



Kotak Mahindra Bank Ltd.

TWENTY-SECOND ANNUAL REPORT 2006-07



Auditors' Report

To The Members of Kotak Mahindra Bank Limited

1. We have audited the attached Balance Sheet of **KOTAK MAHINDRA BANK LIMITED** ("the Bank") as at 31st March, 2007, the Profit and Loss Account and the Cash Flow Statement of the Bank for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in 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 report thereon as follows:
 - (a) The Balance Sheet and the Profit and Loss Account have been drawn up in conformity with the Forms set out in the Third Schedule to the Banking Regulation Act, 1949, read with Section 211 of the Companies Act, 1956.
 - (b) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory.
 - (c) The transactions of the Bank which have come to our notice have been within the powers of the Bank.
 - (d) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books.
 - (e) The financial accounting systems of the Bank are centralised and, therefore, accounting returns are not required to be submitted by the Branches.
- (f) The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account.
- (g) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956, in so far as they apply to banks.
- (h) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Bank as at 31st March, 2007;
 - (ii) in the case of the Profit and Loss Account, of the profit of the Bank for the year ended on that date and
 - (iii) in case of the Cash Flow Statement, of the cash flows of the Bank for the year ended on that date.
4. On the basis of the written representations from the directors as on 31st March, 2007, taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2007 from being appointed as a director under Section 274 (1)(g) of the Companies Act, 1956.

For S. B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner
(Membership No. 15860)

Mumbai, 8th May, 2007

Balance Sheet as at 31st March, 2007

	Schedule	As at 31st March, 2007 Rupees in lakhs	As at 31st March, 2006 Rupees in lakhs
Capital And Liabilities			
Capital	1	32,615.57	30,929.46
Reserves and Surplus	2	130,734.27	54,345.21
Employees' Stock Options (Grants) Outstanding		2,842.64	1,184.38
Deposits	3	1,100,009.14	656,591.84
Borrowings	4	509,975.20	160,922.84
Other Liabilities and Provisions	5	215,365.09	113,578.79
Total		1,991,541.91	1,017,552.52

Assets

Cash and Balances with Reserve Bank of India	6	75,121.59	41,879.52
Balances with Banks and Money at Call and Short Notice	7	54,474.96	17,371.31
Investments	8	686,196.48	285,552.57
Advances	9	1,092,406.94	634,830.90
Fixed Assets	10	14,108.71	10,522.52
Other Assets	11	69,233.23	27,395.70
Total		1,991,541.91	1,017,552.52
Contingent Liabilities	12	10,065,470.36	3,950,480.39
Bills for Collection		21,944.14	9,275.74

Significant Accounting Policies and Notes to the Financial Statements

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As per our report of even date attached.

For and on behalf of the Board of Directors

For S. B. Billimoria & Co.
Chartered Accountants

Dr. Shankar Acharya
Chairman

Uday Kotak
Executive Vice Chairman &
Managing Director

Nalin M. Shah
Partner

Dipak Gupta
Executive Director

Mumbai
Dated: 8th May, 2007

Jaimin Bhatt
Group Chief Financial Officer

Bina Chandarana
Company Secretary

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
I. Income			
Interest earned	13	135,410.14	71,888.85
Other Income	14	28,365.72	21,806.56
Total		163,775.86	93,695.41
II. Expenditure			
Interest expended	15	69,923.97	33,892.19
Operating expenses	16	61,270.73	38,746.91
Provisions and Contingencies [includes tax provision of Rs. 6,188 lakhs (previous year Rs. 5,536.50 lakhs)]	17	18,444.64	9,233.26
Total		149,639.34	81,872.36
III. Profit			
Net Profit for the year		14,136.52	11,823.05
Add: Surplus brought forward from previous year		28,636.25	19,441.90
Add: Transfer from Kotak Mahindra Capital Company Limited on demerger (refer note 13 schedule 18 II B)		21,676.06	—
Total		64,448.83	31,264.95
IV. Appropriations			
Transfer from Kotak Mahindra Capital Company Limited on demerger appropriated to General Reserve (refer note 13 schedule 18 II B)		21,676.06	—
Transfer to Statutory Reserve		3,550.00	2,975.00
Transfer to General Reserve		725.00	300.00
Transfer to Capital Reserve		405.00	965.00
Transfer from Investment Fluctuation Reserve		-	(3,830.00)
Proposed Dividend [refer Note 24 - Schedule 18 II B]		2,286.06	1,945.80
Corporate Dividend Tax [refer Note 24 - Schedule 18 II B]		388.43	272.90
Balance carried over to Balance Sheet		35,418.28	28,636.25
Total		64,448.83	31,264.95
V. Earnings Per Share (Face value of Rs 10/-)			
Basic [refer Note 3 - Schedule 18 II B]		4.36	3.83
Diluted [refer Note 3 - Schedule 18 II B]		4.33	3.80

Significant Accounting Policies and Notes to the Financial Statements

18

As per our report of even date attached.

For and on behalf of the Board of Directors

For S. B. Billimoria & Co.
Chartered Accountants

Dr. Shankar Acharya
Chairman

Uday Kotak
Executive Vice Chairman &
Managing Director

Nalin M. Shah
Partner

Dipak Gupta
Executive Director

Mumbai
Dated: 8th May, 2007

Jaimin Bhatt
Group Chief Financial Officer

Bina Chandarana
Company Secretary

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
Cash Flow From Operating Activities		
Net Profit Before Taxes	20,323.52	17,359.55
Adjustments for :		
Employee Stock Options Grants	978.84	446.73
Depreciation on bank property	3,473.94	2,959.82
Diminution in the value of investments written back	(53.17)	(52.45)
Dividend from Subsidiaries/ Joint Ventures	(4.50)	(598.24)
Loss on revaluation of Investments (net)	4,392.42	4,503.23
Provision for Non Performing Assets	12,309.81	3,749.21
Wealth Tax	1.00	0.50
Profit on sale of fixed assets	(54.87)	(27.52)
	41,366.99	28,340.83
Adjustments for :		
Increase in Investments other than Subsidiaries, Joint Ventures & Other Long term Investments	(377,711.50)	(116,048.19)
Increase in Advances	(463,595.54)	(235,378.68)
Increase in Other Assets	(37,213.94)	(9,884.45)
Increase in Cash Collateral with Banks	(628.06)	(982.78)
Increase in Deposits	443,417.30	225,530.33
Increase in Borrowings	349,052.36	70,742.03
Increase in Other Liabilities & Provisions	93,933.32	56,107.71
	7,253.94	(9,914.03)
Direct Taxes Paid	(10,143.27)	(6,619.00)
Net Cash Flow From Operating Activities (A)	38,477.66	11,807.80
Cash Flow From Investing Activities		
Purchase of Fixed assets	(7,125.25)	(3,866.70)
Sale of Fixed assets	166.39	121.89
(Increase) / Decrease in Investments in Subsidiaries & Joint Ventures	(5,564.55)	8,742.16
Dividend from Subsidiaries/ Joint Ventures	4.50	598.24
Net Cash Flow From/ (Used In) Investment Activities (B)	(12,518.91)	5,595.59

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
Cash Flow From/(used in) Financing Activities				
Fresh issue of shares/Money received on exercise of stock options		46,840.25		670.12
Share issue expenses		(879.89)		(87.17)
Dividend paid including Corporate Dividend Tax		(2,222.10)		(1,757.74)
Net Cash Flow From Financing Activities	(C)	43,738.26		(1,174.79)
Net Increase In Cash & Cash Equivalents	(A+B+C)	69,697.01		16,228.60
Cash & Cash Equivalents at the Beginning of the Year (Refer Note below)		58,143.05		41,914.45
Cash & Cash Equivalents at the end of the Year (Refer Note below)		127,840.06		58,143.05
Note:				
Balance with banks in India in Fixed Deposit (As per Schedule 7 I (i) (b))		5,084.46		34.46
Balance with banks in India in current account (As per Schedule 7 I (i) (a))	13,486.29		9,990.94	
Less Bank balances on acquisition of business from a subsidiary	(20.65)		—	
Cash Collateral Security shown separately in Operating Activities	(1,735.84)	11,729.80	(1,107.78)	8,883.16
Money at call and short notice in India (as per Schedule 7 I (ii))		—		5,000.00
Cash in hand (including foreign currency notes) (As per Schedule 6 I.)		9,001.33		4,558.64
Balance with RBI in current accounts (As per Schedule 6 II.)		66,120.26		37,320.88
Balance with banks Outside India:				
(i) In current account (As per Schedule 7 II (i))		2,432.31		784.38
(ii) In other Deposit Accounts (As per Schedule 7 II (ii))		33,471.90		1,561.53
Cash & Cash Equivalents at the end of the Year		127,840.06		58,143.05

As per our report of even date attached.

