



# Kotak Mahindra Bank Ltd.

TWENTY-SECOND ANNUAL REPORT 2006-07



## Consolidation at a Glance

Rupees in Lakhs

	2006 - 07		2005 - 06		March 31, 2007	March 31, 2006
	Profit before Tax	Profit after Tax	Profit before Tax	Profit after Tax	Networth	Networth
<b>Kotak Mahindra Bank Ltd.</b>	<b>20,324.52</b>	<b>14,136.52</b>	17,359.55	11,823.05	<b>163,349.84</b>	85,274.67
<b>Subsidiaries</b>						
Kotak Mahindra Capital Company Ltd.*	9,390.00	6,788.00	7,649.07	5,657.55	26,905.00	41,933.00
Kotak Securities Ltd.	36,512.14	25,571.42	32,047.72	21,554.12	75,080.05	49,856.67
Kotak Mahindra Prime Ltd.	8,425.20	5,734.04	3,110.57	2,087.83	55,728.35	50,036.37
Kotak Mahindra Old Mutual Life Insurance Ltd.	(5,563.16)	(5,834.88)	(4,133.76)	(4,323.70)	11,920.99	9,250.93
Kotak Mahindra Asset Management Ltd.	1,059.92	682.91	783.00	506.45	2,703.89	2,626.55
Kotak Mahindra Trustee Company Ltd.	674.45	464.28	376.74	256.73	1,227.15	762.87
Kotak Mahindra Investments Ltd.	3,567.53	2,705.83	3,926.76	2,779.60	13,773.75	11,087.47
Kotak Mahindra (International) Ltd **	1,332.40	1,300.96	1,395.25	1,223.18	4,824.49	3,532.05
Kotak Mahindra UK Limited**	2,012.76	1,406.16	—	—	2,810.55	—
Kotak Mahindra Inc.	1,321.08	793.57	104.36	103.63	1,092.48	331.77
Kotak Mahindra Securities Ltd.*	60.19	34.45	1,044.13	702.35	3,864.82	3,596.93
Kotak Mahindra Trusteeship Services Limited (Formerly Known as Kotak Mahindra Private Equity Trustee Limited)	30.45	20.35	21.49	14.23	41.74	21.38
Kotak Forex Brokerage Ltd.	(51.76)	(52.01)	(37.65)	(37.97)	56.28	33.58
<b>Total</b>	<b>79,095.72</b>	<b>53,751.61</b>	63,647.24	42,347.05	<b>363,379.38</b>	258,344.25
Add: Associates*		1,442.55		225.01	41,707.62	30,285.10
Less: Dividend, Minority Interest, inter company and other adjustment		1,369.96		8,326.12	81,785.53	63,918.60
<b>Consolidated Profit after Tax *</b>		<b>53,824.20</b>		34,245.94	<b>323,301.47</b>	224,710.76
<b>Consolidated Earnings per Share (Rs.) *</b>		<b>16.47</b>		11.01		
<b>Consolidated Book Value per Share (Rs.)</b>					<b>99.12</b>	72.65

\* For 2005-06, the number excludes non recurring item.

\*\* Kotak Mahindra UK Limited (KMUK) was subsidiary of Kotak Mahindra (International) Limited - KM(I)L in previous year. Accordingly in 2005-06 figures for KM(I)L are consolidated with KMUK .

## Auditors' Report

### AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF KOTAK MAHINDRA BANK LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF KOTAK MAHINDRA BANK LIMITED AND ITS SUBSIDIARIES

1. We have audited the attached Consolidated Balance Sheet of **KOTAK MAHINDRA BANK LIMITED** ("the Bank") and its subsidiaries ("the Group") as at 31st March, 2007, 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. The consolidated financial statements include investments in affiliates, accounted for on the equity method in accordance with Accounting Standard 23 (Accounting for Investments in Associates in Consolidated Financial Statements). 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. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of any of the subsidiaries, whose financial statements reflect total assets of Rs. 881,931.57 lakhs as at 31st March, 2007, total revenues of Rs. 283,691.49 lakhs and cash flows amounting to Rs. 67,249.32 lakhs for the year ended on that date as considered in the consolidated financial statements. The accounts of the affiliates have not been audited except for Multifaced Finstock Private Limited. The financial statements of the subsidiaries have been audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts

included in respect of the subsidiaries, is based solely on the reports of the other auditors.

4. 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), issued by the Institute of Chartered Accountants of India.
5. Based on our audit and on consideration of the reports of other auditors on separate financial statements of the subsidiaries and the unaudited financial statements of the affiliates referred to in paragraph 3 above and to the best of our information and according to the explanations given to us, in our opinion, the aforesaid 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 consolidated state of affairs of the Group as at 31st March, 2007;
  - (b) in the case of the Consolidated Profit and Loss Account, of the consolidated profit of the Group for the year ended on that date and
  - (c) in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of the Group for the year ended on that date.

For **S. B. BILLIMORIA & CO.**  
Chartered Accountants

**Nalin M. Shah**  
Partner  
(Membership No. 15860)

Place : Mumbai  
Date : 17th May, 2007

## Consolidated Balance Sheet as at 31st March, 2007

	Schedule	As at 31st March, 2007 (Rupees in lakhs)	As at 31st March, 2006 (Rupees in lakhs)
<b>Capital and Liabilities</b>			
Capital	1	32,615.57	30,929.46
Reserves and Surplus	2	290,685.90	193,781.29
Minority Interest		3,094.00	27,086.50
Employees' Stock Options (Grants) Outstanding		2,842.64	1,184.38
Deposits	3	966,097.22	561,668.16
Borrowings	4	998,591.28	579,788.72
Policy Holders' Funds		167,978.84	103,955.57
Other Liabilities and Provisions	5	401,175.49	298,339.71
<b>Total</b>		<b>2,863,080.94</b>	<b>1,796,733.79</b>

### Assets

Cash and Balances with Reserve Bank of India	6	79,194.61	44,962.05
Balances with Banks and Money at Call and Short Notice	7	135,057.92	61,797.64
Investments	8	912,847.08	504,873.86
Advances	9	1,557,344.20	1,041,988.16
Fixed Assets	10	23,534.62	17,544.17
Other Assets	11	154,760.57	125,225.97
Goodwill on Consolidation		341.94	341.94
<b>Total</b>		<b>2,863,080.94</b>	<b>1,796,733.79</b>

Contingent Liabilities	12	10,121,320.10	3,953,910.32
Bills for Collection		21,944.14	9,275.74
Significant Accounting Policies and Notes to the Consolidated Financial Statements	18		

As per our report of even date attached.

For S. B. Billimoria & Co.  
Chartered Accountants

Nalin M. Shah  
Partner

Mumbai  
Dated: 17th May, 2007

For and on behalf of the Board of Directors

Dr. Shankar Acharya  
Chairman

Uday Kotak  
Executive Vice Chairman &  
Managing Director

Dipak Gupta  
Executive Director

Jaimin Bhatt  
Group Chief Financial Officer

Bina Chandarana  
Company Secretary

## Consolidated Profit and Loss Account for the year ended 31st March, 2007

	Schedule	Year ended 31st March, 2007 (Rupees in lakhs)	Year ended 31st March, 2006 (Rupees in lakhs)
<b>I. Income</b>			
Interest earned	13	202,408.55	121,568.60
Other Income [Refer Note 11(a) - Schedule 18]	14	232,821.31	181,710.21
<b>Total</b>		<b>435,229.86</b>	<b>303,278.81</b>
<b>II. Expenditure</b>			
Interest expended	15	97,705.69	51,956.74
Operating expenses	16	244,405.30	171,915.30
Provisions & Contingencies (includes tax provision of Rs. 25,417.59 lakhs (previous year Rs. 21,298.22 lakhs))	17	40,670.84	26,424.34
<b>Total</b>		<b>382,781.83</b>	<b>250,296.38</b>
<b>III. Profit</b>			
Net Profit for the year		52,448.03	52,982.43
Less: Share of Minority Interest [Refer Note 11(a) - Schedule 18]		66.37	9,468.21
Add: Share in profit of Associates [Refer Note 11(b) - Schedule 18]		1,442.54	29,460.68
Consolidated Profit for the year		53,824.20	72,974.90
Add: Surplus brought forward from previous year [Refer Note 7(a) - Schedule 18]		98,692.78	40,949.84
<b>Total</b>		<b>152,516.98</b>	<b>113,924.74</b>
<b>IV. Appropriations</b>			
Transfer to Statutory Reserve		3,550.00	2,975.00
Transfer to/(from) Special Reserve u/s 45 IC of RBI Act, 1934		(7,006.19)	4,218.57
Transfer to General Reserve		725.00	616.00
Transfer to Capital Reserve		405.00	965.00
Transfer to Capital Redemption Reserve		—	1,000.00
Transfer to Debenture Redemption Reserve		2,581.06	6,985.80
Transfer from Investment Fluctuation Reserve		—	(3,830.00)
Proposed Dividend [Refer Note 21 - Schedule 18]		2,286.06	1,945.80
Corporate Dividend Tax [Refer Note 21 - Schedule 18]		388.43	355.79
Balance carried over to Balance Sheet		149,587.62	98,692.78
<b>Total</b>		<b>152,516.98</b>	<b>113,924.74</b>
<b>V. Earnings Per Share [Refer Note 11 - Schedule 18]</b>			
Basic		16.60	23.64
Diluted		16.47	23.47

Significant Accounting Policies and Notes to the Consolidated Financial Statements 18

As per our report of even date attached.

