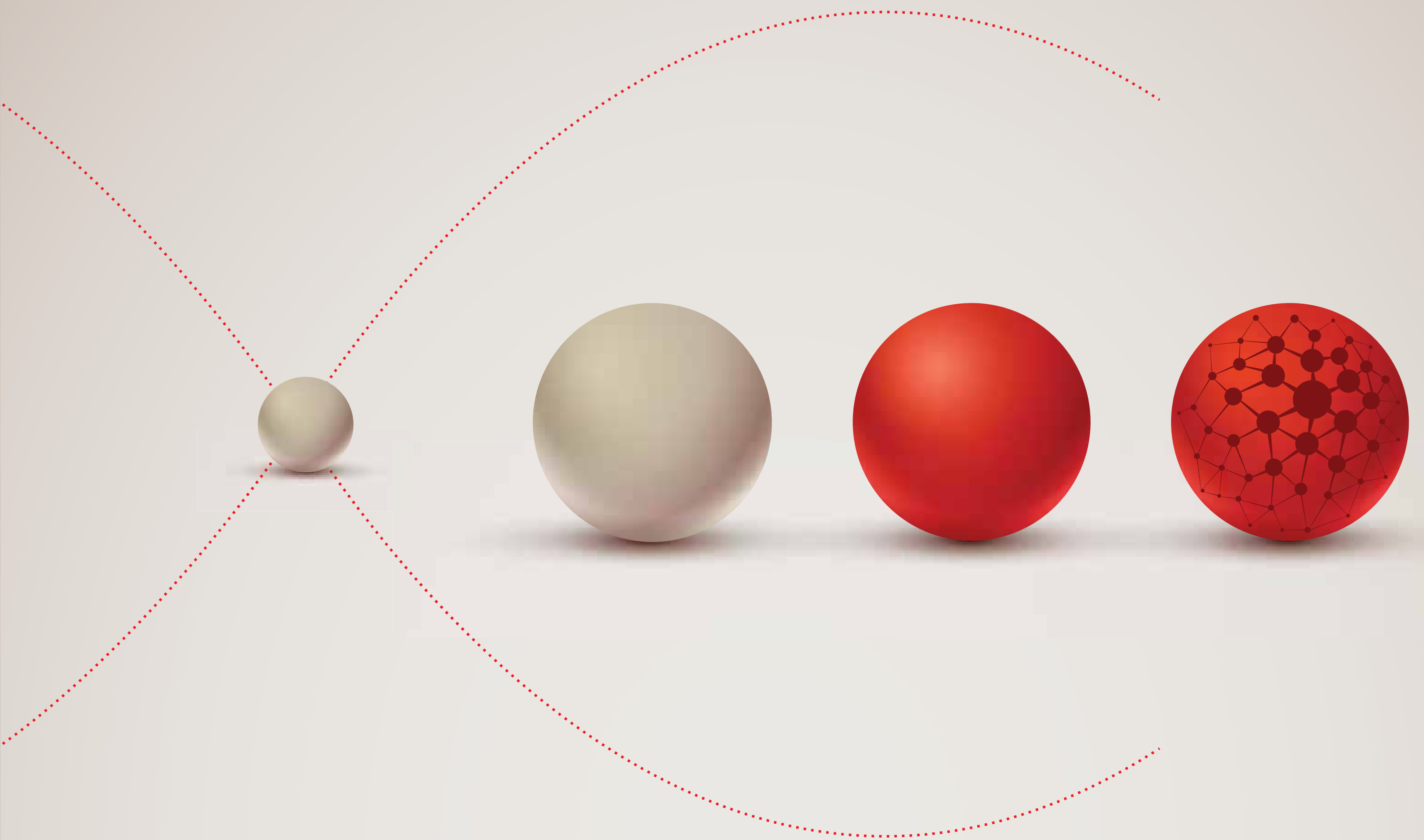


# Bigger. Bolder. Better.

kotak®

ANNUAL REPORT
2013-14

REGISTERED OFFICE

**Kotak Mahindra Bank Limited**
27BKC, C 27, G Block,
Bandra Kurla Complex, Bandra (E),
Mumbai - 400 051

Tel.: +91 22 61660000
Fax.: +91 22 67132403
Website: www.kotak.com

COMPANY SECRETARY

**Bina Chandarana**
Company Secretary and
Executive Vice President

AUDITORS

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

REGISTRAR AND TRANSFER AGENT

**Karvy Computershare Private Limited**
Plot No. 17-24,
Vittal Rao Nagar, Madhapur,
Hyderabad - 500 081

7, Andheri Industrial Estate,
Off Veera Desai Road,
Andheri West,
Mumbai - 400 058

# Across this report

# The Indian banking space is faced with a **unique paradox.**

On the one hand, India is a grossly under-banked nation with significant under-penetration across many financial products, and a projected economic revival. On the other, there is capacity constraint, which places many of the current players at a risk of not being able to capitalise on these opportunities. The capital available in the Indian banking system might not be enough to service its future lending requirements. Therefore, lending capacity, risk managed growth and an ability to scale up rapidly will be determining factors of banks' success in the future.

At Kotak, we see ourselves as a confident and courageous participant in this market opportunity. We have the strength and strategy required to grow rapidly. From a well-diversified asset portfolio, to raising the bar on governance and risk management, we work to not only protect value, but also grow it steadily.

The future will be defined by strong action and resolute initiatives. It will be defined by being bigger, bolder, better. And at Kotak, that is what we have tasked ourselves with.

# Aspirational enterprise

Kotak is young, aspirational and energised. Vagaries of the economy, industry challenges and changing customer aspirations notwithstanding, Kotak has remained true to its vision of sustainable value creation.

**600+** Branches

**₹ 19,076 CR**
Networth

**26,000+**
Team members

**15 MN+**
Group customer accounts

**₹ 60,165 CR**
Market capitalisation

CR: crore | MN: million | As on 31st March, 2014 | All figures are consolidated.

Our ability to foresee opportunities and create capacity and capability is evident in all we have done since inception. We identified an opportunity in the bill discounting market in late 1985 which led to the beginning of our corporate journey. Since then, we have evolved and grown consistently.

Today, Kotak Mahindra Group is one of India's leading banking and financial services organisations, offering a wide range of financial products and services.

In February 2003, Kotak Mahindra Finance Ltd. (KMFL) received a banking license from the Reserve Bank of India (RBI). Thus Kotak Mahindra Bank Limited (KMBL), India's first Non-banking Finance Company (NBFC) to become a bank, was born. Since inception, we have progressed with experience, expertise and with a firm customer-centric approach. We are catering to evolving customer expectations through technology-driven products and solutions spanning consumer banking, commercial banking, corporate banking, wealth management, retail and institutional equities, asset management, life insurance and investment banking. **We serve varied financial needs of individuals and the corporate sector, nationally and internationally, and are further extending our presence.**

## BUSINESS OVERVIEW

### Consumer Banking

(Kotak Mahindra Bank Limited)

- Provides seamless customer experience through a variety of products and services under a single umbrella
- Offers a range of services from savings accounts to a comprehensive suite of investment services, transactional conveniences and loan products
- Caters to diverse needs of the business community by offering comprehensive business solutions, such as current accounts, trade services, cash management services and credit facilities

### Commercial Banking

(Kotak Mahindra Bank Limited)

- Plays a significant role in fulfiling the mission of funding deep into rural and semi-urban regions through an expanding network of branches and associates
- Meets a substantial portion of the priority sector lending requirements including agricultural and tractor financing
- Offers a range of products for purchase and operations of commercial vehicles and construction equipment

- Participates in India's growth by partnering some of the best small and medium enterprises (SMEs)

## Corporate Banking

(Kotak Mahindra Bank Limited)

- Caters to diverse needs of major Indian Corporate Bodies, Financial Institutions, Public Sector Undertakings, Multinational Companies, Mid-Market Companies and Realty Business
- Offers a comprehensive portfolio of products and services – working capital financing, medium term finance, trade services, cash management services, export credit, transaction banking, custody services, debt capital markets, forex and treasury services

## Wealth Management

(Kotak Mahindra Bank Limited)

- One of the largest and the most respected wealth management businesses in India providing customised financial solutions to high networth families (covers 40% of India's top 100 families in Forbes India Rich List 2013)

## Car Loan

(Kotak Mahindra Prime Limited)

- Offers finance options in the form of hire purchase, lease and loans for the entire range of passenger cars and multi-utility vehicles
- Provides finance to car dealers for their working capital requirements towards inventory funding and term loans

## Life Insurance

(Kotak Mahindra Old Mutual Life Insurance Limited)

- Combines international strengths and local advantages to offer customers a wide range of innovative products
- Among the early private life insurers to break even, reflecting sterling management practices and customer-centric philosophy
- Demonstrates consistent growth in a challenging and competitive environment. Focused on enhancing the value proposition for customers through a meaningful product suite, combining protection and long-term savings, multimodal outreach and superior services

## Asset Management

(Kotak Mahindra Asset Management Company Limited)

- Offers schemes catering to investors with varying risk-return profiles, across a wide product range in the equity, debt and exchange traded funds (ETF) spaces

## Brokerage

(Kotak Securities Limited)

- Offers investment opportunities in equities, derivatives, distribution of IPOs, Gold ETFs and mutual funds
- Has emerged as India's leading institutional broker

## Investment Banking

(Kotak Mahindra Capital Company Limited)

- Offers integrated solutions encompassing high-quality financial advisory services and financing solutions
- Services Equity and Debt Capital Market issuances, M&A Advisory, Private Equity Advisory and Infrastructure Advisory & Fund Mobilisation.

## Alternate Assets

(Kotak Investment Advisors Limited)

- Building its business successfully across three verticals – Private Equity, Realty Fund and Infrastructure Fund – all led by independent investment teams

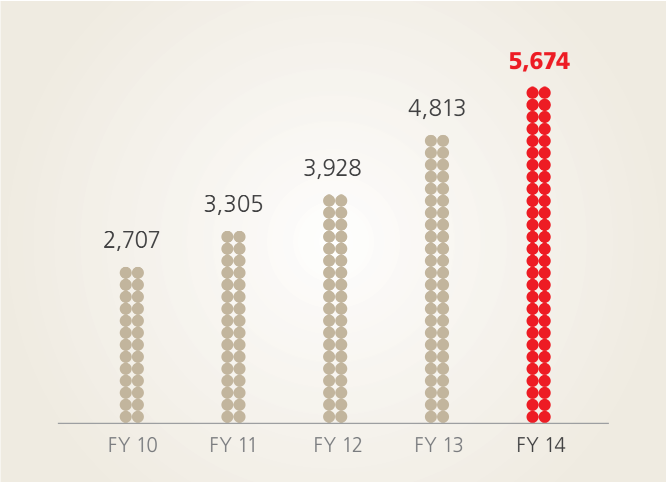
## International Business

(Kotak Mahindra (UK) Limited, Kotak Mahindra (International) Limited, Kotak Mahindra Inc., Kotak Mahindra Financial Services Limited)

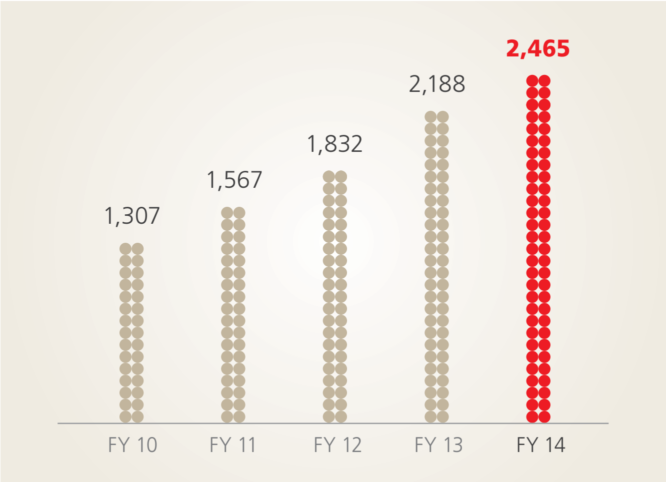
- Operates in overseas markets through international subsidiaries
- Provides investment solutions to international investors seeking investment opportunities in India, with a dedicated fund management team overseas
- Offers one of the widest range of Indian investment products for international investors

# Financial progress

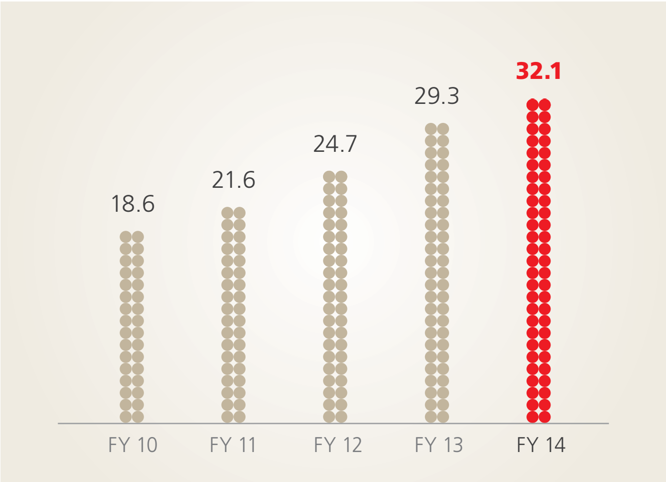
**NET INTEREST INCOME** (₹ CR)



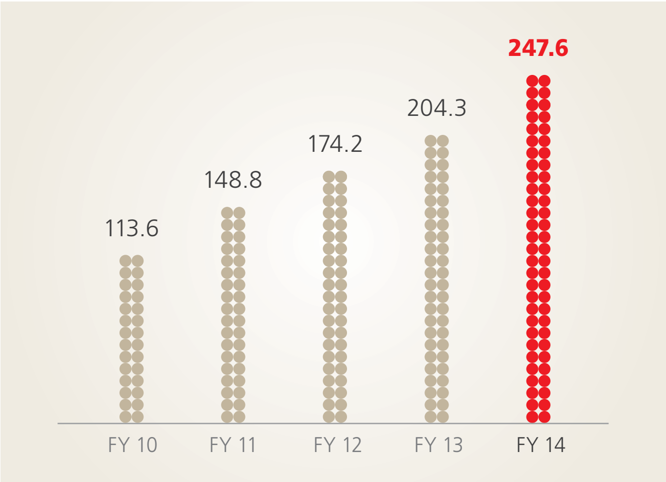

**NET PROFIT** (₹ CR)




**EARNINGS PER SHARE** (₹)




**BOOK VALUE PER SHARE** (₹)




All figures are consolidated.

## NETWORTH (₹ CR)

| | |
|---|---|
| **19,076** | FY 14 |
| 15,250 | FY 13 |
| 12,901 | FY 12 |
| 10,963 | FY 11 |
| 7,911 | FY 10 |

## ADVANCES (₹ CR)

| | |
|---|---|
| **71,693** | FY 14 |
| 66,258 | FY 13 |
| 53,144 | FY 12 |
| 41,242 | FY 11 |
| 29,724 | FY 10 |

## TOTAL ASSETS (₹ CR)

| | |
|---|---|
| **1,22,237** | FY 14 |
| 1,15,835 | FY 13 |
| 92,349 | FY 12 |
| 73,681 | FY 11 |
| 56,677 | FY 10 |

## CURRENT ACCOUNT AND SAVINGS ACCOUNT (₹ CR)

| | |
|---|---|
| **18,828** | FY 14 |
| 14,918 | FY 13 |
| 12,402 | FY 12 |
| 8,791 | FY 11 |
| 7,463 | FY 10 |

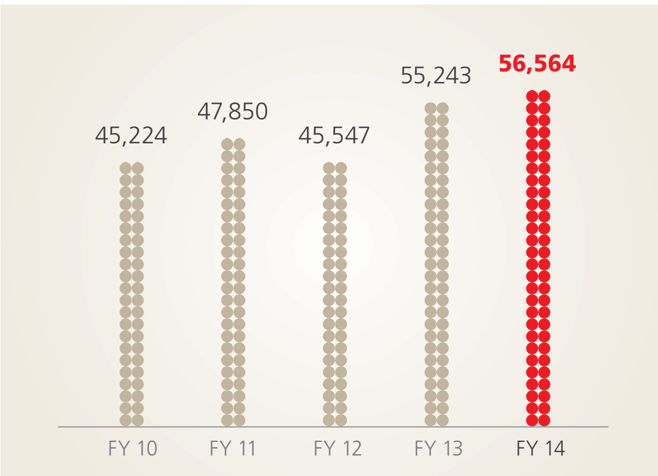
## MARKET CAPITALISATION (₹ CR)

| | |
|---|---|
| **60,165** | FY 14 |
| 48,754 | FY 13 |
| 40,394 | FY 12 |
| 33,738 | FY 11 |
| 26,046 | FY 10 |

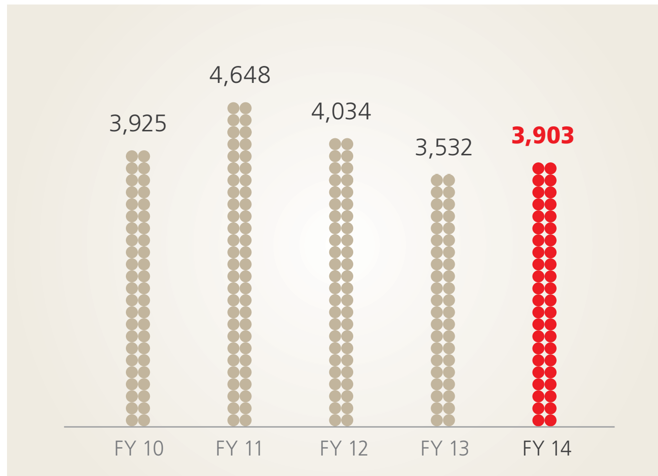
All figures are consolidated except CASA, which is bank standalone.

# Financial progress

## TOTAL ASSETS UNDER MANAGEMENT (₹ CR)




## KOTAK SECURITIES AVERAGE DAILY VOLUME (₹ CR)




## RETURN ON ASSETS (%)


## NET INTEREST MARGIN (%)


All figures are consolidated.

# Operational highlights

## CONSUMER BANKING

- RBI Dy. Governor Dr. K. C. Chakrabarty inaugurated the Bank's landmark 500th branch and 1,000th ATM, and launched Kotak Samridhi - Financial Inclusion programme for milk producing farmers in Kolkata
- Launched Jifi, a first-of-its-kind fully integrated social bank account for contemporary tech-savvy consumers
- Launched Kotak Junior – savings account for minors
- Launched all-women batch of Kotak Probationary Officer Course, in association with Manipal University

## COMMERCIAL BANKING

- Expanded agri business presence in 100 locations, catering to 300 districts across 17 states, and introduced 4 Specialised Agriculture Financing branches at Agricultural Produce Market Committee (APMC) markets
- Agri business exclusively handled their first Inter-bank Participation Certificate (IBPC) transaction of priority sector qualifying SME loans amounting to ₹ 99.7 crore from Citibank, and the first exclusively managed inward remittance from an International Equity fund for a stake buy of ₹ 92 crore in their MFI client
- Completed 10 years in tractor financing business
- Emerging Corporate Group expanded to new locations to partner with SMEs, and launched knowledge forums and engagement initiatives with promoters of SMEs

## LIFE INSURANCE

- Launched 29 new products and 16 riders to comply with new regulatory guidelines
- Implemented Fund Benchmarking System, to help customers manage their funds better and introduced a Retention Business Illustrator
- Initiated a phase-wise roll out of a pre-conversion verification calling system to ensure customer need alignment to product promise
- Shifting from paper-based communication to electronic mode, to reduce carbon footprint and to ensure efficient customer communication
- Launched web and mobile compatible Business Management system for Life Advisors and developed a new e-insurance portal

## ALTERNATE ASSETS

- Kotak Realty Fund closed its second international real estate fund, raising commitments of US$ 400 million. With this, the aggregate capital commitments of the Realty Fund crossed the US$ 1.2 billion mark

## BROKERAGE

- Inked alliance with Federal Bank for offering broking services to their NRI customers
- Launched ready-to-trade Trinity Insta Kit (My KIT) in association with Kotak Mahindra Bank, offering customers multiple conveniences (trading account, demat account and pre-opened bank account)

## INVESTMENT BANKING

- Completed a diverse set of transactions across the Equity Product spectrum, resulting in a 42.5% market share of the ₹ 35,841 crore raised across all deals in the Equity Capital Market in India in FY 2013-14
- Advised on a wide array of 17 M&A transactions across a range of products and sectors for a total value of US$ 2.7 billion
- Demonstrated leadership in the India-Japan corridor by announcing three transactions this year in this corridor
- In Private Equity-led transactions including syndication, successfully executed four transactions across various sectors for a total value of US$ 300 million

## INTERNATIONAL

- Mobilised over US$ 418 million through various debt offerings

# Board of Directors

Dr. Shankar Acharya
Chairman

Uday Kotak
Executive Vice Chairman
& Managing Director

C. Jayaram
Joint Managing Director

Dipak Gupta
Joint Managing Director

Asim Ghosh
Director

Amit Desai
Director

Prakash Apte
Director

N.P. Sarda
Director

Prof. S. Mahendra Dev
Director


**The second edition of Kotak Presidium was addressed by Dr. Ben S. Bernanke, noted economist, scholar and former Chairman of the US Federal Reserve.**

Addressing a gathering comprising business leaders, policy makers and thinkers, Dr. Ben S. Bernanke highlighted how our collective economic destinies are intertwined; that when one economy rises or falls, its ripple effects leave none untouched, for better or worse.

He recalled his close and regular engagement with central bankers worldwide, during his own term, and how their concerns and aspirations had a critical influence on his decision-making.

Dr. Ben S. Bernanke was optimistic about the global economic growth prospects and forecasted moderate to strong growth in the US and European Union, with key emerging markets also poised to grow well.

"Kotak Presidium unites global leaders and India's business elite on a single platform, helping us make the most of today's interconnected and interdependent global economic order, for greater universal good. Dr. Ben S. Bernanke, through his vision and efforts, brought sanity and stability to global markets, narrowly averting what could have been a repeat of the Great Depression, in 2008. His stellar contribution is without parallel. We couldn't have invited a more befitting guest to address the second Kotak Presidium."

Uday Kotak

Executive Vice Chairman and Managing Director, Kotak Mahindra Bank

# A paradigm shift

Uday Kotak
Executive Vice Chairman and
Managing Director

We look at the future with confidence.
We will build a 'bigger, bolder, better Kotak'.

## Dear friend,

May 16, 2014 was a turning point in Indian history. Shri Narendra Modi-led BJP won a clear majority in the elections after a gap of 30 years, the first by a non-Congress party since independence.

To me the outcome has many meanings. Indians want a society of opportunity, not a society of entitlement. Young India is restless and voted for change. We want to be decisive. We want to take control of our destiny. It is a vote for aspiration, for development, for a future beyond castes and communities.

I foresee significant changes in policy, both economic and foreign. On foreign policy, going by the early signs, we will see India lead rather than being led. On the economic policy front, I foresee some quick wins on taxation, environment and energy. The economy will see a trajectory shift. We ended last year at around 4.5% GDP growth. I see the current year shift gear to 5.5%. The average of our next 5 years could be 6.5%+.

As the economy gathers some pace, I see the challenges coming as well. There will be a trade-off between wanting a strong Rupee and competitiveness in manufacturing. How do we manage capital flows? Where is the domestic capital with Indian business? How will Indian entrepreneurs manage capital for growth, with lower ownership and honest governance? India needs to focus on competitiveness and governance as these are key result areas. I do hope we move to 'less Government and more Governance'.

The financial sector in its current state will lag the real economy. With 75% of the sector with the State, it is a challenge. The business of financial services is about culture. It is much more difficult to change culture than to make changes in the coal and power sector. It is about capacity building. Assessment and risk-taking ability, equity capital, growing liability at the pace of asset growth, making annuity service and fee income, customer orientation, are some of the key areas of capacity building.

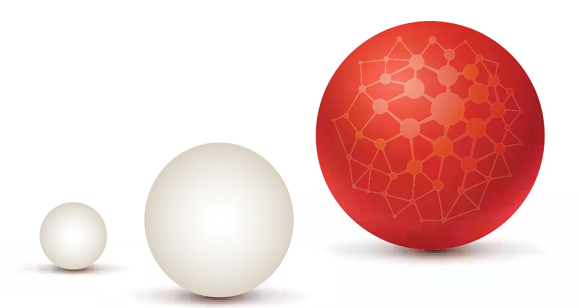
It is here that I see the 'Kotak' advantage. This time around, we have focussed on capacity building. We have significantly upgraded our risk assessment and risk taking ability. We have one of the highest Tier I equity capital in the Indian Banking sector. We grew our savings deposit base at 39% and are confident of growing at higher rates. Our retail term deposits below Rupees one crore have grown at 35%. We grew our branch network at nearly 40% last year. At the same time, we are growing our digital presence and focussing on customer segmentation across different income groups and geographies to serve them better and optimise revenue per customer. We are firmly on track to build a stable and low cost deposit base.

We see significant opportunity now for loan growth especially as the sector faces capacity constraints. We look forward to buying distressed assets in the system over the next year. We are among the only banks on the buy side of this trade.

> I foresee significant changes in policy, both economic and foreign. On foreign policy, going by the early signs, we will see India lead rather than being led. On the economic policy front, I foresee some quick wins on taxation, environment and energy.

# A paradigm shift

We have always built our business model as concentrated India, diversified financial services. Our India-Bharat banking model is based on an inclusive approach - borrowing from urban India and lending to middle India (smaller towns) and rural regions.



Our capital market businesses are showing strong signs of recovery after a lull of 6 years. Investment banking, retail and institutional brokerages have been our significant franchise businesses for a long time.

Insurance and asset management businesses, including alternate assets hold out promise for the future. We have our efficiencies and products in place. We hope to see the throughput increasing now.

We have always built our business model as concentrated India, diversified financial services. Our India-Bharat banking model is based on an inclusive approach - borrowing from urban India and lending to middle India (smaller towns) and rural regions. In a country where barely a third of its 1.2 billion people have a bank account, and is at the tipping point of a historic shift, I believe this model's time has come. The time is now.

In this overall context, we look at the future with confidence. We will build a 'bigger, bolder, better Kotak'.

**What is true for India is true for Kotak.**

Best wishes

Uday

24th May, 2014

# Business responsibility

Business Responsibility for us is not just an obligation; it is a manifestation of our approach to do what is right for people, planet and profits.

We view Business Responsibility as a natural extension of our value system which guides us to do what is right - generate sustainable profits, care for the environment and contribute to equitable prosperity of society. The ethics framework at Kotak is anchored by a comprehensive policy framework. Robust governance standards are adopted to ensure policies are implemented on-ground.

Customer centricity is at the heart of our value proposition. Customer satisfaction is linked to every aspect of business operations to ensure customers are always delighted to bank with us.

Being committed to the cause of financial inclusion, we collaborate with Governments, regulators and other partners to bring banking closer to millions who are not served by traditional banking systems. Agriculture sector for us is much more than a priority sector lending obligation.

We are proud of our employees and strive to provide them an enabling work environment that seeks to bring out the best in them and reward them with progressive careers. We respect the dignity of every individual and support human rights. There is zero-tolerance for discrimination and harassment.

We are sensitive to environmental issues and have integrated environmental concerns for certain high risk industries in project appraisal processes to ensure that we lend to projects with requisite environmental clearances. On our own environmental footprint front, we continually take measures to reduce use of resources like paper and be energy efficient. Customer education to move to paperless statements and reports is another significant endeavour of the Bank.

Our community interventions are primarily focused on education as we believe that education is critical for poverty alleviation and societal prosperity. Kotak Education Foundation (KEF) works in this sphere, with footprints in Mumbai, Thane and Raigad regions in Maharashtra state. We also support NGOs in other locations through financial grant, employee volunteering, payroll giving, and fund raising activities, thereby providing them opportunities to contribute, either directly or indirectly, towards cause(s) they believe in.

### KEY HIGHLIGHTS, FY 2013-14

- Financial Inclusion - customer base of over 3 lakh Basic Savings Bank Deposit Accounts and Small Accounts
- Kotak Samridhi - initiative to make payments more efficient and transparent for milk producing farmers
- Strisangini - network for women employees to share and seek advice on professional and personal matters
- Kotak Jifi - mainstream banking integrated with social networking platforms including Twitter and Facebook

**₹ 363 lakh**

**CSR spend in FY 2013-14**

**88 tonnes**

**Paper saved through e-statements and optimisations in FY 2013-14**

# Aspire bigger

Almost all success is a function of ambition. Our rapid scale up since becoming a Bank is reflective of an ability to aspire big and set actionable goals for ourselves. We continue to focus on scale as well as a greater share of the opportunity in the Indian banking space.

**CAPITAL ADEQUACY RATIO** (%)

| FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
|---|---|---|---|---|
| 18.4 | 19.9 | 17.5 | 16.0 | 18.8 |

**TIER I** (%)

| FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
|---|---|---|---|---|
| 15.4 | 18.0 | 15.7 | 14.7 | 17.8 |

For FY 2013-14 Capital Adequacy Ratio and Tier I Ratio are computed on the basis of BASEL III norms issued by RBI and for previous period based on BASEL II norms.

Over the years, we have consistently grown our balance sheet with strategic alteration of asset mix which has enabled us to create intrinsic value.

Today, we have a comfortable Tier I capital of 17.8% which is well above the required operating level.

Assuming Tier I is maintained at 10% we can grow Risk Weighted Assets by 78%

**ADVANCES** (₹ CR)

| | |
|---|---|
| 53,028 | FY 14 |
| 48,469 | FY 13 |
| 39,079 | FY 12 |
| 29,329 | FY 11 |
| 20,775 | FY 10 |

**31%**
**10-year CAGR of Total Assets**

**38%**
**10-year CAGR of Advances**

All figures are standalone.

## ADVANCES MIX (₹ CR)

### Consumer Banking

| | |
|---|---|
| **30,162** | FY 14 |
| 27,334 | FY 13 |
| 21,608 | FY 12 |
| 17,169 | FY 11 |
| 13,025 | FY 10 |

### Commercial Banking

| | |
|---|---|
| **24,003** | FY 14 |
| 24,130 | FY 13 |
| 19,028 | FY 12 |
| 14,512 | FY 11 |
| 10,357 | FY 10 |

### Corporate Banking

| | |
|---|---|
| **17,528** | FY 14 |
| 14,794 | FY 13 |
| 12,508 | FY 12 |
| 9,561 | FY 11 |
| 6,343 | FY 10 |

**167**

**Retail branches added during FY 2013-14**

**142**

**ATMs added during FY 2013-14**

Advances mix figures are consolidated.

## WIDENING REACH

Our aspirations find resonance in the expansion of our network. While the first 500 branches took over 10 years, the next 500 are expected to take less than three years. Through a robust network of over 600+ branches and 1,100+ ATMs, we are now reaching out to our increasing customer fraternity and serving their varied requirements across every market segment. This is part of our overall strategy to grow our depositor base across India and deliver multi-product consumer banking services.

**BRANCHES** (Nos)

| 250 | 322 | 356 | 438 | **605** |
|---|---|---|---|---|
| FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |

**ATMs** (Nos)

| 492 | 710 | 848 | 961 | **1,103** |
|---|---|---|---|---|
| FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |

## GROWING THE WEALTH MANAGEMENT BUSINESS

Despite a difficult economic environment, an increasing number of Indians are part of the wealth-creation paradigm. According to Forbes, the number of Indian billionaires has gone up from 48 in 2012 to 55 in 2013. Besides, there were more than 1 lakh high networth households in FY 2012-13. The number is expected to triple to over 3 lakh households by FY 2017-18. This growing affluence will pave the way for more opportunities in the wealth management sector.

We help manage wealth through a unique portfolio appropriately allocated across equity, debt, structured products, private equity, real estate funds and other alternatives - always keeping the Bank's risk profile in mind. Currently, Kotak's client base includes 40% of India's top 100 families featuring in Forbes India Rich List 2013. We are confident of growing our wealth management business, in a consistent manner.

## GROWING EFFICIENCY THROUGH TECHNOLOGY

Kotak was one of the early adopters of Finacle, a robust operating platform in banking. Banks using the multichannel functionality of Finacle core banking solution have reduced average transaction costs across channels by over 35%*. This core banking platform facilitates faster processing, greater operational flexibility and higher customer satisfaction. And will pave the way for our long-term growth and sustainability.

*Based on Finacle Business Value Articulation survey conducted by Infosys.

# Be bolder

An ability to take bold decisions and calculated risks is part of the Kotak DNA since inception. From the decision to transform ourselves into a Bank to consciously avoiding seemingly attractive sectors offering higher returns – our approach has been strong, often contrarian and one that spells confidence.

This boldness is complemented by a strong compliance and governance template, which enables us to manage risks better. For instance, we are one of the only banks to offer a whistleblower facility to our customers, to ensure that we remain well-governed.

**NET NPA TREND** (%)

| FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
|---|---|---|---|---|
| 1.48 | 0.59 | 0.51 | 0.55 | 0.88 |

Net NPA figures are consolidated.

### SENSIBLE APPROACH

Operating in a not-so-encouraging market scenario, we took a prudent decision to avoid certain sectors, such as aviation, diamonds and long-term project finance. This was a tough decision, because these were sectors that qualified as 'flavours of the season' not too long ago.

The result is that we have almost zero restructured assets, and have not moved any of our accounts from the balance sheet to off-balance sheet.

### NOT AVAILING EASY ROUTES AVAILABLE

During FY 2013-14, a one-time option was given to banks by Reserve Bank of India (RBI) to transfer Statutory Liquidity Ratio (SLR) investments from Available for Sale (AFS) / Held for Trading (HTF) to Held to Maturity (HTM). But Kotak took a bold call and did not transfer any security to HTM category as permitted by RBI's circular. Had we done that, our Profit Before Tax (PBT) for FY 2013-14 would have been higher by ₹ 163.55 crore.

## PUTTING OURSELVES THROUGH THE GOVERNANCE TEST

Following global best practices of corporate governance, we strive to conduct business in a manner that is dignified, distinctive and responsible. For this purpose, we introduced our 'Speak Up' initiative, an easy-to-use and confidential process of reporting by customers about the organisation. Customers can blow the whistle, if they know about or suspect any unethical business conduct, conflict of interest or malpractices. Customer involvement in this initiative is essential to make it a success and help us improve continuously. We have started this initiative for over 8,000 vendors; and it is also being rolled out to borrowers.

## COMMITTED TO HIGHER COMPLIANCE

According to an independent research*, Kotak Mahindra Bank has been one of the frontrunners among public and private banks in disclosures and compliances. The research quantifies performances of banks on the basis of NPA volatility, stressed asset classification, treasury volatility, yield volatility and discretionary provisioning.

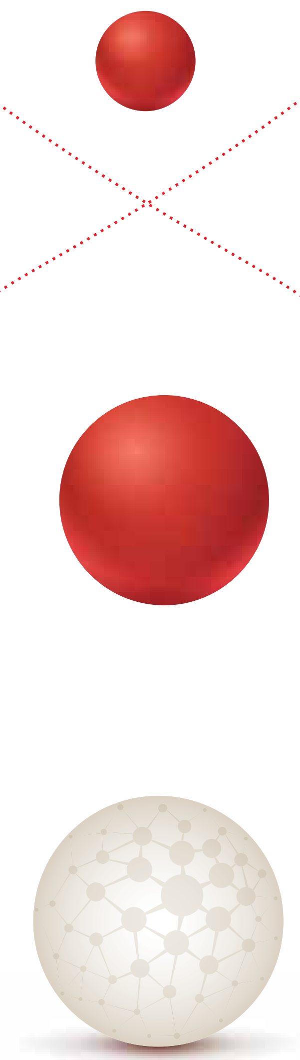
* Based on a study by Ambit Research

## BOLDNESS VALIDATED BY SOVEREIGN INVESTORS

Multiple global marquee investors have reposed their confidence in our bold approach to business, through their consistent presence. Not just this, our family of marquee investors grows every year. During FY 2013-14, two large global sovereign investors enhanced our Bank's credibility significantly. Caladium Investment Pte Ltd (GIC), Singapore (holding 2.6%) and Canada Pension Plan Investment Board, Canada (holding 1.4%) have become our shareholders.

## Being bold pays off

Kotak Mahindra Bank has emerged as one of the most consistent wealth creators over a 10 year period (2004-2013) among private sector banks, according to a latest report on the banking sector released by Motilal Oswal Securities.



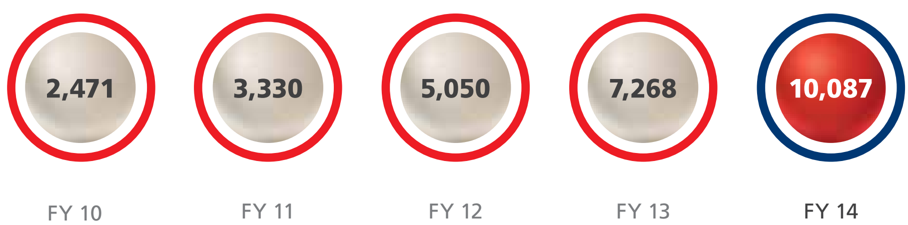
# Execute better

Execution quality is the ultimate proof-of-concept. Therefore, a focus on transforming our strategic blueprint into on-ground action remains a key priority for Kotak.

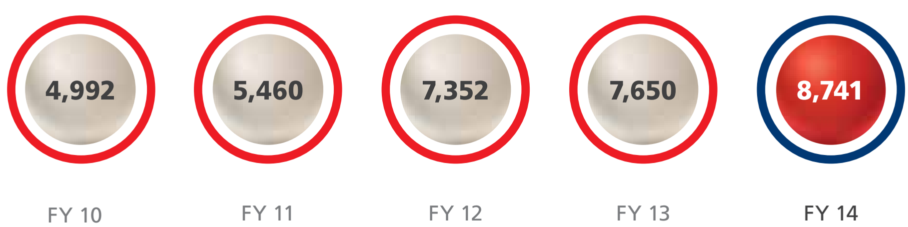
Even though the overall business environment was less than upbeat, Kotak remained focused on its execution roadmap. We grew our retail segment by mobilising more deposits and enhanced our customer-centric approach by introducing new products. We will continue to leverage our experience as well as the integration of banking operations through technology to focus on a rapid-scale up.

Our savings bank deposits grew by 39% during FY 2013-14.

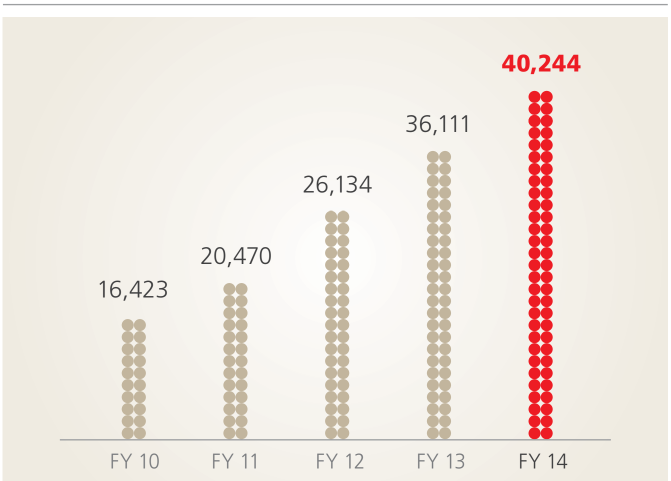
**SAVINGS ACCOUNT BALANCES** (₹ CR)



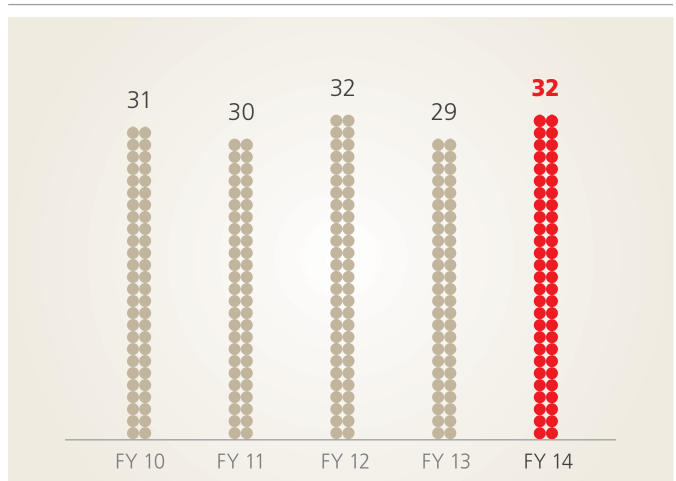

**CURRENT ACCOUNT BALANCES** (₹ CR)




**TERM DEPOSITS** (₹ CR)




**CURRENT ACCOUNT AND SAVINGS ACCOUNT** (%)




All figures are bank standalone.

## BANKING ON THE GO

Kotak developed a state-of-the-art mobile banking application to cater to customers who would rather not visit a branch. We observed that the number of non-branch transactions were on the rise, and therefore a fully-loaded mobile app would make transacting hassle-free and faster.

Since launch, our mobile app has seen over 2.5 lakh downloads, and has more than 1 lakh active users. This is one of the best rated apps in the Indian financial sector, with an average rating of 4.5 across all app stores.

Moreover, around 27% of our total mobile banking customers are 'Mobile Only' (don't use Net Banking).

## THE POWER OF AUTOMATION

Our ATM channel transactions grew by 8.6% in FY 2013-14. We are making ATM use easier by introducing multilingual transaction options across India based on regional preferences.

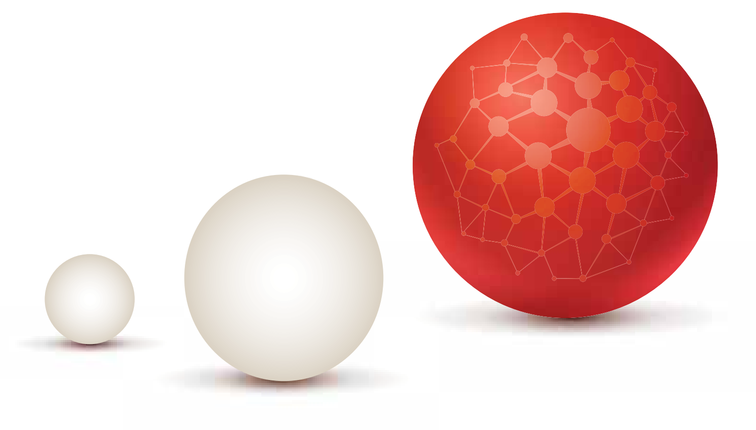
Our aim is to introduce a higher level of automation at our branches. To this end, we launched various self-service products, such as a Cash Deposit Machine, Cheque Deposit Kiosk and Banking Kiosk to reduce transaction time and human intervention.

## IMMEDIATE PAYMENTS THROUGH MOBILE BANKING

Kotak launched Immediate Payment Service (IMPS) in July 2013 on Mobile Banking. Since its launch there has already been a 385% increase in IMPS transactions.

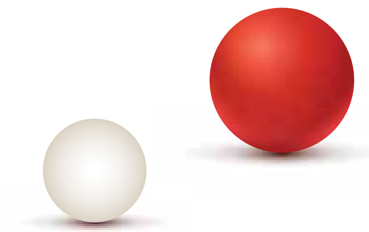
Today, **over 90% transactions** by our savings account customers are conducted outside branches, and **50% of those in ATMs**

As on 31st March, 2014



# Execute better

## Product suite – refreshed



### KOTAK JIFI – A FULLY INTEGRATED SOCIAL BANK ACCOUNT

Kotak Jifi is a bright new concept. It takes digital banking a step forward by seamlessly integrating mainstream banking with social networking platforms such as Twitter and Facebook. Jifi customers can receive account updates on Twitter as a Direct Message (DM) by simply tweeting to @KotakJifi with predefined hashtags. Jifi is designed for contemporary, tech-savvy consumers to transact in a secure and simple manner, without the need to move out of their digital comfort zones.

### KOTAK JUNIOR – AN ACCOUNT DESIGNED FOR CHILDREN

Kotak Junior is an innovative savings account designed to inculcate the habit of savings in children from an early age. It also allows parents to better plan the future of their child by saving through investment options such as a long-term Recurring Deposit or a Systematic Investment Plan.

Kotak Junior is designed to cater to the 0 to less than 18 age group, and the account comes with several unique features like a first-of-its-kind ID card for children and an introductory offer designed to appeal to the young audience.

### PRIVY LEAGUE – PREMIUM BANKING REDEFINED

Kotak's popular premium banking platform – the Privy League was revamped with a view to cater to the financial planning, banking and investment needs of the fast growing affluent consumer segment. The programme unveils several best-in-class, technology-savvy and financially-smart offerings to enable a holistic and convenient financial services experience.

Privy League now comprises three tiers, with the inclusion of a new one – Prima, to the existing Magna and Optima. Privy League also has a Signature Credit Card (packed with multiple lifestyle and travel benefits), and a 'Smart' series of products that include Smart Equity, Smart Overdraft and the newly launched Smart Home.

These will enable the expansion of the programme to a wider base of customers, and allow them access to convenience banking and exclusive, differentiated services. For instance, a 'direct connect facility' was launched allowing Privy customers to directly interact with a phone banking officer for their needs. Alternatively, a call-back from the Privy service team can also be requested by sending a simple text message.

# Group business achievements

## KOTAK INVESTMENT ADVISORS – REALTY FUND

The Real Estate Funds business has come a long way since the launch of the first fund in 2006 with a modest corpus of US$ 100 million. Today, Kotak is not only a strong brand in the Asset Management space, but also one of the leading real estate funds in the country.

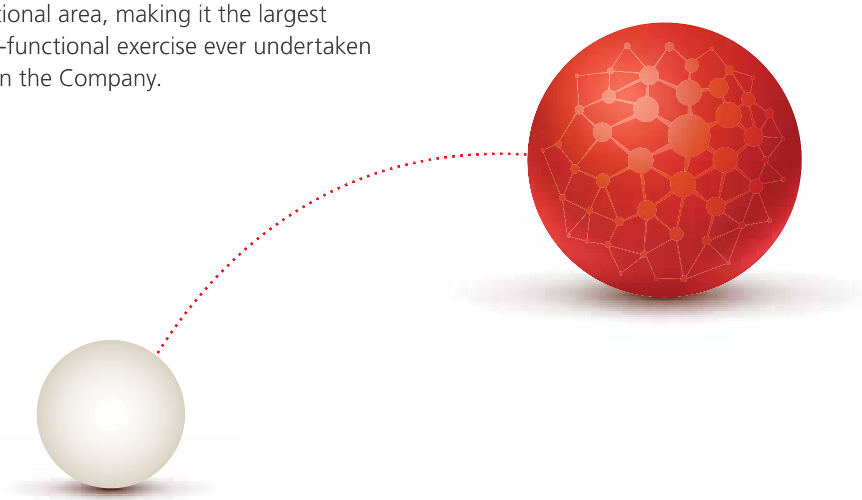
With the most recent commitments received from global institutional investors, our AUM crossed US$ 1 billion in FY 2013-14. Our success and growth can be attributed to the prudent and differentiated exit management strategies employed. We introduced what has now become an industry norm - investments in the form of structured credit. Consequently, Kotak Realty Fund is the only fund in India to have received commitments from global institutional investors in our latest real estate fund.

## KOTAK LIFE INSURANCE – TRANSFORMATION PROJECT

Kotak Life Insurance initiated the Transformation Project in Tied, the Company's proprietary channel, which accounts for about 30% of its new business. The project is envisaged as the foundation upon which the Company is to build the future of its agency business - to make it the channel of first preference for the customer. The project used the 4DX model developed by Franklin Covey, which involved revamping of existing processes, and effecting significant behavioural shifts in the sales force.

During the year, several regions were progressively brought under the Transformation umbrella. By the end of the year, the Transformation Project covered over 900 sales managers and over 15,000 life advisors. The project has involved over 15,000 person hours of specialised training, with contributions from employees from every functional area, making it the largest cross-functional exercise ever undertaken within the Company.

In FY 2013-14, regions under the Transformation umbrella witnessed a significant jump in various key business parameters, including 24% improvement in premium income and 45% growth in distribution reach. But, most importantly, a significant behavioural change is taking place in the sales force in Transformation regions, which is improving productivity and customer delight. In recognition of Kotak Life Insurance's successful efforts, the Company was awarded the 'Execution Excellence Award 2013-14' for the best execution of 4DX in India by Franklin Covey.



# Awards and accolades

## KOTAK MAHINDRA BANK

### Entrepreneur of the Year

Uday Kotak, Executive Vice Chairman and Managing Director (centre) receives the Ernst & Young Entrepreneur of the Year India Award from R Seshasayee, Non-Executive Vice Chairman - Ashok Leyland & Jury member (left) and Rajiv Memani, Country Managing Partner - E&Y India (right)


### Best Medium Sized Bank

Kotak Mahindra Bank won Best Medium Sized Bank of the Year Award by Businessworld. Dipak Gupta, Joint Managing Director (left) receives the award from Anurag Batra, Chairman - GBN Media (centre) and Hon'ble Governor of Maharashtra, Shri K. Sankaranarayanan (right)

### Best Bank

Kotak Mahindra Bank was adjudged Best Bank among Emerging Banks at Outlook Money Awards 2013. Dipak Gupta, Joint Managing Director (centre) receives the award from Udayan Ray, Editor - Outlook Money (first from left), Vinod Mehta, Editorial Chairman - Outlook Group (second from left), Jaswant Singh, MP (second from right) and Akshay Raheja, Vice Chairman - Outlook Group (first from right)

1

2

3

4

5

### CFONEXT 100 Awards

CFONEXT 100 Awards recognised 1) Gobind Jain (right), 2) Trivikram Kamath (left), 3) NR Subramanian (right), 4) Cedric Fernandes (right) and 5) Rajeev Saptarshi (right), among top 100 professionals to stand out as CFOs in the years to come


## Most powerful women in Indian business

Shanti Ekambaram, President - Consumer Banking (first from right), was chosen among Business Today's 'Most Powerful Women in Indian Business' for 2013. Seen here with (L-R) Ashish Bagga, Group CEO - The India Today Group, Ursula Burns, Chairperson and CEO - Xerox Corporation and Chaitanya Kalbag, Editor - Business Today

1

2

## Highest Pledge Raisers

KVS Manian, President - Corporate and Investment Banking (1) and Shanti Ekambaram, President - Consumer Banking (2), receive the Highest Individual Pledge Raiser and 2nd Highest Individual Pledge Raiser awards, respectively in the Corporate Challenge category of Standard Chartered Mumbai Marathon 2014, from Hon'ble Governor of Maharashtra, Shri K. Sankaranarayanan (centre) and Dr. Indu Shahani, Former Sheriff of Mumbai, Trustee of United Way of Mumbai and Principal of H.R. College (right)

## CFO100 Awards

Harish Shah, Executive Vice President - Accounts and Finance, Kotak Mahindra Prime Ltd (centre) receives the 'Winning Edge' CFO100 Award in Corporate Governance/Financial* category from Shankar Raman, CFO - Larsen & Toubro (left) and Navin Gupta, Senior Vice President & Head Corporate Finance Group - Aditya Birla Finance Ltd. (right)

*Revenues above ₹ 1,000 crore

- The February 2014 edition of The Banker magazine, from The Financial Times (UK) stable, published the following global recognition to Kotak Mahindra Bank, on a study by Brand Finance Banking 500:
  - Ranked 245th among the world's top 500 banks
  - Brand valuation of around half a billion dollars (US$ 481 million)
  - Brand rating of AA+
- Ranked among the top 5 Best Ranked Companies for Corporate Governance Practices in IR Global Ranking
- Recognised as Highest Fundraising Company in Corporate Challenge category in Standard Chartered Mumbai Marathon 2014
- Won NSDL (National Securities Depository Limited) award in the Best Performer in Account Growth Rate category 2013, for Demat Accounts
- Won EMC Transformers Award 2013 for innovative implementation of storage technologies in the Bank
- Kotak Junior ad film adjudged Best Banking Ad Worldwide 2013, by Bank Innovation - a leading global blog on banking
- Won Asian Banker's IT Award in Best Self Service category for Courtesy Call Back feature
- Won Green IT Enterprise Award 2013 by CIO Forum and Schneider Electric for various power saving techniques implemented in Data Centre. We were among the Top 10 in the Large Enterprises category

# Awards and accolades

### KOTAK INSTITUTIONAL EQUITIES

- Awarded India's Best Local Brokerage in the Asiamoney Brokers Poll, 2013 - 8th year in a row. Also adjudged, #1 for Most Independent Research Brokerage among all domestic and foreign brokerages, #2 for Best Overall Country Research among all domestic and foreign brokerages; #2 for Best Analyst among all domestic and foreign brokerages, #3 for Best Overall Sales Services among all domestic and foreign brokerages
- Ranked #3 in Institutional Investor's All-India Research Team survey - 2013. Kotak Institutional Equities enjoys four first-place positions in The Best Analysts of the Year in the survey, which is twice as many as any other firm
- Awarded Best Brokerage House - India in The Asset Country Awards 2013

### KOTAK MAHINDRA CAPITAL COMPANY

- Awarded Best M&A House in India by Euromoney Awards for Excellence 2013
- Awarded Best Domestic Equity House by Asiamoney 2013
- Awarded Best Domestic Investment Bank in The Asset Country Awards 2013
- Awarded Securities Advisory Firm of the Year in India in Corporate INTL Global Awards 2014

### KOTAK SECURITIES

- Won NSDL Star Performers Award 2013 - Top Performer in New Accounts Opened (Non-Bank Category)
- Awarded Best Equity Broking House - Dun & Bradstreet Equity Broking Awards 2013
- Awarded Depository Participant of the Year - Dun & Bradstreet Equity Broking Awards 2013

### KOTAK WEALTH MANAGEMENT

- Awarded in multiple categories in Euromoney Private Banking Survey 2014:
  - Among Top 5 - Best Family Office Services Provider, Asia
  - Best Range of Advisory Services
  - Best Corporate Advisory for Private Banking Clients
  - Best Bespoke Wealth Planning
  - Private Equity Investment
  - Equity portfolio management
  - Specialised Services for Inherited Wealth and Businesses
- Awarded Best Private Bank India by FinanceAsia Country Awards for Achievement 2013

### KOTAK LIFE INSURANCE


#### Execution Excellence Award

Kotak Life Insurance won Execution Excellence Award 2013-14 for best execution for 4DX in India by Franklin Covey. G Murlidhar, Managing Director - Kotak Life Insurance (right) receives the award from Chris McChesney, author of 'The 4 Disciplines of Execution' and Global Practice Leader of Execution for Franklin Covey

- Rated 8th most respected company in India's Banking, Financial Services & Insurance space by Businessworld Survey of India's Most Respected Companies, 2013
- Won EMC Transformational Award for implementation of end-user data protection using Avamar technology. The award recognises usage of technology to make transformative changes to business

### KOTAK MAHINDRA BANK ANNUAL REPORT FY 2012-13 WON THE FOLLOWING AWARDS:

#### LACP Vision Awards, USA

- Bronze Award - Best report in Banking category
- Top 10 - Among the top 10 Indian reports

#### ARC Awards

- Gold Award - Traditional Annual Report: Banking and financial services
- Honours Award - Interactive Annual Report: Banking and financial services (Asia/South Pacific)

# Financial Statements and Statutory Reports

# Consolidated Financial Highlights 2013-2014

₹ in crore

| FINANCIAL HIGHLIGHTS | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|---|---|---|---|---|---|
| Advances | 29,724 | 41,242 | 53,144 | 66,258 | 71,693 |
| Investments* | 14,762 | 18,279 | 23,261 | 31,340 | 27,788 |
| Total Assets | 56,677 | 73,681 | 92,349 | 115,835 | 122,237 |
| Net Profit | 1,307 | 1,567 | 1,832 | 2,188 | 2,465 |
| **KEY FINANCIAL INDICATORS** | | | | | |
| Net Interest Margin (NIM) | 5.81% | 5.23% | 4.83% | 4.70% | 4.97% |
| Return on Average Assets (RoAA) | 2.7% | 2.4% | 2.2% | 2.1% | 2.1% |
| Book Value Per Share (₹) | 114 | 149 | 174 | 204 | 248 |
| Earnings Per Share (EPS) Face Value ₹ 5 per share | 18.6 | 21.6 | 24.7 | 29.3 | 32.1 |
| Return on Equity (RoE) | 18.2% | 16.4% | 15.4% | 15.6% | 14.0% |
| Capital Adequacy Ratio** | 19.3% | 19.5% | 17.9% | 17.0% | 18.9% |
| Gross NPA (₹ in crore) | 917 | 712 | 700 | 848 | 1,178 |
| Net NPA (₹ in crore) | 441 | 243 | 273 | 361 | 634 |
| Gross NPA Ratio | 3.0% | 1.7% | 1.3% | 1.3% | 1.6% |
| Net NPA Ratio | 1.5% | 0.6% | 0.5% | 0.6% | 0.9% |

*Excludes Policyholders' investments

**For the Year 2014 Capital Adequacy Ratio and Tier I Ratio is computed on the basis of BASEL III Norms issued by RBI & for previous period based on BASEL II Norms.

| MARKET RELATED RATIOS | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|---|---|---|---|---|---|
| Market Price (₹) | 375 | 457 | 545 | 653 | 781 |
| Market Capitalisation (₹ in crore) | 26,046 | 33,738 | 40,394 | 48,754 | 60,165 |
| Price to Book Ratio | 3.3 | 3.1 | 3.1 | 3.2 | 3.2 |
| Price to Earnings Ratio | 20.1 | 21.2 | 22.0 | 22.3 | 24.3 |

# Standalone Financial Highlights 2013-2014

₹ in crore

| Financial Highlights | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|---|---|---|---|---|---|
| Deposits | 23,886 | 29,261 | 38,537 | 51,029 | 59,072 |
| Advances | 20,775 | 29,329 | 39,079 | 48,469 | 53,028 |
| Investments | 12,513 | 17,121 | 21,567 | 28,873 | 25,485 |
| Total Assets | 37,436 | 50,851 | 65,666 | 83,694 | 87,585 |
| Net Interest Income (NII) | 1,780 | 2,097 | 2,512 | 3,206 | 3,720 |
| Fee Income | 388 | 467 | 578 | 737 | 853 |
| Other Non Interest Income | 319 | 314 | 400 | 424 | 547 |
| Operating profit | 1297 | 1325 | 1655 | 2157 | 2,577 |
| Provisions and Contingencies | 486 | 137 | 55 | 185 | 304 |
| Tax Provision | 250 | 370 | 515 | 611 | 770 |
| Net Profit | 561 | 818 | 1085 | 1361 | 1,503 |
| **Key Financial Indicators** | | | | | |
| Net Interest Margin (NIM) | 5.7% | 5.2% | 4.7% | 4.6% | 4.9% |
| Cost to Income Ratio | 47.8% | 54.0% | 52.6% | 50.6% | 49.7% |
| Return on Average Assets (RoAA) | 1.7% | 1.8% | 1.8% | 1.8% | 1.8% |
| Fee / NII Plus other Income | 15.6% | 16.2% | 16.6% | 16.9% | 16.7% |
| NII / NII Plus other Income | 71.6% | 72.9% | 72.0% | 73.4% | 72.7% |
| Capital Adequacy Ratio* | 18.4% | 19.9% | 17.5% | 16.0% | 18.8% |
| Tier I * | 15.4% | 18.0% | 15.7% | 14.7% | 17.8% |
| Gross NPA Ratio | 3.6% | 2.0% | 1.6% | 1.6% | 2.0% |
| Net NPA Ratio | 1.7% | 0.7% | 0.6% | 0.6% | 1.1% |

*For the Year 2014 Capital Adequacy Ratio and Tier I Ratio is computed on the basis of BASEL III Norms issued by RBI & for previous period based on BASEL II Norms.

# Consolidation at a Glance

₹ in crore

| | 2013-2014 | | 2012-2013 | | 31st March, 2014 | 31st March, 2013 |
|---|---|---|---|---|---|---|
| | **Profit before Tax** | **Profit after Tax** | Profit before Tax | Profit after Tax | **Networth** | Networth |
| **Kotak Mahindra Bank Limited** | 2,272.45 | 1,502.52 | 1,972.06 | 1,360.72 | 12,275.08 | 9,446.96 |
| **Subsidiaries** | | | | | | |
| Kotak Mahindra Prime Limited | 751.66 | 491.18 | 641.01 | 430.70 | 2,842.73 | 2,351.92 |
| Kotak Securities Limited | 234.27 | 160.17 | 188.53 | 114.50 | 2,094.44 | 1,934.27 |
| Kotak Mahindra Capital Company Limited | 17.60 | 14.22 | 23.53 | 16.71 | 402.80 | 388.58 |
| Kotak Mahindra Old Mutual Life Insurance Limited | 261.40 | 239.13 | 198.33 | 189.74 | 1,041.80 | 802.67 |
| Kotak Mahindra Investments Limited | 64.40 | 42.05 | 45.98 | 33.57 | 435.89 | 303.84 |
| Kotak Mahindra Asset Management Company Limited | 49.56 | 33.39 | 2.95 | 3.47 | 78.17 | 63.00 |
| Kotak Mahindra Trustee Company Limited | 10.16 | 6.97 | 11.41 | 8.54 | 47.93 | 45.35 |
| Kotak Mahindra (International) Limited | 42.52 | 39.32 | 27.39 | 26.65 | 304.21 | 251.51 |
| Kotak Mahindra (UK) Limited | (22.60) | (23.04) | (13.54) | (13.54) | 89.09 | 101.42 |
| Kotak Mahindra, Inc. | (6.24) | (6.29) | (5.22) | (5.28) | 16.13 | 22.71 |
| Kotak Investment Advisors Limited | 25.27 | 17.36 | 43.28 | 30.67 | 240.24 | 222.88 |
| Kotak Mahindra Trusteeship Services Limited | 1.49 | 1.07 | 1.96 | 1.34 | 6.03 | 4.96 |
| Kotak Forex Brokerage Limited | (0.08) | (0.08) | 0.03 | 0.03 | 0.33 | 0.42 |
| Kotak Mahindra Pension Fund Ltd | (0.17) | (0.17) | (0.60) | (0.60) | 25.51 | 25.68 |
| Kotak Mahindra Financial Services Ltd | (3.11) | (3.11) | (1.58) | (1.58) | 0.68 | 2.32 |
| **Total** | **3,698.58** | **2,514.69** | **3,135.52** | **2,195.64** | **19,901.06** | **15,968.49** |
| Add: Associates | | 15.62 | | 33.58 | 549.11 | 533.28 |
| Less: Dividend, Minority Interest, Inter company and other adjustment | | (65.33) | | (40.75) | 1,374.18 | 1,251.97 |
| **Consolidated Profit After Tax / Netwoth** | | **2,464.98** | | **2,188.47** | **19,075.99** | **15,249.80** |
| **Consolidated Earnings per Share (₹)** | | **32.14** | | **29.33** | | |
| **Consolidated Book Value per Share (₹)** | | | | | **247.64** | **204.25** |

# Independent Auditors' Report

**TO THE BOARD OF DIRECTORS OF**
**KOTAK MAHINDRA BANK LIMITED**

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of **KOTAK MAHINDRA BANK LIMITED** (the "Bank") and its subsidiaries (the Bank and its subsidiaries constitute "the Group"), which comprise the Consolidated Balance Sheet as at 31st March, 2014, the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

The Bank's Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with the accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Bank's preparation and presentation of the consolidated financial statements that give a true and fair view 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 Bank's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion and to the best of our information and according to the explanations given to us, and based on the consideration of the reports of the other auditors on the financial statements / financial information of the subsidiaries and associates referred to below in the Other Matters paragraph, the aforesaid consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at 31st March, 2014;

(b) in the case of the Consolidated Profit and Loss Account, of the profit of the Group for the year ended on that date; and

(c) in the case of the Consolidated Cash Flow Statement, of the cash flows of the Group for the year ended on that date.

**Other Matters**

1. We did not audit the financial statements of fourteen subsidiaries whose financial statements reflect total assets (net) of ₹ 166,768,880 (in thousands) as at 31st March, 2014, total revenues of ₹ 47,621,014 (in thousands) and net cash outflows amounting to ₹ 3,708,764 (in thousands) for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit of ₹ 54,075 (in thousands) for the year ended 31st March, 2014, as considered in the consolidated financial statements, in respect of two associates, whose financial statements have not been audited by us. These financial statements have been audited by other auditors whose reports have been furnished to us by the Management and our opinion, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and associates, is based solely on the reports of the other auditors.
2. The financial statements also include ₹ 14,905 (in thousands) being the Group's proportionate share in the net profit of one associate (carrying value ₹ 96,110 (in thousands)) which has been recognised on the basis of the unaudited financial information available with the Group. As per Management's assessment, there should be no material impact on the Consolidated Financial Statements consequent to any possible adjustments to such Management accounts since the size of this entity in the context of the Group is not material.
3. The auditors of a subsidiary company of the Bank, Kotak Mahindra Old Mutual Life Insurance Limited ("the Company"), have reported in their audit opinion "the actuarial valuation of liabilities for life policies in force is the responsibility of the Company's Appointed Actuary" ("the Appointed Actuary"). The actuarial valuation of these liabilities for life policies in force and for policies in respect of which premium has been discontinued but liability exists as at 31st March, 2014 has been duly certified by the Appointed Actuary and in his opinion, the assumptions for such valuation are in accordance with the guidelines and norms issued by the Insurance Regulatory Development Authority ("IRDA" / "Authority") and the Actuarial Society of India in concurrence with the Authority." The auditors of the Company have relied upon the Appointed Actuary's certificate in this regard for forming an opinion on the valuation of liabilities for life policies in force and for policies in respect of which premium has been discontinued but liability exists on financial statements of the Company.
4. Attention is invited to Note 18 of Schedule 17 to the consolidated financial statements regarding creation of Deferred Tax Liability on Special Reserve under section 36(1)(viii) of the Income Tax Act, 1961 pursuant to RBI's Circular No. DBOD. No.BP.BC.77/21.04.018/2013-14 dated 20th December, 2013.

Our opinion is not qualified in respect of these matters.

**For S. B. BILLIMORIA & CO.**
Chartered Accountants
(Firm Registration No. 101496W)

**Kalpesh J. Mehta**
(Partner)
(Membership No. 48791)

MUMBAI, 30th April 2014
KJM/RND

# Consolidated Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | Schedule | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|---|
| **CAPITAL AND LIABILITIES** | | | |
| Capital | 1 | 3,851,555 | 3,733,045 |
| Reserves and Surplus | 2 | 186,908,479 | 148,764,942 |
| Minority Interest | 2A | 2,708,921 | 2,087,174 |
| Employees' Stock Options (Grants) Outstanding | | 85,315 | 175,336 |
| Deposits | 3 | 569,297,535 | 493,891,407 |
| Borrowings | 4 | 290,071,364 | 361,719,635 |
| Policyholders' Funds | | 110,145,582 | 100,772,717 |
| Other Liabilities and Provisions | 5 | 59,297,587 | 47,202,350 |
| **Total** | | **1,222,366,338** | **1,158,346,606** |
| **ASSETS** | | | |
| Cash and Balances with Reserve Bank of India | 6 | 29,605,075 | 22,207,552 |
| Balances with Banks and Money at Call and Short Notice | 7 | 36,825,986 | 22,974,910 |
| Investments | 8 | 387,910,461 | 409,072,387 |
| Advances | 9 | 716,925,240 | 662,576,542 |
| Fixed Assets | 10 | 12,606,700 | 6,164,766 |
| Other Assets | 11 | 38,458,682 | 35,316,255 |
| Goodwill on Consolidation | | 34,194 | 34,194 |
| **Total** | | **1,222,366,338** | **1,158,346,606** |
| Contingent Liabilities | 12 | 458,067,267 | 420,669,721 |
| Bills for Collection | | 30,155,988 | 19,134,811 |
| Significant Accounting Policies and Notes to the Consolidated Financial Statements | 17 | | |

The schedules referred to above form an integral part of this Balance Sheet.

As per our report of even date.

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

**Kalpesh J. Mehta**
Partner

Mumbai, 30th April, 2014

For and on behalf of the Board of Directors

**Dr. Shankar Acharya**
Chairman

**Dipak Gupta**
Joint Managing Director

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

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

**Bina Chandarana**
Company Secretary

# Consolidated Profit and Loss Account for the year ended 31st March, 2014

(₹ in thousands)

| | | Schedule | For the Year ended 31st March, 2014 | For the Year ended 31st March, 2013 |
|---|---|---|---|---|
| **I.** | **INCOME** | | | |
| | Interest earned | 13 | 119,859,041 | 108,378,650 |
| | Other Income | 14 | 52,823,853 | 51,124,053 |
| | **Total** | | **172,682,894** | **159,502,703** |
| **II.** | **EXPENDITURE** | | | |
| | Interest expended | 15 | 63,121,199 | 60,244,939 |
| | Operating expenses | 16 | 69,516,988 | 65,984,286 |
| | Provisions and Contingencies (Refer Note 6 - Schedule 17) | | 14,929,307 | 11,231,352 |
| | **Total** | | **147,567,494** | **137,460,577** |
| **III.** | **PROFIT** | | | |
| | **Net Profit for the year** | | 25,115,400 | 22,042,126 |
| | Less: Share of Minority Interest | | 621,747 | 493,320 |
| | Add: Share in profit/(loss) of Associates | | 156,243 | 335,818 |
| | **Consolidated Profit for the year attributable to the Group** | | **24,649,896** | **21,884,624** |
| | Add : Balance in Profit and Loss Account brought forward from previous year | | 78,820,658 | 62,961,739 |
| | **Total** | | **103,470,554** | **84,846,363** |
| **IV.** | **APPROPRIATIONS** | | | |
| | Transfer to Statutory Reserve | | 3,756,300 | 3,401,800 |
| | Transfer to Special Reserve u/s 45 IC of RBI Act, 1934 | | 1,066,600 | 928,600 |
| | Transfer to Special Reserve u/s 36(1)(viii) of Income Tax Act, 1961 (Refer Note 18 - Schedule 17) | | 320,000 | 285,000 |
| | Transfer to General Reserve | | 791,700 | 683,900 |
| | Transfer to Capital Reserve | | 4,000 | - |
| | Transfer to Capital Redemption Reserve | | - | 6,800 |
| | Transfer to Debenture Redemption Reserve | | - | 250 |
| | Transfer (from) / to Investment Reserve Account | | (411,014) | 105,200 |
| | Proposed Dividend | | 630,789 | 523,754 |
| | Corporate Dividend Tax | | 120,259 | 90,401 |
| | Balance carried over to Balance Sheet | | 97,191,920 | 78,820,658 |
| | **Total** | | **103,470,554** | **84,846,363** |
| **V.** | **EARNINGS PER SHARE [ Refer Note 9 - Schedule 17 ]** | | | |
| | **Basic (₹)** | | 32.19 | 29.44 |
| | **Diluted (₹)** | | 32.14 | 29.33 |
| | **Face value per share (₹)** | | 5.00 | 5.00 |
| The schedules referred to above form an integral part of this Profit and Loss Account | | | | |
| Significant Accounting Policies and Notes to the Consolidated Financial Statements | | 17 | | |

As per our report of even date.