For S. B. Billimoria & Co.
Chartered Accountants

Nalin M. Shah
Partner

Mumbai
Dated: 8th 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 Balance Sheet as at 31st March, 2007

	As at 31st March, 2007 Rupees in lakhs	As at 31st March, 2006 Rupees in lakhs
Schedule 1 — Capital		
Authorised Capital		
35,00,00,000 Equity Shares of Rs. 10/- each	35,000.00	35,000.00
Issued, Subscribed and Paid-up Capital		
32,61,55,708 (31st March, 2006: 30,92,94,625) Equity Shares of Rs. 10/- each, fully paid-up (Of the above 18,49,85,250 Equity shares have been issued as bonus shares by capitalisation of Reserves)	32,615.57	30,929.46
Total	32,615.57	30,929.46
Schedule 2 — Reserves And Surplus		
I. Statutory Reserve		
Opening Balance	12,876.00	9,901.00
Add: Transfer from Profit and Loss Account	3,550.00	2,975.00
Total	16,426.00	12,876.00
II. Capital Reserve		
Opening balance	1,276.03	311.03
Add: Transfer from Profit and Loss Account	405.00	965.00
Total	1,681.03	1,276.03
III. General Reserve		
Opening Balance	3,945.24	13,645.24
Add: Transfer from Profit and Loss Account being transfer from Kotak Mahindra Capital Company Limited on demerger (refer note 13 schedule 18 II B)	21,676.06	—
Add: Transfer from Profit and Loss Account	725.00	300.00
Less: Transitional adjustment for Employee Benefits (refer Note 16 i - Schedule 18 II B)	1,023.28	—
Less: Utilised for Issue of Bonus shares	—	10,000.00
Total	25,323.02	3,945.24
IV. Share Premium Account		
Opening Balance	7,611.69	15,625.85
Add: Received during the year *	45,154.14	571.54
Less: Utilised for Issue of Bonus shares	—	8,498.53
Less: Utilised for Share Issue Expenses **	879.89	87.17
Total	51,885.94	7,611.69
* Includes Rs. 43,504.95 lakhs consequent to issue of GDS vide prospectus dated 23rd April, 2006		
** Represents GDS issue expenses written-off (refer Note 1 Schedule 18 II B)		
V. Investment Fluctuation Reserve		
Opening Balance	—	3,830.00
Less: Transfer to Profit and Loss Account	—	3,830.00
Total	—	—
VI. Balance in the Profit and Loss Account	35,418.28	28,636.25
Total	130,734.27	54,345.21

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

	As at 31st March, 2007 Rupees in lakhs	As at 31st March, 2006 Rupees in lakhs
Schedule 3 — Deposits		
I. Demand Deposits		
i. From Banks	2,061.21	2,679.16
ii. From Others	208,806.55	73,184.34
Total	210,867.76	75,863.50
II. Savings Bank Deposits	88,770.34	48,933.60
III. Term Deposits		
i. From Banks	314,435.88	186,506.69
ii. From Others [refer Note 17- Schedule 18 II B]	485,935.16	345,288.05
Total	800,371.04	531,794.74
Total Deposits of branches in India (I to III)	1,100,009.14	656,591.84

Schedule 4 — Borrowings

I. Borrowings in India		
i. Reserve Bank of India	159,323.00	258.00
ii. Banks	219,152.62	110,494.61
iii. Institutions and Agencies	109,764.58	38,940.63
Total	488,240.20	149,693.24
II. Borrowings outside India	21,735.00	11,229.60
Total Borrowings (I and II)	509,975.20	160,922.84
Secured Borrowings under CBLO included in I (iii) above	14,991.73	—

Schedule 5 — Other Liabilities and Provisions

I. Bills Payable	28,309.00	19,337.67
II. Interest Accrued	16,754.86	6,547.72
III. Others (including provisions)	105,078.63	61,474.70
IV. Proposed Dividend (includes tax on dividend for the current year)	2,671.10	2,218.70
V. Sub-ordinated Debt (Tier II Capital) (refer Note 19-Schedule 18 II B)	42,990.00	24,000.00
VI. Upper Tier II Bonds (refer Note 20-Schedule 18 II B)	19,561.50	—
Total	215,365.09	113,578.79

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

	As at 31st March, 2007 Rupees in lakhs	As at 31st March, 2006 Rupees in lakhs
Schedule 6 — Cash and Balances with Reserve Bank of India		
I. Cash and cheques on hand (including foreign currency notes)	9,001.33	4,558.64
II. Balances with RBI in current account	66,120.26	37,320.88
Total	75,121.59	41,879.52

Schedule 7 — Balances with Banks and Money at Call and Short Notice

I. In India		
(i) Balances with Banks		
(a) In Current Accounts (refer Note 8-Schedule 18 II B)	13,486.29	9,990.94
(b) In Other Deposit Accounts	5,084.46	34.46
	18,570.75	10,025.40
(ii) Money at Call and Short Notice With Banks	—	5,000.00
	—	5,000.00
Total	18,570.75	15,025.40
II. Outside India		
(i) In current accounts	2,432.31	784.38
(ii) In other Deposit Accounts	33,471.90	1,561.53
Total	35,904.21	2,345.91
Total (I and II)	54,474.96	17,371.31

Schedule 8 — Investments

I. Investments in India in		
I. Government Securities*	586,366.64	237,164.80
II. Other approved Securities	1.00	1.00
III. Shares	425.14	155.19
IV. Debentures and Bonds	17,679.98	18,364.00
V. Subsidiaries and Joint Ventures	21,937.44	17,698.57
VI. Others [Units, Certificate of Deposits, Commercial Paper (CP) and Pass Through Certificates (PTC)]	58,409.84	12,169.01
Total	684,820.04	285,552.57
* Investments include Repo Lending under Liquidity Adjustment Facility of RBI — Rs. Nil (previous year Rs. 7,500 lakhs) and net of Repo of Rs. 2,919 lakhs (Previous Year Rs. Nil)		
II. Investments outside India in		
I. Subsidiaries and Joint Ventures	1,376.44	—
Total	1,376.44	—
Total Investments (I and II)	686,196.48	285,552.57

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

	As at 31st March, 2007 Rupees in lakhs	As at 31st March, 2006 Rupees in lakhs
Schedule 9 — Advances		
A. (i) Bills purchased and discounted#	25,080.50	9,770.99
(ii) Cash Credits, Overdrafts and loans repayable on demand	84,624.22	39,047.62
(iii) Term Loans	982,702.22	586,012.29
# Bills purchased and discounted is net off Bills Rediscouted Rs. 18,065.91 lakhs (Previous Year Rs. 16,899.42 lakhs)		
Total	1,092,406.94	634,830.90
B. (i) Secured by tangible assets *	781,211.12	461,966.90
(ii) Unsecured	311,195.82	172,864.00
Total	1,092,406.94	634,830.90
* including advances against book debts		
C. Advances in India		
(i) Priority Sector	396,409.74	227,264.94
(ii) Public Sector	11.00	—
(iii) Banks	—	11.76
(iv) Others	695,986.20	407,554.20
Total	1,092,406.94	634,830.90
Schedule 10 — Fixed Assets		
A. Premises (Including Land)		
Gross Block		
At cost on 31st March of the preceding year	7,796.84	7,820.68
Additions during the year	738.30	—
Less: Deductions during the year	11.11	23.84
Total	8,524.03	7,796.84
Depreciation (refer Note 2-Schedule 18 II B)		
As at 31st March of the preceding year	2,852.18	2,601.90
Add: Charge for the year	133.86	260.74
Less: Deductions during the year	4.25	10.46
Depreciation to date	2,981.79	2,852.18
Net Block	5,542.24	4,944.66
B. Other Fixed Assets (including Furniture and Fixtures)		
Gross Block		
At cost on 31st March of the preceding year	12,730.72	9,036.79
Additions during the year	6,433.37	3,866.70
Less: Deductions during the year	331.59	172.77
Total	18,832.50	12,730.72
Depreciation		
As at 31st March of the preceding year	7,152.86	4,545.56
Add: Charge for the year	3,340.08	2,699.08
Less: Deductions during the year	226.91	91.78
Depreciation to date	10,266.03	7,152.86
Net Block	8,566.47	5,577.86
Total (A) + (B)	14,108.71	10,522.52

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

	As at 31st March, 2007 Rupees in lakhs	As at 31st March, 2006 Rupees in lakhs
Schedule 11 — Other Assets		
I. Interest accrued	20,057.19	8,392.62
II. Advance tax (net of provision)	1,307.92	692.66
III. Stationery and Stamps	61.97	29.99
IV. Cheques in course of collection	843.89	1,273.15
V. Non banking assets acquired	1,792.98	444.46
VI. Others (refer Note 6-Schedule 18 II B)	45,169.28	16,562.82
Total	69,233.23	27,395.70
Schedule 12 — Contingent Liabilities		
I. Claims not acknowledged as debts	2,189.83	2,153.75
II. Liability on account of Outstanding Forward Exchange Contracts	387,019.92	353,084.49
III. Guarantees on behalf of Constituents in India	15,744.33	7,811.91
IV. Acceptances, Endorsements and other obligations	28,286.66	20,621.30
V. Other Items for which the Bank is contingently liable :		
(a) Liability in respect of interest rate & currency swaps & forward rate agreements	8,230,709.14	2,685,583.28
(b) Liability in respect of Options Contracts	1,394,995.07	860,636.99
(c) Capital commitments not provided	6,525.41	20,588.67
Total	10,065,470.36	3,950,480.39

