



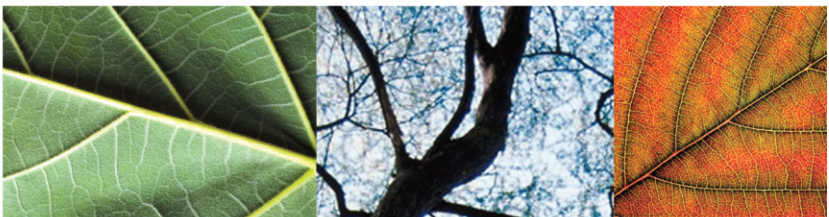
One Brand. Infinite Opportunities





Consider a tree. Go up close to it. Note the weaving branches as they crisscross their way up. See how the leaves are unevenly distributed. Some of the branches are so thick that they might be trunks themselves. Now, look at the tree from a distance. Observe how it reaches for the sky while still being firmly rooted in the ground. See it in all its grandeur as it stands tall on the landscape, with the thick indomitable trunk under a protective umbrella. You know it's there to stay, through good weather and bad.

One seldom takes management lessons from nature. But to chart the growth of the Kotak group, you couldn't find a better metaphor than a tree.





# Case STUDY

## 1 Dayal Thakkar M U M B A I

Mr. Thakkar first approached us for opening a savings account. Our ability to anticipate and fulfill his diverse requirements has resulted in a relationship that has grown in width as well as depth.

2006 Signed on for Portfolio Management Services with Kotak Securities.

Opened an online trading account with Kotak Securities.

2005 Entered into a corporate banking relationship.

Invested in structured products through Kotak Securities.

Bought an insurance policy from Kotak Life Insurance.

2004 Invested in IPOs through Kotak Securities.

**Kotak Securities**  
Kotak Securities accounted for over 7.3% of the total average daily market volumes during FY08.

Invested in Kotak Mutual Fund.

**Kotak Mutual Fund**  
Investor base increased from 5.37 lakh in FY07 to 9.40 lakh in FY08; Three equity schemes (Kotak 30, Kotak Opportunities and Kotak Balance) have been ranked CPR 1 by CRISIL for Q4 FY08.

2003 Opened a savings account with Kotak Mahindra Bank.

## 2 DRS Logistics Pvt. Ltd. M U M B A I

DRS Logistics Pvt. Ltd. is a part of the DRS Group, a leading brand in the transportation, supply chain management, household shifting, office shifting, parcel load and contract operations. From being a lender to investing in DRS to forming a joint venture with them, the story of DRS and the Kotak Group is a symbiotic one.

2007 Opened current account with Kotak Mahindra Bank.

2006 Kotak Mahindra Bank financed equipment  
As business expanded further, commercial vehicle financing limits were enhanced.  
DRS Educational Society was funded through the commercial vehicle financing business for school buses.

2002 Further funding on trucks

2000 Kotak Mahindra Finance Ltd. (Commercial Vehicle Division) in Mumbai extended finance for trucks.

2008 Kotak Private Equity raised Kotak India Growth Fund II a \$437 million fund.

Formation of SPV with Kotak Realty Fund for warehouse construction.

**Kotak Private Equity**  
In FY08, the Kotak Group raised Rs. 4,471 Cr. as commitments for private equity and realty funds, raised primarily from the Group's customer base.

