jewellery, capital markets, media publication etc.*

Residual contractual maturity break-down of assets as at 31st March 2013

₹ in crore

Maturity Pattern	Cash and balances with monetary authority	Balances with other banks	Investments	Advances	Fixed Assets	Other Assets
0 to 14 days	752.85	1,067.69	12,086.78	4,765.45	-	487.49
15 to 28 days	95.97	275.00	808.92	2,380.76	-	268.07
29 days to 3 months	378.11	100.00	4,393.16	6,914.06	-	206.38
Over 3 months & upto 6 months	221.70	-	2,093.44	6,446.32	-	164.84
Over 6 months & upto 1 year	227.51	-	2,543.77	8,378.19	-	37.18
Over 1 year & upto 3 years	424.62	0.59	5,409.13	24,802.51	-	18.58
Over 3 years & upto 5 years	42.77	-	908.44	5,550.32	-	44.47
Over 5 years	68.01	0.09	1,432.15	7,021.59	494.35	1,330.48
Total	**2,211.54**	**1,443.37**	**29,675.79**	**66,259.20**	**494.35**	**2,557.49**

Consolidated figures for Kotak Mahindra Bank Limited, Kotak Mahindra Prime Limited and Kotak Mahindra Investments Limited

Amount of non-performing loans as at 31st March 2013 including NPAs acquired from other banks and NBFCs

₹ in crore

Items	Amount	
	Gross NPA	Net NPA
Substandard	322.72	213.15
Doubtful 1	291.01	112.73
Doubtful 2	132.30	30.88
Doubtful 3	63.12	-
Loss	39.21	4.46
Total	**848.36**	**361.22**
NPA Ratio (%)	1.27%	0.55%
Movement of NPAs		
Opening balance as at 1st April 2012	699.74	273.43
Additions	522.13	212.10
Reductions	(373.51)	(124.31)
Closing balance as at 31st March 2013	**848.36**	**361.22**

Includes all entities considered for Basel II capital adequacy computation

Gross NPA ratio is computed as a ratio of gross non-performing loans to gross advances

Net NPA ratio is computed as a ratio of net non-performing loans to net advances

Movement of provisions for NPAs

₹ in crore

	Amount
Opening balance as at 1st April 2012	426.31
Provisions made during the year	310.03
Write-off/ Write back of excess provisions	(249.20)
Closing balance as at 31st March 2013	**487.14**

Amount of non-performing loans as at 31st March 2013 excluding NPAs acquired from other banks and NBFCs

₹ in crore

Items	Amount	
	Gross NPA	Net NPA
Substandard	322.63	213.14
Doubtful 1	251.93	112.74
Doubtful 2	93.22	23.02
Doubtful 3	14.05	-
Loss	38.22	4.45
Total	**720.05**	**353.35**
NPA Ratio (%)	1.08%	0.53%
Movement of NPAs (gross)		
Opening balance as at 1st April 2012	560.82	260.38
Additions	462.13	217.10
Reductions	(302.90)	(124.13)
Closing balance as at 31st March 2013	**720.05**	**353.35**

Gross NPA ratio is computed as a ratio of gross non-performing loans to gross advances

Net NPA ratio is computed as a ratio of net non-performing loans to net advances

Movement of provisions for NPAs

₹ in crore

	Amount
Opening balance as at 1st April 2012	300.44
Provisions made during the year	245.03
Write-off/ write back of excess provisions	(178.77)
Closing balance as at 31st March 2013	**366.70**

Amount of Non-performing investments (NPI)

₹ in crore

	Amount
Gross NPI as at 31st March 2013	18.06
Amount of provisions held for NPI	18.06
Net NPI as at 31st March 2013	-

Movement of provisions for depreciation on investments

₹ in crore

	Amount
Opening balance as at 1st April 2012	16.11
Additional provisions during the year	5.60
Write off /Write back of provisions during the year*	(3.65)
Closing balance as at 31st March 2013	18.06

**After considering appreciation in investments*

5. **Credit risk – portfolios subject to the standardised approach**

External Ratings

As per the NCAF, the Bank has adopted the Standardised approach for measurement of credit risk. The risk weights under this approach are based on external ratings of counterparties, the Bank has identified the following External Credit Assessment Agencies (ECAI's) as approved rating agencies:

a. Domestic credit rating agencies: CRISIL, ICRA, CARE and India Ratings (erstwhile FITCH India)

b. International rating agencies: S&P, FITCH and Moody's

The Bank assigns risk weight on the basis of Long Term and Short Term rating of the borrower. The issue / issuer ratings of the ECAI's are considered for the borrowers and the risk weights are then derived on a case by case basis in accordance with the rules laid down by RBI as part of the New Capital Adequacy Framework.