Schedules Forming Part of Profit and 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
Schedule 13 — Interest Earned		
I. Interest/discount on advances/bills	100,378.68	53,904.79
II. Income on investments	31,583.32	16,841.54
III. Interest on balances with RBI and other inter-bank funds	3,312.16	1,053.03
IV. Others	135.98	89.49
Total	135,410.14	71,888.85
Schedule 14 — Other Income		
I. Commission, exchange and brokerage	18,731.63	15,893.17
II. Profit on sale of Investments (net)	2,473.82	1,607.00
III. Loss on revaluation of Investments (net)	(4,392.42)	(4,503.23)
IV. Profit on sale of building and other assets (net)	54.87	27.52
V. Profit on exchange transactions (net)	1,520.64	2,853.46
VI. Income earned from Subsidiaries/ Joint Ventures	919.03	3,770.86
VII. Profit on recoveries of non-performing assets acquired	3,975.15	2,577.10
VIII. Profit/ (Loss) on Derivatives	4,489.81	(579.60)
IX. Miscellaneous Income	593.19	160.28
Total	28,365.72	21,806.56

Schedules Forming Part of Profit and 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
Schedule 15 — Interest Expended		
I. Interest on Deposits	52,145.49	27,432.40
II. Interest on RBI / Inter-Bank Borrowings	9,905.45	4,811.32
III. Others	7,873.03	1,648.47
Total	69,923.97	33,892.19

Schedule 16 — Operating Expenses

I. Payments to and provision for employees (refer Note 16-Schedule 18 II B)	29,298.22	17,138.60
II. Rent, taxes and lighting	4,100.21	2,667.51
III. Printing and Stationery	1,552.99	883.41
IV. Advertisement ,Publicity and Promotion	1,500.15	1,115.94
V. Depreciation on Bank's property (refer Note 2-Schedule 18 II B)	3,473.94	2,959.82
VI. Directors' fees, allowances and expenses	19.66	7.50
VII. Auditors' fees and expenses (refer Note 1- Schedule 18 II B)	86.91	77.85
VIII. Law Charges	614.25	306.09
IX. Postage, telephone etc.	2,072.67	1,741.07
X. Repairs and maintenance	2,603.95	1,102.46
XI. Insurance	417.43	631.97
XII. Travel and Conveyance	2,453.69	1,434.13
XIII. Professional Charges	4,009.67	3,313.28
XIV. Brokerage	6,261.66	4,018.56
XV. Stamping Expenses	748.47	451.45
XVI. Other Expenditure	5,310.80	3,333.28
	64,524.67	41,182.92
Less: Recovery of Costs from Group Companies	3,253.94	2,436.01
Total	61,270.73	38,746.91

Schedule 17 — Provisions And Contingencies

I. Provision for taxation (refer Note 14-Schedule 18 II A)	6,188.00	5,536.50
II. Provision for Non-performing Assets and contingencies (including write-offs and net of recoveries)	12,309.81	3,749.21
III. Provision for Diminution in value of Held to Maturity Investments written back	(53.17)	(52.45)
Total	18,444.64	9,233.26

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

Schedule 18 – Significant Accounting Policies and Notes To The Financial Statements

I. SIGNIFICANT ACCOUNTING POLICIES

A. ACCOUNTING METHODOLOGY

The Financial Statements have been prepared on historical cost basis of accounting. The Bank adopts the accrual system of accounting and it conforms to statutory provisions, practices prevailing within the banking industry and the guidelines issued by the Reserve Bank of India ("RBI") for banks.

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

B. REVENUE RECOGNITION

- a. Interest income is recognised on accrual basis except in case of non-performing assets where it is recognised, upon realisation, as per RBI guidelines. In respect of non-performing assets, overdue interest is recognised as income on realisation.
- b. Interest income in respect of retail advances is accounted for by using the internal rate of return method to provide a constant periodic rate of return on the net investment outstanding on the contract.
- c. Interest income on discounted instruments is recognised over the tenure of the instruments so as to provide a constant periodic rate of return.
- d. Service charges, Fees and Commission income are recognised when due except for Guarantee Commission which is recognised over the period of the guarantee.
- e. Dividend income is accounted on an accrual basis when the Bank's right to receive the dividend is established.
- f. 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.
- g. 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 [See G(e) also].

C. FIXED ASSETS

- a. Fixed assets have been stated at cost inclusive of incidental expenses less accumulated depreciation.
- b. Depreciation: The Bank adopts the Straight Line Method of depreciation so as to write off 100% of the cost of assets at rates higher than those prescribed under Schedule XIV to the Companies Act, 1956 for all assets other than premises, based on the Management's estimate of useful lives of all assets as follows:

Asset Type	Useful life in years
Premises (Refer note 2 – II B)	58 (previous year – 30 years)
Improvement to leasehold premises	Over the primary 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

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

D. EMPLOYEE BENEFITS

- a. Provident Fund

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

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

b. Gratuity

The Bank makes annual contribution to a Gratuity Fund administered by trustees and managed by a life insurance company. The net present value of the Bank's obligation towards the same is actuarially determined based on the projected unit credit method as at the Balance Sheet date. Actuarial gains and losses are immediately recognised in the Profit and Loss Account.

c. Superannuation Fund

The Bank contributes a sum equivalent to 15% (previous year 0.15%) of eligible employees' salary, subject to a maximum of Rs. 1 lakh per employee to a Fund administered by trustees and managed by a life insurance company. The Bank recognises such contributions as an expense in the year they are incurred.

d. Other Employee Benefits

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

E. INVESTMENTS

1. Classification

- a. In accordance with the RBI guidelines, investments are categorised into "Held for Trading", "Available for Sale" and "Held to Maturity" and further classified under six groups, namely, Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries/Joint Ventures and Other Investments for the purposes of disclosure in the Balance Sheet.
- b. Investments which are held for resale within 90 days from the date of purchase are classified as "Held for Trading".
- c. Investments which the Bank intends to hold to maturity are classified as "Held to Maturity". The Bank has classified investments in subsidiaries and joint ventures as "Held to Maturity".
- d. Investments which are not classified in either of the above two categories are classified as "Available for Sale".

2. Valuation

The cost of investments is determined on the weighted average basis. Broken period interest on debt instruments is treated as a 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:

- 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 such 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 the acquisition cost/book value/market value on the date of the transfer and depreciation, if any, on such transfer is fully provided for.

4. Profit Or Loss On Sale/Redemption Of Investments

- 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.

F. FOREIGN CURRENCY AND DERIVATIVE TRANSACTIONS

- a. Foreign currency assets and liabilities are translated as at the Balance Sheet date at rates notified by the Foreign Exchange Dealers' Association of India (FEDAI).
- b. Income and Expenditure items are translated at the rates of exchange prevailing on the date of the transaction.
- c. Foreign Exchange contracts (other than deposit and placement swaps) outstanding at the Balance Sheet date are revalued at rates notified by FEDAI and resulting profits or losses are included in the Profit and Loss Account. Foreign exchange swaps "linked" to foreign currency deposits and placements are translated at the 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.
- d. 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.
- e. Contingent liabilities as at the Balance Sheet date on account of outstanding foreign exchange contracts are restated at year end rates reported by FEDAI.

G. ADVANCES

- a. Advances are classified into standard, sub-standard, doubtful and loss assets in accordance with the RBI guidelines and are stated net of provisions made towards non-performing advances.
- b. Provision for non-performing advances comprising sub-standard, doubtful and loss assets is made in accordance with the RBI guidelines. In addition, the Bank adopts an approach to provisioning that is based on past experience, evaluation of security and other related factors.
- c. In accordance with 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%)

- d. Amounts paid for acquiring non-performing assets from other banks and NBFCs are considered as advances. Actual collections received on such non-performing assets are compared with the cash flows estimated while purchasing the asset to ascertain 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.
- e. 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 21 – II B)

H. SECURITISATION

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

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.

I. 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 comprise of changes in the deferred tax assets and liabilities. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax 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.

J. SEGMENT REPORTING

In accordance with Accounting Standard 17 (AS-17) on Segment Reporting, the Bank's business is segregated into the following segments whose principal activities are as under:

Segment	Principal activity
Corporate Banking	Wholesale borrowings and lendings and other related services to the corporate sector.
Lending	Commercial vehicle finance, personal loans, home loans, agriculture finance, asset reconstruction and other loans/services.
Retail liabilities	Retail borrowings covering savings and current accounts and Branch Banking network and services.
Treasury and Investments	Money market, forex market, derivatives and investments, primary dealership of government securities.
Venture Fund Management [From 1 st April, 2006]	Management of Venture capital and private equity fund.
Corporate Centre [upto 31 st March, 2006(*)]	Strategic investments and group activities.

(*) Effective 1st April, 2006, Corporate Centre has ceased to be a reportable segment under AS-17.

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

A transfer pricing mechanism between all the above segments has been established to arrive at interest cost on the borrowings of the segments.

Segment revenues consist of earnings from external customers and inter-segment revenues based on a transfer pricing mechanism. Segment expenses consist of interest expenses including allocated, operating expenses and provisions.

Segment results are net of segment revenues and segment expenses.

Segment assets include assets related to segments and exclude tax related assets. Segment liabilities include liabilities related to the segment excluding network.