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

**Kalpesh J. Mehta**
Partner

Mumbai, 30th April, 2014

For and on behalf of the Board of Directors

**Dr. Shankar Acharya**
Chairman

**Dipak Gupta**
Joint Managing Director

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

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

**Bina Chandarana**
Company Secretary

# Consolidated Cash Flow Statement for the year ended 31st March, 2014

(₹ in thousands)

| | Year Ended 31st March, 2014 | Year Ended 31st March, 2013 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Profit for the year | 25,115,400 | 22,042,126 |
| Add: Provision for tax | 11,839,645 | 9,399,540 |
| **Profit before tax** | **36,955,045** | **31,441,666** |
| | | |
| **Adjustments for:-** | | |
| Employee Stock Option expense | 46,858 | 93,773 |
| Depreciation on Group's property | 2,078,572 | 1,790,310 |
| Amortisation of Premium on Investments | 882,834 | 829,067 |
| Diminution in the value of investments / (written back) | 1,460,685 | (339,017) |
| (Profit) / Loss on revaluation of investments (net) | 3,305,082 | (89,184) |
| (Profit) / Loss on sale of Investments (net) | 2,865,374 | (6,116,148) |
| Provision for Non Performing Assets and contingencies | 1,628,977 | 2,170,829 |
| Profit on sale of assets | (21,385) | (15,991) |
| Increase in Foreign Currency Translation Reserve [Refer Note 2 (G) (xi) - Schedule 17] | 376,174 | 210,381 |
| | **49,578,216** | **29,975,686** |
| **Adjustments for :-** | | |
| (Increase) / Decrease in investment in stock-in-trade | (1,074,440) | 1,764,072 |
| Increase in Advances | (56,001,435) | (132,790,902) |
| Increase in Other Assets | (7,502,008) | (1,133,045) |
| Increase in Deposits | 75,406,128 | 129,284,104 |
| Increase in Policyholders' Funds | 9,372,865 | 10,657,377 |
| Increase in Other Liabilities and Provisions | 11,797,665 | 683,348 |
| | **31,998,775** | **8,464,954** |
| Income Taxes Paid (net of refunds) | **(11,738,636)** | **(9,656,122)** |
| **NET CASH FLOW FROM OPERATING ACTIVITIES (A)** | **69,838,355** | **28,784,518** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Purchase of Fixed assets | (4,423,281) | (2,222,617) |
| Sale of Fixed assets | 91,011 | 69,694 |
| Proceeds on sale of stake in Associates | 2,099 | - |

# Consolidated Cash Flow Statement for the year ended 31st March, 2014

(₹ in thousands)

| | Year Ended 31st March, 2014 | Year Ended 31st March, 2013 |
|---|---|---|
| Investments in Associates | (32,358) | - |
| (Increase) / Decrease in Investments other than stock-in-trade | 13,908,893 | (88,201,033) |
| **NET CASH USED IN INVESTMENT ACTIVITIES (B)** | **9,546,364** | **(90,353,956)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Dividend paid including corporate dividend tax | (641,513) | (519,154) |
| Money received on issue of shares / exercise of stock options | 14,155,019 | 1,739,936 |
| Share issue expenses | (1,355) | - |
| Increase / (Decrease) in borrowings | (71,648,271) | 69,772,783 |
| **NET CASH FLOW FROM FINANCING ACTIVITIES (C)** | **(58,136,120)** | **70,993,565** |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)** | **21,248,599** | **9,424,127** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Refer Note below)** | **45,182,462** | **35,758,335** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Refer Note below)** | **66,431,061** | **45,182,462** |
| **Note:** | | |
| Balance with banks in India in Fixed Deposit (As per Schedule 7 I (i) (b)) | 3,431,278 | 7,806,114 |
| Balance with banks in India in Current Account (As per Schedule 7 I (i) (a)) | 1,471,361 | 1,631,279 |
| Money at call and short notice in India (As per Schedule 7 I (ii)) | 7,516,907 | 5,758,597 |
| Cash in hand (As per Schedule 6 I) | 4,484,204 | 3,431,725 |
| Balance with RBI in Current Account (As per Schedule 6 II) | 25,120,871 | 18,775,827 |
| Balance with banks Outside India: | | |
| (i) In Current Account (As per Schedule 7 II (i)) | 1,655,652 | 907,033 |
| (ii) In Other Deposit Accounts (As per Schedule 7 II (ii)) | 22,750,788 | 6,871,887 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **66,431,061** | **45,182,462** |

As per our report of even date.

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

**Kalpesh J. Mehta**
Partner

Mumbai, 30th April, 2014

For and on behalf of the Board of Directors

**Dr. Shankar Acharya**
Chairman

**Dipak Gupta**
Joint Managing Director

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

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

**Bina Chandarana**
Company Secretary

# Schedules forming part of Consolidated Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| **SCHEDULE 1 - CAPITAL** | | |
| **Authorised Capital** | | |
| 1,000,000,000 Equity Shares of ₹ 5/- each (31st March, 2013: 800,000,000 Equity Shares of ₹ 5 each) | **5,000,000** | **4,000,000** |
| **Issued, Subscribed and Paid-up Capital** | | |
| 770,311,001 Equity Shares of ₹ 5/- each (31st March, 2013: 746,609,026 Equity Shares of ₹ 5 each) fully paid-up | 3,851,555 | 3,733,045 |
| (Refer Note 21 - Schedule 17) | | |
| **Total** | **3,851,555** | **3,733,045** |
| **SCHEDULE 2 - RESERVES AND SURPLUS** | | |
| **I. Statutory Reserve** | | |
| Opening Balance | 12,630,700 | 9,228,900 |
| Add: Transfer from Profit and Loss Account | 3,756,300 | 3,401,800 |
| **Total** | **16,387,000** | **12,630,700** |
| **II. Capital Reserve** | | |
| Opening Balance | 289,303 | 289,303 |
| Add: Transfer from Profit and Loss Account | 4,000 | - |
| **Total** | **293,303** | **289,303** |
| **III. General Reserve** | | |
| Opening Balance | 4,758,904 | 4,075,004 |
| Add: Transfer from Profit and Loss Account | 791,700 | 683,900 |
| Less: Utilised for creation of Deferred tax liability on Special Reserve (Refer Note 18 - Schedule 17) | 311,800 | - |
| **Total** | **5,238,804** | **4,758,904** |
| **IV. Securities Premium Account** | | |
| Opening Balance | 44,815,352 | 42,838,363 |
| Add: Received during the year | 14,173,384 | 1,976,989 |
| Less: Utilised for Share Issue Expenses | 1,355 | - |
| **Total** | **58,987,381** | **44,815,352** |
| **V. Special Reserve under Section 45IC of the RBI Act, 1934** | | |
| Opening Balance | 3,676,156 | 2,747,556 |
| Add: Transfer from Profit and Loss Account | 1,066,600 | 928,600 |
| **Total** | **4,742,756** | **3,676,156** |
| **VI. Debenture Redemption Reserve** | | |
| Opening Balance | 250 | - |
| Add: Transfer from Profit and Loss Account | - | 250 |
| Less: Transfer to Profit and Loss Account | - | - |

# Schedules forming part of Consolidated Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|---|
| | **Total** | **250** | **250** |
| **VII.** | **Capital Reserve on Consolidation** | | |
| | Opening Balance | 1,474,546 | 1,474,546 |
| | Addition during the year | - | - |
| | **Total** | **1,474,546** | **1,474,546** |
| **VIII.** | **Foreign Currency Translation Reserve** | | |
| | (Refer Note 2(G)(xi) - Schedule 17) | | |
| | Opening Balance | 656,259 | 445,790 |
| | Increase during the year | 384,460 | 210,469 |
| | **Total** | **1,040,719** | **656,259** |
| **IX.** | **Investment Reserve Account** | | |
| | Opening Balance | 411,014 | 305,814 |
| | Add: Transfer from / (to) Profit and Loss Account | (411,014) | 105,200 |
| | **Total** | **-** | **411,014** |
| **X.** | **Special Reserve under Section 36(1)(viii) of the Income Tax Act, 1961** | | |
| | Opening Balance | 1,225,000 | 940,000 |
| | Add: Transfer from Profit and Loss Account | 320,000 | 285,000 |
| | **Total** | **1,545,000** | **1,225,000** |
| **XI.** | **Capital Redemption Reserve** | | |
| | Opening Balance | 6,800 | - |
| | Add: Transfer from Profit and Loss Account | - | 6,800 |
| | **Total** | **6,800** | **6,800** |
| **XII.** | **Balance in the Profit and Loss Account** | **97,191,920** | **78,820,658** |
| | **Total** | **186,908,479** | **148,764,942** |
| **SCHEDULE 2A - Minority Interest** | | | |
| | Minority Interest at the date on which parent subsidiary relationship came into existence | 396,700 | 396,700 |
| | Subsequent Increase | 2,312,221 | 1,690,474 |
| | **Total** | **2,708,921** | **2,087,174** |
| **SCHEDULE 3 - DEPOSITS** | | | |
| **A.** | | | |
| **I.** | **Demand Deposits** | | |
| | i. From Banks | 1,709,993 | 1,596,176 |
| | ii. From Others | 82,570,463 | 73,511,174 |
| | **Total** | **84,280,456** | **75,107,350** |
| | | | |
| **II.** | **Savings Bank Deposits** | 100,870,498 | 72,681,276 |

# Schedules forming part of Consolidated Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|---|
| | | | |
| **III.** | **Term Deposits** | | |
| | i. From Banks | 6,103,554 | 8,842,056 |
| | ii. From Others [Refer Note 4(c) - Schedule 17] | 378,043,027 | 337,260,725 |
| | **Total** | **384,146,581** | **346,102,781** |
| | **Total Deposits (I + II + III)** | **569,297,535** | **493,891,407** |
| | | | |
| **B.** | | | |
| **I.** | Deposits of Branches in India | 569,297,535 | 493,891,407 |
| **II.** | Deposits of Branches Outside India | - | - |
| | **Total Deposits (I + II)** | **569,297,535** | **493,891,407** |
| **SCHEDULE 4 - BORROWINGS** | | | |
| **I.** | **Borrowings in India** | | |
| | (i) Reserve Bank of India | 41,533,200 | 85,168,500 |
| | (ii) Other Banks | 76,573,409 | 92,732,175 |
| | (iii) Institutions, Agencies and others (Refer Note 11 - Schedule 17) | 147,363,244 | 134,295,909 |
| | **Total** | **265,469,853** | **312,196,584** |
| | | | |
| **II.** | **Borrowings outside India** | | |
| | (i) Institutions, Agencies and others (Refer Note 11 - Schedule 17) | 24,601,511 | 49,523,051 |
| | **Total** | **24,601,511** | **49,523,051** |
| **Total Borrowings (I + II)** | | **290,071,364** | **361,719,635** |
| **Secured Borrowings included in I & II above** | | **134,440,213** | **128,822,662** |
| **SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS** | | | |
| **I.** | Bills Payable | 7,105,404 | 6,569,088 |
| **II.** | Interest Accrued | 7,964,627 | 6,542,158 |
| **III.** | Others (including provisions) (Refer Note 5 and 18 - Schedule 17) | 43,505,177 | 33,478,260 |
| **IV.** | Proposed Dividend (includes tax on dividend) | 722,379 | 612,844 |
| | **Total** | **59,297,587** | **47,202,350** |
| **SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA** | | | |
| **I.** | Cash in hand (including foreign currency notes) | 4,484,204 | 3,431,725 |
| **II.** | Balances with RBI in current account | 25,120,871 | 18,775,827 |
| | **Total** | **29,605,075** | **22,207,552** |

# Schedules forming part of Consolidated Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| **SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE** | | |
| **I. In India** | | |
| **(i) Balances with Banks [Refer Note 4(a) - Schedule 17]** | | |
| (a) In Current Accounts | 1,471,361 | 1,631,279 |
| (b) In Other Deposit Accounts | 3,431,278 | 7,806,114 |
| **Total** | **4,902,639** | **9,437,393** |
| **(ii) Money at Call and Short Notice** | | |
| (a) With Banks | 7,516,907 | 5,758,597 |
| **Total** | **7,516,907** | **5,758,597** |
| **Total (i + ii)** | **12,419,546** | **15,195,990** |
| **II. Outside India** | | |
| (i) In Current Accounts | 1,655,652 | 907,033 |
| (ii) In Other Deposit Accounts | 22,750,788 | 6,871,887 |
| **Total** | **24,406,440** | **7,778,920** |
| **Total (I + II)** | **36,825,986** | **22,974,910** |
| **SCHEDULE 8 - INVESTMENTS** | | |
| **I. Investments in India in [Refer Note 4(b) - Schedule 17]** | | |
| i. Government Securities | 211,052,231 | 236,614,311 |
| ii. Other approved Securities | - | - |
| iii. Shares | 42,090,863 | 42,284,529 |
| iv. Debentures and Bonds | 89,769,710 | 84,185,421 |
| v. Associates* | 6,507,207 | 6,318,607 |
| vi. Others [Units, Certificate of Deposits, Commercial Paper (CP), | 38,268,628 | 37,871,347 |
| Security Receipts, RIDF Deposit and Pass Through Certificates (PTC)] | | |
| **Total** | **387,688,639** | **407,274,215** |
| **II. Investments Outside India in** | | |
| i. Shares | 3,332 | 3,332 |
| ii. Debentures and Bonds | - | - |
| iii. Others [Venture, Private Equity and other similar funds] | 218,490 | 1,794,840 |
| **Total** | **221,822** | **1,798,172** |
| **Total Investments (I + II)** | **387,910,461** | **409,072,387** |
| *Investment in Associates | | |

# Schedules forming part of Consolidated Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| Equity Investment in Associates | 959,966 | 962,066 |
| Add: Investment in Associate | 32,358 | - |
| Add: Goodwill on acquisition of Associates | 27,210 | 27,210 |
| (Share of pre-acquisition losses) | | |
| Less: Capital reserve on Consolidation (Share of pre-acquisition profits) | 3,447 | 3,447 |
| Cost of Investment in Associates | 1,016,087 | 985,829 |
| Add: Post-acquisition profit / loss of Associates (Equity method) | 5,491,120 | 5,332,778 |
| **Total** | **6,507,207** | **6,318,607** |
| **SCHEDULE 9 - ADVANCES** | | |
| **A.** (i) Bills purchased and discounted # | 11,753,149 | 13,718,739 |
| (ii) Cash Credits, Overdrafts and Loans repayable on demand | 123,913,952 | 97,613,680 |
| (iii) Term Loans @ | 581,258,139 | 551,244,123 |
| # Bills purchased and discounted is net of Bills Rediscounted ₹ 1,681.10 crore (previous year ₹ 1,460.72 crore) | | |
| @ net of borrowings under Inter Bank Participatory certificates of ₹ 600 crore (previous year ₹ Nil) | | |
| **Total** | **716,925,240** | **662,576,542** |
| **B.** (i) Secured by tangible assets* | 596,242,718 | 583,987,998 |
| (ii) Unsecured | 120,682,522 | 78,588,544 |
| **Total** | **716,925,240** | **662,576,542** |
| *including advances secured against book debts | | |
| **C. Advances in India** | | |
| (i) Priority Sector | 179,578,057 | 140,192,931 |
| (ii) Public Sector | 1,481,457 | 1,921,947 |
| (iii) Banks | - | - |
| (iv) Others | 535,865,726 | 520,461,664 |
| **Total** | **716,925,240** | **662,576,542** |
| **SCHEDULE 10 - FIXED ASSETS** | | |
| **A. Premises (Including Land)** | | |
| **Gross Block** | | |
| At cost on 31st March of the preceding year | 3,186,399 | 3,145,718 |
| Additions during the year | 4,643,544 | 40,681 |
| Deductions during the year | - | - |
| **Total** | **7,829,943** | **3,186,399** |
| **Depreciation** | | |
| As at 31st March of the preceding year | 545,465 | 488,020 |
| Charge for the year | 97,471 | 57,445 |
| Deductions during the year | - | - |
| **Depreciation to date** | **642,936** | **545,465** |
| **Net Block** | **7,187,007** | **2,640,934** |

# Schedules forming part of Consolidated Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|---|
| **B.** | **Other Fixed Assets (including furniture and fixtures)** | | |
| | Gross Block | | |
| | At cost on 31st March of the preceding year | 12,524,809 | 11,052,766 |
| | Additions during the year | 3,946,588 | 1,849,371 |
| | Deductions during the year | 449,670 | 377,328 |
| | **Total** | **16,021,727** | **12,524,809** |
| | **Depreciation** | | |
| | As at 31st March of the preceding year | 9,000,977 | 7,591,719 |
| | Charge for the year | 1,981,101 | 1,732,883 |
| | Deductions during the year | 380,044 | 323,625 |
| | **Depreciation to date** | **10,602,034** | **9,000,977** |
| | **Net Block (Refer Note 19 - Schedule 17)** | **5,419,693** | **3,523,832** |
| **Total (A + B)** | | **12,606,700** | **6,164,766** |
| **SCHEDULE 11 - OTHER ASSETS** | | | |
| **I.** | Interest accrued | 14,056,915 | 10,747,527 |
| **II.** | Advance tax (net of provision for tax) | 588,792 | 361,593 |
| **III.** | Stationery and Stamps | 16,991 | 30,622 |
| **IV.** | Cheques in course of collection | 156,105 | 135,511 |
| **V.** | Non Banking assets acquired in satisfaction of claims | 67,824 | 67,824 |
| **VI.** | Others (Refer Note 18 - Schedule 17) | 23,572,055 | 23,973,178 |
| | **Total** | **38,458,682** | **35,316,255** |
| **SCHEDULE 12 - CONTINGENT LIABILITIES** | | | |
| **I.** | Claims not acknowledged as debts | 12,613,552 | 11,752,605 |
| **II.** | Liability on account of outstanding forward exchange contracts | 179,720,927 | 149,372,549 |
| **III.** | Guarantees on behalf of constituents in India | 83,879,086 | 68,209,170 |
| **IV.** | Guarantees on behalf of constituents outside India | 95,459 | 87,707 |
| **V.** | Acceptances, Endorsements and Other Obligations | 42,559,956 | 45,570,177 |
| **VI.** | Other items for which the Group is contingently liable: | | |
| | Liability in respect of interest rate and currency swaps and forward rate agreements | 110,574,482 | 125,365,886 |
| | Liability in respect of other Derivative contracts | 27,051,035 | 18,401,998 |
| | Capital commitments not provided | 1,572,770 | 1,909,629 |
| | **Total** | **458,067,267** | **420,669,721** |

# Schedules forming part of Consolidated Profit and Loss Account for the year ended 31st March, 2014

(₹ in thousands)

| | | For the year ended 31st March, 2014 | For the year ended 31st March, 2013 |
|---|---|---|---|
| **SCHEDULE 13 - INTEREST EARNED** | | | |
| **I.** | Interest / discount on advances / bills | 90,295,696 | 82,197,032 |
| **II.** | Income from investments | 28,417,655 | 24,787,256 |
| **III.** | Interest on balances with RBI and other Inter-Bank funds | 685,469 | 1,002,555 |
| **IV.** | Others | 460,221 | 391,807 |
| | **Total** | **119,859,041** | **108,378,650** |
| **SCHEDULE 14 - OTHER INCOME** | | | |
| **I.** | Commission, exchange and brokerage | 16,958,918 | 15,244,390 |
| **II.** | Profit on sale of Investments (net) | 2,865,374 | 6,116,148 |
| **III.** | Profit / (Loss) on revaluation of investments of Insurance business | 3,305,082 | (89,184) |
| **IV.** | Loss on sale of building and other assets (net) | 21,385 | 15,991 |
| **V.** | Profit on exchange / derivative transactions (net) | 2,238,730 | 1,251,325 |
| **VI.** | Premium on Insurance business | 26,495,651 | 27,226,153 |
| **VII.** | Profit on recoveries of non-performing assets acquired | 256,317 | 818,077 |
| **VIII.** | Miscellaneous Income | 682,396 | 541,153 |
| | **Total** | **52,823,853** | **51,124,053** |
| **SCHEDULE 15 - INTEREST EXPENDED** | | | |
| **I.** | Interest on Deposits | 36,420,246 | 32,166,147 |
| **II.** | Interest on RBI / Inter-Bank Borrowings | 13,563,455 | 16,017,594 |
| **III.** | Other Interest (Refer Note 12 - Schedule 17) | 13,137,498 | 12,061,198 |
| | **Total** | **63,121,199** | **60,244,939** |
| **SCHEDULE 16 - OPERATING EXPENSES** | | | |
| **I.** | Payments to and provision for employees [Refer Note 3 and 10 - Schedule 17] | 19,151,155 | 17,735,037 |
| **II.** | Rent, taxes and lighting [Refer Note 15 - Schedule 17] | 3,315,312 | 2,738,132 |
| **III.** | Printing and Stationery | 602,008 | 487,274 |
| **IV.** | Advertisement, Publicity and Promotion | 1,647,841 | 1,592,522 |
| **V.** | Depreciation on Group's property | 2,078,572 | 1,790,310 |
| **VI.** | Directors' fees, allowances and expenses | 6,870 | 4,587 |
| **VII.** | Auditors' fees and expenses | 51,810 | 50,487 |
| **VIII.** | Law Charges | 189,559 | 168,808 |
| **IX.** | Postage, telephones etc. | 1,144,130 | 1,103,290 |
| **X.** | Repairs and maintenance | 2,027,593 | 1,745,860 |
| **XI.** | Insurance | 518,610 | 390,244 |
| **XII.** | Travel and Conveyance | 1,032,729 | 887,032 |

# Schedules forming part of Consolidated Profit and Loss Account for the year ended 31st March, 2014

(₹ in thousands)

| | | For the year ended 31st March, 2014 | For the year ended 31st March, 2013 |
|---|---|---|---|
| **XIII.** | Professional Charges | 2,906,859 | 2,470,933 |
| **XIV.** | Brokerage | 2,925,804 | 3,001,422 |
| **XV.** | Stamping Expenses | 303,045 | 287,962 |
| **XVI.** | Policyholders' Reserves | 9,432,353 | 10,658,735 |
| **XVII.** | Insurance Business Expenses (Claims and benefits paid) | 18,542,229 | 17,821,350 |
| **XVIII.** | Other Expenditure | 3,640,509 | 3,050,301 |
| | **Total** | **69,516,988** | **65,984,286** |

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

SCHEDULE 17 – SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**1. BASIS OF CONSOLIDATION:**

**a.** The consolidated financial statements comprising of the financial statements of Kotak Mahindra Bank ("the Bank" or "KMBL", its subsidiaries and its associates, which constitute "the Group") are prepared in accordance with Accounting Standard 21 (AS-21), "Consolidated Financial Statements" and Accounting Standard 23 (AS-23), "Accounting for Investments in Associates in Consolidated Financial Statements" notified under the Companies (Accounting Standard) Rules, 2006 "as amended". The Bank consolidates entities in which it holds, directly or indirectly through subsidiaries, more than 50% of the voting rights or where it exercises control, on a line by line basis by adding together like items of assets, liabilities, income and expenses in accordance with AS-21. The Goodwill or Capital Reserve on consolidation represents the difference between the Group's share in the networth of the subsidiary and the cost of acquisition at the time of making investment in the subsidiary. Intragroup balances, intragroup transactions and resulting unrealised profits / losses, if any, are eliminated in full. Minority interest representing the part of net results of operations and of the net assets of subsidiary attributable to interests not owned directly or indirectly through subsidiaries is presented separately from liabilities and the equity. Further, the Group accounts for investments in entities where it holds 20% to 50% of the voting rights by the equity method of accounting in accordance with AS-23. The financial statements of the subsidiaries, jointly controlled entities and associates used in consolidation are drawn up to the same reporting date as that of the holding company i.e. 31st March, 2014.

**b.** The list of subsidiaries is as under:

| **Name of the Subsidiary** | Country of Origin | **% Shareholding of group (31st March, 2014)** | % Shareholding of group (31st March, 2013) |
|---|---|---|---|
| Kotak Mahindra Prime Limited | India | 100.00 | 100.00 |
| Kotak Securities Limited | India | 100.00 | 100.00 |
| Kotak Mahindra Capital Company Limited | India | 100.00 | 100.00 |
| Kotak Mahindra Old Mutual Life Insurance Limited | India | 74.00 | 74.00 |
| Kotak Mahindra Investments Limited | India | 100.00 | 100.00 |
| Kotak Mahindra Asset Management Company Limited | India | 100.00 | 100.00 |
| Kotak Mahindra Trustee Company Limited | India | 100.00 | 100.00 |
| Kotak Mahindra (International) Limited | Mauritius | 100.00 | 100.00 |
| Kotak Mahindra (UK) Limited | U.K | 100.00 | 100.00 |
| Kotak Mahindra, Inc. | USA | 100.00 | 100.00 |
| Global Investments Opportunities Fund Limited (GIOFL)* | Mauritius | 100.00 | 100.00 |
| Kotak Investment Advisors Limited | India | 100.00 | 100.00 |
| Kotak Mahindra Trusteeship Services Limited | India | 100.00 | 100.00 |
| Kotak Forex Brokerage Limited | India | 100.00 | 100.00 |
| Kotak Mahindra Pension Fund Limited | India | 100.00 | 100.00 |
| Kotak Mahindra Financial Services Limited | U.A.E | 100.00 | 100.00 |
| Kotak Mahindra Asset Management (Singapore) PTE. Ltd. (Incorporated on 7th March, 2014) | Singapore | 100.00 | - |

* *Global Investments Opportunities Fund Limited (GIOFL) is a collective investment scheme set up as a fund in Mauritius with the status of a limited company under the Mauritius Companies Act. In terms of the constitution and private placement memorandum, GIOFL has classes of redeemable participating shares. Each class of participating shares has its own Balance Sheet and Profit and Loss Account. The profit / loss of each such class belongs to the participating shareholders of that class. The Bank owns 100% of the management share and management shareholder is not entitled to any beneficial interest in the profit / loss of various classes nor is required to make good any shortfall. In substance there are no direct or indirect economic benefits received by the management shareholders. The substance over form must prevail. Accordingly, the Group consolidates the management shares of the entity having regard to substance over form of the entity.*

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

**c.** As per AS-23, the Consolidated Financial Statements incorporate the audited results of the following associates except as indicated.

| Name of the Associate | Country of Origin | % Shareholding of group (31st March, 2014) | % Shareholding of group (31st March, 2013) |
|---|---|---|---|
| Infina Finance Private Limited | India | 49.99 | 49.99 |
| Phoenix ARC Private Limited | India | 49.00 | 49.00 |
| ACE Derivatives & Commodity Exchange Limited (ACE) | India | 40.00 | 40.00 |
| Matrix Business Services India Private Limited (Unaudited) | India | 31.26 | 31.26 |
| Add Albatross Properties Private Limited (Unaudited) (till 6th March, 2014)* | India | - | 29.99 |

**During the year, Bank divested its entire stake on 6th March, 2014.*

## 2. SIGNIFICANT ACCOUNTING POLICIES:

### A. ACCOUNTING METHODOLOGY

The Financial Statements have been prepared on historical cost basis of accounting. The Group adopts the accrual method of accounting and historical cost convention. The financial statements conform with the Accounting Standards ('AS') notified under section 211(3C) of the Companies Act, 1956 ("the 1956 Act") which continues to be applicable in respect of section 133 of the Companies Act, 2013 ("the 2013 Act") in terms of extant circular 15/2013 dated 13th September 2013 of the Ministry of Corporate Affairs and the relevant provisions of the 1956 Act / 2013 Act, as applicable, guidelines issued by the Reserve Bank of India ("RBI"), Insurance Regulatory and Development Authority ("IRDA") from time to time as applicable to relevant companies and the generally accepted accounting principles prevailing in India. In case the accounting policies followed by consolidating entities are different from those followed by Bank, the same have been disclosed separately.

### B. USE OF ESTIMATES

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

### C. REVENUE RECOGNITION

**a. Banking / Investing Activity:**

i. Interest income (other than in respect of retail advances) is recognised on accrual basis except in case of non-performing assets where it is recognised, upon realisation, as per RBI guidelines. Penal interest is recognised as income on realisation.

ii. Interest income in respect of retail advances {except for a subsidiary, Kotak Mahindra Prime Limited (KMPL)} is accounted for by using the internal rate of return method on the net investment outstanding on the contract.

iii. Interest income on investments in Pass Through Certificates and loans bought out through the direct assignment route is recognised at their effective interest rate.

iv. KMPL accounts for auto finance income (including service charges and incentives) by using the internal rate of return method to provide a constant periodic rate of return after adjustment of brokerage expenses on the net investment outstanding on the contract. The volume-based incentives and brokerage are accounted as and when the said volumes are achieved. Income also includes gains made on termination of contracts.

v. Service charges, fees and commission income are recognised when due except for guarantee commission and letter of credit commission which is recognised over the period of the guarantee / letter of credit respectively, except as indicated in para iv above. Syndication / arranger fee is recognised as income when a significant act / milestone is completed.

vi. Interest income on discounted instruments is recognised over the tenure of the instruments so as to provide a constant periodic rate of return.

vii. Gain on account of securitisation of assets is amortised over the life of the securities issued in accordance with the guidelines issued by the RBI.

viii. Gain on account of assignment of assets on bilateral basis is recognised based on the difference between the book value of the assigned assets and sale consideration received.

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

ix. Dividend income is accounted on an accrual basis when the right to receive the dividend is established.

x. In respect of non-performing assets acquired from other banks, FIs and NBFCs, collections in excess of the consideration paid at each asset level or portfolio level is treated as income in accordance with RBI guidelines and clarifications.

**b. Investment Banking Activity:**

i. Issue management fees, underwriting commission, financial advisory fees and placement fees are accounted on completion of milestones specified in the contract.

ii. Brokerage and clearing fees are recognised as on the date of transaction.

**c. Insurance Activity:**

i. Premium is recognised as income when it is due from policyholders except on unit linked policies, where the premium is recognised when associated units are created.

ii. In accordance with the terms of insurance policies, uncollected premium on lapsed policies is not recognised as income until revived.

iii. Top Up/ Lump sum contributions are accounted as a part of the single premium.

iv. Income from linked policies, which include asset management fees and other charges, if any, are recovered from the linked fund in accordance with the terms and conditions of the policies.

v. Re-insurance premium ceded is accounted as an expense at the time of recognition of the premium income in accordance with the treaty arrangements with the re-insurers.

vi. Commission on re-insurance ceded is accounted as income in the period in which reinsurance is ceded.

vii. Re-insurance premium and re-insurance commission are recognised over the period of the risk.

**d. Broking Activity:**

i. Placement and other fee based income are accounted for on the basis of the progress of the assignment.

ii. Brokerage Income (net of service tax):

- On fixed deposit is accounted on completion of the transaction.
- On primary market subscription / mobilisation is accounted on receipt of intimation of allotment.
- On secondary market transaction is recognised on the date of the transaction.

iii. Incentive on primary market subscription / mobilisation is accounted on the basis of receipt of intimation of allotment received by the Company.

iv. In respect of depository activity, transaction fees (net of service tax) are recognised on completion of transaction. Account maintenance charges are recognised on time basis over the period of contract.

v. Portfolio management fees are accounted on accrual basis as follows:

a. In case of fees based on fixed percentage of the corpus / fixed amount, income is accrued over the period of the agreement.

b. In case of fees, based on the returns of the portfolio, income is accounted on the termination of the portfolio agreement / on each anniversary as per the agreement, whichever is earlier.

c. In case of upfront non-refundable fee, income is accounted in the year of receipt.

vi. Funds received from Portfolio Management Services (PMS) Investors and corresponding investments made on their behalf are not forming part of these financial statements.

**e. Asset Management:**

i. Investment management fees are recognised net of service tax on an accrual basis after deducting actual and estimated expenses from total expense accruals in scheme books (adjusted for exclusions as required by SEBI guidelines), such that it does not exceed the rates prescribed by the Securities and Exchange Board of India (‘SEBI’) (Mutual Fund) Regulations, 1996 (the ‘SEBI Regulations’) on an annual basis.

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

ii. Management fee from venture funds, private equity funds and other similar funds is recognised on accrual basis at the rates specified in the investment management agreement from the date of initial closing of funds under management.

iii. Portfolio Advisory Service fees are recognised net of service tax on accrual basis in accordance with the terms of agreement.

**D. FIXED ASSETS AND INTANGIBLE ASSETS**

Fixed assets / Intangible assets have been stated at cost less accumulated depreciation / amortisation. Cost includes cost of purchase inclusive of freight, duties and other incidental expenses and all expenditure like site preparation, installation costs and professional fees incurred on the asset before it is ready to put to use. Subsequent expenditure incurred on assets put to use is capitalised only when it increases the future benefit / functioning capability from / of such assets.

**DEPRECIATION / AMORTISATION:**

The Group has adopted the Straight Line Method of depreciation so as to write off 100% of the cost of the assets at rates higher than those prescribed under Schedule XIV to the Companies Act, 1956 for all assets other than premises, based on the Management's estimate of useful lives of these assets. Estimated useful lives over which assets are depreciated / amortised are as follows:

| Asset Type | Useful life in years |
|---|---|
| Premises | 58 |
| Improvement to leasehold premises | Over the period of lease subject to a maximum of 6 years |
| Office equipments (chillers, transformers, UPS, DG set, Elevators) | 10 |
| Office equipments (other than above) | 5 |
| Computers | 3 |
| Furniture and Fixtures | 6 |
| Vehicles | 4 |
| ATMs | 5 |
| Software (including development) expenditure | 3 |
| Forex Broking Business Rights | 10 |
| Goodwill (Other than on consolidation) | 5 |
| Membership Card of the Bombay Stock Exchange Limited | 20 |

For assets purchased and sold during the year, depreciation is provided on pro rata basis by the Group.

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

Profit on sale of premises of the Bank, if any, is transferred to Capital Reserve as per the RBI guidelines.

**E. EMPLOYEE BENEFITS**

**i Provident Fund – Defined Contribution Plan:**

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

**ii Gratuity – Defined Benefit Plan:**

The Group accounts for the liability for future gratuity benefits based on an actuarial valuation. The Bank and four of its subsidiaries make contributions to a Gratuity Fund administered by trustees and managed by a life insurance company. In other subsidiaries gratuity obligation is wholly unfunded. The net present value of the Group's obligation towards the same is actuarially determined based on the Projected Unit Credit Method as at the Balance Sheet date.

**iii** Actuarial gains / losses are recognised immediately in the Profit and Loss Account in the year they are incurred.

**iv Superannuation Fund – Defined Contribution Plan:**

The Group contributes a sum equivalent to 15% of eligible employees' salary subject to a maximum of ₹ 0.01 crore per eligible employee per annum, to the Superannuation Funds administered by trustees and managed by a Life Insurance Company. The Group recognises such contributions as an expense in the year they are incurred.

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

**v New Pension Scheme - Defined Contribution Plan:**

The Group contributes upto 10% of eligible employees' salary per annum, to the New Pension Fund administered by a Pension Fund Regulatory and Development Authority (PFRDA) appointed pension fund manager. The Group recognises such contributions as an expense in the year they are incurred.

**vi Compensated Absences - Other Long-Term Employee Benefits:**

The Group accrues the liability for compensated absences based on the actuarial valuation as at the Balance Sheet date conducted by an independent actuary which includes assumptions about demographics, early retirement, salary increases, interest rates and leave utilisation. The net present value of the Group's obligation is determined based on the Projected Unit Credit Method as at the Balance Sheet date.

**vii Other Employee Benefits:**

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

**F. INVESTMENTS**

**For the Bank**

**1. Classification :**

In accordance with the RBI guidelines on investment classification and valuation, investments are classified on the date of purchase into "Held for Trading"('HFT') "Available for Sale"('AFS') and "Held to Maturity"('HTM') categories (hereinafter called "categories"). Subsequent shifting amongst the categories is done in accordance with the RBI guidelines at the lower of the acquisition cost / carrying value / market value on the date of the transfer and depreciation, if any, on such transfer is fully provided.

Under each of these categories, investments are further classified under six groups (hereinafter called "groups") - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint Ventures and Other Investments for the purposes of disclosure in the Balance Sheet.

The Bank follows 'Settlement Date' accounting for recording purchase and sale transactions in securities.

**Basis of classification :**

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category. As per the RBI guidelines, HFT securities, which remain unsold for a period of 90 days are reclassified as AFS securities as on that date. Investments which the Bank intends to hold till maturity are classified as HTM securities. The Bank has classified investments in subsidiaries, joint ventures and associates under HTM category. Investments which are not classified in either of the above two categories are classified under AFS category.

**2. Acquisition Cost :**

The cost of investments is determined on weighted average basis. Broken period interest on debt instruments and government securities are considered as a revenue item. The transaction costs including brokerage, commission etc. paid at the time of acquisition of investments is charged to Profit and Loss Account.

**3. Disposal of investments :**

- **Investments classified as HFT or AFS** - Profit or loss on sale / redemption is included in the Profit and Loss Account.
- **Investments classified as HTM** - Profit on sale / redemption of investments is included in the Profit and Loss Account and is appropriated to Capital Reserve after adjustments for tax and transfer to Statutory Reserve. Loss on sale / redemption is charged to the Profit and Loss Account.

**4. Valuation :**

The valuation of investments is performed in accordance with the RBI guidelines as follows:

a. **Investments classified as HTM** – These are carried at their acquisition cost. Any premium on acquisition of debt instruments / government securities are amortised over the balance maturity of the security on a straight line basis. Any diminution, other than temporary, in the value of such securities is provided.

b. **Investments classified as HFT or AFS** – Investments in this category are marked to market and the net depreciation, if any, within each group is recognised in the Profit and Loss Account. Net appreciation, if any, is ignored. Further, provision for diminution other than temporary is made for, at the individual security level. Except in cases where provision for diminution other than temporary is created, the book value of the individual securities is not changed as a result of periodic valuations.

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

c. The market / fair value of quoted investments included in the 'AFS' and 'HFT' categories is measured with respect to the market price of the scrip as available from the trades / quotes on the stock exchanges, SGL account transactions, price list of RBI or prices declared by Primary Dealers Association of India ('PDAI') jointly with Fixed Income Money Market and Derivatives Association of India ('FIMMDA') as at the year end. The market value of investments where market quotations are not available is determined as per the norms laid down by the RBI.

d. Treasury Bills, Exchange Funded Bills, Commercial Paper and Certificate of Deposits being discounted instruments, are valued at carrying cost.

e. Units of mutual funds are valued at the latest repurchase price / net asset value declared by the mutual fund.

f. Market value of investments where current quotations are not available, is determined as per the norms prescribed by the RBI as under:

- In case of unquoted bonds, debentures and preference shares where interest / dividend is received regularly (i.e. not overdue beyond 90 days), the market price is derived based on the YTM for Government Securities as published by FIMMDA / PDAI and suitably marked up for credit risk applicable to the credit rating of the instrument. The matrix for credit risk mark-up for each categories and credit ratings along with residual maturity issued by FIMMDA is adopted for this purpose;
- In case of bonds and debentures (including Pass Through Certificates) where interest is not received regularly (i.e. overdue beyond 90 days), the valuation is in accordance with prudential norms for provisioning as prescribed by the RBI. Interest on such securities is not recognised in the Profit and Loss Account until received;
- Equity shares, for which current quotations are not available or where the shares are not quoted on the stock exchanges, are valued at break-up value (without considering revaluation reserves, if any) which is ascertained from the Company's latest Balance Sheet. In case the latest Balance Sheet is not available, the shares are valued at ₹ 1 per Company;
- Units of Venture Capital Funds (VCF) held under AFS category where current quotations are not available are marked to market based on the Net Asset Value (NAV) shown by VCF as per the latest audited financials of the fund. In case the audited financials are not available for a period beyond 18 months, the investments are valued at ₹ 1 per VCF. Investment in unquoted VCF after 23rd August, 2006 are categorised under HTM category for the initial period of three years and valued at cost as per RBI guidelines;
- Security receipts are valued as per the Net Asset Value (NAV) obtained from the issuing Reconstruction Company / Securitisation Company.

g. **Repurchase and reverse repurchase transactions** - Securities sold under agreements to repurchase (Repos) and securities purchased under agreements to resell (Reverse Repos) are accounted as collateralised borrowing and lending transactions respectively. The difference between the consideration amount of the first leg and the second leg of the repo is recognised as interest income / interest expense over the period of the transaction.

**For the insurance company:**

a. Investments are recorded at cost on trade date which includes brokerage, transfer charges, transaction taxes as applicable, etc. but excludes pre-acquisition interest, if any and service tax on brokerage where cenvat credit is being claimed.

b. Investments maturing within twelve months from the Balance Sheet date and investments made with the specific intention to dispose them off within twelve months from the Balance Sheet date are classified as 'Short Term Investments'. Investments other than Short Term Investments are classified as 'Long Term Investments'.

**Valuation – Shareholders' Investments and non-linked policy-holders' investments**

c. All debt securities are considered as "held to maturity" for the purpose of valuation and are accordingly recorded at historical cost (excluding interest paid, if any). Debt securities including Government securities are stated at net amortised cost. The premium / discount, if any, on purchase of debt securities is amortised / accreted over the period to maturity on an internal rate of return.

d. Listed equity shares as at the Balance Sheet date are stated at fair value being the lower of last quoted closing price on Bombay Stock Exchange Limited ("BSE") and the National Stock Exchange Limited ("NSE"). Equity shares awaiting listing are stated at historical cost subject to provision for diminution, if any. Unrealised gains / losses arising due to changes in the fair value of listed equity shares are taken to "Fair Value Change Account" and carried forward to Balance Sheet where the net balance is positive. Negative balance in the "Fair Value Change Account" is recognised in the Profit and Loss Account to the extent of negative balance in "Fair Value Change Account" as reduced by the amount previously provided in the Profit and Loss Account. The profit or loss on actual sale of listed equity includes the accumulated changes in the fair value previously recognised under "Fair Value Change Account".

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

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

In case of impairment in the value of investment as at the Balance Sheet date which is other than temporary, the amount of loss is recognised as an expense in the Profit and Loss Account to the extent of difference between the remeasured fair value of the investment and its acquisition cost as reduced by any previous impairment loss is recognised as expense in Profit and Loss Account. Any reversal of impairment loss, earlier recognised in Profit and Loss Account, is recognised in the Profit and Loss Account.

**Valuation – Unit linked Business**

e. All Government securities, except treasury bills, for linked business are valued at prices obtained from Credit Rating Information Service of India Limited (CRISIL). Debt Securities other than Government Securities are valued on the basis of CRISIL Bond valuer. The discount on purchase of treasury bills, certificate of deposit, commercial papers and CBLO are amortised over the period to maturity on an internal rate of return basis.

f. Listed equity shares are valued at fair value, being the last quoted closing price on the NSE (In case of securities not listed on NSE, the last quoted closing price on the BSE is used). Equity shares awaiting listing are stated at historical cost subject to provision for diminution, if any, in the value of such investment determined separately for each individual investment. Unrealised gains and losses are recognised in the Profit and Loss Account.

g. Mutual Fund Units are valued at the previous day's closing Net Asset Value (NAV) of the fund in which they are invested.

h. Real estate investment property represents land or building held for investment purposes. Investment in the real estate investment property is valued at historical cost plus revaluation, if any. Revaluation of the investment property is done at least once in three years. Any change in the carrying amount of the investment property is accounted to revaluation reserve. Impairment loss, if any, exceeding revaluation reserve is recognised as expenses in the Profit and Loss Account.

i. Transfer of investments from shareholders' fund to the policyholders' fund is at the book value or market price whichever is lower. Transfer of debt securities from shareholders' fund to the policyholders' fund is transacted at the lower of net amortised cost or market price. Transfer of investment between unit linked funds is done at market price.

j. Gain / Loss on transfer / sale of securities is the difference between the transfer / sale price and the net amortised cost / book value which is computed on a weighted average basis as on the date of transfer / sale. Sale consideration for the purpose of realised gain / loss is net of brokerage and taxes, if any.

**For other entities:**

As required by Accounting Standard 13 (AS-13) notified under the Companies (Accounting Standard) Rules, 2006 "as amended", "Accounting for Investments", investments are classified into long term investments and current investments. Investments, which are intended to be held for more than one year, are classified as long term investments and investments, which are intended to be held for less than one year, are classified as current investments. Long term investments are carried at cost and provision for diminution in value is made to recognise a decline other than temporary in the value of investment. Current investments are valued at cost (calculated by applying weighted average cost method) or market / fair value whichever is lower. In case of investments in units of a mutual fund, the NAV of units is considered as market / fair value. The Securities acquired with the intention to trade are considered as Stock-in-Trade. Investments classified as "Stock-in-Trade" by some of the subsidiaries are valued at cost (calculated by applying weighted average cost method) or market price, whichever is lower. Brokerage, stamping and additional charges paid are included in the cost of investments.

**Securities lending and borrowing**

a) Initial margin and / or additional margin paid over and above the initial margin, for entering into contracts for equity stock which are released on final settlement / squaring – up of the underlying contracts, are disclosed under Other Assets.

b) The marked to market on securities lending and borrowing instrument is determined on a portfolio basis with net unrealised losses being recognised in the Profit and Loss Account. Net unrealised gains are not recognised in the Profit and Loss Account on grounds of prudence as enunciated in Accounting Standard – 1 (AS-1) Disclosure of Accounting Policies notified under the Companies (Accounting Standard) Rules, 2006 "as amended".

c) On final settlement or squaring up of contracts for equity stocks the realised profit or loss after adjusting the unrealised loss already accounted, if any, is recognised in the Profit and Loss Account.

**G. FOREIGN CURRENCY AND DERIVATIVE TRANSACTIONS**

**For the Bank:**

i. Foreign currency monetary assets and liabilities are translated at the Balance Sheet date at rates notified by the Foreign Exchange Dealers' Association of India (FEDAI) and the resultant gain or loss is accounted in the Profit and Loss Account.

ii. Income and Expenditure items are translated at the rates of exchange prevailing on the date of the transaction except for representative office expenses which are translated at the monthly average rate of exchange.

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

iii. Outstanding forward exchange contracts (other than deposit and placement swaps) and spot contracts outstanding at the Balance Sheet date are revalued at rates notified by FEDAI for specified maturities and at interpolated rates of interim maturities. In case of forward contracts of greater maturities where exchange rates are not notified by FEDAI are revalued at the forward exchange rates implied by the swap curves in respective currencies. The resulting profits or losses are included in the Profit and Loss Account as per the regulations stipulated by the RBI / FEDAI.

iv. Foreign exchange swaps "linked" to foreign currency deposits and placements are translated at the prevailing spot rate at the time of swap. The premium / discount on the swap arising out of the difference in the exchange rate of the swap date and the maturity date of the underlying forward contract is amortised over the period of the swap and the same is recognised in the Profit and Loss Account.

v. Contingent liabilities on account of foreign exchange contracts, letters of credit, bank guarantees and acceptances and endorsements outstanding as at the Balance Sheet date on account of outstanding foreign exchange contracts are restated at year-end rates notified by FEDAI.

vi. Notional amounts of derivative transactions comprising of forwards, swaps, futures and options are disclosed as off Balance Sheet exposures. The Bank recognises all derivative contracts (other than those designated as hedges) at fair value, on the date on which the derivative contracts are entered into and are re-measured at fair value as at the balance sheet or reporting dates. Derivatives are classified as assets when the fair value is positive (positive marked to market) or as liabilities when the fair value is negative (negative marked to market). Changes in the fair value of derivatives other than those designated as hedges are recognised in the Profit and Loss Account.

vii. Outstanding derivative transactions designated as "Hedges" are accounted in accordance with hedging instrument on an accrual basis over the life of the underlying instrument. Option premium paid / received is accounted for in the Profit and Loss Account on expiry of the option. Option contracts are marked to market on every reporting date.

**For other entities:**

viii. Transactions in foreign currencies are recorded at the rate of exchange prevailing on the date of the transaction.

ix. Monetary assets and liabilities denominated in foreign currencies are restated at the closing rate of exchange as on the Balance Sheet date.

x. Exchange differences arising on settlement of the transaction and on account of restatement of assets and liabilities are dealt with in the Profit and Loss Account. In case of items which are covered by forward exchange contracts entered to hedge the foreign currency risk, the difference between the year-end rate and the rate on the date of the contract is recognised as exchange difference in the Profit and Loss Account and the premium paid on forward contracts is recognised over the life of the contract.

xi. The financial statements of all subsidiaries incorporated outside India which are in the nature of non-integral foreign operations are converted on the following basis: (a) Income and expenses are converted at the average rate of exchange applicable for the year and (b) All assets and liabilities are translated at the closing rate as on the Balance Sheet date. The exchange difference arising out of year end translation is debited or credited as "Foreign Currency Translation Reserve" forming part of "Reserves and Surplus".

**Interest rate / Currency swaps:**

xii. The outstanding swap trades at the Balance Sheet date are disclosed at the contract amount. The swaps which are in the nature of hedges are accounted on an accrual basis; these contracts are not marked to market. Accrued interest is adjusted against the interest cost / income of the underlying liability / asset. The foreign currency balances on account of principal of currency swaps outstanding as at the Balance Sheet date are revalued using the closing rate.

**Currency options:**

xiii. The outstanding option trades, in the nature of hedge, at the Balance Sheet date are disclosed at the contract amount. The premium paid is amortised over the life of the contract.

**Equity index / equity futures / equity index / equity options / embedded derivatives / other derivatives:**

xiv. Outstanding derivative contracts, including embedded derivatives, are measured at fair value as at each Balance Sheet date. Fair value of derivatives is determined using quoted market prices in an actively traded market, for the instrument, wherever available, as the best evidence of fair value. In the absence of quoted market prices in an actively traded market, a valuation technique is used to determine the fair value. In most cases the valuation techniques use observable market data as input parameters in order to ensure reliability of the fair value measure.

xv. The marked to market on derivative contracts is determined on a portfolio basis with net unrealised losses being recognised in the Profit and Loss Account. Net unrealised gains are not recognised in the Profit and Loss Account on grounds of prudence as enunciated in Accounting Standard – 1 (AS-1) Disclosure of Accounting Policies notified under the Companies (Accounting Standard) Rules, 2006 "as amended".

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

xvi. Initial Margin - Derivative Instrument representing the initial margin paid and / or additional margin paid over and above the initial margin, for entering into contracts for equity index / stock futures and equity index / stock options / other derivatives, which are released on final settlement / squaring–up of the underlying contracts, are disclosed under Other Assets. "Deposit for Mark to Market Margin - Derivative Instrument" representing the deposit paid in respect of mark to market margin is disclosed under Other Assets.

xvii. On final settlement or squaring up of contracts for equity index / stock futures / other derivatives, the realised profit or loss after adjusting the unrealised loss already accounted, if any, is recognised in the Profit and Loss Account and shown as Profit / (Loss) on exchange transactions (net).

xviii. On settlement or squaring up of equity index / stock options / other derivatives before expiry, the premium prevailing in option contracts on that date is recognised in the Profit and Loss Account.

xix. When more than one contract in respect of the relevant series of equity index / stock futures or equity index / stock options / other derivatives contract to which the squared-up contract pertains is outstanding at the time of the squaring-up of the contract, the contract price of the contract so squared-up is determined using the weighted average cost method for calculating the profit / loss on squaring-up.

**H. ADVANCES**

**Classification :**

i. Advances are classified as performing and non-performing advances ('NPAs') based on the RBI guidelines and are stated net of bills rediscounted, specific provisions, interest in suspense for non-performing advances, claims received from Export Credit Guarantee Corporation, provisions for funded interest term loan classified as non-performing advances and provisions in lieu of diminution in the fair value of restructured assets. Also, NPAs are classified into sub-standard, doubtful and loss assets. Interest on NPAs is transferred to an interest suspense account and not recognised in the Statement of Profit and Loss until received.

ii. Amounts paid for acquiring non-performing assets from other banks and NBFCs are considered as advances. Actual collections received on such non-performing assets are compared with the cash flows estimated while purchasing the asset to ascertain overdue. If the overdue is in excess of 90 days, the Bank classifies such assets into sub-standard, doubtful or loss as required by the RBI guidelines on purchase of non-performing assets. In respect of NBFCs, if the overdue is in excess of 180 days, then the assets are classified into sub-standard, doubtful and loss as required by the RBI guidelines on purchase of non performing assets.

iii. The Bank transfers advances through inter-bank participation with and without risk. In accordance with the RBI guidelines, in the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances and where the Bank is participating, the aggregate amount of the participation is classified under advances. In the case of participation without risk, the aggregate amount of participation issued by the Bank is classified under borrowings and where the Bank is participating, the aggregate amount of participation is shown as due from banks under advances.

**Provisioning :**

iv. Provision for non-performing assets comprising sub-standard, doubtful and loss assets is made in accordance with the RBI guidelines. In addition, the Group considers accelerated provisioning that is based on past experience, evaluation of security and other related factors.

v. In accordance with RBI guidelines the Bank has provided general provision on standard assets including credit exposures computed as per the current marked to market values of interest rate and foreign exchange derivative contracts, and gold at levels stipulated by RBI from time to time - direct advances to sectors agricultural & SME at 0.25%, commercial real estate at 1.00%, restructured standard advances progressively to reach 5.00%, teaser rate housing loans at 2.00% and for other sectors at 0.40%.

The Non-Banking Finance Company (NBFC) subsidiaries provide general provision on standard assets at 0.25% in accordance with the RBI guidelines.

**I. STRUCTURED LIABILITIES**

The Group has issued structured liabilities wherein the return on these liabilities is linked to non-interest benchmarks. Such structured liabilities have an embedded derivative which is the non-interest related return component. The embedded derivative is separated from the host contract and accounted separately {Refer Note 2 (F)(xiv)}.

The resultant debt component of such structured liabilities is recognised in the Balance Sheet under borrowings and is measured at amortised cost on a yield to maturity basis.

**J. LIABILITY FOR POLICIES**

i Provision is made for policy liabilities in respect of all "in force" policies and "lapsed policies" that are likely to be revived in future based on actuarial valuation done by the Appointed Actuary in accordance with accepted actuarial practices, requirements of IRDA and the Institute of Actuaries of India.

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

ii Liabilities in respect of unit-linked policies which have lapsed and are not likely to be revived, are shown as Policyholders' liabilities until expiry of the revival period.

iii Linked liabilities comprise of unit liability representing the fund value of policies.

**K. ACTUARIAL METHOD – LIFE INSURANCE**

i Actuarial method and assumptions: The actuarial liabilities have been calculated in accordance with generally accepted actuarial principles, the requirements of the Insurance Act 1938, IRDA regulations and the prescribed guidance notes of the Institute of Actuaries of India by appointed actuary. In respect of unit linked policies, a unit reserve equal to the value of units as on the Balance Sheet date and an additional non-unit reserve calculated on gross premium prospective valuation method is created. The method adopted for par policies (accumulation contracts) is the value of the accumulated fund and an additional non-unit reserve calculated on gross premium prospective valuation method. In respect of individual conventional business / Group where premiums are guaranteed for more than one year, gross premium prospective method is used. Additional reserve on lapsed unit-linked policies is created and shown as 'Policyholders' Funds'.

ii The assumptions used in the Gross Premium valuation are based on conservative best estimates together with appropriate margins for adverse deviations from experience. The principal assumptions are interest, inflation, return to policyholders' accounts, lapses, expenses, mortality and morbidity.

iii Reserves for group life one year renewable policies are calculated as the risk premium for the unexpired term with an allowance for expenses and a margin for adverse deviations. The actuarial liability for Group fund based / VIP fund is equal to premiums net of deductions accumulated with guaranteed interest plus a non-unit reserve to provide for expense and mortality.

**L. DISCOUNTED INSTRUMENTS**

The liability is recognised at face value at the time of issuance of discounted instruments. The discount on the issue is amortised over the tenure of the instrument.

**M. ACQUISITION COSTS**

Acquisition costs such as commission and medical fees are costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts. Such costs are recognised in the year in which they are incurred.

**N. BULLION**

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

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

**O. TAXES ON INCOME**

The Income Tax expense comprises Current tax and Deferred tax. Current tax is measured at the amount expected to be paid in India in respect of taxable income for the year in accordance with the Income Tax Act, 1961 enacted in India. Tax expense relating to overseas subsidiaries are determined in accordance with the tax laws applicable in countries where such subsidiary is domiciled. Minimum alternate tax (MAT) paid in a year is charged to the statement of profit and loss account as current tax. The Group recognises MAT credit available as an asset only to the extent that there is convincing evidence that the Group will pay normal income tax during the specified period, i.e., the period for which MAT credit is allowed to be carried forward.

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

Deferred tax assets arising mainly on account of carry forward losses and unabsorbed depreciation under tax laws are recognised only if there is virtual certainty of its realisation, supported by convincing evidence. Deferred tax assets on account of other timing differences are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date. Changes in deferred tax assets / liabilities on account of changes in enacted tax rates are given effect to in the Profit and Loss Account in the period of the change. The carrying amount of deferred tax assets are reviewed at each Balance Sheet date. The Group writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised.

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

Deferred tax assets and deferred tax liabilities across various entities are not set off against each other as the Group does not have a legal right to do so.

## P. SEGMENT REPORTING

In accordance with guidelines issued by the RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated 18th April, 2007 and Accounting Standard 17 (AS-17) on "Segment Reporting" notified under the Companies (Accounting Standard) Rules, 2006 "as amended", the Group's business has been segregated into the following segments whose principal activities were as under:

| Segment | Principal activity |
|---|---|
| Treasury, Investments and BMU | Dealing in debt, equity, money market, forex market, derivatives and investments and primary dealership of Government securities and Balance Sheet Management unit (BMU) responsible for Asset Liability Management |
| Retail Banking | Includes:<br>(1) Lending<br>Commercial vehicle finance, personal loans, home loans, agriculture finance, other loans / services and exposures which fulfill the four criteria for retail exposures laid down in Basel Committee on Banking Supervision document "International Convergence of Capital Measurement and Capital Standards : A Revised Framework".<br>(2) Branch Banking<br>Retail borrowings covering savings, current and term deposit accounts and Branch Banking network and services including distribution of financial products.<br>(3) Credit cards<br>Receivables / loans relating to credit card business. |
| Corporate / Wholesale Banking | Wholesale borrowings and lendings and other related services to the corporate sector which are not included in Retail Banking. |
| Vehicle Financing | Retail vehicle finance and wholesale trade finance |
| Other Lending Activities | Financing against securities, securitisation and other loans / services not included under Retail Banking and Corporate / Wholesale Banking |
| Broking | Brokerage income on market transactions done on behalf of clients, interest on delayed payments, distribution of financial products and forex broking. |
| Advisory and Transactional Services | Providing financial advisory and transactional services such as mergers and acquisition advice and equity / debt issue management services and revenue from being a professional clearing member. |
| Asset Management | Management of investments on behalf of clients and funds. |
| Insurance | Life insurance |

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

A transfer pricing mechanism between segments has been established to arrive at interest cost on the borrowings of the segments based on borrowing costs, maturity profile of assets / liabilities etc. and which is disclosed as part of Segment Revenue.

Segment revenue consist of earnings from external customers and inter-segment revenue as stated above. Segment expense consist of interest expenses including those allocated, operating expenses and provisions.

Segment results are net of segment revenue and segment expense.

Segment assets include assets related to segments and exclude tax related assets. Segment liabilities include liabilities related to segments excluding net worth, minority interest and employees' stock option (grants outstanding), proposed dividend and dividend tax thereon.

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

## Q. EMPLOYEE SHARE BASED PAYMENTS

**Equity-settled:**

The Bank has formulated Employee Stock Option Schemes (ESOSs) in accordance with Securities and Exchange Board of India (Employee Stock Option Scheme) Guidelines, 1999. The Schemes provide for grant of options to employees of the Group to acquire the equity shares

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

of the Bank that vest in cliff vesting or in a graded manner and that are to be exercised within a specified period. In accordance with the SEBI Guidelines and the guidance note on "Accounting for Employee Share-based payments" issued by The Institute of Chartered Accountants of India, the excess, if any, of the fair 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. The fair market price is the latest available closing price, prior to the date of grant, on the stock exchange on which the shares of the Bank are listed.

Where the terms of an equity–settled award are modified, the minimum expense recognised in 'Payments to and provision for employees' is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total intrinsic value of the share–based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

**Cash-settled:**

The cost of cash-settled transactions (stock appreciation rights) is measured initially using intrinsic value method at the grant date taking into account the terms and conditions upon which the instruments were granted. This intrinsic value is amortised on a straight-line basis over the vesting period with a recognition of corresponding liability. This liability is remeasured at each Balance Sheet date up to and including the settlement date with changes in intrinsic value recognised in the Profit and Loss Account in 'Payments to and provision for employees'.

### R. CLAIMS / BENEFITS

Benefits paid comprise of policy benefit amount, surrenders, claim investigation fees and specific claims settlement costs where applicable and change in the outstanding provision for claims at the year end. Surrender and claims by death are accounted when intimated. Survival benefits are accounted when due. Maturity claims are accounted on the date of maturity. Amounts recoverable from reinsurers are accounted for in the same period as the related claim. Repudiated claims disputed before judicial authorities are provided for, based on the best judgment of the management considering the facts and evidence in respect of each such claim. Withdrawals under unit-linked policies are accounted in respective schemes when the associated units are cancelled.

### S. SECURITISATION

The Group enters into arrangements for sale of loans through Special Purpose Vehicles (SPVs). In most cases, post securitisation, the Group continues to service the loans transferred to the SPV. The Group also provides credit enhancement in the form of cash collaterals and / or by subordination of cash flows to Senior Pass Through Certificate (PTC) holders. In respect of credit enhancements provided or recourse obligations (projected delinquencies, future servicing etc.) accepted by the Group, appropriate provision / disclosure is made at the time of sale in accordance with Accounting Standard 29, (AS-29) "Provisions, Contingent Liabilities and Contingent Assets" notified under the Companies (Accounting Standard) Rules, 2006 "as amended".

In accordance with the RBI guidelines, the profit / premium on account of securitisation of assets at the time of sale is computed as the difference between the sale consideration and the book value of the securitised asset and is amortised over the tenure of the securities issued. The loss on account of securitisation is recognised immediately in the Profit and Loss Account.

### T. LEASES

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

Assets subject to operating leases are included in fixed assets. Lease income is recognised in the Profit and Loss Account on a straight-line basis over the lease term.

Initial direct costs in respect of operating leases such as legal costs, brokerage costs, etc. are recognised immediately in the Profit and Loss Account.

Assets given under a finance lease are recognised as a receivable at an amount equal to the net investment in the lease.

### U. PROVISIONS AND CONTINGENCIES

Provision is recognised when there is a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

Contingent Liabilities are not recognised but are disclosed in the notes unless the outflow of resources is remote. Contingent assets are neither recognised nor disclosed in the financial statements.

The Bank estimates the probable redemption of credit card reward points and cost per point using an actuarial method conducted by an independent actuary, which includes assumptions such as mortality, redemption and spends. Provisions for the said reward points are made based on the actuarial valuation report.

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

**V. SCHEME EXPENSES**

Annual recurring expenses relating to schemes of Kotak Mahindra Mutual Fund which are in excess of internal expense limits are borne by the Group. The internal expense limits are within the overall expense limits prescribed by the SEBI. Further, scheme expenses also includes new fund offer expenses, and other expenses relating to the schemes which do not fall under regulation 52(4) of the SEBI (Mutual Funds) regulation 1996.

**W. SHARE ISSUE EXPENSES**

Share issue expenses are adjusted from Securities Premium Account in terms of Section 78 of the Companies Act, 1956.

**X. EARNINGS PER SHARE**

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

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted during the year.

**Y. IMPAIRMENT**

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

**Z. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents in the Balance Sheet comprise Cash in hand, Balances with Reserve Bank of India and Balances with Banks and Money at Call and Short Notice (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

**Notes to Accounts**

**3. EMPLOYEE BENEFITS:**

a. The Group has recognised the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds.

| | |
|---|---|
| Provident Fund | ₹ 75.38 crore (previous year ₹ 67.63 crore) |
| Superannuation Fund | ₹ 0.75 crore (previous year ₹ 0.83 crore) |
| New Pension Fund | ₹ 1.94 crore (previous year ₹ 0.95 crore) |

b. In accordance with Indian regulations, the Group provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement or on termination of employment based on the respective employee's salary and the years of employment with the Group subject to maximum of ₹ 0.10 crore. There is no ceiling on gratuity payable to Directors.

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

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

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

₹ in crore

| | **As on 31st March, 2014** | | As on 31st March, 2013 | |
|---|---|---|---|---|
| | **Funded** | **Others** | Funded | Others |
| **Change in benefit obligations** | | | | |
| Liability at the beginning of the year | 91.67 | 5.87 | 60.76 | 16.18 |
| Transfer of liabilities funded during the year | - | - | 10.92 | (10.92) |
| Current Service cost | 18.91 | 0.74 | 15.67 | 0.62 |
| Interest cost | 8.66 | 0.51 | 7.35 | 0.48 |

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

₹ in crore

| | As on 31st March, 2014 | | As on 31st March, 2013 | |
|---|---|---|---|---|
| | **Funded** | **Others** | Funded | Others |
| Actuarial (gain) / loss on obligations | (10.97) | (0.12) | 8.51 | 0.09 |
| Past Service cost | - | - | - | - |
| Liability assumed on transfer of employees | (0.49) | 0.52 | (0.21) | 0.27 |
| Benefits paid | (11.68) | (1.16) | (11.33) | (0.85) |
| **Liability at the end of the year** | 96.10 | 6.36 | 91.67 | 5.87 |
| **Change in plan assets** | | | | |
| Fair value of plan assets at the beginning of the year | 88.87 | - | 56.54 | - |
| Expected return on plan assets | 6.68 | - | 4.16 | - |
| Actuarial Gain / (loss) | 4.04 | - | 1.66 | - |
| Benefits paid | (11.68) | (1.16) | (11.33) | (0.85) |
| Employer contributions | 13.36 | 1.16 | 37.84 | 0.85 |
| **Fair value of plan assets as at the end of the year** | 101.27 | - | 88.87 | - |

**Reconciliation of present value of the obligation and the fair value of the plan Assets**

₹ in crore

| | As on 31st March, 2014 | | As on 31st March, 2013 | |
|---|---|---|---|---|
| | **Funded** | **Others** | Funded | Others |
| Fair value of plan assets as at the end of the year | 101.27 | - | 88.87 | - |
| Liability at the end of the year | 96.10 | 6.36 | 91.67 | 5.87 |
| **Net Asset/ (Liabilities) included in "Others" under "Other Assets" and "Other Liabilities"** | 5.17 | (6.36) | (2.80) | (5.87) |
| Expenses recognised for the year | | | | |
| Current service cost | 18.91 | 0.74 | 15.67 | 0.62 |
| Interest cost | 8.66 | 0.51 | 7.35 | 0.48 |
| Expected return on plan assets | (6.68) | - | (4.16) | - |
| Actuarial (gain) / loss | (15.01) | (0.12) | 6.85 | 0.09 |
| Effect of the limit in Para 59(b) | - | - | - | - |
| **Net gratuity expense included in "[payments to and provision for employees]" under "Operating Expenses" [Schedule 16.I]** | 5.88 | 1.13 | 25.71 | 1.19 |
| **Actual return on plan assets** | 10.72 | - | 5.82 | - |

₹ in crore

| | As on 31st March, 2014 | | As on 31st March, 2013 | |
|---|---|---|---|---|
| | **Funded** | **Others** | Funded | Others |
| **Reconciliation of the Liability recognised in the Balance Sheet** | | | | |
| Net (Asset) / Liability at the beginning of the year | 2.80 | 5.87 | 4.22 | 16.18 |
| Transfer of liabilities funded during the year | - | - | 10.92 | (10.92) |
| Expense recognised | 5.88 | 1.13 | 25.71 | 1.19 |
| Liability assumed on transfer of employees | (0.49) | 0.52 | (0.21) | 0.27 |
| Employer contributions / Transfers | (13.36) | (1.16) | (37.84) | (0.85) |
| Effect of the limit in Para 59(b) | - | - | - | - |
| **Net (Asset) / Liability is included in "Others" under "Other Assets" and "Other Liabilities"** | (5.17) | 6.36 | 2.80 | 5.87 |

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

**Investment details of plan assets**

The plan assets are invested in insurer managed funds. Major categories of plan assets as a percentage of fair value of total plan assets:

| | 31st March, 2014 % | 31st March, 2013 % |
|---|---|---|
| Government securities | 29.60 | 19.09 |
| Bonds, debentures and other fixed income instruments | 12.19 | 20.45 |
| Money market instruments | 11.29 | 13.59 |
| Equity shares | 46.92 | 46.87 |
| **Total** | **100.00** | **100.00** |

**Actuarial assumptions used**

| | As on 31st March, 2014 | As on 31st March, 2013 |
|---|---|---|
| Discount rate | 9.34% p.a. | 8.24% p.a. |
| Salary escalation rate | 8.50% p.a. | 8.50% p.a. |
| Expected rate of return on plan assets | 7.50% p.a. | 7.50% p.a. |

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

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

**Experience adjustments**

Amounts for the current and previous four years are as follows:

₹ in crore

| Gratuity | Year ended 31st March, | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| Defined benefit obligation | 102.46 | 97.54 | 76.94 | 66.65 | 39.34 |
| Plan assets | 101.27 | 88.87 | 56.54 | 34.66 | 25.63 |
| Surplus / (deficit) | (1.19) | (8.67) | (20.40) | (31.99) | (13.71) |
| Experience adjustments on plan liabilities | 1.84 | (4.72) | (0.30) | 2.11 | (0.93) |
| Experience adjustments on plan assets | 4.04 | 1.66 | (2.61) | 0.64 | 4.61 |

The Group expects to contribute ₹ 10.10 crore to gratuity fund in financial year 2014-2015

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

**Compensated absences**

The actuarially determined liability for compensated absences of accumulated leaves of the employees of the Group is given below:

₹ in crore

| | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| Total actuarial liability | 70.26 | 64.38 |
| **Assumptions:** | | |
| Discount rate | 9.34% p.a. | 8.24% p.a. |
| Salary escalation rate | 8.50% p.a. | 8.50% p.a. |

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

**4. LIEN AND ENCUMBRANCES:**

(a) Balance with Banks in other deposit accounts include ₹ 107.02 crore (previous year ₹ 42.24 crore) which are under lien.

(b) Investments include Government Securities with face Value of ₹ 3,971.48 crore (previous year ₹ 8,865 crore) pledged and encumbered for availment of fund transfer facility, clearing facility, margin requirements and RBI for liquidity adjustment facility (LAF).

(c) The Bank receives deposits from customers as part of margin requirements in respect of its professional clearing member (PCM) business with National Securities Clearing Corporation Ltd. (NSCCL). Correspondingly, the Bank is required to maintain margins / deposits with NSCCL. For the said purpose of placing margins / deposits, the Bank has issued its own Fixed Deposit receipts amounting to ₹ Nil (previous year ₹ 249.34 crore) in favour of NSCCL which have not been included in "Term Deposits from Others" [Schedule 3.III (ii)].

**5.** "Others" in Other Liabilities and Provisions (Schedule 5) include the following items shown as "Provision for Contingencies", which have been recognised in the accounts in respect of obligations arising from past event, the settlement of which is expected to result in an outflow embodying economic benefits.

**Provision for Contingencies:**

₹ in crore

| Description | Balance as on 1st April, 2013 | Addition during the year | Reversed / paid during the year | Balance as on 31st March, 2014 |
|---|---|---|---|---|
| Stamp duty on Trades | 3.21 | - | - | 3.21 |
| **Total** | **3.21** | **-** | **-** | **3.21** |
| Previous year | 12.65 | - | 9.44 | 3.21 |

Based on legal opinion, the Management is of the view that certain provisions for earlier years are no longer required and have reversed ₹ Nil (previous year ₹ 9.44 crore)

**6. PROVISIONS AND CONTINGENCIES:**

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

₹ in crore

| Year ended 31st March, | 2014 | 2013 |
|---|---|---|
| Provision for taxation (Refer Note 7 below) | 1,183.96 | 939.95 |
| Provision for Non-performing Assets and Contingencies (including write-offs and net of recoveries) | 165.21 | 165.05 |
| Provision for Standard Assets | 16.77 | 50.84 |
| Provision for Diminution in value of Investments | 146.07 | (33.90) |
| Provision Others | (19.08) | 1.19 |
| **Total** | **1,492.93** | **1,123.13** |

**7. PROVISION MADE FOR TAXES DURING THE YEAR:**

₹ in crore

| Year ended 31st March, | 2014 | 2013 |
|---|---|---|
| Current tax | 1,153.00 | 963.00 |
| Deferred tax | 30.78 | (23.20) |
| Wealth Tax | 0.18 | 0.15 |
| **Total** | **1,183.96** | **939.95** |

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

## 8. DESCRIPTION OF CONTINGENT LIABILITIES:

| Sr. No. | Contingent Liability* | Brief Description |
|---|---|---|
| 1. | Claims not acknowledged as debts | This includes liability on account of income tax, interest tax, sales tax, lease tax demands, property tax demands and legal cases filed against the Group.<br>The Group is a party to various legal proceedings in the normal course of business. The Group does not expect the outcome of these proceedings to have a material adverse effect on the Group's financial conditions, result of operations or cash flows. Against the above ₹ 36.04 crore have been paid, which shall be refunded to the Group, if the outcome of the legal proceedings will be in the favour of the Group. |
| 2. | Liability on account of outstanding forward exchange contracts | The Group enters into foreign exchange contracts with inter-bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. |
| 3. | Guarantees on behalf of constituents in and outside India | As a part of its banking activities, the Group issues guarantees on behalf of its customers. Guarantees generally represent irrevocable assurances that the Group will make payments in the event of customer failing to fulfill its financial or performance obligations. |
| 4. | Acceptances, endorsements and other obligations | These includes Documentary credit such as letters of obligations, enhance the credit standing of the customers of the Group, contingent liabilities on account of bills re-discounted by the Group and cash collateral provided by the Group on assets which have been securitised. |
| 5. | Other items for which the Group is contingently liable | These include liabilities in respect of interest rate swaps, currency swaps, forward rate agreements, futures and options contracts. The Group enters into these transactions on its own account and for customers. Currency Swaps are commitments to exchange cash flows by way of interest / principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts that are recorded as contingent liabilities are amounts used as a benchmark for the calculation of interest component of the contracts. This also includes liability in respect of Capital commitments relating to fixed assets and undrawn commitments in respect of investments. |

** Also refer Schedule 12 – Contingent Liabilities*

## 9. EARNINGS PER EQUITY SHARE:

| Particulars | **As on 31st March, 2014** | As on 31st March, 2013 |
|---|---|---|
| **Reconciliation between weighted shares used in the computation of basic and diluted earnings per share:** | | |
| Weighted average number of equity shares used in computation of basic earnings per share | 765,821,581 | 743,304,984 |
| Effect of potential equity shares for stock options outstanding | 1,251,038 | 2,816,120 |
| Weighted average number of equity shares used in computation of diluted earnings per share | 767,072,619 | 746,121,104 |
| Following is the reconciliation between basic and diluted earnings per share: | | |
| Nominal value per share (₹) | 5.00 | 5.00 |
| Basic earnings per share (₹) | 32.19 | 29.44 |
| Effect of potential equity shares for stock options (₹) | 0.05 | 0.11 |
| Diluted earnings per share (₹) | 32.14 | 29.33 |
| Earnings used in the computation of basic and diluted earnings per share (₹ in crore) | 2,464.99 | 2,188.46 |

## 10. EMPLOYEE SHARE BASED PAYMENTS:

At the General Meetings of the holding company, Kotak Mahindra Bank Limited, the shareholders of the Bank had unanimously passed Special Resolutions on 28th July 2000, 26th July 2004, 26th July 2005, 5th July 2007 and 21st August 2007, to grant options to the eligible employees of the Bank and its subsidiary companies. Pursuant to these resolutions, the following four Employees Stock Option Schemes had been formulated and adopted:

(a) Kotak Mahindra Equity Option Scheme 2001-02;

(b) Kotak Mahindra Equity Option Scheme 2002-03;

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

(c) Kotak Mahindra Equity Option Scheme 2005; and

(d) Kotak Mahindra Equity Option Scheme 2007.

