



Its grt 2b 25

ANNUAL REPORT
2010-11



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Of course, if you still prefer the good ol' way, do state your preference. We will continue to communicate with you as efficiently as we have in the past.

Here's hoping you will help us take an active step in conserving the environment.

Warmly,

Bina Chandarana

Company Secretary



Registered Office

Kotak Mahindra Bank Limited
36-38A, Nariman Bhavan,
227, Nariman Point,
Mumbai 400 021.
Tel.: +91 22 6658 1100
Fax: +91 22 2285 5577
Website: www.kotak.com

Company Secretary

Bina Chandarana,
Company Secretary and
Executive Vice President

Auditors

M/s S.R. Batliboi and Co.
Chartered Accountants
6th Floor, Express Towers,
Nariman Point,
Mumbai 400 021.

Registrar and Transfer Agent

Karvy Computershare Private Limited
Plot No. 17-24,
Vittal Rao Nagar, Madhapur,
Hyderabad 500 081.

7, Andheri Industrial Estate,
Off Veera Desai Road,
Andheri West,
Mumbai 400 058.

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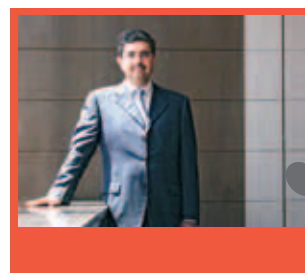
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Its grt 2b 52



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U nme it, v r in it



22

Its also grt 2 win...



Its grt 2b 25 bcoz
**time is
on my
side.**

Its grt 2b 25

A wonderful age.

When exuberance meets wisdom.
Free spiritedness meets ambition.
Chalta hai meets idealism.
Doubt meets dogma.

At Kotak Mahindra, we are enjoying being 25.

Being a t-shirt among pinstripes.
Having ideas that raise eyebrows and bottomlines.
Being seen as financial whiz kids who are rewriting
the rules.

And yet, we don't really think it's such a big deal.

Maybe because we're just 25.

My grt 2b 25 moment

Everybody has a grt 2b 25 moment they recall fondly. An experience, an escapade, a milestone...here are a few shared by our winning contestants on 25.kotak.com



Shivani Arya
...boa on my back...scared and thrilled!



Viral Kariya
Got promoted, married, booked a new home & opened an account with Kotak...all in same month.



Nenshad H. Karbhar
Conquered Leh & Ladakh on my bike. A
memorable trip ...must repeat with my kids.



Nicole Ferraz
Life still looks all rose-tinted!



Bhaskar Patra
25 steps from scaling the peak.

V r 25 too :)

The ebullient spirit of our campaign celebrating 25 years of existence has proved more infectious than even we hoped for. Our illustrious Board of Directors also joined the festivities to share their experiences and memories. Perfectly complemented by rarely seen pictures at that magic age when everything seems possible.



Shankar Acharya
Non-Executive Part-time Chairman

Shankar Acharya @25: Got my PhD from Harvard and my first job as a World Bank economist.



Uday Kotak
Executive Vice Chairman &
Managing Director

Uday Kotak @25: Gave up pursuing a plum MNC job to start my own little venture.

Anand Mahindra @25: Successfully finished my first year at the Harvard Business School; got the class prize for highest ROE: Return on Effort!



Anand Mahindra
Director

Ceased to be Director
effective 21st March 2011

C Jayaram
Executive Director

Dipak Gupta @25: Turned down a banking job. Dreamt of being an entrepreneur someday.

Dipak Gupta
Executive Director

C Jayaram @25: Narrowly escaped doing a PhD. Spent long liquid weekend in Goa to celebrate.

Shivaji Dam
Director

Ceased to be Director
effective 21st March 2011

Shivaji Dam @25: Passed CA, ICWA and CS exams in the same year. Helped carry a friend bitten by a scorpion for 10km before we found a doctor.

Sudipto Mundle
Director

Sudipto Mundle @25: Inspiring visit to a remarkable school for children of freed bonded laborers. The children's confidence and joy starkly contrasted with their parents' subservience.

Asim Ghosh @25: Single, doing well at P&G. Spent memorable weekends in the Canadian wilderness.

Asim Ghosh
Director



Cyril Shroff
Director

Ceased to be Director
effective 21st March 2011

Cyril Shroff @25: Life was just beginning; became the friend and witness to Kotak's history, found my beau and was planning my own venture too.



Prakash Apte
Director

Prakash Apte @25: Came to Mumbai to pursue my dreams. Met my life partner. Bought our first home.



N P Sarda
Director

N P Sarda @25: A year of long term alliances. Married and also became a partner in a CA firm, from which I retired at 65.



Amit Desai
Director

Amit Desai @25: Avid swimmer and squash player. Treked to Triund from Mcleodganj, Dharamsala.

Its grt 2b 52

Friends,

Twenty five years is a defining age. It is the crossroads where youth and aspiration meet insight and maturity. We, at Kotak, are at this point of reckoning.

The world around us has changed at startling speed: 25 years ago, Indian television was in its infancy, mobile phones were unheard of, and email did not exist. One of our recent TV ads captured this thought – When I was 25, conversations happened face-to-face, not on Facebook. The true challenge is to ensure we stay relevant to our customers through a deep understanding of their constantly evolving mindsets.

Photo: Devdatta Bhattacharya Employee, Kotak Mahindra Bank



Uday Kotak

Executive Vice Chairman & Managing Director



“

Come the early 90s, the stage was set for a slew of reforms in the capital markets... (Kotak) saw opportunity in this reform-fuelled environment and built its capital markets business in an emerging world of ‘investors’ and ‘issuers’.

”

I look back to when it all started for perspective. Way back in 1985, your bank (of course, it was not a bank then) was born out of an opportunity in the ‘spreads’ business – bills discounting. Soon, it grew deeper and wider into leasing and car finance – also spreads businesses (essentially those that intermediated between savers and borrowers). Investors as a breed were scant.

Come the early 90s, the stage was set for a slew of reforms in the capital markets. The abolition of the Controller of Capital Issues (CCI), the setting up of the regulator Securities & Exchanges Board of India (SEBI), the launch of the National Stock Exchange (NSE) and the creation of India’s first Depository, NSDL. Your company saw opportunity in this reform-fuelled environment and built its capital markets business in an emerging world of ‘investors’ and ‘issuers’. Our takeover of FICOM gave us

a distribution advantage, so our reach could exceed our 6 year old grasp.

Throughout the 90s, as your company approached teenage, it straddled both the spreads and the markets businesses. Meanwhile, we forged associations with Goldman Sachs and Ford Credit, in 1995 and 1996 respectively. The first energized our foray into investment banking and securities, and the second helped us consolidate our strengths in auto finance.

Then the environment around us suddenly changed with the onset of the Asian contagion in the late 90s. Non Performing Loans (NPLs) destroyed the spreads industry, and practically 90% of the NBFCs died. Even large government sponsored financial institutions needed restructuring to endure. At Kotak, we hunkered down, pruned exposures, survived and grew stronger. Like the boy who stayed home to avoid catching

321

**branches of Kotak
Mahindra Bank**
(as on 31st March 2011)

2,077

**branches and franchises
in India**

“

We launched our Asset Management offering at age 13 and then Life Insurance in partnership with South Africa's Old Mutual at 16.

”



‘the bug’ from the other kids in the playground.

Then came our age of ‘adolescence’. That’s when we started building things, in what I’d call our “financial manufacturing” businesses. We launched our Asset Management offering at age 13 and then Life Insurance in partnership with South Africa's Old Mutual at 16.

At 18, like all young adults, we got our license to drive. We became India's first and so far only NBFC to turn into a bank. This was also the period when the capital markets really took off. So while we were setting up the Bank, we saw exponential growth in the securities and investment banking businesses.

India seemed set to convert into a country of investors, from one of just savers. We used this time to build out the bank's network of branches and

ATMs, as also its suite of world class offerings.

We also responded to the call of the markets by adding other markets-related offerings such as our private equity business, our realty fund and the ability to retail pension funds.

However, post 2008, in the wake of the American upheaval, the tables turned for financial services worldwide. The investor, particularly in equities, was wounded and withdrew to the cocoon of savings. It seemed like we had come full circle, with the return of the saver!

You may recall, I first referred to a unique merit of our business model on these pages way back in 2003, with the epithet 6=1. At that time, we had begun to taste the benefits of group synergy, and customers had begun experiencing a seamless brand and service experience. Even as the

20,000
employees across the Group
(as on 31st March 2011)

8.8 mn
customers accounts

“Even as the American flu was spreading in 2008, I wrote here of how I believed that our integrated one firm approach was the most appropriate model for the Indian financial sector. Just last year, I reiterated my belief that while the capital markets businesses are cyclical in nature, the financing and asset management offerings would provide a steady stream of growing annuity.”

American flu was spreading in 2008, I wrote here of how I believed that our integrated one firm approach was the most appropriate model for the Indian financial sector. Just last year, I reiterated my belief that while the capital markets businesses are cyclical in nature, the financing and asset management offerings would provide a steady stream of growing annuity.

Your bank's financial results for 2010-11 only serve to reinforce my faith in this model. This year, 75% of our earnings came from the financing business. The capital markets business contributed 15% (down from 55% in 2008) and the manufacturing business, i.e. Asset Management and Life Insurance 10%. Regulatory developments, environmental events and customer mindsets can all serve to shift value from one side of the platform to another, hence it is critical to be present across the spectrum of the financial ecosystem.

As you can see, while the environment has proven dynamic we have grown our profits steadily on a consolidated basis. The business model is complete, and our position vindicated. We are attaining stability and maturity; we are coming of age. We are, after all, 25!

As we head into the second major phase of our life cycle as a firm, we want to follow 2 mantras:

- ☐ **Excellence for Relevance**
- ☐ **Depth in addition to width**

At Kotak, we have long defined our position as 'concentrated India, diversified financial services'. This approach has served us well so far, given India's stage of evolution. But going forward, we will have to make choices, and turning up at every happening party may not be the right strategy. In preparation for that time, we must now figure out how we do better, what we do.

19.5%
capital adequacy ratio
(as on 31st March 2011)

₹32,000 crore
market capitalisation
(as on 6th May 2011)

“

Customer experience is always about delighting each customer, and not about the average.

”

Until now, an important aspect of Kotak's DNA was width – wherever we spotted relevant, lucrative, unexploited opportunities, we moved ahead with speed and broke new ground. Now we will complement that with a surgical focus on depth and excellence. For example, customer experience is always about delighting each customer, and not about the average.

And as I wrote in 2007, quality of service is directly linked to the quality of people. When we crossed the 10,000 mark, we won a mention in Hewitt's list of India's best employers. Today, at over double that number, we have again been counted among India's best employers, and continue to be India's number one BFSI employer. I salute my colleagues and thank them for their contributions. I also thank their families for their unstinting support.

Finally, I thank our Board of Directors for their support and exemplary guidance. I also take this opportunity to express my gratitude to all our stakeholders who continue to repose faith and trust in us over the years.

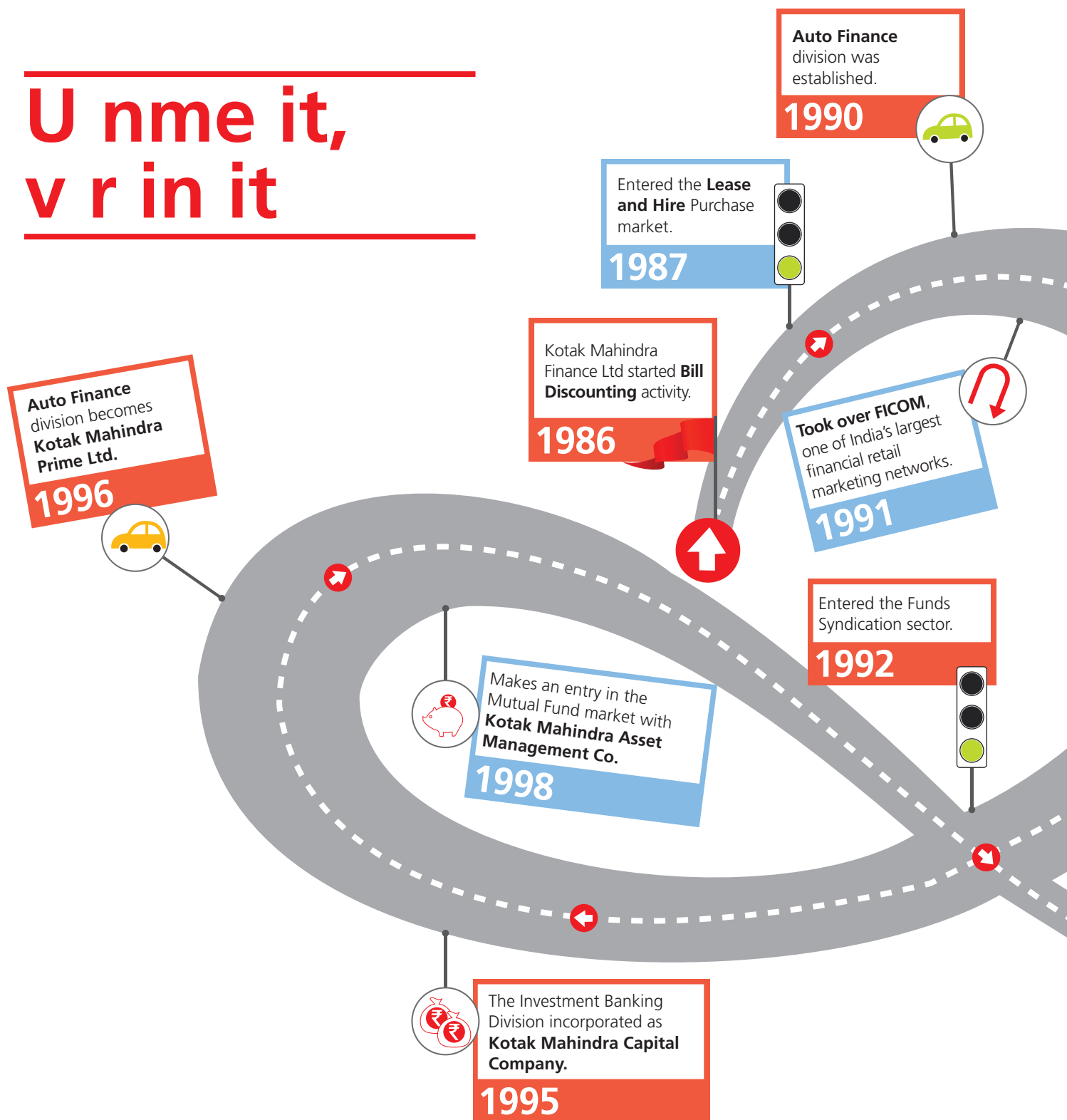
In conclusion, on a personal note, I did celebrate my own 52nd birthday just weeks before the end of this fiscal.

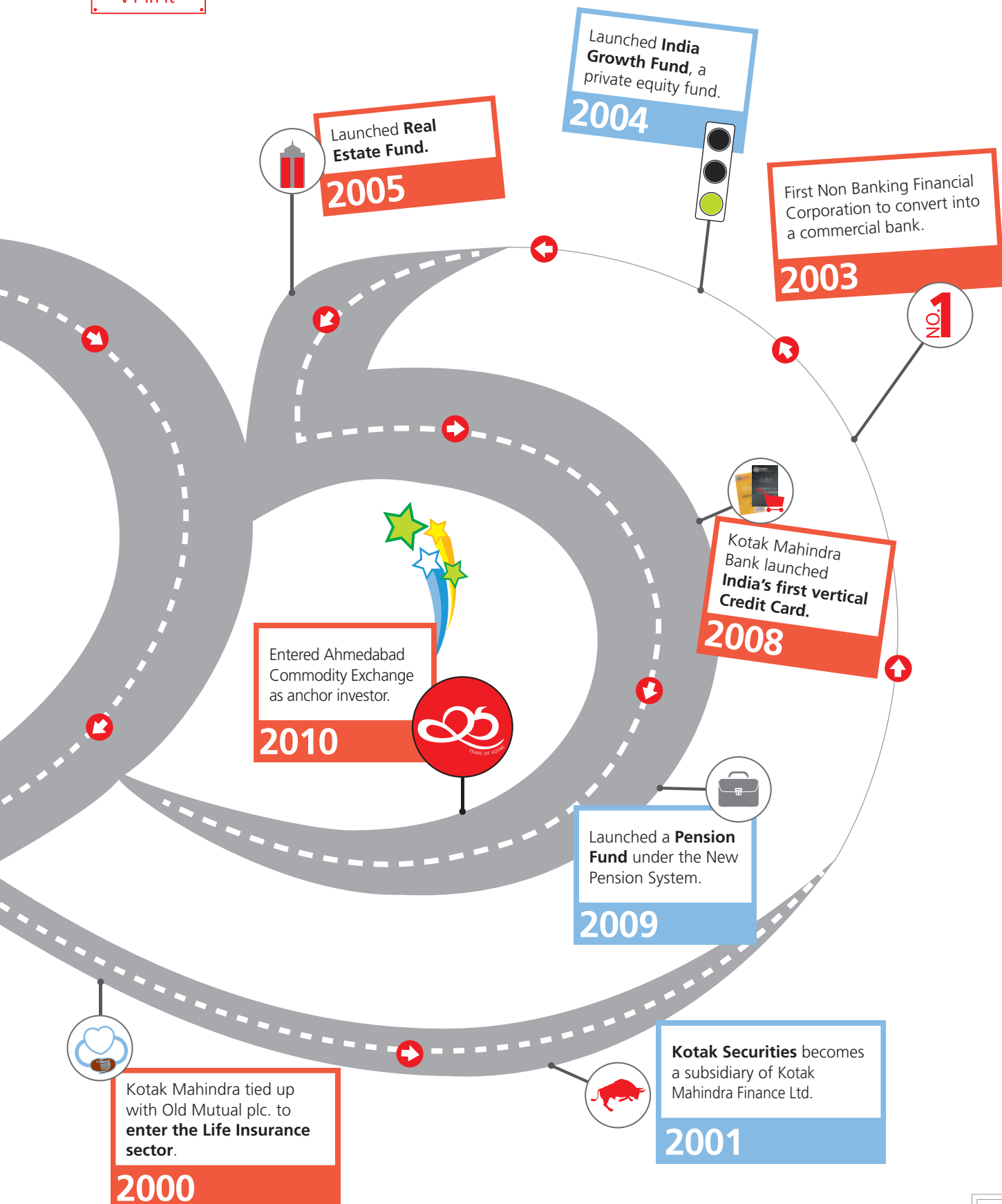
But along with your company, I too feel so full of energy, enthusiasm and passion as I look forward, that I can say with conviction that it truly is...grt 2b 25!

Best Wishes

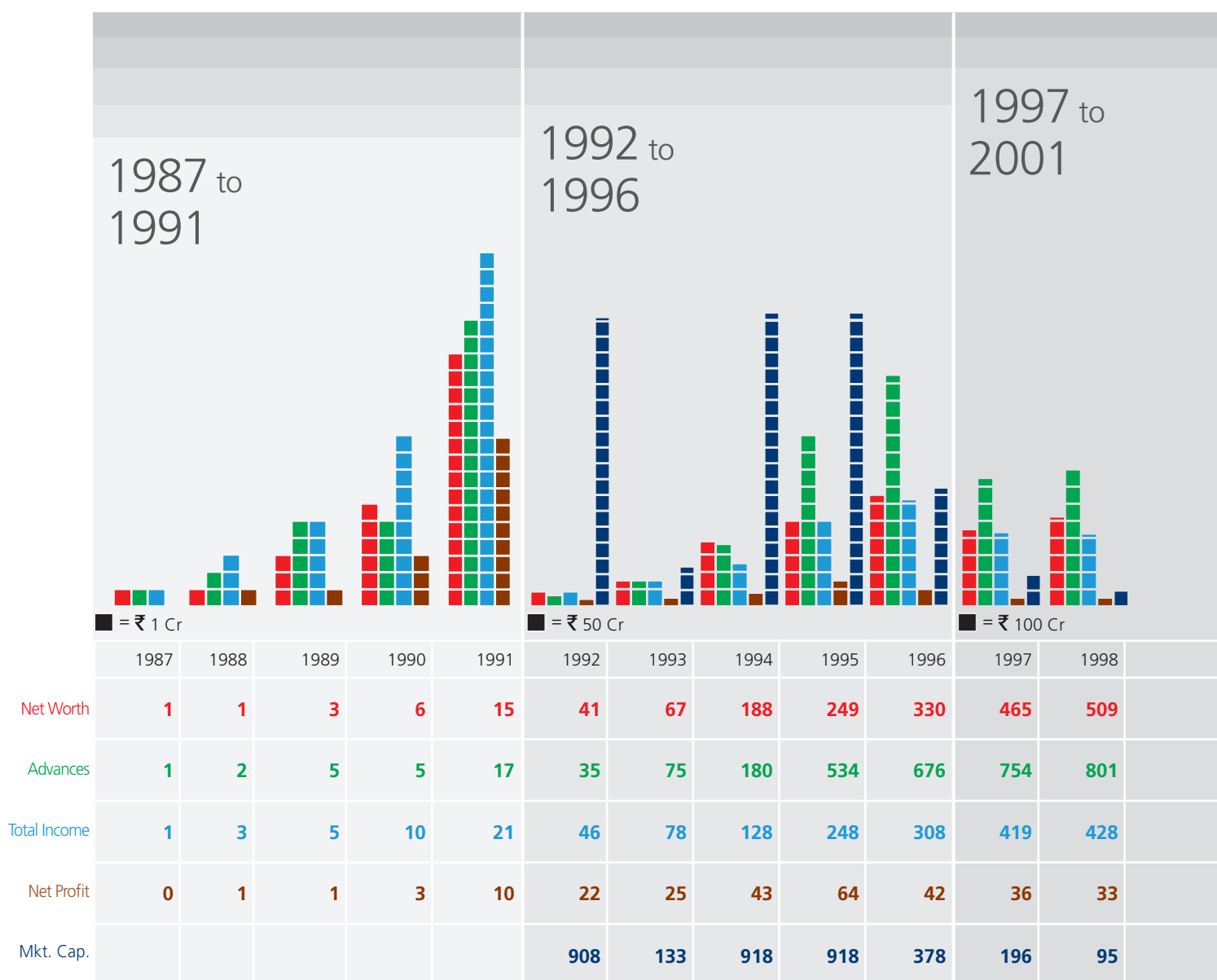


U nme it, v r in it

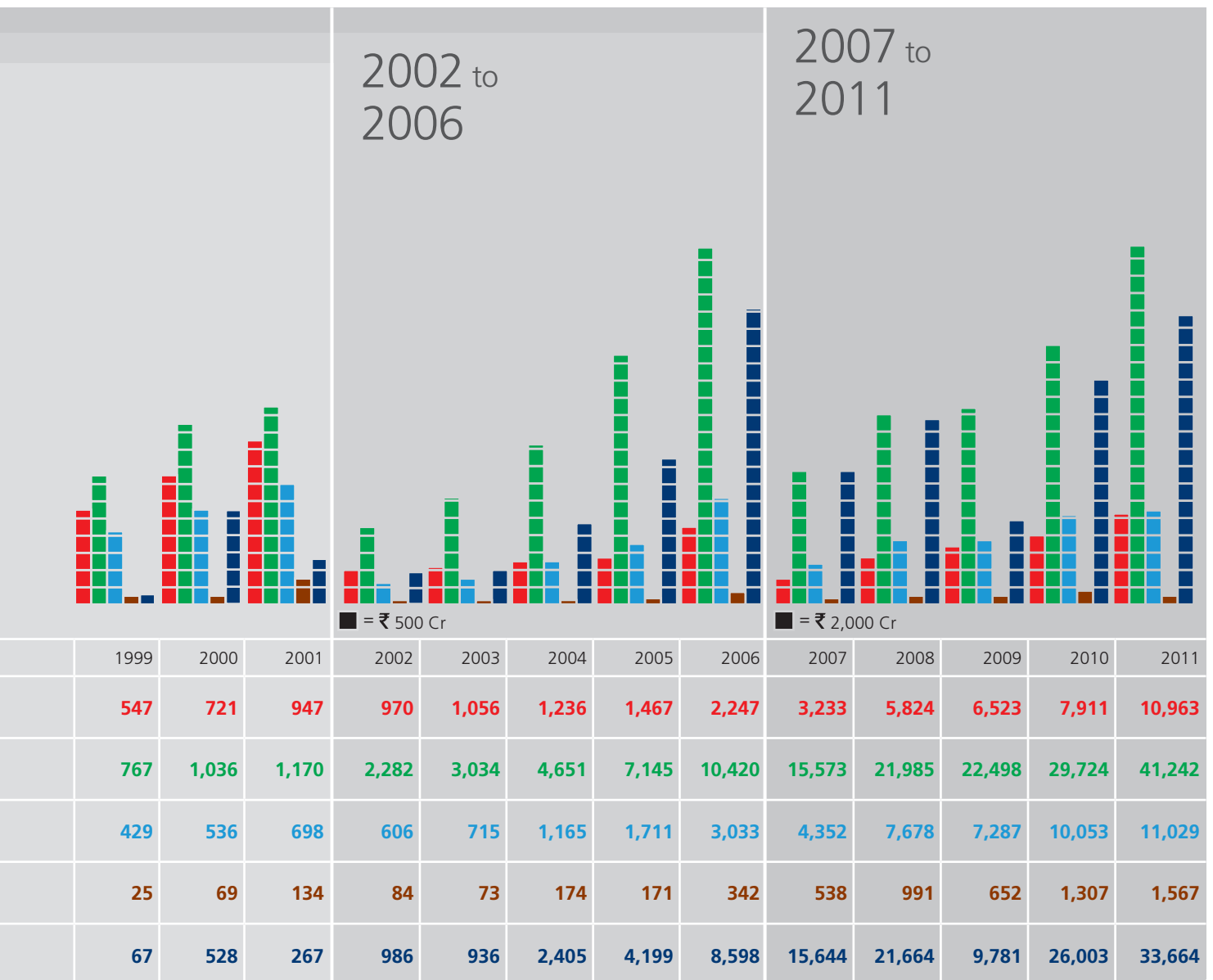




Scoreboard @25



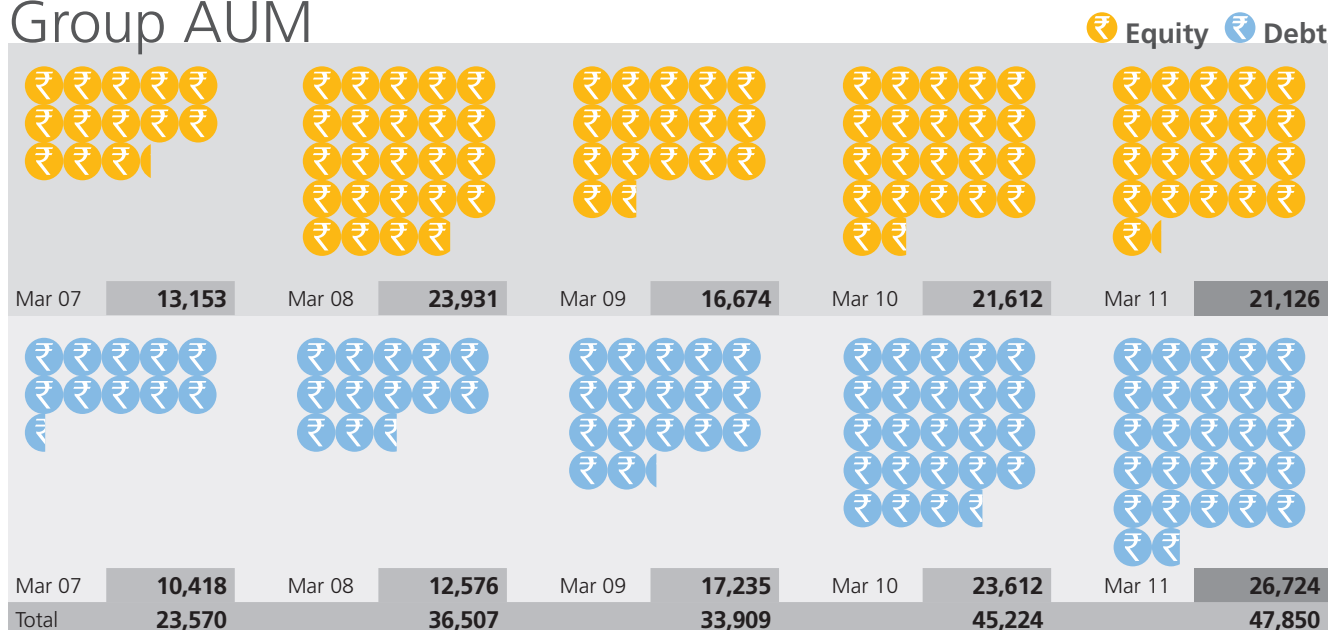
Figures for Net Worth, Advances, Total Income and Net Profit are consolidated.



Figures in ₹ Crore

7-11 (let d nmbrrs spk)

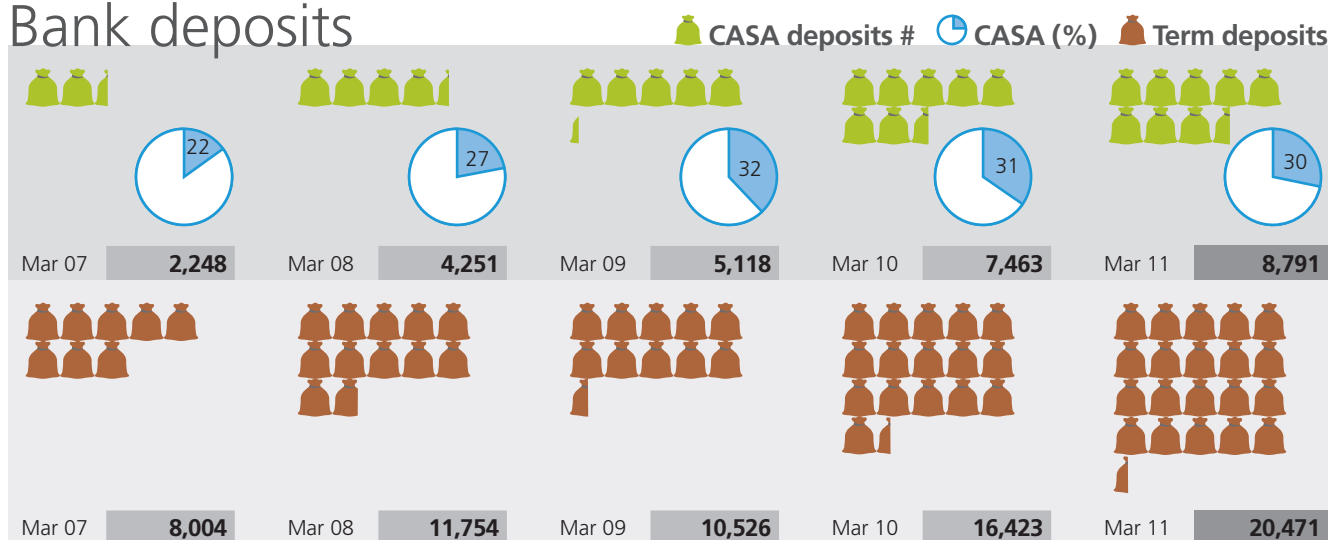
Group AUM



₹ / ₹ = ₹1,000 Crore

Figures in ₹ Crore

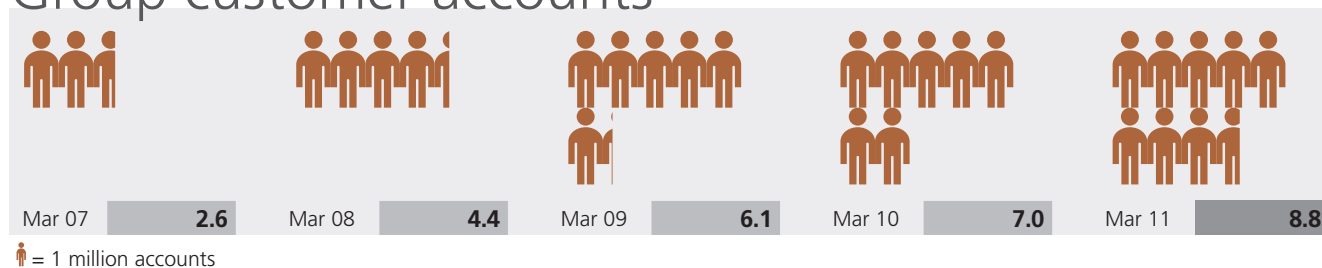
Bank deposits



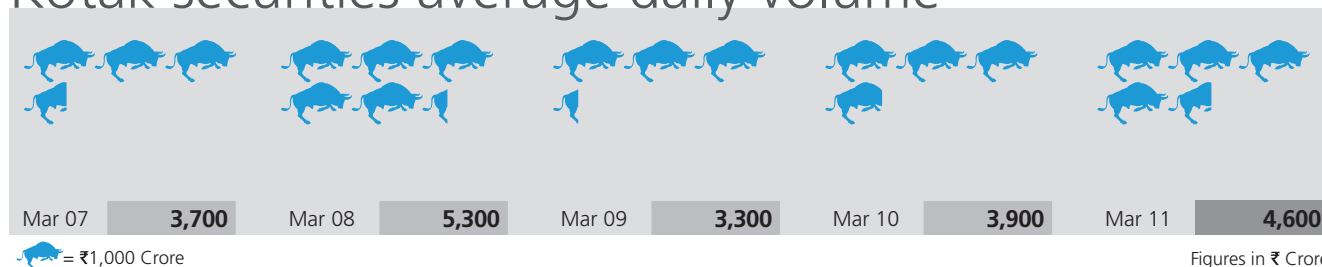
₹ / ₹ = ₹1,000 Crore

Figures in ₹ Crore
excluding monies held as collection banker

Group customer accounts

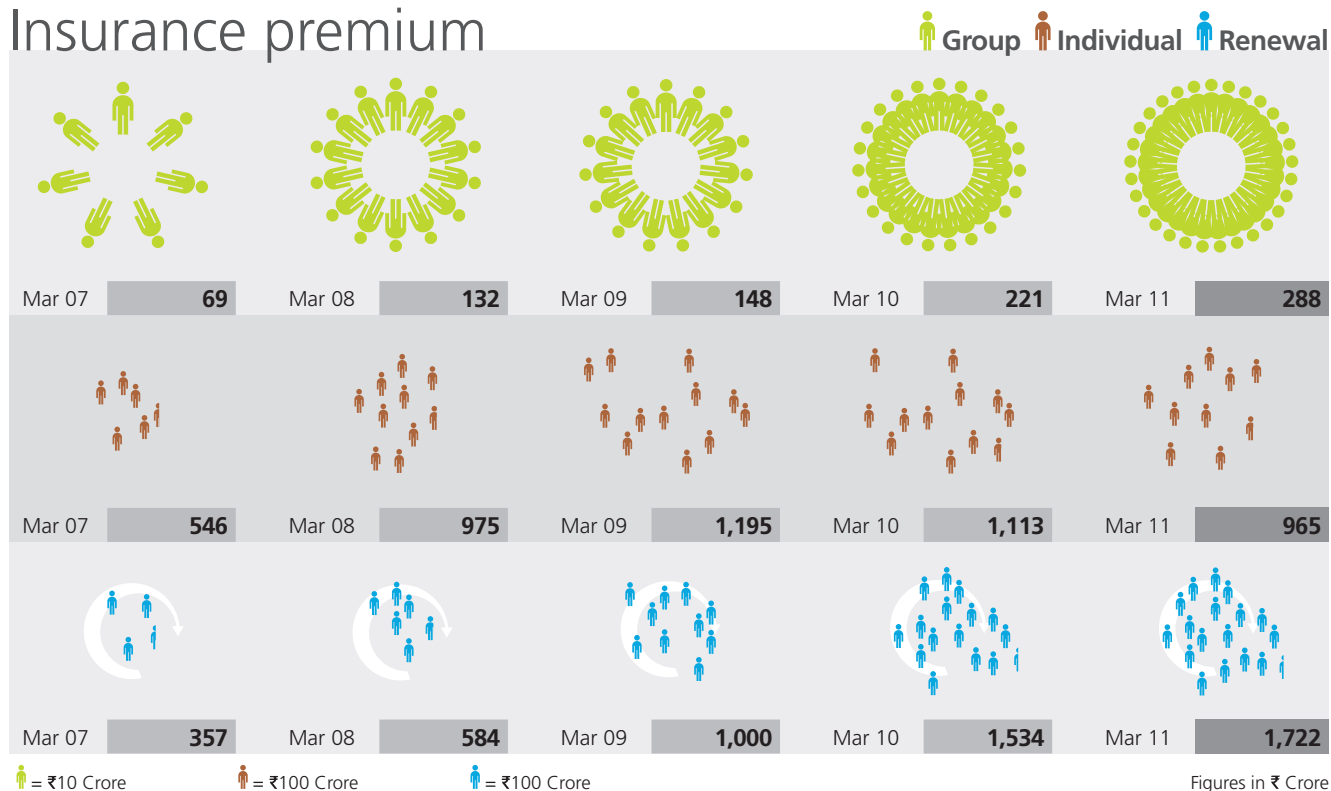


Kotak securities average daily volume



Figures in ₹ Crore

Insurance premium



Its grt 2 do gud too

Towards sustainable partnerships

Our Corporate Responsibility (CR) initiatives represent a spectrum of economic, ecological and social considerations. This involves the adoption of policies, programs and practices to widen and deepen social engagement.

We have chosen to support diverse CR issues this year. The emphasis is on activities that hold immediate relevance in the context of our communities.

Education and employability

Kotak provides financial support to the Kotak Education Foundation. The focus of the foundation for the past year has been to formulate and execute livelihood training programs for youth who are school/ college dropouts and assist them in placement with organizations in order to provide them with a steady income.

Scholarships have been created to support academic requirements and overall development of children in the age group of 12-15 years. The financial support and mentoring of these children will help them overcome their natural limitations and go on to succeed in life.

Environment

We at Kotak are conscious of our responsibility towards the environment. Our 'Think Green' initiative encourages customers to switch to E-statements. We plant a tree on behalf of each Kotak Credit Cards customer who has opted for E-statements. Our partner 'Grow-Trees' has successfully planted 8,900 trees so far. Our aim is to reduce carbon emissions from business operations and to send a strong signal in support of the planet.



Community engagement

Our programs emphasize health and cooperation through working with non-profit organizations, and often involve our employees on a voluntary basis. During the year, we launched 'Doing my bit', a payroll giving program to support of 5 NGOs. More than 1000 employees have joined this program, providing substantial financial support to these causes.

5 NGOs

National Association for the Blind, Akanksha, Cancer Patients Aid Association, Dignity Foundation and Make a Wish Foundation.

>1,000

Employees participated in the payroll giving scheme initiated by us.



A recycling drive was organized to support Nokia in recycling mobile phones and accessories.

Aug 2010



Goonj - Help Drive (aiming at recycling and reuse), was supported. Employees in all major offices of Kotak were encouraged to donate clothes, books, toys for distribution to the needy.

Sep 2010

Christmas gift stalls were organized at our Kalina and Goregaon offices in Mumbai to help NGOs sell products made by the underprivileged.

Dec 2010



Over 80 employees participated in the Standard Chartered Mumbai Marathon 2011, to endorse three NGOs, Cancer Patients Aid Association, Sopan and ICMH. A robust contingent of supporters went along to cheer on the runners.

Jan 2011

Laying bricks for 'Habitat for Humanity'.

A 30 person contingent of Kotak employees was given the day off to visit a village in Karjat and help build homes for the villagers, in partnership with Habitat for Humanity.

Feb 2011



Running the Mumbai marathon.

Its also grt 2 win...

At Kotak, we work to serve our stakeholders (customers, employees & shareholders) as well as the communities we live in.

But, every now and then, when our efforts are recognised, it does put a spring in our step, a lilt on our lips and an inch on our spine.

Some prized accolades we have received (until 30th April 2011) over the last few years are listed here.



Kotak Securities named 'Best Electronic Broker' at TradeTech India Excellence Awards 2011.

Banking Technology Excellence Award in IT Governance

Banking Technology Award in IT Governance

IDG India

Kotak won the CIO 100 'The Agile 100' award

FinanceAsia

Best Investment Bank in India

Best Equity House in India

Best Broker in India

Best Private Bank in India

Euromoney

Best Bank for Equity Finance in India in the Euromoney Real Estate Poll

Best Private Banking Services in India (Overall)

Best Family Office Services in India

Best Range of Investment Products in India

Best Range of Advisory Services in India

Asiamoney

Best Domestic Equity House

Best Local Brokerage in the Asiamoney Brokers Poll

Best Local Cash Management Bank in the Asiamoney Cash Management Poll

IBA Banking Technology Awards












Best Customer Initiative category for CRM Runners up

Best use of Technology in Training & Learning category for E-learning Runners up

06	07	08	09	10	11
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	06	07	08	09	10	11
Asian Banker Award Kotak Mahindra Bank and Cisco won the Asian Banker Award for the Best Contact Center Deployment						🏆
NDTV Profit Kotak Bond Regular–Most Consistent Performer (based on the annual performance of the past 10 years)					🏆	
Kotak Bond Short Term–Runner Up, Debt category					🏆	
EDGE Award Kotak Life Insurance won the prestigious EDGE (Enterprise Driving Growth and Excellence through IT) Award for the successful implementation of KRIS (Kotak Reward and Incentive System)					🏆	
ICRA Awards Kotak Flexi Debt (Institutional Plan) and Kotak Floater Long Term rated 7 star for 1 year performance as on 31st Dec 2010					🏆	
The Asset Best Domestic Investment Bank	🏆	🏆	🏆	🏆	🏆	
Global Finance Best Investment Bank in India			🏆	🏆	🏆	
The Great Places to Work Institute, India India's 'Best Companies to Work For' study Adjudged amongst Top 25 Adjudged amongst Top 50			🏆	🏆	🏆	
AON Hewitt Adjudged amongst Top 25 Best Employers in India		🏆	🏆	🏆	🏆	🏆



	10	11
Mr. Jaimin Bhatt , Group CFO, Kotak Mahindra Bank was adjudged the Best Performing CFO in the Banking/Financial Services sector by CNBC TV18 CFO Awards .		
Mr. KVS Manian included in the List of Leading Practitioners by Asian Banker , for his contribution 'to the shape and future of the financial services industry'.		
Mr. Uday Kotak , Executive Vice Chairman & Managing Director of Kotak Mahindra Bank has been ranked No. 1 as India's Most Valuable CEO (Mid-size Company : 3 year & 1-year performance) by BusinessWorld .		
Mr. Subhro Bhaduri , HR Head, Kotak Mahindra Bank was awarded:		
HR Leadership Award in the 6th Recruiting & Staffing Best in Class Awards (RASBIC).		
Most Powerful HR Professionals of India by the World HRD Congress in their 3rd edition.		
Kotak Mahindra Bank won the Most Active Corporate award by United Way of Mumbai for the Standard Chartered Mumbai Marathon		
Kotak 5X Mailer won Official Honoree for the Email Marketing category in The 15th Annual Webby Awards		
Kotak Mahindra Group won the award for the Best use of Corporate Communications within an organization at the Indian PR and Corporate Communication Awards (IPRCCA) 2011 for the www.lm25.in digital campaign.		
Kotak Mahindra's 'ITS GRT 2B 25' employee event held in Mumbai and Delhi won a Silver in the 'LIVE experience of the year' category at the WOW Awards		
Kotak Mahindra Bank made it to the Forbes' Asia's Fab 50 list in the 6th annual ranking of the Best of Asia-Pacific's biggest listed companies		
Kotak Mahindra Bank ranked 44 by the survey of India's Most Valuable Brands		

Financial inclusion

India is one amongst the world's least-penetrated banking systems, in spite of considerable economic progress and pursuit of explicit development goals over the years. Presently, both in rural as well as urban areas informal channels are utilized by this vast unbanked population. Financial inclusion is the delivery of financial services at an affordable cost to these vast unbanked sections of disadvantaged and low income group. Financial Inclusion through deepening and widening of financial services is one of the key challenges before the Indian Banking sector. Achieving financial inclusion is seen necessary to improve and achieve social inclusion.

In response to the RBI's directives, Kotak Mahindra Bank had formulated a Financial Inclusion Plan during February 2009 to be rolled out starting from FY10-11 over the next three years. This plan for Financial Inclusion is an integral part of the business plans with the following key objectives: (a) Evolving new models for effective outreach (b) Leveraging on technology based solutions. The Bank has deployed dedicated resources to implement and monitor the plan.

The Bank has opened 31895 No-Frill Accounts during the FY 2010-11 taking the cumulative number of No-Frill accounts opened to a total of 60069 accounts. Of these accounts 49329 are live accounts. The Bank, though proposed in the Financial Inclusion Plan to deploy Business Correspondent Model starting from FY 2011-12, it has already introduced during the current financial year to augment the bank's FI agenda.



Under Information and Communication Technology (ICT) based delivery mechanism using Business Correspondents Model (Branchless Banking), the Bank has initiated Biometric Smart Card based solution in Mehsana district of Gujarat. It has engaged Fino Fintech Foundation and FINO as their partner for Business Correspondent and Technology Service Provider for the initiative. The Bank has issued 26491 instant Smart Cards (E-Pass book) by way of opening No-Frill accounts under relaxed KYC norms. A total of 241 villages have been provided with basic banking services (savings accounts, deposits, withdrawals etc.) with deployment of 2 Customers Service Points (CSP) during the first phase of the project. The Bank has plans to deploy 25-30 additional Customer Service Points (CSP) during Q1 of FY11-12 for making the project fully operational.

Financial Highlights

Consolidated

₹ in crore

FINANCIAL HIGHLIGHTS	FY2003	FY2006	FY2007	FY2008	FY 2009	FY 2010	FY 2011
Advances	3,034	10,420	15,573	21,985	22,498	29,724	41,242
Investments*	1,017	4,082	7,632	9,698	9,794	13,200	18,279
Total Assets	4,681	17,967	28,631	40,597	40,234	55,115	73,681
Net Profit	73	342	538	991	652	1,307	1,567

* Excludes Policyholders' investments

KEY FINANCIAL INDICATORS	FY2003	FY2006	FY2007	FY2008	FY2009	FY2010	FY 2011
Net Interest Margin (NIM)	7.1%	5.1%	5.2%	5.6%	6.1%	6.1%	5.6%
Return on Average Assets (RoAA)	2.1%	2.7%	2.3%	2.9%	1.6%	2.7%	2.4%
Book Value Per Share (₹)	18	36	50	84	94	114	149
Earnings Per Share (EPS) Face Value ₹ 5 per share	1.2	5.5	8.2	14.6	9.4	18.6	21.6
Return on Equity (RoE)	7.2%	20.6%	19.6%	22.3%	10.5%	18.2%	16.4%
Capital Adequacy Ratio	26.0%*	15.4%	15.6%	20.2%	22.5%	19.3%	19.5%
Gross NPA (₹ cr)*	22	47	69	183	506	647	469
Net NPA (₹ cr)*	8	21	26	70	262	338	178
Gross NPA Ratio*	0.7%	0.5%	0.5%	0.9%	2.3%	2.2%	1.1%
Net NPA Ratio*	0.3%	0.2%	0.2%	0.3%	1.2%	1.1%	0.4%

* Excludes stressed assets acquired from other Banks and NBFCs

* Standalone

MARKET RELATED RATIOS	FY2003	FY2006	FY2007	FY2008	FY2009	FY2010	FY 2011
Market Price (₹)	16	139	240	314	141	375	457
Market Capitalization (₹ cr)	935	8,598	15,644	21,664	9,781	26,076	33,664
Price to Book Ratio	0.9	3.8	4.8	3.7	1.5	3.3	3.1
Price to Earnings Ratio	12.8	25.2	29.1	21.5	15.0	20.1	21.2

Financial Highlights

Standalone

₹ in crore

FINANCIAL HIGHLIGHTS	FY2003	FY2006	FY2007	FY2008	FY 2009	FY 2010	FY 2011
Deposits	257	6,566	11,000	16,424	15,644	23,886	29,261
Advances	1,241	6,348	10,924	15,552	16,625	20,775	29,329
Investments	707	2,856	6,862	9,142	9,110	12,513	17,121
Total Assets	2,153	10,176	19,915	28,312	28,712	37,436	50,851
Net Interest Income (NII)	94	380	620	1,226	1,519	1,858	2,245
Fee Income	3	159	187	222	224	306	353
Other Non-Interest Income	69	59	131	241	50	323	280
Operating Profit	90	211	326	670	596	1,297	1,325
Provisions and Contingencies	20	37	123	272	170	486	137
Tax Provision	25	55	62	104	150	250	370
Net Profit	45	118	141	294	276	561	818

KEY FINANCIAL INDICATORS(%)	FY2003	FY2006	FY2007	FY2008	FY2009	FY2010	FY 2011
Net Interest Margin (NIM)	7.1%	4.7%	4.5%	5.5%	6.0%	6.3%	5.5%
Cost to Income Ratio	46.2%	64.8%	65.3%	60.3%	66.8%	47.8%	54.0%
Return on Average Assets (RoAA)	2.5%	1.4%	0.9%	1.1%	1.0%	1.7%	1.8%
Fee / NII plus Other Income	2.0%	26.6%	20.0%	13.1%	12.5%	12.3%	12.3%
NII / NII plus Other Income	56.7%	63.5%	66.1%	72.6%	84.7%	74.7%	78.0%
Capital Adequacy Ratio	26.0%	11.3%	13.5%	18.7%	20.0%	18.4%	19.9%
Tier 1	25.7%	8.1%	8.8%	14.5%	16.1%	15.4%	18.0%
Gross NPA Ratio *	0.8%	0.5%	0.5%	1.0%	2.5%	2.4%	1.2%
Net NPA Ratio *	0.1%	0.2%	0.2%	0.4%	1.3%	1.3%	0.5%

* Excludes stressed assets acquired from other Banks and NBFCs

Consolidation at a Glance

₹ in Lakhs

	2010-2011		2009-10		31st March 2011	31st March 2010
	Profit before Tax	Profit after Tax	Profit before Tax	Profit after Tax	Networth	Networth
Kotak Mahindra Bank Limited	118,770.18	81,818.21	81,110.36	56,110.57	679,647.20	448,511.50
Subsidiaries						
Kotak Mahindra Prime Limited	48,188.43	31,786.27	25,887.29	16,641.22	153,757.56	111,971.38
Kotak Securities Limited	27,157.26	18,193.79	40,387.62	26,010.04	169,394.91	151,201.12
Kotak Mahindra Capital Company Limited	7,022.77	5,188.86	3,461.57	2,386.18	48,934.65	43,745.79
Kotak Mahindra Old Mutual Life Insurance Limited	10,247.45	10,247.45	6,922.46	6,922.46	41,284.54	31,100.71
Kotak Mahindra Investments Limited	3,320.47	2,399.87	4,842.33	3,466.24	25,433.24	23,033.37
Kotak Mahindra Asset Management Company Limited	1,468.03	1,062.00	9,905.19	6,551.45	5,837.47	5,664.86
Kotak Mahindra Trustee Company Limited	990.14	668.10	1,052.25	694.98	2,924.71	2,605.77
Kotak Mahindra (International) Limited	4,727.81	4,605.42	6,833.91	6,723.80	18,832.91	14,422.81
Kotak Mahindra (UK) Limited	1,285.56	918.54	1,829.46	1,317.33	9,555.83	8,715.93
Kotak Mahindra, Inc.	(542.81)	(380.58)	229.16	138.74	2,736.14	3,129.83
Kotak Investment Advisors Limited	4,922.24	3,271.41	5,982.64	3,975.15	15,607.73	12,336.32
Kotak Mahindra Trusteeship Services Limited	109.69	72.87	96.34	65.62	286.10	213.23
Kotak Forex Brokerage Limited	(45.53)	(45.53)	(51.97)	(51.97)	43.40	18.94
Kotak Mahindra Pension Fund Ltd	(57.25)	(57.25)	(62.18)	(62.18)	1,080.57	1,137.82
Kotak Mahindra Financial Services Ltd	(26.91)	(26.91)	(145.81)	(145.81)	254.63	153.76
Total	227,537.53	159,722.52	188,280.62	130,743.82	1,175,611.59	857,963.14
Add: Associates		2,386.23		(236.10)	46,220.74	43,834.51
Less: Dividend, Minority interest, Inter company and other adjustment		(5,434.28)		(192.33)	125,538.21	110,703.24
Consolidated Profit After Tax/Netwoth		156,674.47		130,700.05	1,096,294.12	791,094.41
Consolidated Earnings per Share (₹)		21.60		18.64		
Consolidated Book Value per Share (₹)					148.78	113.62

Auditors' Report

To the Board of Directors of Kotak Mahindra Bank Limited

1. We have audited the attached consolidated balance sheet of Kotak Mahindra Bank Limited ('the Bank') and its subsidiaries (collectively 'the Group') as at 31st March 2011, and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Bank's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of 15 subsidiaries whose financial statements reflect total assets of ₹ 172,970,257 (in thousands) as at 31st March 2011, total revenues of ₹ 27,415,582 (in thousands) and cash outflows amounting to ₹ 1,449,235 (in thousands) for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of other auditors. Further, we have jointly audited the financial statements of Kotak Mahindra Old Mutual Life Insurance Limited, the life insurance subsidiary of the Bank, with other auditor, whose financial statements reflect total assets of ₹ 88,458,724 (in thousands) as at 31st March 2011, total revenues of ₹ 36,214,045 (in thousands) and cash flows amounting to ₹ 134,335 (in thousands) for the year then ended. In addition, we have relied on the un-audited financial results of one associate. The share of the Group in the net profit of this un-audited associate for the year then ended is ₹ 10,085 (in thousands).
4. We, along with the joint auditor of Kotak Mahindra Old Mutual Life Insurance Limited ('the Company'), the life insurance subsidiary of the Bank have reported in our audit opinion dated 29th April 2011, on the financial statements of the Company, which has been used in the preparation of the accompanying financial statements, that the actuarial valuation of policyholders' liabilities is the responsibility of the Company's Appointed Actuary ('the Appointed Actuary'). The actuarial valuation of these liabilities as at 31st March 2011 has been duly certified by the Appointed Actuary and in his opinion, the assumptions for such valuation are in accordance with the guidelines and norms issued by the Insurance Regulatory Development Authority ('IRDA') and the Institute of Actuaries of India in concurrence with IRDA. We, along with the joint auditor of the Company have relied upon the Appointed Actuary's certificate in this regard for forming an opinion on the financial statements of the Company.
5. We report that the consolidated financial statements have been prepared by the Bank's management in accordance with the requirements of Accounting Standard 21: Consolidated Financial Statements and Accounting Standard 23: Accounting for Investments in Associates in Consolidated Financial Statements, [notified pursuant to the Companies (Accounting Standards) Rules, 2006, as amended].
6. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to explanations given to us, we are of the opinion that the attached consolidated financial statements gives a true and fair view in conformity with the accounting principles generally accepted in India:
 - i. in the case of the consolidated balance sheet, of the state of affairs of the Group as at 31st March 2011;
 - ii. in the case of the consolidated profit and loss account, of the profit for the year ended on that date; and
 - iii. in the case of the consolidated cash flow statement, the cash flows for the year ended on that date.

