



Independent Auditor's Report

To the Members of Kotak Mahindra Bank Limited

Report on the Audit of the Standalone Financial Statements

Opinion

1. We have audited the accompanying standalone financial statements of **Kotak Mahindra Bank Limited** ("the Bank"), which comprise the Balance Sheet as at 31 March 2020, the Profit and Loss Account, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.
2. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013 ('Act') and circulars and guidelines issued by the Reserve Bank of India, in the manner so required for banking companies and give a true and fair view, in conformity with the accounting principles generally accepted in India including the Accounting Standards prescribed under section 133 of the Act, read with rule 7 of the Companies (Accounts) Rules, 2014 (as amended), of the state of affairs of the Bank as at 31 March 2020, and its profit and its cash flows for the year ended on that date.

Basis for Opinion

3. We conducted our audit in accordance with the Standards on Auditing specified under section 143(10) of the Act. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Standalone Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India ('ICAI') together with the ethical requirements that are relevant to our audit of the standalone financial statements under the provisions of the Act and the rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

4. We draw attention to Schedule 17 (B) and Schedule 18A Note 20(b) of the accompanying standalone financial statements which describes the uncertainties due to the outbreak of novel coronavirus (COVID- 19). In view of these uncertainties, the impact on the Bank's standalone financial statements is significantly dependent on future developments.

Our opinion is not modified in respect of this matter.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
6. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Identification and provisioning of non-performing assets ('NPAs') including implementation of COVID-19 RBI Regulatory Package

As at 31 March 2020, the Bank reported total advances (net of provisions) of ₹ 219,748.19 crores, gross NPAs of ₹ 5,026.89 crores and provision for non-performing assets of ₹ 3,469.00 crores. The provision coverage ratio after considering technical write-off as at 31 March 2020 is 76.30%. (Refer schedule 17C(2) for the accounting policy, schedule 9, 18A Note 9 and 18A Note 11)

Key audit matter	How our audit addressed the key audit matter
<p>The Reserve Bank of India's ("RBI") guidelines on Income Recognition and Asset Classification ("IRAC norms") prescribe the prudential norms for identification and classification of NPAs and the minimum provision required for such assets. The Bank is also required to apply its judgement to determine the identification and provision required against NPAs by applying quantitative as well as qualitative factors.</p> <p>The risk of identification of NPAs is affected by factors like stress and liquidity concerns in certain sectors.</p> <p>The provisioning for identified NPAs is estimated based on ageing and classification of NPAs, recovery estimates, value of security and other qualitative factors and is subject to the minimum provisioning norms specified by RBI.</p>	<p>Our audit procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> • Understood the process and controls and tested the design and operating effectiveness of key controls, including IT based controls, focusing on the following: <ul style="list-style-type: none"> - Approval of new lending facilities against the Bank's credit policies and the performance of annual loan assessments. - Controls over the monitoring of credit quality which amongst other things included, the monitoring of overdue reports, drawing power limit, pending security creation

Key audit matter	How our audit addressed the key audit matter
<p>Due to the ongoing pandemic, during our audit we have also identified implementation of the "COVID- 19 Regulatory Package- Asset Classification and Provisioning" ('Regulatory Package') issued by the RBI on 17 April 2020 as a matter of significance in measurement of provision for advances. Since the Bank is permitted to grant a moratorium of three months to borrowers from payment of installments and interest falling due from 1 March 2020 to 31 May 2020, as per RBI's announcement on 27 March 2020 separate asset classification and provisioning norms have been also prescribed by the RBI in the Regulatory package for such borrowers availing the moratorium benefit.</p> <p>Since the identification of NPAs and provisioning for such advances requires considerable level of estimation and given its significance to the overall audit including possible observations by RBI which could result in disclosures in the financial statements and regulatory changes due to COVID- 19 we have identified this as a key audit matter.</p>	<ul style="list-style-type: none"> - Identification and classification of NPAs in line with RBI IRAC norms and certain qualitative aspects; and - Assessment of adequacy of NPA provisions. • To test the identification of loans with default events and other qualitative factors, selected a sample of performing loans and independently assessed as to whether there was a need to classify such loans as NPAs. • Verified the accounts classified by the Bank as Special Mention Accounts ("SMA") in RBI's Central Repository of Information on Large Credits ("CRILC") and performed discussion with the management • Held discussion with the management of the Bank on sectors wherein there has been stress and the steps taken by the Bank to mitigate such sectorial risks • With respect to provisions recognised towards NPAs, on sample basis, we reperformed the provision calculations taking into consideration the value of security, where applicable, RBI IRAC norms and NPA policy of the Bank, and compared our outcome to that prepared by the management and challenged various assumptions and judgements which were used by the management. • Obtained an understanding of implementation of the Regulatory Package and with respect to borrowers to whom a moratorium was granted, on a sample basis, we tested that such moratorium was granted in accordance with the board approved policy. We re-performed the calculations for the additional general provisions made in accordance with the "Regulatory Package". • We read the RBI Annual Financial Inspection report for the financial year ended 31 March 2019 and other communication with regulators. • We assessed the appropriateness and adequacy of disclosures against the relevant accounting standards and RBI requirements relating to NPAs including the additional disclosures required to be made in accordance with the Regulatory Package.

