**Kotak Mahindra Bank**
**FY 10 Analyst Meet**
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***Safe Harbor***

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**Jaimin Bhatt:**
Good evening friends and welcome to the Annual Analyst Meet of Kotak Mahindra Bank. We have announced our results yesterday, and I will take you through some of the highlights of the year gone by.

As a group, we had penned down our vision statement, this is our belief and what we stand for and what we would like to aspire for. We would like to be a world-class financial services brand from India. Financial services is associated with lot of trust especially as a bank, and we certainly want to be the most trusted financial services institution, as well as the most preferred employer in financial services. If you look at our senior management team, majority of the team has been around with the group for a long time. Further, we have always believed in the fact that value creation and not size alone is what we should be driving for. We speak at a time when we are at a milestone in our journey. We started in 1985, Uday started this with a handful of people. The company was incorporated in November 1985 and a few months from now, we would be actually finishing 25 years. The other turning point for us came in 2003 when the parent which was then Kotak Mahindra Finance Limited converted into a bank becoming the first entity in the country to get converted. From a 300-square feet office at Fountain, which was one office, today, we are spread all over the country, having 1,700 plus offices across banking, securities, life insurance, mutual fund, and other businesses and we have presence in several other parts of the globe. From 3 employees in 1985, when we converted into a bank in '03 we were less than 2,000. Today, we are about 20,000 employees. We service today 7 million odd customers which is a big leap from just half a million which we had just 7 years ago.

The year which went by, interestingly, as we talk in the 25th year, was a record year for us in terms of our consolidated numbers as well as our bank standalone numbers, and the 4th quarter which we ended was again a record period both at the group and the standalone level. For the consolidated entity, we ended the year with a profit of Rs. 13 bn, and all our businesses, whether it is financing, insurance, the whole capital market piece and the asset management piece contributed. We saw advances grow at 32% with NIMs being maintained at 6% plus, and we continued to have a pretty high capital adequacy at 19.3%. If you look at the journey especially when we converted into a bank in 2003,our consolidated l profits after tax for that year was Rs. 0.7 bn. As we end this year, we clocked Rs. 13.07 bn, a big leap from the Rs. 0.7 bn just 7 years ago. If you look at our current year's numbers, of the Rs. 13.07 bn, the bank contributed the largest number which is at Rs. 5.6 bn and Kotak Prime which is the other entity in the financing business clocked Rs. 1.7 bn of profits for the year. The capital market entities came up from their downs of the previous year and had a profit of about Rs. 2.8 bn. Insurance again had a big year in the current period. The asset management companies together contributed close to Rs. 2 bn of profits after tax. A few years ago, there was a perception that capital market was a pretty large part of our bottomline. What this chart shows is the contribution of the different businesses to our bottomline. If you look at the financing business, the blue bar,iIn 2007, the whole profit after tax of the financing business was Rs. 2 bn. This year, we clocked Rs. 7.3 bn, which is in 3 years' time, we have multiplied that by 3.5x. The capital market is a decent contributor. In terms of percentage, the share has gone down to 24%. Financing now contributes 56% of our overall profits for the group. Insurance, when we got into the business in 2001, we did recognize it is a long gestation project. We are now making decent money there, and it is now contributing Rs. 0.7 bn of profits. Asset management which I mentioned has now started showing decent returns to the bottomline.

The quarter which just ended, at a consolidated level, had a profit after tax of Rs. 4.18 bn with the bank contributing almost half of that number at Rs. 2 bn plus. Prime was the other big contributor at Rs 0.6 bn. Insurance had a record quarter at Rs. 0.44 bn. We continue to have high NIMs at 6.3%. Our return on net worth for the year is 18.2%. Our overall assets under management cutting across different entities in the group, we ended the year at Rs, 452 bn. Advances at Rs. 297 bn, which is a growth of 32% over the previous year. Net NPAs at the group level at 1.14% other than the stressed assets. At the standalone bank, the year we saw ended with Rs. 5.6 bn of profits which was 100% plus jump over the previous year. We mainatined higher NIMs again at the bank standalone level.

The total deposits during this 12-month period grew by 53% with CASA at 31%. At the bank level, we had an advances growth of 25%. The provision coverage ratio, for which there is a RBI requirement to reach 70% by September, as of March, we are at 58.3%, effectively meaning that we have a gap of about Rs. 1 bn to catch up with.

At the bank standalone level, we run a capital adequacy of 18.4% with tier I itself being 15.4%. If you take the bank's standalone results, as I said, for the year, Rs, 5.6 bn of profits. Income has grown, up from Rs. 17.9 bn to Rs. 24.8 bn with the overall expenditure being pretty much under control or reasonably flattish for the year. This year of course we had taken hits on the provisioning initially thanks to the effects of the slowdown and thereafter to catch up with the 70% requirement of RBI.

The bank's segmental, we have seen contributions coming in from different segments. Treasury contributed Rs. 3.6 bn to the yearly profit, pre-tax. The wholesale bank which we stepped up quite a bit in the last 18 months contributed Rs. 3.8 bn. Lending is reasonably flat that is where we took the brunt of the provisioning during the year. Credit card business, which we started in the previous financial year continued to lose money.

During the year, the bank picked up several awards. Just to mention couple of them, for the second time running, we were amongst the best employers by Hewitt India, and IR Global came up with the ranking of the best corporate governance practices globally. The top 30 across the world had 2 Indian companies. No. 1 was Infosys, and we were at No. 2.