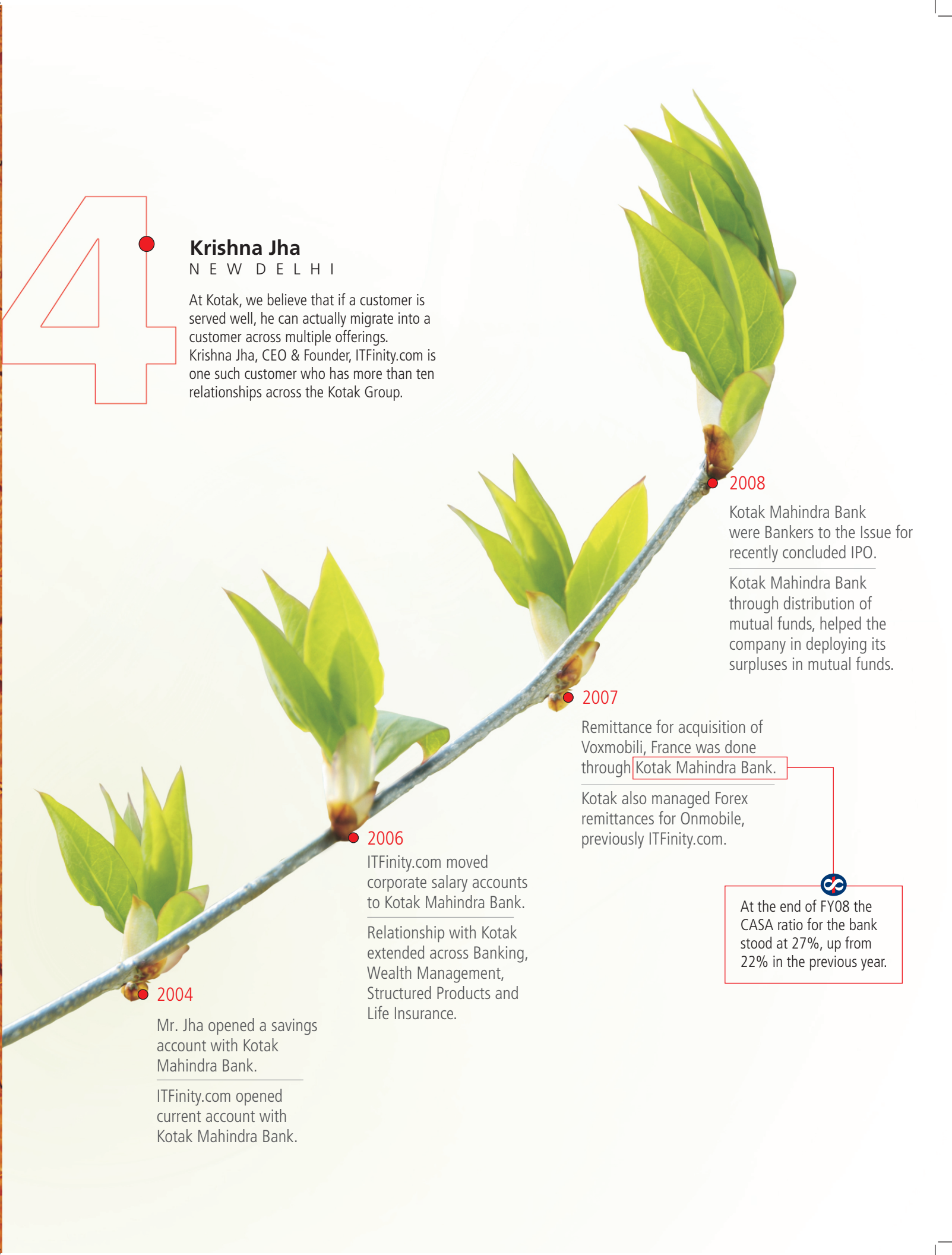
2006 Commercial Vehicle Division referred DRS to Kotak Private Equity team.

2005 Promoter availed of home finance scheme from Kotak Mahindra Bank.

2001 Car finance from Kotak Primus through DRS Transport Pvt Ltd.

1999 Kotak Mahindra Finance Ltd. (Truck Finance Division) financed the promoter of DRS Transport Ltd.







5

## Bombay Stock Exchange Ltd.

To successfully achieve BSE's demutualization in FY07, Kotak was the sole financial advisor to BSE. It involved placement of BSE shares so as to reduce shareholding of broking members to 49% from 100%. Here's how multiple group entities at Kotak worked seamlessly to deliver an integrated solution to the client:

● Advisory -  
Kotak Investment Banking  
is sole financial advisor  
for the transaction.

● Kotak Investment Banking  
was ranked No.1 for FY08 by  
Prime Database for two League  
Tables (a) India Domestic IPOs  
(b) Qualified Institutional  
Placements including  
Government Divestments.

