

# VALUE CREATION WITH STABILITY



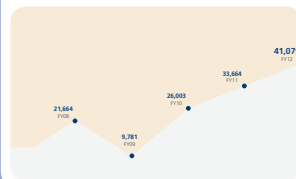
ANNUAL  
REPORT  
2011-12

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### 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

**Messrs. S.B. Billimoria & Co.,**  
Chartered Accountants,  
12, Dr. Annie Besant Road,  
Opp. Shiv Sagar Estate, Worli,  
Mumbai 400 018.

### 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.

Making a stronger case **for stability**, amid economic volatility;

**Transforming possibilities** into vibrant realities across rural, sub-urban and urban India;

**Strengthening financial competitiveness** for decades on end;

Looking closely at people capabilities to create a **new performance paradigm**;

Inspired by a belief that value creation is a journey that never stops and criss-crosses people across the social pyramid.

# That's Kotak Mahindra Bank in a nutshell for you.

Diverse stakeholder aspirations. One robust commitment for value.

Not intermittently, but consistently.

Call it a seasoned art or sensible science, our objective is cut out for us: **deliver on stakeholder expectations with passion and set the bar a little higher each time.**

# The face of stability

**We have always been forward thinkers in our work.  
Value creation and stability is the focal point of our service delivery.**

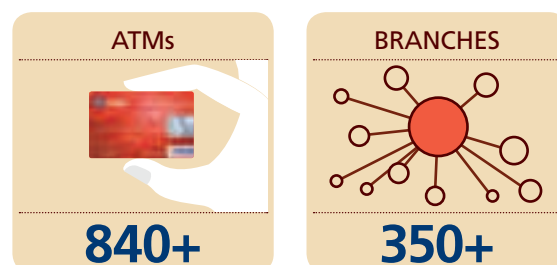
Our journey commenced on 21st November, 1985, when we spotted an opportunity in the bill discounting market. Today, Kotak Mahindra Group has emerged as one of the leading financial conglomerates.

In February 2003, Kotak Mahindra Finance Limited, our Group's flagship company, became the first non-banking finance company in India to receive a banking license from the Reserve Bank of India (RBI).

**Thus, Kotak Mahindra Bank Limited was formed.**

Our expertise, infrastructure and most importantly commitment are geared to deliver pragmatic, functional and end-to-end solutions. From **consumer banking, commercial banking, wholesale banking to wealth management, stock broking, mutual fund, life insurance and investment banking**, the Group caters to the diverse financial needs of individuals and the corporate sector, both domestic and international.

## Kotak Mahindra Bank's strong network



## ISO 10002: 2004

Second bank and the fourth organisation in India to achieve this certification for Complaints Management System in Retail Liabilities and Branch Banking – a commitment to customer service



Kotak Infiniti, Malad (E)



**Consolidated net worth**  
of Kotak Mahindra Group

**CONSUMER BANKING**

- Offers retail liabilities and retail assets businesses under a single umbrella of Consumer Banking with common ownership and supervision to provide a seamless customer experience, offering a variety of products under a single window
- Offers a range of services from savings account to a comprehensive suite of investment services, transactional conveniences and loan products
- Caters to the diverse needs of the business community by offering them comprehensive business solutions, such as current account, trade services, cash management services and credit facilities

**COMMERCIAL BANKING**

- Plays a significant role in fulfilling the mission of funding deep into Bharat through an expanding network of branches and associates
- Meets a substantial portion of the priority sector lending, including agricultural funding

**WHOLESALE BANKING**

- Caters to the dynamic requirements of large Indian Corporate Bodies, Financial Institutions, Public Sector Undertakings, Multinational Companies, Mid-Market Companies and Real Estate Sector
- Offers a comprehensive portfolio of products & services – Working Capital Financing, Export Credit, Transaction Banking, Custody Services, Debt Capital Markets and Treasury Services

**WEALTH MANAGEMENT**

- One of the largest and the most respected wealth management teams in India
- Possesses in-depth understanding of the client's requirements, macro environment and various asset classes

**BROKERAGE BUSINESS (Kotak Securities Limited)**

- One of the largest broking houses in India
- Institutional Equities division is among the leading institutional brokers in India
- Covers secondary market broking and markets Indian equity offerings to retail investors and domestic and foreign institutional investors (FIIs)
- Full-fledged research division engaged in macro-economic studies, industry-specific and company-specific equity research

**INVESTMENT BANKING (Kotak Mahindra Capital Company Limited)**

- Offers the complete suite of capital market solutions and financial advisory services to leading Indian and multinational clients across diverse sectors
- Has pioneered new capital market products in India and worked on the development of some of the most path breaking innovations in the Indian capital markets

**MUTUAL FUND (Kotak Mahindra Mutual Fund)**

- Offers schemes catering to investors with varying risk-return profiles, across a wide range of products in the equity, debt and ETF space
- Distinction of being India's first fund house to launch a dedicated gilt scheme, investing only in government securities

**LIFE INSURANCE (Kotak Mahindra Old Mutual Life Insurance Limited)**

- Combines international strengths and local advantages to offer customers a wide range of innovative products
- Among the early private life insurers to break-even, reflecting our stellar management practices and customer-centric philosophy

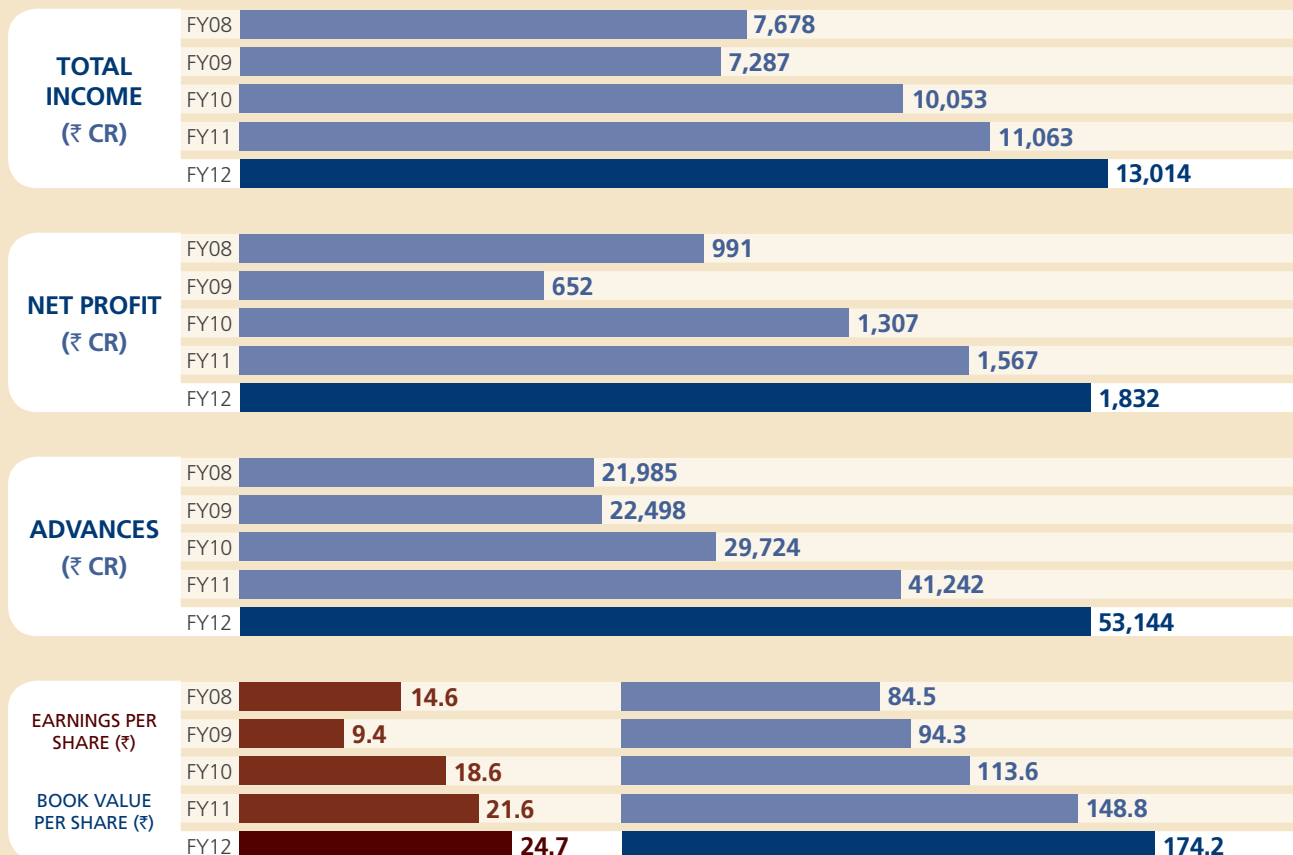
**ALTERNATE ASSETS (Kotak Investment Advisors Limited)**

- Primarily focuses on the alternate asset management business of the group
- Successfully building its business across two verticals – Private Equity and Realty Funds, both led by independent investment teams. Also launched an Infrastructure PE Fund in collaboration with Sumitomo Mitsui Banking Corporation of Japan, and Brookfield Asset Management of Canada.
- Kotak Realty Fund's inaugural ₹ 457 crore domestic fund, 'Kotak India Real Estate Fund-I' became the first property fund in India to return the entire corpus of the fund back to investors; the fund still has other investments that remain to be exited

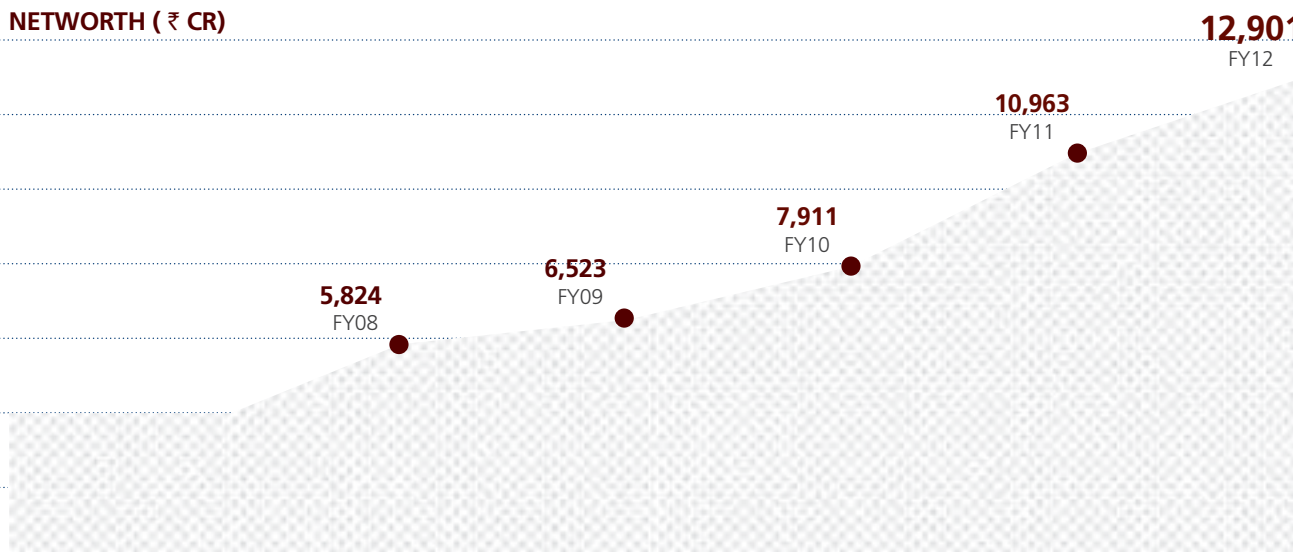
**INTERNATIONAL BUSINESS (Kotak Mahindra (UK) Limited, Kotak Mahindra (International) Limited, Kotak Mahindra Inc, Kotak Mahindra Financial Services Limited)**

- Operates in overseas markets through international subsidiaries
- Overseas dedicated fund management team provides investment solutions to international investors seeking investment opportunities in India
- Offers possibly the widest range of Indian investment products for international investors

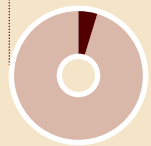
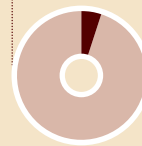
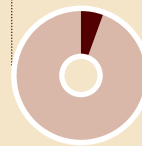
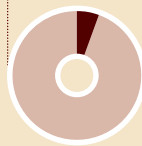
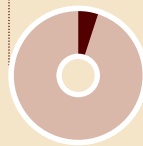
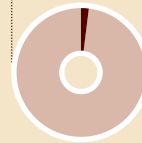
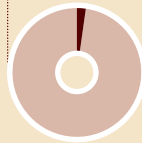
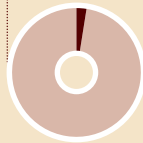
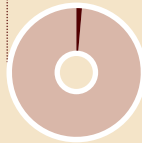
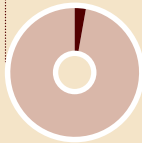
# The bottomline is stability



## NETWORTH (₹ CR)



All figures are consolidated

NET INTEREST  
MARGIN (%)FY08  
**5.2**FY09  
**5.8**FY10  
**5.8**FY11  
**5.2**FY12  
**4.8**RETURN ON  
ASSETS (%)FY08  
**2.9**FY09  
**1.6**FY10  
**2.7**FY11  
**2.4**FY12  
**2.2**GROUP AUM  
(₹ CR)EQUITY  
DEBT

FY08 23,931

FY09 16,674

FY10 21,612

FY11 21,126

FY12 18,937

12,576

17,235

23,612

26,724

27,040

## MARKET CAPITALISATION (₹ CR)

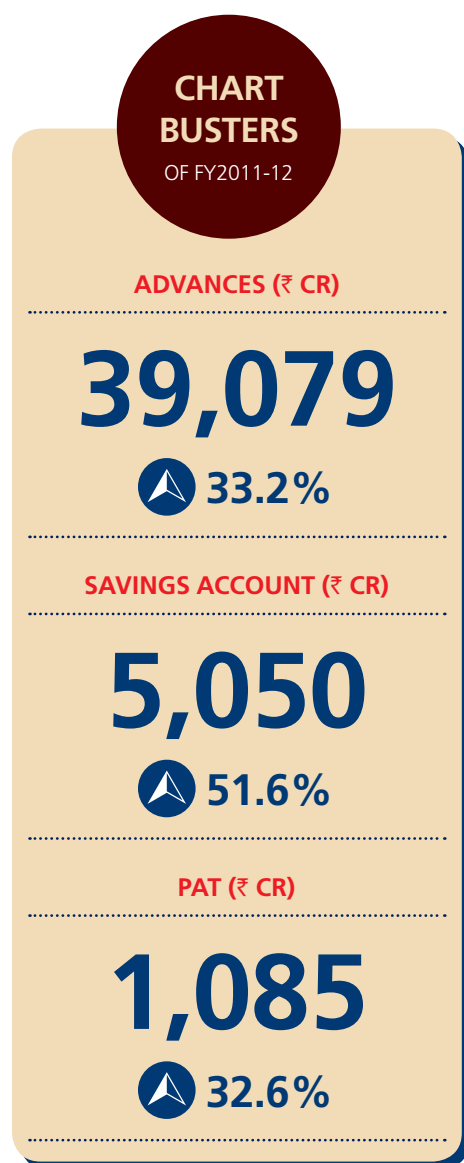
21,573  
FY089,755  
FY0926,046  
FY1033,738  
FY1140,394  
FY12

Based on prices at NSE on the last working day of the financial year

All figures are consolidated

# The bottomline is stability

(contd.)



Bank standalone figures

## Operational highlights FY2011-12

### BANK

- Offered Salary2Wealth Account to the Indian Army, Indian Railways, Indian Posts, private sector players and PSU companies, including some of the Navratna companies
- Scaled up the financial inclusion programme
- Launched Silk, a savings programme for women
- Introduced Probationary Officer's Course, providing young Indian graduates a career opportunity in the lucrative banking sector
- Kotak Wealth with Crisil published the first-of-its-kind India-specific report 'Top of the Pyramid' on Ultra HNIs

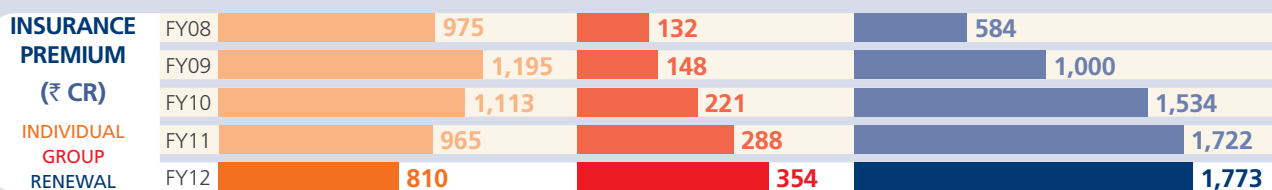
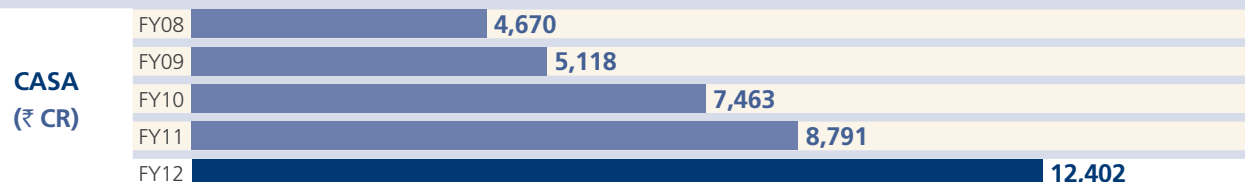
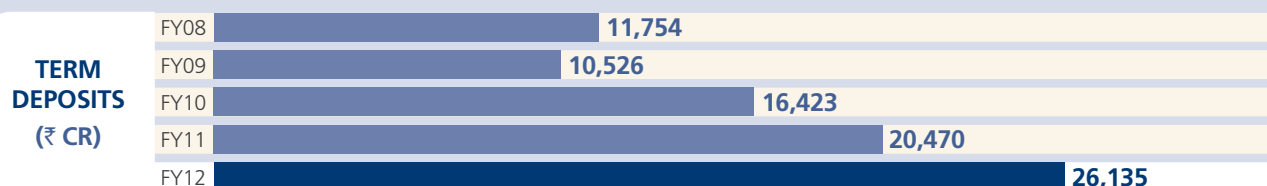
### OTHER BUSINESSES

- Kotak's International Business raised close to US\$457 million through debt funds including an infra debt fund of about US\$ 223 million
- Kotak Mahindra Old Mutual Life Insurance's Group Insurance business has migrated to the Group Asia system, which will help it seamlessly process huge volumes of data through the year, significantly improving the company's ability to serve over 3 million members of its Group clients
- Kotak Investment Banking successfully closed several deals during the year including the first-ever Institutional Placement Programme (IPP) in the Indian Capital Markets



TOP  
SCORES

OF FY2011-12

**PRESENCE**  
ACROSS INDIAN CITIES AND TOWNS

525+

**GROUP CUSTOMER ACCOUNTS**10<sup>MN</sup>17.5%  
CAPITAL  
ADEQUACY RATIO29.0%  
5-YEAR CAGR OF  
ADVANCES28.5%  
5-YEAR CAGR OF  
DEPOSITS

Figures for term deposit, CASA, capital adequacy ratio, 5-year CAGR of advances and 5-year CAGR of deposits are bank standalone



Uday Kotak

Executive Vice Chairman &  
Managing Director

# Message from Uday Kotak

Dear Friend,

**As I write this note, the world is on the edge about the future of Euro zone. "Grexit" is the new terminology. A global bank has announced a US\$ 2 bn treasury loss on trading credit derivatives. Facebook is having trouble with its post IPO phase. The business of money is truly "fragile, handle with care".**

I am reminded of my early days, when I was taught the first principles of finance: if you put in ₹ 10 of equity and borrow ₹ 100, you can lend out ₹ 110. However, if just ₹ 5 of loans out of the ₹ 110 go bad, you lose 50% of your equity, and it takes just ₹ 10 of assets going bad to bankrupt you!

It is quite surprising how global finance had missed this basic principle, their vision blurred perhaps by the jargon of risk weights, tier II capital, et al. We have seen financial institutions with less than 2 to 3 % equity, i.e. effective debt equity ratio of 40 and 50 times, positioning themselves as masters of global finance. And that is what has brought the financial sector down on its knees. It is important that banks focus both on "return on equity" as well as on "return of equity".

It is only now that the importance of an "Arjuna's eye" kind of focus on risk and risk management is gaining centre stage, along with the importance of "Financial Stability" as the core of what the financial sector and financial institutions need to focus on and be evaluated for.

Also, over the years, I have found banks focusing more on the P&L than on the Balance Sheet. In fact, particularly for banks, the Balance Sheet is more important, and P&L is only a derivative of the Balance Sheet.

It is through this lens that we look at the Indian economy, financial sector and Kotak.

The Indian economy has valid reasons to complain about the global economy and policy. Global financial policy of easy money is leading to unintended market outcomes, that too without achieving the intended

economic outcomes. In terms of market outcomes we are seeing bubbles in bond markets and commodities. Both need to burst, and my view is that they will, sooner rather than later.

But India's macro challenges are more than just global headwinds. High oil and high gold imports, combined with a relatively high-cost and inefficient domestic sector impacting commensurate export competitiveness have caused a high current account deficit of 4% of GDP.

Second, the inability of the fisc. to pass on higher oil costs is one of the main reasons for a higher fiscal deficit of 5.9% at the centre and around 9% for India consolidated.

And third, the much debated governance deficit challenges. It is critical to get the balance right between good politics and good economics.

The outcome for India macro is 20% more depreciation of currency in less than a year, and slowdown in growth to between 6 and 7%. While, this leads to short term challenges, I feel that some of the pain is priced in and with a little wind from the policy front, India has the ability to bounce back in due course of time.

That brings me to India's financial sector. One of the most important challenges in the banking sector is its ability to define and price risk. The sector very often takes equity type risks for debt level returns. Also, a few large companies particularly in sensitive sectors like infrastructure, have a disproportionate slice of banks' balance sheets. Therefore, concentration risk is real for Indian banks. Further, a well intended measure of

**0.6%**

NET NPA

**₹ 39,079<sup>CR</sup>**

ADVANCES

**₹ 2,512<sup>CR</sup>**

NET INTEREST INCOME

*Bank standalone figures*

smoothening cash flows through restructuring runs the risk of becoming a tool for 'ever greening'.

Against this backdrop, how are we at Kotak running the firm?

First of all we have ensured higher equity to absorb potential shocks. We are at about 16% core equity excluding any Tier-II etc. Further, we are doing our best to imagine potential risks and have a game plan to manage them.

And we are continuing to build. The big focus is on building a stable and low cost liability base. We have embraced the policy measure on savings deregulation and are seeing a positive customer response. We intend to make progress on Government accounts which are now open for all banks to pursue.

On the advances side we grew at about 30%, and would like to continue a good growth trajectory. But if we spot red lights, we will not hesitate to step on the brakes as well.

Our non-financing businesses like securities, investment banking, asset management and life insurance are going through their structural and cyclical challenges. But, we believe that their time too will come, and we are positioning ourselves to become internally stronger in this interim period.

The other internal focus is around technology, quality, lower people churn and continuity, superior customer experience leading to excellence, and all this at reasonable

costs. On the external side, we are more open to inorganic growth opportunities than we have been in earlier times.

**I look forward to building a stable and long term institution, focused on customer delight. Of course, if I may paraphrase Robert Frost just a bit, we have *"miles to go before we sleep"*.**

Best wishes,



# Consistent value-creation, despite market vagaries Paradox? Possible.

**Our value focus is ingrained in the way we think, act and make sense of the world around us.**

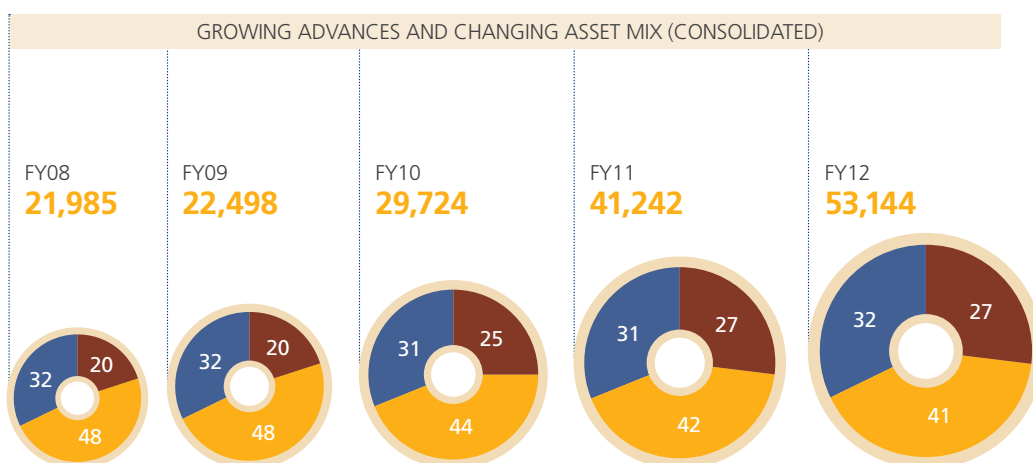
Our value-creation approach has been validated by an external report\*, identifying us as the most consistent wealth creators across India, from 2001 to 2011.

**We have sustainably altered our asset mix to preserve value.**

\* Motilal Oswal's 16th Annual Wealth Creation Study 2011

**ADVANCES (₹ CR)**

- CONSUMER (%)
- COMMERCIAL (%)
- WHOLESALE (%)

**HIGH CAPITAL ADEQUACY (%)**

Figures for capital adequacy ratio, tier I and net restructured assets are bank standalone  
Net restructured assets from FY2009 onwards

# Chasing value with an eagle eye

We have developed an eagle's eye for identifying value-creating potential across Middle India. Representing swathes of opportunity, perching between the extremities of urban and rural India.

Tier II and tier III cities are grabbing eyeballs. For, the next wave of demand will emanate from these locations. We are responding to this opportunity by increasingly focusing on the flexible and customised lending solutions, primarily to SMEs and business supply chains.





## Are dreams born on roads?

A boy runs away from his home. Dreams, struggles and perseveres. He then goes to create one of the best South Indian restaurant chains of India, and even goes international.

**A bank believed in his conviction to make it big in life, and funded his start-up capital.**

Stuff for blockbuster movies? Here are the details.

The man (no longer a boy) is Jayaram Banan, founder of the Sagar Ratna Empire. The bank is Kotak Mahindra Bank.

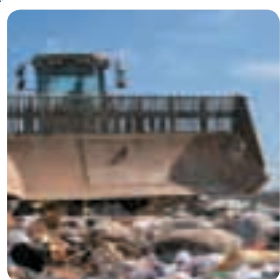


## How far is commodity trading from transportation business?

Nobody knows better than Nemichand Mehta.

He wanted to buy his own truck for the transportation of his commodities to avoid expensive freight cost. **Kotak Mahindra funded his vehicle purchase and also advised him to opt for second-hand vehicles and reduce capex expenditure, as he did not ply his vehicles on long distances.**

The sensible advice paved the way for an endearing and enduring relationship. The man has traversed a long distance. This is the story of Nemichand Mehta of Navkar Corporation.



## Wealth in waste

A father-son duo (mechanics) started their business of vehicle fabrication in 1956. The fabrication business provided satisfactory returns, but they were bracing up for a big leap forward. They wanted to venture into the business of waste management.

Easier dreamt than done...

Such a venture required expensive specialised trucks, each costing around ₹ 50 lakhs.

Help came from unexpected quarters. **Kotak Mahindra funded their truck purchase and facilitated their business expansion from vehicle fabrication to waste management. Today their company owns more than 1,000 vehicles.**

The story of Anthony Waste Management proves beyond doubt that wealth and waste go together.

# Bharat, a treasure trove of opportunities

At Kotak Mahindra, our business model is more attuned to borrowing from urban India and lending it to Bharat. We have simultaneously met our targets on advances to the agricultural sector and also maintained a financially viable portfolio of agricultural loans with lowest delinquency across banks. Thanks to our collateralised lending approach and deep engagement across the entire value spectrum.

We finance the entire value chain across industries. For example, in the cotton industry we finance farmers, ginners, *aratiyas*, traders, exporters, spinners and even mill owners. The benefits are two-fold:

- Market intelligence through a detailed understanding of a particular business, commodity price movements, crop seasonality, nature of funding facilities and cross references of large players across geographies for a given output
- Our customers further refer Kotak Mahindra Bank to their suppliers/clients to gain a benefit of at par and same-day credits

### GIVING WINGS TO ASPIRATIONS



Hardeep Singh

*"The Bank funded my first truck and since then I have successfully managed and scaled up my transportation business. I thank God and the bank that has given me the opportunity to successfully look after my family and uplift our social status."*



Hansaben B  
Hajipura, Sarpanch

*"To us, one of the trusted faces of modernity is Kotak Mahindra. They have started mobile banking services in our Gram Panchayat, enabling villagers to access their savings account from the village itself. The service has benefited us significantly."*

We are also marking a significant presence in the tractor and vehicle financing, without risking profitability. Our latest technology-based solutions has widened our network of financial inclusion, deepening the emotional connect with the community.

103,794

No frill accounts

316

Number of villages penetrated

72,768

Biometric smart cards issued

30+ locations

Agri-business team presence (other than metros and state capitals)

### MAKING CONSIDERABLE INROADS INTO TRACTOR FINANCING

1 lakh+ Customer base

230 districts Geographically covering 70% of the industry

11.5% Market share in states where we are present

# Strengthening liability side acumen

At Kotak Mahindra, our in-house research showed that people were inadequately informed about the benefits they could avail from the interest rate deregulation.

We leveraged these findings and created a compelling value proposition for our customers. Our marketing campaign successfully communicated how a 2% increase in savings account interest is equivalent to 50% additional gains for the customer.

**CASA  
(%)**

|      |    |
|------|----|
| FY08 | 27 |
| FY09 | 32 |
| FY10 | 31 |
| FY11 | 30 |
| FY12 | 32 |

**CA  
(₹ CR)**

|      |       |
|------|-------|
| FY08 | 3,152 |
| FY09 | 3,418 |
| FY10 | 4,992 |
| FY11 | 5,460 |
| FY12 | 7,352 |

**SA  
(₹ CR)**

|      |       |
|------|-------|
| FY08 | 1,518 |
| FY09 | 1,700 |
| FY10 | 2,471 |
| FY11 | 3,331 |
| FY12 | 5,050 |

Bank standalone figures

# Preserving value through future readiness

**At Kotak Mahindra, we are future-ready. We are driving our ambitious growth plans through investments in processes and technologies.**

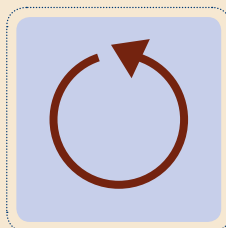
We undertook a project to replace our Core Banking System (CBS) with Finacle 10 – a functionally rich (yet scalable) technology backbone, without any business disruptions. This improved organisational flexibility and ensured that the new solution integrates seamlessly with other systems in the bank.

Our enhanced delivery offerings through a centralised platform resulted in a significant improvement in services and customer experience.

Automation of manual processes leading to improved turnaround time

Enhanced internet banking experience for customers

Multi-tiered sweep facility, multi-currency and multi-country operations



360 degree view of customer through CBS for a faster and efficient service

*"Technology is playing an important role in building tomorrow's banks and we are excited to collaborate with progressive banks like Kotak Mahindra Bank, to set new benchmarks for excellence in the banking industry. We are happy that Kotak Mahindra Bank has been able to derive significant benefits in terms of both growth and operational efficiencies."*

Haragopal Mangipudi,  
Global Head - Finacle™, Infosys

# Value smart

## People are at the forefront of our value creation enterprise.

They work closely at each level of the relationship edifice and help create an ecosystem of cooperation and trust.

Our senior management have stayed on with us and is delivering outstanding performance year after year. We have managed to emerge as a people-focused organisation, willing to learn and grow with evolving times.

We have also laid an equal emphasis on levels of employee engagement with a consistent focus on building stability and scalability across all levels of the organisation through talent management. Besides, we developed leadership platforms like KLT (Kotak Leadership Team), KIT (Kotak Initiatives Team) and Regional Forums (RF) to promote cross-functional reach of leadership across the organisation.

### RECOGNITIONS

- Ranked 10th in APAC (Asia Pacific) Top Companies for Leaders (2011) (study was conducted by Aon Hewitt in partnership with Fortune and RBL Group)
- Continued to be ranked amongst the Top 25 Best Employers in India since 2007 (study conducted every 18-24 months by Aon Hewitt)
- Recognised amongst the Top 25 Best Companies to Work For (study conducted by Great Places to Work Institute, India, in partnership with The Economic Times)

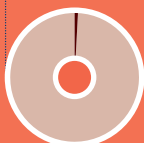
#### TOTAL NUMBER OF PEOPLE ACROSS THE GROUP



22,092

1%

Annual attrition rate of senior management



< 6%

Annual attrition rate of middle management



# Awards and accolades

## Kotak Mahindra Bank

### FINANCIAL LEADERSHIP AWARD

Mr. Uday Kotak, Executive Vice Chairman & Managing Director of Kotak Mahindra Bank was presented with the Financial Leadership Award at NDTV Profit Biz Excellence Award 2011

### AMONG THE TOP 5 IN INDIA

Awarded (among the Top 5 in India) by IR Global for having:

- Best Ranked Corporate Governance Practices
- Best Ranked IR Website in India

### PROCESS EXCELLENCE IN RISK MANAGEMENT

Won the Trailblazer Awards 2012 for the Process Excellence in Risk Management category by Banking & Payments Asia

### ALTERNATIVE THINKING

Won the Mahindra Navistar Transport Excellence Award 2011 for Alternative Thinking in the Commercial Vehicle Financier Category

### INDIA'S 11TH BEST EMPLOYER

Ranked as 11th Best Employer in India by Aon Hewitt (We continue to be the only Banking and Financial Services Organisation to be a part of the Top 25)

### BEST HR PRACTICES

Won the Best HR Practices Award in Reward & Recognition Strategies at Shinejobs.com HR Leadership Awards

The South Asian Federation of Accountants (SAFA), a forum of professional accountancy bodies in the South Asian Region awarded a Certificate of Merit for the **Best Presented Accounts and Corporate Governance Disclosure** for FY 2009-10

The careers page was adjudged the **Most Talent Friendly Website** by The Global Talent Metric (GTM) and People Matters (based on high quality, good unique branding and quality responses to job applications)

Won the Asian Banker Award 2011, along with Cisco, for the **Best Contact Centre Deployment**

Won bronze under the category of **Best Local Trade Bank in India** by the Trade & Forfeiting Review (TFR) Awards 2011

Won the Product Excellence Award for **Kotak Interbank Mobile Payment Service** at the Banking & Payments Asia Trailblazer Awards 2011

Awarded the **Best Local Cash Management Bank** In India, as voted by corporates for all three categories, Small (turnover < US\$ 100 Mn), Medium (turnover- US\$ 100 to 500 Mn) and Large (>US\$ 500 Mn turnover companies) by Asiamoney in 2011

Won the finalist award for **Information Security in BFSI segment**, awarded by the Data Security Counsel of India (DSCI)

Awarded the EDGE 2011 award for the **Group CRM** project by Information Week (UBM group)

Won a Remmy award for **The Best Recruitment Ad 2012** in the BFSI category

Kotak Mahindra Bank was ranked 10th in the Asia Pacific List of **Top Companies for Leaders Study** 2011 by Aon Hewitt in partnership with Fortune and RBL group



1

**1) NDTV AWARD**

Mr. Uday Kotak, Executive Vice Chairman & Managing Director, Kotak Mahindra Bank receives the Financial Leadership Award at NDTV Profit Biz Excellence Award 2011 from Hon'ble Union Cabinet Minister, Finance, Shri Pranab Mukherjee

**2) TOP COMPANIES FOR LEADERS STUDY 2011 BY AON HEWITT**

Mr. Subhro Bhaduri, Executive Vice President & Head, Human Resources, Kotak Mahindra Bank (extreme left) and Mr. Dipak Gupta, Joint Managing Director, Kotak Mahindra Bank (extreme right) receive the award for Top Companies for Leaders Study 2011 by Aon Hewitt (ranked 10th in the Asia Pacific list) from Mr. Ajay Soni, Asia Pacific Practice Leader, Leadership Consulting, Aon Hewitt and Mr. Pete Sanborn, Global Talent and Organisation Practice Leader, Aon Hewitt

**3) ICAI AWARD**

Mr. Jaimin Bhatt, President and Group CFO, Kotak Mahindra Bank (extreme right) receives the ICAI's silver award for Excellence in Financial Reporting (under Category II – Private Banks for FY 2011) from Hon'ble Union Cabinet Minister, Corporate Affairs, Dr.(Shri) M. Veerappa Moily

2



3



## Kotak Investment Banking

=====

**India's best Investment  
Bank and Equity House  
in India**

by FinanceAsia

**Best Domestic Equity  
House**

by Asiamoney

**India's best Bank for  
equity finance and debt  
capital markets**

in the Euromoney Real  
Estate Poll

## Kotak Mutual Fund

=====

Kotak Bond Fund (Regular Plan-Growth) won the **Best Fund Award-10 year category** at the Lipper Fund Awards

**CNBC TV18-CRISIL Mutual Fund Award 2012-Best Performing Mutual Fund of the Year-INDEX FUNDS: Kotak SENSEX ETF**

# Awards and accolades

(contd.)

## Kotak Institutional Equities

**Ranked 2nd** by Institutional Investor in the inaugural All-India Research Team survey

**Ranked 2nd** for **Best Overall Country Research** and 3rd for **Best Overall Sales Services** in the Asiamoney Brokers Poll for 2011, in addition to being voted as the **Best Local Brokerage** (for the 6th year in a row)

Named **India's Best Brokerage House** by the Starmine Awards FY 2011-12

## Kotak Life Insurance

Awarded for **Innovation in Sales Enablement** at Financial Insights Innovation Awards (FIIA, Insurance) held at the Asian Insurance Congress (AFS) in Singapore, August 2011 for its Life Advisor portal; the portal also won Information Week's EDGE Award for 2011 for the use of IT for **maximising business impact**

Integrated Communications Platform (Adobe Document Management) won Information Week's EDGE Award for 2011 for the use of **IT for maximising business impact**

## Kotak Wealth Management

**India's Best Private Bank** by Finance Asia Country Awards 2011

**India's Best Private Banking Services Overall** by Euromoney 2011

**Winner in 17 categories including:**

- Range of Investment Products
- Range of Advisory Services
- Family Office Services
- Corporate Advisory for Private Banking Clients

**Won multiple categories in Euromoney 2012 including:**

- Range of Investment Products
- Range of Advisory Services
- Family Office Services
- Corporate Advisory for Private Banking Clients

# Financial inclusion



In spite of inclusive economic growth over the past decade, almost half the country is still unbanked in India. Financial inclusion has become a buzzword with

concerns about those excluded from the banking system. The key barriers to formal banking system are identified as culture, gender, income and assets, education (especially financial literacy), proof of identity, remoteness of residence. Nationwide efforts are being made especially by authorities, regulators and banking community to improve access to affordable financial services through financial education and leveraging technology.

Kotak Mahindra Bank has continued its progress during FY2011-12 towards its three years Financial Inclusion Plan (FIP) and has further augmented the initiatives undertaken during FY2010-11. The bank has deployed specialised resources to implement and achieve the plan. The board approved FIP remained an integral part of the business plan with objectives of (a) Enhancing bank's outreach using evolving models (b) Leveraging on latest technology based solutions.

The bank has added 54,465 No-Frills accounts during FY2011-12 taking the cumulative numbers to a total of 1,03,794. While the bank has continued its Business Correspondents arrangement with FINO Fintech Foundation, it engaged Manipal Technologies Ltd. during the current financial year.

Under Information and Communication Technology (ICT) based delivery mechanism using Business Correspondents

Model (Branchless Banking), the bank has (a) expanded the ongoing Biometric Smart Card based solution deployed at Mehsana to the adjoining Banaskantha district of Gujarat and (b) has kick started a new initiative at Silvassa in an all online environment. The Bank has issued 41,193 instant Smart Cards (E-Pass book) during FY2011-12 by way of opening No-Frill accounts under relaxed KYC norms taking the cumulative numbers to a total of 72,768.

A total of 316 villages have been provided with basis banking services (savings accounts, deposits, withdrawals etc.) with deployment of 64 Customers Service Points (CSP) till FY2011-12. The bank has also successfully covered all the 3 villages allotted to it under "Financial Inclusion Plan 2000+ population".

The other key initiatives include introduction of relaxed KYC norms and Insta Kit account opening for No-Frills opened at bank branches. The bank has been successfully empanelled during FY2011-12 with Unique Identification Authority of India (UIDAI) for receiving data in four districts (namely Ahmedabad, Mehsana, Mumbai and Surat) for opening bank accounts during Aadhaar enrolment.



## Financial Highlights

### Consolidated

₹ in crore

| FINANCIAL HIGHLIGHTS | FY2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012       |
|----------------------|--------|---------|---------|---------|---------------|
| Advances             | 21,985 | 22,498  | 29,724  | 41,242  | <b>53,144</b> |
| Investments*         | 9,698  | 9,794   | 13,200  | 18,279  | <b>23,261</b> |
| Total Assets         | 40,597 | 40,234  | 55,115  | 73,681  | <b>92,349</b> |
| Net Profit           | 991    | 652     | 1,307   | 1,567   | <b>1,832</b>  |

\* Excludes Policyholders' investments

| KEY FINANCIAL INDICATORS                          | FY2008 | FY2009 | FY2010 | FY 2011 | FY 2012      |
|---|--------|--------|--------|---------|--------------|
| Net Interest Margin (NIM)                         | 5.2%   | 5.8%   | 5.8%   | 5.2%    | <b>4.8%</b>  |
| Return on Average Assets (RoAA)                   | 2.9%   | 1.6%   | 2.7%   | 2.4%    | <b>2.2%</b>  |
| Book Value Per Share (₹)                          | 84     | 94     | 114    | 149     | <b>174</b>   |
| Earnings Per Share (EPS) Face Value ₹ 5 per share | 14.6   | 9.4    | 18.6   | 21.6    | <b>24.7</b>  |
| Return on Equity (RoE)                            | 22.3%  | 10.5%  | 18.2%  | 16.4%   | <b>15.4%</b> |
| Capital Adequacy Ratio                            | 20.2%  | 22.5%  | 19.3%  | 19.5%   | <b>17.9%</b> |
| Gross NPA (₹ cr)*                                 | 183    | 506    | 647    | 469     | <b>561</b>   |
| Net NPA (₹ cr)*                                   | 70     | 262    | 338    | 178     | <b>260</b>   |
| Gross NPA Ratio*                                  | 0.9%   | 2.3%   | 2.2%   | 1.1%    | <b>1.1%</b>  |
| Net NPA Ratio*                                    | 0.3%   | 1.2%   | 1.1%   | 0.4%    | <b>0.5%</b>  |

\* Excludes stressed assets acquired from other Banks and NBFCs

| MARKET RELATED RATIOS        | FY2008 | FY2009 | FY2010 | FY 2011 | FY 2012       |
|------------------------------|--------|--------|--------|---------|---------------|
| Market Price (₹)             | 314    | 141    | 375    | 457     | <b>545</b>    |
| Market Capitalization (₹ cr) | 21,664 | 9,781  | 26,076 | 33,664  | <b>40,394</b> |
| Price to Book Ratio          | 3.7    | 1.5    | 3.3    | 3.1     | <b>3.1</b>    |
| Price to Earnings Ratio      | 21.5   | 15.0   | 20.1   | 21.2    | <b>22.0</b>   |



## Financial Highlights 2011-2012

## Standalone

(₹ in crores)

| FINANCIAL HIGHLIGHTS            | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012       |
|---------------------------------|---------|---------|---------|---------|---------------|
| Deposits                        | 16,424  | 15,644  | 23,886  | 29,261  | <b>38,537</b> |
| Advances                        | 15,552  | 16,625  | 20,775  | 29,329  | <b>39,079</b> |
| Investments                     | 9,142   | 9,110   | 12,513  | 17,121  | <b>21,567</b> |
| Total Assets                    | 28,312  | 28,712  | 37,436  | 50,851  | <b>65,666</b> |
| Net Interest Income (NII)       | 1,147   | 1,453   | 1,779   | 2,098   | <b>2,512</b>  |
| Fee Income                      | 301     | 290     | 385     | 467     | <b>578</b>    |
| Other Non Interest Income       | 299     | 50      | 323     | 314     | <b>399</b>    |
| Operating profit                | 728     | 596     | 1,297   | 1,325   | <b>1,655</b>  |
| Provisions and Contingencies    | 330     | 170     | 486     | 137     | <b>55</b>     |
| Tax Provision                   | 104     | 150     | 250     | 370     | <b>515</b>    |
| Net Profit                      | 294     | 276     | 561     | 818     | <b>1,085</b>  |
| <b>Key Financial Indicators</b> |         |         |         |         |               |
| Net Interest Margins (NIM)      | 5.1%    | 5.7%    | 6.0%    | 5.2%    | <b>4.7%</b>   |
| Cost to Income Ratio            | 58.3%   | 66.8%   | 47.8%   | 54.0%   | <b>53.0%</b>  |
| Return on Average Assets (ROAA) | 1.1%    | 1.0%    | 1.7%    | 1.8%    | <b>1.8%</b>   |
| Fee / NII Plus other Income     | 17.2%   | 16.2%   | 15.5%   | 16.2%   | <b>16.6%</b>  |
| NII / NII Plus other Income     | 65.7%   | 81.0%   | 71.5%   | 72.9%   | <b>72.0%</b>  |
| Capital Adequacy Ratio          | 18.7%   | 20.0%   | 18.4%   | 19.9%   | <b>17.5%</b>  |
| Tier I                          | 14.5%   | 16.1%   | 15.4%   | 18.0%   | <b>15.7%</b>  |
| Gross NPA Ratio*                | 1.0%    | 2.5%    | 2.4%    | 1.2%    | <b>1.2%</b>   |
| Net NPA Ratio*                  | 0.4%    | 1.3%    | 1.3%    | 0.5%    | <b>0.6%</b>   |

\*Excludes stress Assets acquired from other Banks and NBFCs



## Consolidation at a Glance

₹ in Lakhs

|  | 2011-2012            |                     | 2010-2011            |                     | March 31 2012       | March 31 2011       |
|--|----------------------|---------------------|----------------------|---------------------|---------------------|---------------------|
|  | Profit<br>before Tax | Profit<br>after Tax | Profit<br>before Tax | Profit<br>after Tax | Networth            | Networth            |
| <b>Kotak Mahindra Bank Limited</b>                                       | <b>159,992.65</b>    | <b>108,505.30</b>   | 118,770.18           | 81,818.21           | <b>794,593.90</b>   | 679,647.20          |
| <b>Subsidiaries</b>  |                      |                     |                      |                     |                     |                     |
| Kotak Mahindra Prime Limited   | <b>57,033.84</b>     | <b>38,487.58</b>    | 48,188.43            | 31,786.27           | <b>192,133.51</b>   | 153,757.56          |
| Kotak Securities Limited   | <b>19,148.92</b>     | <b>12,582.17</b>    | 27,157.26            | 18,193.79           | <b>181,977.08</b>   | 169,394.91          |
| Kotak Mahindra Capital Company Limited                                   | <b>942.30</b>        | <b>593.81</b>       | 7,022.77             | 5,188.86            | <b>49,528.46</b>    | 48,934.65           |
| Kotak Mahindra Old Mutual Life Insurance Limited                         | <b>20,324.82</b>     | <b>20,324.82</b>    | 10,247.45            | 10,247.45           | <b>61,293.18</b>    | 41,284.54           |
| Kotak Mahindra Investments Limited                                       | <b>2,726.07</b>      | <b>1,525.13</b>     | 3,320.47             | 2,399.87            | <b>26,958.37</b>    | 25,433.24           |
| Kotak Mahindra Asset Management Company Limited                          | <b>2,011.41</b>      | <b>1,435.17</b>     | 1,468.03             | 1,062.00            | <b>7,188.67</b>     | 5,837.47            |
| Kotak Mahindra Trustee Company Limited                                   | <b>1,047.08</b>      | <b>756.44</b>       | 990.14               | 668.10              | <b>3,681.15</b>     | 2,924.71            |
| Kotak Mahindra (International) Limited                                   | <b>(267.61)</b>      | <b>(335.27)</b>     | 4,727.81             | 4,605.42            | <b>21,105.54</b>    | 18,832.91           |
| Kotak Mahindra (UK) Limited  | <b>(152.02)</b>      | <b>(121.82)</b>     | 1,285.56             | 918.54              | <b>10,771.90</b>    | 9,555.83            |
| Kotak Mahindra, Inc.   | <b>(572.76)</b>      | <b>(470.03)</b>     | (542.81)             | (380.58)            | <b>2,622.38</b>     | 2,736.14            |
| Kotak Investment Advisors Limited  | <b>5,221.27</b>      | <b>3,612.79</b>     | 4,922.24             | 3,271.41            | <b>19,220.52</b>    | 15,607.73           |
| Kotak Mahindra Trusteeship Services Limited                              | <b>112.09</b>        | <b>75.70</b>        | 109.69               | 72.87               | <b>361.80</b>       | 286.10              |
| Kotak Forex Brokerage Limited  | <b>(4.34)</b>        | <b>(4.34)</b>       | (45.53)              | (45.53)             | <b>39.06</b>        | 43.40               |
| Kotak Mahindra Pension Fund Ltd  | <b>(51.99)</b>       | <b>(51.99)</b>      | (57.25)              | (57.25)             | <b>1,028.58</b>     | 1,080.57            |
| Kotak Mahindra Financial Services Ltd                                    | <b>(187.27)</b>      | <b>(187.27)</b>     | (26.91)              | (26.91)             | <b>225.94</b>       | 254.63              |
| <b>Total</b>   | <b>267,324.46</b>    | <b>186,728.19</b>   | <b>227,537.53</b>    | <b>159,722.52</b>   | <b>1,372,730.04</b> | <b>1,175,611.59</b> |
| Add: Associates  |                      | <b>3,455.09</b>     |                      | 2,386.23            | <b>49,969.60</b>    | 46,220.74           |
| Less: Dividend, Minority interest,<br>Inter company and other adjustment |                      | <b>(6,959.75)</b>   |                      | (5,434.28)          | <b>132,595.01</b>   | 125,538.21          |
| <b>Consolidated Profit After Tax/Netwoth</b>                             |                      | <b>183,223.53</b>   |                      | <b>156,674.47</b>   | <b>1,290,104.63</b> | <b>1,096,294.12</b> |
| <b>Consolidated Earnings per Share (₹)</b>                               |                      | <b>24.67</b>        |                      | <b>21.60</b>        |                     |                     |
| <b>Consolidated Book Value per Share (₹)</b>                             |                      |                     |                      |                     | <b>174.18</b>       | 148.78              |



# 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 (the Bank and its subsidiaries constitute "the Group") as at 31st March, 2012, the Consolidated Profit and Loss account and the Consolidated Cash Flow Statement of the Group for the year ended on that date, both 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 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 misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of twelve subsidiaries, whose financial statements reflect total assets of ₹ 144,197,455 (in thousands) as at 31st March 2012, total revenue of ₹ 42,468,971 (in thousands) and net cash outflows amounting to ₹ 31,207 (in thousands) for the year then ended as considered in the Consolidated Financial Statements. The financial statements and other financial information of these subsidiaries have been audited by other auditors whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of the other auditors.
4. The financial statements also include ₹ 9,828 (in thousands) being the Group's proportionate share in the net profit of two associates (carrying value ₹ 69,943 (in thousands)) which has been recognised on the basis of the unaudited financial information available with the Group.
5. The auditors of a subsidiary company of the Bank, Kotak Mahindra Old Mutual Life Insurance Limited ("the Company"), have reported in their audit opinion "the actuarial valuation of liabilities for life policies in force is the responsibility of the Company's Appointed Actuary ("the Appointed Actuary"). The actuarial valuation of these liabilities as at 31st March 2012 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") ("Authority") and the Actuarial society of India in concurrence with the Authority. The auditors of the Company have relied upon the Appointed Actuary's certificate in this regard for forming an opinion on the valuation of liabilities for life policies in force and for policies in respect of which premium has been discontinued but liability exists on financial statements of the Company".
6. We report that the Consolidated Financial Statements have been prepared by the Bank 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 under the Companies (Accounting Standards) Rules, 2006.
7. 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 the explanations given to us, we are of the opinion that the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at 31st March, 2012;
  - (b) in the case of the Consolidated Statement of Profit and Loss, of the profit of the Group for the year ended on that date and
  - (c) in the case of the Consolidated Cash Flow Statement, of the cash flows of the Group for the year ended on that date.