Consequent to the above, the Bank has granted stock options to the employees of the Group. The Bank under its various plan / schemes, has granted in aggregate 61,348,520 options as on 31st March, 2014 (previous year 60,207,360)

**Stock appreciation rights**

The Management has approved the grant of stock appreciation rights (SARs) to eligible employees as and when deemed fit. The SARs are settled in cash and vest on the respective due dates in a graded manner as per the terms and conditions of grant. The contractual life of the SARs outstanding range from 1.39 to 4.36 years.

**Details of activity under SARs is summarised below**

| | **Year Ended 31st March, 2014** | Year Ended 31st March, 2013 |
|---|---|---|
| Outstanding at the beginning of the year | 1,523,706 | 1,457,687 |
| Granted during the year | 812,948 | 893,674 |
| Settled during the year | 854,962 | 714,321 |
| Lapsed during the year | 138,882 | 113,334 |
| Outstanding at the end of the year | 1,342,810 | 1,523,706 |

**Equity-settled options**

The Bank has granted options to employees of the Group vide various employee stock option schemes. During the year ended 31st March, 2014, the following schemes were in operation:

| | **Plan 2007** |
|---|---|
| Date of grant | Various Dates |
| Date of Board Approval | Various Dates |
| Date of Shareholder's approval | 5th July, 2007 as amended on 21st August, 2007 |
| Number of options granted | 31,458,320 |
| Method of Settlement (Cash / Equity) | Equity |
| Vesting Period | 1 – 4.31 years |
| Exercise Period | 0.17 – 1.01 years |
| Vesting Conditions | Graded / Cliff vesting |

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

| | **Year ended 31st March, 2014** | | Year ended 31st March, 2013 | |
|---|---|---|---|---|
| | **Number of Shares** | **Weighted Average Exercise Price(₹)** | Number of Shares | Weighted Average Exercise Price(₹) |
| Outstanding at the beginning of the year | 8,419,532 | 419.49 | 11,785,693 | 311.71 |
| Granted during the year | 1,141,160 | 711.19 | 2,931,550 | 588.77 |
| Forfeited during the year | 479,724 | 467.19 | 337,162 | 361.94 |
| Exercised during the year | 3,701,975 | 322.81 | 5,919,516 | 346.48 |
| Expired during the year | 25,323 | 357.56 | 41,033 | 310.88 |
| Outstanding at the end of the year | 5,353,670 | 544.55 | 8,419,532 | 419.49 |
| Out of the above exercisable at the end of the year | 308,891 | 295.25 | 959,181 | 241.72 |
| Weighted average remaining contractual life (in years) | | 1.77 | | 1.76 |
| Weighted average fair value of options granted | | 215.96 | | 211.57 |

The weighted average share price at the date of exercise for stock options exercised during the year was ₹ 710.33 (previous year ₹ 609.59).

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

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

**31st March, 2014**

| Range of exercise prices (₹) | Number of options outstanding | Weighted average remaining contractual life of options (in years) | Weighted average exercise price (₹) |
|---|---|---|---|
| 0-100 | - | - | - |
| 101-200 | 64,849 | 0.28 | 173.00 |
| 201-300 | 163,220 | 0.99 | 250.00 |
| 301-400 | 441,993 | 0.92 | 316.73 |
| 401-500 | 1,197,204 | 1.00 | 421.00 |
| 501-600 | 1,006,264 | 1.55 | 545.42 |
| 601-700 | 1,490,000 | 2.59 | 640.00 |
| 701-800 | 990,140 | 2.31 | 724.00 |

31st March, 2013

| Range of exercise prices (₹) | Number of options outstanding | Weighted average remaining contractual life of options (in years) | Weighted average exercise price (₹) |
|---|---|---|---|
| 0-100 | 5,436 | 0.75 | 5.00 |
| 101-200 | 729,788 | 0.95 | 152.27 |
| 201-300 | 348,058 | 1.49 | 250.00 |
| 301-400 | 2,558,757 | 0.87 | 325.76 |
| 401-500 | 2,006,783 | 1.59 | 421.00 |
| 501-600 | 1,240,710 | 2.20 | 545.00 |
| 601-700 | 1,530,000 | 3.59 | 640.00 |

**Stock Options granted**

The fair value of the equity-settled and cash-settled options is estimated on the date of grant using Black-Scholes options pricing model taking into account the terms and conditions upon which the options were granted. The fair value of the cash-settled options is remeasured at each Balance Sheet date. The following table lists the inputs to the model used for equity-settled and cash-settled options:

| **Year ended 31st March,** | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Equity-settled** | **Cash-settled** | Equity-settled | Cash-settled |
| Exercise Price ₹ | 550-724 | 5-724 | 350-640 | 5-640 |
| Weighted Average Share Price ₹ | 729.33 | 730.45 | 602.56 | 556.71 |
| Expected Volatility | 27.68%-31.56% | 26.05%-34.00% | 29.65%-50.51% | 18.30%-29.60% |
| Historical Volatility | 27.68%-31.56% | 26.05%-34.00% | 29.65%-50.51% | 18.30%-29.60% |
| Life of the options granted (Vesting and exercise period) in years | | | | |
| - At the grant date | 1.31-4.15 | | 1.16-4.12 | |
| - As at 31st March | | 0.08-2.76 | | 0.04-3.38 |
| Risk-free interest rate | 7.47%-8.97% | 8.61%-8.72% | 7.94%-8.43% | 7.89%-8.10% |
| Expected dividend rate | 0.10% | 0.09% | 0.09%-0.11% | 0.09% |

The expected volatility was determined based on historical volatility data and the Bank expects the volatility of its share price may reduce as it matures. The measure of volatility used in the Black-Scholes options pricing model is the annualised standard deviation of the continuously compounded rates of return on the stock over a period of time. For calculating volatility, the daily volatility of the stock prices on the National Stock Exchange, over a period prior to the date of grant, corresponding with the expected life of the options has been considered.

The above information has been prepared by the Group and relied upon by the auditors.

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

Effect of the employee share-based payment plans on the Profit and Loss Account and on the financial position:

₹ in crore

| Year ended 31st March, | 2014 | 2013 |
|---|---|---|
| Total Employee compensation cost pertaining to share-based payment plans | 72.13 | 67.62 |
| Compensation cost pertaining to equity-settled employee share-based payment plan included above | 4.69 | 9.38 |
| Liability for employee stock options outstanding as at year end | 11.15 | 24.53 |
| Deferred Compensation Cost | 2.62 | 6.99 |
| Closing balance of liability for cash-settled options | 61.94 | 53.97 |
| Expense arising from increase in intrinsic value of liability for cash stock appreciation plan | 7.89 | 9.99 |

Had the Group recorded the compensation cost computed on the basis of Fair Valuation method instead of intrinsic value method, employee compensation cost would have been higher by ₹ 33.83 crore (previous year ₹ 40.50 crore) and the profit after tax would have been lower by ₹ 22.33 crore (previous year ₹ 27.36 crore). Consequently the basic and diluted EPS would have been ₹ 31.90 (previous year ₹ 29.07) and ₹ 31.84 (previous year ₹ 28.96) respectively.

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

**11. TIER II BONDS:**

a. Lower Tier II Bonds outstanding as on 31st March, 2014 ₹ 664.80 crore (previous year ₹ 752.40 crore).

b. Upper Tier II Bonds outstanding as on 31st March, 2014 ₹ 405.62 crore (previous year ₹ 380.28 crore) of which bonds issued outside India ₹ 269.62 crore (previous year ₹ 244.28 crore).

**12.** Interest Expended-Others {Schedule 15.III} includes interest on subordinated debt (Lower and Upper Tier II) ₹ 82.61 crore (previous year ₹ 89.06 crore).

**13.** The Group charges off to the Profit and Loss Account all expenses related to acquisition costs of advances in the year in which they are incurred. KMPL, a subsidiary of the Bank, charges off such costs based on the Internal Rate of Return of a contract. On account of this difference in accounting policy, unamortised brokerage amounting to ₹ 93.86 crore (previous year ₹ 81.51 crore) is carried forward in the Balance Sheet under "Other Assets".

**14. SEGMENT REPORTING:**

The Summary of the operating segments of the Group for the year ended 31st March, 2014 are as given below.

₹ in crore

| 31st March, | 2014 | 2013 |
|---|---|---|
| **Segment Revenues:** | | |
| Treasury, Investments and BMU | 2,855.82 | 2,707.84 |
| Retail Banking | 6115.13 | 5,906.18 |
| Corporate Banking | 3,646.86 | 3,445.72 |
| Vehicle Financing | 1,768.69 | 1,569.73 |
| Other Lending Activities | 886.74 | 767.00 |
| Broking | 492.94 | 440.36 |
| Advisory and Transactional Services | 74.77 | 71.94 |
| Asset Management | 375.38 | 305.82 |
| Insurance | 3,776.76 | 3,741.27 |
| **Sub-total** | **19,993.09** | **18,955.86** |
| Add: Unallocated Income | 6.26 | 2.28 |

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

₹ in crore

| 31st March, | 2014 | 2013 |
|---|---|---|
| Less: inter-segment revenues | (2,731.06) | (3,007.87) |
| **Total Income** | **17,268.29** | **15,950.27** |
| **Segment Results:** | | |
| Treasury, Investments and BMU | 352.38 | 295.52 |
| Retail Banking | 793.35 | 613.82 |
| Corporate Banking | 1,300.65 | 1,211.48 |
| Vehicle Financing | 428.73 | 383.24 |
| Other Lending Activities | 362.30 | 305.33 |
| Broking | 92.74 | 65.58 |
| Advisory and Transactional Services | (1.79) | 3.60 |
| Asset Management | 100.00 | 64.96 |
| Insurance | 261.43 | 198.36 |
| **Sub-total** | **3,689.79** | **3,141.89** |
| Add: Unallocated Income / (Expense) | 5.71 | 2.28 |
| **Total Profit before tax, minority interest and associates** | **3,695.50** | **3,144.17** |
| **Segment Assets** | | |
| Treasury, Investments and BMU | 32,899.28 | 35,605.87 |
| Retail Banking | 61,655.43 | 52,890.05 |
| Corporate Banking | 32,025.82 | 25,296.93 |
| Vehicle Financing | 14,349.34 | 13,275.04 |
| Other Lending Activities | 6,312.55 | 5,390.92 |
| Broking | 482.10 | 389.43 |
| Advisory and Transactional Services | 32.40 | 19.87 |
| Asset Management | 1,433.72 | 1,225.74 |
| Insurance | 12,365.76 | 10,973.55 |
| **Sub-total** | **161,556.4** | **145,067.40** |
| Less: inter-segment assets | (39,576.40) | (29,498.80) |
| **Total** | **121,980.00** | **115,568.60** |
| Add: Unallocated Assets | 256.63 | 266.06 |
| **Total Assets as per Balance Sheet** | **122,236.63** | **115,834.66** |
| **Segment Liabilities** | | |
| Treasury, Investments and BMU | 30,044.63 | 33,347.96 |
| Retail Banking | 56,373.88 | 48,027.22 |
| Corporate Banking | 27,508.31 | 21,558.83 |
| Vehicle Financing | 11,189.01 | 10,625.14 |
| Other Lending Activities | 3,981.68 | 4,624.31 |
| Broking | 893.93 | 656.67 |
| Advisory and Transactional Services | 23.13 | 25.82 |
| Asset Management | 706.35 | 567.63 |
| Insurance | 11,515.63 | 10,342.46 |

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

₹ in crore

| 31st March, | 2014 | 2013 |
|---|---|---|
| **Sub-total** | **142,236.55** | **129,776.04** |
| Less: inter-segment liabilities | (39,576.40) | (29,498.80) |
| **Total** | **102,660.15** | **100,277.24** |
| Add : Unallocated liabilities | 229.59 | 98.90 |
| Add: Share Capital, Reserves and Surplus and Minority Interest | 19,346.89 | 15,458.52 |
| **Total Capital and Liabilities as per Balance Sheet** | **122,236.63** | **115,834.66** |
| **Capital Expenditure** | | |
| Treasury, Investments and BMU | 664.85 | 41.79 |
| Retail Banking | 129.46 | 100.33 |
| Corporate Banking | 14.06 | 8.29 |
| Vehicle Financing | 1.66 | 3.78 |
| Other Lending Activities | 0.44 | 0.77 |
| Broking | 18.16 | 8.82 |
| Advisory and Transactional Services | 2.58 | 1.46 |
| Asset Management | 6.12 | 5.60 |
| Insurance | 21.68 | 18.17 |
| **Total** | **859.01** | **189.01** |
| **Depreciation/ Amortisation** | | |
| Treasury, Investments and BMU | 60.81 | 59.70 |
| Retail Banking | 96.17 | 68.04 |
| Corporate Banking | 9.51 | 5.08 |
| Vehicle Financing | 2.56 | 2.61 |
| Other Lending Activities | 0.38 | 0.20 |
| Broking | 10.93 | 13.42 |
| Advisory and Transactional Services | 1.77 | 1.83 |
| Asset Management | 5.35 | 5.02 |
| Insurance | 20.38 | 23.13 |
| **Total** | **207.86** | **179.03** |

Segment information is provided as per the MIS available for internal reporting purposes, which includes certain estimates and assumptions. The methodology adopted in compiling and reporting the above information has been relied upon by the auditors.

**15. ASSETS TAKEN ON LEASE:**

(i) The Group has taken various premises and equipment under operating lease. The lease payments recognised in the Profit and Loss Account are ₹ 247.26 crore (previous year ₹ 207.78 crore).

(ii) The future minimum lease payments under non-cancelable operating lease – not later than one year is ₹ 224.72 crore (previous year ₹ 182.70 crore), later than one year but not later than five years is ₹ 878.79 crore (previous year ₹ 708.96 crore) and later than five years ₹ 454.18 crore (previous year ₹ 259.30 crore).

The lease terms include renewal option after expiry of primary lease period. There are no restrictions imposed by lease arrangements. There are escalation clauses in the lease agreements.

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

**16. ASSETS GIVEN ON LEASE:**

The lease income recognised in the Profit and Loss Account in respect of premises and equipment under operating lease is ₹ 0.04 crore (previous year ₹ 1.20 crore).

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

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

₹ in crore

| As on 31st March, | 2014 | 2013 |
|---|---|---|
| **Gross Investments:** | | |
| (i) Not later than 1 year | 91.85 | 79.46 |
| (ii) Between 1-5 years | 146.87 | 149.49 |
| **Total** | **238.72** | **228.95** |
| **Unearned Finance Income:** | | |
| (i) Not later than 1 year | 21.74 | 21.42 |
| (ii) Between 1-5 years | 20.52 | 21.97 |
| **Total** | **42.26** | **43.39** |
| **Present Value of Rentals:** | | |
| (i) Not later than 1 year | 70.11 | 58.04 |
| (ii) Between 1-5 years | 126.35 | 127.52 |
| **Total** | **196.46** | **185.56** |
| **Accumulated provision on the Gross Investments** | **1.60** | **0.17** |

**17.** The group enters into various types of derivative contracts such as interest rate swaps, cross currency interest rate swaps, foreign currency swaps, forwards, index / equity futures and options. The details of such derivatives for subsidiaries other than bank are as under:

**Derivative instrument outstanding as on 31st March, 2014**

| As on 31st March, | 2014 | 2013 | Purpose |
|---|---|---|---|
| **Particulars of Derivatives** | **Quantity** | Quantity | |
| **Futures** | | | |
| S&P CNX Nifty Futures | 20,950 | 56,750 | Trading |
| S&P CNX Nifty Futures | 1,000 | 21,800 | Hedging |
| Bank Nifty Futures | 6,925 | 650 | Trading |
| Stock Futures | 5,740,625 | 7,773,500 | Trading |
| Stock Futures | 24,000 | - | Hedging |
| Commodity Futures | 900 | 4,300 | Hedging |
| **Options** | | | |
| S&P CNX Nifty Options Long | 594,900 | 467,650 | Trading |
| S&P CNX Nifty Options Long | 150,000 | 554,950 | Hedging |
| S&P CNX Nifty Options Short | 825,200 | 616,050 | Trading |
| S&P CNX Nifty Options Short | 185,000 | 250,000 | Hedging |
| Stock Options Long | 746,000 | - | Trading |
| Stock Options Long | - | - | Hedging |
| Stock Options Short | 620,250 | 12,000 | Trading |
| Bank Nifty Options Long | 12,000 | 3,150 | Trading |
| Bank Nifty Options Short | 20,700 | 2,625 | Trading |

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

| As on 31st March, | 2014 | 2013 | Purpose |
|---|---|---|---|
| **Particulars of Derivatives** | **Amount** | Amount | |
| Currency Swaps | - | USD 20,131,291 | Hedging |
| Credit Default Swaps | USD 16,000,000 | USD 15,000,000 | Trading |
| **Forward Exchange Contracts** | | | |
| USD-INR Long | USD 11,531,509 | USD 11,500,000 | Hedging |
| USD-INR Short | - | USD 1,500,000 | Hedging |
| USD-INR Short | USD 1,239,000 | USD 1,785,000 | Trading |
| USD-INR Long | - | USD 1,933,000 | Trading |
| USD-INR Short | USD 3,006,000 | USD 1,979,000 | Trading |
| USD-SGD Long | USD 1,590,457 | - | Hedging |
| USD-SGD Short | USD 1,590,457 | - | Hedging |
| Interest Rate Swap | USD 35,000,000 | - | Hedging |
| Total Return Swap | USD 8,003,978 | - | Trading |

Unhedged forex exposure outstanding as on the Balance Sheet date

₹ in crore

| Particulars | As on 31st March, 2014 | As on 31st March, 2013 |
|---|---|---|
| Amount Receivable in foreign currency | 0.91 (USD 152,507) | 0.02 (USD 3,675) |
| | 8.58 (JPY 147,853,846) | 3.76 (JPY 65,111,776) |
| | 0.60 (GBP 60,000) | |
| Amount Payable in foreign currency | - | 0.96 (USD 175,515) |

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

₹ in crore

| Particulars | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| **Deferred Tax Assets** | | |
| Provision for non-performing and doubtful debts, standard advances and contingencies | 176.16 | 185.55 |
| Depreciation on assets | 23.74 | 33.61 |
| Unabsorbed capital losses / business losses / provision for investments | 2.64 | 0.01 |
| Unamortised Income | 0.42 | 0.77 |
| Expenditure allowed on payment basis and others | 30.74 | 66.87 |
| **Total Deferred Tax Assets** | **233.70** | **286.81** |
| **Deferred Tax Liabilities** | | |
| Deferred expenses | 31.90 | 27.71 |
| Depreciation on assets | 1.47 | 1.32 |
| Others | 6.00 | 1.75 |
| **Total Deferred Tax Liabilities** | **39.37** | **30.78** |
| **Net Deferred Tax Assets / (Liabilities)** | **194.33** | **256.03** |

In accordance with RBI communication RBI/2013-14/412 DBOD. No.BP.BC.77/21.04.018/2013-14 dated 20th December, 2013 on Deferred Tax Liability (DTL) on Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961, the Bank has reduced ₹ 31.18 crore from general reserves towards DTL on special reserves created till year ended 31st March, 2013.

Further, Tax expenses charged to the Profit and Loss Account for the year ended 31st March, 2014, includes provision for deferred tax of ₹ 9.52 crore (previous year ₹ Nil) on Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961.

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

## 19. FIXED ASSETS:

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

₹ in crore

| Particulars | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| **SOFTWARE** | | |
| **Gross Block** | | |
| At cost on 31st March of the preceding year | 261.57 | 230.83 |
| Additions during the year | 46.58 | 32.79 |
| Deductions during the year | 0.18 | 2.05 |
| **Total** | **307.97** | **261.57** |
| **Amortisation** | | |
| As on 31st March of the preceding year | 214.41 | 178.04 |
| Charge for the year | 37.41 | 38.04 |
| Deductions during the year | 0.01 | 1.67 |
| **Depreciation to date** | **251.81** | **214.41** |
| **Net Block** | **56.16** | **47.16** |
| **MEMBERSHIP CARDS OF STOCK EXCHANGE** | | |
| **Gross Block** | | |
| At cost on 31st March of the preceding year | 4.66 | 4.66 |
| **Total** | **4.66** | **4.66** |
| **Amortisation** | | |
| As on 31st March of the preceding year | 3.62 | 3.41 |
| Charge for the year | 0.20 | 0.21 |
| **Amortisation to date** | **3.82** | **3.62** |
| **Net Block** | **0.84** | **1.04** |
| **GOODWILL** | | |
| **Gross Block** | | |
| At cost on 31st March of the preceding year | 1.88 | 1.88 |
| **Total** | **1.88** | **1.88** |
| **Amortisation** | | |
| As on 31st March of the preceding year | 1.88 | 1.88 |
| Charge for the year | - | - |
| **Amortisation to date** | **1.88** | **1.88** |
| **Net Block** | **-** | **-** |
| **FOREX BROKING BUSINESS RIGHTS** | | |
| **Gross Block** | | |
| At cost on 31st March of the preceding year | 3.83 | 3.83 |
| **Total** | **3.83** | **3.83** |
| **Amortisation** | | |
| As on 31st March of the preceding year | 3.83 | 3.83 |
| Charge for the year | - | - |
| **Amortisation to date** | **3.83** | **3.83** |
| **Net Block** | **-** | **-** |

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

## 20. RELATED PARTY DISCLOSURES:

| | Nature of relationship | Name of Related Party |
|---|---|---|
| A | **Individual having significant influence over the enterprise** | Mr. Uday S. Kotak along with relatives and enterprises in which he has beneficial interest holds 43.58% of the equity share capital of Kotak Mahindra Bank Limited as on 31st March, 2014. |
| B | **Other Related Parties:** | |
| | **Associates** | ACE Derivatives and Commodity Exchange Limited<br>Infina Finance Private Limited<br>Phoenix ARC Private Limited<br>Add Albatross Properties Private Limited (till 6th March, 2014)<br>Matrix Business Services India Private Limited |
| | **Investing Party of the subsidiaries** | Old Mutual Plc.<br>Old Mutual Life Assurance Company (South Africa) Limited |
| | **Enterprises over which relatives of Key Management Personnel have control / significant influence** | Aero Agencies Limited<br>Kotak and Company Limited<br>Kotak Commodity Services Limited<br>Komaf Financial Services Limited<br>Asian Machinery & Equipment Private Limited<br>Cumulus Trading Company Private Limited<br>Palko Properties Private Limited<br>Harisiddha Trading and Finance Private Limited<br>Kotak Trustee Company Private Limited<br>Kotak Chemicals Limited<br>Kotak Ginning & Pressing Industries Limited<br>Insurekot Investments Private Limited<br>Puma Properties Private Limited |
| | **Key Management Personnel** | Mr. Uday S. Kotak – Executive Vice Chairman and Managing Director - KMBL<br>Mr. C. Jayaram - Joint Managing Director - KMBL<br>Mr. Dipak Gupta - Joint Managing Director - KMBL |
| | **Relatives of Key Management Personnel** | Ms. Pallavi Kotak<br>Mr. Suresh Kotak<br>Ms. Indira Kotak<br>Mr. Jay Kotak<br>Mr. Dhawal Kotak<br>Ms. Aarti Chandaria<br>Ms. Usha Jayaram<br>Ms. Anita Gupta<br>Ms. Urmila Gupta |

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

C. **Details of related party transactions:**

₹ in crore

| Items / Related Party | Associates | Investing Party of the subsidiaries | Enterprises over which relatives of Key Management Personnel have control / significant influence | Key Management Personnel | Relatives of Key Management Personnel |
|---|---|---|---|---|---|
| **I. Liabilities** | | | | | |
| Other Liabilities | **0.25**<br>(-) | **0.69**<br>(0.72) | **0.11**<br>(2.36) | **0.01**<br>(0.01) | |
| Deposits | **253.65**<br>(369.02) | | **70.11**<br>(127.81) | **1.47**<br>(1.11) | **1.59**<br>(1.52) |
| Interest Payable | **1.97**<br>(3.83) | | **0.58**<br>(1.30) | **0.02**<br>(0.01) | **0.01**<br>(0.01) |
| **II. Assets** | | | | | |
| Investments - Gross | **102.76**<br>(114.80) | | **#**<br>(-) | | |
| Diminution on Investments | **-**<br>(15.27) | | | | |
| Others | **3.49**<br>(1.04) | | **0.53**<br>(0.55) | | |
| **III. Expenses** | | | | | |
| Salaries / fees (Include ESOP cost)* | | | | **9.81**<br>(9.09) | |
| Others | **1.93**<br>(2.31) | | **3.56**<br>(5.03) | **0.08**<br>(0.08) | |
| Interest Paid | **37.81**<br>(47.38) | | **8.68**<br>(14.00) | **0.35**<br>(0.22) | **0.07**<br>(0.06) |
| **IV. Income** | | | | | |
| Others | **2.16**<br>(2.69) | | **2.32**<br>(3.94) | **0.02**<br>(0.03) | |
| **V. Other Transactions** | | | | | |
| Dividend paid | | | | **23.40**<br>(20.06) | **0.14**<br>(0.12) |
| Reimbursement to companies | **0.24**<br>(0.16) | | **1.25**<br>(4.05) | | |
| Reimbursement from companies | **0.74**<br>(1.07) | | **1.99**<br>(1.94) | | |
| Purchase of Fixed Assets | **0.16**<br>(0.09) | | | | |
| Guarantees / Lines of credit | **2.13**<br>(-) | | | | |

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

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

₹ in crore

| Items / Related Party | Associates | Investing Party of the subsidiary | Enterprises over which relatives of Key Management Personnel have control / significant influence | Key Management personnel | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|
| **I. Liabilities:** | | | | | | |
| **Other liabilities** | | | | | | |
| Old Mutual Life Assurance Company (South Africa) Limited | | **0.69**<br>(0.72 ) | | | | **0.69**<br>(0.72) |
| Aero Agencies Limited | | | **0.05**<br>(0.09) | | | **0.05**<br>(0.09) |
| Kotak Commodity Services Limited | | | **0.05**<br>(2.27) | | | **0.05**<br>(2.27) |
| Infina Finance Private Limited | **#**<br>(-) | | | | | **#**<br>(-) |
| Others | **0.25**<br>(-) | | **0.01**<br>(-) | **0.01**<br>(0.01) | | **0.27**<br>(0.01) |
| **II. Assets:** | | | | | | |
| **Investments** | | | | | | |
| ACE Derivatives and Commodity Exchange Limited | **45.39**<br>(42.16) | | | | | **45.39**<br>(42.16) |
| Add Albatross Properties Private Limited | **-**<br>(15.27) | | | | | **-**<br>(15.27) |
| Phoenix ARC Private Limited | **52.61**<br>(52.61) | | | | | **52.61**<br>(52.61) |
| Others | **4.76**<br>(4.76) | | **#**<br>(-) | | | **4.77**<br>(4.76) |
| **Diminution on investments** | | | | | | |
| Add Albatross Properties Private Limited | **-**<br>(15.27) | | | | | **-**<br>(15.27) |
| **Others** | | | | | | |
| Kotak Commodity Services Limited | | | **0.53**<br>(0.55) | | | **0.53**<br>(0.55) |
| ACE Derivatives and Commodity Exchange Limited | **3.38**<br>(0.35) | | | | | **3.38**<br>(0.35) |
| Infina Finance Private Limited | **0.11**<br>(0.64) | | | | | **0.11**<br>(0.64) |
| Others | **#**<br>(0.05) | | | | | **#**<br>(0.05) |

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

₹ in crore

| Items / Related Party | Associates | Investing Party of the subsidiary | Enterprises over which relatives of Key Management Personnel have control / significant influence | Key Management personnel | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|
| **III. Expenses:** | | | | | | |
| **Salaries (Includes ESOP cost)** | | | | | | |
| Mr. Uday Kotak* | | | | **2.38**<br>(2.19) | | **2.38**<br>(2.19) |
| Mr. C. Jayaram* | | | | **3.45**<br>(3.28) | | **3.45**<br>(3.28) |
| Mr. Dipak Gupta* | | | | **3.98**<br>(3.63) | | **3.98**<br>(3.63) |
| **Interest Paid** | | | | | | |
| Infina Finance Private Limited | **28.76**<br>(36.48) | | | | | **28.76**<br>(36.48) |
| Phoenix ARC Private Limited | **7.92**<br>(8.78) | | | | | **7.92**<br>(8.78) |
| Kotak Commodity Services Limited | | | **7.89**<br>(12.69) | | | **7.89**<br>(12.69) |
| Others | **1.12**<br>(2.12) | | **0.80**<br>(1.31) | **0.35**<br>(0.22) | **0.07**<br>(0.06) | **2.34**<br>(3.71) |
| **Others** | | | | | | |
| Aero Agencies Limited | | | **3.18**<br>(4.61) | | | **3.18**<br>(4.61) |
| Kotak and Company Limited | | | **0.39**<br>(0.40) | | | **0.39**<br>(0.40) |
| Matrix Business Services India Private Limited | **1.93**<br>(2.21) | | | | | **1.93**<br>(2.21) |
| Others | **-**<br>(0.10) | | **-**<br>(0.01) | **0.08**<br>(0.08) | | **0.08**<br>(0.19) |
| **IV. Income:** | | | | | | |
| **Others** | | | | | | |
| **Fee Income** | | | | | | |
| ACE Derivatives and Commodity Exchange Limited | **0.31**<br>(-) | | | | | **0.31**<br>(-) |
| Kotak Commodity Services Limited | | | **2.32**<br>(3.91) | | | **2.32**<br>(3.91) |
| Others | **-**<br>(#) | | **#**<br>(#) | | | **#**<br>(#) |
| **Premium Income** | | | | | | |
| Phoenix ARC Private Limited | **#**<br>(0.01) | | | | | **#**<br>(0.01) |
| Kotak Commodity Services Limited | | | **#**<br>(0.01) | | | **#**<br>(0.01) |
| Others | | | | **0.01**<br>(0.01) | | **0.01**<br>(0.01) |

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

₹ in crore

| Items / Related Party | Associates | Investing Party of the subsidiary | Enterprises over which relatives of Key Management Personnel have control / significant influence | Key Management personnel | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|
| **Brokerage Income** | | | | | | |
| Infina Finance Private Limited | **1.85** (2.68) | | | | | **1.85** (2.68) |
| Others | | | **-** (0.01) | **0.01** (0.02) | | **0.01** (0.03) |
| **V. Other Transactions:** | | | | | | |
| **Dividend Paid** | | | | | | |
| Mr. Uday Kotak | | | | **23.32** (19.99) | | **23.32** (19.99) |
| Mr. C Jayaram | | | | **0.04** (0.03) | | **0.04** (0.03) |
| Mr. Dipak Gupta | | | | **0.04** (0.04) | | **0.04** (0.04) |
| Ms. Pallavi Kotak | | | | | **0.04** (0.03) | **0.04** (0.03) |
| Ms. Indira Kotak | | | | | **0.08** (0.07) | **0.08** (0.07) |
| Others | | | | | **0.01** (0.01) | **0.01** (0.01) |
| **Reimbursements made** | | | | | | |
| Infina Finance Private Limited | **0.02** (0.02) | | | | | **0.02** (0.02) |
| Kotak Commodity Services Limited | | | **1.25** (4.05) | | | **1.25** (4.05) |
| Others | **0.21** (0.14) | | | | | **0.21** (0.14) |
| **Reimbursements received** | | | | | | |
| Kotak Commodity Services Limited | | | **1.99** (1.94) | | | **1.99** (1.94) |
| ACE Derivatives and Commodity Exchange Limited | **0.57** (0.93) | | | | | **0.57** (0.93) |
| Others | **0.17** (0.15) | | | | | **0.17** (0.15) |
| **Purchase of Fixed Assets** | | | | | | |
| ACE Derivatives and Commodity Exchange Limited | **0.16** (0.09) | | | | | **0.16** (0.09) |

** includes incentive paid during the year*

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

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

**E. Maximum balance outstanding**

₹ in crore

| Items/Related Party | Associates | Investing Party of the Subsidiary | Enterprise over which relative of Key Management Personnel have control/ significant influence | Key Management Personnel | Relatives of Key Management Personnel |
|---|---|---|---|---|---|
| **I. Liabilities** | | | | | |
| Deposits | 648.61 | | 167.54 | 20.62 | 9.99 |
| | (3,500.68) | | (257.83) | (17.88) | (2.28) |
| Other Liabilities | 0.25 | 0.72 | 2.36 | 0.01 | |
| | (0.33) | (0.83) | (2.36) | (0.01) | |
| **II. Assets** | | | | | |
| Investments-Gross | 114.80 | | | | |
| | (114.80) | | | | |
| Diminution on Investments | 15.27 | | | | |
| | (15.27) | | | | |
| Others | 1.32 | | 0.55 | | |
| | (1.04) | | (0.55) | | |

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

**21.** In April 2013, the Bank allotted 2 crore equity shares of ₹ 5 each at a premium of ₹ 643 per equity share for a total consideration of ₹ 1,296 crore on preferential basis to Heliconia Pte Ltd., a private company limited by shares incorporated and existing under the laws of Singapore, an affiliate of Government of Singapore Investment Corporation Pte Ltd. The net issue expenses of ₹ 0.14 crore related to the aforesaid issue have been charged to the Securities Premium Account as allowed under Section 78 of the Companies Act, 1956. The above expenses include ₹ 0.03 crore paid to the auditors in connection with the issue.

**22.** Figures for the previous year have been regrouped / reclassified wherever necessary to conform to current year's presentation.

For and on behalf of the Board of Directors

**Dr. Shankar Acharya**
Chairman

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

**Dipak Gupta**
Joint Managing Director

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

**Bina Chandarana**
Company Secretary

Mumbai, 30th April, 2014

# Financial Information of Subsidiaries for the year ended 31st March, 2014

₹ in crore

| Particulars | Kotak Mahindra Prime Limited | Kotak Securities Limited | Kotak Mahindra Capital Company Limited | Kotak Mahindra Old Mutual Life Insurance Limited | Kotak Mahindra Investments Limited | Kotak Mahindra Asset Management Company Limited | Kotak Mahindra Trustee Company Limited | Kotak Mahindra (International) Limited | Kotak Mahindra (UK) Limited | Kotak Mahindra, Inc. | Global Investment opportunities Fund Limited | Kotak Investment Advisors Limited | Kotak Mahindra Trusteeship Services Limited | Kotak Forex Brokerage Limited | Kotak Mahindra Pension Fund Ltd | Kotak Mahindra Financial Services Ltd |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital | 3.50 | 1.60 | 3.44 | 510.29 | 3.96 | 19.80 | 0.05 | 16.16 | 7.01 | 0.07 | # | 4.59 | 0.05 | 4.10 | 28.00 | 8.45 |
| Reserves | 2,839.24 | 2,092.84 | 399.36 | 531.51 | 431.93 | 58.37 | 47.88 | 288.05 | 82.08 | 16.06 | # | 235.65 | 5.98 | (3.77) | (2.49) | (7.77) |
| Total Networth | 2,842.74 | 2,094.44 | 402.80 | 1,041.80 | 435.89 | 78.17 | 47.93 | 304.21 | 89.09 | 16.13 | # | 240.24 | 6.03 | 0.33 | 25.51 | 0.68 |
| Total Assets | 19,307.97 | 3,070.34 | 420.73 | 12,554.27 | 1,735.76 | 117.57 | 48.22 | 674.29 | 394.34 | 17.76 | # | 246.66 | 6.43 | 1.33 | 25.97 | 4.96 |
| Total Liabilites | 16,465.24 | 975.90 | 17.93 | 11,512.47 | 1,299.87 | 39.40 | 0.29 | 370.08 | 305.25 | 1.63 | - | 6.42 | 0.40 | 1.00 | 0.46 | 4.29 |
| Investments (excluding investment in subsidiaries) | 759.06 | 364.20 | 90.75 | 11,639.57 | 97.61 | 10.00 | 45.71 | 529.14 | - | 4.06 | - | 161.75 | - | # | 25.42 | - |
| Turnover | 2,524.59 | 626.88 | 84.88 | 3,775.48 | 155.17 | 166.16 | 10.85 | 58.78 | 57.33 | 8.69 | - | 82.65 | 3.68 | 0.62 | 1.27 | 9.68 |
| Profit before taxation | 751.66 | 234.27 | 17.60 | 261.40 | 64.40 | 49.56 | 10.16 | 42.52 | (22.60) | (6.24) | - | 25.27 | 1.49 | (0.08) | (0.17) | (3.11) |
| Provision for taxation | 260.49 | 74.10 | 3.38 | 22.27 | 22.34 | (16.17) | 3.18 | 3.19 | 0.44 | 0.05 | - | 7.90 | 0.42 | - | - | - |
| Profit after taxation | 491.17 | 160.17 | 14.22 | 239.13 | 42.05 | 33.39 | 6.97 | 39.32 | (23.04) | (6.29) | - | 17.36 | 1.07 | (0.08) | (0.17) | (3.11) |
| Proposed Dividend (Equity) | Nil | Nil | Nil | Nil | Nil | 4.95 | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |

(1) Total liabilities include current liabilities and provision and exclude capital and reserves.

(2) Turnover is the total income reported by each of the entities in their financial statements.

(3) Investments include investments and stock-in-trade reported by the above entities and also include investments held to cover policy holders' liabilities and unit linked liabilities.

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

(5) The figures in respect of Kotak Mahindra, Inc., Kotak Mahindra (UK) Limited, Kotak Mahindra (International) Limited, Global Investment opportunities Fund Limited and Kotak Mahindra Financial Services Limited are based on the accounts prepared under Indian Accounting Standards.

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

**Dr. Shankar Acharya**
Chairman

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

**Dipak Gupta**
Joint Managing Director

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

**Bina Chandarana**
Company Secretary

Mumbai, 30th April, 2014

# Basel III (Pillar 3) Disclosures (Consolidated) as at 31st March, 2014

In accordance with RBI circular DBOD.No.BP.BC.2/21.06.201/2013-14 dated 1st July, 2013, banks are required to make half yearly Pillar 3 disclosures under Basel III capital requirements with effect from 30th September, 2013.

The Bank has made these disclosures which are available on its website at the following link: http://ir.kotak.com/downloads/pdf/pillar3_disclosures_mar_14.pdf.

The disclosures have not been subjected to review by the statutory auditors of the Bank.

# DIRECTORS' REPORT

To the Members of

**KOTAK MAHINDRA BANK LIMITED**

The Directors present their Twenty Ninth Annual Report together with the audited accounts of your Bank for the year ended 31st March 2014.

## FINANCIAL HIGHLIGHTS

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

| | **31st March 2014 ₹ crore** | 31st March 2013 ₹ crore |
|---|---|---|
| Total income | **17,268.29** | 15,950.27 |
| Total expenditure, excluding provisions and contingencies | **13,263.82** | 12,622.93 |
| Operating Profit | **4,004.47** | 3,327.34 |
| Provisions and contingencies, excluding provision for tax | **308.97** | 183.18 |
| Profit before tax | **3,695.50** | 3,144.16 |
| Provision for taxes | **1,183.96** | 939.95 |
| Profit after tax | **2,511.54** | 2,204.21 |
| Less: Share of minority interest | **62.17** | 49.33 |
| Add: Share in profit of Associates | **15.62** | 33.58 |
| Consolidated profit for the Group | **2,464.99** | 2,188.46 |
| Earnings per Equity Share: | | |
| Basic (₹) | **32.19** | 29.44 |
| Diluted (₹) | **32.14** | 29.33 |

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

| | **31st March 2014 ₹ crore** | 31st March 2013 ₹ crore |
|---|---|---|
| Total Income | **10,166.83** | 9,203.16 |
| Total expenditure, excluding provisions and contingencies | **7,589.68** | 7,046.55 |
| Operating Profit | **2,577.15** | 2,156.61 |
| Provisions and contingencies, excluding tax provisions | **304.70** | 184.55 |
| Profit before tax | **2,272.45** | 1,972.06 |
| Provision for taxes | **769.93** | 611.34 |
| Profit after tax | **1,502.52** | 1,360.72 |
| Add: Surplus brought forward from the previous year | **3,016.60** | 2,162.79 |
| Amount available for appropriation | **4,519.12** | 3,523.51 |
| Appropriations: | | |
| Statutory Reserve under Section 17 of the Banking Regulation Act, 1949 | **375.63** | 340.18 |
| General Reserve | **75.13** | 68.04 |
| Transfer to / (from) Investment Reserve Account | **(41.10)** | 10.52 |
| Transfer to Capital Reserve | **0.40** | 0.00 |
| Transfer to Special Reserve | **32.00** | 28.50 |
| Proposed Dividend | **63.08** | 52.38 |
| Corporate Dividend Tax | **8.69** | 7.29 |
| Surplus carried to Balance Sheet | **4,005.29** | 3,016.60 |

## DIVIDEND

Your Directors are pleased to recommend a dividend of ₹ 0.80 per equity share (previous year ₹ 0.70 per equity share), entailing a payout of ₹ 71.77 crore including dividend distribution tax (previous year ₹ 59.67 crore). The dividend would be paid to all the shareholders, whose names appear on the Register of Members/Beneficial Holders list on the Book Closure date.

## CAPITAL

Pursuant to the approval granted by the Members at an Extraordinary General Meeting held on 9th May 2013 and receipt of other necessary approvals, in May 2013 your Bank allotted 2,00,00,000 equity shares of ₹5 each to Caladium Investment Pte Ltd. (earlier known as Heliconia Pte Ltd.), an affiliate of Government of Singapore Investment Corporation Pte Ltd. (GIC) on preferential basis at a price per equity share of ₹648 for a total consideration of ₹1296 crore.

During the year, your Bank has allotted 37,01,975 equity shares arising out of the exercise of Employees Stock Options granted to the employees and whole-time directors of your Bank and its subsidiaries.

Post allotment of equity shares as aforesaid, the issued, subscribed and paid-up share capital of your Bank stands at ₹ 3,85,15,55,005 comprising of 77,03,11,001 equity shares of ₹ 5 each as on 31st March 2014.

Your Bank is well capitalised and has a Capital Adequacy Ratio ('CAR') under Basel III as at 31st March 2014 of 18.8% with Tier I being 17.8%. At a consolidated level the CAR was 18.9% under Basel III.

During the year, your Bank has not issued any capital under Tier II. As on 31st March 2014, outstanding Unsecured, Redeemable Non-Convertible, Subordinated Debt Bonds were ₹ 482 crore and outstanding Unsecured, Non-Convertible, Redeemable Debt Capital Instruments Upper Tier II stood at ₹ 405.62 crore.

## OPERATIONS

### *Consumer Banking*

Your Bank continued to expand its footprint across India and as at 31st March 2014 had 605 branches and 1103 ATMs, covering 354 locations. Of the 168 new branches commissioned this year, 94 were in rural and semi-urban locations. Your Bank added over six hundred twenty thousand new customers this year across core banking products of savings and checking accounts, term deposits, overdrafts and non-resident accounts.

Your Bank rolled out several initiatives aimed at offering a superior and differentiated customer experience. Some key ones are:

Products & Services

- Your Bank launched a new savings bank proposition for minors called "Kotak Junior". Under the proposition, the child gets a personalized Junior Card and there is a regular investment from her account towards Recurring Deposit /Systematic Investment Plan for her future goals. There is a mandatory linked account of the Guardian who can opt for convenience of a standing instruction for automatic transfer of fund from his account to the minor's account.
- Your Bank has launched the Recurring Deposit product which completes the suite of deposit offerings. This product offers a systematic savings avenue to help build corpus for achieving short/ medium term goals.
- A new platform, "JIFI", was launched to enable banking on social networking sites including Facebook and Twitter. The platform enables "digital natives" to open accounts and transact payments on social networking sites that they are familiar and comfortable with. The account gives the customer loyalty points for his social as well as transactional behavior which can be redeemed for gift & discount vouchers from popular online shopping sites. This account also offers a feature packed Debit Card.
- Your Bank has introduced differentiated cards with additional features. These include the Infinite Debit Card, a top end Visa product for Wealth customers, Signature Debit Card for Privy Optima customers and a Multi-Currency Travel Card – a prepaid card that can be used globally. As per RBI mandate, your Bank completed the launch of Chip Debit Cards successfully. We were among the few banks to offer chip cards on all debit card variants and also issue chip cards as default cards to select segment of customers.
- Third Currency Chest in Ahmedabad - Your Bank has set up its third Currency Chest in Ahmedabad in February 2014. This unit will facilitate effective cash management services in Ahmedabad and parts of Gujarat.

Business Lines

a) Non Resident Business

Your Bank continues to deliver innovative products and services in its endeavor to become a preferred banker amongst the NRI community globally. Some of the key initiatives taken this year are:

1. Launch of NRI Tax Saver TD & FCNR (B) Deposit in Singapore Dollars (SGD).
2. Launched of attractive high-yielding structures against FCNR (B) deposits

3. Launch of Max Yield NRO Term Deposit to enable NRI customers residing in select countries to avail lower TDS benefit under the Double Taxation Avoidance Agreement (DTAA), between India and the overseas country.

4. Click2Remit service compliant with the regulatory requirement under Section 1073 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of United States effective 28th October 2013.

5. Launched of 'Missed Call' & 'SMS to call' service for NRI customers.

6. Introduction of a toll-free service for NRI customers in 5 additional geographies: UK, Canada, Singapore, Australia and Hong Kong.

7. Entered into an agreement with Overseas Chinese Banking Corporation (OCBC, Singapore) facilitating NRIs and PIOs to open Bank accounts with your Bank in India.

8. Tied up with Al Zamil exchange house, Saudi Arabia for NRI customer referrals. This alliance has been initiated to facilitate the existing customers of the exchange house.

9. As a platform to reach out to the overseas Indian community and global business partners, your Bank participated in various international business forums such as Pravasi Bhartiya Diwas (PBD)-2014, Regional PBD, Sydney, AIA Diwali Mela – New York, TIE Conference – California, Dilwale Dilliwale (One of the biggest Indian community event in Canada)– Toronto.

b) Priority Banking Business

Privy League, the program for the affluent and mass affluent customer segment, now services approximately 1.25 lakh households and businesses. Your Bank strengthened the Privy League proposition by launching 'Smart Home', an exclusive offering for program customers. A premium call back service KPRIVY, was launched which enhanced the service delivery for the program customers. The Priority Banking business piloted sourcing new accounts on a Tablet, which offers clients a quick & paperless account opening experience.

c) Consumer Assets Business

Your Bank has continued to grow the product lines under the Consumer Assets business.

Credit Card: Your Bank's credit card business has issued 4.33 lac cards by March 2014 and is in its sixth year of operations. The premium range of our products – VISA Signature and VISA Platinum have driven the spends growth in the portfolio and it contributes to 57% of spends, while accounting for 30% of customer base. The Credit card business has clocked total spends of ₹2437 crore for the year at 59% growth Y-o-Y with a book size of ₹488.3 crore. As per RBI data on electronic payments released for November 2013, total credit card spends for the industry has grown by 25% for April to November 2013 period over last year.

Salaried Personal Loan: Your Bank's Salaried Personal Loan business offers salaried individuals personal loans with a tenure of upto 60 months. It has disbursed loans of ₹390 crore in FY 2013-14 in its 3rd year of operations. This year the business has grown by 56% with a SOH of ₹ 510 crore as of March 2014. The total customer base stands at 11000 customers.

Home Finance: Home Finance business has shown a decent growth during the year with strong demand from both Tier I and Tier II cities despite a highly volatile market. Capitalizing on Cross Sell Opportunities through bank branches and continued focus on Self Employed segment led to a sustained growth during the year. The year witnessed very low losses on account of efficient and effective recovery and collection processes and policies adopted.

d) Business Banking Assets (BBA): Your Bank through its BBA division offers secured and unsecured Business loans, Loans against Property & Working Capital Finance to self-employed professionals / non-professionals and Small Enterprises. The growth in your Bank's BBA business was robust during the financial year ended 31st March 2014 with its book growing by 20.7%. Your Bank continues to maintain its best in class portfolio quality through it effective and efficient risk management and recovery policies and practices. Capitalizing on the retail branch network your Bank managed to expand its product offering in over 300 Branches.

***Wholesale Banking***

Your Bank consolidated its franchise across customer segments by focusing towards serving customised requirements through an array of financial products and services driven through best-in-class technology platforms.

Your Bank also continued to work towards ensuring a healthy portfolio through a volatile economic as well as a tough credit scenario in the last financial year. The financial year saw a stable demand on credit growth.

Over the past year, the Transaction Banking Group has focussed on reinforcing your Bank as the Best Domestic Bank in this area. Driven by innovation, leveraged on robust technology and specialized product solutions, your Bank has been able to consistently add value to transaction banking clients across Cash Management & Trade Services. This has helped clients achieve optimized working capital & liquidity management benchmarks. Conscious competition benchmarking, highly evolved process and product parameters, continuous client feedback & customized solutions have enabled your Bank to cater to the needs of ever-changing industry landscape. Your Bank has introduced the following key initiatives to serve customers better:

- Service Hubs: To move the trade services closer to the customers, your Bank has set up service hubs in trade centric locations – Tirupur, Rajkot, Jodhpur, Indore, Faridabad, Kanpur and Ludhiana. This has helped reducing the processing time of export and import transactions.

- Global Bulk Payment Solution: Your Bank has launched a convenient way of handling multiple payments of repetitive nature with less paper work and better operational control through its Global Bulk Payment Solution platform. This facility enables customers to upload files containing the details of several cross-border payments (in USD) to be remitted to various recipients across the globe, thereby eliminating the transaction level paper work and reducing the overall cost for customers.
- Multiple Currency EEFC & SFC accounts: To help export– import customers manage the FX flows in a more efficient manner, your Bank has started operations in currencies such as Swedish Kroner (SEK), Hong Kong Dollar (HKD), South African Rand (ZAR) and Danish Kroner (DKK). Thus, the total number of currencies handled by your Bank has increased to 13.
- Tax Payment: Your Bank offers a 'Comprehensive Statutory Payment Solution' to its Customer via direct integration with Tax authorities, payment aggregators and various partner banks. Your Bank has developed a Government Business Module (GBM) for its customers to process payment of Direct (CBDT) / Indirect Taxes (CBEC) through Net Banking and Branch channel. Currently, your Bank has been empanelled as Agency Bank for collecting tax for a) Delhi VAT & CST, Gujarat VAT & CST, b) Andhra Pradesh all Commercials taxes, c) Punjab VAT & CST, d) Bihar VAT & CST and e) Odisha VAT & CST.

Your Bank's in-depth understanding of client requirements and ability to deliver tailored solutions in both Trade & Cash Management businesses has been acknowledged by industry's leading agencies. Your Bank has been adjudged the "Best Domestic Trade Bank in India" by Trade & Forfaiting Review and "Best Local Cash Management Bank in India" by Asiamoney (the Asiamoney awards are based on scores formed from a corporate survey conducted by Asiamoney (turnover less than or equal to USD 100 mn). These awards stand testimony to your Bank's focussed approach towards Transaction Banking and Client Centric solutions.

***Commercial Banking***

Commercial Vehicles & Construction Equipment

The Commercial Vehicles (CV) and Construction Equipment (CE) sectors have witnessed continued slow down since 2011-12 which persisted this year. This is the longest period of cyclical slow down ever witnessed in the CV sector. CV sales, across segments dropped on a reduced base. The CE sector witnessed lower off take, elongated payment cycles and the drop in the investment rate hit the sector hard. In the light of these factors, your Bank's strategy was to sharply focus on receivables management during the year. Indications are that the CV sector may have bottomed out as indicated by the slight improvement in freight rates in Q4 and operator confidence improving. On a macro level, the GDP growth in 2014-15 is expected to be better than the previous year. Given this, the CV sector is expected to grow (with a lag) towards the latter half of 2014-15. Emphasis on infrastructure growth and project clearances should pave the way for a revival in the CE sector as well. Your Bank is positioned to accelerate growth in these segments should a sustainable turnaround be seen.

Agri Business

Some of the salient developments in the Agri Business are as follows:

- Direct customer lending through retail agri loans portfolio has increased 39% Y-o-Y indicating the continuing robustness in the Agri sector.
- The Agri Business reached a presence in 100 locations that cover over 300 districts in 17 states.
- The Corporate Agri team exclusively handled their first Inter Bank Participation Certificate transaction of Priority sector qualifying SME loans amounting to ₹99.7 crore from Citi Bank. They also handled the first exclusively managed inward remittance from an International Equity fund for a stake buy of ₹ 92 crore in their MFI client.
- The newly started small ticket business loans focussed on micro SME clients in small towns has crossed 400 contracts with nil delinquency.
- The new specialised Agriculture Financing branches were opened in the 4 metros of Navi Mumbai, Jaipur, Chennai & Hyderabad in the APMC markets. 3 of the branches were inaugurated by the Executive Director/Regional Directors of Reserve Bank of India (RBI) indicating their significance to the Financial Inclusion mandate of the RBI.
- The Agri business also had a significant focus on liability products in the liability branches run by the Agri team.

Emerging Corporate Group

- The Emerging Corporate Group expanded to new locations to partner with SMEs, and launched knowledge forums and engagement initiatives with promoters of SMEs.
- The group participates in India's growth by partnering some of the best small and medium enterprises (SMEs).

***Asset Reconstruction***

The retail recoveries of credit card, business loans, personal and mortgage loans have been robust with respect to the portfolios purchased from other banks and NBFCs. The recoveries were further enhanced due to CIBIL reporting and scoring of borrower rating by the retail credit rating agencies. The corporate recoveries continue to be challenging with the economy being sluggish and the exit from few large accounts expected to happen through the sale of assets.

Your Bank is expecting several special situation opportunities in the coming financial year and it will be in a position to invest in such opportunities, in the coming years.

***Treasury***

Your Bank's treasury actively contributes to your Bank by way of:

- Proprietary Trading: The various proprietary trading desks actively trade in products such as Fixed Income, Money Markets, Derivatives, Foreign Exchange and Bullion.
- Customer Transactions:
    - o Facilitating access to foreign currency markets through cash & derivatives products and providing fine market rates to clients for remittance and trade transactions.
    - o Client solutions - standardised and structured, pertaining to Debt Capital Markets including Syndication of Loans, Bonds, Mezzanine financing, Promoter funding and acquisition financing and Securitisation.
- Balance sheet Management: The Balance Sheet Management Unit (BMU) manages the Asset Liability mismatches, Interest rate & Liquidity gaps and implementation of Funds Transfer Pricing between various business units. The Correspondent Banking Division within treasury actively builds on relationships with offshore banks towards improving quality and international reach for its customers.

RBI vide circular DBOD.BP.BC.No.41/21.04.141/2013-14 dated 23rd August 2013 on "Investment portfolio of banks - Classification, Valuation and Provisioning", as a one-time measure permitted banks to transfer SLR securities from Available For Sale (AFS)/Held For Trading (HFT) category to Held To Maturity (HTM) category at valuation rates prevailing on 15th July 2013, provided the transfer happened before 30th September, 2013. Your Bank has not transferred any SLR security from AFS/HFT category to HTM category. The Bank's SLR securities in HTM category as at 31st March 2014 were 11.43% of net demand and time liabilities (NDTL). As permitted under the same circular, your Bank has opted to distribute the net depreciation on the AFS and HFT portfolios over the last three quarters during the financial year 2013-2014. Accordingly, your Bank has recognised ₹ 175.08 crore in the Profit and Loss Account for the year ended 31st March 2014 respectively.

***Human Resources***

Your Bank has continued its investment in its Human Capital. The talent management programme has become an integral part of overall performance management process in the Bank. Your Bank believes in driving businesses through its core values. Through organizational values and talent management process we aim to provide long term, sustained and meaningful career to employees across the organization. Our talent management philosophy not only caters to the needs of the top talent but also recognises the handholding and specific support or development that is required by talent all across the Bank.

The Kotak Probationary officer (KPO) programme has now been established as a sustainable source of quality resources who have been pre-trained to become specialist bankers with managerial skills. The KPO programme will help us meet our staffing needs in a regular and timely manner.

As we grow and evolve further as an organization, leadership development remains a key focus area in our organizational learning initiative. Areas like managing and developing teams, self-development, service delivery and strategy were some other areas wherein we continued our investment. We also recognise that functional training is key to equip employees with strong domain knowledge and your Bank has continued in its focus and commitment towards developing strong functional competencies in its employees.

Your Bank has a robust e-learning platform and employees of all divisions get their basic training imparted through this platform and benefit from the same. This year your Bank introduced mandatory annual e-learning certifications starting with *"Anti-Money Laundering and Know your Customer Norms"* for all consumer bank employees with a focus to ensure employee alertness and awareness in the changing environment.

Engaging employees in knowledge development, *K Factor*, the 6th Annual Consumer Bank quiz was held and got participation from 5000 employees, an increase of 15% over the last year.

***Technology***

This year, your Bank had a major focus in the area of digitization. An upgraded Mobile Banking platform was launched which received much customer appreciation. Its capability extends across the gamut of banking including payments, credit cards, depository and investment functions.

Your Bank's website was upgraded providing esthetically designed screens and ease of navigation. New banking functions were added to provide a wider range of self service options especially in the area of fixed deposits and bill payments. Your Bank has tied up with IRCTC to allow customers to book train tickets using Kotak net banking. An online fully automated platform has been launched for personal loans whereby the customer can apply for a loan, get to know eligibility, as well as get in principle approval based on his data.

Simultaneously, security on the internet was emphasized with improved password generation mechanisms. We have also added the digital signature facility to the Bank's eStatements. With the launch of a new alert system it is now possible for us to send alerts to customers in real time on their transactions both on ATM and POS terminals. These initiatives enhance the security and authenticity of our proposition.

In our endeavor to enhance our customer's banking experience we have launched kiosk banking, which is a self- service banking terminal that can fulfill non-cash banking requirements such as printing account statements, requests for cheque books, transfer of funds, information on products and so on. We have also enhanced our multi lingual interactive voice recognition capability in telephone banking to include 4 regional languages, namely Hindi, Marathi, Gujarati and Tamil.

Your Bank has introduced a Visa Intellilink Reporting System which gives corporate clients the ability to access and control spends on their corporate cards.

Your Bank also started initiatives in the area of analytics to better understand customer preferences and needs. A world class system, Unica from IBM, was implemented and leveraged to launch several customer campaigns for cross sell and targeted product offers.

Governance and Control was an area of concentration, with systems being deployed for bank-wide credit management, automated concurrent audits, budgeting and regulatory reporting. Your Bank deployed a best in class risk control and aggregation system called GLEMS from Tata Consultancy Services Limited which enables it to evaluate customer risk better and gives a single view of the entire customer relationship with all associated parameters across the lending businesses of the Kotak group.

***Service Quality***

- The Banking Codes and Standard Board of India along with CRISIL surveyed and rated 48 banks for the first time on different aspects such as Information Dissemination, Transparency, Customer Centricity, Grievance Redressal and Customer Feedback. Your Bank has been assigned high rating with a total score of 85, ranking second among the 19 private sector banks and third among all banks on level of compliance.
- Your Bank has obtained the ISO 10002:2004 Certification for Complaints Management in the Consumer Bank for the third year in a row. Your Bank is only the second bank and fourth organization in India to achieve this certification.
- Your Bank is one of very few in India, that uses Twitter as a customer support channel, with over 85% of our tweets being replies to customers. Your Bank is the first bank in the country to reach the milestone of 1 lac followers on Twitter.

## SUBSIDIARIES

Your Bank's subsidiaries are established players in the different areas of financial services, viz. car finance, investment banking, stock broking, asset management and life insurance.

The overall macro-economic environment for the Indian economy in FY 2014 continued to stay on a relatively weak footing, even though some improvements were seen with respect to the twin deficit problems – both the fiscal and the current account. The financial markets witnessed turbulence in the early part of the year, mostly as a reaction to the talks of the Quantitative Easing ('QE') withdrawal by the US Federal reserve, leading to some sharp depreciation pressures on the INR and also a sharp increase in the government security yields. On the other hand, the economy continued to witness relatively high inflation levels, mainly on account of higher food prices. After being in a narrow range in the early part of the financial year, USD/INR witnessed significant depreciation pressure from around mid-May as the US Fed announced its intention to scale back its bond purchases. INR depreciated sharply between 23rd May 2013 (quoting at 55.58/USD) to the highs of 68.83/USD on 28th August 2013. The equity markets were volatile in FY 2014 due to shift of investor preference towards debt, commodities and realty. The subsidiaries continued focus on cost control, maintaining market share and containing credit losses.

Kotak Mahindra Prime Limited, the car finance company continued to focus on cost control and containing credit losses, while improving its positioning in the car finance market by scaling up the business.

Kotak Securities Limited, the stock broking company continued to face challenges due to shift in mix from the cash segment towards low-yielding derivative segment with cash segment being less than 10% of the total traded market volumes. The broking industry faces over capacity causing pressure on realization rates.

Kotak Mahindra Capital Company Limited successfully completed 17 marquee transactions across various product formats, including FPO of Power Grid Corporation of India Limited and Engineers India Limited that hit the Indian capital markets in FY 2014.

Average Assets under management (AAUM) of Kotak Mahindra Asset Management Company increased by 14.19%, higher than the industry growth of 12.83%.

Kotak Mahindra Old Mutual Life Insurance Limited continued to adjust to the changes in industry and environment and further improved its distribution strength. The Company continues to demonstrate consistent growth in a challenging and competitive environment.

The overall profitability of the International subsidiaries improved during the year owing to robust revenues from asset management, proprietary investments and advisory income.

During the year, a new subsidiary of the Bank viz. Kotak Mahindra Asset Management (Singapore) Pte. Ltd. was incorporated in Singapore with the principal objective of carrying on asset management activity out of Singapore for International investors.

The various activities of the subsidiaries are outlined in the Management Discussion and Analysis section appended to this Report.

In terms of the general exemption granted by the Central Government vide its General Circular No.2/2011 dated 8th February 2011 under Section 212(8) of the Companies Act, 1956, Annual Report which consists of the financial statements of your Bank on standalone basis as well as consolidated financial statements of the group for the year ended 31st March 2014, has been sent to all the members of your Bank. It does not contain Annual Reports of your Bank's subsidiary companies. Your Bank will make available full Annual Report (including the Annual Reports of all subsidiaries) upon request by any member of your Bank. These Annual Reports will be available on your Bank's website viz. URL : http://ir.kotak.com/annual-reports and will also be available for inspection by any member at the Registered Office of your Bank.

## EMPLOYEE STOCK OPTION SCHEME

The stock options granted to the employees currently operate under Kotak Mahindra Equity Option Scheme 2007 (**"Scheme 2007"**). The disclosures below are in respect of the year ended 31st March 2014.

| | |
|---|---|
| Options granted during the year | Series 40 - 10,07,160 options<br>Series 41 - 60,000 options<br>Series 42 - 24,000 options<br>Series 43 - 50,000 options |
| Pricing Formula | The Exercise Price shall be a price, as may be determined by the Board / ESOP / Compensation Committee, equivalent to or discounted up to 50% of the 'Average Market Price'. The 'Average Market Price' for this purpose would mean the average of the closing price of Equity Shares of your Bank, during two weeks period prior to the date of the meeting of Board/ESOP/Compensation Committee at which 'Plan Series' under the Scheme is approved, on the Stock Exchange, where there was highest trading volume during the said two week period, on which the Equity Shares of your Bank are listed.<br>'Plan Series' means a documented plan framed by Board / ESOP / Compensation Committee for each tranche of grant of Options, to all Eligible Employees, at a specific Exercise Price (which is determined by the Board / ESOP / Compensation Committee for the purpose of that particular Plan Series) and other terms and conditions as mentioned in that Plan Series.<br>The Board / ESOP / Compensation Committee under special circumstances decides that the Exercise Price shall be ₹ 5 per share. In such cases, the immediately succeeding Directors' Report / Corporate Governance Report shall carry details of the same. |
| Options in force at the beginning of the year | 84,19,532 options |
| Options Vested during the year | 31,38,334 options |
| Options exercised during the year | 37,01,975 options |
| Total number of shares arising as a result of exercise of options | 37,01,975 equity shares of ₹ 5 each |
| Options lapsed | 5,05,047 options |
| Options granted during the year | 11,41,160 options |
| Variation of terms of options | No variations made in the terms of the options granted under Scheme 2007. |
| Money realized by exercise of options | Exercise amount received: ₹ 119,50,19,464.50 |
| Total number of options in force | Outstanding options – 53,53,670 options |
| Details of options granted during the year to :<br>(i) Senior management personnel | Name of Senior Management Personnel — No. of options granted<br>Series 41 — Mr. Dipak Gupta — 60,000<br>Series 42 — Mr. C. Jayaram — 24,000 |
| (ii) Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during that year | Nil |
| (iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant | Nil |
| Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with AS-20 Earnings Per Share | * The diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with AS-20 is ₹ 32.14 (Consolidated) and ₹ 19.59 (Standalone). |

| | |
|---|---|
| Where the company has calculated the employee compensation cost using the intrinsic value of stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed. The impact of this difference on profits and on EPS of the Company shall also be disclosed. | * Had your Bank (on Consolidated basis) followed the fair value method for accounting the stock option compensation expense would have been higher by ₹ 33.83 crore with consequent lower Consolidated profits before tax. On account of the same the diluted EPS of your Bank (Consolidated) would have been less by ₹ 0.30 per share.<br>* Had your Bank (on Standalone basis) followed the fair value method for accounting the stock option compensation expense would have been higher by ₹ 22.19 crore with consequent lower Standalone profits before tax. On account of the same the diluted EPS of your Bank (Standalone) would have been less by ₹ 0.19 per share. |
| Weighted – average exercise prices and weighted – average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock. | * The weighted average price of the stock options exercised is ₹ 544.55 and the weighted average fair value is ₹ 715.40. |

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

| | |
|---|---|
| A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted – average information: | A. Stock price<br>It is the closing market price on the National Stock Exchange of India Limited prior to the meeting of the Board in which the options are granted.<br>B. Volatility<br>Volatility is a measure of the amount by which a price has fluctuated or is expected to fluctuate during a period. The measure of volatility used in the Black-Scholes option-pricing model is the annualized standard deviation of the continuously compounded rates of return on the stock over a period of time.<br>Accordingly, daily volatility of your Bank's stock price on the NSE for the period corresponding to the respective expected live of the different vesting, prior to the grant date has been considered.<br>C. Risk free interest rate<br>The risk-free interest rate being considered for the calculation is the interest rate applicable for maturity equal to the expected life of the options based on the zero-coupon yield curve for Government Securities as on the date of the respective grant.<br>D. Time to Maturity/Expected Life of options<br>The minimum life of a stock option is the vesting period and the maximum life is vesting period plus the exercise period. The Expected life of the options has been calculated as the average of the two extremes – the minimum life and the maximum life. Since each vest has been considered as a separate grant, the expected life has been calculated for each vesting separately.<br>E. Dividend yield<br>The dividend yield for each grant has been derived by dividing the dividend per share by the market price per share.<br>Weighted average information in respect of above assumptions has been provided in note 10 of Schedule 17 of the notes to accounts to the Consolidated financial statement of your Bank.<br>Weighted average information in respect of above assumptions has been provided in note 9 of Schedule 18B of the notes to accounts to the Standalone financial statement of your Bank. |

**CORPORATE GOVERNANCE AND BUSINESS RESPONSIBILITY REPORT**

Pursuant to Clause 49 and 55 of the Listing Agreement with the Stock Exchanges, separate sections entitled 'Report on Corporate Governance' and 'Business Responsibility Report' have been included in this Annual Report.

Your Bank has implemented number of recommendations given in the "Corporate Governance Voluntary Guidelines 2009" by the Ministry of Corporate Affairs and is examining the possibility of implementing the remaining recommendations.

## CHANGE OF REGISTERED OFFICE

Your Bank has inaugurated its new Corporate Office at Bandra Kurla Complex, Mumbai. The Board of Directors at its meeting held on 14th March 2014, approved the change of Registered Office of the Bank from its earlier location at 36-38A Nariman Bhavan, 227, Nariman Point, Mumbai - 400 021, to 27BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 with effect from 31st March 2014.

## DIRECTORS

Mr. N. P. Sarda, the Non-Independent Director of the Bank, retires by rotation at the Twenty Ninth Annual General Meeting and is eligible for re-appointment.

The Board of Directors of the Bank, at its meeting held on 9th May 2014, has re-appointed Mr. Uday Kotak as Executive Vice-Chairman and Managing Director for the period from 1st January 2015 to 31st December 2017, subject to the approval of the shareholders and of the Reserve Bank of India. Mr. Dipak Gupta has been re-appointed as Whole-time Director of the Bank designated as Joint Managing Director for the period from 1st January 2015 to 31st December 2017 subject to the approval of the shareholders and of the Reserve Bank of India. The approval of the shareholders in this regard is being sought at the ensuing Annual General Meeting of the Bank.

The term of Mr. C. Jayaram as Whole-time Director of the Bank designated as Joint Managing Director expires on 31st December 2014. Mr. Jayaram would retire on the expiry of his term.

## AUDITORS

In terms of Section 139 of the Companies Act, 2013, every Company is required to appoint Auditors for a term of 5 years subject to their appointment being ratified at every Annual General Meeting. However, pursuant to the guidelines issued by the Reserve Bank of India, an audit firm is allowed to continue as the Statutory Central Auditor of a bank for a continuous period of four years only.

Messrs S. B. Billimoria & Co., Chartered Accountants, were appointed as auditors of your Bank from the financial year 2011-12 onwards. They have already completed three years as the statutory auditors of the Bank and would retire on the conclusion of Twenty Ninth Annual General Meeting. They are eligible for re-appointment subject to the approval of Reserve Bank of India and the shareholders, for a period of one year. As recommended by the Audit Committee of the Board, the Board of Directors has proposed the appointment of Messrs S. B. Billimoria & Co., Chartered Accountants as the Statutory Auditors for the current financial year 2014-15. You are requested to re-appoint the auditors for the current financial year and to fix their remuneration.

## STATUTORY INFORMATION

The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1998, are not applicable to your Bank, however, your Bank has been increasingly using information technology in its operations.

## EMPLOYEES

The employee strength of your Bank along with its subsidiaries as of 31st March 2014 was over 26,500 as compared to around 23,500 employees a year ago.

Your Bank standalone had over 16,000 employees as of 31st March 2014. 162 employees employed throughout the year and 17 employees employed for part of the year were in receipt of remuneration of ₹ 60 lacs or more per annum.

With a young and largely professionally qualified employee base (average age of 31 years and 45% CA/ MBAs/ Post Graduates) your Bank continues to attract talent across all its businesses and hierarchy. In the last one year your Bank has made substantial investments in strengthening our frontline talent pipeline through tie-ups with educational institutes for pre-trained good quality Manpower.

Productivity, Service Quality and development of key competencies such as People Development continue to be the focus areas for which your Bank has partnered with top academic institutions as well as renowned industry experts. A significant intervention was also planned and implemented for career & succession planning particularly in the Branch Leadership roles.

Your Bank continues to ensure values alignment and ethical behaviour by all its resources in all their dealing with internal and external stakeholders through linkage of the firm’s core values with all key Human Resource processes.