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

K. EMPLOYEE STOCK OPTION SCHEME

The Bank has formulated Employee Stock Option Schemes (ESOS) in accordance with SEBI (Employee Stock Option Scheme) Guidelines, 1999. The Schemes provide for grant of options to employees of the Bank and its subsidiaries 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 ESOS over the exercise price of the option is amortised on a straight-line basis over the vesting period. In respect of options granted to employees of the subsidiaries, the Bank recovers the related compensation cost from the respective subsidiaries.

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

II. NOTES TO ACCOUNTS

A. DISCLOSURES AS LAID DOWN BY RBI CIRCULARS:

1. Capital Adequacy Ratio:

The Bank's Capital Adequacy Ratios calculated in accordance with the RBI Guidelines are as follows:

	As at 31 st March, 2007	As at 31 st March, 2006
	Rupees in lakhs	
Tier I Capital	133,856.85	65,801.52
Tier II Capital	70,569.84	26,103.74
Total Capital	204,426.69	91,905.26
Total Risk weighted assets and contingencies	1,518,878.70	815,769.90
Capital Ratios:		
Tier I	8.81%	8.07%
Tier II	4.65%	3.20%
Total Capital	13.46%	11.27%
Amount of subordinated debt considered in Tier II capital	42,890.00	24,000.00
Amount of subordinated debt considered in Upper Tier II Capital	19,561.50	—

Note:

Tier I Capital includes Equity Share Capital and Free Reserves and, in accordance with the RBI guidelines, is net of the following items:

- intangible assets consisting of deferred tax asset and capitalised software.
- equity investments in subsidiaries made by the Bank.
- 50% of Credit enhancement provided for securitisation transactions.

Tier II Capital consists of eligible Tier II, Upper Tier II Bonds and Provision on Standard Assets/Contingencies and is net of balance 50% of the credit enhancement provided for securitisation transactions.

The Capital Adequacy Ratios have been calculated after factoring the capital requirement for market risk on the held for trading, available for sale and other off Balance Sheet exposures as prescribed by the RBI.

2. Business ratios/information:

	Year ended 31 st March, 2007	Year ended 31 st March, 2006
Interest income as a percentage of working funds	8.98%	8.15%
Net interest income as a percentage of working funds	4.35%	4.17%
Non interest income as a percentage of working funds	1.88%	2.85%
Operating profit as a percentage of working funds	2.16%	2.48%
Return on assets (average)	0.94%	1.39%
Business (deposit plus advance) per employee (Rs. in lakhs)	383.91	352.00
Profit per employee (Rs. in lakhs)	3.13	4.15

Definitions:

- Working funds is the monthly average of total assets as reported to the RBI under Section 27 of the Banking Regulation Act, 1949.
- Operating profit = (Interest Income + Other Income – Interest expenses – Operating expenses).
- Business is monthly average of net advances and deposits. The average of deposits for the years ended 31st March, 2007 and 31st March, 2006 consists of monies collected by the Bank as bankers to various initial public offers (IPOs) made during the year by various companies. As on 31st March, 2007, the deposits in Schedule 3(I)(ii) includes Rs. 74,867.99 lakhs (previous year Rs. 1,042.97 lakhs) of such monies collected and remaining to be repaid. Inter bank deposits are excluded for the purposes of computation of this ratio.
- Productivity ratios are based on average number of employees.

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

3. Investments held under the 3 categories viz. "Held for Trading (HFT)" "Available for Sale (AFS)" and "Held to Maturity (HTM)" are as under:

	As at 31 st March, 2007				As at 31 st March, 2006			
	HFT	AFS	HTM	Total	HFT	AFS	HTM	Total
Government Securities	58,503.04	407,875.81	119,987.79	586,366.64	—	131,871.58	105,293.22	237,164.80
Other Approved Securities	—	1.00	—	1.00	—	1.00	—	1.00
Shares	—	425.14	—	425.14	—	155.19	—	155.19
Debentures and Bonds	2,500.00	11,889.98	3,290.00	17,679.98	8.80	15,065.20	3,290.00	18,364.00
Subsidiaries and Joint Ventures	—	—	23,313.88	23,313.88	—	—	17,698.57	17,698.57
Units, Certificate of Deposits, CP and PTCs	8,605.81	49,554.68	249.35	58,409.84	—	12,167.01	2.00	12,169.01
Total	69,608.85	469,746.61	146,841.02	686,196.48	8.80	159,259.98	126,283.79	285,552.57

4. Movement in provisions for depreciation on investments:

	Year ended 31 st March, 2007	Year ended 31 st March, 2006
1. Value of Investments		
i. Gross value of Investments		
a. In India	688,232.99	287,848.84
b. Outside India	1,376.44	—
ii. Provision for Depreciation		
c. In India	(3,412.95)	(2,296.27)
d. Outside India	—	—
iii. Net value of Investments		
e. In India	684,820.04	285,552.57
f. Outside India	1,376.44	—
2. Movement of provisions held towards depreciation on investments		
i. Opening balance	2,296.27	602.78
ii. Add: Provisions made during the year	3,367.04	2,019.32
iii. Less: Write-off/write-back of excess provisions during the year	2,250.36	325.83
iv. Closing balance	3,412.95	2,296.27

5. Disclosure in respect of Non-SLR investments:

- (i) Issuer composition of Non-SLR investments as at 31st March, 2007:

No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	PSUs	12,910.00	6,410.00	—	1,540.00	2,910.00
2.	Banks	1,977.58	1,977.58	—	—	—
3.	Private Corporates	500.00	500.00	—	—	—
4.	Subsidiaries/Joint ventures	23,341.77	23,341.77	—	23,341.77	23,341.77
5.	Others	62,300.92	2,500.00	—	—	—
6.	Provision held towards depreciation	1,201.43	—	—	—	—
	Total	99,828.84	34,729.35	—	24,881.77	26,251.77

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

Issuer composition of Non-SLR investments as at 31st March, 2006:

No. Issuer		Rupees in lakhs				
	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	PSUs	16,886.42	6,410.00	—	1,540.00	3,910.00
2.	Banks	1,509.64	1,500.00	—	—	—
3.	Private Corporates	500.00	500.00	—	—	—
4.	Subsidiaries/Joint ventures	17,777.22	17,777.22	—	17,777.22	17,777.22
5.	Others	12,631.46	12,503.61	—	311.56	179.59
6.	Provision held towards depreciation	917.97	—	—	—	—
Total		48,386.77	38,690.83	—	19,628.78	21,866.81

(ii) Non-performing Non-SLR investments:

Particulars	Rupees in lakhs	
	31 st March, 2007	31 st March, 2006
Opening balance	440.12	765.81
Additions during the year since 1 st April	0.27	5.40
Reductions during the year	—	331.09
Closing balance as at 31 st March	440.39	440.12
Total provisions held	180.00	233.17

6. Details of Repo/Reverse Repo (excluding LAF transactions for the year) deals:

Done during the year:

Particulars	Rupees in lakhs			
	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As at 31 st March, 2007
Securities sold under repos	490.63	42,921.40	15,553.16	2,919.00
Securities purchased under reverse repos	165.58	67,504.22	12,270.87	142,940.40

Done during the previous year ended 31st March, 2006:

Particulars	Rupees in lakhs			
	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As at 31 st March, 2006
Securities sold under repos	1,457.94	46,661.13	12,133.22	—
Securities purchased under reverse repos	87.25	29,940.56	7,219.98	5,684.41

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

7. Lending to sensitive sectors:

(a) Exposure to Capital Markets:

Particulars	Rupees in lakhs	
	As at 31 st March, 2007	As at 31 st March, 2006
i. Investments made in equity shares	1,776.52	1,508.97
ii. Investments in bonds/convertible debentures	—	—
iii. Investments in units of equity-oriented mutual/venture capital funds	2,634.72	—
iv. Advances against shares for investment in equity shares (including IPOs/ESOPs), bonds and debentures, units of equity oriented mutual funds	315.95	200.25
v. Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers	12,008.24	11,288.28
vi. Others (Application bids for Initial Public Offer)	3,199.98	—
Total Exposure to Capital Market*	19,935.41	12,997.50
Of the v. above, the total finance extended to stockbrokers for margin trading	—	—
Advances as of the previous year	634,830.90	401,714.22
Capital Market exposure as % to advances	3.14%	3.24%

* based on approved limits

(b) Real Estate Sector*

Particulars	Rupees in lakhs	
	As at 31 st March, 2007	As at 31 st March, 2006
(a) Direct exposure	214,213.70	118,091.37
i. Residential Mortgages —		
Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented	150,631.47	89,469.29
ii. Commercial Real Estate —		
Lendings secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits	63,582.23	28,622.08
iii. Investments in Mortgage Backed Securities (MBS) and other securitised exposures —		
a. Residential,	—	—
b. Commercial Real Estate	—	—
(b) Indirect Exposure	4,370.00	19,320.00
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	4,370.00	19,320.00

* Based on limits

(c) Risk category wise country exposure

Risk Category	Rupees in lakhs			
	Exposure (net) as at 31 st March, 2007	Provision held as at 31 st March, 2007	Exposure (net) as at 31 st March, 2006	Provision held as at 31 st March, 2006
	Insignificant	22,222.85	14.00	—