### For S.B Billimoria & Co.

Chartered Accountants  
(Firm Registration No. 101496W)

### Kalpesh J. Mehta

Partner  
(Membership No. 48791)

Mumbai, 8th May 2012



## Consolidated Balance Sheet as at 31st March 2012

(₹ in thousands)

|  | Schedule | As at<br>31st March 2012 | As at<br>31st March 2011 |
|--|----------|--------------------------|--------------------------|
| <b>CAPITAL AND LIABILITIES</b>   |          |                          |                          |
| Capital  | 1        | 3,703,448                | 3,684,358                |
| Reserves and Surplus   | 2        | 125,307,015              | 105,945,054              |
| Minority Interest  | 2A       | 1,600,557                | 1,072,112                |
| Employees' Stock Options (Grants) Outstanding                                      |          | 348,207                  | 369,172                  |
| Deposits   | 3        | 364,607,303              | 273,129,755              |
| Borrowings   | 4        | 291,946,852              | 220,733,209              |
| Policyholders' Funds   |          | 90,115,340               | 81,452,019               |
| Other Liabilities and Provisions   | 5        | 45,865,216               | 50,425,593               |
| <b>Total</b>   |          | <b>923,493,938</b>       | <b>736,811,272</b>       |
| <b>ASSETS</b>  |          |                          |                          |
| Cash and Balances with Reserve Bank of India                                       | 6        | 20,306,320               | 21,148,573               |
| Balances with Banks and Money at Call and Short Notice                             | 7        | 15,452,015               | 8,793,951                |
| Investments  | 8        | 316,584,326              | 260,489,873              |
| Advances   | 9        | 531,436,091              | 412,419,529              |
| Fixed Assets   | 10       | 6,118,745                | 5,970,011                |
| Other Assets   | 11       | 33,562,247               | 27,955,141               |
| Goodwill on Consolidation  |          | 34,194                   | 34,194                   |
| <b>Total</b>   |          | <b>923,493,938</b>       | <b>736,811,272</b>       |
| Contingent Liabilities   | 12       | 406,452,817              | 366,400,173              |
| Bills for Collection   |          | 12,229,129               | 10,534,742               |
| 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 and on behalf of the Board of Directors

**For S. B. Billimoria & Co.**  
Chartered Accountants

**Dr. Shankar Acharya**  
Chairman

**Uday Kotak**  
Executive Vice Chairman  
and Managing Director

**Kalpesh J. Mehta**  
Partner

**Dipak Gupta**  
Joint Managing Director

Mumbai, 8th May 2012

**Jaimin Bhatt**  
President and Group Chief  
Financial Officer

**Bina Chandarana**  
Company Secretary



**Consolidated Profit And Loss Account** for the year ended 31st March 2012

(₹ in thousands)

|   | Schedule | Year ended<br>31st March 2012 | Year ended<br>31st March 2011 |
|---|----------|-------------------------------|-------------------------------|
| <b>I. INCOME</b>  |          |                               |                               |
| Interest earned   | 13       | 84,704,198                    | 59,731,123                    |
| Other Income  | 14       | 45,433,975                    | 50,898,513                    |
| <b>Total</b>  |          | <b>130,138,173</b>            | 110,629,636                   |
| <b>II. EXPENDITURE</b>  |          |                               |                               |
| Interest expended   | 15       | 45,419,568                    | 26,682,405                    |
| Operating expenses  | 16       | 57,166,245                    | 59,997,243                    |
| Provisions and Contingencies (Refer Note 7 - Schedule 17)                             |          | 9,047,071                     | 8,257,638                     |
| <b>Total</b>  |          | <b>111,632,884</b>            | 94,937,286                    |
| <b>III. PROFIT</b>  |          |                               |                               |
| <b>Net Profit for the year</b>  |          | <b>18,505,289</b>             | 15,692,350                    |
| Less: Share of Minority Interest  |          | 528,445                       | 263,526                       |
| Add: Share in profit / (loss) of Associates   |          | 345,509                       | 238,623                       |
| <b>Consolidated Profit for the year attributable to the Group</b>                     |          | <b>18,322,353</b>             | 15,667,447                    |
| Add : Surplus brought forward from previous year                                      |          | 49,626,168                    | 37,202,874                    |
| <b>Total</b>  |          | <b>67,948,521</b>             | 52,870,321                    |
| <b>IV. APPROPRIATIONS</b>   |          |                               |                               |
| Transfer to Statutory Reserve   |          | 2,712,700                     | 2,045,500                     |
| Transfer to Special Reserve u/s 45 IC of RBI Act, 1934                                |          | 800,352                       | 683,725                       |
| Transfer to Special Reserve u/s 36(1)(viii) of Income Tax Act, 1961                   |          | 250,000                       | 290,000                       |
| Transfer to General Reserve   |          | 542,600                       | 426,725                       |
| Transfer to Capital Reserve   |          | 200                           | 6,900                         |
| Transfer to Debenture Redemption Reserve  |          | -                             | 381,376                       |
| Transfer from Debenture Redemption Reserve  |          | -                             | (783,625)                     |
| Transfer (from) / to Investment Reserve Account                                       |          | 145,200                       | (268,300)                     |
| Proposed Dividend   |          | 444,929                       | 368,832                       |
| Corporate Dividend Tax  |          | 90,801                        | 93,020                        |
| Balance carried over to Balance Sheet   |          | 62,961,739                    | 49,626,168                    |
| <b>Total</b>  |          | <b>67,948,521</b>             | 52,870,321                    |
| <b>V. EARNINGS PER SHARE [ Refer Note 10 - Schedule 17 ]</b>                          |          |                               |                               |
| <b>Basic (₹)</b>  |          | <b>24.81</b>                  | 21.73                         |
| <b>Diluted (₹)</b>  |          | <b>24.67</b>                  | 21.60                         |
| <b>Face value per share (₹)</b>   |          | <b>5.00</b>                   | 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 on behalf of the Board of Directors

**For S. B. Billimoria & Co.**  
Chartered Accountants

**Dr. Shankar Acharya**  
Chairman

**Uday Kotak**  
Executive Vice Chairman  
and Managing Director

**Kalpesh J. Mehta**  
Partner

**Dipak Gupta**  
Joint Managing Director

Mumbai, 8th May 2012

**Jaimin Bhatt**  
President and Group Chief  
Financial Officer

**Bina Chandarana**  
Company Secretary

## Consolidated Cash Flow Statement for the year ended 31st March 2012

(₹ in thousands)

|  | Year Ended<br>31st March 2012 | Year Ended<br>31st March 2011 |
|--|-------------------------------|-------------------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>   |                               |                               |
| Net Profit After Tax   | 18,322,353                    | 15,667,447                    |
| Add: Provision for Income tax  | 8,058,954                     | 6,780,534                     |
| <b>Profit before tax</b>   | <b>26,381,307</b>             | <b>22,447,981</b>             |
| Adjustments for:-  |                               |                               |
| Employee Stock Option Grants   | 158,910                       | 187,632                       |
| Depreciation on Group's property   | 1,643,311                     | 1,523,462                     |
| Amortization of Premium on investments   | 853,295                       | 1,189,500                     |
| Diminution in the value of investments   | 131,504                       | 466,434                       |
| (Profit)/ Loss on revaluation of investments (net)   | (1,521,516)                   | 275,156                       |
| Profit on Sale of Associates   | (102,948)                     | -                             |
| Interest on debentures and other long-term borrowing   | 4,025,037                     | 3,344,951                     |
| Interest on subordinated debt and Upper Tier II  | 894,061                       | 698,898                       |
| Interest on refinance from institutions  | 3,129,386                     | 1,877,300                     |
| Provision for Non Performing Assets and contingencies  | 855,476                       | 1,009,563                     |
| Loss on sale of assets   | 4,878                         | 1,262                         |
| Increase / (Decrease) in Foreign Currency Translation Reserve<br>[Refer Note 2 (F) (ix) - Schedule 17] | 430,895                       | (29,446)                      |
| Wealth tax   | 1,137                         | 1,106                         |
|  | <b>36,884,733</b>             | <b>32,993,799</b>             |
| <b>Adjustments for :-</b>  |                               |                               |
| Increase in Investments other than Associates  | (55,275,827)                  | (67,074,627)                  |
| Increase in Advances   | (119,565,389)                 | (116,292,699)                 |
| Increase in Other Assets   | (6,184,590)                   | (1,416)                       |
| Increase in Deposits   | 91,477,548                    | 54,937,948                    |
| Increase in Borrowings   | 44,627,382                    | 66,701,184                    |
| Increase in Policyholders' Funds   | 8,663,321                     | 17,741,297                    |
| (Decrease) / Increase in Other Liabilities & Provisions  | (5,151,124)                   | 676,921                       |
|  | <b>(41,408,679)</b>           | <b>(43,311,392)</b>           |
| Income Taxes Paid (net of refunds)   | (7,301,978)                   | (7,068,327)                   |
| <b>NET CASH FLOW FROM OPERATING ACTIVITIES (A)</b>   | <b>(11,825,924)</b>           | <b>(17,385,920)</b>           |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>   |                               |                               |
| Purchase of Fixed assets   | (1,854,407)                   | (1,455,746)                   |
| Sale of Fixed assets   | 57,485                        | 65,153                        |
| Proceeds on sale of stake in Associates  | 168,648                       | -                             |
| Investments in Associates  | (347,609)                     | (498,566)                     |
| <b>NET CASH USED IN INVESTMENT ACTIVITIES (B)</b>  | <b>(1,975,883)</b>            | <b>(1,889,159)</b>            |



**Consolidated Cash Flow Statement** for the year ended 31st March 2012 (Contd.)

(₹ in thousands)

|  | Year Ended<br>31st March 2012 | Year Ended<br>31st March 2011 |
|--|-------------------------------|-------------------------------|
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>   |                               |                               |
| Dividend paid including corporate dividend tax                                       | (429,976)                     | (345,683)                     |
| Fresh issue of share/Money received on exercise of stock options                     | 981,372                       | 14,983,521                    |
| Share issue expenses   | -                             | (5,764)                       |
| Increase in Refinance  | 17,886,030                    | 5,026,305                     |
| Increase in debentures and other long-term borrowings                                | 6,561,631                     | 9,792,429                     |
| Increase/(decrease) in subordinated debt and Upper Tier II                           | 2,138,600                     | 356,275                       |
| Interest on subordinated debt and Upper Tier II                                      | (894,061)                     | (698,898)                     |
| Interest on refinance from institutions  | (3,129,386)                   | (1,877,300)                   |
| Interest on debentures and other long-term borrowing                                 | (4,025,037)                   | (3,344,951)                   |
| Increase in Minority Interest  | 528,445                       | 263,526                       |
| <b>NET CASH FLOW FROM FINANCING ACTIVITIES (C)</b>                                   | <b>19,617,618</b>             | <b>24,149,460</b>             |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)</b>                         | <b>5,815,811</b>              | <b>4,874,381</b>              |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR<br/>(Refer Note below)</b> | <b>29,942,524</b>             | <b>25,068,143</b>             |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR<br/>(Refer Note below)</b>       | <b>35,758,335</b>             | <b>29,942,524</b>             |
| <b>Note:</b>   |                               |                               |
| Balance with banks in India in Fixed Deposit (As per Schedule 7 I (i) (b))           | 6,528,058                     | 2,723,813                     |
| Balance with banks in India in current account (As per Schedule 7 I (i) (a))         | 1,851,718                     | 2,248,028                     |
| Money at call and short notice in India (As per Schedule 7 I (ii))                   | 756,880                       | 510,658                       |
| Cash in hand (As per Schedule 6 I)   | 3,257,782                     | 2,522,778                     |
| Balance with RBI in current account (As per Schedule 6 II)                           | 17,048,538                    | 18,625,795                    |
| Balance with banks Outside India:  |                               |                               |
| (i) In current account (As per Schedule 7 II (i))                                    | 598,235                       | 804,316                       |
| (ii) In Other Deposit Accounts (As per Schedule 7 II (ii))                           | 5,717,124                     | 2,507,136                     |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>                              | <b>35,758,335</b>             | <b>29,942,524</b>             |

As per our report of even date.

For and on behalf of the Board of Directors

**For S. B. Billimoria & Co.**  
Chartered Accountants

**Dr. Shankar Acharya**  
Chairman

**Uday Kotak**  
Executive Vice Chairman  
and Managing Director

**Kalpesh J. Mehta**  
Partner

**Dipak Gupta**  
Joint Managing Director

**Jaimin Bhatt**  
President and Group Chief  
Financial Officer

**Bina Chandarana**  
Company Secretary

Mumbai, 8th May 2012

## Schedules Forming Part of Consolidated Balance Sheet as at 31st March 2012

(₹ in thousands)

|  | As at<br>31st March 2012 | As at<br>31st March 2011 |
|--|--------------------------|--------------------------|
| <b>SCHEDULE 1 - CAPITAL</b>  |                          |                          |
| <b>Authorised Capital</b>  |                          |                          |
| 80,00,00,000 Equity Shares of ₹ 5/- each (31st March 2011: 80,00,00,000 Equity Shares of ₹ 5/- each)               |                          |                          |
|  | <b>4,000,000</b>         | 4,000,000                |
| <b>Issued, Subscribed and Paid-up Capital</b>  |                          |                          |
| 74,06,89,510 Equity Shares of ₹ 5/- each (31st March 2011: 73,68,71,504 Equity Shares of ₹ 5/- each) fully paid-up |                          |                          |
|  | <b>3,703,448</b>         | 3,684,358                |
| <b>Total</b>   | <b>3,703,448</b>         | 3,684,358                |
| <b>SCHEDULE 2 - RESERVES AND SURPLUS</b>   |                          |                          |
| <b>I. Statutory Reserve</b>  |                          |                          |
| Opening Balance  | <b>6,516,200</b>         | 4,470,700                |
| Add: Transfer from Profit and Loss Account   | <b>2,712,700</b>         | 2,045,500                |
| <b>Total</b>   | <b>9,228,900</b>         | 6,516,200                |
| <b>II. Capital Reserve</b>   |                          |                          |
| Opening Balance  | <b>289,103</b>           | 282,203                  |
| Add: Transfer from Profit and Loss Account   | <b>200</b>               | 6,900                    |
| <b>Total</b>   | <b>289,303</b>           | 289,103                  |
| <b>III. General Reserve</b>  |                          |                          |
| Opening Balance  | <b>2,444,901</b>         | 2,018,176                |
| Add: Transfer from Profit and Loss Account   | <b>542,600</b>           | 426,725                  |
| <b>Total</b>   | <b>2,987,501</b>         | 2,444,901                |
| <b>IV. Securities Premium Account</b>  |                          |                          |
| Opening Balance  | <b>41,696,206</b>        | 26,554,915               |
| Add: Received during the year (net of tax)   | <b>1,142,157</b>         | 15,147,055               |
| Less: Utilised for Share Issue Expenses  | <b>-</b>                 | 5,764                    |
| <b>Total</b>   | <b>42,838,363</b>        | 41,696,206               |
| <b>V. Special Reserve under Section 45IC of the RBI Act, 1934</b>  |                          |                          |
| Opening Balance  | <b>1,947,204</b>         | 1,263,479                |
| Add: Transfer from Profit and Loss Account   | <b>800,352</b>           | 683,725                  |
| <b>Total</b>   | <b>2,747,556</b>         | 1,947,204                |
| <b>VI. Debenture Redemption Reserve</b>  |                          |                          |
| Opening Balance  | <b>1,087,503</b>         | 1,489,752                |
| Add: Transfer from Profit and Loss Account   | <b>-</b>                 | 381,376                  |
| Less: Transfer to Profit and Loss Account  | <b>-</b>                 | 783,625                  |
| <b>Total</b>   | <b>1,087,503</b>         | 1,087,503                |



**Schedules Forming Part of Consolidated Balance Sheet** as at 31st March 2012 (Contd.)

(₹ in thousands)

|   | As at<br>31st March 2012 | As at<br>31st March 2011 |
|---|--------------------------|--------------------------|
| <b>VII. Capital Reserve on Consolidation</b>  |                          |                          |
| Opening Balance   | 1,474,546                | 1,474,546                |
| Addition during the year  | -                        | -                        |
| <b>Total</b>  | <b>1,474,546</b>         | <b>1,474,546</b>         |
| <b>VIII. Foreign Currency Translation Reserve</b>   |                          |                          |
| [Refer Note 2(F)(ix) - Schedule 17 ]  |                          |                          |
| Opening Balance   | 12,609                   | 42,467                   |
| Increase / (decrease) during the year   | 433,181                  | (29,858)                 |
| <b>Total</b>  | <b>445,790</b>           | <b>12,609</b>            |
| <b>IX. Investment Reserve Account</b>   |                          |                          |
| Opening Balance   | 160,614                  | 428,914                  |
| Add: Transfer from / (to) Profit and Loss Account   | 145,200                  | (268,300)                |
| <b>Total</b>  | <b>305,814</b>           | <b>160,614</b>           |
| <b>X. Special Reserve under Section 36(1)(viii) of the Income Tax Act, 1961</b>           |                          |                          |
| Opening Balance   | 690,000                  | 400,000                  |
| Add: Transfer from Profit and Loss Account  | 250,000                  | 290,000                  |
| <b>Total</b>  | <b>940,000</b>           | <b>690,000</b>           |
| <b>XI. Balance in the Profit and Loss Account</b>   | <b>62,961,739</b>        | <b>49,626,168</b>        |
| <b>Total</b>  | <b>125,307,015</b>       | <b>105,945,054</b>       |
| <b>SCHEDULE 2A - MINORITY INTEREST</b>  |                          |                          |
| Minority Interest at the date on which parent subsidiary relationship came into existence | 396,700                  | 396,700                  |
| Subsequent Increase   | 1,203,857                | 675,412                  |
| <b>Total</b>  | <b>1,600,557</b>         | <b>1,072,112</b>         |
| <b>SCHEDULE 3 - DEPOSITS</b>  |                          |                          |
| <b>A.</b>   |                          |                          |
| <b>I. Demand Deposits</b>   |                          |                          |
| i. From Banks   | 1,205,825                | 1,006,014                |
| ii. From Others   | 62,619,131               | 51,061,096               |
| <b>Total</b>  | <b>63,824,956</b>        | <b>52,067,110</b>        |
| <b>II. Savings Bank Deposits</b>  | <b>50,501,164</b>        | <b>33,303,313</b>        |
| <b>III. Term Deposits</b>   |                          |                          |
| i. From Banks   | 3,424,856                | 2,676,623                |
| ii. From Others   | 246,856,327              | 185,082,709              |
| <b>Total</b>  | <b>250,281,183</b>       | <b>187,759,332</b>       |
| <b>Total Deposits (I + II + III)</b>  | <b>364,607,303</b>       | <b>273,129,755</b>       |
| <b>B.</b>   |                          |                          |
| <b>I. Deposits of Branches in India</b>   | <b>364,607,303</b>       | <b>273,129,755</b>       |
| <b>II. Deposits of Branches Outside India</b>   | <b>-</b>                 | <b>-</b>                 |
| <b>Total Deposits ( I + II)</b>   | <b>364,607,303</b>       | <b>273,129,755</b>       |

## Schedules Forming Part of Consolidated Balance Sheet as at 31st March 2012 (Contd.)

(₹ in thousands)

|   | As at<br>31st March 2012 | As at<br>31st March 2011 |
|---|--------------------------|--------------------------|
| <b>SCHEDULE 4 - BORROWINGS</b>  |                          |                          |
| <b>I. Borrowings in India</b>   |                          |                          |
| (i) Reserve Bank of India   | 56,094,800               | 39,647,500               |
| (ii) Other Banks  | 81,180,662               | 62,998,332               |
| (iii) Institutions, Agencies and others (Refer Note 12 - Schedule 17)         | 114,202,851              | 94,245,174               |
| <b>Total</b>  | <b>251,478,313</b>       | 196,891,006              |
| <b>II. Borrowings outside India</b>   |                          |                          |
| (i) Institutions, Agencies and others (Refer Note 12 - Schedule 17)           | 40,468,539               | 23,842,203               |
| <b>Total</b>  | <b>40,468,539</b>        | 23,842,203               |
| <b>Total Borrowings (I + II)</b>  | <b>291,946,852</b>       | 220,733,209              |
| Secured Borrowings included in I & II above                                   | 107,392,950              | 80,697,092               |
| <b>SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS</b>                          |                          |                          |
| <b>I. Bills Payable</b>   | <b>5,700,567</b>         | 6,188,983                |
| <b>II. Interest Accrued</b>   | <b>5,786,221</b>         | 5,160,966                |
| <b>III. Others (including provisions) (Refer Note 6 and 18 - Schedule 17)</b> | <b>33,860,585</b>        | 38,663,555               |
| <b>IV. Proposed Dividend (includes tax on dividend )</b>                      | <b>517,843</b>           | 412,089                  |
| <b>Total</b>  | <b>45,865,216</b>        | 50,425,593               |
| <b>SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA</b>              |                          |                          |
| <b>I. Cash in hand (including foreign currency notes)</b>                     | <b>3,257,782</b>         | 2,522,778                |
| <b>II. Balances with RBI in current account</b>                               | <b>17,048,538</b>        | 18,625,795               |
| <b>Total</b>  | <b>20,306,320</b>        | 21,148,573               |
| <b>SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE</b>    |                          |                          |
| <b>I. In India</b>  |                          |                          |
| <b>(i) Balances with Banks [ Refer Note 5 - Schedule 17 ]</b>                 |                          |                          |
| (a) In Current Accounts   | 1,851,718                | 2,248,028                |
| (b) In Other Deposit Accounts   | 6,528,058                | 2,723,813                |
| <b>Total</b>  | <b>8,379,776</b>         | 4,971,841                |
| <b>(ii) Money at Call and Short Notice</b>                                    |                          |                          |
| (a) With Banks  | 756,880                  | 510,658                  |
| <b>Total</b>  | <b>756,880</b>           | 510,658                  |
| <b>Total (i + ii)</b>   | <b>9,136,656</b>         | 5,482,499                |
| <b>II. Outside India</b>  |                          |                          |
| (i) In Current Accounts   | 598,235                  | 804,316                  |
| (ii) In Other Deposit Accounts  | 5,717,124                | 2,507,136                |
| <b>Total</b>  | <b>6,315,359</b>         | 3,311,452                |
| <b>Total (I + II)</b>   | <b>15,452,015</b>        | 8,793,951                |

**Schedules Forming Part of Consolidated Balance Sheet** as at 31st March 2012 (Contd.)

(₹ in thousands)

|  | As at<br>31st March 2012 | As at<br>31st March 2011 |
|--|--------------------------|--------------------------|
| <b>SCHEDULE 8 - INVESTMENTS</b>  |                          |                          |
| <b>I. Investments in India in</b>  |                          |                          |
| i. Government Securities   | 180,906,940              | 144,725,282              |
| ii. Other approved Securities  | -                        | -                        |
| iii. Shares  | 41,944,403               | 35,681,720               |
| iv. Debentures and Bonds   | 46,540,634               | 43,125,728               |
| v. Associates *  | 5,982,789                | 5,700,880                |
| vi. Others [Units, Certificate of Deposits, Commercial Paper (CP),<br>Security Receipts, RIDF Deposit and Pass Through Certificates (PTC)] | 40,153,478               | 30,287,161               |
| <b>Total</b>   | <b>315,528,244</b>       | <b>259,520,771</b>       |
| <b>II. Investments Outside India in</b>  |                          |                          |
| i. Shares  | 1,043                    | 1,043                    |
| ii. Debentures and Bonds   | 71,567                   | 89,190                   |
| iii. Others [Venture/ Private Equity and other similar funds]  | 983,472                  | 878,869                  |
| <b>Total</b>   | <b>1,056,082</b>         | <b>969,102</b>           |
| <b>Total Investments (I + II)</b>  | <b>316,584,326</b>       | <b>260,489,873</b>       |
| *Investment in Associates  |                          |                          |
| Equity Investment in Associates  | 959,966                  | 1,052,897                |
| Add: Investment in Associate   | 2,100                    |                          |
| Add: Goodwill on acquisition of Associates   | 27,210                   | 29,440                   |
| (Share of pre-acquisition losses)  |                          |                          |
| Less: Capital reserve on Consolidation (Share of pre-acquisition profits)  | 3,447                    | 3,531                    |
| Cost of Investment in Associates   | 985,829                  | 1,078,806                |
| Add: Post-acquisition profit / loss of Associates (Equity method)  | 4,996,960                | 4,622,074                |
| <b>Total</b>   | <b>5,982,789</b>         | <b>5,700,880</b>         |
| <b>SCHEDULE 9 - ADVANCES</b>   |                          |                          |
| <b>A. (i) Bills purchased and discounted #</b>   | <b>16,263,785</b>        | <b>11,026,240</b>        |
| (ii) Cash Credits, Overdrafts and Loans repayable on demand  | 73,942,057               | 57,595,021               |
| (iii) Term Loans   | 441,230,249              | 343,798,268              |
| # Bills purchased and discounted is net off Bills Rediscounted   |                          |                          |
| ₹ 1,667.03 crore (Previous Year ₹ 956.38 crore)  |                          |                          |
| <b>Total</b>   | <b>531,436,091</b>       | <b>412,419,529</b>       |
| <b>B. (i) Secured by tangible assets *</b>   | <b>459,772,868</b>       | <b>364,956,593</b>       |
| (ii) Unsecured   | 71,663,223               | 47,462,936               |
| <b>Total</b>   | <b>531,436,091</b>       | <b>412,419,529</b>       |
| * including advances secured against book debts  |                          |                          |
| <b>C. Advances in India</b>  |                          |                          |
| (i) Priority Sector  | 123,243,458              | 87,379,166               |
| (ii) Public Sector   | 1,450,126                | 875,000                  |
| (iii) Banks  | -                        | -                        |
| (iv) Others  | 406,742,507              | 324,165,363              |
| <b>Total</b>   | <b>531,436,091</b>       | <b>412,419,529</b>       |



## Schedules Forming Part of Consolidated Balance Sheet as at 31st March 2012 (Contd.)

(₹ in thousands)

|  | As at<br>31st March 2012 | As at<br>31st March 2011 |
|--|--------------------------|--------------------------|
| <b>SCHEDULE 10 - FIXED ASSETS</b>                                |                          |                          |
| <b>A. Premises (Including Land)</b>                              |                          |                          |
| <b>Gross Block</b>   |                          |                          |
| At cost on 31st March of the preceding year                      | 3,145,718                | 3,145,718                |
| Additions during the year  | -                        | -                        |
| Deductions during the year                                       | -                        | -                        |
| <b>Total</b>   | <b>3,145,718</b>         | <b>3,145,718</b>         |
| <b>Depreciation</b>  |                          |                          |
| As at 31st March of the preceding year                           | 435,039                  | 382,058                  |
| Charge for the year  | 52,981                   | 52,981                   |
| Deductions during the year                                       | -                        | -                        |
| <b>Depreciation to date</b>                                      | <b>488,020</b>           | <b>435,039</b>           |
| <b>Net Block</b>   | <b>2,657,698</b>         | <b>2,710,679</b>         |
| <b>B. Other Fixed Assets (including furniture and fixtures)</b>  |                          |                          |
| <b>Gross Block</b>   |                          |                          |
| At cost on 31st March of the preceding year                      | 9,637,813                | 8,484,335                |
| Additions during the year  | 1,854,407                | 1,455,746                |
| Deductions during the year                                       | 439,454                  | 302,268                  |
| <b>Total</b>   | <b>11,052,766</b>        | <b>9,637,813</b>         |
| <b>Depreciation</b>  |                          |                          |
| As at 31st March of the preceding year                           | 6,378,481                | 5,143,853                |
| Charge for the year  | 1,590,329                | 1,470,481                |
| Deductions during the year                                       | 377,091                  | 235,853                  |
| <b>Depreciation to date</b>                                      | <b>7,591,719</b>         | <b>6,378,481</b>         |
| <b>Net Block ( Refer Note 19 - Schedule 17 )</b>                 | <b>3,461,047</b>         | <b>3,259,332</b>         |
| <b>Total (A) + (B)</b>   | <b>6,118,745</b>         | <b>5,970,011</b>         |
| <b>SCHEDULE 11 - OTHER ASSETS</b>                                |                          |                          |
| <b>I. Interest accrued</b>                                       | <b>7,778,036</b>         | <b>5,979,552</b>         |
| <b>II. Advance tax (net of provision for tax)</b>                | <b>283,581</b>           | <b>269,563</b>           |
| <b>III. Stationery and Stamps</b>                                | <b>39,888</b>            | <b>36,102</b>            |
| <b>IV. Non Banking assets acquired in satisfaction of claims</b> | <b>67,824</b>            | <b>67,824</b>            |
| <b>V. Cheques in course of collection</b>                        | <b>140,370</b>           | <b>54,531</b>            |
| <b>VI. Others (Refer Note 18 - Schedule 17)</b>                  | <b>25,252,548</b>        | <b>21,547,569</b>        |
| <b>Total</b>   | <b>33,562,247</b>        | <b>27,955,141</b>        |



**Schedules Forming Part of Consolidated Balance Sheet** as at 31st March 2012 (Contd.)

(₹ in thousands)

|  | As at<br>31st March 2012 | As at<br>31st March 2011 |
|--|--------------------------|--------------------------|
| <b>SCHEDULE 12 - CONTINGENT LIABILITIES</b>  |                          |                          |
| I. Claims not acknowledged as debts  | 11,297,435               | 1,215,962                |
| II. Liability on account of outstanding forward exchange contracts                     | 112,783,244              | 82,760,346               |
| III. Guarantees on behalf of constituents in India                                     | 52,860,029               | 40,312,069               |
| IV. Guarantees on behalf of constituents outside India                                 | 81,195                   | 563,231                  |
| V. Acceptances, Endorsements and Other Obligations                                     | 45,893,382               | 34,165,842               |
| VI. Other items for which the Group is contingently liable:                            |                          |                          |
| - Liability in respect of interest rate and currency swaps and forward rate agreements | 166,129,373              | 189,291,144              |
| - Liability in respect of other Derivative contracts                                   | 16,088,255               | 17,273,383               |
| - Capital commitments not provided   | 1,319,904                | 818,196                  |
| <b>Total</b>   | <b>406,452,817</b>       | <b>366,400,173</b>       |

**Schedules Forming Part of Consolidated Profit and Loss Account** for the year ended 31st March 2012

(₹ in thousands)

|  | Year ended<br>31st March 2012 | Year ended<br>31st March 2011 |
|--|-------------------------------|-------------------------------|
| <b>SCHEDULE 13 - INTEREST EARNED</b>                                   |                               |                               |
| I. Interest / discount on advances / bills                             | 65,519,292                    | 45,425,254                    |
| II. Income from investments  | 18,405,397                    | 13,551,878                    |
| III. Interest on balances with RBI and other inter-bank funds          | 411,050                       | 230,906                       |
| IV. Others   | 368,459                       | 523,085                       |
| <b>Total</b>   | <b>84,704,198</b>             | <b>59,731,123</b>             |
| <b>SCHEDULE 14 - OTHER INCOME</b>                                      |                               |                               |
| I. Commission, exchange and brokerage                                  | 14,499,334                    | 15,170,286                    |
| II. Profit on sale of investments (net)                                | 503,269                       | 4,431,857                     |
| III. Profit/(Loss) on revaluation of investments of Insurance business | (1,521,516)                   | (275,156)                     |
| IV. Loss on sale of building and other assets (net)                    | (4,878)                       | (1,262)                       |
| V. Profit on exchange transactions (net)                               | 1,411,702                     | 383,921                       |
| VI. Premium on Insurance business                                      | 28,915,363                    | 29,399,087                    |
| VII. Profit on recoveries of non-performing assets acquired            | 1,294,563                     | 1,265,950                     |
| VIII. Miscellaneous Income   | 336,138                       | 523,830                       |
| <b>Total</b>   | <b>45,433,975</b>             | <b>50,898,513</b>             |
| <b>SCHEDULE 15 - INTEREST EXPENDED</b>                                 |                               |                               |
| I. Interest on Deposits  | 23,655,958                    | 13,566,067                    |
| II. Interest on RBI / Inter-Bank Borrowings                            | 11,544,412                    | 5,526,818                     |
| III. Other Interest ( Refer Note 13 - Schedule 17 )                    | 10,219,198                    | 7,589,520                     |
| <b>Total</b>   | <b>45,419,568</b>             | <b>26,682,405</b>             |

## Schedules Forming Part of Consolidated Profit and Loss Account for the year ended 31st March 2012

(₹ in thousands)

|   | Year ended<br>31st March 2012 | Year ended<br>31st March 2011 |
|---|-------------------------------|-------------------------------|
| <b>SCHEDULE 16 - OPERATING EXPENSES</b>   |                               |                               |
| <b>I.</b> Payments to and provision for employees [Refer Note 4 - Schedule 17 ] | <b>16,015,416</b>             | 15,223,449                    |
| <b>II.</b> Rent, taxes and lighting [Refer Note 15 - Schedule 17 ]              | <b>2,327,297</b>              | 2,158,555                     |
| <b>III.</b> Printing and Stationery   | <b>440,060</b>                | 466,058                       |
| <b>IV.</b> Advertisement, Publicity and Promotion                               | <b>1,388,778</b>              | 1,418,094                     |
| <b>V.</b> Depreciation on Group's property                                      | <b>1,643,311</b>              | 1,523,462                     |
| <b>VI.</b> Directors' fees, allowances and expenses                             | <b>3,882</b>                  | 11,025                        |
| <b>VII.</b> Auditors' fees and expenses   | <b>46,195</b>                 | 40,817                        |
| <b>VIII.</b> Law charges  | <b>155,488</b>                | 227,128                       |
| <b>IX.</b> Postage, telephones etc.   | <b>1,100,375</b>              | 1,226,569                     |
| <b>X.</b> Repairs and maintenance   | <b>1,479,567</b>              | 1,242,450                     |
| <b>XI.</b> Insurance  | <b>301,837</b>                | 254,150                       |
| <b>XII.</b> Travel and Conveyance   | <b>797,744</b>                | 729,830                       |
| <b>XIII.</b> Professional charges   | <b>2,183,739</b>              | 1,755,345                     |
| <b>XIV.</b> Brokerage   | <b>3,074,005</b>              | 2,909,209                     |
| <b>XV.</b> Stamping expenses  | <b>253,555</b>                | 260,366                       |
| <b>XVI.</b> Policyholders' Reserves   | <b>8,781,239</b>              | 17,724,621                    |
| <b>XVII.</b> Insurance Business Expenses (Claims and benefits paid)             | <b>14,349,423</b>             | 10,361,522                    |
| <b>XVIII.</b> Other Expenditure   | <b>2,824,334</b>              | 2,464,593                     |
| <b>Total</b>  | <b>57,166,245</b>             | 59,997,243                    |



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

### SCHEDULE 17 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED 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 through subsidiaries, 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 networth 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 reporting date as that of the holding company i.e. 31st March 2012.
- b. The list of subsidiaries is as under:

| Name of the Subsidiary                                  | Country of Origin | % Shareholding<br>of group<br>(31st March 2012) | % Shareholding<br>of group<br>(31st March 2011) |
|---|-------------------|---|---|
| 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. In terms of the constitution and private placement memorandum, GIOFL has 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 Bank owns 100% of the management share and 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. Accordingly, the Group consolidates the 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 2012) | % Shareholding of group (31st March 2011) |
|--|-------------------|---|---|
| Infina Finance Private Limited                             | India             | 49.99                                     | 49.99                                     |
| Phoenix ARC Private Limited                                | India             | 49.00                                     | 49.00                                     |
| ACE Derivatives & Commodity Exchange Limited (ACE) (*)     | India             | 40.00                                     | 48.99                                     |
| Matrix Business Services India Private Limited (Unaudited) | India             | 31.26                                     | 31.26                                     |
| Add Albatross Properties Private Limited (Unaudited) (#)   | India             | 29.99                                     | —   |

(\*) The Group sold its 8.99% stake in ACE during October and November 2011. The Group has accounted its share of profit / loss of ACE considering its stake on a pro rata basis.

(#) Effective 28th November, 2011, Kotak Mahindra Bank Limited acquired 29.99% stake in Add Albatross Properties Private Limited as a part of consideration in settlement of acquired non-performing assets.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### A. ACCOUNTING METHODOLOGY

The Financial Statements have been prepared on historical cost basis of accounting. The Group adopts the accrual method of accounting and historical cost convention. 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 consolidating entities 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. Any revision in the accounting estimates is recognised prospectively.

### 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 and letter of credit commission which is recognised over the period of the guarantee/ letter of credit respectively, 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.
- 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.
- Dividend income is accounted on an accrual basis when the right to receive the dividend is established.
- 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.



**Schedules Forming Part of the Consolidated Balance Sheet and Profit and Loss Account (Contd.)****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 re-insurance 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 freight, duties and other incidental expenses less accumulated depreciation / amortisation.



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

### 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/ amortised are as follows:

| 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 and three of its subsidiaries make contribution to a Gratuity Fund administered by trustees and managed by a life insurance company. In other subsidiaries 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.



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

### E. INVESTMENTS

#### For The Bank

##### 1. Classification:

In accordance with the RBI guidelines, investments are categorised at the date of purchase 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 for the purpose of disclosure in the Balance Sheet.

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

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

- a. Held for Trading / Available for sale – Each security except treasury bills in this category is revalued at the market price or fair value on a monthly basis 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.

The market / fair value of quoted investments included in the 'Available for Sale' and 'Held for Trading' categories is measured with respect to the market price of the scrip as available from the trades / quotes on the stock exchanges, SGL account transactions, price list of RBI or prices declared by Primary Dealers Association of India ('PDAI') jointly with Fixed Income Money Market and Derivatives Association of India ('FIMMDA') as at the year end. The market value of investments where market quotations are not available is determined as per the norms laid down by the RBI. Treasury bills, commercial bills and certificates of deposits being discounted instruments are valued at carrying cost.

- 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.

##### 3. Transfer between categories:

Transfer between categories is done, in accordance with RBI guidelines, at the lower of acquisition cost/ carrying 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 date which includes brokerage, transfer charges, transaction taxes as applicable, etc. but excludes preacquisition interest, if any, and service tax on brokerage 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.'



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

### 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”.

The positive balance in “Fair Value Change Account” for shareholders’ investments is included in “Reserves and Surplus”. The “Fair Value Change Account” in respect of policyholders’ investment is included in “Policyholders Funds”.

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.

### 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. The discount on purchase of treasury bills, certificate of deposit, commercial papers and CBLO 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.



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

### F. FOREIGN CURRENCY AND DERIVATIVE TRANSACTIONS

#### For the bank:

- i. Foreign currency monetary 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 in the Profit and Loss Account.
- 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 in accordance with hedging instrument on an accrual basis over the life of the transaction underlying instrument. Option premium paid/ received is accounted for in the Profit and Loss Account on expiry of the option. Option contracts are marked to market on every reporting date.
- v. Contingent liabilities at the Balance Sheet date on account of outstanding foreign exchange contracts are restated at year end rates notified 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 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.



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

- 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 considers accelerated 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 sectors agricultural and SME at 0.25%, Commercial Real Estate sector at 1.00% and restructured standard advances, 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.

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 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’



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

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. BULLION

The Bank imports bullion including precious metal bars on a consignment basis for selling to its wholesale and retail customers. The difference between the sale price to customers and actual price quoted by supplier is reflected under other income.

The Bank also borrows and lends gold, which is treated as borrowings / lending as the case may be with the interest paid / received classified as interest expense / income and is accounted on an accrual basis.

### N. 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 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.)

### O. 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<br>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<br>Retail borrowings covering savings, current and term deposit accounts and Branch Banking network and services including distribution of financial products.  |
|                                     | (3) Credit cards<br>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.

### P. EMPLOYEE SHARE BASED PAYMENTS

#### Equity-settled:

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



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

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.

### Cash-settled:

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'.

### Q. CLAIMS/ BENEFITS

Benefits paid comprise of policy benefit amount, surrenders, claim investigation fees 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.

### R. 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 and is amortised over the tenure of the securities issued. The loss on account of securitisation is recognised immediately in Profit and Loss Account.

### S. 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.

### T. 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.

### U. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the year. The weighted average number of equity shares outstanding during the year is 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 year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.



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

### V. IMPAIRMENT

The carrying amount of assets are reviewed at each Balance Sheet date if there is any indication of impairment based on internal/ external factors. Impairment loss, if any, is provided in Profit and Loss Account to the extent of carrying amount of assets exceeds their estimated recoverable amount.

### W. 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).

### Notes to Accounts

3. 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 ₹ 67.08 crore (previous year ₹ 53.79 crore) is carried forward in the Balance Sheet under "Other Assets".

### 4. 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      | ₹ 61.66 crore (Previous Year ₹ 54.46 crore) |
| Superannuation Fund | ₹ 0.90 crore (Previous Year ₹ 0.95 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 and three of its subsidiaries through a fund administered by a Board of Trustees and managed by a life insurance subsidiary. The Bank and its three subsidiaries are responsible for settling the gratuity obligation through contributions to the fund. The plan is fully funded.

