SCHEDULE 17

SIGNIFICANT ACCOUNTING POLICIES

1. **GENERAL**

BASIS OF PREPARATION

The financial statements have been prepared and presented under historical cost convention on accrual basis of accounting unless otherwise stated and comply with Generally accepted accounting principles, statutory requirements prescribed under Banking Regulation Act, 1949, circulars and guidelines issued by Reserve Bank of India from time to time and notified accounting standards by companies (Accounting Standards) Rules, 2006 to the extent applicable and current practices in 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 date of the financial statements and the reported income and expenses for the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable.

2. Foreign Exchange Transactions

2.1 All the Monetary assets and liabilities in foreign currencies are translated in Indian rupees at the exchange rates prevailing at the Balance Sheet date as notified by Foreign Exchange Dealers Association of India (FEDAI). The resultant gain / loss is accounted for in the Profit & Loss account.

2.2 The outstanding foreign exchange contracts are stated at the prevailing exchange rate on the date of commitment. Profit or loss on such contracts is accounted for as per rates advised by FEDAI and in accordance with FEDAI guidelines and provisions of para 38 of AS-11.

2.3 Items of Income and expenditure relating to foreign exchange transactions are recorded at exchange rates prevailing on the date of the transactions.

2.4 Contingent liabilities on account of acceptances, endorsements and other obligations including guarantees & letter of credits in foreign currencies are valued as per rates published by FEDAI except Bills for Collection which are accounted for at the notional rates at the time of lodgment.

3. Investments

3.1 Classification and valuation of investments are made in accordance with the prudential norms prescribed by Reserve Bank of India read with clarifications / directions given by RBI.

3.2 The entire investment portfolio is classified into three categories, viz, Held to Maturity, Available for Sale and Held for Trading in line with the guidelines / directions of Reserve Bank of India. Disclosure of the investments under the three categories mentioned above is made under six classifications viz.,

i. Government Securities
ii. Other approved securities
iii. Shares
iv. Debentures
v. Subsidiaries / Joint Ventures and
vi. Others

3.3 **Basis Of Classification**:

i. Investments that the Bank intends to hold till maturity are classified as Held to Maturity.

ii. Investments that are held principally for resale within 90 Days from the date of purchase are classified as Held for Trading.

iii. Investments which are not classified in the above two categories, are classified as Available for Sale.

iv. An investment is classified under the above three categories at the time of its purchase. Shifting of securities from one category to another is done with the approval of the Board normally once in a year. Shifting is effected at the lower of acquisition cost / book value / market value on the date of transfer and the depreciation, if any, on such shifting is fully provided for and the book value of securities is changed accordingly.

3.4 Securities under 'Held to Maturity' are stated at acquisition costs unless such costs are higher than the face value, in which case the premium is amortized over the remaining period of maturity. Such amortization is shown under "Income on Investments– Schedule 13 item II as a netting item. In case, the cost is less than the redemption value, the difference being the unrealized gain, is ignored. Any diminution in value of investments in subsidiaries and joint venture, other than temporary in nature, is provided for each investment individually.

3.5 Securities under 'Available for sale' are valued scrip wise and depreciation/ appreciation is segregated category wise. While net appreciation is ignored, net depreciation under each category is provided for.

3.6 Securities under 'Held for Trading' are valued at market price and the net depreciation under each category is provided for and the net appreciation, if any, is ignored.

3.7 Cost of investment is based on the weighted average cost method category wise.

3.8 **Method Of Accounting – Settlement Date Accounting**

Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the de-recognition of an asset and recognition of any gain or loss on disposal on the day it is delivered by the entity.

Accordingly, Bank follows settlement date accounting for the whole portfolio, SLR as well as Non SLR. Cost of investment is based on the weighted average cost method category wise.

3.9 The 'market value' for the purpose of valuation of investments included in the 'Available for Sale' and 'Held for Trading' categories is the market price of the scrip as available from the trades/quotes on the stock exchanges, price list of RBI, prices declared by Primary Dealers Association of India (PDAI) jointly with the Fixed Income Money Market and Derivatives Association of India (FIMMDA).