For S. B. Billimoria & Co.  
Chartered Accountants

Nalin M. Shah  
Partner

Mumbai  
Dated: 17th May, 2007

For and on behalf of the Board of Directors

Dr. Shankar Acharya  
Chairman

Dipak Gupta  
Executive Director

Jaimin Bhatt  
Group Chief Financial Officer

Uday Kotak  
Executive Vice Chairman &  
Managing Director

Bina Chandarana  
Company Secretary

## Consolidated Cash Flow Statement for the year ended 31st March, 2007

	Year Ended 31st March, 2007 (Rupees in lakhs)	Year Ended 31st March, 2006 (Rupees in lakhs)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit After Tax	53,824.20	72,974.90
Add: Provision for tax	25,417.59	21,298.22
<b>Profit Before Tax</b>	<b>79,241.79</b>	<b>94,273.12</b>
<b>Adjustments for:</b>		
Employee Stock Options Grants	1,658.26	577.95
Depreciation on Group's property	7,368.43	6,071.17
Diminution in the value of investments	(53.17)	5.39
Loss on revaluation of investments (net)	6,874.28	886.86
Provision for Non Performing Assets and contingencies	15,302.79	5,118.76
Profit on sale of assets	(99.35)	(56.87)
Increase/(decrease) in Translation Reserve [Refer Note 2(F)(ix) – Schedule 18]	(285.64)	79.91
Wealth tax	3.63	1.97
	<b>110,011.02</b>	<b>106,958.26</b>
<b>Adjustments for:</b>		
Increase in Investments other than Associates	(403,429.48)	(233,357.12)
Increase in Advances	(523,572.57)	(332,065.98)
Increase in Other Assets	(29,389.90)	(54,880.75)
(Increase)/Decrease in Cash Collateral with Banks	(1,221.10)	1,729.72
Increase in Deposits	404,429.06	178,404.78
Increase in Borrowings	419,113.27	207,443.16
Debenture issue expenses	(91.17)	(14.30)
Increase in Policyholders' Funds	64,023.27	54,838.20
Increase in Other Liabilities & Provisions	93,384.57	140,266.55
	<b>23,245.95</b>	<b>(37,635.74)</b>
<b>Income Taxes Paid</b>	<b>(25,371.73)</b>	<b>(21,253.74)</b>
<b>Net Cash Flow From Operating Activities (A)</b>	<b>107,885.25</b>	<b>48,068.78</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed assets	(13,618.51)	(8,206.10)
Sale of Fixed assets	358.97	269.63
Increase in Investments in Associates	(11,364.85)	(1,834.33)
Acquisition of additional stake in subsidiaries	(33,300.00)	(12,098.27)
<b>Net Cash Used In Investment Activities (B)</b>	<b>(57,924.39)</b>	<b>(21,869.07)</b>

## Consolidated Cash Flow Statement for the year ended 31st March, 2007 (Contd.)

	Year Ended 31st March, 2007 (Rupees in lakhs)	Year Ended 31st March, 2006 (Rupees in lakhs)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Dividend paid including Corporate Dividend Tax	(2,222.09)	(1,840.64)
Fresh issue of share/Money received on exercise of stock options	46,840.25	670.12
Share issue expenses	(429.84)	(87.17)
Increase in Minority Interest	12,122.56	10,213.81
<b>Net Cash Flow From Financing Activities (C)</b>	<b>56,310.88</b>	<b>8,956.12</b>
<b>Net Increase In Cash &amp; Cash Equivalents (A + B + C)</b>	<b>106,271.74</b>	<b>35,155.83</b>
<b>Cash &amp; Cash Equivalents At The Beginning Of The Year</b> (Refer Note below)	<b>105,251.91</b>	<b>70,096.08</b>
<b>Cash &amp; Cash Equivalents At The End Of The Year</b> (Refer Note below)	<b>211,523.65</b>	<b>105,251.91</b>
<b>Note:</b>		
Balance with banks in India in Fixed Deposit (As per Schedule 7 I (i) (b))	65,744.72	31,132.20
Cash Collateral Security shown separately in operating activities	(2,728.88)	(1,507.78)
Balance with banks in India in current account (As per Schedule 7 I (i) (a))	24,469.27	19,101.75
Money at call and short notice in India (As per Schedule 7 I (ii))	—	5,450.00
Cash in hand (As per Schedule 6 I)	13,074.35	7,630.25
Balance with RBI in current account (As per Schedule 6 II)	66,120.26	37,331.80
Balance with banks Outside India:		
(i) In current account (As per Schedule 7 II (i))	11,372.03	4,552.16
(ii) In Other Deposit Accounts (As per Schedule 7 II (ii))	33,471.90	1,561.53
<b>Cash &amp; Cash Equivalents At The End Of The Year</b>	<b>211,523.65</b>	<b>105,251.91</b>

As per our report of even date attached.

For S. B. Billimoria & Co.  
Chartered Accountants

Nalin M. Shah  
Partner

Mumbai  
Dated: 17th May, 2007

For and on behalf of the Board of Directors

Dr. Shankar Acharya  
Chairman

Dipak Gupta  
Executive Director

Jaimin Bhatt  
Group Chief Financial Officer

Uday Kotak  
Executive Vice Chairman &  
Managing Director

Bina Chandarana  
Company Secretary

## Schedules Forming part of Consolidated Balance Sheet as at 31st March, 2007

	As at 31st March, 2007 (Rupees in lakhs)	As at 31st March, 2006 (Rupees in lakhs)
<b>Schedule 1 — Capital</b>		
<b>Authorised Capital</b>		
35,00,00,000 Equity Shares of Rs. 10/- each	35,000.00	35,000.00
<b>Issued Subscribed &amp; Paid-up Capital</b>		
32,61,55,708 (31st March, 2006: 30,92,94,625) Equity Shares of Rs. 10/- each fully paid-up	32,615.57	30,929.46
<b>Total</b>	<b>32,615.57</b>	<b>30,929.46</b>
<b>Schedule 2 — Reserves &amp; Surplus</b>		
<b>I. Statutory Reserve</b>		
Opening Balance	12,876.00	9,901.00
Add: Transfer from Profit and Loss Account	3,550.00	2,975.00
<b>Total</b>	<b>16,426.00</b>	<b>12,876.00</b>
<b>II. Capital Reserve</b>		
Opening balance	1,276.03	311.03
Add: Transfer from Profit and Loss Account	405.00	965.00
<b>Total</b>	<b>1,681.03</b>	<b>1,276.03</b>
<b>III. General Reserve</b>		
Opening Balance	9,202.06	18,581.76
Add: Transfer from Profit and Loss Account	725.00	616.00
Add: Transfer from Capital Redemption Reserve	1,045.10	—
Add: Transfer from share of Retained Earnings in Associates	546.97	—
Less: Utilised for issue of Bonus Shares	—	10,000.00
Less: Transitional adjustment for Employee Benefits [Refer Note 7(a) - Schedule 18]	1,644.46	—
Add/(Less): Translation Reserve [Refer Note 2(F)(ix) - Schedule 18]	(285.64)	4.30
<b>Total</b>	<b>9,589.03</b>	<b>9,202.06</b>
<b>IV. Securities Premium Account</b>		
Opening Balance	41,525.60	49,539.76
Add: Received during the year (net of tax)	45,360.26	585.84
Less: Utilised for Issue of Bonus Shares	—	8,498.53
Less: Utilised for Share Issue Expenses	429.84	87.17
Less: Utilised for Debenture Issue Expenses (net of tax)	60.48	14.30
<b>Total</b>	<b>86,395.54</b>	<b>41,525.60</b>
<b>V. Investment Fluctuation Reserve</b>		
Opening Balance	—	3,830.00
Less: Transfer to Profit and Loss Account	—	3,830.00
<b>Total</b>	<b>—</b>	<b>—</b>

## Schedules Forming part of Consolidated Balance Sheet as at 31st March, 2007 (Contd.)

	As at 31st March, 2007 (Rupees in lakhs)	As at 31st March, 2006 (Rupees in lakhs)
<b>Schedule 2 — Reserves &amp; Surplus (Contd.)</b>		
<b>VI. Special Reserve under Section 45IC of the RBI Act, 1934</b>		
Opening Balance	9,339.33	5,120.76
Add: Transfer from Profit and Loss Account	—	4,218.57
Less: Transfer to Profit and Loss Account	7,006.19	—
<b>Total</b>	<b>2,333.14</b>	<b>9,339.33</b>
<b>VII. Debenture Redemption Reserve</b>		
Opening Balance	7,347.02	361.22
Add: Transfer from Profit and Loss Account	2,581.06	6,985.80
<b>Total</b>	<b>9,928.08</b>	<b>7,347.02</b>
<b>VIII. Capital Redemption Reserve</b>		
Opening Balance	1,045.10	45.10
Addition during the year	—	1,000.00
Less: Transfer to General Reserve	1,045.10	—
<b>Total</b>	<b>—</b>	<b>1,045.10</b>
<b>IX. Capital Reserve on Consolidation</b>		
Opening Balance	11,930.40	4,909.65
Addition during the year [Refer Note 1 (b) - Schedule 18]	2,815.06	7,020.75
<b>Total</b>	<b>14,745.46</b>	<b>11,930.40</b>
<b>X. Share of Retained Earnings in Associates</b>		
Opening Balance	546.97	546.97
Less: Transfer to General Reserve	546.97	—
<b>Total</b>	<b>—</b>	<b>546.97</b>
<b>XI. Reserve for Doubtful Debts</b>		
Opening Balance	—	330.69
Less: Deduction during the year	—	—
Less: Transfer to Provision and Contingencies	—	330.69
<b>Total</b>	<b>—</b>	<b>—</b>
<b>XII. Profit and Loss Account</b>	<b>149,587.62</b>	<b>98,692.78</b>
<b>Total</b>	<b>290,685.90</b>	<b>193,781.29</b>
<b>Schedule 3 — Deposits</b>		
<b>I. Demand Deposit</b>		
i. From Banks	2,061.21	2,679.16
ii. From Others	200,656.54	69,228.20
<b>Total</b>	<b>202,717.75</b>	<b>71,907.36</b>
<b>II. Savings Bank Deposits</b>	<b>88,770.34</b>	<b>48,933.60</b>
<b>III. Term Deposits</b>		
i. From Banks	314,435.88	186,506.68
ii. From Others	360,173.25	254,320.52
<b>Total</b>	<b>674,609.13</b>	<b>440,827.20</b>
<b>Total Deposits of branches in India (I to III)</b>	<b>966,097.22</b>	<b>561,668.16</b>