Credit exposures by risk weights

₹ in crore

Exposure category	Fund based	Non-fund based	Total
Below 100% risk weight	22,158.61	5,598.78	27,757.39
100% risk weight	25,493.94	4,041.68	29,535.62
More than 100% risk weight	18,247.74	496.88	18,744.62
TOTAL	**65,900.29**	**10,137.34**	**76,037.63**

Includes all entities considered for Basel II capital adequacy computation

6. Credit Risk Mitigation

The Bank has a credit risk mitigation policy that lists possible credit risk mitigation techniques and associated haircuts as envisaged in RBI guidelines. The objective of this policy is to enable classification and valuation of credit risk mitigants in a manner that allows regulatory capital adjustment to reflect them. The policy adopts the Comprehensive Approach, which allows full offset of collateral wherever applicable against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. The collateral values are suitably adjusted by (appropriate haircuts to take account of possible future fluctuations in their value due to market movements). The Bank has taken ₹ 1,686.73 crore of collateral benefit in the capital computation as of 31st March 2013.

7. Securitisation

a. Securitisation objectives and policies

Securitisation of assets is undertaken with the following objectives:

- **Meeting credit needs of borrowers** – Due to various constraints such as single party and group exposure norms, paucity of capital, internal sectoral exposure norms etc, at times the Bank is unable to meet the entire credit requirements of the borrowers. Securitisation helps the Bank to overcome such constraints and meet customer's credit needs.
- **Assistance in management of asset-liability mismatches** – With traditional on balance sheet borrowing and lending, the maturity of assets tends to be much longer than that of the liabilities. Securitisation effectively makes Bank's assets more liquid providing scope to more flexibly manage maturity mismatches.
- **Reduction of credit risk, interest rate and liquidity risk** – Through Securitisation, the Bank can transfer credit, interest rate and liquidity risks to third parties.
- **Freeing up of capital and Improvement in return on capital -** Securitisation removes assets from the Bank's balance sheet and hence frees up capital for other uses. It also improves return on capital.
- **Contingency plan** – Securitisation of retail asset portfolio is considered as an important element of the contingency funding plan of the Bank.

Role played by the Group in the securitisation process:

- **Structurer:** The Bank scans the market to identify potential investors and structures the transaction to meet their requirements in compliance with the extant guidelines.
- **Collection and paying agent:** The SPV may appoint the concerned entity in the Bank as the collection and paying Agent. In such cases, the Bank collects the amounts due from the underlying obligors on the due dates and remits the same into the account of the SPV.

b. Summary of Bank's accounting policies for securitisation activities

In terms of RBI guidelines Bank sells assets to SPV only on cash basis and the sale consideration is received not later than the transfer of the asset to the SPV. Any loss arising on account of the sale is accounted immediately and reflected in the profit and loss account for the period during which the sale is affected and any profit / premium arising on account of sale is amortised over the life of the securities issued or to be issued by the SPV.

i) In case the securitised assets qualify for derecognition from the books of the Bank, the entire expenses incurred on the transaction e.g. legal fees etc., is expensed at the time of the transaction and is not deferred.

ii) Where the securitised assets do not qualify for derecognition the sale consideration received is treated as a secured borrowing.

c. **Rating of the securitisation transactions:**

The Bank uses the ratings provided by external credit rating agencies viz. CRISIL, India Ratings (erstwhile FITCH India), ICRA and CARE for the securitisation of corporate loans and retail pools.

d. **Breakup of the exposure securitised by the Group during the year and subject to securitisation framework:**