Now some of the banking businesses :
We closed the year with 249 branches, and 492 ATMs. CASA growth as I mentioned has grown steadily and we have had 50% plus growth with CASA, now at Rs. 75 bn. Percentage wise, we were at 31% at the end of the year. This does not include sweep deposits which would be another 7% of the total deposits. Branch network which we are at 249, we expect to be at a number of 320 by the end of this fiscal, and aspire to be around the 500 mark by December 2012. At the branch banking level, we continue to focus on the affluent customer segment and , the assets we advice as of March are Rs. 147 bn. The branch banking activity during the year contributed 28% of the first year individual premiums of the life insurance entity. Since we had a legacy issue, we were always running branch banking and the lending piece separately. Over the last year or so, we have tried to integrate especially on the consumer lending pieces, whether it is personal loans, cars, or mortgages, and increasingly we are seeing a lot of cross-sell coming in from the branches into the asset side.

Advances, if we look at the graph which we moved from March '03 till March '10, March '03 is when we converted. During that 7-year period, our advances grew at a CAGR of about 40%. In FY 09, when we went through a slowdown, we put the brakes and we had a flattish growth during that financial year. This year, with the markets turning back, we have again stepped up and we closed the year with a 32% growth. NPAs, had increased last year FY09 due to the effect of the slowdown and as a consequence, we had higher NPAs in the unsecured pieces including credit cards, but we saw the peaking of NPAs in June '09, and subsequent we have steadily seen the NPA numbers going down..

Another big shift which we did on our advances was the move from retail to corporate. At one point of time, almost 80% of our advances book was coming from the retail segment.. As we ended this year, the mix has changed with retail about 2/3rds. We would continue on this basis where we would expect the retail and the corporate mix to be at about 65:35. Interestingly, while we moved the advances book towards more corporate, we have maintained the NIMs and actually moved up from 6.1% last year to 6.3%. Within the retail segment again, we have seen some mix changes. Personal loans which is the unsecured piece, was 15% of the retail advances as of March '09, has now gone down to 7%. Mortgage has seen an increase from 20% to 25%, and interestingly, in the current year now, we have met all our priority sector targets, which would mean that investments into low-yielding RIDF would be avoided this year. The wholesale book which we stepped up sometime in the previous fiscal, grew, on the funded side by 73% and on the non-funded side by 70%. Several new customers were added and new products, whether it is trade finance, cash management, and continued presence in the debt market has helped us, and clearly, this is a segment which we would focus on both on the large corporate and the middle market.

The life insurance business,, the industry grew very rapidly in the initial years. This year, we saw a growth on the overall premiums. The first year premium being reasonably flat. In fact, interestingly, the renewal premiums this year are higher than the first year premiums. We had about 214 branches in the life insurance segment. The total capital which we have put into the entity, both the partners put together, is Rs. 5.6 bn, and if one looks at capital efficiency, which is overall premiums to the capital invested, we would be among the most efficient players in the industry. Similarly, on the expense management, we have been very economical and actually have reduced the operating expense ratio during the year. Our solvency again is at a very comfortable level compared to the requirement, and with profits continuing, we are very clear that in the current year, we don't expect any capital infusion into the entity. Of course, as far as the business going forward, as other players we do await regulatory clarity specifically on the ULIPs issue.

Stock broking, due to the slowdown lin line with the industry last year, we had slowed down our branch growth. As we have seen the markets coming back, we have expanded our presence. Our footprint now at over 1,000 branches and franchise operations across the country. We service about a million plus customers, and continue to remain players in both retail and institutional segment. Of course, what we have seen in the current year is markets getting more and more fragmented and interestingly while volumes have been higher than the previous year, they are still lower than the peak levels of FY08. Also importantly, we have seen market volumes shift from cash to more increasingly F&O.

As the investment bank again, we have received several awards from Asia Money and Finance Asia, and on prime rankings, we are ranked No. 1 on IPOs for FY07 to YTD FY10. During the year, we did 30 equity deals and 13 M&A transactions. Again, like broking, we have seen lot of players in the segment today. Almost, every investment bank in the globe is having an office in the city today, effectively splitting fees and putting pressures on revenue. On the other hand, there is the M&A activity which is picking up. You are seeing a lot more government divestment coming, and clearly we believe that we are well positioned to capture the upside which is there in the segment. Some of the deals which we did during the year, it cuts across IPOs which is NTPC, NHPC. We did QIPs including HDFC warrants and the shares issue. LIC Housing Finance. Debt issuances from L&T or Shriram Transport. M&A deals where we were involved with Tech Mahindra acquisition of Satyam or the Reliance restructuring, and we brought some new sectors like the Mahindra Lifespace or the Jubilant Foodworks into the IPO market.

The overall assets under management, we grew from Rs. 339 bn as of March '09 to Rs. 452 bn at the end of the last fiscal. In terms of percentage increase, the large increase coming from domestic mutual fund. Debt and equity put together was 47% of the overall piece last year which has grown to 53% of the larger piece. At the domestic mutual fund, we service over a million customers.. If you look at the average assets under management for the month of March 2010, we were at Rs. 348 bn which is as against Rs. 181 bn in March of the previous year. In April, we have actually crossed the Rs. 400 bn mark. We are today ranked 5$^{th}$ among the private sector players in the industry and the year has also seen a very sharp rise in the profits for the entity. Some of our bond funds picked up awards from Lipper and NDTV.

