**BOARD OF DIRECTORS :** Uday Kotak **(C)**, Shivaji Dam **(MD)**, Dipak Gupta, Hasan Askari **(VC),** James Harry Sutcliffe, Vineet Nayyar, Pallavi Shroff, S.S. Thakur, M.G. Diwan

## DIRECTORS' REPORT

Your Directors take pleasure in presenting their Second report on the business and operations of the Company together with the Audited Financial Statements for the year ended March 31, 2002.

### FINANCIAL RESULTS

The policyholders' account which had a deficit of Rs.2.87 crores as on March 31, 2001, shows a net deficit of Rs. 11.47 crores for the year ended March 31, 2002. The surplus of Rs. 10.67 crores generated in the shareholders' account was transferred fully to the policyholders' account to meet the deficit generated in the latter account. The bonus addition on policyholders' accumulated fund @ 8 % aggregating Rs. 1.71 lakhs was declared by the Board of Directors at its meeting held on May 23, 2002. In view of the deficit for the financial year, the Directors do not recommend dividend.

### OVERVIEW

The financial year under review witnessed a high level of activity in the domestic life insurance industry. Currently there are twelve life insurance companies in the market. This has led to increased customer awareness of life insurance and the life insurance industry. Though the Life Insurance Corporation of India continues to dominate the life insurance industry, private players are slowly making their presence felt in the market.

### REGULATORY ENVIRONMENT

The bold step of the Government to open up the Insurance Industry to the private sector has resulted in a wider choice of insurance products available to the Indian consumer and heightened consumer awareness of life insurance. The Insurance Regulatory Development Authority (IRDA) has made a concerted effort to develop a level playing field in the Insurance Industry. Regulations governing the Industry are undergoing appropriate amendments for the sustainable and efficient development of the Industry, while ensuring adequate protection of the customer's interest. Legislative changes pertaining to Brokers, Corporate Agency are on the anvil and will go a long way in promoting the efficient distribution of insurance products and development of the Insurance Industry.

The Union Budget for 2002-03 stipulated a 5% service tax on the risk premium component of the life insurance premium. The Industry is awaiting clarity in respect of the details of levy of this tax.

### BUSINESS ACTIVITIES

Currently, your Company operates from 13 locations in India spread over eight States in the country.

Your Company received 13,077 proposals and has written 10,639 individual policies as on March 31, 2002. The annualized premium collected for the year was Rs. 9.05 crores representing a sum assured of Rs. 168.73 crores. In the period under review, your Company launched group products and as on March 31, 2002 has covered 7,502 lives under its group plans representing a total sum assured of Rs. 59.91 crores.

The philosophy of your Company is to make the customer financially independent and the same is evident from its tagline "Jeene ki Azaadi". Your Directors are pleased to report that your Company's advertising campaign has not only drawn public admiration but has also won accolades at the ABBY advertising awards. The advertising campaign has enhanced public awareness of your Company and its brands and this will go a long way in ensuring a systematic growth in the business.

Your Company has already obtained the annual renewal license to carry on business till March 31, 2003.

### FUTURE PROSPECTS

With there being intense competition between the private players in the insurance market, distribution strength, reach, cost effectiveness, product innovation, brand loyalty and customer service are the key factors that will determine performance in the marketplace.Your Company is concentrating on these areas so as to ensure superior performance.

During the current financial year, your Company plans to expand its operations and open branches in 15 additional cities. Your Company intends to focus on:

- providing the highest standards of service to its customers.
- widening its geographical presence.
- increasing the range of products offered to fulfill the needs of the target customer segments.
- strengthening its alternate distribution channel.
- recruiting and developing a highly motivated life advisors team and equipping them with superior selling skills.
- imparting intensive training to the team of sales managers.
- using technology to provide the cutting edge to its business.

### PRODUCTS

- Your Company has introduced a wide range of products to satisfy customer needs. The products of the Company fill the customer needs of risk cover and investment.

Currently, your Company offers the following products to its customers:

- The Kotak Endowment Plan
- The Kotak Money Back Plan
- The Kotak Insurance Bond
- The Kotak Gramin Bima Yojana
- The Kotak Term Assurance Plan (Regular premium) and
- The Kotak Term Assurance Plan (Single premium)

The following riders can be added to these main products in any combination desired by the customer:

- The Accidental Death Benefit
- The Permanent Disability Benefit
- The Critical Illness Benefit
- The Term Benefit

Some of the key features that distinguish your Company's products from those of others are:

- The Transparent Accumulation Account that reflects the customer's savings,
- The Automatic Cover Maintenance Facility that allows life cover to continue through adjustments to the accumulation account despite non-payment of premiums.

Your Company obtained IRDA approval for its group products in December 2001 and has commenced its group business with two products, the Kotak Term Grouplan and the Kotak Credit Term Grouplan.

The following riders are available with Kotak Term Grouplan:

- The Accidental Death Benefit
- The Accidental Dismemberment Benefit
- The Accidental Disability Benefit
- The Accidental Death, Dismemberment and Disability Benefit and
- The Critical Illness Benefit.

The conversion option is available as a special feature of the Kotak Term Grouplan.

The Kotak Credit Term Grouplan provides cover to a group of persons who have been granted credit by an institution or body. This is aimed at mitigating the risk faced by credit agencies on account of death of their clients.

**RURAL AND SOCIAL SECTOR**

During the period under review, your Company sold 770 rural policies (7.51% of the total policies) in the rural sector and covered 6,023 lives in the social sector. Your Company has fully complied with the business obligations prescribed by the Regulator for Rural and Social Sectors. Your Company has also established a dedicated rural branch to promote rural business.

**HUMAN RESOURCES**

Your Company believes that human capital is one of the key elements that would give the Company a sustainable competitive advantage in the market. Your Company's human resource philosophy is to nurture an organizational culture that ensconces respect for the individual, that empowers its employees to deliver high quality services, facilitates superior performance and rewards talent. With competitively superior compensation and accelerated career growth opportunities, your Company illustrates the value it places on the performance of its people, their integrity, excellence and passion to achieve.

Your Directors record their sincere appreciation for the dedicated efforts of the employees. As on March 31, 2002, the total employee strength of your Company was 290. Given the growth in the Insurance Industry and the growth that your Company envisages for itself, staffing needs will significantly increase in the time to come.

**TECHNOLOGY**

Your Company understands the role of technology in improving and enhancing operational controls and costs and the ability to serve our customers better. Your Company has implemented a sophisticated on-line policy administration system connected to major branch offices to support the processing of insurance applications and issue of policies. To facilitate scientific selling of insurance products, your Company has invested in the Point of Sales System (POS). This currently allows quotations to be made over the Internet.