A. **Banking Book**

₹ in crore

Sr. No.	Exposure type	Amount
1	Total amount of exposures securitised	
	Corporate Loans	-
	Auto Loans (Car and commercial vehicles)	-
	Mortgage Loans	-
	Total	**-**
2	Loss recognized during the period on securitisation	**-**
3	Amount of assets intended to be securitised within a year	**-**
	Of which	
	-Amount of assets originated within a year before securitisation	**-**
4	Unrecognised gain on securitisation	
	Corporate Loans	-
	Auto Loans (Car and commercial vehicles)	-
	Mortgage Loans	-

Includes all entities considered for Basel II capital adequacy computation

Aggregate amount of securitisation exposures retained or purchased and outstanding as on 31st March 2013 is given below:

₹ in crore

Sr.No.	Exposure type	On Balance Sheet Amount	Off Balance Sheet Amount
1	Total amount of exposures retained	-	-
2	Securities purchased	-	-
3	Liquidity facility	-	-
4	Credit commitments (cash collateral)	-	-
5	Other commitments	-	-

Risk-weight wise and bucket wise details of the securitisation exposures on the basis of book value

₹ in crore

Exposure type	Amount	Capital charge
Below 100% risk weight	-	-
100% risk weight	-	-
More than 100% risk weight	-	-
Deductions		
- Entirely from Tier I capital	-	-
- Credit enhancing I/Os deducted from total capital	-	-
- Credit enhancement (cash collateral)	-	-

B. **Trading Book**

Breakup of the exposure securitised by the Bank during the year and subject to securitisation framework:

Sr. No.	Type of Securitisation	Amount
1.	Aggregate amount of exposures securitised by the bank for which the Bank has retained some exposures and which is subject to the market risk approach	-

Aggregate amount of securitisation exposures retained or purchased and outstanding as on 31st March 2013 is given below:

₹ in crore

Sr.No.	Exposure type	On Balance Sheet Amount	Off Balance Sheet Amount
1	Total amount of exposures retained	-	-
2	Securities purchased		
	Auto Loans (Commercial vehicles and construction equipments) and Micro finance (unsecured)	191.33	-
3	Liquidity facility	-	-
4	Credit commitments (cash collateral)	-	-
5	Other commitments	-	-

Risk-weight wise and bucket wise details of the securitisation exposures on the basis of book value

₹ in crore

Exposure type	Amount	Capital charge
Below 100% risk weight	191.33	3.15
100% risk weight	-	-
More than 100% risk weight	-	-
Deductions		
- Entirely from Tier I capital	-	-
- Credit enhancing I/Os deducted from total capital	-	-
- Credit enhancement (cash collateral)	-	-

Includes all entities considered for Basel II capital adequacy computation

8. Market Risk in Trading Book

a. Market risk management policy

Market risk is defined as the risk to earnings arising from the movement in market risk factors, namely interest rates, foreign exchange rates, credit spreads or equity prices. For regulatory capital purposes, the Bank calculates its market risk capital requirements according to the Standardised methodology.

The objective of the risk management function is risk identification, measurement and reporting them to the management. The Bank has designed and implemented policies and procedures to ensure that market risk exposures are managed within the approved risk management framework. Embedded within these is a framework of management responsibilities. The Board oversees the market risk management process.

The capital market risk management policies and procedures are based on the product traded.

The Bank's risks are managed through a framework that relates the Bank's integrated risk management policy to the Bank's strategy and objectives. The risk management framework lays emphasis on the groups risk philosophy, proper organisational structure, risk and reward balance and is supported by dedicated monitoring and risk measurement mechanism. This framework for market risk management ensures that appropriate controls, policies and senior management oversight form the basis of the Bank's approach to market risk management.

The market risk for the Bank and each of its major subsidiaries is managed in accordance with the investment policy, which is approved by the respective Boards. These policies ensure that transactions in capital and foreign exchange markets and derivatives are conducted in accordance with sound and acceptable business practices and are as per the extant regulatory guidelines, laws governing transactions in financial markets and the financial environment.

The policies are reviewed regularly to incorporate changes in regulatory guidelines and business and economic environment.