With continued emphasis on employee engagement, the Bank alongwith most of its subsidiaries undertook an organization wide engagement study which had close to 90% participation and feedback received on various parameters have formed the basis of action plans across various work groups.

Diversity initiatives in the Bank were given an impetus by setting up of a team of internal women to address women issues at workplace, mass-mentoring programs with senior women leaders, revision of the Policy for Sexual Harassment at workplace and tie ups for hiring differently abled candidates.

As we enter our next phase of growth and expansion of our footprint across urban and rural India, the Bank and its subsidiaries continued to carry out several initiatives to attract and retain a pool of highly skilled and motivated employees who are aligned to the firm’s vision of becoming the most trusted financial services provider.

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

In accordance with the provisions of Section 217(2A) of the Companies Act, 1956 and the rules framed thereunder, the names and other particulars of employees are set out in the annexure to the Directors' Report. In terms of the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Directors' Report is being sent to all shareholders excluding the aforesaid annexure. The annexure is available for inspection at the Registered Office of your Bank. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered Office of your Bank.

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, based on the representations received from the operational management, confirm in pursuance of Section 217(2AA) of the Companies Act, 1956 and Section 134(5) of the Companies Act, 2013, that:

(i) your Bank has, in the preparation of the annual accounts for the year ended 31st March 2014, followed the applicable accounting standards along with proper explanations relating to material departures, if any;

(ii) they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Bank as at 31st March 2014 and of the profit of your Bank for the financial year ended 31st March 2014;

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

(iv) the annual accounts have been prepared on a going concern basis;

(v) they have laid down internal financial controls to be followed by the Bank and that such internal financial controls are adequate and are operating effectively; and

(vi) they have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems are adequate and operating effectively.

## ACKNOWLEDGEMENTS

Your Directors would like to place on record their gratitude for the valuable guidance and support received from the Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority and other Government and Regulatory agencies. Your Directors acknowledge the support of the members and also wish to place on record their appreciation of employees for their commendable efforts, teamwork and professionalism.

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

**Dr. Shankar Acharya**
Chairman

Place: Mumbai,
Date: 9th May 2014

# Management Discussion & Analysis

**Macro-economic environment**

The overall macro-economic environment for the Indian economy continued to stay on a relatively weak footing, even though some improvements were seen with respect to the twin deficit problems of the fiscal and the current account. The financial markets witnessed turbulence in the early part of the year, mostly as a reaction to the talks of the Quantitative Easing ('QE') withdrawal by the US Federal reserve, leading to some sharp depreciation pressures on the INR and also a sharp increase in the government security yields. On the other hand, the economy continued to witness relatively high inflation levels, mainly on account of higher food prices. Despite the weak growth momentum in the economy, the sustaining inflationary pressures in the economy led the RBI to maintain a hawkish monetary policy stance.

The Real GDP growth slowed down to 4.5% in FY13 and is projected by the Central Statistical Organization (CSO) to grow at 4.9% in FY14. In Q1FY14, the economy registered a growth of 4.4% showing some indications of bottoming out. The growths of 4.8% and 4.7% in the subsequent quarters confirmed the same. The services sector growth averaged at 6.8% in the first 3 quarters while the manufacturing sector growth averaged at 0.6%.

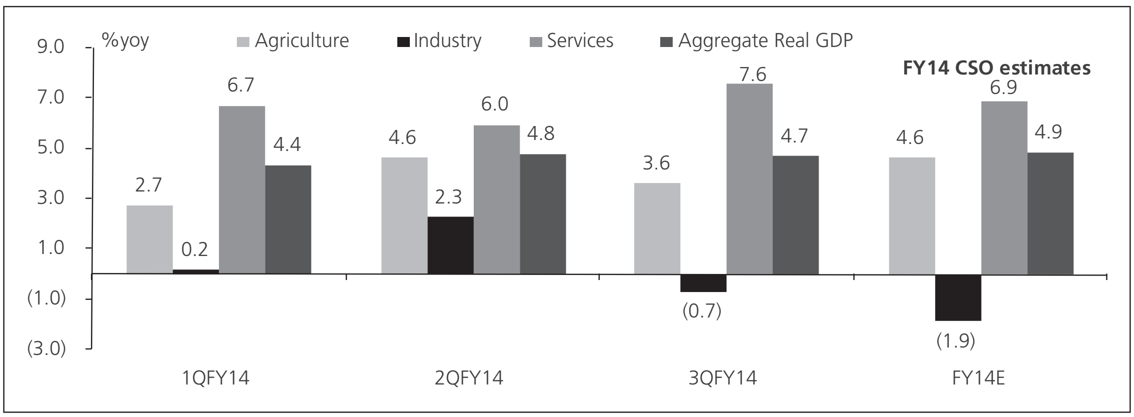



Table 1 – GDP; Source: CEIC, CSO

The slowing manufacturing sector was also evident in the Industrial Production growth at -0.1% in FY14, compared to 1.2% in FY13 with a subdued investment and consumption demand. Capital goods grew -3.1% in FY14 (-5.6% in FY13) while consumption goods witnessed a sharp drop at -2.6% in FY14 from +2.6% in the previous financial year, with the consumer durables segment being particularly hit.

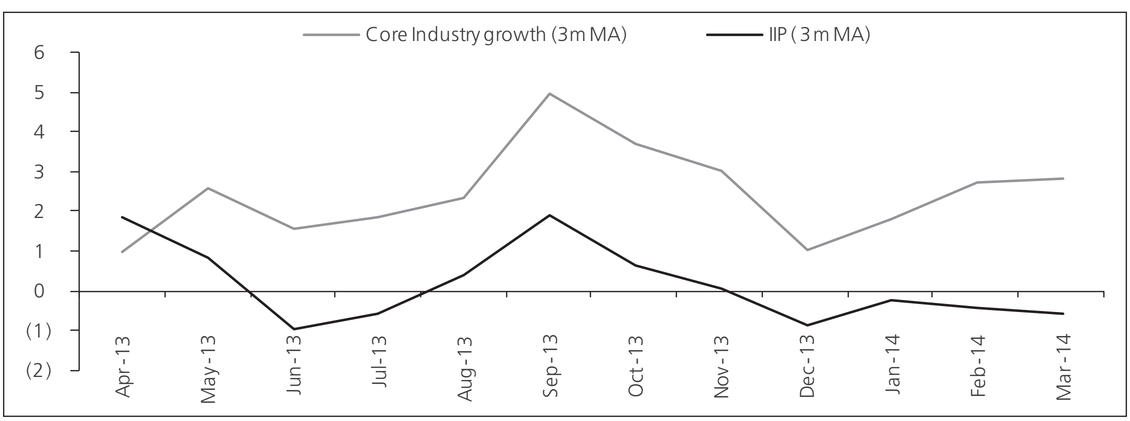



Table 2 – IIP; Source: CEIC

With the tabling of the Urjit Patel Committee (Expert Committee to Revise and Strengthen the Monetary Policy Framework) report in January 2014, the CPI inflation became the nominal anchor for monetary policy formulation. Headline CPI inflation remained sticky through most part of FY14 and averaged at 9.6% in the first half of the year. Subsequently, Headline CPI inflation rose to 11.2% in Nov'13, before falling to end the year at 8.3%. The build-up of inflation and the subsequent fall in Headline CPI was mainly driven by food prices, mostly the vegetable prices. Apart from the vegetables, "Cereals and Products" inflation dropped to 9.5% in Mar'14 after peaking at 17.5% in Jun'13. For the food and beverages group as a whole, inflation fell to 9.2% in Mar'14 from a yearly peak of 14.5% in Nov'13. The disinflationary momentum was however not as strong in the case of ex-food and fuel CPI. Core CPI was at 8.3% in Apr'13 and dropped to only 7.8% by the end of the fiscal. The persistence of Core CPI was on account of pressures from housing, transport and communication and services led components such as medical care, education and stationary, household requisites etc. High inflation with respect to CPI services reflected the role of wage pressures and (interestingly) charges paid to barbers, beauticians, tailors etc grew at more than 10%.

Similar to the CPI trends, Headline WPI inflation had recorded a significant fall to ~5% by Feb'14 from its peak of 7.52%, before rising back once again in Mar'14 to 5.7%. The impact on the headline WPI, like in the case of CPI was from the food side while the core-WPI ticked up in the second half of the FY (3.0%+) after remaining ranged in the first half (2.2-2.6%). This was mainly due to the cost push pressures from the exchange rate pass-through after USD/INR witnessed a significant depreciation starting from the beginning of May'13 to end-Aug'13.

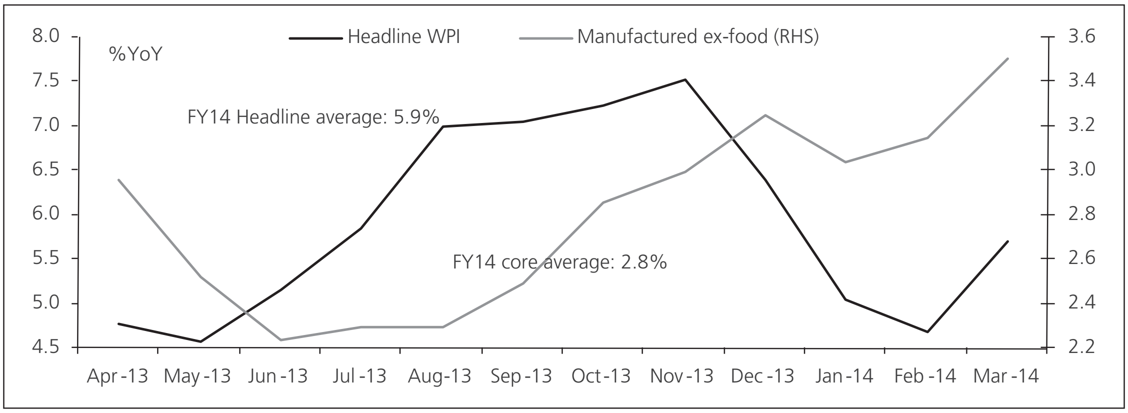



Table 3 – WPI; Source: CEIC

RBI reduced its Repo Rate by 25bps on 19th May, 2013 bringing the Repo rate down to 7.25% and hence continuing with the indication of easing monetary policy stance. However the guidance in May was cautious with concerns being raised on the high Current Account Deficit. The easing bias of the monetary policy took a back seat as the monetary policy in mid-July was to address the extreme exchange rate volatility. Measures were undertaken to cap allocation of funds under the LAF for each individual bank to 0.5% of NDTL, while the MSF was increased sharply by 200 bps to 10.25%. Effectively, the operative rate became the MSF rate, higher by 300 bps over the previous operative rate, the Repo rate. Consequent to these moves both the deposit and the lending rates firmed up by Sep'13. With the pressures on the INR abating by around mid-September, the RBI sought to roll back the above exceptional measures in a calibrated manner.

As the first move in this direction, the RBI reduced the MSF rate by 75 bps to 9.50% on 20th September while the Repo rate was increased by 25 bps to 7.50%. Further, on 7th October, the MSF rate was reduced by 50 bps to 9%. The last phase of the correction to the unconventional policy was done on 29th October when the MSF was reduced by 25 bps to 8.75% while the Repo rate was increased by 25 bps to 7.75%, thus normalizing the Repo-MSF band back to 100 bps. Repo rate was increased for a final time in the fiscal on 28th January to 8.00%. The other area of the monetary policy that changed significantly during the FY14 was the way in which RBI infused liquidity into the system. While continuing with the restrictions on the LAF, the reliance was more on the term repo auctions and away from Open Market Operations.

Consequent to the above changes in the monetary policy, deposit and lending rates firmed up with the exceptional monetary policies but softened thereafter as these policies were rolled back. However, overall the lending rates were by and large sticky with the median deposit rate of the SCBs rising by 35 bps over the year. Government security yields hardened towards the end of May'13 in line with the global bond sell-off consequent to the announcement of the intention of the US Fed to reduce bond purchases. 10-year G-sec yield in India consequently hardened from 7.12% during end-May 2013 to 7.60% by mid-July 2013. Further, in response to the unconventional measures announced by the RBI in mid-July, 10-year G-sec yields hardened by over 50 bps to close at 8.13% on 16th July, 2013, and further increased to 8.46% on 24th July, 2013. There was some softening of the yields thereafter as the INR tended to stabilize and with the gradual unwinding of the measures taken by the RBI in mid-July 2013 and with some help from OMOs, yields tended to soften. However, the softening bias was not significant as the RBI consistently maintained its hawkish rhetoric on inflation and yields again tended to move up in December. In Q4 of FY14, G-sec yields witnessed two-way movements. Yields tended to soften in the initial period of January with anticipation of softer inflation readings but the Repo Rate increase of end-Jan'14 once more resulted in hardening of yields. Softer inflation reading for Jan & Feb' 14 enabled the 10-year G-sec yield to end FY14 at 8.80%.

A significant stress area in FY13 was the pressures emanating from the large Current Account Deficit (CAD). CAD/GDP had ballooned to 6.5% in the 3rd quarter of FY13 but has come down since to register just 0.8% in the 3rd quarter of FY14. Moderation in imports were largely led by a policy driven sharp decline in the gold and silver imports (increase in the customs duty on gold and also quantitative restrictions on imports via the 20:80 rule) and also a domestic slowdown driven decline in imports of machinery, project goods, iron and steel etc. Imports showed de-growth from Jul'13 onwards, mainly reflecting a sharp drop in the gold imports. On the other hand, a recovery in the rest of the world and the rupee depreciation led to a rise in India's exports from around Jul'13 but the momentum eased off significantly from Nov'13 and finally turned negative in the last couple of months of the financial year. These trends in trade led to the trade deficit to contract to USD138.6 bn in FY14 from USD190.3 bn in FY13. Due to this sharp contraction in the trade gap, the external sector risks have come down significantly.

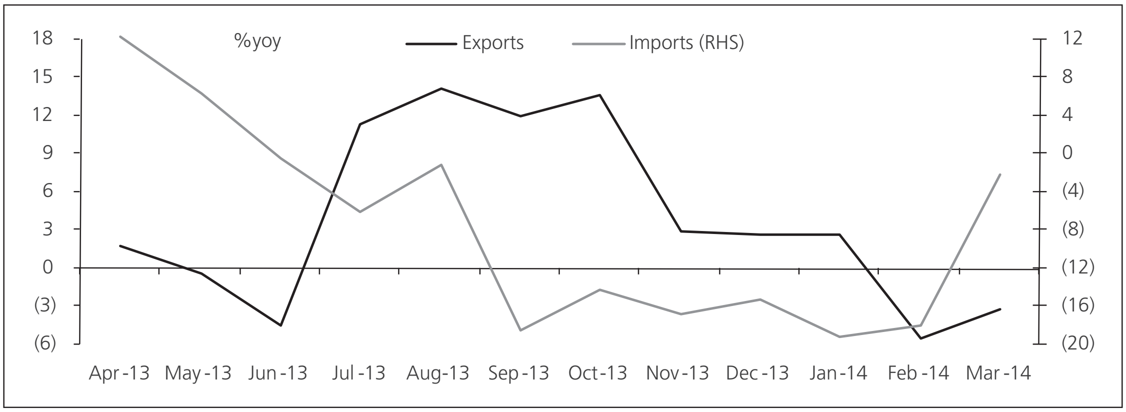



Table 4 – EXIM data; Source: CEIC

On the other hand, capital inflows were broadly adequate to meet the current account gap in the first quarter, needing only a marginal drawdown of foreign exchange reserves. With FII outflows that started after the announcement of intentions of QE taper by the US Fed on 22nd May, 2013, the total outflows on account of FIIs were to the extent of USD16.6 bn till 6th September, 2013. Thus the stress from the capital account side was mainly felt in Q2 of FY14 whereby the cumulative capital account showed a net outflow of USD 4.7 bn from a net inflow of USD 20.6 bn in the previous quarter. The RBI took up measures since Sep'13 to augment the foreign exchange reserves that included a window for banks to swap fresh FCNR(B) dollar funds with the RBI at a discounted rate and also to increase the overseas borrowing limit from 50% to 100% of unimpaired Tier-I capital of the banks and further swap it with the RBI at a discounted rate. The inflows under the swap window amounted to USD 34.3 bn and helped a renewed surge in the capital account inflows in Q3 FY14 to USD 23.8 bn.

After being in a narrow range in the early part of the financial year, USD/INR witnessed significant depreciation pressure from around mid-May as the US Fed announced its intention to scale back its bond purchases. INR depreciated sharply between 23rd May, 2013 (quoting at 55.58/USD) to the highs of 68.83/USD on 28th August, 2013. However, the rupee reversed this sharp depreciation trend from beginning of Sep'13 and appreciated by almost 11% till the end of Dec'13 with sentiments improving on the back of improving CAD and more importantly with the swap window opened by the RBI that enabled the RBI to rebuild its foreign exchange buffers. INR maintained its mild appreciation bias and even broke lower than the 60.00/USD mark to close at 59.89/USD on 28th March, 2014.

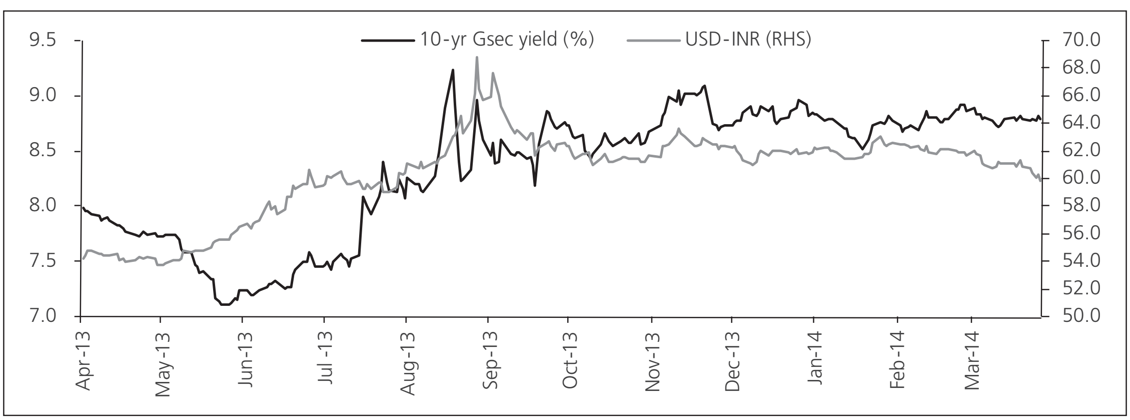



Table 5 – 10 Year Gsec Vs USD-INR rates; Source: Bloomberg

Q4 of FY14 and the first two months of FY15 witnessed the Union Election process and a policy paralysis that led to weak business sentiments. Business sentiments are likely to revive as the market expects the policy paralysis to be addressed by the new BJP led NDA government. Financial markets have definitely reacted positively to the political developments and foreign flows into the equity markets are seen reviving with a consequent appreciation bias for the INR. The key challenges for the government would be to keep both the Current Account and Fiscal balances in check and attempt to bring down inflation while help revive growth.

**CONSOLIDATED FINANCIAL PERFORMANCE**

The Bank along with its subsidiaries, offers a wide range of financial products and services to its customers. The key businesses are commercial banking, investment banking, stock broking, car finance, asset management and life insurance.

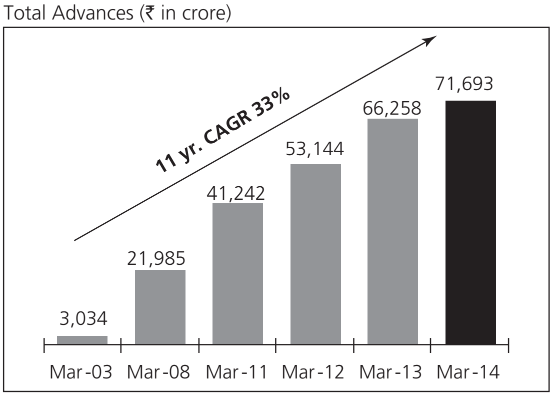
Consolidated profit after tax grew by 12.6% to ₹ 2,465.0 crore. In FY14, the financing business contributed 83% of the consolidated Profit before Tax (PBT), followed by Insurance and Asset management (10%) and Capital market (7%). The group has seen a steady and sustainable shift in its overall business mix to relatively stable lending businesses from capital markets-driven revenue streams. The diversified business profile of the group allows it to sustain healthy profitability despite cyclicality in some of its businesses.

The group had a net worth of ₹ 19,076.0 crore as on March 31, 2014 (₹ 15,249.8 crore as on March 31, 2013) and book value per share at ₹ 247.6 (₹ 204.3 as on March 31, 2013).

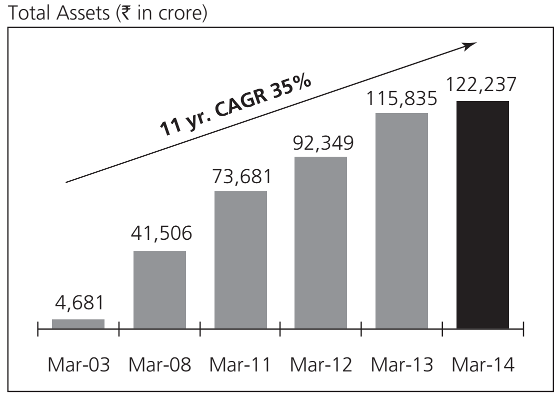
The Group has healthy earning profile and earned a healthy Return on Average Assets (RoAA) of 2.1% in FY14 (2.1% in FY13).

The Total Assets, Advances and Consolidated profits of the Group have grown at an annual compounded rate of more than 30% over the last eleven years as can be seen in the charts below.

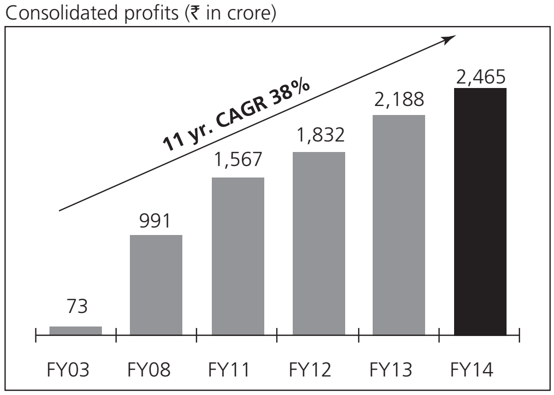
Total Advances (₹ in crore)




Total Assets (₹ in crore)




Consolidated profits (₹ in crore)




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

₹ in crore

| | **FY 14** | | FY 13 | |
|---|---|---|---|---|
| | **PBT** | **PAT** | PBT | PAT |
| Kotak Mahindra Bank | 2,272.5 | 1,502.5 | 1,972.1 | 1,360.7 |
| Kotak Mahindra Prime | 751.7 | 491.2 | 641.0 | 430.7 |
| Kotak Securities | 234.3 | 160.2 | 188.5* | 114.5* |
| Kotak Mahindra Capital Company | 17.6 | 14.2 | 23.5 | 16.7 |
| Kotak Mahindra Old Mutual Life Insurance | 261.2 | 239.1 | 198.4 | 189.7 |
| Kotak Mahindra AMC & Trustee Co | 59.7 | 40.4 | 14.3 | 12.0 |
| International subsidiaries | 10.6 | 6.9 | 7.0 | 6.2 |
| Kotak Investment Advisors | 25.3 | 17.4 | 43.3 | 30.7 |
| Kotak Mahindra Investments | 64.4 | 42.1 | 46.0 | 33.6 |
| Others | 1.3 | 0.7 | 1.4 | 0.8 |
| **Total** | **3,698.6** | **2,514.7** | **3,135.5** | **2,195.6** |
| Minority Interest, Equity Affiliates and others | | (49.7) | | (7.1)* |
| **Consolidated PAT** | | **2,465.0** | | **2,188.5** |

** after considering ₹ 30 crore loss on divestment of stake in a fellow subsidiary; no impact on consolidated profits*

The consolidated performance for FY14 is as follows:

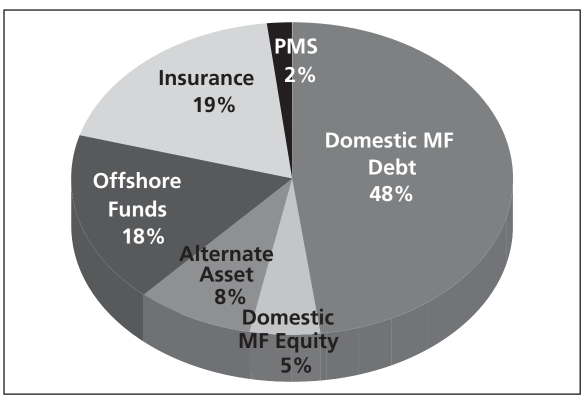
₹ in crore

| Particulars | FY 14 | FY 13 |
|---|---|---|
| Total Income (Interest earned + Other Income) | 17,268.3 | 15,950.3 |
| Consolidated net worth | 19,076.0 | 15,250.0 |
| Earnings per share (diluted) (₹) | 32.1 | 29.3 |
| Book Value per share (₹) | 247.6 | 204.3 |
| Net Interest Margins (NIM) % | 4.97% | 4.70% |
| Return on Average Networth % | 14.0% | 15.6% |
| Net NPA% | 0.9% | 0.6% |
| Consolidated capital adequacy ratio (CAR)%* | 18.9% | 17.0% |
| Tier I | 18.0% | 15.9% |

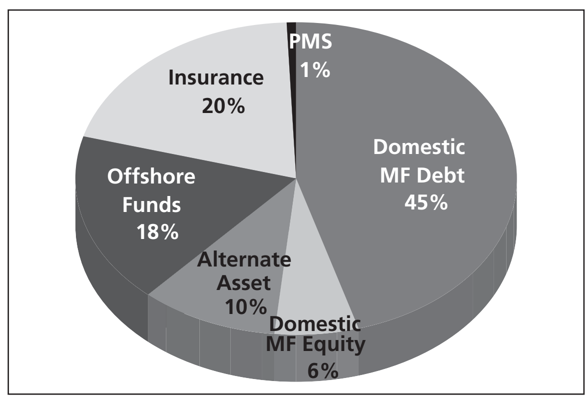
**For the Year 2014 Capital Adequacy Ratio and Tier I Ratio is computed on the basis of BASEL III Norms issued by RBI & for previous period based on BASEL II Norms.*

The financial results of the material subsidiaries are explained later in this discussion. Assets under management (AUM) as at 31st March, 2014 were ₹ 56,564 crore (previous year ₹ 55,243 crore), comprising assets managed and advised by the Group. Of this, equity assets managed / advised by the Group were around ₹ 20,560 crore. The split of the AUM is as follows:

AUM - ₹ 55,243 crore - 31 March 2013




AUM - ₹ 56,564 crore - 31 March 2014




As on 31st March, 2014, the Group has a distribution network of branches, franchisees, representative offices in India and overseas offices in New York, London, Dubai, Abu Dhabi, Mauritius and Singapore.

**Bank and Its Key Subsidiaries: Financial and operating performance**

**Bank Highlights**

Kotak Mahindra Bank is the flagship company of the Kotak group, and has a diversified business profile covering commercial vehicle financing, consumer loans and corporate finance.

Profit before tax of the Bank for FY14 was ₹ 2,272.5 crore as against ₹ 1,972.1 crore for FY13. Profit after tax of the Bank was ₹ 1,502.5 crore in FY14 compared with ₹ 1,360.7 crore in FY13.

## PROFIT AND LOSS ACCOUNT

A synopsis of the Profit and loss account is presented below:

₹ in crore

| | FY14 | FY13 | YoY growth |
|---|---|---|---|
| Net Interest Income | 3,720.1 | 3,205.7 | 16.0% |
| Other Income | 1,399.7 | 1,160.7 | 20.6% |
| **Net Total Income** | **5,119.8** | **4,366.4** | **17.3%** |
| Employee Cost | 1,159.1 | 1,051.2 | 10.3% |
| Other Operating Expenses | 1,383.5 | 1,158.6 | 19.4% |
| **Operating Expenditure** | **2,542.6** | **2,209.8** | **15.1%** |
| **Operating Profit** | **2,577.2** | **2,156.6** | **19.5%** |
| **Provision & contingencies (net)** | **304.7** | **184.5** | **65.1%** |
| - Provision on Investments | 176.6 | (21.1) | |
| - NPA Provision | 241.5 | 203.2 | |
| - Recoveries | (108.8) | (39.9) | |
| - Provision on Standard assets | 14.6 | 41.0 | |
| - Provision for Derivatives/others | (19.2) | 1.2 | |
| **PBT** | **2,272.5** | **1,972.1** | **15.2%** |
| Provision for Tax | 770.0 | 611.4 | |
| **PAT** | **1,502.5** | **1,360.7** | **10.4%** |

The Net Interest Income (NII) of the Bank grew at 16.0% YoY and the Non-interest income of the Bank grew by 20.6%. During the year, yield on investments increased alongwith reduction in cost of funds (helped by capital issuance on preferential basis of ₹ 1,295.5 crore in May'13) which was partially offset by a decrease in the yield on advances. Net Interest Margins (NIM) improved to 4.9% for FY14, when compared to FY13 levels of 4.6%. The operational efficiency of the Bank improved with the cost to income ratio of the Bank reducing to 49.7% in FY14 from 50.6% in FY13.

**Provisions and contingencies:**

The Provisions and contingencies have increased by more than 65.1%to ₹ 304.7 crore primarily due to increase in Provision on investments.

Pursuant to significant USD/ INR depreciation in mid-July, measures were undertaken by RBI to cap allocation of funds under the LAF for each individual bank to 0.5% of NDTL, while the MSF was increased sharply by 200 bps to 10.25%. Effectively, the operative rate became the MSF rate, higher by 300 bps over the previous operative rate, the Repo rate. The consequent hardening of yields had a huge mark to market impact on fixed income portfolio of the Bank especially the portion held in AFS/ HFT category.

RBI vide circular DBOD.BP.BC.No.41/21.04.141/2013-14 dated 23rd August, 2013 on "Investment portfolio of banks - Classification, Valuation and Provisioning", as a one-time measure permitted banks to transfer SLR securities from Available For Sale (AFS)/Held For Trading (HFT) category to Held To Maturity (HTM) category at valuation rates prevailing on 15th July, 2013, provided the transfer happened before 30th September, 2013. The Bank did not transfer any SLR security from AFS/HFT category to HTM category.

Accordingly, the Bank has recognised ₹ 175.1 crore in the P&L Account for the year ended 31st March, 2014. Had the Bank chosen to transfer all SLR securities to HTM, the profit before tax for FY14 would have been higher by ₹ 163.6 crore.

The Bank's SLR securities in HTM category as at 31st March, 2014 were 11.4 % of net demand and time liabilities (NDTL).

The return on average assets held at 1.8% for FY14 as compared to 1.8% in the previous year.

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

₹ in crore

| Segment | FY14 | FY13 |
|---|---|---|
| Treasury and BMU | 175.6 | 145.5 |
| Corporate/ Wholesale Banking | 1,300.7 | 1,211.5 |
| Retail Banking | 793.3 | 613.8 |
| **Sub-total** | **2,269.6** | **1,970.8** |
| Unallocated Income/ (expense) | 2.9 | 1.2 |
| **Profit before tax** | **2,272.5** | **1,972.1** |

The increase in 'Other income' was mainly due to increase in fee income and profit on exchange transactions which has been partially offset by lower recovery from bought out stressed assets. The detailed split of 'Other Income' is as follows:

₹ in crore

| | **FY14** | FY13 | % change |
|---|---|---|---|
| Commission, Exchange, Brokerage & others | 898.8 | 766.9 | 17.2% |
| Income from recovery of bought out Stressed assets | 25.5 | 82.6 | (69.2%) |
| Profit on sale of investments | 181.8 | 154.6 | 17.6% |
| Profit/loss on sale of fixed assets | 1.2 | 1.1 | 9.1% |
| Profit on exchange transactions | 211.8 | 96.3 | 120.8% |
| Income from subsidiaries / associates | 59.5 | 49.3 | 20.7% |
| Dividend from subsidiaries | 21.1 | 9.9 | 113.1% |
| **Total Other Income** | **1,399.7** | **1,160.7** | **20.6%** |

**BALANCE SHEET**

The assets and liabilities composition of the Bank is as follows:

₹ in crore

| **Liabilities** | **31 March 2014** | 31 March 2013 |
|---|---|---|
| Net Worth | 12,275.1 | 9,447.0 |
| Deposits | 59,072.3 | 51,028.8 |
| - CA | *8,740.8* | *7,650.2* |
| - SA | *10,087.1* | *7,268.1* |
| - Certificate of Deposit | *5,725.7* | *8,171.8* |
| - Term Deposit | *34,518.7* | *27,938.7* |
| Borrowings | 12,895.6 | 20,410.6 |
| Other Liabilities and Provisions | 3,342.3 | 2,807.3 |
| **Total** | **87,585.3** | **83,693.7** |

| **Assets** | **31 March 2014** | 31 March 2013 |
|---|---|---|
| Cash, Bank and Call | 5,979.9 | 3,689.2 |
| Investments | 25,484.5 | 28,873.4 |
| - Government Securities | *17,465.4* | *21,562.1* |
| - Other Securities | *8,019.1* | *7,311.3* |
| Advances | 53,027.6 | 48,469.0 |
| Fixed Assets & Other Assets | 3,093.3 | 2,662.1 |
| **Total** | **87,585.3** | **83,693.7** |

The Bank's capitalization levels remain one of the strongest in the industry with overall CRAR at 18.8% (Tier I ratio of 17.8%) as compared to 16.0% as at March 2013 (Tier I ratio of 14.7%). The capitalization levels were augmented with issuance of ₹ 1,295.5 crore equity in a preferential allotment to Heliconia Pte Limited, an Affiliate of GIC of Singapore (2.6% of overall equity capital) in the Bank.

The Bank has been focussing on building capacity on the liability side. The Bank's resource profile is likely to strengthen gradually over the medium term, backed by expansion in bank branch network to a critical size, and due to seasoning of branches. Term Deposits below ₹ 1 crore grew last year at 34.9% YoY. Our CASA plus Term Deposits below ₹ 5 crore account for more than 63.4% of the total deposits. Sweep Deposits make up for 7.2% of the overall Deposits of the Bank.

The deposits of the Bank grew by 15.8% from ₹ 51,028.8 crore to ₹ 59,072.3 crore as at 31st March 2014. A significant feature during the year was savings deposits crossing the 10,000 crore mark, with an increase of 38.8% from ₹ 7,268.1 crore to ₹ 10,087.1 crore. Our average cost of Savings Deposits is around 5.5%.

### Advances

Advances increased by 9.4% YoY primarily driven by Agriculture loans, corporate and mortgage loans. The Bank was amongst the first ones to observe stress in Construction Equipment (CE) and Commercial Vehicles (CV) sector and took conscious call to degrow this segment of loan book. The CV/CE saw a significant degrowth by 30.3% in the advances book which was one of the primary reasons for low growth in Advances. Excluding CV/CE, the advances growth was 17.0%.

The restructured advances considered standard as of 31st March, 2014 is ₹ 10.1 crore which is 0.02% of our Advance book, one of the lowest in the Banking Industry. Further, the Bank has no CDR participation; has not sold any of its loans to Asset reconstruction companies and has not converted any on-balance sheet advances to off-balance sheet exposures.

The Classification of advances of the Bank is as follows:

₹ in crore

| Segment | 31 March 2014 | 31 March 2013 |
|---|---|---|
| Corporate Banking | 14,377.3 | 12,291.3 |
| Home Loans and LAP | 12,099.4 | 10,726.6 |
| Agriculture Division | 10,468.1 | 8,356.0 |
| Commercial Vehicles & Construction equipment (CV/CE) | 5,441.2 | 7,805.5 |
| Business Banking | 5,387.9 | 5,215.5 |
| Small Business and Personal Loans | 3,403.6 | 2,897.0 |
| Other Loan | 1,850.1 | 1,177.1 |
| **Total Advances** | **53,027.6** | **48,469.0** |

Advances per RBI segmental classification:

₹ in crore

| Segment | 31 March 2014 | 31 March 2013 |
|---|---|---|
| Retail | 23,681.9 | 24,427.6 |
| Corporate | 29,345.7 | 24,041.4 |
| **Total** | **53,027.6** | **48,469.0** |

### Asset Quality

While, there has been some stress in segments such as commercial vehicles and construction equipment, and slippages in some corporate accounts, the Bank has a healthy asset quality. Restructured loans considered standard at ₹ 10.1 crore (0.02% of advances) are lowest in the industry.

₹ in crore

| | 31 March 2014 | 31 March 2013 |
|---|---|---|
| Gross NPA | 1,059.4 | 758.1 |
| Gross NPA % | 1.98% | 1.55% |
| Net NPA | 573.6 | 311.4 |
| Net NPA % | 1.08% | 0.64% |

A brief analysis of the performance of various divisions of the Bank is as follows:

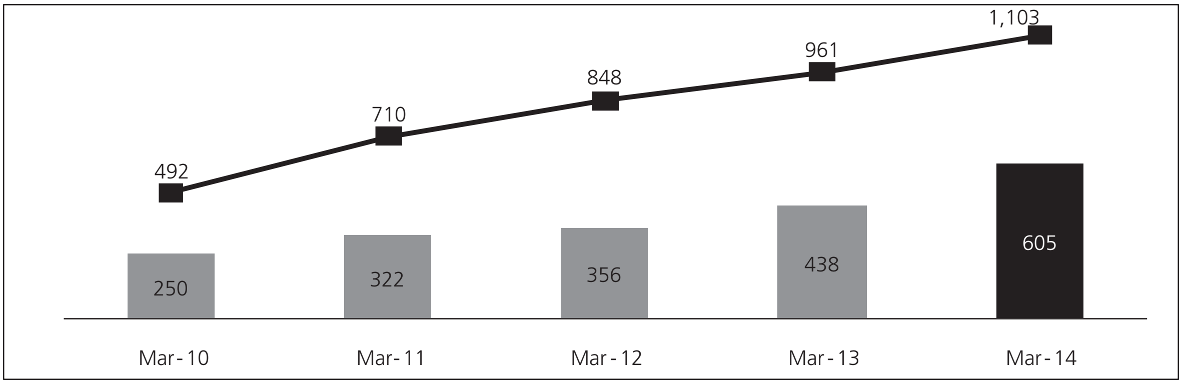
### Consumer Banking

#### Branch Banking

The Bank has continued its growth journey powered by expansion of its network, increase in deposit base, higher focus on segmental banking and cross dimensional qualitative initiatives.

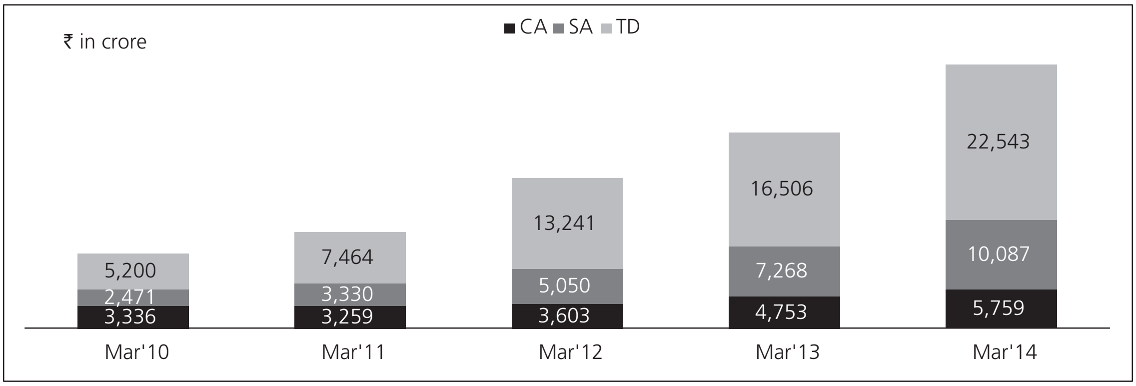
**Network**

The Bank added 167 branches during FY14 taking the total branch count to 605 Branches and 1,103 ATM's across 354 locations as on 31st March, 2014.




**Deposits**

The Consumer Bank deposit book grew by 34.6% with Term deposits at ₹ 22,542.9 crore and demand deposits at ₹ 15,845.9 crore.




**Key Initiatives**

Some of the key initiatives taken during the year which helped provide a differential offering were:

**I. Segmental Focus**

- Kotak Junior for Minors: Bank launched a new savings bank proposition for minors called "Kotak Junior" to meet segmental need and improve acquisition product holding. Under the proposition, child gets a personalized Junior Card and there is a regular investment from his account towards RD /SIP for his future goals. There is a mandatory linked account of Guardian who can opt for convenience of Standing Instruction (SI) for automatic transfer of fund from his account to minor's account. As on 31st March, 2014, Junior portfolio reached a size of over 24,000 customers.
- Privy League Program for Affluent and Mass Affluent Customers: Bank expanded the coverage of Privy League Program to cover customer of Branch Banking Division and this program now services 125,000 households and businesses on a superior service platform across geographies.
- Digital Banking: bank launched a special bank account for the digital natives called JIFI – The bank account which makes Banking social with the use of 2 of the most popular social network – facebook for login as well as Referral and twitter for getting real time information about the account.
- Non-Resident Indians: Bank added more features to the proposition offered to the NRI segment. This includes range of new products, enhanced service capability through call back and toll free facility and strategic partnerships with global bank and exchange houses.

**II. Customer Convenience**

In order to improve customers banking experience, the following customer centric initiatives were undertaken.

Password regeneration convenience: A customer, who is a debit card holder, can use the debit card credentials for online regeneration of Net Banking password/unlocking of Net banking password.

Multi Lingual IVR: - The capability of IVR (Interactive Voice Recognition) has been enhanced to cater to 4 regional languages namely Hindi, Marathi, Gujarati and Tamil.

Automation of Account Maintenance Request Forms:- Account Maintenance forms have been automated with pre-filled data. Automation of these forms have helped the customer in reducing time taken for filling in the forms and also accuracy of data leading to reduction in processing time.

Digitally Signed eStatements - In order to enhance the authenticity and integrity of the Bank Statement and also to serve the customers with enhanced feature the digital signature functionality was added in the eStatements. This feature enables customer to take this document and submit the same as proof of address or wherever bank statement is required.

IMPS on Transfer option on Net Banking:- IMPS, as a payment module has now been enabled on Net Banking as well. This will enable customer initiate IMPS on Net Banking for registered beneficiary. The major advantage of this transfer mode is that funds can be transferred 24X7 and 365 Days a year instantly.

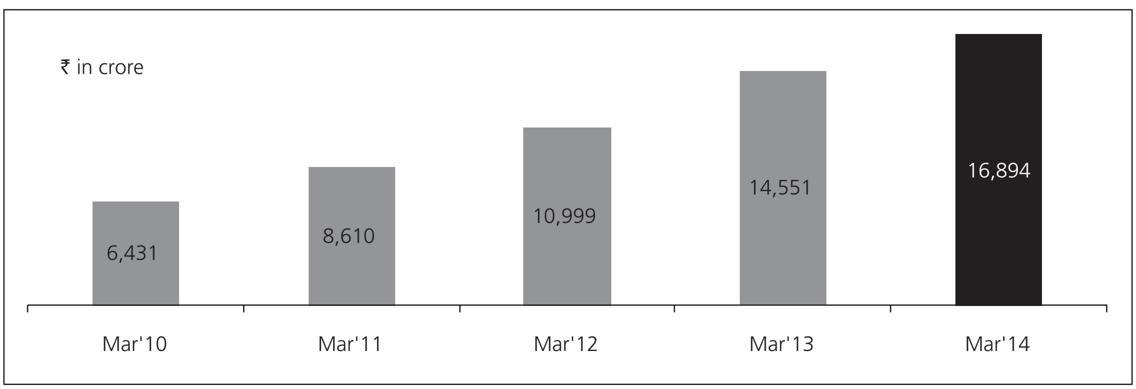
Mutual Fund on Mobile Banking:- Mutual fund transaction through the Mobile provides the customer an additional channel through which they could transact which is Quick, Convenient and Secured.

Automation of Form 15G/H:- Pre-filled FORM 15G/H can now be generated from Net Banking, This facility offers the customer the option of generating Pre-Filled forms vide the comfort of their Office/Residence. This also reduces the extent of errors and provides accurate details at a single click.

Instant Balance Inquiry:- In addition to the other channels for balance inquiry, an Instant Balance Inquiry option was launched. Customer can make a single ring call on the designated bank phone number and gets a sms instantly giving his account balance details.

**Consumer banking Assets**

The consumer Assets business maintained its growth trajectory across the wide range of products offered by the Bank. The Asset book grew by 16.1% to ₹ 16,893.7 crore.




**Credit Cards**

Credit card business has 4.33 lacs cards in force as on 31st March 2014 in the sixth year of its operations. The premium range of our products – VISA Signature and VISA Platinum continue to be the main contributor at 57% of spends, while the YoY spends have grown at 59%.

**Business Loans**

Under this portfolio Bank offers a wide range of products from secured and unsecured business loans to loans against properties to working capital finance. This business has grown its book by 20.7% in FY 14 with significant focus on MSME sector.

**Channel Usage**

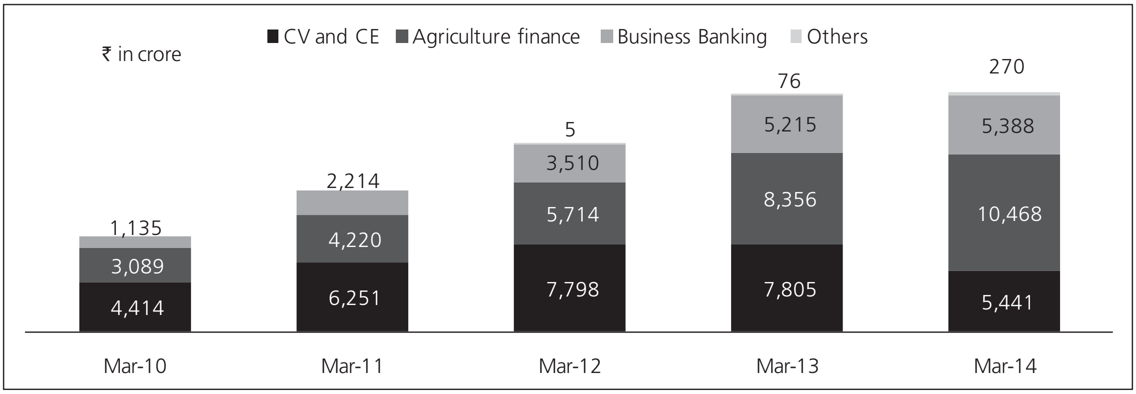
With better awareness and comfort, Customers are increasingly using non-branch channel for their banking transactions.

In FY 14, our ATM network serviced 4.08 crore transactions, which is 32% more than last year. Of this 80% were cash withdrawals. Bank’s Customer Contact Center serviced 0.84 crore inbound calls and 0.03 crore customer emails and letters.

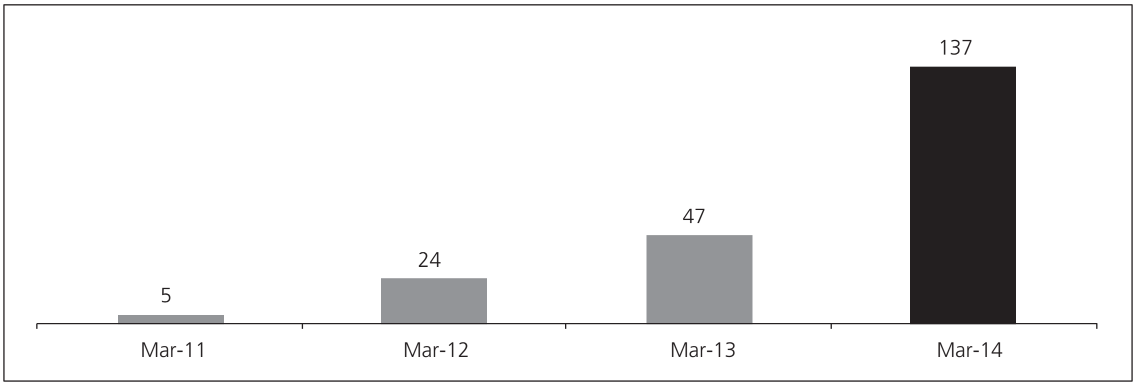
POS spends for the year grew by 37% (including E Commerce) with the overall spends at ₹ 1,106 crore and total spends through payment gateway for online shopping were a very healthy ₹ 1,345 crore, a jump of 63% over last year. Transactions through Bill pay and Visa Money Transfer increased by 21% for a value though put of ₹ 350 crore.

**Commercial banking**

Commercial Banking division broadly comprises of lending towards Agriculture and allied activities, Tractor & Farm Equipment Financing, Commercial Vehicle (CV) and Construction Equipment (CE) and Emerging Corporates. The split of the Commercial Banking book is as follows:




The commercial Bank has been opening branches in the rural / unbanked areas. The trend in commercial banking rural branches is as follows:




**Agriculture & Allied activities and Tractor & Farm Equipment Financing**

Our focus on Rural India (Bharat) has yielded positive results with the overall portfolio growing by 22%. The quality of the portfolio has been healthy with delinquency under control. The TFE portfolio disbursements grew by 30% against industry growth rate of 20%.

The Bank during the year continued to increase its geographical presence by opening new branches in rural India which will help its future growth in this sector.

**Commercial Vehicles and Construction Equipments**

Sales of CV continued to decline and fell by more than 20%. The slow-down in the economy and increase in fuel prices has adversely affected the CV operators resulting in increased delinquency from this sector. We have been consciously reducing our exposure to this sector and the overall CV portfolio has come down by 28%. The Bank believes in the long term growth of this sector and based on our market intelligence and assessment will decide on increasing our exposure in FY15.

Growth in the CE sector continued to be low in FY14 due to slowdown in infrastructure-related investments, core sector, mining, environmental clearances and land acquisition. Order book position was also down compared to earlier periods. The Bank reduced the lending to this sector significantly in line with its negative view on the sector and the portfolio was down by 38%.

**Emerging Corporate**

The Business Banking division serves the Small and Medium Enterprises (SMEs). The performance of this sector as a whole has been mixed with certain type of borrowers showing stress because of uncertainty in the cash flows with the slow-down in the economy. The advances of the bank in this sector have remained flat. While the Bank witnessed stress in this portfolio during the year, it is witnessing satisfactory resolution in most of the cases. The Bank believes this sector will benefit from improvement in the economy and it is geared to capitalize on this opportunity.

**Corporate banking**

The Bank's Wholesale Business has a number of business groups catering to various customer and industry segments viz. Large Corporates, Mid-market Corporates, Financial Institutions, Commercial real estate offering a wide range of banking services covering their working capital, medium term finance, trade finance, supply chain, cash management & other transaction banking requirements. The focus has been on customized solutions delivered through efficient technology platforms backed by high quality service. The Bank's core focus has been to acquire quality customers on a consistent basis and ensure value add through cross sell of the varied products and services.

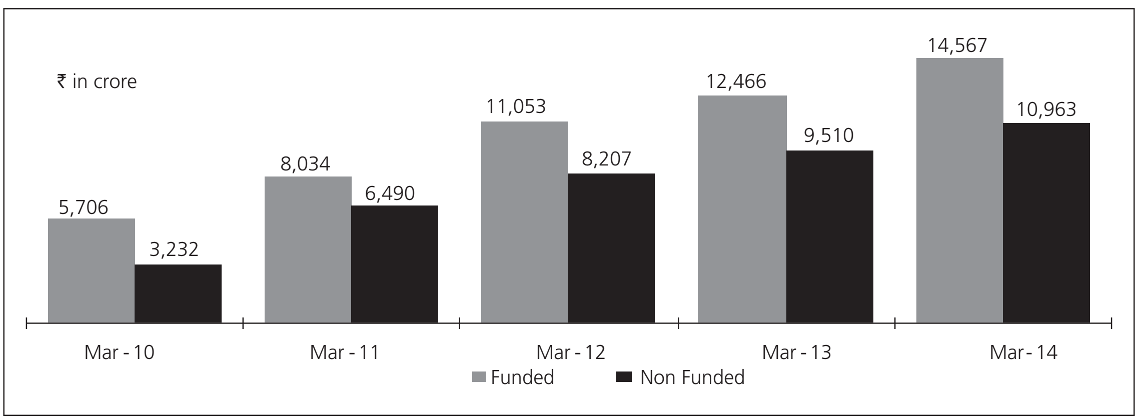
The business strategy in the large corporate segment has been to build franchise with top tier corporates as well as deepen the existing relationships with synergies across business verticals. The mid-market strategy is clearly driven by targeted client acquisition and becoming one of the preferred bankers to the corporates.

Bank has focused on increasing its share of the large & mid corporate space. In view of the macroeconomic scenario, exposure was confined to segments with credit comfort in terms of better rated exposure and industries with a positive outlook.

During the last year, Transaction Banking Group in the Bank continued to focus on acquiring clients through in-depth understanding of client requirements and ability to deliver tailored solutions in both Trade & Cash Management businesses. Driven by innovation, leveraged on robust technology and specialized product solutions, the Bank has been able to consistently add value to transaction banking clients across Cash Management & Trade Services. This has helped its clients achieve optimized working capital & liquidity management benchmarks. We are active participants in the Global Trade Finance Program (GTFP) programme offered by IFC, Washington.

The Bank has also undertaken various measures to improve its share of fee based services. The product offering includes Documentary Credits, Bank Guarantees, Export Credit, Supply Chain Financing amongst others. Export Credit was helped by the interest subvention scheme offered by RBI.

The Bank also provides a range of fund based and non-fund-based services to Capital Market intermediaries and custody and derivative clearing-services to domestic and foreign institutional-investors. The focus has been on product innovation and risk management through efficient technology platforms backed by high quality service. The mix between funded and non-funded for last five years is as follows:




The risk appetite of the bank mandates a well-diversified portfolio. The Bank has laid down exposure limits for various industries. These are reviewed periodically based on industry performance. The Bank has an industry research group that rates industries on an internal scale and defines the outlook towards various industries which forms an input to management in defining industry strategies.

The Bank continually monitors portfolio diversification through tracking of industry, group and company specific exposure limits. The entire portfolio is rated based on internal credit rating tool, which facilitates appropriate credit selection & monitoring.

**Treasury**

Unwinding of the QE by the US Federal Reserve led to Exchange Rate volatility in the emerging economies of the World. Central Banks of the respective economies responded to the situation in varying degrees. The RBI responded by way of imposing import restrictions on Gold and increases in the Policy rates – Repo, Reverse Repo and MSF rates. Ensuing volatility in the interest rate markets led to increase in yields in the debt markets. Rates stabilized in the latter part of the year.

The Treasury carefully strategized for optimal cost of funds, keeping stability and liquidity as primary drivers. The Balance Sheet Management Unit (BMU) of Treasury also met reserve maintenance obligations like CRR and SLR.

Consequent to the above developments, yield on 10yr G-Sec increased from a low of 7.11% in May'13 to a high of 9.1%, closing at 8.8% in Mar'14. In this environment, the Fixed Income Trading desk of your Treasury maintained a cautious approach in the Sovereign and Corporate Bond markets. Bank's Asset Liability Committee (ALCO), which also functions as the Investment Committee, maintained heightened vigil in this period.

The Primary Dealer (PD) desk of treasury, in addition to gainful positioning on the Trading portfolio, also increased its levels of distribution & retailing of sovereign securities. The PD desk also exceeded on its bidding, success & trading churn obligations to the RBI.

Global markets also manifested as unprecedented volatility in the currency markets. Given this volatility, trading operations in foreign exchange were measured and calibrated - within the Bank's risk appetite. Treasury's focus continued to be on foreign exchange flows from client businesses. The Bank added new customers and achieved a healthy growth in the number of transactions and volumes in the foreign exchange merchant business. Treasury continued endeavors in technology led initiatives for transparency and convenience in FX transactions by the Bank's customers.

Fiscal policy dictated import restrictions on Gold constricted the market supply and volumes. Treasury was licensed to import Gold under the new 80:20 scheme, which provided the Bank with an opportunity to acquire new customers as also provide Gold imports to its existing customers.

While Treasury continued with its focus on bond and loan syndication markets as part of its Debt Capital Markets (DCM) business, above uncertainties saw lower volumes in the market.

Correspondent Banking Division of Treasury continued to build and leverage upon relationships with offshore banks for improving quality and international reach for its customers.

The ALCO continued to maintain constant and close vigil on the Market risk, Interest Rate and Liquidity Gaps, counterparty and country exposures.

**Technology**

The Bank focused in the area of digitization in the current year. An upgraded Mobile Banking platform was launched which received much customer appreciation. Its capability extends across the gamut of banking including payments, credit cards, depository and investment functions.

The Kotak Bank website was upgraded providing esthetically designed screens and ease of navigation. New banking functions were added to provide a wider range of self service options especially in the area of fixed deposits and bill payments. Simultaneously, security on the internet was emphasized with improved password generation mechanisms.

A new platform, "JIFI", was launched to enable banking on social networking sites including Facebook and Twitter. The platform enables "digital natives" to open accounts and transact payments on social networking sites that they are familiar and comfortable with.

The bank also started initiatives in the area of analytics to better understand customer preferences and needs. A world class system, Unica from IBM, was implemented and leveraged to launch several customer campaigns for cross sell and targeted product offers.

Governance and Control was an area of concentration, with systems being deployed for bank-wide credit management, automated concurrent audits, budgeting and regulatory reporting.

**Subsidiaries Highlights**

**Kotak Mahindra Prime Limited**

Kotak Mahindra Prime Limited ('KMP') is primarily engaged in car financing; financing of retail customers of passenger cars and multi-utility vehicles and inventory and term funding to car dealers. KMP finances new and used cars under retail loan, hire purchase and lease contracts.

The main streams of income for KMP are retail, dealer finance and fee based income. KMP also receives income from loans against securities, personal loans, corporate loans and developer funding, securitization / assignment transactions and recovery of acquired non-performing assets.

**Financial highlights**

₹ in crore

| Particulars | FY14 | FY13 | Growth YoY |
|---|---|---|---|
| Gross Income | 2,524.6 | 2,258.7 | 11.8% |
| Profit before tax | 751.7 | 641.0 | 17.3% |
| Profit after tax | 491.2 | 430.7 | 14.0% |

₹ in crore

| Particulars | 31 March 2014 | 31 March 2013 |
|---|---|---|
| Net Advances | 17,370.9 | 17,022.0 |
| - Car Advances | *13,273.5* | *12,776.8* |
| Net NPA | 56.5 | 35.8 |
| Net NPA % | 0.3% | 0.2% |
| ROA % | 2.6% | 2.6% |

The passenger car market in India saw degrowth of 5.9% for FY14 as compared to a growth of 2.4% for FY13. Total unit sales of cars and MUV's crossed 25.27 lakh units in FY14 versus 26.84 lakh units in FY13. KMP added 113,287 contracts in FY14 against 116,495 in FY13. KMP continued to focus on cost control and credit losses, while improving its positioning in the car finance market by scaling up the business.

Gross NPA for the year was ₹107.1 crore (0.6% of Gross Advances) while Net NPA was ₹ 56.5 crore (0.3% of Net Advances).

**Kotak Securities Limited ('KS')**

**Financial highlights**

₹ in crore

| Particulars | FY 14 | FY 13 |
|---|---|---|
| Gross Income | 626.9 | 607.0 |
| Profit before tax | 234.3 | 188.5* |
| Profit after tax | 160.2 | 114.5* |

** during FY13, the Co. has divested its stake in fellow subsidiary at a loss of ₹ 30 crore*

The Sensex which closed at 18,836 at the end of the FY13 closed at 22,386 at the end of the current financial year with a high of 22,467 and low of 17,449. Similarly, the benchmark Nifty which closed at 5,683 at the end of FY13 closed at 6,704 at the end of the current financial year with a high of 6,730 and low of 5,119.

Market average daily volumes in cash segment were almost flat - ₹ 13,412 crore from ₹ 13,204 crore in FY13, and increased to ₹ 154,023 crore from ₹ 127,995 crore in FY13 for Derivatives Segment. The shift in mix from the Cash segment to Derivatives segment continued. It was skewed further in favour of derivatives, with cash segment being less than 10% of the total traded market volumes.

The overall Institutional cash and derivatives market volume grew by about 14% and 17% respectively however industry yield remained under pressure. Derivatives market volume mix was largely in favour of Option segment. The division remained focused on derivatives segment and upgraded its systems and technology for Algorithmic & Direct Market Access trading. The Institutional Equity Research continued to be recognized for its in-depth high quality financial modeling, width of stock coverage and valuable investment insights, winning valuable votes from its clients.

In the retail segment, the focus was on the increasing market share in the Cash Segment where the margins are higher than other segments. The mobile trading application of the company has emerged as a market leader. Customer acquisition resulted in addition of about 97,800 customers with a large part of them being online trading customers. The total outlets stood at 1,157 at the end of the financial year. The number of registered sub brokers/ authorized persons stood at 1,896 for NSE and 1,361 for BSE.

The focus on cost control continued as a result of which total costs remained flat as compared to FY13.

**Kotak Mahindra Capital Company Limited ('KMCC')**

**Financial highlights**

₹ in crore

| Particulars | FY 14 | FY 13 |
|---|---|---|
| Gross Income | 84.9 | 83.3 |
| Profit before tax | 17.6 | 23.5 |
| Profit after tax | 14.2 | 16.7 |

KMCC is a leading, full-service investment bank in India offering integrated solutions encompassing high-quality financial advisory services and financing solutions. The services include Equity Capital Market issuances, M&A Advisory, Private Equity Advisory and Infrastructure Advisory & Fund Mobilization.

Equity Capital Markets

The Indian equity capital markets, both primary as well as secondary, remained fairly subdued in FY14. The year saw the successful completion of only one Initial Public Offering ("IPO") from the private sector and only two government divestments in the secondary market through Further Public Offerings ("FPOs"). A total of ₹ 268.09 billion was raised across IPO, FPOs, Qualified Institutional Placements ("QIPs"), Institutional Placement Programs ("IPPs") and Rights Issues, while ₹ 68.59 billion was raised from the secondary market through Offers for Sale ("OFS") (Source: Prime Database).

While the markets remained subdued, KMCC successfully completed 17 marquee transactions across various product formats. On the equity side, KMCC successfully completed two government disinvestments, three Rights Issues, three IPPs, five OFS and one block deal, raising a total of ₹ 15,237 crore. On the debt side, KMCC successfully completed three debt public offers raising a total of ₹ 7,578 crore (Source: PRIME Database).

KMCC dominated the FPO market, being a part of both the government disinvestments (Power Grid Corporation of India Limited and Engineers India Limited) that hit the Indian capital market in FY14. The FPO by Power Grid was the largest equity fund raise in the public market since January 2011, and the first FPO after a gap of over three years.

The Equity Deals that were concluded by the Company during the year include:

Power Grid Corporation of India FPO: ₹ 6,959 crore; Tata Power Co. Rights: ₹ 1,993 crore; Bharat Heavy Electricals block deal: ₹ 1,889 crore; DLF IPP: ₹ 1,863 crore; Engineers India FPO: ₹ 497 crore; Bajaj Corp OFS: ₹ 335 crore; Hindustan Copper OFS: ₹ 260 crore; Oberoi Relaty OFS: ₹ 194 crore; Puravankara Projects IPP: ₹ 192 crore; Puravankara Projects OFS: ₹ 116 crore; Kokuyo Camlin Rights: ₹ 110 crore; Mahindra Holidays and Resorts India IPP: ₹ 106 crore; Hindustan Media Ventures OFS: ₹ 23 crore.

KMCC was ranked the #1 Book Running Lead Manager for FPOs and Rights Issues in FY14. KMCC was ranked #4 across all Equity Offerings (IPO, FPO, QIP, OFS, IPP, Rights, Block Deals) in FY 2014 (Source: PRIME Database).

The Debt Deals (Public Issue of NCDs) that were concluded by the Company during the year include:

NTPC: ₹ 1,750 crore; Indian Railway Finance Corp. (Tranche I): ₹ 4,083 crore; Indian Railway Finance Corp. (Tranche II): ₹ 1,745 crore.

**Mergers & Acquisitions**

The challenges faced by the Indian economy in FY14 had an impact on M&A transactions with deal activity slowing down. However, the year saw an increase in the value of inbound transactions, with significant interest from global corporations to enter or expand their presence in India. With the Indian and global economy showing signs of recovery, M&A activity is also expected to regain momentum in FY15.

During the year, KMCC advised on a wide array of twenty one transactions ranging from Acquisitions & India Entry, Divestments, Private Equity investments, Internal Restructuring, and Open Offers and across sectors – Financial Services, Technology, Industrials, Auto, Healthcare, Telecom, Water Treatment, Infrastructure etc.

The India-Japan corridor continues to remain one of the most important and active markets for cross-border M&A involving India. Kotak Investment Banking continued its leadership by announcing 3 transactions this year in this corridor.

Some of the key Advisory deals that were announced/ concluded by the Company during the year include:

- Global alliance between Mahindra Group and CIE Automotive (Spain) in Auto components (merger ongoing) – USD 829 mn
- Divestment of Vijai Electricals Ltd. to Toshiba Corporation (Japan) – USD 200 mn
- Acquisition of 100% stake in Prizm Payments Services by Hitachi Ltd. – ₹ 1,540 crore
- Acquisition of the Branded Domestic Formulation Business of Elder Pharmaceuticals by Torrent Pharmaceuticals – ₹ 2,004 crore
- Acquisition of 26% strategic stake in UEM India Private Limited by Toshiba Corporation, Japan – Undisclosed
- Private placement of 2.6% stake by Kotak Mahindra Bank Limited to GIC Singapore – ₹ 1,296 crore
- Private Equity fund raise by Varroc Engineering Private Limited from Tata Capital Opportunities Fund – ₹ 300 crore
- Open Offer for Glaxo Smithkline Pharmaceuticals Limited – ₹ 6,389 crore

In the M&A league tables, KMCC was ranked #3 by volume of deals and #9 by value of deals in FY14 (Source: Bloomberg).

**Kotak Mahindra Old Mutual Life Insurance**

Kotak Mahindra Old Mutual Life Insurance is a 74:26 joint venture partnership between Kotak Mahindra Group and Old Mutual Plc, an international savings, wealth management and Insurance company based in UK.

Kotak Life Insurance is in the business of life Insurance, deferred annuity and providing employee benefit products to its individual and group clientele. The Company has developed a multi-channel distribution network to cater to its customers and markets through tied, alternate, group, direct marketing and online channels on a pan-India basis.

Private insurance industry as a whole registered a negative growth of 4.0% in gross premium terms, the Company registered an overall gross premium growth of 7.0%. Kotak Life market share stood at 4.3% of private Industry. The financial performance of Kotak Life Insurance for the current and previous financial year is given below:

**Financial highlights**

₹ in crore

| **Particulars** | **FY14** | FY13 |
|---|---|---|
| Gross Premium Income | 2,700.8 | 2,777.8 |
| First Year Premium ( Incl. Group and Single) | 1,271.8 | 1,188.1 |
| Profit Before Tax – Share Holders Account | 261.2 | 198.4 |
| Profit after Tax – Share Holders Account | 239.1 | 189.7 |

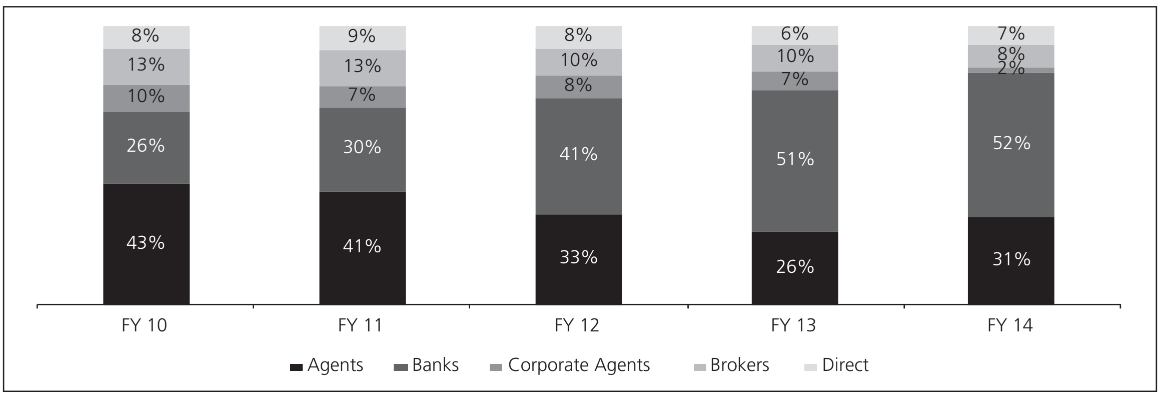
**Revenue Performance:**

The Company has recorded a growth of 7.0% in the Total New Business (NB) premium backed up by a strong presence in Group Business. The summary of Premiums is as under

₹ in crore

| Particulars | FY14 | FY13 |
|---|---|---|
| Individual Regular | 444.8 | 433.7 |
| Individual Single | 198.2 | 254.8 |
| Group Regular | 344.3 | 315.6 |
| Group Single | 284.5 | 184.0 |
| **Total NB Premium** | **1,271.8** | **1,188.1** |
| Renewal | 1,429.0 | 1,589.7 |
| **Gross Premium** | **2,700.8** | **2,777.8** |

**Distribution Mix (Individual business):**



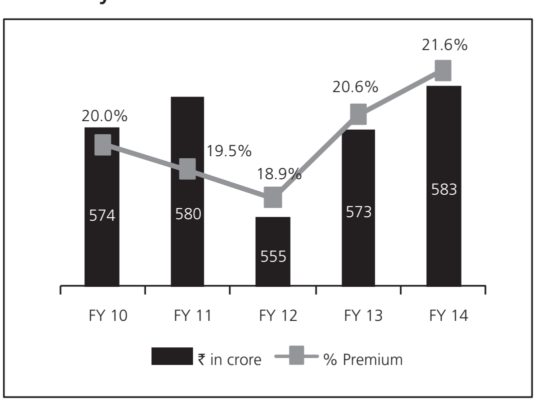

Post ULIP guidelines the share of Ulip in Total Premium has seen a steep fall. The share of Regular ULIP in Total Individual Premium has fallen from 96% in FY09 to 7% in FY14. The percentage of business done by Bancassurance is showing a steady increase from 26% in FY10 to 52% in FY14 (% of Total Individual Premium).

**Profits and Solvency:**

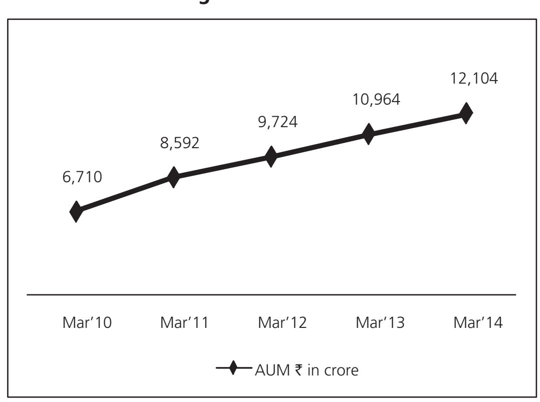
The Net worth of the Company increased by 30% to ₹ 1,041.8 crore from ₹ 802.7 crore. Company has a Solvency ratio of 3.02 against requirement of 1.5. Further, Conservation ratio is 70.6% in FY14 compared to 71.9% in FY13. The Company has set up a dedicated Retention team to further improve the retention of the premiums of the Company.

Operating Expense ratio has increased to 21.6% as against 20.6% in previous year. The Company is putting in efforts to bring in variabalisation of cost so as to bring the overall cost ratio down.

**Cost Analysis:**




**Assets under Management:**



**Network:**

Company has a network of 205 branches across 158 locations. The Company has 44,395 life advisors, 32 corporate agents and network of 144 empanelled brokers.

Social and Rural Obligation:

Company has written 33,944 rural policies (FY13 – 36,091) representing 21.2% of total Policies against regulatory requirement of 20%. Further, the Company has covered 1,352,611 social lives against the regulatory requirement of 55,000 (FY13 – 509,279). Company takes the social sector target not as an obligation, but with a sense of duty to the community as a life insurance company.

**Kotak Mahindra Asset Management Company Limited,**

**Kotak Mahindra Trustee Company Limited**

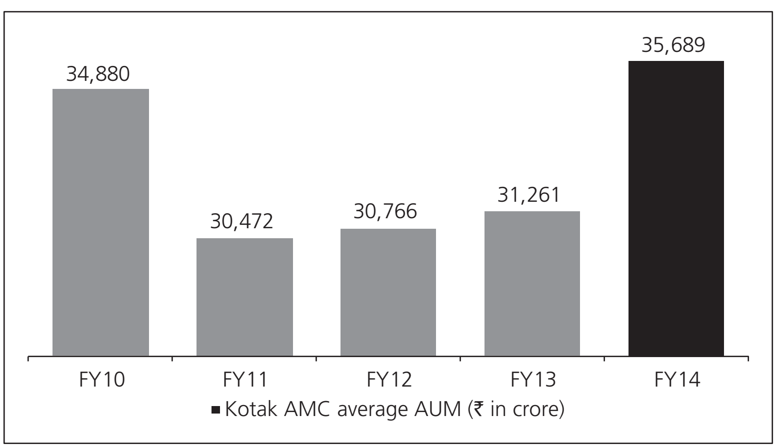
Kotak Mahindra Asset Management Company Limited ('KMAMC') is the asset manager of Kotak Mahindra Mutual Fund (KMMF) and Kotak Mahindra Trustee Company Limited ('KMTCL') is the trustee company.