● Custody services -  
Kotak Mahindra Bank acts as  
custodian to the transaction.

● Escrow arrangements -  
Kotak Mahindra Bank acts as  
escrow agent to the transaction  
and processes remittances smoothly.

● Private Banking -  
Kotak Investment Banking offers  
stake released from sale to  
private banking clients &  
corporate clients of the Group.

● Corporate Banking -  
Kotak Investment Banking offers  
stake released from sale to corporate  
clients of the Group.

● Regulatory -  
Kotak Group Compliance  
provides regulatory  
assistance at critical stages  
of the transaction.

The roots may spread far,  
but always stem from a solitary seed.  
At Kotak, we build multiple  
relationships with a single customer.

One Customer.  
Multiple Needs.  
One Brand.  
Infinite Opportunities.







The history of the financial services industry is being rewritten.

Dear Shareholder,



FINANCIAL SERVICES: TIME TO TRANSFORM

The financial services industry developed to serve the real world. Along the way, the world of financial services got a life of its own to the point where it almost forgot its core purpose of serving the real sector. Global financial institutions have become money juggernauts with excessive leverage, where proprietary trading, in many cases, far outstrips client businesses. It is said that nothing exceeds like excess. Naturally, a correction was in order and we saw it kick in around August 2007 with the U.S. sub-prime crisis.

We live in an unbelievable world. On the one hand, we are on the edge of a global recession with interest rates in the U.S. down to 2% Fed rate. On the other hand, the price of oil is around \$125 a barrel. The question uppermost in the mind of most people is whether the high price of oil is a sustainable new reality or just another bubble.

The high levels of commodity prices are leading to a global shift of economic power to the Middle East and Russia. And this puts a great strain on countries like India, whose fragile current account and weak fiscal situation (mainly on account of subsidies) bring it under pressure. It is against this backdrop that the history of the financial services industry is being rewritten.

I see the following trends taking shape:

1. Cushion of capital will be the key. The global financial sector will undergo reduction in leverage with its inevitable pressure on ROE.
2. Back-to-basics banking, where the focus is on spread and credit quality, is here to stay. Money will be a scarcer commodity than before. The ability to identify and manage risk will determine success and failure.
3. Stability of the liability side of the balance sheet for financial institutions is another important change. Excessive dependence on concentrated wholesale sources will be dangerous. Broad-based funding sources will be important.
4. Martin Wolfe in the Financial Times said that the biggest danger for banks is “bankers”. Compensation will move to longer-term orientation, and towards ownership versus cash.
5. Culture of firms will determine success. Integrated firms will have higher probability of success.

We could see a new world order with possible new sets of winners in the financial industry. In this context how do we, at Kotak, position ourselves for a potentially new order? Let us take a look at some of the key points:

CUSHION OF CAPITAL

Our consolidated capital adequacy is at 20% and the bank's standalone is at 18.7%. However, our model focuses on value. This is reflected in our ROE, at 22.3%, among the highest in the industry. We have to use our capital judiciously.

BACK TO BASICS AND STABILITY

Let's get back to basics. The heart of the financial sector is to recognize the needs of the real world and to serve the real world. At Kotak, our focus is clearly on the customer and the simple business called spread.

On the deposits side, it's about raising CASA (current accounts and saving accounts) and on the lending side, it's about managing risk well. If we go back for a moment to the early days of car finance in India,

we were only the second player to enter the market. We used to borrow at 16% and lend at 26%. I am not saying those days will return but my point is, those spreads were possible because scarcity of resources was the single biggest issue.

Like any other commodity, money is likely to become scarce, and I hope not too scarce, because that will squeeze the economy. The challenge is to maintain spread and credit quality at the same time. Our net NPA ratio, (excluding distressed assets division) at 0.33%, is among the lowest in the industry

We plan to be at around 275 branches by March 2009 organically. Our focus is on strategic expansion. On the liability side of the balance sheet, our primary customers are broad-based individuals from India's burgeoning mass-affluent class. We don't chase volume for the sake of volume and this is reflected in our Net Interest Margins (NIMs) at 5.6% consolidated and 5.4% standalone Bank.