**INVESTMENTS**

For the period under review, all investments were made in accordance with the regulatory norms laid down by IRDA.

**RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT**

To mitigate underwriting risks, your Company has reinsurance arrangements in place. Individual sums assured in excess of Rs. 5 lakhs are reinsured.

To ensure effective risk management, the management monitors the experience of the Company through annual actuarial valuations and management information systems. Your Company maintains an additional reserve to allow for adverse deviations, if any, should they occur so as to reduce the risk of your Company becoming insolvent even in adverse circumstances.

Your Company has a separate Internal Control Department, which formulates detailed manuals of operating policies and procedures and has clearly demarcated responsibility and authority to ensure that operational controls are maintained whilst carrying on business. The Internal Audit Department reviews the policies and procedures regularly. The Compliance Department of your Company ensures compliance with the prevailing regulatory framework including adherence to the Insurance Act, the Insurance Rules and Regulations, the Companies Act and procedures thereunder.

Your Company has appointed Ernst and Young Pvt. Ltd. as its Internal Auditor to audit selected processes to test the efficiency and adequacy of these processes.

**CORPORATE GOVERNANCE**

Your Company believes in accountability and in maintaining the highest levels of transparency and equity in its dealings. With this as its basic philosophy, your Company has adhered to Corporate Governance norms despite it not being mandatory for your Company to follow these norms.

Your Company has expanded its Board of Directors to include nine Directors, eight of whom are non-executive Directors. The Chairman is a non-executive Chairman. Four of the Directors are not liable to retire by rotation.

The Audit Committee had been constituted pursuant to the provisions of Section 292A of the Companies Act, 1956. The Audit Committee of your Company consists of four members – Mr. Hasan Askari, Mr. S.S. Thakur, Mr. Dipak Gupta and Mr. M. G. Diwan. Mr. S. S. Thakur and Mr. M. G. Diwan are Independent Directors. All the members of the Audit Committee are non-executive Directors of the Company. The Statutory Auditors, Messrs. Arthur Andersen and Associates, the Internal Auditors, Ernst and Young Pvt. Ltd., the Managing Director and the Chief Financial Officer are permanent invitees to the meetings of the Committee.

The Committee has gone through the audited financial statements and satisfied itself with the accuracy and correctness of these statements.

In addition to the Audit Committee, your Company has an Investment Committee, a Banking Committee and a Remuneration Committee.

Mr. Dipak Gupta, Mr. Hasan Askari, Mr. Shivaji Dam, Mr. G. Murlidhar, Mr. Chandrasekhar Sathe and Mr. Andrew Cartwright are members of the Investment Committee.

The Banking Committee consists of Mr. Dipak Gupta, Mr. Shivaji Dam and Mr. Andrew Cartwright.

The Remuneration Committee consists of Mr. Uday Kotak, Mr. Hasan Askari and Mr. Shivaji Dam.

**DIRECTORS**

Mr. James Harry Sutcliffe and Mr. Dipak Gupta retire by rotation at the Annual General Meeting and are eligible for re-appointment.

Mr. Uday Kotak and Mr. Hasan Askari have been designated as Directors not liable to retire by rotation.

During the year under review, a fresh contract was entered into with Mr. Shivaji Dam appointing him as the Managing Director of the Company for a period up to one year with effect from January 6, 2002.

**AUDITORS**

Messrs. Arthur Andersen and Associates, Chartered Accountants, Mumbai, the Auditors of the Company retire at the conclusion of the ensuing Annual General Meeting. Due to the merger of Arthur Andersen and Associates with Ernst and Young, Arthur Andersen and Associates will be unable to act as Auditors of the Company. Bharat S. Raut and Co., Chartered Accountants, Mumbai and Price Waterhouse Limited, Chartered Accountants, Mumbai have consented to act as Joint Auditors, if appointed by the Members at the ensuing Annual General Meeting. Members are requested to consider the appointment of Bharat S. Raut and Co., Chartered Accountants, Mumbai and Price Waterhouse Limited, Chartered Accountants, Mumbai as Joint Auditors for the financial year ending March 31, 2003 on the remuneration to be decided by the Board of Directors.

**MANAGEMENT REPORT**

Pursuant to the provisions of Regulation 3 of the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000, the Management Report forms a part of the financial statements.

**STATUTORY INFORMATION**

During the year under review, the Company has not accepted any deposits from the public.

The information required under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, is annexed.

During the year ended March 31, 2002, expenditure in foreign currencies amounted to Rs. 152.06 lakhs (on accrual basis). The other particulars prescribed under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not applicable, since the Company is not a manufacturing company.

**DIRECTORS' RESPONSIBILITY STATEMENT**

Based on representations from the Management, the Directors state, in pursuance of Section 217 (2AA) of the Companies Act, 1956, that:

i) the Company has, in the preparation of the annual accounts for the year ended 31st March 2002, followed the applicable accounting standards along with proper explanations relating to material departures, if any;

ii) the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2002 and of the deficit of the Company for the financial year ended 31st March 2002;

iii) the Directors have taken proper and sufficient care to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

iv) the Directors have prepared the annual accounts on a going concern basis.

**ACKNOWLEDGEMENTS**

Your Directors would like to express their appreciation to the policyholders and employees of your Company for their contribution, which has enabled your Company to progress towards its long-term goals. Your Directors would like to place on record their gratitude for the guidance and co-operation afforded by the Insurance Regulatory and Development Authority and the Reserve Bank of India.

**For and on behalf of the Board of Directors**

**UDAY KOTAK**
**Chairman**

Mumbai, May 23, 2002.

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## ANNEXURE TO THE DIRECTORS' REPORT

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2002

Name, Designation, Gross Remuneration, Qualification, Exp. (Yrs), Age, Date of Commencement, Last Employment, Designation

**EMPLOYED THROUGHOUT THE YEAR**

Shivaji Dam*, Managing Director, Rs. 2,735,322, B. Com, A.C.A, A.C.S., A.I.C.W.A., 21, 44, 6 Jan 2001, Kotak Mahindra Finance Limited, Executive Director. Andrew Cartwright, Appointed Actuary, Rs. 9,001,343, B. Bus. Sc. (Hons), F.I.A. (London), F.I.L.P.A., 22, 44,1 Jan 2001, Kotak Mahindra Finance Limited, Actuary. Treman Ahluwalia, Chief Marketing Officer, Rs. 2,511,973, B. Com, M.B.A., 22, 42, 1 Jan 2001, Kotak Mahindra Finance Limited, Associate Vice President.