**Financial highlights**

₹ in crore

| **Particulars** | **FY14** | FY13 |
|---|---|---|
| Gross Income | 177.0 | 129.2 |
| Profit before tax | 59.7 | 14.4 |
| Profit after tax | 41.0 | 12.0 |
| | | |
| **Particulars** | **Q4 FY14** | Q4 FY13 |
| Average AUM | 33,502.0 | 35,944.8 |
| Average Equity AUM | 3,442.0 | 3,000.0 |

AUM of KMAMC has increased over the years as shown in the chart below:




The total industry folios in Mar'14 was at 3.95 crore down from 4.28 crore in Mar'13. Kotak Mahindra Asset Management Company also saw its total live folio count decrease to 6.48 Lakhs in March 2014 from 7.63 Lakhss in March 2013.

The Funds managed by Kotak Mahindra Asset Management Company continued to strive for consistency and risk-adjusted return to their investors over the long term. The snapshot of the performance has been presented as under:-

| Equity Schemes | Benchmark | FY14 Returns (%) | Benchmark Returns (%) |
|---|---|---|---|
| Kotak Select Focus Fund | CNX 200 | 23.63 | 17.98 |
| Kotak Midcap Fund | CNX Midcap | 18.74 | 16.36 |
| Kotak Opportunities Fund | CNX 500 Index | 20.00 | 17.72 |
| Kotak Emerging Equity Fund | S&P BSE MID CAP | 17.10 | 15.31 |
| Kotak Balance | Crisil Balanced Fund Index | 13.14 | 13.40 |
| Kotak Classic Equity | CNX 500 Index | 17.01 | 17.72 |
| Kotak Equity Arbitrage | Crisil Liquid Fund Index | 9.32 | 9.54 |
| Kotak Taxsaver Fund | CNX 500 Index | 9.61 | 17.72 |
| Kotak 50 Fund | CNX Nifty Index | 14.38 | 17.98 |

| Debt Schemes | Benchmark | FY14 Returns (%) | Benchmark Returns (%) |
|---|---|---|---|
| Kotak Banking and PSU Debt Fund | Crisil Liquid Fund Index | 10.28 | 9.46 |
| Kotak Floater Long Term Scheme | Crisil Liquid Fund Index | 9.17 | 9.46 |
| Kotak Floater Short Term Scheme | Crisil Liquid Fund Index | 9.47 | 9.46 |
| Kotak Liquid | Crisil Liquid Fund Index | 9.45 | 9.46 |
| Kotak Flexi Debt Fund | Crisil Composite Bond Fund Index | 9.11 | 4.34 |
| Kotak Bond Short Term Plan | Crisil Short Term Bond Fund Index | 7.40 | 8.79 |
| Kotak Income Opportunities Fund | Crisil Short Term Bond Fund Index | 7.79 | 8.79 |
| Kotak Gilt - Investment Regular Plan | ISEC Composite Index | (0.41) | 3.96 |
| Kotak Bond - Plan A | Crisil Composite Bond Fund Index | 1.71 | 4.34 |

During the last financial year, Kotak Mahindra Asset Management Company has undertaken around 1,000 Investment Awareness Programmes covering about 23,750 investors. This is expected to increase awareness about mutual funds as a long term lucrative investment option.

**Kotak Investment Advisors Limited (Alternate asset management & advisory)**

Kotak Investment Advisors Limited ('KIAL') is the investment manager / advisor for private equity and realty funds.

**Financial Highlights**

₹ in crore

| Particulars | FY14 | FY13 |
|---|---|---|
| Total Income | 82.7 | 85.0 |
| Profit before tax | 25.3 | 43.3 |
| Profit after tax | 17.4 | 30.7 |

The aggregate alternate assets managed /advised by KIAL as at 31st March, 2014 was ₹ 5,717 crore (~ USD 0.95 billion). KIAL manages seven domestic funds and advises four offshore funds.

**Private Equity Funds**

(a) India Growth Fund

India Growth Fund (IGF) was set up as a unit scheme of Kotak SEAF India Fund with investors from select institutional and high net worth investors, from both India and abroad. IGF has made fifteen investments across diversified sectors such as logistics, technology services, retail, media and entertainment, engineering, bio-technology, textiles, aviation, telecom and power infrastructure and financial exchanges.

(b) Kotak India Venture Fund I

Kotak India Venture Fund I (KIVF-I) is a domestic fund with the objective of making investments primarily in companies operating in Biotechnology and Life Sciences sector. The Fund has made five investments till date.

(c) Kotak India Growth Fund II

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

**Realty Funds**

(a) Kotak Mahindra Realty Fund (KMRF)

The primary objective of KMRF is to invest in the real estate sector and allied services sectors in India. Kotak India Real Estate Fund-I (KIREF-I), Kotak India Real Estate Fund-IV and Kotak India Real Estate Fund-V have been set up as unit schemes of KMRF.

KIREF-I had fully committed its capital in ten investments, while KIREF-IV has made six investments and KIREF-V has made five investments.

Kotak Realty Fund closed its second international real estate fund, raising commitments of USD 400 million. The aggregate Capital commitments of the Realty Fund crossed the USD 1 billion mark.

(b) Kotak Alternate Opportunities (India) Fund

Kotak Alternate Opportunities (India) Fund (KAOIF) was set up with an objective of investing in the securities of companies operating in real estate, infrastructure and allied services sectors in India with an intention to provide long-term capital appreciation to its investors. KAOIF has till date made twenty two investments in a diversified portfolio.

**Kotak Mahindra Investments Limited ('KMIL')**

**Financial highlights**

₹ in crore

| **Particulars** | **FY14** | FY13 | Growth YoY |
|---|---|---|---|
| Total Income | 155.2 | 117.7 | |
| Profit before tax ('PBT') | 64.4 | 46.0 | 40.1% |
| Profit after tax ('PAT') | 42.1 | 33.6 | 25.3% |

| **Particulars** | **31 March 2014** | 31 March 2013 | |
|---|---|---|---|
| Net NPA | 7.2 | 14.0 | |
| Net NPA % | 0.5% | 1.7% | |

KMIL is primarily engaged in finance against securities, real estate financing and such other activities as holding long-term strategic investments. During the year, the Company broadened its financing activities which included lending to Real Estate Sector, Corporate Loans and Structured finance. KMIL's strategy has been of relationship management & penetration, continuous product innovation coupled with tight control on credit quality and effective risk monitoring & management.

The Company reported a total PBT of ₹ 64.4 crore (P.Y. ₹ 46.0 crore) for FY14 registering 40% growth YoY.

The advances has increased to around ₹ 1,612 crore (P.Y. ₹ 834 crore) during the year under consideration. However the CRAR of the company is comfortable at 26.3% (Tier I : 26.0%).

Gross NPA as at 31st March 2014 reduced to ₹ 15.0 crore from ₹ 18.9 crore in the previous year primarily due to recoveries from the clients.

**Kotak International subsidiaries:-**

**Financial highlights for international entities:**

₹ crore

| **Particulars** | **FY14** | FY13 |
|---|---|---|
| Total Income | 134.5 | 120.5 |
| Profit before tax | 10.6 | 7.1 |
| Profit after tax | 6.9 | 6.3 |

Kotak International subsidiaries consist of following five companies:-

1. Kotak Mahindra (UK) Limited
2. Kotak Mahindra International Limited

3. Kotak Mahindra, Inc.
4. Kotak Mahindra Financials Services Limited
5. Global Investments Opportunities Fund Limited

The Bank has overseas subsidiaries with offices in Mauritius, London, Dubai, Abu Dhabi, Singapore and New York.

The international subsidiaries are mainly engaged in investment advisory and investment management of funds, equity & debt trading, management of GDR/ FCCB issuances, broker and broker dealer activities and investments.

While Foreign Institutional Investors ("FIIs") brought in USD13.4 billion into Indian capital market during the current year, India dedicated equity funds continued to witness outflows reflecting investor's continued preference for developed markets, and diversified country exposure within emerging markets. These had a bearing on the India dedicated (equity) off shore funds managed by the International subsidiaries which witnessed fall in the Asset under Management (AuM) and hence the investment management income earned.

Assets managed/ advised by the international subsidiaries were at ₹ 10,001.1 crore (USD 1.66 billion) as on 31st March, 2014.

The Bank has set-up a subsidiary in Singapore in Mar'14 namely, Kotak Mahindra Asset Management (Singapore) Pte Ltd to exclusively undertake asset management activities. The company is in process of obtaining regulatory approvals from the Monetary Authority of Singapore.

**Risk Management**

The Bank believes in prudent risk taking, in line with its strategic objectives. Risk is managed in the Group under an Enterprise wide Risk Management (ERM) framework that aligns risk and capital management to business strategy, protects its financial strength, reputation and ensures support to business activities while enhancing shareholder value.

The ERM framework lays down the following components for effective risk management

- Risk organisation structure with clear framework of risk ownership and accountability
- Governance standards and controls to identify, measure, monitor and manage risks
- Policies to support and guide risk taking activities within the Bank

The Bank has an independent Risk function that provides an independent and integrated assessment of risks across various business lines. The Risk function also participates in activities that support business development such as new product approvals and post implementation reviews.

The Bank's risk management process is the responsibility of the Board of Directors and they are supported by various management committees as part of the Risk Governance framework. These committees include Risk Management Committee (RMC), Asset Liability Committee (ALCO), Credit Committee, Audit Committee etc. The Bank operates within overall limits set by the Board and Committees delegated powers by the Board.

**A. Capital Adequacy**

The Group maintains a strong capital position with the capital ratios well in excess of regulatory and Board Approved minimum capital adequacy at all times. The strong Tier I capital position of the Group is a source of competitive advantage.

In accordance with the RBI guidelines on NCAF (New capital adequacy framework under Basel norms), the Bank adopts the standardized approach for credit risk, basic indicator approach for operational risk and standardised duration approach for market risk.

Each legal entity within the group, manages its capital base to support planned business growth and meet regulatory capital requirements. The Bank and each legal entity in the Group are adequately capitalised above regulatory requirements.

**B. Risk Appetite**

The Risk appetite is an expression of the risks, the Bank is willing to take in pursuit of its financial and strategic objectives. The Risk appetite thus sets the outer boundaries for risk taking at the Bank Risk Appetite forms a key input to the business and capital planning process by linking risk strategy to the business strategy, through a set of comprehensive indicators.

The Risk appetite is defined in quantitative terms and subjected to regular review by the Board. The framework is operational at the consolidated level as well as for key legal entities thereby ensuring that our aggregate risk exposure is within our desired risk capacity.

**C. Credit Risk**

Of the various types of risks which the Bank assumes, credit risk contributes to the largest regulatory capital requirement.

Credit risk arises as a result of failure or unwillingness on part of customer or counterparties' to fulfil their contractual obligations. These obligations arise from wholesale, retail advances and off balance sheet items. Credit risks also emanate from investment and trading portfolio by way of issuer risk in debt paper, counterparty risk on derivative transactions and downgrade risk on non SLR investments and OTC contracts.

As articulated in the Bank ERM framework, primary responsibility for credit risk management rests with business lines supported by the independent credit risk function. The ERM framework ensures that a consistent approach is applied to identify, measure, monitor and manage credit risk. The Bank has framed Credit policies & Standards that sets out the principles and control requirements under which the Bank is prepared to assume credit risk in various business divisions to ensure smooth & timely flow of credit to the Bank's customers while ensuring prudent credit growth. The policies and standards cover all stages of the credit cycle – origination, evaluation, approval, documentation, administration, and monitoring.The Bank has credit approving authorities and committee structures and a set of formal limits for the extension of credit, linked to the risk levels of the borrower and transaction. The Credit Policy and delegation of authority are linked to customer ratings. Appropriate credit appraisal standards are enforced consistently across business lines.

Wholesale and retail portfolios are managed separately owing to difference in the risk profile of the assets. Wholesale lending tend to be larger and are managed on an individual basis while retail advances being mainly schematic lending (for e.g. vehicle loans, mortgage loans etc) within pre-approved parameters for smaller value, are managed on a portfolio basis. Business-specific credit risk policies and procedures including client acceptance criteria, approving authorities, frequency of reviews, as well as portfolio monitoring framework are in place.

The Bank's credit process is divided into three stages - pre-sanction, sanction and post -sanction.

At the pre-sanction stage, the independent credit function within respective businesses conduct credit appraisal and assign a borrower credit rating based on internal rating model that takes into consideration the relevant credit risk factors. The Bank has operationalized various rating models depending upon the borrower size and segment. The borrower rating is supplemented by the facility rating system, which considers mitigants, such as collateral and guarantees. The ratings are finalised by designated approvers.

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

As part of the post sanction process, the Credit Administration team processes documentation, on the completion of which, credit is disbursed. In accordance with credit policies, the borrowers are subject to an annual review with updated information on financial position, market position, industry and economic condition and account conduct. Corrective actions are taken on signs of credit deterioration. There is regular reporting on portfolio distribution by risk grades, monitoring of covenants prescribed as part of sanction and pending documentation if any. A dedicated industry research group (IRG) monitors sectoral outlook and performance of borrower within the sector and places its report to senior management. An independent loan review team conducts reviews of credit exposures. The Bank has implemented an enterprise wide Early Warning Signal (EWS) framework that through regularly updated watch lists and review meetings helps identify signs of credit weakness at an early stage for the Bank to work closely with the borrowers and take suitable remedial actions.

**D. Collateral and Credit Risk Mitigation**

Mitigating risks is a key element of internal credit policies. Risk mitigation in the Bank, begins with an assessment of the borrower, along financial and non-financial parameters, to meet commitments. Other approaches to mitigate credit risks include facility structuring, obtaining security / collateral and lending covenants. The credit policies lay down parameters for acceptable level of credit risk. When granting credit facilities, the sanctioning authorities base their decision on credit standing of the borrower, source of repayment and debt servicing ability. The Bank uses a variety of techniques to manage credit risk from the lending business. Based on the risk profile of the borrower while facilities may be provided unsecured, within the Board approved limits for unsecured lending, collateral is taken wherever needed for mitigating the credit risk assumed. Lending decisions are made based on the character and repayment capacity of the borrower. The Bank has an approved Collateral management policy that sets out the acceptable types of collateral and the hair cut applicable on their valuation for lending. The Credit Administration and Legal function ensure that there is adequate legal documentation to establish our recourse to any collateral, security or other credit enhancements. The main types of collateral / security taken include cash & cash equivalents, immovable property, movable fixed assets, inventory and receivables. Guarantees from higher rated entities are also obtained in cases where credit worthiness of the standalone borrower is not sufficient to extend credit.

**E. Credit Risk Concentration**

Risk Appetite of the Bank mandates a diversified portfolio. Risk concentrations arise in the credit portfolio as a consequence of the Bank business strategy. The Bank differentiates between desired and undesired concentrations. Desired concentrations are where the Bank sees a favourable risk return trade-off to build its credit portfolio. To avoid undue concentration in credit exposures and maintain diversification, the Bank operates within Board approved limits or operational controls in its loan portfolio.

Some of the key portfolio limits to mitigate concentration risk include:

- Single borrower limits
- Exposure to borrower groups
- Substantial exposure limits
- Sector & Industry limits
- Exposure limits on below investment grade accounts

Exposures are monitored against approved limits to guard against unacceptable risk concentrations, and appropriate actions are taken in case of any excess.

**F. Market Risk in Trading Book**

Market Risk is the risk that earnings or capital will be adversely affected by adverse changes in market factors such as interest rates, foreign exchange rates, volatilities, credit spreads, commodity and equity prices. The Bank's positions in debt, foreign exchange, derivatives, and equity are subject to Market Risk.

The Board Approved Investment Policy sets out the Investment Philosophy of the Bank and approach to Market Risk Management. The Asset Liability Management Committee (ALCO) of the Bank oversees the Market Risks in the Trading Book and the Banking Book. This committee approves the market risk & limit framework, allocation of limits to countries, counterparties, banks & desks and reviews the risk monitoring systems and risk control procedures.

Risk limits are monitored and utilizations are reported by the Market Risk Management unit. Market Risk Management unit is independent of the dealing function and the settlements function and reports directly to the Group –Chief Risk Officer. The unit is responsible for identifying and escalating any limit excesses on a timely basis. This unit ensures that all market risks are identified, assessed, monitored and reported – for management decision making.

The Bank's limit-framework is comprehensive and effectively controls market risk. Limits on sensitivity measures like PV01, Duration, Delta, Gamma, Vega etc. and other limits like loss-limits, value-limits, gap-limits, deal-size limits, holding-period limits constitute the Bank's limit framework.

The Bank uses Value-at-Risk (VaR) to quantify the potential price risk in the portfolio. Value at risk (VaR) is a statistical measure that estimates, at a certain confidence level, the potential decline in the value of a position or a portfolio under normal market conditions assuming a holding period. The Bank's VaR model is based on historical simulation and a confidence level of 99%. Value-at-Risk limits have been set on all trading portfolios. The VaR model of the Bank has been independently validated by an external agency. The VaR model is periodically validated through a process of back testing.

The Bank also uses metrics like Stressed Value-at-Risk and periodically performs Stress testing & Scenario Analysis to measure the exposure of the Bank to extreme, but plausible market movements. The Market Liquidity Risk of the trading portfolio is also periodically assessed.

**G. Liquidity Risk**

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due without adversely affecting its financial condition. Liquidity is also bank's capacity to fund increase in assets and has the potential to constrain growth through depletion of resources available for lending and investment.

Asset Liability Management Committee (ALCO) of the Bank defines its liquidity risk management strategy and risk tolerances. Balance Sheet Management Unit (BMU) of the bank is responsible for managing liquidity under the liquidity risk management framework. Bank actively manages its liquidity risk covering both funding risk and market liquidity risk.

The Bank maintains a diversified funding profile with emphasis on building retail franchise to increase stable deposits. The Bank also ensures that there is sufficient liquidity headroom available, including stock of liquid assets, at all times to manage any contingency.

Liquidity risk is assessed in the Bank from both structural and dynamic perspective and the bank using various approaches like Stock approach, cash flow approach & stress test approach to assess liquidity risk. Bank has also set prudential internal limits in addition to regulatory limits on liquidity gaps, call borrowing, interbank liabilities, etc. The Bank also manages its intra-day liquidity positions so that payments and settlement obligations are met on a timely basis.

Bank follows scenario based approach for liquidity stress testing wherein hypothetical but plausible scenarios are employed to evaluate the impact of stress on the liquidity position. Bank is also assessing the liquidity under stress conditions using Basel III Liquidity Ratio i.e. liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). These measures have been incorporated as part of bank's risk appetite definitions and thresholds.

Bank's contingency liquidity plan (CLP) approved by ALCO and the Board plays an important role in its liquidity risk management framework. It incorporates early warning indicators (EWIs) to forewarn emerging stressful liquidity conditions. The plan also defines actions in the event of liquidity crisis to minimise adverse impact on the Bank.

**H. Interest Rate Risk in Banking Book (IRRBB)**

In Bank, interest rate risk results from both trading book and banking book. Interest rate risk in banking book (IRRBB) risk mainly arises through mismatches in re-pricing of interest rate sensitive assets (RSA), rate sensitive liabilities (RSL) and rate sensitive off-balance sheet items in the banking book. Bank assesses and manages interest rate risk in its banking book as well as including trading book. Interest rate risk is a part of the Bank risk appetite statements.

ALCO is the guiding body for management of IRRBB in the bank and sets the overall policy and risk limits. Balance Sheet Management Unit (BMU), which is part of the treasury, is entrusted with the responsibility of IRRBB. BMU uses Funds Transfer Pricing (FTP) to transfer risk from business units to centralized treasury. As a policy, no interest rate risk is retained within any business other than treasury.

Bank manages and controls the interest rate risk from two different perspectives, namely the earnings perspective and the economic value perspective. It uses earnings at risk (EaR) as a short term risk indicator to assess the sensitivity of NII and NIM to change in interest rates. From an economic perspective, which is a long term risk indicator, it uses duration approach to determine the sensitivity of economic value of equity (EVE) to changes in interest rates.

**I. Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. This definition includes legal risk but excludes reputational risk. Therefore, in line with the Basel II risk management framework and best practices, operational risk in Bank; is composed of the following risk types: operations risk, legal risk, regulatory compliance risk, financial crime risk, people risk, property, technology, vendor, financial, and environmental risk.

The objective of operational risk management at the Bank is to manage and control operational risk in a cost effective manner within targeted levels of operational risk as defined in the risk appetite. The centralized and independent operational risk management function manages this risk as guided by the Board approved operational risk management policy.

The operational risk management function assists businesses by defining standardized tools and techniques such as monthly update to management on critical events, Real time incidence reporting of Unusual Events, Risk and control self-assessment (RCSA) to identify and assess operational risks and the controls in place to manage those risks.

The Bank has an internal framework for reporting and capturing operational risk incidents. Significant incidents reported are investigated to assess weaknesses in controls and identify areas for improvement. External operational events are also collated to identify potential risks as this helps in strengthening our systems.

The operational risk strategy of the Bank, aims to reduce the likelihood of occurrence of unexpected events and related cost by managing the risk factors and implementing loss prevention or reduction techniques.

The Board of Directors, Risk Management Committee and the Operational Risk Executive Council (OREC) in the business units have overall oversight function for operational risk management. The Business Units and the support functions are the first line of defence in our operational risk management process. They own, manage and are accountable for the operational risks and controls in their respective areas. The independent Operational Risk Management function lays down the operational risk management policies, standards, processes, procedures; and operational risk management framework under which the business units and support functions operate. Internal audit and Internal Control teams provide oversight over business control activities and assurance that activities are conducted as per laid down guidelines.

**J. Internal Capital Adequacy Assessment Process (‘ICAAP’)**

ICAAP is an assessment of all significant risks (Pillar II), other than Pillar I risks, to which the Bank is exposed. As part of this process, the Bank identifies risks and determines the level of capital sufficient to cover those risks. The ICAAP framework thus assists in aligning capital levels with the risks inherent in the business and growth plans. The capital planning under ICAAP takes into account the demand for capital from businesses for their growth plans and ensures that the Bank is adequately capitalised for the period ahead and holds sufficient buffers to withstand stress conditions.

The business growth plans factor in the need to maintain the target credit rating threshold return ratio and other key parameters specified in the Risk Appetite. The budgeting process under ICAAP thus ensures that the overall risk and rewards are aligned with Risk Appetite.

The Bank has methodologies that help in capital allocation towards quantifiable Pillar II risks. The capital required thus identified are additive and represent a conservative assessment. The Bank factors liquidity risk as part of its ICAAP & stress testing. The Bank is of the view that its strong capitalization helps it maintain a robust liquidity profile.

During the year, the Bank prepared its annual ICAAP outcome that was approved by the Board and submitted to the regulator. Based on the ICAAP outcome, the Bank was well capitalized to cover Pillar I & Pillar II risks.

**K. Stress Testing**

Stress tests are an integral tool in the Risk Management framework as they provide management a better understanding of how portfolios perform under adverse economic conditions.

The Bank supplements capital adequacy computation by performing stress tests, guided by a comprehensive Board approved stress testing policy. The Bank tests its portfolio and projections across a range of historical and hypothetical stress scenarios that provide for severe shocks to various risk parameters. Impact of the stress scenarios is then assessed on profit and loss and capital levels to determine the level of additional capital if any that will be needed to absorb losses experienced during a stress condition. Stress test results are reported to management and the Board.

The stress testing exercise provides an opportunity to the Bank to develop suitable mitigating response prior to onset of actual conditions exhibiting the stress scenarios. During the year, the Bank was above regulatory and internal target capital ratios under all approved stress scenarios.

In December 2013, the RBI issued revised guidelines on Stress testing. The guidelines provide for minimum level of stress testing that varies with the nature, scope, scale and the degree of complexity in the bank’s business. The guidelines are effective from 1st April, 2014 and the Bank is well placed to implement the guidelines.

**L. Leverage ratio**

The Basel III rules have introduced leverage ratio as a non-risk-based backstop measure, to supplement risk-based capital requirements. The leverage ratio is a volume-based measure and is calculated as Basel III Tier I capital divided by total on and off-balance sheet exposures. The Basel Committee will test a minimum Tier I leverage ratio of 3% during the parallel run period from 1st January, 2013 to 1st January, 2017. During the period of parallel run, the RBI has prescribed a minimum leverage ratio of 4.5%. Monitoring and reporting leverage ratio has been part of our internal Risk Management since April 2011 and is more conservative than the regulatory requirement. The Bank is above the internal leverage ratio target at the Standalone and Group level.

**Compliance**

An independent and comprehensive compliance structure addresses the Bank's compliance and reputation risks. All key subsidiaries of the Bank have an independent compliance function. Compliance officials across the group interact on various issues including the best practices followed by the respective companies.

The compliance framework, approved by the Board, broadly sets out the compliance risk management processes and tools to be used by businesses, management and compliance officers for managing its compliance risks. Apart from the Bank's compliance framework, Bank and all the subsidiary companies have their own compliance manuals.

The compliance function is responsible for all aspects of regulatory compliance across the Bank. There are dedicated resources deployed to focus on areas like KYC/AML, review & monitoring and advice on regulatory issues.

The compliance team not only provides compliance assistance to various businesses / support functions but also support top management and manages and supervises the compliance framework.

Compliance division works with business units to develop procedures to implement the requirements of the various regulations and policies. It also works closely with other support functions including the legal department and outside counsels.

The Bank uses the knowledge management tools for monitoring new and changes in existing regulations. The Bank also looks at regulatory websites and participates in industry working groups that discuss evolving regulatory requirements. In-house compliance newsletter keeps the employees abreast of the key regulatory updates affecting the businesses of the Bank and its subsidiaries. Compliance also disseminates the changes in the regulations by way of compliance alerts to all the employees. Training on compliance matters is imparted to employees on an ongoing basis both online and classroom. The compliance department keeps the management / Board informed about important compliance related matters through monthly, quarterly and annual compliance reviews.

Thematic audit: RBI had carried out a scrutiny of books of accounts of the Bank along with its internal controls, compliance systems and processes along with 39 other banks in India in April 2013. RBI had imposed penalty on 31 banks pursuant to the scrutiny. During the audit of the Bank, RBI has gone into various aspects relating to KYC practices prevalent in the Bank. While RBI has not found anything wrong with the Bank's KYC and AML implementation, it has found that our "risk categorization" of the customers was not fully in sync with their prescriptions. The penalty imposed on Kotak Mahindra Bank amounted to ₹ 1.51 crore.

**Measures taken by the Bank to prevent recurrence:**

- The Bank has a well laid down KYC policy as per the prescriptions of Reserve Bank of India. The Bank's policy in fact, has aspects which are more stringent than what is prescribed by RBI for customer identification and customer acceptance. The internal instructions have been reiterated and processes revisited to ensure that regulatory prescriptions are adhered to strictly.
- Bank has since replaced the risk categorization model and brought it in line with RBI prescriptions. This has also been advised to RBI. RBI has also revised its instructions on KYC and risk categorization on 12th July 2013. We have put in place revisions in our systems to ensure fulfillment of these guidelines.
- The KYC policy is reviewed on an ongoing basis with the approval of our Board and the entire architecture of the implementation of the policy will continued to be supervised at senior management level.

**Other compliance and control measures**

Bank is also strengthening the compliance culture through regular interactions of the Compliance Department officials with the Businesses. Compliance Department is also undertaking reviews of critical business areas periodically and also imparts training inputs to ground level staff which helps them understand the details of regulations and their spirit. Regular interaction with the Regulators is also undertaken to have the correct perspective of regulations.

**Internal controls**

The Bank's internal audit department assesses business and control risks of all branches and businesses to formulate a risk-based internal audit plan, as recommended by the RBI. The audit process followed is as below:

An annual risk-based internal audit plan is drawn up on the basis of risk profiling of Bank's branches and businesses/ departments which is approved by the audit committee.

The audit plan is prioritised based on areas which pose a higher risk to the Bank and such areas and branches are targeted for more frequent audits. The Internal Audit policy includes the risk assessment methodology which provides for coverage of all auditable areas once in three years.

After assessing the overall risk of a branch or business or department, the Bank takes corrective measures to minimize the risk. Most businesses have an internal Risk Containment Unit or Internal Controls cell to assess the efficacy of the controls put in place to mitigate identified risks and to identify new risks. Senior officers also assess and evaluate the mitigating measures taken by the branch during their visits.

Post issue of audit reports there is a detailed process for monitoring of progress on implementation of action plans.

Status of resolution tracking as well as pending issues is reported to senior management and audit committee of the board on a regular basis and a formal report on pending issues is issued once every half-year.

**Human Resources**

As on 31st March 2014, the employee strength of the Bank along with its subsidiaries was over 26,700 as compared to around 23,800 employees a year ago. The Bank standalone had over 16,000 employees as of 31st March 2014. Some statistics for the employees of the Bank are as follows:

- The average age of the employees is 32 years.
- Close to 45% of the employee base is professionally qualified with a healthy mix of CAs, MBAs and other post graduates.

The Bank continues to strengthen its frontline talent pipeline through further tie ups with educational institutions for providing the Bank with good quality pre-trained manpower.

A key intervention has been in the area of career & succession planning - a program to induct talent from premier institutes from the FMCG industry to take up Deputy Branch Manager positions across the Bank. Management Trainees hired from premier institutes (A+ category) were also inducted through a holistic orientation program including exposure to the Rural Branch set ups.

For enhanced leadership capability Branch Managers from top performing branches pan India have gone through an extensive Development Centre initiative, wherein focus was to enhance Branch Manager productivity and effectiveness. A significant investment has also been for Sales leadership programs with an objective to increase focus and bring in granularity in building the sales pipeline and input rather than just the outcomes. Strategic leadership programs with IIM Kozhikode and Harvard Business School were also done.

With a continued focus on building employee engagement levels, the Bank alongwith most of its subsidiaries undertook an organization wide engagement study. With an 87% participation rate it has provided the Bank with feedback on various employee parameters which would be the basis of action plans across various work groups.

Organizational culture aspects like trust & inclusiveness were reiterated through cross functional meets conducted by senior business leaders for employees at mid management level. Diversity initiatives were given a thrust by setting up of a dedicated team to address women issues at workplace, group mentoring programs with senior women leaders, revision of the Policy for Sexual Harassment at workplace and tie ups for hiring differently abled candidates.

The Bank and its subsidiaries continued to carry out several interventions to attract, retain and develop a pool of highly committed, motivated and skilled employees aligned to the firm’s vision and engaged in delivering best in class products and services in our next phase of growth.

**Opportunities and Threats**

**Opportunities**

- Being part of the India’s growth story
- Participate in growth in non-urban India – “The Bharat”
- Improve share of low cost deposits
- Focus on Digital and Affluent customer
- Financial inclusion

**Threats**

- Inflation and economic slowdown
- Political uncertainty
- Fiscal deficit and Current account deficit
- Volatile environment
- Attracting and retaining talent and training them for the right culture
- Competition

**Outlook**

Kotak Mahindra Group's results for the financial year demonstrate the strong fundamental growth in the India story. However, concerns remain on inflation and the twin deficits – fiscal and current account. The group believes with sound risk management and strong Capital adequacy ratio, the India of the future offers opportunities for growth.

**Safe harbour**

This document contains certain forward-looking statements based on current expectations of Kotak Mahindra management. Actual results may vary significantly from the forward-looking statements contained in this document due to various risks and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India and outside India, volatility in interest rates and in the securities market, new regulations and Government policies that may impact the businesses of Kotak Mahindra Group as well as its ability to implement the strategy. Kotak Mahindra does not undertake to update these statements.

This document does not constitute an offer or recommendation to buy or sell any securities of Kotak Mahindra Bank or any of its subsidiaries and associate companies. This document also does not constitute an offer or recommendation to buy or sell any financial products offered by Kotak Mahindra, including but not limited to units of its mutual fund and life insurance policies.

All investments in mutual funds and securities are subject to market risks and the NAV of the schemes may go up or down depending upon the factors and forces affecting the securities market. The performance of the sponsor, Kotak Mahindra Bank Limited, has no bearing on the expected performance of Kotak Mahindra Mutual Fund or any schemes there under.

Figures for the previous year have been regrouped wherever necessary to conform to current year's presentation.

# Business Responsibility Report

Kotak Mahindra Bank Ltd. (KMBL) believes that financial institutions play a pivotal role in catalysing sustainable economic growth that can deliver equitable development for all. Translating this belief into actions, the Bank continually strives to intertwine Environmental, Social and Governance aspects with all facets of business operations and stakeholder dealings. This is implemented through KMBL's Business Responsibility (BR) agenda. A comprehensive BR policy framework supported by a robust governance structure has been adopted.

The BR disclosures presented in this report illustrate KMBL's efforts towards creating enduring value for all stakeholders in a responsible manner which also contributes to environmental sustainability. The Business Responsibility Report (BRR), covering the Bank's operations, is aligned with National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVG-SEE) released by Ministry of Corporate Affairs, and is in accordance with Securities and Exchange Board of India's (SEBI) Clause 55 of the listing agreement with stock exchanges.

This report builds on the BR issues that are of material interest to KMBL and its stakeholders. The material issues' identification is based on an assessment which includes a review of KMBL's Business Vision, Mission and Values, current applicable laws and regulations, and industry risks and opportunities. This report is a transparent and balanced disclosure of KMBL's business responsibility impacts and performance covering the nine principles of NVG-SEE.

**Principle 1: Ethics, Transparency and Accountability**

**Business Responsibility Governance**

KMBL's philosophy of corporate governance goes beyond a set of policies and practices to promote it as an integral element of Kotak's culture. The robust corporate governance framework of the Bank guides the organisation's efforts to conduct business in an ethical, responsible and transparent manner. Details on KMBL's corporate governance structure and standards can be found in the 'Report on Corporate Governance' section of this annual report.

The corporate governance framework is supported by a whistleblower mechanism to empower employees to report wrongdoings in a free and frank manner, without the fear of reprimand. Whistleblowers are provided access to a third-party managed online portal to report such incidents, which is first of its kind in the banking sector in India. The whistleblower mechanism is also extended to customers.

KMBL constituted a Business Responsibility Committee (BRC) in FY 2012-13, which has been entrusted with the responsibility of overseeing the Bank's BR agenda and initiatives. The committee comprises of four senior executives and is chaired by a whole time director. A senior executive has been appointed as Head of Business Responsibility, who reports to this Committee.

**Business Responsibility Committee:**

| | | |
|---|---|---|
| 1 | Mr. C. Jayaram | Joint Managing Director |
| 2 | Ms. Shanti Ekambaram | President, Consumer Banking |
| 3 | Mr. Karthi Marshan | Executive Vice President, Head - Group Marketing |
| 4 | Mr. Rohit Rao | Executive Vice President, Head – Group Corporate Communications, Business Responsibility & CSR |

In FY 2013-14, two meetings of the Committee were held on July 3, 2013 and November 1, 2013. The meetings were attended by all members of the Committee, except Shanti Ekambaram who attended one meeting.

The Corporate Social Responsibility (CSR) performance is reviewed by the Bank's Board at Board Meetings. KMBL and its subsidiaries have reviewed its Policy Statement on Corporate Social Responsibility to strengthen it in accordance with Section 135 and Schedule VII requirements of Companies Act, 2013. The Bank has established a CSR Committee to strategically guide it in effective implementation of its Policy Statement on Corporate Social Responsibility. The CSR Committee comprises of one independent director and two whole time directors.

**CSR Committee**

| | | |
|---|---|---|
| 1 | Mr. C. Jayaram | Joint Managing Director |
| 2 | Mr. Dipak Gupta | Joint Managing Director |
| 3 | Prof. S. Mahendra Dev | Independent Non-Executive Director |

**Policy Framework**

The Bank has institutionalised a comprehensive policy framework supported by strong internal controls, which guides the Bank's operations to achieve business excellence. Relevant regulations and standards, which are both mandatory as well as voluntary, and international best practices are considered in formulating various policies for the Bank. Compliance to various regulatory and internal policies is periodically reviewed by the Board and/or senior management and is subject to internal and/or external audit procedures. Compliance is also reported to regulatory agencies as required under various regulatory and banking norms.

| Sr. No | Business Responsibility Principles | Relevant Policies |
|---|---|---|
| 1 | Ethics, Transparency and Accountability | Code of Conduct (Directors, Employees; Direct selling agents); Ethical Conduct Policy; Vigilance Policy; Whistleblower Policy; Code for Banking Practice; Compliance Policy; Internal Audit Policy; Fraud Risk Management Policy; Operational Risk Management Policy; Stress Testing Framework Policy; Group Enterprise Risk Management Policy; Disclosure Policy, Protected Disclosure Scheme; Policy Statement on Business Responsibility; Intellectual Property Rights Policy; Know Your Customer Policy & Anti Money Laundering Policy |
| 2 | Products Life Cycle Sustainability | Financial Inclusion Plan; Social Environmental Management System Plan; Policy Statement on Business Responsibility |
| 3 | Employees' Well-Being | Recruitment and Separation Policies; Employee Benefits Policies; Leave Policy; Training Policy; Prevention of Sexual Harassment Policy, Policy Statement on Human Rights and Anti-Discrimination; Policy Statement for Health, Safety & Welfare at Work Place; Policy Statement for Environment; Policy Statement on Business Responsibility, Part-time Working Policy |
| 4 | Stakeholder Engagement | Group Corporate Responsibility Policy; Policy Statement on Business Responsibility |
| 5 | Human Rights | Policy Statement on Human Rights and Anti-Discrimination; Policy Statement on Business Responsibility |
| 6 | Environment | Policy Statement for Health, Safety & Welfare at Work Place; Policy Statement for Environment; Policy Statement on Business Responsibility |
| 7 | Policy Advocacy | Policy Statement on Public-Policy Advocacy; Policy Statement on Business Responsibility |
| 8 | Inclusive Growth | Group Corporate Responsibility Policy; Policy Statement on Corporate Social Responsibility; Policy Statement on Business Responsibility |
| 9 | Customer Value | Fair Practice Code; Code for Banking Practice; Fair Practices Code for Lenders; Group Corporate Communications Policy; Third Party Distribution Policy; Protected Disclosures Scheme; Disclosure Policy; Grievance Redressal Policy; Customer's Compensation Policy; Waiver Policy; Policy Statement on Business Responsibility; Intellectual Property Rights Policy; Information Security Management Policy (Apex) |

**Principle 2: Products and services designed with environmental and social opportunities**

**Financial Inclusion**

Formal banking system is yet to completely penetrate the largely unbanked rural areas of India. Regulators along with financial institutions and other partners have made significant strides in bridging the barriers to formal banking sector among unbanked areas by introducing initiatives like basic savings accounts, Electronic Benefit Transfers (EBT), Direct Benefit Transfers (DBT) etc. KMBL shares the vision of Reserve Bank of India (RBI) for Financial Inclusion (FI) and actively participates in the national FI agenda. KMBL views FI as a potential market opportunity, beyond a mandatory obligation, to expand its network by providing customised products and services for this segment of customers through innovative service delivery mechanism. KMBL reaches out to some of the disadvantaged, vulnerable and marginalised sections of society through this agenda and empowers them with financial solutions that can contribute to poverty alleviation through efficient money management.

KMBL has successfully implemented its three year Financial Inclusion Plan (FIP) introduced in 2010, and has rolled out its new three year FIP in 2013 with renewed vigour. The Bank's Board approved FIP is integrated with its business plans to achieve wider outreach through evolving models and leverage on technology-based solutions. Specialised resources have been deployed to successfully implement FIP.

A total of over 42,000 Basic Savings Bank Deposit Accounts (BSBDA) & Small accounts were added in FY 2013-14, taking the cumulative total to over 3,07,000. KMBL continued the Business Correspondents (BC) arrangement with FINO Fintech Foundation and Manipal Technologies Limited. KMBL and its BC partners work in tandem to create customer awareness relating to the latest financial services offered by the bank. Information on products offered under the FI initiative is also made available in local languages, enabling customers to better understand the products.

In FY 2013-14, KMBL has issued over 16,600 instant Smart Cards (E-Pass book) to BSBDA & Small accounts' account holders. The cumulative smart cards issued till date are over 2,30,000. Until March 31, 2014, cumulatively, the Bank has reached out to around 800 villages with basic banking services through deployment of 215 Customer Service Points (CSP) using the BC model.

The facility of linking bank accounts with the Aadhar number for customers has been popularised during the year to avail benefits of the Direct Benefit Transfer (DBT) scheme among customers by the branches. In FY 2013-14, KMBL has started full-fledged disbursement of Mahatma Gandhi-National Rural Employment Guarantee Act (MG-NREGA) wages at three districts of Chhattisgarh namely Balodabazar, Bilaspur and Mungeli. Under this initiative, the Bank has opened over 1,53,000 cumulative Basic Savings Bank Deposit Accounts (BSBDA) with Smart Cards, deployed 133 Customer Service Points (CSP) for beneficiaries spread across nearly 500 villages and have successfully disbursed payment of over ₹ 16 crore.

KMBL Business Correspondent-Customer Service Point at Bilaspur District Chhattisgarh for MG-NREGA led FI


Uday Kotak, EVC and MD and Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India launch Kotak Samridhi – financial inclusion programme for milk producing farmers

KMBL has made progress in executing its rural India strategy. The Bank views rural India as an opportunity, and not only as a means to fulfil its agriculture and priority sector lending obligations. It has during the year increased its presence by adding four agriculture specialised branches and 137 branches in tier 2 to 6 towns. This will help the Bank get closer to its customers and provide better services. The Bank has a strong presence in tractor financing. The bank's agriculture portfolio, besides tractor finance, includes agri processing units, traders in grain and pulses, exporters, warehouses and cold storage. The agri-business solutions are designed to capture the complete agriculture value chain (end-to-end) and provide multiple financial options of superior value. The Bank has also successfully been able to leverage its in-depth understanding of the customer's business practices and seasonal variations in creating customised banking products to meet customer needs.

**Kotak Samridhi – Financial Inclusion for milk producing farmers**

KMBL is committed to the national Financial Inclusion agenda and continually seeks to explore opportunities to bring formal banking system a step closer to rural populace. The Bank's committed and concerted efforts with Amul Dairy and National Payment Corporation of India (NPCI) have resulted in the launch of Kotak Samridhi – a financial inclusion programme for milk producing farmers. Through this initiative, farmers of registered milk unions receive payments against supply of milk through the Bank using Card Products / accounts. Kotak Samridhi is a first-of-its-kind financial inclusion initiative to be launched on NPCI's RuPay platform. Farmers benefit from transparent transactions and reduction in inefficiencies of physical cash handling. They also have access to NPCI's RuPay ATM and POS network. The phase I of the initiative will eventually benefit 7,000+ milk producing farmers of registered milk unions in 78 villages in select few districts including Hooghly & Bardhaman of West Bengal state. The success of the initiative is a testimony of the extensive engagement done by the Bank with milk unions to integrate their expectations through product solution development. The Bank is geared up for the phase II of the initiative in the state of Gujarat. Extending the same thought process, the Bank is also exploring such initiatives to integrate formal banking channels / products with procurement practices at various unique market places.

Tractor financing is another key solution that the Bank offers to rural customers. Tractors play a crucial role in farm mechanisation and transportation of agricultural goods and other materials. The success stories of some of the tractor financing customers stand testimony to how tractor financing can transform meagre incomes to sustainable livelihoods.

**Making a difference**

Valmik Rambau Datrak is a small farmer in Chalisgaon village of Maharashtra. The Bank supported him through a tractor finance loan for cultivating his rainfed agricultural land. The relationship of the Bank did not just end with him but also continued with his next generation. The Bank has now supported his son in establishing his transport business through a commercial vehicle loan. Both father and son are proud customers of KMBL and have prospered in agriculture and transportation businesses.


Sunil Shriram Patil and his father pursue agriculture for livelihood. Sunil's father was a traditional farmer who had little knowledge of mechanised farming methods. Sunil convinced his father to pursue mechanised farming and got a tractor loan from KMBL, which helped them improve their crop productivity significantly. Seeing this as an opportunity in his village and in surrounding areas, Sunil wanted to explore the idea of tractor renting business. KMBL believed in him and supported him to purchase an additional tractor for his rental business. With growing demand for such rentals in the village, Sunil now has expanded his business with two more tractors through loans from the Bank. KMBL is proud to support such enterprising people who create their own success path.

**Principle 3: Employee well-being**

**Employee development and well-being**

The diverse and vibrant workforce fuels the growth engine of the Bank. Employee well-being and holistic development are cornerstones of the Bank's people agenda. The people policies of the Bank endeavour to provide an inspiring work environment that is safe, secure, non-discriminatory and to reward them with definitive career paths.

The Bank's HR processes are aligned to its Employer Value Proposition 'FLAME' and business outcomes.

F - Focus on results

L - Opportunity to work with senior leadership of the organisation

A - Active involvement/inclusiveness

M - Maximum challenge and

E - Entrepreneurial creativity

Talent development and acquisition is prime focus of the Bank's people agenda. The talent management processes aim to build stability and scalability at all levels of the organisation. Towards this end, individual development plans are aligned to organisational talent management plans. The Bank has two talent review committees, one at the apex level comprising the CEO, Directors and Presidents, for senior leadership talent, and another comprising Business Heads for managers at middle management levels. The Bank lays high emphasis on levels of employee engagement and strives to enhance these processes. Gender diversity is one of the focus areas for the Bank. The Bank has gender ratio of 81:19 (male:female).

*Shanti Ekambaram, President, Consumer Banking inaugurates the Banks' All-women batch of Kotak Probationary Officer course*

In FY 2011-12, the Bank launched the Kotak Probationary Officer (KPO) programme in partnership with Manipal University to train and groom talent before hiring them for various relationship and customer facing roles. In FY 2013-14, the Bank has integrated its gender diversity agenda with the KPO programme by launching the first 'all-women batch' of the course.

The Bank has also launched Kotak Junior Probationary Officer programme this year in partnership with Institute for Technology & Management (ITM). The programme aims to attract and train local talent to be 'Day One' ready for specific frontline sales role of Assistant Acquisition Manager. The training is delivered by mix of ITM and KMBL faculty and is currently conducted at three ITM centres at Vadodara, Warangal and Noida.

The Bank takes great pride in nurturing and grooming some of finest talent in the industry. Leadership development at KMBL focuses on continually providing a sustainable and stable environment for its talent to learn and grow. The emphasis of nurturing home grown talent at the Bank is best exemplified by the fact that many from the senior leadership, including the apex management committee - 'Operating Management Committee' members, have been associated with the Group for more than 15 years and most functional / business heads and leaders have been with the organisation for over a decade. The Bank's employee retention rate is amongst the best in the industry and is well respected in the country for the quality and stability of its talent.

KMBL has designed various levels of leadership platforms like Kotak Leadership Team (KLT), Kotak Initiatives Team (KIT) and Regional Forums (RF). These leadership forums enable senior leaders to gain a holistic overview of people practices and operational processes through cross-functional reach of leadership within the organisation's human resource base.

The Bank has introduced Part-time Working Policy for select specific roles in phone banking, back-office operations and branch service. The employee can choose to opt for reduced work hours and part-time employment for fixed tenure which can later be converted into full-time employment after completion of a fixed tenure. To promote female employee growth in the organisation, the Bank extends flexi-working arrangements (part-time, work from home or work from nearest branch) on a case-to-case basis.

***Strisangini* – for women, by women**

*Strisangini*, an in-house women cell at KMBL, was launched on March 8, 2013 (International Women's Day). The cell encourages female employees to have open dialogue and seek guidance on professional and personal issues from other members of the cell - their female colleagues from the Human Resources team. Cell members are available on call or in person for the dialogue. Apart from acting as a sounding board for women seeking support, *Strisangini* members also actively reach out to certain specific employees like women who have returned from long leave/maternity leave in order to check if they have any issues settling down in work after a long period of absence. Any issues that are noticed are taken up by the cell members with relevant HR/Line Managers for necessary corrective measures.

*Strisangini* members have also initiated a mass mentoring programme "Womentoring@kotak" since November 2013. Through this programme, sessions are conducted by senior women leaders both from within Kotak Mahindra Group and the industry in general to address a group of 100 to 200 female employees on personal and professional aspects of becoming a successful professional and leader. Three such sessions have been conducted so far in Mumbai and Bangalore. More than 350 women employees have been covered through these three programmes conducted by the Bank's senior leader Shanti Ekambaram.

A zero-tolerance approach is adopted for issues concerning discrimination and harassment. The Bank censures any behaviour of discrimination and harassment and has adopted zero-tolerance approach towards such incidents. The Bank has also revised its Prevention of Sexual Harassment Policy in accordance with the statutory requirements of The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013. All sexual harassment complaints are diligently reviewed and investigated by a sexual harassment committee.

**Workplace safety and security**

The Bank has Policy Statement for Health, Safety and Welfare at Workplace to promote safety and security of employees, contract staff and visitors. Employees and contract staff are regularly trained and provided with awareness on safety and security measures. The induction programme for all employees includes sessions on physical security, general fire safety and building evacuation. Each floor/department at corporate offices at Kotak Infiniti, Malad (East) and 27BKC, Bandra Kurla Complex (BKC) in Mumbai has floor marshals assigned who are trained to handle emergency situations in the building. Mock drills are conducted once in six months at corporate offices. The branch workforce is trained by the administration personnel who regularly visit branch offices. Training is provided to security personnel on various security threats and risks, handling emergency situations including topics such as assisting disabled people in such situations. The Bank's corporate offices are equipped with a trauma centre with everyday/on-call doctor facilities. The office furniture is ergonomically designed and BIFMA (Business & Institutional Furniture Manufacturers Association) certified.

*Workplace on first aid for employees*

The Bank has conducted a special training during the year for its employees on road safety. The training imparted covers aspects of road safety, defensive training, vehicle maintenance and health check. The Bank has also extended this training to chauffeurs of Bank employees to engage them on road safety. The programme was also used to deliver content on chauffeur personal grooming along with aspects of road safety, defensive driving, first aid and vehicle maintenance. For the first time chauffeurs not only got an opportunity to undergo a formal training programme but were also awarded with Government approved skills certificate, as well as a monetary reward. The programme was conducted by Motor Education and Training Association in partnership with National Skills Development Corporation.

KMBL has taken measures to ensure safety and security of women employees. Female employees at the Bank's corporate office at BKC were trained on handling portable fire extinguisher, reacting to emergency situation and identifying hazards as part of the evacuation training. The Bank has also deployed additional security guards at secluded areas near its BKC office and also provides them preferential parking at its BKC office.

**Contractual workforce**

KMBL has stipulated contract clauses with all contractors to ensure that statutory requirements for contract labour wages and welfare are strictly adhered to. A pre-audit team audits Bank's third party manpower providers for compliance to statutory requirements and the Business Control Unit reviews procedures related to issues like minimum wage payments. Monthly meetings held with vendors/contractors serve as a platform for dialogue between vendors/contractors and the bank, and records vendors and contractors' suggestions and grievances. All reported grievances are tracked and resolved. Statutory requirements on wage payments/Provident Fund (PF) payments by vendors are verified through collection of payment proofs. The Bank also ensures that no underage or child worker is employed by contractors at its premises.

**Principle 4: Stakeholder engagement**

**Materiality and Stakeholder Engagement**

The Bank is associated with myriad stakeholders who are vital for its success and growth. Stakeholder engagement at KMBL is a constructive process to enable the Bank to devise strategies that mirror stakeholder expectations and address their concerns. The Bank has adopted customised formal and informal mechanisms to engage with various stakeholders. Outcome of these engagement mechanisms form a critical input for Bank's business planning and improvement. The improvements made are then communicated to the stakeholders, where deemed necessary. The Bank honours information requirements of its stakeholders as and when they seek information and strive to provide them reliable information. These efforts are in addition to the mandatory disclosures required by law.

**Stakeholder engagement map**

| Who do we engage with? | How do we engage? | How frequently do we engage? | What do stakeholders have dialogue on? | Who is responsible? |
|---|---|---|---|---|
| Investors and Shareholders | Emails, letters, investor grievance cell, media, company website | Annually, Quarterly and on a need basis i.e. During events that take place concerning shareholders e.g. Extraordinary General Meeting (EGM) etc. | Financial results, shareholder returns and dividends, issues related to shares' issue, transfer and dividend payouts. Post the quarterly results, a conference all is held wherein the senior leadership team participates and the call is open to all investors and analysts. The transcript of the call is also made available on the bank's website. | Investor relations team, Secretarial team |

| Who do we engage with? | How do we engage? | How frequently do we engage? | What do stakeholders have dialogue on? | Who is responsible? |
|---|---|---|---|---|
| Customers and Clients | One-on-one interactions, customer satisfaction surveys, customer grievance cell, customer meets, customer help-lines/toll-free numbers, media, company website | On-going and need based | Customer service quality, investment returns, product features and benefits, technology interface for banking experience | Relationship managers, Branch staff, Customer Service Quality team |
| Employees | Induction programme, e-mails, town halls, skip-level meetings, leadership meetings, employee engagement initiatives, rewards and recognition programmes, employee grievance cell, intranet, employee satisfaction surveys, employee volunteering initiatives | On-going and need based | Company policies and procedures, employee welfare issues, performance appraisal and rewards, training and career development, workplace health, safety and security, community development and employee volunteering | Human resources team, Corporate Social Responsibility team |
| Government and Regulators | Company regulatory filings, compliance statements, meetings, letters, emails | As per regulatory requirements and need based | License request and renewals, compliance to regulatory requirements, participation in Government financial sector plans and programmes | Cross functional team |
| Suppliers and Business Associates | Meetings, emails, letters, supplier and business associates performance reviews | On-going and need based | Product/Service/Technology quality and support, contract commercial and technical terms and conditions, minimum wage payments, supplier and business associates' statutory compliances | Respective departments dealing with suppliers and business associates, Commercial and procurements team |
| Communities and NGOs | Community development initiatives, proposals and requests for new initiatives/ funding | Need based | Community needs, financial/infrastructure/ human/organisational support | Corporate Social Responsibility team |
| Media | Advertising, media interactions/ interviews/responses, meetings, emails | On-going and need based | Marketing and advertising agenda, information disclosure through media, viewpoints on industry and company related opportunities and issues | Marketing team, Corporate communications team |

KMBL's businesses are guided by a comprehensive media and communications policy for all its external and internal communications. The Bank adheres to regulatory statutes as well as internal policies regarding marketing, communications, sponsorship, promotion and event management. The Bank respects all genders, communities and the embedding of a secular outlook and all its communications must pass through these filters before publication.

**Principle 5: Human Rights**

**Human Rights**

KMBL's philosophy towards respecting human rights and upholding the dignity of every individual associated with the Bank is detailed in its Policy Statement on Human Rights. The Bank strives to provide a non-discriminatory and harassment-free workplace for all employees and contract staff. All employees and contract staff are empowered to report any incidents of discrimination and harassment. The Bank does not employ child labour and its recruitment policies ensure that all employees are free to choose to be associated with the firm. Statutory compliance of all contractors on minimum wage payments is reviewed and monitored. The security personnel are trained to prohibit the entry of under age or child workers in any of the Bank's premises. Through the induction programme and regular communication regarding Kotak's values, the Bank sensitises its employees and contractors on aspects of human rights.

**Principle 6: Environment**

**Green Endeavours**

The Bank is cognizant of its role as a key financial institution to promote environmental sustainability. It has a two-pronged approach towards environmental sustainability – promoting adoption of environmentally sustainable technologies and processes through its lending and investment decisions, and reducing the Bank's own environmental footprint.

The Bank strictly adheres to RBI's mandate on negative screening list for investments which includes no financing/re-financing for projects/industries that deal in banned wildlife products. The list also includes polluting projects/industries unless they have relevant clearances from Ministry of Environment and Forests and Pollution Control Boards. The Bank, under this mandate, also does not extend financing/re-financing for setting up new units consuming/producing Ozone Depleting Substances (ODS) such as Chloro Fluoro Carbon (CFC), Halons and units manufacturing aerosol products using CFCs. The Bank checks for all relevant clearances on environment as part of project appraisal process before making lending decisions. KMBL has also established a Social Environmental Management System Plan (SEMSP) to evaluate the social and environmental risks of eligible borrowers for IFC Line of Credit. The SEMSP is developed based on the IFC (International Finance Corporation) Sustainability Framework and Performance Standards. SEMSP guides the credit risk assessment team to evaluate the social and environmental risks as part of overall credit risk assessment.

KMBL takes continual measures to mitigate and reduce environmental impact of its operations. Being in the service sector, the Bank has limited material environmental impacts and hence focuses primarily on building energy efficiency, data centre efficiency and resource (paper) optimisation as part of its internal green agenda.

KMBL has taken significant strides in implementing various e-initiatives across the Group. The initiatives have enabled the Bank deliver better customer service by providing access to on-the-go statements through e-statements, and also help the cause of resource conservation. To further contribute through e-statements, the Bank, through 'Think-green' initiative, has partnered with Grow-Trees.com to plant a sapling for every e-credit card statement registration on behalf of customers. A total of 30,521 saplings, an 83% increase over the previous year, were planted during the year.

Various resource optimisation projects have been undertaken within the organisation to leverage technology and eliminate usage of paper and optimise paper requirement for forms, letters and statements. In addition to environmental benefits, these initiatives have also resulted in cost savings for the Bank. The list of such initiatives has been provided in the Bank's Business Responsibility Report for FY 2012-13. The Bank continues to encourage the shareholders to opt for electronic copies of the annual report instead of physical copies.

The green initiatives contribute to following estimated reduction of impact on environment:

- 88 tonnes of paper saved
- 362 tonnes of wood saved; equivalent to saving 2,327 trees from being cut for paper
- 84 lakh litres of water saved
- 925 Mega Watt Hours (Mwh) of net energy saved
- 246 tonnes of GHG (greenhouse gas) emissions avoided
- 85 tonnes of solid waste avoided

*Source: www.papercalculator.org*

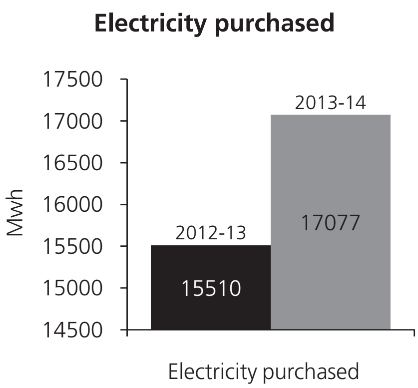
**Green operations**

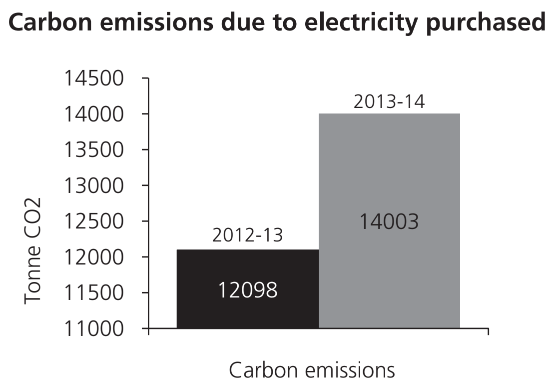
Data centres are one of largest energy consumers across Bank's operations. The Bank has optimised the Data Centres facility into a single facility in 2009 to leverage system efficiencies and exercise better control on energy performance of the Data Centre. Various continual improvement initiatives are driven to enhance the energy performance of the Data Centre.

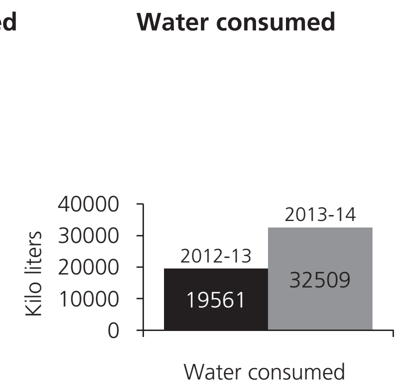
Initiatives such as high and medium density server rooms, server virtualisation, server consolidation, cold aisle containment, managing optimal levels of inlet temperature, etc. have yielded good results to reduce the energy intensity of Data Centre and contribute towards environmental sustainability.

The Bank focuses on improving its office building efficiency to consume fewer resources and save more energy. The two corporate offices of the Bank - Kotak Infiniti, Malad (East) and 27BKC, which together have the maximum employee footprint, have incorporated green building features at the design stage itself. The Kotak Infiniti office has occupancy and day-light sensors, energy efficient chillers and CFL lighting solutions to reduce energy demand. Further, the Bank has made conscious efforts to switch to energy efficient LED lighting through phase-wise replacement of CFL lighting. Part switching off of central air conditioning at defined intervals and after business hours helps the Bank reduce air conditioning load without compromising on the office comfort conditions. Indoor Air Quality (IAQ) sensors monitor $CO_2$ levels and are directly linked to fresh air ducts to ensure indoor air quality is optimum. The fresh water intake is reduced at both office premises by recycling wastewater and reusing this treated water for toilet flushing and gardening. This is supplemented by efforts to harvest rainwater through rainwater collection tanks at both offices, and ground water recharge at BKC office. The used paper generated is disposed through paper recyclers. Kitchen waste generated at the Kotak Infiniti and 27BKC premises is donated to a trust which composts kitchen waste and uses it as manure. The used oil generated from diesel generator is disposed through vendors, approved by the Pollution Control Board (PCB). The office furniture and carpets used at Kotak Infiniti and 27BKC offices are made of emission-free, recyclable materials. The Bank has completed a thermography audit to assess the health of cables and joints at Kotak Infiniti. It has also initiated detailed energy audit for the building premises to explore energy saving opportunities. Being a green building, the 27BKC office is pre-certified for LEED (Leadership in Energy and Environmental Design) Silver rating and is expected to get the final certification soon. It also utilises 100% LED lighting solutions.

**The Bank's Environmental Performance[1]:**




*[1] The environmental performance of the Bank is reported for its corporate offices in Malad and BandraKurla Complex in Mumbai. These corporate offices also house other Kotak Mahindra group entities*

The Bank's electricity, carbon emissions from electricity and water consumption have increased compared to last year primarily due to the commencement of the Bank's new office in BKC, Mumbai. The performance reported for 2012-13 only included performance of Kotak Infiniti office while this year, the scope has been expanded to include the BKC office.

**Principle 7: Public policy advocacy**

**Policy advocacy**

KMBL endeavours to be involved in making sound policy decisions, to drive change and foster public policies that are beneficial to the banking industry and the nation as a whole. The Bank and its subsidiaries are active members of a number of associations, through which they put forth the Group's views, work with regulators and peers, and influence positive change through robust policy framework for banking and financial services industry.

Some of the industry bodies which the Bank and its subsidiaries are a part of:

1. Association of Mutual Funds of India
2. Bombay Chamber of Commerce and Industry
3. Confederation of Indian Industry
4. Council For Fair Business Practices
5. Data Security Council of India
6. Federation of Indian Export Organisations
7. Fixed Income Money Market and Derivatives Association of India
8. Foreign Exchange Dealers Association of India
9. India International Chamber of Commerce
10. Indian Banks' Association
11. Indian Institute of Banking and Finance
12. International Fiscal Association Indian Branch W R C
13. Primary Dealers Association of India
14. The Employers Federation of India
15. The Madras Chamber of Commerce and Industry

**Principle 8: Inclusive growth**

**Inclusive growth and equitable development**

Inclusive growth leading to equitable development is the only way to create a harmonious and prosperous society. KMBL, as a leading financial institution in the country, works towards financial inclusion by catering to underserved and unbanked areas. The Bank also believes that it is equally important to make people employable and financially independent to have a meaningful impact of financial inclusion. Hence, the Bank focuses primarily on education as a key theme for its corporate citizenship agenda and supports activities of Kotak Education Foundation (KEF) towards education, livelihood generation, health and sanitation and education infrastructure. KEF's programmes do not address the issues in isolation, but have an integrated approach to support children and youth for holistic development to transform them as responsible, self-reliable and confident citizens of this country. The Bank's CSR team also undertakes various initiatives throughout the year to support NGOs for different causes.

***Kotak Education Foundation***

KEF provides holistic education and livelihood support to youth in Mumbai, Thane and Raigad regions, particularly those belonging to Below Poverty Line (BPL) families. The initiatives cater to over 20,000 students from 17 schools in this segment.

*Kotak Udaan:* Kotak Udaan is a scholarship programme to support students facing extreme hardships in continuing with their education. This intervention is uniquely designed to support the students not only with financial assistance, but also monitor their progress and guide them to achieve intended results. The initiative focuses on academic achievements of the students by enrolling them in community-based coaching classes and conducting individual and group academic sessions to reinforce learning. Regular follow-ups and counselling for students and parents is conducted to make education a priority and create conducive environment for students at home as well. The efforts are supplemented by personality development interventions for holistic development of the students. Exposure visits are conducted to broaden the horizon of students beyond school and home. Workshops on grooming, communication skills, time and money management, etc. are conducted. Talent shows and camps during festivities like Diwali encourage students to explore and showcase their talent. New school uniforms are distributed to students. Medical assistance is also extended to few students and their family members where health issues become a significant hurdle for students to continue their education.

*Kotak Unnati:* Kotak Unnati is the livelihood programme which focuses on imparting employable skills to youth for opportunities in hospitality and retail sectors. The 3-month programme is run in batches across 8 centres across Mumbai. To cater to the growing demand of this programme, an additional batch was introduced this year compared to 3 batches in the previous year. In FY 2013-14, 936 aspirants have been enrolled in 4 batches and 74% of the aspirants come from BPL families. The programme includes 2 weeks on-the-job training, and provides assistance in job placements. KEF has taken various initiatives during the year to make the course more interesting for aspirants to reduce drop-outs and further align it to industry needs for better placements opportunities.

Muzammil Ansari, an orphan, was driven away by his brother from his residence in Jharkhand. He suffered from polio and used to walk on all four. He dropped out from Class 3, as other students used to laugh at him and his inability to stand upright. Crawling all the way to school caused him bruises. He migrated to Mumbai at the age of 17 and stayed at the Don Bosco shelter. On attaining the age of 18, Muzammil joined the Kotak Unnati course. He gained confidence and got hope and purpose in life. He acquired skills in IT, ability to converse well, which helped him to get a sales job with a small firm. He also studied and passed Class 10 in his fourth attempt.

Today, Muzammil is a confident young man, and walks with the help of a crutch. He works as a manager at Croma, draws a monthly salary of ₹ 25,000, and has two graduates working under him. Muzammil lives in a rental flat near Sion. He has volunteered to visit Kotak Unnati centres to motivate new aspirants during his weekly holiday. He wishes to give back to society in a more meaningful way by joining an NGO. A small push by Kotak Unnati helped an illiterate, homeless, physically challenged boy into a winner. Kudos to his indomitable spirit, his desire to enjoy life and rise above adversity!

*Kotak In Search of Excellence (KISE):* KISE is a scholarship programme for 10th and 11th standard students. KEF selects up to 5 students each from 17 partner schools for the scholarship. Students selected for scholarship are from BPL families and have demonstrated academic acumen. Apart from monetary assistance for two years through monthly scholarship, the students are provided with mentoring and counselling, academic coaching and career guidance. On a selective basis, the fee for college is also supported through a grant programme. In FY 2013-14, 112 students were supported under the KISE programme.

Barrirah Khatoon Khan is the eldest of 6 siblings from a poor Muslim family in Cheeta Camp, Trombay. She lived in a single room with her parents and siblings. She scored over 90% marks in SSC and 87% marks in HSC. She was the student of KISE's second batch (2008) and the scholarship support in Classes 11 and 12 helped her to believe in studying further. However, Barrirah's studies would have stopped as her father did not believe that a girl could achieve anything more in life. After a lot of persuasion and reassurances by the KISE team, he allowed her to study further. A well-wisher came forward to offer financial support for the best homoeopathy course in Mumbai over the next five and a half years.

Today, Barrirah has become a doctor and is a role-model for young girls in her community. She is confident, wants to repay her debt to society by working for women and children in the Cheeta Camp area and make a difference in their lives. She has helped change the mindset of many parents, some highly conservative, and thereby opened a path for numerous young girls to pursue further education. Even her father has started propagating higher studies for girls in the Community. KEF salutes Barrirah for her tenacity to overcome difficulties.

Health and Sanitation: KEF undertakes numerous health and sanitation programmes to improve the health of children.

- Regular eye check-ups are conducted for all students of 17 partner schools. Students with poor vision are provided with spectacles. In FY 2013-14, 19 eye surgeries were conducted by K. B. H. Bachooali Charitable Ophthalmic & E.N.T Hospital for students needing surgical interventions.
- *Kishori Sehat Abhiyan* is a drive to assess malnutrition in adolescent girls and boys, and arrest anaemia by providing nutritional support, awareness on nutrition and hygiene, sensitisation sessions for parents and teachers, and conducting talks by medical experts.

- Deworming tablets were provided to 5,171 students from Standard 5 to 10 across eight schools and hygiene education sessions were conducted.
- *Parvarish* programme is aimed to address malnutrition among younger children of pre-primary and primary standards. The programme targets 601 students from two schools.
- KEF works with six schools under its *Mazhi Swatcha Shala* initiative. The programme aims to improve the sanitation and cleanliness standards through participatory approach.
- SPARSH (Sensitisation Programme for Adolescents on Reproductive Sexual Health) programme is aimed at increasing awareness among adolescents on sexual health. Through these sessions, adolescents are able to better know their body, appreciate the physiological and psychological changes at this age, gain awareness on HIV/AIDS and be cautious of issues like substance abuse. In FY 2013-14, 453 Unnati aspirants were covered through SPARSH sessions.

*School Teachers Enrichment Programme (STEP):* STEP is an integrated programme for school teachers of KEF's partner schools to support them in becoming effective teachers. The programme is structured to deliver three levels in three years. STEP focuses on improving pedagogy method through training teachers on using effective teaching aids and adopting activity based teaching methodology. A special workshop is conducted to improve English and communication skills of teachers. KEF also conducts tests for students on English to assess the effective application of English knowledge learned by teachers through STEP.

*Financial Literacy:* KEF, with the support of Kotak Mahindra Bank, conducts financial literacy sessions for students of partner schools and Kotak Unnati aspirants. In FY 2012-13, KMB and National Institute of Securities Markets had provided KEF with 'Pocket Money', a Financial Literacy book targeted at some of KEF's audience. In FY 2013-14, the initiative continued by training the children of 336 Standard 9 students in partner schools and 595 Kotak Unnati aspirants. In addition, 248 Standard 9 students were taken for exposure visits to Kotak Mahindra Bank branches.

*Education Infrastructure:* KEF has undertaken infrastructure projects for toilets, water and drainage in four schools. In each of the schools, KEF constructed/renovated toilets such that appropriate number of toilets for the students and staff were available. Proper pipelines and overhead tanks were installed to ensure there is adequate supply of water. Sewage outflow has also been provided to ensure cleanliness.

***Kotak Mahindra Group CSR initiatives***

KMB extends support to other NGOs by contributions, employee engagement and volunteering initiatives. The Bank sponsored employees to participate in Habitat for Humanity's 'Volunteer Build' at Tadwadi Village (near Karjat). Employees worked with prospective homeowners, assisting them with brick-laying and painting work.

To celebrate Kotak Mahindra Group Establishment Day (November 21), the Bank organised a week-long blood donation camp across offices in 10 cities. During this camp, 1,205 units of blood were collected.

KMBL continues to support underprivileged child cancer patients by funds raised through donation of old newspapers and magazines to Dhanwantari Medical Trust (DMT). Funds generated from the sale of old newspapers are utilised by the trust to help and support cancer-affected children for medicines and nutritional food required along with the treatment. The Bank organised 'giving collection drives' during Diwali and Christmas in association with the NGO Goonj. Employees donated old clothes, utensils, books, toys, and other household utility items through this drive. NGO exhibitions are held regularly at Kotak offices in Mumbai during festive seasons such as Diwali, Christmas, on Women's Day, etc. Employees support NGOs by purchasing handicrafts and various materials made by them that result in financial resources for NGOs and beneficiaries they work for. This also helps in building awareness among employees on social responsibility. The bank organised Vitamin D screening camps for employees at its offices at BKC and Malad, at discounted rates. The Bank's Customer Contact Centre (CCC) team organised a Fun-n-fair on June 27, 2013 at Malad office to celebrate 10 years of customer satisfaction. Proceeds of the event were donated to Cancer Patients Aid Association (CPAA).

