Kotak Mahindra (UK) Limited

Pillar III Disclosures

2018

KOTAK MAHINDRA (UK) LIMITED

Index

Contents | **Pages**

THE KOTAK GROUP:

Kotak Mahindra (UK) Limited (“KMUK”, the “firm”) is a 100% subsidiary of Kotak Mahindra Bank Limited (“the Parent Company) and hence forms part of the The Kotak Mahindra group of companies (the “Group”). The group is a diversified financial services conglomerate that participates in banking, securities and capital markets, insurance, and retail asset businesses. The Group is one of the leading players in the financial services industry in India and recognizes that in its journey towards achieving growth, leading practices in the area of risk management are quintessential to ensure asset quality and bottom line stability. Diversified business activities require the Kotak Mahindra Group to identify, measure, aggregate and manage risks effectively and to allocate capital among its businesses appropriately.

The Kotak Mahindra Bank, which is the holding company for the Group, manages its risks, as a bank, through a framework implemented through a set of policies and processes. The risk management framework lays emphasis on the Bank’s risk philosophy, proper organizational structure, risk and reward balance and is supported by a dedicated monitoring and risk measuring mechanism.

The firm is authorised and regulated by the Financial Conduct Authority (“FCA”). The firm has two branches – Dubai (regulated by the Dubai Financial Services Authority) and Singapore (regulated by Monetary Authority of Singapore).

The firm was engaged in providing investment management services on a discretionary and advisory basis as well as dealing in securities and distribution of funds. With effect from April 01, 2017, investment management agreements between funds and the firm were terminated. The funds appointed Kotak Mahindra Asset Management (Singapore) Pte. Ltd. (“KMAMS” – a fellow subsidiary of the firm’s parent) as the new investment manager from that date. The investment management agreements for the other funds were novated and assigned by the firm’s Singapore branch to KMAMS with effect from April 01, 2017. The firm continues to act as the sole global distributor to these funds.

The firm continues to engage in dealing in securities, primarily fixed income securities and provide safe custody services.

I. THE PILLAR III DISCLOSURE REQUIREMENTS:

a. Background:

The latest version of Basel Accord on capital adequacy, commonly known as Basel III, has been implemented in the European Union via the Capital Requirements Directive IV ("CRD IV"). CRD has been adopted in the United Kingdom and the rules would be applicable to all firms regulated by the Financial Conduct Authority ("FCA"). The new prudential requirements are effective from 1 January 2014.

The CRD has been implemented in the European Union through a package:

- EU Capital Requirements Regulation ("CRR") - (Regulation (EU) No 575/2013) and
- EU Capital Requirements Directive IV (CRD) (Directive 2013/36/EU).

The FCA has formed appropriate laws in the UK for applying the CRD IV requirements. It has also created a new source book for certain "Investment Firms" called IFPRU. KMUK has been classified as a limited license IPFRU 125K firm (previously, a full scope 730K IFPRU firm) with effect from September 06, 2016. Accordingly, KMUK complies with the prudential requirements contained in the IFPRU sourcebook applicable to limited licence firms.

BASEL III is structured around three 'pillars' which are briefly explained below:

Pillar I – Minimum Capital Requirements:

Pillar I deals with the basis for computation of the regulatory capital ratio. It defines the various classes and the calculations of Risk Weighted Assets (RWAs) in respect of credit risk, market risk and fixed overhead requirement (FOR) as well as deriving the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the entity's regulatory capital to its total Risk Weighted Assets.

Pillar II – the Supervisory Review Process and the Internal Capital Adequacy Process (ICAAP):

Pillar II involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy. Accordingly, this involves both, the entity and its regulators taking a view on whether additional capital should be held against risks not covered in Pillar I. Part of the Pillar II process is the Internal Capital Adequacy Process (ICAAP) which is the entity's self-assessment of risks not captured under Pillar I.