**EMPLOYED FOR PART OF THE YEAR**

Anshu Dorairaj, Associate Vice President, Rs. 780,322, B. Com., M.F.C., 10, 37, 1 Jan 2001, Kotak Mahindra Finance Limited, Associate Vice President. K. Madhava Rao, Vice President-Human Resources, Rs. 1,113,150, M.A., P.M.I.R (TISS), 25, 45,19 Oct 2001, Syntel India Ltd, Vice President-Human Resources.

**Notes**

1. Gross remuneration includes salary, house rent allowance etc., reimbursement of medical expenses and leave travel passage, Company's contribution to Provident Fund/Pension Fund and monetary value of perquisites calculated in accordance with the Income Tax Act, 1961 and the Rules made thereunder.
2. Nature of employment in all cases is non contractual except in the cases marked (*) and the terms and conditions are as per the Company's rules.
3. None of the above employees is related to any Director of the Company and holds 2% of the total share capital of the Company.

**For and on behalf of the Board of Directors**

**UDAY KOTAK**
**Chairman**

Mumbai, May 23, 2002.

## AUDITORS' REPORT

To the Members of

**OM Kotak Mahindra Life Insurance Company Limited**

1. We have audited the accompanying Balance Sheet of OM Kotak Mahindra Life Insurance Company Limited ('the Insurer') as at March 31, 2002 and the statements of revenue, profit and loss and receipts and payments for the year then ended, prepared in conformity with accounting principles generally accepted in India. These financial statements are the responsibility of the Insurer's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. 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.
4. In accordance with the provisions of Section 11 of the Insurance Act, 1938 ('the Insurance Act') read with the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 ('the Regulations'), and the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956 ('the Companies Act'), the balance sheet, the statements of revenue and profit and loss are not required to be, and are not, drawn up in accordance with Schedule VI to the Companies Act. The balance sheet, the statements of revenue and profit and loss are, therefore, drawn up in conformity with Regulation 3(1) of the Regulations.
5. In our opinion, and to the best of our information and according to the explanations given to us, the accompanying financial statements referred to above give a true and fair view of the state of affairs of the Insurer at March 31, 2002 and of its deficit, balance and receipts and payments for the year then ended, in conformity with accounting principles generally accepted in India, as applicable to insurance companies. The balance sheet and the statements of revenue, profit and loss and receipts and payments are in agreement with the books of account.
6. Further, in our opinion,
   (a) the accounting policies selected by the Insurer are in compliance with the accounting standards referred to in Section 211(3C) of the Companies Act and the accounting principles prescribed in the Regulations;
   (b) the financial statements referred to above are prepared in accordance with the requirements of the Insurance Act, the Insurance Regulatory and Development Authority Act, 1999 and the Companies Act, to the extent applicable and in the manner so required;
   (c) the Insurer has maintained proper books of account in so far as appears from our examination of those books; and
   (d) the investments of the Insurer have been valued in accordance with the provisions of the Insurance Act and the Regulations.
7. The actuarial valuation of liabilities for life policies in force has been duly certified by the Insurer's appointed actuary ('the appointed actuary'). The appointed actuary has certified to the Insurer that the assumptions for such valuation are in accordance with the Insurance Regulatory and Development Authority (Actuarial Report and Abstract) Regulations, 2000.
8. On the basis of information and explanations given to us, and representations obtained by the Insurer and taken on record by the Board of Directors, as on March 31, 2002, none of the directors are disqualified from being appointed as directors under Section 274(1)(g) of the Companies Act.
9. We enclose in the Annexure a statement on the matters specified in paragraphs 3 and 4 of Schedule C to the Regulations, and certain other matters specified in section 40B(4)(a) of the Insurance Act, for the year ended March 31, 2002 as they relate to the Insurer.

**Arthur Andersen & Associates**
**Chartered Accountants**

**Ameet Parikh**
**Partner**

Mumbai, May 23, 2002

## ANNEXURE TO AUDITORS' REPORT — MARCH 31, 2002

1. We have read the Management Report attached to the audited financial statements for the year ended March 31, 2002 noting no apparent material mistake or material inconsistency with the audited financial statements.
2. Further, to the best of our information and according to the explanations given to us:
   - the Insurer has complied with the terms and conditions of the registration stipulated by the Insurance Regulatory and Development Authority ('IRDA') in Regulation 10 of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000;
   - all expenses of management in respect of life insurance business transacted by the Insurer in India have been fully debited to the statement of revenue as expenses, in so far as appears from our examination of those books; and
   - no part of the assets of the policyholders' funds has been directly or indirectly applied in contravention of the provision of the Insurance Act, 1938 relating to the application and investment of the policyholders' funds.
3. We have verified the cash balances and investments of the Insurer at March 31, 2002 and noted no material discrepancies between the physical and book balances. At March 31, 2002, the Insurer has no balances under loans, reversions and life interests.
4. We are informed by the Insurer that there are no trusts undertaken by the Insurer as a trustee.

**Arthur Andersen & Associates**
**Chartered Accountants**

**Ameet Parikh**
**Partner**

Mumbai, May 23, 2002

Registration No: 107; Date of Registration: January 10, 2001

## BALANCE SHEET AS AT MARCH 31, 2002

(Amounts in thousands of Indian Rupees)

| | Note | 2002 | 2001 |
|---|---|---|---|
| **SOURCES OF FUNDS** | | | |
| **Shareholders' Funds** | | | |
| Share Capital | 7 | **1,010,000** | 1,010,000 |
| Less: Miscellaneous Expenditure (to the extent not written off or adjusted) | 2(i) & 15 | **(4,269)** | (5,692) |
| Reserves and Surplus | 8 | **521,592** | 521,592 |
| | | **1,527,323** | 1,525,900 |
| **Policyholders' Funds** | | | |
| Policy Liabilities - Participating | 3 | **14,470** | — |
| - Non-participating | 3 | **20,394** | — |
| Insurance Reserves - Participating | | **(214,159)** | — |
| - Non-participating | | **(20,165)** | — |
| | | **(234,324)** | — |
| | | **1,327,863** | 1,525,900 |
| **APPLICATION OF FUNDS** | | | |
| **Investments – Shareholders'** | 2(c) & 9 | **1,003,091** | 1,198,220 |
| **Investments – Policyholders'** | 2(c) & 10 | **34,864** | — |
| **Fixed Assets** | 2(e) & 11 | **100,261** | 22,883 |
| **Current Assets** | | | |
| Cash and Bank Balances | 12 | **205,919** | 269,458 |
| Advances and Other Assets | 13 | **86,925** | 47,434 |
| | | **292,844** | 316,892 |
| **Current Liabilities and Provisions** | 14 | **(103,197)** | (12,095) |
| **Net Current Assets** | | **189,647** | 304,797 |
| | | **1,327,863** | 1,525,900 |

The accompanying notes are an integral part of this balance sheet.