In respect of other subsidiaries 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 2012 |              | As on 31st March 2011 |              |
|--|-----------------------|--------------|-----------------------|--------------|
|  | Funded                | Others       | Funded                | Others       |
| <b><i>Change in benefit obligations</i></b>                |                       |              |                       |              |
| Liability at the beginning of the year                     | 39.85                 | 26.80        | 22.19                 | 17.15        |
| Transfer of liabilities funded during the year             | 12.79                 | (12.79)      | -                     | -            |
| Current Service cost                                       | 13.74                 | 3.34         | 6.43                  | 5.24         |
| Interest cost  | 5.16                  | 1.38         | 2.15                  | 1.71         |
| Actuarial (gain) / loss on obligations                     | (3.80)                | (0.72)       | 4.12                  | (0.37)       |
| Past Service cost  | -                     | -            | 9.01                  | 6.42         |
| Liability assumed on transfer of employees                 | 0.20                  | (0.05)       | 0.43                  | (0.57)       |
| Benefits paid  | (7.18)                | (1.78)       | (4.48)                | (2.78)       |
| <b>Liability at the end of the year</b>                    | <b>60.76</b>          | <b>16.18</b> | <b>39.85</b>          | <b>26.80</b> |
| <b><i>Change in plan assets</i></b>                        |                       |              |                       |              |
| Fair value of plan assets at the beginning of the year     | 34.66                 | -            | 25.63                 | -            |
| Expected return on plan assets                             | 2.60                  | -            | 1.94                  | -            |
| Actuarial gain / (loss)                                    | (2.61)                | -            | 0.64                  | -            |
| Benefits paid  | (7.18)                | -            | (4.48)                | -            |
| Employer contributions                                     | 29.07                 | -            | 10.93                 | -            |
| <b>Fair value of plan assets as at the end of the year</b> | <b>56.54</b>          | <b>-</b>     | <b>34.66</b>          | <b>-</b>     |



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

### Reconciliation of present value of the obligation and the fair value of the plan assets

₹ in crore

|  | As on 31st March 2012 |                | As on 31st March 2011 |                |
|--|-----------------------|----------------|-----------------------|----------------|
|  | Funded                | Others         | Funded                | Others         |
| Fair value of plan assets as at the end of the year  | 56.54                 | -              | 34.66                 | -              |
| Liability at the end of the year   | 60.76                 | 16.18          | 39.85                 | 26.80          |
| <b>Net Asset/ (Liabilities) included in "Others" under "Other Assets" and "Others Liabilities"</b>                               | <b>(4.22)</b>         | <b>(16.18)</b> | <b>(5.19)</b>         | <b>(26.80)</b> |
| Expenses recognised for the year:  |                       |                |                       |                |
| Current service cost   | 13.74                 | 3.34           | 6.43                  | 5.24           |
| Interest cost  | 5.16                  | 1.38           | 2.15                  | 1.71           |
| Expected return on plan assets   | (2.60)                | -              | (1.94)                | -              |
| Actuarial (gain)/loss  | (1.19)                | (0.72)         | 3.48                  | (0.37)         |
| Past Service cost  | -                     | -              | 9.01                  | 6.42           |
| Effect of the limit in Para 59(b)  | 0.07                  | -              | -                     | -              |
| <b>Net gratuity expense included in "[payments to and provision for employees]" under "Operating Expenses" [Schedule 16 (I)]</b> | <b>15.18</b>          | <b>4.00</b>    | <b>19.13</b>          | <b>13.00</b>   |
| <b>Actual return on plan assets</b>  | <b>#</b>              | <b>-</b>       | <b>2.57</b>           | <b>-</b>       |

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

₹ in crore

|  | As on 31st March 2012 |              | As on 31st March 2011 |              |
|--|-----------------------|--------------|-----------------------|--------------|
|  | Funded                | Others       | Funded                | Others       |
| <b>Reconciliation of the Liability recognised in the Balance Sheet</b>                             |                       |              |                       |              |
| Net (Asset)/ Liability at the beginning of the year  | 5.19                  | 26.80        | (3.44)                | 17.15        |
| Transfer of liabilities funded during the year   | 12.79                 | (12.79)      | -                     | -            |
| Expense recognised   | 15.18                 | 4.00         | 19.13                 | 13.00        |
| Liability assumed on transfer of employees   | 0.20                  | (0.05)       | 0.43                  | (0.57)       |
| Employer contributions/ Transfers  | (29.07)               | (1.78)       | (10.93)               | (2.78)       |
| Effect of the limit in Para 59(b)  | (0.07)                | -            | -                     | -            |
| <b>Net (Asset)/ Liability is included in "Others" under "Other Assets" and "Other Liabilities"</b> | <b>4.22</b>           | <b>16.18</b> | <b>5.19</b>           | <b>26.80</b> |

### Investment details of plan assets

The plan assets are invested in insurer managed funds.

### Actuarial assumptions used

|  | As on 31st March 2012    | As on 31st March 2011    |
|--|--------------------------|--------------------------|
| Interest rate                          | 8.94% p.a                | 8.26% p.a                |
| Salary escalation rate                 | 15% p.a. for first 2 yr, | 15% p.a. for first 2 yr, |
|  | 10% p.a. for next 2 yrs  | 10% p.a. for next 2 yrs  |
|  | & 6% p.a. thereafter     | & 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.



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

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 |         |         |         |         |
|--|-----------------------|---------|---------|---------|---------|
|  | 2012                  | 2011    | 2010    | 2009    | 2008    |
| Defined benefit obligation                 | 76.94                 | 66.65   | 39.34   | 33.54   | 25.55   |
| Plan assets                                | 56.54                 | 34.66   | 25.63   | 15.39   | 13.96   |
| Surplus / (deficit)                        | (20.40)               | (31.99) | (13.71) | (18.15) | (11.59) |
| Experience adjustments on plan liabilities | (0.30)                | 2.11    | (0.93)  | (4.95)  | 0.76    |
| Experience adjustments on plan assets      | (2.61)                | 0.64    | 4.61    | (3.58)  | 1.38    |

The Group expects to contribute ₹ 6.29 crore to gratuity fund in financial year 2012-2013.

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

- Balance with Banks in other deposit accounts include ₹ Nil (previous year ₹ 8.07 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<br>1st April 2011 | Addition<br>during the year | Reversed/<br>paid during the year | Balance as on<br>31st March 2012 |
|----------------------|---------------------------------|-----------------------------|-----------------------------------|----------------------------------|
| Stamp duty on Trades | 18.05                           | 4.30                        | 9.70                              | 12.65                            |
| <b>Total</b>         | <b>18.05</b>                    | <b>4.30</b>                 | <b>9.70</b>                       | <b>12.65</b>                     |
| Previous year        | 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 ₹ 9.47 crore (Previous Year ₹ 17.52 crore).

### 7. Provisions and Contingencies:

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

₹ in crore

| Year ended 31st March  | 2012          | 2011          |
|--|---------------|---------------|
| Provision for taxation (Refer Note 8)  | 806.01        | 678.16        |
| Provision for Non-performing Assets and Contingencies (including write-offs and net of recoveries) | 54.88         | 111.60        |
| Provision for Standard Assets  | 31.86         | 6.11          |
| Provision for Diminution in value of Investments   | 13.15         | 46.64         |
| Provision Others*  | (1.19)        | (16.75)       |
| <b>Total</b>   | <b>904.71</b> | <b>825.76</b> |

(\*) For the year ended 31st March 2012 includes write-back of provisions against derivatives contracts ₹ Nil (Previous Year write-back of provision of ₹ 21.41 crore) and provision for fees receivable written back ₹ 1.19 crore (Previous Year provision of ₹ 4.66 crore)

### 8. PROVISION MADE FOR TAXES DURING THE YEAR:

₹ in crore

| Year ended 31st March | 2012          | 2011          |
|-----------------------|---------------|---------------|
| Current tax           | 745.56        | 682.30        |
| Deferred tax          | 60.34         | (4.25)        |
| Wealth Tax            | 0.11          | 0.11          |
| <b>Total</b>          | <b>806.01</b> | <b>678.16</b> |



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

### 9. 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 ₹ 30.08 crore (previous year ₹ 34.56 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

### 10. EARNINGS PER EQUITY SHARE

| Particulars  | As on<br>31st March 2012 | As on<br>31st March 2011 |
|--|--------------------------|--------------------------|
| <b>Reconciliation between weighted shares used in the computation of basic and diluted earnings per share:</b> |                          |                          |
| Weighted average number of equity shares used in computation of basic earnings per share                       | <b>738,573,973</b>       | 721,033,537              |
| Effect of potential equity shares for stock options outstanding  | <b>4,072,993</b>         | 4,368,154                |
| Weighted average number of equity shares used in computation of diluted earnings per share                     | <b>742,646,966</b>       | 725,401,691              |
| Following is the reconciliation between basic and diluted earnings per share:                                  |                          |                          |
| Nominal value per share (₹)  | <b>5.00</b>              | 5.00                     |
| Basic earnings per share (₹)   | <b>24.81</b>             | 21.73                    |
| Effect of potential equity shares for stock options (₹)  | <b>0.14</b>              | 0.13                     |
| Diluted earnings per share (₹)   | <b>24.67</b>             | 21.60                    |
| Earnings used in the computation of basic and diluted earnings per share (₹ in crore)                          | <b>1,832.24</b>          | 1,566.74                 |

### 11. 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;



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

(c) Kotak Mahindra Equity Option Scheme 2005; and

(d) 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 57,275,810 options as on 31st March 2012 (Previous year 54,024,680)

### 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 outstanding range from 0.72 to 4.36 years.

Detail of activity under SARs is summarised below

|  | Year Ended 31st<br>March 2012 | Year Ended 31st<br>March 2011 |
|--|-------------------------------|-------------------------------|
| Outstanding at the beginning of the year | 7,34,888                      | 2,70,300                      |
| Granted during the year                  | 12,74,960                     | 8,89,098                      |
| Settled during the year                  | 4,38,901                      | 3,46,630                      |
| Forfeited during the year                | 1,13,260                      | 77,880                        |
| Outstanding at the end of the year       | 14,57,687                     | 7,34,888                      |

### 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 2012, 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          | 10,973,200                                 | 27,385,610                                   |
| 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 2012 |                                     | Year ended 31st March 2011 |                                     |
|--|----------------------------|-------------------------------------|----------------------------|-------------------------------------|
|  | Number of Shares           | Weighted Average Exercise Price (₹) | Number of Shares           | Weighted Average Exercise Price (₹) |
| Outstanding at the beginning of the year | -                          | -                                   | 4,988,600                  | 164.36                              |
| Granted during the year                  | -                          | -                                   | -                          | -                                   |
| Forfeited during the year                | -                          | -                                   | 281,200                    | 162.84                              |
| Exercised during the year                | -                          | -                                   | 4,642,120                  | 165.71                              |
| Expired during the year                  | -                          | -                                   | 65,280                     | 75.00                               |
| Outstanding at the end of the year       | -                          | -                                   | -                          | -                                   |

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

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

|  | Year ended 31st March 2012 |                                    | Year ended 31st March 2011 |                                    |
|--|----------------------------|------------------------------------|----------------------------|------------------------------------|
|  | Number of Shares           | Weighted Average Exercise Price(₹) | Number of Shares           | Weighted Average Exercise Price(₹) |
| Outstanding at the beginning of the year               | 1,34,20,010                | 271.88                             | 1,28,14,250                | 236.42                             |
| Granted during the year                                | 32,51,130                  | 413.86                             | 47,49,240                  | 308.63                             |
| Forfeited during the year                              | 10,27,154                  | 317.59                             | 9,29,424                   | 282.17                             |
| Exercised during the year                              | 38,18,006                  | 257.04                             | 31,46,430                  | 175.78                             |
| Expired during the year                                | 40,287                     | 316.20                             | 67,626                     | 463.92                             |
| Outstanding at the end of the year                     | 1,17,85,693                | 311.71                             | 1,34,20,010                | 271.88                             |
| Out of the above exercisable at the end of the year    | 21,93,562                  | 287.67                             | 13,65,190                  | 235.82                             |
| Weighted average remaining contractual life (in years) | 1.43                       | 1.82                               |                            |                                    |
| Weighted average fair value of options granted         | 167.80                     | 206.73                             |                            |                                    |

The weighted average share price at the date of exercise for stock options exercised during the year was ₹ 469.24 (Previous year ₹ 437.07).

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

**31st March 2012**

| Range of exercise prices (₹) | Number of options outstanding | Weighted average remaining contractual life of options (in years) | Weighted average exercise price (₹) |
|------------------------------|-------------------------------|---|-------------------------------------|
| 0-100                        | 13,368                        | 1.25  | 5.00                                |
| 101-200                      | 17,45,222                     | 1.50  | 146.36                              |
| 201-300                      | 14,52,643                     | 1.22  | 222.75                              |
| 301-400                      | 57,63,470                     | 1.13  | 331.62                              |
| 401-500                      | 28,10,990                     | 2.13  | 421.00                              |

**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                              |

**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 Balance Sheet date. The following table lists the inputs to the model used for equity-settled and cash-settled options:



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

| Year ended 31st March  | 2012                 |                      | 2011           |               |
|--|----------------------|----------------------|----------------|---------------|
|  | Equity-settled       | Cash-settled         | Equity-settled | Cash-settled  |
| Exercise Price ₹   | <b>305-421</b>       | <b>5-421</b>         | 200-422        | 5             |
| Weighted Average Share Price ₹                                     | <b>414.17</b>        | <b>411.16</b>        | 401.14         | 379.40        |
| Expected Volatility  | <b>30.72%-58.10%</b> | <b>31.61%-42.89%</b> | 31.56%-65.43%  | 20.22%-57.98% |
| Historical Volatility  | <b>30.72%-58.10%</b> | <b>31.61%-42.89%</b> | 31.56%-65.43%  | 20.22%-57.98% |
| Life of the options granted (Vesting and exercise period) in years |                      |                      |                |               |
| - At the grant date  | <b>1.16-3.88</b>     |                      | 1.00-4.44      |               |
| - As at 31st March   |                      | <b>0.04-2.75</b>     |                | 0.04-3.09     |
| Risk-free interest rate  | <b>8.30%-8.52%</b>   | <b>8.11%-8.87%</b>   | 5.54%-7.66%    | 7.28%-7.86%   |
| Expected dividend rate   | <b>0.11%-0.12%</b>   | <b>0.09%</b>         | 0.09%-0.11%    | 0.10%         |

The expected volatility was determined based on historical volatility data and the Bank expects the volatility of its share price may 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 the financial position:

₹ in crore

| Year ended 31st March   | 2012         | 2011  |
|---|--------------|-------|
| Total Employee Compensation Cost pertaining to share-based payment plans                        | <b>52.87</b> | 52.87 |
| Compensation Cost pertaining to equity-settled employee share-based payment plan included above | <b>15.87</b> | 18.76 |
| Liability for employee stock options outstanding as at year end                                 | <b>50.45</b> | 70.43 |
| Deferred Compensation Cost  | <b>15.63</b> | 33.52 |
| Closing balance of liability for cash-settled options   | <b>35.37</b> | 18.05 |
| Expense arising from increase in intrinsic value of liability for cash stock appreciation plan  | <b>4.90</b>  | 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 ₹ 42.11 crore (Previous year ₹ 39.39 crore) and the profit after tax would have been lower by ₹ 28.45 crore (Previous year ₹ 26.30 crore). Consequently the basic and diluted EPS would have been ₹ 24.42 (Previous year ₹ 21.36) and ₹ 24.29 (Previous year ₹ 21.24) respectively.

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

### 12. Tier II Bonds

- Lower Tier II Bonds outstanding as on 31st March 2012 ₹ 777.40 crore (previous year ₹ 591.80 crore).
- Upper Tier II Bonds outstanding as on 31st March 2012 ₹ 364.94 crore (previous year ₹ 336.68 crore) of which bonds issued outside India ₹ 228.94 crore (previous year ₹ 200.68 crore).

- Interest Expended-Others {Schedule 15(III)} includes interest on subordinated debt (Lower and Upper Tier II) ₹ 89.41 crore (Previous Year ₹ 69.89 crore).



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

### 14. Segment reporting

The Summary of the operating segments of the Group for the year ended 31st March 2012 are as given below.

₹ in crore

| 31st March  | 2012             | 2011             |
|---|------------------|------------------|
| <b>Segment Revenues:</b>  |                  |                  |
| Treasury, Investments and BMU   | 2,188.97         | 1,660.03         |
| Retail Banking  | 4,523.61         | 3,112.87         |
| Corporate Banking   | 2,696.85         | 1,603.87         |
| Vehicle Financing   | 1,173.85         | 922.74           |
| Other Lending Activities  | 702.79           | 534.92           |
| Broking   | 484.29           | 586.52           |
| Advisory and Transactional Services                                     | 72.17            | 135.05           |
| Asset Management  | 320.68           | 356.86           |
| Insurance   | 3,184.34         | 3,621.03         |
| <b>Sub-total</b>  | <b>15,347.55</b> | <b>12,533.89</b> |
| Add: Unallocated Income   | 4.05             | 1.89             |
| Less: inter-segment revenues  | (2,337.78)       | (1,506.51)       |
| <b>Total Income</b>   | <b>13,013.82</b> | <b>11,029.27</b> |
| <b>Segment Results:</b>   |                  |                  |
| Treasury, Investments and BMU   | 139.89           | 464.81           |
| Retail Banking  | 565.84           | 338.72           |
| Corporate Banking   | 997.14           | 543.89           |
| Vehicle Financing   | 256.02           | 261.19           |
| Other Lending Activities  | 334.05           | 235.56           |
| Broking   | 87.28            | 122.19           |
| Advisory and Transactional Services                                     | (8.14)           | 41.22            |
| Asset Management  | 77.15            | 136.56           |
| Insurance   | 203.26           | 101.37           |
| <b>Sub-total</b>  | <b>2,652.49</b>  | <b>2,245.51</b>  |
| Add: Unallocated Income/ (Expense)                                      | 4.05             | 1.89             |
| <b>Total Profit before tax, before minority interest and associates</b> | <b>2,656.54</b>  | <b>2,247.40</b>  |
| <b>Segment Assets</b>   |                  |                  |
| Treasury, Investments and BMU   | 26,163.02        | 22,298.50        |
| Retail Banking  | 42,226.27        | 33,189.61        |
| Corporate Banking   | 20,014.00        | 12,869.42        |
| Vehicle Financing   | 10,687.47        | 8,200.74         |
| Other Lending Activities  | 4,536.27         | 3,822.48         |
| Broking   | 392.93           | 320.95           |



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

₹ in crore

| 31st March   | 2012             | 2011             |
|--|------------------|------------------|
| Advisory and Transactional Services                            | 60.04            | 44.44            |
| Asset Management   | 772.85           | 836.04           |
| Insurance  | 9,831.38         | 8,773.43         |
| <b>Sub-total</b>   | 114,684.23       | 90,355.61        |
| Less: inter-segment assets                                     | (22,600.50)      | (16,998.05)      |
| <b>Total</b>   | 92,083.73        | 73,357.56        |
| Add: Unallocated Assets  | 265.66           | 323.57           |
| <b>Total Assets as per Balance Sheet</b>                       | <b>92,349.39</b> | <b>73,681.13</b> |
| <b>Segment Liabilities</b>                                     |                  |                  |
| Treasury, Investments and BMU                                  | 23,206.82        | 18,734.41        |
| Retail Banking   | 38,345.42        | 30,197.35        |
| Corporate Banking  | 17,041.87        | 11,086.11        |
| Vehicle Financing  | 9,501.00         | 8,788.19         |
| Other Lending Activities                                       | 3,175.48         | 992.15           |
| Broking  | 823.80           | 860.38           |
| Advisory and Transactional Services                            | 48.57            | 24.95            |
| Asset Management   | 278.38           | 385.82           |
| Insurance  | 9,357.76         | 8,452.32         |
| <b>Sub-total</b>   | 101,779.10       | 79,521.68        |
| Less: inter-segment liabilities                                | (22,600.50)      | (16,998.05)      |
| <b>Total</b>   | 79,178.60        | 62,523.63        |
| Add : Unallocated liabilities                                  | 57.97            | 87.35            |
| Add: Share Capital, Reserves and Surplus and Minority Interest | 13,112.82        | 11,070.15        |
| <b>Total Capital and Liabilities as per Balance Sheet</b>      | <b>92,349.39</b> | <b>73,681.13</b> |
| <b>Capital Expenditure</b>                                     |                  |                  |
| Treasury, Investments and BMU                                  | 67.44            | 27.40            |
| Retail Banking   | 70.50            | 68.11            |
| Corporate Banking  | 6.48             | 3.74             |
| Vehicle Financing  | 2.14             | 1.28             |
| Other Lending Activities                                       | 0.24             | 0.10             |
| Broking  | 12.01            | 17.86            |
| Advisory and Transactional Services                            | 1.49             | 2.86             |
| Asset Management   | 4.10             | 5.57             |
| Insurance  | 21.04            | 18.65            |
| <b>Total</b>   | <b>185.44</b>    | <b>145.57</b>    |



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

₹ in crore

| <b>31st March</b>                   | <b>2012</b>   | <b>2011</b> |
|-------------------------------------|---------------|-------------|
| <b>Depreciation/ Amortisation</b>   |               |             |
| Treasury, Investments and BMU       | 55.25         | 43.12       |
| Retail Banking                      | 57.49         | 51.31       |
| Corporate Banking                   | 4.25          | 4.02        |
| Vehicle Financing                   | 1.82          | 1.76        |
| Other Lending Activities            | 0.15          | 0.19        |
| Broking                             | 14.60         | 17.98       |
| Advisory and Transactional Services | 1.88          | 2.36        |
| Asset Management                    | 3.95          | 4.28        |
| Insurance                           | 24.94         | 27.33       |
| <b>Total</b>                        | <b>164.33</b> | 152.35      |

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.

**15. 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 ₹178.35 crore (previous year ₹160.75 crore).
- (ii) The future minimum lease payments under non cancelable operating lease – not later than one year is ₹141.29 crore (previous year ₹ 149.45 crore), later than one year but not later than five years is ₹ 527.59 crore (previous year ₹ 423.50 crore) and later than five years ₹ 122.89 crore (previous year ₹ 143.06 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.

**16. Assets given on lease**

The lease income recognised in the Profit and Loss Account in respect of premises and equipment under operating lease is ₹ 1.14 crore (previous year ₹ 1.64 crore).

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

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

₹ in crore

| <b>As at 31st March</b>         | <b>2012</b>   | <b>2011</b> |
|---------------------------------|---------------|-------------|
| <b>Gross Investments:</b>       |               |             |
| (i) Not later than 1 year       | 68.46         | 32.58       |
| (ii) Between 1-5 years          | 117.12        | 85.45       |
| <b>Total</b>                    | <b>185.58</b> | 118.03      |
| <b>Unearned Finance Income:</b> |               |             |
| (i) Not later than 1 year       | 17.12         | 10.54       |
| (ii) Between 1-5 years          | 19.56         | 13.72       |
| <b>Total</b>                    | <b>36.68</b>  | 24.26       |



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

₹ in crore

| As at 31st March                                      | 2012          | 2011  |
|---|---------------|-------|
| <b>Present Value of Rentals</b>                       |               |       |
| (i) Not later than 1 year                             | <b>51.34</b>  | 22.04 |
| (ii) Between 1-5 years                                | <b>97.56</b>  | 71.73 |
| <b>Total</b>  | <b>148.90</b> | 93.77 |
| <b>Accumulated provision on the Gross Investments</b> | <b>Nil</b>    | 0.02  |

17. 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 2012

| As on 31st March                  | 2012              | 2011            | Purpose |
|-----------------------------------|-------------------|-----------------|---------|
| <b>Particulars of Derivatives</b> | <b>Quantity</b>   | <b>Quantity</b> |         |
| <b>Futures</b>                    |                   |                 |         |
| S&P CNX Nifty Futures             | <b>88,250</b>     | 194,700         | Trading |
| S&P CNX Nifty Futures             | <b>70,450</b>     | 166,750         | Hedging |
| Bank Nifty Futures                | <b>3,000</b>      | 4,000           | Trading |
| Stock Futures                     | <b>12,045,500</b> | 746,250         | Trading |
| Stock Futures                     | <b>1,954,125</b>  | 441,125         | Hedging |
| Interest Rate Futures             | -                 | 170 Lots        | Hedging |
| Commodity Futures                 | <b>4,000</b>      | 6,800           | Hedging |
| <b>Options</b>                    |                   |                 |         |
| S&P CNX Nifty Options Long        | <b>324,850</b>    | 650,300         | Trading |
| S&P CNX Nifty Options Long        | <b>659,350</b>    | 530,600         | Hedging |
| S&P CNX Nifty Options Short       | <b>233,450</b>    | 816,900         | Trading |
| S&P CNX Nifty Options Short       | <b>450,000</b>    | 350,000         | Hedging |
| Stock Options Long                | <b>38,000</b>     | -               | Trading |
| Stock Options Long                | <b>12,000</b>     | -               | Hedging |

| As on 31st March                  | 2012                   | 2011           | Purpose |
|-----------------------------------|------------------------|----------------|---------|
| <b>Particulars of Derivatives</b> | <b>Notional Amount</b> |                |         |
| <b>Currency Swaps</b>             | <b>USD 64,667,282</b>  | USD 84,500,985 | Hedging |
| <b>Forward Exchange Contracts</b> |                        |                |         |
| USD-INR Long                      | <b>USD 60,775,203</b>  | USD 14,750,000 | Hedging |
| USD-INR Short                     | <b>USD 17,307,129</b>  | USD 5,500,000  | Hedging |
| EURO-USD Long                     | <b>USD 1,368,500</b>   | USD 4,033,500  | Hedging |
| EURO-USD Short                    | <b>USD 1,333,900</b>   | -              | Hedging |
| <b>Foreign Currency Option</b>    |                        |                |         |
| USD-INR                           | -                      | USD 5,500,000  | Hedging |



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

Unhedged forex exposure outstanding as on the Balance Sheet date

₹ in crore

| Particulars                           | As on 31st March 2012                          | As on 31st March 2011                    |
|---------------------------------------|--|--|
| Amount Receivable in foreign currency | <b>3.47 (USD 192,178)<br/>(JPY 40,288,209)</b> | 7.69 (USD 1,282,399)<br>(JPY 36,668,996) |
| Amount Payable in foreign currency    | <b>0.01 (Bahrain Dinars 445)</b>               | -  |

18. 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<br>31st March 2012 | Year ended<br>31st March 2011 |
|--|-------------------------------|-------------------------------|
| <b>Deferred Tax Assets</b>   |                               |                               |
| Provision for non-performing and doubtful debts, standard advances and contingencies | <b>183.73</b>                 | 220.46                        |
| Depreciation on assets   | <b>22.41</b>                  | 21.92                         |
| Unabsorbed capital losses/ business losses/ provision for investments*               | <b>1.51</b>                   | 3.02                          |
| Unamortised Income   | <b>2.81</b>                   | 6.87                          |
| Expenditure allowed on payment basis and others                                      | <b>49.34</b>                  | 64.55                         |
| <b>Total Deferred Tax Assets</b>   | <b>259.80</b>                 | 316.82                        |
| <b>Deferred Tax Liabilities</b>  |                               |                               |
| Deferred expenses  | <b>21.76</b>                  | 17.87                         |
| Depreciation on assets   | <b>1.09</b>                   | 0.91                          |
| Others   | <b>3.87</b>                   | 4.85                          |
| <b>Total Deferred Tax Liabilities</b>  | <b>26.72</b>                  | 23.63                         |
| <b>Net Deferred Tax Assets/(Liabilities)</b>   | <b>233.08</b>                 | 293.19                        |

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

### 19. Fixed Assets

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

₹ in crore

| Particulars                                 | Year ended<br>31st March 2012 | Year ended<br>31st March 2011 |
|---|-------------------------------|-------------------------------|
| <b>SOFTWARE</b>                             |                               |                               |
| <b>Gross Block</b>                          |                               |                               |
| At cost on 31st March of the preceding year | <b>187.93</b>                 | 159.65                        |
| Additions during the year                   | <b>42.90</b>                  | 28.32                         |
| Deductions during the year                  | -                             | 0.04                          |
| <b>Total</b>                                | <b>230.83</b>                 | 187.93                        |



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

₹ in crore

| Particulars                                 | Year ended<br>31st March 2012 | Year ended<br>31st March 2011 |
|---|-------------------------------|-------------------------------|
| <b>Amortisation</b>                         |                               |                               |
| As on 31st March of the preceding year      | 140.39                        | 105.39                        |
| Charge for the year                         | 37.65                         | 35.00                         |
| Deductions during the year                  | -                             | -                             |
| <b>Depreciation to date</b>                 | <b>178.04</b>                 | 140.39                        |
| <b>Net Block</b>                            | <b>52.79</b>                  | 47.54                         |
| <b>MEMBERSHIP CARDS OF STOCK EXCHANGE</b>   |                               |                               |
| <b>Gross Block</b>                          |                               |                               |
| At cost on 31st March of the preceding year | 4.66                          | 4.66                          |
| <b>Total</b>                                | <b>4.66</b>                   | 4.66                          |
| <b>Amortisation</b>                         |                               |                               |
| As on 31st March of the preceding year      | 3.21                          | 3.00                          |
| Charge for the year                         | 0.20                          | 0.21                          |
| <b>Amortisation to date</b>                 | <b>3.41</b>                   | 3.21                          |
| <b>Net Block</b>                            | <b>1.25</b>                   | 1.45                          |
| <b>GOODWILL</b>                             |                               |                               |
| <b>Gross Block</b>                          |                               |                               |
| At cost on 31st March of the preceding year | 1.88                          | 1.88                          |
| <b>Total</b>                                | <b>1.88</b>                   | 1.88                          |
| <b>Amortisation</b>                         |                               |                               |
| As on 31st March of the preceding year      | 1.88                          | 1.88                          |
| <b>Amortisation to date</b>                 | <b>1.88</b>                   | 1.88                          |
| <b>Net Block</b>                            | <b>-</b>                      | -                             |
| <b>FOREX BROKING BUSINESS RIGHTS</b>        |                               |                               |
| <b>Gross Block</b>                          |                               |                               |
| At cost on 31st March of the preceding year | 3.83                          | 3.83                          |
| <b>Total</b>                                | <b>3.83</b>                   | 3.83                          |
| <b>Amortisation</b>                         |                               |                               |
| As on 31st March of the preceding year      | 3.83                          | 3.47                          |
| Charge for the year                         | -                             | 0.36                          |
| <b>Amortisation to date</b>                 | <b>3.83</b>                   | 3.83                          |
| <b>Net Block</b>                            | <b>-</b>                      | -                             |



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

### 20. RELATED PARTY DISCLOSURES:

|          | Nature of relationship  | Name of Related Party  |
|----------|---|--|
| <b>A</b> | <b>Individual having significant influence over the enterprise</b>                                      | Mr. Uday S. Kotak along with relatives and enterprises in which he has beneficial interest holds 45.32% of the equity share capital of Kotak Mahindra Bank Limited as on 31st March 2012.  |
| <b>B</b> | <b>Other Related Parties:</b>   |  |
|          | <b>Associates</b>   | Kotak Mahindra Asset Reconstruction Company Limited (till 18th March 2011)<br>ACE Derivatives and Commodity Exchange Limited (Formerly known as Ahmedabad Commodity Exchange Limited)<br>Infina Finance Private Limited<br>Phoenix ARC Private Limited<br>Add Albatross Properties Private Limited<br>Matrix Business Services India Private Limited   |
|          | <b>Investing Party of the subsidiaries</b>  | Old Mutual Plc.<br>Old Mutual Life Assurance Company (South Africa ) Limited   |
|          | <b>Enterprises over which relatives of Key Management Personnel have control/ significant influence</b> | Aero Agencies Limited<br>Kotak and Company Limited<br>Kotak Commodity Services Limited<br>Komaf Financial Services Limited<br>Asian Machinery & Equipment Private Limited<br>Cumulus Trading Company Private Limited<br>Palko Properties Private Limited<br>Harisiddha Trading and Finance Private Limited<br>Kotak Trustee Company Private Limited<br>Kotak Chemicals Limited<br>Kotak Ginning & Pressing Industries Limited<br>Insurekot Investments Private Limited |
|          | <b>Key Management Personnel</b>   | Mr. Uday S. Kotak – Executive Vice Chairman and Managing Director - KMBL<br>Mr. C. Jayaram - Joint Managing Director- KMBL<br>Mr. Dipak Gupta - Joint Managing Director- KMBL  |
|          | <b>Relatives of Key Management Personnel</b>  | Ms. Pallavi Kotak<br>Mr. Suresh Kotak<br>Ms. Indira Kotak<br>Mr. Jay Kotak<br>Mr. Dhawal Kotak<br>Ms. Aarti Chandaria<br>Ms. Usha Jayaram<br>Ms. Anita Gupta<br>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 |
|------------------------------------|--------------------|-------------------------------------|--|--------------------------|---------------------------------------|
| <b>I. Liabilities</b>              |                    |                                     |  |                          |                                       |
| Other Liabilities                  | 0.33<br>(20.38)    | 0.83<br>(0.81)                      | 0.08<br>(0.23)   | 0.01<br>(0.01)           |                                       |
| Deposits                           | 341.19<br>(364.87) |                                     | 132.32<br>(91.95)  | 10.99<br>(13.50)         | 1.02<br>(0.74)                        |
| Interest Payable                   | 3.23<br>(4.87)     |                                     | 1.13<br>(2.31)   | 0.19<br>(0.31)           | #<br>(0.02)                           |
| <b>II. Assets</b>                  |                    |                                     |  |                          |                                       |
| Investments -Gross                 | 114.80<br>(107.87) |                                     |  |                          |                                       |
| Diminution on Investments          | 9.67<br>(-)        |                                     |  |                          |                                       |
| Others                             | 0.31<br>(0.37)     |                                     | 0.43<br>(0.24)   |                          |                                       |
| <b>III. Expenses</b>               |                    |                                     |  |                          |                                       |
| Salaries/fees (Include ESOP cost)* |                    |                                     |  | 8.64<br>(7.35)           |                                       |
| Others                             | 2.51<br>(1.59)     |                                     | 3.91<br>(3.98)   | 0.08<br>(0.08)           |                                       |
| Interest Paid                      | 48.85<br>(42.70)   |                                     | 11.66<br>(4.54)  | 1.06<br>(1.60)           | 0.05<br>(0.04)                        |
| <b>IV. Income</b>                  |                    |                                     |  |                          |                                       |
| Others                             | 3.24<br>(4.19)     |                                     | 3.60<br>(1.84)   | 0.03<br>(0.03)           | -<br>(#)                              |
| <b>V. Other Transactions</b>       |                    |                                     |  |                          |                                       |
| Dividend paid                      |                    |                                     |  | 16.72<br>(14.21)         | 0.10<br>(0.08)                        |
| Reimbursement to companies         | 0.02<br>(0.03)     |                                     | 3.21<br>(#)  |                          |                                       |
| Reimbursement from companies       | 2.98<br>(3.80)     | -<br>(0.08)                         | 1.73<br>(1.52)   |                          |                                       |
| Purchase of Investments            | 18.38<br>(18.84)   |                                     | -<br>(12.49)   |                          |                                       |
| Purchase of Fixed Assets           |                    |                                     | -<br>(0.02)  |                          |                                       |
| Sale of Fixed Assets               | -<br>(0.23)        |                                     |  |                          |                                       |



**D. Material transactions with related parties:**

₹ in crore

| Items / Related Party                                       | Associates       | Investing<br>Party of the<br>subsidiary | Enterprises<br>over which<br>relatives<br>of Key<br>Management<br>Personnel<br>have control/<br>significant<br>influence | Key<br>Management<br>personnel | Relatives<br>of<br>Key<br>Management<br>Personnel | Total            |
|---|------------------|---|--|--------------------------------|---|------------------|
| <b>I. Liabilities:</b>                                      |                  |   |  |                                |   |                  |
| <b>Other liabilities</b>                                    |                  |   |  |                                |   |                  |
| Old Mutual Life Assurance Company<br>(South Africa) Limited |                  | 0.83<br>(0.81)                          |  |                                |   | 0.83<br>(0.81)   |
| Aero Agencies Limited                                       |                  |   | 0.03<br>(0.04)   |                                |   | 0.03<br>(0.04)   |
| Kotak Commodity Services Limited                            |                  |   | 0.05<br>(0.19)   |                                |   | 0.05<br>(0.19)   |
| Infina Finance Private Limited                              | 0.32<br>(20.17)  |   |  |                                |   | 0.32<br>(20.17)  |
| Others  | 0.01<br>(0.21)   |   |  | 0.01<br>(0.01)                 |   | 0.02<br>(0.22)   |
| <b>II. Assets:</b>  |                  |   |  |                                |   |                  |
| <b>Investments</b>  |                  |   |  |                                |   |                  |
| ACE Derivatives and Commodity<br>Exchange Limited           | 42.16<br>(51.66) |   |  |                                |   | 42.16<br>(51.66) |
| Add Albatross Properties<br>Private Limited                 | 15.27<br>(-)     |   |  |                                |   | 15.27<br>(-)     |
| Phoenix ARC Private Limited                                 | 52.61<br>(51.45) |   |  |                                |   | 52.61<br>(51.45) |
| Others  | 4.76<br>(4.76)   |   |  |                                |   | 4.76<br>(4.76)   |
| <b>Diminution on investments</b>                            |                  |   |  |                                |   |                  |
| Add Albatross Properties<br>Private Limited                 | 9.67<br>(-)      |   |  |                                |   | 9.67<br>(-)      |
| <b>Others</b>   |                  |   |  |                                |   |                  |
| Kotak Commodity Services Limited                            |                  |   | 0.43<br>(0.24)   |                                |   | 0.43<br>(0.24)   |
| ACE Derivatives and<br>Commodity Exchange Limited           | 0.28<br>(0.03)   |   |  |                                |   | 0.28<br>(0.03)   |
| Infina Finance Private Limited                              | #<br>(0.33)      |   |  |                                |   | #<br>(0.33)      |
| Others  | #<br>(0.01)      |   | #<br>(#)   |                                |   | #<br>(0.01)      |



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

₹ in crore

| Items / Related Party                             | Associates       | Investing<br>Party of the<br>subsidiary | Enterprises<br>over which<br>relatives<br>of Key<br>Management<br>Personnel<br>have control/<br>significant<br>influence | Key<br>Management<br>personnel | Relatives<br>of<br>Key<br>Management<br>Personnel | Total            |
|---|------------------|---|--|--------------------------------|---|------------------|
| <b>III. Expenses:</b>                             |                  |   |  |                                |   |                  |
| <b>Salaries (Includes ESOP cost)</b>              |                  |   |  |                                |   |                  |
| Mr. Uday Kotak*                                   |                  |   |  | 2.08<br>(1.78)                 |   | 2.08<br>(1.78)   |
| Mr. C. Jayaram*                                   |                  |   |  | 3.16<br>(2.73)                 |   | 3.16<br>(2.73)   |
| Mr. Dipak Gupta*                                  |                  |   |  | 3.40<br>(2.84)                 |   | 3.40<br>(2.84)   |
| <b>Interest Paid</b>                              |                  |   |  |                                |   |                  |
| Infina Finance Private Limited                    | 37.50<br>(35.07) |   |  |                                |   | 37.50<br>(35.07) |
| Phoenix ARC Private Limited                       | 7.03<br>(5.43)   |   |  |                                |   | 7.03<br>(5.43)   |
| Kotak Commodity Services Limited                  |                  |   | 10.53<br>(3.84)  |                                |   | 10.53<br>(3.84)  |
| Others  | 4.32<br>(2.20)   |   | 1.13<br>(0.70)   | 1.06<br>(1.60)                 | 0.05<br>(0.04)                                    | 6.56<br>(4.54)   |
| <b>Others</b>                                     |                  |   |  |                                |   |                  |
| Aero Agencies Limited                             |                  |   | 3.47<br>(3.53)   |                                |   | 3.47<br>(3.53)   |
| Kotak and Company Limited                         |                  |   | 0.44<br>(0.45)   |                                |   | 0.44<br>(0.45)   |
| Matrix Business Services<br>India Private Limited | 2.45<br>(1.59)   |   |  |                                |   | 2.45<br>(1.59)   |
| Others  | 0.07<br>(-)      |   |  | 0.08<br>(0.08)                 |   | 0.15<br>(0.08)   |
| <b>IV. Income:</b>                                |                  |   |  |                                |   |                  |
| <b>Others</b>                                     |                  |   |  |                                |   |                  |
| <b>Fee Income</b>                                 |                  |   |  |                                |   |                  |
| Phoenix ARC Private Limited                       | 0.50<br>(2.34)   |   |  |                                |   | 0.50<br>(2.34)   |
| Kotak Commodity Services Limited                  |                  |   | 3.58<br>(1.84)   |                                |   | 3.58<br>(1.84)   |
| Others  | #<br>(#)         |   |  |                                |   | #<br>(#)         |



₹ in crore

| Items / Related Party                             | Associates     | Investing<br>Party of the<br>subsidiary | Enterprises<br>over which<br>relatives<br>of Key<br>Management<br>Personnel<br>have control/<br>significant<br>influence | Key<br>Management<br>personnel | Relatives<br>of<br>Key<br>Management<br>Personnel | Total            |
|---|----------------|---|--|--------------------------------|---|------------------|
| <b>Premium Income</b>                             |                |   |  |                                |   |                  |
| ACE Derivatives and Commodity<br>Exchange Limited | 0.01<br>(0.01) |   |  |                                |   | 0.01<br>(0.01)   |
| Phoenix ARC Private Limited                       | 0.01<br>(#)    |   |  |                                |   | 0.01<br>(#)      |
| Kotak Commodity Services Limited                  |                |   | 0.02<br>(#)  |                                |   | 0.02<br>(#)      |
| Others  | -<br>(#)       |   |  | 0.02<br>(0.02)                 |   | 0.02<br>(0.02)   |
| <b>Brokerage Income</b>                           |                |   |  |                                |   |                  |
| Infina Finance Private Limited                    | 2.73<br>(1.84) |   |  |                                |   | 2.73<br>(1.84)   |
| Others  |                |   | -<br>(#)   | 0.01<br>(0.01)                 | -<br>(#)  | 0.01<br>(0.01)   |
| <b>V. Other Transactions:</b>                     |                |   |  |                                |   |                  |
| <b>Dividend Paid</b>                              |                |   |  |                                |   |                  |
| Mr. Uday Kotak                                    |                |   |  | 16.66<br>(14.16)               |   | 16.66<br>(14.16) |
| Mr. C Jayaram                                     |                |   |  | 0.03<br>(0.03)                 |   | 0.03<br>(0.03)   |
| Mr. Dipak Gupta                                   |                |   |  | 0.03<br>(0.02)                 |   | 0.03<br>(0.02)   |
| Ms. Pallavi Kotak                                 |                |   |  |                                | 0.03<br>(0.02)                                    | 0.03<br>(0.02)   |
| Ms. Indira Kotak                                  |                |   |  |                                | 0.06<br>(0.05)                                    | 0.06<br>(0.05)   |
| Others  |                |   |  |                                | 0.01<br>(0.01)                                    | 0.01<br>(0.01)   |
| <b>Reimbursements made</b>                        |                |   |  |                                |   |                  |
| Infina Finance Private Limited                    | 0.02<br>(0.02) |   |  |                                |   | 0.02<br>(0.02)   |
| Kotak Commodity Services Limited                  |                |   | 3.21<br>(#)  |                                |   | 3.21<br>(#)      |
| Others  | #<br>(0.01)    |   |  |                                |   | #<br>(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          |
|--|----------------|-----------------------------------|--|--------------------------|---------------------------------------|----------------|
| <b>Reimbursements received</b>                           |                |                                   |  |                          |                                       |                |
| Old Mutual Life Assurance Company (South Africa) Limited |                | -<br>(0.08)                       |  |                          |                                       | -<br>(0.08)    |
| Kotak Commodity Services Limited                         |                |                                   | 1.73<br>(1.52)   |                          |                                       | 1.73<br>(1.52) |
| ACE Derivatives and Commodity Exchange Limited           | 2.95<br>(3.69) |                                   |  |                          |                                       | 2.95<br>(3.69) |
| Others   | 0.03<br>(0.11) |                                   |  |                          |                                       | 0.03<br>(0.11) |
| <b>Purchase of Investments</b>                           |                |                                   |  |                          |                                       |                |
| Phoenix ARC Private Limited                              | -<br>(18.84)   |                                   |  |                          |                                       | -<br>(18.84)   |
| Add Albatross Properties Private Limited                 | 18.38<br>(-)   |                                   |  |                          |                                       | 18.38<br>(-)   |
| Komaf Financial services Limited                         |                |                                   | -<br>(12.49)   |                          |                                       | -<br>(12.49)   |
| <b>Purchase of Fixed Assets</b>                          |                |                                   |  |                          |                                       |                |
| Kotak Commodity Services Limited                         |                |                                   | -<br>(0.02)  |                          |                                       | -<br>(0.02)    |
| <b>Sale of Fixed Assets</b>                              |                |                                   |  |                          |                                       |                |
| ACE Derivatives and Commodity Exchange Limited           | -<br>(0.23)    |                                   |  |                          |                                       | -<br>(0.23)    |

\* includes incentive paid during the year

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



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

## E. Maximum balance outstanding

₹ in crore

| Items / Related Party     | Associates             | Investing<br>Party of the<br>subsidiary | Enterprises<br>over which<br>relatives<br>of Key<br>Management<br>Personnel<br>have control/<br>significant<br>influence | Key<br>Management<br>personnel | Relatives<br>of<br>Key<br>Management<br>Personnel |
|---------------------------|------------------------|---|--|--------------------------------|---|
| <b>I. Liabilities</b>     |                        |   |  |                                |   |
| Deposits                  | 2,282.79<br>(3,259.23) |   | 239.08<br>(26.79)  | 23.93<br>(64.69)               | 2.25<br>(0.81)                                    |
| Other Liabilities         | 20.38<br>(25.64)       | 0.83<br>(0.81)                          | 0.23<br>(0.34)   | 0.01<br>(-)                    |   |
| <b>II. Assets</b>         |                        |   |  |                                |   |
| Investments-Gross         | 114.80<br>(107.88)     |   |  |                                |   |
| Diminution on Investments | 9.67<br>(-)            |   |  |                                |   |
| Others                    | 0.37<br>(2.92)         | -<br>(0.03)                             | 0.43<br>(0.24)   |                                |   |

**Note: Figures of previous year are given in bracket.**

21. Figures of previous year were audited by a firm of chartered accountants other than current statutory auditors S. B. Billimoria & Co. 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

**Dipak Gupta**

Joint Managing Director

**Jaimin Bhatt**

President and Group Chief Financial Officer

Mumbai, 8th May 2012

**Uday Kotak**Executive Vice Chairman  
and Managing Director**Bina Chandarana**

Company Secretary



## Financial Information of Subsidiaries for the year ended 31st March 2012

₹ 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                                   | 1,615.98                               | 700.78                      | 6.99                 | 0.10   | 459.20                            | 5.00  | 410.00                        | 1,200.00                        | 572.24                                |
| Reserves   | 191,783.99                   | 181,817.08               | 49,116.85                              | 10,680.60  | 26,653.34                          | 5,208.67  | 3,676.14                               | 19,489.56                              | 10,071.12                   | 2,615.39             | 0.01   | 18,761.32                         | 356.80                                      | (370.94)                      | (171.42)                        | (346.30)                              |
| Total Network                                      | 192,133.51                   | 181,977.08               | 49,528.46                              | 61,709.62  | 26,958.37                          | 7,188.67  | 3,681.15                               | 21,105.54                              | 10,771.90                   | 2,622.38             | 0.11   | 19,220.52                         | 361.80                                      | 39.06                         | 1,028.58                        | 225.94                                |
| Total Assets                                       | 1,527,541.37                 | 268,231.13               | 54,197.95                              | 1,004,875.93                                     | 82,261.42                          | 9,610.08  | 3,697.03                               | 28,434.01                              | 17,331.04                   | 2,759.88             | 0.11   | 24,145.56                         | 370.93                                      | 59.47                         | 1,060.45                        | 569.02                                |
| Total Liabilities                                  | 1,335,407.86                 | 86,254.05                | 4,669.49                               | 943,166.31                                       | 55,303.05                          | 2,421.41  | 15.88                                  | 7,328.47                               | 6,559.14                    | 137.50               | -  | 4,925.04                          | 9.13  | 20.41                         | 31.87                           | 343.08                                |
| Investments (excluding investment in subsidiaries) | 69,833.93                    | 27,862.55                | 7,422.15                               | 872,033.70                                       | 7,664.86                           | -   | 987.35                                 | 19,559.53                              | -                           | 396.30               | -  | 10,052.73                         | -   | -                             | 817.17                          | -                                     |
| Turnover   | 180,511.06                   | 60,970.45                | 8,164.99                               | 318,385.84                                       | 11,844.88                          | 11,429.80                                       | 1,110.64                               | 2,844.43                               | 6,566.60                    | 1,129.37             | -  | 9,686.21                          | 166.13                                      | 61.56                         | 47.01                           | 659.91                                |
| Profit before taxation                             | 57,033.84                    | 19,148.92                | 942.30                                 | 20,324.82  | 2,726.07                           | 2,011.41  | 1,047.08                               | (267.61)                               | (152.02)                    | (572.76)             | -  | 5,221.27                          | 112.09                                      | (4.34)                        | (51.99)                         | (187.27)                              |
| Provision for taxation                             | 18,546.26                    | 6,566.75                 | 348.49                                 | -  | 1,200.94                           | 576.24  | 290.64                                 | 67.66                                  | (30.20)                     | (102.73)             | -  | 1,608.48                          | 36.39                                       | -                             | -                               | -                                     |
| Profit after taxation                              | 38,487.58                    | 12,582.17                | 593.81                                 | 20,324.82  | 1,525.13                           | 1,435.17  | 756.44                                 | (335.27)                               | (121.82)                    | (470.03)             | -  | 3,612.79                          | 75.70                                       | (4.34)                        | (51.99)                         | (187.27)                              |
| Proposed Dividend (Equity)                         | Nil                          | Nil                      | Nil                                    | Nil  | Nil                                | Nil   | Nil                                    | Nil                                    | Nil                         | Nil                  | Nil  | Nil                               | Nil   | Nil                           | Nil                             | Nil                                   |

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

(5) 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.