Pillar III – Disclosures:

The third pillar is related to market discipline and requires an entity to publish detailed quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

b. Basis of Disclosure:

The report has been prepared by the firm in line with its internal policy for Pillar III disclosure and requirements of the Financial Conduct Authority ("the FCA"). The disclosures in this report are in addition to the disclosures set out in the audited financial statements of the firm for the year ended 31 March 2018.

c. Scope of application:

The Pillar III disclosures set forth here are based on a solo rather than a consolidated basis. The report includes disclosures of the qualitative information and quantitative data required under CRR – Disclosure requirements and is based on firm's current risk management practices.

I. THE PILLAR III DISCLOSURE REQUIREMENTS (CONTINUED…):

d. Capital structure:

i. Net Available Capital:

The net available capital of the firm has been set out in the table below:

	31st March 2018 USD'000
Share Capital	1,655
Reserves	32,324
Total Tier 1	**33,979**
Tier 2 Capital	70
Total Tier 2	**70**
Total Own Funds	**34,049**

ii. Capital Requirements:

	31st March 2018 USD'000
Pillar I requirement	1,917
Pillar II requirement	3,116
Total Own Funds Requirement	**5,034**

I. THE PILLAR III DISCLOSURE REQUIREMENTS (CONTINUED…):

d. Capital structure:

iii. Capital Adequacy Ratios**:

	31st March 2018 USD'000
Credit Risk	19,366
Market Risk	3,615
Fixed Overhead requirement (FOR)	987
Total Risk Weighted Assets	**23,968**
Own Funds	
Tier 1 Capital	33,979
Tier 2 Capital	70
Total Own Funds	**34,049**
Capital Adequacy Ratio (%)	
On Common Equity Tier 1 Capital	**141.8**
On Total Capital	**142.1**

iv. Solvency Ratios**:

Solvency Ratios	31st March 2018
Common Equity Tier 1 capital Ratio (%)	**1,772**
Total capital Ratio (%)	**1,776**

***Based on own funds and own funds requirement as appearing on the earlier page.*

II. RISK MANAGEMENT:

The firm has laid out a detailed risk management policy which *inter alia* covers the risk management strategy, appetite, the process for risk identification and measurement. It also covers the risk management structure, describing the roles and responsibilities of various individuals, teams and the Board of Directors.

The firm's commitment to implement the best risk management practices and institutionalising a risk culture, supported by a sustainable risk and controls framework across the organisation is formalised vide its risk management policy.

The Board of Directors of the firm oversee the understanding of the risks run by the firm and ensures that they are appropriately managed. The Board during its accomplishment of the tasks has constituted a Risk Management Committee (RMC). The main responsibilities of the RMC includes compliance to the risk management policy, integration of enterprise wide risk management, providing updates to the Board of Directors on the current risk management procedures and status of key risks on a periodic basis, etc. During the course of day to day management of the firm, the senior management is also responsible for:

- Operational risk areas of concern;
- New activities and product approval;
- Market and credit risk;
- Audit reports;
- Claims and complaints;
- Compliance monitoring exceptions;
- Training requirements; and
- Updates to procedures and documentation

The firm shall also, based on the guidelines under the Groups risk governance structure, establish a structure appropriate for the business carried on by the firm. The firm shall also endeavour to broadly match the risk management framework to the framework drawn by the Group.

Risk Appetite:

Any risk management cannot succeed without defining a risk appetite. Risk appetite is defined as the amount and type of risk the firm is willing to take within the context of its business strategy. Senior management of the firm adopt a conservative approach to risk, ensuring a low risk profile by:

- following a straightforward business model;
- recruitment of experienced personnel;
- limited exposure to credit risk;
- adopting an appropriate corporate governance structure with senior management responsibilities clearly defined;
- adequate insurance arrangements.

III. RISK GUIDELINES AND MANAGEMENT BY CATEGORY OF RISK:

The firm’s activities expose it to various types of risks. The most important types of financial risk to which the firm is exposed are market risk, credit risk and liquidity risk.

Exposure to interest rate, foreign currency, price, credit and liquidity risks arise in the normal course of the firm’s business. The other risks that the firm may be exposed to are business risk and concentration risk. The risks that may have been identified, assessed and evaluated by the management of the firm are listed below.