**Arthur Andersen & Associates**
**Chartered Accountants**

**Ameet Parikh**
**Partner**

Mumbai, May 23, 2002

**OM Kotak Mahindra Life Insurance Company Limited**

| | | |
|---|---|---|
| **Uday Kotak**<br>**Chairman** | **Hasan Askari**<br>**Vice-Chairman** | **Dipak Gupta**<br>**Director** |
| **Shivaji Dam**<br>**Managing Director** | **G Murlidhar**<br>**Chief Financial Officer & Company Secretary** | **Andrew Cartwright**<br>**Appointed Actuary** |

Registration No: 107; Date of Registration: January 10, 2001

## REVENUE ACCOUNT FOR THE YEAR ENDED MARCH 31, 2002

**Policyholders' Account (Technical Account)**

(Amounts in thousands of Indian Rupees)

| | Note | Year ended March 31, 2002 Participating | Non - participating | Period ended March 31, 2001 |
|---|---|---|---|---|
| **Premiums earned, net** | | | | |
| (a) Premium | 2(a) & 4 | **53,260** | **22,519** | — |
| (b) Re-insurance ceded | | **(1,684)** | (379) | — |
| **TOTAL (A)** | | **51,576** | **22,140** | — |
| Commission | 5 | **17,576** | **546** | — |
| Operating expenses related to insurance business | 2(d) & 6 | **340,407** | **29,372** | 28,739 |
| Loss on sale of fixed assets | | **68** | **5** | — |
| **TOTAL (B)** | | **358,051** | **29,923** | 28,739 |
| Liability against life policies in force, | | | | |
| (a) Gross | 3 | **14,299** | **20,394** | — |
| (b) Amount ceded in re-insurance | | — | — | — |
| **TOTAL (C)** | | **14,299** | **20,394** | — |
| Transfer from Shareholders' Account (D) | | **106,615** | **8,012** | 28,739 |
| **DEFICIT (E)=(A)-(B)-(C)+(D)** | | **(214,159)** | **(20,165)** | — |

The accompanying notes are an integral part of this account.

**Arthur Andersen & Associates**
**Chartered Accountants**

**Ameet Parikh**
**Partner**

Mumbai, May 23, 2002

**OM Kotak Mahindra Life Insurance Company Limited**

**Uday Kotak**
**Chairman**

**Hasan Askari**
**Vice-Chairman**

**Dipak Gupta**
**Director**

**Shivaji Dam**
**Managing Director**

**G Murlidhar**
**Chief Financial Officer**
**& Company Secretary**

**Andrew Cartwright**
**Appointed Actuary**

Registration No: 107; Date of Registration: January 10, 2001

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2002

**Shareholders' Account (Non-technical Account)**

(Amounts in thousands of Indian Rupees)

| | Note | Year ended March 31, 2002 | Period ended March 31, 2001 |
|---|---|---|---|
| Amounts transferred to Policyholders' Account | | — | (28,739) |
| (a) Participating | | (106,615) | — |
| (b) Non-participating | | (8,012) | — |
| **TOTAL (A)** | | (114,627) | (28,739) |
| Interest income from investments [net of interest expended on purchase Rs 35,289 (2001 — Rs 12,166)] | 2(c) | 140,922 | 33,119 |
| Interest earned on employee loans | | 169 | 23 |
| **TOTAL (B)** | | 141,091 | 33,142 |
| Premium on investments amortised | | 25,330 | 3,174 |
| Loss on sale/redemption of investments | | 788 | — |
| Expenses other than those directly related to the insurance business | | 175 | — |
| Accumulated fund addition to participating policyholders | 22 | 171 | — |
| **TOTAL (C)** | | 26,464 | 3,174 |
| Balance/Profit for the year/period **(D)=(A)+(B)-(C)** | | — | 1,229 |
| Balance, beginning of year | | 1,229 | — |
| Balance, end of year | | 1,229 | 1,229 |

The accompanying notes are an integral part of this account.

**Arthur Andersen & Associates**
**Chartered Accountants**

**Ameet Parikh**
**Partner**

Mumbai, May 23, 2002

**OM Kotak Mahindra Life Insurance Company Limited**

| | | |
|---|---|---|
| **Uday Kotak**<br>**Chairman** | **Hasan Askari**<br>**Vice-Chairman** | **Dipak Gupta**<br>**Director** |
| **Shivaji Dam**<br>**Managing Director** | **G Murlidhar**<br>**Chief Financial Officer & Company Secretary** | **Andrew Cartwright**<br>**Appointed Actuary** |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2002

(Amounts in thousands of Indian Rupees unless otherwise stated)

### 1. BACKGROUND

OM Kotak Mahindra Life Insurance Company Limited ('the Insurer') was incorporated on August 31, 2000 as a Company under the Companies Act, 1956 to undertake and carry on the business of life insurance and annuity. The Insurer has obtained a license from the Insurance Regulatory and Development Authority ('IRDA') dated January 10, 2001 for carrying on life insurance business.

The Insurer introduced its range of life insurance products to customers in the current year. These include endowment policies, term policies and money back policies, with the option of purchasing additional riders with the basic policy.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention on the accrual basis of accounting, in accordance with the accounting principles prescribed by the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 ('the Accounting Regulations'), the accounting standards issued by the Institute of Chartered Accountants of India ('ICAI') and the requirements of the Companies Act, 1956 to the extent applicable. The significant accounting policies are as follows:

**(a) Revenue recognition on Insurance policies**

Premium is recognised as income when due from policyholders. Further, in accordance with the policies of the Insurer, uncollected premium on lapsed policies is not recognised as income.

Premium payable on re-insurance ceded is accounted at the time of recognition of the premium income in accordance with the 'in-principle' treaty arrangement with the re-insurers.

**(b) Acquisition costs**

Acquisition costs are costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts. Such costs are expensed in the year in which they are incurred.

**(c) Operating Expenses**

Operating expenses relating to insurance business are assigned to participating and non-participating business segments as follows:

- Expenses directly identifiable to the business segments are allocated on an actual basis.
- Other expenses, which are not directly identifiable, are apportioned to the business segment on the basis of either (a) total number of policies in-force, (b) annualised first year premium income, or (c) total sum assured, as considered appropriate by management.