On our international subsidiaries front, we continue to be India centric players, with the focus on investment management and advisory activities overseas, and also focused on debt both on sales and distribution. Overall, we managed or advised about Rs. 70 bn of assets overseas, and this year, we have seen sharp rise in the profits there.

Since we are talking about the 25th year, could not resist this one.Iif you look at where we were, the four milestones, 1987 is the first full year which we completed our operations, 1992 is when we went public, 2003 was when we converted into a bank, and the latest year. Our advances grew in sequentially from Rs. 10 mn to Rs. 610 million, and we have closed this year just short of Rs. 300 bn. Profit after tax which was a very small number in the first year, even when we went public, we were at just Rs. 220 mn. We are now at Rs. 13 bn. Market cap at the issue price, was at Rs. 342 mn, and it is Rs. 265 bn today. Interestingly, if somebody had invested 100,000 rupees when we started the company, today it is worth about Rs. 3 bn, and if someone had put in 100,000 rupees at the IPO price that is worth Rs. 42 mn today.

I now request Uday to take this forward.

**Uday Kotak:**
Friends, my colleague, Jaimin, has talked to you about the last 25 years and the year which went by, and I will probably shift gears to talk about the next year and also a little bit about the future. Last year when we met in May, we were coming out of the Lehman crisis. This year, when we are meeting in May, the question uppermost in most people's mind is, are we in the middle of the Greek tragedy? I would like to first share my thoughts. Fortunately or unfortunately, my thoughts on this may be right or wrong. So, if we look at where we are standing today, and look at what happened in the Lehman crisis, and if there are any lessons from there; I believe that governments whether it is US or Europe, if they face a problem, the standard approach is throw a lot of money. You saw that in the US, and you are now seeing that in Europe. On the back of that, the other factor which is critical for solving a problem. In addition to throwing a lot of money is integration between 3 forces which you saw beautifully in the case of US, which is monetary policy that is the Federal Reserve, the government through the treasury which is the US Government and the US Congress. The three, during the crisis, integrated beautifully.

The issue uppermost in my mind is that as you look at the European problem, they have addressed the first part, at least the promise of throwing a lot of money. The second part, I think is tricky here. How do you get the monetary policy which is the European Central Bank, respective governments and the respective parliaments to integrate? My belief is that the pain is large enough. They will find a way of working towards integration of this, and if they succeed, they may mortgage probably the next 20 years of the future generation, but solve the present. And if they cannot integrate this, there would be cracks which will show and which will create the pain. Whichever way it works, my view is I do not see a crisis as deep as what we saw in 2008 to March 2009. And therefore, either we are heading for a very sluggish situation in Europe at the best or a mini-crisis nowhere near the size of the US because after the US problem, the world has become far more alert in terms of throwing more and more money to solve a problem.

So, you have a situation where a very large part of the global economy , US which is a USD 14-tn economywhich is the US, you have as between Eurozone, UK, and Central and Eastern Europe, a total economy of all these three put together which is 19 trillion, which is larger than US and between the two of them, it is USD 33 tn economy in a USD 60-tn world. So, you have more than half the GDP of the Earth going through a slowdown, and basically, governments and politicians in those parts of the world are borrowing from the future and borrowing not just for 1 year or 2 years but 10 and 20 years.

So, it reminds me in some way of about the kind of situation which India lived through between 1960s, 1970s, and 1980s, where the standard growth rate was 3% to 3.5%. You ran huge fiscal deficits and low growth. ,Basically, the government of the day was borrowing more and more for the future, mortgaging the future for the present, and a low growth and high fiscal deficit are pretty dangerous combinations for long-term economic perspective of a nation or a continent.

So, what does this mean for India? If we take the scenario that the best case is a sluggish Europe and US, and the worst case is a mini-crisis, not of the scale of Lehman, India will be okay. If we see a crisis of the scale of Lehman, which I consider as a very low probability because the European governments have the example of Lehman, and therefore, will be more careful to go down that deep into a crisis. I believe India will therefore have a situation where a sluggish world growth will put a cap or a slowdown on commodity prices, and therefore, you will not see a sharp increase in commodity prices which is good for India. They will keep their interest rates low for longer periods of time than what we thought a few months ago, and savers and investors in these markets, in the absence of trend growth and low interest rates will have to find areas and pockets of growth, and if we take a combination of these three factors, which is lower commodity prices because of more than half the world's GDP in a slow zone, longer and a more prolonged period of lower short-term interest rates in those markets, and savers and investors in those markets in the absence of either interest rates or growth wanting returns, it could be a reasonably positive outcome from an India centric point of view.