A. RISKS COVERED UNDER PILLAR I:

Being a limited license firm, capital requirements under Pillar I is higher of:

(i) the base capital (i.e. USD equivalent of EUR 125,000)

(ii) the summation of credit, market and settlement risk components

(iii) Or capital computed based on the Fixed Overheads Requirement (“FOR”)

FOR is the fixed overhead expenditure of the firm based on the previous financial year after taking into consideration certain adjustments. 25% of such adjusted fixed overheads is the fixed overhead component of capital requirements. If FOR is the highest amongst the other capital requirements, the total capital provided under Pillar I is the FOR. In which case, total Pillar I capital is reflected as market, credit and settlement risks (as computed) and balance under FOR.

Below are the major risks under Pillar I -

a. MARKET RISK:

Market risk is the risk to earnings and capital due to volatility of interest rates, prices of securities, foreign exchange and equities. The firm’s market risk is managed on a daily basis in accordance with policies and procedures in place. Being a limited license firm, the firm is not permitted to carry trading book and accordingly, the only market risk relevant to its operations is with respect to the foreign exchange positions.

Foreign Exchange Risk Requirement:

The reporting currency of the firm is US Dollar and hence it exposed to the currency risk posed by adverse movements in US Dollar vis-à-vis Pounds Sterling and the Singapore Dollar. Though the firm has a branch in Dubai, it is not exposed to the Arab Emirates Dirham (AED) as the rate between the AED and US Dollar is pegged. Foreign exchange positions consist of the firm’s share capital, balances under its current account with Singapore and Dubai branches. Depreciation of Indian Rupee against the US Dollar would have an indirect negative impact on the income of the firm as it would impact the AUM of the funds distributed.

III. RISK GUIDELINES AND MANAGEMENT BY CATEGORY OF RISK (CONTINUED…):

A. RISKS COVERED UNDER PILLAR I (CONTINUED....):

b. CREDIT RISK:

The firm takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Financial assets which potentially subject the firm to concentrations of credit risk consist of bank balances, debtors, etc. Most of the bank balances have been placed as term deposits with various banks in the United Kingdom to ensure diversification. Also, these banks are ultimately owned by the Government of India and hence the firm don't envisage significant credit risk on account of exposure to such banks. The ageing analyses of debtors reflect the minimal exposure to credit risk for the firm based on the period for which the debtors were outstanding.

c. LIQUIDITY RISK:

Liquidity risk is the risk that the firm will not be able to meet its financial obligations as they fall due. The firm's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the firm's reputation.

The firm ensures that it has sufficient cash on demand to meet its expected operational expenses, including the servicing of any financial obligations.

Risks covered under Pillar I and to which the firm is not materially exposed to are:

d. SETTLEMENT RISK:

Settlement risk is the risk that the counterparty reneges from the contract on or before the settlement date. The transactions entered into by the firm are based on the principle of delivery versus payment which reduces the exposure to the counterparty should it renege.

e. CONCENTRATION RISK:

The firm doesn't carry any concentration risk as it is not permitted to have any trading book exposures and consequently no trading book concentration risk excess.

III. RISK GUIDELINES AND MANAGEMENT BY CATEGORY OF RISK (CONTINUED…):

B. RISKS COVERED UNDER PILLAR II:

The key risks relevant to the firm and which have not been covered under the Pillar I are listed below:

a. BUSINESS RISK:

Business risk refer to the potential risk to the cash flow of the firm from its key business activities because of adverse economic and business conditions or change in the regulatory environment in the markets which it is exposed to.

Presently, the firm derives income from the following main line of businesses:

(i) *Distribution income* which depends on the size of the Funds distributed

(ii) Opportunities in *dealing* (on “matched-principle” basis) in fixed income securities like Euro Bonds and Convertibles

The distribution income (which contributes a major portion of total income of the firm) which is dependent on the size of Funds distributed is driven mainly by the performance of the Indian capital markets, performance of the investment manager and flows into the funds.

The dealing business on matched principle basis is dependent of the global market conditions, interest rate views, overall risk on-off views etc.