For S.R. Batliboi & Co.
Firm Registration No. 301003E
Chartered Accountants

per Viren H. Mehta
Partner
Membership No.048749
Mumbai, 5th May 2011

(₹ in thousands)

Consolidated Balance Sheet as at 31st March 2011

	Schedule	As at 31st March 2011	As at 31st March 2010
CAPITAL AND LIABILITIES			
Capital	1	3,684,358	3,481,415
Reserves and Surplus	2	105,945,054	75,628,026
Minority Interest	2A	1,072,112	808,586
Employees' Stock Options (Grants) Outstanding		369,172	548,017
Deposits	3	273,129,755	218,191,807
Borrowings	4	220,733,209	138,857,016
Policyholders' Funds		81,452,019	63,710,722
Other Liabilities and Provisions	5	50,425,593	49,922,555
Total		736,811,272	551,148,144
ASSETS			
Cash and Balances with Reserve Bank of India	6	21,148,573	20,940,828
Balances with Banks and Money at Call and Short Notice	7	8,793,951	4,127,315
Investments	8	260,489,873	194,847,770
Advances	9	412,419,529	297,242,869
Fixed Assets	10	5,970,011	6,104,142
Other Assets	11	27,955,141	27,851,026
Goodwill on Consolidation		34,194	34,194
Total		736,811,272	551,148,144
Contingent Liabilities	12	366,400,173	381,044,916
Bills for Collection		10,534,742	6,493,241
Significant Accounting Policies and Notes to the Consolidated Financial Statements	17		

The schedules referred to above form an integral part of this Balance Sheet

As per our report of even date

For S. R. Batliboi & Co.
Firm Registration No. 301003E
Chartered Accountants

per Viren H. Mehta
Partner
(Membership No. 048749)

Mumbai, 5th May 2011

For and behalf of the Board of Directors

Dr. Shankar Acharya
Chairman

Dipak Gupta
Executive Director

Jaimin Bhatt
Group Chief
Financial Officer

Uday Kotak
Executive Vice Chairman and
Managing Director

Bina Chandarana
Company Secretary

(₹ in thousands)

Consolidated Profit and Loss Account for the year ended 31st March 2011

	Schedule	Year ended 31st March 2011	Year ended 31st March 2010
I. INCOME			
Interest earned	13	61,414,352	46,011,601
Other Income	14	48,878,371	54,521,404
Total		110,292,723	100,533,005
II. EXPENDITURE			
Interest expended	15	26,345,492	17,728,575
Operating expenses	16	59,997,243	58,668,505
Provisions and Contingencies (Refer Note 10 - Schedule 17)		8,257,638	10,862,326
Total		94,600,373	87,259,406
III. PROFIT			
Net Profit for the year		15,692,350	13,273,599
Less: Share of Minority Interest		263,526	179,984
Add: Share in profit/(loss) of Associates		238,623	(23,610)
Consolidated Profit for the year attributable to the Group		15,667,447	13,070,005
Add : Surplus brought forward from previous year		37,202,874	26,912,987
Total		52,870,321	39,982,992
IV. APPROPRIATIONS			
Transfer to Statutory Reserve		2,045,500	1,402,800
Transfer to Special Reserve u/s 45 IC of RBI Act, 1934		683,725	402,224
Transfer to Special Reserve u/s 36(1)(viii) of Income Tax Act, 1961		290,000	400,000
Transfer to General Reserve		426,725	353,200
Transfer to Capital Reserve		6,900	69,600
Transfer to Debenture Redemption Reserve		381,376	726,467
Transfer from Debenture Redemption Reserve		(783,625)	(882,804)
Transfer (from) / to Investment Reserve Account		(268,300)	11,900
Proposed Dividend		368,832	296,613
Corporate Dividend Tax		93,020	118
Balance carried over to Balance Sheet		49,626,168	37,202,874
Total		52,870,321	39,982,992
V. EARNINGS PER SHARE [Refer Note 13 - Schedule 17]			
Basic (₹)		21.73	18.84
Diluted (₹)		21.60	18.64
Face value per share (₹)		5.00	5.00
The schedules referred to above form an integral part of this Profit and Loss Account			
Significant Accounting Policies and Notes to the Consolidated Financial Statements		17	

As per our report of even date

For and behalf of the Board of Directors

For S. R. Batliboi & Co.Firm Registration No. 301003E
Chartered Accountants**per Viren H. Mehta**Partner
(Membership No. 048749)

Mumbai, 5th May 2011

Dr. Shankar Acharya
Chairman**Dipak Gupta**
Executive Director**Jaimin Bhatt**
Group Chief
Financial Officer**Uday Kotak**
Executive Vice Chairman and
Managing Director**Bina Chandarana**
Company Secretary

(₹ in thousands)

Consolidated Cash Flow Statement for the year ended 31st March 2011

	Year Ended 31st March 2011	Year Ended 31st March 2010
CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit After Tax	15,667,447	13,070,005
Add: Provision for Income tax	6,780,534	5,753,980
Profit before tax	22,447,981	18,823,985
Adjustments for:-		
Employee Stock Option Grants	187,632	270,676
Depreciation on Group's property	1,523,462	1,429,197
Amortization of Premium on Investments	1,189,500	1,419,804
Diminution in the value of investments	466,434	(512,432)
(Profit)/ Loss on revaluation of investments (net)	275,156	(5,293,992)
Profit on Sale of Associates	-	(496,584)
Interest on debentures and other long-term borrowing	3,344,951	3,127,445
Interest on subordinated debt and Upper Tier II	698,898	675,524
Interest on refinance from institutions	1,877,300	1,562,449
Provision for Non Performing Assets and contingencies	1,009,563	5,619,714
Loss on sale of assets	1,262	43,917
Decrease in Foreign Currency Translation Reserve [Refer Note 2 (F) (ix) - Schedule 17]	(29,446)	(282,527)
Wealth tax	1,106	1,064
	32,993,799	26,388,240
Adjustments for :-		
Increase in Investments other than Associates	(67,074,627)	(56,970,843)
Increase in Advances	(116,292,699)	(77,630,343)
Increase in Other Assets	(1,416)	(1,025,803)
Increase in Deposits	54,937,948	79,973,400
Increase in Borrowings	66,701,184	15,263,016
Increase in Policyholders' Funds	17,741,297	26,330,277
Increase in Other Liabilities & Provisions	676,921	9,117,247
	(43,311,392)	(4,943,049)
Income Taxes Paid	(7,068,327)	(5,756,603)
NET CASH FLOW FROM OPERATING ACTIVITIES (A)	(17,385,920)	15,688,588
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed assets	(1,455,746)	(4,281,287)
Sale of Fixed assets	65,153	87,433
Proceeds on sale of Associates	-	677,680
Increase in Investments in Associates	(498,566)	(541,128)
NET CASH USED IN INVESTMENT ACTIVITIES (B)	(1,889,159)	(4,057,302)

Cash Flow Statement

(₹ in thousands)

Consolidated Cash Flow Statement for the year ended 31st March 2011 (Contd.)

	Year Ended 31st March 2011	Year Ended 31st March 2010
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid including corporate dividend tax	(345,683)	(304,122)
Fresh issue of share/Money received on exercise of stock options	14,983,521	738,708
Share issue expenses	(5,764)	-
Increase in Refinance	5,026,305	576,768
Increase in debentures and other long-term borrowings	9,792,429	3,497,886
Increase/(decrease) in subordinated debt and Upper Tier II	356,275	(261,900)
Interest on subordinated debt and Upper Tier II	(698,898)	(675,524)
Interest on refinance from institutions	(1,877,300)	(1,562,449)
Interest on debentures and other long-term borrowing	(3,344,951)	(3,127,445)
Increase in Minority Interest	263,526	179,984
NET CASH FLOW FROM FINANCING ACTIVITIES (C)	24,149,460	(938,094)
NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)	4,874,381	10,693,192
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Refer Note below)	25,068,143	14,374,951
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Refer Note below)	29,942,524	25,068,143
Note:		
Balance with banks in India in Fixed Deposit (As per Schedule 7 I (i) (b))	2,723,813	313,398
Balance with banks in India in current account (As per Schedule 7 I (i) (a))	2,248,028	2,079,453
Money at call and short notice in India (As per Schedule 7 I (ii))	510,658	-
Cash in hand (As per Schedule 6 I)	2,522,778	2,195,514
Balance with RBI in current account (As per Schedule 6 II)	18,625,795	18,745,314
Balance with banks Outside India:		
(i) In current account (As per Schedule 7 II (i))	804,316	265,277
(ii) In Other Deposit Accounts (As per Schedule 7 II (ii))	2,507,136	1,469,187
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	29,942,524	25,068,143

As per our report of even date.

For S. R. Batliboi & Co.
 Firm Registration No. 301003E
 Chartered Accountants

per Viren H. Mehta
 Partner
 Membership No. 048749

Mumbai, 5th May 2011

For and on behalf of the Board of Directors

Dr. Shankar Acharya
 Chairman

Dipak Gupta
 Executive Director

Jaimin Bhatt
 Group Chief
 Financial Officer

Uday Kotak
 Executive Vice Chairman and
 Managing Director

Bina Chandarana
 Company Secretary

(₹ in thousands)

Schedules Forming Part of Consolidated Balance Sheet as at 31st March 2011

	As at 31st March 2011	As at 31st March 2010
SCHEDULE 1 - CAPITAL		
Authorised Capital		
80,00,00,000 Equity Shares of ₹ 5/- each (31st March 2010: 40,00,00,000)		
Equity Shares of ₹ 10 each)	4,000,000	4,000,000
Issued Subscribed and Paid-up Capital		
73,68,71,504 Equity Shares of ₹ 5/- each (31st March 2010: 34,81,41,477)	3,684,358	3,481,415
Equity Shares of ₹ 10 each) fully paid-up (Refer Note 3 and 4 - Schedule 17)		
Total	3,684,358	3,481,415
SCHEDULE 2 - RESERVES AND SURPLUS		
I. Statutory Reserve		
Opening Balance	4,470,700	3,067,900
Add: Transfer from Profit and Loss Account	2,045,500	1,402,800
Total	6,516,200	4,470,700
II. Capital Reserve		
Opening Balance	282,203	212,603
Add: Transfer from Profit and Loss Account	6,900	69,600
Total	289,103	282,203
III. General Reserve		
Opening Balance	2,018,176	1,664,976
Add: Transfer from Profit and Loss Account	426,725	353,200
Total	2,444,901	2,018,176
IV. Securities Premium Account		
Opening Balance	26,554,915	25,186,388
Add: Received during the year (net of tax)	15,147,055	1,368,527
Less: Utilised for Share Issue Expenses	5,764	-
Total (Refer Note 3 - Schedule 17)	41,696,206	26,554,915
V. Special Reserve under Section 45IC of the RBI Act, 1934		
Opening Balance	1,263,479	861,255
Add: Transfer from Profit and Loss Account	683,725	402,224
Total	1,947,204	1,263,479

(₹ in thousands)

Schedules Forming Part of Consolidated Balance Sheet as at 31st March 2011 (Contd.)

	As at 31st March 2011	As at 31st March 2010
VI. Debenture Redemption Reserve		
Opening Balance	1,489,752	1,646,089
Add: Transfer from Profit and Loss Account	381,376	726,467
Less: Transfer to Profit and Loss Account	783,625	882,804
Total	1,087,503	1,489,752
VII. Capital Reserve on Consolidation		
Opening Balance	1,474,546	1,474,546
Addition during the year	-	-
Total	1,474,546	1,474,546
VIII. Foreign Currency Translation Reserve		
[Refer Note 2(F)(ix) - Schedule 17]		
Opening Balance	42,467	324,994
Decrease during the year	(29,858)	(282,527)
Total	12,609	42,467
IX. Investment Reserve Account		
Opening Balance	428,914	417,014
Add: Transfer from Profit and Loss Account	(268,300)	11,900
Total	160,614	428,914
X. Special Reserve under Section 36(1)(viii) of the Income Tax Act, 1961		
Opening Balance	400,000	-
Add: Transfer from Profit and Loss Account	290,000	400,000
Total	690,000	400,000
XI. Profit and Loss Account	49,626,168	37,202,874
Total	105,945,054	75,628,026
SCHEDULE 2A - Minority Interest		
Minority Interest at the date on which parent subsidiary relationship came into existence	396,700	396,700
Subsequent Increase	675,412	411,886
Total	1,072,112	808,586
SCHEDULE 3 - DEPOSITS		
A.		
I. Demand Deposits		
i. From Banks	1,006,014	989,260
ii. From Others	51,061,096	43,990,971
Total	52,067,110	44,980,231
II. Savings Bank Deposits	33,303,313	24,710,044
III. Term Deposits		
i. From Banks	2,676,623	648,677
ii. From Others	185,082,709	147,852,855
Total	187,759,332	148,501,532
Total Deposits (I to III)	273,129,755	218,191,807

(₹ in thousands)

Schedules Forming Part of Consolidated Balance Sheet as at 31st March 2011 (Contd.)

	As at 31st March 2011	As at 31st March 2010
SCHEDULE 3 - DEPOSITS (Contd.)		
B.		
I. Deposits of Branches in India	273,129,755	218,191,807
II. Deposits of Branches Outside India	-	-
Total Deposits (I to II)	273,129,755	218,191,807
SCHEDULE 4 - BORROWINGS		
I. Borrowings in India		
(i) Reserve Bank of India	39,647,500	-
(ii) Other Banks	62,998,332	33,543,973
(iii) Institutions, Agencies and others (Refer Note 15 - Schedule 17)	94,245,174	101,133,077
Total	196,891,006	134,677,050
II. Borrowings outside India		
(i) Institutions, Agencies and others (Refer Note 15 - Schedule 17)	23,842,203	4,179,966
Total Borrowings (I & II)	220,733,209	138,857,016
Secured Borrowings included in I & II above	80,697,092	57,543,225
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS		
I. Bills Payable	6,188,983	6,691,977
II. Interest Accrued	5,160,966	4,456,915
III. Others (including provisions) (Refer Note 9 and 21 - Schedule 17)	38,663,555	38,477,743
IV. Proposed Dividend (includes tax on dividend)	412,089	295,920
Total	50,425,593	49,922,555
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I. Cash in hand (including foreign currency notes)	2,522,778	2,195,514
II. Balances with RBI in current account	18,625,795	18,745,314
Total	21,148,573	20,940,828
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. In India		
(i) Balances with Banks [Refer Note 8 - Schedule 17]		
(a) In Current Accounts	2,248,028	2,079,453
(b) In Other Deposit Accounts	2,723,813	313,398
Total	4,971,841	2,392,851
(ii) Money at Call and Short Notice		
(a) With Banks	510,658	-
Total	510,658	-
Total (i + ii)	5,482,499	2,392,851
II. Outside India		
(i) In Current Accounts	804,316	265,277
(ii) In Other Deposit Accounts	2,507,136	1,469,187
Total	3,311,452	1,734,464
Total (I & II)	8,793,951	4,127,315

(₹ in thousands)

Schedules Forming Part of Consolidated Balance Sheet as at 31st March 2011 (Contd.)

	As at 31st March 2011	As at 31st March 2010
SCHEDULE 8 - INVESTMENTS		
I. Investments in India in		
i. Government Securities*	144,725,282	105,956,983
ii. Other approved Securities	-	-
iii. Shares	35,578,239	26,350,671
iv. Debentures and Bonds	40,749,514	29,457,022
v. Associates **	5,700,880	5,202,314
vi. Others [Units, Certificate of Deposits, Commercial Paper (CP), Security Receipts, RIDF Deposit and Pass Through Certificates (PTC)]	30,287,161	25,401,318
Total	257,041,076	192,368,308
*Refer Note 5 - Schedule 17 (Previous Year net of Repo ₹ 1,562.37 crore)		
II. Investments Outside India in		
i. Shares	104,524	61,986
ii. Others [FCCBs, FCBs, Venture/ Private Equity and other similar funds]	3,344,273	2,417,476
Total	3,448,797	2,479,462
Total Investments (I and II)	260,489,873	194,847,770
** Investment in Associates		
Equity Investment in Associates	1,052,897	805,107
Add: Goodwill on acquisition of Associates (Share of pre-acquisition losses)	29,440	17,287
Less: Capital reserve on Consolidation (Share of pre-acquisition profits)	3,531	3,531
Cost of Investment in Associates	1,078,806	818,863
Add: Post-acquisition profit/loss of Associates (Equity method)	4,622,074	4,383,451
Total	5,700,880	5,202,314
SCHEDULE 9 - ADVANCES		
A. (i) Bills purchased and discounted #	11,026,240	9,714,569
(ii) Cash Credits Overdrafts and loans repayable on demand	57,595,021	33,226,015
(iii) Term Loans	343,798,268	254,302,285
# Bills purchased and discounted is net off Bills Rediscounted ₹ 956.38 crore (Previous Year ₹ 1,171.88 crore)		
Total	412,419,529	297,242,869
B. (i) Secured by tangible assets *	364,956,593	253,608,201
(ii) Unsecured	47,462,936	43,634,668
Total	412,419,529	297,242,869
* including advances secured against book debts		
C. Advances in India		
(i) Priority Sector	87,379,166	68,331,589
(ii) Public Sector	875,000	1,730,465
(iii) Banks	-	-
(iv) Others	324,165,363	227,180,815
Total	412,419,529	297,242,869

(₹ in thousands)

Schedules Forming Part of Consolidated Balance Sheet as at 31st March 2011 (Contd.)

	As at 31st March 2011	As at 31st March 2010
SCHEDULE 10 - FIXED ASSETS		
A. Premises (Including Land)		
Gross Block		
At cost on 31st March of the preceding year	3,145,718	1,085,388
Additions during the year	-	2,060,330
Deductions during the year	-	-
Total	3,145,718	3,145,718
Depreciation		
As at 31st March of the preceding year	382,058	334,922
Charge for the year	52,981	47,136
Deductions during the year	-	-
Depreciation to date	435,039	382,058
Net Block	2,710,679	2,763,660
B. Other Fixed Assets (including furniture and fixtures)		
Gross Block		
At cost on 31st March of the preceding year	8,484,335	6,826,572
Additions during the year	1,455,746	2,220,957
Deductions during the year	302,268	563,194
Total	9,637,813	8,484,335
Depreciation		
As at 31st March of the preceding year	5,143,853	4,193,636
Charge for the year	1,470,481	1,382,061
Deductions during the year	235,853	431,844
Depreciation to date	6,378,481	5,143,853
Net Block (Refer Note 22 - Schedule 17)	3,259,332	3,340,482
Total (A) +(B)	5,970,011	6,104,142
SCHEDULE 11 - OTHER ASSETS		
I. Interest accrued	5,979,552	4,376,984
II. Advance tax (net of provision for tax)	269,563	390,356
III. Stationery and Stamps	36,102	20,729
IV. Non Banking assets acquired in satisfaction of claims	67,824	113,288
V. Cheques in course of collection	54,531	130,755
VI. Others (Refer Note 21 - Schedule 17)	21,547,569	22,818,914
Total	27,955,141	27,851,026

(₹ in thousands)

Schedules Forming Part of Consolidated Balance Sheet as at 31st March 2011 (Contd.)

	As at 31st March 2011	As at 31st March 2010
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. Claims not acknowledged as debts	1,215,962	969,619
II. Liability on account of outstanding forward exchange contracts	82,760,346	22,316,855
III. Guarantees on behalf of constituents in India	40,312,069	19,913,093
IV. Guarantees on behalf of constituents outside India	563,231	1,162,334
V. Acceptances, Endorsements and Other Obligations	34,165,842	24,143,148
VI. Other items for which the Group is contingently liable:		
Liability in respect of interest rate and currency swaps and forward rate agreements	189,291,144	297,089,613
Liability in respect of other Derivative contracts	17,273,383	13,983,691
Capital commitments	818,196	1,466,563
Total	366,400,173	381,044,916

Schedules Forming Part of Consolidated Profit and Loss Account for the year ended 31st March 2011

	Year ended 31st March 2011	Year ended 31st March 2010
SCHEDULE 13 - INTEREST EARNED		
I. Interest / discount on advances/bills	47,108,483	35,263,701
II. Income from investments	13,551,878	10,185,483
III. Interest on balances with RBI and other inter-bank funds	230,906	69,068
IV. Others	523,085	493,349
Total	61,414,352	46,011,601
SCHEDULE 14 - OTHER INCOME		
I. Commission exchange and brokerage	13,487,057	13,510,670
II. Profit on sale of Investments (net)	4,431,857	4,065,552
III. Profit/(Loss) on revaluation of investments of Insurance business	(275,156)	5,293,992
IV. Loss on sale of building and other assets (net)	(1,262)	(43,917)
V. Profit on exchange transactions (net)	47,008	678,743
VI. Premium on Insurance business	29,399,087	28,493,373
VII. Profit on recoveries of non-performing assets acquired	1,265,950	2,086,864
VIII. Miscellaneous Income	523,830	436,127
Total	48,878,371	54,521,404

(₹ in thousands)

Schedules Forming Part of Consolidated Profit and Loss Account for the year ended 31st March 2011 (Contd.)

	Year ended 31st March 2011	Year ended 31st March 2010
SCHEDULE 15 - INTEREST EXPENDED		
I. Interest on Deposits	13,566,067	8,374,295
II. Interest on RBI / Inter-Bank Borrowings	5,189,905	3,240,647
III. Other Interest (Refer Note 16 - Schedule 17)	7,589,520	6,113,633
Total	26,345,492	17,728,575
SCHEDULE 16 - OPERATING EXPENSES		
I. Payments to and provision for employees [Refer Note 7 - Schedule 17]	15,223,449	12,609,547
II. Rent, taxes and lighting [Refer Note 18 - Schedule 17]	2,158,555	2,254,757
III. Printing and Stationery	466,058	342,115
IV. Advertisement, Publicity and Promotion	1,418,094	1,313,012
V. Depreciation on Group's property	1,523,462	1,429,197
VI. Directors' fees, allowances and expenses	11,025	4,515
VII. Auditors' fees and expenses	40,817	35,835
VIII. Law Charges	227,128	211,163
IX. Postage, telephones etc.	1,226,569	1,023,490
X. Repairs and maintenance	1,242,450	1,005,574
XI. Insurance	254,150	185,898
XII. Travel and Conveyance	729,830	581,821
XIII. Professional Charges	1,755,345	1,408,780
XIV. Brokerage	2,909,209	2,876,243
XV. Stamping Expenses	260,366	200,555
XVI. Policyholders' Reserves	17,724,621	26,222,536
XVII. Insurance Business Expenses (Claims and benefits paid)	10,361,522	4,966,829
XVIII. Other Expenditure	2,464,593	1,996,638
Total	59,997,243	58,668,505

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF CONSOLIDATION

- a. The Consolidated Financial Statements of Kotak Mahindra Bank Limited ("the Bank" or "KMBL") are prepared in accordance with Accounting Standard 21 (AS-21), "Consolidated Financial Statements" and Accounting Standard 23 (AS-23), "Accounting for Investments in Associates in Consolidated Financial Statements" notified under the Companies (Accounting Standard) Rules, 2006 "as amended". The Bank consolidates entities in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control, on a line by line basis by adding together like items of assets, liabilities, income and expenses in accordance with AS-21. The Goodwill or Capital Reserve on consolidation represents the difference between the Group's share in the network of the subsidiary and the cost of acquisition at the time of making the investment in subsidiary. Intragroup balances, intragroup transactions and resulting unrealised profits/ losses, if any, are eliminated in full. Minority interest representing the part of net results of operations and of the net assets of subsidiary attributable to interests not owned directly or indirectly through subsidiaries is presented separately from liabilities and the equity. The Bank and its subsidiaries which have been consolidated, constitute the "Group". Further, the Group accounts for investments in entities where it holds 20% to 50% of the voting rights by the equity method of accounting in accordance with AS- 23. The financial statements of the subsidiaries, jointly controlled entities and associates used in consolidation are drawn up to the same date as that of the holding company i.e. 31st March 2011.
- b. The list of subsidiaries is as under:

Name of the Subsidiary	Country of Origin	% Shareholding of group (31st March 2011)	% Shareholding of group (31st March 2010)
Kotak Mahindra Prime Limited	India	100.00	100.00
Kotak Securities Limited	India	100.00	100.00
Kotak Mahindra Capital Company Limited	India	100.00	100.00
Kotak Mahindra Old Mutual Life Insurance Limited	India	74.00	74.00
Kotak Mahindra Investments Limited	India	100.00	100.00
Kotak Mahindra Asset Management Company Limited	India	100.00	100.00
Kotak Mahindra Trustee Company Limited	India	100.00	100.00
Kotak Mahindra (International) Limited	Mauritius	100.00	100.00
Kotak Mahindra (UK) Limited	U.K.	100.00	100.00
Kotak Mahindra, Inc.	USA	100.00	100.00
Global Investments Opportunities Fund Limited (GIOFL) *	Mauritius	100.00	100.00
Kotak Investment Advisors Limited	India	100.00	100.00
Kotak Mahindra Trusteeship Services Limited	India	100.00	100.00
Kotak Forex Brokerage Limited	India	100.00	100.00
Kotak Mahindra Pension Fund Limited	India	100.00	100.00
Kotak Mahindra Financial Services Limited	U.A.E	100.00	100.00

* *Global Investments Opportunities Fund Limited (GIOFL) is a collective investment scheme set up as a fund in Mauritius with the status of a limited company under the Mauritius Companies Act. GIOFL has a class structure wherein there are different classes of redeemable participating shares. Each class of participating shares has its own Balance Sheet and Profit and Loss account. The profit/loss of each such class belongs to the participating shareholders of that class. The management shareholder is not entitled to any beneficial interest in the profit/loss of various classes nor is required to make good any shortfall. In substance there are no direct or indirect economic benefits received by the management shareholders. The substance over form must prevail. The Group's investment is only in management shares. Accordingly, GIOFL is consolidated in respect of management shares of the entity having regard to substance over form of the entity.*

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

- c. As per AS-23, the Consolidated Financial Statements incorporate the results of the following associates except as indicated.

Name of the Associate	Country of Origin	% Shareholding of group (31st March 2011)	% Shareholding of group (31st March 2010)
Infina Finance Private Limited	India	49.99	49.99
Kotak Mahindra Asset Reconstruction Company Limited (**)	India	—	30.00
Phoenix ARC Private Limited	India	49.00	49.00
ACE Derivatives & Commodity Exchange Limited (formerly known as Ahmedabad Commodity Exchange Limited) (#)	India	48.99	48.96
Matrix Business Services India Private Limited (Unaudited)	India	31.26	31.26

(**) The financial statements of Kotak Mahindra Asset Reconstruction Company Limited have not been consolidated under AS-23, as other than temporary diminution in the value of the same is fully provided for. Effective 19th March 2011 Kotak Mahindra Asset Reconstruction Company Limited has been dissolved under Section 560 of the Companies Act, 1956.

(#) Effective 17th June 2010, ACE made a preferential allotment and consequently the stake of Group decreased to 42.19%. Further, on 12th August 2010, ACE made preferential allotment to selected shareholders including the Group and the Group also acquired additional stake from an existing shareholder. Consequently, the Group stake in ACE increased to 48.99%. The Group has accounted its share of profit / loss of ACE considering its effective stake on a pro rata basis.

2. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. ACCOUNTING METHODOLOGY

The Financial Statements have been prepared on historical cost basis of accounting. The Group adopts the accrual system of accounting and the financial statements conform with the Accounting Standards notified under the Companies (Accounting Standard) Rules, 2006 "as amended", guidelines issued by the Reserve Bank of India ("RBI"), Insurance Regulatory and Development Authority ("IRDA") from time to time as applicable to relevant companies and the generally accepted accounting principles prevailing in India. In case the accounting policies followed by a subsidiary are different from those followed by Bank, the same have been disclosed separately.

The preparation of financial statements requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as on the date of the financial statements and the reported income and expenses during the reporting period. Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates.

B. REVENUE RECOGNITION

a. Banking/ Investing Activity:

- Interest income is recognised on accrual basis except in case of non-performing assets where it is recognised, upon realisation, as per RBI guidelines. Penal interest is recognised as income on realisation.
- Interest income in respect of retail advances {except for the subsidiary, Kotak Mahindra Prime Limited (KMPL)} is accounted for by using the internal rate of return method to provide a constant periodic rate of return on the net investment outstanding on the contract.
- KMPL accrues for auto finance income (including service charges and incentives) by using the internal rate of return method to provide a constant periodic rate of return after adjustment of brokerage expenses on the net investment outstanding on the contract. The volume-based incentives and brokerage are accounted as and when the said volumes are achieved. Income also includes gains made on termination of contracts.
- Service charges, Fees and Commission income are recognised when due except for guarantee commission which is recognised over the period of the guarantee, except as indicated in para iii above.
- Interest income on discounted instruments is recognised over the tenure of the instruments so as to provide a constant periodic rate of return.
- Gain on account of securitisation of assets is amortised over the life of the securities issued in accordance with the guidelines issued by the RBI.

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

- vii. Gain on account of assignment of assets on bilateral basis is recognised, based on the difference between the book value of the assigned assets and sale consideration received.
- viii. Dividend income is accounted on an accrual basis when the right to receive the dividend is established.
- ix. In respect of non-performing assets acquired from other banks and NBFCs, collections in excess of the consideration paid at each asset level or portfolio level is treated as income in accordance with RBI guidelines and clarifications.

b. Investment Banking Activity:

- i. Issue management fees, underwriting commission, financial advisory fees and placement fees are accounted on completion of milestones specified in the contract.
- ii. Brokerage and clearing fees are recognised as on the date of transaction.

c. Insurance Activity:

- i. Premium is recognised as income when it is due from policyholders except on unit linked policies, where the premium is recognised when associated units are created.
- ii. Uncollected premium on lapsed policies is not recognised as income until revived.
- iii. Top Up/ Lump sum contributions are accounted as a part of the single premium.
- iv. Income from linked policies, which include asset management fees and other charges, if any, are recovered from the linked fund in accordance with the terms and conditions of the policies.
- v. Re-insurance premium ceded is accounted as an expense at the time of recognition of the premium income in accordance with the treaty arrangements with the re-insurers.
- vi. Commission on re-insurance ceded is accounted as income in the period in which reinsurance is ceded.
- vii. Re-insurance premium and re-insurance commission are recognised over the period of the risk.

d. Broking Activity:

- i. Placement and other fee based income are accounted for on the basis of the progress of the assignment.
- ii. Brokerage Income (net of service tax):
 - On fixed deposit is accounted on completion of the transaction.
 - On primary market subscription / mobilisation is accounted on receipt of intimation of allotment.
 - On secondary market transaction is recognised on the date of the transaction.
- iii. Incentive on primary market subscription / mobilisation is accounted on the basis of receipt of intimation of allotment.
- iv. In respect of depository activity, transaction fees (net of service tax) are recognised on completion of transaction. Account maintenance charges are recognised on time basis over the period of contract.
- v. Portfolio management fees are accounted on accrual basis as follows:
 - a. In case of fees based on fixed percentage of the corpus / fixed amount, income is accrued over the period of the agreement.
 - b. In case of fees, based on the returns of the portfolio, income is accounted on the termination of the portfolio agreement/ on each anniversary as per the agreement, whichever is earlier.
 - c. In case of upfront non-refundable fee, income is accounted in the year of receipt.

e. Asset Management:

- i. Management fee from mutual funds is recognised at specific rates agreed with the relevant schemes, applied on the average daily net assets of each scheme (excluding inter-scheme investments, where applicable, and investments made by the Company in the respective scheme), and are in conformity with the limits specified under SEBI (Mutual Funds) Regulations, 1996.
- ii. Management fee from venture funds, private equity funds and other similar funds is recognised on accrual basis at the rates specified in the investment management agreement from the date of initial closing of funds under management.
- iii. Portfolio Advisory Service income is recognised on accrual basis as per the terms of the contract.

C. FIXED ASSETS AND INTANGIBLE ASSETS

Fixed assets/Intangible assets have been stated at cost inclusive of incidental expenses less accumulated depreciation/amortisation.

DEPRECIATION/ AMORTISATION:

The Group has adopted the Straight Line Method of depreciation so as to write off 100% of the cost of the assets at rates higher than those prescribed under Schedule XIV to the Companies Act, 1956 for all assets other than premises, based on the Management's estimate of useful lives of these assets. Estimated useful lives over which assets are depreciated are as follows:

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

Asset Type	Useful life in years
Premises	58
Improvement to leasehold premises	Over the period of lease subject to a maximum of 6 years
Office equipments (chillers, transformers, UPS & DG set)	10
Office equipments (other than above)	5
Computers	3
Furniture and Fixtures	6
Vehicles	4
ATMs	5
Software (including development) expenditure	3
Forex Broking Business Rights	10
Goodwill (Other than on consolidation)	5
Membership Card of the Bombay Stock Exchange Limited	20

Assets costing less than ₹ 5,000 are fully depreciated in the year of purchase.

D. EMPLOYEE BENEFITS

i Provident Fund – Defined Contribution Plan:

Contribution as required by the Statute made to the Government Provident Fund is debited to the Profit and Loss Account when incurred.

ii Gratuity – Defined Benefit Plan:

The Group accounts for the liability for future gratuity benefits based on an actuarial valuation conducted by an independent actuary. The Bank makes contribution to a Gratuity Fund administered by trustees and managed by a life insurance company. In other entities gratuity obligation is wholly unfunded. The net present value of the Group's obligation towards the same is actuarially determined based on the projected unit credit method as at the Balance Sheet date.

iii Actuarial gains/losses are recognised immediately in the Profit and Loss account and are not deferred.

iv Superannuation Fund – Defined Contribution Plan:

The Group contributes a sum equivalent to 15% of eligible employees' salary subject to a maximum of ₹ 1 lakh per eligible employee per annum, to the Superannuation Funds administered by trustees and managed by a Life Insurance Company. The Group recognises such contributions as an expense in the year they are incurred.

v Compensated Absences - Other Long-Term Employee Benefits:

The Group accrues the liability for compensated absences based on the actuarial valuation as at the Balance Sheet date conducted by an independent actuary. The net present value of the Group's obligation is determined based on the projected unit credit method as at the Balance Sheet date.

vi Other Employee Benefits:

The undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered by employees is recognised during the period when the employee renders the service. These benefits include performance incentives.

E. INVESTMENTS

For The Bank

1. Classification:

In accordance with the RBI guidelines, investments are categorised into "Held for Trading", "Available for Sale" and "Held to Maturity" and further classified under six groups, namely, Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Associates and Other Investments for the purpose of disclosure in the Balance Sheet.

- Investments that are held for resale within 90 days from the date of purchase are classified as "Held for Trading".
- Investments that the Bank intends to hold to maturity are classified as "Held to Maturity".

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

iii. Investments which are not classified in the above categories are classified as "Available for Sale".

2. Valuation:

The cost of investments is determined on weighted average basis. Broken period interest on debt instruments is treated as revenue item. The transaction costs including brokerage, commission etc. paid at the time of acquisition of investments is charged to profit and loss.

The valuation of investments is made in accordance with the RBI guidelines as indicated hereunder:

- a. Held for Trading / Available for sale – Each security in this category is revalued at the market price or fair value and the net depreciation of each group is recognised in the Profit and Loss Account. Net appreciation, if any, is ignored. Further, provision for diminution other than temporary is made for, at the individual security level.
- b. Held to Maturity – These are carried at their acquisition cost. Any premium on acquisition of debt instruments is amortised over the balance maturity of the security on a straight-line basis. Any diminution, other than temporary, in the value of securities, is provided for.

The market value of investments where market quotations are not available is determined as per the norms laid down by the RBI.

- c. Repurchase and reverse repurchase transactions – Securities sold under agreements to repurchase (Repos) and securities purchased under agreements to resell (Reverse Repos) are accounted as collateralised borrowing and lending transactions respectively. The difference between the consideration amount of the first leg and the second leg of the repo is recognised as interest income/interest expense over the period of the transaction (Refer Note 5).

3. Transfer between categories:

Transfer between categories is done, in accordance with RBI guidelines, at the lower of acquisition cost/ book value / market value on the date of the transfer and depreciation, if any, on such transfer is fully provided for.

4. Profit or loss on sale / redemption of investments

a. Held for Trading and Available for Sale:

Profit or loss on sale/redemption is included in the Profit and Loss Account.

b. Held to Maturity:

Profit on sale/redemption of investments is included in the Profit and Loss Account and is appropriated to Capital Reserve after adjustments for tax and Statutory Reserve transfer. Loss on sale/redemption is charged off to the Profit and Loss Account.

For the insurance company:

- a. Investments are recorded at cost on trade which includes brokerage, transfer charges, transaction taxes as applicable, etc. but excludes preacquisition interest, if any and service tax where cenvat credit is being claimed.
- b. Investments maturing within twelve months from the Balance Sheet date and investments made with the specific intention to dispose them off within twelve months from the Balance Sheet date are classified as 'Short Term Investments.' Investments other than Short Term Investments are classified as 'Long Term Investments.'

Valuation – Shareholders' Investments and non-linked policy-holders' investments

- c. All debt securities are considered as "held to maturity" for the purpose of valuation and are accordingly recorded at historical cost (excluding interest paid, if any). Debt securities including Government securities are stated at net amortised cost. The premium/discount, if any, on purchase of debt securities is amortised / accreted over the period to maturity on a straight line basis.
- d. Listed equity shares as at Balance Sheet date are stated at fair value being the lower of last quoted closing price on Bombay Stock Exchange Limited ("BSE") and the National Stock Exchange Limited ("NSE"). Equity shares awaiting listing are stated at historical cost subject to provision for diminution, if any. Unrealised gains/ losses arising due to changes in the fair value of listed equity shares are taken to "Fair Value Change Account" and carried forward to Balance Sheet where the net balance is positive. Negative balance in the "Fair Value Change Account" is recognised in the Profit and Loss Account to the extent of negative balance in "Fair Value Change Account" as reduced by the amount previously provided in the Profit and Loss Account. The profit or loss on actual sale of listed equity includes the accumulated changes in the fair value previously recognised under "Fair Value Change Account".

In case of impairment in the value of investment as at the balance sheet date which is other than temporary, the amount of loss is recognised as an expense in the Profit and Loss Account to the extent of difference between the remeasured fair value of the investment and its acquisition cost as reduced by any previous impairment loss is recognised as expense in Profit and Loss Account. Any reversal of impairment loss, earlier recognised in Profit and Loss Account, is recognised in the Profit and Loss Account.

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

Valuation – Unit linked Business

- e. All Government securities, except treasury bills, for linked business are valued at prices obtained from Credit Rating Information Service of India Limited (CRISIL). Debt Securities other than Government Securities are valued on the basis of CRISIL Bond valuer. Floating rate instruments are valued at cost. The discount on purchase of treasury bills, certificate of deposit and commercial papers are amortised over the period to maturity on a straight-line basis.
- f. Listed equity shares are valued at fair value, being the last quoted closing price on the NSE (In case of securities not listed on NSE, the last quoted closing price on the BSE is used). Equity shares awaiting listing are stated at historical cost subject to provision for diminution, if any, in the value of such investment determined separately for each individual investment. Unrealised gains and losses are recognised in the Profit and Loss Account.
- g. Mutual Fund Units are valued at the previous day's closing Net Asset Value (NAV) of the fund in which they are invested.
- h. Transfer of investments from shareholders' fund to the policyholders' fund is at the book value or market price whichever is lower. Transfer of debt securities from shareholders' fund to the policyholders' fund is transacted at the lower of net amortised cost or market price. Transfer of investment between unit linked funds is done at market price.
- i. Gain/ Loss on transfer/ sale of securities is the difference between the transfer/sale price and the net amortised cost/ book value which is computed on a weighted average basis as on the date of transfer/sale. Sale consideration for the purpose of realised gain/loss is net of brokerage and taxes, if any.

For other entities:

As required by Accounting Standard 13 (AS-13) notified under the Companies (Accounting Standard) Rules, 2006 "as amended", "Accounting for Investments", investments are classified into long term investments and current investments. Investments, which are intended to be held for more than one year, are classified as long term investments and investments, which are intended to be held for less than one year, are classified as current investments. Long term investments are accounted at cost and any decline in value, other than temporary is provided for. Current investments are valued at cost (calculated by applying weighted average cost method) or market / fair value whichever is lower. Securities acquired with the intention to trade are considered as Stock-in-Trade. Investments classified as "Stock-in-Trade" by some of the subsidiaries are valued at cost (calculated by applying weighted average cost method) or market price, whichever is lower. Brokerage, stamping and additional charges paid are included in the cost of investments.

F. FOREIGN CURRENCY AND DERIVATIVE TRANSACTIONS

For the bank:

- i. Foreign currency assets and liabilities are translated at the Balance Sheet date at rates notified by the Foreign Exchange Dealers' Association of India (FEDAI).
- ii. Income and Expenditure items are translated at the rates of exchange prevailing on the date of the transaction except for representative office expenses which are translated at the monthly average rate of exchange.
- iii. Foreign Exchange contracts (other than deposit and placement swaps) outstanding at the Balance Sheet date are revalued at rates notified by FEDAI and resulting profits or losses are included in the Profit and Loss Account. Foreign exchange swaps "linked" to foreign currency deposits and placements are translated at the prevailing spot rate at the time of swap. The premium / discount on the swap arising out of the difference in the exchange rate of the swap date and the maturity date of the underlying forward contract is amortised over the period of the swap and the same is recognised as income/ expense.
- iv. Notional amounts of derivative transactions comprising of forwards, swaps, futures and options are disclosed as off-balance sheet exposures. The swaps are segregated into trading or hedge transactions. Trading swaps outstanding as at the Balance Sheet dates are marked to market and the resulting profits or losses, are recorded in the Profit and Loss Account. Outstanding derivative transactions designated as "Hedges" are accounted on an accrual basis over the life of the transaction. Option premium paid/ received is accounted for in the Profit and Loss Account on expiry of the option.
- v. Contingent liabilities at the Balance Sheet date on account of outstanding foreign exchange contracts are restated at year end rates reported by FEDAI.

For other entities:

- vi. Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the transaction.
- vii. Monetary assets and liabilities denominated in foreign currencies are restated at the rate of exchange ruling at the Balance Sheet date.
- viii. Exchange differences arising on settlement of the transaction and on account of restatement of assets and liabilities are dealt with in the Profit and Loss Account. In case of items which are covered by forward exchange contracts entered to hedge the foreign currency risk, the difference between the year end rate and the rate on the date of the contract is recognised as

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

exchange difference in Profit and Loss Account and the premium paid on forward contracts is recognised over the life of the contract.

- ix. The financial statements of all subsidiaries incorporated outside India which are in the nature of non-integral foreign operations are converted on the following basis: (a) Income and expenses are converted at the average rate of exchange applicable for the year and (b) All assets and liabilities are translated at the closing rate as on the Balance Sheet date. The exchange difference arising out of year end translation is debited or credited as "Foreign Currency Translation Reserve" forming part of "Reserves and Surplus".

Interest rate/ Currency swaps:

- x. The outstanding swap trades at the Balance Sheet date are disclosed at the contract amount. The swaps which are in the nature of hedges are accounted on an accrual basis; these contracts are not marked to market. Accrued interest is adjusted against the interest cost/income of the underlying liability/asset. The foreign currency balances on account of principal of currency swaps outstanding as at the Balance Sheet date are revalued using the closing rate.

Currency options:

- xi. The outstanding option trades, in the nature of hedge, at the Balance Sheet date are disclosed at the contract amount. The premium paid is amortised over the life of the contract.

Equity index/ equity futures/ equity index/ equity options/embedded derivatives:

- xii. Outstanding derivative contracts, including embedded derivatives, are measured at fair value as at each Balance Sheet date. Fair value of derivatives is determined using quoted market prices in an actively traded market, for the instrument, wherever available, as the best evidence of fair value. In the absence of quoted market prices in an actively traded market, a valuation technique is used to determine the fair value. In most cases the valuation techniques use as input parameters observable market data in order to ensure reliability of the fair value measure.
- xiii. The marked to market on derivative contracts is determined on a portfolio basis with net unrealised losses being recognised in the Profit and Loss Account. Unrealised gains are not recognised in Profit and Loss Account on grounds of prudence as enunciated in Accounting Standard – 1, (AS-1) Disclosure of Accounting Policies notified under the Companies (Accounting Standard) Rules, 2006 "as amended".
- xiv. Initial Margin-Equity/ Index Derivative Instrument representing the initial margin paid and /or additional margin paid over and above the initial margin, for entering into contracts for equity index/ stock futures and equity index/ stock options, which are released on final settlement / squaring-up of the underlying contracts, are disclosed under other assets. "Deposit for Mark to Market Margin - Equity / Index Derivative Instrument" representing the deposit paid in respect of mark to market margin is disclosed under other assets.
- xv. On final settlement or squaring up of contracts for equity index/ stock futures, the realised profit or loss after adjusting the unrealised loss already accounted, if any, is recognised in the Profit and Loss Account and shown as Profit / (Loss) on derivatives.
- xvi. On settlement or squaring up of equity index/ stock options before expiry, the premium paid or received outstanding on that date is recognised in the Profit and Loss Account.
- xvii. When more than one contract in respect of the relevant series of equity index/ stock futures or equity index/ stock options contract to which the squared-up contract pertains is outstanding at the time of the squaring-up of the contract, the contract price of the contract so squared-up is determined using the weighted average cost method for calculating the profit/loss on squaring-up.

G. ADVANCES

- i. Advances are classified into standard, sub-standard, doubtful and loss assets in accordance with the RBI guidelines and are stated net of provisions made towards non-performing assets.
- ii. Provision for non-performing assets comprising sub-standard, doubtful and loss assets is made in accordance with the RBI guidelines. In addition, the Group adopts an approach to provisioning that is based on past experience, evaluation of security and other related factors.
- iii. In accordance with RBI guidelines the Bank has provided general provision on standard advances at uniform rate of 0.40% except in case of direct advances to agricultural and SME sectors which are provided at 0.25%, commercial real estate sector at 1.00% and teaser rate housing loans at 2.00%.

Excess standard asset provision resulting from revision in provisioning rates is not written back in Profit and Loss Account in accordance with the RBI guidelines and clarifications.

Effective 17th January, 2011, the Non-Banking Finance Company (NBFC) subsidiaries provide general provision on standard assets at 0.25% in accordance with RBI guidelines.

- iv. Amounts paid for acquiring non-performing assets from other banks and NBFCs are considered as advances. Actual collections received on such non-performing assets are compared with the cash flows estimated while purchasing the asset to ascertain

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

overdue. If the overdue is in excess of 90 days, the Bank classifies such assets into sub-standard, doubtful or loss as required by the RBI guidelines on purchase of non-performing assets. In respect of NBFCs, if the overdue is in excess of 180 days, then the assets are classified into sub-standard, doubtful and loss as required by the RBI guidelines on purchase of non performing assets.

H. STRUCTURED LIABILITIES

The Group has issued structured liabilities wherein the return on these liabilities is linked to non-interest benchmarks. Such structured liabilities have an embedded derivative which is the non-interest related return component. The embedded derivative is separated and accounted separately (Refer Note 2 (F)(xii)).

The resultant debt component of such structured liabilities is recognised in the Balance Sheet under Secured loans and is measured at amortised cost using yield to maturity basis.

I. LIABILITY FOR POLICIES

- i Provision is made for policy liabilities in respect of all "in force" policies and "lapsed policies" that are likely to be revived in future based on actuarial valuation done by the Appointed Actuary in accordance with accepted actuarial practices, requirements of IRDA and the Institute of Actuaries of India.
- ii Liabilities in respect of unit-linked policies which have lapsed and are not likely to be revived, are shown as Policyholders' liabilities until expiry of the revival period.
- iii Linked liabilities comprise of unit liability representing the fund value of policies.

J. ACTUARIAL METHOD – LIFE INSURANCE

- i Actuarial method and assumptions: The actuarial liabilities have been calculated in accordance with generally accepted actuarial principles, the requirements of the Insurance Act 1938, IRDA regulations and the prescribed guidance notes of the Institute of Actuaries of India. In respect of unit linked policies, a unit reserve equal to the value of units as on the Balance Sheet date and an additional non-unit reserve calculated on gross premium prospective valuation method is created. The method adopted for par policies (accumulation contracts) is the value of the accumulated fund and an additional non-unit reserve calculated on gross premium prospective valuation method. For non-par conventional business the gross premium prospective method is used. Additional reserve on lapsed unit-linked policies is created and shown as 'Policyholders' Funds'.
- ii The assumptions used in the Gross Premium valuation are based on conservative best estimates together with appropriate margins for adverse deviations from experience. The principal assumptions are interest, inflation, return to policyholders' accounts, lapses, expenses, mortality and morbidity.
- iii Reserves for group life business are calculated as the risk premium for the unexpired term with an allowance for expenses and a margin for adverse deviations.

K. DISCOUNTED INSTRUMENTS

The liability is recognised at face value at the time of issuance of discounted instruments. The discount on the issue is amortised over the tenure of the instrument.

L. ACQUISITION COSTS

Acquisition costs such as commission and medical fees are costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts. Such costs are recognised in the year in which they are incurred.

M. TAXES ON INCOME

The Income Tax expense comprises Current tax and Deferred tax. Current tax is measured at the amount expected to be paid in respect of taxable income for the year in accordance with the Income tax Act, 1961. Deferred tax adjustments comprises of changes in the deferred tax assets and liabilities. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

Deferred tax assets arising mainly on account of carry forward losses and unabsorbed depreciation under tax laws are recognised only if there is virtual certainty of its realisation, supported by convincing evidence. Deferred tax assets on account of other timing differences are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date. Changes in deferred tax assets / liabilities on account of changes in enacted tax rates are given effect to in the Profit and Loss Account in the period of the change. The carrying amount of deferred tax assets are reviewed at each Balance Sheet date. The Group writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised.

Deferred tax assets and deferred tax liabilities across various entities are not set off against each other as the Group does not have a legal right to do so.