**Dr. Shankar Acharya**  
Chairman

**Dipak Gupta**  
Joint Managing Director

**Jaimin Bhatt**  
President and Group Chief  
Financial Officer

**Uday Kotak**  
Executive Vice Chairman and  
Managing Director

**Bina Chandarana**  
Company Secretary



## 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 - 21 (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 (AS - 23) *Accounting for Investments in Associates in Consolidated Financial Statements*. KMBL and its subsidiaries 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  |



| Name of the Subsidiary                         | Country of Origin | Activity                                | Status of consolidation  |
|--|-------------------|---|--|
| Kotak Mahindra Pension Fund Limited            | India             | Pension fund management                 | Fully consolidated   |
| Kotak Mahindra Financial Services Limited      | Dubai             | Advising on financial products          | Fully consolidated for Middle East   |
| Infina Finance Private Limited                 | India             | Non Banking Finance Company             | Consolidated by equity method  |
| Phoenix ARC Private Limited                    | India             | Securitisation and asset Reconstruction | Consolidated by equity method  |
| ACE Derivatives and 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 |
| Add Albatross Properties Private Limited**     | India             | Real estate developer                   | 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. In terms of constitution and private placement memorandum, GIOFL has 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. KMBL owns 100% of the management share and 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. Accordingly, the Group consolidates management shares of the entity having regard to substance over form of the entity.

\*\* Effective 28th November, 2011 KMBL acquired 29.99% stake in Add Albatross Properties Private Limited as a part of consideration in settlement of acquired non-performing assets.

#### a. Capital Deficiencies

As at 31st March 2012 there is no deficiency of capital in any of the subsidiaries of the Bank. The Bank maintains an oversight over its subsidiaries through its representation on 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 as at 31st March 2012 is deducted from regulatory capital for capital adequacy purpose under Basel II as give 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.



### Equity capital

KMBL has authorized share capital of ₹ 400 cr comprising 800,000,000 equity shares of ₹ 5 each. As on 31st March 2012, KMBL has issued, subscribed and paid-up equity capital of ₹ 370.34 crore, constituting 740,689,510 number of equity shares of ₹ 5 each. KMBL shares are listed on the National Stock Exchange and the Bombay Stock Exchange. The GDRs issued by KMBL are listed on Luxembourg Stock Exchange. During the year KMBL has also allotted equity shares to employees under its Employee Stock Option Plan. The provisions of the Companies Act, 1956 and other applicable laws and regulations govern the rights and obligations of the equity share capital of KMBL.

### Details of Upper Tier 2 and Lower Tier 2 Capital

Group 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           |
|--|------------------|
| <b>(a) Tier I Capital</b>  |                  |
| Paid-up share capital  | 370.34           |
| Reserves and Surplus excluding translation and investment reserve    | 12,374.55        |
| <b>Deductions:</b>   |                  |
| Investment in paid-up capital of subsidiaries/ associates (50%)      | 190.64           |
| Intangible assets other than Goodwill                                | 268.41           |
| Goodwill   | 3.42             |
| <b>Net Tier I Capital</b>  | <b>12,282.42</b> |
| (b) Total eligible Tier II Capital                                   | 973.16           |
| (c) Debt instruments eligible for inclusion in Upper Tier II Capital |                  |
| Total amount outstanding   | 364.94           |
| Of which raised during the current financial year                    | —                |
| Amount eligible to be reckoned as capital                            | 364.94           |
| (d) Subordinated debt eligible for inclusion in Tier II capital      |                  |
| Total amount outstanding   | 777.40           |
| Of which raised during the current financial year                    | 150.00           |
| Amount eligible to be reckoned as capital                            | 608.22           |
| (e) General Provisions and loss reserves                             | 214.66           |
| (f) Investment reserve   | 30.58            |
| <b>Deductions:</b>   |                  |
| Investment in paid-up capital of subsidiaries/ associates (50%)      | 190.64           |
| <b>Net Tier II Capital</b>   | <b>1,027.76</b>  |



**b. Total eligible capital as at 31st March 2012**

₹ in crore

|                               | Amount           |
|-------------------------------|------------------|
| Tier I Capital                | 12,282.42        |
| Tier II Capital               | 1,027.76         |
| <b>Total eligible Capital</b> | <b>13,310.18</b> |

**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 Risk Management Committee, Asset Liability Management Committee (ALCO), Credit Committee, First Tier Audit 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 review and assess its capital for Pillar II risks.

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 2012**

₹ in crore

| Items   | Amount        |
|---|---------------|
| (a) Capital requirements for credit risk      |               |
| Portfolios subject to standardised approach   | 6,099.95      |
| Securitisation exposures                      | 1.51          |
| (b) Capital requirements for market risk      |               |
| Using standardised duration approach          |               |
| Interest rate risk                            | 237.30        |
| Foreign exchange risk (including gold)        | 20.00         |
| Equity position risk                          | 341.94        |
| (c) Capital requirements for operational risk |               |
| Measured using basic indicator approach       | 727.24        |
| Total capital required at 10%                 | 7,427.93      |
| Total capital funds of the Group              | 13,310.18     |
| Total risk weighted assets                    | 74,279.29     |
| <b>Capital adequacy ratio</b>                 | <b>17.92%</b> |

*Computed as per Basel II guidelines*



#### 4. Credit Risk

Credit Risk is defined as the possibility of losses associated with borrowers or counterparties failing to fulfil their contractual obligations to the Bank or diminution in their credit quality. 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 in the Bank through committees that approve credit and an enterprise wide risk management 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.

The Bank's credit exposure is primarily categorised into retail and wholesale borrowers. Retail exposure is mostly term loans and asset backed loans other than personal loans. Wholesale borrowers are internally categorized into corporate, mid-markets 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**

Credit risk management is an integral part of the management and governance process within the Bank. The Bank focuses on ensuring that credit risk taking is in line within approved policies, while meeting risk-reward objectives. 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 a healthy credit portfolio. 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 Bank also constantly reviews its concentration across borrowers, groups, portfolio segments, geography, maturity, sectors and ratings. This helps the Bank maintain a well diversified portfolio. The Bank has also put in place a rating based approval matrix for sanctioning wholesale bank loans.

##### **Nature of reporting and measurement systems**

Integral to the lending decision is the credit rating of borrowers. The Bank has an internal rating model which is capable of rating large and emerging corporates, traders, brokers, NBFCs and services. Ratings are supported by financial analysis and combined with Credit Head's judgment to arrive at the final rating for a borrower / counterparty. The Bank uses an 18 point scale to grade borrowers.

Each internal rating, translates into a Probability of Default (PD) for the borrower. The PD captures the risk of a borrower defaulting over a one-year horizon. 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.

The Bank has strong governance on the rating models and framework for changes to the model or enhancements. Performance of the internal rating model is reviewed periodically.

On the retail side, the bank has processes for 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 an approved stress testing framework, covering 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. Results of these stress tests are placed to the RMC & Board.

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 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) and direction of change in credit risk (increasing /decreasing/ stable) at the portfolio level on a regular basis.

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 standardized approach to the Board. During the year, the Bank also had its ICAAP validated by an External agency.

### 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 approval authorities policy indicates the sanctioning authorities and the rating tool helps the authorities in such decisions.
- The approval of all limits to counterparties should be in line with the corporate credit policy and credit risk mitigation 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 minimize 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 2012

₹ in crore

| Overall credit exposure      | Fund based | Non-fund based | Total     |
|------------------------------|------------|----------------|-----------|
| Total gross credit exposures | 53,561.97  | 9,883.34       | 63,445.31 |

*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 2012**

₹ in crore

| Exposures | Fund based | Non-fund based | Total     |
|-----------|------------|----------------|-----------|
| Domestic  | 53,561.97  | 9,875.22       | 63,437.19 |
| Overseas  | -          | 8.12           | 8.12      |
| Total     | 53,561.97  | 9,883.34       | 63,445.31 |

*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                        | 17,946.60        | -               | 17,946.60        |
| Personal loans                    | 2,413.33         | -               | 2,413.33         |
| Home loans/ Loan against property | 8,369.92         | -               | 8,369.92         |
| Credit cards                      | 256.36           | -               | 256.36           |
| Other retails loans               | 7,472.18         | -               | 7,472.18         |
| Iron and steel                    | 100.14           | 414.47          | 514.61           |
| Engineering                       | 723.19           | 1,060.95        | 1,784.14         |
| Chemical, dyes, paints etc        | 1,189.14         | 1,030.74        | 2,219.88         |
| Construction                      | 2,773.21         | 345.23          | 3,118.44         |
| Automobiles                       | 1,305.38         | 1,031.49        | 2,336.87         |
| Infrastructure                    | 2,724.00         | 3,005.74        | 5,729.74         |
| NBFC's                            | 455.57           | 664.47          | 1,120.04         |
| Other industries (i)              | 7,832.95         | 2,330.25        | 10,163.20        |
| <b>Total</b>                      | <b>53,561.97</b> | <b>9,883.34</b> | <b>63,445.31</b> |

*Includes all entities considered for Basel II capital adequacy computation*

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

**Residual contractual maturity break-down of assets as at 31st March 2012**

₹ in crore

| Maturity Pattern              | Cash and balances with monetary authority | Balances with other banks | Investments      | Advances         | Fixed Assets  | Other Assets    |
|-------------------------------|---|---------------------------|------------------|------------------|---------------|-----------------|
| 0 to 14 days                  | 667.24                                    | 580.63                    | 9,185.35         | 3,626.94         | -             | 435.68          |
| 15 to 28 days                 | 104.14                                    | -                         | 805.99           | 1,816.30         | -             | 139.07          |
| 29 days to 3 months           | 253.33                                    | -                         | 1,898.91         | 5,165.36         | -             | 123.49          |
| Over 3 months & upto 6 months | 188.45                                    | -                         | 1,857.27         | 5,061.37         | -             | 132.98          |
| Over 6 months & upto 1 year   | 231.35                                    | -                         | 2,671.83         | 8,077.08         | -             | -               |
| Over 1 year & upto 3 years    | 460.74                                    | 2.59                      | 3,825.48         | 19,070.40        | -             | 19.71           |
| Over 3 year & upto 5 years    | 65.54                                     | -                         | 704.47           | 4,151.41         | -             | 135.85          |
| Over 5 years                  | 47.75                                     | 0.09                      | 1,186.50         | 5,907.77         | 478.28        | 1290.17         |
| <b>Total</b>                  | <b>2,018.54</b>                           | <b>583.31</b>             | <b>22,135.80</b> | <b>52,876.63</b> | <b>478.28</b> | <b>2,276.95</b> |

*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 2012 including NPAs acquired from other banks and NBFCs**

₹ in crore

| Items                                 | Amount        |               |
|---------------------------------------|---------------|---------------|
|                                       | Gross NPA     | Net NPA       |
| Substandard                           | 309.97        | 214.28        |
| Doubtful 1                            | 146.58        | 34.94         |
| Doubtful 2                            | 150.95        | 24.21         |
| Doubtful 3                            | 47.86         | -             |
| Loss                                  | 44.38         | -             |
| <b>Total</b>                          | <b>699.74</b> | <b>273.43</b> |
| NPA Ratio (%)                         | 1.31%         | 0.51%         |
| Movement of NPAs                      |               |               |
| Opening balance as at 1st April 2011  | 711.98        | 242.67        |
| Additions                             | 353.55        | 160.15        |
| Reductions                            | (365.79)      | (129.39)      |
| Closing balance as at 31st March 2012 | 699.74        | 273.43        |

*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 2011       | 469.31   |
| Provisions made during the year            | 193.40   |
| Write-off/ Write back of excess provisions | (236.40) |
| Closing balance as at 31st March 2012      | 426.31   |

**Amount of non-performing loans as at 31st March 2012 excluding NPAs acquired from other banks and NBFCs**

₹ in crore

| Items                                 | Amount        |               |
|---------------------------------------|---------------|---------------|
|                                       | Gross NPA     | Net NPA       |
| Substandard                           | 309.25        | 214.28        |
| Doubtful 1                            | 130.25        | 37.18         |
| Doubtful 2                            | 76.81         | 8.92          |
| Doubtful 3                            | 1.16          | -             |
| Loss                                  | 43.35         | -             |
| <b>Total</b>                          | <b>560.82</b> | <b>260.38</b> |
| NPA Ratio (%)                         | 1.05%         | 0.49%         |
| Movement of NPAs (gross)              |               |               |
| Opening balance as at 1st April 2011  | 468.60        | 177.56        |
| Additions                             | 343.35        | 189.26        |
| Reductions                            | (251.13)      | (106.44)      |
| Closing balance as at 31st March 2012 | 560.82        | 260.38        |

*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 2011       | 291.04   |
| Provisions made during the year            | 153.20   |
| Write-off/ write back of excess provisions | (143.80) |
| Closing balance as at 31st March 2012      | 300.44   |



**Amount of Non-performing investments (NPI)**

|                                   | ₹ in crore |
|-----------------------------------|------------|
|                                   | Amount     |
| Gross NPI as at 31st March 2012   | 21.71      |
| Amount of provisions held for NPI | 16.11      |
| Net NPI as at 31st March 2012     | 5.60       |

**Movement of provisions for depreciation on investments**

|  | ₹ in crore |
|--|------------|
|  | Amount     |
| Opening balance as at 1st April 2011                 | 3.68       |
| Write off /Write back of provisions during the year* | 12.43      |
| Closing balance as at 31st March 2012                | 16.11      |

\*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:

- Domestic credit rating agencies: CRISIL, ICRA, CARE and FITCH India
- International rating agencies: S&P, FITCH and Moody's

The Bank uses the external credit ratings to risk weights 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     | 19,860.70        | 4,877.01        | 24,737.71        |
| 100% risk weight           | 18,306.17        | 4,056.33        | 22,362.50        |
| More than 100% risk weight | 15,092.41        | 381.50          | 15,473.91        |
| <b>TOTAL</b>               | <b>53,259.28</b> | <b>9,314.84</b> | <b>62,574.12</b> |

*Includes all entities considered for Basel II capital adequacy computation*

**6. Credit Risk Mitigation**

The Bank has a credit risk mitigation policy that 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. The bank has taken ₹ 871.19 crore of collateral benefit in the capital computation as of 31st March 2012.

**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 Group 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   | 3,500.00 |
|       | Auto Loans (Car and commercial vehicles)                          | -        |
|       | Mortgage Loans  | -        |
|       | Total   | 3,500.00 |
| 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   | 2.23     |
|       | Auto Loans (Car and commercial vehicles)                          | -        |
|       | Mortgage Loans  | -        |

Includes all entities considered for Basel II capital adequacy computation



Aggregate amount of securitisation exposures retained or purchased and outstanding as on 31st March 2012 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                    | —                       | —                        |

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                          | —      | —              |
| <b>Deductions</b>                                   |        |                |
| – 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 securitization framework:

₹ in crore

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

Aggregate amount of securitisation exposures retained or purchased and outstanding as on 31st March, 2012 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 (Commercial vehicles and construction equipments) | 126.26                  | —                        |
| 3.    | Liquidity facility   | —                       | —                        |
| 4.    | Credit commitments (cash collateral)                         | —                       | —                        |
| 5.    | Other commitments  | —                       | —                        |



### 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                              | 126.26 | 1.51           |
| 100% risk weight                                    | -      | -              |
| More than 100% risk weight                          | -      | -              |
| <b>Deductions</b>                                   |        |                |
| - Entirely from Tire 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

### a. 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 capital market risk management policies and procedures are based on the product traded.

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:

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

### Structure and organization 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 standardized 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 Bank performs stress tests on its portfolio and assesses its impact on the overall capital. The VaR model is also back tested to ensure its accuracy. The Bank has also recently got the VaR model validated by an external consultant. The Risk Management Committee is apprised 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. During the year, the Bank participated in the stress testing programme conducted jointly by the RBI and IMF, as part of the Financial Sector Assessment Programme (FSAP). The Bank was within the internal and regulatory capital ratios after applying the stress scenarios. The stress test results and the subsequent capital requirements are 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.

In order to strengthen the liquidity risk management, RBI also issued draft guidelines on "Liquidity Risk Management and Basel III Framework on Liquidity Standards" in February 2012. The proposed two minimum global regulatory standards viz., LCR and NSFR as set out in the Basel III rules will become binding for banks in India from January 2015 and January 2018, respectively. Bank is proactively assessing these ratios and has incorporated these as part of risk appetite and monitors these on regular basis.

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     | 237.30         |
| Equity position risk   | 341.94         |
| Foreign exchange risk  | 20.00          |
| Total capital required | 599.24         |

*Includes all entities considered for Basel II capital adequacy computation*



## 9. Operational Risk Management (ORM)

The Bank and the 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 minimized 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 minimize 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 continuously takes 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, Risk Containment Unit has been setup within Business Units, which identifies and monitors risk on an ongoing basis including sample checks and control testing..
- 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 ₹ 727.24 crore as at 31st March 2012.

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 mobilize 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 mobilization 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 at 31st March 2012 are given below:
  - o Earnings Perspective
 

|   |               |
|---|---------------|
| Impact on earnings of 100 bps parallel shift in yield curve | ₹ 64.26 crore |
|---|---------------|
  - o Economic Value of Equity

|  |                |
|--|----------------|
| Impact on MVE of 100 bps adverse parallel shift in yield curve | ₹ 129.25 crore |
| Impact as a percentage of Tier1 Capital                        | 1.05%          |



## Directors' Report

To the Members of  
**KOTAK MAHINDRA BANK LIMITED**

The Directors present their Twenty Seventh Annual Report together with the audited accounts of your Bank for the year ended 31st March 2012.

### FINANCIAL HIGHLIGHTS

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

|   | <b>31st March 2012</b><br>₹ crore | 31st March 2011<br>₹ crore |
|---|-----------------------------------|----------------------------|
| Total income  | <b>13,013.82</b>                  | 11,062.96                  |
| Total expenditure, excluding provisions and contingencies | <b>10,258.58</b>                  | 8,667.96                   |
| Operating Profit  | <b>2,755.24</b>                   | 2,395.00                   |
| Provisions and contingencies, excluding provision for tax | <b>98.70</b>                      | 147.60                     |
| Profit before tax   | <b>2,656.54</b>                   | 2,247.40                   |
| Provision for taxes                                       | <b>806.01</b>                     | 678.16                     |
| Profit after tax  | <b>1,850.53</b>                   | 1,569.24                   |
| Less: Share of minority interest                          | <b>52.84</b>                      | 26.36                      |
| Add: Share in profit of Associates                        | <b>34.55</b>                      | 23.86                      |
| Consolidated profit for the Group                         | <b>1,832.24</b>                   | 1,566.74                   |
| Earnings per Equity Share:                                |                                   |                            |
| Basic (₹)   | <b>24.81</b>                      | 21.73                      |
| Diluted (₹)   | <b>24.67</b>                      | 21.60                      |

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

|  | <b>31st March 2012</b><br>₹ crore | 31st March 2011<br>₹ crore |
|--|-----------------------------------|----------------------------|
| Total Income   | <b>7,157.58</b>                   | 4,970.29                   |
| Total expenditure, excluding provisions and contingencies              | <b>5,502.57</b>                   | 3,645.50                   |
| Operating Profit   | <b>1,655.01</b>                   | 1,324.79                   |
| Provisions and contingencies, excluding tax provisions                 | <b>55.08</b>                      | 137.09                     |
| Profit before tax  | <b>1,599.93</b>                   | 1,187.70                   |
| Provision for taxes  | <b>514.88</b>                     | 369.52                     |
| Profit after tax   | <b>1,085.05</b>                   | 818.18                     |
| Add: Surplus brought forward from the previous year                    | <b>1,494.52</b>                   | 965.91                     |
| Amount available for appropriation                                     | <b>2,579.57</b>                   | 1,784.09                   |
| Appropriations:  |                                   |                            |
| Statutory Reserve under Section 17 of the Banking Regulation Act, 1949 | <b>271.27</b>                     | 204.55                     |
| General Reserve  | <b>54.26</b>                      | 40.91                      |
| Transfer to / (from) Investment Reserve Account                        | <b>14.52</b>                      | (26.83)                    |
| Transfer to Capital Reserve  | <b>0.02</b>                       | 0.69                       |
| Transfer to Special Reserve  | <b>25.00</b>                      | 29.00                      |
| Proposed Dividend  | <b>44.49</b>                      | 36.88                      |
| Corporate Dividend Tax   | <b>7.22</b>                       | 4.37                       |
| Surplus carried to Balance Sheet                                       | <b>2,162.79</b>                   | 1,494.52                   |



**DIVIDEND**

Your Directors are pleased to recommend a dividend of ₹ 0.60 per equity share (previous year ₹ 0.50 per equity share), entailing a payout of ₹ 51.71 crore including dividend distribution tax (previous year ₹ 41.25 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**

The Bank has a Capital Adequacy Ratio ('CAR') under Basel II as at 31st March 2012 of 17.52 % with Tier I being 15.74 %. At a consolidated level the CAR was 17.92% under Basel II.

During the year, your Bank has not issued any Capital under Tier II. As on 31st March 2012, outstanding Unsecured, Redeemable Non-Convertible, Subordinated Debt Bonds were ₹ 610.70 crore and outstanding Unsecured, Non-Convertible, Redeemable Debt Capital Instruments Upper Tier II stood at ₹ 364.94 crore.

**OPERATIONS**

Your Bank has worked on a focused approach on network expansion and now has 355 branches and 848 ATMs, covering 211 locations. Your Bank added over half a million new customers this year across core banking products of savings and checking accounts, term deposits, overdrafts and non-resident accounts.

With the Reserve Bank of India (RBI) announcing the deregulation of interest rates on savings accounts earlier this year, your Bank was among the first to offer its customers a higher rate of interest on their savings account. A rate of 6% on deposits above ₹ 1 lac and 5.5% on deposits up to ₹ 1 lac has been offered. Your Bank has seen a favorable response to this rate change and is reflected both in the increase in values in the savings account and the run rate of new acquisition.

Your Bank has always been committed to providing superior service to its customers. Keeping in line with this stated vision, your Bank upgraded its Core Banking Service (CBS) from Flexcube to Finacle. This migration took place on 14th August 2011. Through extensive testing and appropriate training to the employees, it was ensured that the migration had a minimum impact on the banking services to the customers. Along with this major system upgrade, your Bank has also added several customer conveniences such as registering beneficiaries across multiple channels and managing payments to beneficiaries. Your Bank has now set up a system for customizing charges for customers, basis their overall relationship with the bank, transaction history and other attributes.

Your Bank continues to undertake various initiatives in order to enhance customer experience by offering greater convenience of services and a wider range of products and services. Some of the key initiatives are:

- **Business Debit Card** – This is a card being offered specifically to the Small and Medium Enterprises (SME) segment in India and is available on the VISA platform. This card will help SMEs to separate business and personal expenses and will help them meet the increasing reporting requirements of the Income Tax department for card expenses.
- **Kotak World Travel Card** – This is a prepaid Travel Card that is currently available in four major currencies: USD, Euro, GBP and AUD. The card is available with two variants, one for corporate travelers going abroad on business trips and the other for individual travelers going abroad on leisure or personal trips.
- **Cash @ POS** – The Shoppe Card now allows customers to withdraw cash from their Kotak Accounts by swiping their Kotak Bank Debit Card at select merchant outlets in select cities. Customers can currently withdraw up to ₹ 1000, per day per debit card.
- **Enhanced NetBanking Platform** – The CBS upgrade also resulted in an enhanced NetBanking platform, thus giving the customers enhanced convenience and ease of navigation. Customers can book Term Deposits, place enquiries, manage beneficiaries, view past transactions in a single view, request for Best Compliments Cards, Home Banking facilities etc. Mails sent through Secure Mail on Net Banking are now being converted to service requests automatically. This has minimized the need for manual intervention. It also allows the customers to track the status of such requests raised.
- **IMPS for Merchant Payments** – After introducing person-to-person (P2P) payments using Interbank Mobile Payment Services (IMPS) during the previous year, your Bank has launched merchant payment services through IMPS. This is a secure, 24X7, convenient, instant, real-time payment solution allowing both customers and merchants to conduct transactions in a smooth manner and without the hassles associated with cash handling.
- **Currency Chest** – Your Bank launched its first Currency Chest in Mumbai in the Financial Year 2011-12. This unit will facilitate effective cash management services for the Mumbai branches.

Your Bank continues to put a significant focus on reaching out to the NRI community and undertook various initiatives during the year, including:

- A comprehensive new physical NR account opening form was launched. The process for document pick-up for NR accounts sourced online has also been revamped.
- Revision in NRE Term Deposit rates and that resulted in significant increase in NR Term Deposits as compared to the previous year.
- The Kotak Mahindra Bank Max Yield NRO Deposit (under the Double Taxation Avoidance Agreement) was extended to 74 countries.
- FCNR deposits were launched in two new currencies, AUD and CAD.
- A new toll-free number has been added for the clients in US, to enable them to reach your Bank easily.
- The mobile site m.nri.kotak.com has been launched. A widget has also been created for online feedback of leads and enquiries in order to measure customer experience.



- New alliances have been signed up with various banks and exchange houses to give further impetus to the remittance business.
- Your Bank participated in various forums like SIBOS (SWIFT International Banking Operations Seminar) 2011 in Toronto, GOPIO's (Global Organization for Persons of Indian Origin) Annual Convention 2011 in New Jersey, the PBD (Pravasi Bhartiya Divas) and GOPIO Community Awards 2012 Function, New Delhi, NRI Visionary Award Function in Ahmedabad and AAPI's (American Association of Physicians of Indian Origin) 5th Indo-US Health Care Summit, held at Hyderabad. This helped your Bank to further reaffirm its vision to service the Global Indian.
- Your Bank now has a mention in the Limca Book of Records for being a partner to the NRI Power Podium – the largest NRI sign-up campaign.

Your Bank made significant progress across all product lines in the Consumer Assets business which *inter-alia* includes:

- **Credit Card:** Your Bank's credit card business has issued 2.43 lac cards and is in its fourth year of operations. The card design and product benefits continue to receive overwhelming response from customers. The customer spends across all variants of cards have been amongst the top three in industry. The premium range of products – VISA Platinum and VISA Signature have driven the spends growth in the portfolio and it contributes to 37% of the spends while accounting for 18% of customer base. This has reaffirmed the customer acceptability of the product. Credit card business clocked ₹ 848.6 crore (41% growth from previous year) of total spends in the year with a book size of ₹ 255 crore. Industry credit card spends has shown sign of growth after last year's recessionary economic conditions. As per RBI data on electronic payments, released on 12th March 2012, total credit card spends till January for this financial year was ₹ 78,860 crore compared to ₹ 62,336 crore for the same period of previous year, a growth of 26.5%.
- **Home Finance:** The Home Finance business experienced substantial growth in the second half of the year with robust demand in Tier II cities. Your Bank introduced Overdraft Facility, an innovative new product during the year. Your Bank branches continue to leverage Cross Sell opportunity which plays a vital role in Home Finance business. Continued focus on Self Employed & existing Bank Customer Segment led to steady business during the year.
- **Business Loans:** Business loans to Self Employed Professional and Non-Professional segment witnessed good growth in loan demand and your Bank emerged as one of the leading lenders of unsecured loans in this segment. Your Bank, capitalising on its branch network, started offering secured working capital loans in ₹ 50 lac to ₹ 5 crore category (both fund based and non-fund based). This is likely to have positive impact on customer stickiness and enable your Bank to emerge as one stop shop for financing needs in this segment.

Your Bank made significant progress in the Corporate Salary segment and has acquired reasonable presence in many of the top 100 Indian companies including some of the Navratanas (such as Indian Railways, India Post, BSNL, MTNL, BHEL, SAIL, NTPC, ONGC and HAL among others) and Government undertakings. One of the most notable breakthroughs was the signing of an MOU with the Indian Army for offering the Salary2Wealth proposition to the army personnel. Your Bank also announced the launch of a special education loan program for children of the Indian Army personnel as well as concessional rates on its home loans, auto loans and personal loan products.

Privy League, the program for the affluent customer segment, was carved out into a focused business line to bring further impetus to the differentiated services offered to this segment.

Your Bank has achieved the ISO 10002:2004 Certification for Complaints Management System in Retail Liabilities and Branch Banking. Your Bank is only the second bank and fourth organization in India to achieve this certification. This endorses out commitment to customer service by building a world class Complaints Management System and adopting global standards prescribed in this regard.

Your Bank's Parichay program and ACE Term Deposit Product was nominated in the Qimpro Awards 2011-12. Both initiatives qualified for the finals of the Qimpro Convention under the Innovation category and were very well received.

In order to harness young talent, your Bank started a captive Probationary Officer program in association with Manipal University, Bangalore. The program offers a Post Graduate Diploma in Banking and Relationship Management and assured employment with the Bank upon successful completion of the course. Through this program, your Bank aims to create a specialist cadre of bankers, who have been imparted managerial skills as well as core banking knowledge and skills.

Your Bank signed up lots of strategic alliances during the year including that with PVR Cinemas, Cinemax, Delhi Metro, etc. for putting up dedicated ATMs to service the needs of the consumers patronizing these high frequented areas. Another significant alliance signed was with PVR Cinemas, one of the elite names in the entertainment industry, to distribute credit card products aimed at upmarket customers. A total of 10,000 cards have been issued under the aegis of this partnership. A first of its kind initiative was the tie-up with MCA (Ministry of Corporate Affairs) to offer online Business Account to all new corporates.

Your Bank has integrated the retail liabilities and retail assets businesses under a single umbrella of Consumer Banking with common ownership and supervision. This will enable a more focused approach to the personal and business credit segments as well as Bank's salaried customers and the affluent segment. The integration will result in a more seamless experience for the customer and make a variety of products accessible through the branches under a single window.

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 mixed trends in the credit environment. Some sectors underwent stress while others continued to show growth. Your Bank focused mainly on the growth sectors. The year saw a stable trend in credit demand from the corporate and mid market business segments for working capital & term facilities. Demand for working capital was higher. 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 over 300 new cash management service customers during the year by offering them seamless technology driven solutions which enhanced efficiency of working capital cycle and ensured value addition through simplified and optimal ways to maximise their cash flows and liquidity through an entire suite of CMS products and services. This has been made possible through constant innovation, round table discussions, specific business reviews, continuous feedback and a high degree of customization to cater to the dynamic and evolving industry scenario.

Your Bank's dedicated team of specialised product solution experts strives to provide best in class structured solutions to suit to the customer's ever evolving needs. The in-depth understanding of the customer's business and the superior delivery through various channels has helped in achieving high levels of customer satisfaction.

Growth momentum in the Commercial Vehicle (CV) industry tapered down in the Heavy Commercial Vehicle (HCV) category, whereas the Light Commercial Vehicle (LCV) and Small Commercial Vehicle (SCV) showed impressive growth numbers. In light of this, your Bank has made investments in strengthening distribution in both LCV and SCV sectors. Your Bank has also started Dealer Funding business to address the needs of dealers in the CV industry and Infrastructure space (with particular emphasis on the LCV and SCV sectors). Infrastructure industry showed marginal growth and order book position was not robust as in the previous year. Investments were also made in critical areas like automation, systems and business analytics.

On the back of another widespread monsoon, the agriculture scenario for this year was again positive. The comfortable stock position with the government and record production of wheat and rice resulted in the government again opening the exports for wheat and rice after more than 2 years. In case of cotton another bumper crop and a continuing demand from China resulted in exports again being allowed with even the textile mills approving of this. There is likely to be more stability in the prices of most agri commodities like edible oils, pulses and sugar. Thus, the Agri sector will be a significant foreign exchange earner for the country.

Your Bank's Agri portfolio has seen another year of growth of over 30%. This ensured that your Bank met its targets on the direct and indirect Agri portfolio and also significantly contribute to the overall priority sector targets besides the targets for the weaker section. Your Bank continued to show growth in the retail tractor loans, project loans for agriculture, horticulture and allied activities, working capital loans for food & agro processing units and for commodity backed funding activities.

Your Bank has established a strong monitoring and recovery network for price tracking of commodities across segments to help channel loans to the promising segments and reduce exposure in areas of stress. The recovery setup has ensured that the Agri portfolio of your Bank has the lowest delinquency across the banking segment. The Agri business of your Bank has also managed to identify significant economically viable business opportunities in the Agri segment for financing.

Your Bank also initiated the setting up of dedicated Agri oriented retail branches in the rural and non-licensing locations aligned with potential Agri markets. The first set of branches has shown promising results in generating deposits and advances for the Agri business. Your Bank plans to set up more such branches going forward based on this experience. These branches will also help in the financial inclusion efforts of your Bank.

The stressed corporate asset portfolio business on the acquisition side continues to be sluggish. However, the sale of NPA portfolio's on the retail assets looks promising.

Your Bank as in the last few previous years continues to invest in large single asset transactions, with good prospects of turn around. The resolution of the portfolio acquired in the previous years continues to be stable and your Bank believes most of the accounts will be resolved in the next few years.

During the year, your Bank saw a robust growth in its overall advances portfolio. This was primarily driven by focusing on building franchise in large corporate names as well as deepening existing relationships. A strong NPA management practice and internal controls, led to maintaining a healthy portfolio.

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 Pricing between various business units. In the area of Debt Capital Markets your Bank offered the following products: syndication of loans, bonds, mezzanine financing, promoter funding and acquisition financing and securitisation.

The Correspondent Banking Division within Treasury is actively building upon relationships with offshore banks towards improving quality and international reach for its customers.

During the year, your Bank upgraded its Core Banking platform. The new State of the Art system will enable faster time to market for new services and products and will also enable your Bank's operations to scale in volumes. The upgrade also ensures 24 x 7 availability to its electronic channels including ATMs, Netbanking and Call Center services. The Service Oriented Architecture foundation created, enabled integration of all surround systems and cutover of all branches over a single weekend.

To improve productivity in operations, increased automation was introduced by digitizing workflows and by providing straight through processing for RTGS/NEFT and SWIFT messages.

Information Security continued to be a focus. Enhancements were made to Netbanking, email and Datacenter security. The technology team was recognized for Information Security in the BFSI segment, by the Data Security Counsel of India.



## 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.

In spite of Indian economy showing signs of economic recovery, the road ahead is bumpy with considerable uncertainty. The Indian capital market has been one of the worst performing markets in Asia. The depreciating rupee also added to concerns on economic recovery. The businesses in which the subsidiaries operate had their own share of challenges on account of market fragmentation, change in market mix, significant regulatory changes made in past.

Kotak Mahindra Prime Limited, the car finance company continued to grow its lending book coupled with fall in delinquencies. As mentioned above, volatility and weak sentiment in the market for the most of the year considerably impacted the capital market. Kotak Securities Limited, the stock broking company continued to face challenges due to adverse effects of changes in mix in market volumes in favour of low-yielding equity derivative segment. The company also continues to face intense competition in the market from existing players. Due to weak markets, a number of equity offerings could not be launched and that affected the performance of Kotak Mahindra Capital Company Limited considerably. Kotak Mahindra Asset Management Company Limited showed improved performance largely on account of better realisations from underlying schemes though the AUM's were flat. The reduction in expenses also helped the bottom-line. Kotak Mahindra Old Mutual Life Insurance Limited continued to demonstrate consistent, value-based growth in a challenging and competitive environment. The year also witnessed the focus shifting from ULIP linked products to traditional products and an increasing trend towards long-term selling. Due to difficult economic conditions coupled with weak secondary equity markets, volatile fixed income markets and net outflows in many India dedicated International funds, the International subsidiaries reported loss.

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 its General Circular No.2/2011 dated 8th February 2011 under Section 212(8) of the Companies Act, 1956, 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 2012, has 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 Kotak Mahindra Equity Option Scheme 2007 ("**Scheme 2007**"). The disclosures below are in respect of the year ended 31st March 2012.

|   |   |
|---|---|
| Options granted during the year                                   | Series 32 - 30,50,440 options<br>Series 33 - 2,00,000 options   |
| Pricing Formula   | <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                     | 1,34,20,010 options   |
| Options Vested during the year                                    | 48,04,743 options   |
| Options exercised during the year                                 | 38,18,006 options   |
| Total number of shares arising as a result of exercise of options | 38,18,006 equity shares of ₹ 5/- each   |



|  |  |                                     |                        |
|--|--|-------------------------------------|------------------------|
| Options lapsed   | 10,66,751 options  |                                     |                        |
| Variation of terms of options  | No variations made in the terms of the options granted under Scheme 2007.  |                                     |                        |
| Money realized by exercise of options  | Exercise amount received: ₹ 98,13,72,370/-   |                                     |                        |
| Total number of options in force   | Outstanding options – 1,17,85,693  |                                     |                        |
| Details of options granted during the year to :  |  | Name of Senior Management Personnel | No. of options granted |
| (i) Senior management personnel  | Series 33  | Mr. C. Jayaram                      | 85,000                 |
|  |  | Mr. Dipak Gupta                     | 1,15,000               |
| (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 AS-20 is ₹ 24.67 (Consolidated) and ₹ 14.61 (Standalone).   |                                     |                        |
| 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. | *Had the Bank (Consolidated) followed the fair value method for accounting the stock option compensation expense would have been higher by ₹ 42.11 crore with consequent lower Consolidated profits before tax. On account of the same the diluted EPS of the Bank (Consolidated) would have been less by ₹ 0.38 per share.<br><br>*Had the Bank (Standalone) followed the fair value method for accounting the stock option compensation expense would have been higher by ₹ 27.39 crore with consequent lower Standalone profits before tax. On account of the same the diluted EPS of the Bank (Standalone) would have been less by ₹ 0.25 per share. |                                     |                        |
| 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.  | *The weighted average price of the stock options exercised is ₹ 469.24 and the weighted average fair value is ₹ 167.80.  |                                     |                        |

\*Note: Above figures are derived by considering the options granted and exercised by employees of the Bank and its subsidiaries.

|  |   |
|--|---|
| 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>A. Stock price<br/>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<br/>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.<br/>Accordingly, daily volatility of the Bank's stock price on the NSE for the period corresponding to the respective expected live of the different vesting, prior to the grant date has been considered.</p> <p>C. Risk free interest rate<br/>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<br/>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 vesting separately.</p> <p>E. Dividend yield<br/>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 11 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 7 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 'Report on 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

Dr. Shankar Acharya retires by rotation at the Twenty Seventh Annual General Meeting and is eligible for re-appointment.

The Board of Directors of the Bank, at its meeting held on 8th May 2012, has re-appointed Dr. Shankar Acharya as the Chairman of the Bank for a period of three years with effect from 20th July 2012 subject to the approval of the members and of the Reserve Bank of India. The approval of the members in this regard is being sought at the ensuing Annual General Meeting of the Bank.

Dr. Sudipto Mundle, Director of the Bank retires by rotation at the ensuing Annual General Meeting and is eligible for re-appointment.

## AUDITORS

Messrs S. B. Billimoria & Co., Chartered Accountants, auditors of your Bank, retire on the conclusion of Twenty Seventh Annual General Meeting and are eligible for re-appointment. You are requested to re-appoint auditors for the current financial year and to fix their remuneration.

## 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 2012 was around 22,000 as compared to around 20,500 employees a year ago.

The Bank standalone had around 12,000 employees as of 31st March 2012. 121 employees employed throughout the year and 14 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 10 in APAC (Asia Pacific) Top Companies for Leaders - 2011 in a study conducted by Aon Hewitt in partnership with Fortune and RBL Group. Your Bank also won the award for "Most Talent Friendly Website 2011" in a study conducted by 'Global Talent Metric' and 'People Matters'. Your Bank continues to be amongst Top 25 Best Employers in India consistently from 2007 till date as adjudged by the AON Hewitt Best Employers Study.

The above awards were testimony to the various best practices adopted by your Bank in the areas of Talent acquisition, Development, Employee engagement and Diversity. Substantial investments were also 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 during the year.

In order to enhance timely mitigation of risk and effective grievance resolution at the workplace, your Bank now provides all employees with an online anonymous whistle-blowing and grievance redressal platform.

Your Bank continued to carry out several initiatives and innovative processes which have helped in building a pool of highly committed and motivated employees who are aligned to the vision of the organization and consistently excel in delivering best in class products and services to the Bank's customers.



**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 2012, 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 2012 and of the profit of your Bank for the financial year ended 31st March 2012;
- (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 members 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: 8th May 2012



## Management Discussion & Analysis

The economic environment in advanced economies continued to pose significant challenges. The recovery in these economies that seemed to be shaping well at the start of 2011 lost steam towards the end of the year. The US economy tended to show some growth uptick which was also accompanied by fall in the unemployment rate to around 8.1% compared to its peak level of 9.3%. However, the simmering concern continued on the debt crisis problems in the European region. To a certain extent comfort was derived from the Long-term refinancing operations (LTRO) fund infusions by the European Central Bank (ECB) in December 2011 and February 2012, completion of the Greek bond swap and the agreement on a second bailout package for Greece. However, in the recent days, the changed political landscape in the European region, indicative in the voters' preference for anti-austerity leadership has once again heightened concerns for the region. Importantly, Greece has failed to elect a government and would have to go into a fresh election procedure. Broad indications are that an anti-austerity party will come into power then, thereby risking the structural reforms in Greece which is necessary for receiving the bail-out funds. This has in-turn raised concerns over Greece's continuation in the Eurozone, thereby exposing the global financial markets to contagion risks.

After two successive years of 8.4% growth in FY10 and FY11, GDP growth started to drop sharply in FY12. In Q1 FY12, the GDP growth was at 7.7% while it dropped further to 6.9% in the subsequent quarter and to 6.1% in the Q3 FY12, the lowest in the last eleven quarters. For the year as a whole the official advance estimates indicate a growth of 6.9%, a sharp drop from the 8.4% of the full year FY11. The sharpest drop in growth was witnessed in the industrial sector. Manufacturing sector as per the GDP numbers grew by 7.2% in Q1 FY12 but this dropped to 0.4% in the Q3 FY12. The index of industrial production (IIP) trends indicate that the slowdown in the manufacturing sector has continued into the Q4 FY12. The eight item core sector (which includes coal, steel, cement, natural gas, refinery production, electricity, fertilizers and crude oil) – with a 37.8% weightage in the IIP – has also been a drag on the economy. In FY12, the cumulative growth of this core sector was at 4.3% compared to 6.6% average growth in the previous fiscal.

As per the use-based classification of industrial production, growth in the consumer durables segment was only at a average rate of 2.8% for FY12 compared to an average growth of 14.3% in FY11. Investment demand was significantly muted with capital goods segment growth under the IIP contracting by 2.1% in FY12 compared to a 15.7% growth in FY11. As per RBI's "Macroeconomic and Monetary Developments in 2011-12", the slowdown in the industrial sector was due to a number of issues such as domestic policy uncertainty, impact of monetary tightening and also a slackening of the external sector demand, that in-turn led to a dampening of the investment sentiment in the economy. Services sector growth also weakened in the first three quarters of FY12, averaging at 8.8% compared to full year growth in FY11 at 9.2%, thereby holding up much better than the industrial sector.

The RBI continued with its monetary tightening phase till October 2011 with continuing inflation risk. In this cycle of tightening, the policy rates were effectively raised by 525 bps starting in March 2010. With domestic consumption demand pressures easing off and also with a deceleration of investment activity, the RBI shifted gears to a more neutral stance on monetary policy and left the policy interest rates unchanged at its monetary policy meeting on 28th January 2012. The operative rate, Repo rate, thus peaked out at 8.50% on 25th October 2011. The banking-system liquidity deficit was at an average of ₹ 45,275 crore in the first half of the FY12 but increased significantly starting from November 2011. This deficit was mainly on account of large dollar sales by RBI in the face of a sharp 19% depreciation of the rupee between end-July and mid-December 2011 and also due to an increase in the divergence of deposits mobilized and credit extended by the commercial sector. While in the second half of the financial year, the cumulative negative impact on the rupee liquidity due to FX interventions by the RBI was at ₹ 104,498 crore, the attempt by the RBI to mitigate this was through Open Market Operation purchases of G-secs amounting to around ₹ 130,000 crore and also a CRR cut of 125 bps, that induced around ₹ 80,000 crore liquidity into the system. However, despite all these measures the net liquidity position remained tight through the 2nd half of the FY12 and the LAF infusion of rupee liquidity by the RBI in this period amounted to ₹ 125,593 crore.