ONE-FIRM APPROACH

I am a believer in the one-firm approach. We may have different businesses and legal entities but we are one brand in the mind of the customer. On the earlier pages of this Report, you have seen a glimpse of how our one-firm approach serves a single customer's numerous needs be it retail or institutional.

In a world where time and trust are at a premium, the customer finds immense comfort in a one-firm approach that delivers time after time. Be it automated payment of a Rs10,000 bill or lead-managing a Rs10,000 crore IPO, Kotak is well-positioned to meet the customer's diverse financial needs.

At Kotak, our focus is clearly on the customer.

The one-firm approach also offers our people numerous opportunities across the breadth and depth of financial services. I am fond of saying that a number of people who leave Kotak take up a new job at Kotak itself. There are people who have moved from corporate finance to retail liabilities, investment banking to strategic planning or alternate assets, retail assets to life insurance, car finance to wealth management. This has fostered a unique culture of professional entrepreneurship in the Group. We are fortunate to attract some of the brightest minds, people capable of seeding, nurturing and growing businesses. A number of them were profiled in last year's Report. May their tribe increase.

Three years ago, we had no alternate assets group. Today, between our private equity and realty fund, our AUM is about \$1.5 billion.

Five years ago, we started buying distressed assets (we saw value in buying at a time when most banks were selling). Today, we sit on a significant portfolio at attractive value. We will see some of that value unlocked during 2008-09.

Coming to our more mature businesses, I am proud to say we continue to be the country's leading firm in securities and wealth management. These are businesses built on customer-ownership, products, franchise and technology. Over the next couple of years, there will be substantial consolidation in these businesses and our strategy is to consolidate our

lead position while maintaining unwavering focus on customer-ownership and products we understand.

We are building, I believe, a unique and a powerful asset management model across a national and global customer base with surgical focus at this point of time in only Indian assets.

For Kotak Life Insurance, having a captive bank for distribution is a major advantage. We have found that the bancassurance model is the most productive among prevailing channels of distribution. This channel already accounts for 27% of individual premium.

It was a great year for investment banking what with IPOs and QIPs being the order of the day till capital markets corrected in January 2008. However, corporates have access to the biggest and best private equity investors, most of who are now present in India. We have been preparing ourselves to service this channel and understand its unique set of needs. This has stood us in good stead. We closed 12 deals during FY08 worth over \$1.5 billion with leading private equity investors like Apax Partners, Blackstone, Temasek, TPG Axon, Warburg Pincus and so on.

We have had a record year for capital markets with total fund-raising exceeding Rs.1600 billion and which also saw the largest IPO and largest QIP issuance ever. The current consolidation is seen as a period when new pools of global money are preparing to invest in India (as one can see from the large number of FII registrations). We also see M&A strategies picking up pace during the current year.

We, at Kotak, truly believe, that an integrated one firm approach is the most appropriate model for the Indian financial sector, and we straddle the entire spectrum.

One firm, one culture, one brand. Infinite opportunities for customers and employees. Simple.

Warm regards,

Uday Kotak

Executive Vice Chairman & Managing Director  
Kotak Mahindra Bank







# 07-08 at a glance

## Q1 FY08

- ❖ Kotak Investment Bank was awarded the Best Investment Bank in the domestic category in India by Finance Asia for the second year in a row.
- ❖ Kotak Investment Bank acted as Global Co-ordinator and BRLM to the Rs.9,188 crore DLF IPO, the biggest IPO till that date.
- ❖ Kotak Investment Bank acted as Joint Global Co-ordinator and Book Runner to the Rs.2,100 crore QIP issue of IDFC Limited, the largest QIP issue in India till then.
- ❖ Kotak Mahindra Bank opened its 150<sup>th</sup> ATM.
- ❖ Kotak Bond Short Term of Kotak Mutual Fund won the ICRA Mutual Fund Gold Award in the Short-term Debt category for 1 year & 3 year terms, 2008.