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

N. SEGMENT REPORTING

In accordance with guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated 18th April 2007 and Accounting Standard 17 (AS-17) on "Segment Reporting" notified under the Companies (Accounting Standard) Rules, 2006 "as amended", the Group's business has been segregated into the following segments whose principal activities were as under:

Segment	Principal activity
Treasury, Investments and BMU	Dealing in debt, equity, money market, forex market, derivatives and investments and primary dealership of Government securities and Balance Sheet Management unit (BMU) responsible for Asset Liability Management
Retail Banking	Includes:
	(1) Lending Commercial vehicle finance, personal loans, home loans, agriculture finance, other loans/services and exposures which fulfill the four criteria for retail exposures laid down in Basel Committee on Banking Supervision document "International Convergence of Capital Measurement and Capital Standards : A Revised Framework"
	(2) Branch Banking Retail borrowings covering savings, current and term deposit accounts and Branch Banking network and services including distribution of financial products.
	(3) Credit cards Receivables/loans relating to credit card business.
Corporate/ Wholesale Banking	Wholesale borrowings and lendings and other related services to the corporate sector which are not included in Retail Banking.
Vehicle Financing	Retail vehicle finance and wholesale trade finance
Other Lending Activities	Financing against securities, securitisation and other loans/ services not included under Retail Banking and Corporate/Wholesale Banking
Broking	Brokerage income on market transactions done on behalf of clients, interest on delayed payments, distribution of financial products and forex broking.
Advisory and Transactional Services	Providing financial advisory and transactional services such as mergers and acquisition advice and equity/debt issue management services and revenue from being a professional clearing member.
Asset Management	Management of investments on behalf of clients and funds.
Insurance	Life insurance

The above segments have been identified based on the organisation structure, the customer segment, products and services offered and its relation to risk and reward, and the internal reporting process.

A transfer pricing mechanism between segments has been established to arrive at interest cost on the borrowings of the segments based on borrowing costs, maturity profile of assets/liabilities etc. and which is disclosed as part of Segment Revenue.

Segment revenues consists of earnings from external customers and inter-segment revenue as stated above. Segment expenses consist of interest expenses including those allocated, operating expenses and provisions.

Segment results are net of segment revenue and segment expenses.

Segment assets include assets related to segments and exclude tax related assets. Segment liabilities include liabilities related to the segment excluding net worth, minority interest and employees' stock option (grants outstanding), proposed dividend and dividend tax thereon.

Since the business operations of the Group are primarily concentrated in India, the Group is considered to operate only in the domestic segment.

O. EMPLOYEE STOCK OPTION SCHEME

Equity-settled scheme:

The Bank has formulated Employee Stock Option Schemes (ESOSs) in accordance with Securities and Exchange Board of India (Employee Stock Option Scheme) Guidelines, 1999. The Schemes provide for grant of options to employees of the Group to acquire the equity shares of the Bank that vest in cliff vesting or in a graded manner and that are to be exercised within a specified period. In accordance with the SEBI Guidelines and the guidance note on "Accounting for Employee Share-based payments" issued by The Institute of Chartered Accountants of India, the excess, if any, of the market price of the share preceding the date of grant of the option under ESOSs over the exercise price of the option is amortised on a straight-line basis over the vesting period.

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

Where the terms of an equity-settled award are modified, the minimum expense recognised in 'Payments to and provision for employees' is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total intrinsic value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Cash-settled scheme:

The cost of cash-settled transactions (stock appreciation rights) is measured initially using intrinsic value method at the grant date taking into account the terms and conditions upon which the instruments were granted. This intrinsic value is amortised on a straight-line basis over the vesting period with a recognition of corresponding liability. This liability is remeasured at each Balance Sheet date up to and including the settlement date with changes in intrinsic value recognised in Profit and Loss Account in 'Payments to and provision for employees'.

P. CLAIMS/ BENEFITS

Benefits paid comprise of policy benefit amount, surrenders and specific claims settlement costs where applicable and change in the outstanding provision for claims at the year end. Surrender and claims by death are accounted when intimated. Survival benefits are accounted when due. Maturity claims are accounted on the date of maturity. Amounts recoverable from reinsurers are accounted for in the same period as the related claim. Repudiated claims disputed before judicial authorities are provided for based on the best judgment of the management considering the facts and evidence in respect of each such claim. Withdrawals under unit-linked policies are accounted in respective schemes when the associated units are cancelled.

Q. SECURITISATION

The Group enters into arrangements for sale of loans through Special Purpose Vehicles (SPVs). In most cases, post securitisation, the Group continues to service the loans transferred to the SPV. The Group also provides credit enhancement in the form of cash collaterals and / or by subordination of cash flows to Senior Pass Through Certificate (PTC) holders. In respect of credit enhancements provided or recourse obligations (projected delinquencies, future servicing etc.) accepted by the Group, appropriate provision / disclosure is made at the time of sale in accordance with Accounting Standard 29, (AS-29) "Provisions, Contingent Liabilities and Contingent Assets" notified under the Companies (Accounting Standard) Rules, 2006 "as amended".

The gain/ premium on account of securitisation of assets at the time of sale is computed as the difference between the sale consideration and the book value of the securitised asset amortised over the tenure of the securities issued. The loss on account of securitisation is recognised immediately in Profit and Loss Account.

R. LEASES

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

Assets subject to operating leases are included in fixed assets. Lease income is recognised in the Profit and Loss Account on a straight-line basis over the lease term.

Initial direct costs in respect of operating leases such as legal costs, brokerage costs, etc. are recognised immediately in the Profit and Loss Account.

Assets given under a finance lease are recognised as a receivable at an amount equal to the net investment in the lease.

S. PROVISIONS AND CONTINGENCIES

Provision is recognised when there is a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Provision is made for Credit card reward points based on reward points accrued to the customer at balance sheet date.

Contingent Liabilities are not recognised but are disclosed in the notes unless the outflow of resources is remote. Contingent assets are neither recognised nor disclosed in the financial statements.

T. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period are adjusted for events of bonus issue and stock split.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

U. IMPAIRMENT

The carrying amounts of assets are reviewed at each Balance Sheet date if there is any indication of impairment based on internal/ external factors.

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

V. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet comprise Cash in hand, Balances with Reserve Bank of India and Balances with Banks and Money at Call and Short Notice (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

3. In August 2010, the Bank allotted 1,64,00,000 equity shares of ₹ 10 each at a premium ₹ 823 per equity share for a total consideration of ₹ 1366.12 crore on a preferential basis to Sumitomo Mitsui Banking Corporation. The net issue expenses of ₹ 0.58 crore related to the aforesaid issue have been charged to the securities premium account as allowed under section 78 of the Companies Act, 1956. The above expenses include ₹ 0.08 crore paid to the auditors in connection with the issue.
4. Pursuant to the approval of the shareholders at the Annual General Meeting held on 21st July 2010, each equity share of the Bank having face value of ₹ 10 fully paid up was sub-divided into two equity shares of the face value of ₹ 5 each fully paid up as at 14th September 2010.
5. Till 31st March 2010, the Bank used to account for market repurchase and reverse repurchase transactions in government securities and corporate debt securities, if any, as "sale and repurchase" transactions. However, as per RBI circular no. RBI/2009-2010/356 IDMD/ 4135/ 11.08.43/2009-10 dated 23rd March 2010, the Bank has started accounting for such transactions as "borrowing and lending" transactions, effective 1st April 2010. If the Bank had continued to account the repurchase and reverse repurchase transactions as "sale and repurchase" at 31st March 2011, the investments would have been lower by ₹ 561.89 crore and the 'Balances with Banks and Money at call and short notice' and 'Borrowings' would have been lower by ₹ 51.07 crore and ₹ 612.96 crore respectively.
6. The Group charges off to the Profit and Loss Account all expenses related to acquisition costs of advances in the year in which they are incurred. KMPL, a subsidiary of the Bank, charges off such costs based on the Internal Rate of Return of a contract. On account of this difference in accounting policy, unamortised brokerage amounting to ₹ 53.79 crore (previous year ₹ 47.76 crore) is carried forward in the Balance Sheet under "Other Assets".

7. EMPLOYEE BENEFITS

- a. The Group has recognised the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds.

Provident Fund	₹ 54.46 crore (Previous Year ₹ 44.39 crore)
Superannuation Fund	₹ 0.95 crore (Previous Year ₹ 0.96 crore)

- b. In accordance with Indian regulations, the Group provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement or on termination of employment based on the respective employee's salary and the years of employment with the Group subject to maximum of ₹ 0.10 crore.

The gratuity benefit is provided to the employees of the Bank through a fund administered by a Board of Trustees and managed by a life insurance company. The Bank is responsible for settling the gratuity obligation through contributions to the fund. The plan is fully funded.

In respect of other companies in the Group, the gratuity obligation is wholly unfunded.

- c. Reconciliation of opening and closing balance of the present value of the defined benefit obligation for gratuity benefits is given below.

₹ in crore

	As on 31st March 2011		As on 31st March 2010	
	Funded	Others	Funded	Others
Change in benefit obligations				
Liability at the beginning of the year	22.19	17.15	19.75	13.79
Current Service cost	6.43	5.24	6.09	4.42
Interest cost	2.15	1.71	1.73	1.24
Actuarial (gain)/loss on obligations	4.12	(0.37)	(0.49)	(0.42)
Past Service cost	9.01	6.42	—	—
Actuarial (gain)/loss due to curtailment	—	—	—	(0.20)
Liability assumed on transfer of employees	0.43	(0.57)	(0.58)	0.20
Benefits paid	(4.48)	(2.78)	(4.31)	(1.88)
Liability at the end of the year	39.85	26.80	22.19	17.15

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

₹ in crore

	As on 31st March 2011		As on 31st March 2010	
	Funded	Others	Funded	Others
Change in plan assets				
Fair value of plan assets at the beginning of the year	25.63	—	15.39	—
Expected return on plan assets	1.94	—	1.17	—
Actuarial Gain	0.64	—	4.61	—
Benefits paid	(4.48)	—	(4.31)	—
Employer contributions	10.93	—	8.77	—
Fair value of plan assets as at the end of the year	34.66	—	25.63	—

Reconciliation of present value of the obligation and the fair value of the plan Assets

₹ in crore

	As on 31st March 2011		As on 31st March 2010	
	Funded	Others	Funded	Others
Fair value of plan assets as at the end of the year	34.66	—	25.63	—
Liability at the end of the year	39.85	26.80	22.19	17.15
Net Asset/ (Liabilities) included in "Others" under "Other Assets" and "Others Liabilities"	(5.19)	(26.80)	3.44	(17.15)
Expenses recognised for the period				
Current service cost	6.43	5.24	6.09	4.42
Interest cost	2.15	1.71	1.73	1.24
Expected return on plan assets	(1.94)	—	(1.17)	—
Actuarial (gain)/loss	3.48	(0.37)	(5.10)	(0.42)
Actuarial (gain)/loss due to curtailment	—	—	—	(0.20)
Past Service cost	9.01	6.42	—	—
Net gratuity expense included in "[payments to and provision for employees]" under "Operating Expenses" [Schedule 16 (I)]	19.13	13.00	1.55	5.04
Actual return on plan assets	2.57	—	5.78	—

₹ in crore

	As on 31st March 2011		As on 31st March 2010	
	Funded	Others	Funded	Others
Reconciliation of the Liability recognised in the Balance Sheet				
Net (Asset)/ Liability at the beginning of the year	(3.44)	17.15	4.36	13.79
Expense recognised	19.13	13.00	1.55	5.04
Liability assumed on transfer of employees	0.43	(0.57)	(0.58)	0.20
Employer contributions/ Transfers	(10.93)	(2.78)	(8.77)	(1.88)
Net (Asset)/ Liability is included in "Others" under "Other Assets" and "Other Liabilities"	5.19	26.80	(3.44)	17.15

Investment details of plan assets

The plan assets are invested in insurer managed funds.

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

Actuarial assumptions used

	As on 31st March 2011	As on 31st March 2010
Interest rate	8.26% p.a	8.01% p.a.
Salary escalation rate	15% p.a. for first 2 yr, 10% p.a. for next 2 yrs & 6% p.a. thereafter	15% p.a. for first 2 yr, 10% p.a. for next 2 yrs & 6% p.a. thereafter
Expected rate of return on plan assets	7.50% p.a.	7.50% p.a.

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

Experience adjustments

Amounts for the current and previous four years are as follows:

₹ in crore

Gratuity	Year ended 31st March				
	2011	2010	2009	2008	2007
Defined benefit obligation	66.65	39.34	33.54	25.55	15.95
Plan assets	34.66	25.63	15.39	13.96	9.26
Surplus / (deficit)	(31.99)	(13.71)	(18.15)	(11.59)	(6.69)
Experience adjustments on plan liabilities	2.11	(0.93)	(4.95)	0.76	1.68
Experience adjustments on plan assets	0.64	4.61	(3.58)	1.38	0.49

The Bank expects to contribute ₹ 6.00 crore to gratuity fund in financial year 2011-2012

The above information is as certified by the actuary and relied upon by the auditors.

- Balance in Banks in other deposit accounts include ₹ 8.07 crore (previous year ₹ 7.64 crore) which are under lien.
- "Others" in Other Liabilities and Provisions (Schedule 5) include the following items shown as "Provision for Contingencies", which have been recognised in the accounts in respect of obligations arising from past event, the settlement of which is expected to result in an outflow embodying economic benefits.

Provision for Contingencies: -

₹ in crore

Description	Balance as on 1st April 2010	Addition during the year	Reversed/ paid during the year	Balance as on 31st March 2011
Stamp duty on Trades	30.19	5.38	17.52	18.05
Total	30.19	5.38	17.52	18.05

Based on legal opinion, the Management is of the view that certain provisions for earlier years are no longer required and have reversed ₹ 17.52 crore (Previous Year ₹ 9.12 crore).

₹ in crore

Description	Balance as on 1st April 2009	Addition during the year	Reversed/ paid during the year	Balance as on 31st March 2010
Stamp duty on Trades	27.72	11.59	9.12	30.19
Total	27.72	11.59	9.12	30.19

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

10. Provisions and Contingencies:

Breakup of "Provisions and Contingencies" shown under the head Expenditure in Profit and Loss Account

₹ in crore

Year ended 31 st March	2011	2010
Provision for taxation (Refer Note 11)	678.16	575.50
Provision for Non-performing Assets and Contingencies (including write-offs and net of recoveries)	111.60	536.38
Provision for Standard Assets	6.11	5.92
Provision for Diminution in value of Investments	46.64	(51.24)
Provision Others*	(16.75)	19.67
Total	825.76	1,086.23

(*) For the year ended 31st March 2011 includes write-back of provisions against derivatives contracts ₹ (21.41) crore (Previous Year provision of ₹ 14.83 crore) and provision for fees receivable ₹ 4.66 crore (Previous Year ₹ 4.84 crore)

11. PROVISION MADE FOR TAXES DURING THE YEAR:

₹ in crore

Year ended 31 st March	2011	2010
Current tax	682.30	616.20
Deferred tax	(4.25)	(40.81)
Wealth Tax	0.11	0.11
Total	678.16	575.50

12. DESCRIPTION OF CONTINGENT LIABILITIES:

Sr. No.	Contingent Liability*	Brief Description
1.	Claims not acknowledged as debts	This includes liability on account of income tax, interest tax, sales tax, lease tax demands and legal cases filed against the Group. The Group is a party to various legal proceedings in the normal course of business. The Group does not expect the outcome of these proceedings to have a material adverse effect on the Group's financial conditions, result of operations or cash flows. Against the above ₹ 34.56 crore (previous year ₹ 19.00 crore) have been paid, which shall be refunded to the Group, if the outcome of the legal proceedings will be in the favour of the Group.
2.	Liability on account of outstanding forward exchange contracts	The Group enters into foreign exchange contracts with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate.
3.	Guarantees on behalf of constituents in and outside India	As a part of its banking activities, the Group issues guarantees on behalf of its customers. Guarantees generally represent irrevocable assurances that the Group will make payments in the event of customer failing to fulfill its financial or performance obligations.
4.	Acceptances, endorsements and other obligations	These includes Documentary credit such as letters of obligations, enhance the credit standing of the customers of the Group, contingent liabilities on account of bills re-discounted by the Group and cash collateral provided by the Group on assets which have been securitised.
5.	Other items for which the Group is contingently liable	These include liabilities in respect of interest rate swaps, currency swaps, forward rate agreements, futures and options contracts. The Group enters into these transactions on its own account and for customers. Currency Swaps are commitments to exchange cash flows by way of interest/principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts that are recorded as contingent liabilities are amounts used as a benchmark for the calculation of interest component of the contracts. This also includes liability in respect of Capital commitments relating to fixed assets and undrawn commitments in respect of investments.

* Also refer Schedule 12 – Contingent Liabilities

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

13. EARNINGS PER EQUITY SHARE

Particulars *	As on 31st March 2011	As on 31st March 2010
Reconciliation between weighted shares used in the computation of basic and diluted earnings per share:		
Weighted average number of equity shares used in computation of basic earnings per share	72,10,33,537	69,37,75,204
Effect of potential equity shares for stock options outstanding	43,68,154	74,00,562
Weighted average number of equity shares used in computation of diluted earnings per share	72,54,01,691	70,11,75,766
Following is the reconciliation between basic and diluted earnings per share:		
Nominal value per share (₹)	5.00	5.00
Basic earnings per share (₹)	21.73	18.84
Effect of potential equity shares for stock options (₹)	0.13	0.20
Diluted earnings per share (₹)	21.60	18.64
Earnings used in the computation of basic and diluted earnings per share (₹ in crore)	1,566.74	1,307.00

* The number of shares have been adjusted for split of the underlying equity shares from ₹10 paid up to ₹5 paid up per share in accordance with Accounting Standard (AS) 20, Earnings Per Share notified under the Companies (Accounting Standard) Rules, 2006 "as amended". The effect of the share split has been given effect in computing earnings per share for the previous periods (Refer Note 4).

14. ESOPs

At the General Meetings of the holding company, Kotak Mahindra Bank Limited, the shareholders of the Bank had unanimously passed Special Resolutions on 28th July 2000, 26th July 2004, 26th July 2005, 5th July 2007 and 21st August 2007, to grant options to the eligible employees of the Bank and its subsidiaries companies. Pursuant to these resolutions, the following four Employees Stock Option Schemes had been formulated and adopted:

- Kotak Mahindra Equity Option Scheme 2001-02;
- Kotak Mahindra Equity Option Scheme 2002-03;
- Kotak Mahindra Equity Option Scheme 2005; and
- Kotak Mahindra Equity Option Scheme 2007.

Consequent to the above, the Bank has granted stock options to the employees of the Group. The Bank under its various plan/ schemes, has granted in aggregate 5,40,24,680 options as on 31st March 2011 (Previous year 4,92,75,440)

Stock appreciation rights

The management has approved the grant of stock appreciation rights (SARs) to eligible employees as and when deemed fit. The SARs are settled in cash and vest on the respective due dates in a graded manner as per the terms and conditions of grant. The contractual life of the SARs range from 0.34 to 4.36 years.

Detail of activity under SARs is summarised below

	Year Ended 31st March 2011	Year Ended 31st March 2010
Outstanding at the beginning of the year	2,70,300	—
Granted during the year	8,89,098	2,70,300
Settled during the year	3,46,630	—
Forfeited during the year	77,880	—
Outstanding at the end of the year	7,34,888	2,70,300

Equity-settled options

The Bank has granted options to employees of the Group vide various employee stock option schemes. During the year ended 31st March 2011, the following schemes were in operation:

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

	Plan 2005	Plan 2007
Date of grant	Various Dates	Various Dates
Date of Board Approval	Various Dates	Various Dates
Date of Shareholder's approval	26th July 2005 as amended on 5th July 2007	5th July 2007 as amended on 21st August 2007
Number of options granted	1,09,73,200	2,41,34,480
Method of Settlement (Cash/Equity)	Equity	Equity
Vesting Period	1 – 4.13 years	1 – 4.31 years
Exercise Period	0.42 – 0.92 years	0.17 – 1.01 years
Vesting Conditions	Graded/Cliff vesting	Graded/Cliff vesting

The details of activity under Plan 2005 have been summarised below:

	Year ended 31st March 2011		Year ended 31st March 2010	
	Number of Shares	Weighted Average Exercise Price (₹)	Number of Shares	Weighted Average Exercise Price (₹)
Outstanding at the beginning of the year	49,88,600	164.36	67,59,340	147.86
Granted during the year	—	—	—	—
Forfeited during the year	2,81,200	162.84	3,26,500	157.93
Exercised during the year	46,42,120	165.71	14,39,500	91.76
Expired during the year	65,280	75.00	4,740	75.00
Outstanding at the end of the year	—	—	49,88,600	164.36
Out of the above exercisable at the end of the year	—	—	3,53,600	86.17
Weighted average remaining contractual life (in years)		—		0.72
Weighted average fair value of options granted		—		—

The details of activity under Plan 2007 have been summarised below:

	Year ended 31st March 2011		Year ended 31st March 2010	
	Number of Shares	Weighted Average Exercise Price (₹)	Number of Shares	Weighted Average Exercise Price (₹)
Outstanding at the beginning of the year	1,28,14,250	236.42	1,69,54,594	224.54
Granted during the year*	47,49,240	308.63	3,06,040	198.59
Forfeited during the year	9,29,424	282.17	8,62,972	238.89
Exercised during the year	31,46,430	175.78	35,05,736	173.04
Expired during the year	67,626	463.92	77,676	326.68
Outstanding at the end of the year*	1,34,20,010	271.88	1,28,14,250	236.42
Out of the above exercisable at the end of the year	13,65,190	235.82	16,70,738	147.14
Weighted average remaining contractual life (in years)		1.82		1.98
Weighted average fair value of options granted		206.73		260.04

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

The weighted average share price at the date of exercise for stock options exercised during the year was ₹ 437.07 (Previous year ₹ 363.99).

The details of exercise price for stock options outstanding at the end of the year are:

31st March 2011

Range of exercise prices (₹)	Number of options outstanding	Weighted average remaining contractual life of options (in years)	Weighted average exercise price (₹)
0-100	30,854	1.34	5.00
101-200	28,87,906	2.00	140.45
201-300	24,14,450	1.73	220.66
301-400	80,34,800	1.78	334.38
401-500	52,000	2.09	449.52

31st March 2010

Range of exercise prices (₹)	Number of options outstanding	Weighted average remaining contractual life of options (in years)	Weighted average exercise price (₹)
0-100	4,23,680	0.52	55.63
101-200	97,16,674	1.40	154.55
201-300	24,26,496	1.89	206.43
301-400	50,74,000	2.06	341.66
401-500	87,000	1.20	492.24
601-700	75,000	1.42	625.00

In May 2010, the ESOP/Compensation Committee of the Bank accorded approval to the changes in exercise price of two stock option series granted on 10th May 2010. In addition to reduction in exercise price, in respect of one of the series, the vesting date of the last tranche has been preponed by 0.58 years in May 2010. The incremental intrinsic value resulting from the above modifications amounted to ₹ 55 and ₹ 30 (post split) respectively. The incremental intrinsic value is amortised from the modification date till the vesting date or the revised vesting date as the case may be. The incremental intrinsic value is measured as the difference between the intrinsic value of the modified stock options and that of the original stock options, both estimated as at the date of the modification.

The fair value of the equity-settled and cash-settled options is estimated on the date of grant using Black-Scholes options pricing model taking into account the terms and conditions upon which the options were granted. The fair value of the cash-settled options is remeasured at the each Balance Sheet date. The following table lists the inputs to the model used for equity-settled and cash-settled options:

Year ended 31st March	2011		2010	
	Equity-settled	Cash-settled	Equity-settled	Cash-settled
Exercise Price ₹	200-422	5	5-475	5-147.5
Weighted Average Share Price ₹	401.14	379.40	381.04	382.06
Expected Volatility	31.56%-65.43%	20.22%-57.98%	57.71%-77.02%	16.94%-67.54%
Historical Volatility	31.56%-65.43%	20.22%-57.98%	57.71%-77.02%	16.94%-67.54%
Life of the options granted (Vesting and exercise period) in years	1.00-4.44	0.04-3.09	1.06 - 4.42	0.04 - 4.09
Risk-free interest rate	5.54%-7.66%	7.28%-7.86%	4.65% - 7.22%	4.25% - 7.37%
Expected dividend rate	0.09%-0.11%	0.10%	0.09% - 0.19%	0.10%

The expected volatility was determined based on historical volatility data; historical volatility includes early years of the Bank's life; the Bank expects the volatility of its share price to reduce as it matures.

The above information has been prepared by the Bank and relied upon by the auditors.

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

Effect of the employee share-based payment plans on the Profit and Loss Account and on the financial position:

₹ in crore

Year ended 31st March	2011	2010
Total Employee Compensation Cost pertaining to share-based payment plans	52.87	28.26
Compensation Cost pertaining to equity-settled employee share-based payment plan included above	18.76	27.07
Liability for employee stock options outstanding as at year end	70.43	76.56
Deferred Compensation Cost	33.52	21.76
Closing balance of liability for cash-settled options	18.05	1.20
Expense arising from increase in intrinsic value of liability for cash stock appreciation plan	0.20	—

Had the Group recorded the compensation cost computed on the basis of Fair Valuation method instead of intrinsic value method, employee compensation cost would have been higher by ₹ 39.39 crore (Previous year ₹ 43.41 crore) and the profit after tax would have been lower by ₹ 26.30 crore (Previous year ₹ 28.66 crore). Consequently the basic and diluted EPS would have been ₹ 21.36 (Previous year ₹ 18.43) and ₹ 21.24 (Previous year ₹ 18.23) respectively.

The above number of ESOPs / SARs, exercise price, fair value and share price have been adjusted for split of the underlying equity shares from ₹ 10 paid up to ₹ 5 paid up per share.

In computing the above information, certain estimates and assumptions have been made by the Management which have been relied upon by the auditors.

15. Tier II Bonds

- Lower Tier II Bonds outstanding as on 31st March 2011 ₹ 591.80 crore (previous year ₹ 554.80 crore).
- Upper Tier II Bonds outstanding as on 31st March 2011 ₹ 336.68 crore (previous year ₹ 338.05 crore) of which bonds issued outside India ₹ 200.68 crore (previous year ₹ 202.05 crore).

- Interest Expended-Others {Schedule 15(III)} includes interest on subordinated debt (Lower and Upper Tier II) ₹ 69.89 crore (Previous Year ₹ 67.55 crore).

17. Segment reporting

The Summary of the operating segments of the Group for the year ended 31st March 2011 are as given below.

₹ in crore

31st March	2011	2010
Segment Revenues:		
Treasury, Investments and BMU	1,660.03	1,442.43
Retail Banking		
(a) Lending	2,073.84	1,742.30
(b) Branch Banking	987.29	755.36
(c) Credit Card	51.74	60.39
Corporate Banking	1,603.87	1,156.39
Vehicle Financing	922.74	760.91
Other Lending Activities	534.92	288.65
Broking	586.52	566.67
Advisory and Transactional Services	135.05	89.56
Asset Management	356.86	469.66
Insurance	3,621.03	3,935.11
Sub-total	12,533.89	11,267.43
Add: Unallocated Income	1.89	1.70
Less: inter-segment revenues	(1,506.51)	(1,215.83)
Total Income	11,029.27	10,053.30

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

31st March	2011	2010
Segment Results:		
Treasury, Investments and BMU	464.81	606.28
Retail Banking		
(a) Lending	664.98	377.51
(b) Branch Banking	(263.25)	(189.05)
(c) Credit Card	(63.01)	(127.41)
Corporate Banking	543.89	385.46
Vehicle Financing	261.19	202.17
Other Lending Activities	235.56	97.11
Broking	122.19	177.21
Advisory and Transactional Services	41.22	20.86
Asset Management	136.56	287.54
Insurance	101.37	66.44
Sub-total	2,245.51	1,904.12
Add: Unallocated Income/ (Expense)	1.89	(1.26)
Total Profit before tax, before minority interest and associates	2,247.40	1,902.86
Segment Assets		
Treasury, Investments and BMU	22,298.50	17,443.69
Retail Banking		
(a) Lending	17,481.22	13,074.54
(b) Branch Banking	15,567.29	11,713.92
(c) Credit Card	141.10	197.81
Corporate Banking	12,869.42	10,931.75
Vehicle Financing	8,200.74	6,683.06
Other Lending Activities	3,822.48	2,125.77
Broking	320.95	489.02
Advisory and Transactional Services	44.44	27.94
Asset Management	836.04	680.88
Insurance	8,773.43	6,946.17
Sub-total	90,355.61	70,314.55
Less: inter-segment assets	(16,998.05)	(15,531.19)
Total	73,357.56	54,783.36
Add: Unallocated Assets	323.57	331.45
Total Assets as per Balance Sheet	73,681.13	55,114.81
Segment Liabilities		
Treasury, Investments and BMU	18,734.41	13,911.90
Retail Banking		
(a) Lending	14,517.83	11,392.90
(b) Branch Banking	15,655.54	11,902.97
(c) Credit Card	23.98	22.61

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

31st March	2011	2010
Corporate Banking	11,086.11	9,789.53
Vehicle Financing	8,788.19	6,288.50
Other Lending Activities	992.15	1,068.19
Broking	860.38	1,132.22
Advisory and Transactional Services	24.95	22.52
Asset Management	385.82	210.44
Insurance	8,452.32	6,782.30
Sub-total	79,521.68	62,524.08
Less: inter-segment liabilities	(16,998.05)	(15,531.19)
Total	62,523.63	46,992.89
Add : Unallocated liabilities	87.35	130.12
Add: Share Capital, Reserves and Surplus and Minority Interest	11,070.15	7,991.80
Total Capital and Liabilities as per Balance Sheet	73,681.13	55,114.81
Capital Expenditure		
Treasury, Investments and BMU	27.40	272.49
Retail Banking		
(a) Lending	8.47	3.65
(b) Branch Banking	59.05	29.39
(c) Credit Card	0.59	1.91
Corporate Banking	3.74	2.63
Vehicle Financing	1.28	27.16
Other Lending Activities	0.10	0.13
Broking	17.86	63.78
Advisory and Transactional Services	2.86	2.44
Asset Management	5.57	3.59
Insurance	18.65	20.96
Total	145.57	428.13
Depreciation		
Treasury, Investments and BMU	43.12	37.90
Retail Banking		
(a) Lending	6.95	7.61
(b) Branch Banking	40.53	35.30
(c) Credit Card	3.83	4.75
Corporate Banking	4.02	4.73
Vehicle Financing	1.76	1.62
Other Lending Activities	0.19	0.23
Broking	17.98	19.64
Advisory and Transactional Services	2.36	1.96
Asset Management	4.28	4.14
Insurance	27.33	25.04
Total	152.35	142.92

Segment information is provided as per the MIS available for internal reporting purposes, which includes certain estimates and assumptions. The methodology adopted in compiling and reporting the above information has been relied upon by the auditors.

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

18. Assets taken on lease

- (i) The Group has taken various premises and equipment under operating lease. The lease payments recognised in the Profit and Loss Account are ₹ 160.75 crore (previous year ₹ 172.32 crore).
- (ii) The future minimum lease payments under non cancelable operating lease – not later than one year is ₹ 149.45 crore (previous year ₹ 116.66 crore), later than one year but not later than five years is ₹ 423.50 crore (previous year ₹ 363.29 crore) and later than five years ₹ 143.06 crore (previous year ₹ 121.08 crore).

The lease terms include renewal option after expiry of primary lease period. There are no restrictions imposed by lease arrangements. There are escalation clauses in the lease agreements.

19. Assets given on lease

The lease income recognised in the Profit and Loss Account in respect of premises and equipment under operating lease is ₹ 1.64 crore (previous year ₹ 1.57 crore).

The future minimum lease payments under non cancelable operating lease – not later than one year is ₹ 1.14 crore (previous year ₹ 1.14 crore), later than one year but not later than five years is ₹ 0.95 crore (previous year ₹ 2.09 crore).

Details of gross investments, unearned finance income in respect of assets given under finance lease are as under:

₹ in crore

As on 31st March	2011	2010
Gross Investments:		
(i) Not later than 1 year	32.58	7.80
(ii) Between 1-5 years	85.45	21.31
Total	118.03	29.11
Unearned Finance Income:		
(i) Not later than 1 year	10.54	2.65
(ii) Between 1-5 years	13.72	3.95
Total	24.26	6.60
Present Value of Rentals		
(i) Not later than 1 year	22.04	5.15
(ii) Between 1-5 years	71.73	17.36
Total	93.77	22.51
Accumulated provision on the Gross Investments	0.02	0.04

20. The Group enters into various types of derivative contracts such as interest rate swaps, cross currency interest rate swaps, foreign currency swaps, forwards, index/ equity futures and options. The details of such derivatives for subsidiaries other than bank are as under:

Derivative instrument outstanding as on 31st March 2011

As on 31st March Particulars of Derivatives	2011 Quantity	2010 Quantity	Purpose
Futures			
S&P CNX Nifty Futures	194,700	100,350	Trading
S&P CNX Nifty Futures	166,750	4,150	Hedging
Bank Nifty Futures	4,000	—	Trading
Stock Futures	746,250	3,061,738	Trading
Stock Futures	441,125	86,700	Hedging
Interest Rate Futures	170 Lots	—	Hedging
Commodity Futures	6,800	—	Hedging
Options			
S&P CNX Nifty Options Long	650,300	620,250	Trading
S&P CNX Nifty Options Long	530,600	26,300	Hedging
S&P CNX Nifty Options Short	816,900	518,250	Trading
S&P CNX Nifty Options Short	350,000	254,300	Hedging
Stock Options Long	—	32,318	Trading
Stock Options Long	—	8,500	Hedging
Stock Options Short	—	88,218	Trading

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

As on 31st March	2011	2010	Purpose
Particulars of Derivatives	Notional Amount		
Interest Rate Swaps	—	INR 500,000,000	Hedging
Currency Swaps	USD 84,500,985	USD 122,801,651	Hedging
Forward Exchange Contracts			
USD-INR Long	USD 14,750,000	USD 27,712,657	Hedging
USD-INR Short	USD 5,500,000	USD 2,261,975	Hedging
USD-GBP Long	—	USD 1,339,002	Hedging
USD-GBP Short	—	USD 1,579,292	Hedging
USD-EURO Long	USD 4,033,500	—	Hedging
Foreign Currency Option			
USD-INR	USD 5,500,000	USD 5,000,000	Hedging

Unhedged forex exposure outstanding as on the Balance Sheet date

₹ in crore

Particulars	As on 31st March 2011	As on 31st March 2010
Amount Receivable in foreign currency	7.69 (USD 1,282,399) (JPY 36,668,996)	3.22 (EURO 413,625) (USD 160,337)

21. Other Liabilities and Provisions (Schedule 5.III) includes Deferred Tax Liability and "Others – Other Assets" (Schedule 11.VI) includes Deferred Tax Assets as follows:

₹ in crore

Particulars	Year ended 31st March 2011	Year ended 31st March 2010
Deferred Tax Assets		
Provision for non-performing and doubtful debts, standard advances and contingencies	220.46	237.47
Depreciation on assets	21.92	23.82
Unabsorbed capital losses/ business losses/ provision for investments*	3.02	0.63
Unamortised Income	6.87	2.60
Expenditure allowed on payment basis and others	64.55	43.67
Total Deferred Tax Assets	316.82	308.19
Deferred Tax Liabilities		
Deferred expenses	17.87	15.86
Depreciation on assets	0.91	0.85
Others	4.85	2.49
Total Deferred Tax Liabilities	23.63	19.20
Net Deferred Tax Assets/(Liabilities)	293.19	288.99

(*) Deferred Tax assets on Unabsorbed Capital Loss is recognised as there are investments which are intended to be sold and the capital gains arising there from will be used for setting off the unabsorbed capital loss.

22. Fixed Assets

Fixed Assets as per Schedule 10 include intangible assets, details of which are as follows:

₹ in crore

Particulars	Year ended 31st March 2011	Year ended 31st March 2010
SOFTWARE		
Gross Block		
At cost on 31st March of the preceding year	159.65	117.12
Additions during the year	28.32	42.60
Deductions during the year	0.04	0.07
Total	187.93	159.65

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

₹ in crore

Particulars	Year ended 31st March 2011	Year ended 31st March 2010
Depreciation		
As on 31st March of the preceding year	105.39	77.65
Charge for the year	35.00	27.80
Deductions during the year	—	0.06
Depreciation to date	140.39	105.39
Net Block	47.54	54.26
MEMBERSHIP CARDS OF STOCK EXCHANGE		
Gross Block		
At cost on 31st March of the preceding year	4.66	4.66
Total	4.66	4.66
Depreciation		
As on 31st March of the preceding year	3.00	2.79
Charge for the year	0.21	0.21
Depreciation to date	3.21	3.00
Net Block	1.45	1.66
GOODWILL		
Gross Block		
At cost on 31st March of the preceding year	1.88	1.88
Total	1.88	1.88
Depreciation		
As on 31st March of the preceding year	1.88	1.88
Depreciation to date	1.88	1.88
Net Block	—	—
FOREX BROKING BUSINESS RIGHTS		
Gross Block		
At cost on 31st March of the preceding year	3.83	3.83
Total	3.83	3.83
Depreciation		
As on 31st March of the preceding year	3.47	3.09
Charge for the year	0.36	0.38
Depreciation to date	3.83	3.47
Net Block	—	0.36

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

23. RELATED PARTY DISCLOSURES:

	Nature of relationship	Name of Related Party
A	Individual having significant influence over the enterprise	Uday S. Kotak along with relatives and enterprises in which he has beneficial interest holds 45.56% of the equity share capital of Kotak Mahindra Bank Limited as on 31st March 2011.
B	Other Related Parties:	
	Associates	Business Standard Limited (till 16th June 2009) Kotak Mahindra Asset Reconstruction Company Limited (till 18th March 2011) ACE Derivatives and Commodity Exchange Limited (Formerly known as Ahmedabad Commodity Exchange Limited) Regency Hospitals Limited (till 30th March 2010) Infina Finance Private Limited Phoenix ARC Private Limited Matrix Business Services India Private Limited
	Investing Party of the subsidiaries	Old Mutual Plc. Old Mutual Life Assurance Company (South Africa) Limited
	Enterprises over which relatives of Key Management Personnel have control/ significant influence	Aero Agencies Limited Kotak and Company Limited Kotak Commodity Services Limited Komaf Financial Services Limited Asian Machinery & Equipment Private Limited Cumulus Trading Company Private Limited Palko Properties Private Limited Harisiddha Trading and Finance Private Limited Kotak Trustee Company Private Limited Kotak Chemicals Limited Kotak Ginning & Pressing Industries Limited Insurekot Investments Private Limited
	Key Management Personnel	Mr. Uday S. Kotak – Executive Vice Chairman and Managing Director- KMBL Mr. C. Jayaram - Executive Director- KMBL Mr. Dipak Gupta - Executive Director- KMBL
	Relatives of Key Management Personnel	Ms. Pallavi Kotak Mr. Suresh Kotak Ms. Indira Kotak Mr. Jay Kotak Mr. Dhawal Kotak Ms. Aarti Chandaria Ms. Usha Jayaram Ms. Anita Gupta Ms. Urmila Gupta

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

C. Details of related party transactions:

₹ in crore

Items/Related Party	Associates	Investing Party of the subsidiaries	Enterprises over which relatives of Key Management Personnel have control/ significant influence	Key Management Personnel	Relatives of Key Management Personnel
I. Liabilities					
Other Liabilities	20.38 (25.64)	0.81 (0.80)	0.23 (0.34)	0.01 (—)	
Deposits	364.87 (514.71)		91.95 (8.80)	13.50 (4.14)	0.74 (0.52)
Interest Payable	4.87 (7.53)		2.31 (0.56)	0.31 (0.16)	0.02 (0.01)
II. Assets					
Investments -Gross	107.87 (81.90)				
Diminution on Investments	— (0.02)				
Others	0.37 (2.92)	— (0.03)	0.24 (0.11)		
III. Expenses					
Salaries/fees (Include ESOP cost)*				7.35 (6.69)	
Others	1.59 (0.71)		3.98 (7.28)	0.08 (—)	
Interest Paid	42.70 (32.13)		4.54 (1.35)	1.60 (0.35)	0.04 (0.03)
IV. Income					
Others	4.19 (0.68)		1.84 (1.43)	0.01 (—)	# (—)
V. Other Transactions					
Dividend paid				14.21 (12.53)	0.08 (0.08)
Reimbursement to companies	0.03 (0.02)		# (0.06)		
Reimbursement from companies	3.80 (1.12)	0.08 (0.01)	1.52 (1.33)		
Purchase of Investments	18.84 (30.77)		12.49 (8.94)		
Sale of Investment	— (7.55)		— (52.87)		
Purchase of Fixed Assets			0.02 (—)		
Sale of Fixed Assets	0.23 (0.18)				

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

D. Material transactions with related parties:

₹ in crore

Items / Related Party	Associates	Investing Party of the subsidiary	Enterprises over which relatives of Key Management Personnel have control/ significant influence	Key Management personnel	Relatives of Key Management Personnel	Total
I. Liabilities:						
Other liabilities						
Old Mutual Life Assurance Company (South Africa) Limited		0.81 (0.80)				0.81 (0.80)
Aero Agencies Limited			0.04 (0.02)			0.04 (0.02)
Kotak Commodity Services Limited			0.19 (0.32)			0.19 (0.32)
Infina Finance Private Limited	20.17 (25.39)					20.17 (25.39)
Others	0.21 (0.25)			0.01 (—)		0.22 (0.25)
II. Assets:						
Investments						
ACE Derivatives and Commodity Exchange Limited	51.66 (25.67)					51.66 (25.67)
Phoenix ARC Private Limited	51.45 (51.45)					51.45 (51.45)
Others	4.76 (4.78)					4.76 (4.78)
Diminution on investments						
Kotak Mahindra Asset Reconstruction Company Limited	— (0.02)					— (0.02)
Others						
Kotak Commodity Services Limited			0.24 (0.11)			0.24 (0.11)
Old Mutual Plc		— (0.03)				— (0.03)
ACE Derivatives and Commodity Exchange Limited	0.03 (1.15)					0.03 (1.15)
Infina Finance Private Limited	0.33 (1.73)					0.33 (1.73)
Others	0.01 (0.04)		# (—)			0.01 (0.04)
III. Expenses:						
Other liabilities						
Mr. Uday Kotak*				1.78 (1.13)		1.78 (1.13)
Mr. C. Jayaram*				2.73 (2.75)		2.73 (2.75)
Mr. Dipak Gupta*				2.84 (2.81)		2.84 (2.81)

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

₹ in crore

Items / Related Party	Associates	Investing Party of the subsidiary	Enterprises over which relatives of Key Management Personnel have control/ significant influence	Key Management personnel	Relatives of Key Management Personnel	Total
Interest Paid						
Infina Finance Private Limited	35.07 (28.23)					35.07 (28.23)
Phoenix ARC Private Limited	5.43 (3.82)					5.43 (3.82)
Others	2.20 (0.08)		4.54 (1.35)	1.60 (0.35)	0.04 (0.03)	8.38 (1.81)
Others						
Aero Agencies Limited			3.53 (6.87)			3.53 (6.87)
Kotak and Company Limited			0.45 (0.41)			0.45 (0.41)
Matrix Business Services India Private Limited	1.59 (0.70)					1.59 (0.70)
Others	— (0.01)			0.08 (—)		0.08 (0.01)
IV. Income:						
Others						
Fee Income						
Phoenix ARC Private Limited	2.34 (—)					2.34 (—)
Kotak Commodity Services Limited			1.84 (1.41)			1.84 (1.41)
Others	# (—)		— (0.01)		# (—)	# (0.01)
Premium Income						
ACE Derivatives and Commodity Exchange Limited	0.01 (—)					0.01 (—)
Kotak Commodity Services Limited			# (0.01)			# (0.01)
Others	# (—)					# (—)
Brokerage Income						
Infina Finance Private Limited	1.84 (0.68)					1.84 (0.68)
Others			# (—)	0.01 (—)	# (—)	0.01 (—)

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

₹ in crore

Items / Related Party	Associates	Investing Party of the subsidiary	Enterprises over which relatives of Key Management Personnel have control/ significant influence	Key Management personnel	Relatives of Key Management Personnel	Total
V. Other Transactions:						
Dividend Paid						
Mr. Uday Kotak				14.16 (12.49)		14.16 (12.49)
Mr. C Jayaram				0.03 (0.02)		0.03 (0.02)
Mr. Dipak Gupta				0.02 (0.02)		0.02 (0.02)
Ms. Pallavi Kotak					0.02 (0.02)	0.02 (0.02)
Ms. Indira Kotak					0.05 (0.05)	0.05 (0.05)
Others					0.01 (0.01)	0.01 (0.01)
Reimbursements made						
Infina Finance Private Limited	0.02 (—)					0.02 (—)
Kotak Commodity Services Limited			# (0.06)			# (0.06)
Others	0.01 (0.02)					0.01 (0.02)
Reimbursements received						
Old Mutual Life Assurance Company (South Africa) Limited		0.08 (—)				0.08 (—)
Kotak Commodity Services Limited			1.52 (1.33)			1.52 (1.33)
ACE Derivatives and Commodity Exchange Limited	3.69 (1.03)					3.69 (1.03)
Others	0.11 (0.09)	— (0.01)				0.11 (0.10)
Purchase of Investments						
Phoenix ARC Private Limited	18.84 (30.77)					18.84 (30.77)
Komaf Financial services Limited			12.49 (8.94)			12.49 (8.94)
Sale of Investment						
Infina Finance Private Limited	— (7.55)					— (7.55)
Komaf Financial services Limited			— (52.87)			— (52.87)
Purchase of Fixed Assets						
Kotak Commodity Services Limited			0.02 (—)			0.02 (—)

Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)

₹ in crore

Items / Related Party	Associates	Investing Party of the subsidiary	Enterprises over which relatives of Key Management Personnel have control/ significant influence	Key Management personnel	Relatives of Key Management Personnel	Total
Sale of Fixed Assets						
ACE Derivatives and Commodity Exchange Limited	0.23 (0.18)					0.23 (0.18)

* includes incentive paid during the year

E. Maximum balance outstanding

₹ in crore

Items / Related Party	Associates	Investing Party of the subsidiary	Enterprises over which relatives of Key Management Personnel have control/ significant influence	Key Management personnel	Relatives of Key Management Personnel
I. Liabilities					
Deposits	3,259.23 (3,390.73)		26.79 (75.76)	64.69 (18.93)	0.81 (0.81)
Other Liabilities	25.64 (25.64)	0.81 (0.80)	0.34 (0.34)		
II. Assets					
Investments-Gross	107.88 (81.90)				
Diminution on Investments	— (0.02)				
Others	2.92 (2.91)	0.03 (0.03)	0.24 (0.11)		

In the above table denotes amounts less than ₹ 50,000.00

Note: Figures of previous year are given in bracket.

24. Figures for the previous year have been regrouped / reclassified wherever necessary to conform to current year's presentation.

For and on behalf of the Board of Directors

Dr. Shankar Acharya
 Chairman

Uday Kotak
 Executive Vice Chairman and
 Managing Director

Dipak Gupta
 Executive Director

Jaimin Bhatt
 Group Chief
 Financial Officer

Bina Chandarana
 Company Secretary

Mumbai, 5th May 2011

Financial Information of Subsidiaries for the year ended 31st March 2011

₹ in Lakhs

Particulars	Kotak Mahindra Prime Limited	Kotak Securities Limited	Kotak Mahindra Capital Company Limited	Kotak Mahindra Old Mutual Life Insurance Limited	Kotak Mahindra Investments Limited	Kotak Mahindra Asset Management Company Limited	Kotak Mahindra Trustee Company Limited	Kotak Mahindra (International) Limited	Kotak Mahindra (UK) Limited	Kotak Mahindra, Inc.	Global Investment Opportunities Fund Limited	Kotak Investment Advisors Limited	Kotak Mahindra Trusteeship Services Limited	Kotak Forex Brokerage Limited	Kotak Mahindra Pension Fund Ltd	Kotak Mahindra Financial Services Ltd
Capital	349.52	160.00	411.61	51,029.02	305.03	1,980.00	5.01	1,615.97	700.78	6.99	0.09	459.20	5.00	410.00	1,200.00	443.38
Reserves	153,308.04	169,234.91	48,523.04	(9,638.48)	25,128.21	3,857.47	2,919.70	17,216.94	8,855.05	2,729.15	-	15,148.53	281.10	(366.60)	(119.43)	(188.75)
Total Networth	153,657.56	169,394.91	48,934.65	41,390.54	25,433.24	5,837.47	2,924.71	18,832.91	9,555.83	2,736.14	0.09	15,607.73	286.10	43.40	1,080.57	254.63
Total Assets	1,191,861.65	283,703.52	51,552.53	884,587.24	104,648.06	9,909.84	3,301.34	37,609.68	26,003.87	2,830.71	0.09	16,438.40	296.98	65.66	1,114.36	365.99
Total Liabilities	1,038,204.09	114,308.61	2,617.88	843,196.70	79,214.82	4,072.37	376.63	18,776.77	16,448.04	94.57	-	830.67	10.88	22.26	33.79	111.36
Investments (excluding investment in subsidiaries)	32,358.61	31,282.61	9,960.62	808,834.10	5,543.21	2,500.00	987.35	34,446.25	-	31.28	-	14,543.93	-	-	1,050.11	-
Turnover	136,476.08	73,755.35	15,530.76	362,140.45	12,528.39	10,811.06	1,083.51	5,624.02	6,663.01	1,091.40	-	9,609.82	138.40	57.45	3.90	782.67
Profit before taxation	48,188.43	27,157.26	7,022.77	10,247.45	3,320.47	1,468.03	990.14	4,727.81	1,285.56	(542.81)	-	4,922.24	109.69	(45.53)	(57.25)	(172.72)
Provision for taxation	16,402.16	8,963.47	1,833.91	-	920.60	406.03	322.04	122.39	367.02	(162.23)	-	1,650.83	36.82	-	-	-
Profit after taxation	31,786.27	18,193.79	5,188.86	10,247.45	2,399.87	1,062.00	668.10	4,605.42	918.54	(380.58)	-	3,271.41	72.87	(45.53)	(57.25)	(172.72)
Proposed Dividend (Equity)																

(1) Total liabilities include current liabilities and provision and exclude capital and reserves.

(2) Turnover is the total income reported by each of the entities in the financial statements.

(3) Investments include investments and Stock in Trade reported by the above entities and also include investments held to cover policy holders' liabilities and unit linked liabilities.

(4) Dividend excludes corporate dividend tax.

(5) Networth does not include Preference Share capital. The same is included in total liabilities.

(6) The figures in respect of Kotak Mahindra, Inc., Kotak Mahindra (UK) Limited, Kotak Mahindra (International) Limited, Global Investment opportunities Fund Limited and Kotak Mahindra Financial Services Limited are based on the accounts prepared under Indian Accounting Standards.

(7) The figures in respect of Kotak Mahindra Financial Services Ltd are for the period from 17th November, 2009 to 31st March 2011.

Dr. Shankar Acharya
Chairman

Uday Kotak
Executive Vice Chairman and
Managing Director

Dipak Gupta
Executive Director

Jaimin Bhatt
Group Chief
Financial Officer

Bina Chandarana
Company Secretary

Mumbai, 5th May 2011

Basel II (Pillar 3) Disclosures

1. Scope of Application

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

Basis of Consolidation for capital adequacy

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

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

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

Name of the Subsidiary	Country of Origin	Activity	Status of consolidation
Kotak Mahindra Asset Reconstruction Company Limited **	India	Not operational	The company is not operational and Other than temporary diminution is provided for
Phoenix ARC Private Limited	India	Securitisation and asset Reconstruction	Consolidated by equity method
ACE Derivatives and Commodity Exchange Limited (formerly known as Ahmedabad Commodity Exchange Limited)	India	Commodity Exchange	Consolidated by equity method
Matrix Business Services India Private Limited	India	Business service provider	Consolidated by equity method for financial reporting but not for capital adequacy purpose

* GIOFL is a collective investment scheme set up as a fund in Mauritius with the status of a limited company under the Mauritius Companies Act. GIOFL has a class structure wherein there are different classes of redeemable participating shares. Each class of participating shares has its own Balance Sheet and Profit and Loss Account. The Profit / Loss of each such class belongs to the participating shareholders of that class. The management shareholder is not entitled to any beneficial interest in the profit / loss of various classes nor is required to make good any shortfall. In substance there are no direct or indirect economic benefits received by the management shareholders. The substance over form must prevail. The Groups investment is only in Management Shares. Accordingly, GIOFL is consolidated in respect of management shares of the entity having regard to substance over form of the entity.