*Employees participate in Habitat for Humanity's 'Volunteer Build' at Tadwadi Village near Karjat*

In FY 2013-14, the Bank initiated community engagement initiatives in few villages to support infrastructure for education. Three villages in Niphad Tahsil of Nasik District were identified for this initiative. The three villages – Dixi, Shivare, Kothure –are primarily agrarian based villages with more than 80% of population relying on agriculture and allied activities for their livelihoods. Nearly 40% of their population belongs to economically and socially weaker sections of society, such as small & marginal farmers and agriculture labourers. Primary schools in all three villages lack basic infrastructure, like benches for students. As part of Republic Day celebrations, the Bank provided benches and built compound walls for schools. 425 students were also provided with a school kit comprising notebooks and stationary items.

*Benches donated to schools in Niphad Tahsil of Nasik District*

*Blood donation drive organised to celebrate Kotak Mahindra Group Day*

*Women employees of Kotak Mahindra group participate in Pinkathon 2013 to spread awareness on breast cancer*

*Employees of Kotak Mahindra group ran Airtel Delhi Half Marathon 2013 in support of the NGO - AADI*

Every year, Kotak Mahindra Group sponsors employees for marathon events - Mumbai Marathon, Delhi Half Marathon and Pinkathon. This year, 65 employees ran Standard Chartered Mumbai Marathon (SCMM) 2014. Employees supported and raised pledges for Cancer Patients Aid Association, Indian Council for Mental Health, Society of Parents of Children with Autistic Disorders (SOPAN) & Kotak Education Foundation. Efforts of KMBL and its employees helped the Bank win following recognitions in the Corporate Challenge category of the event:

- Highest Fundraising Company (including employee pledges): ₹ 37,64,464/-
- Mr. KVS Manian, President – Corporate and Investment Banking - Highest Individual Pledge Raiser: ₹ 7,02,100/-
- Ms. Shanti Ekambaram, President – Consumer Banking - 2nd Highest Individual Pledge Raiser: ₹ 5,61,002/-

*KVS Manian, President – Corporate and Investment Banking and Shanti Ekambaram, President – Consumer Banking receive the award of Highest Fund raising Company in Corporate Challenge category from Hon'ble Governor of Maharashtra Shri K. Sankaranarayanan, and Dr. Indu Shahani, Former Sheriff of Mumbai, Trustee of United Way of Mumbai & Principal of H.R. College.*

25 Kotak employees ran Airtel Delhi Half Marathon in support of the NGO – Action for Ability Development and Inclusion. ₹ 3,05,715/- was raised, which included both employee pledges and contribution by Kotak Mahindra Group.

116 female employees of Kotak Mahindra Group participated in 'Pinkathon'– a run for women to spread awareness on breast cancer- in Mumbai.

Under Kotak Mahindra Group's Employee Payroll Giving Programme, , employees across the group supported the Akanksha Foundation, Cancer Patients Aid Association (CPAA), National Association for the Blind (NAB), Dignity Foundation, Make-A-Wish Foundation of India and SOPAN (Society of Parents of Children with Autistic Disorders). As of March 31, 2014, a total contribution of ₹ 38.60 lakh was made by Kotak Mahindra group employees.

The Bank has spent ₹ 363 lakh towards its CSR activities (including donations) for the period April 1, 2013 to March 31, 2014.

**Principle 9: Customer value**

**Customer Value and Service**

The Bank prides in its employees who go the extra mile to ensure that superior customer value and service is delivered. Their zeal for customer delight is ably supported by technology that improves productivity through automation of internal processes.

KMBL's Relationship Managers (RM) and banking staff are trained on the values of bank and ethical dealings with customers and other stakeholders. The Bank's procedures are designed to enable customers make informed decisions by ensuring that the customer is made aware of the product and service features. The Bank adheres to RBI's Know Your Customer (KYC) and Anti-Money Laundering (AML) mandates. The customer risk profile is a key parameter for the Bank to advise customers on financial products. Financial planning and risk assessment are done for Privy customers to whom the Bank advises on investments. Asset allocation is done based on the client risk profile. KMBL provides them with information on risks involved in their investments.

Quality of customer service delivered by an organisation is a key aspect of its overall performance. A dedicated service quality team monitors customer satisfaction, oversees processes and looks into the root cause of customer complaints to prevent them from recurring. At the branch level, customer feedback forms are an important tool for the Bank to gauge and understand customer experience. Apart from this, the Bank has also initiated an Annual Customer Satisfaction Index conducted by an accredited research firm - Customer Satisfaction Management & Measurement (CSMM), the independent, specialist unit of IMRB International. The Bank has taken initiatives to drive improvements through Service Quality Scorecards for channels. Stringent measures have been put in place to ensure that service quality lapses are correlated to poor quality of service request closures and subsequent escalations are addressed properly to ensure that repeat instances are avoided. The Bank has started a major drive to enhance customer experience at its top 20 branches which account for 40% of its customer base. The focus of this drive was to set exemplary standards of customer service supported by priority backend processing capabilities. Initiatives like mystery shopping and transaction monitoring are conducted to assess the execution of changes and their ability to sustain.

The Bank diligently tracks customer feedback through social media on a real time basis and responds to customers via posts and tweets. The Bank has collated customer comments from over 300 websites and analysed customers' pulse, and trending posts and tweets on social media about the company. Social media websites like Facebook and Twitter mostly carried posts and tweets on products and promotions.

**Kotak Jifi – taking banking to the next orbit**

KMBL constantly strives to be ahead of the curve by taking leadership position in product stewardship and innovating for customer delight. In FY 2013-14 the Bank launched Jifi, a first-of-its-kind fully integrated social bank account. Jifi transcends digital banking as known in present form by seamlessly incorporating social networking platforms like Twitter and Facebook with mainstream banking. Jifi is designed for today's tech-savvy audience to transact in a secure and simple manner without the need to move out of their digital comfort zone. Jifi is a zero interest current account with no minimum balance conditions, and can be opened with an initial payment of just ₹ 5,000/-. All balances over ₹ 25,000/- automatically move into term deposits (TD) at applicable interest rates, giving high returns on idle money.


*Platinum debit card offered to customers of Jifi digital account that seamlessly incorporates social networking platforms with mainstream banking*

*Parichay* is a monthly customer meet at branch level aimed to have a direct dialogue with customers. Customer insights from these meetings are linked with employee idea generation scheme 'Eureka', where employees are encouraged to come up with ideas to solve customer issues and serve them better. Monitoring of complaints closure turnaround time is done diligently and relevant inputs are given to individual business for continuous improvement. The Bank serves differently abled customers through initiatives like priority service for them. They are also trained to help senior citizens, women with children and any other person in need of special assistance coming to the branch. More than 90% of KMBL's branches are located on the ground floor for convenient customer access. The information on branches with ramps is made available on the Bank's website.

Banking Codes and Standards Board of India (BCSBI) along with CRISIL surveyed and rated 48 banks for the first time on different segments like Information Dissemination, Transparency, Customer Centricity, Grievance Redressal and Customer Feedback. KMBL has been assigned High Rating with a total score of 85, achieving a high rating of level of compliance amid the universe of public sector banks, private sector and foreign banks, ranking second amongst the 19 private sector banks and third amongst all banks.

A customer grievance mechanism has been established with defined escalation procedures and is available on the Bank's website to provide easy access to customers. The Bank conforms to defined guidelines (RBI & regulatory) on customer related grievance mechanisms. Details of nodal officers are published on the Bank's website and are also placed at its branches for effective grievance reporting. Customer complaints are reported to the Board Committee, Customer Services Committee and a Non-Board Committee. KMBL is the second bank and fourth organisation in India to achieve the distinction of ISO 10002:2004 certification for Complaints Management System in Consumer Banking which includes Retail Liabilities, Retail Assets and Credit Cards, reinforcing its commitment to unmatched service quality. In FY 2013-14, the Bank has successfully achieved re-certification of ISO 10002:2004 Complaints Management System.

KMBL's products and services are designed to suit varying customer needs – from small farmers to big-ticket investors, from Micro, Small and Medium Enterprises (MSMEs) to large corporations, and from salaried employees to entrepreneurs. The 'Silk' product is a savings programme which is designed with features and rewards catering specifically to women. In FY 2013-14, the Bank launched 'Kotak Junior' – a savings bank account specially designed for children. The product is uniquely crafted to enable parents to systematically plan long term savings for their children through recurring deposits (RD) and Systematic Investment Plan (SIP) in mutual funds. 'Kotak Junior' offers a first-of-its-kind membership card for children and enables them to inculcate the habit of savings at an early age.

As on March 31, 2014, KMBL does not have any Public Interest Litigation (PIL) or cases filed against it by any stakeholder or regulatory agency for unfair trade practices and anti-competitive behaviour.

To know more about the Bank's business responsibility agenda or provide feedback, please email at cr@kotak.com

**Clause 55 Annexure-1**

| **Section A: General Information about the Company** | | |
|---|---|---|
| 1 | Corporate Identity Number (CIN) of the Company | L65110MH1985PLC038137 |
| 2 | Name of the Company | Kotak Mahindra Bank Limited |
| 3 | Registered address | 27BKC, C27, G-Block, BandraKurla Complex, Bandra East, Mumbai 400 051 |
| 4 | Website | www.kotak.com |
| 5 | Email id | cr@kotak.com |
| 6 | Financial year reported | 2013-14 |
| 7 | Sector(s) that the Company is engaged in (industrial activity code-wise) | Code: 64191 – Kotak Mahindra Bank is a banking company governed by the Banking Regulation Act, 1949 |
| 8 | Three key products/services of the Company (as in balance sheet) | Deposits, Advances and Investment Advisory. |
| 9 (i) | Number of international locations | None |
| 9 (ii) | Number of National locations | 354 |
| 10 | Markets served by the Company – Local/State/National/International/ | India |

| **Section B: Financial Details of the Company** | | |
|---|---|---|
| 1 | Paid up capital (INR Crore) | 385 |
| 2 | Total turnover (INR Crore) | 10,167 (Bank standalone) |
| 3 | Total profit after taxes (INR Crore) | 1,503 (Bank standalone) |
| 4 | CSR spend as percentage of profit after tax (%) | 0.24% |
| 5 | List of CSR activities | Refer 'Inclusive growth' section of 'Business Responsibility Report', page 117-119 |

| **Section C: Other details** | | |
|---|---|---|
| 1 | Company subsidiaries / joint-ventures | Refer Related Party Disclosures of the Annual Report, page 183 |
| 2 | Subsidiaries participating in Company's BR initiatives | Nil |
| 3 | Other entities ((e.g. suppliers, distributors etc.) participating in Company's BR initiatives | Nil |

| Section D (1): BR Information | | |
|---|---|---|
| 1.a | Director responsible for implementation of BR policies (DIN) | 00012214 |
| | Director responsible for implementation of BR policies (Name) | Mr. C. Jayaram |
| | Director responsible for implementation of BR policies (Designation) | Joint Managing Director |
| 1.b | BR Head (DIN, if applicable) | N.A. |
| | BR Head (Name) | Mr. Rohit Rao |
| | BR Head (Designation) | Executive Vice President, Head – Group Corporate Communications, Business Responsibility & CSR |
| | BR Head (Telephone number) | +91-22-6166 6001 |
| | BR Head (email id) | rohit.rao@kotak.com |

**Section D (2): BR Information - Principle-wise (as per NVGs) BR Policy/policies (Yes/No)**

| | | P 1 | P 2 | P 3 | P 4 | P 5 | P 6 | P 7 | P 8 | P 9 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. | Policy/policies for.... | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 2. | Policy being formulated in consultation with the relevant stakeholders . . . | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 3. | Policy conforming to national / international standards . . . | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 4. | Policy approved by the Board and signed by MD/CEO/ appropriate Director . . . | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 5. | Committee of the Board/ Director/Official to oversee the implementation of the policy . . . | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 6. | Link for the policy to be viewed online . . . | All policies are available on the Bank's Intranet | | | | | | | | |
| 7. | Policy formally communicated to all relevant internal and external stakeholders . . . | Yes. Policies have been communicated to all key internal stakeholders of the Bank. The communication on policies covering all internal and external stakeholders is an on-going process. | | | | | | | | |
| 8. | In-house structure to implement the policy/policies . . . | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 9. | Grievance redressal mechanism related to the policy/ policies to address stakeholders' grievances related to the policy/policies . . . | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 10. | Independent audit/evaluation of the working of this policy by an internal or external agency . . . | Evaluation done through internal audit mechanism. | | | | | | | | |

**Section D (2.a): BR Information - Principle-wise (as per NVGs) explanation if the answer to S.No 1 under Section D (2) against any principle is "No" – Not Applicable**

| Section D (3): BR Governance | | |
|---|---|---|
| 3.a | Frequency of Board of Directors, Committee of the Board or CEO review of BR performance | Business Responsibility Committee was formed on March 15, 2013. However, the Bank has been reporting its CSR initiatives to the Board every quarter. |
| 3.b | BR report or sustainability report (frequency and hyperlink) | BR Report<br>Frequency: Annual<br>Hyperlink: www.kotak.com |

| Section E: Principle wise performance | | |
|---|---|---|
| **Principle 1** | | |
| 1 | Policy relating to ethics, bribery and corruption covering the Company and Group/Joint Ventures/ Suppliers/Contractors/NGOs / Others | Refer 'Policy framework' section of the 'Business Responsibility Report', page 110-111 |
| 2 | Stakeholder complaints received in FY 2013-14<br>(Complaints include investor complaints received through the bank's investor grievance mechanism. For customer complaints / consumer cases please refer Principle 9) | 18 |
| 3 | Percentage of stakeholder complaints resolved<br>(Complaints include investor complaints received through the bank's investor grievance mechanism. For customer complaints / consumer cases please refer Principle 9) | 89.89% as of 31/04/2014 (Of the 18, two were unresolved as of March 31, 2014. The same were resolved on 11/04/2014). |
| **Principle 2** | | |
| 1 | Products and services designed with social or environmental concerns, risks and/or opportunities incorporate<br>Up to three products or services | 1. Basic Savings Bank Deposits Accounts<br>2. Agri business banking products<br>3. Tractor financing<br>Additionally, refer 'Financial Inclusion' section of the 'Business Responsibility Report' for the Bank's products designed with social concerns, risks and/or opportunities (Financial inclusion), page 111-112 |
| 2 | i. Reduction with respect to resource use (energy, water, raw material etc.) per unit of product during sourcing/production/ distribution achieved since the previous year throughout the value chain (optional)<br>ii. Reduction during usage by customers (energy, water) has been achieved since the previous year (optional) | N.A. |
| 3 | Procedures for sustainable sourcing (including transportation) | N.A. |

| | | |
|---|---|---|
| 4 | Procurement of goods and services from local & small producers, including local communities | The Bank does not procure any goods for processing. The manpower services for offices and branches are generally hired from local agencies, Bank website, job-portals, internal movements, walk-ins, or through references. |
| 5 | Mechanism to recycle products and waste | Refer 'Green endeavours' section of the 'Business Responsibility Report', page 115-117 |
| **Principle 3** | | |
| 1 | Total number of employees (as at 31.03.2014) | 16,086 (Bank standalone) |
| 2 | Total number of employees hired on temporary/contractual/casual basis (as at 31.03.2014) | 5,115 (Bank standalone) |
| 3 | Total number of permanent women employees (as at 31.03.2014) | 2,947 (Bank standalone) |
| 4 | Total number of permanent employees with disabilities (as at 31.03.2014) | 7 (Bank standalone) |
| 5 | Employee association recognised by management | Through employee engagement mechanism, the Bank directly engages with all employees on various aspects of employee well-being. For more details, pl refer 'Employee well-being' section of the 'Business Responsibility Report', page 113-114 |
| 6 | Percentage of permanent employees part of employee association | N.A. |
| 7.1 | Child labour/forced labour/involuntary labour related complaints filed during the financial year<br><br>Child labour/forced labour/involuntary labour related complaints pending as on end of the financial year | Nil |
| 7.2 | Sexual harassments related complaints filed during the financial year<br><br>Sexual harassments related complaints pending as on end of the financial year | Nil |
| 7.3 | Discriminatory employment related complaints filed during the financial year<br><br>Discriminatory employment related complaints pending as on end of the financial year | Nil |
| 8.1 | Percentage of permanent employees who were given safety & skill upgradation training (permanent employees) | KMBL provides training to its employees and contract staff on safety and skill upgradation. pl refer 'Employee well-being' section of the 'Business Responsibility Report', page 113-114 |
| 8.2 | Percentage of permanent female employees who were given safety & skill upgradation training | KMBL provides training to its employees and contract staff on safety and skill upgradation. pl refer 'Employee well-being' section of the 'Business Responsibility Report', page 113-114 |

| | | |
|---|---|---|
| 8.3 | Percentage of casual/temporary/contractual employees who were given safety & skill upgradation training | KMBL provides training to its employees and contract staff on safety and skill upgradation. pl refer 'Employee well-being' section of the 'Business Responsibility Report', page 113-114 |
| 8.4 | Percentage of employees with disabilities who were given safety & skill upgradation training | KMBL provides training to its employees and contract staff on safety and skill upgradation. pl refer 'Employee well-being' section of the 'Business Responsibility Report', page 113-114 |
| **Principle 4** | | |
| 1 | Mapping of internal and external stakeholders | Yes. Refer 'Materiality and Stakeholder Engagement' section of 'Business Responsibility Report', page 114-115 |
| 2 | Identification of the disadvantaged, vulnerable & marginalised stakeholders. | Refer 'Materiality and Stakeholder Engagement' section of 'Business Responsibility Report', page 114-115 |
| 3 | Special initiatives to engage disadvantaged, vulnerable & marginalised stakeholders | Refer 'Financial inclusion' section of 'Business Responsibility Report', page 111-112 |
| **Principle 5** | | |
| 1 | Policy relating to Human Rights covering the Company and Group/ Joint Ventures/ Suppliers/Contractors/NGOs /Others | The Policy statement on Human Rights and Anti-Discrimination is applicable for the Bank. Refer 'Policy framework' section of 'Business Responsibility Report', page 115 |
| 2 | Stakeholder complaints on human rights received in the past financial year and percentage satisfactorily resolved by the management | Nil |
| **Principle 6** | | |
| 1 | Policy relating to Environment covering the Company and Group / Joint Ventures / Suppliers / Contractors / NGOs / Others | The Policy Statement on Environment is applicable for the Bank. Refer 'Policy framework' section of 'Business Responsibility Report', page 110-111 |
| 2 | Strategies / initiatives to address global environmental issues such as climate change, global warming, etc. | Refer 'Green endeavours' section of 'Business Responsibility Report', page 115-117 |
| 3 | Identification and assessment of potential environmental risks | Refer 'Green endeavours' section of 'Business Responsibility Report', page 115-117 |
| 4 | Projects related to Clean Development Mechanism | None |
| 5 | Initiatives on clean technology, energy efficiency, renewable energy, etc. | Refer 'Green endeavours' section of 'Business Responsibility Report', page 115-117 |
| 6 | Emissions / Waste generated by the company within the permissible limits given by CPCB / SPCB | N.A. |
| 7 | Number of show cause / legal notices received from CPCB / SPCB which are pending (i.e. not resolved to satisfaction) as on end of Financial year | Nil |
| **Principle 7** | | |
| 1 | Trade or chamber association memberships | Refer 'Policy advocacy' section of 'Business Responsibility Report', page 117 |
| 2 | Advocacy through above associations for the advancement or improvement of public good | Refer 'Policy advocacy' section of 'Business Responsibility Report', page 117 |

| | | |
|---|---|---|
| **Principle 8** | | |
| 1 | Programmes / initiatives / projects in pursuit of inclusive growth | Refer 'Inclusive growth' section of 'Business Responsibility Report', page 117-120 |
| 2 | Programmes / projects undertaken through in-house team / own foundation / external NGO / government structures / any other organisation | Refer 'Inclusive growth' section of 'Business Responsibility Report', page 117-120 |
| 3 | Impact assessment of initiatives | Refer 'Inclusive growth' section of 'Business Responsibility Report', page 117-120 |
| 4 | Direct contribution to community development projects- Amount in INR and the details of the projects undertaken | CSR contribution by KMBL during FY 2013-14: ₹3,63,29,109/-. For more information, refer 'Inclusive growth' section of the 'Business Responsibility Report', page 117-120 |
| 5 | Successful adoption of community initiatives by communities | Refer 'Inclusive growth' section of the Business Responsibility Report, page 117-120 |
| **Principle 9** | | |
| 1 | Percentage of customer complaints/consumer cases that are pending as on the end of financial year | 2.45% |
| 2 | Product information display on the product label, over and above what is mandated as per local laws | Refer 'Customer value and service' section of 'Business Responsibility Report', page 120-121 |
| 3 | Cases filed by any stakeholder against the company regarding unfair trade practices, irresponsible advertising and/or anti-competitive behaviour during the last five years and pending as on end of financial year | Nil |
| 4 | Consumer survey/ consumer satisfaction trends | Refer 'Customer value and service' section of 'Business Responsibility Report', page 120-121 |

# Report on Corporate Governance

The Bank believes in adopting and adhering to the best standards of corporate governance to all the stakeholders. The Bank's corporate governance is, therefore based on the following principles:

- Appropriate composition, size of the Board and commitment to adequately discharge its responsibilities and duties.
- Transparency and independence in the functions of the Board.
- Independent verification and assured integrity of financial reporting.
- Adequate risk management and Internal Control.
- Protection of shareholders' rights and priority for investor relations.
- Timely and accurate disclosure on all matters concerning operations and performance of the Bank.

The Bank's philosophy on corporate governance enshrines the goal of achieving the highest levels of transparency, accountability and equity in all spheres of its operations and in all its dealing with the shareholders, employees, the government and other parties. The Bank understands and respects its fiduciary role and responsibility to shareholders.

The Bank was ranked among the Top 5 in the category of "Corporate Governance Practices" across the globe in the IR Global Rankings 2013 conducted by the MZ Consult NY, a leading investor relations and financial communications firm.

The report on the Bank's corporate governance, as per the applicable provisions of the Clause 49 is as under:

## BOARD OF DIRECTORS

### Composition, Meeting and Attendance

The composition of the Board of Directors of the Bank is governed by the Banking Regulation Act, 1949 and Clause 49 of the Listing Agreement. As on 31st March 2014, the Board of Directors, comprising a combination of executive and non-executive Directors, presently consists of nine members, of whom six are non-executive Directors. The Chairman of the Board was a Non-Executive Independent Director and five out of nine Directors were independent. The Board mix provides a combination of professionalism, knowledge and experience required in the banking industry. The responsibilities of the Board *inter alia* include formulation of policies, taking new initiatives, performance review, monitoring of plans, pursuing of policies and procedures.

A brief description of the Directors, along with the companies in which they hold directorship and the membership of the committees of the Board as on 31st March 2014 are furnished hereunder:

**Dr. Shankar Acharya, Non-Executive Chairman**

(DIN: 00033242)

Dr. Shankar Acharya, B.A. (Hons.) from Oxford University and Ph.D. (Economics) from Harvard University, aged 68 years, has considerable experience in various fields of economics and finance. He is a Honorary Professor at the Indian Council for Research on International Economic Relations (ICRIER) and a Member of the Court of Governors at the Administrative Staff College of India (ASCI). He was Chief Economic Adviser, Ministry of Finance, Member, Securities and Exchange Board of India (SEBI) and Member, Twelfth Finance Commission. He has held several senior positions in the World Bank, including Director of World Development Report (1979) and Research Adviser. He was re-appointed as the Non-Executive Chairman of the Bank at the Annual General Meeting held on 19th July 2012 for a period of three years with effect from 20th July 2012.

He is on the Board of Eros International Media Ltd. and South Asia Institute for Research and Policy (Private) Limited, Sri Lanka. During 2013-14, Dr. Acharya was the Chairman of the Audit Committee of the Bank, Member of the Audit Committee of Eros International Media Limited and the Chairman of the Shareholders' Grievance/Investors' Relations Committee of Eros International Media Ltd.

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

(DIN: 00007467)

Mr. Uday Kotak, aged 55 years, holds a Bachelors degree in Commerce and an MBA from Jamnalal Bajaj Institute of Management Studies, Mumbai. He is the Executive Vice-Chairman and Managing Director of the Bank and its principal founder and promoter. Under Mr. Kotak's leadership, over the past 28 years, Kotak Mahindra group established a prominent presence in every area of financial services from stock broking, investment banking, car finance, life insurance and mutual funds. Mr. Kotak is the recipient of several prestigious awards. He is a member of the Government of India's high level committee on Financing Infrastructure, the Primary Market Advisory Committee of SEBI, Member of the Board of Governors of Indian Council for Research on International Economic Relations, National Institute of Securities Markets and National Council of CII. He is also a Governing Member of the Mahindra United World College of India.

He is on the Board of the following companies:

Kotak Mahindra Asset Management Company Limited
Kotak Mahindra Capital Company Limited
Kotak Mahindra Old Mutual Life Insurance Limited
Kotak Mahindra Investments Limited
Kotak Mahindra Prime Limited
Kotak Forex Brokerage Limited
Kotak Securities Limited

Mr. Uday Kotak is also a member of the Investor Relations (Shareholders'/Investors' Grievance) Committee of the Bank, Chairman of the Audit Committees of Kotak Mahindra Capital Company Limited and Kotak Securities Limited and member of the Audit Committee of Kotak Mahindra Asset Management Company Limited.

**Mr. C. Jayaram, Joint Managing Director**

(DIN: 00012214)

Mr. C. Jayaram, B. A. (Economics), PGDM-IIM, Kolkata, aged 58 years, is Joint Managing Director of the Bank and currently heads the wealth management business and international operations for Kotak Mahindra group. He also oversees the alternative investments business which includes private equity funds and real estate funds, as well as the institutional equities business. He has varied experience of over 36 years in many areas of finance and business and was earlier the Managing Director of Kotak Securities Limited. He has been with the Kotak Group for 24 years and has been instrumental in building a number of new businesses at Kotak Group. Prior to joining the Kotak Group, he was with Overseas Sanmar Financial Ltd. He is also on the Board of the following companies:

Kotak Investment Advisors Limited
Kotak Mahindra Asset Management Company Limited
Kotak Mahindra Inc
Kotak Securities Limited
Kotak Mahindra (UK) Limited

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

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

(DIN: 00004771)

Mr. Dipak Gupta, B.E. (Electronics), PGDM-IIM, Ahmedabad, aged 53 years, is the Joint Managing Director of the Bank and has over 28 years of experience in the financial services sector, 22 years of which have been with the Kotak Group. He is responsible for Group HR, administration, infrastructure, operations and IT. He is also responsible for asset reconstruction business of the Bank. Mr. Dipak Gupta was responsible for leading the Kotak Group's initiatives into the banking arena. He was the Executive Director of Kotak Mahindra Prime Limited. Prior to joining the Kotak Group, he was with A. F. Ferguson & Company for approximately six years. He is on the Board of the following companies:

Kotak Forex Brokerage Limited
Kotak Mahindra Capital Company Limited
Kotak Mahindra Investments Limited
Kotak Mahindra Prime Limited
Kotak Mahindra Old Mutual Life Insurance Limited

Mr. Dipak Gupta is also member of the Investor Relations (Shareholders'/Investors' Grievance) Committee of the Bank, Audit Committee of Kotak Mahindra Prime Limited, Kotak Mahindra Capital Company Limited and Kotak Mahindra Old Mutual Life Insurance Limited. He is the Chairman of the Audit Committee of Kotak Mahindra Investments Limited.

**Mr. Asim Ghosh**

(DIN: 00116139)

Mr. Asim Ghosh, aged 66 years, is the President and Chief Executive Officer of Husky Energy Inc. He has a B.Tech, IIT Delhi and MBA from the Wharton School, University of Pennsylvania. Mr. Ghosh commenced his career in consumer goods marketing with Procter & Gamble in the U.S. and Canada and worked subsequently with Rothmans International as a Senior Vice President of Carling O'Keefe Breweries, then one of Canada's major breweries. He moved to Asia in 1989 as CEO of the Frito Lay (Pepsi Foods) start up in India. Thereafter, he was in executive positions with Hutchison in Hong Kong and India for 16 years. He continued as the CEO of the predecessor company of Vodafone India Limited till 31st March 2009 and as a Non-Executive Director till 9th February 2010. He serves on the Board of Husky Energy Inc., other Husky Group Companies, some Hutchison Whampoa Group Companies and the Canadian Council of Chief Executives.

**Mr. Prakash Apte**

(DIN: 00196106)

Mr. Prakash Apte, B.E. (Mechanical), aged 59 years, is presently the Chairman of Syngenta India Limited, one of the leading agri business companies in India. Mr. Apte, in a career spanning over 36 years has considerable experience in various areas of management and business leadership.

During more than 16 years of very successful leadership experience in agri business, he has gained varied knowledge in various aspects of Indian Agri Sector and has been involved with many initiatives for technology, knowledge and skills up gradation in this sector, which is so vital for India's food security. He was instrumental in setting up the Syngenta Foundation India which focuses on providing knowledge and support for adopting scientific growing systems to resource poor farmers and enabling their access to market.

He is a Director of Syngenta Foundation India and Kotak Mahindra Old Mutual Life Insurance Limited.

Mr. Apte is a member of Audit Committee of Bank and Syngenta India Limited.

**Mr. Amit Desai**

(DIN: 00310510)

Mr. Amit Desai, B.Com, LLB, aged 55 years, is an eminent professional with 33 years of experience. He is also on the Board of Kotak Mahindra Trustee Company Limited and Terra DeKM Pvt. Ltd

**Mr. N.P. Sarda**

(DIN: 03480129)

Mr. N.P. Sarda, B.Com, F.C.A., aged 68 years, is a Chartered Accountant for more than 40 years. He is a former partner of M/s. Deloitte Haskin & Sells, Chartered Accountants, the past President of the Institute of Chartered Accountants of India (in 1993) and was a public representative Director of the Stock Exchange, Mumbai (BSE).

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

**Prof. S. Mahendra Dev**

(DIN: 06519869)

Prof. S. Mahendra Dev, PhD from the Delhi School of Economics, aged 56 years is currently Director and Vice Chancellor, Indira Gandhi Institute of Development Research (IGIDR), Mumbai, India. He was Chairman of the Commission for Agricultural Costs and Prices (CACP), Govt. of India, Delhi. He was Director, Centre for Economic and Social Studies, Hyderabad for 9 years during 1999 to 2008. He has done his Post-doctoral research at Yale University and was faculty member at the Indira Gandhi Institute of Development Research, Mumbai for 11 years.

He has been a member of several government committees including the Prime Minister's Task Force on Employment and Rangarajan Commission on Financial Inclusion. He has received honors for eminence in public service. He is the Chairman of the Committee on Terms of Trade on agriculture constituted by the Ministry of agriculture, Govt. of India. He is also member of the newly constituted Expert Panel on poverty estimates chaired by Dr. C. Rangarajan.

Prof. Dev is the Chairman of the Investor Relations (Shareholders'/Investors' Grievance) Committee of the Bank.

Note: The Committee Memberships of only Audit Committee and Shareholders'/Investors' Grievance Committee have been considered.

The following table gives the composition of Bank's Board and the number of outside directorships held by each of the Directors and the committee positions held by the Directors during the year ended 31st March 2014:

| Name of Directors | Position | No. of Directorships in other Companies | | No. of Committee Positions held in Bank and other Public Companies | |
|---|---|---|---|---|---|
| | | Indian Public Companies | Other Indian Companies | Chairman | Member |
| Dr. Shankar Acharya* | Independent Non-Executive Chairman | 1 | - | 2 | 1 |
| Mr. Uday Kotak | Executive Vice-Chairman & Managing Director, Promoter | 7 | 1 | 2 | 2 |
| Mr. C. Jayaram | Joint Managing Director | 3 | - | - | 3 |
| Mr. Dipak Gupta | Joint Managing Director | 5 | - | 1 | 4 |
| Mr. Asim Ghosh | Independent Non-Executive Director | - | - | - | - |
| Mr. Prakash Apte | Independent Non-Executive Director | 2 | 1 | - | 2 |
| Mr. Amit Desai | Independent Non-Executive Director | 1 | 1 | - | - |
| Mr. N.P. Sarda | Non-Executive Director | - | - | - | 1 |
| Prof. S. Mahendra Dev | Independent Non-Executive Director | - | - | 1 | - |

* Pursuant to the provisions of Section 149 (6) (c) of the Companies Act, 2013, the status of Dr. Shankar Acharya has changed from Independent Non-Executive Director to Non-Executive Director with effect from 1st April 2014.

Notes:

1. The Committee Memberships mentioned above are of only Statutory Committees as per Clause 49 of the Listing Agreement with Stock Exchanges, namely Audit Committee and Shareholders'/Investors' Grievance Committee.
2. None of the Directors on the Board is a member of more than ten committees and the Chairman of more than five committees in all the companies in which he is a Director (for this purpose the membership of Audit Committee and Shareholders' Grievance Committee have been taken into consideration). All the Directors have made disclosures regarding their membership on various committees in other companies.
3. In compliance with the Clause 49 of the Listing Agreement, Mr. Prakash Apte, an independent director on the Board of the Bank has been a director on the Board of Kotak Mahindra Old Mutual Life Insurance Limited, a material non listed Indian subsidiary of the Bank.

## BOARD MEETINGS

**Scheduling and selection of agenda items for board meetings:**

Dates of the board meetings are decided in advance. The board meetings are convened by giving appropriate notice after obtaining the approval of the Chairman and the Executive Vice-Chairman and Managing Director. The Board meets at least once a quarter to review the results and other items on the agenda and also on the occasion of the annual shareholders' meeting. When necessary, additional meetings are held.

The agenda of the board meetings is drafted by the Company Secretary along with the explanatory notes and these are distributed in advance to the Directors. Every Board member is free to suggest the inclusion of items on the agenda. All divisions/departments in the Bank are encouraged to plan their functions well in advance, particularly with regard to matters requiring discussion/ approval/ decision in the Board/ Committee meetings.

All such matters are communicated to the Company Secretary in advance so that the same could be included in the agenda for the board meetings.

The agenda papers are prepared by the concerned officials of the respective department and are approved by the Joint Managing Director/s and/or Executive Vice-Chairman and Managing Director. Agenda papers are circulated to the Board by the Company Secretary. Additional items on the agenda are permitted with the permission of the Chairman.

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

Minutes of the proceedings of the Board meeting are prepared within 48 hours of the meeting. Draft minutes are circulated to the Chairman for his comments. The minutes of all the Committees of the Board of Directors of the Bank and the minutes of the meetings of the Board of Directors of the subsidiary companies of the Bank are placed before the Board.

The quarterly, half-yearly and the annual results for the consolidated entity and for the Bank stand alone are first placed before the Audit Committee of the Bank and thereafter the same are placed before the Board of Directors.

A Compliance Certificate, signed by the Executive Vice-Chairman and Managing Director in respect of various laws, rules and regulations applicable to the Bank is placed before the Board, every quarter.

The Bank has put in place a post meeting follow-up, review and reporting process for the action taken on decisions of the Board. The Company Secretary submits follow-up Action Taken Report to the Board at each meeting on the compliance of the decisions/instructions of the Board.

During the year under review, six meetings of the Board of Directors were held on 11th April 2013, 2nd May 2013, 18th July 2013, 24th October 2013, 21st January 2014 and 14th March 2014. The maximum time gap between any two meetings was not more than four months. The average duration of the board meetings held is approximately three hours.

The details of directors' attendance at board meetings held during the year commencing 1st April 2013 and ending 31st March 2014 and at the last AGM are as under:

| Sr. No. | Directors | Board Meetings held during the tenure of the member | Board Meetings attended during the year 2013-14 | Whether attended last AGM held on 19th July 2013 |
|---|---|---|---|---|
| 1. | Dr. Shankar Acharya | 6 | 6 | YES |
| 2. | Mr. Uday Kotak | 6 | 6 | YES |
| 3. | Mr. C. Jayaram | 6 | 6 | YES |
| 4. | Mr. Dipak Gupta | 6 | 6 | YES |
| 5. | Mr. Asim Ghosh | 6 | 3* | NO |
| 6. | Mr. Prakash Apte | 6 | 6 | YES |
| 7. | Mr. Amit Desai | 6 | 5 | YES |
| 8. | Mr. N. P. Sarda | 6 | 6 | YES |
| 9. | Prof. S. Mahendra Dev | 6 | 6 | YES |

* Attended through Video conferencing.

**Information supplied to the Board is as under:**

The directors are presented with important information on operations of the Bank as well as that which requires deliberation at the highest level. Information is provided on various critical items such as annual operating plans and budgets, minutes of meetings of the Audit Committee and other committees of the Board, details of joint ventures or collaboration agreements and non-compliance, if any with regulatory or statutory guidelines or with the listing requirements etc.

Disclosures of interest are duly received from all directors and there is no potential conflict of interest in any transaction of the Bank with any directors.

## DIRECTORS' REMUNERATION

The details of remuneration to the Executive Directors for the year ended 31st March 2014 is as follows:

| Particulars | Mr. Uday Kotak (₹ '000) * | Mr. C. Jayaram (₹ '000) * | Mr. Dipak Gupta (₹ '000) * |
|---|---|---|---|
| Basic | 14,226.00 | 14,082.00 | 13,818.00 |
| Allowances | 2,375.00 | 2,375.00 | 2,375.00 |
| Provident Fund | 1,707.12 | 1,689.84 | 1,658.16 |
| Superannuation | - | - | 100.00 |
| Annual Incentive | 5,500.00 | 5,500.00 | 5,500.00 |
| Number of stock options granted during the year | - | 24,000 (Series 42) | 60,000 (Series 41) |

*The amount shown above excludes gratuity payable under the Payment of Gratuity Act and value of car perquisites under the Income Tax Act, 1961.

The details of the options granted during the year under the Kotak Mahindra Equity Option Scheme 2007 to the Directors are as under:

| Name of Director | Date of Grant | No. of Options granted | Exercise Price | Exercise Period | Options Vested | Vesting Date |
|---|---|---|---|---|---|---|
| Series 41 of Kotak Mahindra Equity Option Scheme 2007 | | | | | | |
| Mr. Dipak Gupta | 10th May 2013 | 60,000 | ₹ 550/- per share | 30th September 2014 to 31st March 2015 | 20% | 30th September 2014 |
| | | | | 31st August 2015 to 29th February 2016 | 30% | 31st August 2015 |
| | | | | 30th June 2016 to 31st December 2016 | 25% | 30th June 2016 |
| | | | | 31st December 2016 to 30th June 2017 | 25% | 31st December 2016 |
| Series 42 of Kotak Mahindra Equity Option Scheme 2007 | | | | | | |
| Mr. C. Jayaram | 10th May 2013 | 24,000 | ₹ 550/- per share | 11th September 2014 to 31st December 2014 | 33% | 11th September 2014 |
| | | | | 30th June 2015 to 31st December 2015 | 33% | 30th June 2015 |
| | | | | 30th June 2016 to 31st December 2016 | 34% | 30th June 2016 |

Note: The above stock options have been granted at a discount to the then prevailing market price.

Dr. Shankar Acharya was re-appointed as the Non-Executive Chairman of the Bank at the Annual General Meeting held on 19th July 2012. During the year, Dr. Shankar Acharya was paid remuneration of ₹ 21,00,000/-.

The Reserve Bank of India has approved (i) the revision in remuneration to Mr. Uday Kotak, Executive Vice-Chairman & Managing Director, Mr. C. Jayaram and Mr. Dipak Gupta, the Joint Managing Directors (ii) the annual incentive payable for the financial year ended 31st March 2013 (iii) the stock options granted (as indicated above) to Mr. Dipak Gupta and Mr. C Jayaram (iv) the remuneration to Dr. Shankar Acharya, Non-Executive Chairman.

The details of sitting fees paid to the non-executive directors for the year ended 31st March 2014 is as follows:

| Sr. No. | Name of Director | Sitting fees (₹ '000) |
|---|---|---|
| 1. | Dr. Shankar Acharya | 280.00 |
| 2. | Mr. Asim Ghosh | 60.00 |
| 3. | Mr. Prakash Apte | 330.00 |
| 4. | Mr. Amit Desai | 130.00 |
| 5. | Mr. N.P. Sarda | 290.00 |
| 6. | Prof. S. Mahendra Dev | 210.00 |

**Notes:**

1. The performance bonus to Joint Managing Directors are based on the recommendation of the Executive Vice-Chairman and Managing Director of the Bank. The Board of Directors of the Bank decides the performance bonus to be paid to the Executive Vice-Chairman and Managing Director and the Joint Managing Directors on the basis of the performance of the Bank and the fulfilment of responsibilities assigned to them.
2. The terms of employment of Mr. Uday Kotak, Mr. C. Jayaram and Mr. Dipak Gupta provide for termination by mutual consent or by giving not less than three month's notice in writing. In the event of termination of employment, the liability of the Bank shall be limited to providing only the salary and perquisites as prescribed by the terms of employment for a period of three months from the date of notice.
3. The Non-Executive Directors of the Bank, except Dr. Shankar Acharya, are not paid any remuneration other than the sitting fees.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Board has constituted several committees to deal with specific matters and delegated powers for different functional areas. The Audit Committee and Shareholders'/Investors' Grievance Committee have been constituted in accordance with the guidelines issued by the Reserve Bank of India, Securities and Exchange Board of India read with requirements of the Companies Act, 1956. Besides the above, the Board has also set up other committees such as ESOP/ Compensation Committee, Share Transfer and Routine Transactions Committee (START), Management Committee, Premises Committee, Asset Liability Committee (ALCO), Nomination Committee, Investment Committee, Risk Management Committee, Information Technology Committee, First Tier Audit Committee, Customer Services Committee and Committee on Frauds, Corporate Social Responsibility Committee.

### Audit Committee

The Audit Committee of the Bank comprises of three members, with any two forming the quorum. The terms of reference of the Audit Committee of the Bank are as follows:

a. Oversight of the Bank's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

b. Recommending to the Board, the appointment, reappointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.

c. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

d. Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
   - Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956.
   - Changes, if any, in accounting policies and practices and reasons for the same.
   - Major accounting entries involving estimates based on the exercise of judgment by management.
   - Significant adjustments made in the financial statements arising out of audit findings.
   - Compliance with listing and other legal requirements relating to the financial statements.
   - Disclosure of any related party transactions.
   - Qualifications in the draft audit report.

e. Reviewing with the management, the quarterly financial statements before submission to the board for approval.

f. Reviewing with the management, performance of statutory and internal auditors, and adequacy of the internal control systems.

g. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

h. Discussion with internal auditors any significant findings and follow up there on.

i. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

j. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

k. To review the functioning of the Whistle Blower mechanism.

l. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Pursuant to the provisions of Section 177 of the Companies Act, 2013, the terms of reference of the Audit Committee would require, *inter alia*, to be updated from 2014-15 onwards.

The Audit Committee comprised of Dr. Shankar Acharya (Chairman), Mr. N.P. Sarda and Mr. Prakash Apte.

All the members of the Committee are Non-Executive Directors and two out of the three members are Independent Directors. All the members of the Committee are financially literate within the meaning of the Clause 49 of the listing agreement. Mr. N.P. Sarda possesses accounting and financial management expertise.

The Company Secretary acts as the Secretary to the Committee. The Chairman of the Audit Committee, Dr. Shankar Acharya was present at the last Annual General Meeting to answer the queries of the shareholders.

During the year, eight meetings of the Committee were held on 2nd May 2013, 3rd May 2013, 18th July 2013, 19th July 2013, 24th October 2013, 25th October 2013, 29th November 2013 and 21st January 2014. The Committee meets for approximately two hours. The maximum time gap between any two meetings was not more than four months. The meetings were attended by the members of the Committee, as detailed below:

| Name of Members of Audit Committee | Meetings held during the tenure of the member in 2013-14 | Meetings Attended during the year 2013-14 |
|---|---|---|
| Dr. Shankar Acharya (Chairman) | 8 | 8 |
| Mr. N. P. Sarda | 8 | 8 |
| Mr. Prakash Apte | 8 | 8 |

Subsequently, the Committee was re-constituted by the Board on 30th April 2014 and presently consists of Mr. Prakash Apte (Chairman), Mr. N.P. Sarda and Prof. S. Mahendra Dev.

The Bank has constituted a First Tier Audit Committee as per the guidelines issued by the Reserve Bank of India. The Committee was reconstituted on 24th October 2013 and presently consists of five members viz., Mr. Dipak Gupta, Joint Managing Director, Mr. Jaimin Bhatt – President & Group CFO, Mr. Shyam Sunder, Advisor Compliance, Mr. Arvind Kathpalia – Group Head Risk and Mr. T.V. Sudhakar, Head - Compliance. Where the internal audit report pertains to specific businesses, the specific Business Head also attends the meeting. The Committee screens the matters entrusted to the Audit Committee and also the routine matters such as overseeing the programme of inspections and compliance of inspection reports so as not to burden the Audit Committee with matters of detail. During the year, eleven meetings of the Committee were held. The Committee meets for approximately three hours.

**Investor Relations (Shareholders'/Investors' Grievance) Committee**

The Investor Relations Committee of the Bank consists of four members, Prof. S. Mahendra Dev (Chairman), Mr. Uday Kotak, Mr. C. Jayaram and Mr. Dipak Gupta, with any two forming the quorum. The Committee reviews the complaints received from the shareholders and ensures redressal thereof. The constitution and composition of the Committee is in accordance with the provisions of Clause 49 of the Listing Agreement with the Stock Exchanges and the criteria specified by the Reserve Bank of India. The Company Secretary acts as the Secretary and has been appointed as the Compliance Officer of the Committee.

During the year, three meetings of the Committee were held on 17th April 2013, 4th September 2013 and 6th February 2014. The Committee meets for approximately thirty minutes. All the four members attended all the three meetings.

On a monthly basis, the members of the Committee are sent investor grievance reports giving brief details of the complaints received by the Bank. During the year under review, 18 investor complaints were received, of which 2 investor complaints were pending as on 31st March, 2014. Both these have been resolved as on date of this report. As on 31st March 2014, four instruments of transfer of shares, comprising 5640 shares were pending and since then the same has been processed and resolved. No penalties or strictures were imposed on the Bank by any of the Stock Exchanges, SEBI or any other statutory authority on any matter related to capital markets, during the last three years.

Pursuant to the provisions of Section 178 of the Companies Act, 2013, the Board at its meeting held on 30th April 2014, granted its consent for renaming of the Committee as Stakeholders Relationship Committee.

**ESOP/Compensation Committee**

The ESOP/Compensation Committee of the Bank consists of three members, Mr. Amit Desai (Chairman), Dr. Shankar Acharya and Mr. Prakash Apte, with any two forming the quorum. The constitution and composition of the Committee is in accordance with the guidelines issued by Reserve Bank of India.

The ESOP/Compensation Committee has been constituted to recommend/review overall compensation structure and policies; consider grant of stock options to employees; review compensation levels vis-à-vis other banks and industry in general and determine the compensation payable to the Directors including performance/achievement bonus and perquisites. The performance bonus to the Joint Managing Directors is based on the recommendation of the Executive Vice-Chairman and Managing Director of the Bank. The Board of Directors of the Bank decides the performance bonus to be paid to the Executive Vice-Chairman and Managing Director and the Joint Managing Directors on the basis of the performance of the Bank and the fulfilment of responsibilities assigned to them. Non-Executive Directors at present, are not paid commission over and above the sitting fees. The Bank has issued stock options to its employees and the employees of its subsidiaries under various stock option plans, details of which are provided in the Directors' Report.

During the year, one meeting of the Committee was held on 10th May 2013. All the three members attended the meeting. Subsequently one meeting of the Committee was held on 9th May 2014 and the same was attended by all the three members.

Pursuant to the provisions of Section 178 of the Companies Act, 2013, the Board at its meeting held on 30th April 2014 granted its consent to merge the existing Nomination Committee and ESOP/Compensation Committee into one Committee i.e. 'Nomination & Remuneration Committee', comprising of Mr. Amit Desai (Chairman), Dr. Shankar Acharya and Mr. Prakash Apte.

**Nomination Committee**

The Nomination Committee of the Bank consists of three members, with any two forming the quorum. Presently, the Committee consists of Mr. Uday Kotak (Chairman), Mr. C. Jayaram and Mr. Dipak Gupta. The terms of reference of the Committee include appointment of senior management personnel and making recommendations to the Board for appointment of Directors or filling of vacancies on the Board. In addition, the Committee also evaluates whether the members of the Board of Directors of the Bank adhere to the 'fit and proper' criteria as prescribed by the Reserve Bank of India.

During the year, two meetings of the Committee were held on 2nd May 2013 and 25th June 2013. All the three members attended both the meetings.

Pursuant to the provisions of Section 178 of the Companies Act, 2013, the Board at its meeting held on 30th April 2014 granted its consent to merge the existing Nomination Committee and ESOP/Compensation Committee into one Committee i.e. 'Nomination & Remuneration Committee', comprising of Mr. Amit Desai (Chairman), Dr. Shankar Acharya and Mr. Prakash Apte.

**Share Transfer and Routine Transactions (START) Committee**

The START Committee of the Bank consists of Mr. Uday Kotak (Chairman), Mr. C. Jayaram and Mr. Dipak Gupta, with any two forming the quorum. The terms of reference of the START Committee is as follows:

(a) To approve transfer, transmission, transposition, name deletion, consolidation and splitting of share and debenture certificates of the Company.

(b) To issue duplicate share/debenture certificates.

(c) To apply for registration of the Company with various authorities of any state or Centre including sales tax authorities, income tax authorities, shops & establishment authorities and to do or perform all matters relating to such matters.

(d) To apply, in the name of and for the Company for telephone, telex, fax and other telecommunication and electrical/electronic connections and to do all matters relating to such applications.

(e) To open, operate and close Bank Accounts of the Company and change the operating instructions of existing Bank Accounts of the Company.

(f) To authorise persons to sign on behalf of the Company Share Certificates, Share Allotment Letters, Deposit Receipts.

(g) To authorise persons to represent the Company at General Meetings of any company or cooperative society of which the Company is a shareholder/member.

(h) To fix the dates for Closure of the Company's Register of Members and Debenture holders and Transfer Books of Shares or Debentures and/or fixing Record Dates, in consultation with the Stock Exchanges.

(i) To authorise the opening of Securities General Ledger Account or any other account with any scheduled banks or with any department of the Reserve Bank of India.

(j) To authorise persons to execute Loan Agreements, Demand Promissory Notes and any other documents as may be necessary for lending out of any line of credit sanctioned to the Company.

(k) To authorise officials of the Company to execute transfer deeds on behalf of the Company.

(l) To authorise officials of the Company to sign documents for registration of motor vehicles and to do all acts and things for the transfer of any such motor vehicles.

(m) To authorise employee(s) or others to execute, for and on behalf of the Company, agreements, applications, deeds, documents and any other writings in connection with the business of the Company and, if required, to issue Power of Attorney in favour of such persons for the purpose.

(n) To authorise employee(s) or others to represent the Company before any Court, Tribunal, Consumer Redressal Forum or any Statutory or other Authority on any matter relating to the operations of the Company or with which the Company is in any way connected or to represent the Company generally or for any specific purpose or purposes and, if required, issue Power of Attorney in favour of such persons for the purpose.

(o) To appoint or change nominees to hold shares for and on behalf of the Company in any subsidiary/associate companies.

(p) To grant permission and authorise incorporation of companies, with a prefix "Kotak Mahindra" before the name.

(q) To authorise the use of the Common Seal of the Company and to appoint persons to sign/countersign documents, etc. on which the Common Seal is to be affixed.

During the year, twenty four meetings of the Committee were held. Mr. Uday Kotak attended all the meetings, Mr. C. Jayaram attended nineteen meetings and Mr. Dipak Gupta attended twenty one meetings. Subsequently, two meetings of the Committee were held. All the three members attended both the meetings.

**Management Committee**

The Management Committee of the Bank consists of four members, with any three forming the quorum. The Committee has been constituted to review all important matters to be placed before the Board, assess adequacy of policies on an on-going basis, review business operations, corporate governance, implementation of policies, to establish systems for facilitating efficient operations and to approve donations. Further, the Board of Directors of the

Bank at their meeting held on 20th October 2010 authorized the Management Committee to exercise the supervisory powers in connection with the risk management of the Bank which interalia includes, monitoring of the exposures, reviewing adequacy of risk management process and upgradation thereof, reviewing the internal control system and ensuring compliance with the statutory/regulatory framework of the risk management process.

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

During the year, four meetings of the Committee were held on 3rd May 2013, 25th October 2013, 18th November 2013 and 14th March 2014. Mr. Uday Kotak and Mr. Dipak Gupta attended all the four meetings and Mr. C. Jayaram and Mr. Prakash Apte attended three meetings each.

**Committee on Frauds**

Pursuant to the directives of the Reserve Bank of India, the Bank has constituted a Committee on Frauds on 27th January 2004 for monitoring and reviewing all the frauds involving amounts of ₹ 1 crore and above. The Committee consists of four members, Mr. Uday Kotak, Mr. Dipak Gupta, Mr. N.P. Sarda and Mr. Prakash Apte.

During the year, four meetings of the Committee were held on 2nd May 2013, 19th July 2013, 25th October 2013 and 21st January 2014. All the four members attended all the four meetings. Subsequently one meeting of the Committee was held on 1st May 2014 and was attended by all the four members.

The Bank has also constituted a First Tier Committee on Frauds to assist the Committee on Frauds of Board of Directors in discharging their responsibilities with respect to prevention, detection, reporting and monitoring of large value frauds. The Committee presently consists of eleven Bank officials with five bank officials forming the quorum. During the year, three meetings of the Committee were held.

**Customer Services Committee**

The Bank has, pursuant to the directives issued by the Reserve Bank of India, constituted a Customer Services Committee on 22nd September 2004. The Committee comprised of three members viz; Prof. S. Mahendra Dev (Chairman), Mr. Uday Kotak and Mr. Dipak Gupta. The Committee has been constituted to bring about ongoing improvements in the quality of customer services provided by the Bank. The Committee would also oversee the functioning of the Customer Service Standing Committee, compliance with the recommendations of the Committee on Procedures and Performance Audit and Public Services (CPPAPS) and also mount innovative measures for enhancing the quality of customer service and improving the level of customer satisfaction for all categories of cliental, at all times.

During the year, three meetings of the Committee were held on 17th April 2013, 4th September 2013 and 6th February 2014. All the three members attended all the three meetings.

**Corporate Social Responsibility Committee**

The Bank has constituted a Corporate Social Responsibility Committee on 14th March 2014 pursuant to the provisions of the Companies Act, 2013. The Committee comprises of three members viz; Prof. S. Mahendra Dev, Mr. C. Jayaram and Mr. Dipak Gupta, with any two members forming the quorum. The Committee has been constituted to:

- Formulate and recommend to the Board, a Corporate Social Responsibility (CSR) Policy which shall indicate the activities to be undertaken by the Bank, as laid down in Schedule VII to the Act;
- Recommend the amount of expenditure to be incurred on the CSR activities;
- Monitor Bank's CSR Policy and implementation of CSR projects undertaken from time to time.

**Risk Management Committee**

The existing Risk Management Committee of the Bank was re-constituted by the Board on 30th April 2014 to make it a Board level Committee and the same presently consists of Mr. Uday Kotak (Chairman), Mr. C. Jayaram, Mr. Dipak Gupta and Mr. Amit Desai, with any two forming the quorum. The terms of reference of the Committee includes to identify, monitor and measure the risk profile of the Bank; develop policies and procedures; verify models that are used for preparing complex products; review models as development takes place in the markets and also identify new risks; monitor compliance of various risk parameters by operating departments; design stress scenarios to measure the impact of unusual market conditions and monitor variance between actual volatility of portfolio value and that predicted by risk measures; and ensure that the Bank's credit exposure to any one group or industry does not exceed the internally set limits and that the risk is prudently diversified.

**Code of Conduct**

The Board of Directors of the Bank at its meeting held on 18th March 2011 adopted the revised Code of Conduct for the purpose of Clause 49 applicable to the Board of Directors and Senior Management Personnel respectively. Both the Code of Conduct have been posted on the website of the Bank, i.e. www.kotak.com.

**General Meetings**

During the last three years, the general meetings of the equity shareholders as detailed below, were all held at Indian Merchants' Chamber, Walchand Hirachand Hall, 4th Floor, Churchgate, Mumbai 400 020:

| General Meetings | Day, Date and Time | Special Resolutions passed thereat |
|---|---|---|
| **Twenty Eighth Annual General Meeting** | Thursday, 18th July 2013 at 11.30 a.m. | Special Resolution pursuant to the applicable provisions of the Companies Act, 1956, Foreign Exchange Management Act, 1999 ("FEMA"), Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000, the Master Circular on Foreign Investment in India dated 2nd July 2012 issued by the Reserve Bank of India ("RBI"), Consolidated FDI Policy dated 5th April 2013 issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India and other applicable rules, guidelines, regulations, notifications, circulars, provisions, if any, (including any amendments or re-enactments or re-notification thereof for the time being in force), to increase the ceiling limit on total holdings of Foreign Institutional Investors (FIIs)/ Securities and Exchange Board of India approved sub-account of FIIs in the equity share capital of the Bank, through primary or secondary route, from 35% to 37% of the paid-up equity capital of the Bank with effect from such date(s) as may be decided by the Board from time to time. |
| **Extraordinary General Meeting** | Thursday, 9th May 2013 at 3 p.m. | Special Resolution pursuant to Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 for issue and allotment of 2,00,00,000 equity shares of the Bank of face value of ₹5, to Heliconia Pte Ltd., a private company limited by shares incorporated and existing under the laws of Singapore, on a preferential basis at a price per equity share of ₹648, for a total consideration of ₹12,96,00,00,000, through the Foreign Direct Investment ("FDI") route. |
| **Twenty Seventh Annual General Meeting** | Thursday, 19th July 2012 at 11.30 a.m. | Special Resolution pursuant to the applicable provisions of the Companies Act, 1956, Foreign Exchange Management Act, 1999 ("FEMA"), Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000, for increase in the ceiling limit on total holdings of Foreign Institutional Investors (FIIs)/ Securities and Exchange Board of India approved sub-account of FIIs in the equity share capital of the Bank, through primary or secondary route, from 33% to 35% of the paid-up equity capital of the Bank. |
| **Twenty Sixth Annual General Meeting** | Thursday, 21st July 2011 at 12 Noon. | No special resolution. |

No resolutions were passed through postal ballot during the last financial year.

**Disclosures**

- The Bank has not entered into any material financial or commercial transactions with the directors or the management or their relatives or the companies and firms etc., in which they are either directly or through their relatives interested as directors and/or partners. The Bank has not entered into any material financial or commercial transactions with its subsidiaries and other related parties as per AS-18 that may have potential conflict with the interest of the Bank at large.
- During the last three years, there were no penalties or strictures imposed on the Bank by the Stock Exchange(s) and/or SEBI and/or any other statutory authorities on matters relating to capital market.

## SHAREHOLDERS' INFORMATION

| | | |
|---|---|---|
| Date of Incorporation | : | 21st November 1985. |
| Registration No. | : | 11-38137 TA |
| Corporate Identification No. | : | L65110MH1985PLC038137 |
| Address for Correspondence | : | |
| Registered Office | : | 27BKC, C 7, G Block, Bandra Kurla Complex,<br>Bandra (E), Mumbai- 400 051.<br>Tel. No.(022) 61660000<br>Fax No. : (022) 67132403<br>Website: www.kotak.com |
| Contact | : | Ms. Bina Chandarana,<br>Company Secretary & Executive Vice President |

Registrar & Share Transfer Agent : Karvy Computershare Private Limited

(i) Plot No: 17-24 Vittal Rao Nagar
Madhapur, Hyderabad-500081
Tel Nos. : (040) 44655000
Fax No. : (040) 23420814

(ii) 7, Andheri Industrial Estate, Off Veera Desai Road,
Mumbai-400 058.
Tel Nos. : (022) 2636 7226 /2636 9044
Fax No. : (022) 26310882
Website : www.karvy.com

Annual General Meeting:

Date and Time : Wednesday, 16th July, 2014 at 11.30 a.m.

Venue : National Stock Exchange of India Limited, Dr. R.H. Patil Auditorium,
Exchange Plaza, Ground Floor, Bandra-Kurla Complex, Bandra (E), Mumbai 400051

Financial Year : 1st April to 31st March

Date of Book Closure : 8th July, 2014 to 16th July, 2014 (both days inclusive) for payment of dividend.

Dividend Payment Date : On or after Thursday, 17th July, 2014.

**INVESTOR RELATIONS**

The Bank publishes consolidated results on a quarterly basis. The same are also reviewed by the Audit Committee before submission to the Board. The consolidated financial results of the Banks and its subsidiaries are prepared and posted on the Website of the Bank for the current as well as last five financial years. Also the quarterly results and an earnings update is also posted on the website of the Bank. Every quarter, the Executive Vice-Chairman and Managing Director and the Joint Managing Director(s) participate on a call with the analysts / shareholders, the transcripts of which are posted on the website of the Bank. The Bank also has dedicated personnel to respond to queries from investors.

**Financial Calendar:** For each calendar quarter, the financial results are reviewed and taken on record by the Board around the last week of the month subsequent to the end of the quarter. The audited annual accounts as at 31st March are approved by the Board, after a review thereof by the Audit Committee. The Annual General Meeting to consider such annual accounts is held in the second quarter of the financial year.

**Stock Exchanges on which listed:**

| Sr. No. | Name & Address of Stock Exchange | Market Scrip Code |
|---|---|---|
| 1. | The Bombay Stock Exchange Limited<br>Phiroze Jeejeebhoy Towers, Dalal Street,<br>Fort, Mumbai 400 023 | 500247 |
| 2. | National Stock Exchange of India Limited<br>Exchange Plaza, 5th Floor,<br>Bandra-Kurla Complex,Bandra,<br>Mumbai 400 051 | KOTAKBANK |
| 3. | Luxembourg Stock Exchange<br>BP 165, L-2011 Luxembourg | US50071Q2003 |

The annual fees for 2014-15 have been paid to the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited, where the shares of the Bank are listed. Also maintenance charges are being paid periodically to Luxembourg Stock Exchange.

**Trading of shares to be in compulsorily dematerialized form:** The Securities and Exchange Board of India has included the equity shares of the Bank in the list of shares in which trading is compulsorily in dematerialized form, from 29th November 1999. The equity shares of the Bank have been activated for dematerialisation with the National Securities Depository Limited with effect from 4th August 1998 and with the Central Depository Services (India) Limited with effect from 26th February 1999 vide ISIN INE237A01010. Pursuant to the sub-division of the equity shares of the Bank, w.e.f. 15th September 2010, the new ISIN is INE237A01028.

**Share Transfer System:** Applications for transfers, transmission and transposition are received by the Bank at its Registered Office or at the office(s) of its Registrars & Share Transfer Agents. As the shares of the Bank are in dematerialised form, the transfers are duly processed by NSDL/CDSL in electronic form through the respective depository participants. Shares which are in physical form are processed by the Registrars & Share Transfer Agents on a regular basis and the certificates despatched directly to the investors.

**Investor Helpdesk:** Share transfers, dividend payments and all other investor related activities are attended to and processed at the office of our Registrars & Share Transfer Agents. For lodgement of Transfer Deeds and any other documents or for any grievances/complaints, kindly contact Karvy Computershare Private Limited, contact details of which are provided elsewhere in the Report.

For the convenience of the investors, transfers and complaints from the investors are accepted at the Registered Office between 9:30 a.m. to 5:30 p.m. from Monday to Friday except on bank holidays.

As advised by Securities and Exchange Board of India ("SEBI") the Bank has designated email- id of its Compliance Officer i.e. investor.grievances@kotak.com for the purpose of registering complaints by the investors. The same has also been displayed on the website of the Bank.

Kotak Mahindra Bank Limited

Registered Office : 27BKC, C 7, G Block, Bandra Kurla Complex,
Bandra (E), Mumbai- 400 051.
Tel. No.: (022) 61660000
Fax : (022) 67132403
E-mail : investor.grievances@kotak.com
Website : www.kotak.com

**Transfer to Investor Education and Protection Fund:**

Pursuant to Section 205C of the Companies Act, 1956, dividends that are unclaimed for a period of seven years get transferred to the Investor Education and Protection Fund administered by the Central Government. The table given below gives the dates of dividend declaration and the corresponding dates when unclaimed dividends are due to be transferred to the Central Government.

| Year | Dividend-Type | Date of Declaration | Due Date of Transfer |
|---|---|---|---|
| 2006-07 | Final | 5th July 2007 | 4th August 2014 |
| 2007-08 | Final | 28th July 2008 | 27th August 2015 |
| 2008-09 | Final | 28th July 2009 | 27th August 2016 |
| 2009-10 | Final | 21st July 2010 | 20th August 2017 |
| 2010-11 | Final | 21st July 2011 | 20th August 2018 |
| 2011-12 | Final | 19th July 2012 | 18th August 2019 |
| 2012-13 | Final | 18th July 2013 | 17th August 2020 |

**SHARE PRICE DETAILS**

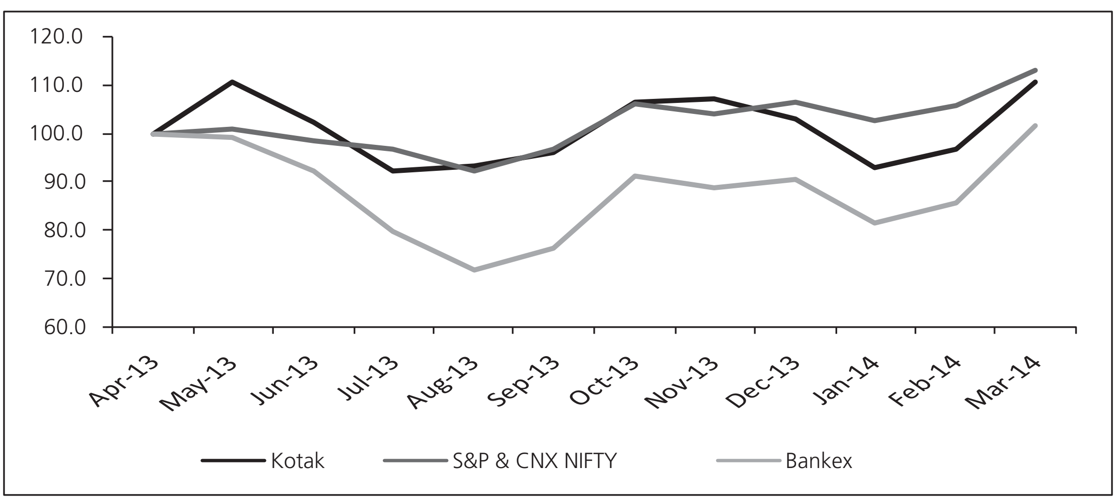
The Monthly high and low quotation of shares traded on BSE:

| Month | High (₹) | Low (₹) | Close (₹) | Sensex | Bankex |
|---|---|---|---|---|---|
| April 2013 | 714.90 | 615.00 | 705.60 | 19,504.18 | 14,363.74 |
| May 2013 | 804.00 | 704.30 | 782.60 | 19,760.30 | 14,261.24 |
| June 2013 | 782.60 | 684.50 | 721.25 | 19,395.81 | 13,257.76 |
| July 2013 | 761.00 | 623.00 | 651.00 | 19,345.70 | 11,440.96 |
| August 2013 | 675.00 | 588.00 | 659.05 | 18,619.72 | 10,304.35 |
| September 2013 | 779.60 | 591.00 | 677.40 | 19,379.77 | 10,964.19 |
| October 2013 | 752.50 | 667.40 | 750.65 | 21,164.52 | 13,086.92 |
| November 2013 | 764.45 | 710.00 | 756.60 | 20,791.93 | 12,730.30 |
| December 2013 | 785.00 | 711.00 | 729.05 | 21,170.68 | 13,001.94 |
| January 2014 | 739.00 | 645.00 | 656.95 | 20,513.85 | 11,712.31 |
| February 2014 | 692.00 | 630.80 | 683.20 | 21,120.12 | 12,284.27 |
| March 2014 | 787.70 | 666.00 | 778.00 | 22,386.27 | 14,572.46 |

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

| Month | High (₹) | Low (₹) | Close (₹) | S&P & CNX NIFTY | CNX Bank |
|---|---|---|---|---|---|
| April 2013 | 716.50 | 615.00 | 707.10 | 5,930.20 | 12,561.55 |
| May 2013 | 807.35 | 701.20 | 782.95 | 5,985.95 | 12,475.65 |
| June 2013 | 785.70 | 683.00 | 722.20 | 5,842.20 | 11,617.25 |
| July 2013 | 762.30 | 622.50 | 652.35 | 5,742.00 | 10,015.75 |
| August 2013 | 675.00 | 588.00 | 659.60 | 5,471.80 | 9,049.20 |
| September 2013 | 779.00 | 591.00 | 678.10 | 5,735.30 | 9,617.80 |
| October 2013 | 761.80 | 667.00 | 752.45 | 6,299.15 | 11,473.15 |
| November 2013 | 764.70 | 708.00 | 756.80 | 6,176.10 | 11,153.95 |
| December 2013 | 787.90 | 715.05 | 728.25 | 6,304.00 | 11,385.25 |
| January 2014 | 737.75 | 645.05 | 657.05 | 6,089.50 | 10,237.75 |
| February 2014 | 694.00 | 630.50 | 684.50 | 6,276.95 | 10,764.70 |
| March 2014 | 788.00 | 665.45 | 781.05 | 6,704.20 | 12,742.05 |

**Kotak Vs Bankex and S&P CNX Nifty**



**SHARE HOLDING:**

| Category | | | As on 31st March 2014 | | As on 31st March 2013 | |
|---|---|---|---|---|---|---|
| | | | No. of Shares Held | Percentage of Shares | No. of Shares Held | Percentage of Shares |
| **A.** | **Promoters Holding** | | | | | |
| | Promoters | | 335,681,124 | 43.58 | 335,681,624 | 44.96 |
| | **Sub-Total** | | **335,681,124** | **43.58** | **335,681,624** | **44.96** |
| **B.** | **Non-Promoters Holding** | | | | | |
| | 1. Institutional Investors | | | | | |
| | | a. Mutual Funds & UTI | 1,25,49,964 | 1.63 | 90,19,128 | 1.21 |
| | | b. Banks, Financial Institutions, Insurance Companies (State / Central Govt. Institutions) | 16,71,576 | 0.22 | 72,60,530 | 0.97 |
| | | c. Foreign Institutional Investors | 244,057,781 | 31.68 | 240,036,670 | 32.15 |
| | | d. Qualified Foreign Investors | 150 | - | - | - |
| | **Sub-Total** | | **258,279,471** | **33.53** | **256,316,328** | **34.33** |
| **C.** | **Others** | | | | | |
| | a. Private Corporate Bodies | | 259,39,125 | 3.37 | 230,29,539 | 3.08 |
| | b. Indian Public including Directors & Relatives | | 87,139,414 | 11.30 | 88,817,118 | 11.90 |
| | c. NRIs / OCBs / Foreign Bodies | | 83,20,896 | 1.08 | 83,68,389 | 1.12 |
| | d. Global Depository Shares (GDS) | | 12,57,492 | 0.16 | 12,32,607 | 0.17 |
| | e. Foreign Bank | | 3,28,00,000 | 4.26 | 3,28,00,000 | 4.39 |
| | f. Foreign Bodies | | 2,00,00,000 | 2.60 | - | - |
| | g. Qualified Foreign Investor | | 75 | 0.00 | - | - |
| | h. Clearing Members | | 8,93,404 | 0.12 | 3,63,421 | 0.05 |
| | **Sub-Total** | | **176,350,406** | **22.89** | **154,611,074** | **20.71** |
| | **Grand Total** | | **770,311,001** | **100** | **746,609,026** | **100** |

Note: The increase in capital is due to allotment of 37,01,975 equity shares of ₹ 5/- each under various ESOP Schemes of the Bank and preferential allotment of 2,00,00,000 equity shares of ₹ 5/- each, made to Caladium Investment Pte Ltd. (formerly Heliconia Pte Limited) during the financial year 2013-14.

**SHAREHOLDING OF DIRECTORS OF THE BANK:**

| Name of the Director | As on 31st March 2014 | |
|---|---|---|
| | No. of Shares Held | Percentage of Shares |
| Dr. Shankar Acharya | - | - |
| *Mr. Uday Kotak | 30,62,63,550 | 39.76 |
| Mr. Asim Ghosh | - | - |
| Mr. Amit K. Desai | 7,74,250 | 0.10 |
| Mr. Prakash Apte | - | - |
| Mr. N.P. Sarda | - | - |
| Prof. S. Mahendra Dev | - | - |
| Mr. C. Jayaram | 6,14,304 | 0.08 |
| Mr. Dipak Gupta | 6,97,668 | 0.09 |

Note : *In addition, as on 31st March 2014, Kotak Trustee Company Pvt. Ltd. holds 2,68,97,060 equity shares of the Bank representing 3.49 % of the paid up capital of the Bank. Kotak Trustee Company Pvt. Ltd. holds these shares as trustee for USK Benefit Trust – II of which Mr. Uday Kotak is the sole beneficiary.

