Kotak Mahindra Financial Services Limited

Annual Report 2016-17

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CHANGING WITH INDIA. FOR INDIA.

DIRECTORS' REPORT

To

The Members of,

Kotak Mahindra Financial Services Ltd.

Your Directors are pleased to present the 7th Annual Report of your Company together with the Audited Statement of Accounts and the Auditors' Report of your Company for the financial year ended, 31st March, 2017. The summarized financial results for the year ended 31st March, 2017 are as under:

FINANCIAL HIGHLIGHTS

Particulars	FY 16-17		FY 15-16	
	Amount in USD	Amount in INR	Amount in USD	Amount in INR
Gross Income	2,664,300	178,734,565	2,281,367	149,810,402
Less : Expenses	2,879,072	193,142,545	2,583,693	166,944,075
Profit/(Loss) Before Tax	(214,772)	(14,407,980)	(302,326)	(17,133,673)

REVIEW OF OPERATIONS

The company is registered with DIFC, as a category IV investment firm and governed by the rules/by laws of the DFSA. The company predominantly caters to the Non Resident Indian customer, leveraging the strong brand recall of the parent.

Our product offering includes INR Mutual Funds, Platform Products, Structures – Equity Linked Notes linked etc. In line with the Group, our endeavor has been to position ourselves as a one stop shop for all requirements of an NRI customer. This is possible through the partnerships that we have with various regulated entities.

The FY 2016-17 saw a number of global macro-economic factors affecting the business:

1. Brexit outcome was not anticipated by the markets, thereby creating a panic in the market.
2. Outcome of the US presidential election was also unexpected.
3. Demonetization in India.
4. Oil prices remained volatile.

The firm recognizes the challenges as the UAE economy faces a slowdown. KMFSL remains focused on constantly identifying products and opportunities which endeavour to capitalize on the ever-changing environment and which provide stable and superior returns at various risk points. The client will continue to be at the heart of the decision-making process and we are confident that the franchise that has been created will continue to thrive.

The team strength as on 31st March 2017 is 29.

DIVIDEND

The Board of Directors of the company has not recommended any dividend for the current year.

SHARE CAPITAL

The Company started with a capital of USD 1.69 Mn (1.69 Mn Shares of USD 1 /- each) as on 1st April 2016. The Authorized Share capital is at USD 2 Mn (2 Mn Shares of USD 1 /- each) against which USD 1.69 Mn has been Issued, Subscribed and Paid up. The Company's shares were subscribed and Paid up by Kotak Securities Ltd (India) (73.36%) and by Kotak Mahindra (International) Limited (26.64%) as on 31st Mar 2017.

BUSINESS OUTLOOK

The firm's main area of operations in UAE, where the country currently is witnessing headwinds as the oil prices have been volatile and the liquidity constraint continue to be a drag on the economy. The government has been working to reduce dependency on oil revenues and has started to focus on developing infrastructure and service sector. Trading activities are expected to improve in FY18, as construction contracts worth USD 3 bn are expected to be awarded to build the World Expo site. The government also has also been working on strengthening bilateral ties with various countries, India being one of them.

Initiatives have been taken by UAE and Indian governments to boost trade and strengthen ties between the two countries. This would lead to some opportunities that the firm could capitalize on by arranging credit to corporates who have trade ties between UAE and India.

There is also a keen interest in the Indian Capital Markets, as investors show faith the market and the economy. We expect to see a continued flow into the Indian Capital Markets in the current financial year as well.

The current year would also pose some challenges as;

- Liquidity and NPA concerns in the local economy
- Consolidation is expected in the financial services industry led by FGB/NBAD merger
- Multiple and stringent regulatory environment

The firm has signed agreements with regulated firms like Picard Angst to provide structured product solutions for our clientele and Silverdale Asset Management Company to provide bespoke FMPs and internally leveraged Fixed Income Funds. Products viz Silverdale Bond Fund, an open ended internally leveraged diversified bond fund and Kotak Special Situation and Value Fund, which focus on Indian mid cap stocks, have been onboarded.

DIRECTORS

As on the date of this Directors Report, Ms. Shanti Ekambaram, Mr. Somer Massey and Mr. Gijo Joseph are the Directors of the Company.

COMMITTEES

The company has the following committees as per the Governance Framework of the company.