## Q3 FY08

- ❖ Kotak Mahindra Bank raised Rs.1,615 crore (approximately USD 410 million) by an issue of 17,000,000 equity shares through a Qualified Institutional Placement at Rs.950 per share.
- ❖ Kotak Group's consolidated advances crossed Rs.20,000 crore.
- ❖ Kotak Mahindra Group emerged in top 3 of 28 categories, including No.1 in 11 categories in the Euromoney Private Banking Poll 2008.
- ❖ Completed the first FCCB issue from the Kotak's umbrella of USD 55 million for Prime Focus.
- ❖ Kotak Investment Banking for CY2007 was ranked No.1 by Bloomberg for (a) India Domestic IPOs, (b) India Domestic Equity Offerings (IPO Additional Offerings and QIP).
- ❖ Kotak Investment Banking for CY2007 was ranked No.1 by India Advisory Partners for Mergers & Acquisitions.
- ❖ Kotak Mutual Fund was adjudged as the Best Debt Fund House and was awarded Wealth Creator award at Outlook Money NDTV Profit 2007 awards.
- ❖ Kotak Securities recorded an average daily volume of Rs.7,500 crore.
- ❖ The International subsidiaries of the Bank launched Indian Multicap Fund & Kotak Indian Infrastructure and Realty Fund.

## Q2 FY08

- ❖ Kotak Group employee strength crossed 15,000.
- ❖ Kotak Mahindra Bank was awarded as Best Security Strategist by Microsoft India and Best IT Implementation for Information Security by PCQUEST.
- ❖ Kotak Securities recorded an average daily volume of Rs.5,300 crore.
- ❖ Kotak Life Insurance opened 100th branch.
- ❖ Kotak Inc. opened a branch in San Francisco.
- ❖ Kotak Group raised private equity fund, Kotak India Venture Fund and Kotak Alternate Opportunities (India) fund with commitments of Rs 205 crore and Rs 1,578 crore respectively.
- ❖ Kotak group raised realty fund, Kotak India Realty Fund Limited -1st closure with commitments of USD 199 million.
- ❖ The International subsidiaries of the Bank launched Kotak India Focus Fund.

## Q4 FY08

- ❖ Kotak Group employee strength crossed 20,000.
- ❖ Kotak Mahindra Bank opened its 150<sup>th</sup> branch and its 300th ATM.
- ❖ Kotak Mahindra Bank branch reach crossed 100 cities.
- ❖ Kotak Mahindra Bank's Debit cards base increased to 5 lakh.
- ❖ Kotak Investment Bank acted as lead manager to the Rs.10,123 crore Reliance Power IPO, the biggest IPO till date.
- ❖ Kotak Securities was awarded the Avaya Global Connect Customer Responsiveness Awards in Financial Service Sector, 2007.
- ❖ Kotak Securities was awarded Best Performing Equity Broker in India at the CNBC TV18 – Optimix Financial Advisory Awards, 2008.
- ❖ Kotak's Investor Relations website was adjudged the most voted company in Asia Pacific / Africa by IR Global Rankings 2008 in five categories: Corporate Governance Practices, Financial Disclosure Procedures, IR Team, IR Program and IR Website.
- ❖ Housing Finance Division of the Bank won the award for Best in Customer Information and Responsiveness among all HFI's and Banks at the award hosted by Maharashtra Chamber of Housing Industry (MCHI).
- ❖ Kotak Investment Banking was ranked No.1 for FY08 by Prime Database for two league tables (a) India Domestic IPOs, (b) Qualified Institutional Placements including Government Divestments.
- ❖ Kotak Mutual Fund's three equity schemes (Kotak 30, Kotak Opportunities and Kotak Balance) were ranked CPR 1 by CRISIL for Q4 FY08.
- ❖ Kotak Group raised private equity fund, Kotak India Growth Fund 2 with commitments of Rs.1,749 crore.
- ❖ The International subsidiaries of the Bank launched Kotak Indian Islamic Fund & Kotak India Concentrated Growth Fund.



Kotak Mutual Fund launched Gold ETF, an open-ended Gold Exchange Traded Fund which would invest in gold and endeavor to track the spot price of gold.



Kotak Securities was awarded the Leading Equity House in India for 2007 by Thomson Extel Survey Awards for Asia Pacific.