** Effective 19th March 2011 Kotak Mahindra Asset Reconstruction Company Limited has been dissolved under Section 560 of the Companies Act, 1956.

a. Capital Deficiencies

As at 31st March 2011 there is no deficiency of capital in any of the subsidiaries of the Bank. The Bank maintains an oversight over its subsidiaries through their respective Boards and the Management Committee of the Bank is regularly updated.

b. Investment in insurance subsidiary

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

₹ in crore

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

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

₹ in crore

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

2. Capital Structure

The capital adequacy norms issued by RBI classify capital funds into Tier-1 and Tier-2 capital. Tier-1 capital includes paid-up equity capital, statutory reserves, other disclosed free reserves, capital reserves and Elements of Tier-2 capital include investment reserve, general provision and loss reserve, eligible upper Tier-2 instruments and subordinate debt instruments (lower Tier -2 bonds). Group has issued debt instruments that form part of Tier-2 capital. The terms and conditions that are applicable for these instruments comply with the stipulated regulatory requirements

Details of Upper Tier 2 and Lower Tier 2 Capital

KMBL has issued debt instruments that form a part of Tier-2 capital. The terms and conditions that are applicable for these instruments comply with the stipulated regulatory requirements. The upper Tier-2 bonds are cumulative and have an original maturity of 15 years with call option after 10 years. The interest on upper Tier-2 bonds is payable either annually or semi-annually. Some of the upper Tier-2 debt instruments have a step-up clause on interest payment ranging up to 50 bps. The lower Tier-2 Subordinated bonds issued by Bank are cumulative and have an original maturity between 5 to 15 years. The lower Tier-2 Subordinated bonds issued by a subsidiary have an original maturity between 6 to 10 years and interest on these lower Tier-2 capital instruments is payable annually.

a. Amount of Tier I and Tier II Capital

₹ in crore

	Amount
(a) Tier I Capital	
Paid-up share capital	368.44
Reserves and Surplus excluding translation and investment reserve	10,646.52
Deductions:	
Investment in paid-up capital of subsidiaries/ associates (50%)	190.64
Intangible assets other than Goodwill	322.24
Goodwill	3.42
Net Tier I Capital	10,498.66
(b) Total eligible Tier II Capital	
(i) Debt instruments eligible for inclusion in Upper Tier II Capital	
Total amount outstanding	336.68
Of which raised during the current financial year	—
Amount eligible to be reckoned as capital	336.68
(ii) Subordinated debt eligible for inclusion in Tier II capital	
Total amount outstanding	591.80
Of which raised during the current financial year	—
Amount eligible to be reckoned as capital	472.98
(iii) General Provisions and loss reserves	182.80
(iv) Investment reserve	16.06
Deductions:	
Investment in paid-up capital of subsidiaries/ associates (50%)	190.64
Net Tier II Capital	817.88

b. Total eligible capital as at 31st March 2011

₹ in crore

	Amount
Tier I Capital	10,498.66
Tier II Capital	817.88
Total eligible Capital	11,316.54

3. Capital Adequacy

The Group has made considerable progress in capturing data and implementing systems with regards to computing capital adequacy as per the standardised approach of Basel II for credit risk. Efforts are on to automate the process of capital computation as per Basel II and application system is being implemented to that effect.

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

The legal minimum as per license conditions stipulates that the capital base of the bank (Tier I + Tier II) must correspond to at least 10 percent of its risk-weighted assets.

The Bank supplements the Capital Adequacy computation by performing stress tests, based on Scenarios approved by its Risk Management Committee, to assess how its businesses perform under Stress Conditions. These tests help the Bank to design appropriate risk response to meet stressed conditions.

Approach to Capital Adequacy Assessment to support business activities

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

Basic principles and risk and capital management

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

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

Other capital adequacy assessment aspects:

- Capital adequacy ratio (CAR) of the Bank is maintained at levels well over the 10% required in accordance with the license conditions.
- The Bank has put in place the ICAAP Policy and the same is being reviewed on a yearly basis which enables the Bank to maintain capital in line with the risks undertaken.

CAR has been worked out based on Basel-I and Basel-II guidelines (parallel run) and CAR is above the regulatory minimum level of 10%

Capital requirements for various risk categories as at 31st March 2011

₹ in crore

Items	Amount
(a) Capital requirements for credit risk	
Portfolios subject to standardised approach	4,605.17
Securitisation exposures	1.82
(b) Capital requirements for market risk	
Using standardised duration approach	
Interest rate risk	205.12
Foreign exchange risk (including gold)	20.00
Equity position risk	354.11
(c) Capital requirements for operational risk	
Measured using basic indicator approach	627.67
Total capital required at 10%	5,813.89
Total capital funds of the Group	11,316.54
Total risk weighted assets	58,138.86
Capital adequacy ratio	19.46%

Computed as per Basel II guidelines

4. Credit Risk

Credit Risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions. Credit risk is managed through a framework which sets out policies and procedures covering the measurement and management of credit risk.

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

Basel II (Pillar 3) Disclosures

The Bank's credit exposure is primarily categorised into retail and wholesale borrowers. Retail exposure is mostly term loans and asset backed other than personal loans. Wholesale borrowers are internally categorised into emerging corporate, corporate and financial institutional group. While retail credit lending is largely based on predefined parameters and is mostly decentralised, credit appraisal is undertaken by an independent dedicated credit risk team for wholesale exposure.

Credit risk management processes

The Bank has made risk management a part of the management and governance of the Bank with a greater focus on risks and how those relate to the capital the Bank is holding. The Bank expects to achieve its earnings objectives and to satisfy its customers' needs while maintaining a sound portfolio. Credit exposures are managed through target market identification, appropriate credit approval processes, post-disbursement monitoring and remedial management procedures. Proactive managing of risks on its portfolio has helped the Bank foresee and restrict the impact of the global turmoil on its credit operations. Periodic portfolio review, clear identification of early warning signals and prompt action on the legal and recovery front ensure that defaults are minimal. Timely and in-depth research on industries and sectors ensure that funds are directed to positive outlook sectors. Adverse developments in sectors are tracked to facilitate timely decisions to exit Companies in negative outlook sectors. The above processes ensure that the Bank maintains a well diversified portfolio mitigating any risks on account of sector, region or borrower concentration.

The bank has also put in place a rating based approval matrix for sanctioning wholesale bank loans.

Nature of reporting and measurement systems

The Bank has an internal rating model which is an integral part of every lending decision and is capable of rating large and emerging corporates, traders, brokers, NBFCs and services. The rating model is being further enhanced to give required inputs to estimate Probability of Default (PDs) and Loss Given Default (LGDs) based on the Bank's own experience. On the retail side, the Bank has initiated implementation of a comprehensive internal credit rating model for the risk assessment of retail loan exposures. Application scorecards for major businesses in retail loans are ready. The parameters used for these scorecards and their individual weight-ages have been decided based on past experience of the Bank. These parameters are both qualitative and quantitative in nature. Credit rating frameworks using these application scorecards are at different stages of implementation in different businesses in retail loans. The final output of the rating will help the Bank to assess the expected probable loss number attached to each rating category. The internal rating systems are being further developed and validated as part of the Bank's endeavor to move towards advanced approaches of Basel II.

The Bank has also implemented its stress testing framework for the Corporate as well as Retail portfolio. The Bank also uses scenario analysis for stress testing. Loss analysis and expected loss forecasting on a static pool basis is continuously being refined to meet the demand of the current volatile market.

The Bank complies with the norms on exposure stipulated by RBI for both single borrower as well as borrower group at the consolidated level. Limits have been set by the risk management group as a percentage of the Bank's consolidated capital funds and are regularly monitored.

The Bank monitors the level of credit risk (Low/Moderate/High/Very High) and direction of change in credit risk (increasing / decreasing/stable) at the portfolio level on the basis of the following parameters which also indicate level of concentration risk the portfolio might be exposed to:

- Exposure to Top 20 accounts as a percentage of Credit Risk Exposure (CRE).
- Percentage of term loans with residual maturity more than 3 years to total loans and advance.
- Percentage of unsecured loans to total loan and advances.
- Number of single borrower exposures exceeding 15% of capital funds.
- Number of group exposures exceeding 40% of capital funds.
- Percentage of credit in low risk grades to total credit exposure
- Rating wise distribution of borrowers and
- Exposure migrating from investment grade to non-investment grade

During the year, the Bank maintained a well diversified portfolio.

As part of the ICAAP, the Bank periodically reports the ICAAP outcomes in terms of the risk appetite statements and assessment of credit concentration risk and underestimation of credit risk under the standardised approach to the Board.

Credit Risk Management Principles

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

- The extension and renewal of any credit facility to a particular borrower requires credit approval at the appropriate authority level. The rating tool, which is already in place, not only indicates the concerned sanctioning authorities but also helps the authorities in such decisions.
- The approval of all limits to counterparties should be in line with the corporate credit policy and collateral risk management policy of the Bank. Such approval should generally be within the Bank's portfolio guidelines and credit strategies.
- The credit worthiness of borrowers is regularly reviewed and monitored. Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimise the potential loss to the Bank.

Definition and classification of non-performing assets (NPA)

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

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

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

Out of Order

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

Overdue

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

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

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

Total credit risk exposures as at 31st March 2011

₹ in crore

Overall credit exposure	Fund based	Non-fund based	Total
Total gross credit exposures	41,703.77	7,504.11	49,207.88

Includes all entities considered for Basel II capital adequacy computation

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

Geographic distribution of exposures as at 31st March 2011

₹ in crore

Exposures	Fund based	Non-fund based	Total
Domestic	41,703.77	7,447.79	49,151.56
Overseas	—	56.32	56.32
Total	41,703.77	7,504.11	49,207.88

Includes all entities considered for Basel II capital adequacy computation

Industry-wise distribution of exposures

₹ in crore

Industry	Fund based	Non-fund based	Total
Auto loans	14,046.48	—	14,046.48
Personal loans	1,790.45	—	1,790.45
Home loans/Loan against property	6,922.29	—	6,922.29
Credit cards	164.22	—	164.22
Other retails loans	4,906.60	—	4,906.60
Iron and steel	162.10	491.62	653.72
Engineering	266.28	1,509.65	1,775.93
Chemical, dyes, paints etc	535.18	523.32	1,058.50
Construction	2,261.74	179.32	2,441.06
Automobiles	1,042.20	587.71	1,629.91
Infrastructure	2,697.28	1,358.45	4,055.73
NBFC's	388.43	579.47	967.90
Other industries (i)	6,520.52	2,274.57	8,795.09
Total	41,703.77	7,504.11	49,207.88

Includes all entities considered for Basel II capital adequacy computation

Basel II (Pillar 3) Disclosures

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

Residual contractual maturity break-down of assets as at 31st March 2011

₹ in crore

Maturity Pattern	Cash and balances with monetary authority	Balances with other banks	Investments	Advances	Fixed Assets	Other Assets
0 to 14 days	587.12	366.46	6,451.92	2,626.24	—	216.78
15 to 28 days	116.37	—	1,488.42	1,833.47	—	13.86
29 days to 3 months	233.67	—	1,256.74	3,744.41	—	215.57
Over 3 months & upto 6 months	198.54	0.25	1,065.47	3,850.40	—	12.14
Over 6 months & upto 1 year	302.06	—	2,486.24	5,656.10	—	1.47
Over 1 year & upto 3 years	572.16	2.59	3,305.29	15,083.68	—	15.30
Over 3 year & upto 5 years	40.33	—	361.96	3,547.78	—	33.29
Over 5 years	59.06	0.09	1,138.42	4,894.74	453.63	1,246.23
Total	2,109.31	369.39	17,554.46	41,236.82	453.63	1,754.64

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

Amount of non-performing loans as at 31st March 2011 including NPAs acquired from other banks and NBFCs

₹ in crore

Items	Amount	
	Gross NPA	Net NPA
Substandard	228.56	101.02
Doubtful 1	171.08	81.09
Doubtful 2	163.69	60.56
Doubtful 3	94.94	—
Loss	53.71	—
Total	711.98	242.67
NPA Ratio (%)	1.71%	0.59%
Movement of NPAs		
Opening balance as at 1st April 2010	916.67	440.84
Additions	259.55	27.32
Reductions	(464.24)	(225.49)
Closing balance as at 31st March 2011	711.98	242.67

Includes all entities considered for Basel II capital adequacy computation

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

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

Movement of provisions for NPAs

₹ in crore

	Amount
Opening balance as at 1st April 2010	475.83
Provisions made during the year	232.23
Write-off / Write back of excess provisions	(238.75)
Closing balance as at 31st March 2011	469.31

Amount of non-performing loans as at 31st March 2011 excluding NPAs acquired from other banks and NBFCs

₹ in crore

Items	Amount	
	Gross NPA	Net NPA
Substandard	215.37	94.33
Doubtful 1	125.47	52.39
Doubtful 2	73.79	30.84
Doubtful 3	0.26	—
Loss	53.71	—
Total	468.60	177.56
NPA Ratio (%)	1.13%	0.43%
Movement of NPAs (gross)		
Opening balance as at 1st April 2010	646.81	337.83
Additions	244.77	47.51
Reductions	(422.98)	(207.78)
Closing balance as at 31st March 2011	468.60	177.56

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

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

Movement of provisions for NPAs

₹ in crore

	Amount
Opening balance as at 1st April 2010	308.98
Provisions made during the year	197.26
Write-off / write back of excess provisions	(215.20)
Closing balance as at 31st March 2011	291.04

Amount of Non-performing investments (NPI)

₹ in crore

	Amount
Gross NPI as at 31st March 2011	3.68
Amount of provisions held for NPI	3.68
Net NPI as at 31st March 2011	—

Movement of provisions for depreciation on investments

₹ in crore

	Amount
Opening balance as at 1st April 2010	6.29
Write off / Write back of provisions during the year*	(2.61)
Closing balance as at 31st March 2011	3.68

**After considering appreciation in investments*

5. Credit risk – portfolios subject to the standardised approach
External Ratings

In accordance with RBI Basel II guidelines, the Bank has identified the following External Credit Assessment Agencies (ECAI's) as approved rating agencies:

a. Domestic credit rating agencies: CRISIL, ICRA, CARE and FITCH India

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

The Bank uses the external credit ratings to calculate risk weights for exposures on corporates. The issue/issuer ratings of the ECAI's are considered for the borrowers and the risk weights are then derived on a case by case basis based on a variety of factors (Seniority, Maturity of rating, etc) based on RBI's New Capital Adequacy Framework.

Credit exposures by risk weights

₹ in crore

Exposure category	Fund based	Non-fund based	Total
Below 100% risk weight	16,005.04	3,089.74	19,094.78
100% risk weight	13,533.76	2,256.12	15,789.88
More than 100% risk weight	11,886.76	796.88	12,683.64
TOTAL	41,425.56	6,142.74	47,568.30

Includes all entities considered for Basel II capital adequacy computation

6. Credit Risk Mitigation

The Bank has put in place a comprehensive credit risk mitigation policy. The policy lists possible credit risk mitigation techniques and associated haircuts as envisaged in RBI guidelines. The objective of this Policy is to enable classification and valuation of credit risk mitigants in a manner that allows regulatory capital adjustment to reflect them. The Policy adopts the Comprehensive Approach, which allows full offset of collateral (after appropriate haircuts), wherever applicable against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. In the standardized capital computation process, the Bank has taken ₹ 1,639.58 crore of collateral benefit.

7. Securitisation

a. Securitisation objectives and policies

Securitisation of assets is undertaken with the following objectives:

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

Role played by the Group in the securitisation process:

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

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

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

- In case the securitised assets qualify for derecognition from the books of the Bank, the entire expenses incurred on the transaction e.g. legal fees, etc., is expensed at the time of the transaction and is not deferred.
- Where the securitised assets do not qualify for derecognition the sale consideration received is treated as a secured borrowing.

c. Rating of the securitisation transactions:

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

d. Breakup of the exposure securitised by the Bank during the year and subject to securitization framework:

A. Banking Book

₹ in crore

S No.	Exposure type	Amount
1	Total amount of exposures securitised	
	Corporate Loans	2,075.00
	Auto Loans (Car and commercial vehicles)	218.18
	Mortgage Loans	220.70
	Total	2,513.88
2	Loss recognized during the period on securitisation	—
3	Amount of assets intended to be securitised within a year	—
	Of which	
	- Amount of assets originated within a year before securitisation	—
4	Unrecognised gain on securitisation	
	Corporate Loans	15.00
	Auto Loans (Car and commercial vehicles)	0.28
	Mortgage Loans	0.89

Includes all entities considered for Basel II capital adequacy computation

e. Aggregate amount of securitisation exposures retained or purchased and outstanding as on 31st March 2011 is given below:

₹ in crore

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

f. Risk-weight wise and bucket wise details of the securitization exposures on the basis of book value

₹ in crore

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

B. Trading Book

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

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

g. Aggregate amount of securitisation exposures retained or purchased and outstanding as on 31st March 2011 is given below:

₹ in crore

S No.	Exposure type	On Balance Sheet Amount	Off Balance Sheet Amount
1	Total amount of exposures retained	—	—
2	Securities purchased		
	Auto Loans (Car and commercial vehicles)	69.82	—
3	Liquidity facility	—	—
4	Credit commitments (cash collateral)	—	—
5	Other commitments	—	—

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

₹ in crore

Exposure type	Amount	Capital charge
Below 100% risk weight	69.82	1.82
100% risk weight	—	—
More than 100% risk weight	—	—
Deductions		
- Entirely from Tier I capital	—	—
- Credit enhancing I/Os deducted from total capital	—	—
- Credit enhancement (cash collateral)	—	—

Includes all entities considered for Basel II capital adequacy computation

8. Market Risk in Trading Book

Market risk management policy

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

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

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

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

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

Risk management objectives

The Bank manages its risk with the objectives listed below:

- o Achieving risk return balance
- o Managing and optimising interest rate risk in banking and trading book
- o Ensuring that mismatches between rate sensitive assets and liabilities is kept within limits
- o Managing and optimising currency and liquidity risk
- o Proper recognition, classification, measurement and accounting of investments
- o Compliance with regulatory guidelines
- o Oversight over the operation and execution of market transactions

Structure and organisation of the market risk management function

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

Development of the risk strategy and risk appetite is an ongoing process and is based on past experience and future plans. The risk strategy is consistent with the Board's overall risk tolerance, management's expertise in each business unit and the total financial amount that the Bank is prepared to place at risk of loss (Capital at risk).

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

Value at Risk

The Bank is computing the market risk capital charge for the trading book as per the standardised approach as per the regulator's guidelines. To complement this, Bank also calculates value at risk on its portfolio. Value at risk is computed for each type of market risk i.e. interest rate, foreign currency, equity etc taking into effect the various correlations between the risk factors. The internal model is also capable of undertaking stress testing and back-testing. The Risk Management Committee is appraised of the capital that would have to be maintained under the Internal Models Approach.

Stress Testing

Losses beyond the set confidence level are not captured by the value at risk calculation. The Bank periodically stresses the portfolio to highlight the potential risks that may arise due to events that are rare but plausible. The Bank conducts various tests like the impact of shock to one risk factor, extreme events that may change various risk factors simultaneously and worst case scenario that captures the potential damaging shift in various market risk factors. The stress test results and the subsequent capital requirement is placed before the Board for their perusal.

Liquidity Risk

Effective Liquidity Risk Management ensures the Bank's ability to meet all payment obligations when they become due in both normal and stressed environments.

The Bank's Board defines the Liquidity Risk Management Strategy of the Bank. The Asset Liability Management Committee (ALCO) is entrusted with the responsibility of setting tolerances for and closely overseeing the management of liquidity risk. The Balance Sheet Management Unit (BMU) in Treasury is responsible for the management of Liquidity Risk in accordance with the overall strategy and tolerances.

Funding mismatches are a natural outcome of the Liquidity Transformation function of the Bank. The Bank has a framework for accurately projecting cash flows from on and off Balance Sheet items over different time horizons - to ensure that funding mismatches are within acceptable tolerances. The Bank monitors the immediate short term (3 month) liquidity mismatches using the Statement of Short Term Dynamic Liquidity Statement and the long-term structural mismatches using the Structural Liquidity Statement. The ALM team carries out comprehensive analysis of its asset and liability portfolios to track the non-contractual behavior of customers. These Behavioral Analyses are integral to planning for the Bank's future funding requirements.

The Bank has in place a comprehensive set of Early Warning Indicators (EWIs) designed to forewarn of impending liquidity stresses. These EWIs are defined in the Bank's Board Approved Contingency Liquidity Plan (CLP). The overall Liquidity Risk level of the Bank is determined through the levels of the various individual EWIs. The CLP also sets out alternative actions to be taken at levels of increased Liquidity Risk. Special teams, which would potentially be activated in times of heightened liquidity stress, have been defined.

The Basel Committee of Banking Supervisors (BCBS) issued its International Framework for Liquidity Risk, Measurement, Standards and Monitoring in December 2010. These guidelines include 2 minimum standards for funding liquidity - a short term liquidity metric (the Liquidity Coverage Ratio (LCR)) and a longer term liquidity metric (the Net Stable Funding Ratio (NSFR)). These metrics are not yet regulatory standards in India. The Bank has proactively set tolerances for these metrics and reviews compliance regularly.

Active management of intraday liquidity is another key element in the Bank's Liquidity Risk Management structure.

The Bank also conducts Liquidity Stress Testing on a periodic basis using different Bank-specific and Market-wide stress scenarios. These stress tests are conducted on a quarterly basis and the results are reviewed by top management.

Hedging and risk mitigation

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

Market risk capital charge

₹ in crore

Risk category	Capital charge
Interest rate risk	205.12
Equity position risk	354.11
Foreign exchange risk	20.00
Total capital required	579.23

Includes all entities considered for Basel II capital adequacy computation

9. Operational Risk Management (ORM)

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

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

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

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

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

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

- The Bank has built into its operational process segregation of duties, clear reporting structures, well defined processes, operating manuals, staff training, verification of high value transactions and strong audit trails to control and mitigate operational risks.
- New Product & activity notes prepared by business units are reviewed by all concerned departments including compliance, risk management and legal. All concerned departments coordinate and discuss key operational risk issues involving people, process, technology, external factors, etc. so as to minimise them or ensure adequate controls over them. In subsidiaries, internal controls unit reviews the product notes in consultation with the respective departments, including compliance and legal.
- The Operational risk team performs detailed risk analysis and root cause analyses on operational risk events, reported by business units, to identify inherent areas of risk and suggest suitable risk mitigating actions which are monitored for resolution. The Bank wide unusual event reporting and capture system forms the basis for this analysis. The Operational risk team also proactively scans information on external events occurring in the industry to ensure that the Bank can respond suitably to similar incidents.
- Bank has in place a 'Risks and Controls Self Assessment' programme for formally assessing operational risks and related controls to mitigate these risks. The self assessments are performed by individual business units and functions. As part of the annual Risks and Controls Self Assessment ("RCSA") process, areas with high risk potential are highlighted and business unit / function either proposes mitigating measures to resolve the issue or provides a rationale for why the risk is acceptable.
- The Bank is taking various steps to increase the overall level of operational risk awareness amongst staff at all levels using various tools like trainings, workshops, risk assessment exercise and process related compliance certification / testing, etc. Operational risk profile reports for business divisions are reviewed and discussed with the department's senior management. This enables the Bank to detect changes to the units risk profile at an early stage and take necessary corrective actions. The Bank believes that this process helps build a strong risk management culture and increased level of risk awareness amongst work force.
- The Group level IT Security Committee provides direction for mitigating the operational risk in IT security. There is group wide IT security programme (ARISTI) to ensure complete data security and integrity.
- Disaster recovery and Business Continuity Plans (BCP) have been established for significant businesses to ensure continuity of operations and minimal disruption to customer services. These plans are periodically tested and reviewed to ensure their effectiveness to mitigate unforeseen risks arising out of disruptions.

- In the larger group entities, in order to control customer fraud in the lending business, a Risk Containment Unit has been setup for Retail lending, which identifies document related fraud submitted by customers. Also, customers Central Bureau (CIBIL) scores are examined before executing any financial transaction with the borrower.
- Risk transfer via insurance is a key strategy to mitigate operational risk exposure at the Bank. The Operational Risk team helps assess the quantum of insurance cover required and aligns it to the Bank's current and projected operational risk exposures.

Approaches for computation of operational risk capital

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

As per these guidelines, the capital for operational risk is based on a single indicator: income. The Capital charge associated with operational risk is calculated as 15% of average positive annual gross income of the previous three years. The Bank's operational risk capital charge using basic indicator approach is ₹ 627.67 crore as at 31st March 2011.

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

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

The exposure of the Bank's financial condition to adverse movements in interest rates is referred to as interest rate risk. The impact of market risk (including Interest Rate Risk) on the Bank's trading book is actively measured through a variety of risk metrics like PV01, option greeks and VaR. The Bank's tolerance with respect to its exposure to market risk in the trading book is articulated through various risk limits and monitored through different MIS reports. The Bank also provides for capital for exposure to market risk in the trading book.

In the context of banking book, interest rate risk is interpreted as the current or prospective risk to both the earnings and capital of the Bank arising from adverse movements in interest rates, which affect the Bank's banking book. Changes in interest rates affect a Bank's earnings by altering interest-sensitive income and expenses, and the underlying value of a Bank's assets, liabilities, and off-balance sheet instruments because the present value of future cash flows changes when interest rates change. Although, the very nature of the financial intermediation business makes the Bank susceptible to interest rate risk, excessive risk could potentially pose a significant threat to the Bank's earnings and capital.

The main bodies in charge of management of interest rate risk in the banking book in the Bank are the Asset Liability Management Committee (ALCO) and the Balance Sheet Management Unit (BMU). BMU is part of the Bank's treasury.

The Bank's ALCO is broadly responsible for the financial management of the Balance Sheet. The ALCO sets the overall policy and limit framework within which the BMU operates. The responsibility of controlling of Interest Rate Risk in the banking book is vested with the BMU.

Various asset and liability divisions in the Bank disburse assets and mobilise liabilities of varying types, tenors and rates. These divisions may be net users of fund or net providers of fund to the Bank. Individually and together, they lead to the creation of Interest rate risk in the Banking Book. Through the Funds Transfer Pricing (FTP) mechanism, the management of interest rate risk is taken out of the hands of individual asset and liability divisions and entrusted to a competent interest rate risk management body i.e. the BMU. The BMU analyses the risks inherent in the Balance sheet, determines appropriate hedging strategies in consultation with the ALCO and executes these strategies. FTP rates are reviewed by the ALCO in its meetings periodically and are calibrated to encourage the mobilisation of desirable deposits and the disbursement of favorable assets.

If the directional movement or volatility of interest rate is determined to be potentially adverse, the BMU may decide to hedge the risk using derivative products like IRS/CIRS. A properly constructed hedge would insulate the Economic Value of Equity (EVE) from dissipating to a great extent.

The Bank views Interest Rate Risk from two different but complementary perspectives, namely the Earnings Perspective and the Economic Value Perspective.

- The Bank uses gap analysis to determine the interest rate risk on the banking book from the earnings perspective.
- The duration gap approach is used by the Bank to determine the sensitivity of the Economic Value of Equity (EVE) of the Bank to changes in interest rates. Modified duration is computed on an account-wise basis for the interest rate sensitive assets and liabilities of the Bank. A 100 bps shock is applied on the Leveraged MDuration Gap to arrive at the EVE impact due to on-balance sheet items. The impact of 100 bps shock on off-balance sheet items is also incorporated. Through constant monitoring, risk limits, FTP, and hedging, management has constantly strived to keep the level of IRR in the Bank within acceptable levels.
- Details of increase (decline) in earnings and economic value for upward and downward rate shocks based on balance sheet as on 31st March 2011 are given below:

o Earnings Perspective	
Impact on earnings of 100 bps parallel shift in yield curve	₹ 34.25 crore
o Economic Value of Equity	

Impact on MVE of 100 bps adverse parallel shift in yield curve	₹ 245.75 crore
Impact as a percentage of Tier1 + Tier2 Capital	2.17%

Directors' Report

To the Members of

KOTAK MAHINDRA BANK LIMITED

The Directors present their Twenty Sixth Annual Report together with the audited accounts of your Bank for the year ended 31st March 2011.

FINANCIAL HIGHLIGHTS

(A) Kotak Mahindra Bank Limited – Consolidated financial highlights:

	31st March 2011 ₹ crore	31st March 2010 ₹ crore
Total income	11,029.27	10,053.30
Total expenditure, excluding provisions and contingencies	8,634.27	7,639.71
Operating Profit	2,395.00	2,413.59
Provisions and contingencies, excluding provision for tax	147.60	510.73
Profit before tax	2,247.40	1,902.86
Provision for taxes	678.16	575.50
Profit after tax	1,569.24	1,327.36
Less: Share of minority interest	26.36	18.00
Add: Share in profit of Associates	23.86	(2.36)
Consolidated profit for the Group	1,566.74	1,307.00
Earnings per Equity Share Basic (₹)	21.73	18.84
Diluted (₹)	21.60	18.64

(B) Kotak Mahindra Bank Limited – Standalone financial highlights:

	31st March 2011 ₹ crore	31st March 2010 ₹ crore
Total Income	4,936.60	3,883.86
Total expenditure, excluding provisions and contingencies	3,611.81	2,586.86
Operating Profit	1,324.79	1,297.00
Provisions and contingencies, excluding tax provisions	137.09	485.89
Profit before tax	1,187.70	811.11
Provision for taxes	369.52	250.00
Profit after tax	818.18	561.11
Add: Surplus brought forward from the previous year	965.91	648.94
Amount available for appropriation	1,784.09	1,210.05
Appropriations:		
Statutory Reserve under Section 17 of the Banking Regulation Act, 1949	204.55	140.28
General Reserve	40.91	28.06
Transfer to / (from) Investment Reserve Account	(26.83)	1.19
Transfer to Capital Reserve	0.69	6.96
Transfer to Special Reserve	29.00	40.00
Proposed Dividend	36.88	29.66
Corporate Dividend Tax	4.37	(2.01)
Surplus carried to Balance Sheet	1,494.52	965.91

DIVIDEND

Your Directors are pleased to recommend a dividend of ₹ 0.50 per equity share of the face value of ₹ 5 each (previous year ₹ 0.85 per equity share of the face value of ₹10 each), entailing a payout of ₹ 41.25 crore including dividend distribution tax (previous year ₹ 27.65 crore). The dividend would be paid to all the shareholders, whose names appear on the Register of Members/Beneficial Holders list on the Book Closure date.

CAPITAL

Pursuant to the approval granted by the Members at an Extraordinary General Meeting held on 27th July 2010 and receipt of other necessary approvals, in August 2010 your Bank allotted 1,64,00,000 equity shares of face value of ₹10/- each to Sumitomo Mitsui Banking Corporation, a public company registered under the laws of Japan on a preferential basis at a price per equity share of ₹ 833/- for a total consideration of ₹ 1366.12 crore.

In September 2010, each equity share of your Bank having a face value of ₹ 10 was subdivided into two equity shares of the face value of ₹ 5 each.

During the year, your Bank has also allotted 77,88,550 equity shares (adjusted for stock split number) arising out of the exercise of Employee Stock Options granted to the employees and Executive Directors of the Bank and its subsidiaries.

Post allotment of equity shares and sub-division of equity shares as aforesaid, the issued, subscribed and paid-up Share Capital of the Bank stands at ₹ 368.44 crore comprising of 73,68,71,504 equity shares of ₹ 5 each.

The Bank has a Capital Adequacy Ratio ('CAR') under Basel II as at 31st March 2011 of 19.92% with Tier I being 17.98%. At a consolidated level the CAR was 19.46% under Basel II.

During the year, your Bank has not issued any Capital under Tier II. As on 31st March 2011, outstanding Unsecured, Redeemable Non-Convertible, Subordinated Debt Bonds was ₹ 465.70 crore and outstanding Unsecured, Non-Convertible, Redeemable Debt Capital Instruments Upper Tier II stood at ₹ 336.68 crore.

OPERATIONS

Your Bank worked on a very balanced expansion plan of the network and added 72 branches and 246 ATMs and ended the year with 321 Branches and 710 ATMs, and thereby increasing the presence to 183 locations. Your Bank added over half a million new customers this year across core banking products of savings and checking account, term deposits, overdrafts and non resident accounts.

The robustness of the network manifested in the healthy growth in demand and time liabilities. The momentum gained last year in terms of distribution of asset products from the network continued in the current year. The initiatives launched last year on higher end segment of customers through a branded programme titled "Privy League" continued to show encouraging results. Your Bank maintained its ambition of becoming a bank of choice for the small and mid segment business enterprises and doubled the base of customers engaging in trade and foreign currency transactions. The increased network of ATMs benefitted your Bank by bringing in much higher usage from non customers and growing the interchange income manifold.

Your Bank continued to put significant focus in reaching out to the NRI community last year. Lot of path breaking initiatives were rolled out. Many alliances were signed with leading exchange houses across Gulf countries to provide channels for attracting inward remittances.

Through the strategic partnership with OIFC (Overseas India Facilitation Centre) your Bank participated in 3 global meets in Dubai, London and Birmingham which has firmly established your Bank as a key service provider with the NRI community. This alliance further helped your Bank to engage another 30 sub-alliances enabling the growth in business thru NRIs. Your Bank also reached out to a larger canvass of NRI customers by launching a variant to savings account targeted for the mid-income segment, P.O. Box facility in USA & UK. Your Bank launched a new remittance solution under the brand name Click2Remit. This is a multi currency platform and customers can send money into India from anywhere in the world in 8 different currencies. Your Bank also launched a credit card for the NRI customers and started the Home Loan product for NRIs in select markets. To provide higher convenience to the NRI customer your Bank launched a unique service called Click2Call & SMS2Call wherein the Bank calls back the customer within 30 minutes of receiving the intimation. Your Bank focussed on the online space including social media engagement through a partner portal called NRIMatters.com; NRI Power Podium campaign which got 13000 NRI signups in one month and found its way into India Book of Records. The number of hits on the NRI website today stands at 150000 per month, up from 2000 per month last year.

Your Bank implemented several initiatives aimed towards enhancing customer service and widening the product/ services bouquet. Some of the key ones being:

- Annual Combined Statement on Net Banking - Customers can now view and download their Annual Combined Statement for Savings and Current account, Investment and Demat holdings for the previous financial year. This will help customers to file Tax Returns, apply for loan etc.
- Card Protection Plan – Your Bank in association with CPP Assistance Service Pvt. Ltd. offers card protection to protect all Kotak customers cards (Credit, Debit, ATM etc) against loss and resultant fraud.
- Multilingual ATMs - Multilingual (English, Hindi and Marathi) on all ATMs in Maharashtra has gone live. Other regional languages will get covered during the course of next fiscal year.
- Recharge Services - This enables customers to recharge their pre-paid mobile and DTH services through Kotak Net Banking using Kotak Bill Pay.
- Statement Registration on Net Banking - Customers now have the option to register for their preferred statement frequency and mode option on Net Banking.

- Your Bank has also taken steps to participate in the eco drive. An E-Statement campaign was run through the year aiming to convert the customers who have registered for monthly physical statements & quarterly physical statements to register for monthly E-Statements with the theme of 'Save Trees, Save the Environment! Say no to Physical Statements'.
- Interbank Mobile Payment Service – This feature allows customers to transfer money instantly through mobile phone within own accounts & third party accounts within the IMPS member banks.
- Kotak Stock Ace - This is loan (overdraft) against securities product. Under this product your Bank provides an overdraft to customers against equity shares and mutual funds.

The last year saw several regulatory changes in the third party investment and insurance products space. While these regulatory interventions put a significant amount of revenue pressure your Bank recognises the opportunity to create a well differentiated business if it is able to create a more robust platform to advise its customers. Hence significant focus was put to creating processes with an objective to bring maximum transparency in the Bank's sales process of these products and to bring more internal accountability to ensure appropriateness of sale as per customer suitability and risk profile. Your Bank believes that its customers will benefit from such stringent internal standards and in the long run it will be able to build a sustainable and robust business model around these processes.

Your Bank has always focussed on its employees as the key to building a sustainable franchise and has in the past won several awards as one of the best employers. Continuing with this emphasis your Bank launched an E-Learning platform for employees which again won accolades in the IBA Technology Awards. This platform enabled your Bank to introduce courses in real time. It also has features of individual learning plans, chat facilities to enable trainers and trainees to interact online, video streaming facility, online completion status tracking, etc. Your Bank believes this will improve the quality of training inputs and will result in raising the service standards.

Your Bank took definitive steps towards risk control. These include set up of - N Vigil (Internal Cameras) in all the ATMs. This will ensure that the Bank has images of the customers who did the transactions at all times and can also facilitate during fraud investigations or customer complaints. A dedicated Risk Containment Unit has been put in place to do pre-on-boarding checks and transaction level checks to ensure conformity to AML guidelines and fraud prevention etc.

Your Bank continued its in-depth coverage and servicing of large and mid market corporate clients during the year. Your Bank was able to build significant franchise with many well known, reputed large corporate groups during this year while focusing on deepening existing clients through an array of customized and regular product offerings.

The year saw a strong trend in credit demand from the corporate and mid market business segments both for working capital and term facilities. This is in keeping with the strong underlying economic growth. Your Bank was able to tap this opportunity and increase its share of business by offering a variety of products and services.

Your Bank added 160 new cash management service customers during the year by offering them technology driven working capital cycle enhancement & efficiency solutions to effectively enrich and optimize their cash flows and liquidity through an entire suite of CMS products and services. This has been made possible through constant innovation, continuous feedback sessions and a high degree of customization to cater to the dynamic and evolving industry scenario.

Your Bank's dedicated team of product solution experts strives to provide systemic structured solutions to suit to the customer's needs. The in-depth understanding of the customer's business and the superior delivery models has helped in achieving high levels of customer satisfaction.

The Commercial Vehicle and Infrastructure sectors continued the growth momentum through the year aided by the positive IIP (Index of Industrial Production) and Agriculture growth numbers. Commercial Vehicle operator margins improved as a result of higher freight realisations, which offset the increase in diesel cost. The growth in the core sector and focus on infrastructure led to a healthy growth in the order book position of contractors in the Infrastructure space. As a result, disbursement numbers touched record levels as did the bottom line. The year also saw good growth in bank lines in both the sectors.

The monsoon has been more than adequate this year. However the impact of the growing economy and increasing purchasing power of the rural population has meant a steep rise in prices of all agro commodities. Riding this boom the Agri Business of your Bank has shown a robust growth with the total portfolio slated to cross ₹ 4300 crore this year, up from last year's portfolio of ₹ 3200 crore. This is a growth of 35% year-on-year. Your Bank also ensured to reach the targeted norms for lending to the Agri sector as laid out by the regulator for the second year running.

The Agri business rode on an impressive growth in the tractor loans, commodity funding which doubled in portfolio size and an impressive growth in the working capital facilities to agro-processing sector. Delinquency levels in this portfolio have also been at all time lows and are even better than some of the other urban oriented advances indicating the financial strength of clients associated with agriculture who are riding the commodity price boom.

The Agri business has also become the corner stone for your Bank's targets for meeting financial inclusion and lending to the weaker sections of the society such as small and marginal farmers, village artisans and other socially deprived sectors identified by the government. These advances now have crossed a level of 8% of your Bank's total advances. Your Bank is in the process of identifying more target segments in this sector to reach out to.

In the Home Finance business while there was strong growth in the first half of the year, the second half of the year saw stabilisation and slight drop in demand from customers. Your Bank introduced innovative new products during the year such as part tenure fixed home loans and loan against property. Your Bank branches continued to play an important part and evolved into a stable contributor month on month. There was an increased focus on existing Bank customers and their contribution among the secured asset products went up.

The Personal Finance business saw good growth and established your Bank as one of the leading lenders of unsecured loans in the market. High-ticket products continued to be the focus and were the biggest contributor to the overall volumes. The Personal Finance business also

added new products to their existing bouquet of financial services for businessmen. Working capital products in ₹ 50 lacs to ₹ 1.5 crore range (both fund based as well as non-fund based) were some of the new offerings.

Your Bank resolved several NPA accounts pertaining to stressed assets acquisition. Supreme Court upheld the NPA assignment between banks and other financial institutions. This landmark judgment will further help in resolving several NPA accounts, which were litigated in several courts for the past few years. The NPA portfolio sale by banks continued to be sluggish and the serious pricing mismatch between the buyers and sellers continued, this year as well.

Your Bank continued to invest in large single asset transactions, with good prospects of turnaround in stressed companies. Further, your Bank has diversified in buying large retail NPA loans from other banks.

During the year, your Bank saw a robust growth in its overall advances portfolio. This was primarily driven by the overall growth of the corporate sector, spurred by strong domestic consumption demand for their products post the recessionary period. A robust NPA management practice and strong internal controls, aided by a strong economic growth, has led to a reduction in your Bank's gross/net NPAs.

On Treasury side, your Bank has an active proprietary desk trading in all products such as Fixed Income, Money Markets, Derivatives, Foreign Exchange and Bullion. The Treasury plays an important role in balance sheet management and implementation of Funds Transfer Price between various business units. In the area of Debt Capital Markets (DCM) your Bank offered the following products: syndication of loans, bonds, mezzanine financing, promoter funding and acquisition financing and securitisation. During the year, your Bank's Treasury started Correspondent Banking Division to build and leverage on relationships with offshore banks for improving quality and international reach for its customers.

Your Bank's credit card business has issued 1.5 lac cards and is in its third year of operations. The card design and product benefits have received overwhelming response from customers. The customer spends across all variants of cards have been amongst the top three in industry. The premium range of our products – VISA Platinum and VISA Signature have driven the spends growth in the portfolio and it contributes to 34% of the spends while accounting for 12% of customer base. This has reaffirmed the customer acceptability of the product. Credit card business clocked ₹ 600 crore of total spends in the year with a book size of ₹ 300 crore. Industry credit cards spends has shown sign of growth after last year's recessionary economic conditions.

Your Bank entered into a strategic arrangement with PVR Cinemas, one of the elite name in entertainment industry, to distribute credit card products aimed at upmarket customers. This partnership opens up the opportunity to tap new customer segment hitherto untapped by your Bank.

Your Bank's technology team concentrated on innovation to provide new products and conveniences to the customers. This ranged from mobile to mobile payments (IMPs) to providing ATMs at remote locations on an "air card".

System upgrades for continuous improvement in customer experience were a focus. The excellence of the CRM and Call Center which were rolled out across the Kotak Group, were recognized by awards from the Indian Banking Association and Asian Banker's Technology Summit respectively.

In preparation of the planned Core Banking upgrade, the technology foundation has been enhanced. Service Oriented Architecture was introduced with the use of a world class product for system integration. Standard frameworks for digitization and internal development expedite deployment of new systems.

SUBSIDIARIES

Your Bank's subsidiaries are established players in the different areas of financial services, viz. car finance, investment banking, stock broking, asset management and life insurance.

While the Indian economy continued its growth path the businesses in which the subsidiaries operate had its own share of challenges on account of market fragmentation, change in market mix, dramatic regulatory changes and the like.

Kotak Mahindra Prime Limited, the car finance company continues to have robust growth in lending coupled with fall in delinquencies. Kotak Securities Limited, the stock broking company continued to face adverse effects of changes in mix in market volumes shifting to the low-yield equity derivative segment. The company also continues to face competition in the market place due to continuous entry of new players. Kotak Mahindra Capital Company Limited had a relatively better year, thanks to handling primary issues. But nevertheless, the investment banking industry continues to face pressure. Kotak Mahindra Asset Management Company Limited faced an outflow of a large portion of liquid funds. Coupled with changes in regulations in the mutual fund industry it had to tweak its business strategy. Kotak Mahindra Old Mutual Life Insurance Limited had to deal with regulatory changes that changed the direction of the industry. Business strategy, product mix and management of costs had to be continuously worked upon to stay on course. Due to range bound secondary equity markets and net outflows in many India dedicated International funds, the International subsidiaries reported drop in profits.

The various activities of the subsidiaries are outlined in the Management Discussion and Analysis section appended to this Report.

In terms of the general exemption granted by the Central Government vide their General Circular No.2/2011 dated 8th February 2011 under Section 212(8) of the Companies Act, 1956, abridged Annual Report which consists of the financial statements of your Bank on standalone basis as well as consolidated financial statements of the group for the year ended 31st March 2011, have been sent to all the members of the Bank. It does not contain Annual Reports of the Bank's subsidiary companies. **The Bank will make available full Annual Report (including the Annual Reports of all subsidiaries) upon request by any member of the Bank. These Annual Reports will be available on the Bank's website viz. URL : <http://ir.kotak.com/annual-reports> and will also be available for inspection by any member at the Registered Office of the Bank.**

EMPLOYEE STOCK OPTION SCHEME

The stock options granted to the employees currently operate under two schemes, namely Kotak Mahindra Equity Option Scheme 2005 ("**Scheme 2005**") and Kotak Mahindra Equity Option Scheme 2007 ("**Scheme 2007**"). The disclosures below are in respect of the year ended 31st March 2011.

Options granted during the year	Scheme 2005	– Nil	
	Scheme 2007	– 47,49,240 options	
Pricing Formula	<p>ESOP Scheme 2005 & 2007 –</p> <p>The Exercise Price shall be a price, as may be determined by the Board/ESOP/Compensation Committee, equivalent to or discounted up to 50% of the 'Average Market Price'. The 'Average Market Price' for this purpose would mean the average of the closing price of Equity Shares of the Bank, during two weeks period prior to the date of the meeting of Board/ESOP/Compensation Committee at which 'Plan Series' under the Scheme is approved, on the Stock Exchange, where there was highest trading volume during the said two week period, on which the Equity Shares of the Bank are listed.</p> <p>'Plan Series' means a documented plan framed by Board/ESOP/Compensation Committee for each tranche of grant of Options, to all Eligible Employees, at a specific Exercise Price (which is determined by the Board/ESOP/Compensation Committee for the purpose of that particular Plan Series) and other terms and conditions as mentioned in that Plan Series.</p> <p>The Board/ESOP/Compensation Committee under special circumstances decides that the Exercise Price shall be ₹ 5/- per share. In such cases, the immediately succeeding Directors Report/Corporate Governance Report shall carry details of the same.</p>		
Options in force at the beginning of the year	Scheme 2005	– 49,88,600 options	
	Scheme 2007	– 1,28,14,250 options	
Options Vested during the year	Scheme 2005	– 43,75,000 options	
	Scheme 2007	– 29,31,830 options	
Options exercised during the year	Scheme 2005	– 46,42,120 options	
	Scheme 2007	– 31,46,430 options	
Total number of shares arising as a result of exercise of options	Scheme 2005	– 46,42,120 equity shares of ₹ 5/- each	
	Scheme 2007	– 31,46,430 equity shares of ₹ 5/- each	
Options lapsed	Scheme 2005	– 3,46,480 options	
	Scheme 2007	– 9,97,050 options	
Variation of terms of options	No variations made in the terms of the options granted except in respect of Scheme 2005 with respect to recovery from the relevant eligible employees, the Fringe Benefit Tax on exercise of options as permitted by regulations.		
Money realized by exercise of options	<p>Exercise amount received:</p> <p>Scheme 2005 – ₹ 76,92,34,000/-</p> <p>Scheme 2007 – ₹ 55,30,86,290/-</p>		
Total number of options in force	Scheme 2005	– Outstanding options – Nil	
	Scheme 2007	– Outstanding options – 1,34,20,010	
Details of options granted during the year to :	Scheme 2007	Name of Senior Management Personnel	No. of options granted
(i) Senior management personnel	Series 27	Mr. C. Jayaram	50,000
		Mr. Dipak Gupta	50,000
	Series 28	Mr. C. Jayaram	56,000
		Mr. Dipak Gupta	70,000
(ii) Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year	Nil		
(iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	Nil		
Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with AS-20 Earnings Per Share	*The diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with AS20 is ₹ 21.60 (Consolidated) and ₹ 11.28 (Standalone).		

<p>Where the company has calculated the employee compensation cost using the intrinsic value of stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed. The impact of this difference on profits and on EPS of the Company shall also be disclosed.</p>	<p>*Had the Bank (Consolidated) followed the fair value method for accounting the stock option compensation expense would have been higher by ₹ 39.39 crore with consequent lower Consolidated profits. On account of the same the diluted EPS of the Bank (Consolidated) would have been less by ₹ 0.36 per share.</p> <p>*Had the Bank (Standalone) followed the fair value method for accounting the stock option compensation expense would have been higher by ₹ 23.25 crore with consequent lower Standalone profits. On account of the same the diluted EPS of the Bank (Standalone) would have been less by ₹ 0.21 per share.</p>
<p>Weighted – average exercise prices and weighted – average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.</p>	<p>*The weighted average price of the stock options exercised is ₹ 437.07 and the weighted average fair value is ₹ 206.73.</p>
<p>Notes:</p> <p>1) *Above figures are derived by considering the options granted and exercised by employees of the Bank and its subsidiaries.</p> <p>2) The number of options specified hereinabove have been adjusted for all corporate actions since the date of grant including sub-division of the face value of equity shares of the Bank from ₹ 10 to ₹ 5 during the year.</p>	
<p>A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted – average information:</p>	<p>A. Stock price It is the closing market price on the National Stock Exchange of India Limited prior to the meeting of the Board in which the options are granted.</p> <p>B. Volatility Volatility is a measure of the amount by which a price has fluctuated or is expected to fluctuate during a period. The measure of volatility used in the Black-Scholes option-pricing model is the annualized standard deviation of the continuously compounded rates of return on the stock over a period of time. Accordingly, daily volatility of the Bank's stock price on the NSE for the period corresponding to the respective expected live of the different vests, prior to the grant date has been considered.</p> <p>C. Risk free interest rate The risk-free interest rate being considered for the calculation is the interest rate applicable for maturity equal to the expected life of the options based on the zero-coupon yield curve for Government Securities as on the date of the respective grant.</p> <p>D. Time to Maturity/Expected Life of options The minimum life of a stock option is the vesting period and the maximum life is vesting period plus the exercise period. The Expected life of the options has been calculated as the average of the two extremes – the minimum life and the maximum life. Since each vest has been considered as a separate grant, the expected life has been calculated for each vest separately.</p> <p>E. Dividend yield The dividend yield for each grant has been derived by dividing the dividend per share by the market price per share.</p> <p>Weighted average information in respect of above assumptions has been provided in note 14 of Schedule 17 of the notes to accounts to the Consolidated financial statement of the Bank.</p> <p>Weighted average information in respect of above assumptions has been provided in note 10 of Schedule 18 B of the notes to accounts to the Standalone financial statement of the Bank.</p>

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a separate section entitled 'Corporate Governance' has been included in this Annual Report. The Bank has implemented number of recommendations given in the "Corporate Governance Voluntary Guidelines 2009" by the Ministry of Corporate Affairs and is examining the possibility of implementing the remaining recommendations.

DIRECTORS

Mr. Asim Ghosh retires by rotation at the Twenty Sixth Annual General Meeting and is eligible for re-appointment.

Mr. Prakash Apte and Mr. Amit Desai were appointed with effect from 18th March 2011 and Mr. N.P. Sarda with effect from 1st April 2011 as Additional Directors of the Bank. Pursuant to the proviso to Section 260 of the Companies Act, 1956, they hold office as Directors up to the date of this Annual General Meeting but are eligible to be appointed as Directors. In terms of Section 257 of the Companies Act, 1956 the Bank has received notice in writing from members along with a requisite deposit of ₹ 500/- each proposing the candidature of Mr. Prakash Apte, Mr. Amit Desai and Mr. N. P. Sarda for their appointment as Directors.

Mr. Prakash Apte is presently the Non-Executive Chairman of Syngenta India Limited with considerable experience in agricultural sector. Mr. Amit Desai is an eminent professional with 30 years experience. Mr. N.P. Sarda is a Chartered Accountant for more than 40 years and past President of ICAI.

Mr. Anand Mahindra, Mr. Cyril Shroff and Mr. Shivaji Dam have retired as Directors of the Bank effective 21st March 2011 due to completion of their eight years tenure pursuant to the provisions of Section 10A(2A)(i) of the Banking Regulation Act, 1949. Your Directors place on record their appreciation for the valuable advice and guidance rendered by each one of them during their tenure as Directors of the Bank.

The Board of Directors of the Bank, at its meeting held on 5th May 2011, has re-appointed Mr. Uday Kotak as Whole-time Director of the Bank designated as Executive Vice-Chairman and Managing Director for a period from 22nd March 2012 to 31st December 2014, subject to the approval of the shareholders and of the Reserve Bank of India. Mr. Dipak Gupta and Mr. C. Jayaram have been re-appointed as Whole-time Directors of the Bank designated as Joint Managing Directors for a period from 1st January 2012 to 31st December 2014, subject to the approval of the shareholders and of the Reserve Bank of India. The approval of the shareholders in this regard is being sought at the ensuing Annual General Meeting of the Bank.

AUDITORS

Messrs S. R. Batliboi & Co., Chartered Accountants, auditors of your Bank, retire on the conclusion of Twenty Sixth Annual General Meeting.