1. Board
2. Company Management Committee (CMC)
3. Governance, Risk, Audit and Compliance Committee (GRAC Committee)

a. Sub-committee - Disciplinary Committee

4. Nomination, Remuneration and Promotions Committee

AUDITORS

The Board had appointed M/s Ernst & Young, Chartered Accountants UAE as the auditors for the financial year ending 2017. The Company's auditors retire at the ensuing Annual General Meeting and are eligible for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Based on representation from the management, the Directors state,

I. the Company has, in the preparation of the annual accounts for the year ended 31st March 2017, 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 judgments 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 2017 and of the profit of the Company for the financial year ended 31st March 2017.

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

The Directors wish to thank the Dubai International Financial Corporation, Dubai Financial Services Authority, Dubai Government and the Company's Bankers for the assistance, Co-operation and encouragement they extended to the Company. The Directors commend the employees of the Company for their dedicated efforts.

For and on behalf of the Board of Directors

Somer A Massey

Place: Dubai

Dated: 20 April 2017

INDEPENDENT AUDITORS' REPORT

To

The Shareholders of,

Kotak Mahindra Financial Services Ltd.

Opinion

We have audited the financial statements of Kotak Mahindra Financial Services Limited (the "Company"), which comprise the statement of financial position as at 31 March 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the shareholders of the Company as a body, for our audit work, for this report, or for the opinions we have formed. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Dubai International Financial Centre, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation of the financial statements that a give a true and fair view in accordance with IFRSs, and in compliance with the applicable provisions of the Dubai Financial Services Authority Prudential Rulebooks, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Sanjay Khaira
Partner

20 April 2017
Dubai, United Arab Emirates

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	**2017 USD**	2016 USD
Commission income		2,653,533	2,271,912
General and administrative expenses		(3,374,440)	(3,220,148)
Finance costs	8	(12,000)	(12,000)
Finance income	6	10,767	9,455
Cost recovery from the majority shareholder	11	507,368	642,770
Other income		-	5,685
LOSS FOR THE YEAR	3	**(214,772)**	**(302,326)**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(214,772)**	**(302,326)**

The attached notes 1 to 15 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 USD	2016 USD
ASSETS			
Non-current assets			
Furniture and equipment	4	5,243	8,764
Current assets			
Accounts receivable and prepayments	5	662,029	624,190
Bank balances and cash	6	1,005,377	979,146
		1,667,406	**1,603,336**
TOTAL ASSETS		**1,672,649**	**1,612,100**
EQUITY AND LIABILITIES			
Equity			
Share capital	7	1,689,000	1,689,000
Capital contribution from the ultimate shareholder	12	237,083	212,318
Accumulated losses		(1,255,660)	(1,040,888)
Total equity		**670,423**	**860,430**
Non-current liabilities			
Loan from the minority shareholder	8	300,000	300,000
Employees' end of service benefits	9	287,499	223,496
		587,499	**523,496**
Current liability			
Accounts payable and accruals	10	414,727	228,174
Total liabilities		**1,002,226**	**751,670**
TOTAL EQUITY AND LIABILITIES		**1,672,649**	**1,612,100**

Director
Shanti Ekambaram

SEO & Director
Somer A Massey

The attached notes 1 to 15 from part of these financials statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	**2017 USD**	2016 USD
OPERATING ACTIVITIES			
Loss for the year		**(214,772)**	**(302,326)**
Adjustments for:			
Depreciation	4	3,984	12,615
Finance costs	8	12,000	12,000
Finance income	6	(10,767)	(9,455)
Share based payment transaction expense (net)		24,765	40,573
Provision for employees' end of service benefits	9	75,469	72,456
Provision for leave encashment		13,989	27,535
		(95,332)	**(146,602)**
Working capital changes:			
Accounts receivable and prepayments		(36,274)	(130,714)
Accounts payable and accruals		172,901	(136,593)
Net cash from / (used in) operations		**41,295**	**(413,909)**
Finance costs paid		(12,000)	(12,000)
Employees' end of service benefits paid	9	(11,466)	(9,321)
Leave encashment paid		(337)	-
Net cash (used in) / from operating activities		**17,492**	**(435,230)**
INVESTING ACTIVITIES			
Purchase of furniture and equipment	4	(463)	(2,673)
Fixed deposits redeemed during the year (with maturity more than three months)	6	89,356	-
Finance income received		9,202	-
Net cash from / (used in) investing activities		98,095	(2,673)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**115,587**	**(437,903)**
Cash and cash equivalents at the beginning of the year		279,146	717,049
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**6**	**394,733**	**279,146**