**List of Top 10 Shareholders of Kotak Mahindra Bank Limited as on 31st March 2014.**

| Sr. no. | Name of the investor | Total shares held | % | Categories |
|---|---|---|---|---|
| 1 | Uday Suresh Kotak | 30,62,63,550 | 39.76 | Indian Promoter |
| 2 | Sumitomo Mitsui Banking Corporation | 3,28,00,000 | 4.26 | Foreign Bank |
| 3 | Europacific Growth Fund | 3,14,67,137 | 4.08 | FII |
| 4 | Kotak Trustee Company Pvt. Ltd | 2,68,97,060 | 3.49 | Indian Promoter's Co. |
| 5 | Caladium Investment Pte Ltd. | 2,00,00,000 | 2.60 | Foreign Bodies |
| 6 | Anuradha Mahindra | 1,39,20,648 | 1.81 | Public |
| 7 | Matthews Pacific Tiger Fund | 1,21,50,816 | 1.58 | FII |
| 8 | Genesis Asset Managers, LLP A/c The Genesis Emerging Markets Investment Company | 1,09,10,174 | 1.42 | FII |
| 9 | Canada Pension Plan Investment Board - managed by IM2 | 1,08,69,425 | 1.41 | FII |
| 10 | The Genesis Group Trust for Employee Benefit Plans | 99,74,053 | 1.29 | FII |

**Distribution Schedule as on 31st March 2014**

| Sr. No. | Category from to | No. of Holders | % of Holders | No. of Shares | % of shares |
|---|---|---|---|---|---|
| 1 | 1 - 100 | 372,58 | 57.42 | 12,80,272 | 0.17 |
| 2 | 101 - 200 | 6,490 | 10.00 | 11,08,669 | 0.14 |
| 3 | 201 - 300 | 2,129 | 3.28 | 5,62,829 | 0.07 |
| 4 | 301 - 400 | 1,953 | 3.01 | 7,45,247 | 0.10 |
| 5 | 401 - 500 | 1,784 | 2.75 | 8,71,034 | 0.11 |
| 6 | 501 - 1000 | 5,014 | 7.73 | 42,32,219 | 0.55 |
| 7 | 1001 - 2000 | 5,372 | 8.28 | 92,36,983 | 1.20 |
| 8 | 2001 - 3000 | 1,959 | 3.02 | 50,19,659 | 0.65 |
| 9 | 3001 - 4000 | 828 | 1.28 | 31,02,849 | 0.40 |
| 10 | 4001 - 5000 | 505 | 0.78 | 24,27,782 | 0.32 |
| 11 | 5001 - 10000 | 552 | 0.85 | 37,89,770 | 0.49 |
| 12 | 10001 and above | 1,042 | 1.61 | 73,79,33,688 | 95.80 |
| | **TOTAL** | **64,886** | **100.00** | **77,03,11,001** | **100.00** |

The break-up of the shares held in physical and electronic mode as on 31st March, 2014 is given in the below mentioned table:

| Physical mode | | Electronic mode | |
|---|---|---|---|
| **Total Shares** | **% to Equity** | **Total Shares** | **% to Equity** |
| 66,14,412* | 0.86 | 76,36,96,589 | 99.14 |

*Includes 91,718 equity shares allotted on exercise of options by employees, on 31st March 2014 for which the credit was pending as on 31st March 2014.

**Outstanding GDS:**

The Bank has 12,57,492 GDS outstanding as at 31st March 2014.

The Bank has complied with all the mandatory and some of the non mandatory requirements of the Code of Corporate Governance stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges.

## COMPLIANCE WITH NON-MANDATORY REQUIREMENTS:

**(1) The Board**

The office of Non-Executive Chairman of the Bank who was also the chairman of the Audit Committee is maintained by the Bank at its expenses and all the expenses incurred in performance of his duties are reimbursed by the Bank. Pursuant to Section 10A(2A) of the Banking Regulation Act, 1949, no Director of a banking company, other than its Chairman or whole-time Director, shall hold office continuously for a period exceeding eight years.

**(2) Remuneration Committee**

The Bank has set up ESOP/Compensation Committee of Directors to recommend/review overall compensation structure and policies of the Bank. Details of the said Committee have already been provided hereinabove. Pursuant to the provisions of Section 178 of the Companies Act, 2013, the Board at its meeting held on 30th April 2014 granted its consent to merge the existing Nomination Committee and ESOP/ Compensation Committee into one Committee i.e. 'Nomination & Remuneration Committee'.

**(3) Shareholders' Rights**

The quarterly results of the Bank are published in one English and one Marathi newspaper, having wide circulation in Maharashtra. Further, the quarterly results are also posted on the website of the Bank – www.kotak.com. Along with the quarterly results, detailed earnings updates are also given on the website of the Bank. Further, a quarterly investors'/analysts' conference call is made to discuss the financial results and performance of the Bank and the Group, the transcripts of which are posted on the website of the Bank. The results are also available on www.corpfiling.co.in. The quarterly results are sent by email to those shareholders whose email Ids are registered with Depository for communication purposes. In view of the foregoing, the half-yearly results of the Bank are not sent to the shareholders individually.

**(4) Audit qualifications**

During the period under review, there were no audit qualifications in the Bank's financial statements. The Bank continues to adopt best accounting practices and has complied with the Accounting Standards and there is no difference in the treatment.

**(5) Training of Board Members**

During the period under review, Mr. N.P. Sarda attended the training programme arranged by the Centre for Advanced Financial Research and Learning on Non-Executive Directors on the Board of Commercial Banks.

**(6) Mechanism for evaluating Non-Executive Board Members**

The Bank has constituted the Nomination Committee which evaluates every year whether the Members of the Board adhere to the 'fit and proper' criteria as prescribed by the Reserve Bank of India. The adherence to the 'fit & proper' criteria by the Members of the Nomination Committee, i.e. the Executive Directors is evaluated by the Board of Directors.

**(7) Whistle Blower Policy**

The Bank has adopted the Whistle Blower Policy pursuant to which employees of the Bank can raise their concerns relating to the fraud, malpractice or any other untoward activity or event which is against the interest of the Bank or society as a whole. The same option has now been extended to the vendors of the Bank also. The website for reporting the above mentioned concerns is managed and hosted by an independent third party service provider who has proven expertise in this area, thereby ensuring absolute confidentiality. The Bank hereby affirms that no personnel has been denied access to the Audit Committee.

## OTHER DISCLOSURES

**(A) The Management Discussion & Analysis Report**

The Management Discussion & Analysis Report, giving an overview of the industry, the Bank's business and its financials is provided separately as a part of this Annual Report.

**(B) Means of Communication**

The Board of Directors of the Bank approves the unaudited financial results on a quarterly basis within one month of the quarter and the results are promptly forwarded to the stock exchanges and are published in one English and one Marathi (Regional Language) newspaper, within 48 hours of the conclusion of the Board Meeting. The results as well as other press releases are simultaneously displayed on the Bank's website www.kotak.com. The website also displays all official news releases by the Bank from time to time as also the Earnings Updates and presentations made to investors and analysts. In addition to this, the quarterly results and earnings update are also prepared and posted on the website of the Bank. Further, the quarterly results are sent by email to those shareholders whose email Ids are registered with Depository for communication purposes. The Bank also publishes its Balance Sheet and Profit and Loss Account together with the Auditors' Report in a newspaper as required in terms of Section 31 of the Banking Regulation Act, 1949 and Rule 15 of the Banking Regulation (Companies) Rules, 1949.

Pursuant to the Companies (Accounts) Rules, 2014, the Bank proposes to send the financial statements for the year ended 31st March 2014, by electronic mode to the members whose shareholding is in dematerialised format and whose email Ids are registered with Depository for communication purposes.

The Bank has also posted information relating to its financial results and shareholding pattern on Corporate Filing and Dissemination System (Corp filing) at www.corpfiling.co.in

**DECLARATION**

In accordance with Clause 49 of the Listing Agreement with the Stock Exchanges, I hereby confirm that, all the Directors and the Senior Management personnel of the Bank have affirmed compliance to the Code of Conduct for the financial year ended 31st March 2014.

For **Kotak Mahindra Bank Limited**

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

Place : Mumbai,
Date : 9th May 2014

**AUDITORS' CERTIFICATE**

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

We have examined the compliance of conditions of Corporate Governance by **KOTAK MAHINDRA BANK LIMITED** ("the Bank") for the year ended on 31st March 2014, as stipulated in Clause 49 of the Listing Agreement of the Bank with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Bank for ensuring compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Bank has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the Management has conducted the affairs of the Bank.

For **S. B. Billimoria & Co.**
Chartered Accountants
(Firm Registration No. 101496W)

Kalpesh J. Mehta
Partner
Membership No. 48791

**Mumbai**, 22nd May, 2014

# Independent Auditors' Report

**TO THE MEMBERS OF**

**KOTAK MAHINDRA BANK LIMITED.**

**Report on the Financial Statements**

We have audited the accompanying financial statements of **KOTAK MAHINDRA BANK LIMITED** ("the Bank"), which comprise the Balance Sheet as at 31st March, 2014, the Profit and Loss Account and the Cash Flow Statement of the Bank for the year then ended, and a summary of the significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

The Bank's Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, Accounting Standards notified under the Companies Act, 1956 (which continue to be applicable in respect of section 133 of the Companies Act, 2013 in terms of the General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs) and in accordance with the accounting principles generally accepted in India, in so far as they apply to the banks and the Guidelines issued by the Reserve Bank of India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Bank's preparation and fair presentation of the financial statements 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 Bank's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulation Act, 1949; the Companies Act, 1956 in the manner so required for banking companies and the Guidelines issued by the Reserve Bank of India from time to time and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Bank as at 31st March, 2014;

(b) in the case of the Profit and Loss Account, of the profit of the Bank for the year ended on that date; and

(c) in the case of the Cash Flow Statement, of the cash flows of the Bank for the year ended on that date.

**Emphasis of Matter**

Attention is invited to Note 32 of Schedule 18A to the Financial Statements regarding creation of Deferred Tax Liability on Special Reserve under section 36(1)(viii) of the Income Tax Act, 1961 pursuant to RBI's Circular No. DBOD. No.BP.BC.77/21.04.018/2013-14 dated 20th December, 2013.

Our opinion is not qualified in respect of this matter.

**Report on Other Legal and Regulatory Requirements**

1. As required by Section 227(3) of the Companies Act,1956 and Section 30 of the Banking Regulation Act,1949, we report that:
   (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and found them to be satisfactory.
   (b) In our opinion, the transactions of the Bank which have come to our notice have been within the powers of the Bank.
   (c) The financial accounting systems of the Bank are centralised and, therefore, accounting returns are not required to be submitted by the Branches.
   (d) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books.
   (e) The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.
   (f) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement comply with the Accounting Standards notified under the Act (which continue to be applicable in respect of Section 133 of the Companies Act, 2013 in terms of General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs) in so far as they apply to banks.
2. On the basis of the written representations received from the Directors as on 31st March, 2014 taken on record by the Board of Directors and as per the information and representation provided to us by the Bank, we report that none of the Directors is disqualified as on 31st March, 2014 from being appointed as a director in terms of Section 274(1)(g) of the Companies Act, 1956.
3. We report that during the course of our audit we have visited 46 Branches. Since the key operations of the Bank are automated with the key applications used at branches integrated to the Core Banking Systems, the audit is carried out centrally at the Head Office as all the necessary records and data required for the purposes of our audit are available therein and the Branches are not required to submit any financial returns.

**For S.B.BILLIMORIA & CO.**
Chartered Accountants
(Firm Registration No. 101496W)

**Kalpesh J. Mehta**
Partner
(Membership No. 48791)

MUMBAI, 30th April, 2014

# Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | Schedule | **As at 31st March, 2014** | As at 31st March, 2013 |
|---|---|---|---|
| **CAPITAL AND LIABILITIES** | | | |
| Capital | 1 | 3,851,555 | 3,733,045 |
| Reserves and Surplus | 2 | 118,899,262 | 90,736,517 |
| Employees' Stock Options (Grants) Outstanding | | 85,315 | 175,336 |
| Deposits | 3 | 590,723,294 | 510,287,663 |
| Borrowings | 4 | 128,955,756 | 204,106,221 |
| Other Liabilities and Provisions | 5 | 33,338,243 | 27,898,086 |
| **Total** | | **875,853,425** | **836,936,868** |
| **ASSETS** | | | |
| Cash and Balances with Reserve Bank of India | 6 | 29,482,304 | 22,079,033 |
| Balances with Banks and Money at Call and Short Notice | 7 | 30,316,596 | 14,812,575 |
| Investments | 8 | 254,845,482 | 288,734,270 |
| Advances | 9 | 530,276,325 | 484,689,828 |
| Fixed Assets | 10 | 11,069,436 | 4,644,222 |
| Other Assets | 11 | 19,863,282 | 21,976,940 |
| **Total** | | **875,853,425** | **836,936,868** |
| Contingent Liabilities | 12 | 438,879,439 | 402,039,903 |
| Bills for Collection | | 30,155,988 | 19,134,811 |
| Significant Accounting Policies and Notes to the Financial Statements | 17 & 18 | | |

The schedules referred to above form an integral part of this Balance Sheet.

The Balance Sheet has been prepared in conformity with Form 'A' of the Third Schedule to the Banking Regulation Act, 1949.

As per our report of even date.

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

**Kalpesh J. Mehta**
Partner

Mumbai, 30th April, 2014

For and on behalf of the Board of Directors

**Dr. Shankar Acharya**
Chairman

**Dipak Gupta**
Joint Managing Director

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

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

**Bina Chandarana**
Company Secretary

# Profit and Loss Account for the year ended 31st March, 2014

(₹ in thousands)

| | | Schedule | **Year ended 31st March, 2014** | Year ended 31st March, 2013 |
|---|---|---|---|---|
| **I.** | **INCOME** | | | |
| | Interest earned | 13 | 87,671,154 | 80,424,896 |
| | Other Income | 14 | 13,997,106 | 11,606,649 |
| | **Total** | | **101,668,260** | **92,031,545** |
| **II.** | **EXPENDITURE** | | | |
| | Interest expended | 15 | 50,470,665 | 48,368,183 |
| | Operating expenses | 16 | 25,426,072 | 22,097,310 |
| | Provisions and Contingencies [Refer Note 12 - Schedule 18 B] | | 10,746,333 | 7,958,880 |
| | **Total** | | **86,643,070** | **78,424,373** |
| **III.** | **PROFIT** | | | |
| | Net Profit for the year (I - II) | | 15,025,190 | 13,607,172 |
| | Add: Balance in Profit and Loss Account brought forward from previous year | | 30,165,987 | 21,627,912 |
| | **Total** | | **45,191,177** | **35,235,084** |
| **IV.** | **APPROPRIATIONS** | | | |
| | Transfer to Statutory Reserve | | 3,756,300 | 3,401,800 |
| | Transfer to General Reserve | | 751,300 | 680,400 |
| | Transfer to Capital Reserve | | 4,000 | - |
| | Transfer to Special Reserve u/s 36(1)(viii) of Income Tax Act, 1961 | | 320,000 | 285,000 |
| | Transfer to / (from) Investment Reserve Account (Refer Note 32 - Schedule 18 A) | | (411,014) | 105,200 |
| | Proposed Dividend | | 630,789 | 523,754 |
| | Corporate Dividend Tax | | 86,885 | 72,943 |
| | Balance carried over to Balance Sheet | | 40,052,917 | 30,165,987 |
| | **Total** | | **45,191,177** | **35,235,084** |
| **V.** | **EARNINGS PER SHARE (Face value of ₹ 5/-)** | | | |
| | Basic (Refer Note 2 - Schedule 18 B) | | 19.62 | 18.31 |
| | Diluted (Refer Note 2 - Schedule 18 B) | | 19.59 | 18.24 |
| | Significant Accounting Policies and Notes to the Financial Statements | 17 & 18 | | |

The schedules referred to above form an integral part of this Profit and Loss Account.

The Profit and Loss Account has been prepared in conformity with Form 'B' of the Third Schedule to the Banking Regulation Act, 1949.

As per our report of even date.

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

**Kalpesh J. Mehta**
Partner

Mumbai, 30th April, 2014

For and on behalf of the Board of Directors

**Dr. Shankar Acharya**
Chairman

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

**Dipak Gupta**
Joint Managing Director

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

**Bina Chandarana**
Company Secretary

# Cash Flow Statement for the year ended 31st March, 2014

(₹ in thousands)

| | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| **Profit after tax** | **15,025,190** | **13,607,172** |
| Add: Provision for tax | 7,699,345 | 6,113,424 |
| **Net Profit Before Taxes** | **22,724,535** | **19,720,596** |
| **Adjustments for :-** | | |
| Employee Stock Options Expense | 39,839 | 60,780 |
| Depreciation on Bank's property | 1,651,791 | 1,325,308 |
| Diminution in the value of investments written off / (back) | 1,766,093 | (210,905) |
| Dividend from Subsidiaries / Joint Ventures | (211,021) | (99,000) |
| Amortisation of Premium on HTM Investments | 788,908 | 805,235 |
| Provision for Non Performing Assets, Standard Assets and Other Provisions | 1,280,895 | 2,056,361 |
| Profit on sale of Fixed assets | (11,594) | (11,328) |
| | **28,029,446** | **23,647,047** |
| **Adjustments for :-** | | |
| Decrease / (Increase) in Investments [other than Subsidiaries, Joint Ventures and Other HTM Investments ] | 33,182,929 | (60,578,942) |
| Increase in Advances | (46,912,840) | (95,531,560) |
| Increase in Other Assets | (2,692,185) | (2,058,317) |
| Increase in Deposits | 80,435,631 | 124,922,457 |
| Increase / (Decrease) in Other Liabilities and Provisions | 4,233,493 | 1,613,138 |
| | **68,247,028** | **(31,633,224)** |
| **Direct Taxes Paid** | **(6,260,185)** | **(6,068,470)** |
| **NET CASH FLOW FROM OPERATING ACTIVITIES (A)** | **90,016,289** | **(14,054,647)** |
| **CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES** | | |
| Purchase of Fixed assets | (3,916,486) | (1,844,458) |
| Sale of Fixed assets | 63,964 | 45,398 |
| Proceeds from sale of Investment in Associates | 2,100 | - |
| Investments in Subsidiaries / Joint Ventures | (932,043) | (560,577) |
| Investments in HTM securities | (919,199) | (12,520,958) |
| Dividend from Subsidiaries / Joint Ventures | 211,021 | 99,000 |
| **NET CASHFLOW USED IN INVESTMENT ACTIVITIES (B)** | **(5,490,643)** | **(14,781,595)** |

# Cash Flow Statement for the year ended 31st March, 2014 (Contd.)

(₹ in thousands)

| | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| **CASH FLOW FROM / (USED IN) FINANCING ACTIVITIES** | | |
| Increase / (Decrease) in Subordinated Debt | (533,650) | (346,550) |
| Increase / (Decrease) in Refinance | (1,679,009) | (2,139,328) |
| Increase / (Decrease) in Borrowings [other than Refinance and Subordinated debt] | (72,937,806) | 40,636,894 |
| Money received on exercise of stock options / issue of shares | 14,155,019 | 1,733,047 |
| Share issue expenses | (6,355) | - |
| Dividend paid including Corporate Dividend Tax | (616,553) | (501,759) |
| **NET CASHFLOW FROM / (USED IN) FINANCING ACTIVITIES (C)** | **(61,618,354)** | **39,382,304** |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)** | **22,907,292** | **10,546,062** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Refer Note below)** | **36,891,608** | **26,345,546** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Refer Note below)** | **59,798,900** | **36,891,608** |
| **Note:** | | |
| Balance with Banks in India in Fixed Deposit (As per Sch 7 I (i) (b)) | 107,425 | 3,750,625 |
| Balance with Banks in India in Current Account (As per Sch 7 I (i) (a)) | 648,278 | 911,439 |
| Money at Call and Short Notice in India (as per Sch 7 I (ii)) | 6,999,065 | 4,564,563 |
| Cash in hand (including foreign currency notes) (As per Sch 6 I.) | 4,361,433 | 3,303,206 |
| Balance with RBI in Current Accounts (As per Sch 6 II.) | 25,120,871 | 18,775,827 |
| Balance with Banks Outside India: | | |
| (i) In Current Account (As per Sch 7 II (i)) | 992,428 | 266,018 |
| (ii) In Other Deposit Accounts (As per Sch 7 II (ii)) | 21,569,400 | 5,319,930 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **59,798,900** | **36,891,608** |

As per our report of even date.

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

**Kalpesh J. Mehta**
Partner

Mumbai, 30th April, 2014

For and on behalf of the Board of Directors

**Dr. Shankar Acharya**
Chairman

**Dipak Gupta**
Joint Managing Director

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

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

**Bina Chandarana**
Company Secretary

# Schedules forming part of Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| **SCHEDULE 1 - CAPITAL** | | |
| **Authorised Capital** | | |
| 100,00,00,000 Equity Shares of ₹ 5/- each (31st March 2013: 80,00,00,000 Equity Shares of ₹ 5/- each) | **5,000,000** | **4,000,000** |
| **Issued, Subscribed and Paid-up Capital** | | |
| 77,03,11,001 ( 31st March, 2013: 74,66,09,026) Equity | | |
| Shares of ₹ 5/- each fully paid-up (Refer Note 1 - Schedule 18 B) | 3,851,555 | 3,733,045 |
| **Total** | **3,851,555** | **3,733,045** |
| **SCHEDULE 2 - RESERVES AND SURPLUS** | | |
| **I. Statutory Reserve** | | |
| Opening Balance | 12,630,700 | 9,228,900 |
| Add: Transfer from Profit and Loss Account | 3,756,300 | 3,401,800 |
| **Total** | **16,387,000** | **12,630,700** |
| **II. Capital Reserve** | | |
| Opening Balance | 289,303 | 289,303 |
| Add: Transfer from Profit and Loss Account | 4,000 | - |
| **Total** | **293,303** | **289,303** |
| **III. General Reserve** | | |
| Opening Balance | 4,730,052 | 4,049,652 |
| Add: Transfer from Profit and Loss Account | 751,300 | 680,400 |
| Less: Utilised for creation of Deferred tax liability on Special Reserve (Refer Note 32 - Schedule 18 A ) | 311,800 | - |
| **Total** | **5,169,552** | **4,730,052** |
| **IV. Investment Reserve Account** | | |
| Opening Balance | 411,014 | 305,814 |
| Add: Transfer from/(to) Profit and Loss Account (Refer Note 32 - Schedule 18 A) | (411,014) | 105,200 |
| **Total** | **-** | **411,014** |
| **V. Special Reserve Account u/s 36(1)(viii) of Income Tax Act, 1961** | | |
| Opening Balance | 1,225,000 | 940,000 |
| Add: Transfer from Profit and Loss Account | 320,000 | 285,000 |
| **Total** | **1,545,000** | **1,225,000** |
| **VI. Share Premium Account** | | |
| Opening Balance | 41,284,461 | 39,314,361 |
| Add: Received during the year | 14,173,384 | 1,970,100 |
| Less: Utilised for Share Issue Expenses (Refer Note 1 - Schedule 18 B) | 6,355 | - |
| **Total** | **55,451,490** | **41,284,461** |
| **VII. Balance in the Profit and Loss Account** | **40,052,917** | **30,165,987** |
| **Total (I to VII)** | **118,899,262** | **90,736,517** |

# Schedules forming part of Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | | | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|---|---|
| **SCHEDULE 3 - DEPOSITS** | | | | |
| **A I.** | **Demand Deposits** | | | |
| | i. | From Banks | 1,709,993 | 1,596,176 |
| | ii. | From Others | 85,698,151 | 74,905,327 |
| | **Total** | | **87,408,144** | **76,501,503** |
| **II.** | **Savings Bank Deposits** | | 100,870,498 | 72,681,276 |
| **III.** | **Term Deposits** | | | |
| | i. | From Banks | 6,103,554 | 8,842,057 |
| | ii. | From Others [Refer Note 13 - Schedule 18 B] | 396,341,098 | 352,262,827 |
| | **Total** | | **402,444,652** | **361,104,884** |
| | **Total Deposits of branches (I to III)** | | **590,723,294** | **510,287,663** |
| **B.** | (i) | Deposits of branches in India | 590,723,294 | 510,287,663 |
| | (ii) | Deposits of branches outside India | - | - |
| | **Total** | | **590,723,294** | **510,287,663** |
| **SCHEDULE 4 - BORROWINGS** | | | | |
| **I.** | **Borrowings in India** | | | |
| | (i) | Reserve Bank of India | 41,533,200 | 85,168,500 |
| | (ii) | Other Banks | 21,608,958 | 25,668,405 |
| | (iii) | Other Institutions and Agencies (Refer Note 14 - Schedule 18 B) | 44,963,758 | 47,429,767 |
| | **Total** | | **108,105,916** | **158,266,672** |
| **II.** | **Borrowings outside India** | | | |
| | Banks & Other Institutions (Refer Note 14 - Schedule 18 B) | | 20,849,840 | 45,839,549 |
| | | | **20,849,840** | **45,839,549** |
| **Total Borrowings (I and II)** | | | **128,955,756** | **204,106,221** |
| Secured Borrowings under CBLO included in I (iii) above | | | - | - |
| Tier II Bonds included in I (iii) above | | | 6,180,000 | 6,967,000 |
| Tier II Bonds included in II above | | | 2,696,175 | 2,442,825 |
| **SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS** | | | | |
| **I.** | Bills Payable | | 7,105,404 | 6,569,088 |
| **II.** | Interest Accrued | | 4,624,173 | 4,479,353 |
| **III.** | Provision for tax (net of advance tax and tax deducted at source) | | 1,158,006 | 263,979 |
| **IV.** | Others (including provisions) | | 19,738,092 | 15,974,219 |
| **V.** | Proposed Dividend (includes tax on dividend) | | 712,568 | 611,447 |
| | **Total** | | **33,338,243** | **27,898,086** |

# Schedules forming part of Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| **SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA** | | |
| **I.** Cash in hand (including foreign currency notes) | 4,361,433 | 3,303,206 |
| **II.** Balances with RBI in Current Account | 25,120,871 | 18,775,827 |
| **Total** | **29,482,304** | **22,079,033** |
| **SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE** | | |
| **I. In India** | | |
| **(i) Balances with Banks** | | |
| (a) In Current Accounts | 648,278 | 911,439 |
| (b) In Other Deposit Accounts | 107,425 | 3,750,625 |
| **Total** | **755,703** | **4,662,064** |
| **(ii) Money at Call and Short Notice** | | |
| (a) With Banks | 6,999,065 | 4,564,563 |
| **Total** | **6,999,065** | **4,564,563** |
| **Total ( i and ii )** | **7,754,768** | **9,226,627** |
| **II. Outside India** | | |
| (i) In Current Accounts | 992,428 | 266,018 |
| (ii) In other Deposit Accounts | 21,569,400 | 5,319,930 |
| **Total** | **22,561,828** | **5,585,948** |
| **Total (I and II)** | **30,316,596** | **14,812,575** |
| **SCHEDULE 8 - INVESTMENTS** | | |
| **I. Investments in India in** | | |
| i. Government Securities | 174,653,699 | 215,620,625 |
| ii. Other Approved Securities | - | - |
| iii. Shares | 450,024 | 181,542 |
| iv. Debentures and Bonds | 49,840,656 | 42,364,058 |
| v. Subsidiaries and Joint Ventures | 4,591,980 | 3,850,524 |
| vi. Others [Units, Certificate of Deposits (CD), Commercial Paper (CP), | | |
| Security Receipts, RIDF Deposit & Pass Through Certificates(PTC)] | 25,168,147 | 26,576,545 |
| **Total** | **254,704,506** | **288,593,294** |
| **II. Investments outside India in** | | |
| i. Shares | 3,332 | 3,332 |
| ii. Subsidiaries and Joint Ventures | 137,644 | 137,644 |
| **Total** | **140,976** | **140,976** |
| **Total Investments (I and II)** | **254,845,482** | **288,734,270** |

# Schedules forming part of Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | | | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|---|---|
| **SCHEDULE 9 - ADVANCES** | | | | |
| **A.** | (i) | Bills purchased and discounted# | 11,753,149 | 13,718,739 |
| | (ii) | Cash Credits, Overdrafts and loans repayable on demand | 123,913,952 | 97,709,713 |
| | (iii) | Term Loans @ | 394,609,224 | 373,261,376 |
| | **Total** | | **530,276,325** | **484,689,828** |
| | # Bills purchased and discounted is net off Bills Rediscounted | | | |
| | ₹ 1,681.10 crore (previous year ₹ 1,460.72 crore) | | | |
| | @ net of borrowings under Inter Bank Participatory Certificates of ₹ 600 crore (previous year ₹ Nil) | | | |
| **B.** | (i) Secured by tangible assets * | | 420,362,625 | 414,223,002 |
| | (ii) Unsecured | | 109,913,700 | 70,466,826 |
| | **Total** | | **530,276,325** | **484,689,828** |
| | * including advances against book debts | | | |
| **C.** | **Advances in India** | | | |
| | (i) Priority Sector | | 179,578,057 | 140,192,931 |
| | (ii) Public Sector | | 1,481,457 | 1,921,947 |
| | (iii) Banks | | - | - |
| | (iv) Others | | 349,216,811 | 342,574,950 |
| | **Total** | | **530,276,325** | **484,689,828** |
| **SCHEDULE 10 - FIXED ASSETS** | | | | |
| **A.** | **Premises (Including Land)** | | | |
| | **Gross Block** | | | |
| | At cost on 31st March of the preceding year | | 2,215,661 | 2,190,236 |
| | Additions during the year | | 4,690,023 | 25,425 |
| | Less: Deductions during the year | | - | - |
| | **Total** | | **6,905,684** | **2,215,661** |
| | **Depreciation** | | | |
| | As at 31st March of the preceding year | | 473,388 | 434,698 |
| | Add: Charge for the year | | 81,211 | 38,690 |
| | Less: Deductions during the year | | - | - |
| | **Depreciation to date** | | **554,599** | **473,388** |
| | **Net Block** | | **6,351,085** | **1,742,273** |
| **B.** | **Other Fixed Assets (including furniture and fixtures)** | | | |
| | **Gross Block** | | | |
| | At cost on 31st March of the preceding year | | 8,684,821 | 7,363,907 |
| | Additions during the year | | 3,439,353 | 1,478,516 |
| | Less: Deductions during the year | | 254,764 | 157,602 |
| | **Total** | | **11,869,410** | **8,684,821** |

# Schedules forming part of Balance Sheet as at 31st March, 2014

(₹ in thousands)

| | | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|---|
| | **Depreciation** | | |
| | As at 31st March of the preceding year | 5,782,872 | 4,619,787 |
| | Add: Charge for the year | 1,570,580 | 1,286,618 |
| | Less: Deductions during the year | 202,393 | 123,533 |
| | **Depreciation to date** | **7,151,059** | **5,782,872** |
| | **Net Block** ( Refer Note 7 - Schedule 18 B ) | **4,718,351** | **2,901,949** |
| **Total (A) + (B)** | | **11,069,436** | **4,644,222** |
| **SCHEDULE 11 - OTHER ASSETS** | | | |
| **I.** | Interest accrued | 10,133,160 | 8,222,916 |
| **II.** | Advance tax (net of provision for tax) | - | - |
| **III.** | Stationery and Stamps | 13,130 | 25,367 |
| **IV.** | Cheques in course of collection | 156,105 | 135,511 |
| **V.** | Non banking assets acquired in satisfaction of claims | 67,824 | 67,824 |
| **VI.** | Others (Refer Note 5 - Schedule 18 B) | 9,493,063 | 13,525,322 |
| | **Total** | **19,863,282** | **21,976,940** |
| **SCHEDULE 12 - CONTINGENT LIABILITIES** | | | |
| **I.** | Claims not acknowledged as debts | 11,529,345 | 11,433,065 |
| **II.** | Liability on account of Outstanding Forward Exchange Contracts | 178,934,852 | 148,666,844 |
| **III.** | Guarantees on behalf of Constituents in India | 83,878,136 | 68,208,150 |
| **IV.** | Acceptances, Endorsements and other obligations | 42,559,956 | 45,570,177 |
| **V.** | Other Items for which the Bank is contingently liable : | | |
| | a. Liability in respect of interest rate and currency swaps and forward rate agreements | 108,477,457 | 124,273,059 |
| | b. Liability in respect of Options Contracts | 12,756,125 | 2,916,070 |
| | c. Capital commitments not provided | 743,568 | 972,538 |
| | **Total** | **438,879,439** | **402,039,903** |

# Schedules forming part of Profit and Loss Account for the year ended 31st March, 2014

(₹ in thousands)

| | | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|---|
| **SCHEDULE 13 - INTEREST EARNED** | | | |
| **I.** | Interest / discount on Advances / Bills | 66,748,159 | 61,460,932 |
| **II.** | Income on Investments | 20,500,414 | 18,698,346 |
| **III.** | Interest on balances with RBI and other Inter Bank funds | 271,746 | 243,250 |
| **IV.** | Others | 150,835 | 22,368 |
| | **Total** | **87,671,154** | **80,424,896** |
| **SCHEDULE 14 - OTHER INCOME** | | | |
| **I.** | Commission, exchange and brokerage | 8,530,807 | 7,371,928 |
| **II.** | Profit/(Loss) on sale of Investments (net) | 1,818,318 | 1,546,039 |
| **III.** | Profit/(Loss) on sale of building and other assets (net) | 11,594 | 11,328 |
| **IV.** | Profit on exchange transactions (net) (including derivatives) | 2,118,203 | 962,647 |
| **V.** | Income earned from Subsidiaries / Joint Ventures | 806,393 | 591,605 |
| **VI.** | Profit on recoveries of non-performing assets acquired | 254,477 | 826,357 |
| **VII.** | Miscellaneous Income | 457,314 | 296,745 |
| | **Total** | **13,997,106** | **11,606,649** |
| **SCHEDULE 15 - INTEREST EXPENDED** | | | |
| **I.** | Interest on Deposits | 38,153,041 | 33,461,115 |
| **II.** | Interest on RBI / Inter Bank Borrowings | 7,776,885 | 10,552,600 |
| **III.** | Others (Refer Note 14(c) - Schedule 18 B) | 4,540,739 | 4,354,468 |
| | **Total** | **50,470,665** | **48,368,183** |
| **SCHEDULE 16 - OPERATING EXPENSES** | | | |
| **I.** | Payments to and provision for employees (Refer Note 11 - Schedule 18 B) | 11,721,556 | 10,751,397 |
| **II.** | Rent, taxes and lighting (Refer Note 4 - Schedule 18 B) | 2,705,466 | 2,215,029 |
| **III.** | Printing and Stationery | 421,587 | 331,814 |
| **IV.** | Advertisement, Publicity and Promotion | 767,837 | 708,489 |
| **V.** | Depreciation on Bank's property | 1,651,791 | 1,325,308 |
| **VI.** | Directors' fees, allowances and expenses | 3,410 | 2,925 |
| **VII.** | Auditors' fees and expenses | 14,734 | 15,198 |
| **VIII.** | Law Charges | 133,550 | 115,696 |
| **IX.** | Postage, telephone etc. | 629,984 | 514,667 |
| **X.** | Repairs and maintenance | 1,453,408 | 1,216,956 |
| **XI.** | Insurance | 502,442 | 371,216 |
| **XII.** | Travel and Conveyance | 634,762 | 549,522 |
| **XIII.** | Professional Charges | 1,987,967 | 1,716,023 |
| **XIV.** | Brokerage | 892,589 | 839,520 |
| **XV.** | Stamping Expenses | 129,557 | 129,831 |
| **XVI.** | Other Expenditure | 2,247,855 | 1,792,740 |
| | | **25,898,495** | **22,596,331** |
| Less: Reimbursement of Costs from Group Companies | | 472,423 | 499,021 |
| | **Total** | **25,426,072** | **22,097,310** |

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

Schedule 17 – Significant Accounting Policies

## A BACKGROUND

In February 2003, Kotak Mahindra Finance Limited was given license for banking business by the Reserve Bank of India (RBI). It was the first NBFC Company in India to be converted into a Bank. Kotak Mahindra Bank Limited ("Kotak Mahindra Bank" or "the Bank") provides a full suite of banking services to its customers encompassing Retail Banking, Treasury and Corporate Banking in India and also has a representative office in Dubai.

## B BASIS OF PREPERATION

The financial statements have been prepared in accordance with statutory requirements prescribed under the Banking Regulation Act, 1949. The accounting and reporting policies of Kotak Mahindra Bank used in the preparation of these financial statements is the accrual method of accounting and historical cost convention and it conforms with Generally Accepted Accounting Principles in India ("Indian GAAP"), the guidelines issued by Reserve Bank of India ("RBI") from time to time, the Accounting Standards ('AS') notified under section 211(3C) of the Companies Act, 1956 ("the 1956 Act") (which continues to be applicable in respect of section 133 of the Companies Act, 2013 ("the 2013 Act") in terms of general circular 15/2013 dated 13th September 2013 of the Ministry of Corporate Affairs) and the relevant provisions of the 1956 Act / 2013 Act, as applicable and practices generally prevalent in the banking industry in India.

**Use of estimates**

The preparation of financial statements requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses during the reporting period. The Bank's Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision to the accounting estimates is recognised prospectively in the current and future periods.

## C PRINCIPLE ACCOUNTING POLICIES

### 1 Investments

**Classification :**

In accordance with the RBI guidelines on investment classification and valuation, investments are classified on the date of purchase into "Held for Trading"('HFT'), "Available for Sale"('AFS') and "Held to Maturity"('HTM') categories (hereinafter called "categories"). Subsequent shifting amongst the categories is done in accordance with the RBI guidelines at the lower of the acquisition cost / carrying value / market value on the date of the transfer and depreciation, if any, on such transfer is fully provided.

Under each of these categories, investments are further classified under six groups (hereinafter called "groups") - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint Ventures and Other Investments for the purposes of disclosure in the Balance Sheet.

The Bank follows 'Settlement Date' accounting for recording purchase and sale transactions in securities.

**Basis of classification :**

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category. As per the RBI guidelines, HFT securities, which remain unsold for a period of 90 days are reclassified as AFS securities as on that date. Investments which the Bank intends to hold till maturity are classified as HTM securities. The Bank has classified investments in subsidiaries, joint ventures and associates under HTM category. Investments which are not classified in either of the above two categories are classified under AFS category.

**Acquisition Cost :**

The cost of investments is determined on weighted average basis. Broken period interest on debt instruments and government securities are considered as a revenue item. The transaction costs including brokerage, commission etc. paid at the time of acquisition of investments is charged to Profit and Loss Account.

**Disposal of investments :**

- **Investments classified as HFT or AFS** - Profit or loss on sale / redemption is included in the Profit and Loss Account.
- **Investments classified as HTM** - Profit on sale / redemption of investments is included in the Profit and Loss Account and is appropriated to Capital Reserve after adjustments for tax and transfer to Statutory Reserve. Loss on sale / redemption is charged to the Profit and Loss Account.

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

**Valuation :**

The valuation of investments is performed in accordance with the RBI guidelines as follows:

a) **Investments classified as HTM** – These are carried at their acquisition cost. Any premium on acquisition of debt instruments / government securities are amortised over the balance maturity of the security on a straight line basis. Any diminution, other than temporary, in the value of such securities is provided.

b) **Investments classified as HFT or AFS** – Investments in this category are marked to market and the net depreciation, if any, within each group is recognised in the Profit and Loss Account. Net appreciation, if any, is ignored. Further, provision for diminution other than temporary is made for, at the individual security level. Except in cases where provision for diminution other than temporary is created, the book value of the individual securities is not changed as a result of periodic valuations.

c) The market / fair value of quoted investments included in the 'AFS' and 'HFT' categories is measured with respect to the market price of the scrip as available from the trades / quotes on the stock exchanges, SGL account transactions, price list of RBI or prices declared by Primary Dealers Association of India ('PDAI') jointly with Fixed Income Money Market and Derivatives Association of India ('FIMMDA') as at the year end. The market value of investments where market quotations are not available is determined as per the norms laid down by the RBI.

d) Treasury Bills, Exchange Funded Bills, Commercial Paper and Certificate of Deposits being discounted instruments, are valued at carrying cost.

e) Units of mutual funds are valued at the latest repurchase price / net asset value declared by the mutual fund.

f) Investments in subsidiaries / joint ventures (as defined by the RBI) are categorised as HTM and assessed for impairment to determine other than temporary diminution, if any, in accordance with the RBI guidelines.

g) Market value of investments where current quotations are not available, is determined as per the norms prescribed by the RBI as under:

- In case of unquoted bonds, debentures and preference shares where interest/dividend is received regularly (i.e. not overdue beyond 90 days), the market price is derived based on the YTM for Government Securities as published by FIMMDA / PDAI and suitably marked up for credit risk applicable to the credit rating of the instrument. The matrix for credit risk mark-up for each categories and credit ratings along with residual maturity issued by FIMMDA is adopted for this purpose;

- In case of bonds and debentures (including Pass Through Certificates) where interest is not received regularly (i.e. overdue beyond 90 days), the valuation is in accordance with prudential norms for provisioning as prescribed by the RBI. Interest on such securities is not recognised in the Profit and Loss Account until received;

- Equity shares, for which current quotations are not available or where the shares are not quoted on the stock exchanges, are valued at break-up value (without considering revaluation reserves, if any) which is ascertained from the Company's latest Balance Sheet. In case the latest Balance Sheet is not available, the shares are valued at ₹ 1 per Company;

- Units of Venture Capital Funds (VCF) held under AFS category where current quotations are not available are marked to market based on the Net Asset Value (NAV) shown by VCF as per the latest audited financials of the fund. In case the audited financials are not available for a period beyond 18 months, the investments are valued at ₹ 1 per VCF. Investment in unquoted VCF after 23rd August, 2006 are categorised under HTM category for the initial period of three years and valued at cost as per RBI guidelines;

- Security receipts are valued as per the Net Asset Value (NAV) obtained from the issuing Reconstruction Company/Securitisation Company.

h) **Repurchase and reverse repurchase transactions** - Securities sold under agreements to repurchase (Repos) and securities purchased under agreements to resell (Reverse Repos) are accounted as collateralised borrowing and lending transactions respectively. The difference between the consideration amount of the first leg and the second leg of the repo is recognised as interest income / interest expense over the period of the transaction.

**2 Advances**

**Classification :**

Advances are classified as performing and non-performing advances ('NPAs') based on the RBI guidelines and are stated net of bills rediscounted, specific provisions, interest in suspense for non-performing advances, claims received from Export Credit Guarantee Corporation, provisions

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

for funded interest term loan classified as non-performing advances and provisions in lieu of diminution in the fair value of restructured assets. Also, NPAs are classified into sub-standard, doubtful and loss assets. Interest on NPAs is transferred to an interest suspense account and not recognised in the Profit and Loss Account.

Amounts paid for acquiring non-performing assets from other banks and NBFCs are considered as advances. Actual collections received on such non-performing assets are compared with the cash flows estimated while purchasing the asset to ascertain overdue. If the overdue is in excess of 90 days, then the assets are classified into sub-standard, doubtful or loss as required by the RBI guidelines on purchase of non-performing assets.

The Bank transfers advances through inter-bank participation with and without risk. In accordance with the RBI guidelines, in the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances and where the Bank is participating, the aggregate amount of the participation is classified under advances. In the case of participation without risk, the aggregate amount of participation issued by the Bank is classified under borrowings and where the Bank is participating, the aggregate amount of participation is shown as due from banks under advances.

**Provisioning :**

Provision for NPAs comprising sub-standard, doubtful and loss assets is made in accordance with the RBI guidelines. In addition, the Bank considers accelerated provisioning that is based on past experience, evaluation of security and other related factors. Specific loan loss provision in respect of non-performing advances are charged to the Profit and Loss Account. Any recoveries made by the Bank in case of NPAs written off is recognised in the Profit and Loss Account.

The Bank considers a restructured account as one where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of terms of the advance / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of installments / rate of interest (due to reasons other than competitive reasons). Restructured accounts are classified as such by the Bank only upon approval and implementation of the restructuring package. Necessary provision for diminution in the fair value of a restructured account is made. Restructuring of an account is done at a borrower level.

In accordance with RBI guidelines the Bank has provided general provision on standard assets including credit exposures computed as per the current marked to market values of interest rate and foreign exchange derivative contracts, and gold at levels stipulated by RBI from time to time - direct advances to sectors agricultural & SME at 0.25%, commercial real estate at 1.00%, restructured standard advances progressively to reach 5%, teaser rate housing loans at 2.00% and for other sectors at 0.40%.

Further to provisions required as per the asset classification status, provisions are held for individual country exposure (except for home country) as per the RBI guidelines. Exposure is classified in the seven risk categories as mentioned in the as per Export Credit Guarantee Corporation of India Ltd. ('ECGC') guidelines and provisioning is done for that country if the net funded exposure is one percent or more of the Bank's total assets based on the rates laid down by the RBI.

## 3 Securitisation

The Bank enters into arrangements for sale of loans through Special Purpose Vehicles (SPVs). In most cases, post securitisation, the Bank continues to service the loans transferred to the SPV. At times the Bank also provides credit enhancement in the form of cash collaterals and / or by subordination of cash flows to Senior Pass Through Certificate (PTC) holders. In respect of credit enhancements provided or recourse obligations (projected delinquencies, future servicing etc.) accepted by the Bank, appropriate provision / disclosure is made at the time of sale in accordance with Accounting Standard 29, "Provisions, Contingent Liabilities and Contingent Assets" notified by the Companies (Accounting Standards) Rules, 2006 "as amended".

In accordance with the RBI guidelines, the profit / premium on account of securitisation of assets at the time of sale is computed as the difference between the sale consideration and the book value of the securitised asset amortised over the tenure of the securities issued. Loss on account of securitisation on assets is recognised immediately to the Profit and Loss Account.

The Bank invests in PTCs of other SPVs which are accounted for at the deal value and are classified under Investments.

## 4 Fixed assets and depreciation

Fixed assets have been stated at cost less accumulated depreciation / amortisation and adjusted for impairment, if any. Cost includes cost of purchase inclusive of freight, duties, incidental expenses and all expenditure like site preparation, installation costs and professional fees incurred on the asset before it is ready to put to use. Subsequent expenditure incurred on assets put to use is capitalised only when it increases the future benefit / functioning capability from / of such assets.

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

**Depreciation / Amortisation** - The Bank adopts the Straight Line Method of depreciation / amortisation so as to write off 100% of the cost of assets at rates higher than those prescribed under Schedule XIV to the Companies Act, 1956 for all assets other than premises, based on the Management's estimate of useful lives of these assets. Estimated useful lives over which assets are depreciated are as follows:

| Asset Type | Estimated Useful life in years |
|---|---|
| Premises | 58 |
| Improvement to leasehold premises | Over the primary period of lease subject to a maximum of 6 years. |
| Office equipments (Chillers, Transformers, UPS DG set, Elevators) | 10 |
| Office equipments (other than above) | 5 |
| Computers | 3 |
| Furniture and Fixtures | 6 |
| Vehicles | 4 |
| ATMs | 5 |
| Software (including development) expenditure | 3 |

For assets purchased and sold during the year, depreciation is provided on pro rata basis by the Bank.

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

Profit on sale of premises, if any, is transferred to Capital Reserve as per the RBI guidelines.

**5 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, balances with Reserve Bank of India and Balances with Other Banks / institutions and money at Call and short Notice (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

**6 Bullion**

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

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

**7 Revenue recognition**

Interest income (other than in respect of retail advances) is recognised on accrual basis except in case of NPAs where the income accrued gets reversed, and then recognised, only upon realisation, as per the RBI guidelines. Penal interest is recognised as income on realisation.

Interest income in respect of retail advances is accounted for by using the internal rate of return method to provide a constant periodic rate of return on the net investment outstanding on the contract.

Interest income on investments in PTCs and loans bought out through the direct assignment route is recognised at their effective interest rate.

Interest income on discounted instruments is recognised over the tenure of the instruments so as to provide a constant periodic rate of return.

Service charges, fees and commission income are recognised when due except for guarantee commission and letter of credit which is recognised over the period of the guarantee / letter of credit. Syndication / arranger fee is recognised as income when a significant act / milestone is completed.

Dividend income is accounted on an accrual basis when the Bank's right to receive the dividend is established.

Gain on account of securitisation of assets is amortised over the life of the securities issued in accordance with the guidelines issued by the RBI.

In respect of non-performing assets acquired from other Banks / FIs and NBFCs, collections in excess of the consideration paid at each asset level or portfolio level is treated as income in accordance with RBI guidelines and clarifications.

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

**8 Employee benefits**

**Provident Fund – Defined Contribution Plan**

Contribution as required by the statute made to the government provident fund is debited to the Profit and Loss Account when incurred.

**Gratuity – Defined Benefit Plan**

The Bank accounts for the liability for future gratuity benefits based on an actuarial valuation. The Bank makes contribution to a Gratuity Fund administered by trustees and managed by a life insurance company. The net present value of the Bank's obligation towards the same is actuarially determined based on the Projected Unit Credit Method as at the Balance Sheet date. Actuarial gains and losses are immediately recognised in the Profit and Loss Account and are not deferred.

**Superannuation Fund - Defined Contribution Plan**

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

**Compensated Absences – Other Long-Term Employee Benefits**

The Bank accrues the liability for compensated absences based on the actuarial valuation as at the Balance Sheet date conducted by an independent actuary which includes assumptions about demographics, early retirement, salary increases, interest rates and leave utilisation. The net present value of the Banks' obligation is determined based on the Projected Unit Credit Method as at the Balance Sheet date.

**New Pension Scheme - Defined Contribution Plan**

The Bank contributes up to 10% of eligible employees' salary per annum, to the New Pension Fund administered by a Pension Fund Regulatory and Development Authority (PFRDA) appointed pension fund manager. The Bank recognises such contributions as an expense in the year they are incurred.

**Other Employee Benefits**

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

**Employee share based payments**

**Equity-settled scheme :**

The Bank has formulated Employee Stock Option Schemes (ESOSs) in accordance with Securities and Exchange Board of India (Employee Stock Option Scheme) Guidelines, 1999. The Schemes provide for grant of options on equity shares to employees and Whole Time Directors of the Bank and its Subsidiaries to acquire the equity shares of the Bank that vest in cliff vesting or in a graded manner and that are to be exercised within a specified period. In accordance with the SEBI Guidelines and the guidance note on "Accounting for Employee Share based payments" issued by The Institute of Chartered Accountants of India, the excess, if any, of the fair 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. The fair market price is the latest available closing price, prior to the date of grant, on the stock exchange on which the shares of the Bank are listed.

Where the terms of an equity–settled award are modified, the minimum expense recognised in 'Payments to and provision for employees' is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total intrinsic value of the share–based payment arrangement, or is otherwise beneficial to the employee as remeasured as at the date of modification.

In respect of options granted to employees of subsidiaries, the Bank recovers the related compensation cost from the respective subsidiaries.

**Cash-settled scheme :**

The cost of cash-settled transactions (stock appreciation rights) is measured initially using intrinsic value method at the grant date taking into account the terms and conditions upon which the instruments were granted. This intrinsic value is amortised on a straight-line basis over the vesting period with recognition of corresponding liability. This liability is remeasured at each Balance Sheet date up to and including the settlement date with changes in intrinsic value recognised in Profit and Loss Account in 'Payments to and provision for employees'.

**9 Foreign currency transactions**

Foreign currency monetary assets and monetary liabilities are translated as at the Balance Sheet date at rates notified by the Foreign Exchange Dealers' Association of India (FEDAI) and the resultant gain or loss is accounted in the Profit and Loss Account.

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

Income and Expenditure items are translated at the rates of exchange prevailing on the date of the transactions except in respect of representative office (which are integral in nature) expenses, which are translated at monthly average exchange rate.

Outstanding forward exchange contracts (other than deposit and placement swaps) and spot contracts outstanding at the Balance Sheet date are revalued at rates notified by FEDAI for specified maturities and at interpolated rates of interim maturities. In case of forward contracts of greater maturities where exchange rates are not notified by FEDAI are revalued at the forward exchange rates implied by the swap curves in respective currencies. The resulting profits or losses are included in the Profit and Loss Account as per the regulations stipulated by the RBI/ FEDAI.

Foreign exchange swaps "linked" to foreign currency deposits and placements are translated at the prevailing spot rate at the time of swap. The premium / discount on the swap arising out of the difference in the exchange rate of the swap date and the maturity date of the underlying forward contract is amortised over the period of the swap and the same is recognised in the Profit and Loss Account.

Contingent liabilities on account of foreign exchange contracts, letters of credit, bank guarantees and acceptances and endorsements outstanding as at the Balance Sheet date on account of outstanding foreign exchange contracts are restated at year-end rates notified by FEDAI.

**10 Derivative transactions**

Notional amounts of derivative transactions comprising of forwards, swaps, futures and options are disclosed as off Balance Sheet exposures. The Bank recognises all derivative contracts (other than those designated as hedges) at fair value, on the date on which the derivative contracts are entered into and are re-measured at fair value as at the Balance Sheet or reporting dates. Derivatives are classified as assets when the fair value is positive (positive marked to market) or as liabilities when the fair value is negative (negative marked to market). Changes in the fair value of derivatives other than those designated as hedges are recognised in the Profit and Loss Account.

Outstanding derivative transactions designated as "Hedges" are accounted in accordance with hedging instrument on an accrual basis over the life of the underlying instrument. Option premium paid / received is accounted for in the Profit and Loss Account on expiry of the option. Option contracts are marked to market on every reporting date.

**11 Lease accounting**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

**12 Accounting for provisions, contingent liabilities and contingent assets**

A provision is recognised when the Bank has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

Contingent Liabilities are not recognised but are disclosed in the notes unless the outflow of resources is remote. Contingent assets are neither recognised nor disclosed in the financial statements.

**13 Impairment**

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

**14 Taxes on income**

The Income Tax expense comprises current tax and deferred tax. Current tax is measured at the amount expected to be paid in respect of taxable income for the year in accordance with the Income Tax Act, 1961. Deferred tax adjustments comprise of changes in the deferred tax assets and liabilities. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Deferred tax assets are reassessed at each reporting date, based upon the Management's judgement as to whether realisation is considered as reasonably certain. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax asset can be realised against future profits.

Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date. Changes in deferred tax assets / liabilities on account of changes in enacted tax rates are given effect to in the Profit and Loss Account in the period of the change.

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

**15 Earnings per share**

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the year. The weighted average number of equity shares outstanding during the year is adjusted for events of bonus issue, bonus element in a rights issue to existing shareholders, and share split.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted during the year.

**16 Share issue expenses**

Share issue expenses are adjusted from Share Premium Account in terms of Section 78 of the Companies Act, 1956.

**17 Credit cards reward points**

The Bank estimates the probable redemption of credit card reward points and cost per point using an actuarial method conducted by an independent actuary, which includes assumptions such as mortality, redemption and spends. Provisions for the said reward points are made based on the actuarial valuation report.

**18 Segment reporting**

In accordance with guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated 18th April, 2007 and Accounting Standard 17 (AS-17) on “Segment Reporting” notified under the Companies (Accounting Standard) Rules, 2006 “as amended”, the Banks’ business has been segregated into the following segments whose principal activities were as under :

| Segment | Principal activity |
|---|---|
| Treasury and BMU | Money market, forex market, derivatives, investments and primary dealership of government securities and Balance Sheet Management Unit (BMU) responsible for Asset Liability Management. |
| Corporate / Wholesale Banking | Wholesale borrowings and lendings and other related services to the corporate sector which are not included under retail banking. |
| Retail Banking | Includes:<br>I Lending<br>Commercial vehicle finance, personal loans, home loans, agriculture finance, other loans / services and exposures which fulfill the four criteria’ for retail exposures laid down in Basel Committee on Banking Supervision document “International Convergence of Capital Measurement and Capital Standards : A Revised Framework”<br>II Branch Banking<br>Retail borrowings covering savings, current, term deposit accounts and Branch Banking network / services including distribution of financial products.<br>III Credit Cards<br>Receivables / loans relating to credit card business. |
| Other Banking business | Any other business not classified above. |

A transfer pricing mechanism has been established by Asset Liability Committee (ALCO) for allocation of interest cost to the above segments based on borrowing costs, maturity profile of assets / liabilities etc. and which is disclosed as part of segment revenue.

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

Segment results are net of segment revenues and segment expenses.

Segment assets include assets related to segments and exclude tax related assets. Segment liabilities include liabilities related to the segment excluding net worth, employees’ stock option (grants outstanding) and proposed dividend and dividend tax thereon.

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

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

Schedule 18 – Notes to Accounts

## A. DISCLOSURES AS LAID DOWN BY RBI CIRCULARS:

### 1. Capital Adequacy Ratio:

In terms of RBI circular DBOD.No.BP.BC.88/21.06.201/2012-13 dated 28th March, 2013, banks have been advised to disclose capital ratios computed under Basel III Capital Regulations from the quarter ended 30th June, 2013. Accordingly, corresponding details for previous year are not applicable and the Bank's Capital Adequacy Ratios as per Basel III guidelines as at 31st March, 2014 are as follows:

(₹ in crore)

| | | BASEL III<br>As at<br>31st March, 2014 |
|---|---|---|
| **Capital Ratios:** | | |
| (i) | Common Equity Tier I Capital (%) | 17.77% |
| (ii) | Tier I Capital (%) | 17.77% |
| (iii) | Tier II Capital (%) | 1.06% |
| (iv) | Total CRAR % | 18.83% |
| (v) | Percentage of the shareholding of the Government of India | - |
| (vi) | Amount raised by issue of Equity Shares | 1,415.50 |
| (vii) | Amount of Additional Tier I capital raised of which | |
| | PNCPS | - |
| | PDI | - |
| (viii) | Amount of Tier II Capital raised of which | |
| | Debt capital instruments | - |
| | Preference share capital instruments | - |

The Bank's Capital Adequacy Ratios as per earlier Basel II guidelines are as follows:

(₹ in crore)

| | BASEL II | |
|---|---|---|
| | **As at 31st March, 2014** | As at 31st March, 2013 |
| Tier I Capital | 11,859.60 | 8,977.43 |
| Tier II Capital | 709.94 | 814.56 |
| **Total Capital** | **12,569.54** | **9,791.99** |
| **Total Risk weighted assets and contingencies** | **66,135.14** | **61,028.23** |
| **Capital Ratios:** | | |
| (i) CRAR - Tier I Capital (%) | 17.94% | 14.71% |
| (ii) CRAR - Tier II Capital (%) | 1.07% | 1.34% |
| (iii) CRAR % | 19.01% | 16.05% |
| (iv) Percentage of the shareholding of the Government of India | - | - |
| (v) Amount raised by issue of IPDI | - | - |
| (vi) Amount raised by issue of Upper Tier II instruments | - | - |
| Amount of subordinated debt considered in Tier II capital | 307.26 | 373.66 |
| Amount of subordinated debt considered in Upper Tier II Capital | 405.62 | 380.28 |

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

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

(₹ in crore)

| | As at 31st March, 2014 | | | | As at 31st March, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **HFT** | **AFS** | **HTM** | **Total** | HFT | AFS | HTM | Total |
| Government Securities * | 216.95 | 10,157.47 | 7,090.95 | 17,465.37 | 1,467.70 | 12,430.27 | 7,664.09 | 21,562.06 |
| Other Approved Securities | - | - | - | - | - | - | - | - |
| Shares | 10.76 | 34.58 | - | 45.34 | - | 18.49 | - | 18.49 |
| Debentures and Bonds | 418.06 | 4,566.01 | - | 4,984.07 | 1,041.62 | 3,194.79 | - | 4,236.41 |
| Subsidiaries, Associates and Joint Ventures | - | - | 472.96 | 472.96 | - | - | 398.82 | 398.82 |
| Units, Certificate of Deposits, CP,SRs RIDF, PTCs etc. | 322.10 | 1,091.47 | 1,103.24 | 2,516.81 | 1,242.06 | 898.51 | 517.08 | 2,657.65 |
| **Total** | **967.87** | **15,849.53** | **8,667.15** | **25,484.55** | **3,751.38** | **16,542.06** | **8,579.99** | **28,873.43** |

** Includes securities with Face Value of ₹ 3,971.48 crore (previous year ₹ 8,865.00 crore) pledged and encumbered for availment of fund transfer facility, clearing facility, margin requirements and with RBI for LAF.*

3. **The details of investments and the movement of provisions held towards depreciation of investments of the Bank as on 31st March, 2014 and 31st March, 2013 are given below:**

(₹ in crore)

| | **As on 31st March, 2014** | As on 31st March, 2013 |
|---|---|---|
| 1. Value of Investments | | |
| i. Gross value of Investments | | |
| a. In India | 25,666.86 | 28,879.13 |
| b. Outside India | 14.10 | 14.10 |
| ii. Provision for Depreciation | | |
| c. In India | (196.41) | (19.80) |
| d. Outside India | - | - |
| iii. Net value of Investments | | |
| e. In India | 25,470.45 | 28,859.33 |
| f. Outside India | 14.10 | 14.10 |
| 2. Movement of provisions held towards depreciation on investments | | |
| i. Opening balance | 19.80 | 41.99 |
| ii. Add: Provisions made during the year | 214.78 | 8.65 |
| iii. Less: Write-off/write-back of excess provisions during the year | 38.17 | 30.84 |
| iv. Closing balance | 196.41 | 19.80 |

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

**4. Details of Repo / Reverse Repo (excluding LAF and MSF transactions for the year) deals (in face value terms):**

**Year ended 31st March, 2014:**

(₹ in crore)

| Particulars | Minimum outstanding during the year | Maximum outstanding during the year | Daily Average outstanding during the year | As at 31st March, 2014 |
|---|---|---|---|---|
| Securities sold under repos | | | | |
| i. Government securities | - | 7,033.75 | 1,418.54 | 738.45 |
| ii. Corporate debt securities | - | 100.00 | 1.64 | - |
| Securities purchased under reverse repos | | | | |
| i. Government securities | - | 1,000.00 | 157.45 | 720.75 |
| ii. Corporate debt securities | - | 225.00 | 2.88 | - |

Year ended 31st March, 2013:

(₹ in crore)

| Particulars | Minimum outstanding during the year | Maximum outstanding during the year | Daily Average outstanding during the year | As at 31st March, 2013 |
|---|---|---|---|---|
| Securities sold under repos | | | | |
| i. Government securities | - | 5,072.79 | 859.92 | 19.50 |
| ii. Corporate debt securities | - | 100.00 | 0.27 | - |
| Securities purchased under reverse repos | | | | |
| i. Government securities | - | 1,006.00 | 231.54 | 451.55 |
| ii. Corporate debt securities | - | 130.00 | 5.01 | - |

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

**(i) Issuer composition of Non-SLR investments as at 31st March, 2014:**

(₹ in crore)

| No. | Issuer | Amount | Extent of Private Placement | Extent of 'Below Investment Grade' Securities | Extent of 'Unrated' Securities | Extent of 'Unlisted' Securities |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1 | PSUs | 482.06 | 194.50 | - | - | 77.70 |
| 2 | FIs | 1,811.47 | 1,203.24 | - | 1,103.24 | 1,451.50 |
| 3 | Banks | 454.73 | 147.79 | - | 7.78 | 446.95 |
| 4 | Private Corporates | 4,619.50 | 2,577.42 | 296.49 | 29.60 | 534.00 |
| 5 | Subsidiaries, Associates and Joint Ventures | 494.21 | 493.31 | - | 494.21 | 494.21 |
| 6 | Others | 190.07 | 178.54 | 135.27 | 45.68 | 190.07 |
| 7 | Provision held towards depreciation | (32.86) | - | - | - | - |
| | **Total** | **8,019.18** | **4,794.80** | **431.76** | **1,680.51** | **3,194.43** |

*Amounts reported under column (4), (5), (6) and (7) above are not mutually exclusive.*

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

Issuer composition of Non-SLR investments as at 31st March, 2013:

(₹ in crore)

| No. | Issuer | Amount | Extent of Private Placement | Extent of 'Below Investment Grade' Securities | Extent of 'Unrated' Securities | Extent of 'Unlisted' Securities |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1 | PSUs | 275.21 | 265.20 | - | 8.00 | 8.00 |
| 2 | FIs | 1,332.30 | 1,013.28 | - | 517.08 | 640.78 |
| 3 | Banks | 1,470.99 | 585.44 | - | - | 1,470.99 |
| 4 | Private Corporates | 3,451.71 | 2,245.60 | 328.96 | 25.93 | 502.20 |
| 5 | Subsidiaries, Associates and Joint ventures | 401.22 | 401.22 | - | 401.22 | 401.22 |
| 6 | Others | 399.50 | 327.79 | 281.63 | 35.46 | 399.50 |
| 7 | Provision held towards depreciation | (19.57) | - | - | - | - |
| | **Total** | **7,311.36** | **4,838.53** | **610.59** | **987.69** | **3,422.69** |

*Amounts reported under column (4), (5), (6) and (7) above are not mutually exclusive.*

**(ii) Non-performing Non-SLR investments:**

(₹ in crore)

| **Particulars** | **31st March, 2014** | 31st March, 2013 |
|---|---|---|
| Opening balance | 15.66 | 16.76 |
| Additions during the year since 1st April | - | - |
| Reductions during the year | 15.62 | 1.10 |
| Closing balance | 0.04 | 15.66 |
| **Total provisions held** | **0.04** | **15.66** |

**6.** RBI vide circular DBOD.BP.BC.No.41/21.04.141/2013-14 dated 23rd August, 2013 on "Investment portfolio of banks - Classification, Valuation and Provisioning", as a one-time measure permitted banks to transfer SLR securities from AFS / HFT category to HTM category at valuation rates prevailing on 15th July, 2013, provided the transfer happened before 30th September, 2013.

The Bank had not transferred any SLR security from AFS / HFT category to HTM category.

As permitted under the same circular, the Bank had opted to distribute the net depreciation on the AFS and HFT portfolios over the last three quarters during the financial year 2013-2014.

**7.** During the year ended 31st March, 2014 and year ended 31st March, 2013, the value of sale / transfer of securities to / from HTM category (excluding one time transfer of securities and sales to RBI under OMO auctions) was within 5% of the book value of instruments in HTM category at the beginning of the year.

**8. Derivatives:**

**A. Forward Rate Agreements / Interest Rate Swaps:**

(₹ in crore)

| **Particulars** | **31st March, 2014** | 31st March, 2013 |
|---|---|---|
| The notional principal of swap agreements | 10,177.58 | 11,792.18 |
| Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements | 106.94 | 29.22 |
| Collateral required by the Bank upon entering into swaps | NA | NA |
| Concentration of credit risk arising from the swaps | 98.07%(Banks) | 99.82%(Banks) |
| The fair value of the swap book | 34.69 | (7.73) |

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

**B. Exchange Traded Interest Rate Derivatives:**

(₹ in crore)

| Particulars | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument wise) | Nil | Nil |
| Notional principal amount of exchange traded interest rate derivatives outstanding | Nil | Nil |
| Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument wise) | NA | NA |
| Mark to market value of exchange traded interest rate derivatives outstanding and not "highly effective" | NA | NA |

**C. Disclosures on risk exposures in derivatives:**

**Qualitative disclosures:**

**a) Structure and organization for management of risk in derivatives trading:**

The Board of Directors, the Asset Liability Management Committee (ALCO), the Risk Management Committee (RMC), the Senior Management Committee for Derivatives and the Market Risk Management Department are entrusted with the management of risks in derivative trading.

The philosophy and framework for the derivative business is laid out in the Board approved Investment and Derivative policies. The ALCO of the Bank is empowered to set the limit-framework for derivatives-trading. It also reviews the market risk exposures of derivatives-trading against the limits. The Risk Management Committee reviews all risks on a consolidated basis and also reviews Stress Testing.

The Senior Management Committee for Derivatives is responsible for reviewing and approving any new derivative products (within the regulatory framework provided by the RBI). The Board approved 'Customer Suitability and Appropriateness Policy for Derivatives' provides guidelines for the assessment of customers and the appropriateness of products offered to the customer.

The monitoring and measurement of risk in derivatives trading is carried out by the Market Risk Management Department. The Market Risk Management Department is independent of the Treasury Front-Office & Back-Office and directly reports into the Group Chief Risk Officer.

**b) Scope and nature of risk measurement, risk reporting and risk monitoring systems:**

All significant risks of the derivative portfolio are monitored and measured daily. The Market Risk Management Department measures and reports Market Risk metrics like VaR, PV01, Option Greeks like Delta, Gamma, Vega, Theta, Rho etc. The Credit Risk from the derivatives portfolio is also measured daily.

The Market Risk Management Department monitors these exposures against the set limits and also reviews profitability on a daily basis. MIS is sent to ALCO on a periodic basis. Exception reports are also sent so that emerging risks are reviewed and managed on a timely basis. The Bank continuously invests in technology to enhance the Risk Management architecture.

**c) Policies for hedging and / or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants:**

The Board Approved 'Hedging Policy' details the hedging strategies, hedging processes, accounting treatment, documentation requirements and effectiveness testing for hedges.

Hedges are monitored for effectiveness periodically, in accordance with the Board Approved Policy.

**d) Accounting policy for recording hedge and non-hedge transactions; recognition of income, premiums and discounts; valuation of outstanding contracts; provisioning, collateral and credit risk mitigation:**

Derivative transactions are segregated into trading or hedge transactions. Trading transactions outstanding as at the Balance Sheet dates are marked to market and the resulting profits or losses, are recorded in the Profit and Loss Account.

Derivative transactions designated as "Hedges" are accounted in accordance with hedging instruments on an accrual basis over the life of the underlying instrument.

Option premium paid / received is accounted for in the Profit and Loss Account on expiry of the option.

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

Pursuant to the RBI guidelines, any receivables under derivative contracts comprising of crystallised receivables as well as positive Mark to Market (MTM) in respect of future receivables which remain overdue for more than 90 days are reversed through the Profit and Loss Account. The derivative limit sanctioned to clients is part of the overall limit sanctioned post credit appraisal. Collateral is accepted on a case to case basis considering the volatility of the price of the collateral and any increase in operational, legal and liquidity risk.

**Quantitative Disclosures:**

(₹ in crore)

| Sr. No. | Particulars | Currency Derivatives | Interest rate Derivatives |
|---|---|---|---|
| **1** | **Derivatives (Notional Principal Amount)** | | |
| | a) For hedging | 3,913.73 | - |
| | b) For trading | 15,925.52 | 10,177.58 |
| **2** | **Marked to Market Positions **** | | |
| | a) Asset (+) | 88.21 | 80.23 |
| | b) Liability (-) | 15.75 | 45.54 |
| **3** | **Credit Exposure** | 1,097.27 | 184.86 |
| **4** | **Likely impact of one percentage change in interest rate (100*PV01) #** | | |
| | a) On hedging derivatives | 0.06 | - |
| | b) On trading derivatives | 0.02 | 0.68 |
| **5** | **Maximum of 100*PV01 observed during the year #** | | |
| | a) On hedging derivatives | 0.11 | - |
| | b) On trading derivatives | 0.04 | 0.80 |
| **6** | **Minimum of 100*PV01 observed during the year #** | | |
| | a) On hedging derivatives | - | - |
| | b) On trading derivatives | 0.02 | 0.49 |

Currency interest rate swaps have been included under currency derivatives.

*# Excludes PV01 on options.*

*** MTM has been considered at product level.*

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

**The nature and terms of the Interest Rate Swaps (IRS) as on 31st March, 2014 are set out below:**

(₹ in crore)

| Nature | No. | Notional Principal | Benchmark | Terms |
|---|---|---|---|---|
| Trading | 1 | 20.00 | INBMK | Receive Floating Vs. Pay Fixed |
| Trading | 20 | 675.00 | MIFOR | Receive Fixed Vs. Pay Floating |
| Trading | 1 | 50.00 | MIFOR | Receive Floating Vs. Pay Fixed |
| Trading | 36 | 2,589.79 | MIBOR | Receive Fixed Vs. Pay Floating |
| Trading | 96 | 5,001.00 | MIBOR | Receive Floating Vs. Pay Fixed |
| Trading | 3 | 499.69 | LIBOR | Receive Fixed Vs. Pay Floating |
| Trading | 23 | 1,271.40 | LIBOR | Receive Floating Vs. Pay Fixed |
| Trading | 1 | 70.70 | LIBOR | Receive Floating Vs. Pay Floating |
| **Total** | **181** | **10,177.58** | | |

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

**The nature and terms of the Cross Currency Swaps (CCS) as on 31st March, 2014 are set out below:**

(₹ in crore)

| Nature | No. | Notional Principal | Benchmark | Terms |
|---|---|---|---|---|
| Hedging | 2 | 119.83 | | Pay Fixed |
| Hedging | 4 | 449.36 | LIBOR | Receive Floating Vs. Pay Fixed |
| Trading | 7 | 100.97 | LIBOR | Receive Fixed Vs. Pay Floating |
| **Total** | **13** | **670.16** | | |

The overnight Net open position as at 31st March, 2014 is ₹ 159.65 crore (previous year ₹ 48.96 crore).