The firm has carried out a risk assessment on the distribution business revenues should there be a drastic fall in funds distributed after taking into account various parameters like drastic falls in the levels of Indian capital markets, adverse changes in regulatory environment in India, outflow from funds etc before providing for capital under business risk.

b. CONCENTRATION RISK:

Concentration risk is the risk arising from a lack of diversification in the firm’s business.

As the revenue stream from distribution of funds is significant, the firm is exposed to significant concentration risk as detailed below:

(i) Indian capital markets:

The entire business model of the firm is dependent on the performance of the Indian capital markets, and hence the performance of the funds managed by KMAMS and the distribution capabilities of the firm. The additional capital resources required to be held on account of this single market concentration risk have been assessed by considering adverse developments in the Indian capital markets and fund performance under business risks

(ii) Concentration risk due to distribution of products managed by a single fund management company:

The firm has currently entered into tripartite agreement involving each of the fund & investment manager (KMAMS) wherein the firm will continue to receive the distribution fees from the new fund manager even if KMAMS ceases to manage these funds. Also, over the years the firm has built distribution capabilities to market third party products and funds other than the ones managed by KMAMS which it can explore in the event that both the funds and KMAMS terminate the distribution agreement with the firm. Hence, the firm has not provided any additional capital towards concentration risk due to dependence on single major fund manager.

III. RISK GUIDELINES AND MANAGEMENT BY CATEGORY OF RISK (CONTINUED…):

B. RISKS COVERED UNDER PILLAR II (CONTINUED…):

(iii) Concentration risk due to dependence on a few investors or investors from one jurisdiction:

The funds distributed by the firm consist of various underlying investors. The endeavour of the firm has been to have a wide range of investors under these funds to ensure diversification. The firm through its offices in London, Dubai and Singapore and through an array of sub-distributors appointed across the globe strives to achieve this.

However over a period of time a few underlying investors have gained importance in the overall mix of clients which has led to concentration.

The firm has carried out a detailed analysis of impact of losing few of these investors who contribute the most to the firm's revenue and profitability. Probability of losing an investor taking into consideration the business relationship the firm has with them was analysed to arrive at the basis for providing for concentration risk

The model was further bifurcated into the most likely scenario (probability) of losing a client and also the highest and least probable scenario.

The firm has initiated efforts to diversify the mix of the underlying investors by targeting newer geographies, sub-distributors and investor base. Even for the current mix, the firm is of the opinion that given firm's market standing and offering, the likelihood of losing all of key investors at once is quite remote.

However, it has been conservative in its approach and has provided capital under concentration risk.

c. CREDIT RISK:

Credit risk is the risk that the firm's clients and counterparties may fail to meet their obligations to settle transactions as and when they fall due.

Credit risk has been limited within the firm, given the small number of counterparties who are of high credit quality. The only material credit exposures are amounts receivable from eligible counterparties with whom the firm has placed deposits for which adequate capital as per the standardised approach are maintained. Also, these banks are ultimately owned by the Government of India and hence the 'probability of default' is minimal. The firm's exposures are predominantly to FCA regulated UK counterparties which are settled on delivery-versus-payment basis (DVP). Accordingly, settlement risk has already been provided for the same. Considering the credit quality of its counterparties, the firm's management is satisfied that no additional Pillar II capital would be required for credit risk.

Also, firm does not have any retail or real estate exposures which are perceived to be risky and hence probability of default as well as loss given default is considered insignificant. Hence, credit risk on the firm's assets is reduced to a significant extent and hence the management has assessed that no additional Pillar II capital would be required for credit risk.