The attached notes 1 to 15 from part of these financials statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

	Share capital USD	Capital contribution from the ultimate shareholder USD	Accumulated losses USD	Total USD
Balance at 1 April 2015	1,689,000	171,745	(738,562)	1,122,183
Capital contribution for employee				
share plan (net) (note 12)	-	40,573	-	40,573
Total comprehensive loss for the year	-	-	(302,326)	(302,326)
Balance at 31 March 2016	**1,689,000**	**212,318**	**(1,040,888)**	**860,430**
Capital contribution for employee				
share plan (net) (note 12)	-	24,765	-	24,765
Total comprehensive loss for the year	-	-	(214,772)	(214,772)
Balance at 31 March 2017	**1,689,000**	**237,083**	**(1,255,660)**	**670,423**

The attached notes 1 to 15 from part of these financials statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

1 ACTIVITIES

Kotak Mahindra Financial Services Limited (the "Company") is a company limited by shares registered and incorporated in the Dubai International Financial Centre in Dubai, United Arab Emirates on 17 November 2009. The Company's shareholders are Kotak Securities Limited ("majority shareholder"), an entity incorporated in India and Kotak Mahindra International Limited ("minority shareholder"), an entity incorporated in Mauritius. The majority shareholder and the minority shareholder are together referred to as "the shareholders". The ultimate shareholder of the Company is Kotak Mahindra Bank Limited ("ultimate shareholder") / ("the Bank"), an entity incorporated in India and publicly listed on the Bombay Stock Exchange (BSE), National Stock Exchange of India (NSE) and the Luxembourg Stock Exchange. The Company has been granted a prudential "category 4" license by the Dubai Financial Services Authority (DFSA) and is engaged in "advising on financial products", "arranging deals in investments", "arranging custody" and "arranging credit and advising on credit" as per the provisions of the DFSA.

The Company's registered office is at Level 7, Office No. 703, Al Fattan Tower 2, DIFC, P O Box 16498, Dubai, United Arab Emirates.

The financial statements were authorised for issue in accordance with a resolution of the Directors on 20 April 2017.

2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Boards (IASB) and applicable requirements of the DFSA Prudential Rulebooks.

The financial statements of the Company are prepared under the historical cost convention modified to include the measurement at fair values of equity settled share based payments. The financial statements have been presented in United States Dollars (USD), which is also the Company's functional currency.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the previous year financial statements for the year ended 31 March 2016, except for the adoption of new standards and interpretations effective for annual period beginning on or after as of 1 January 2016, as listed below. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and interpretation apply for the first time in 2016, they do not have a material impact on the financial statements of the Company.

New standards and interpretations

- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Improvements 2012-2014 Cycle :
    - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
    - IFRS 7 Financial Instruments: Disclosures
    - IAS 19 Employee Benefits
    - IAS 34 Interim Financial Reporting
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
- IFRS 14 Regulatory Deferral Accounts

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below.

- IFRS 9 Financial Instruments (1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (1 January 2018)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IAS 7 Disclosure Initiative - Amendments to IAS 7 (1 January 2017)
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (1 January 2017)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2 (1 January 2018)
- IFRS 16 Leases (1 January 2019)

The Company is currently assessing the impact of these standards on the future financial statements and intends to adopt these standards, if applicable, when they become effective.

2.3 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of the financial statements are set out below:

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment, excluding discounts, rebates and sales tax or duty.

Commission income

Commission income is recognised when the services have been rendered or in accordance with the terms of the respective contracts.

Interest income

Interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Furniture and equipment

Furniture and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	over 4 years
Furniture and fixtures	over 4 years
Computer equipment	over 4 years
Office equipment	over 4 years

An item of furniture and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is included in the statement of comprehensive income in the year the asset is derecognised.