Pursuant to the guidelines issued by the Reserve Bank of India, an audit firm is allowed to continue as the Statutory Central Auditor of a bank for a continuous period of four years only. Accordingly, it is proposed to appoint, subject to regulatory approvals, Messrs S. B. Billimoria & Co., Chartered Accountants as the statutory auditors of the Bank for the current financial year in place of Messrs S. R. Batliboi & Co. who have completed four years as the statutory auditors. The approval of the shareholders in this regard is being sought at the ensuing Annual General Meeting of the Bank.

STATUTORY INFORMATION

The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1998, are not applicable to your Bank.

EMPLOYEES

The employee strength of your Bank along with its subsidiaries as of 31st March 2011 was around 20,500 as compared to around 20,000 employees a year ago.

The Bank standalone had around 11,000 employees as of 31st March 2011. 102 employees employed throughout the year and 23 employees employed for part of the year were in receipt of remuneration of ₹ 60 lacs or more per annum.

Your Bank was adjudged amongst Top 25 in India's Best Companies to Work For in 2010 by The Great Places to Work Institute and continues to be amongst Top 25 Best Employers in India consistently from 2007 till date as adjudged by the AON Hewitt Best Employers Survey.

While your Bank and its subsidiaries continued to focus on various initiatives to provide the best employment experience to the employees, new and innovative products and processes were introduced to further enhance both quality and productivity of our human capital. Substantial investments were made in training and developing employees across levels to improve productivity, service quality, personal effectiveness and supervisory capability. Structured leadership development programs and customized courses in association with leading academic institutions were also rolled out to groom future leaders and build a talent pool that has depth in knowledge and competence.

The best in class Talent Management practices and HR processes have enabled the organization to build a cadre of highly committed and engaged employees who consistently excel in delivering our customer value proposition.

In accordance with the provisions of Section 217(2A) of the Companies Act, 1956 and the rules framed thereunder, the names and other particulars of employees are set out in the annexure to the Directors' Report. In terms of the provisions of Section 219 (1)(b)(iv) of the Companies Act, 1956, the Directors' Report is being sent to all the shareholders of the Bank excluding the aforesaid annexure. The annexure is available for inspection at the Registered Office of the Bank. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered Office of the Bank.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, based on the representations received from the operational management, confirm in pursuance of Section 217 (2AA) of the Companies Act, 1956 that:

- (i) your Bank has, in the preparation of the annual accounts for the year ended 31st March 2011, followed the applicable accounting standards along with proper explanations relating to material departures, if any;
- (ii) they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as at 31st March 2011 and of the profit of your Bank for the financial year ended 31st March 2011;
- (iii) they have taken proper and sufficient care to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities; and
- (iv) the annual accounts have been prepared on a going concern basis.

ACKNOWLEDGEMENTS

Your Directors would like to place on record their gratitude for the valuable guidance and support received from the Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority and other Government and Regulatory agencies. Your Directors acknowledge the support of the shareholders and also wish to place on record their appreciation of employees for their commendable efforts, teamwork and professionalism.

For and on behalf of the Board of Directors

Dr. Shankar Acharya
Chairman

Place: Mumbai,
Date : 5th May 2011

Management Discussion & Analysis

The economic environment in advanced economies indicated some pick-up in growth in the second half of FY2010. However, the pace of economic recovery remained uneven and the sustainability of the recovery process remained in doubt. The emerging market economies (EMEs) recovered ahead of the advanced economies. In India, economic growth recovered sharply and matched the high growth phase of pre-Lehman era. This was also accompanied by a sharp pick-up in inflationary pressures, leading to the RBI adopting a graduated withdrawal of monetary stimulus.

GDP growth started to indicate recovery trends, starting in the Q4 FY2010, when it grew by 8.6% from 7.3% in Q3 FY2010. This recovery trend sustained and also strengthened in the first and second quarters of FY2011, averaging at 8.9%. The third quarter indicated some slowing trends in the GDP growth, mainly on account of a slowing industrial growth, down to 5.7% compared to 11.7% in the first quarter of FY2011. Manufacturing sector's growth weakened sharply from 13% in the first quarter to 5.6% in the third quarter on account of a base effect from the previous year as well as due to cyclical slowdown on account of higher interest rates. Services sector growth also weakened in the third quarter of FY2011 to 8.7%, compared to an average of 9.5% in the first half. A further softness of the GDP growth in the third quarter was prevented by a strong agricultural sector's performance at 8.9%, compared to an average growth of 3.5% in the first half.

On the expenditure side, private consumption demand has stayed strong, indicated by its share in GDP remaining steady at around 60% in the first three quarters of the financial year. However, the investment demand is seen to be softening recently. The slowing investment trend is also indicated by the capital goods production trends in the Index of Industrial Production.

The RBI achieved a non-disruptive normalization of monetary policy from 19th March 2010 onwards, when the first 25 bps increase in the Repo and the Reverse Repo was announced by the RBI. RBI adopted a calibrated tightening of the policy interest rates and liquidity conditions. The RBI used CRR as a liquidity tightening measure and increased it from 5% in April 2009 to 6% at April 2010 end. The strategic and preferred shift towards a sustained deficit of liquidity in order to enhance monetary policy transmission was announced by the RBI in early July 2010. This was helped by the outflow of resources from the banking system due to payment by telecom companies to the Government on account of 3G spectrum auction, as also by a sharp increase in the demand for currency on account of high inflation.

The Repo rate emerged as the operative policy rate for the tightening of monetary policy. The liquidity tightened significantly and was beyond ₹ 1,00,000 crore on instances. To bring down the severity of liquidity strain and ensure that the liquidity stress does not affect flow of credit to productive sectors of the economy, Reserve Bank of India (RBI) introduced a second LAF auction and reduced the mandatory requirement of SLR to 24%. Further, banks were allowed to borrow from the RBI by maintaining a shortfall in the SLR requirement by a maximum of 1% of NDTL without having to pay a penal interest.

Despite the significant increase in the policy interest rates and also tight liquidity conditions, inflationary conditions have remained on the higher side. Headline WPI inflation had peaked at around 11% in April 2010. Due to the favourable base effect from the previous financial year and also some softening of the manufactured products price pressures, due to the past monetary tightening, headline WPI inflation exhibited a moderating trend till around November 2010 when it was 8.1%. However, renewed price pressures were seen from December onwards with the new drivers being fuel and non-fuel international commodity prices and demand-supply imbalances in some food items. As on March 2011, headline WPI was at 9.0%, with core inflation (inflation ex-food, ex fuel) also firming up to 8.9%.

In the first half of FY2011, the current account deficit (CAD) emerged as a significant policy concern. CAD aggregated to around US\$30 bn in this period on the back of a widening trade gap and also a lower support from net invisibles. The enhanced risks arising out of the rising CAD were negated by robustness in the net capital flows, especially in the second quarter of FY2011 when FI flows surged to US\$18.8 bn in a single quarter, compared to US\$3.5 bn in the first quarter of FY2011. There was also a change in the composition of capital flows, with large increase in portfolio flows replacing FDI flows. Some of the concerns on the current account eased in the third quarter as the deficit fell to US\$9.7 bn from US\$16.8 bn in the previous quarter. This improvement was driven by a narrowing of the trade deficit as exports picked up sharply to grow at 39.8% in the third quarter with the improvement in the global demand. Further, invisible receipts were stronger than in the recent past quarters. However, in the third quarter, capital account surplus was lower, with FI inflows once again reducing on account of a global risk aversion on the back of European peripheral sovereign debt worries. All this led to the Balance of Payments surplus in the first three quarters of FY2011 to be restricted to USD\$bn, almost unchanged from the first three quarters of the previous fiscal.

Consolidated Financial Performance

The financing businesses of the group, including the Bank have continued to grow on the back of the robust growth in the economy. However, the capital market businesses such as stock broking and mutual funds have seen their profits drop due to a combination of forces.

Consolidated profit after tax grew 20% to ₹ 1,567 crore. As on 31st March 2011, the Group has a distribution network of branches, franchisees, representative offices across 528 cities and towns in India and offices in New York, London, California, Dubai, Abu Dhabi, Mauritius and Singapore. The group services around 8.8 mn customer accounts.

Assets under management (AUM) as at 31st March 2011 was over ₹ 47,850 crore (approximately US\$ 11 bn), comprising assets managed and advised by the Group. Of this, equity assets managed / advised by the Group were around ₹ 21,126 crore. The AUM with Kotak Mahindra Mutual Fund (Kotak Mutual) was over ₹ 24,300 crore.

Awards and Recognitions

During the year the Bank won the following awards:

- The Bank was amongst the Top 25 "Best Employers in India 2011" by Hewitt Associates and the only bank amongst the Top 25. The Bank received this award for the third time in a row.

Management Discussion & Analysis (Contd.)

- Adjudged second in BFSI sector and 23rd overall in "India's Best Companies To Work For 2010" by a joint study of The Economic Times and Great Place to Work Institute, India.
- Awarded "Best Local Cash Management Bank" by Asiamoney 2010.
- Ranked No. 2 in India - companies with "Best Corporate Governance Practices" - IR Global Rankings 2010.
- Awarded "The Ingenious 100" Award by IDG India's CIO Magazine for Storage Virtualization.
- Ranked no. 1 in seventeen categories including range of investment products/ advisory services – Euromoney.
- Awarded for Customer & Brand Loyalty in Banking Sector at 4th loyalty Summit amongst all leading private, foreign and PSU banks.
- Awarded "Best Call Centre Project" from Asian Banker for a solution which integrates multiple contact centre across several locations that enhances agent productivity.
- Kotak Bank won IBA technology awards for :
Best use of Technology in Training and e-learning Initiatives
Best Customer Initiative - CRM

As at 31st March 2011 the Bank has built a network of 321 full fledged branches spread across 182 locations and 710 ATMs.

Consolidated Financials

₹ crore		
Particulars	2010-11	2009-10
Total Income*	10,963.74	9,985.90
Profit before Tax	2,247.40	1,902.86
Consolidated Profit after tax (PAT)	1,566.74	1,307.00

* income is net of sub-brokerage

₹ crore		
Particulars	2010-11	2009-10
Consolidated net worth	10,962.94	7,910.94
Earnings per share (diluted) (₹)	21.60	18.64
Book Value per share (₹)	148.78	113.62
Net Interest Margins (NIM) %	5.6% [^]	6.1%
Return on Average Network %	16.4%	18.2%
Net NPA% excluding acquired stressed assets	0.43%	1.14%
Consolidated capital adequacy ratio%	19.5%	19.3%

[^] normalised

Bank and Its Key Subsidiaries: Financial and operating performance

Bank Highlights

The Bank along with its subsidiaries, offers a wide range of financial products and services to its customers. The key businesses are commercial banking, investment banking, stock broking, car finance, asset management and life insurance.

The Bank has four broad business segments:

- Lending
- Retail liabilities and branch banking
- Corporate banking (including small and medium enterprises - SME)
- Treasury and investments

Profit before tax of the Bank for FY2011 was ₹ 1187.70 crore as against ₹ 811.10 crore for FY2010. Profit after tax of the Bank was ₹ 818.18 crore in FY2011 compared with ₹ 561.11 crore in FY2010. The break up of segmental results is as follows:

₹ crore		
Segment	2010-11	2009-10
Treasury and BMU	304.83	367.46
Corporate/ Wholesale Banking	543.89	385.46
Retail Banking	338.72	61.06
Sub-total	1,187.44	813.98
Unallocated Income/ (expense)	0.26	(2.87)
Profit before tax	1,187.70	811.10

As per BASEL II, the capital adequacy ratio of the Bank as at 31st March 2011 was 19.92% (31st March 2010 – 18.35%).

Tier I ratio was 17.98%. Advances of the Bank as at 31st March 2011, stood at ₹ 29,329.30 crore (₹ 20,775.05 crore as at 31st March 2010), showing a growth of 41%. As at 31st March 2011, the net NPAs of the Bank excluding the acquired stressed assets were at 0.50% of net advances (1.25% as at 31st March 2010). The net NPAs of the Bank including acquired stressed assets were at 0.72% of net advances as at 31st March 2011 (1.73% as at 31st March 2010).

Management Discussion & Analysis (Contd.)

As at 31st March 2011, the deposits of the Bank were ₹ 29,260.97 crore (₹ 23,886.47 crore as at 31st March 2010), showing a growth of 23%. As at 31st March 2011, deposits comprised of ₹ 5,460.19 crore of current account deposits (₹ 4,992.13 crore as at 31st March 2010), ₹ 3,330.33 crore of savings deposits (₹ 2,471.00 crore as at 31st March 2010) and ₹ 20,470.44 crore of term deposits (₹ 16,423.33 crore as at 31st March 2010).

Advances

The break up of the advances of the Bank is given below:

		₹ crore	
Segment		31-Mar-11	31-Mar-10
A. Lending			
Commercial Vehicles & construction equipment		6,251.06	4,414.22
Mortgage Loans		6,876.45	4,711.63
Agriculture Finance		4,219.61	3,088.62
Personal Loans		1,304.97	1,314.98
B. Corporate Banking		9,295.98	6,476.13
C. Others		1,381.23	769.47
Total Advances		29,329.30	20,775.05

Lending

Commercial vehicles and Construction equipments

The growth momentum in commercial lending gathered pace over the year sustained by robust growth in commercial vehicles (CV), construction equipments (CE) and tractors. In the industry, CV sales grew by 30%, CE by 25% and tractors by 15% during the year. Growth in the economy led to higher margins and cash flows resulting in improved collections and thus very low levels of non performing assets for the Bank. Working capital needs of the customers also increased.

Small commercial vehicles constituted as much as 42% of total CV sales, which is significant considering that this segment opened up just five years back. Freight rates remained firm during the year and on the back of recovering economy, dealer inventory levels saw a sharp drop.

There was an upsurge in construction equipment sales in FY2011 and the industry grew by 25%, triggered by infrastructure related investments. Implementation of infrastructure projects picked up and the construction order books reached healthy levels. Demand for construction equipment was driven by Power, Roads, Mining, Real estate and Irrigation segments. The growth rate is particularly good in larger equipments segment.

Agriculture Finance

The farm sector recorded a robust performance due to record output in some food as well as non-food crops in FY2011. The recent estimates of agriculture output suggest that food grain production is expected to increase by about 8.1%, from 218.1 million tonnes in FY2011. Combined with this, increased rural prosperity arising out of government programmes, diversifying use of tractors, improved penetration of rural credit and labour shortage drove up tractor sales, which crossed five lakh units during FY2011.

Agriculture advances of the Bank showed an increase of 37% year on year keeping pace with the advances growth of the Bank. This was achieved on the back of record food output of the farm sector. The Bank continued to cross the targeted lending of 18% of the Bank advances to the agriculture sector as required by the priority sector norms of RBI. The sector has shown great buoyancy led by increasing prices of commodities.

Demand for agriculture advances continues to be robust. Portfolio delinquencies in this sector reached all time lows. The Bank increased its focus on the retail and SME segment of the agriculture sector to increase the reach into the rural & semi-urban markets. The Bank also started dedicated agriculture advances oriented rural branches in line with its focus on increasing financial inclusion.

Personal Finance and Mortgage Business

In the Home Finance business while there was strong growth in the first half of FY2011, the second half of the year saw stabilisation and slight drop in demand from customers. There was an increased focus on existing Bank customers and their contribution among the secured asset products went up. Loan against Property, a strong product proposition, continues to see a great opportunity along with the high-ticket personal finance products suited for the business community.

The Personal Finance business saw good growth. High-ticket products continued to be the focus and were the biggest contributor to the overall volumes. The Personal Finance business also added new products to their existing bouquet of financial services for small businessmen.

Corporate Banking

Corporate Banking is broadly focused at two business segments – mid-market and large corporate. The segmentation is done to cater to their unique need to have specific set of offerings and services.

Corporate banking serves a number of large business houses and also commands a good presence in the mid-market customer space. The strategy of building business with large corporates has been to penetrate deeper with more products. The mid-market strategy was clearly

Management Discussion & Analysis (Contd.)

driven by targeted client acquisition and becoming one of the key bankers to the corporate. The growth of the Corporate Bank franchise has been strengthened by utilizing the opportunities through synergies in investment banking and other business verticals. The focus on above segments and these synergies resulted in the Corporate Banking division adding 250 customers during the year.

Branch Banking

The Bank added 72 branches, 179 off-site and 67 onsite ATMS during the financial year taking the total number of branches to 321, off-site ATMs to 403 and onsite ATMs to 307.

Total number of deposit accounts as at 31st March 2011 are around 16 lakh and a debit card base of around 12 lakh.

Some of the key initiatives that the branch banking business undertook during the year are summarized as under:

- Embarked on a project to promote financial inclusion by evolving new models for effective outreach involving technology based solutions.
- Added two more commercial bank branches at Gurgaon and Pune to handle trade transactions. This move is aimed at driving a substantial increase in the throughput of the system with a reduced turnaround time and improved customer service.
- Partnered with NRI Matters, a social media initiative, aimed at building connectivity among the NRI community and trying to address all financial / tax related issues of Indian diaspora living outside India.
- Undertook a drive to bring down customer grievance / query resolution time lines. This concentrated effort yielded significant reduction not only in bringing down average turnaround time but also showed an improvement in the customer satisfaction index.
- Launched a set of products, including Credit Card, Home Loans and a remittance platform branded as Click2remit, aimed at enhancing "stickiness" of NRI customers which is one of the focus areas for the Bank.
- The expanded ATM network enhanced the brand presence apart from generating additional revenue.
- With an objective to bring maximum transparency in distribution of investment products, a very elaborate sales process has been introduced. The process follows a matrix which cuts across size of transaction and category of products or profile of customer to ensure appropriateness of the sale and / or selection of product.
- Risk containment unit was made operational which handles hindsighting of transactions, analyses critical process deviations and appropriateness of employee / customer actions, ensures strict adherence to statutory / compliance guidelines and maintains vigilance on the quality of KYC standards of new customers.
- Several initiatives were undertaken aimed at improving the knowledge quotient of the front line and supervisory staff at the branches. This was achieved through a right mix of in-house and external trainers with training programs encompassing products and soft skills development.
- The Bank was once again appointed as a primary financial advisor by Overseas Indian Facilitation Centre (OIFC). This provided us with an opportunity to partner with the Government of India and Confederation of Indian Industry in presenting its product bouquet to NRI / PIOs community across the globe.

Treasury

Against the backdrop of the prevailing economic environment, the Bank's treasury responded with a renewed focus on liquidity management and efforts towards bridging of gaps in structural liquidity of the Bank. Efficient management of residual liquidity resulted in significant reduction in the cost of liabilities. The Balance Sheet Management Unit (BMU) was able to maintain all regulatory obligations like CRR and SLR.

The primary dealership desk was able to exceed all its bidding and success commitments made to the RBI. In response to increasing and volatile interest rates, the Bank lowered the churn period of its bond trading book. Shrinking of spreads of corporate bonds over the G-Secs coupled with increased FII activity presented numerous opportunities in the corporate bond market which the treasury was able to successfully capitalize on.

Responding to increasing domestic interest rates and some uncertainty in European markets, currency markets, remained volatile. Given this volatility, trading operations in foreign exchange was measured and calibrated within the Bank's risk appetite. The focus of the treasury continued to be on foreign exchange flow business. The Bank achieved a healthy growth in the number of transactions and volumes in the foreign exchange merchant business.

Treasury, having reinforced its processes in the bullion business, saw a rise in volumes and added new clients.

Treasury continued its increased focus on bond and loan syndication markets as part of its Debt Capital Markets (DCM) business, with some success in international debt raising for its clients. The Bank continued its non-participation in the FX derivative market both on proprietary account and client account pending further clarity on legal, regulatory, accounting and taxation fronts.

Correspondent Banking Division was started to build and leverage on relationships with offshore banks for improving quality and international reach for its customers.

During the year, treasury also carried out up-gradation of technology platform and re-engineering of various treasury operating processes.

Treasury and Asset Liability Committee (ALCO) continued heightened vigil on liquidity, markets, counterparty and sovereign risks.

Management Discussion & Analysis (Contd.)

Subsidiaries Highlights

Kotak Mahindra Prime Limited

Kotak Mahindra Prime Limited (KMP) is primarily into car financing which includes financing of retail customers of passenger cars, multi-utility vehicles and inventory and term funding to car dealers. In addition to car finance, KMP also carries out other lending activities which includes loan against securities, securitization / assignment of loans, corporate loans and developer funding.

The passenger car market in India grew by 32% in FY2011 as compared to a growth of 25% in FY2010. Total sales of cars and multi utility vehicles crossed 24.6 lakh units in FY2011 versus 18.6 lakh units in FY2010.

KMP's gross advances grew by 34% to ₹ 11,208 crore in FY2011 from ₹ 8,379 crore in FY2010.

KMP continued to focus on maintaining margins in the retail car finance business, fee based income, controlling costs and credit losses, while improving its positioning in the car finance market by scaling up business. KMP has been a part of the car finance industry for more than 20 years. Over this period, it has carved out a niche for itself and is considered a leader in the industry. KMP's strong relationship with key stake holders in the industry viz. manufacturers, dealers and customers have helped its growth. Other lending activities have also contributed positively towards the company's growth.

Financial Highlights

₹ crore

Particulars	2010-11	2009-10
Gross Income	1,364.76	992.06
Profit before tax	481.88	258.87
Profit after tax	317.86	166.41

Kotak Securities Limited

The Sensex closed at 19,445 at the end of FY2011 (17,528 at the end of FY2010) with a high of 21,108 and a low of 15,960. Benchmark NIFTY closed at 5,249 and 5,833 respectively with a high of 6,338 and a low of 4,786. There was a significant change in the average daily volumes (ADV) year on year. ADV for cash segment reduced to ₹ 18,630 crore in FY2011 from ₹ 22,784 crore in FY2010. ADV for derivative segment increased to ₹ 1,16,437 crore from ₹ 72,938 crore during same period. The year saw a significant skew in the market volumes towards derivatives.

The year saw a significant skew in the market volumes towards derivatives. The brokerage rates in the cash segment are higher than the derivative segment. Change in this mix is a key reason for lower brokerage income during the year.

Second quarter of the financial year saw a surge of FII investments in the secondary markets with the investor confidence levels perceived to be high. KS continued to outperform other syndicate members in IPO and QIP offerings notching a higher market share. KS research continued to be recognized for its in-depth high quality financial modeling, width of stock coverage and valuable investment insights.

Awards and Recognitions

KS received the following awards during the financial year:

- Institutional Equities was named as the 'Best Electronic Broker' at TradeTech India Awards 2011
- Awarded Best Broker in India by Finance Asia – 2010, for the 2nd year in a row
- Voted as the Best Local Brokerage firm by Asiamoney Brokers Poll for 2010, for the 5th year in a row

Financial Highlights

₹ crore

Particulars	2010-11	2009-10
Income	737.55	837.86
Profit before tax	271.57	403.88
Profit after tax	181.94	260.10

Kotak Mahindra Capital Company Limited

Kotak Mahindra Capital Company (KMCC) primarily operates as a full-service Investment Bank and is also a trading cum clearing member of the National Stock Exchange on all three segments viz. Cash, F&O and WDM.

Buoyancy in the capital markets led to domestic fund raising of ₹ 80,300 crore through IPOs, FPOs Debt Offerings and QIPs. KMCC topped the league tables for public offers (IPOs, FPOs and Debt Offerings).

Success of earlier large M&As led to increased cross-border M&A this year combined with equally large domestic M&A activity. During the year, the Company made considerable progress in deepening relationships with its alliance partners in key geographies and this will play a crucial role in business in the years ahead.

In capital markets, KMCC was the lead manager to twelve out of the twenty six Initial / Follow on Public Equity Offerings (above ₹ 250 crore)

Management Discussion & Analysis (Contd.)

accounting for ~62% of the total money raised in these Offerings. The Company has helped companies raise over ₹ 35,000 crore in the domestic markets during FY2011. (Source: Prime Database). KMCC was ranked No. 1 in Domestic Public Offerings League Table for FY2011 by Prime Database.

Some of the key deals that were concluded by the Company during the year include:

1.	Coal India IPO	₹ 15,200 cr
2.	Preferential Issue of Equity Shares by Ispat Industries to JSW Steel	₹ 11,900 cr
3.	Adani Enterprises QIP	₹ 4,000 cr
4.	Tata Steel FPO	₹ 3,500 cr
5.	Buyback of equity shares for Piramal Healthcare	₹ 2,500 cr
6.	Standard Chartered IDR	₹ 2,500 cr
7.	Jaypee Infratech IPO	₹ 2,300 cr
8.	iGate Open Offer for Patni Computer Systems Limited consequent to acquisition of controlling stake	₹ 1,400 cr
9.	Prestige Estate Projects IPO	₹ 1,200 cr
10.	Oberoi Realty IPO	₹ 1,000 cr
11.	Private Placement of convertible shares by GMR to Temasek Holdings, the investment arm of the Government of Singapore	₹ 900 cr
12.	Bharat Forge QIP	₹ 600 cr

Awards and Recognitions

During the current year KMCC won the following awards:

- Best Investment Bank in India by FinanceAsia, 2010 - for the fifth year in a row
- Best Domestic Equity House by Asiamoney, 2010 - for the third consecutive year
- Best Equity House in India by FinanceAsia, 2010
- Best Bank for Equity Finance in India in the Euromoney Real Estate Poll, 2010

Financial Highlights:

Particulars	₹ crore	
	2010-11	2009-10
Income	155.31	101.40
Profit before tax	70.23	34.62
Profit after tax	51.89	23.86

Kotak Mahindra Old Mutual Life Insurance

Kotak Mahindra Old Mutual Life Insurance (Kotak Life Insurance) is a 74:26 joint venture partnership between Kotak Mahindra Group and Old Mutual Plc, an international savings, wealth management and Insurance company based in UK.

Kotak Life Insurance is in the business of life insurance, deferred annuity and providing employee benefit products to its individual and group clientele. The company has developed a multi-channel distribution network to cater to its customers and markets through tied, alternate, group and direct marketing channels on a pan-India basis.

The Indian life insurance industry underwent a transformation in 2010-11. The new ULIP regulations that came into force in September of the year changed the face of life insurance business with customer centricity and efficiency becoming the industry's new buzzwords. These will continue to be the defining factors for developments in the new year, but at a much accelerated pace. New regulations have significantly enhanced the appeal of insurance products. Enhancing efficiencies and thereby productivity of delivery channels is the central challenge for insurance companies in the new regulatory environment. A significant proportion of life insurance is still sold through individual agents. Managing this channel effectively will be the key to ensuring persistency. In the new environment, focus of insurers has shifted from large-scale expansion to sustained value creation and efficient use of capital. Special emphasis is now placed on cost management.

FY2011 saw major changes in the company's product portfolio. The ULIP basket underwent complete overhaul to meet the new regulatory norms, which came into effect from 1st September 2010. There was also renewed focus on non-ULIPS to increase their share in the overall product mix. During the year, the Company launched six new ULIPs conforming to new norms and discontinued with the old ULIPs. The non-ULIP offering was bolstered along with the launch of e-Insurance portal through which a customer can buy life insurance online.

Awards and Recognitions

- Awarded the prestigious Enterprise Driving Growth and Excellence (EDGE) through IT Award, for the successful implementation of Kotak Rewards and Incentive System in 2010.

Management Discussion & Analysis (Contd.)

- The company has initiated the zero paper initiative by implementing the first phase of email alerts to the customers. This ensures that basic alerts like renewal reminders, premium receipts etc are sent to customers on their registered email ids. Apart from being environmentally friendlier, this mode is also fast and efficient.
- The company has also implemented the Channel Partner Portal to cater to the information needs alternate channel partners. This initiative is expected to significantly enhance efficiencies and service experience for Alternate Channel partners.

Financial highlights

₹ crore

Particulars	2010-11	2009-10
Gross Premium Income	2,975.51	2,868.05
First Year Premium (Incl Group and Single)	1,253.14	1,333.98
Profit Before Tax	102.47	69.22
Profit after Tax	102.47	69.22

Operating expense ratio reduced to 19% in FY2011 as against 20% in FY2010. Conservation Ratio was maintained at 70%. Total assets under management grew by 28% to ₹ 8,592 crore. The Company achieved 317% growth in coverage of social lives.

KLI has over 38,269 life advisors with significant efforts being directed towards their training and thus enhancing their effectiveness. KLI has 25 corporate agents and 129 empanelled brokers. KLI operates from 202 branches in 152 cities.

Kotak Mahindra Asset Management Company Limited (KMAMC),

Kotak Mahindra Trustee Company Limited (KMTCL)

Kotak Mahindra Asset Management Company Limited (KMAMC) is the asset manager of Kotak Mahindra Mutual Fund (KMMF) and Kotak Mahindra Trustee Company (KMTCL) is the trustee company.

Total AUM (Assets Under Management) of the industry fell from ₹ 6,13,979 crore in March 2010 to ₹ 5,92,250 crore in March 2011, a fall of 3.54% in FY2011. During the same period, AUM with Kotak Mahindra Mutual fund increased by 1.59% i.e. from ₹ 24,071 crore in March 2010 to ₹ 24,455 crore in March 2011.

Number of folios as on 31st March 2011 was over 9 lakh. KMAMC has a presence in 79 cities and 84 branches.

In terms of performance of the funds managed by KMAMC, short duration debt schemes of the fund performed well. During the year, Kotak Flexi Debt, Kotak Liquid Institutional Premium Plan & Kotak Gilt were awarded 5 Star ranking over three years by Value Research. Also, Kotak Flexi Debt & Kotak Floater Long Term have been ranked 7 star and have been awarded the Gold Award for 'Best Performance' in the category of 'Open Ended Ultra Short Term-IP' and 'Open Ended Floating Rate Fund' respectively for one year period ending 31st December 2010.

Kotak Bond Regular has been awarded most Consistent Performer (based on the annual performance of the past 10 years) in the NDTV Profit Mutual Fund Awards 2010.

The distribution is trying to realign its business models with the new paradigm introduced with the abolition of entry loads in FY2010. The industry on its part is undertaking all India investor awareness programs in a standard format. A total of 5,817 programs were done pan India covering about 340,383 Investors, while Kotak Mahindra Asset Management Company has undertaken about 653 investor meets covering about 19,862 investors.

Financial Highlights

₹ crore

Particulars	2010-11	2009-10
Total Income	118.95	186.91
Profit Before Tax	24.58	109.57
Profit After Tax	17.30	72.46

Continued focus on fund performance, investor awareness, innovative products and franchise building in terms of geographical expansion, penetration and distributor tie ups would be the key drivers of growth during FY2012.

Kotak Mahindra Pension Fund Limited

Kotak Mahindra Pension Fund Limited has been appointed as a Pension Fund Manager (PFM) by the Pension Fund Regulatory and Development Authority ("PFRDA"), on 30th April 2009 for managing the funds under New Pension System (NPS), as per the terms of the Investment Management Agreement

The Company manages seven schemes, and the combined assets under management on 31st March 2011 were ₹ 3.30 crore. PFRDA has introduced new scheme "NPS LITE" to promote small savings specifically targeting the weaker and economically disadvantaged sections of the society.

Management Discussion & Analysis (Contd.)

The pension business is currently at a nascent stage of operations and considering this fact and the low rates of management fees, the company has made a net loss of ₹ 0.63 crore in FY2011.

International Subsidiaries

The Bank has overseas subsidiaries with offices in Mauritius, London, Dubai, Abu Dhabi, Singapore, New York & California.

The international subsidiaries were mainly engaged in investment advisory and investment management of funds, Equity & Debt Trading, management of GDR/FCCB issuances, broker and broker dealer activities and investments. A new subsidiary namely Kotak Mahindra Financial Services Ltd (KMFSL) was set up in November 2009. KMFSL was established under the aegis of the Dubai International Financial Centre (DIFC). Post setting up of KMFSL, the international subsidiaries are now providing wealth advisory services also to high networth individuals outside India through six locations including UAE and UK. KMFSL has now forged alliances with a number of international asset managers and banks to offer best-in-class products across asset classes, currencies and geographies.

Assets managed/ advised by the international subsidiaries closed the year at US\$ 1,904 million (2010: US\$ 1,568 million).

The year was a difficult one with many India dedicated funds seeing net outflow of funds. However, in this environment the overseas subsidiaries introduced a number of equity funds into the markets, including an Indian equity fund of funds investing in best of breed Indian funds and an Indian consumption fund investing in companies likely to benefit from the growth in consumption in India. During the year the overseas subsidiaries also saw the launch of a US open ended fund investing in Indian equities. They also raised US\$ 250 million in debt funds investing into India.

Hardening of US interest rates and range-bound performance of Indian capital markets during the year had an adverse impact on income from proprietary investments comprising of fixed income and India centric investments.

Financial highlights

₹ crore		
Particulars	2010-11	2009-10
Total Income	139.14	159.10
Profit Before Tax	54.44	87.47
Profit after Tax	51.17	80.34

Kotak Investment Advisors Limited

Kotak Investment Advisors Limited (KIAL) is the investment manager / advisor for private equity and realty funds.

The aggregate alternate assets managed /advised by KIAL as at 31st March 2011 was around ₹ 5,031 crore (US\$ 1.12 billion). The Company manages five domestic funds and advises three offshore funds.

Private Equity Funds

(a) India Growth Fund

India Growth Fund (IGF) was set up as a unit scheme of Kotak SEAF India Fund with investors from select institutional and high net worth investors, from both India and abroad, on a private placement basis. IGF has made 15 investments across diversified sectors such as logistics, technology services, retail, media and entertainment, engineering, bio-technology, textiles, aviation, telecom and power infrastructure and financial exchanges.

During the year IGF divested fully from two investments and partly exited from one other investment.

(b) Kotak India Venture Fund I

Kotak India Venture Fund I (KIVF-I) is a domestic fund with the objective of making investments primarily in companies operating in Biotechnology and Life Sciences sector. The Fund has made three investments till date. During the year KIVF-I divested fully from one investment.

(c) Kotak India Growth Fund II

Kotak India Growth Fund II is aimed at investing in mid sized corporates with a growth orientation. KIGF-II has made six investments till date.

Realty Funds

(a) Kotak Mahindra Realty Fund

The primary objective of KMRF is to invest in and provide finance to real estate sector and allied services sectors in India with an intention to generate long-term capital appreciation. Kotak India Real Estate Fund-I (KIREF-I) has been set up as a unit scheme of KMRF. KIREF-I had fully committed its capital in eleven investments, of which it has till date exited fully from three investments and partially from two investments.

Kotak India Real Estate Fund - I has returned 100% capital to its investors, becoming the first Indian real estate fund to do so.

(b) Kotak Alternate Opportunities (India) Fund

Kotak Alternate Opportunities (India) Fund (KAOIF) was set up with an objective of investing in the securities of companies operating

Management Discussion & Analysis (Contd.)

in real estate, infrastructure and allied services sectors in India with an intention to provide long-term capital appreciation to its investors. KAOIF has till date made eighteen investments in a diversified portfolio. It has fully divested from one investment and partly divested from five investments.

Financial Highlights:

₹ crore

Particulars	2010-11	2009-10
Total Income	96.10	99.11
Profit before tax	49.22	59.83
Profit after tax	32.71	39.75

Technology

This year, technology initiated new and enhanced channels to bring 24 X 7 availability to the customers. Kotak Securities initiated the use of a KIOSK to offer product and customer information. Kotak Life Insurance launched an online sales portal as well as a partner portal for the use of alternate channel partners. In the Bank, mobile to mobile payments (IMPS) was launched.

The Bank has enhanced its technology foundation through a planned core banking upgrade. Service oriented architecture was introduced with the use of a world class product for system integration.

To ensure robust procedures and un-interrupted services, technology continued to emphasize on process improvement. The data center was recertified as ISO 27001 compliant and the Six Sigma framework was adopted for technology operations.

During the year, the focus was also on system upgradation for continuous improvement in customer experience. The excellence of the CRM and Call Center which were rolled out across the Kotak Group, was recognized by awards from the Indian Banking Association and Asian Banker's Technology Summit respectively.

Risk Management

The Bank has an established enterprise wide risk management process to ensure that it has effective systems and controls in place to identify, measure, monitor and manage risks arising in various businesses.

The Bank's risk management process is the responsibility of the Board of Directors. Various committees are specifically entrusted with execution responsibilities for risk management. The Management Committee provides overall risk management supervision for the Group as a whole. Committees that form part of Risk Governance include Audit Committee (ACB), ALCO, Credit Committee, Risk Management Committee (RMC) etc.

A formal update on operational matters is provided to the Board periodically. Reports on adequacy of the Bank's regulatory capital are also provided on a regular basis.

Appropriate action is taken where risks are identified which fall outside the Bank's approved risk appetite or where the need for remedial action is required in respect of identified weaknesses in the Bank's mitigating controls. Specific risks applicable to the Bank include credit, market, interest rates, liquidity and operational risk.

Credit Risk

The Bank has devised its credit policy to create an enabling framework for ensuring smooth & timely flow of credit to the Bank's customers while ensuring prudent credit growth – both quantitatively and qualitatively.

The Bank has comprehensive policies covering credit risk in all its lending businesses. These policies articulate the Bank's position regarding risk measurement, reporting, monitoring and mitigation alongwith laying down the parameters/norms for taking credit exposure.

The Bank's credit process is divided into three stages - pre-sanction, sanction and post -sanction.

At the pre-sanction stage, the independent credit function within respective businesses conduct credit appraisal, check compliance with lending policy and place the proposal to the appropriate sanctioning authority for approval.

Credit Rating is an integral part of the credit lending decision. The Bank has an internal credit rating model that assigns obligor ratings & facility ratings. In accordance with credit policies, the ratings are subject to an annual review.

Based on independent credit risk assessment, appropriate credit decisions are taken by the sanctioning authorities.

The Bank has a tiered credit sanction process where credit approvals are reported to the next higher level.

Subsequent to sanction, the Credit Administration team processes documentation, on the completion of which, credit operations team disburses credit.

Borrower accounts are subject to ongoing monitoring to check for compliance with sanction terms, credit covenants and financial health of the obligors. This provides the Bank with key inputs in credit portfolio management.

The Bank has the desired readiness to leverage its internal credit rating systems and migrate to advanced internal rating-based approaches for maintaining capital under the Basel II guidelines.

Management Discussion & Analysis (Contd.)

Market Risk

Market Risk is the risk that earnings or capital will be adversely affected by changes in the level or volatility of market variables such as interest rates, foreign exchange rates, credit spreads, commodity and equity prices.

Market risk taking activity is centralized with treasury and is subject to limits across products and the risk factors.

The ALCO and RMC of the Bank guide the market risk management department to manage risks arising out of the market movements.

The Bank controls market risks through a combination of limits & early warning signals approved by ALCO and RMC.

The independent market risk management department monitors market risk exposures against approved limits on a daily basis, and takes appropriate measures for prompt corrective action.

Interest Rate Risk on the Banking book

Interest rate risk on the Banking book arises from two sources:

- Interest bearing securities held as part of non trading activities
- Timing difference between re-pricing of loans and deposits

The Bank manages interest rate risk through a Funds Transfer Pricing mechanism, by transferring interest rate risk from business units to centralized treasury. As a policy, no interest rate risk is retained within any business other than treasury.

The Bank assesses interest rate risk in the banking book from two different but complementary perspectives, namely the earnings perspective and the economic value perspective. The Bank uses gap analysis to evaluate the impact of shifts in interest rates on net interest income. The duration approach is used to determine the sensitivity of the economic value of the Bank to changes in interest rates.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due. Liquidity risk has the potential to constrain growth through depletion of resources available for lending and investment.

Treasury is responsible for managing liquidity under the liquidity risk management framework and the contingency liquidity plan approved by ALCO and the Board.

Stress testing and scenario analysis are incorporated in the liquidity risk management structure. The Bank follows a scenario based approach towards liquidity stress testing, wherein historical and hypothetical scenarios are employed to evaluate the impact of stress on the liquidity position of the Bank.

The Basel Committee of Banking Supervisors (BCBS) issued its final Basel III guidelines in December 2010. These guidelines include a ratio for short term liquidity {the Liquidity Coverage Ratio (LCR)} and a longer term liquidity measure {the Net Stable Funding Ratio (NSFR)}

Proactively, the Bank has incorporated these metrics as part of its risk appetite and monitors performance against these on a regular basis.

Operational Risk

The Bank has an established operational risk management function whose purpose is to develop, implement and maintain the Bank's operational risk strategy and framework to mitigate the risk of losses from inadequate or failed internal processes, people and systems, or from external events.

To achieve this, the Bank has established a suitable operational risk management governance structure and framework of processes to:

- Ensure an appropriate understanding and awareness of operational risk at all levels in the Bank;
- Effectively anticipate operational risks and implement appropriate mitigation in line with the Bank's operational risk appetite;
- Effectively manage operational risk events to minimise their recurrence; and
- Implement the Bank's operational risk capital strategy to ensure the Bank is adequately capitalized for operational risk requirements.

The Bank's regulatory capital requirements for operational risk are calculated according to the Basic Indicator Approach (BIA) under which gross income is regarded as a proxy for the operational risk exposure. The capital charge for operational risk is calculated based upon average gross income for the preceding three years.

Capital Adequacy and Basel II

Capital adequacy, the regulatory capital expresses how much capital a bank, must have in relation to the size of its risk taking, expressed in the form of risk weighted assets.

The Bank's high level of capital adequacy ratio provides its stakeholders, reassurance against unexpected losses.

In accordance with the RBI guidelines on new capital adequacy framework (under Basel II norms), the Bank adopts the standardized approach for credit risk, basic indicator approach for operational risk and standardised duration approach for market risk.

Management Discussion & Analysis (Contd.)

ICAAP

The ICAAP is an assessment of all significant risks (Pillar II), other than Pillar 1 risks, to which the Bank is exposed. The ICAAP framework helps the Bank perform a comprehensive assessment of the risks faced and relates capital adequacy to these risks.

The Bank has methodologies that help in capital allocation towards quantifiable Pillar II risks viz credit concentration, underestimation of credit risk and interest rate risk on the banking book (IRRBB). The Bank does not provide capital for liquidity risk, under Pillar II, but factors liquidity risk as part of its stress testing. The Bank is of the view that its strong capital position helps it in maintaining a robust liquidity profile.

During the year, the Bank prepared its annual ICAAP outcome that was approved by the Board and was submitted to the regulator. Based on the ICAAP outcome, the Bank was well capitalized to cover Pillar I & Pillar II risks.

Stress Testing

Stress testing is a key element of the ICAAP and an important tool for analyzing the Bank's risk profile. The objective of stress testing is to assess how businesses perform under stress conditions. Stress tests also form part of the capital planning process. The Bank supplements capital adequacy computation by performing stress tests, guided by a comprehensive Board approved stress testing policy. The approved stress test scenarios provide for severe shocks to various risk parameters and assess their impact on profit and loss and capital. Stress test results are placed before the management and the Board. After considering the results of the stress tests and key sensitivities, capital adequacy position of the Bank is considered adequate.

Compliance

An independent and comprehensive compliance structure addresses the Bank's compliance and reputation risk. All key subsidiaries of the Bank have an independent compliance function. Compliance officials across the group interact on various issues including the best practices followed by the respective companies.

The compliance framework, approved by the Board, broadly sets out the compliance risk management processes and tools to be used by businesses, management and compliance officers for managing its compliance risks. Apart from the Bank's compliance framework, each of the subsidiary companies has its own compliance manual.

The compliance function is responsible for all aspects of compliance across the Bank. There are dedicated resources deployed to focus on areas like regulatory reporting, AML and compliance monitoring.

The compliance team provides compliance assistance and support to management and manages and supervises the compliance framework.

Compliance division works with business units to develop procedures to implement the requirements of the various regulations and policies. It also works closely with other support functions including the legal department and outside counsel.

The Bank uses the knowledge management tools for monitoring new and changes in existing regulations. The Bank also looks at regulatory websites and participates in industry working groups that discuss evolving regulatory requirements. In-house compliance newsletter keeps the employees abreast of the key regulatory updates affecting the businesses of the Bank and its subsidiaries. Compliance also disseminates the changes in the regulations by way of compliance alerts to all the employees. Training on compliance matters is imparted to employees on an ongoing basis both online and classroom. The compliance department keeps the management / Board informed about important compliance related matters through monthly, quarterly and annual compliance reviews.

Internal controls

The Bank's internal audit department assesses business and control risks of all branches and businesses to formulate a risk-based internal audit plan, as recommended by the RBI. The audit process followed is as below:

An annual risk-based internal audit plan is drawn up on the basis of risk profiling of Bank's branches and businesses/ departments which is approved by the audit committee.

The audit plan is prioritised based on areas which pose a higher risk to the Bank and such areas and branches are targeted for more frequent audits. The Internal Audit policy includes the risk assessment methodology which provides for coverage of all auditable areas once in three years.

After assessing the overall risk of a branch or business or department, the Bank takes corrective measures to minimize the risk. Senior officers also assess and evaluate the mitigating measures taken by the branch during their visits.

Post issue of audit reports there is a detailed process for monitoring of progress on implementation of action plans.

Status of resolution tracking as well as pending issues is reported to senior management on a regular basis and a formal report on pending issues is issued once every half-year.

Human Resources

As on 31st March 2011, the Bank and its subsidiaries employed around 20,500 employees at various locations in India and abroad. The Bank

Management Discussion & Analysis (Contd.)

was adjudged amongst Top 25 in "India's Best Companies to Work For in 2010" by The Great Places to Work Institute and continues to be amongst Top 25 Best Employers in India consistently from 2007 till date as adjudged by the AON Hewitt Best Employers Survey.

While the Bank and its subsidiaries continued to focus on various initiatives to provide the best employment experience to the employees, new and innovative products and processes were introduced to further enhance both quality and productivity of our human capital. Substantial investments were made in training and developing employees across levels to improve productivity, service quality, personal effectiveness and supervisory capability. Structured leadership development programs and customized courses in association with leading academic institutions were also rolled out to groom future leaders and build a talent pool that has depth in knowledge and competence.

The best in class talent management practices and HR processes have enabled the organization to build a cadre of highly committed and engaged employees who consistently excel in delivering our customer value proposition.

Opportunities and Threats

Opportunities

- Being part of the India's growth story
- Utilise the emerging opportunity of getting the wallet share of the burgeoning middle class
- Utilise technology to provide solutions to customers
- Increase distribution strength

Threats

- Volatile environment
- Fiscal deficit
- Inflation
- Increasing interest rates
- Competition
- Rising crude prices and commodity prices

Outlook

Kotak Mahindra Group's results for the financial year demonstrate the strong fundamental growth in the India story. However, concerns remain on inflation, rising prices of commodities including crude and current account deficit. The Group believes that the economic scenario offers immense opportunities for it to grow in scale and reach coupled with value creation.

Safe harbour

This document contains certain forward-looking statements based on current expectations of Kotak Mahindra management. Actual results may vary significantly from the forward-looking statements contained in this document due to various risks and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India and outside India, volatility in interest rates and in the securities market, new regulations and Government policies that may impact the businesses of Kotak Mahindra Group as well as its ability to implement the strategy. Kotak Mahindra does not undertake to update these statements.

This document does not constitute an offer or recommendation to buy or sell any securities of Kotak Mahindra Bank or any of its subsidiaries and associate companies. This document also does not constitute an offer or recommendation to buy or sell any financial products offered by Kotak Mahindra, including but not limited to units of its mutual fund and life insurance policies.

All investments in mutual funds and securities are subject to market risks and the NAV of the schemes may go up or down depending upon the factors and forces affecting the securities market. The performance of the sponsor, Kotak Mahindra Bank Limited, has no bearing on the expected performance of Kotak Mahindra Mutual Fund or any schemes there under.

Figures for the previous year have been regrouped wherever necessary to conform to current year's presentation.

Report on Corporate Governance

Corporate governance is the system by which companies are directed and controlled. (Sir Adrian Cadbury, the Committee on the Financial Aspects of Corporate Governance)

The Bank believes in adopting and adhering to the best standards of corporate governance to all the stakeholders. The Bank's corporate governance is, therefore based on the following principles:

- Appropriate composition, size of the Board and commitment to adequately discharge its responsibilities and duties.
- Transparency and independence in the functions of the Board.
- Independent verification and assured integrity of financial reporting.
- Adequate risk management and Internal Control.
- Protection of shareholders' rights and priority for investor relations.
- Timely and accurate disclosure on all matters concerning operations and performance of the Bank.

The Bank's philosophy on corporate governance enshrines the goal of achieving the highest levels of transparency, accountability and equity in all spheres of its operations and in all its dealing with the shareholders, employees, the government and other parties. The Bank understands and respects its fiduciary role and responsibility to shareholders and strives hard to meet their expectations.

The report on the Bank's corporate governance, as per the applicable provisions of the Clause 49 is as under:

BOARD OF DIRECTORS

Composition, Meeting and Attendance

The composition of the Board of Directors of the Bank is governed by the Banking Regulation Act, 1949 and Clause 49 of the Listing Agreement. The Board of Directors, comprising a combination of executive and non-executive Directors, presently consists of nine members, of whom six are non-executive Directors. The Chairman of the Board is a Non-Executive Independent Director and six out of nine Directors are independent. The Board mix provides a combination of professionalism, knowledge and experience required in the banking industry. The responsibilities of the Board inter alia include formulation of policies, taking new initiatives, performance review, monitoring of plans, pursuing of policies and procedures.

A brief description of the Directors, along with the companies in which they hold directorship and the membership of the committees of the Board are furnished hereunder:

Dr. Shankar Acharya, Non-Executive Part-time Chairman

Dr. Shankar Acharya, B.A. (Hons.) from Oxford University and Ph.D. (Economics) from Harvard University, aged 65 years, has considerable experience in various fields of economics and finance. He is a Honorary Professor at the Indian Council for Research on International Economic Relations (ICRIER) and a Board Member of ICRIER, the National Institute of Public Finance and Policy (NIPFP) and the Administrative Staff College of India (ASCI). He was Chief Economic Adviser, Ministry of Finance, Member, Securities and Exchange Board of India (SEBI) and Member, Twelfth Finance Commission. He has held several senior positions in the World Bank, including Director of World Development Report (1979) and Research Adviser. He was re-appointed as the Non-Executive Part-time Chairman of the Bank at the Annual General Meeting held on 28th July 2009 for a period of three years with effect from 20th July 2009.

He is on the Board of Eros International Media Ltd. Dr. Acharya is the Chairman of the Audit Committee of the Bank and a Member of the Shareholders' Grievance/Investors' Relations Committee of Eros International Media Ltd.

Mr. Uday Kotak, Executive Vice-Chairman and Managing Director

Mr. Uday Kotak, B.Com, MMS (Masters in Management Studies), aged 52 years, is the Executive Vice-Chairman and Managing Director of the Bank and its principal founder and promoter. Over the past 25 years, he has built a team of professionals who have been given independent charge of various businesses in the Kotak Mahindra group. He was responsible for starting the business as a start-up venture in a limited range of activities and then building it up into a full financial services group, many of the constituents of which are among the leading players in their respective fields. He is a Governing Member of The Mahindra United World College of India and Member of the Board of Governors of Indian Council for Research on International Economic Relations.

He is on the Board of the following companies:

Kotak Forex Brokerage Limited

Kotak Mahindra Prime Limited

Kotak Mahindra Asset Management Company Limited

Kotak Mahindra Old Mutual Life Insurance Limited

Kotak Mahindra Capital Company Limited

Kotak Securities Limited

Mr. Uday Kotak is also a member of the Investor Relations (Shareholders'/Investors' Grievance) Committee of the Bank, Chairman of the Audit Committees of Kotak Mahindra Capital Company Limited and Kotak Securities Limited and member of the Audit Committee of Kotak Mahindra Asset Management Company Limited.

Mr. C. Jayaram, Executive Director

Mr. C. Jayaram, B. A. (Economics), PGDM-IIM, Kolkata, aged 55 years, is an Executive Director of the Bank and is currently in charge of the Wealth Management Business of the Kotak Group. He also oversees the international subsidiaries and the alternate asset

management business of the group. He has varied experience of over 33 years in many areas of finance and business and was earlier the Managing Director of Kotak Securities Limited. He has been with the Kotak Group for 21 years and has been instrumental in building a number of new businesses at Kotak Group. Prior to joining the Kotak Group, he was with Overseas Sanmar Financial Ltd. He is also on the Board of the following companies:

Kotak Investment Advisors Limited	Kotak Mahindra Prime Limited
Kotak Mahindra Asset Management Company Limited	Kotak Mahindra (UK) Limited
Kotak Mahindra Investments Limited	Kotak Securities Limited
Kotak Mahindra Inc	

Mr. C. Jayaram is a member of the Audit Committee and Investor Relations (Shareholders'/Investors' Grievance) Committee of the Bank and Audit Committee of Kotak Securities Limited and Kotak Investment Advisors Ltd.