Despite a significant increase in the policy interest rates, FY12 continued to witness strong inflationary pressures. Headline WPI inflation was at 9.74% in April 2011 and the pressures persisted well into November 2011 when the Headline WPI inflation was reported at 9.46%. Headline WPI inflation started to be on a more moderate level from December 2011 onward, when it saw a big fall to 7.74%, mostly due to certain transitory factors such as a favourable base effect from the previous fiscal and also due to a seasonal decline in vegetable prices. In the last 5 months of FY12, Headline WPI inflation averaged at 7.22%. Further, the tighter monetary policy regime also dampened the pricing power of the producers. However, the RBI has been consistently pointing out that the near-term inflation trajectory is subject to significant upside risks, in particular from the still uncomfortable international oil prices and the ultimate need to pass on this to the end users. The sharp rupee depreciation pressures are another cause for worry so far as inflation dynamics are concerned. Adding to the inflationary pressures are higher freight rates, higher excise and service tax rates, sustenance of wage pressures and the supply bottlenecks in protein-based food inflation.

The current account deficit (CAD) exhibited a sharp widening in FY12 and emerged as a significant policy concern. CAD aggregated to around US\$ 5,400 crore in the first 3 quarters of the FY12 for which official RBI data is available. CAD as a proportion of GDP has widened from 3.5% in Q1 FY12 to 4.3% in Q3 FY12. However, full year data on foreign trade is available now and shows a US\$ 30,400 crore increase in FY12, a rise of about 21% in the year. On the other hand, imports were at US\$ 48,900 crore, exhibiting a sharp rise of about 32% in the year. Such increases in imports were mainly on account of increase in the oil import bill and also rise in gold imports. Oil imports during the FY12 were at US\$ 15,600 crore, a rise of 47% over the last year.

On the trade and current account, the capital flows have remained relatively subdued, aggregating at US\$ 47,500 crore in the first 3 quarters of FY12, mostly a result of the fragile global financial conditions and also waning macro-economic fundamentals in India. Consequently, RBI had instituted various measures to improve the flow of foreign capital into India. These included deregulation of interest rates on rupee denominated NRI deposits and enhancing the all-in-cost ceiling for ECBs with average maturity of 3-5 years. Furthermore, the lock-in period of long-term infrastructure bonds for FIs was reduced to 1 year and the ceiling for FI investment in government securities and corporate bonds were raised by US\$ 500 crore each. Capital flows improved as a result of these policy measures and also due to lower risk aversion in the global markets in Q4 FY12. USD-INR that had exhibited sharp depreciation pressures between the last week of August 2011 to mid-December 2011 stabilized and also reversed the downward trend. On 15th December USD-INR was at an historical low of ₹ 54.2 but was quoted at ₹ 49.7 by end-January 2012, only to change course again thereafter.



## Consolidated Financial Performance

The financing businesses of the Group have continued to grow. However, the capital market business which includes investment banking and stock broking has seen their profits drop due to lower activity levels in the capital market.

Consolidated profit after tax grew 16.9% to ₹ 1,832.24 crore. As on 31st March 2012, the Group has a distribution network of branches, franchisees, representative offices across 544 cities and towns in India and offices in New York, London, San Francisco, Dubai, Abu Dhabi, Mauritius and Singapore. The group services around 10 million customer accounts.

Assets under management (AUM) as at 31st March 2012 was ₹ 45,977 crore (approximately US\$ 903 crore), comprising assets managed and advised by the Group. Of this, equity assets managed / advised by the Group were around ₹ 18,937 crore. The AUM with Kotak Mahindra Mutual Fund (Kotak Mutual) was ₹ 22,045 crore.

A snapshot of the Consolidated PBT and PAT of the Group entities is as follows:

₹ in crore

| Particulars                                     | FY 12           |                 | FY 11           |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | PBT             | PAT             | PBT             | PAT             |
| Kotak Mahindra Bank                             | 1,599.93        | 1,085.05        | 1,187.70        | 818.18          |
| Kotak Mahindra Prime                            | 570.34          | 384.88          | 481.88          | 317.86          |
| Kotak Securities                                | 191.49          | 125.82          | 271.57          | 181.94          |
| Kotak Mahindra Capital Company                  | 9.42            | 5.94            | 70.22           | 51.89           |
| Kotak Mahindra Old Mutual Life Insurance        | 203.25          | 203.25          | 102.47          | 102.47          |
| Kotak Mahindra AMC & Trustee Co                 | 30.58           | 21.92           | 24.58           | 17.30           |
| International subsidiaries                      | (11.80)         | (11.14)         | 54.44           | 51.16           |
| Kotak Investment Advisors                       | 52.21           | 36.13           | 49.22           | 32.71           |
| Kotak Mahindra Investments                      | 27.26           | 15.25           | 33.20           | 24.00           |
| Others  | 0.56            | 0.19            | 0.06            | (0.29)          |
| <b>Total</b>                                    | <b>2,673.24</b> | <b>1,867.29</b> | <b>2,275.34</b> | <b>1,597.22</b> |
| Minority Interest, Equity Affiliates and others |                 | (35.05)         |                 | (30.48)         |
| <b>Consolidated PAT</b>                         |                 | <b>1,832.24</b> |                 | <b>1,566.74</b> |

The consolidated performance is as follows:

₹ in crore

| Particulars                         | FY 12     | FY 11     |
|-------------------------------------|-----------|-----------|
| Total Income*                       | 12,937.39 | 10,997.43 |
| Profit before Tax                   | 2,656.54  | 2,247.40  |
| Consolidated Profit after tax (PAT) | 1,832.24  | 1,566.74  |

\* net of sub-brokerage

| Particulars                                  | 31 March 2012 | 31 March 2011 |
|--|---------------|---------------|
| Consolidated net worth (₹ in crore)          | 12,901.05     | 10,962.94     |
| Earnings per share (diluted) (₹)             | 24.67         | 21.60         |
| Book Value per share (₹)                     | 174.18        | 148.78        |
| Net Interest Margins (NIM) %                 | 4.8%          | 5.2%^         |
| Return on Average Network %                  | 15.4%         | 16.4%         |
| Net NPA excluding acquired stressed assets % | 0.49%         | 0.43%         |
| Consolidated capital adequacy ratio %        | 17.9%         | 19.5%         |

^ 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.

Profit before tax of the Bank for FY12 was ₹ 1,599.93 crore as against ₹ 1,187.70 crore for FY11. Profit after tax of the Bank was ₹ 1,085.05 crore in FY12 compared with ₹ 818.18 crore in FY11.

The break-up of segmental results as per RBI classification is as follows:

| ₹ in crore                    |          |          |
|-------------------------------|----------|----------|
| Segment                       | FY12     | FY11     |
| Treasury and BMU              | 35.15    | 304.83   |
| Corporate/ Wholesale Banking  | 997.14   | 543.89   |
| Retail Banking                | 565.84   | 338.72   |
| Sub-total                     | 1,598.13 | 1,187.44 |
| Unallocated Income/ (Expense) | 1.80     | 0.26     |
| Profit before tax             | 1,599.93 | 1,187.70 |

With the deregulation of savings account interest rates being announced by the Reserve Bank of India, the Bank was amongst the first to announce a rate hike, from 4.0% to 5.5% for deposits up to ₹ 1 lakh and 6.0% for deposits above ₹ 1 lakh. This was further aided by a strong media campaign. Consequently, the savings deposits increased in the current year by 51.6%.

The deposits of the Bank grew by 32% from ₹ 29,260.97 crore as at 31st March 2011 to ₹ 38,536.52 crore as at 31st March 2012. As at 31st March 2012, deposits comprised of ₹ 5,050.12 crore of savings deposits (₹ 3,330.33 crore as at 31st March 2011), ₹ 7,352.32 crore of current account deposits (₹ 5,460.19 crore as at 31st March 2011), and ₹ 26,134.09 crore of term deposits (₹ 20,470.44 crore as at 31st March 2011).

As per BASEL II, the capital adequacy ratio of the Bank as at 31st March 2012 was 17.52% (31st March 2011 – 19.92%). Tier I ratio was 15.7%. Advances of the Bank as at 31st March 2012, stood at ₹ 39,079.23 crore (₹ 29,329.30 crore as at 31st March 2011), showing a growth of 33%. As at 31st March 2012, the net NPAs of the Bank excluding the acquired stressed assets were at 0.57% of net advances (0.50% as at 31st March 2011). The net NPAs of the Bank including acquired stressed assets were at 0.61% of net advances as at 31st March 2012 (0.72% as at 31st March 2011). The Bank's net restructured advances as on 31st March 2012 were ₹ 30 crore (0.08% of the net advances) vis-a-vis ₹ 67 cr last year (0.23% of the net advances).

### Awards and Recognitions

During the year the Bank won the following awards:

- Best Private Bank by Finance Asia Country
- Best Local Cash Management Bank Asia Money 2011 and 2010
- "The ingenious 100" Award by IDG India's CIO Magazine for Storage Virtualization & Ingenious Technology Solutions
- Ranked # 1 in 17 categories including range of investment products / advisory services by Euromoney
- Ranked #2 in India for companies with "Best Corporate Governance Practices" – IR Global Rankings 2011
- Awarded Hewitt Best Employers in India 2011 & 2009; only Bank to be in top 25
- Awarded Bronze in the "Best Local Trade Bank in India" category of Trade and Forfaiting Review Awards 2011
- Kotak Bank Annual Report 2010-11 was awarded Platinum - "Best among Banking, APAC" and Gold in the "Most Creative Report, APAC" in the LACP Vision Awards, USA
- Awarded Remmy for the "Best Recruitment Ad 2012" in the BFSI category

As at 31st March 2012, the Bank has built a network of 355 full-fledged branches spread across 211 locations and 848 ATMs.

### Advances

The breakup of the advances of the Bank is given below:

| ₹ in crore                                   |               |               |
|--|---------------|---------------|
| Segment                                      | 31 March 2012 | 31 March 2011 |
| Commercial Vehicles & construction equipment | 7,797.54      | 6,251.06      |
| Mortgage Loans                               | 8,333.23      | 6,876.45      |
| Personal Loans                               | 1,868.35      | 1,304.97      |
| Agriculture Finance                          | 5,713.59      | 4,219.61      |
| Corporate Banking                            | 12,784.47     | 9,417.35      |
| Others                                       | 2,582.06      | 1,259.86      |
| Total  | 39,079.24     | 29,329.30     |



As per RBI segmental classification:

₹ in crore

| Segment      | 31 March 2012    | 31 March 2011    |
|--------------|------------------|------------------|
| Retail       | 21,062.48        | 17,672.37        |
| Corporate    | 18,016.76        | 11,656.93        |
| <b>Total</b> | <b>39,079.24</b> | <b>29,329.30</b> |

### ***Commercial Vehicles and Construction equipments***

The Commercial Vehicle (CV) Industry which grew by 36% in FY10 and 32% in FY11, witnessed a slow-down with its growth trajectory tapering down to 20% in FY12. The growth in FY12 was largely contributed by the Light Commercial Vehicle (LCV) and Small Commercial Vehicle (SCV) segments which grew by 30% as compared to 8.8% in the Heavy Commercial Vehicle (HCV) segment. The growth in LCV/ SCV segments is largely driven by the hub and spoke model, which is making a significant shift in the pattern of CV sales in India. Most significantly, the LCV and SCV sectors account for 60% of CV volumes. However, in tonnage terms, the growth in the LCV segment would be lower than volume whereas it is higher in HCV. During the year, the Bank has made significant investments in strengthening the distribution required for deeper penetration into the LCV and SCV segments, which should show results in the coming year.

Growth in the Construction Equipments (CE) sector tapered down in FY12 due to slow down in infrastructure related investments, core sector, mining and real estate. Order book position was also down compared to FY11. Dealer Funding for CV and CE dealers was also started as a new line of business during the year.

### ***Agriculture Finance***

Agricultural production in FY12 is expected to achieve record levels and cross 250 million tonnes as compared to 232 million tonnes in FY11, which translates to a growth of 10.8%. Both cyclical and structural demand drivers are in place. Cyclical factors include a good south west monsoon, improved rural liquidity through increase in minimum support price for crops, increased agricultural credit and food inflation. The agriculture sector will be a net foreign exchange earner for the country.

The Bank's agriculture portfolio has seen another year of growth of over 35% on YoY basis. As a result of this, the Bank was able to meet its priority sector targets on the direct and indirect agriculture portfolio and also targets for the weaker section. The Bank continued to have growth in the retail tractor loans, project loans for agriculture, horticulture and allied activities, working capital loans for food & agro processing units and commodity backed funding activities. The Bank's agriculture portfolio is well diversified across small and large farmers. The Bank has exposure to agriculture produces such as cotton, paddy, wheat, spices, oil seeds, pulses, poultry and fishery.

The agriculture business of the Bank also includes the lending to the Micro Finance, gold loans and small business loans segment in the non-urban markets further contributing to the other PSL targets of the Bank. The Bank was also able to obtain low cost refinancing for its agriculture portfolio.

The Bank has now established a process for monitoring/ tracking of commodity prices across segments to help channel loans to the promising segments and a recovery network to reduce exposure in areas of stress.

The strength of the agriculture business of the Bank is in having a dedicated team of staff across locations which helps in identifying commodities and offer loan products that suit the requirements of the customers. It also enables the Bank in funding clients across the value chain for various agricultural produces.

Combined with the macro-economic factors, structural drivers like scarcity of farm labour, replacement demand and sale of tractors for non-agricultural use have led to tractor sales growing by 11% in FY12 (as compared to 24% in FY11) with the total domestic sales of tractors being 5.37 lakhs during FY12. However, some weakness in the growth trajectory was noticed from Q3 FY12 onwards, largely on account of increase in tractor density over the last three years. Industry growth rates are thus expected to taper down in FY13. The Bank was able to increase its disbursements in Tractors and Farm equipments by 43% during the year.

The Bank has focused on developing dedicated rural branches for an array of assets and banking services for addressing the needs of these markets. These include tractors and farm equipments, commercial vehicles, construction equipments, cars and MUVs. 25 such branches have been opened during FY12 and 25 more are planned during FY13. The Bank plans to set up more such branches going forward based on this experience. These branches will also help in the financial inclusion efforts of the Bank.

### ***Mortgage Business and Personal finance***

Mortgage business saw strong growth in the second half of the year. The Bank introduced overdraft facility as an innovative new product during the year. Bank branches continue to leverage cross sell opportunity and focus on self-employed & existing Bank customers.

The Banks mortgage portfolio crossed ₹ 8,300 crore. In terms of geographical spread the Bank's home finance business remains concentrated primarily in metros but the contribution from Tier I & II cities is increasing gradually. Home Finance continues to maintain superior customer service and asset quality levels.

The credit card business saw good growth both in terms of spends and volumes. The focus continued to remain on existing bank customers while the co-branded tie ups with PVR and Bharti Wal-Mart provided additional avenues for growth. The Bank also launched the salaried personal loan business largely targeted at the corporate salary customers of the Bank.

### ***Corporate Banking***

Corporate banking is broadly focused at two business segments - mid-market and large corporate. The segmentation is done to cater to the unique needs of these two segments and accordingly have specific set of offerings and services for these segments.



Corporate banking serves a number of large business houses and also commands a good presence in the mid-market customer space. The business strategy in the large corporate segment has been to build franchise with large reputed names as well as deepen the existing relationships with more products. The mid-market strategy is clearly driven by targeted client acquisition and becoming one of the key bankers to the corporate. The growth of the corporate franchise has been strengthened by driving synergies across business verticals. As a result of the strategy and synergies, the business has seen approximately 200 new customers added in FY12.

India growth story hinges on the trajectory of its SME's performance. The Bank is also looking to participate in this phenomenal growth by partnering with the best SMEs of the country. Bank's advances in this segment have grown at a CAGR of 43% for the last 3 years. The advances have grown by about 41% for FY12.

### **Branch Banking**

The Bank has 355 branches and 848 ATMs (530 offsite and 318 onsite) across 211 locations as on 31st March 2012. Total number of deposit accounts as on 31st March 2012 was over 20 lakhs, while the debit card base stood at around 15 lakhs.

The branch banking business undertook the following key initiatives during FY12:

- Integrated the retail liabilities and retail assets businesses in order to ensure a seamless experience for our customers and to make a bouquet of banking products available through a single window.
- Upgraded the Core Banking System (CBS) from Flexcube to Finacle. The Bank also upgraded system to allow its customers to manage beneficiaries through more than one channel. The bank also implemented a system to customize charges for its customers.
- Augmented the NRI offering by introducing term deposits in more currencies and streamlining process for account opening and distribution of third party products. Forged alliances with various banks and exchange houses to give further impetus to remittance offering.
- Consolidated the Privy league offering for affluent customers by carving it out as a separate business unit.
- Continued efforts of the Corporate Salary business to establish a firm presence in PSUs (including some Navratnas). MoU was signed with the Indian Army.
- Retail institutional business, comprising of TASC and government, continued to grow with new clients being added across various segments. The Bank also empanelled by the State of Haryana to offer banking solutions to all government entities and bodies.
- Achieved the ISO 10002:2004 Certification for Complaints Management System. This is an endorsement of our commitment to customer service and of the global standards adopted by the bank in the field of complaint management.
- Started Probationary officer program, in association with Manipal University, Bangalore, with the intention of harnessing and grooming young talent by imparting knowledge on core banking and general managerial skills.
- Launched the Bank's first currency chest in Mumbai. This will facilitate effective cash management for Bank's Mumbai branches.
- Launched a special Business Debit Card, Kotak World Travel Card, Cash @ POS services and IMPS for Merchant Payments.

### **Treasury**

Shifts of stance in monetary policy are invariably preceded and accompanied by volatile interest rate and liquidity in markets. In this backdrop - the Bank's Treasury maintained heightened focus on liquidity management and interest rate gap management. Treasury seamlessly provided cost effective funds for expansion of the Bank. Efficient management of residual liquidity resulted in significant cost savings. Balance Sheet Management Unit (BMU) of Treasury successfully maintained regulatory reserve requirements of CRR and SLR.

The Primary Dealer desk (PD) exceeded its bidding and success obligations to the RBI. The PD – through the branches also managed to distribute government securities to its clients in wholesale and retail lots. In response to volatile interest rates, the Bank increased the churning of its bond trading book.

Inverted yield curve for a larger part of the year and volatility of spreads between corporate bonds and G-Secs presented several opportunities which the Bank's Treasury capitalized optimally.

Uncertainty in the global financial markets also made currency markets volatile. Given this volatility, trading operations in foreign exchange were measured and calibrated within the Bank's risk appetite. Treasury focus continued to be on foreign exchange flow from client businesses. The Bank achieved a healthy growth in the number of transactions and volumes in the foreign exchange merchant business.

Treasury consolidated its bullion business with a healthy rise in volumes from existing and new clients. New client acquisition also resulted in incremental current account and other deposit balances.

Treasury continued its increased focus on bond and loan syndication markets as part of its Debt Capital Markets (DCM) business, with some success in raising of international debt for its clients.

Correspondent Banking Division - started in the previous year, continued to build and leverage upon relationships with offshore banks for improving quality and international reach for its customers.

During the year, Treasury continued on the path of process optimization and up gradation. Treasury – under the supervision and direction of the Asset Liability Committee (ALCO) continued heightened vigil on liquidity, markets, counterparty and sovereign risks.

### **Technology**

The Bank upgraded its Core Banking system ('Finacle'). The new system provides a technical platform to scale the business volumes, as well as to provide new functional capability. The enterprise architecture integration foundation that was put in place in the previous year was leveraged to swiftly integrate the new core banking system into the Bank's technology environment.



There was a focus on providing straight through processing to reduce manual intervention and to increase productivity in the area of Corporate Banking operations. This was achieved by introducing automated workflow for the transactions and by integrating to the SWIFT gateway. In treasury systems, functional capability was upgraded for foreign exchange transactions.

Information security and IT operations processes were enhanced in keeping with the RBI's Technology guidelines and the data center was recertified as ISO 27001 compliant.

The technology team was recognised for its excellence in the current year as well. It was awarded the prestigious Financial Insights Innovation Award, across Asia, for the Life Advisor Portal. The team also received Information Week, Edge awards for the Integrated communication platform for Insurance customers and for the group wide CRM platform.

### Subsidiaries Highlights

#### ***Kotak Mahindra Prime Limited***

Kotak Mahindra Prime Limited (KMP) is primarily into car finance, engaged in financing of retail customers of passenger cars and multi-utility vehicles and inventory and term funding to car dealers. KMP finances new and used cars under retail loan, hire purchase and lease contracts. The main streams of income for KMP are retail, dealer finance and fee based income. KMP also receives income from loans against securities, personal loans, corporate loans and developer funding, securitization / assignment transactions and recovery of acquired non-performing assets.

The passenger car market in India saw a growth of 3% for FY12 as compared to a growth of 32% for FY11. Total unit sales of cars and MUV's crossed 25.51 lakh units in FY12 versus 24.59 lakh units in FY11.

KMP's gross advances stood at ₹ 13,417.69 crore in FY12 as against ₹ 11,208.07 crore in FY11.

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. The group has been a part of the car finance industry for more than 21 years. Over this period, it has carved out a niche for itself and is considered a leader in the industry. It has strong relationship with key stake holders in the industry viz. manufacturers, dealers and customers who have helped its growth.

#### Financial highlights:

₹ in crore

| Particulars       | FY12     | FY11     |
|-------------------|----------|----------|
| Gross Income      | 1,805.11 | 1,373.12 |
| Profit before tax | 570.34   | 481.88   |
| Profit after tax  | 384.88   | 317.86   |

#### ***Kotak Securities Limited***

The downward trajectory of market indices continued from the latter half of the previous year. The continuing global economic situation did not provide a conducive environment for equity investments. The Sensex which closed at 19,445 at the end of FY11 closed at 17,404 at the end of FY12 with a high of 19,811 and low of 15,136. Similarly, the benchmark Nifty which closed at 5,834 at the end of the previous financial year closed at 5,296 at the end of the current financial year with a high of 5,944 and a low of 4,531.

The Company's average daily volumes (ADV) increased to ₹ 4,034 crore in FY12 from ₹ 3,925 crore in the previous year. For large part of the financial year, the skew in the market volumes towards derivative volumes increased before reversing the trend in the last quarter. The overall market share for the year ended 31st March 2012 was 2.85%. The retail investor preferred liquid investments like bank deposits and gold. Consolidation of the network was of prime focus with branch and sub broker rationalization.

Institutional equity volumes saw a 16% fall during FY12. The market registered a significant increase in algorithmic and Direct Market Access trading across equity and derivative segments. Kotak enhanced its institutional equity client base, both globally and locally, on the strength of its strong product offering, excellent servicing and superior technology platform. Its research division, which comprehensively covers macro-economic, industry and company research continued to win client recognition and improved its Asia Money Broker Poll 2011 rankings to 2nd position.

#### Financial highlights:

₹ in crore

| Particulars       | FY 12  | FY 11  |
|-------------------|--------|--------|
| Income            | 609.70 | 737.55 |
| Profit before tax | 191.49 | 271.57 |
| Profit after tax  | 125.82 | 181.94 |

The company has focused on cost control and cost reduction during the year. As a result, the cost for the year ended 31st March 2012 is lower by about 10% as compared to the previous year.

#### ***Kotak Mahindra Capital Company Limited***

Kotak Mahindra Capital Company (KMCC) is a full-service Investment bank.

The volatility and weak sentiment in the secondary markets for most of the year considerably impacted the primary markets. As against domestic equity fund raising of ₹ 70,856 crore in the previous financial year, Indian companies were able to raise only ₹ 25,702 crore in



FY12 (Source: PRIME Database). While KMCC started the financial year with a number of equity offerings in the pipeline, many of them could not be launched due to challenging market conditions.

During FY12, KMCC completed 3 equity deals, including the IPOs for Muthoot Finance (₹ 900 crore) and Future Ventures (₹ 750 crore) and the Institutional Placement Programme (IPP) for Godrej Properties (₹ 470 crore). The public issue by Godrej Properties Limited was the first-ever IPP in the Indian capital markets – reinforcing KMCC's track record as a pioneer of new capital market products in the Indian capital markets. The issue received an enthusiastic response from both new and existing marquee investors.

The M&A market in India during the year saw a total deal value of over US\$ 4,000 crore across 892 deals (Source: Bloomberg). During the year, KMCC advised on a number of significant cross-border and domestic M&A deals as well as private equity fund-raises.

KMCC entered into an exclusive strategic alliance with Evercore Partners (NYSE: EVR), a leading investment banking advisory firm headquartered in New York, USA for cross-border M&A advisory services between India and United States, United Kingdom and Mexico.

### Awards and Recognitions

During the year, KMCC won the following awards:

- Best Investment Bank in India by FinanceAsia, 2011 - for the sixth year in a row
- Best Domestic Equity House by Asiamoney, 2011 - for the fourth consecutive year
- Best Equity House in India by FinanceAsia, 2011 – for the second year in a row
- Best Bank for Equity Finance and Debt Capital Markets in India in the Euromoney Real Estate Poll, 2011

### Financial Highlights:

₹ in crore

| Particulars       | FY12  | FY11   |
|-------------------|-------|--------|
| Income            | 81.65 | 155.31 |
| Profit before tax | 9.42  | 70.22  |
| Profit after tax  | 5.94  | 51.89  |

### Kotak Mahindra Old Mutual Life Insurance

Kotak Mahindra Old Mutual 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, direct marketing and online channels on a pan-India basis.

The new ULIP regulations have impacted life insurance business and players have taken time adapting to changes in their operating environment. While the industry as a whole registered a negative growth of 9% in gross premium terms, private sector companies registered a negative growth of 17%. The Company however registered an overall gross premium de-growth of 7%. The Company is focussing on enhancing efficiency and productivity of its delivery channels. Significant proportion of insurance is still sold through individual agents and there is renewed vigour to manage this channel effectively to ensure persistency. In the new environment, focus of insurers has shifted from large-scale expansion to sustained value creation and efficient use of capital coupled with productivity of distribution channels. The year also witnessed the focus shifting from Unit Linked products to Traditional products and an increasing trend towards long-term selling, which augurs well for the industry

This year saw new regulation in the areas of Corporate governance, Asset Liability management and Stress testing etc. which should significantly improve corporate governance and risk management practices in the sector. The year witnessed the coming to force of new regulation in the areas of distance marketing and web aggregators, besides exposure drafts in the areas of senior agent and orphan policy among other distribution centric aspects, all of which are expected to alter the way insurance products are distributed in this country.

The company launched new products, leveraged new modes for selling, implemented new and innovative customer-centric initiatives, besides making significant strides in upscaling its existing processes to deliver seamless, world class customer experience. Some of the key achievements in the current year are as follows:

- During the year, the Company launched 2 products in the traditional space viz. Kotak Child Edu Plan and Kotak Child Future Plan and 1 product in the Unit Linked space viz. Kotak Invest Maxima.
- The Company launched Interactive Voice Response (IVR) service which helps policyholders gain easier access to information on their policy, thereby completing the multimodal interface loop – phone, online through online policy manager and face to face.
- The Company implemented an integrated grievance management system namely Kotak Grievance Management System (KGMS), as required by regulation, for online tracking and reporting of customer grievances validating its commitment and transparency towards policyholders at all times.
- The Company launched SIEBEL, a world class Customer Relationship Management (CRM) system which allows 360 degree view of the customer across all touch points pan India affording seamless servicing flexibility and enhanced customer experience
- The Company enhanced its online policyholder self-service platform, 'Online Policy Manager', with several features to improve its usability and make it more convenient to use.



- The Company's Training department achieved the prestigious ISO 9001: 2008 certification awarded by TUV SUD, the global certifying organisation.

#### Financial highlights:

₹ in crore

| Particulars          | FY12     | FY11     |
|----------------------|----------|----------|
| Gross Premium Income | 2,937.43 | 2,975.51 |
| Profit Before Tax    | 203.25   | 102.47   |
| Profit after Tax     | 203.25   | 102.47   |
| Solvency ratio       | 3.06     | 2.67     |

- The past losses of the company has been recovered
- There is a healthy mix between Traditional and ULIP
- Total Assets under Management has grown by 13% to ₹ 9,724 crore
- Conservation ratio increased to 74% from 70% in previous year
- Operating expense ratio (Net of service tax) has reduced to 17.5% as against 18.4% in previous year

#### **Kotak Mahindra Asset Management Company Limited and Kotak Mahindra Trustee Company Limited**

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

The total AUM with KMAMC decreased from ₹ 32,252 crores in March 2011 to ₹ 26,236 crores in March 2012.

Number of folios as on 31st March 2012 was above 9.5 lakhs. KMAMC has a presence in 79 cities and 84 branches as on 31st March 2012.

In terms of performance, KMAMC continued to focus on delivering consistency in its fund performance. Most of the funds delivered a positive alpha across its benchmarks in its schemes. During the year, Kotak Sensex ETF has been awarded as the best performing mutual fund of the year in Index fund category in the CNBC TV 18-CRISIL Mutual Fund Award 2012. Also, the Kotak Bond Regular fund has been awarded the most Consistent Performer (based on the annual performance of the past 10 years) in the NDTV Profit Mutual Fund Awards 2012.

To increase awareness levels, the industry is undertaking all India Investor awareness programs in a standard format. A total of 10,606 programs were done pan India covering about 267,371 investors. While KMAMC has undertaken about 1,052 Investor meets covering about 31,560 investors. This is expected to increase awareness about mutual funds as a long term lucrative investment option.

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 FY13.

#### **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.

Assets managed/ advised by the international subsidiaries were at US\$ 156 crore as on 31st March 2012.

High inflation, depreciating rupee and high interest rates have made the year a difficult one for the equity markets with many India dedicated equity funds seeing a net outflow of funds including the ones managed by the international subsidiaries.

In the current international economic environment, the focus was on debt as an asset class. The international subsidiaries, namely Kotak Mahindra UK Ltd., launched a number of debt funds raising assets of about USD 45 crore.

#### **Kotak Investment Advisors Limited and Kotak Mahindra Trusteeship Services Limited**

Kotak Investment Advisors Limited ("KIAL" or "the Company") is the investment manager / advisor for private equity and realty funds and Kotak Mahindra Trusteeship Services Limited ("KMTSL") acts as a trustee.

The aggregate alternate assets managed /advised by KIAL as at 31st March 2012 was ₹ 5,011 crore (~ USD 99 crore). The Company manages seven 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. IGF has made fifteen 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.

##### *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. KIVF-I has made four investments till date.



c) *Kotak India Growth Fund II*

Kotak India Growth Fund II (KIGF-II) is a domestic fund aimed at investing in mid sized corporates with a growth orientation. KIGF-II has made seven investments till date across sectors.

### **Realty Funds**

a) *Kotak Mahindra Realty Fund (KMRF)*

The primary objective of KMRF is to invest in the real estate sector and allied service sectors in India. 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.

During the current year, Kotak India Real Estate Fund-IV (KIREF-IV) and Kotak India Real Estate Fund-V (KIREF-V) were set up as schemes of KMRF with aggregate corpus of ₹ 509 crore between the two schemes. KIREF-IV has made two investments till date and KIREF-V has made one investment.

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 in real estate, infrastructure and allied service sectors in India with an intention to provide long-term capital appreciation to its investors. KAOIF has till date made twenty two investments in a diversified portfolio.

### **Risk Management**

Risk is inherent in the Bank's business and is managed under an Enterprise wide Risk Management (ERM) framework. The ERM framework aligns risk and capital management to business strategy, with a view to enhancing shareholder value.

The Bank ensures 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 entire group. Committees that form part of Risk Governance include Risk management Committee (RMC), Audit committee (ACB), Asset Liability Committee (ALCO), Credit committee 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.

The Bank has established independent control functions to oversee risk-taking activities in various businesses. The Risk management framework is supported by comprehensive policies and risk limits. Appropriate action is taken where risks 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.

#### **A. Credit Risk**

Credit risk arises from wholesale, retail advances and the counterparty credit risk on off balance sheet items. Credit risks also emanate from trading portfolio on account of issuer risk in debt paper and settlement risk on OTC trades with market participants. The Bank is also exposed to downgrade risk on its non SLR investments and OTC contracts.

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

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 along with laying down the parameters/norms for taking credit exposure. Credit risk metrics and targets, relevant to the individual businesses are monitored and reported to the management.

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 lending decision. The Bank has an internal credit rating model that assigns obligor ratings and facility ratings. Ratings are based on individual assessment of the borrower creditworthiness and an analysis of the financial and qualitative aspects of the business. In accordance with credit policies, the ratings are subject to an annual review. Trading and investment proposals are also subject to the same degree of analysis and controls as is done for lending decisions.

Based on independent credit risk assessment, appropriate credit decisions are taken by the sanctioning authorities. The Bank has a tiered credit sanction process where each credit proposal is referred to the next higher level.

The credit administration team processes documentation, on the completion of which, credit is disbursed. Borrower accounts are subject to ongoing monitoring check for compliance with sanction terms, credit covenants and financial health of the obligors.

The Bank has implemented a loan review mechanism, which reviews a sample of credit sanctions within three to six months of sanction as is mandated in the risk management guidelines of the RBI.

The Bank is well placed to leverage its internal credit rating systems to migrate to advanced approaches under the Basel II guidelines.

#### **B. 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 is present in the Investment portfolio and is actively managed by the Treasury. This management is regularly overseen and controlled through various limits and strategies formulated by ALCO. Stress tests are also conducted on the investment portfolio and the results are reviewed by the RMC of the Bank. The impact of stress tests on capital and earnings are reviewed by the committee.



**C. 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.

**D. 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 (CLP) approved by ALCO and the Board.

Liquidity risk is assessed in the Bank using various approaches: Stock approach, cash flow approach and scenario based stress test approach. The Bank follows a scenario based approach towards liquidity stress testing, wherein historical and hypothetical but plausible scenarios are employed to evaluate the impact of stress on the liquidity position of the Bank.

**E. 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 has an approved Operational Risk Appetite. Performance against set risk appetite is monitored and reported to senior management.

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.

**F. Capital Adequacy and Basel II**

Capital adequacy, the regulatory capital prescribes 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 (NCAF) 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.

**G. 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 assists in allocating capital in proportion to risks inherent in the business. The ICAAP process also incorporates stress testing.

The risk appetite is a critical component of the ICAAP framework and sets the boundaries under which the Bank operates in pursuit of its defined strategy. It is approved by the Board of directors of the Bank and covers capitalization levels, target rating, asset quality, profitability, regulatory compliance, liquidity, interest rate risk, leverage, operational risk and concentration risk. Performance against the approved risk appetite is regularly monitored and reported to senior management and the Banks Board of directors.

During the year, the Bank enhanced its risk appetite framework, to include tolerance for operational risk and align its existing liquidity risk indicators to the proposed BIS liquidity norms under Basel III. 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).

During the year, the Bank prepared its annual ICAAP outcome that was approved by the Board and submitted to RBI. Based on the ICAAP outcome, the Bank is well capitalized to cover Pillar I & Pillar II risks. The Bank also got its ICAAP validated by an external agency.

**H. Basel III Proposals**

RBI has recently released the final guidelines on Basel III Capital Regulations. Key proposals under the guidelines include i) Minimum Tier-I ratio at 7%, with common equity ratio of atleast 5.5% and total CRAR to be at 9%. ii) Additional Capital Conservation Buffer (CCB) in the form of common equity at 250bps and iii) Leverage ratio at 4.5%. The implementation of Basel III guidelines commences from 1st January 2013 and will be fully implemented by 31st March 2018. The Bank is adequately capitalized, under the new Basel III guidelines, with capital ratios and leverage well above the new norms.



## **I. Stress Testing**

Stress testing is an important tool by which the bank assesses how businesses perform under stress conditions and determines the level of additional capital, if any, which may be required to absorb losses in case of large financial shocks, thereby strengthening the Bank's resilience to adverse economic conditions.

Stress testing is an integral element of the Bank's ICAAP that requires it to undertake rigorous forward looking stress testing. 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 Bank tests its portfolio and projections across a range of historical and hypothetical stress scenarios that provide for severe shocks to various risk parameters. Impact of the stress scenarios is then assessed on profit and loss and capital levels. Stress test results are reported to management and the Board.

The Bank continually reviews its stress scenarios, in light of change in the economic conditions and business profile. During the year, the Bank participated in the stress testing programme conducted jointly by RBI and IMF, as part of the Financial Sector Assessment Programme (FSAP).

After considering the results of the stress tests and key sensitivities, capital adequacy ratio of the Bank is above regulatory and internal target capital ratios.

## **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 AML, compliance advisory and 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 2012 the Bank and its subsidiaries employed more than 22,000 resources on its rolls in various locations in India and abroad.

The Bank and its subsidiaries over the past one year have continued consistently to invest in its human process to build a sustained stable environment for its resources to grow and deliver to the maximum of their potential.

Over the last one year special focus was put on building a robust talent management process for building scalability, sustainability and ensuring management depth across all levels of the Group. In recognition of our Leadership Management process, Kotak Mahindra Bank was ranked as the 10th Best organization for Leaders to work in Asia Pacific in a study conducted by Aon Hewitt in partnership with Fortune and RBL Group.

A continued area of special focus for the Bank and its subsidiaries last year was of aligning all resource to the core values of the firm and ensuring ethical behaviour by all its resources in all their dealing with internal and external stakeholders. Value based training programs and communication on Bank's core values was stepped up this year. Identification and exhibition of correct values and behaviours was woven into critical human process such as Talent Review and Performance Management.



Sustained inputs in the form of class room, on the job and online learning and development were also area of focus last year to improve productivity and enhance the functional and skill based knowledge of all our resources. Structured learning maps linked to long term career paths were rolled out to help resources continuously upgrade their skills and deliver better value to the end customer.

The Bank and its subsidiaries also lay high emphasis on levels of employee engagement and focus on improving the same. Recent employee engagement survey for Bank conducted by Corporate Executive Board has given Bank an indication of its employee's emotional and rational commitment which is currently higher than both Global & Indian benchmarks.

## 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
- Improve share of low cost deposits

### Threats

- Volatile environment
- Fiscal deficit, inflation and economic slowdown
- 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 Group 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 Group, 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.



## Sustainability Report

We nurture relationships across stakeholders, which helps us understand pertinent issues, develop businesses, enhance shareholder value and manage risks better. It is the relationship based on trust and commitment to stakeholder interest that makes Kotak Mahindra group's operations robust, resilient and sustainable. We look at all our stakeholders - shareholders, employees, suppliers, customers, investors, communities and policy makers, as partners in our success and remain committed to maximising value for each one of them.

### Code of Conduct

Our Code of Conduct defines our commitment of doing business with due regard to the interests of our stakeholders and also the environment. Further, the Code of Conduct covers issues such as bribery & corruption, fraud, insider trading and human rights & discrimination. Forced Labour Convention (29) and the abolition of Forced Labour Convention (105) have been ratified by India and our company does not support any forced or compulsory labour in any form and adheres to all labour laws as formulated by the Constitution of India.

We respect human rights at workplace and pursue global leading practices, which ensure freedom of association, prohibition of child labour, protection of indigenous rights and prohibition of forced and compulsory labour. We recognise and accept our responsibility to uphold human rights at the workplace and its sphere of influence. Our grievance mechanism is equipped to address all employee grievances related to work environment and company policies. Our Code of Conduct is applicable to all employees and we do not have any instance of human right abuses in FY 2011-12.

### Employee Talent Development

We understand our business as a business of trust and believe that trust can be built and sustained only in a stable environment. We believe in stable, long term and sustainable growth for the firm and its people.

Over the years our institution has grown in size - customers, revenue, profits, geographical spread and people, and we believe that we have been able to attract and groom some of the finest talent in the industry. This has enabled us to take a longer term view on talent development and we have been making significant investments in this area. Today, we are well respected in the country for the quality and stability of our senior management. They have stayed on with us and have been delivering outstanding performance year after year. Today, nearly all the members of our senior leadership are home grown, and many of them have spent 15-20 years with us. Their growth in the organisation is an indicator of the fact that the firm has managed to practice the above mentioned values and provide a sustainable stable environment for its talent to learn and grow.

The firm takes great pride in the fact that our employee retention rate is amongst the best in the industry. Across all levels, we provide a stable work environment and a constant face to service multiple needs of our customers. Attrition at our senior management has been a miniscule 1% on an annual basis with a stable middle management at less than 6% annualised rate of attrition.

Long term career path is aligned to building leadership depth in the organisation. We continue to invest in our talent base to build knowhow and managerial depth. The Apex management committee 'Op Mancom' has members who have been with the firm for more than 15 years, providing stable leadership. Most functional / business heads and leaders have been with the organisation for more than ten years with minimum being 5 years plus.

Our HR processes are aligned to our Employer Value Proposition 'FLAME' and business outcomes.

- F** - Focus on results
- L** - Opportunity to work the senior leadership of the organisation
- A** - Active involvement/inclusiveness
- M** - Maximum challenge and
- E** - Entrepreneurial Creativity

Various levels of leadership platforms like Kotak Leadership Team (KLT), Kotak Initiatives Team (KIT) and Regional Forums (RF) provide a framework of cross functional reach of leadership within the organisation's human resource base.

The talent management process also focuses on building stability and scalability at all levels of the organisation. The individual development plans are focused towards the same. We have two talent review committees, one at apex level comprising the CEO, Directors and Presidents, for senior leadership talent and another comprising Business Heads for managers at middle management levels.

We lay high emphasis on levels of employee engagement and focus on improving the same. The Corporate Executive Board benchmark has given us an indication of our emotional and rational commitment as being higher than Global & Indian benchmarks. We invest significant portions of our training budget in development of frontline management.

We believe that the firm is uniquely placed on the strength of this stable and capable human resource base aligned to its core values.

### Health

We conduct health education and awareness sessions, health exhibitions and diagnostic camps. We have instituted an in-house medical clinic at Kotak Infinity Park, Mumbai which offers round the year medical check-up facility. We are moving towards the concept of wellness as we recognise that a healthy employee is a productive resource. We undertake health promotional activities including customised dietary consultation services to employees at our offices in Mumbai. In FY 2011-12, the medical team, headed by our Chief Medical Advisor, organised a workshop at Mumbai on Basic First Aid & Cardio Pulmonary Resuscitation (CPR) to provide exposure to basic life saving techniques & hands-on CPR training on a mannequin that could be useful during emergencies.

All confirmed resources in the Kotak group are covered under Group Mediclaim policy. The employees are also insured for Group Personal Accident Cover and Group Term cover.

### Safety

We are committed towards the safety of our employees. We have made Security and Building Safety induction programme a part of HR induction in the year 2011, for new joiners. This programme gives an easy orientation to the fresh brigade of employees with basic building safety, physical security apparatus, evacuation procedure, identification, work ethics & crime prevention guidelines.

We also conduct Fire Safety Audits across offices of our group companies, which are aimed at lessening the potential of fire hazard. Further, we also conduct Safety & Security awareness drives informing employees on prevention of crime, accident, incident etc.

As a responsible corporate citizen, in FY 2011-12, we conducted traffic safety and anti-drink/drive campaigns with support from Mumbai traffic police to create awareness about these issues.



## Stakeholder Engagement

The end-users of our products are one of our key stakeholders. Our business development teams regularly interact with them to seek up-to-date feedback. We track customer satisfaction on a monthly basis through a physical Customer Feedback Form (CFF), and also measure customer satisfaction using the Branch Service Quality Scorecard. We are focused on delivering service quality to the customer. The philosophy behind our service processes is to get it right the first time, leaving the customer with the "Ask once and it is done" feeling. Relationship managers are empowered to resolve issues across all channels - branches, teller queues, customer contact centre hotlines, etc. We are also striving to reach simplified and fast-tracked responses on Internet and mobile banking facilities.

## Environment

It is our constant endeavour to conduct operations in an environment friendly manner. We are making conscious efforts to migrate from traditional banking practices to more environment friendly solutions, a step to significantly reduce our carbon footprint.

We have implemented multiple e-initiatives across the group. The Bank's 'Think-Green' initiative encourages customers to sign-up for e-statements and discontinue paper statements, thereby saving the environment. Under an arrangement with the bank, Grow-Trees.com plants a tree for every e-credit card statement on behalf of our customers. E-statements of Account Opening Forms under Financial Inclusion, SMS-based transaction details for corporate customers, etc. are some of the efforts undertaken by the Bank towards reducing paper usage. At Kotak Securities, e-contracts have been introduced to save paper, the number of pages in the Account Opening Forms has been reduced by 20 sheets and multiple client updation forms have been integrated into one. At Kotak Mutual Fund too, we have substituted hard copies of the quarterly newsletter for distributors and investors with e-versions.

Further, in-line with the Government of India - Ministry of Corporate Affairs' (MCA) green initiative, we are encouraging shareholders to opt for e-copies (electronic form) of the annual report instead of physical copies.

## Corporate Social Responsibility

### Community Development Initiatives

Kotak Mahindra Bank, along with the employees of the group, supports CSR initiatives of various NGOs through several programmes. We believe that one of the ways to change this is to work on removing poverty through education. We have been financially supporting the philanthropic activities of Kotak Education Foundation (KEF) including the foundation's flagship initiatives - Kotak Unnati and Kotak Udaan. Kotak Unnati is a vocational training programme under which KEF trains youths who have dropped out from schools and colleges, and belong to Below Poverty Line (BPL) families. The training programme is for a 3-month period, and thereafter, the aspirants are placed in good organisations.

Kotak Udaan is a special scholarship offered by KEF for marginalised children. The scholarship is given to children from the under privileged section of the society and who face hardship to pursue their education. The scholarship is to help and mentor these children to become tomorrow's achievers. The children are mentored over a 3-year period.

### Employee Volunteering

In 2011, we undertook the activity of house building, in association with Habitat for Humanity, where employees volunteered to build decent, affordable homes for local families in need of urgent shelter.

Annually, on Kotak Mahindra group's Foundation Day - November 21, employees across the group have been participating in a blood donation campaign. Blood donation camps with the support of Red Cross, King Edward Memorial (KEM) Hospital, Mumbai and other blood banks, are held across major offices of the group across India.

In order to promote the culture of employee volunteering, we conduct help drives annually. Goonj Help Drive is aimed at enabling employees to donate anything that can be reused like old clothes, utensils, books, toys, bedspreads, appliances and other household utility items.

During Christmas, various NGOs set up gift stalls at our offices selling products made by the underprivileged members of the society.

We have been successfully running the Payroll Giving Programme for the past 2 years. Over 800 employees from the Bank and Group companies are part of the 'Kotak Mahindra Payroll Giving Programme' that supports 6 NGOs - The Akanksha Foundation, Cancer Patients Aid Association, National Association for the Blind, Dignity Foundation, Make-A-Wish Foundation of India, SOPAN (Society of Parents of Children with Autistic Disorders).