**(d) Investments**

Investments are made in accordance with the Insurance Act, 1938 and the Insurance Regulatory & Development Authority (Investment Regulations, 2000).

Investments are recorded at cost, and exclude interest paid, if any, on purchase. Interest accrued on investments is taken to the Revenue/Profit and Loss Account.

Investments intended to be held for a period less than one year are classified as 'Short term investments' while those intended to be held for a period of one year or above are classified as 'Long term investments.'

Debt securities, which include government securities, are measured at historical cost. The premium/discount, if any, on purchase of debt securities is amortised over the period to maturity on the basis of their intrinsic yield.

**(e) Miscellaneous expenditure**

Miscellaneous expenditure comprises preliminary expenses, which are amortised equally over a period of five years.

**(f) Fixed Assets and Depreciation**

Fixed assets are capitalised on being put to use, and are stated at cost less accumulated depreciation. The Insurer capitalises all costs relating to acquisition and installation of fixed assets.

Depreciation on fixed assets is provided using the straight-line method based on the economic useful lives of assets as estimated by management. Depreciation is charged on assets from the month the asset is capitalised. Management estimates the economic useful lives of the various fixed assets as follows:

| | |
|---|---|
| Buildings | 30 years |
| Information technology equipment (including software) | 3 years |
| Furniture and fittings | 6 years |
| Office equipment | 5 years |
| Vehicles | 3 years |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2002

(Amounts in thousands of Indian Rupees unless otherwise stated)

During the year, the Insurer has revised its estimate of the useful life of Information technology equipment from 4 years to 3 years. Had the Insurer not revised its estimate of the useful life, the depreciation and deficit for the year would have been lower by Rs 1.53 million and fixed assets as at March 31, 2002 would have been higher by the same amount.

**(g) Retirement benefits to employees**

1. Gratuity: The Insurer's liability toward gratuity - a defined benefit plan, is determined by actuarial valuation and provided for.
2. Provident Fund: The Insurer's liability toward provident fund – a defined contribution plan, is accrued each month. The Insurer has no further obligations under the provident fund plan beyond its monthly contributions.
3. Leave encashment: The Insurer's liability toward leave encashment benefits is accounted for on the basis of an actuarial valuation.

**(h) Foreign currency transactions**

Transactions in foreign currency are recorded at the rate of exchange on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing rate of exchange at the balance sheet date.

Exchange differences arising on foreign currency transactions are recognised as income or expenses in the period in which they arise.

**(i) Segment reporting**

**1. Business Segments**

The Insurer's business is organised on a national basis around three business segments, namely Participating business, Non-participating business and Investment of the Shareholders' funds. Accordingly, the Insurer has provided primary segmental information for these segments as per the Accounting Standard 17 on 'Segment Reporting', issued by the ICAI, read with the Accounting Regulations.

**2. Segmental revenues and expenses**

All segment revenues are directly attributed to the individual segments. There are no inter segment revenues.

Costs for Participating and Non-participating business :

Operating expenses directly identifiable to the business segments are allocated on an actual basis. Other expenses, which are not directly identifiable, are apportioned to the business segment on either (a) total number of policies in-force, or (b) annualised first year premium income, or (c) total sum assured, using an appropriate/logical basis.

Costs for Investment of Shareholder funds relate to costs that are incurred to earn the related revenues, and transfer of funds to the Policyholders Account to meet their expenses.

**3. Segmental assets and liabilities**

Segment assets and liabilities include those, which are employed by a segment in its operating activity. Other common assets and liabilities, if any, are allocated to the segment on a pre-determined basis.

**(j) Taxation**

Provision for current income-tax, if any, is made on an accrual basis after taking credit for allowances and exemptions. Deferred-tax liability, if any, is provided for. Deferred-tax asset, if any, is recognised after considering the certainty of its realisation.

**3. ACTUARIAL ASSUMPTIONS**

Liability for policies in force ('the Liability') is calculated in accordance with accepted actuarial practice as well as the requirements of the IRDA. The Liability on a policy is calculated based on the 'Gross Premium Method', which represents the present value of expected future outgo including benefits and expenses, as reduced by the present value of expected future premium and related income. Further a reserve for claims that may have been incurred but are not yet reported to the Insurer ('IBNR Reserve') is also maintained. The assumptions used for calculating the liability are provided below.

<u>Mortality, Morbidity and Accidental Death and Disability rates</u>

Mortality rates are based on the LIC 1994-96 mortality table (adjusted for expected deterioration in mortality due to AIDS).

Morbidity and Accidental Death and Disability rates are based on the base rates provided by the re-insurers.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2002

(Amounts in thousands of Indian Rupees unless otherwise stated)

Expenses

- Fixed renewal expenses:
  - Rs 240/- increasing @ 6 per cent per annum for regular premium plans; plus Rs 10 per payment, increasing @ 6 per cent per annum
  - Rs 50/- increasing @ 6 per cent per annum for single premium plans
- Renewal commission and commission related expenses are taken as:
  - Actual base commission rates to insurance agents
  - Other sales and acquisition expenses at 40 per cent of the base commission for all policies
- Termination expenses:

| | | |
|---|---|---|
| Death expenses | : | Rs 100/- increasing @ 6 per cent per annum |
| Maturity expenses | : | Rs 50/- increasing @ 6 per cent per annum |
| Surrender expenses | : | Rs 50/- increasing @ 6 per cent per annum |
| Disability expenses | : | Rs 500/- increasing @ 6 per cent per annum |
| Critical illness expenses | : | Rs 2,000/- increasing @ 6 per cent per annum |

Policy lapses

Future policy lapses have been assumed based on the duration for which the policy has been in force, with higher lapses assumed during initial years and lower lapses during later years. Different lapse assumptions have been made for different types of policies.

Valuation discount rate

The discount rate for computing the reserves is assumed at 8 per cent per annum.

IBNR Reserve

It is assumed that there will be two months time lag in reporting death claims and 6 months time lag in reporting critical illness or disability claims to the Insurer and, accordingly, the expected outgo is calculated as per the death, critical illness and disability assumptions.

Margin for deviation

Margins for deviation are assumed for inflation, lapse, surrender, mortality, morbidity, disability rates, renewal expenses and interest rates.