## Schedules Forming part of Consolidated Balance Sheet as at 31st March, 2007 (Contd.)

	As at 31st March, 2007 (Rupees in lakhs)	As at 31st March, 2006 (Rupees in lakhs)
<b>Schedule 4 — Borrowings</b>		
<b>I. Borrowings in India</b>		
(i) Reserve Bank of India	159,323.00	258.00
(ii) Other Banks	279,798.70	240,987.30
(iii) Institutions, Agencies and others*	537,734.58	327,313.82
<b>Total</b>	<b>976,856.28</b>	<b>568,559.12</b>
<b>II. Borrowings outside India</b>	<b>21,735.00</b>	<b>11,229.60</b>
<b>Total Borrowings (I &amp; II)</b>	<b>998,591.28</b>	<b>579,788.72</b>
Secured Borrowings included in I & II above	26,634.74	3,723.36
*Includes Debenture application money pending allotment amounting to Rs. 9,400 lakhs (previous year: Rs. 4,500 lakhs)		
<b>Schedule 5 — Other Liabilities &amp; Provisions</b>		
I. Bills Payable	28,309.00	19,337.67
II. Interest Accrued	27,498.08	12,927.67
III. Others (including provisions)	280,145.81	239,855.67
IV. Proposed Dividend (includes tax on dividend)	2,671.10	2,218.70
V. Sub-ordinated Debt (Tier II Capital)	42,990.00	24,000.00
VI. Upper Tier II Bonds	19,561.50	—
<b>Total</b>	<b>401,175.49</b>	<b>298,339.71</b>
<b>Schedule 6 — Cash and Balances with Reserve Bank of India</b>		
I. Cash and cheques on hand (including foreign currency notes)	13,074.35	7,630.25
II. Balances with RBI in current account	66,120.26	37,331.80
<b>Total</b>	<b>79,194.61</b>	<b>44,962.05</b>
<b>Schedule 7 — Balances with Banks and Money at Call and Short Notice</b>		
<b>I. In India</b>		
(i) Balances with Banks [Refer Note 8 - Schedule 18]		
(a) In Current Accounts	24,469.27	19,101.75
(b) In Other Deposit Accounts	65,744.72	31,132.20
<b>Total</b>	<b>90,213.99</b>	<b>50,233.95</b>
(ii) Money at call and Short Notice:		
With Banks	—	5,450.00
<b>Total</b>	<b>—</b>	<b>5,450.00</b>
<b>Total (i + ii)</b>	<b>90,213.99</b>	<b>55,683.95</b>
<b>II. Outside India</b>		
(i) In Current Accounts	11,372.03	4,552.16
(ii) In Other Deposit Accounts	33,471.90	1,561.53
<b>Total</b>	<b>44,843.93</b>	<b>6,113.69</b>
<b>Total (I &amp; II)</b>	<b>135,057.92</b>	<b>61,797.64</b>

## Schedules Forming part of Consolidated Balance Sheet as at 31st March, 2007 (Contd.)

	As at 31st March, 2007 (Rupees in lakhs)	As at 31st March, 2006 (Rupees in lakhs)
<b>Schedule 8 — Investments</b>		
<b>I. Investments in India in</b>		
i. Government Securities	613,508.08	278,318.48
ii. Other approved Securities	1.00	1.00
iii. Shares	88,485.24	78,134.03
iv. Debentures and Bonds	74,769.01	60,148.95
v. Associates **	43,270.57	31,852.55
vi. Others (Units Certificate of Deposits, Commercial Paper and Pass Through Certificates)	92,444.49	56,193.08
<b>Total</b>	<b>912,478.39</b>	<b>504,648.09</b>
<b>II. Investments Outside India in</b>		
i. Shares	220.13	100.33
ii. Others	148.56	125.44
<b>Total</b>	<b>368.69</b>	<b>225.77</b>
<b>Total Investments (I and II)</b>	<b>912,847.08</b>	<b>504,873.86</b>
<b>** Investment in Associates [Refer Note 19 - Schedule 18]</b>		
Equity Investment in Associates	10,397.81	468.59
Add: Goodwill on acquisition of Associates (Share of pre-acquisition losses)	2,061.65	2,061.65
Less: Capital reserve on Consolidation (Share of pre-acquisition profits)	9,929.22	—
Cost of Investment in Associates	2,530.24	2,530.24
Less: Provision for diminution in value	26.39	135.00
	2,503.85	2,395.24
Add: Post-acquisition profit/loss of Associates (Equity method)	40,766.72	29,457.31
<b>Total</b>	<b>43,270.57</b>	<b>31,852.55</b>
<b>Schedule 9 — Advances</b>		
A. (i) Bills purchased and discounted #	25,080.50	9,770.99
(ii) Cash Credits Overdrafts and loans repayable on demand	86,930.99	39,047.62
(iii) Term Loans	1,445,332.71	993,169.55
# Bills purchased and discounted is net off Bills Rediscounted Rs. 18,065.91 lakhs (previous year Rs. 16,899.42 lakhs)		
<b>Total</b>	<b>1,557,344.20</b>	<b>1,041,988.16</b>
B. (i) Secured by tangible assets *	1,229,890.16	829,184.52
(ii) Unsecured	327,454.04	212,803.64
<b>Total</b>	<b>1,557,344.20</b>	<b>1,041,988.16</b>

\* including advances against book debts

## Schedules Forming part of Consolidated Balance Sheet as at 31st March, 2007 (Contd.)

	As at 31st March, 2007 (Rupees in lakhs)	As at 31st March, 2006 (Rupees in lakhs)
<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	7,829.17	7,853.01
Additions during the year	2,511.30	-
Deductions during the year	11.11	23.84
<b>Total</b>	<b>10,329.36</b>	<b>7,829.17</b>
<b>Depreciation</b>		
As at 31st March of the preceding year	2,857.65	2,606.28
Charge for the year [Refer Note 17 - Schedule 18]	141.39	261.83
Deductions during the year	4.26	10.46
<b>Depreciation to date</b>	<b>2,994.78</b>	<b>2,857.65</b>
<b>Net Block</b>	<b>7,334.58</b>	<b>4,971.52</b>
<b>B. Other Fixed Assets (including furniture &amp; fixtures)</b>		
<b>Gross Block</b>		
At cost on 31st March of the preceding year	28,734.34	21,044.60
Additions during the year	11,107.21	8,206.10
Deductions during the year	942.00	516.36
<b>Total</b>	<b>38,899.55</b>	<b>28,734.34</b>
<b>Depreciation</b>		
As at 31st March of the preceding year	16,161.69	10,669.33
Charge for the year	7,227.04	5,809.34
Deductions during the year	689.22	316.98
<b>Depreciation to date</b>	<b>22,699.51</b>	<b>16,161.69</b>
<b>Net Block</b>	<b>16,200.04</b>	<b>12,572.65</b>
<b>Total (A) + (B)</b>	<b>23,534.62</b>	<b>17,544.17</b>
<b>Schedule 11 — Other Assets</b>		
I. Interest accrued	26,080.14	12,978.54
II. Advance tax (net of provision)	2,161.45	2,016.75
III. Stationery and Stamps	61.97	29.99
IV. Non Banking assets acquired in satisfaction of claims	1,792.98	598.37
V. Cheques in course of collection	843.88	1,273.15
VI. Others	123,820.15	108,329.17
<b>Total</b>	<b>154,760.57</b>	<b>125,225.97</b>

## Schedules Forming part of Consolidated Balance Sheet as at 31st March, 2007 (Contd.)

	As at 31st March, 2007 (Rupees in lakhs)	As at 31st March, 2006 (Rupees in lakhs)
<b>Schedule 12 - Contingent Liabilities</b>		
I. Claims not acknowledged as debts	4,325.17	3,106.11
II. Liability on account of outstanding forward exchange contracts	387,019.92	353,084.49
III. Guarantees on behalf of constituents in India	49,194.83	46,765.06
IV. Guarantees on behalf of constituents outside India	14,087.30	15,166.70
V. Acceptances Endorsements and Other Obligations	29,279.70	21,021.30
VI. Other items for which the Group is contingently liable:		
Liability in respect of interest rate & currency swaps & forward rate agreements	8,230,709.14	2,630,058.28
Liability in respect of options contracts	1,394,995.07	860,636.99
Capital commitments	11,708.97	24,071.39
<b>Total</b>	<b>10,121,320.10</b>	<b>3,953,910.32</b>

## Schedules Forming Part of Consolidated Profit & Loss Account for the year ended 31st March, 2007

	Year ended 31st March, 2007 (Rupees in lakhs)	Year ended 31st March, 2006 (Rupees in lakhs)
<b>Schedule 13 — Interest Earned</b>		
I. Interest/discount on advances/bills	148,117.05	90,969.30
II. Income from investments	44,807.33	26,072.15
III. Interest on balance with RBI and other inter-bank funds	4,894.09	2,004.06
IV. Others	4,590.08	2,523.09
<b>Total</b>	<b>202,408.55</b>	<b>121,568.60</b>

## Schedule 14 - Other Income

I. Commission exchange and brokerage	111,428.25	92,103.49
II. Profit on sale of Investments (net)	18,556.25	22,535.65
III. Loss on revaluation of investments	(6,874.28)	(886.86)
IV. Profit on sale of building & other assets (net)	99.34	56.87
V. Profit on exchange transactions (net)	1,597.96	2,692.10
VI. Premium on Insurance business	95,046.13	61,212.21
VII. Profit on recoveries of non-performing assets acquired	4,353.75	2,743.24
VIII. Profit/(Loss) on Derivatives	6,235.58	(677.41)
IX. Miscellaneous Income	2,378.33	1,930.92
<b>Total</b>	<b>232,821.31</b>	<b>181,710.21</b>

## Schedules Forming Part of Consolidated Profit & Loss Account for the year ended 31st March, 2007 (Contd.)

	Year ended 31st March, 2007 (Rupees in lakhs)	Year ended 31st March, 2006 (Rupees in lakhs)
<b>Schedule 15 — Interest Expended</b>		
I. Interest on Deposits	41,731.67	23,905.54
II. Interest on RBI/Inter-Bank Borrowings	19,306.25	12,679.04
III. Other Interest	36,667.77	15,372.16
<b>Total</b>	<b>97,705.69</b>	<b>51,956.74</b>