In respect of unquoted securities, the procedure adopted is as below:

a.	Government of India Securities: and State Government securities.		At rates put out by FIMMDA/PDAI/FBIL
b.	Other approved Securities, Preference Shares, Debentures and PSU Bonds:		On yield to maturity (YTM) basis at the rate prescribed by FIMMDA/PDAI/FBIL with such mark ups as laid down by RBI or FIMMDA/PDAI/FBIL
c.	Equity Shares:		At market price taken from NSE and BSE for quoted share. For unquoted at Break-up Value (without considering revaluation reserve) based on the latest Balance Sheet, which are not older than one year on the date of valuation is considered. In cases where latest Balance Sheets are not available, the shares are valued at Re.1 per company
d.	Mutual Fund Units, Venture Capital Funds and Security Receipts:		At re-purchase price or Net Assets Value
e.	Treasury Bills, Cash Management Bill, Commercial Papers, Certificate of Deposits, Recapitalization Bonds, Subsidiaries, Joint Ventures and Sponsored Institutions:		At carrying cost.

3.10 In determining acquisition cost of investments:

a. Incentive received on subscription is deducted from the cost of securities;
b. Brokerage / commission/ stamp duty paid in connection with acquisition of securities are treated as revenue expenditure;
c. Broken period interest, if any, paid on acquisition of investment is debited to profit & loss account. Broken period interest received on sale of securities is recognized as Interest Income.

3.11 Profit/ Loss on sale of investments is taken to profit and loss account. However, in case of profit on sale of investments in 'Held to Maturity' category, an equivalent amount of profit is appropriated to Capital Reserve.

3.12 **Non Performing Investments**

In respect of Non-Performing Securities, income is not recognized and appropriate provision is made for depreciation in the value of such securities as per Reserve Bank of India guidelines.

3.13 Dividend Income on shares and units of mutual funds is booked on receipt basis.

3.14 In the event, depreciation booked on account of MTM in the 'AFS' or 'HFT' categories are found to be in excess of the required amount in any year, the excess is credited to the P.& L. Account and an equivalent amount is appropriated to an Investment Reserve Account in Schedule 2 – "Reserve & Surplus" under the head "Revenue and Other Reserves".

4. Advances

4.1 Advances are classified into "Performing" and "Non-Performing" assets and provisions are made as per the prudential norms prescribed by the Reserve Bank of India. Bank has made provisions on Non-Performing Assets as per the prudential norms prescribed by the RBI as under:

Category of Assets	**Provision norms**
Sub-Standard	15% on Secured Exposure. 25% on Unsecured Exposure* 20% on Unsecured Exposure* in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available
Doubtful-I	25% on Secured 100% on Unsecured
Doubtful-II	40% on Secured 100% on Unsecured
Doubtful-III	100% on Secured 100% on Unsecured
Loss	100% of Book Outstanding

* Unsecured exposure is defined as an exposure where the realizable value of the security, as assessed by the bank/ approved valuers/ Reserve Bank's Inspecting Officers, is not more than 10 per cent, ab-initio, of the outstanding exposure.

4.2 Advances are stated net of de-recognized interest and provisions/ Technical write off made in respect of non-performing advances. Claims received from DICGC/ CGTMSE/ ECGC are not reduced from such advances till adjusted/ technically written-off whereas part recovery in all NPA accounts is reduced from advances.

4.3 Provisions on standard advances are made and are included under "Other Liabilities and Provisions" as per RBI's guidelines.

4.4 For restructured/ rescheduled advances, provisions are made in accordance with the guidelines issued by RBI.

4.5 The sale of NPA is accounted for as per guidelines prescribed by RBI:-

i). When the bank sells its financial assets to Securitization Company (SC)/ Reconstruction Company (RC), the same is removed from the books.

ii). If the sale is at a price below the net book value (NBV) (i.e. book value less provisions held), the shortfall is debited to the Profit & Loss account of the year of sale.

iii). If the sale is for a value higher than the NBV, the excess provision is reversed in the year the amounts are received.