Reserves for group business

The reserves are calculated as the risk premium for the unexpired term of the policy, plus allowance for expenses and a margin for adverse deviations.

| | 2002 Participating | 2002 Non-participating | 2000 |
|---|---|---|---|
| **4. PREMIUM** (through business in India) | | | |
| First year premiums | **53,260** | **2,835** | — |
| Single premiums | **—** | **19,684** | — |
| | **53,260** | **22,519** | **—** |
| **5. COMMISSION** | | | |
| Commission paid | | | |
| Direct -First year premiums | **17,884** | **288** | — |
| - Single premiums | **—** | **342** | — |
| Commission on re-insurance ceded | **(308)** | **(84)** | — |
| | **17,576** | **546** | — |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2002

(Amounts in thousands of Indian Rupees unless otherwise stated)

| | 2002 Participating | 2002 Non-participating | 2001 |
|---|---|---|---|
| **6. OPERATING EXPENSES RELATED TO INSURANCE BUSINESS** | | | |
| Employees' remuneration and welfare benefits | 76,171 | 5,725 | 11,962 |
| Travel, conveyance and vehicle running expenses | 14,712 | 1,106 | 2,376 |
| Agents' expenses and training | 19,653 | 1,477 | — |
| Rents, rates and taxes | 25,541 | 1,920 | 3,434 |
| Repairs and maintenance | 4,844 | 364 | 431 |
| Printing and stationery | 7,364 | 1,753 | 221 |
| Communication expenses | 8,869 | 740 | 569 |
| Legal and professional charges | 9,860 | 741 | 1,744 |
| Medical fees | 2,416 | 268 | — |
| Auditors' fees, expenses etc | | | |
| - as auditor | 269 | 20 | 75 |
| - for tax audit and tax matters | 89 | 7 | — |
| Advertisement and publicity | 131,936 | 11,937 | 992 |
| Bank charges | 222 | 17 | 20 |
| Depreciation | 17,191 | 1,292 | 891 |
| Information technology expenses | 9,694 | 729 | — |
| Electricity charges | 4,748 | 357 | 306 |
| Recruitment expenses | 3,415 | 257 | 3,512 |
| Commission and brokerage | 488 | 37 | 512 |
| Stamp duty | 502 | 444 | — |
| Membership fees | 343 | 26 | — |
| Preliminary expenses written off | 1,324 | 99 | 1,423 |
| Other expenses | 756 | 56 | 271 |
| | 340,407 | 29,372 | 28,739 |

The Insurer had not issued any insurance policies during the period ended March 31, 2001, and hence no allocation of operating expenses between participating and non-participating policyholders had been made for that period.

**7. SHARE CAPITAL**

| | 2002 | 2001 |
|---|---|---|
| **Authorised** | | |
| **101,000,000 Equity Shares of Rs 10 each** | 1,010,000 | 1,010,000 |
| **Issued, subscribed and paid-up** | | |
| **101,000,000 Equity Shares of Rs 10 each, fully paid-up** | 1,010,000 | 1,010,000 |

Of the above, 74,740,000 fully paid-up Equity Shares of Rs 10 each are held by Kotak Mahindra Finance Limited and its nominees.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2002

(Amounts in thousands of Indian Rupees unless otherwise stated)

### 7A. PATTERN OF SHAREHOLDING

(As certified by the management)

| | 2002 | | 2001 | |
|---|---|---|---|---|
| Shareholder | **Number of Shares** | **% of Holding** | Number of Shares | % of Holding |
| Promoters | | | | |
| - Indian | **74,740,000** | **74.00%** | 74,739,930 | 73.99% |
| - Foreign | **26,260,000** | **26.00%** | 26,260,000 | 26.00% |
| Others | **—** | **—** | 70 | 0.01% |
| | **101,000,000** | **100.00%** | 101,000,000 | 100.00% |

| | **2002** | 2001 |
|---|---|---|
| **8. RESERVES AND SURPLUS** | | |
| Share Premium | **520,363** | 520,363 |
| Balance in Profit and Loss Account | **1,229** | 1,229 |
| | **521,592** | 521,592 |
| **9. INVESTMENTS - SHAREHOLDERS'** | | |
| **Long term investments, in India** | | |
| Government securities and Government guaranteed bonds including Treasury Bills | **306,863** | — |
| Investments in Infrastructure and Social Sector | **140,583** | 197,316 |
| | **447,446** | 197,316 |
| **Short term investments, in India** | | |
| Government securities and Government guaranteed bonds including Treasury Bills | **405,604** | 905,214 |
| Investments in Infrastructure and Social Sector | **70,195** | 45,940 |
| Other bonds | **50,000** | — |
| Certificates of deposit | **29,846** | 49,750 |
| | **555,645** | 1,000,904 |
| **Total investments** | **1,003,091** | 1,198,220 |
| **10. INVESTMENTS - POLICYHOLDERS'** | | |
| Long term investments, in India | | |
| Investments in Infrastructure and Social Sector | **15,668** | — |
| Other Bonds | **19,196** | — |
| **Total investments** | **34,864** | — |

Aggregate market value of quoted investments as at March 31, 2002 is Rs 588,060 (2001– Rs 905,300). The aggregate book value of unquoted investments as at March 31, 2002 is Rs 457,570 (2001– Rs 293,006).

As per the approval of the Board of Directors dated May 23, 2002, the management of the Insurer has, as at March 31, 2002 transferred assets, representing earmarked investments aggregating Rs 34,864 million, to the Policyholders. These assets reflect and are matched to the total estimated liabilities to the policyholders on the balance sheet date. As the investments were earmarked on the last day of the financial year, no income thereon is accrued to the policyholders in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2002

(Amounts in thousands of Indian Rupees unless otherwise stated)

**11. FIXED ASSETS**

| Particulars | Cost/Gross Block | | | | Depreciation | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|
| | March 31, 2001 | Additions | Sales | **March 31, 2002** | March 31, 2001 | For the year | **March 31, 2002** | **March 31, 2002** | March 31, 2001 |
| Information technology equipment (including software) | 15,899 | 35,972 | — | **51,871** | 622 | 11,771 | **12,393** | **39,478** | 15,277 |
| Furniture & fittings | 701 | 34,058 | — | **34,759** | 23 | 3,302 | **3,325** | **31,434** | 678 |
| Vehicles | 3,467 | 5,255 | (272) | **8,450** | 232 | 1,968 | **2,200** | **6,250** | 3,235 |
| Office equipment | 541 | 12,788 | — | **13,329** | 14 | 1,443 | **1,457** | **11,872** | 527 |
| | 20,608 | 88,073 | (272) | **108,409** | 891 | 18,484 | **19,375** | **89,034** | 19,717 |
| Capital work-in-progress | | | | | | | | **11,227** | 3,166 |
| | | | | | | | | **100,261** | 22,883 |