## Schedule 16 — Operating Expenses

I. Payments to and provision for employees [Refer Note 7 - Schedule 18 ]	68,808.47	43,845.13
II. Rent taxes & lighting	8,215.63	5,716.73
III. Printing & Stationery	2,908.94	1,937.93
IV. Advertisement Publicity and Promotion	7,222.21	4,348.60
V. Depreciation on Group's property [Refer Note 17 - Schedule 18]	7,368.43	6,071.17
VI. Directors' fees allowances & expenses	35.66	15.21
VII. Auditors' fees and expenses	267.47	221.84
VIII. Law Charges	707.08	606.72
IX. Postage, telephones etc.	5,636.79	4,333.77
X. Repairs and maintenance	3,913.33	2,129.89
XI. Insurance	460.35	708.86
XII. Travel and Conveyance	5,646.66	3,707.90
XIII. Professional Charges	9,381.89	6,922.18
XIV. Brokerage	23,330.76	18,321.13
XV. Stamping Expenses	2,728.94	2,546.83
XVI. Policyholder's reserves	64,029.86	54,831.61
XVII. Other Expenditure	33,742.83	15,649.80
<b>Total</b>	<b>244,405.30</b>	<b>171,915.30</b>

## Schedule 17 — Provisions & Contingencies

I. Provision for taxation (including wealth tax Rs. 3.63 lakhs previous year Rs. 1.97 lakhs and fringe benefit Tax Rs. 846.03 lakhs previous year Rs. 645.85 lakhs)	25,421.22	21,300.19
II. Provision for Non -performing Assets and Contingencies (including write-offs and net of recoveries)	15,302.79	5,118.76
III. Provision for Diminution in value of Investments	(53.17)	5.39
<b>Total</b>	<b>40,670.84</b>	<b>26,424.34</b>

## Schedules forming part of the Consolidated Balance Sheet and Profit and Loss Account

### Schedule 18 – Significant Accounting Policies And Notes To The Financial Statements

#### 1. BASIS OF CONSOLIDATION

- a. The Consolidated Financial Statements of Kotak Mahindra Bank Limited (“the Bank”) 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” issued by the Institute of Chartered Accountants of India (“ICAI”). The Bank consolidates all subsidiaries as defined in AS-21 on a line by line basis by adding together like items of assets, liabilities, income and expenses. Kotak Mahindra Bank Limited (KMBL) and its subsidiaries which have been consolidated, constitute the “Group”. Further, the Bank accounts for investments in Associates as defined by AS- 23 by the equity method of accounting.
- b. The list of subsidiaries is as under:

Name of the Subsidiary	Country of Origin	% Shareholding of KMBL (31st March, 2007)	% Shareholding of KMBL (31st March, 2006)
Kotak Mahindra Capital Company Limited*	India	100.00	74.99
Kotak Mahindra Securities Limited*	India	100.00	74.99
Kotak Mahindra Inc. *	USA	100.00	74.99
Kotak Mahindra (International) Limited *	Mauritius	100.00	74.99
Global Investments Opportunities Fund Limited (GIOFL) * #	Mauritius	100.00	74.99
Kotak Mahindra (UK) Limited *	U.K	100.00	74.99
Kotak Securities Limited*	India	100.00	74.99
Kotak Mahindra Old Mutual Life Insurance Limited **	India	74.00	74.00
Kotak Mahindra Prime 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 Investments Limited	India	100.00	100.00
Kotak Forex Brokerage Limited	India	100.00	100.00
Kotak Mahindra Trusteeship Services Limited (Formerly known as Kotak Mahindra Private-Equity Trustee Limited)	India	100.00	100.00

\* The Group held 74.99% of the equity till 30th May, 2006. Effective 31st May, 2006, Kotak Group acquired 25.01% stake held by Goldman Sachs Mauritius LLC (GS) in Kotak Mahindra Capital Limited (KMCC) and Kotak Securities Limited (KS). The consideration for the acquisition of 25.01% stake of GS was Rs. 33,300.00 lakhs. The transaction was consummated on 31st May, 2006. KS bought the stake held by GS in KMCC while KMCC bought the stake held by GS in KS. Till such time, Kotak Mahindra (International) Ltd (KMIntl) and Kotak Mahindra Inc. (KMInc) were wholly owned by KMCC while Kotak Mahindra (UK) Limited (KMUK) was wholly owned by KMIntl. The management shares of GIOFL were wholly owned by KMIntl. Subsequent to this, KMCC, KS, KMIntl, KMInc and KMUK have become wholly owned subsidiaries of the Bank. Consequent to the above, the consolidated results for the year include 100% share of profits with effect from 31st May, 2006 of the above companies and the incremental share in profits of an associate as detailed in Note 19 below. The excess of the book value of the net assets acquired over purchase consideration amounting to Rs. 2,815.06 lakhs has been accounted as capital reserve on consolidation.

\*\* The Bank, together with its subsidiaries Kotak Mahindra Prime Limited and Kotak Mahindra Capital Company Limited, holds 74% in the subsidiary.

# Global Investments Opportunities Fund Limited is a hybrid entity comprising of asset management and mutual fund activities. Consolidation is done in respect of the asset management portion of the entity having regard to the 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 issued by the ICAI, the Consolidated Financial Statements incorporate the financial statements of the following associates for the year ended 31st March, 2007 except as indicated.

Name of the Associate	Country of Origin	% Shareholding of the group (31st March, 2007)	% Shareholding of the group (31st March, 2006)
Business Standard Limited (Unaudited)	India	39.98	39.98
Business Standard Digital Limited (wholly owned subsidiary of Business Standard Limited) (Unaudited)	India	39.98	39.98
IndiaCar Private Limited (#)	India	30.00	30.00
Multifaced Finstock Private Limited (\$)	India	49.99	37.49
Kotak Mahindra Asset Reconstruction Company Limited (***)	India	30.00	30.00
Ford Credit Kotak Mahindra Limited (Unaudited) (up to 4th October, 2005)*	India	—	35.00
Jaykay Finholding Private Limited (up to 1st March, 2006)**	India	—	36.00

# The financial statements of IndiaCar Private Limited have been consolidated based on the audited financial statements for the year ended 31st March, 2006.

\$ The Group held effective stake of 37.49% in the equity till 30th May, 2006. Consequent to acquisition of equity stake in KS and KMCC by the Group from Goldman Sachs Mauritius LLC, the Group holds 49.99% effective stake in the company, which is reflected as an increase in the Investments in Associates (Refer Note 19). The percentage shareholding indicated above is held by Kotak Mahindra Capital Company Limited and Kotak Mahindra Securities Limited.

\* The Bank along with its 100% subsidiary Kotak Mahindra Investments Limited held a 35% stake in Ford Credit Kotak Mahindra Limited (FCKM) till 4th October, 2005. Consequent to the realignment of the joint ventures with Ford Credit International (FCI), the equity shares held in FCKM were sold to FCI on 4th October, 2005. Consequent to the same, the financial statements of the Group for the previous year ended 31st March, 2006 include the share of profits of FCKM till 4th October, 2005.

\*\* The Bank's subsidiaries Kotak Mahindra Capital Company Limited (KMCC) and Kotak Mahindra Securities Limited (KMML) held 30% and 6% stake respectively in Jaykay Finholding Private Limited (Jaykay). The shareholding in Jaykay has been sold on 1st March, 2006. Consequent to the same, the financial statements of the Group for the previous year ended 31st March, 2006 include the share of profits of Jaykay till 1st March, 2006.

\*\*\* The financial statements of Kotak Mahindra Asset Reconstruction Company Limited have not been consolidated under AS-23, as the permanent diminution in the value of the same is fully provided for.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### A. ACCOUNTING METHODOLOGY

The Financial Statements have been prepared on historical cost basis of accounting. The Group adopts the accrual system of accounting and the financial statements conform with the Accounting Standards issued by the ICAI, 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.

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

### B. REVENUE RECOGNITION

#### a. Banking/Investing Activity:

- i. Interest income is recognised on accrual basis except in case of non-performing assets where it is recognized, upon realisation, as per RBI guidelines. In respect of non-performing assets, overdue interest is recognised as income on realisation.

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

- ii. 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.
  - iii. 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.
  - iv. Service charges, Fees and Commission income are recognised when due except for Guarantee Commission which is recognised over the period of the guarantee , except as indicated in para iii above.
  - v. Interest income on discounted instruments is recognised over the tenure of the instruments so as to provide a constant periodic rate of return.
  - vi. 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.
  - vii. Dividend income is accounted on an accrual basis when the right to receive the dividend is established.
  - viii. In respect of non-performing assets acquired from other banks and NBFCs, collections in excess of the consideration paid at each asset level (or portfolio level in certain cases based on clarifications received from the RBI from time to time) is treated as income. (Refer Note G(v) also).
- b. **Investment Banking Activity:**
- i. Issue management fees, underwriting commission, financial advisory fees and placement fees are accounted for based on stage of completion of assignments.
  - ii. Brokerage and sub-brokerage on fixed income securities placements are accounted on completion of the 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 allotted.
  - 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. Premium payable on re-insurance ceded is accounted at the time of recognition of the premium income in accordance with the treaty arrangements with the re-insurers.
  - vi. Re-insurance premium and commission is 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:
    - On fixed deposit management, 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 net of service tax on the date of the transaction.
  - iii. Underwriting commission is accounted on allotment.
  - iv. Incentive on primary market subscription/mobilisation is accounted on the basis of receipt of intimation of allotment.
  - v. In respect of depository activity, transaction fees are recognised on completion of transaction. Account maintenance charges are recognised on time basis over the period of contract.
  - vi. Stock lending fees and borrowing expenses are recognised on time basis over the period of contract.
  - vii. 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.
    - c. In case of upfront non-refundable fee, income is accounted in the year of receipt.

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

### e. Asset Management – Mutual Fund

Management fee 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.

### C. FIXED ASSETS AND INTANGIBLE ASSETS

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

#### DEPRECIATION:

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 estimates of useful lives of these assets. Estimated useful lives over which assets are depreciated are as follows:

Asset Type	Useful life in years
Premises (Refer Note 17)	58
Improvement to leasehold premises	Over the period of lease subject to a maximum of 6 years
Office equipments	5
Computers	3
Furniture and Fixtures	6
Vehicles	4
ATMs	5
Software (including development) expenditure	3
Forex Broking Business Rights	10
Goodwill	5
Membership Card of the Bombay Stock Exchange Limited (Refer Note 17)	20

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

### D. EMPLOYEE BENEFITS

#### i. Provident Fund

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

#### ii. Gratuity

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

iii. Actuarial gains/losses are immediately taken to the profit and loss account and are not deferred.