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

8. Movements in NPAs (Funded):

Particulars	Rupees in lakhs	
	Year ended 31 st March, 2007	Year ended 31 st March, 2006
i. Net NPA to Net Advances %	1.98%	0.24%
ii. Movement of NPAs (Gross)		
a. Opening balance	3,771.11	2,792.17
Opening Interest Suspense	219.87	139.69
b. Additions during the year	28,184.02	4,138.32
c. Reductions during the year	(3,962.14)	(3,079.20)
d. Closing Interest Suspense	(458.19)	(219.87)
e. Closing balance	27,754.67	3,771.11
iii. Movement of Net NPAs		
a. Opening balance	1,499.84	1,490.43
b. Additions during the year	21,392.25	1,055.44
c. Reductions during the year	(1,211.75)	(1,046.03)
d. Closing balance	21,680.34	1,499.84
iv. Movement of provisions for NPAs (excluding provisions on standard assets)		
a. Opening balance	2,271.27	1,301.74
Opening Interest Suspense	219.87	139.69
b. Provision made during the year	6,791.77	3,082.88
c. Write-off/write-back of excess provisions	(2,750.39)	(2,033.17)
Closing Interest Suspense	(458.19)	(219.87)
d. Closing balance	6,074.33	2,271.27

Provisions on Standard Assets

Particulars	Rupees in lakhs	
	Year ended 31 st March, 2007	Year ended 31 st March, 2006
Provisions towards Standard Assets	8,933.95	2,657.64

9. Gross NPA, Provisions for NPA and Net NPA include the following non- performing assets acquired from other Banks and NBFCs:

Particulars	Rupees in lakhs	
	As at 31 st March, 2007	As at 31 st March, 2006
Gross NPA	22,751.42	526.36
Provision for NPA	(2,928.78)	(248.61)
Net NPA	19,822.64	277.75

Further, the following information in respect of such assets acquired as required by the above guidelines is as under:

Number of accounts purchased during the year	95
Aggregate outstanding in the selling Banks' books	Rs. 56,976.07 lakhs

This information has been furnished by the Management and relied upon by the auditors.

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

10. Maturity pattern of key assets and liabilities:

As at 31st March, 2007:

Rupees in lakhs

	1-14 days	15-28 days	29 days – 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 3 years	Over 3 year to 5 years	Over 5 years	Total
Advances*	46,360.21	28,025.42	137,850.87	94,506.14	142,219.97	421,488.61	96,507.08	123,150.59	1,090,108.89
Investments	193,734.69	47,010.10	161,351.95	60,468.57	70,058.61	81,620.83	29,344.71	42,607.02	686,196.48
Deposits	149,421.89	91,922.70	187,824.18	203,474.52	191,447.60	265,056.70	6,789.38	4,072.17	1,100,009.14
Borrowings	260,747.58	26,750.00	102,109.09	28,370.75	37,509.81	35,749.31	18,738.66	—	509,975.20
Foreign Currency Assets	32,163.04	1.35	6,230.18	5,860.23	20,428.48	18,519.03	—	1,797.54	84,999.85
Foreign Currency Liabilities	68.03	111.88	1,646.98	3,410.00	5,409.52	13,511.71	3.72	19,635.58	43,797.42

(*) Advances shown above are net of the Advance EMI received amounting to Rs.2,298.05 lakhs.

As at 31st March, 2006:

Rupees in lakhs

	1-14 days	15-28 days	29 days – 3 Months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 3 years	Over 3 year to 5 years	Over 5 years	Total
Advances*	17,798.11	16,122.95	83,783.14	58,003.58	105,165.17	246,395.72	33,897.22	71,832.58	632,998.47
Investments	76,938.53	6,066.73	38,708.32	33,618.68	43,834.87	53,019.01	3,737.66	29,628.77	285,552.57
Deposits	68,517.90	25,645.17	135,710.27	140,325.23	162,748.81	121,366.92	2,082.03	195.51	656,591.84
Borrowings	70,652.61	20,925.00	15,041.94	4,720.98	9,491.03	22,181.28	15,103.12	2,806.88	160,922.84
Foreign Currency Assets	7.78	8.07	7,771.10	4,465.78	15,688.11	21,131.80	18.00	29.11	49,119.75
Foreign Currency Liabilities	811.24	—	2,526.19	3,560.75	24,139.21	11,098.82	—	535.38	42,671.59

(*) Advances shown above are net of the Advance EMI received amounting to Rs.1,855.60 lakhs.

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

11. Derivatives:

A. Forward Rate Agreements/Interest Rate Swaps:

Rupees in lakhs

Particulars	31 st March, 2007	31 st March, 2006
The notional principal of swap agreements	8,103,635.09	2,582,796.58
Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements	76,712.42	14,173.99
Collateral required by the Bank upon entering into swaps	NA	NA
Concentration of credit risk arising from the swaps	81.40%	85.37%
	(Banks)	(Banks)
The fair value of the swap book	481.11	(589.06)

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

B. Exchange Traded Interest Rate Derivatives:

Rupees in lakhs

Particulars	Amount
Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument wise)	NA
Notional principal amount of exchange traded interest rate derivatives outstanding as on 31 st March, 2007	NA
Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument wise)	NA
Mark to market value of exchange traded interest rate derivatives outstanding and not "highly effective"	NA

C. Disclosures on risk exposures in derivatives:

Qualitative disclosures:

- i. Structure and organisation for management of risk in derivatives trading, the scope and nature of risk measurement, risk reporting and risk monitoring systems and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants:

The Bank enters into derivative transactions for trading and hedging purposes. The Derivative policy defines the framework for carrying out the Derivative business and lays down the policies and processes adopted to measure, monitor and report risk arising from derivative transactions.

The Asset Liability Management Committee ("ALCO") is responsible for implementing the derivative policy. To effect this, the ALCO:

- approves a new derivative product
- determines appropriate limits for different derivative products within broad policy framework
- reviews the limit breaches and take appropriate actions

The Risk department of the Bank is responsible for measuring, reporting and monitoring risk arising from Derivative transactions and functions independently of the Treasury. The risk management methods generally applied are quantitative like counter party limits, deal sizes, overnight, PVBP and stop-loss limits.

The Risk Management function undertakes the following activities:

- monitors daily derivatives operations against the set out policies and limits
- reviews daily dealers profitability and activity reports for derivative operations
- reports MIS to the ALCO on a periodic basis as well as exception reporting
- approves non-vanilla derivative deals for proprietary business
- ensures monitoring the continuing effectiveness of derivative deals identified as hedges having regard to the terms of the hedging instrument and the underlying hedged risk.

- ii. Accounting policy for recording hedge and non-hedge transactions, recognition of income, premiums and discounts, valuation of outstanding contracts:

Derivative transactions identified as "Hedges" are not marked to market and income on these is recorded on an accrual basis. All other derivative transactions are marked to market and the resultant gains/loss is accounted for in the Profit and Loss Account. Option premia paid is accounted for in the profit and loss account on expiry of the Option.

- iii. Provisioning, collateral and credit risk mitigation:

The derivative limit sanctioned to clients is part of the overall limit sanctioned post credit appraisal. The Bank conforms to Reserve Bank of India guidelines on provisioning. Collateral is accepted on a case to case basis considering the volatility of the price of the collateral and any increase in operational, legal and liquidity risk.

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

Quantitative Disclosures :

Sr. No.	Particulars	Rupees in lakhs	
		Currency Derivatives	Interest rate Derivatives
1.	Derivatives (Notional Principal Amount)	127,074.05	8,096,747.60
(a)	For hedging	6,955.20	5,227.60
(b)	For trading	120,118.85	8,091,520.00
2.	Marked to Market Positions **		
(a)	Asset (+)	2,490.64	46,321.02
(b)	Liability (-)	1,564.55	45,837.44
3.	Credit Exposure	34,900.64	96,619.58
4.	Likely impact of one percentage change in interest rate (100*PV01)		
(a)	on hedging derivatives	19.53	24.11
(b)	on trading derivatives	110.41	1,211.51
5.	Maximum of 100*PV01 observed during the year		
(a)	on hedging derivatives	60.36	49.51
(b)	on trading derivatives	230.97	1,433.14
6.	Minimum of 100*PV01 observed during the year		
(a)	on hedging derivatives	17.72	19.11
(b)	on trading derivatives	48.54	13.39

Interest rate swaps:

	Rupees in lakhs	
	As at 31 st March, 2007	As at 31 st March, 2006
Notional Principal	8,096,747.60	2,580,271.54
Fair Value	483.58	(594.86)
Credit risk concentration-exposure to banks	81.38%	85.37%
Default risk-losses which would be incurred if the counter parties failed to fulfill their obligations under the agreements	76,710.58	14,168.19

Currency interest rate swaps have been included under currency derivatives.

** MTM has been considered at product level.

The net position is shown under asset/liability, as the case is for each type of derivatives.

