



Disclosures Under BASEL III Capital Regulations For the quarter ended 31st December, 2013

Capital Adequacy

In accordance with the guidelines of RBI, 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.

Basel III Capital regulations are applicable to Banks in India from 1st April, 2013 and will be fully phased in by 31st March, 2018. Detailed guidelines on Basel III Capital Regulations and Guidelines on Composition of Capital Disclosure Requirements are issued by RBI and consolidated under the Master Circular – Basel III Capital Regulations July 2013.

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 Group has a defined Risk appetite that sets the outer boundaries for risk taking and forms an input to the business and capital planning process. The Risk Appetite links risk strategy to the business strategy through a set of comprehensive indicators.

The Bank follows an Internal Capital Adequacy Assessment Process (ICAAP) that assesses significant Pillar 2 risks, other than Pillar 1 risks, to which the Bank is exposed. As part of this process, the Bank identifies risks and determines the level of capital to cover those risks. The ICAAP framework thus assists in allocating capital in proportion to risks inherent in the business. The ICAAP also involves capital planning to ensure that the Bank is adequately capitalized for the period ahead and to withstand stress conditions.

The Key risks that are assessed are:

- Credit Risk
- Market Risk
- Operational Risk
- Credit Concentration risk
- Interest Rate Risk in the Banking Book (IRRBB)
- Liquidity Risk
- Settlement Risk
- Reputation risk
- Strategic & Business Risk
- Model Risk
- Residual risk of Securitisation

The Bank supplements capital adequacy computation by performing stress tests, guided by a Board approved stress testing policy. The Bank stress tests its portfolio and projections across a range of historical and hypothetical stress scenarios and assesses the impact on profit and loss and capital levels.

Capital requirements for various risk categories as at 31st Decemebr, 2013

₹in million

Items	Amount
(a) Capital requirements for credit risk	
Portfolios subject to standardised approach	76,791.9
Securitisation exposures	-
(b) Capital requirements for market risk	
Using standardised duration approach	
Interest rate risk	6,699.2
Foreign exchange risk (including gold)	401.0
Equity position risk	2,601.6
(c) Capital requirements for operational risk	
Measured using basic indicator approach	8,230.3

Computed as per Basel III guidelines

Capital Adequacy Ratios	Consolidated	Standalone
Common Equity Tier I	16.63%	16.21%
Tier I	16.63%	16.21%
Total CRAR	17.65%	17.43%

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.

An 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 more than 90 days in case of bills purchased and discounted.
- An existing NPA account is upgraded to standard category only on collection of all overdues.

In respect of NBFCs, if the overdue is in excess of 180 days, the loan is classified into sub-standard, doubtful, and loss as required by RBI guidelines.

Cheques deposited at quarter end but returned in subsequent month are considered for NPA and provisioning.

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 are classified as non-performing in accordance with the guidelines prescribed by their respective regulators.

Total credit risk exposures as at 31st December, 2013

₹in million

Overall credit exposure	Fund based	Non-fund based	Total
Total gross credit exposures	715,830.8	111,760.3	827,591.1

Includes all entities considered for Basel III 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 December, 2013

₹in million

Exposures	Fund based	Non-fund based	Total
Domestic	715,818.4	111,662.3	827,480.7
Overseas	12.4	98.0	110.4
Total	715,830.8	111,760.3	827,591.1

Includes all entities considered for Basel III capital adequacy computation

Industry-wise distribution of exposures as at 31st December, 2013

₹in million

Industry	Fund based	Non-fund based	Total
Auto loans	210,379.6	4,818.7	215,198.3
Personal loans	33,279.8	-	33,279.8
Home loans/Loan against property	114,736.1	-	114,736.1
Credit cards	4,296.5	-	4,296.5
Other retails loans	40,499.1	-	40,499.1
Iron and steel	12,270.9	2,713.3	14,984.2
Engineering	13,316.3	12,561.3	25,877.6
Chemical, dyes, paints etc	27,674.5	8,371.4	36,045.9
Construction	48,904.4	3,831.6	52,736.0
Automobiles	39,932.9	4,192.4	44,125.3
Infrastructure	63,047.7	26,781.1	89,828.8
NBFC's	23,908.2	1,300.2	25,208.4
Other industries ⁽ⁱ⁾	83,584.8	47,190.3	130,775.1
Total	715,830.8	111,760.3	827,591.1