The carrying values of furniture and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

The assets residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each financial year end.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the statement of comprehensive income. Impairment is determined as follows:

a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income;

b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and

c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash at bank and on hand and short-term deposits with a maturity of three months or less.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company’s continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

Loans and borrowings

After initial recognition at fair value plus directly attributable transaction costs, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

Finance costs are expensed in the period they occur. Other than EIR amortisation, finance costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Employees' end of service benefits

The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Share based payments

Equity settled scheme

The Company has no separate share based payment arrangement of its own and participates in the ultimate shareholders' share based payment plans. Where an award of ultimate shareholder's shares is made to a group employee on a group entity, the Company has no obligation to settle the share based payment transaction to the employee if the vesting conditions of the award are met. Accordingly, the Company recognises at the grant date fair value of options granted to employees as staff costs, with a corresponding increase in equity, over the year that the employees become unconditionally entitled to the options. The amount recognised as expense is adjusted to reflect the actual number of share options for which the related service and non- market vesting conditions are met.

Cash-settled scheme

The cost of cash-settled transactions (stock appreciation rights) is measured initially using fair value method at the grant date taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. This liability is remeasured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income.

Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Company if that person:

- (i) Has control or joint control over the Company;
- (ii) Has significant influence over the Company; or
- (iii) Is a member of the key management personnel of the Company or of a parent of the company.

(b) An entity is related to the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The judgments, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. However, the resulting accounting estimates may differ

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

from actual results. The estimates and assumptions pose a risk of causing adjustment to the carrying amounts of assets and liabilities within the next financial year.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant impact on the amounts recognised in the financial statements.

Revenue recognition

In making this judgement, management considered the detailed criteria for the recognition of revenue from rendering services as set out in IAS 18 Revenue Recognition. Management has judged that revenue has been recognised only when the outcome of the transactions involving the rendering of services can be estimated reliably. In making this judgement, management considers that the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue the business for the foreseeable future. The shareholders have undertaken to provide support to the Company for the settlement of its obligations, as and when they fall due. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Operating leases – Company as a lessee

The Company has entered into lease agreements for the lease of its DIFC office. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all the significant risks and rewards of ownership of the asset and accordingly accounts for them as operating lease.

Functional currency

Management considers USD to be, the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. USD is the primary economic environment in which the Company operates and measures its performance and reports its results.

Use of estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross trade receivable were USD 271,119 (2016: USD 259,690) with no provision for doubtful debts. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12.

Useful lives of furniture and equipment

Management periodically reviews estimated useful lives and depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

3 LOSS FOR THE YEAR

	2017 USD	2016 USD
The loss for the year is stated after charging:		
Staff costs	**2,985,415**	**2,768,142**
Rental – operating leases	**194,243**	**187,735**

4 FURNITURE AND EQUIPMENT

	Leasehold improvements USD	Furniture and fixtures USD	Computer equipment USD	Office equipment USD	Total USD
Cost:					
At 1 April 2016	146,373	88,389	53,666	7,339	295,767
Additions	-	-	463	-	463
At 31 March 2017	**146,373**	**88,389**	**54,129**	**7,339**	**296,230**
Depreciation:					
At 1 April 2016	146,373	87,503	46,525	6,602	287,003
Charge for the year	-	272	3,122	590	3,984
At 31 March 2017	**146,373**	**87,775**	**49,647**	**7,192**	**290,987**
Net carrying amount:					
At 31 March 2017	**-**	**614**	**4,482**	**147**	**5,243**
Cost:					
At 1 April 2015	146,373	87,299	52,331	7,091	293,094
Additions	-	1,090	1,335	248	2,673
At 31 March 2016	**146,373**	**88,389**	**53,666**	**7,339**	**295,767**
Depreciation:					
At 1 April 2015	139,170	87,254	42,370	5,594	274,388
Charge for the year	7,203	249	4,155	1,008	12,615
At 31 March 2016	**146,373**	**87,503**	**46,525**	**6,602**	**287,003**
Net carrying amount:					
At 31 March 2016	**-**	**886**	**7,141**	**737**	**8,764**

The depreciation charge of USD 3,984 (2016: USD 12,615) is included within general and administrative expenses in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2017 USD	2016 USD
Trade receivables	271,119	259,690
Amounts due from related parties (note 11)	217,741	133,779
Prepayments	96,787	154,430
Deposits	69,369	69,369
Other receivable and advances	7,013	6,922
	662,029	624,190

Trade receivables pertain to commission income earned during year and are non-interest bearing.