12. None of the loan assets have been subjected to restructuring.
13. During the year, the Bank had sanctioned credit limits, with the approval of the board, to two borrowers which were in excess of 15% of capital funds as indicated hereunder:

Name of the Party (#)	31 st March, 2007		31 st March, 2006	
	Total Exposure (*)	% age of Capital Funds	Total Exposure (*)	% age of Capital Funds
A	17,200	18.71	11,000	17.28
B	25,000	18.38	11,000	17.28
C	—	—	10,000	15.71
	42,200		32,000	

The Bank has not received any permission from the borrowers to quote their names in the aforesaid disclosure.

* Including non-funded exposure

As on 31st March, 2007, the aforesaid exposures are within the 15% limit of capital funds.

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

14. Provision made for taxes during the year:

	Rupees in lakhs	
	31 st March, 2007	31 st March, 2006
Current tax	9,177.00	6,536.00
Deferred tax	(3,340.00)	(1,250.00)
Fringe benefit tax	350.00	250.00
Wealth Tax	1.00	0.50
Total	6,188.00	5,536.50

15. No penalties or strictures have been imposed on the Bank during the year by the RBI.

16. (a) Status of Shareholder Complaints during the year ended 31st March, 2007:

(a) No. of Complaints pending at the beginning of the year	Nil
(b) No. of Complaints received during the year	135
(c) No. of Complaints redressed during the year	135
(d) No. of Complaints pending at the end of the year	Nil

(b) Status of Customer Complaints during the year ended 31st March, 2007:

(a) No. of Complaints pending at the beginning of the year	127
(b) No. of Complaints received during the year	11,299
(c) No. of Complaints redressed during the year	11,276
(d) No. of Complaints pending at the end of the year	*150
* 150 Complaints redressed post 31st March 2007	

(c) Status of Awards passed by the Banking Ombudsman during the year ended 31st March, 2007:

(a) No. of unimplemented Awards at the beginning of the year	0
(b) No. of Awards passed by the Banking Ombudsman during the year	2
(c) No. of Awards Implemented during the year	1
(d) No. of unimplemented Awards at the end of the year	*1

* Complaint received on 26th March 2007 and Award implemented on 12th April 2007.

This has been furnished by the Management and relied upon by the auditors.

B. OTHER DISCLOSURES :

1. Global Depository Shares Issue (GDSs):

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 GDSs 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 April 21, 2006). The above expenses include Rs. 28 lakhs paid to the auditors in connection with the issue.

2. Fixed Assets and Depreciation:

The Bank 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 Companies 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 year is lesser by Rs. 138.75 lakhs.

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

3. Earnings per Equity Share:

	Year ended 31 st March, 2007	Year ended 31 st 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	32,41,86,155	30,86,88,947
Effect of potential equity shares for stock options outstanding	25,76,394	21,91,296
Weighted average number of equity shares used in computation of diluted earnings per share	32,67,62,549	31,08,80,243
Following is the reconciliation between basic and diluted earnings per share		
Nominal value per share:	10.00	10.00
Basic earnings per share	4.36	3.83
Effect of potential equity shares for stock options	0.03	0.03
Diluted earnings per share	4.33	3.80
Earnings used in the computation of basic and diluted earnings per share (Rs. lakhs)	14,136.52	11,823.05

4. Segment Reporting:

In accordance with Accounting Standard 17 (AS-17) on Segment Reporting issued by the Institute of Chartered Accountants of India, the Bank has determined business segments as outlined in para "J" of Significant Accounting Policies. Summary of the operating segments of the Bank are:

	Rupees in lakhs	
	31 st March, 2007	31 st March, 2006
1. Segment Revenue		
a. Lending	91,643.97	49,280.26
b. Corporate Banking	37,418.74	18,169.89
c. Treasury & Investments	40,848.52	18,841.34
d. Retail Liabilities	36,217.10	20,198.39
e. Corporate Centre [upto 31 st March, 2006]	—	5,478.05
f. Venture Fund Management	1,783.71	1,767.59
Sub-total	207,912.04	113,735.52
Add : Unallocated Income	2.59	22.71
Less : Inter-segmental revenue	44,138.77	20,062.82
Total	163,775.86	93,695.41
2. Segment Results		
a. Lending	11,240.52	11,461.36
b. Corporate Banking	10,165.42	3,866.03
c. Treasury & Investments	2,360.52	(1,738.56)
d. Retail Liabilities	(4,232.64)	178.42
e. Corporate Centre [upto 31 st March, 2006]	—	2,705.82
f. Venture Fund Management	788.11	863.77
Total	20,321.93	17,336.84
Add : Unallocated Income	2.59	22.71
Total Profit Before Tax	20,324.52	17,359.55

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

	Rupees in lakhs	
	31 st March, 2007	31 st March, 2006
3. Segment Assets		
a. Lending	868,847.51	496,089.22
b. Corporate Banking	443,331.71	283,622.61
c. Treasury & Investments	932,133.34	361,271.68
d. Retail Liabilities	488,162.09	255,993.09
e. Corporate Centre (upto 31 st March, 2006)	—	35,117.57
f. Venture Fund Management	771.93	—
Sub-total	2,733,246.58	1,432,094.17
Less: Inter-segmental Assets	(748,739.08)	(417,111.76)
Total	1,984,507.50	1,014,982.41
4. Segment Liabilities		
a. Lending	784,185.78	438,634.63
b. Corporate Banking	409,566.30	261,269.35
c. Treasury & Investments	884,925.86	356,429.02
d. Retail Liabilities	492,644.25	258,063.10
e. Corporate Centre (upto 31 st March, 2006)	—	31,549.25
f. Venture Fund Management	63.20	-
Sub-total	2,571,385.39	1,345,945.35
Less: Inter-segmental Liabilities	(748,739.08)	(417,111.76)
Total	1,822,646.31	928,833.59
5. Unallocated Assets net of Liabilities	1,488.65	(874.15)
6. Capital Expenditure		
a. Lending	845.89	616.53
b. Corporate Banking	765.69	461.55
c. Treasury & Investments	1,859.58	261.57
d. Retail Liabilities and Branch banking	3,693.27	2,317.65
e. Corporate Centre (upto 31 st March, 2006)	—	209.40
f. Venture Fund Management	7.24	—
Total	7,171.67	3,866.70
7. Depreciation		
a. Lending	602.08	471.22
b. Corporate Banking	432.58	249.02
c. Treasury & Investments	681.01	174.73
d. Retail Liabilities and Branch banking	1,756.76	1,592.82
e. Corporate Centre (upto 31 st March, 2006)	—	472.03
f. Venture Fund Management	1.51	—
Total	3,473.94	2,959.82

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

5. Lease Disclosures:

- a. The Bank has taken various premises under operating lease. The lease payments recognised in the Profit and Loss Account are Rs. 3,191.90 lakhs (previous year Rs. 2,065.71 lakhs). The sub-lease income recognised in the Profit and Loss Account is Rs. 314.94 lakhs (previous year Rs. 242.45 lakhs).

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

Particulars	Rupees in lakhs	
	As at 31 st March, 2007	As at 31 st March, 2006
Gross Investments:		
(i) Not later than 1 year	39.15	83.54
(ii) Between 1-5 years	—	25.34
Total	39.15	108.88
Unearned Finance Income:		
(i) Not later than 1 year	0.04	1.20
(ii) Between 1-5 years	—	0.04
Total	0.04	1.24
Accumulated provision on the Gross Investments	39.15	62.72

6. Deferred Taxes:

“Others” in Other Assets (Schedule 11.VI) includes deferred tax asset (net) of Rs. 5,726.47 lakhs (previous year Rs. 1,867.26 lakhs). The components of the same are as follows:

Particulars	Rupees in lakhs	
	Year ended 31 st March, 2007	Year ended 31 st March, 2006
Deferred Tax Liability:		
Depreciation	116.40	225.07
Sub-total	116.40	225.07
Deferred Tax Assets:		
Provision for NPA	4,995.38	1,894.98
Expenditure allowed on payment basis/others	847.49	197.35
Sub-total	5,842.87	2,092.33
Net Deferred Tax Asset	5,726.47	1,867.26

7. Fixed Assets as per Schedule 10 include intangible assets relating to software and system development expenditure which are as follows :

Particulars	Rupees in lakhs	
	Year ended 31 st March, 2007	Year ended 31 st March, 2006
Gross Block		
At cost on 31 st March of the preceeding year	2,046.63	1,578.66
Additions during the year	744.39	467.97
Deductions during the year	—	-
Total	2,791.02	2,046.63
Depreciation		
As at 31 st March of the preceeding year	1,572.58	1,023.47
Charge for the year	424.03	549.11
Deductions during the year	—	—
Depreciation to date	1,996.61	1,572.58
Net Block	794.41	474.05

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

8. Balances with banks in current accounts (Schedule 7 - I (i) (a)) include Rs.1,735.84 lakhs (previous year Rs. 1,107.78 lakhs) maintained as collateral in respect of receivables securitised by the Bank.