**9. Credit default swaps:**

The Bank has not entered into any Credit Default Swap transactions.

**10. Movement in Non Performing Advances (Funded):**

(₹ in crore)

| Particulars | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| i. Net NPAs to Net Advances % | 1.08% | 0.64% |
| ii. Movement of NPAs (Gross) | | |
| Gross NPAs as on 1st April (opening balance) | 758.11 | 614.19 |
| Additions (Fresh NPAs) during the year | 934.24 | 464.32 |
| Sub-total (A) | 1,692.35 | 1,078.51 |
| Less: | | |
| (i) Upgradations | 163.35 | 34.05 |
| (ii) Recoveries (excluding recoveries made from upgraded accounts) | 263.44 | 152.91 |
| (iii) Technical / Prudential Write-offs | 37.24 | 52.50 |
| (iv) Write-offs other than those under (iii) above | 168.88 | 80.94 |
| Sub-total (B) | 632.91 | 320.40 |
| Gross NPAs as on 31st March (closing balance) (A-B) | 1,059.44 | 758.11 |
| iii. Movement of Net NPAs | | |
| a. Opening balance | 311.41 | 237.38 |
| b. Additions during the year | 520.02 | 178.03 |
| c. Reductions during the year | (257.87) | (104.00) |
| d. Closing balance | 573.56 | 311.41 |
| iv. Movement of provisions for NPAs (excluding provisions on standard assets) | | |
| a. Opening balance | 446.70 | 376.81 |
| b. Provisions made during the year | 414.22 | 286.29 |
| c. Write-off / write-back of excess provisions | (375.04) | (216.40) |
| d. Closing balance | 485.88 | 446.70 |

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

**11. Movement of Technical Write-offs and Recoveries:**

(₹ in crore)

| Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| Opening balance of Technical / Prudential written-off accounts as at 1st April | 221.51 | 180.87 |
| Add: Technical / Prudential write-offs during the year | 37.24 | 52.50 |
| Sub-Total (A) | 258.75 | 233.37 |
| Less: Recoveries / Reductions made from previously Technical / Prudential written-off accounts during the year (B) | 29.37 | 11.86 |
| Closing Balance as at 31st March (A-B) | **229.38** | **221.51** |

**12.** The Provision Coverage Ratio (PCR) of the Bank after considering technical write-off is 55.50% as at 31st March, 2014 (previous year: 68.21%).

**13. Concentration of NPAs:**

(₹ in crore)

| Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| Total Exposure to top four NPA accounts | 307.34 | 156.01 |

*Above represents Gross NPA*

**14. Sector-wise NPAs:**

| Sr. No. | Sector | Percentage of NPAs to Total Advances in that sector | |
|---|---|---|---|
| | | As at 31st March, 2014 | As at 31st March, 2013 |
| 1. | Agriculture & Allied activities | 0.96% | 1.13% |
| 2. | Industry (Micro & small, Medium and Large including corporate stressed assets purchased) | 4.33% | 1.59% |
| 3. | Services | 2.27% | 2.12% |
| 4. | Personal Loans including Credit Cards and retail stressed assets purchased | 1.62% | 2.47% |

*Above % represents Gross NPA to Gross Advances for respective sectors.*

*The Bank has compiled the data for the purpose of this disclosure (from its internal MIS system and has been furnished by the management) which has been relied upon by the auditors.*

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

**15. Details of Loan Assets subjected to Restructuring:**

**As at 31st March, 2014:**

(₹ in crore)

| Sr. No. | Type of Restructuring | | Others | | | | |
|---|---|---|---|---|---|---|---|
| | Asset Classification | | Standard | Sub-standard | Doubtful | Loss | Total |
| | Details | | | | | | |
| 1 | Restructured Accounts as on April 1 of the FY (opening figures*) | No. of borrowers | 28 | 1,005 | 390 | - | 1,423 |
| | | Amount outstanding | 10.71 | 16.06 | 30.88 | - | 57.65 |
| | | Provision thereon | 2.89 | 4.74 | 16.21 | - | 23.84 |
| 1A | Movement in Opening Balances (Recoveries) | No. of borrowers | (13) | (331) | (68) | - | (412) |
| | | Amount outstanding | (8.71) | (7.86) | (5.25) | - | (21.82) |
| | | Provision thereon | 0.61 | (1.48) | 0.86 | - | (0.01) |
| 2 | Fresh Restructuring during the year | No. of borrowers | 3 | 1,998 | 126 | - | 2,127 |
| | | Amount outstanding | 35.62 | 55.52 | 1.37 | - | 92.51 |
| | | Provision thereon | 0.02 | 12.24 | 1.01 | - | 13.27 |
| 3 | Upgradations to restructured standard category during the FY | No. of borrowers | 29 | (27) | (2) | - | - |
| | | Amount outstanding | 5.79 | (2.51) | (3.28) | - | - |
| | | Provision thereon | - | (0.50) | (0.92) | - | (1.42) |
| 4 | Restructured Standard Advances which cease to attract higher provisioning and / or additional risk weight at the end of the FY and hence need not be shown as restructured standard advances at the beginning of the next FY | No. of borrowers | - | - | - | - | - |
| | | Amount outstanding | - | - | - | - | - |
| | | Provision thereon | - | - | - | - | - |
| 5 | Downgradations of restructured accounts during the FY | No. of borrowers | (3) | (353) | 356 | - | - |
| | | Amount outstanding | (29.80) | 23.20 | 6.60 | - | - |
| | | Provision thereon | - | 2.50 | 1.96 | - | 4.46 |
| 6 | Write-offs of restructured accounts during the FY | No. of borrowers | (2) | (285) | (64) | - | (351) |
| | | Amount outstanding | (0.01) | (0.60) | (1.29) | - | (1.90) |
| | | Provision thereon | - | (0.60) | (1.29) | - | (1.89) |
| 7 | Restructured Accounts as on March 31 of the FY (closing figures*) | No. of borrowers | 42 | 2,007 | 738 | - | 2,787 |
| | | Amount outstanding | 13.60 | 83.81 | 29.03 | - | 126.44 |
| | | Provision thereon | 3.52 | 16.90 | 17.83 | - | 38.25 |

* *Excluding the figures of Standard Restructured Advances which do not attract higher provisioning or risk weight (if applicable)*

*There are no cases restructured on account of CDR mechanism or SME debt restructuring in the current or previous year.*

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

As at 31st March, 2013:

(₹ in crore)

| Sr. No. | Type of Restructuring / Asset Classification / Details | | Others: Standard | Others: Sub-standard | Others: Doubtful | Others: Loss | Others: Total |
|---|---|---|---|---|---|---|---|
| 1 | Restructured Accounts as on April 1 of the FY (opening figures*) | No. of borrowers | 92 | 1,027 | 1,462 | - | 2,581 |
| | | Amount outstanding | 20.01 | 14.30 | 17.96 | - | 52.27 |
| | | Provision thereon | 2.92 | 6.02 | 13.13 | - | 22.07 |
| 1A | Movement in Opening Balances (Recoveries) | No. of borrowers | (65) | (299) | (267) | - | (631) |
| | | Amount outstanding | (11.97) | (6.23) | (3.37) | - | (21.57) |
| | | Provision thereon | (0.03) | (0.38) | (1.67) | - | (2.08) |
| 2 | Fresh Restructuring during the year | No. of borrowers | 3 | 1,002 | 28 | - | 1,033 |
| | | Amount outstanding | 2.73 | 16.01 | 15.66 | - | 34.40 |
| | | Provision thereon | - | 4.32 | 6.93 | - | 11.25 |
| 3 | Upgradations to restructured standard category during the FY | No. of borrowers | - | - | - | - | - |
| | | Amount outstanding | - | - | - | - | - |
| | | Provision thereon | - | - | - | - | - |
| 4 | Restructured Standard Advances which cease to attract higher provisioning and / or additional risk weight at the end of the FY and hence need not be shown as restructured standard advances at the beginning of the next FY | No. of borrowers | - | - | - | - | - |
| | | Amount outstanding | - | - | - | - | - |
| | | Provision thereon | - | - | - | - | - |
| 5 | Downgradations of restructured accounts during the FY | No. of borrowers | (1) | (199) | 200 | - | - |
| | | Amount outstanding | (0.05) | (6.80) | 6.85 | - | - |
| | | Provision thereon | - | (4.00) | 4.04 | - | 0.04 |
| 6 | Write-offs of restructured accounts during the FY | No. of borrowers | (1) | (526) | (1,033) | - | (1,560) |
| | | Amount outstanding | (0.01) | (1.22) | (6.22) | - | (7.45) |
| | | Provision thereon | - | (1.22) | (6.22) | - | (7.44) |
| 7 | Restructured Accounts as on March 31 of the FY (closing figures*) | No. of borrowers | 28 | 1,005 | 390 | - | 1,423 |
| | | Amount outstanding | 10.71 | 16.06 | 30.88 | - | 57.65 |
| | | Provision thereon | 2.89 | 4.74 | 16.21 | - | 23.84 |

* *Excluding the figures of Standard Restructured Advances which do not attract higher provisioning or risk weight (if applicable)*

*There are no cases restructured on account of CDR mechanism or SME debt restructuring in the current or previous year.*

**16. Overseas Assets, NPAs and Revenue:**

(₹ in crore)

| Particulars | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| Total Assets | Nil | Nil |
| Total NPAs | Nil | Nil |
| Total Revenue | Nil | Nil |

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

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

**17. Details of non-performing financial assets purchased:**

(₹ in crore)

| Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| (a) Number of accounts purchased during the year* | 4 | 5 |
| (b) Aggregate outstanding in the Banks books** | 55.95 | 187.08 |

* *Retail assets portfolio purchased by the Bank has been considered as single portfolio.*

** *Represents outstanding balance of total non-performing financial assets purchased by the Bank at the Balance Sheet date.*

None of the non-performing financial assets purchased have been restructured during the year (previous year Nil).

There were no non-performing financial assets sold by the Bank during the current year (previous year Nil).

The Bank has not sold any financial asset to Securitisation or Reconstruction Company for asset reconstruction (previous year Nil).

**18.** There are no unsecured advances for which intangible security such as charge over the rights, licenses, authority, etc. are accepted as collateral by the Bank.

**19. Provisions on Standard Assets**

(₹ in crore)

| Particulars | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| Provisions towards Standard Assets | 233.54 | 218.92 |

**20. Business ratios / information:**

| Particulars | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| Interest income as a percentage of working funds | 10.51% | 10.69% |
| Non interest income as a percentage of working funds | 1.68% | 1.54% |
| Operating profit as a percentage of working funds | 3.09% | 2.87% |
| Return on assets (average) | 1.80% | 1.81% |
| Business (deposit plus advance) per employee (₹ in crore) | 6.78 | 6.86 |
| Profit per employee (₹ in crore) | 0.10 | 0.10 |

**Definitions:**

(A) Working funds is the monthly average of total assets as reported by the Bank's Management to the RBI under Section 27 of the Banking Regulation Act, 1949.

(B) Operating profit = (Interest Income + Other Income – Interest expenses – Operating expenses).

(C) Business is monthly average of net advances and deposits as reported to the RBI under section 27 of the Banking Regulation Act, 1949. Inter bank deposits are excluded for the purposes of computation of this ratio.

(D) Productivity ratios are based on average number of employees.

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

**21. Maturity pattern of certain items of assets and liabilities:**

**As at 31st March, 2014:**

(₹ in crore)

| Particulars | Day 1 | 2 to 7 days | 8 to 14 days | 15 to 28 days | 29 days to 3 months | Over 3 months & upto 6 months | Over 6 months & upto 12 months | Over 1 year & upto 3 years | Over 3 years & upto 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Advances * | 906.46 | 1,349.34 | 1,817.33 | 1,066.96 | 3,955.86 | 3,764.84 | 5,505.95 | 21,095.75 | 5,972.13 | 7,580.78 | **53,015.40** |
| Investments | 77.94 | 5,393.21 | 886.06 | 1,400.73 | 3,450.27 | 3,169.69 | 2,384.47 | 6,616.79 | 719.22 | 1,386.17 | **25,484.55** |
| Deposits | 500.40 | 4,711.06 | 3,727.74 | 3,213.72 | 9,827.61 | 9,275.41 | 5,773.94 | 20,625.48 | 1,080.05 | 336.92 | **59,072.33** |
| Borrowings | 106.73 | 5,505.94 | 230.97 | 210.56 | 1,331.91 | 1,194.27 | 1,655.48 | 1,821.10 | 282.97 | 555.65 | **12,895.58** |
| Foreign Currency Assets | 144.99 | 1,983.08 | 207.58 | 125.90 | 254.68 | 672.12 | 30.96 | 46.61 | 6.24 | 59.92 | **3,532.08** |
| Foreign Currency Liabilities | 118.27 | 74.91 | 85.09 | 9.71 | 1,096.44 | 249.95 | 607.18 | 1,872.36 | 325.95 | 0.01 | **4,439.87** |

* *Advances shown above are net of the Advance EMI received amounting to ₹ 12.23 crore*

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

As at 31st March, 2013:

(₹ in crore)

| Particulars | Day 1 | 2 to 7 days | 8 to 14 days | 15 to 28 days | 29 days to 3 Months | Over 3 months & upto 6 months | Over 6 months & upto 12 months | Over 1 year & upto 3 years | Over 3 years & upto 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Advances * | 677.65 | 1,345.37 | 1,441.70 | 1,094.90 | 4,417.40 | 4,058.30 | 4,914.93 | 18,977.55 | 4,584.83 | 6,943.01 | **48,455.64** |
| Investments | 9,350.83 | 1,194.31 | 1,541.65 | 796.13 | 4,122.71 | 1,993.50 | 2,111.90 | 5,559.13 | 898.01 | 1,305.26 | **28,873.43** |
| Deposits | 295.70 | 3,623.18 | 3,852.57 | 2,682.55 | 11,450.59 | 6,703.04 | 6,209.24 | 14,573.31 | 1,225.82 | 412.77 | **51,028.77** |
| Borrowings | 75.42 | 9,457.84 | 183.38 | 641.37 | 2,519.68 | 1,443.35 | 2,952.79 | 2,166.39 | 404.30 | 566.10 | **20,410.62** |
| Foreign Currency Assets | 69.41 | 552.18 | 26.80 | 53.19 | 433.84 | 747.81 | 32.13 | 12.80 | 1.29 | 54.63 | **1,984.08** |
| Foreign Currency Liabilities | 84.40 | 58.37 | 146.72 | 238.30 | 1,387.64 | 928.81 | 1,520.69 | 578.79 | 15.43 | 244.28 | **5,203.43** |

** Advances shown above are net of the Advance EMI received amounting to ₹ 13.34 crore*

**22. Exposures:**

**(a) Exposure to Real Estate Sector*:**

(₹ in crore)

| Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| a) Direct exposure | 11,336.11 | 11,237.58 |
| i. Residential Mortgages – | | |
| Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; (Includes Individual housing loans eligible for inclusion in priority sector advances as at 31st March, 2014 ₹ 356.72 crore and as at 31st March, 2013 ₹ 308.36 crore) | 5,304.67 | 5,152.60 |
| ii. Commercial Real Estate - | | |
| Lending secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure also includes non-fund based (NFB) limits | 6,031.44 | 6,084.98 |
| iii Investments in Mortgage Backed Securities (MBS) and other securitised exposures- | - | - |
| - Residential | - | - |
| - Commercial Real Estate | - | - |
| b) Indirect Exposure | 1,478.98 | 1,077.45 |
| Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs). | 1,478.98 | 1,077.45 |
| **Total Exposure to Real Estate Sector** | **12,815.09** | **12,315.03** |

** On limit basis or outstanding basis whichever is higher*

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

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

(₹ in crore)

| | Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|---|
| i. | Direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt; | 68.80 | 41.02 |
| ii. | Advances against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures and units of equity-oriented mutual funds; | 81.92 | 71.35 |
| iii. | Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds are taken as primary security; | - | - |
| iv. | Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity-oriented mutual funds does not fully cover the advances; | 145.72 | - |
| v. | Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers; | 1,019.67 | 1,051.35 |
| vi. | Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources; | - | - |
| vii. | Bridge loans to companies against expected equity flows / issues; | - | - |
| viii. | Underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds; | - | - |
| ix. | Financing to stockbrokers for margin trading; | - | - |
| x. | All exposures to Venture Capital Funds (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (both direct and indirect) | 0.03 | 0.03 |
| xi. | Others (Financial Guarantees) | 100.00 | 118.11 |
| | **Total Exposure to Capital Market*** | **1,416.14** | **1,281.86** |

** On limit basis or outstanding basis whichever is higher*

**(c) Risk category wise country exposure:**

As per extant RBI guidelines, the country exposure of the Bank is categorised into various risk categories listed in following table. Since the country exposure (net) of the Bank in respect of any country does not exceed 1% of the total funded assets, no provision is required to be maintained on country exposure as on 31st March, 2014. (Nil provision for the year ended 31st March, 2013)

(₹ in crore)

| Risk Category | Exposure (net) as at 31st March, 2014 | Provision held as at 31st March, 2014 | Exposure (net) as at 31st March, 2013 | Provision held as at 31st March, 2013 |
|---|---|---|---|---|
| Insignificant | 1,550.27 | - | 648.49 | - |
| Low | 1.13 | - | 13.86 | - |
| **Total** | **1,551.40** | **-** | **662.35** | **-** |

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

**23. Concentration of deposits:**

(₹ in crore)

| Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| Total deposits of twenty largest depositors | 10,278.99 | 11,037.67 |
| Percentage of deposits of twenty largest depositors to total deposits of the Bank | 17.40% | 21.63% |

**24. Concentration of advances*:**

(₹ in crore)

| Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| Total advances to twenty largest borrowers | 12,798.38 | 11,344.87 |
| Percentage of advances to twenty largest borrowers to total advances of the Bank | 13.25% | 13.14% |

* *Advances represents Credit Exposure including derivatives furnished in Master Circular on Exposure Norms DBOD.No.Dir. BC.13/13.03.00/2013-14 dated July 1, 2013*

*The Bank has compiled the data for the purpose of this disclosure (from its internal MIS system and has been furnished by the management) which has been relied upon by the auditors.*

**25. Concentration of exposures**:**

(₹ in crore)

| Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| Total exposure to twenty largest borrowers / customers | 14,303.84 | 12,182.51 |
| Percentage of exposures to twenty largest borrowers / customers to total exposure of the Bank on borrowers / customers | 13.81% | 13.29% |

** *Exposures represents credit, derivatives and investment exposure as prescribed in Master Circular on Exposure Norms DBOD.No.Dir.BC. 13/13.03.00/2013-14 dated July 1, 2013*

*The Bank has compiled the data for the purpose of this disclosure (from its internal MIS system and has been furnished by the management) which has been relied upon by the auditors.*

**26.** During the year ended 31st March, 2014 and year ended 31st March, 2013 the Bank has not exceeded the prudential exposure limits as laid down by RBI guidelines for the Single Borrower Limit (SBL) / Group Borrower Limit (GBL).

**27. Provision made for taxes during the year:**

(₹ in crore)

| Particulars | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| Current tax | 741.78 | 632.89 |
| Deferred tax | 28.11 | (21.58) |
| Wealth Tax | 0.04 | 0.03 |
| **Total** | **769.93** | **611.34** |

**28.** During the year penalty of ₹ 1.501 crore had been imposed by the Reserve Bank of India in terms of the Section 47 A (1)(c) read with Section 46(4)(i) of the Banking Regulation Act, 1949 for non-compliance of certain RBI instructions.

**29.** There are no Off-Balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms).

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

**30. Bancassurance Business:**

(₹ in crore)

| Sr. No. | Nature of Income | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|---|
| 1. | For selling life insurance policies | 51.89 | 41.36 |
| 2. | For selling non life insurance policies | 1.91 | 1.05 |
| 3. | For selling mutual fund products | 114.58 | 94.21 |
| 4. | Others | - | - |

**31. Floating Provisions:**

(₹ in crore)

| Particulars | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| (a) Opening balance in the floating provisions account | Nil | Nil |
| (b) The quantum of floating provisions made in the accounting year | Nil | Nil |
| (c) Amount of draw down made during the accounting year | Nil | Nil |
| (d) Closing Balance in floating provisions account | Nil | Nil |

**32. Draw Down from Reserves:**

In accordance with the RBI requirement on creation and utilisation of Investment reserve in respect of HFT and AFS investments, reserve of ₹ 41.10 crore has been utilised.

Further in accordance with the RBI requirement on creation and utilisation of reserves, no reserve has been utilised in the current year and in the previous year except for below.

In accordance with RBI communication RBI/2013-14/412 DBOD. No.BP.BC.77/21.04.018/2013-14 dated 20th December, 2013 on Deferred Tax Liability (DTL) on Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961, the Bank has reduced ₹ 31.18 crore from General Reserves towards DTL on Special Reserves created till year ended 31st March, 2013.

Further, Tax expenses charged to the Profit and Loss Account for the year ended 31st March, 2014, includes provision for deferred tax of ₹ 9.52 crore (previous year Nil) on Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961.

**33. a) Status of Shareholder Complaints:**

| | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| (a) No. of complaints pending at the beginning of the year | 2 | Nil |
| (b) No. of complaints received during the year | 18 | 33 |
| (c) No. of complaints redressed during the year | 18 | 31 |
| (d) No. of complaints pending at the end of the year | 2* | 2 |

* *The pending complaints were resolved on 11.04.2014.*

**b) Status of Customer Complaints:**

| | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| (a) No. of complaints pending at the beginning of the year | 105 | 67 |
| (b) No. of complaints received during the year | 3,713 | 3,408 |
| (c) No. of complaints redressed during the year | 3,727 | 3,370 |
| (d) No. of complaints pending at the end of the year | 91 | 105 |

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

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

| | | 31st March, 2014 | 31st March, 2013 |
|---|---|---|---|
| (a) | No. of unimplemented Awards at the beginning of the year | Nil | Nil |
| (b) | No. of Awards passed by the Banking Ombudsman during the year | Nil | Nil |
| (c) | No. of Awards implemented during the year | Nil | Nil |
| (d) | No. of unimplemented Awards at the end of the year | Nil | Nil |

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

**34.** The Bank has issued letters of awareness on behalf of a wholly owned, non-banking finance subsidiary in respect of its borrowings made or proposed to be made. These letters are in nature of factual statements or confirmation of facts and do not create any financial obligation or impact on the Bank. During the year, the Bank has not issued letters of awareness (previous year ₹ 1,500 crore). As at 31 March, 2014 cumulative value of outstanding letters of awareness aggregate to ₹ 650 crore (previous year ₹ 2,552 crore).

**DISCLOSURES ON REMUNERATION**

**A. Qualitative Disclosures:**

**a) Information relating to the composition and mandate of the Remuneration Committee:**

The remuneration committee comprises of independent directors of the Bank. Key mandate of the remuneration committee is to oversee the overall design and operation of the compensation policy of the Bank and work in coordination with the Risk Management Committee to achieve alignment between risks and remuneration.

**b) Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy:**

Objective of Banks' Compensation Policy is:

- To maintain fair, consistent and equitable compensation practices in alignment with Bank's core values and strategic business goals;
- To ensure effective governance of compensation and alignment of compensation practices with prudent risk taking;
- To have mechanisms in place for effective supervisory oversight and Board engagement in compensation

The remuneration process is aligned to the Bank's Compensation Policy objectives.

**c) Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks:**

In order to manage current and future risk and allow a fair amount of time to measure and review both quality and quantity of the delivered outcomes, a significant portion of senior and middle management compensation is variable. Further reasonable portion variable compensation is non-cash and deferred, over a period of 3 to 4 years.

In addition, remuneration process provides for 'malus' and 'clawback' option to take care of any disciplinary issue or future drop in performance of individual / business / company.

**d) Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration:**

Individual performances are assessed in line with business / individual delivery of the Key Result Areas (KRAs), top priorities of business, budgets etc. KRAs of Line roles are linked to financials, people, service and process (Quality) parameters and KRAs of non-Line Roles have linkage to functional deliveries needed to achieve the top business priorities.

Further remuneration process is also linked to Market salaries / job levels, business budgets and achievement of individual KRAs.

**e) A discussion of the Banks' policy on deferral and vesting of variable remuneration and a discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting:**

**A discussion on Policy on Deferral of Remuneration**

Employees are classified into following three categories for the purpose of remuneration:

Category I: Whole Time Directors (WTD) / Chief Executive Officer (CEO)

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

Category II: Risk Control and Compliance Staff

Category III: Other Categories of Staff

Following principles are applied for deferral / vesting of variable remuneration in accordance with RBI guidelines and Bank's compensation policy:

**Category I and II**

a. Variable Pay will not exceed 70% of Fixed Pay.

b. The Cash component of the Variable Pay will not exceed 50% of the Fixed Pay.

c. If Variable Pay is higher than 50% of Fixed Pay, at least 40% of Variable Pay will be deferred over a period of 3 years, or longer, on a pro-rata basis.

**Category III**

Variable Pay is payable as per approved schemes for incentive or Bonus:

i) The Cash component of the Variable Pay will not exceed 60% of the Fixed Pay.

ii) If Variable Pay is higher than 60% of Fixed Pay, at least 40% of Variable Pay will be deferred over a period of 3 years, or longer, on a pro-rata basis.

iii) However, if Variable Pay is less than or equal to ₹ 10 lakhs, management will have the discretion to pay the entire amount as cash.

For adjusting deferred remuneration before & after vesting:

**Malus:** Payment of all or part of amount of deferred Variable Pay can be prevented. This clause will be applicable in case of:

- Disciplinary Action (at the discretion of the Disciplinary Action Committee) and / or
- Significant drop in performance of Individual / Business / Company (at the discretion of the Remuneration Committee).
- Resignation of the staff prior to the payment date.

**Clawback:** Previously paid or already vested deferred Variable Pay can also be recovered under this clause.

This clause will be applicable in case of

- Disciplinary Action (at the discretion of the Disciplinary Action Committee and approval of the Remuneration Committee).

**f) Description of the different forms of variable remuneration (i.e. cash, shares, ESOPs and other forms) that the Bank utilizes and the rationale for using these different forms:**

The main forms of such variable remuneration include:

- Cash – this may be at intervals ranging from Monthly, Quarterly, Annual.
- Deferred Cash / Deferred Incentive Plan.
- Stock Appreciation Rights (SARs): These are structured, variable incentives, linked to Kotak Mahindra Bank Stock price, payable over a period of time.
- ESOP as per SEBI guidelines.

The form of variable remuneration depends on the job level of individual, risk involved, the time horizon for review of quality and longevity of the assignments performed.

**B. Quantitative Disclosures:**

**a) Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.**

During year ended 31st March, 2014 one meeting of remuneration committee was held. Each Member of the remuneration committee is paid a sitting fee of ₹ 10,000 per meeting.

**b) Number of employees having received a variable remuneration award during the financial year.**

Quantitative disclosure restricted to CEO, two Whole Time Directors and five Operating management committee members as risk takers.

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

c) **Number and total amount of sign-on awards made during the financial year.**

Nil (previous year NIL)

d) **Details of guaranteed bonus, if any, paid as joining / sign on bonus.**

Nil (previous year NIL)

e) **Details of severance pay, in addition to accrued benefits, if any.**

Nil (previous year NIL)

f) **Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.**

Outstanding SARs as at 31st March, 2014 – 123,917 rights (previous year 115,516 rights)

Outstanding ESOPs as at 31st March, 2014 – 744,118 equity shares (previous year 1,121,976 equity shares)

g) **Total amount of deferred remuneration paid out in the financial year.**

Payment towards SARs during year ended 31st March, 2014 ₹ 2.63 crore (previous year ₹ 1.53 crore)

h) **Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.**

Total fixed salary for the year ended 31st March, 2014 - ₹ 14.71 crore (previous year ₹ 13.66 crore)

Deferred Variable Pay*

SARs – 44,692 rights (previous year 53,418 rights)

ESOPs – 279,600 equity shares (previous year 219,110 equity shares)

Non Deferred variable pay* ₹ 3.43 crore (previous year ₹ 3.38 crore)

** Details relating to variable pay pertains to remuneration awards for the financial year 2012-13 awarded during current financial year. Remuneration award for the year ended 31st March, 2014 are yet to be reviewed and approved by the remuneration committee*

**B. OTHER DISCLOSURES:**

**1.** In April 2013, the Bank allotted 2 crore equity shares of ₹ 5 each at a premium of ₹ 643 per equity share for a total consideration of ₹ 1,296 crore on preferential basis to Heliconia Pte Limited, a private company limited by shares incorporated and existing under the laws of Singapore, an affiliate of Government of Singapore Investment Corporation Pte Limited. The net issue expenses of ₹ 0.64 crore related to the aforesaid issue have been charged to the Securities Premium Account as allowed under Section 78 of the Companies Act, 1956. The above expenses include ₹ 0.03 crore paid to the auditors in connection with the issue.

**2. Earnings per Equity Share:**

| Particulars | **Year ended 31st March, 2014** | Year ended 31st March, 2013 |
|---|---|---|
| Reconciliation between weighted shares used in the computation of basic and diluted earnings per share | | |
| Weighted average number of equity shares used in computation of basic earnings per share | 765,821,581 | 743,304,984 |
| Effect of potential equity shares for stock options outstanding | 1,251,038 | 2,816,120 |
| Weighted average number of equity shares used in computation of diluted earnings per share | 767,072,619 | 746,121,104 |
| Following is the reconciliation between basic and diluted earnings per share | | |
| Nominal value per share | 5.00 | 5.00 |
| Basic earnings per share | 19.62 | 18.31 |
| Effect of potential equity shares for stock options | 0.03 | 0.07 |
| Diluted earnings per share | 19.59 | 18.24 |
| Earnings used in the computation of basic and diluted earnings per share (₹ in crore) | 1,502.52 | 1,360.72 |

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

**3. Segment Reporting:**

The Summary of the operating segments of the Bank for the year ended 31st March, 2014 are as given below:

(₹ in crore)

| | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| **1. Segment Revenue** | | |
| a. Treasury and BMU | 2,721.24 | 2,522.97 |
| b. Corporate / Wholesale Banking | 3,646.86 | 3,445.72 |
| c. Retail Banking | 6,115.14 | 5,906.18 |
| d. Other Banking business | - | - |
| Sub-total | **12,483.24** | **11,874.87** |
| Less : Inter-segmental revenue | 2,319.28 | 2,672.95 |
| Add : Unallocated Income | 2.87 | 1.24 |
| **Total** | **10,166.83** | **9,203.16** |
| **2. Segment Results** | | |
| a. Treasury and BMU | 175.58 | 145.51 |
| b. Corporate / Wholesale Banking | 1,300.65 | 1,211.49 |
| c. Retail Banking | 793.35 | 613.82 |
| d. Other Banking business | - | - |
| Sub-total | **2,269.58** | **1,970.82** |
| Add : Unallocated Income | 2.87 | 1.24 |
| **Total Profit Before Tax** | **2,272.45** | **1,972.06** |
| **Provision for Tax** | 769.93 | 611.34 |
| **Total Profit After Tax** | **1,502.52** | **1,360.72** |
| **3. Segment Assets** | | |
| a. Treasury and BMU | 30,872.94 | 33,036.92 |
| b. Corporate / Wholesale Banking | 32,025.82 | 25,296.93 |
| c. Retail Banking | 61,655.43 | 52,890.05 |
| d. Other Banking business | - | - |
| Sub-total | **124,554.19** | **111,223.90** |
| Less : Inter-segmental Assets | 37,109.07 | 27,729.74 |
| **Total** | **87,445.12** | **83,494.16** |
| Add : Unallocated Assets | 140.22 | 199.53 |
| **Total Assets as per Balance Sheet** | **87,585.34** | **83,693.69** |
| **4. Segment Liabilities** | | |
| a. Treasury and BMU | 28,341.55 | 32,311.74 |
| b. Corporate / Wholesale Banking | 27,508.31 | 21,558.83 |
| c. Retail Banking | 56,373.88 | 48,027.22 |
| d. Other Banking business | - | - |
| Sub-total | **112,223.74** | **101,897.79** |
| Less : Inter-segmental Liabilities | 37,109.07 | 27,729.74 |
| **Total** | **75,114.67** | **74,168.05** |
| Add : Unallocated liabilities | 195.58 | 78.68 |
| Add : Share Capital & Reserves & surplus | 12,275.09 | 9,446.96 |
| **Total Liabilities as per Balance Sheet** | **87,585.34** | **83,693.69** |

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

(₹ in crore)

| | | 31st March, 2014 | 31st March, 2013 |
|---|---|---|---|
| **5.** | **Capital Expenditure** | | |
| a. | Treasury and BMU | 664.77 | 41.77 |
| b. | Corporate / Wholesale Banking | 14.06 | 8.29 |
| c. | Retail Banking | 134.11 | 100.33 |
| d. | Other Banking business | - | - |
| | **Total** | **812.94** | **150.39** |
| **6.** | **Depreciation / Amortisation** | | |
| a. | Treasury and BMU | 59.46 | 59.41 |
| b. | Corporate / Wholesale Banking | 9.51 | 5.08 |
| c. | Retail Banking | 96.21 | 68.04 |
| d. | Other Banking business | - | - |
| | **Total** | **165.18** | **132.53** |

*Segmental Information is provided as per the MIS available for internal reporting purposes, which includes certain estimates and assumptions. The methodology adopted in compiling and reporting the above information has been relied upon by the auditors.*

**4. Lease Discloures:**

a. The Bank has taken various premises and equipment under operating lease. The lease payments recognised in the Profit and Loss Account are ₹ 209.62 crore (previous year ₹ 173.43 crore). The sub-lease income recognised in the Profit and Loss Account is ₹ 7.03 crore (previous year ₹ 6.76 crore).

b. The future minimum lease payments under non cancellable operating lease – not later than one year is ₹ 198.87 crore (previous year ₹ 158.52 crore), later than one year but not later than five years is ₹ 811.69 crore (previous year ₹ 649.86 crore) and later than five years ₹ 443.26 crore (previous year ₹ 219.90 crore).

The lease terms include renewal option after expiry of primary lease period. There are no restrictions imposed by lease arrangements. There are escalation clauses in the lease agreements.

**5. Deferred Taxes:**

"Others" in Other Assets (Schedule 11 (VI)) includes deferred tax asset (net) of ₹ 140.23 crore (previous year ₹ 199.52 crore). The components of the same are as follows:

(₹ in crore)

| Particulars of Asset/ (Liability) | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| Provision for NPA and general provision on standard assets | 134.17 | 151.15 |
| Expenditure allowed on payment basis | 48.37 | 36.52 |
| Depreciation | (1.61) | 11.85 |
| Deduction u/s. 36(1)(viii) | (40.70) | - |
| **Net Deferred Tax Asset** | **140.23** | **199.52** |

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

**6. Credit card reward points:**

The following table sets forth, for the periods indicated, movement in provision for credit card account reward points

(₹ in crore)

| Particulars | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| Opening provision for reward points | 2.33 | 1.25 |
| Provision for reward points made during the year | 5.09 | 4.09 |
| Utilisation/write-back of provision for reward points | (5.83) | (3.01) |
| Closing provision for reward points* | 1.59 | 2.33 |

** The closing provision is based on the actuarial valuation of accumulated credit card account reward points. This amount will be utilised towards redemption of the credit card accounts reward points.*

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

(₹ in crore)

| Particulars | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| **Gross Block** | | |
| At cost on 31st March of the preceding year | 142.14 | 122.70 |
| Additions during the year | 33.68 | 19.45 |
| Deductions during the year | - | - |
| **Total** | **175.82** | **142.15** |
| **Depreciation / Amortisation** | | |
| As at 31st March of the preceding year | 112.65 | 90.58 |
| Charge for the year | 24.38 | 22.08 |
| Deductions during the year | - | - |
| **Depreciation to date** | **137.03** | **112.66** |
| **Net Block** | **38.79** | **29.49** |

**8. Related Party Disclosures :**

**A. Parties where control exists:**

| Nature of relationship | Related Party |
|---|---|
| Individual having control over the enterprise | Mr. Uday S. Kotak along with relatives and enterprises in which he has beneficial interest holds 43.58% of the equity share capital of Kotak Mahindra Bank Limited as on 31st March, 2014 |
| Subsidiary Companies | Kotak Mahindra Prime Limited<br>Kotak Securities Limited<br>Kotak Mahindra Capital Company Limited<br>Kotak Mahindra Old Mutual Life Insurance Limited<br>Kotak Mahindra Investments Limited<br>Kotak Mahindra Asset Management Company Limited<br>Kotak Mahindra Trustee Company Limited<br>Kotak Mahindra (International) Limited<br>Kotak Mahindra (UK) Limited<br>Kotak Mahindra Inc.<br>Global Investment Opportunities Fund Limited<br>Kotak Investment Advisors Limited<br>Kotak Mahindra Trusteeship Services Limited<br>Kotak Forex Brokerage Limited<br>Kotak Mahindra Pension Fund Limited<br>Kotak Mahindra Financial Services Limited<br>Kotak Mahindra Asset Management (Singapore) Pte Limited (effective 7th March, 2014) |

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

**B. Other Related Parties:**

| Nature of Relationship | Related Party |
|---|---|
| Associates | ACE Derivatives and Commodity Exchange Limited<br>Infina Finance Private Limited<br>Matrix Business Services India Private Limited<br>Phoenix ARC Private Limited<br>Add Albatross Properties Private Limited (till 6th March, 2014) |
| Key Management Personnel | Mr. Uday S. Kotak, Executive Vice Chairman and Managing Director<br>Mr. C Jayaram, Joint Managing Director<br>Mr. Dipak Gupta, Joint Managing Director |
| Enterprise over which Key Management Personnel have significant Influence | Aero Agencies Limited<br>Kotak & Company Limited<br>Komaf Financial Services Limited<br>Asian Machinery & Equipment Private Limited<br>Insurekot Investments Private Limited<br>Kotak Trustee Company Private Limited<br>Cumulus Trading Company Private Limited<br>Palko Properties Private Limited<br>Kotak Chemicals Limited<br>Kotak Ginning & Pressing Industries Limited<br>Kotak Commodity Services Limited<br>Harisiddha Trading and Finance Private Limited<br>Puma Properties Limited (effective 06th July, 2012) |
| Relatives of Key Management Personnel | Ms. Pallavi Kotak<br>Mr. Suresh Kotak<br>Ms. Indira Kotak<br>Mr. Jay Kotak<br>Mr. Dhawal Kotak<br>Ms. Aarti Chandaria<br>Ms. Anita Gupta<br>Ms. Urmila Gupta<br>Ms. Usha Jayaram |

(₹ in crore)

| Items/Related Party | Individual having Control | Subsidiary Companies | Associates | Key Management Personnel | Enterprise over which Relative of Key Management Personnel have control/ significant influence | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Deposits | | **2,172.53** | **253.65** | **1.47** | **70.04** | **1.59** | **2,499.28** |
| | | (1,639.63) | (369.02) | (1.11) | (127.44) | (1.52) | (2,138.72) |
| Interest Payable | | **15.17** | **1.97** | **0.02** | **0.58** | **0.01** | **17.75** |
| | | (12.39) | (3.83) | (0.01) | (1.30) | (0.01) | (17.54) |
| Other Liabilities | | **10.01** | **0.20** | | **-** | | **10.21** |
| | | (7.28) | (-) | | (0.01) | | (7.29) |
| **Assets** | | | | | | | |
| Advances | | **-** | | | | | **-** |
| | | (9.60) | | | | | (9.60) |

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

(₹ in crore)

| Items/Related Party | Individual having Control | Subsidiary Companies | Associates | Key Management Personnel | Enterprise over which Relative of Key Management Personnel have control/ significant influence | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|---|
| Investments-Gross | | **986.92**<br>(766.02) | **32.29**<br>(45.25) | | | | **1,019.21**<br>(811.27) |
| Diminution on Investments | | **2.19**<br>(2.19) | **19.06**<br>(15.27) | | | | **21.25**<br>(17.46) |
| Commission Receivable | | **15.01**<br>(10.32) | | | | | **15.01**<br>(10.32) |
| Others | | **28.66**<br>(29.19) | **2.45**<br>(0.35) | | | | **31.11**<br>(29.54) |
| **Expenses** | | | | | | | |
| Salaries/fees (Include ESOP) | | | | **9.81**<br>(9.09) | | | **9.81**<br>(9.09) |
| Interest Paid | | **173.28**<br>(129.50) | **37.81**<br>(47.38) | **0.35**<br>(0.22) | **8.68**<br>(14.00) | **0.07**<br>(0.06) | **220.19**<br>(191.16) |
| Others | | **1.12**<br>(1.38) | **1.19**<br>(2.01) | | **3.03**<br>(3.17) | | **5.34**<br>(6.56) |
| **Income** | | | | | | | |
| Dividend | | **21.11**<br>(9.90) | | | | | **21.11**<br>(9.90) |
| Interest Received | | **44.00**<br>(36.36) | | | | | **44.00**<br>(36.36) |
| Others | | **129.72**<br>(94.07) | **0.28**<br>(0.40) | | | | **130.00**<br>(94.47) |
| **Other Transactions** | | | | | | | |
| Sale of investment | | **2,486.79**<br>(2,127.07) | | | | | **2,486.79**<br>(2,127.07) |
| Purchase of Investment | | **1,055.85**<br>(572.03) | | | | | **1,055.85**<br>(572.03) |
| Dividend paid | | | | **23.40**<br>(20.06) | | **0.13**<br>(0.12) | **23.53**<br>(20.18) |
| Reimbursement to companies | | **19.74**<br>(15.70) | **0.19**<br>(0.01) | | | | **19.93**<br>(15.71) |
| Reimbursement from companies | | **78.25**<br>(75.24) | **0.71**<br>(0.57) | | | | **78.96**<br>(75.81) |
| Purchase of Fixed assets | | **0.46**<br>(0.04) | **0.16**<br>(0.09) | | | | **0.62**<br>(0.13) |
| Sale of Fixed assets | | **0.64**<br>(0.22) | | | | | **0.64**<br>(0.22) |
| Swaps/Forward/ options contracts | | **50.00**<br>(-) | | | | | **50.00**<br>(-) |
| Guarantees/Lines of credit | | **0.22**<br>(0.24) | **2.13**<br>(-) | | | | **2.35**<br>(0.24) |
| **I. Liabilities:** | | | | | | | |
| **Other liabilities** | | | | | | | |
| **Other Payable** | | | | | | | |
| Kotak Mahindra Prime Limited | | **0.10**<br>(-) | | | | | **0.10**<br>(-) |
| Kotak Mahindra Investments Limited | | **0.01**<br>(-) | | | | | **0.01**<br>(-) |

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

(₹ in crore)

| Items/Related Party | Individual having Control | Subsidiary Companies | Associates | Key Management Personnel | Enterprise over which Relative of Key Management Personnel have control/ significant influence | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|---|
| Kotak Mahindra (International) Limited | | **8.01**<br>(6.95) | | | | | **8.01**<br>(6.95) |
| Other Subsidiaries / Associates | | **1.89**<br>(0.33) | **0.20**<br>(-) | | **-**<br>(0.01) | | **2.09**<br>(0.34) |
| **II. Assets:** | | | | | | | |
| **Investments** | | | | | | | |
| Kotak Mahindra Old Mutual Life Insurance Limited | | **260.25**<br>(260.25) | | | | | **260.25**<br>(260.25) |
| Kotak Mahindra Prime Limited | | **526.78**<br>(396.77) | | | | | **526.78**<br>(396.77) |
| Other Subsidiaries | | **199.89**<br>(109.00) | | | | | **199.89**<br>(109.00) |
| ACE Derivatives and Commodity Exchange Limited | | | **32.29**<br>(29.98) | | | | **32.29**<br>(29.98) |
| Add Albatross Properties Private Limited | | | **-**<br>(15.27) | | | | **-**<br>(15.27) |
| **Diminution on Investments** | | | | | | | |
| Kotak Forex Brokerage Limited | | **2.19**<br>(2.19) | | | | | **2.19**<br>(2.19) |
| Add Albatross Properties Private Limited | | | **-**<br>(15.27) | | | | **-**<br>(15.27) |
| ACE Derivatives and Commodity Exchange Limited | | | **19.06**<br>(-) | | | | **19.06**<br>(-) |
| **Commission Receivable** | | | | | | | |
| Kotak Mahindra Old Mutual Life Insurance Limited | | **15.01**<br>(10.32) | | | | | **15.01**<br>(10.32) |
| **Others** | | | | | | | |
| Kotak Mahindra Prime Limited | | **25.48**<br>(25.68) | | | | | **25.48**<br>(25.68) |
| Kotak Securities Limited | | **0.59**<br>(0.84) | | | | | **0.59**<br>(0.84) |
| Other Subsidiaries/ Associates | | **2.59**<br>(2.67) | **2.45**<br>(0.35) | | | | **5.04**<br>(3.02) |
| **III. Expenses:** | | | | | | | |
| **Salaries/fees (Include ESOP)** | | | | | | | |
| Mr. Uday Kotak | | | | **2.38**<br>(2.19) | | | **2.38**<br>(2.19) |
| Mr. C Jayaram | | | | **3.45**<br>(3.28) | | | **3.45**<br>(3.28) |

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

(₹ in crore)

| Items/Related Party | Individual having Control | Subsidiary Companies | Associates | Key Management Personnel | Enterprise over which Relative of Key Management Personnel have control/ significant influence | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|---|
| Mr.Dipak Gupta | | | | **3.98** (3.62) | | | **3.98** (3.62) |
| **Other Expenses** | | | | | | | |
| **Brokerage** | | | | | | | |
| Kotak Securities Limited | | **0.12** (0.09) | | | | | **0.12** (0.09) |
| **Premium** | | | | | | | |
| Kotak Mahindra Old Mutual Life Insurance Limited | | **1.00** (1.16) | | | | | **1.00** (1.16) |
| **Other Expenses:** | | | | | | | |
| Kotak Mahindra Prime Limited | | **-** (0.13) | | | | | **-** (0.13) |
| Aero Agencies Limited | | | | | **2.64** (2.77) | | **2.64** (2.77) |
| Kotak & Company Limited | | | | | **0.39** (0.40) | | **0.39** (0.40) |
| Other Associates | | | **1.19** (2.01) | | | | **1.19** (2.01) |
| **IV. Income:** | | | | | | | |
| **Dividend** | | | | | | | |
| Kotak Mahindra Asset Management Company Limited | | **9.90** (9.90) | | | | | **9.90** (9.90) |
| Kotak Mahindra Trustee Company Limited | | **3.76** (-) | | | | | **3.76** (-) |
| Kotak Mahindra Inc. | | **1.34** (-) | | | | | **1.34** (-) |
| Kotak Mahindra (International) Limited | | **6.00** (-) | | | | | **6.00** (-) |
| Kotak Mahindra Prime Limited | | **0.11** (-) | | | | | **0.11** (-) |
| **Other Income** | | | | | | | |
| **Insurance Commission and Rental Income** | | | | | | | |
| Kotak Mahindra Old Mutual Life Insurance Limited | | **67.71** (55.89) | | | | | **67.71** (55.89) |
| **Rental and other Income** | | | | | | | |
| Kotak Securities Limited | | **15.13** (10.60) | | | | | **15.13** (10.60) |
| Kotak Mahindra Capital Company Limited | | **7.28** (5.13) | | | | | **7.28** (5.13) |
| Kotak Mahindra Asset Management Company Limited | | **12.46** (7.20) | | | | | **12.46** (7.20) |

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

(₹ in crore)

| Items/Related Party | Individual having Control | Subsidiary Companies | Associates | Key Management Personnel | Enterprise over which Relative of Key Management Personnel have control/ significant influence | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|---|
| Kotak Mahindra Prime Limited | | **11.05** (5.71) | | | | | **11.05** (5.71) |
| Other Subsidiaries / Associates | | **16.09** (9.54) | **0.28** (0.40) | | | | **16.37** (9.94) |
| **V. Other Transactions:** | | | | | | | |
| **Sale of Investment** | | | | | | | |
| Kotak Mahindra Old Mutual Life Insurance Limited | | **2,190.18** (2,089.74) | | | | | **2,190.18** (2,089.74) |
| Kotak Investment Advisors Limited | | **-** (15.31) | | | | | **-** (15.31) |
| Kotak Securities Limited | | **296.61** (22.02) | | | | | **296.61** (22.02) |
| **Purchase of Investments** | | | | | | | |
| Kotak Mahindra Old Mutual Life Insurance Limited | | **414.95** (278.88) | | | | | **414.95** (278.88) |
| Kotak Mahindra Prime Limited | | **550.00** (170.00) | | | | | **550.00** (170.00) |
| Kotak Securities Limited | | **0.90** (71.28) | | | | | **0.90** (71.28) |
| Kotak Mahindra Investments Limited | | **90.00** (-) | | | | | **90.00** (-) |
| Kotak Investment Advisors Limited | | **-** (51.87) | | | | | **-** (51.87) |
| **Dividend paid** | | | | | | | |
| Mr. Uday Kotak | | | | **23.32** (19.99) | | | **23.32** (19.99) |
| Mr. C. Jayaram | | | | **0.04** (0.03) | | | **0.04** (0.03) |
| Mr. Dipak Gupta | | | | **0.04** (0.04) | | | **0.04** (0.04) |
| Ms. Pallavi Kotak | | | | | | **0.04** (0.03) | **0.04** (0.03) |
| Ms. Indira Kotak | | | | | | **0.08** (0.07) | **0.08** (0.07) |
| Others | | | | | | **0.01** (0.02) | **0.01** (0.02) |
| **Reimbursements to companies** | | | | | | | |
| Kotak Mahindra Capital Company Limited | | **2.47** (1.40) | | | | | **2.47** (1.40) |
| Kotak Mahindra Prime Limited | | **6.75** (5.66) | | | | | **6.75** (5.66) |

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

(₹ in crore)

| Items/Related Party | Individual having Control | Subsidiary Companies | Associates | Key Management Personnel | Enterprise over which Relative of Key Management Personnel have control/ significant influence | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|---|
| Kotak Mahindra Old Mutual Life Insurance Limited | | **0.14** (0.12) | | | | | **0.14** (0.12) |
| Kotak Securities Limited | | **5.78** (5.53) | | | | | **5.78** (5.53) |
| Kotak Mahindra Financial Services Limited | | **4.29** (2.96) | | | | | **4.29** (2.96) |
| Other Subsidiaries/ Associates | | **0.31** (0.03) | **0.19** (0.01) | | | | **0.50** (0.04) |
| **Reimbursements from companies** | | | | | | | |
| Kotak Mahindra Capital Company Limited | | **6.15** (4.06) | | | | | **6.15** (4.06) |
| Kotak Mahindra Prime Limited | | **13.86** (10.57) | | | | | **13.86** (10.57) |
| Kotak Mahindra Old Mutual Life Insurance Limited | | **11.74** (12.69) | | | | | **11.74** (12.69) |
| Kotak Securities Limited | | **35.29** (38.31) | | | | | **35.29** (38.31) |
| Other Subsidiaries/ Associates | | **11.21** (9.61) | **0.71** (0.57) | | | | **11.92** (10.18) |
| **Purchase of Fixed assets** | | | | | | | |
| Kotak Mahindra Prime Limited | | **0.15** (-) | | | | | **0.15** (-) |
| Kotak Mahindra Capital Company Limited | | **0.15** (-) | | | | | **0.15** (-) |
| Kotak Mahindra Investments Limited | | **-** (0.04) | | | | | **-** (0.04) |
| ACE Derivatives and Commodity Exchange Limited | | | **0.16** (0.09) | | | | **0.16** (0.09) |
| Kotak Investment Advisors Limited | | **0.16** (-) | | | | | **0.16** (-) |
| **Sale of Fixed assets** | | | | | | | |
| Kotak Mahindra Capital Company Limited | | **0.16** (0.12) | | | | | **0.16** (0.12) |
| Kotak Mahindra Trusteeship Services Limited | | **-** (0.05) | | | | | **-** (0.05) |
| Kotak Securities Limited | | **-** (0.05) | | | | | **-** (0.05) |
| Kotak Mahindra Prime Limited | | **0.01** (-) | | | | | **0.01** (-) |

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

(₹ in crore)

| Items/Related Party | Individual having Control | Subsidiary Companies | Associates | Key Management Personnel | Enterprise over which Relative of Key Management Personnel have control/ significant influence | Relatives of Key Management Personnel | Total |
|---|---|---|---|---|---|---|---|
| Kotak Mahindra Asset Management Company Limited | | **0.20** (-) | | | | | **0.20** (-) |
| Kotak Mahindra Investments Limited | | **0.27** (-) | | | | | **0.27** (-) |
| **Swaps / Forward / Options contract** | | | | | | | |
| Kotak Mahindra (International) Limited | | **50.00** (-) | | | | | **50.00** (-) |
| **Guarantees / Lines of credit** | | | | | | | |
| Kotak Mahindra Prime Limited | | **0.12** (0.04) | | | | | **0.12** (0.04) |
| Kotak Mahindra Asset Management Company Limited | | **-** (0.10) | | | | | **-** (0.10) |
| Kotak Mahindra Pension Fund Limited | | **0.10** (0.10) | | | | | **0.10** (0.10) |
| ACE Derivatives and Commodity Exchange Limited | | | **2.13** (-) | | | | **2.13** (-) |

**Note:**

1. Figures in brackets represent previous year's figures.
2. The above does not include any transactions in relation to listed securities done on recognised stock exchange during the year. However above includes transactions done on NDS with known related parties.

**Maximum Balance outstanding during the year**

(₹ in crore)

| Items/Related Party | Individual having Control | Subsidiary Companies | Associates | Key Management Personnel | Enterprise over which Relative of Key Management Personnel have control/ significant influence | Relatives of Key Management Personnel |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Deposits | | **3,443.22** (2,810.36) | **648.61** (3,500.68) | **20.62** (17.88) | **167.54** (257.83) | **9.99** (2.28) |
| Other Liabilities | | **4.79** (2.17) | **0.39** (-) | | | |
| **Assets** | | | | | | |
| Advances | | **177.90** (251.21) | | | | |
| Investments-Gross | | **986.92** (766.02) | **32.29** (45.25) | | | |
| Commission Receivable | | **15.01** (10.32) | | | | |
| Others | | **17.40** (12.84) | **0.53** (0.36) | | | |

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

9. **EMPLOYEE SHARE BASED PAYMENTS:**

At the General Meetings of the holding company, Kotak Mahindra Bank Limited, the shareholders of the Bank had unanimously passed Special Resolutions on 28th July, 2000, 26th July, 2004, 26th July, 2005, 5th July, 2007 and 21st August, 2007, to grant options to the eligible employees of the Bank and its subsidiaries companies. Pursuant to these resolutions, the following four Employees Stock Option Schemes had been formulated and adopted:

a) Kotak Mahindra Equity Option Scheme 2001-02;

b) Kotak Mahindra Equity Option Scheme 2002-03;

c) Kotak Mahindra Equity Option Scheme 2005; and

d) Kotak Mahindra Equity Option Scheme 2007.

Consequent to the above, the Bank has granted stock options to the employees of the Bank and its subsidiaries. The Bank under its various plan / schemes, has granted in aggregate 61,348,520 options as on 31st March, 2014 (previous year 60,207,360).

**Stock appreciation rights**

The management has approved the grant of stock appreciation rights (SARs) to eligible employees as and when deemed fit. The SARs are settled in cash and vest on the respective due dates in a graded manner as per the terms and conditions of grant. The contractual life of the SARs outstanding range from 1.39 to 4.36 years.

**Detail of activity under SARs is summarised below:**

| | **Year ended 31st March, 2014** | Year ended 31st March, 2013 |
|---|---|---|
| Outstanding at the beginning of the year | 832,672 | 763,887 |
| Granted during the year | 509,299 | 593,093 |
| Additions / Reduction due to transfer of employees | (35,838) | (15,254) |
| Exercised during the year | 493,229 | 440,899 |
| Lapsed during the year | 67,949 | 68,155 |
| Outstanding at the end of the year | 744,955 | 832,672 |

**Equity-settled options**

The Bank has granted options to its employees vide various employee stock option schemes. During the year ended 31st March, 2014, the following schemes were in operation:

| | **Plan 2007** |
|---|---|
| Date of grant | Various Dates |
| Date of Board Approval | Various Dates |
| Date of Shareholder's approval | 5th July, 2007 as amended on 21st August, 2007 |
| Number of options granted | 31,458,320 |
| Method of Settlement (Cash/Equity) | Equity |
| Vesting Period | 1 – 4.31 years |
| Exercise Period | 0.17 – 1.01 years |
| Vesting Conditions | Graded / Cliff vesting |

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

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

| | **Year ended 31st March, 2014** | | Year ended 31st March, 2013 | |
|---|---|---|---|---|
| | **Number of Shares** | **Weighted Average Exercise Price(₹)** | Number of Shares | Weighted Average Exercise Price(₹) |
| Outstanding at the beginning of the year | 8,419,532 | 419.49 | 11,785,693 | 311.71 |
| Granted during the year | 1,141,160 | 711.19 | 2,931,550 | 588.77 |
| Forfeited during the year | 479,724 | 467.19 | 337,162 | 361.94 |
| Exercised during the year | 3,701,975 | 322.81 | 5,919,516 | 346.48 |
| Expired during the year | 25,323 | 357.56 | 41,033 | 310.88 |
| Outstanding at the end of the year | 5,353,670 | 544.55 | 8,419,532 | 419.49 |
| Out of the above exercisable at the end of the year | 308,891 | 295.25 | 959,181 | 241.72 |
| Weighted average remaining contractual life (in years) | 1.77 | | 1.76 | |
| Weighted average fair value of options granted | 215.96 | | 211.57 | |

The weighted average share price at the date of exercise for stock options exercised during the year was ₹ 710.33 (previous year ₹ 609.59)

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

**31st March, 2014**

| **Range of exercise prices (₹)** | **Number of options outstanding** | **Weighted average remaining contractual life of options (in years)** | **Weighted average exercise price (₹)** |
|---|---|---|---|
| 0-100 | - | - | - |
| 101-200 | 64,849 | 0.28 | 173.00 |
| 201-300 | 163,220 | 0.99 | 250.00 |
| 301-400 | 441,993 | 0.92 | 316.73 |
| 401-500 | 1,197,204 | 1.00 | 421.00 |
| 501-600 | 1,006,264 | 1.55 | 545.42 |
| 601-700 | 1,490,000 | 2.59 | 640.00 |
| 701-800 | 990,140 | 2.31 | 724.00 |

31st March, 2013

| Range of exercise prices (₹) | Number of options outstanding | Weighted average remaining contractual life of options (in years) | Weighted average exercise price (₹) |
|---|---|---|---|
| 0-100 | 5,436 | 0.75 | 5.00 |
| 101-200 | 729,788 | 0.95 | 152.27 |
| 201-300 | 348,058 | 1.49 | 250.00 |
| 301-400 | 2,558,757 | 0.87 | 325.76 |
| 401-500 | 2,006,783 | 1.59 | 421.00 |
| 501-600 | 1,240,710 | 2.20 | 545.00 |
| 601-700 | 1,530,000 | 3.59 | 640.00 |

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

**Stock Options granted**

The fair value of the equity-settled and cash-settled options is estimated on the date of grant using Black-Scholes options pricing model taking into account the terms and conditions upon which the options were granted. The fair value of the cash-settled options is remeasured at the each reporting date. The following table lists the inputs to the model used for equity-settled and cash-settled options:

| | **Year ended 31st March, 2014** | | Year ended 31st March, 2013 | |
|---|---|---|---|---|
| | **Equity-settled** | **Cash-settled** | Equity-settled | Cash-settled |
| Exercise Price ₹ | 550-724 | 5 | 350-640 | 5 |
| Weighted Average Share Price ₹ | 729.33 | 730.45 | 602.56 | 554.46 |
| Expected Volatility | 27.68%-31.56% | 26.05%-34.00% | 29.65%-50.51% | 18.30%-29.25% |
| Historical Volatility | 27.68%-31.56% | 26.05%-34.00% | 29.65%-50.51% | 18.30%-29.25% |
| Life of the options granted (Vesting and exercise period) in years | | | | |
| - At the grant date | 1.31-4.15 | | 1.16-4.12 | |
| - As at 31st March | | 0.08-2.76 | | 0.08-2.75 |
| Risk-free interest rate | 7.47%-8.97% | 8.62%-8.72% | 7.94%-8.43% | 7.89%-8.10% |
| Expected dividend rate | 0.10% | 0.09% | 0.09%-0.11% | 0.09% |

The expected volatility was determined based on historical volatility data and the Bank expects the volatility of its share price to reduce as it matures. The measure of volatility used in the Black-Scholes options pricing model is the annualised standard deviation of the continuously compounded rates of return on the stock over a period of time. For calculating volatility, the daily volatility of the stock prices on the National Stock Exchange, over a period prior to the date of grant, corresponding with the expected life of the options has been considered.

The above information has been prepared by the Bank and relied upon by the auditors.

Effect of the employee share-based payment plans on the Profit and Loss Account and on its financial position:

(₹ in crore)

| | **Year ended 31st March, 2014** | Year ended 31st March, 2013 |
|---|---|---|
| Total Employee Compensation Cost pertaining to share-based payment plans | 45.61 | 42.16 |
| Compensation Cost pertaining to equity-settled employee share-based payment plan included above | 3.98 | 6.08 |
| Liability for employee stock options outstanding as at year end | 11.15 | 24.53 |
| Deferred Compensation Cost | 2.62 | 6.99 |
| Closing balance of liability for cash-settled options | 36.39 | 31.58 |
| Expense arising from increase in intrinsic value of liability for cash stock appreciation plan | 4.33 | 4.16 |

Had the Bank recorded the compensation cost computed on the basis of Fair Valuation method instead of intrinsic value method, employee compensation cost would have been higher by ₹ 22.19 crore (previous year ₹ 24.28 crore) and the profit after tax would have been lower by ₹ 14.65 crore (previous year ₹ 16.40 crore). Consequently the basic and diluted EPS would have been ₹ 19.43 (previous year ₹ 18.09) and ₹ 19.40 (previous year ₹ 18.02) respectively.

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

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

**10. Advances securitised by the Bank :**

(₹ in crore)

| Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| Book value of advances securitized | - | - |
| Number of accounts | - | - |
| Sale consideration received for the accounts securitised | - | - |
| Gain on securitisation amortised during the year* | - | 0.06 |
| Credit enhancement, liquidity support provided | - | - |
| Provision on securitised assets | - | - |
| Nature of post securitisation support | - | Collection and paying agent or servicer |

* *Represents amortisation of previous years' securitisation transactions.*

**11. Employee Benefits**

i. The Bank has recognised the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds:

| | |
|---|---|
| Provident Fund | ₹ 47.89 crore |
| | (previous year ₹ 41.56 crore) |
| Superannuation Fund | ₹ 0.47 crore |
| | (previous year ₹ 0.50 crore) |
| New Pension Fund | ₹ 1.48 crore |
| | (previous year ₹ 0.64 crore) |

ii. In accordance with law, the Bank provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement or on termination of employment based on the respective employees' salary and the years of employment with the Bank subject to maximum of ₹ 0.10 crore. There is no ceiling on gratuity payable to Directors.

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

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

(₹ in crore)

| Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| **Change in benefit obligations** | | |
| Liability at the beginning of the year | 62.65 | 46.29 |
| Current Service cost | 12.95 | 10.66 |
| Interest cost | 5.92 | 4.80 |
| Actuarial Losses / (Gain) | (6.21) | 7.42 |
| Past Service Cost | - | - |
| Liability assumed on acquisition / (Settled on divestiture) | (0.36) | 0.07 |
| Benefits paid | (7.66) | (6.59) |
| Liability at the end of the year | 67.29 | 62.65 |

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

(₹ in crore)

| Particulars | As at 31st March, 2014 | As at 31st March, 2013 |
|---|---|---|
| **Change in plan assets** | | |
| Fair value of plan assets at the beginning of the year | 60.67 | 41.31 |
| Expected return on plan assets | 4.49 | 3.08 |
| Actuarial Gain / (Losses) | 3.76 | 1.32 |
| Benefits paid | (7.66) | (6.59) |
| Employer contributions | 9.81 | 21.55 |
| Fair value of plan assets at the end of the year | 71.07 | 60.67 |

(₹ in crore)

| Reconciliation of present value of the obligation and the fair value of the plan assets | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| Fair value of plan assets at the end of the year | 71.07 | 60.67 |
| Liability at the end of the year | 67.29 | 62.65 |
| Net Asset (included under Schedule 11.VI) / (Liability) (included under Schedule 5.IV) | 3.78 | (1.98) |
| **Expense recognised for the year** | | |
| Current Service cost | 12.95 | 10.66 |
| Interest cost | 5.92 | 4.80 |
| Expected return on plan assets | (4.49) | (3.08) |
| Actuarial (Gain) / Loss | (9.97) | 6.10 |
| Past Service Cost | - | - |
| Net gratuity expense recognised in Schedule 16.I | 4.41 | 18.48 |
| Actual return on plan assets | 8.25 | 4.40 |

(₹ in crore)

| Reconciliation of the Liability recognised in the Balance Sheet | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| Net Liability / (Asset) at the beginning of the year | 1.98 | 4.98 |
| Expense recognised | 4.41 | 18.48 |
| Liability assumed on acquisition / (Settled on divestiture) | (0.36) | 0.07 |
| Employer contributions | (9.81) | (21.55) |
| Net Liability / (asset) | (3.78) | 1.98 |

**Investment details of plan assets**

The plan assets are invested in insurer managed funds. Major categories of plan assets as a percentage of fair value of total plan assets are as follows:

| | 31st March, 2014 | 31st March, 2013 |
|---|---|---|
| Government securities | 24.53% | 17.16% |
| Bonds, debentures and other fixed income instruments | 10.02% | 16.75% |
| Money market instruments | 11.48% | 11.40% |
| Equity shares | 53.97% | 54.69% |
| **Total** | **100.00%** | **100.00%** |

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

**Actuarial assumptions used**

| | |
|---|---|
| Discount rate | 9.34% p.a. (previous year 8.24% p.a.) |
| Salary escalation rate | 8.50% p.a. (previous year 8.50% p.a.) |
| Expected return on plan assets | 7.50% p.a. (previous year 7.50% p.a.) |

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

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

**Experience adjustments**

Amounts for the current and previous four years are as follows:

(₹ in crore)

| | Gratuity Year ended 31st March, | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| Defined benefit obligation | 67.29 | 62.65 | 46.29 | 39.85 | 22.19 |
| Plan assets | 71.07 | 60.67 | 41.31 | 34.66 | 25.63 |
| Surplus / (Deficit) | 3.78 | (1.98) | (4.98) | (5.19) | 3.44 |
| Experience adjustments on plan liabilities | 1.54 | (1.41) | 2.37 | 3.07 | (0.47) |
| Experience adjustments on plan assets | 3.76 | 1.32 | (2.75) | 0.64 | 4.61 |

The Company expects to contribute ₹ 6.00 crore to gratuity fund in 2014 -15.

**Compensated absences**

The actuarially determined liability for compensated absences of accumulated leaves of the employees of the Bank is given below:

(₹ in crore)

| | **31st March, 2014** | 31st March, 2013 |
|---|---|---|
| Total actuarial liability | 44.64 | 44.28 |
| Assumptions: | | |
| Discount rate | 9.34% p.a. | 8.24% p.a. |
| Salary escalation rate | 8.50% p.a. | 8.50% p.a. |

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

**12. Provisions and Contingencies:**

Breakup of "Provisions and Contingencies" (including write-offs; net of write-backs) shown under the head Expenditure in Profit and Loss Account:

(₹ in crore)

| **Particulars** | **31st March, 2014** | 31st March, 2013 |
|---|---|---|
| Provisions for Depreciation on Investments | 176.61 | (21.09) |
| Provision towards NPA | 132.64 | 163.41 |
| Provision towards Restructured Assets | - | - |
| Provision towards Standard Assets | 14.61 | 41.03 |
| Provision for Taxes | 769.93 | 611.34 |
| Other Provision and Contingencies | (19.16) | 1.20 |
| **Total Provisions and Contingencies** | **1,074.63** | **795.89** |

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

**13.** The Bank receives deposits from customers as part of margin requirements in respect of its professional clearing member (PCM) business with National Securities Clearing Corporation Ltd. (NSCCL). Correspondingly, the Bank is required to maintain margins / deposits with NSCCL. For the said purpose of placing margins / deposits, the Bank has issued its own Fixed Deposit receipts amounting to ₹ Nil (previous year ₹ 249.34 crore) in favour of NSCCL which have not been included in “Term Deposits from Others” [Schedule 3 (III) (ii)].

**14. Tier II Bonds**

**a)** Lower Tier II Bonds outstanding as at 31st March, 2014 ₹ 482.00 crore (previous year ₹ 560.70 crore).

During the current year and previous year the Bank had not issued lower Tier II bonds. In accordance with the RBI requirements lower Tier II bonds of ₹ 174.74 crore (previous year ₹ 187.04 crore) are not considered as Tier II capital for the purposes of capital adequacy computation under Basel II guidelines.

**b)** Upper Tier II Bonds outstanding as at 31st March, 2014 are ₹ 405.62 crore (previous year ₹ 380.28 crore) of which bonds issued outside India are ₹ 269.62 crore (previous year ₹ 244.28 crore).

During the current and previous year, the Bank did not issue upper Tier II bonds.

**c)** Interest Expended-Others (Schedule 15(III)) includes interest on subordinated debt (Lower and Upper Tier II) ₹ 63.57 crore (previous year ₹ 71.06 crore).

**15. Description of Contingent Liabilities:**

| Sr. No. | Contingent Liability* | Brief Description |
|---|---|---|
| 1. | Claims not acknowledged as debts | This includes liability on account of income tax, sales tax, lease tax demands, property tax demands and legal cases filed against the Bank.<br>The Bank is a party to various legal proceedings in the normal course of business. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank’s financial conditions, result of operations or cash flows. Against the above ₹ 36.04 crore have been paid, which shall be refunded to the Bank, if the outcome of the legal proceedings will be in the favour of the Bank. |
| 2. | Liability on account of outstanding forward exchange contracts | The Bank enters into foreign exchange contracts with Inter Bank participants on its own account and for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. |
| 3. | Guarantees on behalf of constituents in India | As a part of its Banking activities, the Bank issues guarantees on behalf of its customers. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of customer failing to fulfill its financial or performance obligations. |
| 4. | Acceptances, endorsements and other obligations | These includes:<br>• Documentary credit such as letters of obligations, enhance the credit standing of the customers of the Bank.<br>• Bills re-discounted by the Bank and cash collateral provided by the Bank on assets which have been securitised.<br>• Underwriting commitments in respect of Debt Syndication. |
| 5. | Other items for which the Bank is contingently liable | These include:<br>• Liabilities in respect of interest rate swaps, currency swaps, forward rate agreements and options contracts. The Bank enters into these transactions with Inter Bank participants on its own account and for customers. Currency Swaps are commitments to exchange cash flows by way of interest / principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts that are recorded as contingent liabilities are amounts used as a benchmark for the calculation of interest component of the contracts.<br>• Liability in respect of Capital commitments relating to fixed assets and undrawn commitments in respect of investments. |

* *Also refer Schedule 12 – Contingent Liabilities*

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

**16.** The Bank has received few intimations from "suppliers" regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and there is no outstanding against those suppliers as on 31st March, 2014, hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid / payable as required under the said Act have not been given. The above is based on information available with the Bank and relied upon by the auditors.

**17.** Figures for the previous year have been regrouped / reclassified wherever necessary to conform to current years' presentation.

For and on behalf of the Board of Directors

**Dr. Shankar Acharya**
Chairman

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

**Dipak Gupta**
Joint Managing Director

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

**Bina Chandarana**
Company Secretary

Mumbai, 30th April, 2014

# Notes

# Notes

**OVER HALF THE ANNUAL REPORTS WE SENT OUT THIS YEAR HELPED SAVE TREES, BECAUSE THEY DID NOT USE ANY PAPER.**

You too can help save trees. All you need to do is be a little bolder.

Please write to us at KotakBank.Secretarial@kotak.com to register for the electronic version of the next annual report and join us in creating a greener tomorrow.

**Kotak Mahindra Bank Limited**
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concept and design at AICL Communications