| | 2002 | 2001 |
|---|---|---|
| **12. CASH AND BANK BALANCES** | | |
| Cash on hand | **1,776** | — |
| Cheques on hand | **10,397** | — |
| Bank balances (with scheduled banks, in India) | | |
| **Current accounts** | **2,876** | 19,458 |
| Deposit accounts– short term, i.e. those maturing in 12 months | 150,870 | 250,000 |
| – long term | **40,000** | — |
| | **205,919** | 269,458 |
| **13. ADVANCES AND OTHER ASSETS** | | |
| **Advances** | | |
| Prepayments | **572** | 698 |
| Taxes deducted at source | **6,948** | 1,810 |
| Advances to suppliers | **2,991** | 1,412 |
| Advances/loans to employees | **4,913** | 2,535 |
| | **15,424** | 6,455 |
| **Other Assets** | | |
| Income accrued on investments | **35,867** | 21,095 |
| Deposit with Reserve Bank of India [pursuant to Section 7 of Insurance Act, 1938] | **1,000** | 1,000 |
| Security and other deposits | **33,265** | 18,884 |
| Premium receivable | 1,369 | — |
| | **71,501** | 40,979 |
| | **86,925** | 47,434 |
| **14. CURRENT LIABILITIES AND PROVISIONS** | | |
| **Current Liabilities** | | |
| Accrued expenses | **39,904** | 1,615 |
| Due to Kotak Mahindra Finance Limited | **5,076** | 7,133 |
| Proposal deposits, pending underwriting decision | **16,029** | — |
| Sundry creditors | **16,361** | — |
| Re-insurance premium payable | **1,671** | — |
| Overdrawn book balances with bank | **14,826** | — |
| Agents' balances | **187** | — |
| Taxes deducted at source, payable | **3,347** | 2,110 |
| Statutory dues payable | **1,026** | 288 |
| Salary payable | **1,356** | 80 |
| | **99,783** | 11,226 |
| **Provisions** | | |
| Provision for gratuity | **2,191** | 450 |
| Provision for leave encashment | **983** | 407 |
| Others | **240** | 12 |
| | **3,414** | 869 |
| | **103,197** | 12,095 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2002

(Amounts in thousands of Indian Rupees unless otherwise stated)

| | 2002 | 2001 |
|---|---|---|
| **15. MISCELLANEOUS EXPENDITURE** | | |
| Balance, beginning of year | **5,692** | — |
| Registration fees | — | 5,110 |
| Stamp duty on Memorandum of Association and Articles of Association | — | 2,000 |
| Legal, professional and other charges | — | 5 |
| | **5,692** | 7,115 |
| Amounts written-off during the year/period | **(1,423)** | (1,423) |
| **Balance, end of year/period** | **4,269** | 5,692 |
| **16. COMPUTATION OF MANAGERIAL REMUNERATION** | | |
| Remuneration paid to the Managing Director | | |
| a. Salary | **2,393** | 568 |
| b. Employer's contribution to provident fund | **288** | 68 |
| c. Value of perquisites | **54** | — |
| | **2,735** | 636 |
| The above remuneration is in accordance with the requirements of Section 34A of the Insurance Act, 1938 and as approved by the IRDA. The Insurer has obtained legal opinion that the provisions of the Companies Act, 1956 in relation to limits on Managerial Remuneration are not applicable to the Insurer. | | |
| **17. CAPITAL COMMITMENTS** | | |
| Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) | **7,662** | 3,684 |

**18. CONTINGENT LIABILITIES**

There are no contingent liabilities relating to the Insurer.

**19. RISK RETENTION**

As at March 31, 2002, the Insurer wrote policies with sum at risk worth Rs 4,590 million, reinsured therefrom Rs 2,362 million and thereby retained risk of 48.5 per cent.

**20. PERCENTAGE OF BUSINESS, SECTOR-WISE**

The Insurer wrote 7.51 per cent of policies and 1.04 per cent of premium income in the rural sector, and 92.49 per cent of policies and 98.96 per cent of premium income in the urban sector. The Insurer has also covered 6,023 lives in the social sector. The Insurer had not underwritten any policies in the prior period.

**21. TAXATION**

No provision for current income-taxes have been made for the year, in these financial statements, as management believes, based on legal opinion obtained by it, that as an insurer, the special provisions of the Income-tax Act, 1961 relating to the taxation of persons carrying on insurance business are applicable to the Insurer.

**22. ACCUMULATED FUND ADDITION TO PARTICIPATING POLICYHOLDERS**

The Board of Directors of the Insurer has, at its meeting held on May 23, 2002, declared an accumulated fund addition of Rs 0.171 million (to meet an effective 8 per cent return on each policyholder's accumulated fund) to the participating policyholders. This amount has been debited to the shareholders' account for the year, as the policyholders' account for the year is in deficit.

**23. RATIOS**

At present, there are no ratios prescribed by the IRDA for disclosure in the financial statements.

**24. PRIOR PERIOD COMPARITIVES**

Prior period amounts have been reclassified wherever necessary to confirm to current year's presentation. Further, prior period amounts relate to a period of approximately 7 months and, hence, are not directly comparable to amounts relating to the current year.

**25. SEGMENT REPORTING**

| Particulars | Participating business | Non-Participating business | Investment of shareholders' funds | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| External revenue | 51,576 | 22,140 | 140,922 | 214,638 |
| | 51,576 | 22,140 | 140,922 | 214,638 |
| **Result** | | | | |
| Segmental result | (214,159) | (20,165) | 6 | (234,318) |
| Other income | — | — | — | 169 |
| Unallocated corporate expenses | — | — | — | (175) |
| Net profit | | | | (234,324) |
| Other information | | | | |
| Segment assets | 143,606 | 30,716 | 1,244,877 | 1,419,199 |
| Unallocated corporate assets | | | | 11,861 |
| Total assets | | | | 1,431,060 |
| Allocated segment liabilities | 92,785 | 30,450 | 14,826 | 138,061 |
| Segment reserves | (214,159) | (20,165) | — | (234,324) |
| Unallocated corporate liabilities | | | | 1,527,323 |
| Total liabilities | | | | 1,431,060 |
| Capital expenditure during the year | 89,413 | 6,720 | — | 96,133 |
| Depreciation | 17,191 | 1,292 | — | 18,483 |
| Non-cash expenses other than depreciation | | | | |
| - Liability against policies in force | 14,470 | 20,394 | — | 34,864 |
| - Accumulated fund addition to policyholders | 171 | — | — | 171 |
| - Preliminary expenses | 1,324 | 99 | — | 1,423 |
| - Provision for gratuity and leave encashment | 2,180 | 164 | — | 2,344 |