#### iv. Superannuation Fund

The Group contributes a sum equivalent to 15% (previous year: 0.15%), subject to a maximum of Rs. 1 lakh, of eligible employees' eligible salary to a Superannuation Fund administered by trustees and managed by a Life Insurance Company. The Group recognises such contributions as an expense in the year they are incurred. The Life Insurance subsidiary's liability towards superannuation fund is accrued for the relevant period of employee participation.

#### v. Other Employee Benefits

The undiscounted amount of 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 and compensated absences on paid annual leave.

## 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 into “Held for Trading”, “Available for Sale” and “Held to Maturity” and further classified under six groups, namely, Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Associates and Other Investments for the purpose of disclosure in the balance sheet.

- 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 the 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 revenue.

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

- a. **Held for Trading/Available for Sale** – Each security in this category is revalued at the market price or fair value and the net depreciation of each group is recognised in the Profit and Loss Account. Net appreciation, if any, is ignored. Further, provision for diminution other than temporary is made for, at the individual security level.
- b. **Held to Maturity** – These are carried at their acquisition cost. Any premium on acquisition of debt instruments is amortised over the balance maturity of the security. Any diminution, other than temporary, in the value of securities, is provided for.  
The market value of investments where current quotations are not available is determined as per the norms laid down by the RBI.
- c. **Repurchase and reverse repurchase transactions** – These are accounted as outright purchase and outright sale respectively. The difference between the clean price of the first leg and the clean price of the second leg is recognised as interest income/interest expense over the period of the transaction. However, depreciation in their value, if any, compared to their original cost, is provided for.

#### 3. Transfer Between Categories

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

#### 4. Profit or Loss on Sale/Redemption of Investments

- a. Held For Trading and Available for Sale

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

- b. Held to Maturity

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

#### For The Insurance Company

- a. Investments are recorded at cost on the date of purchase which include transaction costs and excludes pre-acquisition interest, if any.
- b. Impairment in the value of investments as at the Balance Sheet date which is other than temporary, is provided for.
- c. 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.’
- d. All debt securities are considered as “held to maturity” and 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/accrued over the period to maturity on a straight line basis.

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

- e. In respect of unit linked business, the gain/ loss on sale of investments is the difference between the sale consideration and the book cost, which is computed on weighted average basis, on the date of sale.
- f. In respect of unit linked business, all Government securities, except treasury bills, are valued at prices obtained from Crisil Limited. Debt Securities other than Government Securities are valued on the basis of Crisil Bond valuer. Floating rate instruments are valued at cost. The discount on purchase of treasury bills, certificate of deposit, commercial papers, deep discount bonds and zero coupon bonds is amortised over the period to maturity on a straight line basis.

Listed equity shares are valued at fair value, being the last quoted closing price on the National Stock Exchange of India Limited (NSE) [In case of securities not listed on NSE, the last quoted closing price on Bombay Stock Exchange Limited (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 respective scheme's revenue account.
- g. In respect of shareholders' and non-linked policyholders' investments, listed equity shares as at Balance Sheet date are stated at fair value being the lower of last quoted closing price on BSE and NSE. 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/ 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. 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".
- h. Transfer of debt securities from shareholders' to policyholders' fund is transacted at the lower of net amortised cost or market value. Transfer of securities between unit linked funds is done at market value.

### For Other Entities

As required by Accounting Standard 13 (AS-13) issued by the ICAI, "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 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 or market price, whichever is lower. Brokerage, stamping and additional charges paid are included in the cost of investments.

## F. FOREIGN CURRENCY AND DERIVATIVE TRANSACTIONS

### For The Bank

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

### For Other Entities

- i. Transactions in foreign currencies are translated to Indian Rupees at the rate of exchange ruling on the date of the transaction.
- ii. Assets and liabilities contracted in foreign currencies are translated into Indian Rupees at the rate of exchange ruling at the Balance Sheet date.

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

- iii. 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, except in cases where they relate to the acquisition of fixed assets, in which case, they are adjusted to the carrying cost of such assets.
- iv. 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 "Translation Reserve" forming part of General Reserve in Reserves and Surplus.

### Equity Index/Stock Futures/options

- i. Gains are recognised only on settlement/ expiry of the derivative instruments.
- ii. All open positions are marked to market and the unrealised gains/ loss are netted on a scripwise basis. Mark to market gains, if any, are not recognised.
- iii. Debit/credit balances on open positions are shown as other assets/ other liabilities, as the case may be.

### G. ADVANCES

- i. Advances are classified into standard, sub-standard, doubtful and loss assets in accordance with the RBI guidelines and are stated net of provisions made towards non-performing assets.
- ii. Provision for non-performing assets comprising sub-standard, doubtful and loss assets is made in accordance with the RBI guidelines. In addition, the Group adopts an approach to provisioning that is based on past experience, evaluation of security and other related factors.
- iii. In accordance with the RBI guidelines, the Bank provides general provision in respect of Standard Assets as follows:

Category of Advance	General Provision
All Direct Advances to Agricultural and SME sector	0.25% (previous year 0.25%)
Residential Housing loans beyond Rs. 20 lakhs	1.00% (previous year 0.40%)
Loans and Advances qualifying as Capital Market exposures and Commercial Real Estate loans	2.00% (previous year 0.40%)
Personal Loans	2.00% (previous year 0.50%)
All other Standard Advances	0.40% (previous year 0.40%)

One of the Non-Banking Finance Company subsidiary provides general provision in respect of Standard Assets as follows:

Category of Advance	General Provision
Vehicle Loans	0.15%
Dealer Finance	1.00%
Personal Loans to existing vehicle loan customers	0.15%
Personal Loans	1.00%

- 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 default. If the default 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.
- v. Upto 31st May, 2006, in accordance with the RBI guidelines on purchase of non-performing assets, the bank was recognising income at individual asset level. The Bank had also created a floating provision towards such assets, equivalent to the income recognised on individual accounts under a portfolio, whenever the total collection was less than the cost paid for that portfolio. Vide circular dated 22nd June, 2006, the RBI has mandated specific conditions for creation and utilisation of floating provisions. Consequent to the same, the Bank has discontinued its policy of creating floating provisions for a portfolio and continues to recognise income and provision for NPA at the asset level. (Refer Note 18)

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

### H. 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 Actuarial Society 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.
- 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.

### I. ACQUISITION COSTS

Acquisition costs such as commission and other costs are expensed in the year in which they are incurred.

### J. TAXES ON INCOME

The Income Tax expense comprises Current tax, Deferred tax and Fringe Benefit 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. Deferred tax adjustments comprises of changes in the deferred tax assets and liabilities. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax asset is recognised subject to prudence and judgment that realisation is more likely than not. Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantially enacted before 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 Accounting Standard 17 (AS-17) on "Segment Reporting" issued by the ICAI, the Group's business has been segregated into the following segments whose principal activities are as under:

Segment	Principal activity
Lending	Car finance, commercial vehicle finance, personal loans, home loans, agriculture finance, other loans/services and fee income from distribution of products.
Corporate Banking	Wholesale borrowings and lendings and other related services to the corporate sector.
Treasury and Investments	Dealing in debt, equity, money market, forex market, derivatives and investments.
Retail Liabilities	Retail borrowings covering savings and current accounts and Branch Banking network and services.
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
Corporate Centre (upto 31st March, 2006)	Strategic investments and group activities.

Effective 1st April, 2006, Corporate Centre has ceased to be a reportable segment under AS-17. Further, the Group has realigned its business segments after considering internal financial reporting and the organisational structure. 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.

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

A transfer pricing mechanism between segments has been established to arrive at interest cost on the borrowings of the segments and which is disclosed as part of Segment Revenue.

Segment revenue 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 a result 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).

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

### L. EMPLOYEE STOCK OPTION SCHEME

The Bank has formulated Employee Stock Option Schemes (ESOSs) in accordance with SEBI (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 ICAI, 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.

### M. PRELIMINARY EXPENSES

Preliminary expenses are written off as per section 35D of the Income Tax Act, 1961.

### N. CLAIMS/BENEFITS

Benefits paid comprise of policy benefit amount, surrenders and specific claims settlement costs where applicable. 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.

### O. SECURITISATION

The Group enters into 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, "Provisions, Contingent Liabilities and Contingent Assets".

The gain/ premium on account of securitisation of assets at the time of sale based on the difference between the sale consideration and the book value of the securitised asset is amortised over the tenure of the securities issued.

## 3. GLOBAL DEPOSITORY SHARES (GDSS) ISSUE OF KOTAK MAHINDRA BANK LIMITED

During the year ended 31st March, 2007, the Bank raised equity capital amounting to Rs. 45,004.95 lakhs. The net issue expenses of Rs. 879.89 lakhs related to the aforesaid issue have been charged to the share premium account as allowed under section 78 of the Companies Act, 1956. The Bank issued 15,000,000 GDSSs representing 15,000,000 underlying equity shares of Rs. 10/- each at price of US\$ 6.66 (equivalent to Rs. 300 per share at the exchange rate of Rs. 45.05 = US\$ 1.00 in effect on 21st April, 2006).

- The Bank charges off to the Profit and Loss Account all expenses related to acquisition costs of advances in the year in which they are incurred. KMP, 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 Rs. 3,529.63 lakhs (previous year Rs. 3,129.13 lakhs) is carried forward in the Balance Sheet under "Other Assets".
- Investments include Rs. 5,749.18 lakhs (previous year Rs. 19,064.42 lakhs) as securities earmarked, partially or wholly towards initial margin for equity index/stock futures account, stocks pledged with National Securities Clearing Corporation Limited towards exposure in derivatives and stocks pledged with Bombay Stock Exchange Limited towards additional base capital in cash segment.
- Investments include investments totalling Rs. 106.63 lakhs (previous year Rs. 22.59 lakhs) in GDRs.

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

### 7. EMPLOYEE BENEFITS

Consequent to the early adoption of Accounting Standard on Employee Benefits (AS-15) (Revised 2005) issued by the Institute of Chartered Accountants of India, the following disclosures have been made as required by the Standard:

- An amount of Rs. 1,644.46 lakhs (including Rs. 142.64 lakhs adjusted by some subsidiaries against the opening balance in their Profit and Loss Account) being the difference (net of tax and minority effect) between the liability as on 31st March, 2006 on employee benefits including defined benefits plans determined based on revised AS-15 and the liability as per the Group's previous accounting policy has been adjusted against the opening balance of General Reserve.
- The charge to the Profit and Loss Account for the year towards employee benefits is higher by Rs. 577.06 lakhs as compared to the expense as per the Group's previous accounting policy.
- The Group has recognised the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds.