Kotak Securities was awarded the Best Brokerage Firm in India by Asiamoney in 2007.



Kotak Mahindra Bank IT team got 6 awards (including Best IT Team of the Year for the 2<sup>nd</sup> consecutive year and Best Overall winner) organised by IBA.



Kotak Life Insurance opened its 150<sup>th</sup> branch.



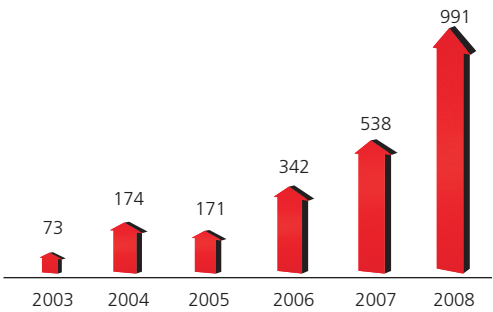
Kotak Mahindra Bank was in the Top 5 for Corporate Governance amongst companies by technical criteria in the IR Global Rankings 2008 for the Asia Pacific / Africa region.



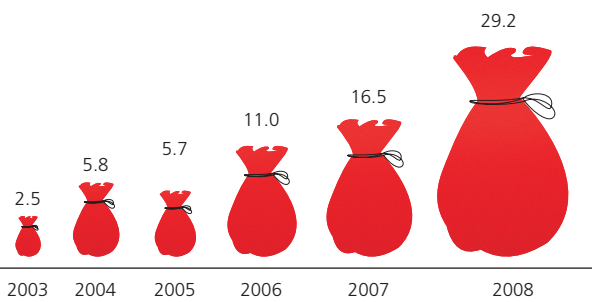


# performance at a glance

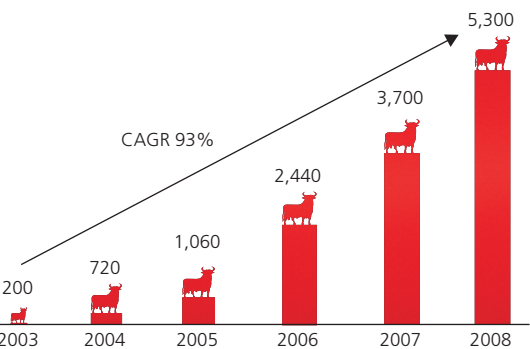
Consolidated Net Profit (Rs crore)



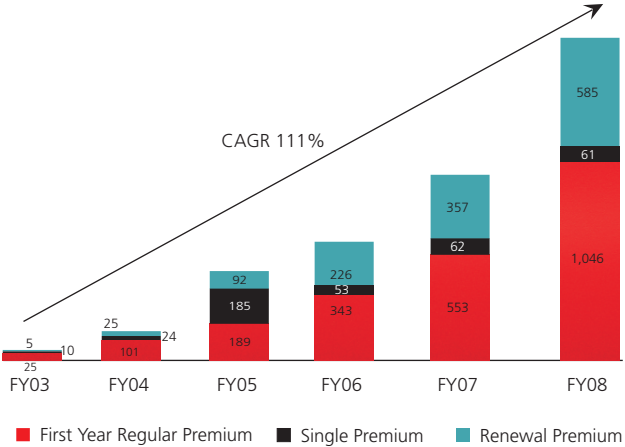
Consolidated Earnings per Share (Diluted) (Rs)



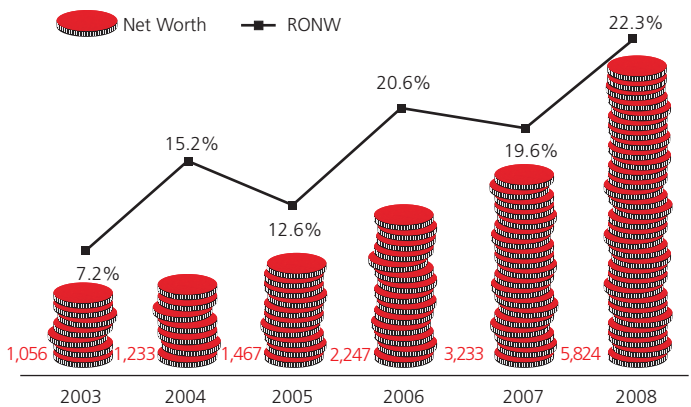
Kotak Securities Average Daily Volume (Rs crore)