Mr. Dipak Gupta, Executive Director

Mr. Dipak Gupta, B.E. (Electronics), PGDM-IIM, Ahmedabad, aged 50 years, is an Executive Director of the Bank and has over 25 years of experience in the financial services sector, 19 years of which have been with the Kotak Group. He is responsible for Group HR, administration, infrastructure, operations and IT. He is also responsible for asset reconstruction business of the Bank. Mr. Dipak Gupta was responsible for leading the Kotak Group's initiatives into the banking arena. Prior to this, he was the Executive Director of Kotak Mahindra Prime Limited. Prior to joining the Kotak Group, he was with A. F. Ferguson & Company for approximately six years. He is on the Board of the following companies:

Kotak Forex Brokerage Limited	Kotak Mahindra Prime Limited
Kotak Mahindra Capital Company Limited	Kotak Mahindra Old Mutual Life Insurance Limited
Kotak Mahindra Investments Limited	

Mr. Dipak Gupta is also member of the Investor Relations (Shareholders'/Investors' Grievance) Committee of the Bank, Audit Committee of Kotak Mahindra Prime Limited, Kotak Mahindra Capital Company Limited and Kotak Mahindra Old Mutual Life Insurance Limited. He is the Chairman of the Audit Committee of Kotak Mahindra Investments Limited.

Mr. Asim Ghosh

Mr. Asim Ghosh, aged 63 years, is a B.Tech, IIT Delhi and MBA from the Wharton School, University of Pennsylvania. Mr. Ghosh commenced his career in consumer goods marketing with Procter & Gamble in the U.S. and Canada and worked subsequently with Rothmans International as a Board member of one of Canada's major breweries. He moved to Asia in 1989 as CEO of the Frito Lay (Pepsi Foods) start up in India. Thereafter, he was in executive positions with Hutchison in Hong Kong and India for the past 16 years. He continued as the CEO of Vodafone Essar Limited till 31st March 2009 and as a Non-Executive Director till 9th February 2010. He is also on the Board of Husky Energy Inc., other Husky Group Companies and some Hutchison Whampoa Group Companies.

Dr. Sudipto Mundle

Dr. Sudipto Mundle, aged 62 years, graduated from St. Stephen College, New Delhi, and has a Ph.D. in Economics from the Delhi School of Economics. He was a Director in the Strategy & Policy Department, Asian Development Bank (ADB), Manila and also India Chief Economist and Deputy Director at ADB's India Resident Mission, New Delhi. He was appointed as a Director of the Bank with effect from 21st July 2010. He is a Partner Director of The Governance Group, Singapore; an Emeritus Professor (Hon.) at National Institute of Public Finance and Policy, New Delhi; a Member of the Board of Governors of Institute of Economic Growth, New Delhi; a Member of the Monetary Policy Technical Advisory Committee, Reserve Bank of India; a Member of the National Statistical Commission, Government of India; and President of PREETI Foundation. In his earlier career Dr. Mundle was Economic Advisor in the Ministry of Finance, Govt. of India; and Reserve Bank of India Chair Professor at the National Institute of Public Finance and Policy, New Delhi. He has also served in other academic institutions including the Indian Institute of Management, Ahmedabad and Centre for Development Studies, Trivandrum. He was a Fulbright Scholar at Yale University, USA; and had visiting assignments at Cambridge University, UK, Institute of Social Studies, The Hague, Netherlands and Japan Foundation, Tokyo, Japan.

Mr. Prakash Apte

Mr. Prakash Apte, B.E. (Mechanical), aged 57 years, is presently the Chairman of Syngenta India Limited, one of the leading agri business companies in India. Mr. Apte, in a career spanning over 34 years has considerable experience in various areas of management and business leadership.

During more than 15 years of very successful leadership experience in agri business, he has gained varied knowledge in various aspects of Indian Agri Sector and has been involved with many initiatives for technology, knowledge and skills up gradation in this sector, which is so vital for India's food security. He was instrumental in setting up the Syngenta Foundation India which focuses on providing knowledge and support for adopting scientific growing systems to resource poor farmers and enabling their access to market.

He is a Director of Syngenta Foundation India and Crop Life Association of India. Mr. Apte was appointed as an Additional Director of the Bank with effect from 18th March 2011.

Mr. Apte is a member of Audit Committee of Syngenta India Limited.

Mr. Amit Desai

Mr. Amit Desai, B.Com, LLB, aged 51 years, is an eminent professional with 30 years of experience. Mr. Desai was appointed as an Additional Director of the Bank with effect from 18th March 2011. He is also on the Board of Kotak Mahindra Trustee Company Limited and Terra DeKM India Pvt. Ltd.

Mr. Desai is a member of Audit Committee of Kotak Mahindra Trustee Company Limited.

Mr. N.P. Sarda

Mr. N.P. Sarda, B.Com, F.C.A., aged 65 years, is a Chartered Accountant for more than 40 years. He is a former partner of M/s. Deloitte Haskin & Sells, Chartered Accountants, the past President of the Institute of Chartered Accountants of India in 1993 and was a public representative Director of the Stock Exchange, Mumbai (BSE). Presently, Mr. Sarda is representing India on the global IFRS Advisory Council.

Mr. Sarda was appointed as an Additional Director of the Bank with effect from 1st April 2011.

Note: The Committee Memberships of Audit Committee and Shareholders'/Investors' Grievance Committee have been considered.

The following table gives the composition of Bank's Board and the number of outside directorships held by each of the Directors and the committee positions held by the Directors during the year ended 31st March 2011:

Name of Directors	Position	No. of Directorships in other Companies		No. of Committee Positions held in Bank and other Public Companies	
		Indian Public Companies	Other Indian Companies	Chairman	Member
Dr. Shankar Acharya	Independent Non-Executive Part-time Chairman	1	-	1	1
Mr. Uday Kotak	Executive Vice-Chairman & Managing Director, Promoter	6	1	2	2
Mr. C. Jayaram	Executive Director	5	-	-	4
Mr. Dipak Gupta	Executive Director	5	-	1	4
Mr. Asim Ghosh	Independent Non-Executive Director	-	-	1	-
Dr. Sudipto Mundle	Independent Non-Executive Director	-	-	-	-
Mr. Prakash Apte*	Independent Non-Executive Director	1	1	-	1
Mr. Amit Desai*	Independent Non-Executive Director	1	1	-	1
Mr. N.P. Sarda**	Independent Non-Executive Director	-	-	-	1 (with effect from 1st April 2011)
Mr. Anand Mahindra	Non-Executive Director	9	8	-	1
Mr. Cyril Shroff	Independent Non-Executive Director	1	-	1	-
Mr. Shivaji Dam	Independent Non-Executive Director	3	-	-	2

* Appointed as an Additional Director with effect from 18th March 2011

**Appointed as an Additional Director with effect from 1st April 2011.

Notes:

- The Committee Memberships mentioned above are of only Statutory Committees as per Clause 49 of the Listing Agreement with Stock Exchanges, namely Audit Committee and Shareholders'/Investors' Grievance Committee.
- None of the Directors on the Board is a member of more than ten committees and the Chairman of more than five committees in all the companies in which he is a Director (for this purpose the membership of Audit Committee and Shareholders' Grievance Committee have been taken into consideration). All the Directors have made disclosures regarding their membership on various committees in other companies.
- In compliance with the Clause 49 of the Listing Agreement, Mr. Shivaji Dam, an independent director on the Board of the Bank was appointed on the Board of Kotak Mahindra Old Mutual Life Insurance Limited, a material non listed Indian subsidiary. However, Mr. Dam ceased to be a Director of the Bank effective 21st March 2011 on his completing a tenure of eight years as a director of the Bank, pursuant to the provisions of Section 10(2A)(i) of the Banking Regulation Act, 1949. Subsequently, at the next board meeting of the Bank held on 5th May 2011, Mr. Prakash Apte, an independent director, has been appointed as a director on the board of Kotak Mahindra Old Mutual Life Insurance Limited.
- Pursuant to the provisions of Section 10(2A)(i) of the Banking Regulation Act, 1949, Mr. Anand Mahindra, Mr. Cyril Shroff and Mr. Shivaji Dam ceased to be Directors of the Bank with effect from 21st March 2011 on their completing a tenure of eight years as directors of the Bank.

BOARD MEETINGS

Scheduling and selection of agenda items for board meetings:

Dates of the board meetings are decided in advance. The board meetings are convened by giving appropriate notice after obtaining the approval of the Chairman and the Executive Vice-Chairman and Managing Director. The Board meets at least once a quarter to review the results and other items on the agenda and also on the occasion of the annual shareholders' meeting. When necessary, additional meetings are held.

The agenda of the board meetings is drafted by the Company Secretary along with the explanatory notes and these are distributed in advance to the Directors. Every Board member is free to suggest the inclusion of items on the agenda. All divisions/departments in the Bank are encouraged to plan their functions well in advance, particularly with regard to matters requiring discussion/ approval/ decision in the Board/ Committee meetings.

All such matters are communicated to the Company Secretary in advance so that the same could be included in the agenda for the board meetings.

The agenda papers are prepared by the concerned officials of the respective department and are approved by the Executive Director/s and/or Executive Vice-Chairman and Managing Director. Agenda papers are circulated to the Board by the Company Secretary. Additional items on the agenda are permitted with the permission of the Chairman.

To address specific urgent need, meetings are also convened at short notice. The Board also passes resolutions by circulation on need basis.

Minutes of the proceedings of the Board meeting are prepared within 48 hours of the meeting. Draft minutes are circulated to the Chairman for his comments. The minutes of all the Committees of the Board of Directors of the Bank and the minutes of the meetings of the Board of Directors of the subsidiary companies of the Bank are placed before the Board.

The quarterly, half-yearly and the annual results for the consolidated entity and for the Bank stand alone are first placed before the Audit Committee of the Bank and thereafter the same are placed before the Board of Directors.

A Compliance Certificate, signed by the Executive Vice-Chairman and Managing Director in respect of various laws, rules and regulations applicable to the Bank is placed before the Board, every quarter.

The Bank has put in place a post meeting follow-up, review and reporting process for the action taken on decisions of the Board. The Company Secretary submits follow-up Action Taken Report to the Board at each meeting on the compliance of the decisions/instructions of the Board.

During the year under review, eight meetings of the Board of Directors were held on 11th May 2010, 29th June 2010, 30th June 2010, 21st July 2010, 20th October 2010, 28th December 2010, 20th January 2011 and 18th March 2011. The maximum time gap between any two meetings was not more than three calendar months. The average duration of the board meetings held is approximately three hours.

The details of directors' attendance at board meetings held during the year commencing 1st April 2010 and ending 31st March 2011 and at the last AGM are as under:

Sr.No.	Directors	Board Meetings held during the tenure of the member	Board Meetings attended during the year 2010-11	Whether attended last AGM held on 21st July 2010
1.	Dr. Shankar Acharya	8	8	YES
2.	Mr. Uday Kotak	8	8	YES
3.	Mr. Anand Mahindra*	8	2	YES
4.	Mr. Cyril Shroff*	8	2	NO
5.	Mr. Shivaji Dam*	8	8	YES
6.	Mr. C. Jayaram	8	7	YES
7.	Mr. Dipak Gupta	8	8	YES
8.	Mr. Asim Ghosh	8	4	YES
9.	Dr. Sudipto Mundle	8	6	YES
10.	Mr. Prakash Apte**	1	1	N.A.
11.	Mr. Amit Desai**	1	-	N.A.

* Pursuant to the provisions of Section 10(2A)(i) of the Banking Regulation Act, 1949, Mr. Anand Mahindra, Mr. Cyril Shroff and Mr. Shivaji Dam ceased to be Directors of the Bank with effect from 21st March 2011 on their completing a tenure of eight years as directors of the Bank .

**Appointed as an Additional Director with effect from 18th March 2011.

Information supplied to the Board is as under:

The directors are presented with important information on operations of the Bank as well as that which requires deliberation at the highest level. Information is provided on various critical items such as annual operating plans and budgets, minutes of meetings of the Audit Committee and other committees of the Board, details of joint ventures or collaboration agreements and non-compliance, if any with regulatory or statutory guidelines or with the listing requirements etc.

Disclosures of interest are duly received from all directors and there is no potential conflict of interest in any transaction of the Bank with any directors.

DIRECTORS' REMUNERATION

The details of remuneration to the Executive Directors for the year ended 31st March 2011 is as follows:

Particulars	Mr. Uday Kotak (₹ '000)*	Mr. C. Jayaram (₹ '000)*	Mr. Dipak Gupta (₹ '000)*
Basic	10500.00	10320.00	10200.00
Allowances	1560.00	1650.00	1610.00
Provident Fund	1260.00	1238.40	1224.00
Superannuation	-	-	100.00
Annual Incentive	4500.00	4410.00	4320.00
Number of stock options granted during the year (post-split)	-	50,000 (Series 27) 56,000 (Series 28)	50,000 (Series 27) 70,000 (Series 28)

*The amount shown above excludes gratuity payable under the Payment of Gratuity Act and value of car perquisites under the Income Tax Act, 1961.

The details of the options granted during the year under the Kotak Mahindra Equity Option Scheme 2007 to the Directors are as under:

Name of Director	Date of Grant	No. of Options granted (post-split)	Exercise Price (post-split)	Exercise Period	Options Vested	Vesting Date
Series 27 of Kotak Mahindra Equity Option Scheme 2007						
Mr. C. Jayaram	10th May 2010	50,000	₹ 337.50/- per share	31st January 2013 to 31st May 2013	50%	31st January 2013
Mr. Dipak Gupta	10th May 2010	50,000		31st July 2013 to 30th September 2013	50%	31st July 2013
Series 28 of Kotak Mahindra Equity Option Scheme 2007						
Mr. C. Jayaram	10th May 2010	56,000	₹ 200/- per share	31st July 2011 to 31st October 2011	25%	31st July 2011
				31st July 2012 to 31st October 2012	25%	31st July 2012
Mr. Dipak Gupta	10th May 2010	70,000		31st July 2013 to 31st October 2013	25%	31st July 2013
				31st July 2014 to 31st October 2014	25%	31st July 2014

Note: The above stock options have been granted at a discount to the then prevailing market price.

Dr. Shankar Acharya was re-appointed as the Non-Executive Part-time Chairman of the Bank at the Annual General Meeting held on 28th July 2009. During the year, Dr. Shankar Acharya was paid remuneration of ₹ 12 lakhs per annum.

The Reserve Bank of India has approved (i) the revision in remuneration to Mr. Uday Kotak, Executive Vice-Chairman & Managing Director, Mr. C. Jayaram and Mr. Dipak Gupta, the Executive Directors (ii) the annual incentive payable for the financial year ended 31st March 2010 (iii) the stock options granted (as indicated above) to Mr Dipak Gupta and Mr C Jayaram (iv) the remuneration to Dr Shankar Acharya, Non Executive Part time Chairman.

The details of sitting fees paid to the non-executive directors for the year ended 31st March 2011 is as follows:

Sr.No.	Name of Director	Sitting fees (₹ '000)
1.	Dr. Shankar Acharya	240.00
2.	Mr. Anand Mahindra	70.00 (See Note 4 below)
3.	Mr. Cyril Shroff	80.00 (See Note 4 below)
4.	Mr. Shivaji Dam	320.00 (See Note 4 below)
5.	Mr. Asim Ghosh	120.00
6.	Dr. Sudipto Mundle	90.00
7.	Mr. Prakash Apte	15.00 (See Note 5 below)
8.	Mr. Amit Desai	— (See Note 5 below)

Notes:

1. The performance incentives to the Executive Directors are based on the recommendation of the Executive Vice-Chairman and Managing Director of the Bank. The Board of Directors of the Bank decides the performance bonus to be paid to the Executive Vice-Chairman and Managing Director and the Executive Directors on the basis of the performance of the Bank and the fulfilment of responsibilities assigned to them.
2. The terms of employment of Mr. Uday Kotak, Mr. C. Jayaram and Mr. Dipak Gupta provide for termination by mutual consent or by giving not less than three months notice in writing. In the event of termination of employment, the liability of the Bank shall be limited to providing only the salary and perquisites as prescribed by the terms of employment for a period of three months from the date of notice.
3. The Non-Executive Directors of the Bank, except Dr. Shankar Acharya, are not paid any remuneration other than the sitting fees.
4. Pursuant to the provisions of Section 10(2A)(i) of the Banking Regulation Act, 1949, Mr. Anand Mahindra, Mr. Cyril Shroff and Mr. Shivaji Dam ceased to be Directors of the Bank with effect from 21st March 2011 on their completing a tenure of eight years as directors of the Bank.
5. Mr. Prakash Apte and Mr. Amit Desai were appointed as Additional Directors of the Bank with effect from 18th March 2011.
6. Mr. N. P. Sarda has been appointed as an Additional Director with effect from 1st April 2011.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board has constituted several committees to deal with specific matters and delegated powers for different functional areas. The Audit Committee and Shareholders'/Investors' Grievance Committee have been constituted in accordance with the guidelines issued by the Reserve Bank of India, Securities and Exchange Board of India read with requirements of the Companies Act, 1956. Besides the above, the Board has also set up other committees such as ESOP/Compensation Committee, Share Transfer and Routine Transactions Committee (START), Management Committee, Premises Committee, Asset Liability Committee (ALCO), Nomination Committee, Investment Committee, Risk Management Committee, Information Technology Committee, First Tier Audit Committee, Customer Services Committee and Committee on Frauds.

AUDIT COMMITTEE

The Audit Committee of the Bank comprises of three members, with any two forming the quorum. The terms of reference of the Audit Committee of the Bank are as follows:

- a. Oversight of the Bank's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- b. Recommending to the Board, the appointment, reappointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- c. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- d. Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
 - Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956.
 - Changes, if any, in accounting policies and practices and reasons for the same.
 - Major accounting entries involving estimates based on the exercise of judgment by management.
 - Significant adjustments made in the financial statements arising out of audit findings.
 - Compliance with listing and other legal requirements relating to the financial statements.
 - Disclosure of any related party transactions.
 - Qualifications in the draft audit report.

- e. Reviewing with the management, the quarterly financial statements before submission to the board for approval.
- f. Reviewing with the management, performance of statutory and internal auditors, and adequacy of the internal control systems.
- g. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- h. Discussion with internal auditors any significant findings and follow up there on.
- i. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- j. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
- k. To review the functioning of the Whistle Blower mechanism.
- l. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

The Committee consists of Dr. Shankar Acharya (Chairman), Mr. N.P. Sarda, Dr. Sudipto Mundle and Mr. C. Jayaram. Mr Sarda was appointed with effect from 1st April 2011 and Dr. Mundle was appointed on 2nd May 2011.

Three out of the four members of the Committee are Non-Executive Independent Directors. All members of the Committee are financial literate within the meaning of the Clause 49 of the listing agreement. Mr. N.P. Sarda possesses accounting and financial management expertise.

The Company Secretary acts as the Secretary to the Committee. The Chairman of the Audit Committee Dr. Shankar Acharya was present at the last Annual General Meeting to answer the queries of the shareholders.

During the year, eight meetings of the Committee were held on 10th May 2010, 11th May 2010, 30th June 2010, 21st July 2010, 13th September 2010, 20th October 2010, 28th December 2010 and 20th January 2011. The Committee meets for approximately two hours. The maximum time gap between any two meetings was not more than three months. The meetings were attended by the members of the Committee, as detailed below:

Name of Members of Audit Committee	Meetings held during the tenure of the member	Meetings Attended during the year 2010-11
Dr. Shankar Acharya (Chairman)	8	8
Mr. Shivaji Dam*	8	8
Mr. C. Jayaram	8	7

* Ceased to be a Director with effect from 21st March 2011

Subsequently, one meeting of the Committee was held on 5th May 2011 and was attended by Dr. Shankar Acharya, Dr. Sudipto Mundle and Mr. C. Jayaram.

The Bank has constituted a First Tier Audit Committee as per the guidelines issued by the Reserve Bank of India. During the year, the Committee was re-constituted by the Board on 28th December 2010 to include Mr. Shyam Sunder, Head Compliance of the Bank as a member. Further, Mr. Vikram Sud had resigned from the Bank and ceased to be a member of the Committee. The Committee now consists of four members viz., Mr. Dipak Gupta, Executive Director, Mr. Jaimin Bhatt - Group Chief Financial Officer, Mr. Shyam Sunder, Group Head Compliance and Mr. Arvind Kathpalia – Group Head Risk. Where the internal audit report pertains to specific businesses, the specific Business Head also attends the meeting. The Committee screens the matters entrusted to the Audit Committee and also the routine matters such as overseeing the programme of inspections and compliance of inspection reports so as not to burden the Audit Committee with matters of detail. During the year, nine meetings of the Committee were held. The Committee meets for approximately three hours.

Investor Relations (Shareholders'/Investors' Grievance) Committee

The Investor Relations Committee of the Bank consists of four members, with any two forming the quorum. The Committee presently consists of Mr. Asim Ghosh (Chairman), Mr. Uday Kotak, Mr. C. Jayaram and Mr. Dipak Gupta. The Investor Relations Committee reviews the complaints received from the shareholders and ensures redressal thereof. The constitution and composition of the Committee is in accordance with the provisions of Clause 49 of the Listing Agreement with the Stock Exchanges and the criteria specified by the Reserve Bank of India. The Company Secretary acts as the Secretary and has been appointed as the Compliance Officer of the Committee.

During the year, two meetings of the Committee were held on 20th July 2010 and 27th October 2010. The Committee meets for approximately thirty minutes. Both the meetings were attended by Mr. Asim Ghosh, Mr. Uday Kotak and Mr. Dipak Gupta whereas Mr. C. Jayaram attended one meeting of the Committee.

On a monthly basis, the members of the Committee are sent investor grievance reports giving brief details of the complaints received by the Bank. During the year under review, 47 investor complaints were received. All of these have been resolved as on date of this report. As on 31st March 2011, two instruments of transfer of shares, comprising 4000 shares were pending and since then the same have been processed and resolved. No penalties or strictures were imposed on the Bank by any of the Stock Exchanges, SEBI or any other statutory authority on any matter related to capital markets, during the last three years.

ESOP/Compensation Committee

The ESOP/Compensation Committee of the Bank comprises of three members, with any two forming the quorum. The constitution and composition of the Committee is in accordance with the guidelines issued by Reserve Bank of India.

The ESOP/Compensation Committee has been constituted to recommend/review overall compensation structure and policies; consider grant of stock options to employees; review compensation levels vis-à-vis other banks and industry in general and determine the compensation payable to the Directors including performance/achievement bonus and perquisites. The performance bonus to the Executive Directors is based on the recommendation of the Executive Vice-Chairman and Managing Director of the Bank. The Board of Directors of the Bank decides the performance bonus to be paid to the Executive Vice-Chairman and Managing Director and the Executive Directors on the basis of the performance of the Bank and the fulfilment of responsibilities assigned to them. Non-Executive Directors at present, are not paid commission over and above the sitting fees. The Bank has issued stock options to its employees and the employees of its subsidiaries under various stock option plans, details of which are provided in the Directors' Report.

In view of the cessation of Mr. Anand Mahindra, Mr. Cyril Shroff and Mr. Shivaji Dam as Directors of the Bank, the Committee was re-constituted by the Board on 18th March 2011 and consists of Mr. Amit Desai (Chairman), Dr. Shankar Acharya and Mr. Prakash Apte as members of the Committee with any two forming the quorum.

During the year, seven meetings of the Committee were held on 10th May 2010, 15th May 2010, 29th May 2010, 2nd June 2010, 16th August 2010, 1st October 2010 and 16th December 2010. Mr. Anand Mahindra attended four meetings, Mr. Shivaji Dam attended six meetings and Mr. Cyril Shroff attended five meetings of the Committee. Subsequently, one meeting of the Committee was held on 5th May 2011 and was attended by Mr. Amit Desai and Dr. Shankar Acharya.

Share Transfer and Routine Transactions (START) Committee

The START Committee of the Bank consists of Mr. Uday Kotak (Chairman), Mr. C. Jayaram and Mr. Dipak Gupta, with any two forming the quorum. The term of reference of the START Committee is as follows:

- (a) To approve transfer, transmission, transposition, name deletion, consolidation and splitting of share and debenture certificates of the Company.
- (b) To issue duplicate share/debenture certificates.
- (c) To apply for registration of the Company with various authorities of any state or Centre including sales tax authorities, income tax authorities, shops & establishment authorities, and to do or perform all matters relating to such matters.
- (d) To apply, in the name of and for the Company for telephone, telex, fax and other telecommunication and electrical/electronic connections and to do all matters relating to such applications.
- (e) To open, operate and close Bank Accounts of the Company and change the operating instructions of existing Bank Accounts of the Company.
- (f) To authorise persons to sign on behalf of the Company Share Certificates, Share Allotment Letters, Deposit Receipts.
- (g) To authorise persons to represent the Company at General Meetings of any company or cooperative society of which the Company is a shareholder/member.
- (h) To fix the dates for Closure of the Company's Register of Members and Debenture holders and Transfer Books of Shares or Debentures and/or fixing Record Dates, in consultation with the Stock Exchanges.
- (i) To authorise the opening of Securities General Ledger Account or any other account with any scheduled banks or with any department of the Reserve Bank of India.
- (j) To authorise persons to execute Loan Agreements, Demand Promissory Notes and any other documents as may be necessary for lending out of any line of credit sanctioned to the Company.
- (k) To authorise officials of the Company to execute transfer deeds on behalf of the Company.
- (l) To authorise officials of the Company to sign documents for registration of motor vehicles and to do all acts and things for the transfer of any such motor vehicles.
- (m) To authorise employee(s) or others to execute, for and on behalf of the Company, agreements, applications, deeds, documents and any other writings in connection with the business of the Company and, if required, to issue Power of Attorney in favour of such persons for the purpose.
- (n) To authorise employee(s) or others to represent the Company before any Court, Tribunal, Consumer Redressal Forum or any Statutory or other Authority on any matter relating to the operations of the Company or with which the Company is in any way connected or to represent the Company generally or for any specific purpose or purposes and, if required, issue Power of Attorney in favour of such persons for the purpose.
- (o) To appoint or change nominees to hold shares for and on behalf of the Company in any subsidiary/associate companies.
- (p) To grant permission and authorise incorporation of companies, with a prefix "Kotak Mahindra" before the name.
- (q) To authorise the use of the Common Seal of the Company and to appoint persons to sign/countersign documents, etc. on which the Common Seal is to be affixed.

During the year, thirty two meetings of the Committee were held. Mr. Uday Kotak attended all the meetings, Mr. C. Jayaram attended twenty four meetings and Mr. Dipak Gupta attended thirty one meetings. Subsequently, three meetings of the Committee were held and the same were attended by all the three members.

Nomination Committee

The Nomination Committee of the Bank consists of three members, with any two forming the quorum. Presently, the Committee consists of Mr. Uday Kotak (Chairman), Mr. C. Jayaram and Mr. Dipak Gupta. The terms of reference of the Committee include appointment of senior management personnel and making recommendations to the Board for appointment of Directors or filling of vacancies on the Board. In addition, the Committee also evaluates whether the members of the Board of Directors of the Bank adhere to the 'fit and proper' criteria as prescribed by the Reserve Bank of India.

During the year, three meetings of the Committee were held on 11th May 2010, 29th July 2010 and 18th March 2011. All the members attended all the three meetings. Subsequently, one meeting of the Committee was held on 5th May 2011 and was attended by all the three members.

Management Committee

The Management Committee of the Bank consists of four members, with any three forming the quorum. The Committee has been constituted to review all important matters to be placed before the Board, assess adequacy of policies on an on-going basis, review business operations, corporate governance, implementation of policies, to establish systems for facilitating efficient operations and to approve donations. Further, the Board of Directors of the Bank at their meeting held on 20th October 2010 authorized the Management Committee to exercise the supervisory powers in connection with the risk management of the Bank which interalia includes, monitoring of the exposures, reviewing adequacy of risk management process and upgradation thereof, reviewing the internal control system and ensuring compliance with the statutory/regulatory framework of the risk management process.

In view of the cessation of Mr. Shivaji Dam as a Director of the Bank, the Committee was re-constituted by the Board on 18th March 2011 and now consists of Mr. Uday Kotak, Mr. Dipak Gupta, Mr. C. Jayaram and Mr. Prakash Apte as members of the Committee.

During the year, eleven meetings of the Committee were held. Mr. Uday Kotak and Mr. Dipak Gupta attended all the eleven meetings of the Committee. Mr. C. Jayaram attended ten meetings and Mr. Shivaji Dam attended five meetings of the Committee.

Committee on Frauds

Pursuant to the directives of the Reserve Bank of India, the Bank has constituted a Committee on Frauds on 27th January 2004 for monitoring and reviewing all the frauds involving amounts of ₹ 1 crore and above. In view of the cessation of Mr. Shivaji Dam as a Director of the Bank, the Committee was re-constituted by the Board on 18th March 2011 and presently consists of Mr. Uday Kotak, Mr. Dipak Gupta, Mr. C. Jayaram and Dr. Sudipto Mundle as members of the Committee.

During the year, one meeting of the Committee was held on 22nd April 2010 and the same was attended by all the members.

Customer Services Committee

The Bank has, pursuant to the directives issued by the Reserve Bank of India, constituted a Customer Services Committee on 22nd September 2004. The Committee presently consists of three members viz; Mr. Asim Ghosh (Chairman), Mr. Uday Kotak and Mr. Dipak Gupta. The Committee has been constituted to bring about ongoing improvements in the quality of customer services provided by the Bank. The Committee would also oversee the functioning of the Customer Service Standing Committee, compliance with the recommendations of the Committee on Procedures and Performance Audit and Public Services (CPPAPS) and also mount innovative measures for enhancing the quality of customer service and improving the level of customer satisfaction for all categories of cliental, at all times.

During the year, two meetings of the Committee were held on 20th July 2010 and 27th October 2010. All the members attended both the meetings.

Code of Conduct

The Board of Directors of the Bank at its meeting held on 18th March 2011 adopted the revised Code of Conduct for the purpose of Clause 49 applicable to the Board of Directors and Senior Management Personnel respectively. Both the Code of Conduct have been posted on the website of the Bank, i.e. www.kotak.com.

General Meetings

During the last three years, one Extraordinary General Meeting and three Annual General Meetings i.e. Twenty Fifth, Twenty Fourth and Twenty Third meeting of equity shareholders were all held at Indian Merchants' Chamber, Walchand Hirachand Hall, 4th Floor, Churchgate, Mumbai 400 020.

General Meetings	Day, Date and Time	Special Resolutions passed thereat
Extraordinary General Meeting	Tuesday, 27th July 2010 at 3.30 p.m.	Special Resolution u/s 81 (1A) of the Companies Act, 1956 for issue and allotment of 1,64,00,000 equity shares of the Bank of face value of ₹10/- each to Sumitomo Mitsui Banking Corporation on a preferential basis at a price per share of ₹833/-.
Twenty Fifth Annual General Meeting	Wednesday, 21st July 2010 at 11.30 a.m.	No special resolution

General Meetings	Day, Date and Time	Special Resolutions passed thereat
Twenty Fourth Annual General Meeting	Tuesday, 28th July 2009 at 11.30 a.m.	Special Resolution u/s 309(4) of the Companies Act, 1956 and u/s 35B and other provisions of Banking Regulation Act, 1949 for the re-appointment of Dr. Shankar Acharya as part-time Chairman of the Bank for a period of three years with effect from 20th July 2009.
Twenty Third Annual General Meeting	Monday, 28th July 2008 at 11:30 a.m.	<ol style="list-style-type: none"> 1. Special Resolution u/s 309(4) of the Companies Act, 1956 and u/s 35B and other provisions of Banking Regulation Act, 1949 to increase the remuneration of Dr. Shankar Acharya, part-time Chairman of the Bank. 2. Special Resolution to increase the ceiling limit on total holdings of Foreign Institutional Investors'/SEBI approved sub-account of FIIs in the equity share capital of the Bank.

No resolutions were passed through postal ballot during the last financial year.

Disclosures

- The Bank has not entered into any material financial or commercial transactions with the directors or the management or their relatives or the companies and firms etc., in which they are either directly or through their relatives interested as directors and/or partners. The Bank has not entered into any material financial or commercial transactions with its subsidiaries and other related parties as per AS-18 that may have potential conflict with the interest of the Bank at large.
- During the last three years, there were no penalties or strictures imposed on the Bank by the Stock Exchange(s) and/or SEBI and/or any other statutory authorities on matters relating to capital market.

SHAREHOLDERS' INFORMATION

Date of Incorporation : 21st November 1985.
Registration No. : 11-38137 TA
Corporate Identification No. : L65110MH1985PLC038137

Address for Correspondence:

Registered Office : 36-38A, Nariman Bhavan, 227, Nariman Point, Mumbai-400 021.
Tel. No. (022) 66581100
Fax No.: (022) 22855577
Website: www.kotak.com

Contact : Ms. Bina Chandarana,
Company Secretary & Executive Vice President
E-mail: bina.chandarana@kotak.com

Registrars & Share Transfer Agents : Karvy Computershare Private Limited
(i) Plot No. 17-24 Vittal Rao Nagar
Madhapur, Hyderabad - 500 081
Tel Nos.: (040) 44655000
Fax No.: (040) 23420814
(ii) 7, Andheri Industrial Estate,
Off Veera Desai Road,
Andheri (West), Mumbai-400 058.
Tel Nos.: (022) 26367226/26369044
Fax No.: (022) 26310882
Website: www.karvycomputershare.com

Annual General Meeting:

Date and Time : Thursday, 21st July 2011 at 12 noon
Venue : Indian Merchants Chamber, Walchand Hirachand Hall, 4th Floor, Churchgate, Mumbai - 400 020.
Financial Year : 1st April to 31st March
Date of Book Closure : 14th July 2011 to 21st July 2011 (both days inclusive) for payment of dividend.
Dividend Payment Date : On or after Friday, 22nd July 2011.

INVESTOR RELATIONS

The Bank publishes consolidated results on a quarterly basis. The same are also reviewed by the Audit Committee before submission to the Board. The consolidated financial results of the Bank and its subsidiaries are prepared and posted on the website of the Bank for the current as well as last five financial years. Also the quarterly results and earnings updates are posted on the website of the Bank. Every quarter, the Executive Vice-Chairman and Managing Director and the Executive Directors participate on a call with the analysts/shareholders, the transcripts of which are posted on the website of the Bank. The Bank also has dedicated personnel to respond to queries from investors.

Financial Calendar:

For each calendar quarter, the financial results are reviewed and taken on record by the Board around the last week of the month subsequent to the quarter ending. The audited annual accounts as at 31st March are approved by the Board, after a review thereof by the Audit Committee. The Annual General Meeting to consider such annual accounts is held in the second quarter of the financial year.

Stock Exchanges on which listed:

Sr. No.	Name & Address of Stock Exchange	Market Scrip Code
1.	The Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 023	500247
2.	National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Bandra-Kurla Complex, Bandra, Mumbai 400 051	KOTAKBANK
3.	Luxembourg Stock Exchange BP 165, L-2011, Luxembourg	US50071Q2003

The annual fees for 2011-12 have been paid to the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited, where the shares of the Bank are listed. Also maintenance charges are being paid periodically to Luxembourg Stock Exchange.

Trading of shares to be in compulsorily dematerialized form:

The Securities and Exchange Board of India has included the equity shares of the Bank in the list of shares in which trading is compulsorily in dematerialized form, from 29th November 1999. The equity shares of the Bank have been activated for dematerialisation with the National Securities Depository Limited with effect from 4th August 1998 and with the Central Depository Services (India) Limited with effect from 26th February 1999 vide ISIN INE237A01010. Pursuant to the sub-division of the equity shares of the Bank, w.e.f. 15th September 2010, the new ISIN is INE237A01028.

Share Transfer System:

Applications for transfers, transmission and transposition are received by the Bank at its Registered Office or at the office(s) of its Registrars & Share Transfer Agents. As the shares of the Bank are in dematerialised form, the transfers are duly processed by NSDL/CDSL in electronic form through the respective depository participants. Shares which are in physical form are processed by the Registrars & Share Transfer Agents on a regular basis and the certificates despatched directly to the investors.

Investor Helpdesk:

Share transfers, dividend payments and all other investor related activities are attended to and processed at the office of our Registrars & Share Transfer Agents. For lodgement of Transfer Deeds and any other documents or for any grievances/complaints, kindly contact Karvy Computershare Private Limited, contact details of which are provided elsewhere in the Report.

For the convenience of the investors, transfers and complaints from the investors are accepted at the Registered Office between 9:30 a.m. to 5:30 p.m. from Monday to Friday except on bank holidays.

As advised by Securities and Exchange Board of India ("SEBI") the Bank has a designated email-id investor.greivances@kotak.com for the purpose of registering complaints by the investors. The same has also been displayed on the website of the Bank.

Kotak Mahindra Bank Limited

Registered Office: 36-38A, Nariman Bhavan,
227, Nariman Point, Mumbai 400 021.
Tel. No.: (022) 66581100
Fax: (022) 22855577
E-mail: bina.chandarana@kotak.com
Website: www.kotak.com

Transfer to Investor Education and Protection Fund:

Pursuant to Section 205C of the Companies Act, 1956, dividends that are unclaimed for a period of seven years get transferred to the Investor Education and Protection Fund administered by the Central Government. The table given below gives the dates of dividend declaration since 2003-04 and the corresponding dates when unclaimed dividends are due to be transferred to the Central Government.

Year	Dividend-Type	Date of Declaration	Due Date of Transfer
2003-04	Final	26th July 2004	25th August 2011
2004-05	Final	26th July 2005	25th August 2012
2005-06	Final	20th July 2006	19th August 2013
2006-07	Final	5th July 2007	4th August 2014
2007-08	Final	28th July 2008	27th August 2015
2008-09	Final	28th July 2009	27th August 2016
2009-10	Final	21st July 2010	20th August 2017

SHARE PRICE DETAILS

The Monthly high and low quotation of shares traded on BSE:

Month	High (₹) (post-split)	Low (₹) (post-split)	Close (₹) (post-split)	BSE SENSEX (CLOSE)	BANKEX (CLOSE)
April 2010	398.35	353.18	368.90	17,558.71	11,155.07
May 2010	394.95	354.33	378.35	16,944.63	10,656.56
June 2010	424.00	365.00	385.40	17,700.90	10,756.03
July 2010	399.13	372.50	384.63	17,868.29	11,539.55
August 2010	438.88	386.40	414.28	17,971.12	12,190.64
September 2010	483.40	407.05	475.90	20,069.12	14,025.04
October 2010	529.50	456.00	464.85	20,032.34	14,016.21
November 2010	499.50	435.15	475.45	19,521.25	13,618.77
December 2010	495.00	439.05	452.45	20,509.09	13,379.73
January 2011	463.95	371.20	384.50	18,327.76	12,064.01
February 2011	427.50	333.25	405.35	17,823.40	11,840.34
March 2011	463.00	405.45	456.85	19,445.22	13,299.77

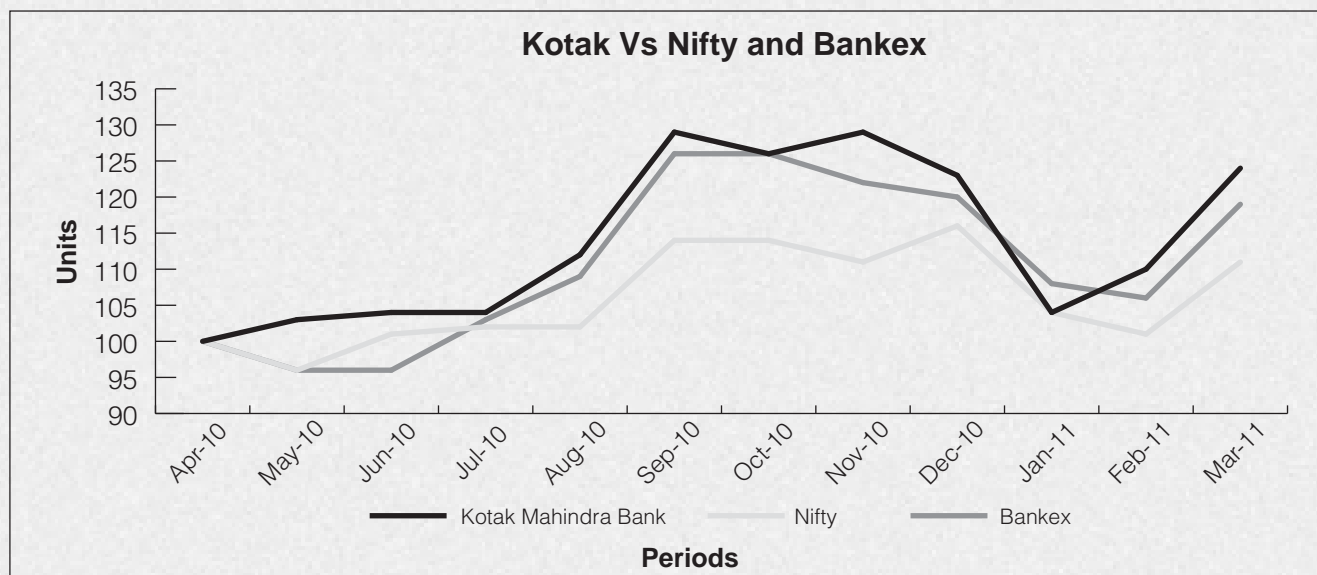
Note : Pursuant to the sub-division of the Equity Shares of the Bank, with effect from 15th September 2010, the equity shares of the Bank having a face value of ₹10/- have been sub-divided into two equity shares of face value ₹5/- each. All prices given above are adjusted for the split.

The Monthly high and low quotation of shares traded on NSE:

Month	High (₹) (post-split)	Low (₹) (post-split)	Close (₹) (post-split)	S&P & CNX NIFTY	BANK NIFTY
April 2010	399.10	350.00	369.28	5278.00	9870.35
May 2010	395.90	354.05	379.28	5086.30	9363.70
June 2010	403.50	364.05	385.48	5312.50	9464.60
July 2010	398.75	372.55	385.63	5367.60	10161.00
August 2010	439.00	386.23	414.28	5402.40	10746.35
September 2010	506.00	405.30	476.30	6029.95	12366.35
October 2010	526.55	455.00	464.25	6017.70	12330.75
November 2010	497.55	435.00	476.70	5862.70	11952.60
December 2010	495.00	439.85	453.65	6134.50	11791.45
January 2011	464.85	369.45	385.25	5505.90	10641.85
February 2011	427.75	333.00	405.05	5333.25	10435.35
March 2011	463.00	405.00	457.85	5833.75	11705.45

Note : (1) Pursuant to the sub-division of the Equity Shares of the Bank, with effect from 15th September 2010, the equity shares of the Bank having a face value of ₹10/- have been sub-divided into two equity shares of face value ₹5/- each. All prices given above are adjusted for the split

(2) Kotak Bank stock was included in the S&P & CNX NIFTY Index with effect from 8th April 2010.



Shareholding Pattern

Category	As on 31st March 2011		As on 31st March 2010	
	No. of Shares Held (face value ₹5/- each)	Percentage of Shares	No. of Shares Held (face value ₹10/- each)	Percentage of Shares
A. Promoters Holding				
Promoters	335,790,268	45.57	167,902,644	48.23
Sub-Total	335,790,268	45.57	167,902,644	48.23
B. Non-Promoters Holding				
1. Institutional Investors				
a. Mutual Funds & UTI	17,073,746	2.32	7,001,018	2.01
b. Banks, Financial Institutions, Insurance Companies (State / Central Govt. Institutions)	22,985,657	3.12	10,326,604	2.96
c. Foreign Institutional Investors	187,186,793	25.40	99,444,686	28.57
Sub-Total	227,246,196	30.84	116,772,308	33.54
C. Others				
a. Private Corporate Bodies	34,929,797	4.74	10,196,298	2.93
b. Indian Public including Directors & Relatives	96,665,604	13.12	48,577,546	13.95
c. NRIs / OCBs/Foreign Bodies	8,967,792	1.22	4,442,456	1.28
d. Global Depository Shares (GDS)	18,262	0.00	9,131	0.00
e. Foreign Bank	32,800,000	4.45	-	0.00
f. Clearing Members	453,585	0.06	241,094	0.07
Sub-Total	173,835,040	23.59	63,466,525	18.23
Grand Total	736,871,504	100.00	348,141,477	100.00

Notes:

- Pursuant to the sub-division of the equity shares of the Bank, with effect from 15th September 2010, the equity shares of the Bank having a face value of ₹10/- have been sub-divided into two equity shares of face value ₹5/- each.
- The increase in capital is due to allotment of 77,88,550 equity shares of ₹5/- each (post split) under various ESOP Schemes of the Bank and preferential Allotment of 3,28,00,000 equity shares of ₹5/- each (post split) to Sumitomo Mitsui Banking Corporation.

SHAREHOLDING OF DIRECTORS OF THE BANK:

Name of the Director	As on 31st March 2011	
	No. of Shares Held (face value ₹5/- each)	Percentage of Shares
Dr. Shankar Acharya, Independent Non- Executive Part time Chairman	-	-
*Mr. Uday Kotak, Executive Vice Chairman and Managing Director	306,263,550	41.56
Mr. Asim Ghosh, Independent Non Executive Director	-	-
Mr. Sudipto Mundle, Independent Non Executive Director	-	-
**Mr. Amit Desai, Independent Non Executive Director	774,250	0.11
**Mr. Prakash Apte, Independent Non Executive Director	-	-
Mr. C. Jayaram, Executive Director	602,500	0.08
Mr. Dipak Gupta, Executive Director	649,500	0.09
***Mr. N. P. Sarda, Independent Non Executive Director	-	-

- Note: 1. *In addition, as on 31st March 2011, Kotak Trustee Company Pvt. Ltd. holds 26,897,060 equity shares (post split) of the Bank representing 3.65 % of the paid up share capital of the Bank. Kotak Trustee Company Pvt. Ltd. is the trustee for USK Benefit Trust -1 of which Mr. Uday Kotak is the sole beneficiary.
2. **Mr. Prakash Apte and Mr. Amit Desai were appointed as Additional Directors of the Bank with effect from 18th March 2011.
3. ***Mr. N.P. Sarda was appointed as an Additional Director of the Bank with effect from 1st April 2011.

List of Top 10 Shareholders of Kotak Mahindra Bank Limited as on 31st March 2011

Sr. No.	Name of the investor	Total shares held (face value ₹5/- each)	% of holding	Categories
1	Uday Suresh Kotak	306,263,550	41.56	Indian Promoter
2	Melany Holdings Limited	34,192,486	4.64	FII
3	Madison Holding Ltd.	34,192,486	4.64	FII
4	Sumitomo Mitsui Banking Corporation	32,800,000	4.45	Foreign Bank
5	Kotak Trustee Company Pvt. Ltd. (Beneficial Owner Mr. Uday S. Kotak)	26,897,060	3.65	Indian Promoter's Co.
6	Anuradha Mahindra	14,543,202	1.97	Pub
7	Europacific Growth Fund	11,394,396	1.55	FII
8	Life Insurance Corporation Of India	9,828,218	1.33	IFI
9	ICICI Prudential Life Insurance Company Ltd	7,820,813	1.06	Bodies Corporate
10	Avion Aerosols Pvt. Ltd	7,626,550	1.03	Bodies Corporate

Note:

Melany Holdings Limited and Madison Holding Ltd. are the registered sub-accounts of M/s. Warburg Pincus International LLC, which is a Foreign Institutional Investor registered as such with Securities and Exchange Board of India.

Distribution Schedule as on 31st March 2011

S. No.	Category from to	No. of Holders	% of Holders	No. of Shares (face value ₹5/- each)	% of Shares
1	1 - 100	58851	62.85	2,207,183	0.30
2	101 - 200	9131	9.75	1,572,949	0.21
3	201 - 300	2838	3.03	754,107	0.10
4	301 - 400	2580	2.76	989,078	0.13
5	401 - 500	2117	2.26	1,034,501	0.14
6	501 - 1000	6078	6.49	5,105,928	0.69
7	1001 - 2000	6429	6.87	11,105,983	1.51
8	2001 - 3000	2363	2.52	6,064,011	0.82
9	3001 - 4000	1004	1.07	3,777,698	0.51
10	4001 - 5000	602	0.64	2,911,377	0.40
11	5001 - 10000	660	0.70	4,601,637	0.62
12	10001 And Above	978	1.04	696,747,052	94.55
	TOTAL :	93631	100.00	736,871,504	100.00

Shares held in physical and electronic mode by the promoters and others as on 31st March 2011 are given in the below mentioned table:

Category	Physical mode		Electronic mode	
	Total Shares (face value ₹5/- each)	% to Equity	Total Shares (face value ₹5/- each)	% to Equity
Promoters	334,950,382	45.46	839,886	0.11
Others	8,302,150	1.13	392,779,086	53.30
TOTAL	343,252,532	46.59	393,618,972	53.41

Outstanding GDS:

The Bank has 18,262 GDS (post split) outstanding as at 31st March 2011.

The Bank has complied with all the mandatory and some of the non mandatory requirements of the Code of Corporate Governance stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, other than the fact that in compliance with the Clause 49 of the Listing Agreement, Mr. Shivaji Dam, an independent director on the Board of the Bank was appointed on the Board of Kotak Mahindra Old Mutual Life Insurance Limited, a material non listed Indian subsidiary. However, Mr. Dam ceased to be a Director of the Bank effective 21st March 2011 on his completing a tenure of eight years as a director of the Bank, pursuant to the provisions of Section 10(2A)(i) of the Banking Regulation Act, 1949. Subsequently, at the next board meeting of the Bank held on 5th May 2011, Mr. Prakash Apte, an independent director, has been appointed as a director on the board of Kotak Mahindra Old Mutual Life Insurance Limited.

COMPLIANCE WITH NON-MANDATORY REQUIREMENTS:

(1) The Board

The office of Non-Executive Chairman of the Bank as well as that of the chairman of the Audit Committee is maintained by the Bank at its expenses and all the expenses incurred in performance of his duties are reimbursed by the Bank. Pursuant to Section 10(2A) of the Banking Regulation Act, 1949 all Directors other than its Chairman and/or Whole-time Directors cannot hold office continuously for a period exceeding eight years.

(2) Remuneration Committee

The Bank has set up ESOP/Compensation Committee of Directors to recommend/review overall compensation structure and policies of the Bank. Details of the said Committee have already been provided hereinabove.

(3) Shareholders' Rights

The quarterly results of the Bank are published in one English and one Marathi newspaper, having wide circulation in Maharashtra. Further, the quarterly results are also posted on the website of the Bank – www.kotak.com. Along with the quarterly results, detailed earnings updates are also given on the website of the Bank. Further, the quarterly investors'/analysts' conference call is made to discuss the financial results and performance of the Bank and the Group. The results are also available on www.corpfiling.co.in. In view of the foregoing, the half-yearly results of the Bank are not sent to the shareholders individually.

(4) Audit qualifications

During the period under review, there were no audit qualifications in the Bank's financial statements. The Bank continues to adopt best accounting practices and has complied with the Accounting Standards and there is no difference in the treatment.

(5) Mechanism for evaluating Non-Executive Board Members

The Bank has constituted the Nomination Committee which evaluates every year whether the Members of the Board adhere to the 'fit and proper' criteria as prescribed by the Reserve Bank of India. The adherence to the 'fit & proper' criteria by the Members of the Nomination Committee, i.e. the Executive Directors is evaluated by the Board of Directors.

(6) Whistle Blower Policy

The Bank has adopted the Whistle Blower Policy pursuant to which employees of the Bank can raise their concerns relating to the fraud, malpractice or any other untoward activity or event which is against the interest of the Bank or society as a whole. The Bank hereby affirms that no personnel has been denied access to the Audit Committee.

OTHER DISCLOSURES

(A) The Management Discussion & Analysis Report

The Management Discussion & Analysis Report, giving an overview of the industry, the Bank's business and its financials is provided separately as a part of this Annual Report.

(B) Means of Communication

The Board of Directors of the Bank approves the unaudited financial results on a quarterly basis within one month of the quarter and the results are promptly forwarded to the stock exchanges and are generally published in Business Standard in English and Sakal, Mumbai in Marathi (Regional Language), within 48 hours of the conclusion of the Board Meeting. The results as well as other press releases are simultaneously displayed on the Bank's website www.kotak.com. The website also displays all official news releases by the Bank from time to time as also the Earnings Updates and presentations made to investors and analysts. In addition to this, the quarterly results and earnings update are also prepared and posted on the website of the Bank. The Bank also publishes its Balance Sheet and Profit and Loss Account together with the Auditors' Report in a newspaper as required in terms of Section 31 of the Banking Regulation Act, 1949 and Rule 15 of the Banking Regulation (Companies) Rules, 1949.

Vide circulars dated on 21st April 2011 and 29th April 2011, the Ministry of Corporate Affairs, Government of India has taken a Green Initiative in Corporate Governance, allowing paperless compliances by companies, and permitting service of documents by a company through electronic modes. In light of same, the Bank proposes to send documents like the notice calling the annual general meeting, audited financial statements, directors' report, auditors' report etc. to its shareholders for the year ended 31st March 2011 and thereafter, in electronic form, to the email address provided by the shareholders and / or made available to the Bank by the Depositories.