At 31 March 2017 and 2016, there were no trade receivables that were impaired or past due and the ageing of all trade receivables was less than 30 days.

6 CASH AND CASH EQUIVALENTS

	2017 USD	2016 USD
Bank balances	393,002	276,507
Fixed deposits	610,644	700,000
Cash in hand	1,731	2,639
Bank balances and cash	**1,005,377**	**979,146**
Less: Fixed deposit with a maturity of more than three months	(610,644)	(700,000)
Cash and cash equivalents	**394,733**	**279,146**

Fixed deposits are placed with a financial institution in the UAE and carry an interest of 2% p.a. These deposits mature on 10 March 2018. During the year, the Company earned interest income of USD 10,767 from these deposits (2016: USD 9,455).

7 SHARE CAPITAL

	2017 USD	2016 USD
Authorised:		
2,000,000 shares of USD 1 each	**2,000,000**	**2,000,000**
Issued and fully paid:		
1,689,000 shares of USD 1 each	**1,689,000**	**1,689,000**

8 LOAN FROM THE MINORITY SHAREHOLDER

During 2012, the Company obtained a loan of USD 300,000 from the minority shareholder. The loan carries an interest rate at 4% per annum (2016: 4% per annum) and is repayable on either party giving a notice of 5 years to the other party. This loan has been subordinated as a Tier 2 Capital in the calculation of the Company's capital resources (note 14) and can be repaid only after approval of the DFSA. Accordingly, the loan has been classified as non-current in the statement of financial position as at 31 March 2017 and 2016.

During the year, the Company incurred finance costs of USD 12,000 (2016: USD 12,000) in respect of this loan.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

9 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the statement of financial position are as follows:

	2017 USD	2016 USD
At 1 April	223,496	160,361
Provided during the year	75,469	72,456
Paid during the year	(11,466)	(9,321)
At 31 March	**287,499**	**223,496**

10 ACCOUNTS PAYABLE AND ACCRUALS

	2017 USD	2016 USD
Other payables and accruals	414,727	228,174
	414,727	**228,174**

Other payables are non-interest bearing and have an average term of three to six months.

11 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties included in the statement of comprehensive income are as follows:

	2017 USD	2016 USD
Majority shareholder:		
Cost recovery	507,368	642,770
Ultimate shareholder:		
Commission income	654,375	696,827
Minority shareholder:		
Commission income	190,696	-
Interest expense on loan	12,000	12,000
Other related parties:		
Commission income	196,945	2,854

Balances with related parties (other than the loan from the minority shareholder) included in the statement of financial position are as follows:

	2017 Receivables USD	2016 Receivables USD
Majority shareholder	71,701	68,593
Ultimate shareholder	77,578	65,186
Minority shareholder	50,985	-
Other related party	17,477	-
	217,741	**133,779**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

Above outstanding balances at the year-end arise in the normal course of business and are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 March 2017 and 2016, the Company has not recorded any impairment of amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel

The remuneration of directors and other key members of management of the Company during the year were as follows:

	2017 USD	2016 USD
Salaries and other benefits	393,381	386,843
Share based payments	**62,338**	66,698

12 SHARE BASED PAYMENT PLANS

At the General Meetings of the holding company, Kotak Mahindra Bank Limited, the shareholders of the Bank had unanimously passed Special Resolutions on 5th July 2007, 21st August 2007 and 29th June 2015, to grant options to the eligible employees of the Bank and its subsidiaries and associate companies. Pursuant to these resolutions, the following Employees Stock Option Schemes ("ESOS") had been formulated and adopted:

(a) Kotak Mahindra Equity Option Scheme 2007; and

(b) Kotak Mahindra Equity Option Scheme 2015

Further, pursuant to the Scheme of Amalgamation of ING Vysya Bank (IVBL) with the Bank, the Bank has renamed and adopted the ESOP Schemes of the erstwhile IVBL, as given below:

(a) Kotak Mahindra Bank Ltd. (IVBL) Employees Stock Option Scheme 2007

(b) Kotak Mahindra Bank Ltd. (IVBL) Employee Stock Option Scheme 2010; and

(c) Kotak Mahindra Bank Ltd. (IVBL) Employees Stock Option Scheme 2013

Consequent to the above, the Bank has granted stock options to employees of the Company. In accordance with the SEBI Guidelines and the guidance note on "Accounting for Employee Share based payments", the excess, if any, of the market price of the share, preceding the date of grant of the option under ESOSs over the exercise price of the option is amortised on a straight-line basis over the vesting period.