The donors get receipts U/S 80G of IT Act at the end of the year to claim tax relief while experiencing satisfaction of supporting a social cause. This initiative gives an opportunity to the employees to participate in bringing about a change in society.

### Running For a Cause

Standard Chartered Mumbai Marathon (SCMM) and Airtel Delhi Half Marathon (ADHM) are sporting events that lay emphasis on joys of the human spirit. We encourage employees across cadres and businesses to support NGOs by running for a cause in the marathon races held in both cities. It brings together all stakeholders, importantly the common man, and the differently abled on the same platform. It cuts across all barriers and generations and allows one to set personal targets and record personal triumphs. These events are not only a platform to test an individual's athletic excellence but also a unique fund raising event for charity.

For SCMM, we sponsored 60 runners in 2010 and 75 runners in 2011 and 2012, and we sponsored 25 runners for the ADHM in both 2010 and 2011.

At SCMM our employees ran for Cancer Patients Aid Association in 2010. In 2011, we also ran supporting Indian Council for Mental Health and SOPAN (Society of Parents of Children with Autistic Disorders). This particular year, Kotak Mahindra Bank received the award for 'Most Active Corporate' under the Corporate Challenge category. In 2012, in addition to running for these NGOs, we also ran for Kotak Education Foundation. At ADHM, our employees ran in support of the NGO - Action for Ability Development & Inclusion (AADI).

### Campaign With a CSR Heart

In 2011, we ran a nationwide advertisement campaign to announce our 6% savings bank offering - a Public Interest Contest. Through this campaign, we invited individuals to send their public interest ideas to the bank. The prize for the top 10 entries: Kotak Mahindra Bank would make a donation Rs. 25,000 (Rupees twenty five thousand only) to a charitable organisation of the winner's choice. Further, the bank also facilitated the winners to personally hand over their respective cheques to the NGO. This initiative was an excellent platform to engage with people and also extend financial support directly at the grass root level.



## Report on 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 dealings 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 Bank was ranked among the Top 5 in India in the IR Global Rankings 2011 conducted by the MZ Consult NY, a leading investor relations and financial communications firm in the category of best ranked corporate governance practice in India.

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. Five out of nine Directors of the Bank 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 Chairman

Dr. Shankar Acharya, B.A. (Hons.) from Oxford University and Ph.D. (Economics) from Harvard University, aged 66 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 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 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. and The South Asia Institute for Research and Policy (Private) Limited, Sri Lanka. Dr. Acharya is the Chairman of the Audit Committee of the Bank, Member of the Audit Committee of Eros International Media Limited and the Chairman of the Shareholders' Grievance/Investors' Relations Committee of Eros International Media Ltd.

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

Mr. Uday Kotak, aged 53 years, holds a Bachelors degree in Commerce and an MBA from Jamnalal Bajaj Institute of Management Studies, Mumbai. He is the Executive Vice-Chairman and Managing Director of the Bank and its principal founder and promoter. Under Mr. Kotak's leadership, over the past 26 years, Kotak Mahindra group established a prominent presence in every area of financial services from stock broking, investment banking, car finance, life insurance and mutual funds. Mr. Kotak is the recipient of several prestigious awards. He is a member of the Government of India's high level committee on Financing Infrastructure, the Primary Market Advisory Committee of SEBI, Member of the Board of Governors of Indian Council for Research on International Economic Relations, National Institute of Securities Markets and National Council of CII and Chairman of the CII Capital Markets Committee. He is also a Governing Member of the Mahindra United World College of India.

He is on the Board of the following companies:

Kotak Mahindra Asset Management Company Limited  
Kotak Mahindra Capital Company Limited  
Kotak Mahindra Old Mutual Life Insurance Limited

Kotak Mahindra Prime Limited  
Kotak Forex Brokerage 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, Joint Managing Director**

Mr. C. Jayaram, B. A. (Economics), PGDM-IIM, Kolkata, aged 56 years, is Joint Managing 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 34 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 22 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 Asset Management Company Limited  
Kotak Mahindra Investments Limited  
Kotak Mahindra Inc

Kotak Mahindra Prime Limited  
Kotak Mahindra (UK) Limited  
Kotak Securities Limited

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

**Mr. Dipak Gupta, Joint Managing Director**

Mr. Dipak Gupta, B.E. (Electronics), PGDM-IIM, Ahmedabad, aged 51 years, is the Joint Managing Director of the Bank and has over 26 years of experience in the financial services sector, 20 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. 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 Capital Company Limited  
Kotak Mahindra Investments Limited

Kotak Mahindra Prime Limited  
Kotak Mahindra Old Mutual Life Insurance 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 64 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 Senior Vice President 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 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 63 years, graduated from St. Stephen College, 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, and also India Chief Economist at ADB's India Resident Mission. 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 & Member, Board of Governors, National Institute of Public Finance and Policy; Member, Board of Governors of Institute of Economic Growth; Member, Monetary Policy Technical Advisory Committee, Reserve Bank of India; Member, 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. 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, Netherlands; and Japan Foundation, Japan.

Dr. Mundle is a member of Audit Committee of the Bank.

**Mr. Prakash Apte**

Mr. Prakash Apte, B.E. (Mechanical), aged 58 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 35 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 Kotak Mahindra Old Mutual Life Insurance Limited.

Mr. Apte is a member of Audit Committee of Syngenta India Limited and Chairman of the Investor Relations (Shareholders'/Investors' Grievance) Committee of the Bank.



### Mr. Amit Desai

Mr. Amit Desai, B.Com, LLB, aged 53 years, is an eminent professional with 30 years of experience. He is also on the Board of Kotak Mahindra Trustee Company Limited and Terra DeKM India Pvt. Ltd.

Mr. Desai was a member of Audit Committee of Kotak Mahindra Trustee Company Limited till 26th April 2012.

### Mr. N.P. Sarda

Mr. N.P. Sarda, B.Com, F.C.A., aged 66 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).

Mr. Sarda is a member of the Audit Committee of the Bank.

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 2012:

| 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 Chairman                    | 1                                       | -                      | 2  | 1      |
| Mr. Uday Kotak      | Executive Vice-Chairman & Managing Director, Promoter | 6                                       | 1                      | 2  | 2      |
| Mr. C. Jayaram      | Joint Managing Director                               | 5                                       | -                      | -  | 3      |
| Mr. Dipak Gupta     | Joint Managing Director                               | 5                                       | -                      | 1  | 4      |
| Mr. Asim Ghosh      | Independent Non-Executive Director                    | -                                       | -                      | -  | -      |
| Dr. Sudipto Mundle  | Independent Non-Executive Director                    | -                                       | -                      | -  | 1      |
| Mr. Prakash Apte    | Independent Non-Executive Director                    | 2                                       | 1                      | 1  | 1      |
| Mr. Amit Desai      | Independent Non-Executive Director                    | 1                                       | 1                      | -  | 1      |
| Mr. N.P. Sarda      | Non-Executive Director                                | -                                       | -                      | -  | 1      |

#### 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. Prakash Apte, 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 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 Joint Managing 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.

The Board also passes resolutions by circulation on need basis. Pursuant to the circular dated 20th May 2011 issued by the Ministry of Corporate Affairs, the Bank has recently started providing the Directors with an option to participate in the board meetings through electronic mode.

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 standalone 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, six meetings of the Board of Directors were held on 5th May 2011, 21st July 2011, 25th October 2011, 1st December 2011, 23rd January 2012 and 9th March 2012. 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 2011 and ending 31st March 2012 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 2011-12 | Whether attended last AGM held on 21st July 2011 |
|--------|---------------------|---|---|--|
| 1.     | Dr. Shankar Acharya | 6   | 6   | YES  |
| 2.     | Mr. Uday Kotak      | 6   | 6   | YES  |
| 3.     | Mr. C. Jayaram      | 6   | 6   | YES  |
| 4.     | Mr. Dipak Gupta     | 6   | 6   | YES  |
| 5.     | Mr. Asim Ghosh      | 6   | 2   | NO   |
| 6.     | Dr. Sudipto Mundle  | 6   | 6   | YES  |
| 7.     | Mr. Prakash Apte    | 6   | 5   | YES  |
| 8.     | Mr. Amit Desai      | 6   | 4   | NO   |
| 9.     | Mr. N. P. Sarda     | 6   | 3   | NO   |

#### 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 2012 is as follows:

| Particulars                                     | Mr. Uday Kotak<br>(₹ '000)* | Mr. C. Jayaram<br>(₹ '000)* | Mr. Dipak Gupta<br>(₹ '000)* |
|---|-----------------------------|-----------------------------|------------------------------|
| Basic   | 11940.00                    | 11838.00                    | 11670.00                     |
| Allowances                                      | 1928.00                     | 1928.00                     | 1928.00                      |
| Provident Fund                                  | 1432.80                     | 1420.56                     | 1400.40                      |
| Superannuation                                  | -                           | -                           | 100.00                       |
| Annual Incentive                                | 5500.00                     | 5500.00                     | 5500.00                      |
| Number of stock options granted during the year | -                           | 85,000 (Series 33)          | 1,15,000 (Series 33)         |

\*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 | Exercise Price    | Exercise Period                          | Options Vested | Vesting Date       |
|---|---------------|------------------------|-------------------|--|----------------|--------------------|
| Series 33 of Kotak Mahindra Equity Option Scheme 2007 |               |                        |                   |  |                |                    |
| Mr. C. Jayaram  | 16th May 2011 | 85,000                 | ₹ 305/- per share | 8th September 2012 to 31st December 2012 | 25%            | 8th September 2012 |
|   |               |                        |                   | 30th June 2013 to 31st December 2013     | 25%            | 30th June 2013     |
| Mr. Dipak Gupta                                       | 16th May 2011 | 1,15,000               |                   | 30th June 2014 to 31st December 2014     | 25%            | 30th June 2014     |
|   |               |                        |                   | 31st December 2014 to 30th June 2015     | 25%            | 31st December 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 Chairman of the Bank at the Annual General Meeting held on 28th July 2009. During the year, Dr. Shankar Acharya was paid remuneration of ₹14,08,870/-.

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 Joint Managing Directors (ii) the annual incentive payable for the financial year ended 31st March 2011 (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 Chairman.

The details of sitting fees paid to the non-executive directors for the year ended 31st March 2012 is as follows:

| Sr.No. | Name of Director    | Sitting fees (₹ '000) |
|--------|---------------------|-----------------------|
| 1.     | Dr. Shankar Acharya | 280.00                |
| 2.     | Mr. Asim Ghosh      | 20.00                 |
| 3.     | Dr. Sudipto Mundle  | 300.00                |
| 4.     | Mr. Prakash Apte    | 190.00                |
| 5.     | Mr. Amit Desai      | 85.00                 |
| 6.     | Mr. N.P. Sarda      | 105.00                |

#### Notes:

- The performance incentives to the Joint Managing 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 Joint Managing Directors on the basis of the performance of the Bank and the fulfilment of responsibilities assigned to them.
- 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 month's 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.
- The Non-Executive Directors of the Bank, except Dr. Shankar Acharya, are not paid any remuneration other than the sitting fees.

#### 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:

- 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 Audit Committee was reconstituted on 15<sup>th</sup> December 2011 and presently consists of Dr. Shankar Acharya (Chairman), Mr. N.P. Sarda and Dr. Sudipto Mundle.

All the members of the Committee are Non-Executive Directors and two out of the three members are Independent Directors. All the 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, nine meetings of the Committee were held on 5th May 2011, 6th May 2011, 20th July 2011, 21st July 2011, 24th October 2011, 25th October 2011, 30th November 2011, 23rd January 2012 and 9th March 2012. The Committee meets for approximately two hours. The maximum time gap between any two meetings was not more than four 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 2011-2012 |
|------------------------------------|---|---|
| Dr. Shankar Acharya (Chairman)     | 9   | 9   |
| Mr. C. Jayaram*                    | 7   | 7   |
| Mr. N. P. Sarda                    | 9   | 3   |
| Dr. Sudipto Mundle                 | 9   | 9   |

\* Ceased to be a member with effect from 15th December, 2011

The Bank has constituted a First Tier Audit Committee as per the guidelines issued by the Reserve Bank of India. The Committee consists of four members viz., Mr. Dipak Gupta, Joint Managing Director, Mr. Jaimin Bhatt – President & Group CFO, Mr. Shyam Sunder, Advisor 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, thirteen 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 was re-constituted by the Board on 21st July 2011 and 9th March 2012 and consists of four members, with any two forming the quorum. The Committee presently consists of Mr. Prakash Apte (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, three meetings of the Committee were held on 8th July 2011, 30th July 2011 and 14th March 2012. The Committee meets for approximately thirty minutes. Mr. Uday Kotak, Mr. Dipak Gupta and Mr. C. Jayaram attended all the meetings of the Committee and Mr. Prakash Apte attended two meetings.

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, 38 investor complaints were received. All of these have been resolved as on date of this report. As on 31st March 2012, four instruments of transfer of shares, comprising 8500 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 Joint Managing 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 Joint Managing 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 granted 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.

The Committee was reconstituted on 8th May 2012 and presently consists of Mr. Amit Desai (Chairman), Dr. Shankar Acharya, Mr. Prakash Apte and Dr. Sudipto Mundle as members of the Committee with any two forming the quorum.

During the year, one meeting of the Committee was held on 5th May 2011. Mr. Amit Desai and Dr. Shankar Acharya attended the meeting.

#### **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, twenty eight meetings of the Committee were held. Mr. Uday Kotak attended all the meetings, Mr. C. Jayaram attended twenty one meetings and Mr. Dipak Gupta attended twenty five meetings. Subsequently, two meetings of the Committee were held. Mr. Uday Kotak & Mr. Dipak Gupta attended both the meetings and Mr. C. Jayaram attended one meeting.

#### **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, one meeting of the Committee was held on 5th May 2011. All the members attended the meeting. Subsequently, one meeting of the Committee was held on 7th May 2012 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 inter alia 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.

The Committee presently consists of Mr. Uday Kotak, Mr. Dipak Gupta, Mr. C. Jayaram and Mr. Prakash Apte as members of the Committee.

During the year, five meetings of the Committee were held on 7th June 2011, 20th September 2011, 30th November 2011, 23rd January 2012 and 14th March 2012. All the four members attended all the five meetings.

#### **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. The Committee was re-constituted by the Board on 15th December 2011 and presently consists of Mr. Uday Kotak, Mr. Dipak Gupta, Dr. Sudipto Mundle and Mr. N.P. Sarda as members of the Committee.

During the year, two meetings of the Committee were held on 20th July 2011 and 24th October 2011 and the same were attended by all the members.

The Bank has also constituted a First Tier Committee on Frauds to assist the Committee on Frauds of Board of Directors in discharging their responsibilities with respect to prevention, detection, reporting and monitoring of large value frauds. The Committee presently consists of 11 Bank officials with 5 bank officials forming the quorum. During the year, one meeting of the Committee was held on 27th March 2012 which was attended by 10 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 was re-constituted by the Board on 21st July 2011 and 9th March 2012 and presently consists of three members viz; Mr. Prakash Apte (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, three meetings of the Committee were held on 8th July 2011, 30th November 2011 and 14th March 2012. Mr. Uday Kotak and Mr. Dipak Gupta attended all the three meetings and Mr. Prakash Apte attended two 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](http://www.kotak.com).



### General Meetings

During the last three years, one Extraordinary General Meeting and three Annual General Meetings i.e. Twenty Sixth, Twenty Fifth and Twenty Fourth 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   |
|---|---|--|
| <b>Twenty Sixth Annual General Meeting</b>  | Thursday, 21st July 2011 at 12 Noon.    | No special resolution  |
| <b>Extraordinary General Meeting</b>        | 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/-.                  |
| <b>Twenty Fifth Annual General Meeting</b>  | Wednesday, 21st July 2010 at 11.30 a.m. | No special resolution  |
| <b>Twenty Fourth Annual General Meeting</b> | 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. |

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

Registrar & Share Transfer Agent : Karvy Computershare Private Limited  
(i) Plot No. 17-24 Vittal Rao Nagar  
Madhapur, Hyderabad - 500 081  
Tel No.: (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 19th July, 2012 at 11.30 a.m.  
Venue : Indian Merchants Chamber, Walchand Hirachand Hall, 4th Floor, Churchgate, Mumbai - 400 020.  
Financial Year : 1st April to 31st March  
Date of Book Closure : 10th July 2012 to 19th July 2012 (both days inclusive) for payment of dividend.  
Dividend Payment Date : On or after Friday 20th July 2012.



## INVESTOR RELATIONS

The Bank publishes the standalone as well as the consolidated results on a quarterly basis. The same are also reviewed by the Audit Committee before submission to the Board. The standalone as well as 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 Joint Managing 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<br>Phiroze Jeejeebhoy Towers, Dalal Street,<br>Fort, Mumbai 400 023                     | 500247            |
| 2.      | National Stock Exchange of India Limited<br>Exchange Plaza, 5th Floor,<br>Bandra-Kurla Complex, Bandra,<br>Mumbai 400 051 | KOTAKBANK         |
| 3.      | Luxembourg Stock Exchange<br>BP 165, L-2011, Luxembourg   | US50071Q2003      |

The annual fees for 2012-13 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 Registrar & Share Transfer Agent. 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 Registrar & Share Transfer Agent 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 Registrar & Share Transfer Agent. 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.grievances@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 2004-05 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 |
|---------|---------------|---------------------|----------------------|
| 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     |
| 2010-11 | Final         | 21st July 2011      | 20th August 2018     |

### SHARE PRICE DETAILS

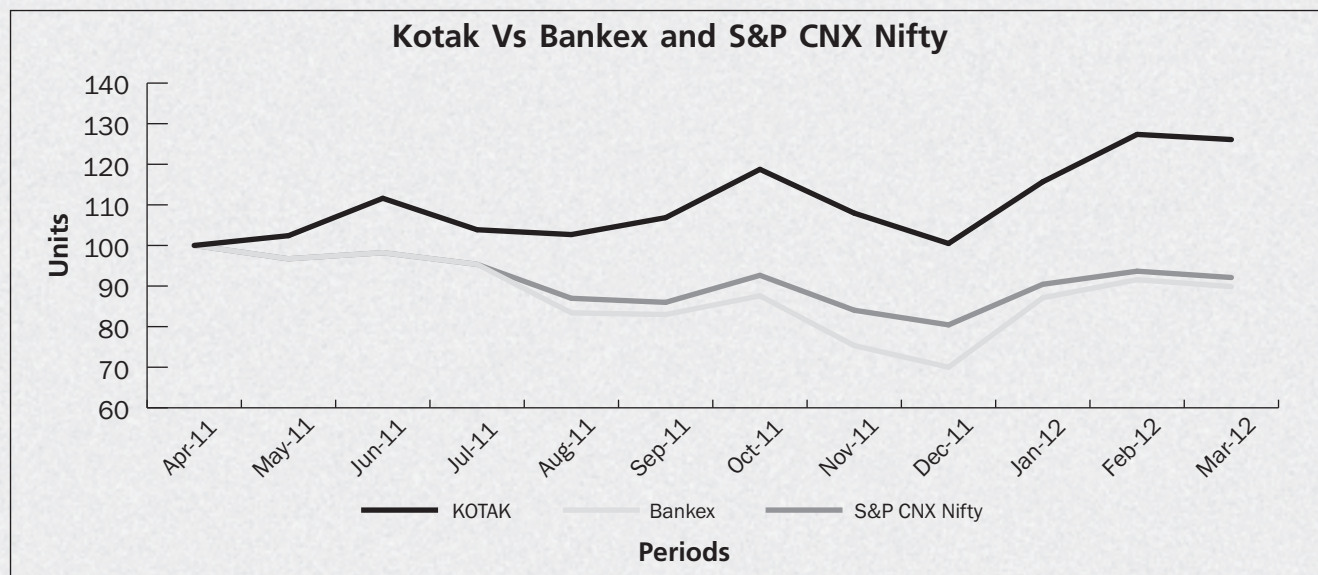
#### The Monthly high and low quotation of shares traded on BSE:

| Month          | High<br>(₹) | Low<br>(₹) | Close<br>(₹) | SENSEX   | BANKEX   |
|----------------|-------------|------------|--------------|----------|----------|
| April 2011     | 472.40      | 421.65     | 430.20       | 19135.96 | 13076.97 |
| May 2011       | 443.90      | 403.25     | 440.55       | 18503.28 | 12543.00 |
| June 2011      | 483.35      | 426.00     | 480.20       | 18845.87 | 12821.05 |
| July 2011      | 508.95      | 442.25     | 446.85       | 18197.20 | 12447.83 |
| August 2011    | 477.20      | 411.20     | 441.75       | 16676.75 | 10904.24 |
| September 2011 | 485.00      | 435.55     | 459.65       | 16453.76 | 10850.73 |
| October 2011   | 512.50      | 425.00     | 510.85       | 17705.01 | 11454.03 |
| November 2011  | 514.90      | 428.35     | 464.45       | 16123.46 | 9850.43  |
| December 2011  | 499.70      | 429.60     | 432.25       | 15454.92 | 9153.39  |
| January 2012   | 500.00      | 418.25     | 497.70       | 17193.55 | 11390.70 |
| February 2012  | 584.50      | 491.25     | 547.90       | 17752.68 | 11974.16 |
| March 2012     | 575.50      | 511.00     | 542.45       | 17404.20 | 11751.18 |

#### The Monthly high and low quotation of shares traded on NSE:

| Month          | High<br>(₹) | Low<br>(₹) | Close<br>(₹) | S&P &<br>CNX NIFTY | CNX<br>Bank |
|----------------|-------------|------------|--------------|--------------------|-------------|
| April 2011     | 472.40      | 421.10     | 430.10       | 5749.50            | 11483.75    |
| May 2011       | 445.00      | 402.80     | 441.45       | 5560.15            | 11020.85    |
| June 2011      | 483.50      | 426.45     | 479.35       | 5647.40            | 11244.65    |
| July 2011      | 508.95      | 441.35     | 445.05       | 5482.00            | 10893.65    |
| August 2011    | 478.00      | 411.00     | 442.70       | 5001.00            | 9533.40     |
| September 2011 | 485.00      | 435.50     | 459.70       | 4943.25            | 9468.30     |
| October 2011   | 520.00      | 424.60     | 512.40       | 5326.60            | 9989.65     |
| November 2011  | 515.10      | 428.15     | 466.70       | 4832.05            | 8564.10     |
| December 2011  | 501.00      | 426.95     | 430.55       | 4624.30            | 7968.65     |
| January 2012   | 502.00      | 418.10     | 498.35       | 5199.25            | 9919.45     |
| February 2012  | 584.95      | 492.00     | 547.75       | 5385.20            | 10414.20    |
| March 2012     | 576.35      | 510.50     | 545.35       | 5295.55            | 10212.75    |



**Shareholding Pattern**

| Category   | As on 31st March 2012 |                      | As on 31st March 2011 |                      |
|--|-----------------------|----------------------|-----------------------|----------------------|
|  | No. of Shares Held    | Percentage of Shares | No. of Shares Held    | Percentage of Shares |
| <b>A. Promoters Holding</b>  |                       |                      |                       |                      |
| Promoters  | 335,683,224           | 45.32                | 335,790,268           | 45.57                |
| Sub-Total  | <b>335,683,224</b>    | <b>45.32</b>         | <b>335,790,268</b>    | <b>45.57</b>         |
| <b>B. Non-Promoters Holding</b>  |                       |                      |                       |                      |
| 1. Institutional Investors   |                       |                      |                       |                      |
| a. Mutual Funds & UTI  | 18,383,424            | 2.48                 | 17,073,746            | 2.32                 |
| b. Banks, Financial Institutions, Insurance Companies (State / Central Govt. Institutions) | 16,158,644            | 2.18                 | 22,985,657            | 3.12                 |
| c. Foreign Institutional Investors   | 209,176,082           | 28.24                | 187,186,793           | 25.40                |
| Sub-Total  | <b>243,718,150</b>    | <b>32.90</b>         | <b>227,246,196</b>    | <b>30.84</b>         |
| <b>C. Others</b>   |                       |                      |                       |                      |
| a. Private Corporate Bodies  | 27,845,767            | 3.76                 | 34,929,797            | 4.74                 |
| b. Indian Public including Directors & Relatives   | 90,982,870            | 12.29                | 96,665,604            | 13.12                |
| c. NRIs / OCBs/Foreign Bodies  | 8,489,414             | 1.15                 | 8,967,792             | 1.22                 |
| d. Global Depository Shares (GDS)  | 619,954               | 0.08                 | 18,262                | 0.00                 |
| e. Foreign Bank  | 32,800,000            | 4.43                 | 32,800,000            | 4.45                 |
| f. Clearing Members  | 550,131               | 0.07                 | 453,585               | 0.06                 |
| Sub-Total  | <b>161,288,136</b>    | <b>21.78</b>         | <b>173,835,040</b>    | <b>23.59</b>         |
| <b>Grand Total</b>   | <b>740,689,510</b>    | <b>100.00</b>        | <b>736,871,504</b>    | <b>100.00</b>        |

Notes:

- The increase in capital is due to allotment of 3,818,006 equity shares of ₹ 5/- each under various ESOP Schemes of the Bank.



**SHAREHOLDING OF DIRECTORS OF THE BANK:**

| Name of the Director   | As on 31st March 2012 |                      |
|--|-----------------------|----------------------|
|  | No. of Shares Held    | Percentage of Shares |
| Dr. Shankar Acharya, Independent Non- Executive Chairman       | -                     | -                    |
| *Mr. Uday Kotak, Executive Vice Chairman and Managing Director | 306,263,550           | 41.35                |
| Mr. Asim Ghosh, Independent Non-Executive Director             | -                     | -                    |
| Mr. Amit K. Desai, Independent Non-Executive Director          | 774,250               | 0.10                 |
| Dr. Sudipto Mundle, Independent Non-Executive Director         | -                     | -                    |
| Mr. Prakash Apte, Independent Non-Executive Director           | -                     | -                    |
| Mr. N.P. Sarda, Non-Executive Director                         | -                     | -                    |
| Mr. C. Jayaram, Joint Managing Director                        | 615,000               | 0.08                 |
| Mr. Dipak Gupta, Joint Managing Director                       | 649,500               | 0.09                 |

Note : \* In addition, as on 31st March 2012, Kotak Trustee Company Pvt. Ltd. holds 26,897,060 equity shares of the Bank representing 3.63 % of the paid up share capital of the Bank. Kotak Trustee Company Pvt. Ltd. holds these shares as trustee for USK Benefit Trust -1 of which Mr. Uday Kotak is the sole beneficiary.

**List of Top 10 Shareholders of Kotak Mahindra Bank Limited as on 31st March 2012**

| Sr. No. | Name of the investor                | Total shares held | %     | Categories            |
|---------|-------------------------------------|-------------------|-------|-----------------------|
| 1       | UDAY SURESH KOTAK                   | 306,263,550       | 41.35 | Indian Promoter       |
| 2       | SUMITOMO MITSUI BANKING CORPORATION | 32,800,000        | 4.43  | Foreign Bank          |
| 3       | EUROPACIFIC GROWTH FUND             | 31,467,137        | 4.25  | FII                   |
| 4       | KOTAK TRUSTEE COMPANY PVT. LTD      | 26,875,060        | 3.63  | Indian Promoter's Co. |
| 5       | ANURADHA MAHINDRA                   | 14,543,202        | 1.96  | Public                |
| 6       | LIFE INSURANCE CORPORATION OF INDIA | 8,941,743         | 1.21  | IFI                   |
| 7       | EMERGING MARKETS GROWTH FUND, INC.  | 8,891,847         | 1.20  | FII                   |
| 8       | MATTHEWS PACIFIC TIGER FUND         | 8,767,491         | 1.18  | FII                   |
| 9       | AVION AEROSOLS PRIVATE LIMITED      | 7,604,050         | 1.03  | Bodies Corporate      |
| 10      | SMALLCAP WORLD FUND, INC            | 7,170,098         | 0.97  | FII                   |

**Distribution Schedule as on 31st March 2012**

| S. No. | Category from to | No. of Holders | % of Holders  | No. of Shares      | % of Shares   |
|--------|------------------|----------------|---------------|--------------------|---------------|
| 1      | 1 - 100          | 47,676         | 60.36         | 1,733,066          | 0.23          |
| 2      | 101 - 200        | 7,511          | 9.51          | 1,286,508          | 0.17          |
| 3      | 201 - 300        | 2,502          | 3.17          | 662,672            | 0.09          |
| 4      | 301 - 400        | 2,231          | 2.82          | 853,267            | 0.12          |
| 5      | 401 - 500        | 1,997          | 2.53          | 974,971            | 0.13          |
| 6      | 501 - 1000       | 5,749          | 7.28          | 4,823,037          | 0.65          |
| 7      | 1001 - 2000      | 6,022          | 7.62          | 10,360,422         | 1.40          |
| 8      | 2001 - 3000      | 2,223          | 2.81          | 5,697,144          | 0.77          |
| 9      | 3001 - 4000      | 938            | 1.19          | 3,536,019          | 0.48          |
| 10     | 4001 - 5000      | 564            | 0.71          | 2,716,721          | 0.37          |
| 11     | 5001 - 10000     | 576            | 0.73          | 3,995,131          | 0.54          |
| 12     | 10001 and above  | 999            | 1.26          | 704,050,552        | 95.05         |
|        | <b>TOTAL</b>     | <b>78,988</b>  | <b>100.00</b> | <b>740,689,510</b> | <b>100.00</b> |



Shares held in physical and electronic mode by the promoters and others as on 31st March 2012 are given in the below mentioned table:

| Category     | Physical mode    |             | Electronic mode    |              |
|--------------|------------------|-------------|--------------------|--------------|
|              | Total Shares     | % to Equity | Total Shares       | % to Equity  |
| Promoters    | -                | -           | 335,683,224        | 45.32        |
| Others       | 7,717,488        | 1.04        | 397,288,798        | 53.64        |
| <b>TOTAL</b> | <b>7,717,488</b> | <b>1.04</b> | <b>732,972,022</b> | <b>98.96</b> |

#### Outstanding GDS:

The Bank has 619,954 GDS outstanding as at 31st March 2012.

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

#### 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](http://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](http://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](http://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 April 21, 2011 and April 29, 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 March 31, 2012 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](http://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 2012.

For **Kotak Mahindra Bank Limited**

**Uday Kotak**

Executive Vice Chairman and Managing Director

Place : Mumbai,

Date : 8th May 2012

#### **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 2012, as stipulated in Clause 49 of the Listing Agreement of the Bank with the 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 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.

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. B. Billimoria & Co.**

Chartered Accountants

(Firm Registration No. 101496W)

Kalpesh J. Mehta

Partner

Membership No. 48791

**Mumbai, 8th May 2012**



# 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, 2012, the Profit and Loss Account and the Cash Flow Statement of the Bank for the year ended on that date, both 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 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinion.
3. The Balance Sheet and the 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.
4. We further report as follows :
  - (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 it appears from our examination of those books;
  - (d) The financial accounting systems of the Bank are centralised and therefore, accounting returns are not required to be submitted by the Branches;
  - (e) The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (f) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956, insofar as they apply to banks;
  - (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, 1956 in the manner so required for banking companies and the Guidelines issued by the Reserve Bank of India from time to time and give a true and fair view in conformity with the accounting principles generally accepted in India :
    - (i) in the case of the Balance Sheet, of the state of the affairs of the Bank as at 31st March, 2012;
    - (ii) in the case of the Profit and Loss Account, of the profit of the Bank for the year ended on that date and
    - (iii) in the case of Cash Flow Statement, of the cash flows of the Bank for the year ended on that date.
5. On the basis of the written representations received from the Directors as on 31st March, 2012 taken on record by the Board of Directors, we report that none of the Directors is disqualified from being appointed as a director in terms of Section 274(1) (g) of the Companies Act, 1956.
6. We report that during the course of our audit we have visited 13 Branches. Since the key operations of the Bank are completely automated with the key applications integrated to the core banking systems, the audit is carried out centrally at the Head Office as all the necessary records and data required for the purposes of our audit are available therein and the Branches are not required to submit any financial returns.

### For S.B Billimoria & Co.

Chartered Accountants  
(Firm Registration No. 101496W)

Kalpesh J. Mehta  
Partner  
(Membership No. 48791)  
Mumbai, 8th May 2012



## Balance Sheet as at 31st March 2012

(₹ in thousands)

|  | Schedule | As at<br>31st March 2012 | As at<br>31st March 2011 |
|--|----------|--------------------------|--------------------------|
| <b>CAPITAL AND LIABILITIES</b>                         |          |                          |                          |
| Capital  | 1        | <b>3,703,448</b>         | 3,684,358                |
| Reserves and Surplus                                   | 2        | <b>75,755,942</b>        | 64,280,362               |
| Employees' Stock Options (Grants) Outstanding          |          | <b>348,207</b>           | 369,172                  |
| Deposits   | 3        | <b>385,365,206</b>       | 292,609,686              |
| Borrowings   | 4        | <b>165,955,205</b>       | 117,239,484              |
| Other Liabilities and Provisions                       | 5        | <b>25,536,724</b>        | 30,323,596               |
| <b>Total</b>   |          | <b>656,664,732</b>       | 508,506,658              |
| <b>ASSETS</b>  |          |                          |                          |
| Cash and Balances with Reserve Bank of India           | 6        | <b>20,164,945</b>        | 21,077,242               |
| Balances with Banks and Money at Call and Short Notice | 7        | <b>6,180,601</b>         | 3,632,607                |
| Investments  | 8        | <b>215,668,123</b>       | 171,214,395              |
| Advances   | 9        | <b>390,792,322</b>       | 293,293,067              |
| Fixed Assets   | 10       | <b>4,499,658</b>         | 4,256,073                |
| Other Assets   | 11       | <b>19,359,083</b>        | 15,033,274               |
| <b>Total</b>   |          | <b>656,664,732</b>       | 508,506,658              |
| Contingent Liabilities                                 | 12       | <b>384,758,617</b>       | 343,692,398              |
| Bills for Collection                                   |          | <b>15,766,592</b>        | 10,534,742               |

Significant Accounting Policies and Notes to the Financial Statements 17 &amp; 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 and on behalf of the Board of Directors

**For S. B. Billimoria & Co.**  
Chartered Accountants

**Dr. Shankar Acharya**  
Chairman

**Uday Kotak**  
Executive Vice Chairman  
and Managing Director

**Kalpesh J. Mehta**  
Partner

**Dipak Gupta**  
Joint Managing Director

Mumbai, 8th May 2012

**Jaimin Bhatt**  
President and  
Group Chief Financial Officer

**Bina Chandarana**  
Company Secretary



**Profit and Loss Account** for the year ended 31st March 2012

(₹ in thousands)

|   | Schedule | Year ended<br>31st March 2012 | Year ended<br>31st March 2011 |
|---|----------|-------------------------------|-------------------------------|
| <b>I. INCOME</b>  |          |                               |                               |
| Interest earned   | 13       | <b>61,802,362</b>             | 41,897,520                    |
| Other Income  | 14       | <b>9,773,458</b>              | 7,805,349                     |
| <b>Total</b>  |          | <b>71,575,820</b>             | 49,702,869                    |
| <b>II. EXPENDITURE</b>  |          |                               |                               |
| Interest expended   | 15       | <b>36,677,460</b>             | 20,921,768                    |
| Operating expenses  | 16       | <b>18,348,299</b>             | 15,533,202                    |
| Provisions and Contingencies [Refer Note 10 - Schedule 18 B]        |          | <b>5,699,531</b>              | 5,066,078                     |
| <b>Total</b>  |          | <b>60,725,290</b>             | 41,521,048                    |
| <b>III. PROFIT</b>  |          |                               |                               |
| Net Profit for the year   |          | <b>10,850,530</b>             | 8,181,821                     |
| Add: Surplus brought forward from previous year                     |          | <b>14,945,189</b>             | 9,659,053                     |
| <b>Total</b>  |          | <b>25,795,719</b>             | 17,840,874                    |
| <b>IV. APPROPRIATIONS</b>   |          |                               |                               |
| Transfer to Statutory Reserve                                       |          | <b>2,712,700</b>              | 2,045,500                     |
| Transfer to General Reserve   |          | <b>542,600</b>                | 409,100                       |
| Transfer to Capital Reserve   |          | <b>200</b>                    | 6,900                         |
| Transfer to Special Reserve u/s 36(1)(viii) of Income Tax Act, 1961 |          | <b>250,000</b>                | 290,000                       |
| Transfer to / (from) Investment Reserve Account                     |          | <b>145,200</b>                | (268,300)                     |
| Proposed Dividend   |          | <b>444,929</b>                | 368,831                       |
| Corporate Dividend Tax  |          | <b>72,178</b>                 | 43,654                        |
| Balance carried over to Balance Sheet                               |          | <b>21,627,912</b>             | 14,945,189                    |
| <b>Total</b>  |          | <b>25,795,719</b>             | 17,840,874                    |
| <b>V. EARNINGS PER SHARE (Face value of ₹ 5/-)</b>                  |          |                               |                               |
| Basic (Refer Note 1 - Schedule 18 B)                                |          | <b>14.69</b>                  | 11.35                         |
| Diluted (Refer Note 1 - Schedule 18 B)                              |          | <b>14.61</b>                  | 11.28                         |

Significant Accounting Policies and Notes to the Financial Statements 17 &amp; 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 and on behalf of the Board of Directors

**For S. B. Billimoria & Co.**  
Chartered Accountants**Dr. Shankar Acharya**  
Chairman**Uday Kotak**  
Executive Vice Chairman  
and Managing Director**Kalpesh J. Mehta**  
Partner**Dipak Gupta**  
Joint Managing Director

Mumbai, 8th May 2012

**Jaimin Bhatt**  
President and  
Group Chief Financial Officer**Bina Chandarana**  
Company Secretary



## Cash Flow Statement for the year ended 31st March 2012

(₹ in thousands)

|   | Year Ended<br>31st March 2012 | Year Ended<br>31st March 2011 |
|---|-------------------------------|-------------------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>  |                               |                               |
| <b>Profit after tax</b>   | <b>10,850,530</b>             | 8,181,821                     |
| Add: Provision for Income-tax   | <b>5,148,396</b>              | 3,694,991                     |
| <b>Net Profit Before Taxes</b>  | <b>15,998,926</b>             | 11,876,812                    |
| <b>Adjustments for :</b>  |                               |                               |
| Employee Stock Options Grants   | <b>95,572</b>                 | 93,754                        |
| Depreciation on bank property   | <b>1,167,565</b>              | 982,652                       |
| Diminution in the value of Investments written back   | <b>(180,504)</b>              | 531,041                       |
| Dividend from Subsidiaries / Joint Ventures   | <b>(99,342)</b>               | (297,228)                     |
| Amortization of Premium on HTM Investments  | <b>898,197</b>                | 1,281,788                     |
| Interest on Subordinated Debt   | <b>727,239</b>                | 574,853                       |
| Interest on Refinance from institutions   | <b>3,129,386</b>              | 1,877,300                     |
| Provision for Non Performing Assets, Standard Assets & Other Provisions                       | <b>731,300</b>                | 839,840                       |
| Wealth tax  | <b>339</b>                    | 206                           |
| Loss / (Profit) on sale of fixed assets   | <b>(5,590)</b>                | (175)                         |
|   | <b>22,463,088</b>             | 17,760,843                    |
| <b>Adjustments for :</b>  |                               |                               |
| Increase in Investments other than Subsidiaries, Joint Ventures & Other Long term Investments | <b>(45,169,553)</b>           | (47,775,493)                  |
| Increase in Advances  | <b>(97,986,799)</b>           | (86,549,916)                  |
| Increase in Other Assets  | <b>(4,577,990)</b>            | (1,049,432)                   |
| Increase in Deposits  | <b>92,755,520</b>             | 53,745,015                    |
| Increase in Borrowings other than Refinance and Subordinated debt                             | <b>29,097,091</b>             | 50,821,772                    |
| Increase / (Decrease) in Other Liabilities & Provisions                                       | <b>(5,071,710)</b>            | 1,774,660                     |
|   | <b>(30,953,441)</b>           | (29,033,394)                  |
| <b>Direct Taxes Paid</b>  | <b>(4,896,554)</b>            | (3,472,173)                   |
| <b>NET CASH FLOW FROM OPERATING ACTIVITIES (A)</b>  | <b>(13,386,907)</b>           | (14,744,724)                  |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>  |                               |                               |
| Purchase of Fixed Assets  | <b>(1,438,381)</b>            | (992,417)                     |
| Sale of Fixed Assets  | <b>32,821</b>                 | 30,359                        |
| Increase in Investments in Subsidiaries   | <b>(1,868)</b>                | (125,106)                     |
| Dividend from Subsidiaries / Joint Ventures   | <b>99,342</b>                 | 297,228                       |



**Cash Flow Statement** for the year ended 31st March 2012 (contd.)

(₹ in thousands)

|  | Year Ended<br>31st March 2012 | Year Ended<br>31st March 2011 |
|--|-------------------------------|-------------------------------|
| <b>NET CASHFLOW FROM / (USED IN) INVESTMENT ACTIVITIES (B)</b>                         | <b>(1,308,086)</b>            | (789,936)                     |
| <b>CASH FLOW FROM / (USED IN) FINANCING ACTIVITIES</b>                                 |                               |                               |
| Increase / (Decrease) in Subordinated Debt   | <b>1,732,600</b>              | (13,725)                      |
| Interest paid on Subordinated Debt   | <b>(727,239)</b>              | (574,853)                     |
| Increase in Refinance  | <b>17,886,030</b>             | 5,026,305                     |
| Interest paid on Refinance   | <b>(3,129,386)</b>            | (1,877,300)                   |
| Fresh issue of shares / Money received on exercise of stock options                    | <b>981,372</b>                | 14,983,522                    |
| Share issue expenses   | -                             | (5,764)                       |
| Dividend paid including Corporate Dividend Tax   | <b>(412,687)</b>              | (296,317)                     |
| <b>NET CASHFLOW FROM FINANCING ACTIVITIES (C)</b>                                      | <b>16,330,690</b>             | 17,241,868                    |
| <b>NET INCREASE IN CASH &amp; CASH EQUIVALENTS (A + B + C)</b>                         | <b>1,635,697</b>              | 1,707,208                     |
| <b>CASH &amp; CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR<br/>(Refer Note below)</b> | <b>24,709,849</b>             | 23,002,641                    |
| <b>CASH &amp; CASH EQUIVALENTS AT THE END OF THE YEAR<br/>(Refer Note below)</b>       | <b>26,345,546</b>             | 24,709,849                    |
| <b>Note:</b>   |                               |                               |
| Balance with Banks in India in Fixed Deposit (As per Sch 7 I (i) (b))                  | <b>630</b>                    | 3,125                         |
| Balance with Banks in India in Current Account (As per Sch 7 I (i) (a))                | <b>1,257,147</b>              | 831,963                       |
| 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.)                      | <b>3,116,407</b>              | 2,451,447                     |
| Balance with RBI in Current Accounts (As per Sch 6 II.)                                | <b>17,048,538</b>             | 18,625,795                    |
| Balance with Banks Outside India:  |                               |                               |
| (i) In Current Account (As per Sch 7 II (i))   | <b>344,074</b>                | 503,061                       |
| (ii) In other Deposit Accounts (As per Sch 7 II (ii))                                  | <b>4,578,750</b>              | 1,783,800                     |
| <b>CASH &amp; CASH EQUIVALENTS AT THE END OF THE YEAR</b>                              | <b>26,345,546</b>             | 24,709,849                    |

As per our report of even date.