Provident Fund	Rs. 2,178.18 lakhs
Superannuation Fund	Rs. 51.54 lakhs

- 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 termination of employment based on the respective employee's salary and the years of employment with the Company subject to maximum of Rs. 3.50 lakhs.

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

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

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

	Rs. in lakhs	
	As of 31st March, 2007	
	Funded	Others
<b>Change in benefit obligations</b>		
Liability at the beginning of the year	573.14	541.33
Current Service cost	237.47	192.38
Interest cost	41.10	41.26
Actuarial (gain)/loss on obligations	(6.73)	90.99
Liability assumed on transfer of employees	38.59	5.75
Benefits paid	(29.48)	(131.00)
Liability at the end of the year	854.09	740.71
<b>Change in plan assets</b>		
Fair value of plan assets at the beginning of the year	332.73	—
Expected return on plan assets	43.10	—
Actuarial Gain	9.92	—
Benefits paid	(29.48)	—
Employer contributions	569.60	—
Fair value of plan assets as at the end of the year	925.87	—

## 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

Rs. in lakhs

	As of 31st March, 2007	
	Funded	Others
Fair value of plan assets as at the end of the year	925.87	—
Liability at the end of the year	854.09	740.71
Net asset as at 31st March, 2007 included in "Others" under "Other Assets" and "Others Liabilities"	71.78	(740.71)
Expenses recognised for the period		
Current service cost	237.47	192.38
Interest cost	41.10	41.26
Expected return on plan assets	(43.10)	—
Actuarial (gain)/loss	(16.65)	90.99
Net gratuity expense included in "[payments to and provision for employees]" under "Operating Expenses" [Schedule 16 (1)]	218.82	324.63
Reconciliation of the Liability recognised in the Balance Sheet		
Net Liability at the beginning of the year	240.41	541.33
Expense recognised	218.82	324.63
Liability assumed on transfer of employees	38.59	—
Employer contributions/ Transfers	(569.60)	(125.25)
Net (asset)/liability as at 31st March, 2007 is included in "Others" under "Other Assets" and "Other Liabilities"	(71.78)	740.71

### Investment details of plan assets

Majority of the plan assets are invested in insurer managed funds.

### Actuarial assumptions used

Interest rate	8.20% p.a.
Salary escalation rate	15% p.a. for first 2 yrs, 10% p.a. for next 2 yrs & 6% p.a. thereafter
Expected rate of return on plan assets	7.50% p.a.
Mortality	Published rates under the LIC (1994-96) mortality table

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

The above information is as certified by the actuary and relied upon by the auditors. Previous year's figures have not been given since this is the first year of adoption.

- Balances in Banks in other deposit accounts include Rs. 26,010.90 lakhs (previous year Rs. 4,001.72 lakhs) which are under lien. The Balances with Banks in Current Accounts {Schedule 7-I (i)(a)} include Rs. 2,728.88 lakhs (previous year Rs. 1,507.78 lakhs) maintained as collateral in respect of receivables securitised by the Bank.
- "Others" in Other Liabilities and Provisions (Schedule 5) include the following items shown as "Provision for Contingencies" by the Bank and a subsidiary, 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.

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

### Provision for Contingencies:

(Rs. in lakhs)

Description	Balance as on April 1, 2006	Addition during the year	Reversed/paid during the year	Balance as on March 31, 2007
Interest on Stamp Duty*	160.56	—	—	160.56
Stamp duty on Proprietary Trades*	92.27	793.69	—	885.96
Provision on securitised assets**	78.06	53.71	—	131.77
<b>Total</b>	<b>330.89</b>	<b>847.40</b>	<b>—</b>	<b>1,178.29</b>

(\*) The aforesaid provision is based on the likely levy of duty/interest on transactions carried out on the stock exchanges.

(\*\*) The aforesaid provision is based on the past history of losses on the asset/product securitised and the outflows are expected over the tenure of the securitisation, which is spread over a period of three years.

### 10. 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 Rs. 1,280.24 lakhs (previous year Rs. 1,755.44 lakhs) 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 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	The Group issues documentary credit and guarantees on behalf of its customers. Documentary credits such as letters of obligations, enhance the credit standing of the customers of the Group. 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 include contingent liabilities on account of bills re-discounted by the Group and cash collateral provided by the Group on assets which have been securitised. The maximum liability in respect of cash collateral provided is Rs. 2,728.88 lakhs (previous year Rs. 1,507.78 lakhs).
5.	Other items for which the Group is contingently liable	These include liabilities in respect of interest rate and currency swaps and forward rate agreements, liability in respect of options contracts and capital commitments, which includes undrawn commitments in respect of investments.  The Group enters into currency options, forward rate agreements, currency swaps and interest rate swaps 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.

\* Also refer Schedule 12 – Contingent Liabilities

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

### 11. EARNINGS PER EQUITY SHARE

(Rs. in lakhs)

Particulars	As at 31st March, 2007	As at 31st March, 2006
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	324,186,155	308,688,947
Effect of potential equity shares for stock options outstanding	2,576,394	2,191,296
Weighted average number of equity shares used in computation of diluted earnings per share	326,762,549	310,880,243
Following is the reconciliation between basic and diluted earnings per share:		
Nominal value per share	10.00	10.00
Basic earnings per share	16.60	23.64
Effect of potential equity shares for stock options	0.13	0.17
Diluted earnings per share	16.47	23.47
Earnings used in the computation of basic and diluted earnings per share (Rs. lakhs)	53,824.20	72,974.90

The Profit and Loss Account for the previous year includes the following income which is considered as non-recurring in nature.

- a. Profit on sale of investments (Other income – Schedule 14) includes Rs. 12,659.41 lakhs being profit on sale of equity shares of investments in a telecom venture by the Bank's subsidiaries, Kotak Mahindra Capital Company Limited and Kotak Mahindra Securities Limited. The Minority Interest includes Rs. 3,166.12 lakhs, being the minority share of profits on the above sale.
- b. Share in profits of associate includes Rs. 29,235.67 lakhs being the share of profits in Multifaced Finstock Private Limited (Multifaced). This is related to profits earned by Multifaced on sale of investments in a telecom venture.
- c. Consequent to the above, the consolidated profit for the year attributable to the Group includes Rs. 38,728.96 lakhs of non-recurring nature. Net of these profits the Basic earnings per share for the year is Rs. 11.09 and diluted earnings per share is Rs. 11.01.

### 12. SEGMENT REPORTING

In accordance with Accounting Standard 17 on Segment Reporting issued by The Institute of Chartered Accountants of India, the Group has determined business segments as outlined in Para K of Significant Accounting Policies Summary of the operating segments of the Group are:

(Rs. in lakhs)

	31st March, 2007	31st March, 2006
<b>Segmental Revenues:</b>		
Lending	143,549.92	87,368.01
Corporate Banking	37,418.74	18,169.89
Treasury and Investments	65,099.89	40,218.96
Retail Liabilities	36,217.10	20,198.39
Broking	64,835.59	57,948.21
Advisory and Transactional Services	12,809.15	10,922.37
Asset Management	24,791.05	16,886.51
Insurance	107,933.71	75,073.60
Corporate Centre	—	5,478.05
<b>Sub-total</b>	<b>492,655.15</b>	<b>332,263.99</b>
Add: Unallocated Income	159.22	22.71
Less: inter-segmental revenues	(57,584.51)	(29,007.89)
<b>Total Income</b>	<b>435,229.86</b>	<b>303,278.81</b>

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

(Rs. in lakhs)

	31st March, 2007	31st March, 2006
<b>Segmental Results:</b>		
Lending	23,506.37	18,072.27
Corporate Banking	10,165.42	3,866.03
Treasury and Investments	11,016.86	13,852.50
Retail Liabilities	(4,232.64)	178.42
Broking	27,041.99	28,191.78
Advisory and Transactional Services	6,741.15	6,410.50
Asset Management	9,092.79	5,114.38
Insurance	(5,563.17)	(4,133.76)
Corporate Centre	—	2,705.82
<b>Segmental Results</b>	<b>77,768.77</b>	<b>74,257.94</b>
<b>Add Unallocated Income</b>	<b>96.85</b>	<b>22.71</b>
<b>Total Profit before tax and before minority interest and associates</b>	<b>77,865.62</b>	<b>74,280.65</b>
<b>Assets:</b>		
Lending	1,356,442.79	920,627.54
Corporate Banking	443,331.71	283,622.61
Treasury and Investments	1,124,065.04	560,058.67
Retail Liabilities	488,162.09	255,993.09
Broking	49,567.78	71,545.07
Advisory and Transactional Services	60,447.26	47,851.55
Asset Management	13,639.92	7,915.85
Insurance	202,002.39	124,874.68
Corporate Centre	—	35,117.57
<b>Total Segmental Assets</b>	<b>3,737,658.98</b>	<b>2,307,606.63</b>
<b>Less: Inter-segmental assets</b>	<b>(885,304.65)</b>	<b>(506,074.25)</b>
<b>Total Assets</b>	<b>2,852,354.33</b>	<b>1,801,532.38</b>
<b>Liabilities:</b>		
Lending	1,166,942.22	813,515.26
Corporate Banking	409,566.30	261,269.35
Treasury and Investments	1,017,649.55	419,272.89
Retail Liabilities	492,644.25	258,063.10
Broking	71,828.72	105,958.23
Advisory and Transactional Services	62,234.15	47,897.89
Asset Management	5,268.85	3,065.22
Insurance	190,071.24	115,602.34
Corporate Centre	—	31,549.25
<b>Total Segmental Liabilities</b>	<b>3,416,205.28</b>	<b>2,056,193.53</b>
<b>Less: Inter-segmental liabilities</b>	<b>(885,304.65)</b>	<b>(506,074.25)</b>
<b>Total Liabilities</b>	<b>2,530,900.63</b>	<b>1,550,119.28</b>
<b>Unallocated assets net of liabilities</b>	<b>4,941.77</b>	<b>384.15</b>

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

(Rs. in lakhs)