Risk management objectives

The Bank manages its risk with the objectives listed below:

- Achieving risk return balance
- Managing and optimising interest rate risk in banking and trading book
- Ensuring that mismatches between rate sensitive assets and liabilities is kept within limits

- Managing and optimising currency and liquidity risk
- Proper recognition, classification, measurement and accounting of investments
- Compliance with regulatory guidelines
- Oversight over the operation and execution of market transactions

Structure and organisation of the market risk management function

The Bank's risk management architecture is overseen by the Board of Directors and appropriate policies to manage risks are approved by the Board. The Board is involved in defining risk appetite and capital at risk for the Bank, at an integrated level, covering all activities of the Bank. The Board has also delegated to the Group Head - Risk, the responsibility for middle office and risk management. Risk Management department is entirely independent of Treasury Department.

The Bank uses a comprehensive range of quantitative tools and metrics for monitoring and managing risks. Some of these tools are common to a number of risk categories whereas the others are tailored to address the particular features of specific risk categories. Both with a view to bringing in risk sensitivity through policies and to duly meet the regulatory requirements, the Bank continually assesses the appropriateness and the reliability of the quantitative tools and metrics in the light of the changing risk environment.

Value at Risk

The Bank is computing the market risk capital charge for the trading book as per the standardised approach as per the regulator's guidelines. To complement this, Bank also calculates value at risk on its portfolio. Value at risk is computed for each type of market risk i.e. interest rate, foreign currency, equity etc taking into effect the various correlations between the risk factors. The VaR model is also back tested to ensure its accuracy. The Bank got the VaR model validated by an independent external consultant.

Stress Testing

The Bank periodically stresses the portfolio to highlight the potential risks that may arise due to events that are rare but plausible. The Bank conducts various tests like the impact of shock to one risk factor, extreme events that may change various risk factors simultaneously and worst case scenario that captures the potential damaging shift in various market risk factors. During the year, the Bank was within the internal and regulatory capital ratios after applying the stress scenarios. The stress test results and the subsequent capital requirements are placed before the RMC & the Board .

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due without adversely affecting its financial condition. Liquidity is also bank's capacity to fund increase in assets and has the potential to constrain growth through depletion of resources available for lending and investment.

Asset Liability Management Committee (ALCO) of the bank defines its liquidity risk strategy and risk tolerances. Balance Sheet Management Unit (BMU) of the bank is responsible for managing liquidity under the liquidity risk management framework. Bank actively manages its liquidity risk covering both market funding risk and market liquidity risk.

The Bank maintains a diversified funding profile with emphasis on building retail franchise to increase customer deposits. The Bank ensures that there is sufficient liquidity headroom available, including liquid assets, at all times to manage any contingency.

Bank dynamically manages the daily queue of payments, forecasting the quantum and timing of cash flows, prioritising critical payment transactions, assessing the drawing power of intraday liquidity facilities etc. Considering the inter-dependencies that exist among systems, which may lead to liquidity dislocations that cascade quickly across many systems, especially banks, ALCO has set internal limits for inter-bank liability (IBL), call money borrowing and lending limits.

Liquidity risk is assessed from both structural and dynamic perspective and the bank uses various approaches like stock approach, cash flow approach & stress test approach to assess liquidity risk.

Banks uses structural liquidity gap analysis to measure cash flow mismatches at different time bands and manage net funding requirements. The cash flows are bucketed in different time bands based on the residual maturity of the cash flows or the projected behavior of assets, liabilities and off-balance sheet items. There are regulatory and ALCO approved tolerance limits for liquidity gaps. Banks also manages its liquidity on a dynamic basis to supplement the liquidity gap analysis by capturing net cash outflow or inflows for business units considering their business projection for the next 3 months. Bank also assesses liquidity using stock approach by computing ratios to measure the extent of stability of funds, liquidity, concentration etc.

The Bank's Board-approved Contingency Liquidity Plan (CLP) is another key element of the Bank's Liquidity measurement and management framework. CLP articulates the management action plan to be adopted in case of liquidity crises. Control & Response Teams are designated. Potential contingency liquidity sources are identified. The Bank actively uses a ratio-based Early Warning Indicators (EWI) framework for tracking impending liquidity stresses.