The only caveat to this is we should not have a blow up of the scale and size anywhere near what we saw vis-à-vis September 2008. So, this is the backdrop to my perspective about how we look at the situation. Of course, we must always keep a small probability that things go out of control, and therefore, ability to manage risk if it did go out of control is going to be critical for us to be managing our businesses, and therefore, as we think about managing our business, we always at the back of our mind keep a small probability that there could be blow up of planet Earth, but we are keeping our probability which is reasonably small and taking a view that India will be on a reasonable growth trajectory, and thanks to the Euro zone slowdown or a significant slowdown in Euro zone, India gives up about 0.5% to 0.75% of GDP because of slowdown in trade, and therefore, my view is 7.5% to 8% GDP growth in the current year, which would otherwise have been something like 8% to 8.5%, At 7.5% to 8% GDP growth, I think it is a good position to be in, and then if you look at India which is primarily a domestic story, and I look at financial services where our bread, butter, jam, and cheeses. At 8% GDP growth, if we work on that number, we are talking about real GDP growth, inflation average through the current year, if we take a 6% to 6.5%, we are still talking somewhere in the range of 14% to 15% nominal GDP growth of our economy.

Financial services is a leverage play on the Indian economy. Can the sector grow at 1-1/2 to 2 times as a leverage play of the nominal GDP growth of 14% to 15%, answer is yes. Can we aspire to grow around the 2 times mark on a sustainable basis, that is what we are working for.

We would like to see how on a sustainable basis, we can create a business model which can produce growth around 2 times or more of nominal GDP of the country, and that is the entire business plan which we work on. There is something else we learnt a longtime ago, which is that in India, there is a consistent shifting of value from time to time between different platforms in financial services. Three years ago, if I stood in front of you, most of you would ask me the question, oh you are breaking entities so much so hugely valuable. If you list it, you could get a valuation which is much more than what the overall valuation of the company is. My answer then was we think about the financial services business as a single business in the context of India, and therefore, we are much deeper believers of one firm, and value can move across platforms. Three years later friends, we are seeing the shift in how value has moved between different platforms, and three years from now, who knows how the situation will be between different platforms. Value, as we can see, can move between insurance and asset management. Values can move between savings and investment. Therefore, it can be tomorrow in a bank, day after tomorrow in securities. There are times when wholesale money is difficult to get, and there are times that wholesale money is 100 to 150 basis points cheaper than retail money. So, one of the lessons which we learnt early on in our 25-year history is you must have the ability to be flexible between platforms to capture value, and that is something which we have believed as our dharma, keeping in mind the integrity of governance through this process, but respecting the fact that value can change across platforms. It is quite revealing to me the way the value proposition in the securities industry has moved. If you look at the brokerage industry, it would remind you about the drop in value similar to telecom. At the same time, you have now seen the value in Banking and the Financing piece very significantly improve, but we are believers that we are not giving up any of the spaces. We are continuing to invest in spaces because we believe that an integrated financial services model makes a commitment across cycles, and the fact that we are integrated, friends, gives us a much greater ability and resilience to be able to invest in businesses across cycles.

Three years ago, we had very good profits for example for our securities firm. On a pre-tax basis on that year, the profit was something like Rs. 600 crores, and it was very useful because we were still building up the bank. Now, we believe that we are continuing to be committed to the securities business, which still makes on a pre-tax basis around Rs. 400 crores. We think we will continue our commitment to this because overall the firm is gaining strength. The firm is sitting on significant capital, is committed single-mindedly to an integrated financial services model, is not interested in opportunistic, some of the part quick IPO pops, but a believer that the India financial services story is a story not just for the next 6 or 12 months, not just for the next IPO pop by listing an insurance or a securities company, but a business which over next 5 or 10 years, will create returns and value far in excess of probably any other place in the world today. It is with this conviction and commitment, friends, that we are building our financial institution, not just for tomorrow but for creating value hopefully. When I am talking at the 25th year of our history, hopefully at least for the next 25 years longer, and it is with this commitment that I stand here with you and share a belief that over the next 5, 10, 15, 20, 25 years, financial institutions provided they don’t get exuberant, provided they manage their risk well, provided their approach is of marathon runners and not sprinters will create probably more value than any other place, and it is with this belief friends, I am delighted to have all of you here for our 25th year of the company. Thank you ladies and gentlemen.

I think we will now open for any questions, and on any subject relating to our company results as also anything on the financial sector

**Aditya:**
Going back to your history of analyst meets, I think about 2 to 3 years back you were very bullish post holiday in China on accelerating growth and in the last year you were much more cautious. What would you tend to believe would be trendline growth both for yourselves and for the industry that can be managed appropriately? Because there has been so much ups and down both in the system here, abroad, and with your firm in many ways. What would you tend to believe is something that you would not want to go below even if things look not so nice, and you would not want to go above if things look like the way they looked two years back.

**Uday Kotak:**
You know Aditya. It is a very good question, and you are asking it very subtly, so I get where you are coming from, but let me say if I sit back and think about the lessons I learnt from 2008-2009, and it is very simple. The lessons I have learnt are until proved wrong otherwise are that when things look good, they are not necessarily as good as they look, and when things look bad, they are not as bad as they look, and that is my internal learning. 2008 and 2007 was a period of exuberance, and I remember, we in a way demonstrated by probably very aggressive hiring. We did not mess up so much on the asset side, but we went on very fast hiring spree because it is always a syndrome of neighbor next door doing a lot more so that is what caught the buck, and whether it is China or whether it is a competitor in India, so either way.