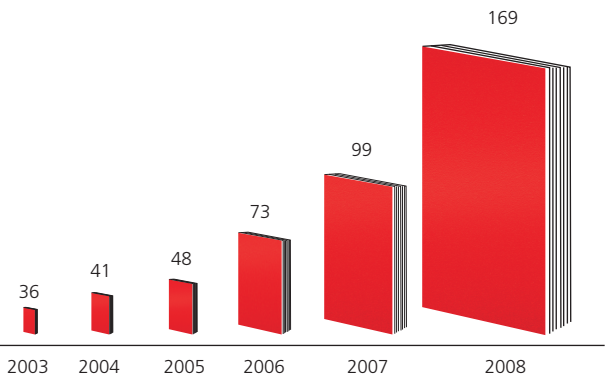
Total Insurance Premium (Rs crore)



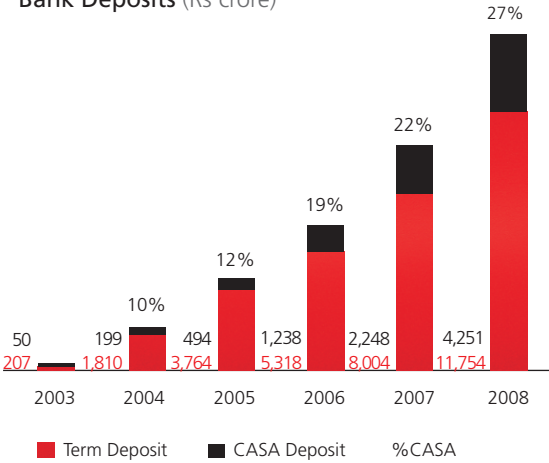
Consolidated Net Worth (Rs crore) & RONW (%)



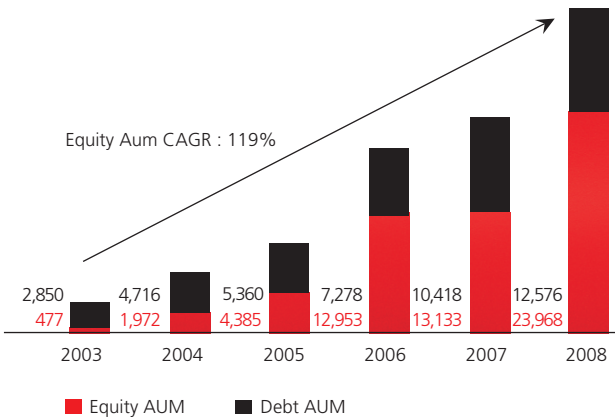
Consolidated Book Value per Share (Rs)



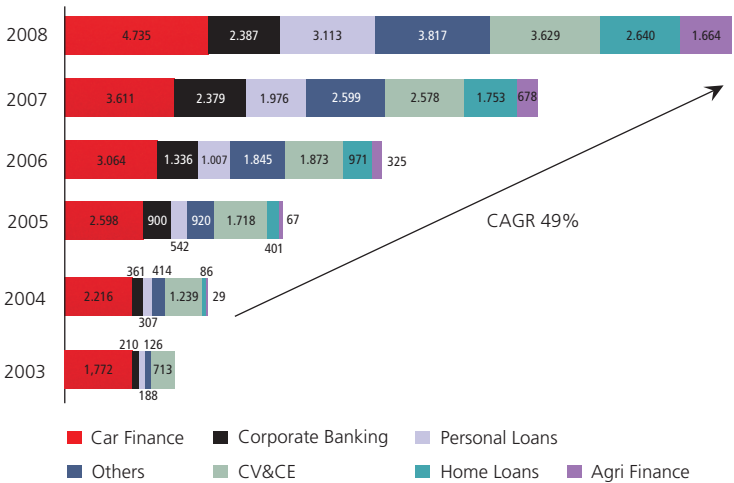
Bank Deposits (Rs crore)