Includes all entities considered for Basel III 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 December, 2013

₹in million

Maturity Pattern	Cash and balances with monetary authority	Balances with other banks	Investments	Advances	Fixed Assets	Other Assets
0 to 14 days	8,853.0	11,359.6	55,326.3	47,106.8	-	6,100.2
15 to 28 days	1,362.4	-	8,008.7	25,180.7	-	2,249.2
29 days to 3 months	4,437.0	-	28,157.4	84,854.4	-	1,390.3
Over 3 months & upto 6 months	3,391.9	105.8	26,677.5	60,602.7	-	1,716.7
Over 6 months & upto 1 year	3,736.3	1.0	40,376.8	93,976.5	-	3,006.1
Over 1 year & upto 3 years	7,032.6	5.9	62,570.6	263,745.6	-	73.8
Over -3 year & upto 5 years	465.8	-	8,217.3	61,778.1	-	392.6
Over 5 years	729.4	0.9	14,708.7	73,045.4	11,136.6	12547.0
Total	30,008.4	11,473.2	244,043.3	710,290.2	11,136.6	27,475.9

Consolidated figures for lending entities namely Kotak Mahindra Bank Limited, Kotak Mahindra Prime Limited and Kotak Mahindra Investments Limited, other entities are primarily engaged in fee based activities only.

Amount of non-performing loans as at 31st December, 2013

₹in million

Items	Amount	
	Gross NPA	Net NPA
Substandard	7,768.6	5,219.1
Doubtful 1	2,642.6	957.7
Doubtful 2	977.3	360.9
Doubtful 3	84.1	-
Loss	579.0	-
Total	12,051.6	6,537.7
NPA Ratio (%)	1.68	0.92
Movement of NPAs		
Opening balance as at 1 st April, 2013	8,483.6	3,612.2
Additions	7,995.8	4,304.1
Reductions	(4,427.8)	(1,378.6)
Closing balance as at 31 st December, 2013	12,051.6	6,537.7

Includes all entities considered for Basel III 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 million
	Amount
Opening balance as at 1 st April, 2013	4,871.4
Provisions made during the year	3,691.7
Write-off/ Write back of excess provisions	(3,049.1)
Closing balance as at 31 st December, 2013	5,513.9

Amount of Non-performing investments (NPI)

	₹in million
	Amount
Gross NPI as at 31st December, 2013	233.4
Amount of provisions held for NPI	185.9
Net NPI as at 31 st December, 2013	47.5

Movement of provisions for depreciation on investments

	₹in million
	Amount
Opening balance as at 1 st April, 2013	180.6
Additional provisions during the year	5.3
Write off /Write back of provisions during the year*	-
Closing balance as at 31 st December, 2013	185.9

*After considering appreciation in investments

Credit risk – portfolios subject to the standardised approach

External Ratings

As per the NCAF, the Bank has adopted standardised approach for measurement of credit risk. The risk weights under this approach are based on external ratings of counterparties, the Bank has identified following External Credit Assessment Institutions (ECAIs) 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 as at 31st December, 2013

	₹in million		
Exposure category	Fund based	Non-fund based	Total
Below 100% risk weight	295,035.4	62,361.6	357,397.0
100% risk weight	251,289.0	32,695.0	283,984.0
More than 100% risk weight	161,674.1	6,046.2	167,720.3
Deducted	-	-	-
TOTAL	707,998.5	101,102.8	809,101.3

includes all entities considered for Basel III capital adequacy computation