And then in the downturn, I made the mistake of being in New York in the last week of September, and it looked like planet Earth was closing down in New York, and I made the mistake at that time of believing that things are very bad, much worse than probably they were, but the lesson I learn is governments throw money, governments cannot inflict pain on their people. They will borrow from the future generation but solve the present,.And therefore, if I answer now specifically your question, let me put it this way, I would say on a nominal GDP, my view would be to manage growth somewhere between 1.5 to 2.5x. Therefore, if nominal GDP is growing at 14% like this year, then maybe you push it towards the higher end. If the nominal GDP is say 12% or 10%, for example when we saw the Indian GDP growth go down to 5.8% for a quarter, then you trend it down, but keep it broadly in that kind of a range and link it to in a way a combination of real and nominal GDP, and to convert it into simple language, broadly, 20 to 30% or 20 to 35% is the range I would see is a reasonable one, and if look at, we went slower than that in 2008 and 2009, we grew our book at about 7% to 8%, so maybe we trend it too down, and in some years we grew at 50, so if we took a line, I would say, it will be, in the bad times, slow it down a bit, and in good times push it to 35, and that is the broad number, and manage despondency and exuberance with equanimity.

**Male Speaker:**
My question is actually related to the previous question. What is the bank's comfort level on tier 1 and leverage because 1-1/2 years ago, you were definitely in capital conservation mode as any sensible bank would have been, and if I were to ask you this

question 3 years back and today, how could that number has changed regardless of what the regulatory limits could be?

**Uday Kotak**:
See, again, it is pretty clear to me, regulatory limits are going up. So, if you saw a lot of the world, which was operating at tier 1 of 6%, I think that is going up. Now, whether that settles at 7, 8, 9, or 10, well that is the range in which I think, 6 to 10 range is somewhere where the regulatory limits for tier 1 will settle down. The second thing which will happen is tier 1 will get much more tightly defined. This business about synthetic tier 1 which got in as equity, I think that will be controlled a lot more everywhere in the world. My sense is looking at the way we look at things, tier 1, we would be start getting uncomfortable if tier 1 began to drop significantly below double digit.

**Male Speaker:**
So, how does this change the competitive landscape because you have a situation wherein public sector banks continue to grow at 25% at a tier 1 at 5.5%. At some point in time, the expectation is that the government will come and give them capital, so they are not bothered, so does this change the competitive landscape?

**Uday Kotak:**
I don't think we are worried about that because if you look at our business model, we have got very significant amounts of our earnings not necessarily coming from balance sheet. To put simply, I mean again this is not making forward looking statement, but if a company grew its earnings well above 30%, okay, and it is planning for a 30% growth in its assets, you are self funding it. And if you have got a mix which is producing earnings not only from assets but non-assets, and therefore, if you can work on a model which is reasonably self financing over time, you have a situation where you don't need to go to shareholders for capital for time other than regulatory pressures which the company may have, but other than that, you are in good shape. Therefore, to answer your question, would I be uncomfortable for us at 6%, the answer is yes, 6% tier 1. Would I be uncomfortable if we were at 9% to 10%, probably not, but again it depends on the environment.

**Male Speaker:**
And Jaimin if you could confirm that your coverage deficit is primarily from the stressed asset side, and whether your write-offs will not be included. Have you got clarity on these?

**Jaimin Bhatt:**
we are today in terms of the RBI defined PCR ratio at 58.3% including some write offs.. So, we need to get into 70% by September, and we will meet that. I don't see any issue there, and of course, we have done a lot of catching up this time around because when RBI defines 70%, that includes both the stressed assets and other assets, there is no distinction for 70% between stressed and others. So, this time around, we have to take a larger accelerated provision on particularly the stressed asset portfolio.

**Uday Kotak:**
And if you look at our provisioning numbers, keep in mind for financial year 2009-10, our total provisioning number is Rs. 486 cr, and our provisioning number for financial year 2008-09 was Rs. 170 cr, so we have nearly 3 times provisioning compared to the

previous year, and we think even with this Rs. 100 cr we need for the PCR ratio, we think at this stage of the cycle we think the provisioning numbers for next year certainly look lower, at this stage.

**Male Speaker:**
Thanks.

**Male Speaker:**
Your banking piece is supposed to be now quite a major portion for overall earnings. I think in the presentation you just not have given some vision, your peers have given a 2015 vision. I just wanted a two-year vision for banking franchise, if you were to compete with likes of HDFC and Axis Bank going forward.

**Uday Kotak:**
You know, we think the banking piece is coming into pretty good shape. That means that banking piece, is beginning to see significant traction, and we are able to continue with our core value philosophy of risk-adjusted returns. Therefore, we will look at risk in the context of returns, and look at risk adjusted philosophy in how we build the banking piece. We have stated that for the year ahead, we will look at growth of around 30% in advances. We achieved 32% for the year behind us. We think this is a pretty steady long-term growth business. We have mentioned that our target is about 500 branches by December 2012 from the current level of about 250. In a way, that also signifies a 30% growth in the branch network. Therefore, the banking piece is clearly coming alive, and we are getting a mix of more stable deposits.

Jaimin mentioned to you about the fact that our CASA ratio is 31%, but we have a product which is what we call as the sweep product, which we have aggressively pursued, and where our cost of funds adjusted for premature is similar to a savings deposit or close, and therefore, if you add that 7%, it is 38%and we don't show it as CASA because it is a sweep deposit. So, that is another piece which is working extremely well for us. We, therefore, believe that bank and the financing business and the businesses around the bank including the transaction banking businesses and the other bank charges and other fee model is coming alive, but that in no way means that we are under-focusing on the other pieces. We are as committed to securities, investment banking, asset management, and life insurance, because I do believe that India is an integrated play and stronger you are on integration, more robust is your risk as well as your sustainable returns and needs for capital.