III. RISK GUIDELINES AND MANAGEMENT BY CATEGORY OF RISK (CONTINUED…):

B. RISKS COVERED UNDER PILLAR II (CONTINUED…):

d. MARKET RISK:

The firm's exposure to foreign exchange risk is on account of the currency (INR) of the underlying investments. Depreciation of INR against the USD would have an immediate indirect impact on the firm's income (through the share of fees from KMAMS). In addition, foreign exchange risk arises on account of the following, which have been reckoned in arriving at Pillar 1 capital requirements for market risks:

- Share capital and subordinated loan in currencies other than USD
- Balances with branches in Singapore and Dubai.
- Balances held / receivable in currencies other than USD
- Provision towards staff bonuses made in USD whereas payment is in the currency of the respective jurisdiction
- Provision towards tax

e. OPERATIONAL RISK:

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The firm constantly strives to minimise operational risks (inherent in the firm's activities, processes and systems) by ensuring that a strong control infrastructure is in place throughout the firm and is enhanced where necessary. A rigid internal check system is in place by the separation of front office and back office functions, and a reasonable level of automation of the back office functions. The various procedures and processes used to manage operational risks are regularly reviewed and updated and implemented through effective staff training, close monitoring of risk limits, segregation of duties, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, and financial management and reporting. In addition, arrangements for insurance cover are in place to complement the processes and procedures where appropriate.

The management is satisfied that the firm's operational risks are appropriately mitigated by existing processes and controls and of the view that no additional capital be held under Pillar II for operational risk

Following risks identified within the overall Pillar II rule have been assessed and evaluated by the management and which are considered to have no material impact on the firm.

f. REGULATORY RISK:

Regulatory change and compliance with on-going regulatory compliance obligations is an area of continued focus for the Board. The firm has a strong Compliance function across its offices in London, Dubai and Singapore. The firm's management is satisfied that compliance function and the risk management and internal control framework are sufficiently robust to mitigate regulatory risk and no additional Pillar II capital would be required.

g. REPUTATIONAL RISK:

The offshore funds distributed by the firm are distinct legal entities. The funds have appointed administrators for the administration of the funds. Whilst any loss arising out of errors and mistakes committed by the administrators are borne by them, the management recognise that such mistakes may have an adverse impact on the reputation of the firm.

III. RISK GUIDELINES AND MANAGEMENT BY CATEGORY OF RISK (CONTINUED…):

B. RISKS COVERED UNDER PILLAR II (CONTINUED…):

The firm is also exposed to claims from the investors of the funds distributed by the firm on various counts and the resultant reputational risk. The firm exercises appropriate due diligence on the funds distributed and the investment manager before taking on such mandates.

Hence, the management is satisfied that no additional capital is required for reputation risk faced by the firm given the capital provision under various heads in Pillar I and II and the professional indemnity and Directors and Officers Liability insurance held by the firm.

h. GROUP RISK:

The firm belongs to the Kotak Group in India which is one of the leading financial conglomerates in the country.

Market capitalisation of Kotak Bank (the ultimate parent company) was USD 30.6 billion as on 31 March 2018 and capital adequacy ratio of 18.2%.

The consolidated net worth of the Group (including the firm) is more than USD 7.7 billion as on 31 March 2018. The consolidated capital adequacy ratio was 18.4%

The table below reflects that the financial soundness of the Group has increased over years. Given below are the entity level breakdown of net worth of the Group companies and also the growth in the Group net worth and profit after tax ("PAT"). It reflects a very strong financial position of all the companies in the Group. The asset management business (to which the firm's business can be predominantly aligned to) doesn't contribute a significant share to the Group profitability and hence in the firm's view it doesn't pose a severe contagion risk.

(USD million)

Group Company	Networth as on 31 March 18
Kotak Mahindra Bank	5,750.93
Kotak Mahindra Prime	739.00
Kotak Mahindra Investments	212.12
Kotak Securities	541.14
Kotak Mahindra Capital Company	85.70
Kotak Mahindra Old Mutual Life Insurance	343.40
Kotak Mahindra AMC & Trustee Co	51.07
International subsidiaries#	124.76
Kotak Investment Advisors	51.82
Kotak Mahindra General Insurance	15.00
Kotak Infrastructure Debt Fund Limited	49.65
Other entities	23.80
Total	**7,988.39**
Add: Associates & Minority, inter-company & other adjustments	131.63
Less: Minority, inter-company and other adjustments	(373.79)
Consolidated Networth	**7,746.23**

Net worth of the firm is included herein

III. RISK GUIDELINES AND MANAGEMENT BY CATEGORY OF RISK (CONTINUED…):

B. RISKS COVERED UNDER PILLAR II (CONTINUED…):

Following are the risks identified within the over all Pillar II that are not applicable to the firm:

(i) Valuation Risk:

Valuation risk is not applicable to the firm currently as it holds no proprietary positions.