	31st March, 2007	31st March, 2006
<b>Capital Expenditure</b>		
Lending	1,041.75	736.81
Corporate Banking	765.69	461.55
Treasury and Investments	1,931.40	283.77
Retail Liabilities	3,693.27	2,317.65
Broking	2,712.05	3,113.41
Advisory and Transactional Services	1,894.02	197.63
Asset Management	210.96	337.02
Insurance	1,369.37	548.86
Corporate Centre	—	209.40
<b>Total</b>	<b>13,618.51</b>	<b>8,206.10</b>
<b>Depreciation</b>		
Lending	712.87	575.12
Corporate Banking	432.58	249.02
Treasury and Investments	755.05	245.54
Retail Liabilities	1,756.76	1,592.82
Broking	2,368.25	1,657.63
Advisory and Transactional Services	123.82	117.00
Asset Management	192.49	157.16
Insurance	1,026.61	1,004.85
Corporate Centre	—	472.03
<b>Total</b>	<b>7,368.43</b>	<b>6,071.17</b>

13. The Group has taken various premises under operating lease. The lease payments recognised in the Profit and Loss Account are Rs. 5,837.59 lakhs (previous year Rs. 3,992.73 lakhs). The sub-lease income recognised in the Profit and Loss Account is Rs. 17.28 lakhs (previous year Rs. Nil).
14. The future minimum lease payments under non/cancellable operating lease – not later than one year is Rs. 777.59 lakhs (previous year Rs. 644.82 lakhs), later than one year but not later than five years is Rs. 2,208.93 lakhs (previous year Rs. 788.63 lakhs) and later than five years Rs. 128.01 lakhs (previous year Rs. Nil).

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

Particulars	(Rs. in lakhs)	
	As at 31st March, 2007	As at 31st March, 2006
<b>Gross Investments:</b>		
(i) Not later than 1 year	2,050.96	3,454.91
(ii) Between 1-5 years	1,338.97	3,940.56
<b>Total</b>	<b>3,389.93</b>	<b>7,395.47</b>
<b>Unearned Finance Income:</b>		
(i) Not later than 1 year	184.13	511.50
(ii) Between 1-5 years	54.41	267.98
<b>Total</b>	<b>238.54</b>	<b>779.48</b>
<b>Accumulated provision on the Gross Investments</b>	<b>67.17</b>	<b>96.39</b>

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

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

Particulars	(Rs. in lakhs)	
	As at 31st March, 2007	As at 31st March, 2006
<b>Deferred Tax Assets</b>		
Provision for doubtful debts and contingencies	6,431.10	2,618.76
Depreciation on assets	1,325.19	441.86
Unabsorbed capital losses/provision for investments*	37.00	—
Expenditure allowed on payment basis and others	2,192.35	313.14
<b>Total Deferred Tax Assets</b>	<b>9,985.64</b>	<b>3,373.76</b>
<b>Deferred Tax Liabilities</b>		
Deferred expenses	1,301.48	1,175.01
Depreciation on assets	118.33	365.83
Others	3.68	47.38
<b>Total Deferred Tax Liabilities</b>	<b>1,423.49</b>	<b>1,588.22</b>
<b>Net Deferred Tax Assets/(Liabilities)</b>	<b>8,562.15</b>	<b>1,785.54</b>

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

## 16. FIXED ASSETS

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

Particulars	(Rs. in lakhs)	
	Year ended 31st March, 2007	Year ended 31st March, 2006
<b>SOFTWARE</b>		
<b>Gross Block</b>		
At cost on 31st March of the preceding year	4,701.23	3,416.84
Additions during the year	1,593.70	1,284.39
Deductions during the year	16.00	—
<b>Total</b>	<b>6,278.93</b>	<b>4,701.23</b>
<b>Depreciation</b>		
As at 31st March of the preceding year	3,027.97	1,851.98
Charge for the year	1,225.21	1,175.99
Deductions during the year	11.76	—
<b>Depreciation to date</b>	<b>4,241.42</b>	<b>3,027.97</b>
<b>Net Block</b>	<b>2,037.51</b>	<b>1,673.26</b>
<b>MEMBERSHIP CARDS OF STOCK EXCHANGE</b>		
<b>Gross Block</b>		
At cost on 31st March of the preceding year	466.00	466.00
<b>Total</b>	<b>466.00</b>	<b>466.00</b>

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

Particulars	(Rs. in lakhs)	
	Year ended 31st March, 2007	Year ended 31st March, 2006
<b>Depreciation</b>		
As at 31st March of the preceding year	216.05	192.48
Charge for the year	17.40	23.57
<b>Depreciation to date</b>	<b>233.45</b>	<b>216.05</b>
<b>Net Block</b>	<b>232.55</b>	<b>249.95</b>
<b>GOODWILL</b>		
<b>Gross Block</b>		
At cost on 31st March of the preceding year	188.40	188.40
<b>Total</b>	<b>188.40</b>	<b>188.40</b>
<b>Depreciation</b>		
As at 31st March of the preceding year	188.40	153.86
Charge for the year	—	34.54
<b>Depreciation to date</b>	<b>188.40</b>	<b>188.40</b>
<b>Net Block</b>	<b>—</b>	<b>—</b>
<b>FOREX BROKING BUSINESS RIGHTS</b>		
<b>Gross Block</b>		
At cost on 31st March of the preceding year	383.00	383.00
<b>Total</b>	<b>383.00</b>	<b>383.00</b>
<b>Depreciation</b>		
As at 31st March of the preceding year	194.69	156.39
Charge for the year	38.30	38.30
<b>Depreciation to date</b>	<b>232.99</b>	<b>194.69</b>
<b>Net Block</b>	<b>150.01</b>	<b>188.31</b>

### 17. FIXED ASSETS AND DEPRECIATION:

The Group has revised the estimated useful life of premises from 30 years to 58 years with effect from 1st April, 2006. In accordance with Accounting Standard (AS)-6. "Depreciation Accounting" the unamortised depreciable amount of the premises is charged to revenue over the revised remaining useful life. However, the minimum depreciation as prescribed by the Company's Act, 1956 is provided in respect of premises wherein the effective depreciation rate after the change in estimated useful life is less than the prescribed minimum rate. Accordingly, depreciation charged for the current period is lesser by Rs. 139.26 lakhs.

The Group has revised the estimated useful life of 'Membership Cards of Stock Exchange' from 10 years to 20 years after considering the industry in which the broking subsidiary operates, the volume generated and the share of the company in the total market volume. The impact of the change is not material.

### 18. FLOATING PROVISIONS

The Bank had adopted the policy of creating a floating provision on the purchased non-performing assets portfolio equivalent to the income recognised on individual assets wherever the total collection was less than the cost of that portfolio. The Bank has discontinued its policy of creating floating provisions and continues to recognise income and provision for NPA at the asset level. Consequent to a clarification received from the RBI, the Bank has written back floating provision amounting to Rs. 162.32 lakhs during the year ended 31st March, 2007 on those assets which have been fully realised.

19. The consideration paid for the acquisition of additional 25.01% stake in KMCC includes the payment for additional effective 12.50% stake in Multifaced Finstock Private Limited (MFPL). Based on the unaudited financial statements the 12.50% stake in MFPL amounts to Rs. 9,929.22 lakhs which has been considered while arriving at capital reserve on acquisition of stake in KMCC and in arriving at the share pre-acquisition profits in MFPL.

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

### 20. RELATED PARTY DISCLOSURES:

A	Nature of relationship	Name of Related Party
	Individual having control over the enterprise	Uday Kotak, Executive Vice Chairman and Managing Director (also considered as Key Management personnel), along with relatives and enterprise in which he has beneficial interest, holds 51.46% of the equity share capital of Kotak Mahindra Bank Limited
B	Other Related Parties	
	Associates	Business Standard Limited India Car Private Limited Kotak Mahindra Asset Reconstruction Company Limited Ford Credit Kotak Mahindra Limited (up to 4th October, 2005)
	Investing Party of the subsidiaries	Old Mutual Plc. Old Mutual Life Assurance Company (South Africa ) Limited Goldman Sachs (Mauritius) LLC (up to 30th May, 2006)
	Associate of the subsidiary	Multifaced Finstock Private Limited
	Enterprises over which relatives of Key Management Personnel have significant influence	Aero Agencies Limited Kotak and Company Limited Kotak Commodity Services Limited
	Key Management Personnel	Mr. Uday S. Kotak - Vice Chairman & Managing Director- KMBL Mr. C. Jayaram - Executive Director- KMBL Mr. Dipak Gupta - Executive Director- KMBL Mr. Ajay Sondhi – Vice Chairman & Managing Director – KMCC (till 30th June 2005)
	Relatives of Key Management Personnel	Ms. Pallavi Kotak Mr. Suresh Kotak Ms. Indira Kotak Mr. Jay Kotak Mr. Dhawal Kotak Ms. Aarti Chandaria Ms. Usha Jayaram Ms. Anita Gupta Ms. Urmila Gupta

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

### C. Details of related party transactions

Rupees in lakhs

Sr. No.	Items/Related Party	Individual having Control	Associates	Investing Party of the subsidiaries	Associate of the subsidiary	Enterprises over which relatives of Key Management Personnel have significant influence	Key Management Personnel	Relatives of Key Management Personnel
<b>I.</b>	<b>Liabilities</b>							
	Other Liabilities			46.91 (19.06)	— (10,525.00)	7.04 (5.80)		
<b>II.</b>	<b>Assets</b>							
	Investments/Goodwill—Gross		3,563.09 (3,563.09)					
	Diminution on Investments		723.47 (774.23)					
	Others			1.37 (333.33)		25.89 (66.65)		— (0.25)
<b>III.</b>	<b>Expenses</b>							
	Salaries/fees*						432.33 (529.91)	
	Others				80.07 (53.33)	792.61 (726.24)		
<b>IV.</b>	<b>Income</b>							
	Dividend		4.50 (4.50)					
	Others		— (142.29)	1,359.16 (6,094.73)	8.24 (—)	71.93 (60.31)	— (0.01)	— (0.04)
<b>V.</b>	<b>Other Transactions</b>							
	Dividend paid	918.79 (837.78)					2.48 (1.68)	5.93 (4.94)
	Reimbursement to companies		— (7.78)	51.57 (21.96)		82.56 (0.27)		
	Reimbursement from companies		— (146.91)	6.03 (25.04)		19.59 (10.52)		
	Issue of Share Capital			2,229.87 (853.40)				
	Purchase of Investments			33,300.00 (—)				
	ICDs taken and repaid during the year		10,500.00 (—)					
	Loans repaid during the year		10,525.00 (—)					