**Male Speaker:**
Sir, how do you see the distribution of investment products evolving, considering the recommendations of no-load structure plus also some developed nations are recommending something similar, especially UK. How is the whole space actually evolving because you have got both mutual fund and life insurance?

**Uday Kotak:**
I will ask my colleague Jayaram to take this.

**C. Jayaram:**
Clearly, we are seeing definite change in the way investment products are evolving, particularly from a regulatory perspective, and I think as a bank we believe in the new evolving scenario. We have a definite advantage over what are seen as either IFAs or

the distributors of financial products because I think given the fact that clearly there is a pressure on pure distribution incomes. I think bank sector will be able to service these investors far better because you can actually look at a much longer term perspective, and in that sense we are actually seeing that today a lot of distributors who were pure distributors moving away from this business altogether, which then makes a space far more available to the banking sector. So, I think in a way what is happening there is beneficial for banks which are in this space.

The other thing which we are certainly doing and it is certainly possible for some other banks as well to do it is following an advisory model as against a transaction model which used to be the case earlier because most financial distributors historically have followed a pure transaction model. In the wealth management space, clearly we have now completely moved over to advisory model, and we believe that if you have to have a long-term franchise in wealth management or private banking, that is the model to follow, and while there may be some pain over a short period of time, over a longer period of time, it builds annuity income, and that is the right way to go, and that is something which we have successfully transitioned to.

**Male Speaker**:
Another related question. Considering the culture of not paying fee for advice, at least at the retail level, do you think that IFA business model is viable in India?

**C. Jayaram:**
Well, that is a difficult question to answer because on the one hand there are IFAs who actually run reasonably good businesses with a small clientele who actually do pay them, but I think at a larger level, you will find that many of the IFAs who were actually doing pure distribution of forms of logistics rather than advice, will actually move out of business because for them, they may not be investors who are actually willing to pay for that, and to that extent I think there will be consolidation there as well, and you will have fewer IFAs, but the fewer IFAs who are left will be giving genuine advice as against the earlier case where a lot of them were purely just distributing firms.

**Male Speaker:**
Thanks.

**Male Speaker:**
My question is regarding the insurance business. What is the embedded value if you have the calculation? Second question is regarding the banking business, the broader banking business. Has there been a structural change in banking because of which the NPA levels would not reach to the historical highs like 9% or 10% and what is your guess of the average NPA level for your business as well as the industry as a whole? Thank you.

**Uday Kotak:**
I will answer part of the question and I will ask Dipak to answer a little bit on the NPAs as well. On the insurance side, friends, we are waiting for some of the larger insurance companies to come out with embedded values or the regulator asking us to do that, and I promise you we will follow the suit if the regulator requires us to. At this stage, we do not disclose embedded values and of course let me also warn you that even after you get embedded values, you are going to make sure that the assumptions made by all the players are similar because you can get very different outcomes between players in

terms of what is embedded value, so my advice to you is that No. 1, wait for that, but even after you get that, the number on embedded value is subject to a lot of assumptions. So, that is one.

On the broader NPA situation, I will ask Dipak to talk about the experiences that we have had in the different segments, both in corporate and retail and within retail and secured and unsecured, but before that, I just want to make a general point.

Last year, when you saw the big pain at least in the first half of 2009, we strongly resisted the temptation of going in for massive restructuring of assets which was allowed by the RBI, and we went through the more painful process of taking those NPLs, and there are two kinds of pains on NPLs. No. 1 is interest derecognition, you lose 6 months of interest movement you recognize something as an NPA, and number 2 the provisioning. So we are sitting on significantly higher provisioning on some of those, which we think are coming back, but we did not go through the route of corporate debt restructuring or restructuring as allowed by the RBI.

Our view is that, that is going to help us in terms of how the situation looks provided the economy is in good shape over the next 12 to 24 months, so that is a more general point. It would be inappropriate for me to comment on how much the pain will be there for others, but my view is that as the economy has improved, if earlier the view was say 70% to 80% of the restructured loans were problems, my sense is the number is more like 15% to 20% now of restructured loans in the banking industry. Therefore, 15% to 20% is my estimate of the problems as a percentage of the broad restructured loans. Maybe, banks are doing better, but I believe some of the public sector banks are beginning to show their pain. Some of the pain coming out of restructuring as early as March, and let me tell you, most of them had postponed it for longer periods of time, so the pain to this extent is what I think will show through their P&L, and as regards to the structure of the NPL story, including with us, I will hand it over to Dipak.

**Dipak Gupta:**
So, with respect to your first question on NPL, I think it is very difficult to say whether 9% or 10% is the peak and it would not exceed beyond that. If you look at the NPA piece on the asset side, there is wholesale piece and there is retail piece. This time, the problem was far more pronounced on what we call the retail piece, and even the retail piece, much more unsecured piece. The reason for that was a lot of exuberance on behalf of lenders, basically too much money chasing, too few borrowers, and too few borrowers of the wrong kind, people overleveraging and taking on money much beyond their means. Now, what happens is when you have too many people chasing a few borrowers, as long as money is available, he keeps rotating money from one person to another, but when that cycle gets broken, it creates a problem for everyone. That is what we see whether it is on the unsecured personal loan or the small-ticked personal loan side, or even the credit card side what really happened.