For and on behalf of the Board of Directors

**For S. B. Billimoria & Co.**  
Chartered Accountants

**Dr. Shankar Acharya**  
Chairman

**Uday Kotak**  
Executive Vice Chairman  
and Managing Director

**Kalpesh J. Mehta**  
Partner

**Dipak Gupta**  
Joint Managing Director

**Jaimin Bhatt**  
President and  
Group Chief Financial Officer

**Bina Chandarana**  
Company Secretary

Mumbai, 8th May 2012



## Schedules forming part of Balance Sheet as at 31st March 2012

(₹ in thousands)

|   | As at<br>31st March 2012 | As at<br>31st March 2011 |
|---|--------------------------|--------------------------|
| <b>SCHEDULE 1 - CAPITAL</b>   |                          |                          |
| <b>Authorised Capital</b>   |                          |                          |
| 80,00,00,000 Equity Shares of ₹ 5/- each (31st March, 2011:               |                          |                          |
| 80,00,00,000 Equity Shares of ₹ 5/- each)                                 | 4,000,000                | 4,000,000                |
| <b>Issued, Subscribed and Paid-up Capital</b>                             |                          |                          |
| 74,06,89,510 ( 31st March, 2011: 73,68,71,504) Equity                     |                          |                          |
| Shares of ₹ 5/- each fully paid-up  | 3,703,448                | 3,684,358                |
| <b>Total</b>  | 3,703,448                | 3,684,358                |
| <b>SCHEDULE 2 - RESERVES AND SURPLUS</b>                                  |                          |                          |
| <b>I. Statutory Reserve</b>   |                          |                          |
| Opening Balance   | 6,516,200                | 4,470,700                |
| Add: Transfer from Profit and Loss Account                                | 2,712,700                | 2,045,500                |
| <b>Total</b>  | 9,228,900                | 6,516,200                |
| <b>II. Capital Reserve</b>  |                          |                          |
| Opening balance   | 289,103                  | 282,203                  |
| Add: Transfer from Profit and Loss Account                                | 200                      | 6,900                    |
| <b>Total</b>  | 289,303                  | 289,103                  |
| <b>III. General Reserve</b>   |                          |                          |
| Opening Balance   | 3,507,052                | 3,097,952                |
| Add: Transfer from Profit and Loss Account                                | 542,600                  | 409,100                  |
| <b>Total</b>  | 4,049,652                | 3,507,052                |
| <b>IV. Investment Reserve Account</b>                                     |                          |                          |
| Opening Balance   | 160,614                  | 428,914                  |
| Add: Transfer from / (to) Profit and Loss Account                         | 145,200                  | (268,300)                |
| <b>Total</b>  | 305,814                  | 160,614                  |
| <b>V. Special Reserve Account u/s 36(1)(viii) of Income Tax Act, 1961</b> |                          |                          |
| Opening Balance   | 690,000                  | 400,000                  |
| Add: Transfer from Profit and Loss Account                                | 250,000                  | 290,000                  |
| <b>Total</b>  | 940,000                  | 690,000                  |
| <b>VI. Share Premium Account</b>  |                          |                          |
| Opening Balance   | 38,172,204               | 23,030,913               |
| Add: Received during the year   | 1,142,157                | 15,147,055               |
| Less: Utilised for Share Issue Expenses                                   | -                        | 5,764                    |
| <b>Total</b>  | 39,314,361               | 38,172,204               |
| <b>VII. Balance in the Profit and Loss Account</b>                        | 21,627,912               | 14,945,189               |
| <b>Total (I to VII)</b>   | 75,755,942               | 64,280,362               |



**Schedules forming part of Balance Sheet** as at 31st March 2012 (contd.)

(₹ in thousands)

|   | As at<br>31st March 2012 | As at<br>31st March 2011 |
|---|--------------------------|--------------------------|
| <b>SCHEDULE 3 - DEPOSITS</b>  |                          |                          |
| <b>A I. Demand Deposits</b>   |                          |                          |
| (i) From Banks  | 1,205,825                | 1,006,014                |
| (ii) From Others  | 72,317,331               | 53,595,920               |
| <b>Total</b>  | <b>73,523,156</b>        | <b>54,601,934</b>        |
| <b>II. Savings Bank Deposits</b>                                      | <b>50,501,164</b>        | <b>33,303,313</b>        |
| <b>III. Term Deposits</b>   |                          |                          |
| (i) From Banks  | 3,424,856                | 2,676,623                |
| (ii) From Others [Refer Note 11 - Schedule 18 B]                      | 257,916,030              | 202,027,816              |
| <b>Total</b>  | <b>261,340,886</b>       | <b>204,704,439</b>       |
| <b>Total Deposits of branches (I to III)</b>                          | <b>385,365,206</b>       | <b>292,609,686</b>       |
| <b>B. (i) Deposits of branches in India</b>                           | <b>385,365,206</b>       | <b>292,609,686</b>       |
| (ii) Deposits of branches outside India                               | -                        | -                        |
| <b>Total</b>  | <b>385,365,206</b>       | <b>292,609,686</b>       |
| <b>SCHEDULE 4 - BORROWINGS</b>  |                          |                          |
| <b>I. Borrowings in India</b>   |                          |                          |
| (i) Reserve Bank of India   | 56,094,800               | 39,647,500               |
| (ii) Other Banks  | 19,903,748               | 24,626,988               |
| (iii) Other Institutions and Agencies (Refer Note 12 - Schedule 18 B) | 50,069,094               | 30,733,064               |
| <b>Total</b>  | <b>126,067,642</b>       | <b>95,007,552</b>        |
| <b>II. Borrowings outside India</b>                                   |                          |                          |
| Banks & Other Institutions (Refer Note 12 - Schedule 18 B)            | 39,887,563               | 22,231,932               |
| <b>Total</b>  | <b>39,887,563</b>        | <b>22,231,932</b>        |
| <b>Total Borrowings (I and II)</b>                                    | <b>165,955,205</b>       | <b>117,239,484</b>       |
| Secured Borrowings under CBLO included in I (iii) above               | -                        | -                        |
| Tier II Bonds included in I (iii) above                               | 7,467,000                | 6,017,000                |
| Tier II Bonds included in II above                                    | 2,289,375                | 2,006,775                |
| <b>SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS</b>                  |                          |                          |
| <b>I. Bills Payable</b>   | <b>5,700,567</b>         | <b>6,188,983</b>         |
| <b>II. Interest Accrued</b>   | <b>4,050,153</b>         | <b>4,453,618</b>         |
| <b>III. Others (including provisions)</b>                             | <b>15,269,495</b>        | <b>19,268,906</b>        |
| <b>IV. Proposed Dividend (includes tax on dividend)</b>               | <b>516,509</b>           | <b>412,089</b>           |
| <b>Total</b>  | <b>25,536,724</b>        | <b>30,323,596</b>        |
| <b>SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA</b>      |                          |                          |
| <b>I. Cash in hand (including foreign currency notes)</b>             | <b>3,116,407</b>         | <b>2,451,447</b>         |
| <b>II. Balances with RBI in Current Account</b>                       | <b>17,048,538</b>        | <b>18,625,795</b>        |
| <b>Total</b>  | <b>20,164,945</b>        | <b>21,077,242</b>        |



**Schedules forming part of Balance Sheet** as at 31st March 2012 (contd.)

(₹ in thousands)

|  | As at<br>31st March 2012 | As at<br>31st March 2011 |
|--|--------------------------|--------------------------|
| <b>SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE</b>   |                          |                          |
| <b>I. In India</b>   |                          |                          |
| <b>(i) Balances with Banks</b>   |                          |                          |
| (a) In Current Accounts  | 1,257,147                | 831,963                  |
| (b) In Other Deposit Accounts  | 630                      | 3,125                    |
| <b>Total</b>   | 1,257,777                | 835,088                  |
| <b>(ii) Money at Call and Short Notice</b>   |                          |                          |
| (a) With Banks   | -                        | 510,658                  |
| <b>Total</b>   | -                        | 510,658                  |
| <b>Total (i and ii)</b>  | 1,257,777                | 1,345,746                |
| <b>II. Outside India</b>   |                          |                          |
| (i) In Current Accounts  | 344,074                  | 503,061                  |
| (ii) In Other Deposit Accounts   | 4,578,750                | 1,783,800                |
| <b>Total</b>   | 4,922,824                | 2,286,861                |
| <b>Total (I and II)</b>  | 6,180,601                | 3,632,607                |
| <b>SCHEDULE 8 - INVESTMENTS</b>  |                          |                          |
| <b>I. Investments in India in</b>  |                          |                          |
| (i) Government Securities  | 165,872,410              | 131,983,447              |
| (ii) Other Approved Securities   | -                        | -                        |
| (iii) Shares   | 40,325                   | 532,655                  |
| (iv) Debentures and Bonds  | 16,300,142               | 11,002,996               |
| (v) Subsidiaries and Joint Ventures  | 3,289,947                | 3,288,079                |
| (vi) Others [Units, Certificate of Deposits (CD), Commercial Paper (CP),<br>Security Receipts, RIDF Deposit & Pass Through Certificates (PTC)] | 30,026,612               | 24,268,531               |
| <b>Total</b>   | 215,529,436              | 171,075,708              |
| <b>II. Investments outside India in</b>  |                          |                          |
| (i) Shares   | 1,043                    | 1,043                    |
| (ii) Subsidiaries and Joint Ventures   | 137,644                  | 137,644                  |
| <b>Total</b>   | 138,687                  | 138,687                  |
| <b>Total Investments (I and II)</b>  | 215,668,123              | 171,214,395              |



**Schedules forming part of Balance Sheet** as at 31st March 2012 (contd.)

(₹ in thousands)

|   | As at<br>31st March 2012 | As at<br>31st March 2011 |
|---|--------------------------|--------------------------|
| <b>SCHEDULE 9 - ADVANCES</b>  |                          |                          |
| <b>A. (i) Bills purchased and discounted#</b>   | <b>16,263,785</b>        | 11,026,240               |
| (ii) Cash Credits, Overdrafts and loans repayable on demand   | <b>73,942,057</b>        | 57,595,021               |
| (iii) Term Loans  | <b>300,586,480</b>       | 224,671,806              |
| <b>Total</b>  | <b>390,792,322</b>       | 293,293,067              |
| # Bills purchased and discounted is net off Bills Rediscounted<br>₹ 1,667.03 crores (previous year ₹ 956.38 crores) |                          |                          |
| <b>B. (i) Secured by tangible assets *</b>  | <b>325,798,956</b>       | 250,803,855              |
| (ii) Unsecured  | <b>64,993,366</b>        | 42,489,212               |
| <b>Total</b>  | <b>390,792,322</b>       | 293,293,067              |
| * including advances against book debts   |                          |                          |
| <b>C. Advances in India</b>   |                          |                          |
| (i) Priority Sector   | <b>122,965,518</b>       | 87,379,166               |
| (ii) Public Sector  | <b>1,450,126</b>         | 875,000                  |
| (iii) Banks   | -                        | -                        |
| (iv) Others   | <b>266,376,678</b>       | 205,038,901              |
| <b>Total</b>  | <b>390,792,322</b>       | 293,293,067              |
| <b>SCHEDULE 10 - FIXED ASSETS</b>   |                          |                          |
| <b>A. Premises (Including Land)</b>   |                          |                          |
| <b>Gross Block</b>  |                          |                          |
| At cost on 31st March of the preceding year   | <b>2,190,236</b>         | 2,190,236                |
| Additions during the year   | -                        | -                        |
| Less: Deductions during the year  | -                        | -                        |
| <b>Total</b>  | <b>2,190,236</b>         | 2,190,236                |
| <b>Depreciation</b>   |                          |                          |
| As at 31st March of the preceding year  | <b>397,684</b>           | 360,671                  |
| Add: Charge for the year  | <b>37,014</b>            | 37,013                   |
| Less: Deductions during the year  | -                        | -                        |
| <b>Depreciation to date</b>   | <b>434,698</b>           | 397,684                  |
| <b>Net Block</b>  | <b>1,755,538</b>         | 1,792,552                |



**Schedules forming part of Balance Sheet** as at 31st March 2012 (contd.)

(₹ in thousands)

|   | As at<br>31st March 2012 | As at<br>31st March 2011 |
|---|--------------------------|--------------------------|
| <b>B. Other Fixed Assets (including Furniture and Fixtures)</b>                     |                          |                          |
| <b>Gross Block</b>  |                          |                          |
| At cost on 31st March of the preceding year   | 6,127,792                | 5,263,150                |
| Additions during the year   | 1,438,381                | 992,417                  |
| Less: Deductions during the year  | 202,266                  | 127,775                  |
| <b>Total</b>  | <b>7,363,907</b>         | <b>6,127,792</b>         |
| <b>Depreciation</b>   |                          |                          |
| As at 31st March of the preceding year  | 3,664,271                | 2,816,223                |
| Add: Charge for the year  | 1,130,551                | 945,639                  |
| Less: Deductions during the year  | 175,035                  | 97,591                   |
| <b>Depreciation to date</b>   | <b>4,619,787</b>         | <b>3,664,271</b>         |
| <b>Net Block</b> (Refer Note 5 - Schedule 18 B )                                    | <b>2,744,120</b>         | <b>2,463,521</b>         |
| <b>Total (A) + (B)</b>  | <b>4,499,658</b>         | <b>4,256,073</b>         |
| <b>SCHEDULE 11 - OTHER ASSETS</b>   |                          |                          |
| <b>I.</b> Interest accrued  | <b>5,980,594</b>         | <b>4,594,646</b>         |
| <b>II.</b> Advance tax (net of provision for tax)                                   | <b>(3,191)</b>           | <b>32,111</b>            |
| <b>III.</b> Stationery and Stamps   | <b>35,139</b>            | <b>28,878</b>            |
| <b>IV.</b> Cheques in course of collection  | <b>140,370</b>           | <b>54,531</b>            |
| <b>V.</b> Non banking assets acquired in satisfaction of claims                     | <b>67,824</b>            | <b>67,824</b>            |
| <b>VI.</b> Others (Refer Note 4 - Schedule 18 B)                                    | <b>13,138,347</b>        | <b>10,255,284</b>        |
| <b>Total</b>  | <b>19,359,083</b>        | <b>15,033,274</b>        |
| <b>SCHEDULE 12 - CONTINGENT LIABILITIES</b>   |                          |                          |
| <b>I.</b> Claims not acknowledged as debts  | <b>10,982,659</b>        | <b>923,478</b>           |
| <b>II.</b> Liability on account of Outstanding Forward Exchange Contracts           | <b>108,673,321</b>       | <b>81,677,424</b>        |
| <b>III.</b> Guarantees on behalf of Constituents in India                           | <b>52,858,829</b>        | <b>40,312,069</b>        |
| <b>IV.</b> Acceptances, Endorsements and Other obligations                          | <b>45,893,382</b>        | <b>34,165,842</b>        |
| <b>V.</b> Other Items for which the Bank is contingently liable :                   |                          |                          |
| a. Liability in respect of interest rate & currency swaps & forward rate agreements | <b>162,839,425</b>       | <b>184,639,088</b>       |
| b. Liability in respect of Options Contracts  | <b>2,830,602</b>         | <b>1,682,493</b>         |
| c. Capital commitments not provided   | <b>680,399</b>           | <b>292,004</b>           |
| <b>Total</b>  | <b>384,758,617</b>       | <b>343,692,398</b>       |



**Schedules forming part of Profit and Loss Account** for the year ended 31st March 2012

(₹ in thousands)

|   | Year ended<br>31st March 2012 | Year ended<br>31st March 2011 |
|---|-------------------------------|-------------------------------|
| <b>SCHEDULE 13 - INTEREST EARNED</b>                                      |                               |                               |
| I. Interest / Discount on Advances / Bills                                | 48,674,431                    | 32,143,481                    |
| II. Income on Investments   | 13,063,514                    | 9,571,785                     |
| III. Interest on balances with RBI and other inter-bank funds             | 40,672                        | 171,884                       |
| IV. Others  | 23,745                        | 10,370                        |
| <b>Total</b>  | <b>61,802,362</b>             | <b>41,897,520</b>             |
| <b>SCHEDULE 14 - OTHER INCOME</b>   |                               |                               |
| I. Commission, exchange and brokerage                                     | 5,781,372                     | 4,665,475                     |
| II. Profit / (Loss) on sale of Investments (net)                          | 816,116                       | 909,949                       |
| III. Profit / (Loss) on sale of building and other assets (net)           | 5,590                         | 175                           |
| IV. Profit on exchange transactions (net)                                 | 1,193,875                     | 72,881                        |
| V. Income earned from Subsidiaries / Joint Ventures                       | 548,592                       | 712,670                       |
| VI. Profit on recoveries of non-performing assets acquired                | 1,289,289                     | 1,254,758                     |
| VII. Miscellaneous Income   | 138,624                       | 189,441                       |
| <b>Total</b>  | <b>9,773,458</b>              | <b>7,805,349</b>              |
| <b>SCHEDULE 15 - INTEREST EXPENDED</b>                                    |                               |                               |
| I. Interest on Deposits   | 25,040,971                    | 14,975,443                    |
| II. Interest on RBI / inter-bank Borrowings                               | 7,748,710                     | 3,485,158                     |
| III. Others (Refer Note 12 - Schedule 18 B)                               | 3,887,779                     | 2,461,167                     |
| <b>Total</b>  | <b>36,677,460</b>             | <b>20,921,768</b>             |
| <b>SCHEDULE 16 - OPERATING EXPENSES</b>                                   |                               |                               |
| I. Payments to and provision for employees (Refer Note 9 - Schedule 18 B) | 9,023,620                     | 7,838,345                     |
| II. Rent, taxes and lighting (Refer Note 3(a) - Schedule 18 B)            | 1,739,832                     | 1,506,535                     |
| III. Printing and Stationery  | 272,699                       | 272,776                       |
| IV. Advertisement, Publicity and Promotion                                | 563,759                       | 440,024                       |
| V. Depreciation on Banks' property  | 1,167,565                     | 982,652                       |
| VI. Directors' fees, allowances and expenses                              | 2,389                         | 2,155                         |
| VII. Auditors' fees and expenses  | 13,675                        | 13,313                        |
| VIII. Law Charges   | 115,867                       | 167,013                       |
| IX. Postage, telephone etc.   | 427,441                       | 389,180                       |
| X. Repairs and maintenance  | 958,499                       | 784,331                       |
| XI. Insurance   | 285,936                       | 241,326                       |
| XII. Travel and Conveyance  | 473,225                       | 379,393                       |
| XIII. Professional Charges  | 1,440,063                     | 1,086,005                     |
| XIV. Brokerage  | 744,863                       | 592,459                       |
| XV. Stamping Expenses   | 117,465                       | 118,270                       |
| XVI. Other Expenditure  | 1,498,424                     | 1,195,308                     |
|   | <b>18,845,322</b>             | <b>16,009,085</b>             |
| Less: Recovery of Costs from Group Companies                              | 497,023                       | 475,883                       |
| <b>Total</b>  | <b>18,348,299</b>             | <b>15,533,202</b>             |



## 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 ("the Bank") used in the preparation of these financial statements is the accrual method of accounting and historical cost convention and it conforms with 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 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. The Bank's Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision to the accounting estimates are recognised prospectively.

#### 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 and letter of credit which is recognised over the period of the guarantee / letter of credit.
- Dividend income is accounted on an accrual basis when the Banks' 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 freight, duties and incidental expenses less accumulated depreciation / amortisation.
- Depreciation / Amortisation: 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 Managements' estimate of useful lives of these assets. Estimated useful lives over which assets are depreciated are 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. The Bank makes contribution to a Gratuity Fund administered by trustees and managed by a life insurance company. The net present value of the Banks' 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 immediately recognised in the Profit and Loss Account and are not deferred.

### 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 Banks' 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 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. **BULLION**

The Bank imports bullion including precious metal bars on a consignment basis for selling to its wholesale and retail customers. The difference between the sale price to customers and actual price quoted by supplier is reflected under other income.

The Bank also borrows and lends gold, which is treated as borrowings / lending as the case may be with the interest paid / received classified as interest expense / income and is accounted on an accrual basis.

## F. **INVESTMENTS**

### 1. **Classification**

- In accordance with the RBI guidelines, investments are categorised at the date of purchase 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 Others 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 and government securities are 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 except treasury bills in this category is revalued at the market price or fair value on a monthly basis 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 / government securities are 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 / fair value of quoted investments included in the "Available for Sale" and "Held for Trading" categories is measured with respect to the market price of the scrip as available from the trades / quotes on the stock exchanges, SGL account transactions, price list of RBI or prices declared by Primary Dealers Association of India ('PDAI') jointly with Fixed Income Money Market and Derivatives Association of India ('FIMMDA') as at the year end. The market value of investments where market quotations are not available is determined as per the norms laid down by the RBI. Treasury Bills, Commercial Papers and Certificate of Deposits being discounted instruments, are valued at carrying cost.
- 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.



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

### 3. Transfer between Categories

Transfer between categories is done, in accordance with RBI guidelines at the lower of the acquisition cost / carrying 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 transfer to Statutory Reserve. Loss on sale / redemption is charged off to the Profit and Loss Account.

## G. FOREIGN CURRENCY AND DERIVATIVE TRANSACTIONS

- a. Foreign currency monetary assets and monetary liabilities are translated as at the Balance Sheet date at rates notified by the Foreign Exchange Dealers' Association of India ('FEDAI').
- 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 in the Profit and Loss Account.
- 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 in accordance with hedging instrument on an accrual basis over the life of the underlying instrument. Option premium paid / received is accounted for in the Profit and Loss Account on expiry of the option. Option contracts are marked to market on every reporting date.
- 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.

## H. 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 considers accelerated 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-direct advances to sectors agricultural & SME at 0.25%, commercial real estate at 1.00%, restructured standard advances and teaser rate housing loans at 2.00% and for other sectors at 0.40%.  
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.

## I. 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 SPVs. 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.

## J. 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



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

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.

### K. 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:

| 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: <ul style="list-style-type: none"> <li>I Lending<br/>Commercial vehicle finance, personal loans, home loans, agriculture finance, other loans / services and exposures which fulfill the four criterias' for retail exposures laid down in Basel Committee on Banking Supervision document "International Convergence of Capital Measurement and Capital Standards : A Revised Framework".</li> <li>II Branch Banking<br/>Retail borrowings covering savings, current, term deposit accounts and Branch Banking network / services including distribution of financial products.</li> <li>III Credit Cards<br/>Receivables / loans relating to credit card business.</li> </ul> |
| 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.

### L. 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.

### M. 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).

### N. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the year. The weighted average number of equity shares outstanding during the year 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 year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

### O. PROVISIONS AND CONTINGENCIES

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



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

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.

### P. 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. Impairment loss, if any, is provided in Profit and Loss Account to the extent of carrying amount of assets exceeds their estimated recoverable amount.

### Q. EMPLOYEE SHARE BASED PAYMENTS

#### 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 remeasured as 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 Banks' Capital Adequacy Ratios calculated in accordance with the RBI guidelines are as follows:

(₹ in crores)

|   | BASEL I                |                        | BASEL II               |                        |
|---|------------------------|------------------------|------------------------|------------------------|
|   | As at 31st March, 2012 | As at 31st March, 2011 | As at 31st March, 2012 | As at 31st March, 2011 |
| Tier I Capital  | <b>7,533.92</b>        | 6,386.02               | <b>7,533.92</b>        | 6,386.02               |
| Tier II Capital   | <b>850.67</b>          | 686.00                 | <b>850.67</b>          | 686.00                 |
| <b>Total Capital</b>  | <b>8,384.59</b>        | 7,072.02               | <b>8,384.59</b>        | 7,072.02               |
| <b>Total Risk weighted assets and contingencies</b>             | <b>50,782.58</b>       | 37,765.57              | <b>47,856.34</b>       | 35,508.93              |
| <b>Capital Ratios:</b>  |                        |                        |                        |                        |
| (i) CRAR - Tier I Capital (%)                                   | <b>14.84%</b>          | 16.91%                 | <b>15.74%</b>          | 17.99%                 |
| (ii) CRAR - Tier II Capital (%)                                 | <b>1.67%</b>           | 1.82%                  | <b>1.78%</b>           | 1.93%                  |
| (iii) CRAR %  | <b>16.51%</b>          | 18.73%                 | <b>17.52%</b>          | 19.92%                 |
| (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       | <b>448.64</b>          | 352.22                 | <b>448.64</b>          | 352.22                 |
| Amount of subordinated debt considered in Upper Tier II Capital | <b>364.94</b>          | 336.68                 | <b>364.94</b>          | 336.68                 |



## 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, 2012 |                  |                 |                  | As at 31st March, 2011 |                 |                 |                  |
|--|------------------------|------------------|-----------------|------------------|------------------------|-----------------|-----------------|------------------|
|  | HFT                    | AFS              | HTM             | Total            | HFT                    | AFS             | HTM             | Total            |
| Government Securities                                    | 414.65                 | 9,740.19         | 6,432.40        | 16,587.24        | 527.55                 | 6,870.07        | 5,800.73        | 13,198.35        |
| Other Approved Securities                                | —                      | —                | —               | —                | —                      | —               | —               | —                |
| Shares   | —                      | 4.14             | —               | 4.14             | —                      | 53.37           | —               | 53.37            |
| Debentures and Bonds                                     | 138.08                 | 1,491.93         | —               | 1,630.01         | 187.96                 | 912.34          | —               | 1,100.30         |
| Subsidiaries, Associates and Joint Ventures              | —                      | —                | 342.76          | 342.76           | —                      | —               | 342.57          | 342.57           |
| Units, Certificate of Deposits, CP, SRs, RIDF, PTCs etc. | 1,582.11               | 843.36           | 577.19          | 3,002.66         | 1,559.20               | 268.97          | 598.68          | 2,426.85         |
| <b>Total</b>   | <b>2,134.84</b>        | <b>12,079.62</b> | <b>7,352.35</b> | <b>21,566.81</b> | <b>2,274.71</b>        | <b>8,104.75</b> | <b>6,741.98</b> | <b>17,121.44</b> |

3. The details of investments and the movement of provisions held towards depreciation of investments of the Bank as on 31st March, 2012 and 31st March, 2011 are given below:

(₹ in crores)

|  | As at<br>31st March, 2012 | As at<br>31st March, 2011 |
|--|---------------------------|---------------------------|
| 1. Value of Investments  |                           |                           |
| i. Gross value of Investments  |                           |                           |
| a. In India  | 21,594.93                 | 17,167.62                 |
| b. Outside India   | 13.87                     | 13.87                     |
| ii. Provision for Depreciation   |                           |                           |
| c. In India  | (41.99)                   | (60.05)                   |
| d. Outside India   | —                         | —                         |
| iii. Net value of Investments  |                           |                           |
| e. In India  | 21,552.94                 | 17,107.57                 |
| f. Outside India   | 13.87                     | 13.87                     |
| 2. Movement of provisions held towards depreciation on investments     |                           |                           |
| i. Opening balance   | 60.05                     | 6.95                      |
| ii. Add: Provisions made during the year                               | 21.24                     | 73.48                     |
| iii. Less: Write-off / write-back of excess provisions during the year | 39.30                     | 20.38                     |
| iv. Closing balance  | 41.99                     | 60.05                     |

4. Details of Repo / Reverse Repo (excluding LAF transactions for the year) deals (in face value terms):  
Year ended 31st March, 2012:

(₹ in crores)

| Particulars                              | Minimum<br>outstanding<br>during the year | Maximum<br>outstanding<br>during the year | Daily Average<br>outstanding<br>during the year | As at<br>31st March, 2012 |
|--|---|---|---|---------------------------|
| Securities sold under repos              |   |   |   |                           |
| i. Government securities                 | 122.80                                    | 4,524.07                                  | 1,786.89  | 122.80                    |
| ii. Corporate debt securities            | —   | —   | —   | —                         |
| Securities purchased under reverse repos |   |   |   |                           |
| i. Government securities                 | —   | 60.00                                     | 10.36   | —                         |
| ii. Corporate debt securities            | —   | 235.00                                    | 9.39  | —                         |



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

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, 2012 |
|--|-------------------------------------|-------------------------------------|---|------------------------|
| Securities sold under repos              |                                     |                                     |   |                        |
| i. Government securities                 | 4.31                                | 4,751.33                            | 1,457.21                                  | 605.99                 |
| ii. Corporate debt securities            | —                                   | 25.00                               | 0.34                                      | —                      |
| Securities purchased under reverse repos |                                     |                                     |   |                        |
| i. Government securities                 | —                                   | 490.00                              | 184.12                                    | 50.00                  |
| ii. Corporate debt securities            | —                                   | 30.00                               | 0.08                                      | —                      |

### 5. Disclosure in respect of Non-SLR investments:

#### (i) Issuer composition of Non-SLR investments as at 31st March, 2012:

(₹ 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   | 1,074.24        | 651.19                      | —   | 576.19                         | 676.12                          |
| 3   | Banks                                       | 1,457.23        | 334.57                      | —   | —                              | 1,457.23                        |
| 4   | Private Corporates                          | 1,715.74        | 1,009.19                    | 79.25   | 20.69                          | 759.04                          |
| 5   | Subsidiaries, Associates and Joint Ventures | 344.95          | 344.95                      | —   | 344.95                         | 344.95                          |
| 6   | Others                                      | 379.73          | 245.44                      | 84.50   | 126.39                         | 379.73                          |
| 7   | Provision held towards depreciation         | (17.33)         | —                           | —   | —                              | —                               |
|     | <b>Total</b>                                | <b>4,979.57</b> | <b>2,600.34</b>             | <b>163.75</b>                                 | <b>1,068.22</b>                | <b>3,617.07</b>                 |

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)         | —                           | —   | —                              | —                               |
|     | <b>Total</b>                                | <b>3,923.09</b> | <b>2,102.32</b>             | <b>202.58</b>                                 | <b>1,083.64</b>                | <b>2,774.66</b>                 |

Above does not include Non SLR Government Securities ₹ 62.20 crores (previous year ₹ 550.49 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, 2012 | 31st March, 2011 |
|---|------------------|------------------|
| Opening balance                           | 1.14             | 2.25             |
| Additions during the year since 1st April | 15.62            | —                |
| Reductions during the year                | —                | 1.11             |
| Closing balance                           | 16.76            | 1.14             |
| <b>Total provisions held</b>              | <b>11.16</b>     | <b>1.14</b>      |

6. During the year the movement to / from HTM category does not exceed 5% of the book value of the investments held in HTM category at the beginning of the year.

**7. Derivatives:****A. Forward Rate Agreements / Interest Rate Swaps:****(₹ in crores)**

| Particulars   | 31st March, 2012 | 31st March, 2011 |
|---|------------------|------------------|
| The notional principal of swap agreements   | 15,727.96        | 18,241.78        |
| Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements | 80.69            | 85.10            |
| Collateral required by the Bank upon entering into swaps  | NA               | NA               |
| Concentration of credit risk arising from the swaps   | 95.12% (Banks)   | 94.53% (Banks)   |
| The fair value of the swap book   | 4.19             | (6.92)           |

**B. Exchange Traded Interest Rate Derivatives:****(₹ in crores)**

| Particulars   | 31st March, 2012 | 31st March, 2011 |
|---|------------------|------------------|
| Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument wise)             | Nil              | Nil              |
| 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.



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

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 Management Information System to the ALCO on a periodic basis as well as exception reporting.

**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 in accordance with hedging instruments on an accrual basis over the life of the underlying instrument.

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 |
|----------|---|----------------------|---------------------------|
| <b>1</b> | <b>Derivatives (Notional Principal Amount)</b>                              | 11,706.38            | 15,727.96                 |
|          | a) For hedging  | 3,853.31             | 644.49                    |
|          | b) For trading  | 7,853.07             | 15,083.47                 |
| <b>2</b> | <b>Marked to Market Positions **</b>  |                      |                           |
|          | a) Asset (+)  | 96.50                | 4.19                      |
|          | b) Liability (-)  | —                    | —                         |
| <b>3</b> | <b>Credit Exposure</b>  | 689.21               | 175.26                    |
| <b>4</b> | <b>Likely impact of one percentage change in interest rate (100*PV01) #</b> |                      |                           |
|          | a) On hedging derivatives   | 6.71                 | 0.00                      |
|          | b) On trading derivatives   | 0.97                 | 40.07                     |
| <b>5</b> | <b>Maximum of 100*PV01 observed during the year #</b>                       |                      |                           |
|          | a) On hedging derivatives   | 9.39                 | 3.16                      |
|          | b) On trading derivatives   | 3.00                 | 40.39                     |
| <b>6</b> | <b>Minimum of 100*PV01 observed during the year #</b>                       |                      |                           |
|          | a) On hedging derivatives   | 1.03                 | 0.00                      |
|          | b) On trading derivatives   | 0.01                 | 2.35                      |

*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.*



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

The nature and terms of the Interest Rate Swaps (IRS) as on 31st March, 2012 are set out below:

(₹ in crores)

| Nature       | No.        | Notional Principal | Benchmark | Terms                             |
|--------------|------------|--------------------|-----------|-----------------------------------|
| Trading      | 133        | 5,661.12           | MIBOR     | Receive Fixed vs. Pay Floating    |
| Trading      | 184        | 8,312.18           | MIBOR     | Receive Floating vs. Pay Fixed    |
| Trading      | 15         | 375.00             | MIFOR     | Receive Fixed vs. Pay Floating    |
| Trading      | 12         | 325.00             | MIFOR     | Receive Floating vs. Pay Fixed    |
| Trading      | 1          | 20.00              | INBMK     | Receive Floating vs. Pay Fixed    |
| Trading      | 2          | 101.75             | LIBOR     | Receive Floating vs. Pay Floating |
| Trading      | 3          | 107.81             | LIBOR     | Receive Fixed vs. Pay Floating    |
| Trading      | 4          | 180.61             | LIBOR     | Receive Floating vs. Pay Fixed    |
| Hedging      | 2          | 508.75             | LIBOR     | Receive Floating vs. Pay Fixed    |
| Hedging      | 1          | 135.74             | EURIBOR   | Receive Floating vs. Pay Fixed    |
| <b>Total</b> | <b>357</b> | <b>15,727.96</b>   |           |                                   |

The nature and terms of the Cross Currency Swaps (CCS) as on 31st March, 2012 are set out below:

(₹ in crores)

| Nature       | No.       | Notional Principal | Benchmark | Terms                          |
|--------------|-----------|--------------------|-----------|--------------------------------|
| Hedging      | 7         | 432.43             | LIBOR     | Receive Floating vs. Pay Fixed |
| Hedging      | 2         | 101.75             |           | Pay Fixed                      |
| Trading      | 2         | 21.13              | LIBOR     | Receive Fixed vs. Pay Floating |
| Trading      | 1         | 0.68               | LIBOR     | Receive Floating vs. Pay Fixed |
| <b>Total</b> | <b>12</b> | <b>555.99</b>      |           |                                |

The overnight Net open position as at 31st March, 2012 is ₹ 79.09 crores (previous year ₹ (24.21) crores).

### 8. Movements in Non Performing Advances (Funded):

(₹ in crores)

| Sr. No. | Particulars   | Year ended<br>31st March, 2012 | Year ended<br>31st March, 2011 |
|---------|---|--------------------------------|--------------------------------|
| i.      | Net NPAs to Net Advances %  | 0.61%                          | 0.72%                          |
| ii.     | Net NPAs to Net Advances % (excluding NPAs acquired from other Banks / FIs and NBFCs) | 0.57%                          | 0.50%                          |
| iii.    | Movement of NPAs (Gross)  |                                |                                |
|         | Gross NPAs as on 1st April (opening balance)  | 603.49                         | 767.34                         |
|         | Additions (Fresh NPAs) during the year  | 303.61                         | 217.49                         |
|         | Sub-total (A)   | 907.10                         | 984.83                         |
|         | Less:   |                                |                                |
|         | (i) Upgradations  | 49.72                          | 101.12                         |
|         | (ii) Recoveries (excluding recoveries made from upgraded accounts)                    | 144.21                         | 131.63                         |
|         | (iii) Write-offs  | 98.98                          | 148.59                         |
|         | Sub-total (B)   | 292.91                         | 381.34                         |
|         | Gross NPAs as on 31st March (closing balance) (A-B)                                   | 614.19                         | 603.49                         |
| iv.     | Movement of Net NPAs  |                                |                                |
|         | a. Opening balance  | 211.16                         | 360.25                         |
|         | b. Additions during the year  | 131.63                         | 18.71                          |
|         | c. Reductions during the year   | (105.41)                       | (167.80)                       |
|         | d. Closing balance  | 237.38                         | 211.16                         |
| v.      | Movement of provisions for NPAs (excluding provisions on standard assets)             |                                |                                |
|         | a. Opening balance  | 392.33                         | 407.09                         |
|         | b. Provisions made during the year  | 171.98                         | 198.78                         |
|         | c. Write-off / write-back of excess provisions  | (187.50)                       | (213.54)                       |
|         | d. Closing balance  | 376.81                         | 392.33                         |



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

9. 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, 2012 | As at 31st March, 2011 |
|-------------------|------------------------|------------------------|
| Gross NPA         | 136.41                 | 241.68                 |
| Provision for NPA | (123.36)               | (176.57)               |
| Net NPA           | 13.05                  | 65.11                  |

10. The Provision Coverage Ratio (PCR) of the Bank after considering technical write-off is 70.14% as at 31st March, 2012 (previous year: 70.14%).

11. Concentration of NPAs:

(₹ in crores)

| Particulars                             | As at 31st March, 2012 | As at 31st March, 2011 |
|---|------------------------|------------------------|
| Total Exposure to top four NPA accounts | 84.26                  | 94.24                  |

Above represents Gross NPA

12. Sector-wise NPAs:

| Sr. No. | Sector   | Percentage of NPAs to Total Advances in that sector |                        |
|---------|--|---|------------------------|
|         |  | As at 31st March, 2012                              | As at 31st March, 2011 |
| 1.      | Agriculture & Allied activities  | 1.04%   | 0.76%                  |
| 2.      | Industry (Micro & small, Medium and Large including corporate stressed assets purchased) | 2.98%   | 4.28%                  |
| 3.      | Services   | 1.20%   | 0.81%                  |
| 4.      | Personal Loans including Credit Cards and retail stressed assets purchased               | 2.49%   | 5.04%                  |

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.

13. Details of Loan Assets subjected to Restructuring:

(₹ in crores)

| Particulars of Accounts Restructured during the year |  |                 |                        |        |                 |                        |        |
|--|--|-----------------|------------------------|--------|-----------------|------------------------|--------|
|  |  | 31st March 2012 |                        |        | 31st March 2011 |                        |        |
|  |  | CDR Mechanism   | SME Debt Restructuring | Others | CDR Mechanism   | SME Debt Restructuring | Others |
| Standard advances restructured                       | No. of Borrowers                         | —               | —                      | 678    | —               | —                      | 1,215  |
|  | Amount outstanding                       | —               | —                      | 4.85   | —               | —                      | 10.44  |
|  | Sacrifice (diminution in the fair value) | —               | —                      | 0.12   | —               | —                      | 0.15   |
| Sub standard advances restructured                   | No. of Borrowers                         | —               | —                      | 628    | —               | —                      | 1,033  |
|  | Amount outstanding                       | —               | —                      | 4.87   | —               | —                      | 7.31   |
|  | Sacrifice (diminution in the fair value) | —               | —                      | 0.06   | —               | —                      | 0.05   |
| Doubtful advances restructured                       | No. of Borrowers                         | —               | —                      | 288    | —               | —                      | 2      |
|  | Amount outstanding                       | —               | —                      | 3.17   | —               | —                      | 4.50   |
|  | Sacrifice (diminution in the fair value) | —               | —                      | —      | —               | —                      | 0.21   |
| Total  | No. of Borrowers                         | —               | —                      | 1,594  | —               | —                      | 2,250  |
|  | Amount outstanding                       | —               | —                      | 12.89  | —               | —                      | 22.25  |
|  | Sacrifice (diminution in the fair value) | —               | —                      | 0.18   | —               | —                      | 0.41   |

**Note:**

The amount in above table represents loans outstanding at the time of restructuring.

Outstanding Restructured loans (net of provisions) as at 31st March, 2012 are ₹ 30.20 crores (previous year ₹ 66.70 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.)****14. Overseas Assets, NPAs and Revenue:****(₹ in crores)**

| Particulars   | 31st March, 2012 | 31st March, 2011 |
|---------------|------------------|------------------|
| Total Assets  | Nil              | Nil              |
| Total NPAs    | Nil              | Nil              |
| Total Revenue | Nil              | Nil              |

*Above does not include assets of overseas representative office.*

**15. Details of non-performing financial assets purchased:****(₹ in crores)**

| Particulars                                       | As at 31st March, 2012 | As at 31st March, 2011 |
|---|------------------------|------------------------|
| (a) Number of accounts purchased during the year* | 13                     | 7                      |
| (b) Aggregate outstanding in the Banks books**    | 175.71                 | 242.81                 |

\* Retail assets portfolio purchased by the Bank in previous year 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).

16. 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.

**17. Provisions on Standard Assets:****(₹ in crores)**

| Particulars                        | Year ended<br>31st March, 2012 | Year ended<br>31st March, 2011 |
|------------------------------------|--------------------------------|--------------------------------|
| Provisions towards Standard Assets | 177.89                         | 152.32                         |

**18. Business ratios / information:**

| Particulars  | Year ended<br>31st March, 2012 | Year ended<br>31st March, 2011 |
|--|--------------------------------|--------------------------------|
| Interest income as a percentage of working funds           | 10.41%                         | 9.31%                          |
| Non interest income as a percentage of working funds       | 1.65%                          | 1.37%                          |
| Operating profit as a percentage of working funds          | 2.79%                          | 2.86%                          |
| Return on assets (average)                                 | 1.83%                          | 1.77%                          |
| Business (deposit plus advance) per employee (₹ in crores) | 6.13                           | 5.35                           |
| Profit per employee (₹ in crores)                          | 0.09                           | 0.08                           |

**Definitions:**

(A) Working funds is the monthly average of total assets as reported by the Banks' Management 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.)

### 19. Maturity pattern of certain items of assets and liabilities:

As at 31st March, 2012:

(₹ 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 *                   | 350.37   | 937.21      | 1,228.01     | 1,043.67      | 3,121.28            | 3,065.17                      | 5,208.69                       | 14,669.15                  | 3,535.55                    | 5,907.26     | 39,066.36 |
| Investments                  | 6,494.14 | 1,345.83    | 1,345.37     | 803.97        | 1,881.03            | 1,837.00                      | 2,076.73                       | 4,085.48                   | 704.47                      | 992.79       | 21,566.81 |
| Deposits                     | 299.78   | 2,443.09    | 3,295.99     | 2,348.62      | 6,029.40            | 4,379.45                      | 5,397.51                       | 12,826.13                  | 1,285.82                    | 230.73       | 38,536.52 |
| Borrowings                   | 44.18    | 6,429.00    | 760.88       | 749.40        | 1,649.48            | 1,203.14                      | 2,196.73                       | 2,034.08                   | 898.00                      | 630.63       | 16,595.52 |
| Foreign Currency Assets      | 62.00    | 473.89      | 23.52        | 85.44         | 266.05              | 393.58                        | 14.51                          | 21.33                      | 6.93                        | 51.05        | 1,398.30  |
| Foreign Currency Liabilities | 60.07    | 252.35      | 173.10       | 644.39        | 1,093.19            | 560.34                        | 1,058.75                       | 676.94                     | 2.24                        | 229.33       | 4,750.70  |

\* Advances shown above are net of the Advance EMI received amounting to ₹ 12.87 crores

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

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

### 20. Lending to sensitive sectors:

#### (a) Real Estate Sector\*:

(₹ in crores)

| Particulars   | As at 31st March, 2012 | As at 31st March, 2011 |
|---|------------------------|------------------------|
| a) Direct exposure  | 9,757.16               | 8,832.04               |
| i. Residential Mortgages:<br>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, 2012 ₹ 457.01 crores and as at 31st March, 2011 ₹ 516.99 crores)   | 4,630.77               | 4,558.17               |
| ii. Commercial Real Estate:<br>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 | 5,126.39               | 4,273.87               |



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

(₹ in crores)

| Particulars  | As at<br>31st March, 2012 | As at<br>31st March, 2011 |
|--|---------------------------|---------------------------|
| iii Investments in Mortgage Backed Securities (MBS) and other securitised exposures:                         | —                         | —                         |
| - Residential  | —                         | —                         |
| - Commercial Real Estate   | —                         | —                         |
| b) Indirect Exposure   | 75.21                     | 156.06                    |
| Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs). | 75.21                     | 156.06                    |
| <b>Total Exposure to Real Estate Sector</b>  | <b>9,832.37</b>           | <b>8,988.10</b>           |

\* On limit basis or outstanding basis whichever is higher

## (b) Exposure to Capital Market\*:

(₹ in crores)

| Sr. No. | Particulars  | As at<br>31st March, 2012 | As at<br>31st March, 2011 |
|---------|--|---------------------------|---------------------------|
| 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;   | 35.77                     | 85.37                     |
| 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;   | 30.44                     | 6.85                      |
| 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                      |
| v.      | Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;  | 916.24                    | 846.34                    |
| vi.     | Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoters' 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)  | 19.63                     | 21.86                     |
| xi.     | Others (Financial Guarantees)  | 50.00                     | 50.00                     |
|         | <b>Total Exposure to Capital Market</b>  | <b>1,052.08</b>           | <b>1,012.91</b>           |

\* On limit basis or outstanding basis whichever is higher



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

### (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, 2012. (Nil provision for the year ended 31st March, 2011)

(₹ in crores)

| Risk Category | Exposure (net) as at<br>31st March, 2012 | Provision held as at<br>31st March, 2012 | Exposure (net) as at<br>31st March, 2011 | Provision held as at<br>31st March, 2011 |
|---------------|--|--|--|--|
| Insignificant | 610.03                                   | —  | 402.50                                   | —  |
| Low           | 7.99                                     | —  | 0.53                                     | —  |
| <b>Total</b>  | <b>618.02</b>                            | <b>—</b>                                 | <b>403.03</b>                            | <b>—</b>                                 |

### 21. Concentration of Deposits:

(₹ in crores)

|   | As at<br>31st March, 2012 | As at<br>31st March, 2011 |
|---|---------------------------|---------------------------|
| Total deposits of twenty largest depositors                                       | 7,860.40                  | 8,282.31                  |
| Percentage of deposits of twenty largest depositors to total deposits of the bank | 20.40%                    | 28.30%                    |

### 22. Concentration of Advances\*:

(₹ in crores)

|  | As at<br>31st March, 2012 | As at<br>31st March, 2011 |
|--|---------------------------|---------------------------|
| Total advances to twenty largest borrowers                                       | 9,411.94                  | 7,438.49                  |
| Percentage of advances to twenty largest borrowers to total advances of the bank | 12.78%                    | 13.50%                    |

\* Advances represents Credit Exposure including derivatives furnished in Master Circular on Exposure Norms DBOD.No.Dir.BC.7/13.03.00/2011-12 dated July 1, 2011

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. Concentration of Exposures\*\*:

(₹ in crores)

|  | As at<br>31st March, 2012 | As at<br>31st March, 2011 |
|--|---------------------------|---------------------------|
| Total exposure to twenty largest borrowers / customers   | 9,975.82                  | 7,676.66                  |
| Percentage of exposures to twenty largest borrowers / customers to total exposure of the bank on borrowers / customers | 13.02%                    | 13.46%                    |

\*\* Exposures represents credit, derivatives and investment exposure as prescribed in Master Circular on Exposure Norms DBOD.No.Dir.BC.7/13.03.00/2011-12 dated July 1, 2011

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.



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

24. During the year ended 31st March, 2012 the bank had exceeded the Single Borrower Limit (SBL) with the approval of the Board in case of following borrower:

(₹ in crores)

| Name of Party        | Total Exposure | % of Capital Funds |
|----------------------|----------------|--------------------|
| Larsen & Toubro Ltd* | 1,170.00       | 16.54              |

\* Continuing from last year.

For the year ended 31st March, 2011 the Bank had exceeded the Single Borrower Limit 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              |

During the year ended 31st March, 2012 and year ended 31st March, 2011 the Bank has not exceeded the prudential exposure limits as laid down by RBI guidelines for the Group Borrower Limit (GBL).

25. Provision made for taxes during the year:

(₹ in crores)

|              | 31st March, 2012 | 31st March, 2011 |
|--------------|------------------|------------------|
| Current tax  | 493.15           | 360.91           |
| Deferred tax | 21.69            | 8.59             |
| Wealth tax   | 0.03             | 0.02             |
| <b>Total</b> | <b>514.87</b>    | <b>369.52</b>    |

26. No penalties or strictures have been imposed on the Bank during the year by RBI.
27. There are no Off-Balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms).
28. Bancassurance Business:

(₹ in crores)

| Sr. No. | Nature of Income                        | For the year ended 31st March, 2012 | For the year ended 31st March, 2011 |
|---------|---|-------------------------------------|-------------------------------------|
| 1.      | For selling life insurance policies     | 22.32                               | 22.58                               |
| 2.      | For selling non life insurance policies | 0.57                                | 0.47                                |
| 3.      | For selling mutual fund products        | 50.84                               | 50.46                               |
| 4.      | Others                                  | —                                   | —                                   |

29. Floating Provisions:

(₹ in crores)

|     | Particulars  | 31st March, 2012 | 31st March, 2011 |
|-----|--|------------------|------------------|
| (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              |

30. Draw Down from Reserves:

In accordance with the RBI requirement on creation and utilisation of reserves, no reserve has been utilised in the current year (previous year ₹ 26.83 crores has been utilised from Investment allowance reserve-net of taxes and applicable transfer to statutory reserves).



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

### 31. a) Status of Shareholder Complaints:

|     |  | 31st March, 2012 | 31st March, 2011 |
|-----|--|------------------|------------------|
| (a) | No. of complaints pending at the beginning of the year | 2                | Nil              |
| (b) | No. of complaints received during the year             | 38               | 47               |
| (c) | No. of complaints redressed during the year            | 40               | 45               |
| (d) | No. of complaints pending at the end of the year       | Nil              | 2                |

### b) Status of Customer Complaints:

|     |  | 31st March, 2012 | 31st March, 2011 |
|-----|--|------------------|------------------|
| (a) | No. of complaints pending at the beginning of the year | 30               | 93               |
| (b) | No. of complaints received during the year             | 2,292            | 2,409            |
| (c) | No. of complaints redressed during the year            | 2,255            | 2,472            |
| (d) | No. of complaints pending at the end of the year       | 67               | 30               |

### c) Status of Awards passed by the Banking Ombudsman:

|     |   | 31st March, 2012 | 31st March, 2011 |
|-----|---|------------------|------------------|
| (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 | 1                | Nil              |
| (c) | No. of Awards implemented during the year                     | 1                | Nil              |
| (d) | No. of unimplemented Awards at the end of the year            | Nil              | Nil              |

The above details are as furnished by the Management and relied upon by the auditors.