5 **Floating Provisions**

In accordance with the RBI guidelines, the bank has an approved policy for creation and utilization of floating provisions separately for advances and investments. The quantum of floating provisions to be created would be assessed, at the end of each financial year. The floating provisions would be utilized only for contingencies under extra ordinary circumstances specified in the policy with prior permission of Reserve Bank of India.

6 Fixed Assets

6.1 Premises and other Fixed Assets are stated at historical cost/revalued amount. In respect of premises, where segregation is not possible between land and superstructure, are considered in the value of superstructure.

6.2 Premises taken on perpetual lease are considered as freehold premises and are not amortized.

7 Depreciation on Fixed Assets

7.1 Depreciation is provided for on -

7.1.1 Computers at 33.33%, on straight-line method; additions are depreciated for the full year irrespective of the date of addition as per RBI guidelines.

7.1.2 Depreciation on fixed Assets is charged on Straight Line Method (SLM) basis as per useful life of assets, considering residual value at 5% of original cost. Additions during the year are depreciated for the full year irrespective of its date of addition. The useful life and depreciation rate are given hereunder:

S. No.	Particulars	Useful life	Depreciation Rate
1	Premises	60	1.58%
2	Furniture and fixtures	10	9.50%
3	Plant & Machinery	15	6.33%
4	Vehicles	8	11.88%

7.1.3 Cost of premises is taken composite, wherever it is not possible to segregate the cost of land from the cost of the superstructure.

7.2 No depreciation is provided on assets sold/disposed of during the year.

7.3 Depreciation attributable to revalued portion of the assets is charged to Profit & Loss Account and equivalent amount is transferred from Revaluation Reserve Account to Revenue Reserve Account.

8 Revenue Recognition

8.1 Income and expenditure are accounted for on accrual basis unless otherwise stated.

8.2 Income on non-performing assets is recognized on realization basis in accordance with the prudential norms prescribed by Reserve Bank of India.

8.3 Partial recovery in non-performing assets is appropriated first towards principal and thereafter towards interest.

8.4 For cases covered under special schemes introduced by RBI viz. Scheme for Sustainable Structuring of Stressed Assets (S4A), Strategic Debt Restructuring, Flexible Structuring of Long Term Project Loans (5/25), Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme), where subsequently the account turns NPA, any recovery shall be first credited to Interest on loans & Advances. Thereafter, the recovery shall be appropriated towards principal amount outstanding in the account. The accounting procedure shall be uniform and consistent in all accounts falling under above schemes.

8.5 Income on guarantees and letters of credit issued, locker rent, income from merchant banking transactions, money transfer services, dividend on shares, Interest on refund of income tax, commission on credit card, interest on overdue bills, processing fee, Government business including distribution of pension and income from units of mutual fund products and income from ATM operations are accounted for on receipt basis.

8.6 Rebate on compromised accounts is accounted for at the time of full and final adjustment of the account.

8.7 Interest on overdue Term Deposits is provided at the rate of interest applicable to Savings Bank Deposits.

8.8 Liability in respect of incremental lease rent on renewal of lease agreement is accounted for at the time of renewal of the lease.

8.9 Bond Issue Expenses incurred in connection with raising Tier-II Capital are treated as Deferred Revenue Expenditure to be written off over a period of five years.

8.10 Share Issue Expenses are adjusted against the Share Premium Account

9 Staff Retirement Benefits

9.1 Annual contribution to Gratuity Fund, Pension Fund and Leave Encashment Fund, Silver Jubilee Bonus and Retirement Gifts are provided for on the basis of an actuarial valuation.

9.2 The Employees joining on or after 01.04.2010 are being covered under the New Pension Scheme.

10. Impairment of Assets

Impairment losses (if any) on Fixed Assets (including revalued assets) are recognized in accordance with AS 28 (Impairment of Assets) issued by the ICAI and charged off to Profit and Loss Account.

11 Taxes on Income

11.1 Current Income Tax is measured at the amount expected to be paid considering the applicable tax rates and favorable judicial pronouncement/ legal opinions.

11.2 In accordance with AS-22 Deferred Tax comprising of tax effect of timing differences between taxable and accounting income for the period, is recognized keeping in view the consideration of prudence in respect of Deferred Tax Assets/Liabilities.