9. Related Party Disclosures :

A. Parties where control exists:

Nature of relationship	Related Party
Individual having control over the enterprise	Mr. Uday S. Kotak, Executive Vice Chairman and Managing Director (also considered as Key Management Personnel), along with relatives and enterprises in which he has beneficial interest, holds 51.46% of the equity share capital of Kotak Mahindra Bank Limited
Subsidiary Companies	Kotak Mahindra Prime Limited Kotak Securities Limited Kotak Mahindra Capital Company Limited Kotak Mahindra Securities Limited Kotak Mahindra (International) Limited Kotak Mahindra (UK) Limited Kotak Mahindra Inc. Global Investment Opportunities Fund Ltd. Kotak Mahindra Old Mutual Life Insurance Limited Kotak Mahindra Asset Management Company Limited Kotak Mahindra Trusteeship Services Limited (formerly known as Kotak Mahindra Private Equity Trustee Limited) Kotak Mahindra Trustee Company Limited Kotak Forex Brokerage Limited Kotak Mahindra Investments Limited

B. Other Related Parties:

Nature of Relationship	Related Party
Associates	Business Standard Limited India Car Private Limited Kotak Mahindra Asset Reconstruction Company Limited Ford Credit Kotak Mahindra Limited (upto 4 th October, 2005) Pranavaditya Spinning Mills Limited (upto 23 rd April, 2005)
Key Management Personnel	Mr. Uday S. Kotak, Executive Vice Chairman and Managing Director Mr. C Jayaram, Executive Director Mr. Dipak Gupta, Executive Director
Relatives of Key Management Personnel	Ms. Pallavi Kotak Mr. Suresh Kotak Ms. Indira Kotak Ms. Aarti Chandaria Ms. Anita Gupta Ms. Urmila Gupta Ms. Usha Jayaram

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

C. Related Parties:

Rupees in lakhs

Sr. No	Items/Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Relatives of Key Management Personnel
I.	Liabilities					
	Other Liabilities		20.28 (107.58)			
II.	Assets					
	Investments-Gross	—	22,142.50 (16,577.95)	1,199.27 (1,199.27)		
	Diminution on Investments			27.89 (78.65)		
	Commission Receivable		226.34 (213.87)			
	Others		333.27 (1,102.13)			
III.	Expenses					
	Salaries/fees*				432.33 (435.91)	
	Others		155.07 (173.43)			
IV.	Income					
	Royalty		— (2,351.30)			
	Dividend		— (591.02)	4.50 (4.50)		
	Others		2,018.88 (1,845.82)	— (1.06)		
V.	Other Transactions					
	GDS Issue Management Fees		450.05 (-)			
	Dividend paid	918.79 (765.66)			2.48 (1.68)	5.93 (4.94)
	Reimbursement to companies		221.19 (272.80)			
	Reimbursement from companies		5,912.35 (4,473.12)	— (134.49)		
	Purchase of Fixed assets		45.57 (7.34)			
	Sale of Fixed assets		8.33 (1.82)			

* Excludes incentive payment for current year.

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

Rupees in lakhs

Sr. No.	Items/Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Relatives of Key Management Personnel	TOTAL
I.	Liabilities:						
	Other liabilities						
	Kotak Mahindra Prime Limited						
	Brokerage payable		20.28 (107.58)				20.28 (107.58)
II.	Assets:						
	Investments						
	Kotak Mahindra Old Mutual Life Insurance Limited		16,847.68 (12,473.76)				16,847.68 (12,473.76)
	Kotak Mahindra Asset Management Company Limited		1,980.00 (2,400.00)				1,980.00 (2,400.00)
	Kotak Mahindra Investments Limited		305.03 (305.03)				305.03 (305.03)
	Other Subsidiaries		3,009.79 (1,399.16)				3,009.79 (1,399.16)
	Business Standard Limited			927.77 (927.77)			927.77 (927.77)
	India Car Private Limited			270.00 (270.00)			270.00 (270.00)
	Kotak Mahindra Asset Reconstruction Company Limited			1.50 (1.50)			1.50 (1.50)
	Diminution on Investments						
	India Car Private Limited			26.39 (77.15)			26.39 (77.15)
	Kotak Mahindra Asset Reconstruction Company Limited			1.50 (1.50)			1.50 (1.50)
	Commission Receivable						
	Kotak Mahindra Old Mutual Life Insurance Limited		226.34 (213.87)				226.34 (213.87)
	Others						
	Kotak Mahindra Prime Limited		68.05 (97.66)				68.05 (97.66)
	Kotak Securities Limited		67.43 (744.62)				67.43 (744.62)
	Kotak Mahindra Old Mutual Life Insurance Limited		61.80 (81.63)				61.80 (81.63)
	Kotak Mahindra Capital Company Limited		67.07 (75.76)				67.07 (75.76)

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

Rupees in lakhs

Sr. No.	Items/Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Relatives of Key Management Personnel	TOTAL
	Kotak Mahindra Asset Management Company Limited		36.81 (44.53)				36.81 (44.53)
	Other Subsidiaries		32.11 (57.93)				32.11 (57.93)
III.	Expenses:						
	Salaries*						
	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)
	Other Expenses						
	Brokerage						
	Kotak Mahindra Prime Limited		62.19 (107.58)				62.19 (107.58)
	Kotak Securities Limited		13.76 (—)				13.76 (—)
	Premium						
	Kotak Mahindra Old Mutual Life Insurance Limited		79.12 (63.90)				79.12 (63.90)
	Other Subsidiaries		— (1.95)				— (1.95)
IV.	Income:						
	Royalty Income						
	Kotak Mahindra Prime Limited		— (2,351.30)				— (2,351.30)
	Dividend						
	Kotak Mahindra Asset Management Company Limited		— (408.00)				— (408.00)
	Kotak Mahindra Investments Limited		— (183.02)				— (183.02)
	India Car Private Limited			4.50 (4.50)			4.50 (4.50)
	Other Income						
	Insurance Commission and Rental Income						
	Kotak Mahindra Old Mutual Life Insurance Limited		1,085.06 (1,036.21)				1,085.06 (1,036.21)
	Rental and other Income						
	Kotak Securities Limited		356.21 (438.38)				356.21 (438.38)

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

Rupees in lakhs

Sr. No.	Items/Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Relatives of Key Management Personnel	TOTAL
	Kotak Mahindra Capital Company Limited		178.53 (111.60)				178.53 (111.60)
	Kotak Mahindra Asset Management Company Limited		95.26 (106.70)				95.26 (106.70)
	Kotak Mahindra Prime Limited		275.32 (129.04)				275.32 (129.04)
	Other Subsidiaries		28.50 (23.89)				28.50 (23.89)
	Ford Credit Kotak Mahindra Limited			— (1.06)			— (1.06)
V.	Other Transactions:						
	GDR Issue Management Fees		450.05 (—)				450.05 (—)
	Dividend paid						
	Mr. Uday Kotak	918.79 (765.66)					918.79 (765.66)
	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)
	Reimbursements to companies						
	Kotak Mahindra Capital Company Limited		38.41 (105.22)				38.41 (105.22)
	Kotak Mahindra Prime Limited		33.31 (13.60)				33.31 (13.60)
	Kotak Mahindra Old Mutual Life Insurance Limited		92.70 (35.05)				92.70 (35.05)
	Kotak Securities Limited		15.29 (91.26)				15.29 (91.26)
	Kotak Mahindra Asset Management Company Limited		9.43 (27.47)				9.43 (27.47)
	Kotak Mahindra Investments Limited		30.93 (—)				30.93 (—)
	Other Subsidiaries		1.12 (0.20)				1.12 (0.20)

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

Rupees in lakhs

Sr. No.	Items/Related Party	Individual having Control	Subsidiary Companies	Associates	Key Management Personnel	Relatives of Key Management Personnel	TOTAL
	Reimbursements from companies						
	Kotak Mahindra Capital Company Limited		909.14 (405.70)				909.14 (405.70)
	Kotak Mahindra Prime Limited		306.76 (323.02)				306.76 (323.02)
	Kotak Mahindra Old Mutual Life Insurance Limited		315.16 (464.25)				315.16 (464.25)
	Kotak Securities Limited		3,840.24 (2,801.00)				3,840.24 (2,801.00)
	Other Subsidiaries		541.05 (479.15)				541.05 (479.15)
	Ford Credit Kotak Mahindra Limited			— (134.49)			— (134.49)
	Purchase of Fixed assets						
	Kotak Mahindra Prime Limited		2.91 (0.20)				2.91 (0.20)
	Kotak Mahindra Asset Management Company Limited		1.53 (7.14)				1.53 (7.14)
	Kotak Securities Limited		5.49 (—)				5.49 (—)
	Kotak Mahindra Capital Company Limited		35.64 (—)				35.64 (—)
	Sale of Fixed assets						
	Kotak Securities Limited		— (1.73)				— (1.73)
	Kotak Mahindra Old Mutual Life Insurance Limited		6.78 (—)				6.78 (—)
	Kotak Mahindra Capital Company Limited		1.55 (—)				1.55 (—)
	Other Subsidiaries		— (0.09)				— (0.09)

Note: Figures in brackets represent previous year's figures.

* Excludes incentive payment for current year.

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

10. ESOPs :

The Bank, under its various ESOP Plan/Schemes, has granted in aggregate 1,49,45,100 options, as on 31st March, 2007 (previous year 94,58,500).