(ii) Insurance risk:

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities, and is particularly relevant for insurance companies. The firm is not authorised to underwrite insurance and hence this risk category is not relevant.

(iii) Residual Risk:

Residual risk is risk that remains with the firm after the application of credit risk mitigation techniques. The firm's exposure to credit risk arises only due to the deposits it holds with banks in the UK. The firm is not engaged in lending activities and accordingly, no additional capital for residual risk is considered necessary.

(iv) Securitisation risk:

The risk is not relevant to the firm.

(v) Pension obligation risk:

The firm has enrolled its UK employees under the National Employees Savings Trust ("NEST") from November 2016 as per the extant statutory requirements in the UK. The pension is a defined contribution scheme and the contributions are not material. Hence no capital provision is deemed necessary against pension obligations.

IV. REMUNERATION DISCLOSURE AS PER ARTICLE 450 OF CRR:

Qualitative:

The qualitative disclosures as per Article 450(1) of CRR form part of the "Remuneration Policy" which can be found at the end of the document under Annexure I.

Quantitative:

Given below are the quantitative information as per Article 450(1)(h) on the amounts of remuneration, broken down by senior management and other members of staff whose action have a material impact on the risk profile of the firm indicating the amounts for the financial year 2017-18 split into fixed and variable remuneration and also the number of beneficiaries.

(USD'000)

Category	Number of beneficiaries	Fixed	Remuneration Variable			Total
			Cash	Share-linked instruments	Total	
Senior Management	6	997	177	323	500	**1,497**
Other Members of staff	5	794	180	258	438	**1,232**
Total	**11**	**1,791**	**357**	**581**	**938**	**2,729**

(USD'000)

Category	Outstanding deferred remuneration		
	Vested	Unvested	Total
Senior Management	-	244	244
Other Members of staff	-	213	213
Total	**-**	**457**	**457**

ANNEXURE I: REMUNERATION POLICY

Kotak Mahindra (UK) Limited believes that our people are key assets in the overall success of our organisation. The aspirations of the company must be supported by compensation programmes that recognise the capabilities and achievements of individual employees and that reward significant and sustained individual and business unit performance.

The objective of the KMUK' remuneration policy is to provide, in the context of the overall business strategy, objectives, values and long term interest of firm remuneration in form and amount which will attract, retain, motivate and reward high calibre employees to deliver superior long-term business performance within acceptable risk parameters. The main aim is to establish a risk focussed remuneration policy in order to promote effective risk management and thus not exposing individuals or firm to excess risks.

Policy applies to all employees of Kotak Mahindra (UK) Limited and its branches in Dubai and Singapore and specifically to all CODE STAFF[β].

Identification of Code Staff

All employees who fall under any of the below categories are considered as CODE STAFF by KMUK:

- Functional/Regional Heads
- KMUK Board of directors including Non-Executive Directors

The above mentioned code staff of the firm are the only staff involved in major decision making and are primary responsible for supervision and monitoring of the respective team members/employees in the region/function in order to ensure avoidance of excessive risk taking by staff.

Firm Categorisation

Kotak Mahindra (UK) Limited is currently being categorised as **a limited license Firm**

The Key aspects of the remuneration policy are as set out below:

Pay-For-Performance

- The pay-for-performance system should have its strong foundation in robust performance management system.
- Rewards should be linked to overall group performance, business unit' performance and employee' own performance at work based on financial and non-financial criteria.
- Appropriate account is taken of risk factors associated with each business unit along with various conflicts which are identified and mitigated.