During the year ended 31 March 2017, USD 24,765 (2016: USD 40,795) was charged to the Company's statement of comprehensive income in respect of equity-settled share-based payment transactions with a corresponding increase being made to the capital contribution to the Company by the ultimate shareholder. The amount reimbursed by the Company during the year amounting to Nil (2016 : USD 222) is recognised as an adjustment to the capital contribution recognised in respect of the share based payments.

The terms and conditions of grants are as follows:

2016:

Scheme Reference	Grant Date	Method of Settlement Accounting	No. of Share options	Vesting conditions/ Dates	Contractual life of the option (yrs.)
ESOP2007-47	9-May-15	Equity	16,220	30% - 1 yr service	1.90
				30% - 2 yr service	2.73
				20% - 3 yr service	3.65
				20% - 4 yr service	4.15

2015:

Scheme Reference	Grant Date	Method of Settlement Accounting	No. of Share options	Vesting conditions/ Dates	Contractual life of the option (yrs.)
ESOP2007-44	9-May-14	Equity	23,960	30% - 1 yr service	1.90
				30% - 2 yr service	2.73
				20% - 3 yr service	3.65
				20% - 4 yr service	4.15

2014:

Scheme Reference	Grant Date	Method of Settlement Accounting	No. of Share options	Vesting conditions/ Dates	Contractual life of the option (yrs.)
ESOP2007-40	10-May-13	Equity	17,000	20% - 1 yr service	1.89
				30% - 2 yr service	2.81
				25% - 3 yr service	3.65
				25% - 4 yr service	4.14

Weighted average remaining contractual life of outstanding options is 1.27 years (2016: 1.64 years). The number and actual exercise prices of share options are as follows:

The number and actual exercise prices of share options are as follows:

Scheme	Grant Date	Outstanding at the start of the year	Granted during the year	Transfer during the year	Lapsed / Exercised during the year	Outstanding at the end of the year	Exercise Price (INR)
ESOP2007-40	10-May-13	8,500	-	-	8,500	-	362.00
ESOP2007-44	9-May-14	17,240	-	-	7,656	9,584	406.00
ESOP2007-47	9-May-15	16,220	-	-	4,866	11,354	665.00
		41,960	**-**	**-**	**21,022**	**20,938**	

The fair values were calculated using a Black-Scholes Model. The inputs were as follows:

Scheme	Grant Date	Exercise Price (INR)	Expected life (yrs.)	Annual Dividend Yield	Volatility	Risk free rate	Fair value per share option (INR)
ESOP2007-40	10-May-13	362.00	1.64	0.10%	27.68%	7.47%	71.05
ESOP2007-40	10-May-13	362.00	2.56	0.10%	29.14%	7.52%	96.65
ESOP2007-40	10-May-13	362.00	3.39	0.10%	29.30%	7.52%	115.20
ESOP2007-40	10-May-13	362.00	3.89	0.10%	31.56%	7.52%	129.96
ESOP2007-44	09-May-14	406.00	1.65	0.10%	28.53%	8.73%	85.82
ESOP2007-44	09-May-14	406.00	2.48	0.10%	29.52%	8.73%	113.22
ESOP2007-44	09-May-14	406.00	3.40	0.10%	30.17%	8.81%	139.43
ESOP2007-44	09-May-14	406.00	3.90	0.10%	29.98%	8.89%	151.71
ESOP2007-47	09-May-15	665.00	1.65	0.07%	27.61%	7.91%	133.51
ESOP2007-47	09-May-15	665.00	2.48	0.07%	28.57%	7.92%	176.14
ESOP2007-47	09-May-15	665.00	3.40	0.07%	28.83%	8.07%	216.45
ESOP2007-47	09-May-15	665.00	3.90	0.07%	29.29%	8.01%	236.57

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information and using an average exchange rate against US Dollar. The measurement of fair value was not adjusted for any other feature of the option grant and no option grant was subject to a market condition.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

13 COMMITMENTS

	2017 USD	2016 USD
Operating lease commitments		
Future minimum lease payments:		
Within one year	173,017	162,373
After one year but not more than five years	259,527	-
Total operating lease expenditure contracted for at the reporting date	**432,544**	**162,373**

14 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to financial risks like interest rate risk, credit risk, liquidity risk and foreign currency risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Company's principal financial liabilities comprise amounts due to related parties, loan from a shareholder and other payables and accruals. The Company has various financial assets such as accounts and other receivables, amounts due from related parties and bank balances and cash that generate directly from its operations.