The details of outstanding options are as under:

Particulars	As at 31 st March, 2007	As at 31 st March, 2006
Options outstanding at the beginning	37,01,250	21,59,750
Add: Options granted during the year	54,86,600	28,52,500
Less: Options exercised during the year	18,61,083	9,85,875
Less: Options forfeited during the year	Nil	Nil
Less: Options Lapsed during the year	2,62,133	3,25,125
Options outstanding at the end of the year	70,64,634	37,01,250

11. Advances securitised by the Bank :

Particulars	As at 31 st March, 2007	As at 31 st March, 2006
Book value of advances securitised	169,118.48	37,066.29
Number of accounts	1,087	5,840
Sale consideration received for the accounts securitised	169,629.79	37,539.34
Gain on securitisation	367.00	154.00
Credit enhancement, liquidity support provided	1,735.84	1,107.78
Nature of post securitisation support	Collection and paying agent or servicer	Collection and paying agent or servicer

12. Provisions on securitised assets :

Particulars	Year ended 31 st March, 2007	Year ended 31 st March, 2006
a. Opening balance	78.06	—
b. Provision made during the year	53.71	78.06
c. Closing balance	131.77	78.06

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.

13. Demerger of the Trading and Principal Activity including Primary Dealership business of Kotak Mahindra Capital Company Limited with the Bank:

The scheme of arrangement under Sections 391 and 394 of the Companies Act, 1956 between Kotak Mahindra Bank Limited and Kotak Mahindra Capital Company Limited (KMCCCL) and their respective shareholders, for the vesting of the trading and principal activity including primary dealership business (Demerged Undertaking) to and in the Bank was approved by the Hon'ble High Court at Mumbai on 15th February, 2007 and by the Reserve Bank of India on 12th March, 2007 with effective date as 20th March, 2007.

The Demerged Undertaking had investments in mutual funds and equities, short-term and long-term debt instruments issued by the Government, such as Central and State Government securities, treasury bills of varying maturities and public sector bonds and commercial papers. The assets and liabilities of the Demerged Undertaking have been transferred to the Bank at the values appearing in the books of account of KMCCCL immediately before the demerger. The shareholders of KMCCCL have not been issued shares in consideration for the demerger.

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

In accordance with the scheme, all the assets and liabilities pertaining to the Demerged Undertaking together with other related functions have been transferred to and vested in the Bank at book values with effect from 20th March, 2007, being the appointed date.

The excess of the book value of the assets over the book value of the liabilities amounting to Rs. 21,676.06 lakhs has been taken to the Profit and Loss Account in terms of the scheme of arrangement and has been appropriated to General Reserve in terms of Accounting Standard 14 (AS-14) on Accounting for Amalgamations.

The scheme has, accordingly, been given effect to in these accounts. Figures for the current year include the figures for Demerged Undertaking from 20th March, 2007.

The result of acquired business from 20th March, 2007 has been reflected in "Treasury Segment" in the segmental reporting.

14. Interest Expended-Others (Schedule 15(III)) includes interest on subordinated debt Rs.2,388.17 lakhs (Previous Year Rs. 1,401.81 lakhs).
15. The Bank has agreed with International Finance Corporation ("IFC") in a loan agreement dated 8th November, 2004 that it shall (i) not create or permit to exist any lien over and above what was existing prior to the Bank converting into a scheduled commercial bank (ii) request IFC's consent before granting any lien which is not pre-authorised, should the Reserve Bank of India allow the Bank to grant liens and (iii) grant in favour of IFC a similar lien which shall rank pari passu with the lien created in case it creates any such lien which is not a pre-authorised lien.
16. **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:

- i. An amount of Rs.1,023.28 lakhs being the difference (net of tax effect of Rs. 519.20 lakhs) 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 Bank's previous accounting policy has been adjusted against the opening balance of General Reserve.
- ii. The charge to the Profit and Loss Account for the year towards employee benefits is higher by Rs. 460.79 lakhs as compared to the expense as per the Bank's previous accounting policy.
- iii. The Bank has recognised the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds.

Provident Fund	1,020.70 lakhs
Superannuation Fund	49.01 lakhs

- iv. In accordance with law, the Bank provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee's salary and the years of employment with the Company subject to maximum of Rs. 3.50 lakhs.

The gratuity benefit is provided to the employees through a fund administered by a Board of Trustees and managed by Kotak Mahindra Old Mutual Life Insurance Limited. The Bank is responsible for settling the gratuity obligation through contributions to the fund. The plan is fully funded.

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

	Rupees in lakhs
	As of 31 st March, 2007
Change in benefit obligations	
Liability at the beginning of the year	573.14
Current Service cost	237.47
Interest cost	41.10
Actuarial Gain on obligations	(6.73)
Liability assumed on transfer of employees	38.59
Benefits paid	(29.48)
Liability at the end of the year	854.09

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

Rupees in lakhs

	As of 31 st March, 2007
Change in plan assets	
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 at the end of the year	925.87
Reconciliation of present value of the obligation and the fair value of the plan assets	
Fair value of plan assets at the end of the year	925.87
Liability at the end of the year	854.09
Net asset as at 31 st March, 2007 included in "Others" under "Other Assets" [Schedule 11(VI)]	71.78
Expense recognised for the year	
Current Service cost	237.47
Interest cost	41.10
Expected return on plan assets	(43.10)
Actuarial (gain)/loss	(16.65)
Net gratuity expense included in "Payments to and provision for employees" under "Operating Expenses" [Schedule 16(I)]	218.82
Reconciliation of the Liability recognised in the Balance Sheet	
Net Liability at the beginning of the year	240.41
Expense recognised	218.82
Liability assumed on transfer of employees	38.59
Employer contributions	(569.60)
Net asset as at 31 st March, 2007 included in "Others" under "Other Assets" [Schedule 11(VI)]	(71.78)

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 return on plan assets	7.50% p.a.
Mortality	Published rates under the LIC (1994-96) mortality tables.

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.

- The Bank receives deposits from customers as part of margin requirements in respect of its professional clearing member (PCM) business with National Securities Clearing Corporation Ltd (NSCCL). Correspondingly, the Bank is required to maintain margins/deposits with NSCCL. For the said purpose of placing margins/deposits, the Bank has issued its own Fixed Deposit receipts amounting to Rs. 53,134 lakhs (Previous year Rs.22,198 lakhs) in favour of NSCCL which have not been included in "Term Deposits from Others" [Schedule 3 (III) (ii)] .

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

18. Advances include an amount of Rs. 8,254 lakhs (Previous year Rs. 7,254 lakhs) being amount paid for acquiring non-performing assets from Public Sector Banks, represented by Redeemable Non Convertible Debentures issued by a NBFC. A suit has been filed in the High Court of Mumbai questioning the sale of the said Redeemable Non Convertible Debentures to the Bank. The matter is pending disposal by the High Court of Mumbai.

19. Subordinated debt outstanding as on 31st March, 2007 is a long- term unsecured non-convertible debt aggregating to Rs. 42,990 lakhs (previous year Rs. 24,000 lakhs).

During the year, the Bank raised Rs. 18,990 lakhs of subordinated debt of fixed rates with annualised coupon between 8.90% and 10.15%. The maturity of these debts ranges from 10 years to 10 years and 5 months. Based on the balance term to maturity as on 31st March, 2007, subordinate debt of the book value of Rs.100 lakhs is not considered as Tier II Capital for the purposes of capital adequacy computation.

20. Upper Tier II Bonds

During the year, the Bank has raised Unsecured, Redeemable, Non-convertible, Subordinated Debt- debentures (US \$ denominated) 45 million which qualify as Upper Tier II capital of the bank, from International Finance Corporation, Washington, USA at a floating interest rate linked to 6 month USD LIBOR.

21. 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 on those assets which have been fully realised.

22. Description of Contingent Liabilities:

Sr. No.	Contingent Liability*	Brief Description
1.	Claims not acknowledged as debts	This includes liability on account of income tax, interest tax, sales tax and lease tax demands and legal cases filed against the Bank The Bank is a party to various legal proceedings in the normal course of business. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's financial conditions, result of operations or cash flows. Against the above Rs. 356.21 lakhs have been paid, which shall be refunded to the Bank, if the outcome of the legal proceedings will be in the favour of the Bank.
2.	Liability on account of outstanding forward exchange contracts	The Bank enters into foreign exchange contracts with inter bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate.
3.	Guarantees on behalf of constituents in India	As a part of its banking activities, the Bank issues 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 Bank. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of customer failing to fulfill its financial or performance obligations.
4.	Acceptances, endorsements and other obligations	These include contingent liabilities on account of bills re-discounted by the Bank and cash collateral provided by the Bank on assets which have been securitised. The maximum liability in respect of cash collateral provided is Rs. 1,735.84 lakhs.
5.	Other items for which the Bank 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 Bank 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 Balance Sheet and Profit and Loss Account (Contd.)

23. The Bank has received a confirmation from Deposit Insurance and Credit Guarantee Corporation to adjust excess insurance premium paid in respect of earlier years against the future payments. An amount of Rs. 301.35 lakhs has been recognised by the Bank during the year with a corresponding reduction to insurance expenses under Schedule 16 (XI).
24. 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.
25. The Bank has not received any intimation from "suppliers" regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid/payable as required under the said Act have not been given
26. 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

Mumbai
Dated: 8th May, 2007

Jaimin Bhatt
Group Chief Financial Officer

Bina Chandarana
Company Secretary