The second piece which is more the wholesale or the corporate piece depends on the state of the economy, and while we saw some level of strain post Lehman, once liquidity got pumped into the system, some of those strains actually got eased off. So we really did not see too much of the NPA problem hit the SME or the corporate sector and a lot of them of course got out of it as Uday mentioned because of restructuring itself at that point of time. So, that again, very difficult to say whether 9%, 10% is the peak, I mean, we have seen levels beyond these for unsecured. So it may not be right to say that 9% is the peak and no more. It really depends on the market plays at a point of time.

**Jaimin Bhatt:**
I just would like to add one point here. You talked about 9% of the NPL levels. If you look at our numbers, even at the peak, which we hit sometime in June of last year, if you take out the stressed assets, we were at about 2.5%. So, that is the worse we have seen.

**Male Speaker:**
Could you throw some light on the drivers for profitability of your standalone banking business, especially if I look at it on a segmental basis of profitability, given that in 2010, there was a good bump up in PBT from treasury as well as wholesale banking while retail due to specific reasons has declined, and I want you to possibly answer that in the light of two scenarios. One is of low wholesale funding costs and increase in wholesale costs.

**Uday Kotak:**
I think one is the immediate driver, the second is medium-term driver. Medium term, I will start with our belief is on the retail side of the business will be a significant medium term driver, and we are beginning to see early signs of that. A lot of the pain as you can see in the retail numbers is coming out of significant hits we have taken on provisioning, particularly on unsecured personal loans as well as credit cards. At the same time, as our branch network gets more and more mature which it is beginning to, we see the retail piece actually being a medium term driver. In the short run, I think besides treasury and the fact that our corporate banking business has also picked up, there is another important driver.

When I say short-term, I am looking at next two years. Is the fact that we have a very significant investment made and provided for in our distress asset business, and the book at which it is now standing is a fraction of what we think is the recoverability, and book now is about Rs. 250 crores. That is the level at which after all the provisioning and everything, is where the distress asset book is standing, and we think the recoverability in that book in the next couple of years is a significant multiple of this book if the economy is in good shape, and keep in mind that between 2008 and late 2009, most of this book was completely short, but it is sitting with a very significant number of loans earning interest on face value. Our purchase price maybe on an average of about 15% to 17% of face value. Interest picking on face value at which we have bought it because of rules and regulations, we have made significant provisions in that in the last 2 years. We think the distress asset business is a huge differentiator for us . Most of the face value of the loans are amounts larger than 5 crores, the potential profitability of that both in the near and the medium term will reflect in our corporate and wholesale banking book, and these could be very significant differentiators for our bank because we run this as a very significant business in our bank's books.

**Male Speaker:**
Second thing, if to gauge the extent of wholesale mix in your deposit base today, of the term deposits, how much is wholesale and of the CASA, how much is saving and current?

**Uday Kotak:**
We have said 31% of the total deposit base is CASA, we have said another 7% is Sweep deposits, bulk of this Sweep deposits are also retail. Overall, our mix between wholesale and retail has got significantly better, and I will request my colleague Jaimin to add.

**Jaimin Bhatt:**
If you look at the year-end, it will be more like half and half. I mean, through the year, you will have peaks and troughs at points of time.

**Male Speaker:**
So, retail to wholesale being half and half.

**Uday Kotak:**
And the other important point that I would like to highlight is that our credit deposit ratio which was last year more than 100% is now down to 86%.

**Male Speaker:**
Okay, and the current and savings mix if possible out of the 31%?

**Jaimin Bhatt:**
Yeah about 50-50, we are slight more current than savings actually.

**Male Speaker:**
Okay, thank you.

**Male Speaker:**
Question on your operating expenses. The employee expenses were flattish in FY10 over FY09. Now, you have talked of almost doubling your branch network over the next couple of years, so obviously you would be needing manpower to man these branches, so if you could give some pointers on how this particular line will move over the next couple of years?

**Uday Kotak:**
You know, it is back to the first question Aditya asked. We will be steady and measured in how we look at the cost increases. That does not mean we won't recognize the market reality, but we will build it on a steady and measured basis. Just to give you a sense, we are about 20,000 employees, and our thinking in terms of employee growth on the base is around 15%, maybe at the most 20%. So, that is the way we will look at growing our employee base. Therefore, productivity is always going to be an important part, and at the same time, 15% to 20% growth in real employee basis is back, if you take is about 2 to 2-1/2 times real GDP growth because you are not talking nominal, you are talking about real people.

**Male Speaker:**
Thank you.

**Abhijit:**
Sir, because most of your businesses are sitting on so much of capital and you are talking about, this stressed asset giving significant profitability, how do we see that, the

promoter shareholding and the RBI thing? What is the status there and how do you think that will pan out?

**Uday Kotak:**
The promoter shareholding currently is about 48% excluding Mr. Anand Mahindra. We believe that as we go into the future, there is a reasonable dilution which is happening through employee stock options from time to time, and go back to the time we have got the license, the license was obviously when Mr. Anand Mahindra was a promoter. The license condition is 49%. Therefore, we believe that in due course either through employee stock option schemes or depending on the kind of time, we are able to convince the regulators, we do not see the need for significant dilution required by the regulator. To put it simply, we think as between the promoters and Mr. Anand Mahindra put together, we are at about 51%. Promoters are at about 48% and Anand Mahindra and his family at about 3% to 3.5%, so that combined is 51%. Therefore, even if the regulator took the view that we need to come down to 49% combined, we are not very far away.