Registration No: 107; Date of Registration: January 10, 2001

## STATEMENT OF RECEIPTS AND PAYMENTS FOR YEAR ENDED MARCH 31, 2002

(Amounts in thousands of Indian Rupees)

| | **Year ended March 31, 2002** | Period ended March 31, 2001 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Premium and deposits from policyholders | 90,047 | — |
| Interest received on investments, net | 121,012 | 22,404 |
| Cash paid to agents, suppliers and employees | (298,431) | (22,143) |
| Decrease/(increase) in investments, net | 134,148 | (1,213,560) |
| Net cash from/(deployed in) Operating Activities | 46,776 | (1,213,299) |
| Cash Flows from Investing Activities | | |
| Purchase of fixed assets | (84,908) | (20,608) |
| Advances to suppliers of fixed assets | (11,226) | (3,166) |
| Sale of fixed assets | 200 | — |
| Advances/ deposits to others | (14,381) | (23,832) |
| Net cash deployed in Investing Activities | (110,315) | (47,606) |
| Cash Flows from Financing Activities | | |
| Proceeds from issuance of share capital | — | 1,010,000 |
| Proceeds from share premium | — | 520,363 |
| Net cash from Financing Activities | — | 1,530,363 |
| Net (decrease)/increase in Cash and Cash Equivalents | (63,539) | 269,458 |
| Cash and Cash Equivalents, beginning of year | 269,458 | — |
| **Cash and Cash Equivalents, end of year/period** | 205,919 | 269,458 |

**Arthur Andersen & Associates**
**Chartered Accountants**

**OM Kotak Mahindra Life Insurance Company Limited**

**Ameet Parikh**
**Partner**

**Uday Kotak**
**Chairman**

**Hasan Askari**
**Vice-Chairman**

**Dipak Gupta**
**Director**

**Shivaji Dam**
**Managing Director**

**G Murlidhar**
**Chief Financial Officer & Company Secretary**

**Andrew Cartwright**
**Appointed Actuary**

Mumbai, May 23, 2002

In accordance with the Insurance Regulatory and Development Authority (Preparation of financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002, the Board of Directors presents its Management Report for the year ended March 31, 2002.

1. **Validity of Registration**: Your Directors confirm that the registration granted by the Insurance Regulatory and Development Authority is valid on this date.
2. **Statutory Dues**: Your Directors certify that all the dues payable to the statutory authorities have been duly paid.
3. **Shareholding pattern**: Your Directors confirm that the shareholding pattern and the transfer of shares is in accordance with the statutory and regulatory requirements.
4. **Investment of policyholders' funds**: As at March 31, 2002, your Company has not directly or indirectly invested outside India the funds of the holders of policies issued in India.
5. **Solvency margins**: Your Directors confirm that the solvency margins as required by regulations prescribed by Insurance Regulatory and Development Authority of India have been maintained.
6. **Values of assets**: Your Directors certify that the values of all the assets have been reviewed on the date of the Balance Sheet and that the assets set forth in the Balance Sheet are shown in the aggregate at amounts not exceeding their realisable or market value under the several headings – "Investments", "Outstanding Premiums", "Interest, Dividends and Rents outstanding", "Interest, Dividends and Rents accruing but not due", "Advances and other assets", " Cash" and the several items specified under "Other Accounts."
7. **Application of life insurance funds**: Your Directors certify that no part of the life insurance fund has been directly or indirectly applied in contravention of the provisions of the Insurance Act, 1938 (4 of 1938) relating to the application and investment of the life insurance funds.
8. **Risk exposure**: Your Company recognises the risks associated with the life insurance business and seeks to manage it by adopting prudent policies commensurate with the needs of the life insurance business. The key risks affecting the operations of the Company are underwriting risks and investment Risks.

   The underwriting risk is managed by establishing reinsurance treaties with various reinsurance companies. All risks above the pre-determined retention limits are automatically reinsured.

   The investment risk is managed by creating a portfolio of different asset classes and of varied maturities so as to spread the risk across a wide category of investee companies. Your Company has constituted an Investment Committee, which acts as the policy making body for the investment operations. The Investment Committee lays down various internal policies and norms governing the functioning of the Investment Department. The Investment Committee periodically discusses the investment strategy, portfolio structures, performance of the portfolio and other issues relating to the investment portfolio.
9. **Operations in other countries**: Your Directors confirm that on the date of the Balance Sheet, your Company had no operations in other countries.
10. **Ageing of claims**: As no claims were lodged during the period under review, the disclosure regarding the age of claims is not applicable.
11. **Valuation of investments**: Your Company considers its debt securities as 'held to maturity' and values them at historical cost subject to amortisation. Debt securities purchased at a discount are carried at a value after amortising the implicit yield thereon. As at March 31, 2002, your Company had not invested in shares.
12. **Review of asset quality and performance of investment**: Your Company commenced investment operations with investments in debt securities issued by the Government of India, public financial institutions, select multinational banks and public sector undertakings with a AAA rating/ guaranteed by the Government. There has been no material change in the quality of your Company's investments after the Balance Sheet date.
13. **Responsibility Statement**: Your Directors state that:
    (a) in the preparation of financial statements, the applicable accounting standards, principles and policies have been followed;
    (b) the accounting policies have been adopted and applied consistently and the judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the operating loss and of the loss of the company for the period;
    (c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the applicable provisions of the Insurance Act 1938 (4 of 1938) / Companies Act, 1956 (1 of 1956), for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
    (d) the financial statements are prepared on a going concern basis;
    (e) an internal audit system commensurate with the size and nature of the business exists and is operating effectively.
14. **Schedule of payments made to individuals, firms, companies and organizations in which the Directors are interested:**
    Your Company has made the following payments to individuals, firms, companies and organizations in which the Directors are interested:

| Names of Directors | Company the Director/s is/ are interested in | Interested as | Amount paid in the financial year (Rs '000) |
|---|---|---|---|
| Uday Kotak, Shivaji Dam and Dipak Gupta | Kotak Mahindra Finance Ltd. | Director | 30,114 |
| Uday Kotak, Pallavi Shroff | Aero Agencies Pvt. Ltd. | Director<br>Related to Director | 2,711 |
| Uday Kotak, Shivaji Dam and Dipak Gupta | Kotak Mahindra Primus Ltd. | Director | 72 |
| Shivaji Dam and Dipak Gupta | Fascel Ltd. | Director | 8 |

**For OM Kotak Mahindra Life Insurance Company Limited**

**Uday Kotak**
**Chairman**

**Shivaji Dam**
**Managing Director**

Mumbai, May 23, 2002