The Bank follows scenario based approach for Liquidity Stress Testing. These scenarios & assumptions are employed to evaluate the impact of stress on the existing liquidity position of the Bank. Market Liquidity Risk is considered through haircuts to sell liquid assets considering instrument type, expected change in interest rate in liquidity crisis etc. Bank also assess the impact on Profit and Loss in utilising liquidity mitigates (e.g. selling liquid assets, marginal standby facility, refinance head rooms etc.) with appropriate haircuts and increased cost of funding.

The bank is proactively assessing the liquidity under stress conditions using Basel III Liquidity Ratio i.e. liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). These measures have been incorporated as part of bank's risk appetite definitions and thresholds.

Hedging and risk mitigation

The Bank has defined limits on the positions that can be taken and all the business groups are required to adhere to the same. The hedging transactions are periodically assessed for hedged effectiveness in accordance with the applicable guidelines.

Market risk capital charge

₹ in crore

Risk category	**Capital charge**
Interest rate risk	624.40
Equity position risk	303.64
Foreign exchange risk	20.00
Total capital required	**948.04**

Includes all entities considered for Basel II capital adequacy computation

9. Operational Risk Management (ORM)

The Bank and the subsidiaries have well defined operational risk management objectives, strategies and governance structures. The Bank has a comprehensive ORM Framework that covers all activities and governance structure that helps manage operational risk effectively. Through implementation of the Operational Risk Framework and related policies, businesses are able to adopt a structured approach to identify, assess and monitor Operational Risk exposures, design appropriate mitigation strategies, and provide timely and effective reporting to Risk Committee & the Board. The Operational risk framework is supported by policies and processes that help business manage operational risk within approved tolerances, on behalf of its stakeholders.

On the basis of the Enterprise wide Risk Management policy, operational risk policies are prepared for the Bank. These policies outline the ORM governance structure, key risk assessment, risk monitoring and risk mitigating activities. The policy applies to all business lines within the Bank.

Most Group entities, including the Bank, have Risk Management Committees to manage operational risks. Separate sub committees also exist in a few entities to screen all potential new mandates for profitability and to ensure that compliance, legal and reputational issues are addressed before accepting any mandate. Hence, depending upon the size of the group entity, the operational risk governance structure is adequate to manage material operational risks.

Senior Management in all group entities is actively involved in the management of operational risk and implementation of the respective ORM Frameworks / policies. Some group entities have separate operational risk management department. Remaining entities manage operational risk through internal control departments that vary in sophistication depending upon the business needs.

The internal control framework ensures that process related operational risks are minimised by way of regular monitoring and audits. The Group internal audit team, following RBI's risk based audit methodology and the group compliance department provide sound platform for operational risk management along with risk management unit.

The following are some of the key techniques applied by Bank and / or group companies to manage operational risks -

- The Bank has built into its operational process segregation of duties, clear reporting structures, well defined processes, operating manuals, staff training, verification of high value transactions and strong audit trails to control and mitigate operational risks.
- New Product & activity notes prepared by business units are reviewed by all concerned departments including compliance, risk management and legal. All concerned departments coordinate and discuss key operational risk issues involving people, process, technology, external factors etc. so as to minimise them or ensure adequate controls over them. In subsidiaries, internal controls unit reviews the product notes in consultation with the respective departments, including compliance and legal.
- The Operational risk team performs detailed risk analysis and root cause analysis on operational risk events, reported by business units, to identify inherent areas of risk and suggest suitable risk mitigating actions which are monitored for resolution. The Bank wide unusual event reporting and capture system forms the basis for this analysis. The Operational risk team also proactively scans information on external events occurring in the industry to ensure that the bank can respond suitably to similar incidents.

- Bank has in place a 'Risks and Controls Self Assessment' programme for formally assessing operational risks and related controls to mitigate these risks. The self assessments are performed by individual business units and functions. As part of the annual Risks and Controls Self Assessment ("RCSA") process, areas with high risk potential are highlighted and business unit / function either proposes mitigating measures to resolve the issue or provides a rationale for why the risk is acceptable.
- The Bank continuously takes various steps to increase the overall level of operational risk awareness amongst staff at all levels using various tools like trainings, workshops, risk assessment exercise and process related compliance certification / testing etc. Operational risk profile reports for business divisions are reviewed and discussed with the department's senior management. This enables the Bank to detect changes to the units risk profile at an early stage and take necessary corrective actions. The Bank believes that this process helps build a strong risk management culture and increased level of risk awareness amongst work force.
- The Group level IT Security Committee provides direction for mitigating the operational risk in IT security. There is group wide IT security programme (ARISTI) to ensure complete data security and integrity.
- 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 to mitigate unforeseen risks arising out of disruptions.
- In the larger group entities, Risk Containment Unit has been setup within Business Units, which identifies and monitors risk on an ongoing basis including sample checks and control testing.
- Risk transfer via insurance is a key strategy to mitigate operational risk exposure at the Bank. The Operational Risk team helps assess the quantum of insurance cover required and aligns it to the Bank's current and projected operational risk exposures.