Market Intelligence

- Reward offerings in the respective markets where KMUK and its branches operate should be understood and reward programmes should be designed and developed to maintain market competitiveness with other niche players in industry offering similar financial products focussing on Indian equity and debt markets.

Customisation Option

The composition of reward should allow for degree of customisation based on regional taxation regimes and overall KOTAK Group' reward guidelines.

[β] As per CRDIV 'categories of staff including senior management , risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on their risk profile'

Compliance and Governance

Reward design and delivery should comply with appropriate policy, standards, be aligned to industry best practice, meet relevant regulators' criteria and be consistent with effective risk management and long term business and stakeholders' interests.

The firm must ensure that the management body in its supervisory function adopts and periodically reviews the general principles of the Remuneration Policy.

Components of individual employee' remuneration package

The firm must set an appropriate ratio between the fixed and variable components of total remuneration and ensure that

- Fixed and variable components of total remuneration are appropriately balanced
- The level of the fixed component represents a sufficiently high proportion of total remuneration
- The overall level of the variable component shall not exceed 100% of the total remuneration. However, it can be increased to 200% of the fixed component of the total remuneration for each code staff with the approval of the parent company.

Base Salary/Gross Salary

Base salaries are set in order to remain competitive in marketplace and be able to attract and retain best talent. Base salaries are decided based on the specific business model, market for the business where an individual works, existing internal parity and for the professional experience, skills and competencies that the individual brings to the company along with the organisational responsibilities assigned to the employee from time to time.

The level of fixed pay should be sufficient enough in order to discourage inappropriate risk-taking. Base salaries are reviewed periodically using market intelligence provided by leading global performance/reward consulting and benchmarking firms for financial services industry. Salary offered to employees across regions is a gross annual amount and there is no further breakup of the gross component except for in KMUK Dubai wherein the gross salary is split between basic and professional allowance. Company ensures that all relevant taxes and statutory deductions are taken into consideration as per local regulations.

ANNEXURE I: REMUNERATION POLICY (CONTINUED…)

Benefits

Employees are eligible for below mentioned benefits:

- Annual Health and Dental Insurance cover for employee and family*
- Life Insurance and Critical Illness cover equivalent to gross annual salary of employee
- Annual Leave Travel Allowance for employee• and family* where applicable (economy class return airfare after successful completion of first year of service with organisation, applicable in cases where the country of domicile is different than the place of employment)

Short-Term Incentives

From time to time company may decide to reward exceptionally good financial and non-financial performance to support the business strategy, taking into account the risk, conflicts and personal contribution. For this firm needs to present a clear and reasonable plan to the KMUK Board and this should detail targets based on SMART principles and the proposed pay out/incentives against target achievement. Firm should communicate all such plans/schemes to the employees. All such short-term incentives are subject to appropriate governance, including review by the KMUK board, corporate human resources and finance & accounts.

Deferred Award/Variable Awards

These awards that reflect performance in excess of that required to fulfil the employee's job responsibilities and terms of employment and that is subject to performance adjustment.

A firm must not award, pay or provide a variable remuneration component unless a substantial portion of it, which is at least 40%, is deferred over a period which is not less than three to five years and must vest no faster than on a pro-rata basis. The length of the deferral period must be established in accordance with the business cycle, the nature of the business, its risks and the activities of the employee.

The threshold limit beyond which the discretionary bonus is paid as deferred award is decided by the Kotak group' board at the end of every financial year[δ]. These deferrals can be either in form of 'Employee Stock Option Plan' (ESOP) or 'Stock Appreciation Rights' (SAR) or both. Deferral period is also decided by the Group' board.

The firm must ensure that a substantial portion, which is at least 50%, of any variable remuneration consists of an appropriate balance of shares/share-linked instruments or equivalent non-cash instruments in the case of non-listed firm and where possible other instruments which are eligible as Additional TIER 1 or TIER 2 instruments. Such instruments must be subject to an appropriate retention policy designed to align incentives with the longer term interests of the firm.