The Bank has also posted information relating to its financial results and shareholding pattern on Corporate Filing and Dissemination System (Corp filing) at www.corpfiling.co.in

DECLARATION

In accordance with Clause 49 of the Listing Agreement with the Stock Exchanges, I hereby confirm that, all the Directors and the Senior Management personnel of the Bank have affirmed compliance to the Code of Conduct for the financial year ended 31st March 2011.

For **Kotak Mahindra Bank Limited**

Uday Kotak

Executive Vice Chairman and Managing Director

Place : Mumbai,

Date : 5th May 2011

Auditors' Certificate**To the Members of Kotak Mahindra Bank Limited**

We have examined the compliance of conditions of corporate governance by Kotak Mahindra Bank Limited ('the Bank'), for the year ended on 31st March 2011, as stipulated in clause 49 of the Listing Agreement of the said Bank with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Bank for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

In our opinion and to the best of our information and according to the explanations given to us we certify that the Bank has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement other than the fact that, as per requirements of clause 49 of Listing Agreement, at least one independent director of Bank shall be a director on the board of a material non listed subsidiary, pursuant to which an independent director of Bank has been appointed as a director on the board of the material non listed subsidiary, however the said independent director ceased to be a director of the Bank on 21st March 2011. Subsequently, at the next board meeting of the Bank held on 5th May 2011, another independent director of the Bank has been appointed as a director on the board of the material non listed subsidiary.

We further state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the management has conducted the affairs of the Bank.

For **S.R. BATLIBOI & CO.**

Firm registration number: 301003E

Chartered Accountants

per **Viren H. Mehta**

Partner

Membership No.: 048749

Mumbai, 26th May 2011



Auditors' Report

To the Members of

Kotak Mahindra Bank Limited

1. We have audited the attached balance sheet of Kotak Mahindra Bank Limited ('the Bank') as at 31st March 2011 and also the profit and loss account and cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The balance sheet and profit and loss account are drawn up in conformity with Forms A and B (revised) of the Third Schedule to the Banking Regulation Act, 1949, read with Section 211 of the Companies Act, 1956 ('the Companies Act').
4. 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 purposes of our audit and have found them to be satisfactory;
 - b) In our opinion, the transactions of the Bank which have come to our notice have been within its powers;
 - c) In our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from branches and representative office;
 - d) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - e) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in subsection (3C) of Section 211 of the Companies Act, read with the guidelines issued by Reserve Bank of India insofar as they apply to the Bank;
 - f) On the basis of written representations received from the directors, as on 31st March 2011, and taken on record by the Board of Directors, we report that none of the directors are disqualified from being appointed as a director in terms of clause (g) of subsection (1) of Section 274 of the Companies Act;
 - g) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act 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:
 - i. in case of the balance sheet, of the state of the affairs of the Bank as at 31st March 2011;
 - ii. in case of the profit and loss account, of the profit for the year ended on that date; and
 - iii. in case of the cash flow statement, of the cash flows for the year ended on that date.

For S.R. Batliboi & Co.

Firm Registration No. 301003E

Chartered Accountants

per Viren H. Mehta

Partner

Membership No.048749

Mumbai, 5th May 2011

(₹ in thousands)

Balance Sheet as at 31st March 2011

	Schedule	As at 31st March 2011	As at 31st March 2010
Capital and Liabilities			
Capital	1	3,684,358	3,481,415
Reserves and Surplus	2	64,280,362	41,369,735
Employees' Stock Options (Grants) Outstanding		369,172	548,017
Deposits	3	292,609,686	238,864,671
Borrowings	4	117,239,484	61,405,132
Other Liabilities and Provisions	5	30,323,596	28,694,195
Total		508,506,658	374,363,165
Assets			
Cash and Balances with Reserve Bank of India	6	21,077,242	20,856,726
Balances with Banks and Money at Call and Short Notice	7	3,632,607	2,145,915
Investments	8	171,214,395	125,126,625
Advances	9	293,293,067	207,750,541
Fixed Assets	10	4,256,073	4,276,492
Other Assets	11	15,033,274	14,206,866
Total		508,506,658	374,363,165
Contingent Liabilities	12	343,692,398	369,660,202
Bills for Collection		10,534,742	6,493,241
Significant Accounting Policies and Notes to the Financial Statements	17 & 18		

The schedules referred to above form an integral part of this Balance Sheet.

The Balance Sheet has been prepared in conformity with Form 'A' of the Third Schedule to the Banking Regulation Act, 1949.

As per our report of even date.

For S. R. Batliboi & Co.
Firm Registration No. 301003E
Chartered Accountants

per **Viren H. Mehta**
Partner
(Membership No. 048749)

Mumbai, 5th May 2011

For and on behalf of the Board of Directors

Dr. Shankar Acharya
Chairman

Dipak Gupta
Executive Director

Jaimin Bhatt
Group Chief Financial Officer

Uday Kotak
Executive Vice Chairman &
Managing Director

Bina Chandarana
Company Secretary

(₹ in thousands)

Profit and Loss Account for the year ended 31st March 2011

	Schedule	Year ended 31st March 2011	Year ended 31st March 2010
I. Income			
Interest earned	13	43,035,582	32,556,249
Other income	14	6,330,373	6,282,400
Total		49,365,955	38,838,649
II. Expenditure			
Interest expended	15	20,584,854	13,974,755
Operating expenses	16	15,533,202	11,893,934
Provisions and contingencies (Refer Note 13 - Schedule 18 B)		5,066,078	7,358,903
Total		41,184,134	33,227,592
III. Profit			
Net Profit for the year		8,181,821	5,611,057
Add: Surplus brought forward from previous year		9,659,053	6,489,435
Total		17,840,874	12,100,492
IV. Appropriations			
Transfer to Statutory Reserve		2,045,500	1,402,800
Transfer to General Reserve		409,100	280,600
Transfer to Capital Reserve		6,900	69,600
Transfer to Special Reserve u/s 36(1)(viii) of Income Tax Act, 1961		290,000	400,000
Transfer to / (from) Investment Reserve Account		(268,300)	11,900
Proposed Dividend		368,831	296,613
Corporate Dividend Tax		43,654	(20,074)
Balance carried over to Balance Sheet		14,945,189	9,659,053
Total		17,840,874	12,100,492
V. Earnings Per Share (Face value of ₹ 5/-)			
Basic (Refer Note 4 - Schedule 18 B) ₹		11.35	8.09
Diluted (Refer Note 4 - Schedule 18 B) ₹		11.28	8.00
Significant Accounting Policies and Notes to the Financial Statements	17 & 18		

The schedules referred to above form an integral part of this Profit and Loss Account.

The Profit and Loss Account has been prepared in conformity with Form 'B' of the Third Schedule to the Banking Regulation Act, 1949.

As per our report of even date.

For S. R. Batliboi & Co.
Firm Registration No. 301003E
Chartered Accountants

per **Viren H. Mehta**
Partner
(Membership No. 048749)

Mumbai, 5th May 2011

For and on behalf of the Board of Directors

Dr. Shankar Acharya
Chairman

Dipak Gupta
Executive Director

Jaimin Bhatt
Group Chief Financial Officer

Uday Kotak
Executive Vice Chairman &
Managing Director

Bina Chandarana
Company Secretary

(₹ in thousands)

Cash Flow Statement for the year ended 31st March 2011

	Year ended 31st March 2011	Year ended 31st March 2010
Cash Flow from Operating Activities		
Profit after tax	8,181,821	5,611,057
Add: Provision for income-tax	3,694,991	2,499,735
Net Profit Before Taxes	11,876,812	8,110,792
Adjustments for:		
Employee Stock Options Grants	93,754	135,955
Depreciation on bank property	982,652	899,955
Profit on sale of investments in associates	—	(166,277)
Diminution in the value of investments written back	531,041	(24,020)
Dividend from Subsidiaries / Joint Ventures	(297,228)	(118,800)
Amortization of Premium on HTM Investments	1,281,788	1,443,116
Interest on Subordinated Debt	574,853	580,957
Interest on Refinance from institutions	1,877,300	1,562,449
Provision for Non Performing Assets, Standard Assets & Other Provisions	839,840	4,882,944
Wealth Tax	206	244
Loss / (Profit) on sale of Fixed Assets	(175)	29,443
	17,760,843	17,336,758
Adjustments for:		
Decrease / (Increase) in Investments other than Subsidiaries, Joint Ventures & Other Long term Investments	(47,775,493)	(35,475,265)
Decrease / (Increase) in Advances	(86,549,916)	(46,183,380)
Decrease / (Increase) in Other Assets	(1,049,432)	2,496,883
Decrease / (Increase) in Cash Collateral with Banks	—	—
Increase / (Decrease) in Deposits	53,745,015	82,424,708
Increase / (Decrease) in Borrowings other than Refinance and Subordinated debt	50,821,772	(6,249,842)
Increase / (Decrease) in Other Liabilities & Provisions	1,774,660	4,356,168
	(29,033,394)	1,369,272
Direct Taxes Paid	(3,472,173)	(2,980,422)
Net Cash Flow from Operating Activities (A)	(14,744,724)	15,725,608
Cash Flow from Investing Activities		
Purchase of Fixed Assets	(992,417)	(3,095,882)
Sale of Fixed Assets	30,359	23,552
Proceeds from sale of Investment in Associates	—	366,261
Decrease / (Increase) in Investments in Subsidiaries	(125,106)	(168,635)
Dividend from Subsidiaries / Joint Ventures	297,228	118,800
Net Cashflow from / (Used In) Investment Activities (B)	(789,936)	(2,755,904)



(₹ in thousands)

Cash Flow Statement for the year ended 31st March 2011 (Contd.)

	Year ended 31st March 2011	Year ended 31st March 2010
Cash Flow from / (Used In) Financing Activities		
Increase / (Decrease) in Subordinated Debt	(13,725)	(261,900)
Interest paid on Subordinated Debt	(574,853)	(580,957)
Increase in Refinance	5,026,305	576,768
Interest paid on Refinance	(1,877,300)	(1,562,449)
Fresh issue of shares / Money received on exercise of stock options	14,983,522	738,708
Share issue expenses	(5,764)	—
Dividend paid including Corporate Dividend Tax	(296,317)	(283,930)
Net Cash Flow from Financing Activities (C)	17,241,868	(1,373,760)
Net Increase / (Decrease) in Cash & Cash Equivalents (A + B + C)	1,707,208	11,595,944
Cash & Cash Equivalents at the beginning of the Year (Refer Note below)	23,002,641	11,406,697
Cash & Cash Equivalents at the end of the Year (Refer Note below)	24,709,849	23,002,641
Note:		
Balance with banks in India in Fixed Deposit (As per Sch 7 I (i) (b))	3,125	3,125
Balance with banks in India in Current Account (As per Sch 7 I (i) (a))	831,963	1,120,045
Money at call and short notice in India (As per Sch 7 I (ii))	510,658	—
Cash in hand (including foreign currency notes) (As per Sch 6 I)	2,451,447	2,111,412
Balance with RBI in Current Accounts (As per Sch 6 II)	18,625,795	18,745,314
Balance with Banks Outside India:		
(i) In Current Account (As per Sch 7 II (i))	503,061	124,745
(ii) In Other Deposit Accounts (As per Sch 7 II (ii))	1,783,800	898,000
Cash & Cash Equivalents at the end of the Year	24,709,849	23,002,641

As per our report of even date.

For S. R. Batliboi & Co.
Firm Registration No. 301003E
Chartered Accountants

per **Viren H. Mehta**
Partner
(Membership No. 048749)

Mumbai, 5th May 2011

For and on behalf of the Board of Directors

Dr. Shankar Acharya
Chairman

Dipak Gupta
Executive Director

Jaimin Bhatt
Group Chief Financial Officer

Uday Kotak
Executive Vice Chairman &
Managing Director

Bina Chandarana
Company Secretary

(₹ in thousands)

Schedules forming part of Balance Sheet as at 31st March 2011

	As at 31st March 2011	As at 31st March 2010
Schedule 1 - Capital		
Authorised Capital		
80,00,00,000 Equity Shares of ₹ 5/- each (31st March 2010:		
40,00,00,000 Equity Shares of ₹ 10/- each)	4,000,000	4,000,000
Issued, Subscribed and Paid-up Capital		
73,68,71,504 (31st March 2010: 34,81,41,477) Equity		
Shares of ₹ 5/- each (31st March 2010: ₹ 10/- each),	3,684,358	3,481,415
fully paid-up (Refer Note 1 and 2 - Schedule 18 B)		
Total	3,684,358	3,481,415
Schedule 2 - Reserves and Surplus		
I. Statutory Reserve		
Opening Balance	4,470,700	3,067,900
Add: Transfer from Profit and Loss Account	2,045,500	1,402,800
Total	6,516,200	4,470,700
II. Capital Reserve		
Opening balance	282,203	212,603
Add: Transfer from Profit and Loss Account	6,900	69,600
Total	289,103	282,203
III. General Reserve		
Opening Balance	3,097,952	2,817,352
Add: Transfer from Profit and Loss Account	409,100	280,600
Total	3,507,052	3,097,952
IV. Investment Reserve Account		
Opening Balance	428,914	417,014
Add: Transfer from / (to) Profit and Loss Account	(268,300)	11,900
Total	160,614	428,914
V. Special Reserve Account u/s 36(1)(viii) of Income Tax Act, 1961		
Opening Balance	400,000	—
Add: Transfer from Profit and Loss Account	290,000	400,000
Total	690,000	400,000
VI. Share Premium Account		
Opening Balance	23,030,913	21,675,186
Add: Received during the year	15,147,055	1,355,727
Less: Utilised for Share Issue Expenses (Refer Note 2 of Schdeule 18 B)	5,764	—
Total	38,172,204	23,030,913
VII. Balance in the Profit and Loss Account	14,945,189	9,659,053
Total (I to VII)	64,280,362	41,369,735

(₹ in thousands)

Schedules forming part of Balance Sheet as at 31st March 2011 (Contd.)

	As at 31st March 2011	As at 31st March 2010
Schedule 3 - Deposits		
A.		
I. Demand Deposits		
i. From Banks	1,006,014	989,260
ii. From Others	53,595,920	48,932,036
Total	54,601,934	49,921,296
II. Savings Bank Deposits	33,303,313	24,710,044
III. Term Deposits		
i. From Banks	2,676,623	648,677
ii. From Others (Refer Note 14 - Schedule 18 B)	202,027,816	163,584,654
Total	204,704,439	164,233,331
Total Deposits of branches (I to III)	292,609,686	238,864,671
B.		
(i) Deposits of branches in India	292,609,686	238,864,671
(ii) Deposits of branches outside India	—	—
Total	292,609,686	238,864,671
Schedule 4 - Borrowings		
I. Borrowings in India		
(i) Reserve Bank of India	39,647,500	—
(ii) Other Banks	24,626,988	12,281,685
(iii) Other Institutions and Agencies (Refer Note 15 - Schedule 18 B)	30,733,064	45,508,997
Total	95,007,552	57,790,682
II. Borrowings outside India		
Banks & Other Institutions (Refer Note 15 - Schedule 18 B)	22,231,932	3,614,450
Total	22,231,932	3,614,450
Total Borrowings (I and II)	117,239,484	61,405,132
Secured Borrowings under CBLO included in I (iii) above	—	19,802,238
Tier II Bonds included in I (iii) above	6,017,000	6,017,000
Tier II Bonds included in II above	2,006,775	2,020,500
Schedule 5 - Other Liabilities And Provisions		
I. Bills Payable	6,188,983	6,691,977
II. Interest Accrued	4,453,618	4,349,281
III. Others (including provisions)	19,268,906	17,357,017
IV. Proposed Dividend (includes tax on dividend)	412,089	295,920
Total	30,323,596	28,694,195

(₹ in thousands)

Schedules forming part of Balance Sheet as at 31st March 2011 (Contd.)

	As at 31st March 2011	As at 31st March 2010
Schedule 6 - Cash and Balances with Reserve Bank of India		
I. Cash in hand (including foreign currency notes)	2,451,447	2,111,412
II. Balances with RBI in Current Account	18,625,795	18,745,314
Total	21,077,242	20,856,726
Schedule 7 - Balances with Banks and Money at Call and Short Notice		
I. In India		
(i) Balances with Banks		
(a) In Current Accounts	831,963	1,120,045
(b) In Other Deposit Accounts	3,125	3,125
Total	835,088	1,123,170
(ii) Money at Call and Short Notice		
(a) With Banks (Refer Note 3 - Schedule 18 B)	510,658	—
Total	510,658	—
Total (i and ii)	1,345,746	1,123,170
II. Outside India		
(i) In Current Accounts	503,061	124,745
(ii) In Other Deposit Accounts	1,783,800	898,000
Total	2,286,861	1,022,745
Total (I and II)	3,632,607	2,145,915
Schedule 8 - Investments		
I. Investments in India in		
(i) Government Securities*	131,983,447	96,899,199
(ii) Other approved Securities	—	—
(iii) Shares	532,655	5,587
(iv) Debentures and Bonds	11,002,996	8,915,397
(v) Subsidiaries and Joint Ventures	3,288,079	3,162,973
(vi) Others [Units, Certificate of Deposits, Commercial Paper (CP), Security Receipts, RIDF Deposit & Pass Through Certificates (PTC)]	24,268,531	16,004,782
Total	171,075,708	124,987,938
* Refer Note 3 - Schedule 18 B (Previous Year Net of Repo ₹ 1,562.37 crores)		
II. Investments outside India in		
(i) Shares	1,043	1,043
(ii) Subsidiaries and Joint Ventures	137,644	137,644
Total	138,687	138,687
Total Investments (I and II)	171,214,395	125,126,625

(₹ in thousands)

Schedules forming part of Balance Sheet as at 31st March 2011 (Contd.)

	As at 31st March 2011	As at 31st March 2010
Schedule 9 - Advances		
A. (i) Bills purchased and discounted#	11,026,240	9,714,569
(ii) Cash Credits, Overdrafts and Loans repayable on demand	57,595,021	33,226,015
(iii) Term Loans	224,671,806	164,809,957
Total	293,293,067	207,750,541
# Bills purchased and discounted is net off Bills Rediscounted ₹ 956.38 crores (Previous Year ₹ 1,171.88 crores)		
B. (i) Secured by tangible assets *	250,803,855	167,006,843
(ii) Unsecured	42,489,212	40,743,698
Total	293,293,067	207,750,541
* Including advances against book debts		
C. Advances in India		
(i) Priority Sector	87,379,166	67,903,701
(ii) Public Sector	875,000	1,730,465
(iii) Banks	—	—
(iv) Others	205,038,901	138,116,375
Total	293,293,067	207,750,541
Schedule 10 - Fixed Assets		
A. Premises (Including Land)		
Gross Block		
At cost on 31st March of the preceding year	2,190,236	904,841
Additions during the year	—	1,285,395
Less: Deductions during the year	—	—
Total	2,190,236	2,190,236
Depreciation		
As at 31st March of the preceding year	360,671	327,352
Add: Charge for the year	37,013	33,319
Less: Deductions during the year	—	—
Depreciation to date	397,684	360,671
Net Block	1,792,552	1,829,565
B. Other Fixed Assets (Including Furniture and Fixtures)		
Gross Block		
At cost on 31st March of the preceding year	5,263,150	3,701,225
Additions during the year	992,417	1,810,487
Less: Deductions during the year	127,775	248,562
Total	6,127,792	5,263,150
Depreciation		
As at 31st March of the preceding year	2,816,223	2,145,154
Add: Charge for the year	945,639	866,637
Less: Deductions during the year	97,591	195,568
Depreciation to date	3,664,271	2,816,223
Net Block (Refer Note 8 - Schedule 18 B)	2,463,521	2,446,927
Total (A) + (B)	4,256,073	4,276,492

(₹ in thousands)

Schedules forming part of Balance Sheet as at 31st March 2011 (Contd.)

	As at 31st March 2011	As at 31st March 2010
Schedule 11 - Other Assets		
I. Interest accrued	4,594,646	3,488,679
II. Advance tax (net of provision for tax)	32,111	169,227
III. Stationery and Stamps	28,878	16,155
IV. Cheques in course of collection	54,531	130,755
V. Non banking assets acquired in satisfaction of claims	67,824	113,288
VI. Others (Refer Note 7 - Schedule 18 B)	10,255,284	10,288,762
Total	15,033,274	14,206,866
Schedule 12 - Contingent Liabilities		
I. Claims not acknowledged as debts	923,478	809,864
II. Liability on account of Outstanding forward exchange contracts	81,677,424	20,839,963
III. Guarantees on behalf of Constituents in India	40,312,069	19,911,705
IV. Acceptances, Endorsements and Other obligations	34,165,842	24,143,148
V. Other Items for which the Bank is contingently liable :		
a. Liability in respect of interest rate & currency swaps & forward rate agreements	184,639,088	290,650,311
b. Liability in respect of Options contracts	1,682,493	12,516,018
c. Capital commitments not provided	292,004	789,193
Total	343,692,398	369,660,202

(₹ in thousands)

Schedules forming part of Profit and Loss Account for the year ended 31st March 2011

	Year ended 31st March 2011	Year ended 31st March 2010
Schedule 13 - Interest Earned		
I. Interest / Discount on Advances / Bills	33,281,543	25,269,110
II. Income on Investments	9,571,785	7,268,573
III. Interest on balances with RBI and other inter-bank funds	171,884	10,570
IV. Others	10,370	7,996
Total	43,035,582	32,556,249
Schedule 14 - Other Income		
I. Commission, exchange and brokerage	3,527,412	3,055,051
II. Profit / (Loss) on sale of Investments (net)	909,949	522,402
III. Profit / (Loss) on sale of building and other assets (net)	175	(29,443)
IV. Profit on exchange transactions (net)	(264,032)	(8,596)
V. Income earned from Subsidiaries / Joint Ventures	712,670	408,828
VI. Profit on recoveries of non-performing assets acquired	1,254,758	2,072,738
VII. Miscellaneous Income	189,441	261,420
Total	6,330,373	6,282,400

(₹ in thousands)

Schedules forming part of Profit and Loss Account for the year ended 31st March 2011 (Contd.)

	Year ended 31st March 2011	Year ended 31st March 2010
Schedule 15 - Interest Expended		
I. Interest on Deposits	14,975,443	9,800,769
II. Interest on RBI / Inter-Bank Borrowings	3,148,244	1,992,223
III. Others (Refer Note 15 (c) - Schedule 18 B)	2,461,167	2,181,763
Total	20,584,854	13,974,755
Schedule 16 - Operating Expenses		
I. Payments to and provision for employees (Refer Note 12 - Schedule 18 B)	7,838,345	5,834,756
II. Rent, taxes and lighting (Refer Note 6(a) - Schedule 18 B)	1,506,535	1,503,382
III. Printing and Stationery	272,776	176,479
IV. Advertisement, Publicity and Promotion	440,024	192,900
V. Depreciation on Bank's property	982,652	899,955
VI. Directors' fees, allowances and expenses	2,155	1,910
VII. Auditors' fees and expenses	13,313	11,248
VIII. Law Charges	167,013	164,667
IX. Postage, telephone etc.	389,180	328,340
X. Repairs and maintenance	784,331	607,700
XI. Insurance	241,326	174,820
XII. Travel and Conveyance	379,393	262,280
XIII. Professional Charges	1,086,005	802,340
XIV. Brokerage	592,459	345,160
XV. Stamping Expenses	118,270	85,264
XVI. Other Expenditure	1,195,308	928,420
	16,009,085	12,319,621
Less: Recovery of Costs from Group Companies	475,883	425,687
Total	15,533,202	11,893,934

Schedules forming part of the Balance Sheet and Profit and Loss Account

Schedule 17 – SIGNIFICANT ACCOUNTING POLICIES

A. ACCOUNTING METHODOLOGY

The financial statements have been prepared in accordance with statutory requirements prescribed under the Banking Regulation Act, 1949. The accounting and reporting policies of Kotak Mahindra Bank Limited used in the preparation of these financial statements conform to Generally Accepted Accounting Principles in India ("Indian GAAP"), the guidelines issued by Reserve Bank of India ("RBI") from time to time, the Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI') and notified by the Companies (Accounting Standards) Rules, 2006 "as amended" to the extent applicable and practices generally prevalent in the banking industry in India. The Bank follows the accrual method of accounting, except where otherwise stated, and the historical cost convention.

The preparation of financial statements requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses during the reporting period. Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates.

B. REVENUE RECOGNITION

- Interest income is recognised on accrual basis except in case of non-performing assets where it is recognised, upon realisation, as per RBI guidelines. Penal interest is recognised as income on realisation.
- Interest income in respect of retail advances is accounted for by using the internal rate of return method to provide a constant periodic rate of return on the net investment outstanding on the contract.
- Interest income on discounted instruments is recognised over the tenure of the instruments so as to provide a constant periodic rate of return.
- Service charges, Fees and Commission income are recognised when due except for Guarantee Commission which is recognised over the period of the guarantee.
- Dividend income is accounted on an accrual basis when the Bank's right to receive the dividend is established.
- Gain on account of securitisation of assets is amortised over the life of the securities issued in accordance with the guidelines issued by the RBI.
- In respect of non-performing assets acquired from other Banks / FIs and NBFCs, collections in excess of the consideration paid at each asset level or portfolio level is treated as income in accordance with RBI guidelines and clarifications.

C. FIXED ASSETS

- Fixed Assets have been stated at cost inclusive of incidental expenses less accumulated depreciation.
- Depreciation: The Bank adopts the Straight Line Method of depreciation so as to write off 100% of the cost of assets at rates higher than those prescribed under Schedule XIV to the Companies Act, 1956 for all assets other than premises, based on the Management's estimate of useful lives of all assets as follows:

Asset Type	Estimated Useful life in years
Premises	58
Improvement to leasehold premises	Over the primary period of lease subject to a maximum of 6 years.
Office equipments (Chillers, Transformers, UPS & DG set)	10
Office equipments (Other than above)	5
Computers	3
Furniture and Fixtures	6
Vehicles	4
ATMs	5
Software (including development) expenditure	3

Items costing less than ₹ 5,000 are fully depreciated in the year of purchase.

D. EMPLOYEE BENEFITS

a. Provident Fund – Defined Contribution Plan

Contribution as required by the Statute made to the Government Provident Fund is debited to the Profit and Loss Account when incurred.

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

b. **Gratuity – Defined Benefit Plan**

The Bank accounts for the liability for future gratuity benefits based on an actuarial valuation conducted by an independent actuary. The Bank makes contribution to a Gratuity Fund administered by trustees and managed by a life insurance company. The net present value of the Bank's obligation towards the same is actuarially determined based on the projected unit credit method as at the Balance Sheet date. Actuarial gains and losses are recognised in the Profit and Loss Account.

c. **Superannuation Fund – Defined Contribution Plan**

The Bank contributes a sum equivalent to 15% of eligible employees' salary, subject to a maximum of ₹ 1 lakh per employee per annum to a Fund administered by trustees and managed by a life insurance company. The Bank recognises such contributions as an expense in the year they are incurred.

d. **Compensated Absences – Other Long-Term Employee Benefits**

The Bank accrues the liability for compensated absences based on the actuarial valuation as at the Balance Sheet date conducted by an independent actuary. The net present value of the Bank's obligation is determined based on the projected unit credit method as at the Balance Sheet date.

e. **Other Employee Benefits**

The undiscounted amount of short-term employee benefits expected to be paid for the services rendered by employees is recognised during the period when the employee renders the service. These benefits include performance incentives.

E. **INVESTMENTS**

1. **Classification**

- In accordance with the RBI guidelines, investments are categorised into "Held for Trading", "Available for Sale" and "Held to Maturity" and further classified under six groups, namely, Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint Ventures and Other Investments for the purposes of disclosure in the Balance Sheet.
- Investments which are held for resale within 90 days from the date of purchase are classified as "Held for Trading".
- Investments which the Bank intends to hold till maturity are classified as "Held to Maturity". The Bank has classified investments in subsidiaries, joint ventures and associates as "Held to Maturity".
- Investments which are not classified in either of the above two categories are classified as "Available for Sale".

2. **Valuation**

The cost of investments is determined on weighted average basis. Broken period interest on debt instruments is considered as a revenue item. The transaction costs including brokerage, commission etc. paid at the time of acquisition of investments is charged to Profit and Loss Account.

The valuation of investments is performed in accordance with the RBI guidelines as follows:

- Held for Trading / Available for Sale** – Each security in this category is revalued at the market price or fair value and the net depreciation of each group is recognised in the Profit and Loss Account. Net appreciation, if any, is ignored. Further, provision for diminution other than temporary is made for, at the individual security level.
- Held to Maturity** – These are carried at their acquisition cost. Any premium on acquisition of debt instruments is amortised over the balance maturity of the security on a straight line basis. Any diminution, other than temporary, in the value of such securities is provided.
- The market value of investments where market quotations are not available is determined as per the norms laid down by the RBI.
- Repurchase and reverse repurchase transactions** – Securities sold under agreements to repurchase (Repos) and securities purchased under agreements to resell (Reverse Repos) are accounted as collateralised borrowing and lending transactions respectively. The difference between the consideration amount of the first leg and the second leg of the repo is recognised as interest income / interest expense over the period of the transaction. (Refer note 3 of Schedule 18 B)

3. **Transfer between Categories**

Transfer between categories is done, in accordance with RBI guidelines at the lower of the acquisition cost / book value / market value on the date of the transfer and depreciation, if any, on such transfer is fully provided for.

4. **Profit or Loss on sale / redemption of Investments**

- Held for Trading and Available for Sale** - Profit or loss on sale / redemption is included in the Profit and Loss Account.
- Held to Maturity** - Profit on sale / redemption of investments is included in the Profit and Loss Account and is appropriated to Capital Reserve after adjustments for tax and transfer to Statutory Reserve. Loss on sale / redemption is charged off to the Profit and Loss Account.

F. **FOREIGN CURRENCY AND DERIVATIVE TRANSACTIONS**

- Foreign currency assets and liabilities are translated as at the Balance Sheet date at rates notified by the Foreign Exchange Dealers' Association of India (FEDAI).

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

- b. Income and Expenditure items are translated at the rates of exchange prevailing on the date of the transactions except in respect of representative office expenses, which are translated at monthly average exchange rate.
- c. Foreign Exchange contracts (other than deposit and placement swaps) outstanding at the Balance Sheet date are revalued at rates notified by FEDAI and resulting profits or losses are included in the Profit and Loss Account. Foreign exchange swaps "linked" to foreign currency deposits and placements are translated at the prevailing spot rate at the time of swap. The premium / discount on the swap arising out of the difference in the exchange rate of the swap date and the maturity date of the underlying forward contract is amortised over the period of the swap and the same is recognised as income / expense.
- d. Notional amounts of derivative transactions comprising of forwards, swaps, futures and options are disclosed as off Balance Sheet exposures. The swaps are segregated into trading or hedge transactions. Trading swaps outstanding as at the Balance Sheet dates are marked to market and the resulting profits or losses, are recorded in the Profit and Loss Account. Outstanding derivative transactions designated as "Hedges" are accounted on an accrual basis over the life of the transaction. Option premium paid / received is accounted for in the Profit and Loss Account on expiry of the option.
- e. Contingent liabilities as at the Balance Sheet date on account of outstanding foreign exchange contracts are restated at year end rates notified by FEDAI.

G. ADVANCES

- a. Advances are classified into standard, sub-standard, doubtful and loss assets in accordance with the RBI guidelines and are stated net of provisions made towards non-performing advances.
- b. Provision for non-performing advances comprising sub-standard, doubtful and loss assets is made in accordance with the RBI guidelines. In addition, the Bank adopts an approach to provisioning that is based on past experience, evaluation of security and other related factors.
- c. In accordance with RBI guidelines the Bank has provided general provision on standard advances at uniform rate of 0.40% except in case of direct advances to Agricultural & SME sectors which are provided at 0.25%, Commercial Real Estate sector at 1.00% and teaser rate Housing loans at 2.00%.
Excess standard provision due to revision in provisioning rates is not written back to Profit and Loss Account in accordance with the RBI guidelines and clarifications.
- d. Amounts paid for acquiring non-performing assets from other banks and NBFCs are considered as advances. Actual collections received on such non-performing assets are compared with the cash flows estimated while purchasing the asset to ascertain overdue. If the overdue is in excess of 90 days, then the assets are classified into sub-standard, doubtful or loss as required by the RBI guidelines on purchase of non-performing assets.

H. SECURITISATION

The Bank enters into arrangements for sale of loans through Special Purpose Vehicles (SPVs). In most cases, post securitisation, the Bank continues to service the loans transferred to the SPV. At times the Bank also provides credit enhancement in the form of cash collaterals and / or by subordination of cash flows to Senior Pass Through Certificate (PTC) holders. In respect of credit enhancements provided or recourse obligations (projected delinquencies, future servicing etc.) accepted by the Bank, appropriate provision / disclosure is made at the time of sale in accordance with Accounting Standard 29, "Provisions, Contingent Liabilities and Contingent Assets" notified by the Companies (Accounting Standards) Rules, 2006 "as amended".

The profit / premium on account of securitisation of assets at the time of sale is computed as the difference between the sale consideration and the book value of the securitised asset amortised over the tenure of the securities issued. Loss on account of securitisation on assets is recognised immediately to the Profit and Loss Account.

I. TAXES ON INCOME

The Income Tax expense comprises current tax and deferred tax. Current tax is measured at the amount expected to be paid in respect of taxable income for the year in accordance with the Income Tax Act, 1961. Deferred tax adjustments comprise of changes in the deferred tax assets and liabilities. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date. Changes in deferred tax assets / liabilities on account of changes in enacted tax rates are given effect to in the Profit and Loss Account in the period of the change. The carrying amount of deferred tax assets are reviewed at each Balance Sheet date for recoverability based on future taxable income.

J. SEGMENT REPORTING

In accordance with guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated 18th April 2007 and Accounting Standard 17 (AS-17) on "Segment Reporting" notified under the Companies (Accounting Standard) Rules, 2006 "as amended", the Bank's business has been segregated into the following segments whose principal activities were as under:

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

Segment	Principal activity
Treasury and BMU	Money market, forex market, derivatives, investments and primary dealership of government securities and Balance Sheet Management Unit (BMU) responsible for Asset Liability Management.
Corporate / Wholesale Banking	Wholesale borrowings and lendings and other related services to the corporate sector which are not included under retail banking.
Retail Banking	Includes: I Lending Commercial vehicle finance, personal loans, home loans, agriculture finance, other loans / services & exposures which fulfill the four criteria's for retail exposures laid down in Basel Committee on Banking Supervision document "International Convergence of Capital Measurement and Capital Standards : A Revised Framework" II Branch Banking Retail borrowings covering savings, current, term deposit accounts and Branch Banking network / services including distribution of financial products. III Credit Cards Receivables / loans relating to credit card business.
Other Banking Business	Any other business not classified above.

A transfer pricing mechanism has been established by Asset Liability Committee (ALCO) for allocation of interest cost to the above segments based on borrowing costs, maturity profile of assets / liabilities etc. and which is disclosed as part of segment revenue.

Segment revenues consist of earnings from external customers and inter-segment revenues based on a transfer pricing mechanism. Segment expenses consist of interest expenses including allocated, operating expenses and provisions.

Segment results are net of segment revenues and segment expenses.

Segment assets include assets related to segments and exclude tax related assets. Segment liabilities include liabilities related to the segment excluding net worth, employees' stock option (grants outstanding) and proposed dividend and dividend tax thereon.

Since the business operations of the Bank are concentrated in India, the Bank is considered to operate only in the domestic segment.

K. LEASES

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

L. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, balances with Reserve Bank of India and Balances with Other Banks / institutions and money at Call and short Notice (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

M. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net Profit or Loss for the period attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period is adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders and share split.

For the purpose of calculating diluted earnings per share, the net Profit or Loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

N. PROVISIONS

A provision is recognised when the Bank has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Provision is made for Credit card reward points based on reward points accrued to the customer at Balance Sheet date.

Contingent Liabilities are not recognised but are disclosed in the notes unless the outflow of resources is remote. Contingent assets are neither recognised nor disclosed in the financial statements.

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

O. IMPAIRMENT

The carrying amounts of assets are reviewed at each Balance Sheet date if there is any indication of impairment based on internal / external factors.

P. EMPLOYEE STOCK OPTION SCHEME

Equity-settled scheme:

The Bank has formulated Employee Stock Option Schemes (ESOSs) in accordance with Securities and Exchange Board of India (Employee Stock Option Scheme) Guidelines, 1999. The Schemes provide for grant of options to employees of the Group to acquire the equity shares of the Bank that vest in cliff vesting or in a graded manner and that are to be exercised within a specified period. In accordance with the SEBI Guidelines and the guidance note on "Accounting for Employee Share based payments" issued by The Institute of Chartered Accountants of India, the excess, if any, of the market price of the share preceding the date of grant of the option under ESOSs over the exercise price of the option is amortised on a straight-line basis over the vesting period.

Where the terms of an equity-settled award are modified, the minimum expense recognised in 'Payments to and provision for employees' is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total intrinsic value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

In respect of options granted to employees of subsidiaries, the Bank recovers the related compensation cost from the respective subsidiaries.

Cash-settled scheme:

The cost of cash-settled transactions (stock appreciation rights) is measured initially using intrinsic value method at the grant date taking into account the terms and conditions upon which the instruments were granted. This intrinsic value is amortised on a straight-line basis over the vesting period with a recognition of corresponding liability. This liability is remeasured at each Balance Sheet date up to and including the settlement date with changes in intrinsic value recognised in Profit and Loss Account in 'Payments to and provision for employees'.

Schedule 18 – NOTES TO ACCOUNTS

A. DISCLOSURES AS LAID DOWN BY RBI CIRCULARS:

1. Capital Adequacy Ratio:

The Bank's Capital Adequacy Ratios calculated in accordance with the RBI Guidelines are as follows:

(₹ in crores)

	BASEL I		BASEL II	
	As at 31st March 2011	As at 31st March 2010	As at 31st March 2011	As at 31st March 2010
Tier I Capital	6,386.02	4,040.13	6,386.02	4,040.13
Tier II Capital	686.00	768.46	686.00	768.46
Total Capital	7,072.02	4,808.59	7,072.02	4,808.59
Total Risk weighted assets and contingencies	37,765.57	26,641.67	35,508.93	26,204.93
Capital Ratios:				
(i) CRAR - Tier I Capital (%)	16.91%	15.17%	17.99%	15.42%
(ii) CRAR - Tier II Capital (%)	1.82%	2.88%	1.93%	2.93%
(iii) CRAR %	18.73%	18.05%	19.92%	18.35%
(iv) Percentage of the shareholding of the Government of India	—	—	—	—
(v) Amount raised by issue of IPDI	—	—	—	—
(vi) Amount raised by issue of Upper Tier II instruments	—	—	—	—
Amount of subordinated debt considered in Tier II capital	352.22	400.22	352.22	400.22
Amount of subordinated debt considered in Upper Tier II Capital	336.68	338.05	336.68	338.05

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

2. Investments held under the 3 categories viz. "Held for Trading (HFT)", "Available for Sale (AFS)" and "Held to Maturity (HTM)" are as under:

(₹ in crores)

	As at 31st March 2011				As at 31st March 2010			
	HFT	AFS	HTM	Total	HFT	AFS	HTM	Total
Government Securities	527.55	6,870.07	5,800.73	13,198.35	560.60	3,874.27	5,255.05	9,689.92
Other Approved Securities	—	—	—	—	—	—	—	—
Shares	—	53.37	—	53.37	—	0.66	—	0.66
Debentures and Bonds	187.96	912.34	—	1,100.30	222.42	669.12	—	891.54
Subsidiaries, Associates and Joint Ventures	—	—	342.57	342.57	—	—	330.06	330.06
Units, Certificate of Deposits, CP, SRs, RIDF, PTCs etc.	1,559.20	268.97	598.68	2,426.85	759.30	333.70	507.48	1,600.48
Total	2,274.71	8,104.75	6,741.98	17,121.44	1,542.32	4,877.75	6,092.59	12,512.66

3. The details of investments and the movement of provisions held towards depreciation of investments of the Bank as on 31st March 2011 and 31st March 2010 are given below:

(₹ in crores)

	As at 31st March 2011	As at 31st March 2010
1. Value of Investments		
i. Gross value of Investments		
a. In India	17,167.62	12,505.74
b. Outside India	13.87	13.87
ii. Provision for Depreciation		
c. In India	(60.05)	(6.95)
d. Outside India	—	—
iii. Net value of Investments		
e. In India	17,107.57	12,498.79
f. Outside India	13.87	13.87
2. Movement of provisions held towards depreciation on investments		
i. Opening balance	6.95	9.35
ii. Add: Provisions made during the year	73.48	4.06
iii. Less: Write - off / write - back of excess provisions during the year	20.38	6.46
iv. Closing balance	60.05	6.95

4. Details of Repo / Reverse Repo (excluding LAF transactions for the year) deals:

Year ended 31st March 2011:

(₹ in crores)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As at 31st March 2011
Securities sold under repos				
i. Government securities	4.93	4,896.56	1,508.33	612.96
ii. Corporate debt securities	—	21.73	0.29	—
Securities purchased under reverse repos				
i. Government securities	—	487.26	183.20	51.07
ii. Corporate debt securities	—	26.11	0.07	—

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

Year ended 31st March 2010:

(₹ in crores)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As at 31st March 2010
Securities sold under repos				
i. Government securities	248.45	4,434.37	1,430.49	1,562.37
ii. Corporate debt securities	—	—	—	—
Securities purchased under reverse repos				
i. Government securities	—	38.17	14.94	—
ii. Corporate debt securities	—	—	—	—

5. Disclosure in respect of Non-SLR investments:

(i) Issuer composition of Non-SLR investments as at 31st March 2011:

(₹ in crores)

No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	PSUs	25.01	15.00	—	—	—
2	FIs	658.02	643.15	—	588.15	588.15
3	Banks	1,569.76	99.15	—	—	1,436.80
4	Private Corporates	1,062.77	746.81	93.25	55.39	124.75
5	Subsidiaries, Associates and Joint Ventures	344.74	344.74	—	344.74	344.74
6	Others	280.22	253.47	109.33	95.36	280.22
7	Provision held towards depreciation	(17.43)	—	—	—	—
	Total	3,923.09	2,102.32	202.58	1,083.64	2,774.66

Issuer composition of Non-SLR Investments as at 31st March 2010:

(₹ in crores)

No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	PSUs	—	—	—	—	—
2	FIs	560.26	545.39	—	495.39	495.39
3	Banks	907.63	103.00	64.70	—	759.30
4	Private Corporates	682.08	439.95	—	2.83	2.48
5	Subsidiaries, Associates and Joint Ventures	330.08	330.08	—	330.08	330.08
6	Others	349.54	322.60	108.86	38.31	349.54
7	Provision held towards depreciation	(6.85)	—	—	—	—
	Total	2,822.74	1,741.02	173.56	866.61	1,936.79

Above does not include Non SLR Government Securities ₹ 550.49 crores (Previous year ₹ 361.88 crores) which are included under Government Securities in the Schedule 8 – Investments.

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(ii) Non-performing Non-SLR Investments:

(₹ in crores)

Particulars	31st March 2011	31st March 2010
Opening balance	2.25	2.27
Additions during the year since 1 st April	—	—
Reductions during the above period	1.11	0.02
Closing balance	1.14	2.25
Total provisions held	1.14	2.18

6. Derivatives:

A. Forward Rate Agreements / Interest Rate Swaps:

(₹ in crores)

Particulars	31st March 2011	31st March 2010
The notional principal of swap agreements	18,241.78	28,500.27
Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements	85.10	563.53
Collateral required by the Bank upon entering into swaps	NA	NA
Concentration of credit risk arising from the swaps	99.72% (Banks)	99.52% (Banks)
The fair value of the swap book	(6.92)	(4.56)

B. Exchange Traded Interest Rate Derivatives:

(₹ in crores)

Particulars	31st March 2011	31st March 2010
Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument wise) Interest Rate Futures entered with NSE_contract expiry date 18th Dec'09 – underlying being notional 10 Year 7% GOI Bonds	—	0.08
Notional principal amount of exchange traded interest rate derivatives outstanding	NIL	NIL
Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument wise)	NA	NA
Mark to market value of exchange traded interest rate derivatives outstanding and not "highly effective"	NA	NA

C. Disclosures on risk exposures in derivatives:

Qualitative disclosures:

a) Structure and organization for management of risk in derivatives trading:

The management of risk in derivatives trading is carried out by the market risk department which is independent of the Treasury and directly reports into the Group Head-Risk of the Bank. The philosophy and framework for the derivative business is laid out in the Board approved Investment and Derivative policies. These policies are actioned upon by the ALCO. The ALCO sets various limits and reviews various exceptions to them.

Apart from ALCO, the New Product Committee is responsible for approving any new derivative products. The Board approved Customer Appropriateness and Suitability Policy gives guidance to assess customers and the suitability of products offered to the customer.

b) Scope and nature of risk measurement, risk reporting and risk monitoring systems:

The risk department is responsible for measuring, monitoring and mitigating risk arising from Derivative transactions. Various risk metrics like volatility, interest rate sensitivity, price sensitivity, open position and counterparty exposure are monitored daily.

The Risk Management function undertakes the following activities:-

- monitors daily derivative operations against the set limits
- reviews daily profitability and activity reports for derivative operations at various levels
- reports MIS to the ALCO on a periodic basis as well as exception reporting

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

c) Policies for hedging and / or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants:

The Bank enters into derivative transactions for trading and hedging purposes. The Balance Sheet Management Unit of the Bank obtains approvals from the ALCO for hedging depending on the market conditions and Balance Sheet positions.

These hedges are monitored for its hedge effectiveness periodically having regard to the terms of the hedging instrument and the underlying hedged risk.

d) Accounting policy for recording hedge and non-hedge transactions; recognition of income, premiums and discounts; valuation of outstanding contracts; provisioning, collateral and credit risk mitigation:

Derivative transactions are segregated into trading or hedge transactions. Trading transactions outstanding as at the Balance Sheet dates are marked to market and the resulting profits or losses, are recorded in the Profit and Loss Account. Derivative transactions designated as "Hedges" are accounted on an accrual basis over the life of the transaction.

Option premium paid / received is accounted for in the Profit and Loss Account on expiry of the option.

Provisioning on derivative receivables is made in accordance with RBI guidelines. The derivative limit sanctioned to clients is part of the overall limit sanctioned post credit appraisal. Collateral is accepted on a case to case basis considering the volatility of the price of the collateral and any increase in operational, legal and liquidity risk.

D. Quantitative Disclosures:

(₹ in crores)

Sr. No.	Particulars	Currency Derivatives	Interest rate Derivatives
1	Derivatives (Notional Principal Amount)	8,558.12	18,241.78
	a) For hedging	200.68	22.30
	b) For trading	8,357.44	18,219.48
2	Marked to Market Positions **		
	a) Asset (+)	15.79	73.65
	b) Liability (-)	14.18	80.57
3	Credit Exposure	338.78	216.52
4	Likely impact of one percentage change in interest rate (100*PV01) #		
	a) On hedging derivatives	1.60	0.23
	b) On trading derivatives	0.31	2.36
5	Maximum of 100*PV01 observed during the year #		
	a) On hedging derivatives	10.49	0.49
	b) On trading derivatives	1.22	7.57
6	Minimum of 100*PV01 observed during the year #		
	a) On hedging derivatives	0.89	0.23
	b) On trading derivatives	0.14	1.68

Currency interest rate swaps have been included under currency derivatives.

Excludes PV01 on options.

*** MTM has been considered at product level.*

The net position is shown under asset / liability, as the case is for each type of derivatives.

The nature and terms of the Interest Rate Swaps (IRS) as on 31st March 2011 are set out below:

(₹ in crores)

Nature	No.	Notional Principal	Benchmark	Terms
Hedging	1	22.30	LIBOR	Receive Floating vs. Pay Fixed
Trading	251	8,825.00	MIBOR	Receive Fixed vs. Pay Floating
Trading	252	8,937.00	MIBOR	Receive Floating vs. Pay Fixed
Trading	7	175.00	MIFOR	Receive Fixed vs. Pay Floating
Trading	3	75.00	MIFOR	Receive Floating vs. Pay Fixed
Trading	1	20.00	INBMK	Receive Floating vs. Pay Fixed
Trading	4	118.18	LIBOR	Receive Floating vs. Pay Fixed
Trading	2	69.30	LIBOR	Receive Fixed vs. Pay Floating
Total	521	18,241.78		

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

The nature and terms of the Cross Currency Swaps (CCS) as on 31st March 2011 are set out below:

(₹ in crores)

Nature	No.	Notional Principal	Benchmark	Terms
Hedging	5	111.49	LIBOR	Receive Floating vs. Pay Fixed
Hedging	2	89.19		Pay Fixed
Trading	2	19.69	LIBOR	Receive Fixed vs. Pay Floating
Trading	1	1.77	LIBOR	Receive Floating vs. Pay Fixed
Total	10	222.14		

The overnight Net open position as at 31st March 2011 is ₹ (24.21) crores (Previous year ₹ 32.16 crores)

7. Movements in Non Performing Advances (Funded):

(₹ in crores)

Sr. No.	Particulars	Year ended 31st March 2011	Year ended 31st March 2010
i.	Net NPAs to Net Advances %	0.72%	1.73%
ii.	Net NPAs to Net Advances % (excluding NPAs acquired from other Banks / FIs and NBFCs)	0.50%	1.25%
iii.	Movement of NPAs (Gross)		
	Gross NPAs as on 1st April (opening balance)	767.34	689.21
	Additions (Fresh NPAs) during the year	217.49	626.43
	Sub-total (A)	984.83	1,315.64
	Less:		
	(i) Upgradations	101.12	37.03
	(ii) Recoveries (excluding recoveries made from upgraded accounts)	131.63	137.01
	(iii) Write-offs	148.59	374.26
	Sub-total (B)	381.34	548.30
	Gross NPAs as on 31st March (closing balance) (A-B)	603.49	767.34
iv.	Movement of Net NPAs		
	a. Opening balance	360.25	396.84
	b. Additions during the year	18.71	111.98
	c. Reductions during the year	(167.80)	(148.57)
	d. Closing balance	211.16	360.25
v.	Movement of provisions for NPAs (excluding provisions on standard assets)		
	a. Opening balance	407.09	292.37
	b. Provisions made during the year	198.78	514.45
	c. Write-off / write-back of excess provisions	(213.54)	(399.73)
	d. Closing balance	392.33	407.09

8. Gross NPA, Provisions for NPA and Net NPA above include the following in respect of non-performing assets acquired from other Banks / FIs and NBFCs:

(₹ in crores)

Particulars	As at 31st March 2011	As at 31st March 2010
Gross NPA	241.68	269.01
Provision for NPA	(176.57)	(166.00)
Net NPA	65.11	103.01

9. The Provision Coverage Ratio (PCR) of the Bank after considering technical write-off is 70.14% as at 31st March 2011 (Previous year: 58.34%)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

10. Concentration of NPAs:

(₹ in crores)

Particulars	As at 31st March 2011	As at 31st March 2010
Total Exposure to top four NPA accounts	94.24	115.75

Above represents Gross NPA

11. Sector-wise NPAs:

Sr. No.	Sector	Percentage of NPAs to Total Advances in that sector	
		As at 31st March 2011	As at 31st March 2010
1	Agriculture & Allied activities	0.76%	1.49%
2	Industry (Micro & Small, Medium and Large including corporate stressed assets purchased)	4.28%	5.81%
3	Services	0.81%	1.96%
4	Personal Loans including Credit Cards and retail stressed assets purchased	5.04%	9.61%

Above % represents Gross NPA to Gross Advances for respective sectors.

The bank has compiled the data for the purpose of this disclosure from its internal MIS system and has been furnished by the management which has been relied upon by the auditors.

12. Details of Loan Assets subjected to Restructuring:

(₹ in crores)

Particulars of Accounts Restructured during the year							
		31st March 2011			31st March 2010		
		CDR Mechanism	SME Debt Restructuring	Others	CDR Mechanism	SME Debt Restructuring	Others
Standard advances restructured	No. of Borrowers	—	—	1,215	—	—	2,491
	Amount outstanding	—	—	10.44	—	—	118.65
	Sacrifice (diminution in the fair value)	—	—	0.15	—	—	2.60
Sub standard advances restructured	No. of Borrowers	—	—	1,033	—	—	1,964
	Amount outstanding	—	—	7.31	—	—	14.53
	Sacrifice (diminution in the fair value)	—	—	0.05	—	—	0.68
Doubtful advances restructured	No. of Borrowers	—	—	2	—	—	1
	Amount outstanding	—	—	4.50	—	—	0.50
	Sacrifice (diminution in the fair value)	—	—	0.21	—	—	0.05
Total	No. of Borrowers	—	—	2,250	—	—	4,456
	Amount outstanding	—	—	22.25	—	—	133.68
	Sacrifice (diminution in the fair value)	—	—	0.41	—	—	3.33

Note:

The amount in above table represents loans outstanding at the time of restructuring.