Approaches for computation of operational risk capital

In accordance with the guidelines issued by RBI, the Bank has adopted the "Basic Indicator Approach" for calculation of operational risk capital for capital adequacy purposes.

As per these guidelines, the capital for operational risk is based on a single indicator: income. The Capital charge associated with operational risk is calculated as 15% of average positive annual gross income of the previous three years. The Bank's operational risk capital charge using basic indicator approach is ₹ 823.03 crore as at 31st March 2013.

At an appropriate time, the Bank also plans to adopt the AMA approach for maintaining operational risk capital. Under this approach, operational risk capital is computed on a VaR methodology by evaluating risks on the basis of their likelihood (probability) and the financial consequence (severity) of such an event.

10. Interest Rate Risk in the Banking Book (IRRBB)

The impact of adverse movements in interest rates on Bank financials is referred to as interest rate risk. Although, the very nature of the financial intermediation business makes the Bank susceptible to interest rate risk, excessive risk could potentially pose a significant threat to the Bank's earnings and capital.

Interest rate risk results from both trading book and banking book. The impact of interest rate risk on trading book is actively measured through a variety of risk metrics like PV01, option greeks and VaR. The bank's tolerance with respect to its exposure to market risk in the trading book is articulated through various risk limits and monitored through different MIS reports. The Bank also provides for capital for exposure to market risk in the trading book.

In the context of banking book, interest rate risk arises through mismatches in re-pricing of interest rate sensitive assets (RSA), rate sensitive liabilities (RSL) and rate sensitive off-balance sheet items. 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.

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 IRRBB. ALM Risk unit, which is a part of risk management team independently measures and monitors the interest rate risk and provide its assessment to ALCO and BMU for further analysis and decision making. BMU analyses the risks inherent in the balance sheet works out appropriate strategies including hedging in consultation with ALCO to mitigate the risk. As a policy, no interest rate risk is retained within business units other than treasury and it is transferred from business units to BMU using Funds Transfer Pricing (FTP). FTP rates are reviewed by the ALCO in its meetings periodically and are calibrated considering the markets, business needs and overall balance sheet plans.

Earning at Risk (EaR) is a short term interest rate risk measure which assesses the change in NII by estimating the impact on interest income from rate sensitive assets, interest expense on rate sensitive liabilities including off-balance sheet items. The bank has set limit for change in NIM for given change in interest rates to manage the re-pricing gaps. Basis the overall NIM limit, re-pricing gaps limits are also set for various re-pricing time bands.

Bank uses Economic Value of Equity (EVE), which a long term risk measure to assess the change in value of equity due to change in economic value of asset and liabilities. The duration gap approach is used to determine the sensitivity of EVE. Modified duration is computed on an account-wise basis across asset, liabilities (excluding equity capital) and rate sensitive derivatives to assess the Leveraged Duration Gap and Duration of Equity. Leveraged Duration gaps is computed including and excluding trading book and are subject to interest rate shocks to assess the impact on EVE. Bank has incorporated change in EVE as percentage of Tier I capital in its risk appetite definition and set a threshold for it for given change in interest rate.

Details of increase / (decline) in earnings and economic value for upward and downward rate shocks based on Balance Sheet as at 31st March 2013 are given below:

- Earnings Perspective

  Impact on earnings of 100 bps parallel shift in yield curve ₹ 70.58 crore

- Economic Value perspective (impact on Market Value of Equity (MVE))

Impact on MVE of 100 bps adverse parallel shift in yield curve	₹ 297.68 crore
Impact as a percentage of Tier I Capital	2.06%