CRD IV specifically requires that below conditions are met in case of vesting or payment of any kind of variable compensation:

- Any of the total variable remuneration is subject to malus or claw back arrangements
- Firm has set specific criteria for the application of malus or claw back and ensure that the criteria for the application of malus and claw back in particular cover situations where the employee:
    1. Participated in or was responsible for conduct which resulted in significant losses to the firm.
    2. Failed to meet appropriate standards of fitness and propriety.

A claw back/malus clause will be added to the employee bonus award communication.

It is mandatory to defer variable pay. For Code Staff with variable pay below £500,000, 40% should be deferred while for those with variable pay above £500,000, 60% should be deferred.

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* Family- Spouse/Partner and dependent children till they attain 18 years of age

• Employee- Where the home country is different to the country wherein our offices are located.

δ Financial year- Runs from April 1st till 31st March every year

ANNEXURE I: REMUNERATION POLICY (CONTINUED…)

Long-Term Incentive Plans

Kotak Group at times may provide employees in Senior Management roles the opportunity to receive awards of long-term incentives. The objective is to encourage the creation of value over the long term and to align the rewards of the participants with the future business growth and returns to shareholders.

Guaranteed Bonuses

Firm must not award, pay or provide any guaranteed bonuses/remuneration to staff unless:

- It is exceptional
- It occurs in the context of hiring new Remuneration Code Staff
- The firm has a sound and strong capital base and it is limited to the first year of service.

Firm must ensure that remuneration packages relating to compensation for, or buy out from, an employee's contracts in previous employment align with the long term interests of the firm and are subject to appropriate retention, deferral and performance and claw back arrangements.

Rule on guaranteed bonuses apply on a firm wide basis and not only to Code Staff.

Retention Awards

Retention awards can be made on an exceptional only basis and "where a very strong case can be made for the retention of particular key staff members on prudential grounds".

Decision Making Process

- **Identification of performance indicators**: Firm has a strong performance management system in place with separate criteria for Front End Sales and Support Staff. Targets/expectations are made clear to the employees at the start of every financial year. Performance review is based on the assigned targets and individual' achievement against the assigned parameters.

- **Performance review and feedback**: Firm has a well-structured annual performance management process wherein the forms are sent to all employees for self-appraisal. Supervisor reviews the appraisal ratings in a joint consultation meeting with the employee and assign the final aggregate score ranging from 1-5. Post discussions with reviewer final performance ratings are awarded.

- **Market Intelligence/Compensation Benchmarking**: Human Resources may periodically initiate the compensation benchmarking for all key roles in the organisation. An external agency/global consulting company may be used for this process. Benchmarking report is submitted by the service provider and data is then compiled and provided to the corporate human resources team.

- **Moderation**: Moderation takes place at 3 levels –
    1. Head of Business & Head HR;
    2. Head Business, Head HR and directors' and
    3. Kotak Group' board, if required.

- **Reward Decision:** KMUK board is authorised to take all decisions on firm' codes staff categorisation, remuneration structures and policy issues. KMUK board is further governed by Kotak group' remuneration guidelines on Remuneration & Rewards. Based on group' overall revenue growth and profitability the board decides on a common bonus pool which further gets allocated to various business entities across the Group. This allocation is strictly based on individual business unit' growth and profitability figures. KMUK board along with Head Human Resources awards the allocated bonus pool to employees across KMUK and branches. All such allocations are strongly based on individual performance, achievements and significant contributions. Kotak Board may delegate its authority in this regard to one or more directors of KMUK.

Governance and Compliance

Considering the size of firm there is no separate 'Remuneration Committee' currently. KMUK Board is authorised to take all decisions with regards to employee remuneration and code staff in accordance with Kotak Group board's guidelines and policy frameworks if issued from time to time in the area of remuneration practice. KMUK Board is also entrusted with the responsibility to review the remuneration policy periodically and identification and mitigation of all associated risks and conflicts. The Board may delegate some of its responsibilities to one or more directors.

External & Internal Disclosures

Firm is required to make all necessary external and internal disclosures as per Article 450 of EU Capital Requirement Regulation. The firm may make the required disclosures in a manner appropriate to its size, internal organisation and nature and scope/complexity of operations.