\* excludes incentive payment for the current year

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

### D. Material transactions with related parties

Rs. in lakhs

Sr. No.	Items/Related Party	Individual having control	Associates	Investing Party of the subsidiary	Associate party of the subsidiary	Enterprises over which relatives of Key Management Personnel have significant influence	Key Management Personnel	Relatives of Key Management Personnel	TOTAL
<b>I.</b>	<b>Liabilities:</b>								
	<b>Other liabilities</b>								
	Old Mutual Life Assurance Company (South Africa) Limited			46.91 (19.06)					46.91 (19.06)
	Aero Agencies Limited					7.04 (5.80)			7.04 (5.80)
	Multifaced Finstock Private Limited				— (10,525.00)				—
<b>II.</b>	<b>Assets:</b>								
	<b>Investments/Goodwill</b>								
	Business Standard Limited		3,291.59 (3,291.59)						3,291.59 (3,291.59)
	IndiaCar Private Limited		270.00 (270.00)						270.00 (270.00)
	Kotak Mahindra Asset Reconstruction Company Limited		1.50 (1.50)						1.50 (1.50)
	<b>Diminution on investments</b>								
	Business Standard Limited		695.58 (695.58)						695.58 (695.58)
	IndiaCar Private Limited		26.39 (77.15)						26.39 (77.15)
	Kotak Mahindra Asset Reconstruction Company Limited		1.50 (1.50)						1.50 (1.50)
	<b>Others</b>								
	Kotak Commodity Services Limited					25.89 (66.65)			25.89 (66.65)
	Mr. Suresh Kotak							— (0.25)	— (0.25)
	Goldman Sachs (Mauritius) LLC			— (332.44)					— (332.44)

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

Rs. in lakhs

Sr. No.	Items/Related Party	Individual having control	Associates	Investing Party of the subsidiary	Associate party of the subsidiary	Enterprises over which relatives of Key Management Personnel have significant influence	Key Management Personnel	Relatives of Key Management Personnel	TOTAL
	Old Mutual PLC			1.37 (0.89)					1.37 (0.89)
III.	<b>Expenses:</b>								
	<b>Salaries</b>								
	Mr. Uday Kotak*						92.07 (104.25)		92.07 (104.25)
	Mr. C. Jayaram*						172.70 (176.67)		172.70 (176.67)
	Mr. Dipak Gupta*						167.56 (154.99)		167.56 (154.99)
	Mr. Ajay Sondhi						— (94.00)		— (94.00)
	<b>Others</b>								
	Aero Agencies Limited					772.00 (722.36)			772.00 (722.36)
	Multifaced Finstock Private Limited				80.07 (53.33)				80.07 (53.33)
	Others parties					20.61 (3.88)			20.61 (3.88)
IV.	<b>Income:</b>								
	<b>Dividend</b>								
	IndiaCar Private Limited		4.50 (4.50)						4.50 (4.50)
	<b>Others</b>								
	<b>License Fees and Other Income</b>								
	Ford Credit Kotak Mahindra Limited		— (142.29)						— (142.29)
	<b>Brokerage</b>								
	Goldman Sachs (Mauritius) LLC			1,359.16 (6,094.73)					1,359.16 (6,094.73)
	<b>Others</b>					2.60 (—)			2.60 (—)
	<b>Interest</b>								
	Multifaced Finstock Private Limited				8.24 (—)				8.24 (—)

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

Rs. in lakhs

Sr. No.	Items/Related Party	Individual having control	Associates	Investing Party of the subsidiary	Associate party of the subsidiary	Enterprises over which relatives of Key Management Personnel have significant influence	Key Management Personnel	Relatives of Key Management Personnel	TOTAL
	<b>Fee Income</b>								
	Kotak Commodity Services Limited					69.33 (60.00)			69.33 (60.00)
	Others					— (0.31)			— (0.31)
	<b>Brokerage</b>								
	Mr. C Jayaram						— (0.01)		— (0.01)
	Mr. Suresh Kotak							— (0.01)	— (0.01)
	Ms. Indira Kotak							— (0.03)	— (0.03)
<b>V.</b>	<b>Other Transactions:</b>								
	<b>Dividend Paid</b>								
	Mr. Uday Kotak	918.79 (837.78)							918.79 (837.78)
	Mr. C Jayaram						1.11 (0.73)		1.11 (0.73)
	Mr. Dipak Gupta						1.37 (0.95)		1.37 (0.95)
	Ms. Pallavi Kotak							1.67 (1.39)	1.67 (1.39)
	Ms. Indira Kotak							3.64 (3.03)	3.64 (3.03)
	Others							0.62 (0.52)	0.62 (0.52)
	<b>Reimbursements made</b>								
	Aero Agencies Limited					82.56 (0.27)			82.56 (0.27)
	Old Mutual Life Assurance Company Limited			51.57 (21.96)					51.57 (21.96)
	Ford Credit Kotak Mahindra Limited		— (7.78)						— (7.78)
	<b>Reimbursements received</b>								
	Old Mutual Life Assurance Company Limited			4.66 (24.15)					4.66 (24.15)

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

Rs. in lakhs

Sr. No.	Items/Related Party	Individual having control	Associates	Investing Party of the subsidiary	Associate party of the subsidiary	Enterprises over which relatives of Key Management Personnel have significant influence	Key Management Personnel	Relatives of Key Management Personnel	TOTAL
	Old Mutual PLC			1.37 (0.89)					1.37 (0.89)
	Kotak Commodity Services Limited					19.59 (10.52)			19.59 (10.52)
	Ford Credit Kotak Mahindra Limited		— (146.91)						— (146.91)
	<b>Issue of Share Capital</b>								
	Old Mutual Plc			2,229.87 (853.40)					2,229.87 (853.40)
	Purchase of Investments Goldman Sachs			33,300.00 (—)					33,300.00 (—)
	<b>ICD taken and repaid during the year</b>								
	Multifaced Finstock Private Limited		10,500.00 (—)						10,500.00 (—)
	<b>Loan repaid during the year</b>								
	Multifaced Finstock Private Limited		10,525.00 (—)						10,525.00 (—)

\*excludes incentive payment for the current year

Note: Figures of previous year are given in bracket.

21. Proposed Dividend (including corporate dividend tax) for the financial year ended 31st March, 2007 includes an amount of Rs. 3.40 lakhs in respect of dividend paid by the bank for the previous year on 429,953 equity shares allotted before the date of book closure as they ranked pari-passu with the existing equity shares for dividend.
22. Figures for the previous year have been regrouped/reclassified wherever necessary to conform to current year's presentation.

For and on behalf of the Board of Directors

Dr. Shankar Acharya  
Chairman

Uday Kotak  
Executive Vice Chairman &  
Managing Director

Dipak Gupta  
Executive Director

Jaimin Bhatt  
Group Chief Financial Officer

Bina Chandarana  
Company Secretary

Mumbai  
Dated: 17th May, 2007

**Financial Information of Subsidiaries for the year ended 31st March, 2007**

Rs. in Lakhs

Particulars	Kotak Mahindra Capital Company Limited	Kotak Securities Limited	Kotak Mahindra Prime Limited	Kotak Mahindra Old Mutual Life Insurance Company Limited	Kotak Mahindra Asset Management Company Limited	Kotak Mahindra Trustee Company Limited	Kotak Mahindra Investments Limited	Kotak Mahindra (Intern) Limited	Kotak Mahindra (UK) Limited	Kotak Mahindra Inc.	Global Investment Opportunities Fund Limited	Kotak Mahindra Securities Limited	Kotak Mahindra Trusteeship Services Limited (Formerly Kotak Mahindra Private Equity Trustee Limited)	Kotak Forex Brokerage Limited
Capital	396.00	160.00	300.70	33,034.66	1,980.00	5.01	305.03	1,615.98	700.78	6.99	0.10	459.20	5.00	250.00
Reserves	26,509.00	74,920.05	55,427.65	(21,113.67)	723.89	1,222.14	13,468.72	3,208.51	2,109.77	1,085.49	(0.01)	3,405.62	36.74	(193.72)
Total Networth	26,905.00	75,080.05	55,728.35	11,920.99	2,703.89	1,227.15	13,773.75	4,824.49	2,810.55	1,092.48	0.09	3,864.82	41.74	56.28
Total Assets	88,878.00	213,052.43	438,924.19	196,141.99	4,160.68	1,241.54	83,359.14	5,091.01	5,748.80	1,710.82	0.09	4,181.46	42.58	242.72
Total Liabilities	61,973.00	137,972.38	383,195.84	184,221.00	1,456.79	14.39	69,585.39	266.52	2,938.25	618.34	—	316.64	0.84	186.44
Investments (excluding investment in subsidiaries)	11,530.00	13,235.59	3,915.46	155,518.25	1,262.00	639.20	19,160.38	368.62	—	0.07	—	3,153.32	41.01	22.72
Turnover	20,518.00	83,393.26	44,363.10	107,858.51	5,442.55	735.42	11,463.36	1,891.30	5,176.44	2,422.42	—	272.48	32.37	47.07
Profit before taxation	9,390.00	36,512.14	8,425.20	(5,563.16)	1,059.92	674.45	3,567.53	1,332.40	2,012.76	1,321.08	—	60.19	30.45	(51.76)
Provision for taxation	2,602.00	10,940.72	2,691.16	271.72	377.00	210.17	861.70	31.44	606.60	527.51	—	25.74	10.10	0.25
Profit after taxation	6,788.00	25,571.42	5,734.04	(5,834.88)	682.91	464.28	2,705.83	1,300.96	1,406.16	793.57	—	34.45	20.35	(52.01)
Proposed Dividend	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 holder's liabilities and unit linked liabilities.

**For and on behalf of the Board of Directors**
**Bina Chandarana**  
Company Secretary

**Jaimin Bhatt**  
Group Chief  
Financial Officer

**Dr. Shankar Acharya**  
Chairman

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

**Dipak Gupta**  
Executive Director

Mumbai

Dated: 17th May, 2007