2. Information Technology ("IT") Systems and controls impacting financial reporting

Key audit matter	How our audit addressed the key audit matter
<p>The IT environment of the Bank is complex and involves a large number of independent and interdependent IT systems used in the operations of the Bank for processing and recording a large volume of transactions at numerous locations. As a result, there is a high degree of reliance and dependency on such IT systems for the financial reporting process of the Bank.</p> <p>Appropriate IT general controls and application controls are required to ensure that such IT systems are able to process the data, as required, completely, accurately and consistently for reliable financial reporting.</p>	<p>In assessing the integrity of the IT systems, we involved our IT experts to obtain an understanding of the IT infrastructure and IT systems relevant to the Bank's financial reporting process for evaluation and testing of relevant IT general controls and IT application controls.</p> <p>Access rights were tested over applications, operating systems, networks, and databases, which are relied upon for financial reporting. We also assessed the operating effectiveness of controls over granting, removal and periodical review of access rights. We further tested segregation of duties, including preventive controls to ensure that access to change applications, the operating system or databases in the production environment were granted only to authorized personnel.</p>



Key audit matter	How our audit addressed the key audit matter
<p>The accuracy and reliability of the financial reporting process depends on the IT systems and the related control environment, including:</p> <ul style="list-style-type: none"> IT general controls over user access management and change management across applications, networks, database, and operating systems. IT application controls. <p>Due to the pervasive nature, complexity and importance of the impact of the IT systems and related control environment on the Bank's financial reporting process, we have identified testing of such IT systems and related control environment as a key audit matter for the current year audit.</p>	<p>We have also evaluated changes in IT process (including usage of technology) for access to IT assets and infrastructure in work from home scenario due to COVID-19 pandemic.</p> <p>Other areas that were assessed under the IT control environment, included password policies, security configurations, business continuity, and controls around change management.</p> <p>We also evaluated the design and tested the operating effectiveness of key automated controls within various business processes. This included testing the integrity of system interfaces, the completeness and accuracy of data feeds, system reconciliation controls and automated calculations.</p> <p>Where deficiencies were identified, we tested compensating controls or performed alternate procedures.</p>

Information other than the Standalone Financial Statements and Auditor's Report thereon

7. The Bank's Board of Directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Pillar 3 Disclosure under the New Capital Adequacy Framework (Basel III disclosures), but does not include the standalone financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the standalone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements

- 8. The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards prescribed under section 133 of the Act read with rule 7 of the Companies (Accounts) Rules, 2014 (as amended) and provisions of section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.
- 9. In preparing the standalone financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
- 10. Those Board of Directors is also responsible for overseeing the Banks's financial reporting process.

Auditor's Responsibilities for the Audit of the Standalone Financial Statements

- 11. Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.
- 12. As part of an audit in accordance with Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for explaining our opinion on whether the Bank has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

13. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
14. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
15. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

16. The standalone financial statements of the Bank for the year ended 31 March 2019 were audited by the predecessor auditor, who have expressed an unmodified opinion on those standalone financial statements vide their audit report dated 30 April 2019.