**Male Speaker**:
Sir, as you have mentioned that the value would move across various platforms, maybe in the last one year or so, in any of the businesses, have you found that there is any missing link or maybe like we have been less competitive or we are losing traction, which would be the focus area over the next 2 years or so?

**Uday Kotak:**
One of the things we are very clear. In the process of integration, it does not mean that we lose focus on each segment, and we constantly push ourselves to make sure that each segment we are focused and trying to do what is best for that segment as well, including just to give you an example, the way we look at compensation. We look at it based on horses for courses, if we start comparing the kind of compensation in investment banking business versus branch banking, we will be in trouble. Therefore, integration is in terms of culture, in terms of making sure that we capture value across platforms but not in terms of losing focus for doing what is right for each segment. You have to be at the cutting edge of each segment. If you start mixing that, it is recipe for trouble. So, within the broad parameters of one firm culture, making sure that we have the ability of capturing value across platforms, we like each business to have surgical and laser focus to do what is right for that business. So, it is an interesting combination of making sure that you have got both width and depth, and that is how we look at the vision of one firm.

**Male Speaker:**
Mr. Kotak, I just wanted to ask you about the standalone banking business. Obviously, you have got the expertise in stock broking as management investment banking, but if I look at your ROA with a very high NII, it is still at a lower end if I compare a comparable bank, maybe a mature bank or say an Axis or an HDFC. So, if I see FY09, it was 0.78, the leverage of 12, we were about 9% to 10% in ROE, probably it has moved up, you have done very well in FY10. If I have to give you a number, what kind of number which you aspire to, to achieve as far as your pure banking business is concerned over the next 2 to 3 years' time?

**Uday Kotak:**
We would like to see our pure banking business at 20% plus ROE, and that is what we would like to see it as we go into the future, and the current number for the year which got over is about 14 odd percent?

**Jaimin Bhatt:**
That is right at the standalone level. At about 18.5% for the consolidated.

**Uday Kotak:**
Consolidated is 18.5%, standalone is around 14 odd percent on the pure commercial banking business. We would like to see the standalone pure commercial banking business ROE target 20% plus.

**Male Speaker:**
Okay, and on the leverage side, on ROA basis, what will be your…?

**Uday Kotak:**
Our return on assets is probably the highest. We ended the year with 1.72% ROA .

**Jaimin Bhatt:** This is bank standalone.

**Male Speaker:**
Which means that the leverage is little on the lower side. Your asset base versus equity, if I see, I am not taking about FY10, but FY09, it was a little low, but you are looking at 1.7 and plus 12% kind of leverage to achieve a thing of about 18% to 20%?

**Uday Kotak:**
Our entire business model at the bank's standalone is to move to 20% plus ROE standalone.

**Male Speaker:**
Okay, that is what you aspire over the next 2 years.

**Uday Kotak:**
That is what we would want to see. Having said that, we have got to, as I said, always keep our eyes and ears open on the macro.

**Male Speaker:**
Okay, thank you.

**Uday Kotak:**
Okay, I think, any more questions? Or let me….oh, there is one, the last. We will take that and thereafter maybe anymore questions we can take.

**Male Speaker:**
Hello sir. I have a question on the investment banking business. I just want to figure out as to how do you see the space panning out in the coming years, and which will be the sectors which you actually see maximum activity in?

**Uday Kotak:**
I think investment banking business, I will divide into two parts. First is the current returns, second is prospects. Current returns, as I would say, every major global player on Earth is now operating in India. Good news is no more player from planet Earth seems to not have India, so if you ask me three years ago, the question would have been, oh what happens, when all the global players come. Now, all the global players are in India, and we are competing head on with them. Therefore, we are seeing, in the short run, a very significant margin pressure and fragmentation. More and more people for every transaction, but within that, I think the story is getting more interesting. If you look at the breakup between global players and Indian players, we are clearly seeing a few Indian players and it will inappropriate for me to say A or B or C in this group. Few Indian players beginning to get disproportionate benefit of a strong franchise. We would like to believe that we are one of those Indian players which is getting the benefit of franchise, and therefore, when clients want to look at deals, we are competing in a much narrower space of potential competitors compared to the bucket which is all the global players, and that actually is working in our favor, and we think over time, as more consolidation happens, as the pain of low returns from this business strikes either the domestic standalone players or some of the global players, we think this business will get very interesting. We just need to make sure that we are focused, we are providing service to our clients. It may be that we are not making enough money, but 12, 18, 24 months down the line, this business has a potential of becoming extremely valuable in the context of consolidation and potential shakeout we see in this, and we want to keep the space, and we want to grow ourselves in the space, even if it means taking some additional costs in the short run. We are certainly not only not giving up, we are continuing to keep our commitments and investment in the space. With that friends, I think it is about 5:15.
Let me invite all of you for some coffee, tea, and drinks with us, and I must say that at the end of 25 years, my team and I look forward to the next hopefully 25 years of financial sector in India truly becoming world-scale, world-size and extremely rewarding for investors in this sector. Thank you very much ladies and gentlemen.