SCHEDULE 17

SIGNIFICANT ACCOUNTING POLICIES:

1. Accounting Convention

1.1. The accompanying financial statements have been prepared under the historical cost convention on going concern basis following the accrual concept of accounting, unless otherwise stated. The financial statements comply with generally accepted accounting principles, statutory requirements prescribed under the Banking Regulation Act, 1949(AACS), circulars and guidelines issued by the Reserve Bank of India (RBI) and NABARD from time to time, Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI) and current practices prevailing within the banking industry in India.

2. Use of Estimates

2.1. The preparation of financial statements, in conformity with the generally accepted accounting principles, requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses during the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision to the accounting estimates is recognized prospectively in the current and future periods, if any.

3. Revenue recognition

3.1. Income and expenditure are accounted on accrual basis except locker rent which is accounted on realization basis in accordance with AS-9.

3.2. Interest income is recognized in the Profit and Loss Account as it accrues except (i) Income from Non-Performing Assets (NPAs), comprising of advances, loans and investments, which is recognized upon realization, as per the prudential norms prescribed by the RBI (hereafter referred to as Regulatory Authority).

3.3. Unrealized interest on Non-Performing Assets wherever capitalized is reversed and wherever kept separately under “Interest Receivable” account, an equivalent provision is made under Reserve for overdue interest.

3.4. Profit/Loss on sale of investments is credited/debited to “Profit/Loss on Sale of Investments”

3.5. Income (other than interest) on investments in “Held to Maturity” (HTM) category acquired at a discount to the face value, is recognized as follows :

a) On interest bearing securities, it is recognized only at the time of sale/redemption.

b) On zero-coupon securities, it is accounted for over the balance tenor of the security on a constant basis.

3.6. Dividend is accounted on accrual basis when the right to receive payment is established.

3.7. Revenue is recognized only when it is certain to be received in accordance with AS-9.

~~4.~~ **Investments:** Investments are accounted for in accordance with the extant regulatory guidelines.

4.1. Classification

4.2. For the purpose of disclosure in balance sheet investments are classified into the following six groups:

4.2.1. Govt. Securities.
4.2.2. Trustee Securities. – approved
4.2.3. Trustee Securities - non-approved
4.2.4. Debentures & Bonds
4.2.5. Investments in Shares – approved
4.2.6. Units of Mutual Funds and Others.

4.3. The Bank has categorized the securities into permanent and current categories as per the NABARD guidelines.

4.4. Investments are classified as performing and non-performing, based on the guidelines issued by the Reserve Bank of India.

4.5. Valuation

4.5.1. **Held to Maturity category (Permanent Category) :** Each scrip under Held to Maturity category is carried at its acquisition cost or at amortized cost, if acquired at a premium over the face value. Any premium on acquisition is amortized over the remaining maturity period of the security. Such amortization of premium charged to 'P & L A/c'.

4.5.2. Each script in the Current category is carried at their acquisition cost and is marked to market and **determined as per Regulatory guidelines**, and Net depreciation under each category is provided for and net appreciation, if any is ignored. On provision for depreciation, the book value of the individual securities remains unchanged after marking to market.

4.5.3. Broken period interest paid/received on debt instruments is treated as interest expense/income and is excluded from cost/sale consideration.

4.5.4. Brokerage, Commission etc. pertaining to investments paid at the time of acquisition are charged as expenditure.

5. **Loans / Advances and Provisions thereon**

5.1. Loans and Advances are classified into Standard, Sub-Standard, Doubtful and Loss Asset and provisions are made in accordance with the prudential norms issued by the Reserve Bank of India / NABARD.

5.2. In addition to the specific provision on NPAs, general provisions are also made for standard assets as per the extant guidelines prescribed by the Reserve Bank of India.

6. **Fixed Assets and Depreciation :**

6.1. Fixed assets including Intangible Assets are shown at historical cost less depreciation to date.

6.2. Cost includes cost of purchase and other incidental expenses till put to use. Subsequent expenditure incurred on assets put to use is capitalized only when it increases the future benefits from such assets or their functioning capability

6.3. Depreciation:

6.3.1. Depreciation is provided on the written down value method on fixed Assets other than Computers and Software at the rates prescribed under the Income Tax Rules 1962.

6.3.2. Depreciation on computers and software is provided at the rate of 33.33% under straight line method. (SLM).

6.3.3. In respect of the assets purchased during the year depreciation is charged based on the number of days from the date of put to use.

6.4. Capital work-in-progress are stated at cost incurred during construction, installation etc. relating to assets in progress.

7. **Employee Benefits:**

Post-Employment Benefits:

Defined Contribution Plan

7.1. The bank contributes to Provident Fund which is administered by a duly constituted and approved independent trust. Contribution to Provident Fund is accounted on accrual basis with corresponding contribution to recognized fund and is charged to profit and loss A/c.

Defined Benefit Plan

7.2. Gratuity: Liability towards gratuity is provided on the basis of actuarial valuation made by an independent actuary. The actuarial valuation is done as per projected unit credit method. Liability towards gratuity was funded through a policy with Life Insurance Corporation of India.

7.3. **Earned Leave encashment:** Accrued liability for leave benefit is determined on actuarial valuation basis using Projected Unit Credit (PUC) Method at the end of the year and provided in accounts. Liability for Leave benefit is funded through policy with LIC.

7.4. **Sick Leave Encashment:** Accrued liability for Sick Leave Benefit is determined on actuarial valuation basis using Projected Unit Credit (PUC) Method at the end of the year and provided in accounts. Liability for Sick Leave benefit is un-funded.

8. **Provisions:** A provision is recognized when the bank has a present obligation as a result of past event where 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.

9. **Taxation:** Income tax expenses comprise current tax (i.e., amount of tax for the period determined in accordance with the Income Tax Law) and deferred tax charge or credit (reflecting the tax effects of timing differences between taxable incomes for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognized using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred Tax liability/assets are recognized and reviewed as at each balance sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realized.

10. **Contingent liabilities and Assets:** Contingent liabilities are not recognized as expenditure. These are, however, disclosed by way of Notes. A disclosure of contingent liability is made when there is:

10.1. A possible obligation arising from a past event, the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events not within the control of the bank; or

10.2. A present obligation arising from a past event which is not recognized as it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.
Contingent Assets are not recognized in the financial statements.