Outstanding Restructured loans (net of provisions) as at 31st March 2011 are ₹ 66.70 crores (Previous year ₹ 132.53 crores).

Sacrifice amount represents provision made for diminution in fair value of the loan based on assessment at Balance Sheet date.

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

13. Overseas Assets, NPAs and Revenue:

(₹ in crores)

Particulars	31st March 2011	31st March 2010
Total Assets	NIL	NIL
Total NPAs	NIL	NIL
Total Revenue	NIL	NIL

Above does not include assets of overseas representative office.

14. Details of non-performing financial assets purchased:

(₹ in crores)

Particulars	As at 31st March 2011	As at 31st March 2010
(a) Number of accounts purchased during the year*	7	3
(b) Aggregate outstanding in the Banks books**	242.81	280.84

* Retail assets portfolio purchased by the Bank has been considered as single portfolio.

** Represents outstanding balance of total non-performing financial assets purchased by the Bank at the Balance Sheet date.

None of the non-performing financial assets purchased have been restructured during the year (Previous year Nil).

There were no non-performing financial assets sold by the Bank during the current year. (Previous year Nil).

The Bank has not sold any financial asset to Securitisation or Reconstruction Company for asset reconstruction (Previous year Nil).

15. There are no unsecured loans for which intangible security such as charge over the rights, licenses, authority, etc are accepted as collateral by the bank.

16. Provisions on Standard Assets:

(₹ in crores)

Particulars	Year ended 31st March 2011	Year ended 31st March 2010
Provisions towards Standard Assets	152.32	152.32

17. Business Ratios / Information:

Particulars	Year ended 31st March 2011	Year ended 31st March 2010
Interest income as a percentage of working funds	9.31%	9.96%
Non interest income as a percentage of working funds	1.37%	1.92%
Operating profit as a percentage of working funds	2.86%	3.97%
Return on assets (average)	1.77%	1.72%
Business (deposit plus advance) per employee (₹ in crores)	5.35	4.87
Profit per employee (₹ in crores)	0.08	0.07

Definitions:

(A) Working funds is the monthly average of total assets as reported to the RBI under Section 27 of the Banking Regulation Act, 1949.

(B) Operating profit = (Interest Income + Other Income – Interest expenses – Operating expenses).

(C) Business is monthly average of net advances and deposits as reported to the RBI under section 27 of the Banking Regulation Act, 1949. Inter bank deposits are excluded for the purposes of computation of this ratio.

(D) Productivity ratios are based on average number of employees.

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

18. Maturity pattern of certain items of assets and liabilities:

As at 31st March 2011:

(₹ in crores)

	Day 1	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months & upto 6 months	Over 6 months & upto 12 months	Over 1 year & upto 3 years	Over 3 years & upto 5 years	Over 5 years	Total
Advances*	224.08	589.82	785.20	809.85	2,630.89	2,008.35	3,219.12	11,345.50	2,865.76	4,835.61	29,314.18
Investments	5,111.38	945.57	394.97	1,488.42	1,256.74	1,065.47	2,231.55	3,305.29	361.96	960.09	17,121.44
Deposits	418.73	2,021.52	1,567.88	1,548.58	4,565.30	2,924.21	5,279.38	10,508.14	347.93	79.30	29,260.97
Borrowings	47.83	5,337.35	300.00	219.60	1,233.27	1,006.15	1,264.86	1,238.50	514.02	562.37	11,723.95
Foreign Currency Assets	61.24	185.82	19.90	43.97	211.77	92.48	1.03	1.39	0.90	0.24	618.74
Foreign Currency Liabilities	44.89	34.88	35.31	45.88	723.78	617.88	749.69	280.08	0.55	200.75	2,733.69

* Advances shown above are net of the Advance EMI received amounting to ₹ 15.13 crores.

In computing the above information, certain estimates and assumptions have been made by the Management which have been relied upon by the auditors.

As at 31st March 2010:

(₹ in crores)

	Day 1	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months & upto 6 months	Over 6 months & upto 12 months	Over 1 year & upto 3 years	Over 3 years & upto 5 years	Over 5 years	Total
Advances*	291.63	326.28	286.55	702.85	2,254.58	2,028.41	2,692.61	7,132.65	1,930.70	3,107.99	20,754.25
Investments	4,820.32	(527.79)	281.77	329.52	1,184.16	967.73	1,027.76	3,228.04	195.47	1,005.68	12,512.66
Deposits	442.82	1,668.15	1,719.14	1,008.35	4,098.82	3,917.01	3,521.20	7,294.84	149.34	66.80	23,886.47
Borrowings	16.72	2,000.67	—	100.00	546.00	905.98	555.25	979.95	365.01	670.93	6,140.51
Foreign Currency Assets	16.24	93.45	3.85	38.73	94.12	104.91	4.05	—	—	16.16	371.51
Foreign Currency Liabilities	17.28	58.10	66.81	0.87	6.27	140.44	51.12	222.29	0.26	202.88	766.32

* Advances shown above are net of the Advance EMI received amounting to ₹ 20.80 crores.

19. Lending to sensitive sectors:

(a) Real Estate Sector*:

(₹ in crores)

Particulars	As at 31st March 2011	As at 31st March 2010
a) Direct exposure	8,832.04	5,646.94
i. Residential Mortgages: Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; (Includes Individual housing loans eligible for inclusion in priority sector advances as at 31st March 2011 ₹ 516.99 crores and as at 31st March 2010 ₹ 494.26 crores)	4,558.17	3,318.03
ii. Commercial Real Estate: Lending secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure also includes non-fund based (NFB) limits	4,273.87	2,328.91
iii Investments in Mortgage Backed Securities (MBS) and other securitised exposures: - Residential - Commercial Real Estate	— — —	— — —
b) Indirect Exposure	156.06	127.34
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	156.06	127.34
Total Exposure to Real Estate Sector	8,988.10	5,774.28

* On limit basis or outstanding basis whichever is higher

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(b) Exposure to Capital Market*:

(₹ in crores)

Sr. No.	Particulars	As at 31st March 2011	As at 31st March 2010
i.	Direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	85.37	18.51
ii.	Advances against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;	6.85	1.07
iii.	Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	—	—
iv.	Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity oriented mutual funds does not fully cover the advances;	2.49	7.74
v.	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	846.34	599.32
vi.	Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	—	—
vii.	Bridge loans to companies against expected equity flows / issues;	—	—
viii.	Underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	—	—
ix.	Financing to stockbrokers for margin trading;	—	—
x.	All exposures to Venture Capital Funds (both registered and unregistered)	21.86	23.55
xi.	Others (Financial Guarantees)	50.00	26.40
Total Exposure to Capital Market		1,012.91	676.59

* On limit basis or outstanding basis whichever is higher

(c) Risk category wise country exposure:

As per extant RBI guidelines, the country exposure of the Bank is categorised into various risk categories listed in following table. Since the country exposure (net) of the Bank in respect of any country does not exceed 1% of the total funded assets, no provision is required to be maintained on country exposure as on 31st March 2011. (Nil Provision for the year ended 31st March 2010)

(₹ in crores)

Risk Category	Exposure (net) as at 31st March 2011	Provision held as at 31st March 2011	Exposure (net) as at 31st March 2010	Provision held as at 31st March 2010
Insignificant	63.67	—	57.19	—
Low	179.03	—	45.32	—
Total	242.70	—	102.51	—

20. Concentration of Deposits:

(₹ in crores)

	As at 31st March 2011	As at 31st March 2010
Total Deposits of twenty largest depositors	8,282.31	8,415.87
Percentage of Deposits of twenty largest depositors to Total Deposits of the bank	28.30%	35.23%

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

21. Concentration of Advances*:

(₹ in crores)

	As at 31st March 2011	As at 31st March 2010
Total Advances to twenty largest borrowers	7,438.49	5,516.80
Percentage of Advances to twenty largest borrowers to Total Advances of the bank	13.50%	13.41%

*Advances represents Credit Exposure including derivatives furnished in Master Circular on Exposure Norms DBOD.No.Dir.BC.14/13.03.00/2010-11 dated 1st July 2010

The bank has compiled the data for the purpose of this disclosure from its internal MIS system and has been furnished by the management which has been relied upon by the auditors.

22. Concentration of Exposures*:

(₹ in crores)

	As at 31st March 2011	As at 31st March 2010
Total Exposure to twenty largest borrowers / customers	7,676.66	5,806.66
Percentage of Exposures to twenty largest borrowers / customers to Total Exposure of the bank on borrowers / customers	13.46%	13.76%

*Exposures represents credit, derivatives and investment exposure as prescribed in Master Circular on Exposure Norms DBOD.No.Dir.BC.14/13.03.00/2010-11 dated 1st July 2010

The bank has compiled the data for the purpose of this disclosure from its internal MIS system and has been furnished by the management which has been relied upon by the auditors.

23. During the year ended 31st March 2011 the bank had exceeded the Single Borrower Limit (SBL) with the approval of the Board in case of following borrowers:

(₹ in crores)

Name of Party	Total Exposure	% of Capital Funds
Bharti Airtel Ltd**	1,050.00	21.84*
Larsen & Toubro Ltd***	800.00	16.64*

* Based on capital funds before issuance of additional capital in August 2010. After considering additional capital funds of ₹ 1,366.12 crores above exposures are within limits specified by RBI.

** Infrastructure lending within overall limit of 25% of capital funds with approval of Board.

*** Continuing from last year.

For the year ended 31st March 2010 the Bank had exceeded the Single Borrower Limit with the approval of the Board in case of following borrower:

(₹ in crores)

Name of Party	Total Exposure	% of Capital Funds
Larsen & Toubro Ltd	800.00	18.94%

The above exposure was within the ceiling of 20% of the Capital Funds, with the approval of the Board, in terms of the RBI guidelines.

During the year ended 31st March 2011 and year ended 31st March 2010 the Bank has not exceeded the prudential exposure limits as laid down by RBI guidelines for the Group Borrower Limit (GBL).

24. Provision made for taxes during the year:

(₹ in crores)

	31st March 2011	31st March 2010
Current tax*	360.91	281.39
Deferred tax	8.59	(31.41)
Wealth Tax	0.02	0.02
Total	369.52	250.00

* Net of excess provision for tax of earlier years written back ₹ Nil (Previous year ₹ 18.86 crores)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

25. RBI has imposed a penalty of ₹ 0.15 crores vide letter dated 26th April 2011 in respect of foreign exchange derivative transactions done by the bank with certain corporates during the period 2007-08.

26. There are no Off-Balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms).

27. Bancassurance Business:

(₹ in crores)

Sr. No.	Nature of Income	For the year ended 31st March 2011	For the year ended 31st March 2010
1.	For selling life insurance policies	22.58	30.05
2.	For selling non life insurance policies	0.47	2.04
3.	For selling mutual fund products	50.46	41.74
4.	Others	—	—

28. Floating Provisions:

(₹ in crores)

	Particulars	31st March 2011	31st March 2010
(a)	Opening balance in the floating provisions account	NIL	NIL
(b)	The quantum of floating provisions made in the accounting year	NIL	NIL
(c)	Amount of draw down made during the accounting year	NIL	NIL
(d)	Closing Balance in floating provisions account	NIL	NIL

29. Draw Down from Reserves:

In accordance with the RBI requirement on creation and utilisation of Investment reserve in respect of HFT and AFS investments, reserve of ₹ 26.83 crores (net of taxes & applicable transfer to statutory reserves) has been utilised.

30. a) Status of Shareholder Complaints:

	Particulars	31st March 2011	31st March 2010
(a)	No. of complaints pending at the beginning of the year	NIL	NIL
(b)	No. of complaints received during the year	47	79
(c)	No. of complaints redressed during the year	45	79
(d)	No. of complaints pending at the end of the year	2*	NIL

* The two pending complaints have been resolved on 14th April 2011 and 19th April 2011 respectively.

b) Status of Customer Complaints:

	Particulars	31st March 2011	31st March 2010
(a)	No. of complaints pending at the beginning of the year	93	356
(b)	No. of complaints received during the year	2,409	9,330
(c)	No. of complaints redressed during the year	2,472	9,593
(d)	No. of complaints pending at the end of the year	30	93

c) Status of Awards passed by the Banking Ombudsman:

	Particulars	31st March 2011	31st March 2010
(a)	No. of unimplemented Awards at the beginning of the year	NIL	NIL
(b)	No. of Awards passed by the Banking Ombudsman during the year	NIL	1*
(c)	No. of Awards implemented during the year	NIL	1*
(d)	No. of unimplemented Awards at the end of the year	NIL	NIL

*The award represents payment to a customer which is to be recovered from another bank due to their deficiency in resolving one disputed ATM transaction.

The above details are as furnished by the Management and relied upon by the auditors.

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

31. Bank has not issued any letters of comfort during the year. There were no outstanding letters of comfort during the year end (Previous year Nil).

B. OTHER DISCLOSURES:

- Pursuant to the approval of the shareholders at the Annual General Meeting held on 21st July 2010, each equity share of the Bank having face value of ₹ 10 fully paid up was sub-divided into two equity shares of the face value of ₹ 5 each fully paid up as at 14th September 2010.
- In August 2010, the Bank allotted 1,64,00,000 equity shares of ₹ 10 each at a premium ₹ 823 per equity share for a total consideration of ₹ 1,366.12 crores on a preferential basis to Sumitomo Mitsui Banking Corporation. The net issue expenses of ₹ 0.58 crores related to the aforesaid issue have been charged to the securities premium account as allowed under section 78 of the Companies Act, 1956. The above expenses include ₹ 0.08 crores paid to the auditors in connection with the issue.
- Till 31st March 2010, the Bank used to account for market repurchase and reverse repurchase transactions in government securities and corporate debt securities, if any, as "sale and repurchase" transactions. However, as per RBI circular no. RBI/2009-2010/356 IDMD/ 4135/11.08.43/2009-10 dated 23rd March 2010; the Bank has started accounting for such transactions as "borrowing and lending" transactions, effective 1st April 2010. If the Bank had continued to account the reverse and reverse repurchase transactions as "sale and repurchase" at 31st March 2011, the investments would have been lower by ₹ 561.89 crores and the 'Balances with Banks and Money at call and short notice' and 'Borrowings' would have been lower by ₹ 51.07 crores and ₹ 612.96 crores respectively.

4. Earnings per Equity Share:

Particulars*	Year ended 31st March 2011	Year ended 31st March 2010
Reconciliation between weighted shares used in the computation of basic and diluted earnings per share:		
Weighted average number of equity shares used in computation of basic earnings per share	72,10,33,537	69,37,75,204
Effect of potential equity shares for stock options outstanding	43,68,154	74,00,562
Weighted average number of equity shares used in computation of diluted earnings per share	72,54,01,691	70,11,75,766
Following is the reconciliation between basic and diluted earnings per share:		
Nominal value per share	5.00	5.00
Basic earnings per share	11.35	8.09
Effect of potential equity shares for stock options	0.07	0.09
Diluted earnings per share	11.28	8.00
Earnings used in the computation of basic and diluted earnings per share (₹ in crores)	818.18	561.11

*The number of shares have been adjusted for split of equity shares from ₹ 10 paid up to ₹ 5 paid up per share in accordance with Accounting Standard (AS) 20, Earnings Per Share. The effect of the share split has been considered in computing earnings per share for the previous period.

5. Segment Reporting:

The Summary of the operating segments of the Bank for the year ended 31st March 2011 are as given below.

(₹ in crores)

	31st March 2011	31st March 2010
1. Segment Revenue		
a. Treasury and BMU	1,463.86	1,126.23
b. Corporate / Wholesale Banking	1,603.87	1,156.39
c. Retail Banking:		
(i) Lending	2,073.84	1,742.30
(ii) Branch Banking	987.29	755.36
(iii) Credit cards	51.74	60.38
Sub-total	3,112.87	2,558.04
d. Other Banking business	—	—
Sub-total	6,180.60	4,840.66

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(₹ in crores)

	31st March, 2011	31st March, 2010
Less: Inter-segmental revenue	1,244.26	956.88
Add: Unallocated Income	0.26	0.09
Total	4,936.60	3,883.87
2. Segment Results		
a. Treasury and BMU	304.83	367.46
b. Corporate / Wholesale Banking	543.89	385.46
c. Retail Banking:		
(i) Lending	664.98	377.51
(ii) Branch Banking	(263.25)	(189.05)
(iii) Credit cards	(63.01)	(127.40)
Sub-total	338.72	61.06
d. Other Banking business	—	—
Sub-total	1,187.44	813.98
Add: Unallocated Income	0.26	(2.87)
Total Profit Before Tax	1,187.70	811.11
Provision for Tax	369.52	250.00
Total Profit After Tax	818.18	561.11
3. Segment Assets		
a. Treasury and BMU	19,501.33	14,587.47
b. Corporate / Wholesale Banking	12,869.42	10,931.75
c. Retail Banking:		
(i) Lending	17,481.22	13,074.55
(ii) Branch Banking	15,567.29	11,713.92
(iii) Credit cards	141.10	197.81
Sub-total	33,189.61	24,986.28
d. Other Banking business	—	—
Sub-total	65,560.36	50,505.50
Less: Inter-segmental Assets	14,912.53	13,294.32
Total	50,647.83	37,211.18
Add: Unallocated Assets	202.84	225.14
Total Assets as per Balance Sheet	50,850.67	37,436.32
4. Segment Liabilities		
a. Treasury and BMU	17,605.14	13,053.13
b. Corporate / Wholesale Banking	11,086.11	9,789.53
c. Retail Banking:		
(i) Lending	14,517.83	11,392.90
(ii) Branch Banking	15,655.54	11,902.96
(iii) Credit cards	23.98	22.61
Sub-total	30,197.35	23,318.47
d. Other Banking business	—	—
Sub-total	58,888.60	46,161.13
Less: Inter-segmental Liabilities	14,912.53	13,294.32
Total	43,976.07	32,866.81

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(₹ in crores)

	31st March, 2011	31st March, 2010
Add: Unallocated liabilities	78.13	84.39
Add: Share Capital & Reserves & surplus	6,796.47	4,485.12
Total Liabilities as per Balance Sheet	50,850.67	37,436.32
5. Capital Expenditure		
a. Treasury and BMU	27.39	272.01
b. Corporate / Wholesale Banking	3.74	2.63
c. Retail Banking:		
(i) Lending	8.47	3.65
(ii) Branch Banking	59.05	29.39
(iii) Credit cards	0.59	1.91
Sub-total	68.11	34.95
d. Other Banking business	—	—
Total	99.24	309.59
6. Depreciation		
a. Treasury and BMU	42.94	37.60
b. Corporate / Wholesale Banking	4.02	4.73
c. Retail Banking:		
(i) Lending	6.95	7.61
(ii) Branch Banking	40.53	35.31
(iii) Credit cards	3.83	4.75
Sub-total	51.31	47.67
d. Other Banking business	—	—
Total	98.27	90.00

Segmental Information is provided as per the MIS available for internal reporting purposes, which includes certain estimates and assumptions. The methodology adopted in compiling and reporting the above information has been relied upon by the auditors.

6. Lease Disclosures:

- The Bank has taken various premises and equipment under operating lease. The lease payments recognised in the Profit and Loss Account are ₹ 115.73 crores (previous year ₹ 115.75 crores). The sub-lease income recognised in the Profit and Loss Account is ₹ 5.97 crores (previous year ₹ 5.33 crores).
- The future minimum lease payments under non cancellable operating lease – not later than one year is ₹ 111.59 crores (previous year ₹ 89.05 crores), later than one year but not later than five years is ₹ 356.45 crores (previous year ₹ 278.28 crores) and later than five years ₹ 138.00 crores (previous year ₹ 104.64 crores).

The lease terms include renewal option after expiry of primary lease period. There are no restrictions imposed by lease arrangements. There are escalation clauses in the lease agreements.

7. Deferred Taxes:

"Others" in Other Assets (Schedule 11 (VI)) includes deferred tax asset (net) of ₹ 199.63 crores (previous year ₹ 208.22 crores). The components of the same are as follows:

(₹ in crores)

Particulars	Year ended 31st March 2011	Year ended 31st March 2010
Provision for NPA and general provision on standard assets	173.26	189.99
Expenditure allowed on payment basis	23.19	15.94
Depreciation	3.18	2.29
Net Deferred Tax Asset	199.63	208.22

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

8. Fixed Assets as per Schedule 10 include intangible assets relating to software and system development expenditure which are as follows:

(₹ in crores)

Particulars	Year ended 31st March 2011	Year ended 31st March 2010
Gross Block		
At cost on 31st March of the preceding year	81.40	59.34
Additions during the year	12.45	22.06
Deductions during the year	—	—
Total	93.85	81.40
Depreciation		
As at 31st March of the preceding year	52.56	36.94
Charge for the year	17.82	15.66
Deductions during the year	—	0.04
Depreciation to date	70.38	52.56
Net Block	23.47	28.84

9. Related Party Disclosures:

A. Parties where control exists:

Nature of relationship	Related Party
Individual having control over the enterprise	Uday S. Kotak along with relatives and enterprises in which he has beneficial interest holds 45.56% of the equity share capital of Kotak Mahindra Bank Limited as on 31st March 2011
Subsidiary Companies	Kotak Mahindra Prime Limited Kotak Securities Limited Kotak Mahindra Capital Company Limited Kotak Mahindra Old Mutual Life Insurance Limited Kotak Mahindra Investments Limited Kotak Mahindra Asset Management Company Limited Kotak Mahindra Trustee Company Limited Kotak Mahindra (International) Limited Kotak Mahindra (UK) Limited Kotak Mahindra Inc. Global Investment Opportunities Fund Limited Kotak Investment Advisors Limited Kotak Mahindra Trusteeship Services Limited Kotak Forex Brokerage Limited Kotak Mahindra Pension Fund Limited Kotak Mahindra Financial Services Limited

B. Other Related Parties:

Nature of Relationship	Related Party
Associates	Business Standard Limited (till 16th June 2009) ACE Derivatives and Commodity Exchange Ltd. (Formerly known as Ahmedabad Commodity Exchange Limited) Kotak Mahindra Asset Reconstruction Company Limited (till 18th March 2011)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

B. Other Related Parties: (Contd.)

Nature of Relationship	Related Party
	Infina Finance Private Limited Matrix Business Services India Private Limited Phoenix ARC Private Limited Regency Hospitals Limited (till 30th March 2010)
Key Management Personnel*	Mr. Uday S. Kotak, Executive Vice Chairman and Managing Director Mr. C Jayaram, Executive Director Mr. Dipak Gupta, Executive Director
Enterprise over which Key Management Personnel have significant Influence*	Aero Agencies Limited Kotak & Company Limited Komaf Financial Services Limited Asian Machinery & Equipment Pvt. Ltd. Insurekot Investments Pvt. Ltd. Kotak Trustee Company Pvt. Ltd. Cumulus Trading Company Pvt. Ltd. Palko Properties Private Limited Kotak Chemicals Limited Kotak Ginning & Pressing Industries Limited Kotak Commodity Services Limited Harisiddha Trading and Finance Private Limited
Relatives of Key Management Personnel*	Ms. Pallavi Kotak Mr. Suresh Kotak Ms. Indira Kotak Mr. Jay Kotak Mr. Dhawal Kotak Ms. Aarti Chandaria Ms. Anita Gupta Ms. Urmila Gupta Ms. Usha Jayaram

(₹ in crores)

Items / Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Enterprise over which Relative of Key Management Personnel have control / significant influence	Relatives of Key Management Personnel	Total
Liabilities							
Deposits		1,947.99 (2,067.29)	364.87 (514.71)	13.50 (4.14)	91.95 (8.80)	0.74 (0.52)	2,419.05 (2,595.46)
Interest Payable		78.05 (98.41)	4.87 (7.53)	0.31 (0.16)	2.31 (0.56)	0.02 (0.01)	85.56 (106.67)
Other Liabilities		8.13 (3.35)	— (—)				8.13 (3.35)
Assets							
Advances		— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
Investments-Gross		515.90 (515.54)	29.98 (15.69)				545.88 (531.23)
Diminution on Investments			— (0.02)				— (0.02)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(₹ in crores)

Items / Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Enterprise over which Relative of Key Management Personnel have control / significant influence	Relatives of Key Management Personnel	Total
Commission Receivable		2.63 (4.54)	—				2.63 (4.54)
Others		9.11 (9.42)	0.01 (0.30)				9.12 (9.72)
Expenses							
Salaries / fees (Include ESOP)				7.35 (6.69)			7.35 (6.69)
Interest Paid		142.08 (142.65)	41.40 (31.70)	1.60 (0.35)	4.54 (1.35)	0.04 (0.03)	189.66 (176.08)
Others		1.06 (0.75)	1.18 (0.54)		2.26 (6.30)		4.50 (7.59)
Income							
Dividend		29.72 (11.88)					29.72 (11.88)
Interest Received		16.34 (19.06)	— (—)	— (—)	(—)	(—)	16.34 (19.06)
Others		69.93 (60.56)	0.80 (—)		— (—)		70.73 (60.56)
Other Transactions							
Sale of Investment		810.56 (329.50)			— (29.28)		810.56 (358.78)
Purchase of Investment		219.99 (577.78)			6.05 (—)		226.04 (577.78)
Purchase of Loan		30.07 (39.45)					30.07 (39.45)
Loan Disbursed		— (50.00)					— (50.00)
Loan repaid		— (225.00)					— (225.00)
Repo-Borrowings		5,851.01 (33.91)					5,851.01 (33.91)
Repo-Paid		5,852.16 (33.91)					5,852.16 (33.91)
Dividend paid				14.21 (12.53)		0.09 (0.08)	14.30 (12.61)
Reimbursement to companies		7.35 (6.78)	— (0.02)				7.35 (6.80)
Reimbursement from companies		81.58 (68.56)	2.93 (0.36)				84.51 (68.92)
Purchase of Fixed assets		0.40 (0.24)					0.40 (0.24)
Sale of Fixed assets		0.25 (0.29)					0.25 (0.29)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(₹ in crores)

Items / Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Enterprise over which Relative of Key Management Personnel have control / significant influence	Relatives of Key Management Personnel	Total
I. Liabilities:							
Other liabilities							
Other Payable							
Kotak Mahindra Prime Limited		0.04 (—)					0.04 (—)
Kotak Mahindra Capital Company		0.07 (1.03)					0.07 (1.03)
Kotak Mahindra (International) Limited		7.95 (2.29)					7.95 (2.29)
Other Subsidiaries		0.07 (0.03)					0.07 (0.03)
II. Assets:							
Investments							
Kotak Mahindra Old Mutual Life Insurance Limited		260.25 (260.25)					260.25 (260.25)
Kotak Mahindra Prime Ltd		202.92 (202.92)					202.92 (202.92)
Other Subsidiaries		52.73 (52.37)					52.73 (52.37)
ACE Derivatives and Commodity Exchange Ltd			29.98 (15.67)				29.98 (15.67)
Kotak Mahindra Asset Reconstruction Company Limited			— (0.02)				— (0.02)
Diminution on Investments							
Kotak Mahindra Asset Reconstruction Company Limited			— (0.02)				— (0.02)
Commission Receivable							
Kotak Mahindra Old Mutual Life Insurance Limited		2.63 (4.54)					2.63 (4.54)
Others							
Kotak Mahindra Prime Limited		4.46 (4.89)					4.46 (4.89)
Kotak Securities Limited		2.59 (3.06)					2.59 (3.06)
Other Subsidiaries / Associates		2.06 (1.47)	0.01 (0.30)				2.07 (1.77)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(₹ in crores)

Items / Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Enterprise over which Relative of Key Management Personnel have control / significant influence	Relatives of Key Management Personnel	Total
III. Expenses:							
Salaries / fees (Include ESOP)							
Mr. Uday Kotak				1.78 (1.13)			1.78 (1.13)
Mr. C Jayaram				2.73 (2.75)			2.73 (2.75)
Mr. Dipak Gupta				2.84 (2.81)			2.84 (2.81)
Other Expenses							
Brokerage							
Kotak Securities Limited		0.65 (0.31)					0.65 (0.31)
Premium							
Kotak Mahindra Old Mutual Life Insurance Limited		0.41 (0.44)					0.41 (0.44)
Other Expenses							
Aero Agencies Limited					1.81 (5.89)		1.81 (5.89)
Kotak & Company Limited					0.45 (0.41)		0.45 (0.41)
Other subsidiaries / Associates			1.18 (0.54)				1.18 (0.54)
IV. Income:							
Dividend							
Kotak Mahindra Asset Management Company Limited		27.72 (11.88)					27.72 (11.88)
Kotak Mahindra Trustee Co Ltd		2.00 (—)					2.00 (—)
Other Income							
Insurance Commission and Rental Income							
Kotak Mahindra Old Mutual Life Insurance Limited		28.65 (34.77)					28.65 (34.77)
Rental and other Income							
Kotak Securities Limited		11.95 (9.74)					11.95 (9.74)
Kotak Mahindra Capital Company Limited		4.84 (3.84)					4.84 (3.84)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(₹ in crores)

Items / Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Enterprise over which Relative of Key Management Personnel have control / significant influence	Relatives of Key Management Personnel	Total
Kotak Mahindra Asset Management Company Limited		3.25 (3.21)					3.25 (3.21)
Kotak Mahindra Prime Limited		12.24 (5.22)					12.24 (5.22)
Other Subsidiaries / entities		9.00 (3.78)					9.00 (3.78)
V. Other Transactions:							
Sale of Investment							
Kotak Mahindra Old Mutual Life Insurance Ltd.		810.56 (240.50)					810.56 (240.50)
Kotak Mahindra Prime Limited		— (89.00)					— (89.00)
Komaf Financial Services Limited					— (29.28)		— (29.28)
Purchase of Investments							
Kotak Mahindra Old Mutual Life Insurance Ltd.		172.41 (132.54)					172.41 (132.54)
Kotak Mahindra Prime Limited		42.06 (211.56)					42.06 (211.56)
Kotak Securities Limited		5.16 (167.75)					5.16 (167.75)
Kotak Forex Brokerage Limited		0.36 (—)					0.36 (—)
Other Subsidiaries		— (65.93)					— (65.93)
Komaf Financial Services Limited					6.05 (—)		6.05 (—)
Purchase of Loan							
Kotak Mahindra Prime Limited		30.07 (39.45)					30.07 (39.45)
Loan Disbursed							
Kotak Mahindra Prime Limited		— (50.00)					— (50.00)
Loan Repaid							
Kotak Mahindra Prime Limited		— (225.00)					— (225.00)
Repo Borrowings							
Kotak Mahindra Old Mutual Life Insurance Ltd.		5,851.01 (33.91)					5,851.01 (33.91)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(₹ in crores)

Items / Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Enterprise over which Relative of Key Management Personnel have control / significant influence	Relatives of Key Management Personnel	Total
Repo Paid							
Kotak Mahindra Old Mutual Life Insurance Ltd.		5,852.16 (33.91)					5,852.16 (33.91)
Dividend paid							
Mr. Uday Kotak				14.16 (12.49)			14.16 (12.49)
Mr. C. Jayaram				0.03 (0.02)			0.03 (0.02)
Mr. Dipak Gupta				0.02 (0.02)			0.02 (0.02)
Ms. Pallavi Kotak						0.02 (0.02)	0.02 (0.02)
Ms. Indira Kotak						0.05 (0.05)	0.05 (0.05)
Others						0.01 (0.01)	0.01 (0.01)
Reimbursements to companies							
Kotak Mahindra Capital Company Limited		1.20 (1.12)					1.20 (1.12)
Kotak Mahindra Prime Limited		4.45 (4.14)					4.45 (4.14)
Kotak Mahindra Old Mutual Life Insurance Limited		0.48 (0.48)					0.48 (0.48)
Kotak Securities Limited		1.17 (0.83)					1.17 (0.83)
Kotak Mahindra Investments Limited		— (0.10)					— (0.10)
Other Subsidiaries / Associates		0.05 (0.11)	— (0.02)				0.05 (0.13)
Reimbursements from companies							
Kotak Mahindra Capital Company Limited		4.68 (4.93)					4.68 (4.93)
Kotak Mahindra Prime Limited		9.49 (6.54)					9.49 (6.54)
Kotak Mahindra Old Mutual Life Insurance Limited		10.27 (6.12)					10.27 (6.12)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(₹ in crores)

Items / Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Enterprise over which Relative of Key Management Personnel have control / significant influence	Relatives of Key Management Personnel	Total
Kotak Securities Limited		44.81 (41.93)					44.81 (41.93)
Other Subsidiaries / Associates		12.33 (9.04)	2.93 (0.36)				15.26 (9.40)
Purchase of Fixed assets							
Kotak Mahindra Prime Limited		0.02 (0.04)					0.02 (0.04)
Kotak Securities Limited		0.30 (0.06)					0.30 (0.06)
Kotak Mahindra Capital Company Limited		— (0.11)					— (0.11)
Kotak Mahindra International Limited		0.02 (0.02)					0.02 (0.02)
Other Subsidiaries		0.06 (0.01)					0.06 (0.01)
Sale of Fixed assets							
Kotak Mahindra Capital Company Limited		— (0.06)					— (0.06)
Kotak Investment Advisors Limited		— (0.12)					— (0.12)
Kotak Mahindra Old Mutual Life Insurance Limited		0.20 (—)					0.20 (—)
Kotak Securities Limited		0.03 (0.11)					0.03 (0.11)
Kotak Mahindra Prime Ltd		0.02 (—)					0.02 (—)

Note:

- Figures in brackets represent previous year's figures.
- The above does not include any transactions in relation to listed securities done on recognised stock exchange during the year. However above includes transactions done on NDS with known related parties.
- # in the above table denotes amount less than ₹ 50,000.
- * List of related parties identified by management and relied upon by the auditors.

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

Maximum Balance outstanding during the year

(₹ in crores)

Items / Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Enterprise over which Relative of Key Management Personnel have control / significant influence	Relatives of Key Management Personnel
Liabilities						
Deposits		3,635.88 (5,118.09)	3,259.23 (3,303.65)	64.69 (18.93)	26.79 (75.76)	0.81 (0.81)
Other Liabilities		1.54 (0.83)	0.01 (—)			
Assets						
Advances		— (225.00)	— (—)			
Investments-Gross		515.92 (515.54)	29.98 (15.68)			
Diminution on Investments			— (0.02)			
Commission Receivable		9.88 (4.38)				
Others		31.85 (20.40)	0.87 (0.32)			

10. ESOPs:

At the General Meetings of the holding company, Kotak Mahindra Bank Limited, the shareholders of the Bank had unanimously passed Special Resolution on 28th July 2000, 26th July 2004, 26th July 2005, 5th July 2007 and 21st August 2007, to grant options to the eligible Employees of the Bank and its subsidiaries companies. Pursuant to these resolutions, the following four Employees Stock Option Schemes had been formulated and adopted:

- Kotak Mahindra Equity Option Scheme 2001-02
- Kotak Mahindra Equity Option Scheme 2002-03
- Kotak Mahindra Equity Option Scheme 2005
- Kotak Mahindra Equity Option Scheme 2007

Consequent to the above, the Bank has granted stock options to the employees of the Bank and its subsidiaries. The Bank under its various plan / schemes, has granted in aggregate 5,40,24,680 options as on 31st March 2011 (Previous year 4,92,75,440).

Stock appreciation rights

The Bank has also granted stock appreciation rights (SARs) to select employees which can be settled in cash. These options will vest on the respective due dates in a graded manner as per the terms and conditions of grant. The contractual life of the SARs range from 0.72 to 4.36 years.

Detail of activity under SARs is summarized below:

Particulars	Year ended 31st March 2011	Year ended 31st March 2010
Outstanding at the beginning of the year	2,65,300	—
Granted during the year	2,84,438	2,65,300
Additions due to transfer of employees	44,150	—
Settled during the year	1,32,670	—
Forfeited during the year	15,220	—
Outstanding at the end of the year	4,45,998	2,65,300

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

Equity-settled options

The Bank has granted options to its employees vide various employee stock option schemes. During the year ended 31st March 2011, the following schemes were in operation:

	Plan 2005	Plan 2007
Date of grant	Various Dates	Various Dates
Date of Board Approval	Various Dates	Various Dates
Date of Shareholder's approval	26th July 2005 as amended on 5th July 2007	5th July 2007 as amended on 21st August 2007
Number of options granted	1,09,73,200	2,41,34,480
Method of Settlement (Cash / Equity)	Equity	Equity
Vesting Period	1 – 4.13 years	1 – 4.31 years
Exercise Period	0.42 – 0.92 years	0.17 – 1.01 years
Vesting Conditions	Graded / Cliff vesting	Graded / Cliff vesting

The details of activity under Plan 2005 have been summarized below:

	Year ended 31st March 2011		Year ended 31st March 2010	
	Number of Shares	Weighted Average Exercise Price (₹)	Number of Shares	Weighted Average Exercise Price (₹)
Outstanding at the beginning of the year	49,88,600	164.36	67,59,340	147.86
Granted during the year	—	—	—	—
Forfeited during the year	2,81,200	162.84	3,26,500	157.93
Exercised during the year	46,42,120	165.71	14,39,500	91.76
Expired during the year	65,280	75.00	4,740	75.00
Outstanding at the end of the year	—	—	49,88,600	164.36
Out of the above exercisable at the end of the year	—	—	3,53,600	86.17
Weighted average remaining contractual life (in years)	—	—	0.72	—
Weighted average fair value of options granted	—	—	—	—

The details of activity under Plan 2007 have been summarized below:

	Year ended 31st March 2011		Year ended 31st March 2010	
	Number of Shares	Weighted Average Exercise Price (₹)	Number of Shares	Weighted Average Exercise Price (₹)
Outstanding at the beginning of the year	1,28,14,250	236.42	1,69,54,594	224.54
Granted during the year*	47,49,240	308.63	3,06,040	198.59
Forfeited during the year	9,29,424	282.17	8,62,972	238.89
Exercised during the year	31,46,430	175.78	35,05,736	173.04
Expired during the year	67,626	463.92	77,676	326.68
Outstanding at the end of the year*	1,34,20,010	271.88	1,28,14,250	236.42
Out of the above exercisable at the end of the year	13,65,190	235.82	16,70,738	147.14
Weighted average remaining contractual life (in years)	1.82	—	1.98	—
Weighted average fair value of options granted	206.73	—	260.04	—

The weighted average share price at the date of exercise for stock options exercised during the year was ₹ 437.07 (Previous year ₹ 363.99).

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

The details of exercise price for stock options outstanding at the end of the year are:

31st March 2011

Range of exercise prices (₹)	Number of options outstanding	Weighted average remaining contractual life of options (in years)	Weighted average exercise price (₹)
0-100	30,854	1.34	5.00
101-200	28,87,906	2.00	140.45
201-300	24,14,450	1.73	220.66
301-400	80,34,800	1.78	334.38
401-500	52,000	2.09	449.52

31st March 2010

Range of exercise prices (₹)	Number of options outstanding	Weighted average remaining contractual life of options (in years)	Weighted average exercise price (₹)
0-100	4,23,680	0.52	55.63
101-200	97,16,674	1.40	154.55
201-300	24,26,496	1.89	206.43
301-400	50,74,000	2.06	341.66
401-500	87,000	1.20	492.24
601-700	75,000	1.42	625.00

In May 2010, the ESOP / Compensation Committee of the Bank accorded approval to the changes in exercise price of two stock option series granted on 10th May 2010. In addition to reduction in exercise price, in respect of one of the series, the vesting date of the last tranche has been preponed by 0.58 years in May 2010. The incremental intrinsic value resulting from the above modifications amounted to ₹ 55 and ₹ 30 (post split) respectively. The incremental intrinsic value is amortised from the modification date till the vesting date or the revised vesting date as the case may be. The incremental intrinsic value is measured as the difference between the intrinsic value of the modified stock options and that of the original stock options, both estimated as at the date of the modification.

Stock Options granted

The fair value of the equity-settled and cash-settled options is estimated on the date of grant using Black Scholes options pricing model taking into account the terms and conditions upon which the options were granted. The fair value of the cash-settled options is remeasured at the each reporting date. The following table lists the inputs to the model used for equity-settled and cash-settled options:

	Year ended 31st March 2011		Year ended 31st March 2010	
	Equity-settled	Cash-settled	Equity-settled	Cash-settled
Exercise Price ₹	200 – 422	5	5 – 475	5
Weighted Average Share Price ₹	401.14	380.17	381.04	382.21
Expected Volatility	31.56%-65.43%	22.16%-57.98%	57.71%-77.02%	36.26%-67.54%
Historical Volatility	31.56%-65.43%	22.16%-57.98%	57.71%-77.02%	36.26%-67.54%
Life of the options granted (Vesting and exercise period) in years	1.00 – 4.44	0.08 – 3.09	1.06 – 4.42	0.67 – 4.09
Risk-free interest rate	5.54%-7.66%	7.28%-7.86%	4.65%-7.22%	4.78%-7.37%
Expected dividend rate	0.09%-0.11%	0.10%	0.09%-0.19%	0.10%

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

The expected volatility was determined based on historical volatility data; historical volatility includes early years of the Bank's life; the Bank expects the volatility of its share price to reduce as it matures. The above information has been prepared by the Bank and relied upon by the auditors.

Effect of the employee share-based payment plans on the Profit and Loss account and on its financial position:

(₹ in crores)

	Year ended 31st March 2011	Year ended 31st March 2010
Total Employee Compensation Cost pertaining to share-based payment plans	25.26	14.75
Compensation Cost pertaining to equity-settled employee share-based payment plan included above	9.38	13.60
Liability for employee stock options outstanding as at year end	70.43	76.56
Deferred Compensation Cost	33.52	21.76
Closing balance of liability for cash-settled options	10.51	1.15
Expense arising from increase in intrinsic value of liability for cash stock appreciation plan	0.19	—

Had the company recorded the compensation cost computed on the basis of Fair Valuation method instead of intrinsic value method, employee compensation cost would have been higher by ₹ 23.25 crores (Previous year ₹ 24.09 crores) and the profit after tax would have been lower by ₹ 15.52 crores (Previous year ₹ 15.90 crores). Consequently the basic and diluted EPS would have been ₹ 11.13 (Previous year ₹ 7.86) and ₹ 11.07 (Previous year ₹ 7.78) respectively.

In respect of employee stock options granted to employees of the subsidiaries, the Bank recovers the related compensation cost from the respective subsidiaries, except in respect of employee stock options granted to the managing director of one subsidiary of the Bank, where the Bank has not recovered the related compensation cost aggregating ₹ 0.45 crores (Previous year ₹ 1.02 crores) from the subsidiary in the current year.

The above numbers of ESOPs / SARs, exercise price, fair value and share price have been adjusted for split of the underlying equity shares from ₹ 10 paid up to ₹ 5 paid up per share.

In computing the above information, certain estimates and assumptions have been made by the Management which have been relied upon by the auditors.

11. Advances securitised by the Bank:

(₹ in crores)

Particulars	Year ended 31st March 2011	Year ended 31st March 2010
Book value of advances securitised	—	500.00
Number of accounts	—	1
Sale consideration received for the accounts securitised	—	500.65
Gain on securitisation amortised during the year	*0.55	1.99
Credit enhancement, liquidity support provided	—	—
Provision on securitised assets	—	—
Nature of post securitisation support	Collection and paying agent or servicer	Collection and paying agent or servicer

* Represents amortisation of previous years securitisation transactions.

12. Employee Benefits:

- The Bank has recognised the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds

Provident Fund	₹ 29.26 crores
	(Previous year ₹ 22.17 crores)
Superannuation Fund	₹ 0.48 crores
	(Previous year ₹ 0.50 crores)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

- ii. In accordance with law, the Bank provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee's salary and the years of employment with the Bank subject to maximum of ₹ 0.10 crores.
- The gratuity benefit is provided to the employees through a fund administered by a Board of Trustees and managed by Kotak Mahindra Old Mutual Life Insurance Limited. The Bank is responsible for settling the gratuity obligation through contributions to the fund. The plan is fully funded.
- iii. Reconciliation of opening and closing balance of present value of defined benefit obligation for gratuity benefits is given below:

(₹ in crores)

Particulars	As at 31st March 2011	As at 31st March 2010
Change in benefit obligations		
Liability at the beginning of the year	22.19	19.75
Current Service cost	6.43	6.09
Interest cost	2.15	1.73
Actuarial Losses / (Gain)	4.12	(0.49)
Past Service Cost	9.01	
Liability assumed on acquisition / (Settled on divestiture)	0.43	(0.58)
Benefits paid	(4.48)	(4.31)
Liability at the end of the year	39.85	22.19
Change in plan assets		
Fair value of plan assets at the beginning of the year	25.63	15.39
Expected return on plan assets	1.94	1.17
Actuarial Gain / (Losses)	0.64	4.61
Benefits paid	(4.48)	(4.31)
Employer contributions	10.93	8.77
Fair value of plan assets at the end of the year	34.66	25.63

(₹ in crores)

Reconciliation of present value of the obligation and the fair value of the plan assets	As at 31st March 2011	As at 31st March 2010
Fair value of plan assets at the end of the year	34.66	25.63
Liability at the end of the year	39.85	22.19
Net Asset / (Liability)	(5.19)	3.44
Expense recognised for the year		
Current Service cost	6.43	6.09
Interest cost	2.15	1.73
Expected return on plan assets	(1.94)	(1.17)
Actuarial (gain) / loss	3.48	(5.10)
Past Service Cost	9.01	—
Net gratuity expense	19.13	1.55
Actual return on plan assets	2.57	5.78

(₹ in crores)

Reconciliation of the Liability recognised in the Balance Sheet	31st March 2011	31st March 2010
Net Liability / (Asset) at the beginning of the year	(3.44)	4.36
Expense recognised	19.13	1.55
Liability assumed on acquisition / (Settled on divestiture)	0.43	(0.58)
Employer contributions	(10.93)	(8.77)
Net Liability / (Asset)	5.19	(3.44)

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

Investment details of plan assets

The plan assets are invested in insurer managed funds.

Actuarial assumptions used

Interest rate	8.26% p.a. (Previous year 8.01% p.a.)
Salary escalation rate	15% p.a. for first 2 years, 10% p.a. for next 2 years & 6% p.a. thereafter (Previous year 15% p.a. for first 2 years, 10% p.a. for next 2 years & 6% p.a. thereafter)
Expected return on plan assets	7.50% p.a. (Previous year 7.50% p.a.)

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The above information is as certified by the actuary and relied upon by the auditors.

Experience adjustments

Amounts for the current and previous three years are as follows:

The Company expects to contribute ₹ 6.00 crores to gratuity fund in 2011-12.

(₹ In crores)

	Gratuity Year ended 31st March				
	2011	2010	2009	2008	2007
Defined benefit obligation	39.85	22.19	19.75	14.41	8.54
Plan assets	34.66	25.63	15.39	13.96	9.26
Surplus / (deficit)	(5.19)	3.44	(4.36)	(0.45)	0.72
Experience adjustments on plan liabilities	3.07	(0.47)	(2.59)	0.96	0.92
Experience adjustments on plan assets	0.64	4.61	(3.58)	1.38	0.49

13. Provisions and Contingencies:

Breakup of "Provisions and Contingencies" shown under the head Expenditure in Profit and Loss Account

(₹ in crores)

Particulars	31st March 2011	31st March 2010
Provisions for depreciation on Investment	53.10	(2.40)
Provision towards NPA (including write-offs; net of write-backs)	100.74	465.29
Provision towards restructured assets	—	3.33
Provision towards Standard Asset	—	—
Provision for Taxes	369.52	250.00
Other Provision and Contingencies*(net)	(16.75)	19.67
Total Provisions and Contingencies	506.61	735.89

*For year ended 31st March 2011 includes write-back of provisions against derivative contracts ₹ (21.41) crores (Previous year provision of ₹ 14.83 crores) and provision for fees receivable ₹ 4.66 crores (Previous year ₹ 4.84 crores).

14. The Bank receives deposits from customers as part of margin requirements in respect of its professional clearing member (PCM) business with National Securities Clearing Corporation Ltd (NSCCL). Correspondingly, the Bank is required to maintain margins / deposits with NSCCL. For the said purpose of placing margins / deposits, the Bank has issued its own Fixed Deposit receipts amounting to ₹ 582.85 crores (Previous year ₹ 591.41 crores) in favour of NSCCL which have not been included in "Term Deposits from Others" [Schedule 3 (III) (ii)].

15. Tier II Bonds

- a) Lower Tier II Bonds outstanding as at 31st March 2011 ₹ 465.70 crores (Previous year ₹ 465.70 crores).

During the year, the Bank did not raise lower Tier II bonds (Previous year Nil). In accordance with the RBI requirements lower Tier II bonds of ₹ 113.48 crores (Previous year ₹ 65.48 crores) are not considered as Tier II capital for the purposes of capital adequacy computation.

Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

- b) Upper Tier II Bonds outstanding as at 31st March 2011 ₹ 336.68 crores (Previous year ₹ 338.05 crores) of which bonds issued outside India ₹ 200.68 crores (Previous year ₹ 202.05 crores).

During the year, the Bank did not raise upper Tier II bonds. (Previous year Nil).

- c) Interest Expended-Others (Schedule 15(III)) includes interest on subordinated debt (Lower and Upper Tier II) ₹ 57.49 crores (Previous year ₹ 58.10 crores).

16. Description of Contingent Liabilities:

Sr. No.	Contingent Liability*	Brief Description
1.	Claims not acknowledged as debts	This includes liability on account of income tax, interest tax, sales tax and lease tax demands and legal cases filed against the Bank. The Bank is a party to various legal proceedings in the normal course of business. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's financial conditions, result of operations or cash flows. Against the above ₹ 31.52 crores have been paid, which shall be refunded to the Bank, if the outcome of the legal proceedings will be in the favour of the Bank.
2.	Liability on account of outstanding forward exchange contracts	The Bank enters into foreign exchange contracts with inter Bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate.
3.	Guarantees on behalf of constituents in India	As a part of its Banking activities, the Bank issues guarantees on behalf of its customers. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of customer failing to fulfill its financial or performance obligations.
4.	Acceptances, endorsements and other obligations	These includes: <ul style="list-style-type: none"> Documentary credit such as letters of obligations, enhance the credit standing of the customers of the Bank. Bills re-discounted by the Bank and cash collateral provided by the Bank on assets which have been securitised.
5.	Other items for which the Bank is contingently liable	These include: <ul style="list-style-type: none"> Liabilities in respect of interest rate swaps, currency swaps, forward rate agreements and options contracts. The Bank enters into these transactions with inter Bank participants on its own account and for customers. Currency Swaps are commitments to exchange cash flows by way of interest / principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts that are recorded as contingent liabilities are amounts used as a benchmark for the calculation of interest component of the contracts. Liability in respect of Capital commitments relating to fixed assets and undrawn commitments in respect of investments.

* Also refer Schedule 12 – Contingent Liabilities

17. The Bank has not received any intimation from "suppliers" regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid / payable as required under the said Act have not been given.

18. Figures for the previous year have been regrouped / reclassified wherever necessary to conform to current year's presentation.

For and on behalf of the Board of Directors

Dr. Shankar Acharya
Chairman

Uday Kotak
Executive Vice Chairman &
Managing Director

Dipak Gupta
Executive Director

Jaimin Bhatt
Group Chief Financial Officer

Bina Chandarana
Company Secretary

Mumbai, 5th May 2011

Notes

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Notes

Revisiting the last 25 Annual Reports



1985-86



1986-87



1987-88



1988-89



1989-90



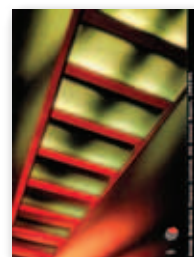
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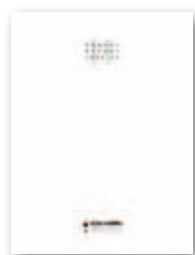
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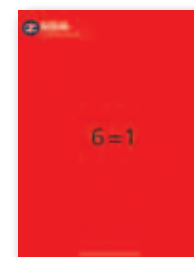
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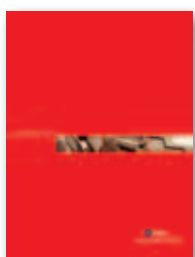
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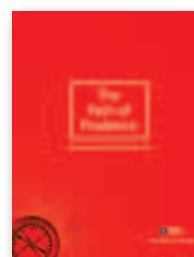
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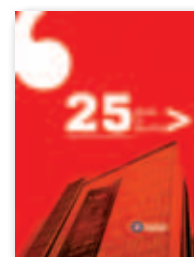
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