Risk management activities carried out by the Company are under policies approved by the Directors. The Company identifies, evaluates and mitigates financial risks in close co-operation with the Company's operating units. The financial risk management disclosures have been presented to illustrate different potential scenarios and situations that the Company may encounter in practice.

The Company in the normal course of its operations is exposed primarily to credit risk and liquidity risk.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk on its accounts receivable and bank balances.

Accounts receivable

Customer credit risk is managed by the Company subject to the Company's established policy, procedures and control relating to customer credit risk management. The Company seeks to limit its credit risk with respect to customers by monitoring outstanding receivables on a regular basis. The maximum exposure for accounts receivable and amount due from related parties is the carrying amount as disclosed in note 5.

Bank balances

Credit risk from balances with banks and financial institutions is managed in accordance with the Company's policy which is to place amounts with highly rated financial institutions in the United Arab Emirates. The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Related parties

Amounts due from related parties are considered to be fully recoverable.

Liquidity risk

The Company limits its liquidity risk by ensuring a suitable proportion of shareholder funds are held in the form of liquid assets or there is enough funding or support from the shareholders or other related parties.

The table below summarises the maturity profile of the Company's undiscounted financial liabilities at 31 March 2017, based on contractual payment dates and current market interest rates. However, in practice amounts due to related parties are generally settled depending on availability of funds.

At 31 March 2017	Less than 3 months USD	3 to 12 months USD	1 to 5 years USD	>5 years USD	Total
Other payables and accruals	-	414,727	-	-	414,727
Loan from the minority shareholder	12,000	-	48,000	312,000	372,000
Total	**12,000**	**414,727**	**48,000**	**312,000**	**786,727**
At 31 March 2016	**Less than 3 months USD**	**3 to 12 months USD**	**1 to 5 years USD**	**>5 years USD**	**Total USD**
Other payables and accruals	-	228,174	-	-	228,174
Loan from the minority shareholder	12,000	-	48,000	312,000	372,000
Total	**12,000**	**228,174**	**48,000**	**312,000**	**600,174**

Currency risk

The Company has various assets and liabilities that are denominated in foreign currencies primarily in UAE Dirham (AED). The UAE Dirham is currently pegged to the USD and accordingly balances in AED do not represent any currency risk.

Capital management

The primary objective of the Company's capital management is to ensure that it complies with externally imposed capital requirements and to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to the shareholders.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, or issue new shares. No changes were made in the objectives, policies and processes from the previous years.

Capital resources as defined by the DFSA Prudential Rulebooks is as follows:

	2017 USD	2016 USD
Elements of Common equity Tier 1 (CET1) Capital	1,926,083	1,901,318
Less: Adjustments to/deductions from CET 1 Capital	(1,255,660)	(1,040,888)
CET1 Capital	670,423	860,430
Elements of Tier 2 (T2) Capital	300,000	300,000
Less: Deductions from (T2) Capital	-	-
Capital resources (Tier 1 + Tier 2 Capital)	**970,423**	**1,160,430**

Capital requirement applicable to the Company in accordance with PIB section 3.5 of the DFSA Prudential Rulebook (PIB) is the higher of:

	2017 USD	2016 USD
Base capital requirement (BCR)	10,000	10,000
Expenditure based capital minimum (EBCM) (as notified to the Company)	**275,000**	**200,000**

As at 31 March 2017 and 2016, the Company was in compliance with the minimum capital adequacy requirements of the DFSA Prudential Rulebooks.

15 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of cash and bank balances, accounts receivable, amount due from related parties and other receivables. Financial liabilities consist of, loan from the minority shareholder and other payables and accruals.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Other than the loan from a shareholder, the fair value of the above financial assets and liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.