32. Bank has not issued letters of comfort during the year. There were no outstanding letters of comfort during the year end (previous year Nil).

## B. OTHER DISCLOSURES:

### 1. Earnings per Equity Share:

| Particulars   | Year ended<br>31st March, 2012 | Year ended<br>31st March, 2011 |
|---|--------------------------------|--------------------------------|
| 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                | 73,85,73,973                   | 72,10,33,537                   |
| Effect of potential equity shares for stock options outstanding   | 40,72,993                      | 43,68,154                      |
| Weighted average number of equity shares used in computation of diluted earnings per share              | 74,26,46,966                   | 72,54,01,691                   |
| Following is the reconciliation between basic and diluted earnings per share:                           |                                |                                |
| Nominal value per share   | 5.00                           | 5.00                           |
| Basic earnings per share  | 14.69                          | 11.35                          |
| Effect of potential equity shares for stock options   | 0.08                           | 0.07                           |
| Diluted earnings per share  | 14.61                          | 11.28                          |
| Earnings used in the computation of basic and diluted earnings per share (₹ in crores)                  | 1,085.05                       | 818.18                         |

### 2. Segment Reporting:

The Summary of the operating segments of the Bank for the year ended 31st March, 2012 are as given below.

(₹ in crores)

|    |                                  | 31st March, 2012 | 31st March, 2011 |
|----|----------------------------------|------------------|------------------|
| 1. | <b>Segment Revenue</b>           |                  |                  |
|    | a. Treasury and BMU              | 1,981.00         | 1,497.55         |
|    | b. Corporate / Wholesale Banking | 2,696.85         | 1,603.87         |
|    | c. Retail Banking                | 4,523.61         | 3,112.87         |
|    | d. Other Banking business        | -                | -                |
|    | Sub-total                        | 9,201.46         | 6,214.29         |



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

|           |   | (₹ in crores)    |                  |
|-----------|---|------------------|------------------|
|           |   | 31st March, 2012 | 31st March, 2011 |
|           | Less : Inter-segmental revenue                | 2,045.68         | 1,244.26         |
|           | Add : Unallocated Income                      | 1.80             | 0.26             |
|           | <b>Total</b>                                  | <b>7,157.58</b>  | <b>4,970.29</b>  |
| <b>2.</b> | <b>Segment Results</b>                        |                  |                  |
| a.        | Treasury and BMU                              | 35.15            | 304.83           |
| b.        | Corporate / Wholesale Banking                 | 997.14           | 543.89           |
| c.        | Retail Banking                                | 565.84           | 338.72           |
| d.        | Other Banking business                        | -                | -                |
|           | Sub-total                                     | 1,598.13         | 1,187.44         |
|           | Add : Unallocated Income                      | 1.80             | 0.26             |
|           | <b>Total Profit Before Tax</b>                | <b>1,599.93</b>  | <b>1,187.70</b>  |
|           | <b>Provision for Tax</b>                      | <b>514.88</b>    | <b>369.52</b>    |
|           | <b>Total Profit After Tax</b>                 | <b>1,085.05</b>  | <b>818.18</b>    |
| <b>3.</b> | <b>Segment Assets</b>                         |                  |                  |
| a.        | Treasury and BMU                              | 23,659.36        | 19,501.33        |
| b.        | Corporate / Wholesale Banking                 | 20,014.00        | 12,869.42        |
| c.        | Retail Banking                                | 42,226.27        | 33,189.61        |
| d.        | Other Banking business                        | -                | -                |
|           | Sub-total                                     | 85,899.63        | 65,560.36        |
|           | Less : Inter-segmental Assets                 | 20,410.78        | 14,912.53        |
|           | <b>Total</b>                                  | <b>65,488.85</b> | <b>50,647.83</b> |
|           | Add : Unallocated Assets                      | 177.62           | 202.84           |
|           | <b>Total Assets as per Balance Sheet</b>      | <b>65,666.47</b> | <b>50,850.67</b> |
| <b>4.</b> | <b>Segment Liabilities</b>                    |                  |                  |
| a.        | Treasury and BMU                              | 22,657.55        | 17,605.14        |
| b.        | Corporate / Wholesale Banking                 | 17,041.87        | 11,086.11        |
| c.        | Retail Banking                                | 38,345.42        | 30,197.35        |
| d.        | Other Banking business                        | -                | -                |
|           | Sub-total                                     | 78,044.84        | 58,888.60        |
|           | Less : Inter-segmental Liabilities            | 20,410.78        | 14,912.53        |
|           | <b>Total</b>                                  | <b>57,634.06</b> | <b>43,976.07</b> |
|           | Add : Unallocated liabilities                 | 86.47            | 78.13            |
|           | Add : Share Capital & Reserves & surplus      | 7,945.94         | 6,796.47         |
|           | <b>Total Liabilities as per Balance Sheet</b> | <b>65,666.47</b> | <b>50,850.67</b> |
| <b>5.</b> | <b>Capital Expenditure</b>                    |                  |                  |
| a.        | Treasury and BMU                              | 66.86            | 27.39            |
| b.        | Corporate / Wholesale Banking                 | 6.48             | 3.74             |
| c.        | Retail Banking                                | 70.50            | 68.11            |
| d.        | Other Banking business                        | -                | -                |
|           | <b>Total</b>                                  | <b>143.84</b>    | <b>99.24</b>     |
| <b>6.</b> | <b>Depreciation / Amortisation</b>            |                  |                  |
| a.        | Treasury and BMU                              | 55.02            | 42.94            |
| b.        | Corporate / Wholesale Banking                 | 4.25             | 4.02             |
| c.        | Retail Banking                                | 57.49            | 51.31            |
| d.        | Other Banking business                        | -                | -                |
|           | <b>Total</b>                                  | <b>116.76</b>    | <b>98.27</b>     |

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.



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

### 3. Lease Disclosures:

- a. The Bank has taken various premises and equipment under operating lease. The lease payments recognised in the Profit and Loss Account are ₹ 137.82 crores (previous year ₹ 115.73 crores). The sub-lease income recognised in the Profit and Loss Account is ₹ 6.50 crores (previous year ₹ 5.97 crores).
- b. The future minimum lease payments under non cancellable operating lease – not later than one year is ₹ 118.34 crores (previous year ₹ 111.59 crores), later than one year but not later than five years is ₹ 495.62 crores (previous year ₹ 356.45 crores) and later than five years ₹ 121.87 crores (previous year ₹ 138.00 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.

### 4. Deferred Taxes:

"Others" in Other Assets (Schedule 11 (VI)) includes deferred tax asset (net) of ₹ 177.94 crores (previous year ₹ 199.63 crores). The components of the same are as follows:

| (₹ in crores)  |                                |                                |
|--|--------------------------------|--------------------------------|
| Particulars  | Year ended<br>31st March, 2012 | Year ended<br>31st March, 2011 |
| Provision for NPA and general provision on standard assets | 145.23                         | 173.26                         |
| Expenditure allowed on payment basis                       | 28.29                          | 23.19                          |
| Depreciation   | 4.42                           | 3.18                           |
| <b>Net Deferred Tax Asset</b>                              | <b>177.94</b>                  | <b>199.63</b>                  |

### 5. 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<br>31st March, 2012 | Year ended<br>31st March, 2011 |
| <b>GrossBlock</b>                           |                                |                                |
| At cost on 31st March of the preceding year | 93.85                          | 81.40                          |
| Additions during the year                   | 28.85                          | 12.45                          |
| Deductions during the year                  | -                              | -                              |
| <b>Total</b>                                | <b>122.70</b>                  | <b>93.85</b>                   |
| <b>Depreciation / Amortisation</b>          |                                |                                |
| As at 31st March of the preceding year      | 70.38                          | 52.56                          |
| Charge for the year                         | 20.20                          | 17.82                          |
| Deductions during the year                  | -                              | -                              |
| <b>Depreciation to date</b>                 | <b>90.58</b>                   | <b>70.38</b>                   |
| <b>Net Block</b>                            | <b>32.12</b>                   | <b>23.47</b>                   |

### 6. 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 45.32% of the equity share capital of Kotak Mahindra Bank Limited as on 31st March, 2012  |
| Subsidiary Companies                          | Kotak Mahindra Prime Limited<br>Kotak Securities Limited<br>Kotak Mahindra Capital Company Limited<br>Kotak Mahindra Old Mutual Life Insurance Limited<br>Kotak Mahindra Investments Limited<br>Kotak Mahindra Asset Management Company Limited<br>Kotak Mahindra Trustee Company Limited<br>Kotak Mahindra (International) Limited<br>Kotak Mahindra (UK) Limited<br>Kotak Mahindra Inc.<br>Global Investment Opportunities Fund Limited<br>Kotak Investment Advisors Limited<br>Kotak Mahindra Trusteeship Services Limited<br>Kotak Forex Brokerage Limited<br>Kotak Mahindra Pension Fund Limited<br>Kotak Mahindra Financial Services Limited |



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

## B. Other Related Parties:

| Nature of Relationship   | Related Party  |
|--|--|
| Associates   | ACE Derivatives and Commodity Exchange Limited<br>Infina Finance Private Limited<br>Matrix Business Services India Private Limited<br>Phoenix ARC Private Limited<br>Add Albatross Properties Private Limited (Effective 28th Nov 2011)  |
| Key Management Personnel*  | Mr. Uday S. Kotak, Executive Vice Chairman and Managing Director<br>Mr. C Jayaram, Joint Managing Director<br>Mr. Dipak Gupta, Joint Managing Director   |
| Enterprise over which Key Management Personnel have significant Influence* | Aero Agencies Limited<br>Kotak & Company Limited<br>Komaf Financial Services Limited<br>Asian Machinery & Equipment Pvt. Limited<br>Insurekot Investments Pvt. Limited<br>Kotak Trustee Company Pvt. Limited<br>Cumulus Trading Company Pvt. Limited<br>Palko Properties Private Limited<br>Kotak Chemicals Limited<br>Kotak Ginning & Pressing Industries Limited<br>Kotak Commodity Services Limited<br>Harisiddha Trading and Finance Private Limited |
| Relatives of Key Management Personnel*                                     | Ms. Pallavi Kotak<br>Mr. Suresh Kotak<br>Ms. Indira Kotak<br>Mr. Jay Kotak<br>Mr. Dhawal Kotak<br>Ms. Aarti Chandaria<br>Ms. Anita Gupta<br>Ms. Urmila Gupta<br>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                         |
|---------------------------|---------------------------|-------------------------------|---------------------------|--------------------------|---|---------------------------------------|-------------------------------|
| <b>Liabilities</b>        |                           |                               |                           |                          |   |                                       |                               |
| Deposits                  |                           | <b>2,075.79</b><br>(1,947.99) | <b>341.19</b><br>(364.87) | <b>10.99</b><br>(13.50)  | <b>131.95</b><br>(91.95)  | <b>1.02</b><br>(0.74)                 | <b>2,560.94</b><br>(2,419.05) |
| Interest Payable          |                           | <b>10.73</b><br>(78.05)       | <b>3.23</b><br>(4.87)     | <b>0.19</b><br>(0.31)    | <b>1.13</b><br>(2.31)   | <b>0.00</b><br>(0.02)                 | <b>15.28</b><br>(85.56)       |
| Other Liabilities         |                           | <b>8.79</b><br>(8.13)         |                           |                          |   |                                       | <b>8.79</b><br>(8.13)         |
| <b>Assets</b>             |                           |                               |                           |                          |   |                                       |                               |
| Advances                  |                           | —<br>(—)                      | —<br>(—)                  | —<br>(—)                 | —   | —<br>(—)                              | —<br>(—)                      |
| Investments-Gross         |                           | <b>574.76</b><br>(515.90)     | <b>45.25</b><br>(29.98)   |                          |   |                                       | <b>620.01</b><br>(545.88)     |
| Diminution on Investments |                           | <b>2.19</b><br>(2.17)         | <b>9.67</b><br>(0.00)     |                          |   |                                       | <b>11.86</b><br>(2.17)        |
| Commission Receivable     |                           | <b>5.15</b><br>(2.63)         | (0.00)                    |                          |   |                                       | <b>5.15</b><br>(2.63)         |
| Others                    |                           | <b>20.17</b><br>(9.11)        | <b>0.26</b><br>(0.01)     |                          |   |                                       | <b>20.43</b><br>(9.12)        |



## 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                       |
|--|---------------------------|-----------------------------|-------------------------|--------------------------|---|---------------------------------------|-----------------------------|
| <b>Expenses</b>                        |                           |                             |                         |                          |   |                                       |                             |
| Salaries / fees (Include ESOP)         |                           |                             |                         | <b>8.64</b><br>(7.35)    |   |                                       | <b>8.64</b><br>(7.35)       |
| Interest Paid                          |                           | <b>138.55</b><br>(142.08)   | <b>48.66</b><br>(41.40) | <b>1.06</b><br>(1.60)    | <b>11.66</b><br>(4.54)  | <b>0.05</b><br>(0.04)                 | <b>199.98</b><br>(189.66)   |
| Others                                 |                           | <b>2.27</b><br>(1.06)       | <b>1.89</b><br>(1.18)   |                          | <b>2.41</b><br>(2.26)   |                                       | <b>6.57</b><br>(4.50)       |
| <b>Income</b>                          |                           |                             |                         |                          |   |                                       |                             |
| Dividend                               |                           | <b>9.93</b><br>(29.72)      |                         |                          |   |                                       | <b>9.93</b><br>(29.72)      |
| Interest Received                      |                           | <b>24.59</b><br>(16.34)     | (—)                     | (—)                      | (—)   | (—)                                   | <b>24.59</b><br>(16.34)     |
| Others                                 |                           | <b>69.28</b><br>(69.93)     | <b>0.35</b><br>(0.80)   |                          | (—)   |                                       | <b>69.63</b><br>(70.73)     |
| <b>Other Transactions</b>              |                           |                             |                         |                          |   |                                       |                             |
| Sale of investment                     |                           | <b>1,687.77</b><br>(810.56) |                         |                          | <b>0.00</b>   |                                       | <b>1,687.77</b><br>(810.56) |
| Purchase of Investment                 |                           | <b>407.76</b><br>(219.99)   | <b>18.38</b>            |                          | <b>0.00</b><br>(6.05)   |                                       | <b>426.14</b><br>(226.04)   |
| Purchase of Loan                       |                           | <b>0.00</b><br>(30.07)      |                         |                          |   |                                       | <b>0.00</b><br>(30.07)      |
| Repo - Borrowings                      |                           | <b>149.59</b><br>(5,851.01) |                         |                          |   |                                       | <b>149.59</b><br>(5,851.01) |
| Repo- Paid                             |                           | <b>149.63</b><br>(5,852.16) |                         |                          |   |                                       | <b>149.63</b><br>(5,852.16) |
| Dividend paid                          |                           |                             |                         | <b>16.72</b><br>(14.21)  |   | <b>0.10</b><br>(0.09)                 | <b>16.82</b><br>(14.30)     |
| Reimbursement to companies             |                           | <b>9.41</b><br>(7.35)       | <b>0.00</b><br>(0.00)   |                          |   |                                       | <b>9.41</b><br>(7.35)       |
| Reimbursement from companies           |                           | <b>77.86</b><br>(81.58)     | <b>2.60</b><br>(2.93)   |                          |   |                                       | <b>80.46</b><br>(84.51)     |
| Purchase of Fixed assets               |                           | <b>0.31</b><br>(0.40)       |                         |                          |   |                                       | <b>0.31</b><br>(0.40)       |
| Sale of Fixed assets                   |                           | <b>0.00</b><br>(0.25)       |                         |                          |   |                                       | <b>0.00</b><br>(0.25)       |
| Swaps / Forward / options contracts    |                           | <b>122.57</b><br>(50.00)    |                         |                          |   |                                       | <b>122.57</b><br>(50.00)    |
| Guarantees / Lines of credit           |                           | <b>0.14</b><br>(0.14)       |                         |                          |   |                                       | <b>0.14</b><br>(0.14)       |
| <b>I. Liabilities:</b>                 |                           |                             |                         |                          |   |                                       |                             |
| Other liabilities                      |                           |                             |                         |                          |   |                                       |                             |
| Other Payable                          |                           |                             |                         |                          |   |                                       |                             |
| Kotak Mahindra Prime Limited           |                           | <b>0.00</b><br>(0.04)       |                         |                          |   |                                       | <b>0.00</b><br>(0.04)       |
| Kotak Mahindra Capital Company Limited |                           | <b>0.25</b><br>(0.07)       |                         |                          |   |                                       | <b>0.25</b><br>(0.07)       |
| Kotak Mahindra (International) Limited |                           | <b>8.32</b><br>(7.95)       |                         |                          |   |                                       | <b>8.32</b><br>(7.95)       |
| Other Subsidiaries                     |                           | <b>0.22</b><br>(0.07)       |                         |                          |   |                                       | <b>0.22</b><br>(0.07)       |



## 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                     |
|--|---------------------------|---------------------------|-------------------------|--------------------------|---|---------------------------------------|---------------------------|
| <b>II. Assets:</b>                               |                           |                           |                         |                          |   |                                       |                           |
| <b>Investments</b>                               |                           |                           |                         |                          |   |                                       |                           |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | <b>260.25</b><br>(260.25) |                         |                          |   |                                       | <b>260.25</b><br>(260.25) |
| Kotak Mahindra Prime Limited                     |                           | <b>261.78</b><br>(202.92) |                         |                          |   |                                       | <b>261.78</b><br>(202.92) |
| Other Subsidiaries                               |                           | <b>52.73</b><br>(52.73)   |                         |                          |   |                                       | <b>52.73</b><br>(52.73)   |
| ACE Derivatives and Commodity Exchange Limited   |                           |                           | <b>29.98</b><br>(29.98) |                          |   |                                       | <b>29.98</b><br>(29.98)   |
| Add Albatross Properties Private Limited         |                           |                           | <b>15.27</b><br>(0.00)  |                          |   |                                       | <b>15.27</b><br>(0.00)    |
| <b>Diminution on Investments</b>                 |                           |                           |                         |                          |   |                                       |                           |
| Kotak Forex Brokerage limited                    |                           | <b>2.19</b><br>(2.17)     |                         |                          |   |                                       | <b>2.19</b><br>(2.17)     |
| Add Albatross Properties Private Limited         |                           |                           | <b>9.67</b><br>(0.00)   |                          |   |                                       | <b>9.67</b><br>(0.00)     |
| <b>Commission Receivable</b>                     |                           |                           |                         |                          |   |                                       |                           |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | <b>5.15</b><br>(2.63)     |                         |                          |   |                                       | <b>5.15</b><br>(2.63)     |
| <b>Others</b>                                    |                           |                           |                         |                          |   |                                       |                           |
| Kotak Mahindra Prime Limited                     |                           | <b>18.42</b><br>(4.46)    |                         |                          |   |                                       | <b>18.42</b><br>(4.46)    |
| Kotak Securities Limited                         |                           | <b>0.85</b><br>(2.59)     |                         |                          |   |                                       | <b>0.85</b><br>(2.59)     |
| Other Subsidiaries / Associates                  |                           | <b>0.90</b><br>(2.06)     | <b>0.26</b><br>(0.01)   |                          |   |                                       | <b>1.16</b><br>(2.07)     |
| <b>III. Expenses:</b>                            |                           |                           |                         |                          |   |                                       |                           |
| <b>Salaries / fees (Include ESOP)</b>            |                           |                           |                         |                          |   |                                       |                           |
| Mr. Uday Kotak                                   |                           |                           |                         | <b>2.08</b><br>(1.78)    |   |                                       | <b>2.08</b><br>(1.78)     |
| Mr. C Jayaram                                    |                           |                           |                         | <b>3.16</b><br>(2.73)    |   |                                       | <b>3.16</b><br>(2.73)     |
| Mr.Dipak Gupta                                   |                           |                           |                         | <b>3.40</b><br>(2.84)    |   |                                       | <b>3.40</b><br>(2.84)     |
| <b>Other Expenses</b>                            |                           |                           |                         |                          |   |                                       |                           |
| <b>Brokerage</b>                                 |                           |                           |                         |                          |   |                                       |                           |
| Kotak Securities Limited                         |                           | <b>0.32</b><br>(0.65)     |                         |                          |   |                                       | <b>0.32</b><br>(0.65)     |
| Kotak Mahindra Financial Services Limited        |                           | <b>1.32</b><br>(0.00)     |                         |                          |   |                                       | <b>1.32</b><br>(0.00)     |



## 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                       |
|--|---------------------------|-----------------------------|-----------------------|--------------------------|---|---------------------------------------|-----------------------------|
| <b>Premium</b>                                   |                           |                             |                       |                          |   |                                       |                             |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | <b>0.63</b><br>(0.41)       |                       |                          |   |                                       | <b>0.63</b><br>(0.41)       |
| <b>Other Expenses:</b>                           |                           |                             |                       |                          |   |                                       |                             |
| Aero Agencies Limited                            |                           |                             |                       |                          | <b>1.96</b><br>(1.81)   |                                       | <b>1.96</b><br>(1.81)       |
| Kotak & Company Limited                          |                           |                             |                       |                          | <b>0.45</b><br>(0.45)   |                                       | <b>0.45</b><br>(0.45)       |
| Other subsidiaries / Associates                  |                           |                             | <b>1.89</b><br>(1.18) |                          |   |                                       | <b>1.89</b><br>(1.18)       |
| <b>IV. Income:</b>                               |                           |                             |                       |                          |   |                                       |                             |
| <b>Dividend</b>                                  |                           |                             |                       |                          |   |                                       |                             |
| Kotak Mahindra Asset Management Company Limited  |                           | <b>6.93</b><br>(27.72)      |                       |                          |   |                                       | <b>6.93</b><br>(27.72)      |
| Kotak Mahindra Trustee Co Ltd                    |                           | <b>3.00</b><br>(2.00)       |                       |                          |   |                                       | <b>3.00</b><br>(2.00)       |
| <b>Other Income</b>                              |                           |                             |                       |                          |   |                                       |                             |
| <b>Insurance Commission and Rental Income</b>    |                           |                             |                       |                          |   |                                       |                             |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | <b>34.12</b><br>(28.65)     |                       |                          |   |                                       | <b>34.12</b><br>(28.65)     |
| <b>Rental and other Income</b>                   |                           |                             |                       |                          |   |                                       |                             |
| Kotak Securities Limited                         |                           | <b>10.11</b><br>(11.95)     |                       |                          |   |                                       | <b>10.11</b><br>(11.95)     |
| Kotak Mahindra Capital Company Limited           |                           | <b>4.83</b><br>(4.84)       |                       |                          |   |                                       | <b>4.83</b><br>(4.84)       |
| Kotak Mahindra Asset Management Company Limited  |                           | <b>5.60</b><br>(3.25)       |                       |                          |   |                                       | <b>5.60</b><br>(3.25)       |
| Kotak Mahindra Prime Limited                     |                           | <b>5.03</b><br>(12.24)      |                       |                          |   |                                       | <b>5.03</b><br>(12.24)      |
| Other Subsidiaries / entities                    |                           | <b>9.59</b><br>(9.00)       | <b>0.35</b><br>(0.00) |                          |   |                                       | <b>9.94</b><br>(9.00)       |
| <b>V. Other Transactions:</b>                    |                           |                             |                       |                          |   |                                       |                             |
| <b>Sale of Investment</b>                        |                           |                             |                       |                          |   |                                       |                             |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | <b>1,627.77</b><br>(810.56) |                       |                          |   |                                       | <b>1,627.77</b><br>(810.56) |
| Kotak Mahindra Prime Limited                     |                           | <b>60.00</b><br>(0.00)      |                       |                          |   |                                       | <b>60.00</b><br>(0.00)      |
| <b>Purchase of Investments</b>                   |                           |                             |                       |                          |   |                                       |                             |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | <b>147.76</b><br>(172.41)   |                       |                          |   |                                       | <b>147.76</b><br>(172.41)   |



## 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 Prime Limited                     |                           | 260.00<br>(42.06)    |                 |                          |   |                                       | 260.00<br>(42.06)    |
| Kotak Securities Limited                         |                           | 0.00<br>(5.16)       |                 |                          |   |                                       | 0.00<br>(5.16)       |
| Kotak Forex Brokerage Limited                    |                           | 0.00<br>(0.36)       |                 |                          |   |                                       | 0.00<br>(0.36)       |
| Add Albatross Properties Private Limited         |                           |                      | 18.38<br>(0.00) |                          |   |                                       | 18.38<br>(0.00)      |
| Komaf Financial Services Limited                 |                           |                      |                 |                          | 0.00<br>(6.05)  |                                       | 0.00<br>(6.05)       |
| <b>Purchase of Loan</b>                          |                           |                      |                 |                          |   |                                       |                      |
| Kotak Mahindra Prime Limited                     |                           | 0.00<br>(30.07)      |                 |                          |   |                                       | 0.00<br>(30.07)      |
| <b>Repo Borrowings</b>                           |                           |                      |                 |                          |   |                                       |                      |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | 149.59<br>(5,851.01) |                 |                          |   |                                       | 149.59<br>(5,851.01) |
| <b>Repo Paid</b>                                 |                           |                      |                 |                          |   |                                       |                      |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | 149.63<br>(5,852.16) |                 |                          |   |                                       | 149.63<br>(5,852.16) |
| <b>Dividend paid</b>                             |                           |                      |                 |                          |   |                                       |                      |
| Mr. Uday Kotak                                   |                           |                      |                 | 16.66<br>(14.16)         |   |                                       | 16.66<br>(14.16)     |
| Mr. C. Jayaram                                   |                           |                      |                 | 0.03<br>(0.03)           |   |                                       | 0.03<br>(0.03)       |
| Mr. Dipak Gupta                                  |                           |                      |                 | 0.03<br>(0.02)           |   |                                       | 0.03<br>(0.02)       |
| Ms. Pallavi Kotak                                |                           |                      |                 |                          |   | 0.03<br>(0.02)                        | 0.03<br>(0.02)       |
| Ms. Indira Kotak                                 |                           |                      |                 |                          |   | 0.06<br>(0.05)                        | 0.06<br>(0.05)       |
| Others   |                           |                      |                 |                          |   | 0.01<br>(0.01)                        | 0.01<br>(0.01)       |
| <b>Reimbursements to companies</b>               |                           |                      |                 |                          |   |                                       |                      |
| Kotak Mahindra Capital Company Limited           |                           | 1.45<br>(1.20)       |                 |                          |   |                                       | 1.45<br>(1.20)       |
| Kotak Mahindra Prime Limited                     |                           | 4.16<br>(4.45)       |                 |                          |   |                                       | 4.16<br>(4.45)       |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | 0.75<br>(0.48)       |                 |                          |   |                                       | 0.75<br>(0.48)       |
| Kotak Securities Limited                         |                           | 3.00<br>(1.17)       |                 |                          |   |                                       | 3.00<br>(1.17)       |
| Other Subsidiaries                               |                           | 0.05<br>(0.05)       | 0.00<br>(0.00)  |                          |   |                                       | 0.05<br>(0.05)       |
| <b>Reimbursements from companies</b>             |                           |                      |                 |                          |   |                                       |                      |
| Kotak Mahindra Capital Company Limited           |                           | 4.41<br>(4.68)       |                 |                          |   |                                       | 4.41<br>(4.68)       |



## 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 Prime Limited                     |                           | <b>9.59</b><br>(9.49)    |                       |                          |   |                                       | <b>9.59</b><br>(9.49)    |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | <b>11.66</b><br>(10.27)  |                       |                          |   |                                       | <b>11.66</b><br>(10.27)  |
| Kotak Securities Limited                         |                           | <b>40.25</b><br>(44.81)  |                       |                          |   |                                       | <b>40.25</b><br>(44.81)  |
| Other Subsidiaries                               |                           | <b>11.95</b><br>(12.33)  | <b>2.60</b><br>(2.93) |                          |   |                                       | <b>14.55</b><br>(15.26)  |
| <b>Purchase of Fixed assets</b>                  |                           |                          |                       |                          |   |                                       |                          |
| Kotak Mahindra Prime Limited                     |                           | <b>0.15</b><br>(0.02)    |                       |                          |   |                                       | <b>0.15</b><br>(0.02)    |
| Kotak Securities Limited                         |                           | <b>0.05</b><br>(0.30)    |                       |                          |   |                                       | <b>0.05</b><br>(0.30)    |
| Kotak Mahindra Capital Company Limited           |                           | <b>0.10</b><br>(0.00)    |                       |                          |   |                                       | <b>0.10</b><br>(0.00)    |
| Kotak Mahindra (International) Limited           |                           | <b>0.00</b><br>(0.02)    |                       |                          |   |                                       | <b>0.00</b><br>(0.02)    |
| Other Subsidiaries                               |                           | <b>0.01</b><br>(0.06)    |                       |                          |   |                                       | <b>0.01</b><br>(0.06)    |
| <b>Sale of Fixed assets</b>                      |                           |                          |                       |                          |   |                                       |                          |
| Kotak Mahindra Old Mutual Life Insurance Limited |                           | <b>0.00</b><br>(0.20)    |                       |                          |   |                                       | <b>0.00</b><br>(0.20)    |
| Kotak Securities Limited                         |                           | <b>0.00</b><br>(0.03)    |                       |                          |   |                                       | <b>0.00</b><br>(0.03)    |
| Kotak Mahindra Prime Limited                     |                           | <b>0.00</b><br>(0.02)    |                       |                          |   |                                       | <b>0.00</b><br>(0.02)    |
| <b>Swaps / Forward / Options contract</b>        |                           |                          |                       |                          |   |                                       |                          |
| Kotak Mahindra Prime Limited                     |                           | <b>112.57</b><br>(50.00) |                       |                          |   |                                       | <b>112.57</b><br>(50.00) |
| Kotak Mahindra (International) Limited           |                           | <b>10.00</b><br>(0.00)   |                       |                          |   |                                       | <b>10.00</b><br>(0.00)   |
| <b>Guarantees / Lines of credit</b>              |                           |                          |                       |                          |   |                                       |                          |
| Kotak Mahindra Prime Limited                     |                           | <b>0.04</b><br>(0.04)    |                       |                          |   |                                       | <b>0.04</b><br>(0.04)    |
| Kotak Mahindra Asset Management Company Limited  |                           | <b>0.10</b><br>(0.10)    |                       |                          |   |                                       | <b>0.10</b><br>(0.10)    |

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

| 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 |
|-----------------------|---------------------------|-------------------------------|-------------------------------|--------------------------|---|---------------------------------------|
| <b>Liabilities</b>    |                           |                               |                               |                          |   |                                       |
| Deposits              |                           | <b>3,224.33</b><br>(3,635.88) | <b>2,282.79</b><br>(3,259.23) | <b>23.93</b><br>(64.69)  | <b>239.08</b><br>(26.79)  | <b>2.25</b><br>(0.81)                 |
| Other Liabilities     |                           | <b>2.52</b><br>(1.54)         | <b>0.00</b><br>(0.01)         |                          |   |                                       |
| <b>Assets</b>         |                           |                               |                               |                          |   |                                       |
| Advances              |                           | <b>0.00</b><br>(0.00)         | <b>0.00</b><br>(0.00)         |                          |   |                                       |
| Investments-Gross     |                           | <b>574.76</b><br>(515.90)     | <b>45.25</b><br>(29.98)       |                          |   |                                       |
| Commission Receivable |                           | <b>5.15</b><br>(9.88)         |                               |                          |   |                                       |
| Others                |                           | <b>21.32</b><br>(31.85)       | <b>0.86</b><br>(0.87)         |                          |   |                                       |

7. **EMPLOYEE SHARE BASED PAYMENTS:** 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 Bank and its subsidiaries. The Bank under its various plan / schemes, has granted in aggregate 5,72,75,810 options as on 31st March, 2012 (previous year 5,40,24,680).

### 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 0.72 to 4.36 years.

Detail of activity under SARs is summarized below:

|  | Year ended<br>31st March, 2012 | Year ended<br>31st March, 2011 |
|--|--------------------------------|--------------------------------|
| Outstanding at the beginning of the year | <b>4,45,998</b>                | 2,65,300                       |
| Granted during the year                  | <b>5,12,170</b>                | 2,84,438                       |
| Additions due to transfer of employees   | <b>18,550</b>                  | 44,150                         |
| Exercised during the year                | <b>2,10,271</b>                | 1,32,670                       |
| Forfeited during the year                | <b>2,560</b>                   | 15,220                         |
| Outstanding at the end of the year       | <b>7,63,887</b>                | 4,45,998                       |



## 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, 2012, 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<br>as amended on<br>5th July, 2007 | 5th July, 2007<br>as amended on<br>21st August, 2007 |
| Number of options granted            | 1,09,73,200  | 2,73,85,610  |
| 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, 2012 |                                     | Year ended 31st March, 2011 |                                     |
|--|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
|  | 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                              |
| Granted during the year                                | —                           | —                                   | —                           | —                                   |
| Forfeited during the year                              | —                           | —                                   | 2,81,200                    | 162.84                              |
| Exercised during the year                              | —                           | —                                   | 46,42,120                   | 165.71                              |
| Expired during the year                                | —                           | —                                   | 65,280                      | 75.00                               |
| Outstanding at the end of the year                     | —                           | —                                   | —                           | —                                   |
| Out of the above exercisable at the end of the year    | —                           | —                                   | —                           | —                                   |
| Weighted average remaining contractual life (in years) | —                           | —                                   | —                           | —                                   |
| Weighted average fair value of options granted         | —                           | —                                   | —                           | —                                   |

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

|  | Year ended 31st March, 2012 |                                     | Year ended 31st March, 2011 |                                     |
|--|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
|  | Number of Shares            | Weighted Average Exercise Price (₹) | Number of Shares            | Weighted Average Exercise Price (₹) |
| Outstanding at the beginning of the year               | 1,34,20,010                 | 271.88                              | 1,28,14,250                 | 236.42                              |
| Granted during the year                                | 32,51,130                   | 413.86                              | 47,49,240                   | 308.63                              |
| Forfeited during the year                              | 10,27,154                   | 317.59                              | 9,29,424                    | 282.17                              |
| Exercised during the year                              | 38,18,006                   | 257.04                              | 31,46,430                   | 175.78                              |
| Expired during the year                                | 40,287                      | 316.20                              | 67,626                      | 463.92                              |
| Outstanding at the end of the year                     | 1,17,85,693                 | 311.71                              | 1,34,20,010                 | 271.88                              |
| Out of the above exercisable at the end of the year    | 21,93,562                   | 287.67                              | 13,65,190                   | 235.82                              |
| Weighted average remaining contractual life (in years) | 1.43                        |                                     | 1.82                        |                                     |
| Weighted average fair value of options granted         | 167.80                      |                                     | 206.73                      |                                     |

The weighted average share price at the date of exercise for stock options exercised during the year was ₹ 469.24 (previous year ₹ 437.07)



## 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, 2012

| Range of exercise prices (₹) | Number of options outstanding | Weighted average remaining contractual life of options (in years) | Weighted average exercise price (₹) |
|------------------------------|-------------------------------|---|-------------------------------------|
| 0-100                        | 13,368                        | 1.25  | 5.00                                |
| 101-200                      | 17,45,222                     | 1.50  | 146.36                              |
| 201-300                      | 14,52,643                     | 1.22  | 222.75                              |
| 301-400                      | 57,63,470                     | 1.13  | 331.62                              |
| 401-500                      | 28,10,990                     | 2.13  | 421.00                              |

### 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                              |

### 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, 2012 |               | Year ended 31st March, 2011 |               |
|--|-----------------------------|---------------|-----------------------------|---------------|
|  | Equity-settled              | Cash-settled  | Equity-settled              | Cash-settled  |
| Exercise Price ₹   | 305 - 421                   | 5             | 200 - 422                   | 5             |
| Weighted Average Share Price ₹                                     | 414.70                      | 411.24        | 401.14                      | 380.17        |
| Expected Volatility  | 30.72%-58.10%               | 31.61%-36.23% | 31.56%-65.43%               | 22.16%-57.98% |
| Historical Volatility  | 30.72%-58.10%               | 31.61%-36.23% | 31.56%-65.43%               | 22.16%-57.98% |
| Life of the options granted (Vesting and exercise period) in years |                             |               |                             |               |
| - At the grant date  | 1.16 - 3.88                 |               | 1.00 - 4.44                 |               |
| - As at 31st March   |                             | 0.08 - 2.75   |                             | 0.08 - 3.09   |
| Risk-free interest rate  | 8.30%-8.52%                 | 8.11%-8.87%   | 5.54%-7.66%                 | 7.28%-7.86%   |
| Expected dividend rate   | 0.11%-0.12%                 | 0.09%         | 0.09%-0.11%                 | 0.10%         |

The expected volatility was determined based on historical volatility data and 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 Balance Sheet and Profit and Loss Account (Contd.)

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

(₹ in crores)

|   | Year ended<br>31st March, 2012 | Year ended<br>31st March, 2011 |
|---|--------------------------------|--------------------------------|
| Total Employee Compensation Cost pertaining to share-based payment plans                        | 29.95                          | 25.26                          |
| Compensation Cost pertaining to equity-settled employee share-based payment plan included above | 9.56                           | 9.38                           |
| Liability for employee stock options outstanding as at year end                                 | 50.45                          | 70.43                          |
| Deferred Compensation Cost  | 15.63                          | 33.52                          |
| Closing balance of liability for cash-settled options   | 21.50                          | 10.51                          |
| Expense arising from increase in intrinsic value of liability for cash stock appreciation plan  | 2.89                           | 0.19                           |

Had the Bank 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 ₹ 27.39 crores (previous year ₹ 23.25 crores) and the profit after tax would have been lower by ₹ 18.50 crores (previous year ₹ 15.52 crores). Consequently the basic and diluted EPS would have been ₹ 14.44 (previous year ₹ 11.13) and ₹ 14.36 (previous year ₹ 11.07) 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 ₹ Nil (previous year ₹ 0.45 crores) from the subsidiary in the current year.

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

### 8. Advances securitised by the Bank :

(₹ in crores)

| Particulars  | As at<br>31st March, 2012               | As at<br>31st March, 2011               |
|--|---|---|
| Book value of advances securitised                       | —                                       | —                                       |
| Number of accounts                                       | —                                       | —                                       |
| Sale consideration received for the accounts securitised | —                                       | —                                       |
| Gain on securitisation amortised during the year*        | 0.30                                    | 0.55                                    |
| 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.

### 9. Employee Benefits:

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

|                     |                                |
|---------------------|--------------------------------|
| Provident Fund      | ₹ 35.77 crores                 |
|                     | (previous year ₹ 29.26 crores) |
| Superannuation Fund | ₹ 0.52 crores                  |
|                     | (previous year ₹ 0.48 crores)  |

- 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



## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

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<br>31st March, 2012 | As at<br>31st March, 2011 |
|---|---------------------------|---------------------------|
| <b>Change in benefit obligations</b>                        |                           |                           |
| Liability at the beginning of the year                      | 39.85                     | 22.19                     |
| Current Service cost  | 10.47                     | 6.43                      |
| Interest cost   | 3.91                      | 2.15                      |
| Actuarial Losses / (Gain)                                   | (3.09)                    | 4.12                      |
| Past Service Cost   | —                         | 9.01                      |
| Liability assumed on acquisition / (Settled on divestiture) | 0.25                      | 0.43                      |
| Benefits paid   | (5.10)                    | (4.48)                    |
| Liability at the end of the year                            | 46.29                     | 39.85                     |
| <b>Change in plan assets</b>                                |                           |                           |
| Fair value of plan assets at the beginning of the year      | 34.66                     | 25.63                     |
| Expected return on plan assets                              | 2.60                      | 1.94                      |
| Actuarial Gain / (Losses)                                   | (2.75)                    | 0.64                      |
| Benefits paid   | (5.10)                    | (4.48)                    |
| Employer contributions                                      | 11.90                     | 10.93                     |
| Fair value of plan assets at the end of the year            | 41.31                     | 34.66                     |

(₹ in crores)

| <b>Reconciliation of present value of the obligation and the fair value of the plan assets</b> | 31st March, 2012 | 31st March, 2011 |
|--|------------------|------------------|
| Fair value of plan assets at the end of the year   | 41.31            | 34.66            |
| Liability at the end of the year   | 46.29            | 39.85            |
| Net Asset / (Liability)  | (4.98)           | (5.19)           |
| <b>Expense recognised for the year</b>   |                  |                  |
| Current Service cost   | 10.47            | 6.43             |
| Interest cost  | 3.91             | 2.15             |
| Expected return on plan assets   | (2.60)           | (1.94)           |
| Actuarial (Gain) / Loss  | (0.34)           | 3.48             |
| Past Service Cost  | —                | 9.01             |
| Net gratuity expense   | 11.44            | 19.13            |
| Actual return on plan assets   | (0.15)           | 2.57             |

(₹ in crores)

| <b>Reconciliation of the Liability recognised in the Balance Sheet</b> | 31st March, 2012 | 31st March, 2011 |
|--|------------------|------------------|
| Net Liability / (Asset) at the beginning of the year                   | 5.19             | (3.44)           |
| Expense recognised   | 11.44            | 19.13            |
| Liability assumed on acquisition / (Settled on divestiture)            | 0.25             | 0.43             |
| Employer contributions   | (11.90)          | (10.93)          |
| Net Liability / (Asset)  | 4.98             | 5.19             |



## 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                  | 8.94% p.a. (previous year 8.26% p.a.)  |
| Salary escalation rate         | 15% p.a. for first 2 years<br>10% p.a. for next 2 years & 6% p.a. thereafter<br>(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 four years are as follows:

(₹ In crores)

|  | Gratuity              |        |        |        |        |
|--|-----------------------|--------|--------|--------|--------|
|  | Year ended 31st March |        |        |        |        |
|  | 2012                  | 2011   | 2010   | 2009   | 2008   |
| Defined benefit obligation                 | <b>46.29</b>          | 39.85  | 22.19  | 19.75  | 14.41  |
| Plan assets                                | <b>41.31</b>          | 34.66  | 25.63  | 15.39  | 13.96  |
| Surplus / (deficit)                        | <b>(4.98)</b>         | (5.19) | 3.44   | (4.36) | (0.45) |
| Experience adjustments on plan liabilities | <b>(0.72)</b>         | 3.07   | (0.47) | (2.59) | 0.96   |
| Experience adjustments on plan assets      | <b>(2.75)</b>         | 0.64   | 4.61   | (3.58) | 1.38   |

The Company expects to contribute ₹ 6.00 crores to gratuity fund in 2012-13.

## 10. Provisions and Contingencies:

Breakup of "Provisions and Contingencies" (including write-offs; net of write-backs) shown under the head expenditure in Profit and Loss Account

(₹ in crores)

| Particulars                               | 31st March, 2012 | 31st March, 2011 |
|---|------------------|------------------|
| Provisions for depreciation on Investment | <b>(18.05)</b>   | 53.10            |
| Provision towards NPA                     | <b>48.75</b>     | 100.74           |
| Provision towards restructured assets     | —                | —                |
| Provision towards Standard Asset          | <b>25.57</b>     | —                |
| Provision for Taxes                       | <b>514.88</b>    | 369.52           |
| Other Provision and Contingencies*        | <b>(1.20)</b>    | (16.75)          |
| <b>Total Provisions and Contingencies</b> | <b>569.95</b>    | 506.61           |

\* For year ended 31st March, 2012 includes write-back of provisions against derivative contracts ₹ Nil (previous year provision of ₹ (21.41) crores) and provision for fees receivable ₹ (1.20) crores (previous year ₹ 4.66 crores).

11. 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 ₹ 414.91 crores (previous year ₹ 582.85 crores) in favour of NSCCL which have not been included in "Term Deposits from Others" [Schedule 3 (III) (ii)].

## 12. Tier II Bonds

- a) Lower Tier II Bonds outstanding as at 31st March 2012 ₹ 610.70 crores (previous year ₹ 465.70 crores).

During the year, the Bank had issued lower Tier II bonds of ₹ 150 crores (previous year Nil). In accordance with the RBI requirements lower Tier II bonds of ₹ 162.06 crores (previous year ₹ 113.48 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, 2012 ₹ 364.94 crores (previous year ₹ 336.68 crores) of which bonds issued outside India ₹ 228.94 crores (previous year ₹ 200.68 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) ₹ 72.72 crores (previous year ₹ 57.49 crores).

### 13. 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 Banks' financial conditions, result of operations or cash flows. Against the above ₹ 29.30 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"> <li>Documentary credit such as letters of obligations, enhance the credit standing of the customers of the Bank.</li> <li>Bills re-discounted by the Bank and cash collateral provided by the Bank on assets which have been securitised.</li> </ul>  |
| 5.      | Other items for which the Bank is contingently liable          | These include: <ul style="list-style-type: none"> <li>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.</li> <li>Liability in respect of Capital commitments relating to fixed assets and undrawn commitments in respect of investments.</li> </ul> |

\* Also refer Schedule 12 – Contingent Liabilities

14. The Bank has received few intimation from "suppliers" regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and there is no outstanding against those suppliers as on 31st March, 2012, 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.
15. Figures of previous year were audited by a firm of Chartered Accountants other than current statutory auditors 'S.B. Billimoria & Co'. Figures for the previous year have been regrouped / reclassified wherever necessary to conform to current years' presentation.

For and on behalf of the Board of Directors

**Dr. Shankar Acharya**  
Chairman

**Dipak Gupta**  
Joint Managing Director

**Jaimin Bhatt**  
President and  
Group Chief Financial Officer

**Uday Kotak**  
Executive Vice Chairman  
and Managing Director

**Bina Chandarana**  
Company Secretary

Mumbai, 8th May 2012







## AWARDS FOR THE KOTAK MAHINDRA ANNUAL REPORT 2010-11



### LACP VISION AWARDS, USA

#### PLATINUM AWARD

Best among Banking  
Category,  
Asia Pacific Region

#### GOLD AWARD

Most Creative Report,  
Asia Pacific Region

#### RANKED 21ST

among top 50 reports,  
Asia Pacific Region

#### RANKED 87TH

among the world's Top  
100 Annual Reports

### ICAI AWARDS, INDIA

The Institute of Chartered Accountants of India awarded Kotak Mahindra Bank the silver award for ICAI Awards for Excellence in Financial Reporting under Category II-Private Banks for FY 2010-11

## AWARDS FOR THE KOTAK MAHINDRA ONLINE ANNUAL REPORT 2010-11



### GALAXY AWARDS, USA

#### GRAND AWARD

The Kotak Annual Report 2010-11 won the **Grand Award** in the Online Annual Report Category at the Galaxy Awards 2011



Kotak Mahindra Bank Limited  
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