Report on Other Legal and Regulatory Requirements

17. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of section 29 of the Banking Regulation Act, 1949 and section 133 of the Act read with rule 7 of the Companies (Rules), 2014 (as amended).
18. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:
 - a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
 - b) the transactions of the Bank, which have come to our notice, have been within the powers of the Bank;
 - c) we have visited 117 branches to examine the books of account and other records maintained at the branch for the purpose of our audit. Since the key operations of the Bank are automated with the key applications integrated to the core banking system, the audit is carried out at centrally as all the necessary records and data required for the purposes of our audit are available therein.
19. With respect to the matter to be included in the auditor's report under section 197(16) of the Act, we report that since the Bank is a banking company, as defined under the Banking Regulation Act, 1949; the reporting under section 197(16) in relation to whether the remuneration paid by the Bank is in accordance with the provisions of section 197 of the Act and whether any excess remuneration has been paid in accordance with the aforesaid section is not applicable.
20. Further, as required by section 143 (3) of the Act, based on our audit, we report, to the extent applicable, that:
 - a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b) in our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
 - c) the standalone financial statements dealt with by this report are in agreement with the books of account;
 - d) in our opinion, the aforesaid standalone financial statements comply with Accounting Standards prescribed under section 133 of the Act, read with rule 7 of the Companies (Accounts) Rules, 2014 (as amended), to the extent they are not inconsistent with the accounting policies prescribed by RBI;



- e) on the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2020 from being appointed as a director in terms of section 164(2) of the Act;
- f) we have also audited the internal financial controls over financial reporting (IFCoFR) of the Bank as on 31 March 2020 in conjunction with our audit of the standalone financial statements of the Bank for the year ended on that date and our report dated 13 May 2020 as per Annexure I expressed unmodified opinion; and
- g) with respect to the other matters to be included in the Auditor's Report in accordance with rule 11 of the Companies (Audit and Auditors) Rules, 2014 (as amended), in our opinion and to the best of our information and according to the explanations given to us:
 - i. the Bank, as detailed in refer Schedule 12.I, Schedule 17C(13) and Schedule 18B Note 15(1) in to the standalone financial statements, has disclosed the impact of pending litigations on its financial position as at 31 March 2020;
 - ii. the Bank, as detailed in refer Schedule 12.II, Schedule 17C - Note 11, Schedule 17C - Note 13 and Schedule 18B - Note 11 and Note 15 to the standalone financial statements, has made provision as at 31 March 2020, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts;
 - iii. there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Bank during the year ended 31 March 2020; and
 - iv. the disclosure requirements relating to holdings as well as dealings in specified bank notes were applicable for the period from 8 November 2016 to 30 December 2016, which are not relevant to these standalone financial statements. Hence, reporting under this clause is not applicable.

For **Walker Chandiok & Co LLP**

Chartered Accountants

Firm's Registration No.: 001076N/N500013

Sudhir N. Pillai

Partner

Membership No. 105782

UDIN No:20105782AAAADM1250



Place: Mumbai

Date: 13 May 2020

Annexure I to the Independent Auditor's Report of even date to the members of Kotak Mahindra Bank Limited on the standalone financial statements for the year ended 31 March 2020

Independent Auditor's Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ('the Act')

1. In conjunction with our audit of the standalone financial statements of **Kotak Mahindra Bank Limited** ('the Bank') as at and for the year ended 31 March 2020, we have audited the internal financial controls over financial reporting ('IFCoFR') of the Bank as at that date.

Responsibilities of Management and Those Charged with Governance for Internal Financial Controls

2. The Bank's Board of Directors is responsible for establishing and maintaining internal financial controls based on internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of the Bank's business, including adherence to the Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditor's Responsibility for the Audit of the Internal Financial Controls

3. Our responsibility is to express an opinion on the Bank's IFCoFR based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India ('ICAI') prescribed under Section 143(10) of the Act, to the extent applicable to an audit of IFCoFR, and the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate IFCoFR were established and maintained and if such controls operated effectively in all material respects.
4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the IFCoFR and their operating effectiveness. Our audit of IFCoFR includes obtaining an understanding of IFCoFR, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's IFCoFR.

Meaning of Internal Financial Controls over Financial Reporting

6. A Bank's IFCoFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's IFCoFR include those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorisations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

7. Because of the inherent limitations of IFCoFR, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the IFCoFR to future periods are subject to the risk that the IFCoFR may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

8. In our opinion, the Bank has, in all material respects, adequate internal financial controls over financial reporting and such controls were operating effectively as at 31 March 2020, based on internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

For **Walker Chandiok & Co LLP**

Chartered Accountants

Firm's Registration No.: 001076N/N500013

Sudhir N. Pillai

Partner

Membership No. 105782

UDIN No:20105782AAAADM1250

Place: Mumbai

Date: 13 May 2020