Group Assets under Management (Rs crore)



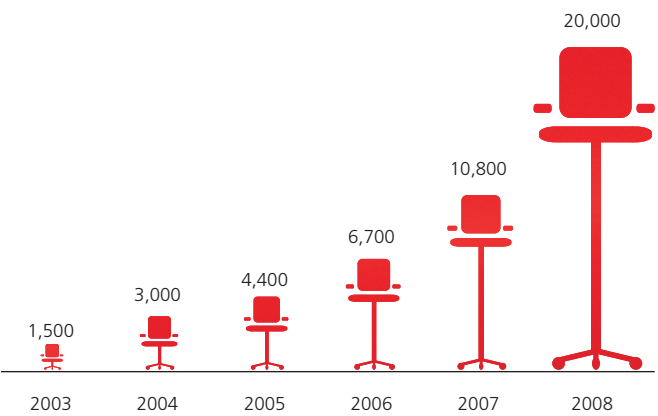
Consolidated Advances (Rs crore)



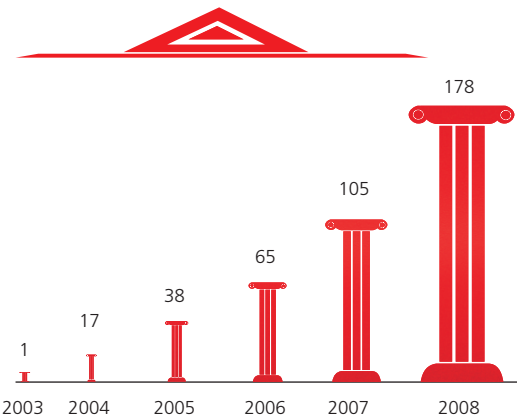
Group Customer Accounts



Group Employees



Bank Branches





# Board of Directors

Pradeep N. Kotak

C. Jayaram

Shivaji Dam

Uday Kotak

Dipak Gupta



Anand Mahindra

Dr. Shankar Acharya

Cyril Shroff

KM Gherda

Asim Ghosh  
has been appointed as Director from 9<sup>th</sup> May 2008.

## Registered Office

Kotak Mahindra Bank Limited  
36-38A, Nariman Bhavan, 227,  
Nariman Point, Mumbai. 400 021.  
Tel: 9122 6658 1100  
Fax: 9122 2285 5577  
Website: [www.kotak.com](http://www.kotak.com)

## Company Secretary

Bina Chandarana –  
Company Secretary and  
Executive Vice President

## Auditors:

M/s S.R. Batliboi & Co.  
Chartered Accountants  
6<sup>th</sup> Floor, Express Towers,  
Nariman Point,  
Mumbai. 400 021.

## Registrar & Transfer Agent

Karvy Computershare Private Limited  
Karvy House, 46, Avenue 4,  
Street No. 1, Banjara Hills,  
Hyderabad. 500 034.

7, Andheri Industrial Estate,  
Off Veera Desai Road,  
Andheri (W),  
Mumbai. 400 058.



## Our Vision

**The global Indian financial services brand** – Our customers will enjoy the benefits of dealing with a global Indian brand that best understands their needs and delivers customised pragmatic solutions across multiple platforms. We will be a world class Indian financial services group. Our technology and best practices will be benchmarked along international lines while our understanding of customers will be uniquely Indian. We will be more than a repository of our customers' savings. We, the Group, will be a single window to every financial service in a customer's universe.

**The most preferred employer in financial services** – A culture of empowerment and a spirit of enterprise attracts bright minds with an entrepreneurial streak to join us. Working with a home grown, professionally-managed company, which has partnerships with international leaders, gives our people a perspective that is universal as well as unique.

**The most trusted financial services company** – We will create an ethos of trust across all our constituents. Adhering to high standards of compliance and corporate governance will be an integral part of building trust.

**Value creation** – Value creation rather than size alone will be our business driver.



## Group Consolidated Financial Statements

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## Kotak Mahindra Bank Limited

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