



## SIGNIFICANT ACCOUNTING POLICIES

**Review Date:**

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### **Scope of the Policy :-**

Entire financial transactions of the Bank and it will cover everything that has been given as per the instructions received from Sponsor Bank, NABARD, RBI, SEBI and other market regulators from time to time.

### **Review of the Policy:-**

Validity of the significant accounting policy shall be 12 months from the date of approval from the Board. However, in case of any changes proposed in between of the review by the regulator or sponsor bank, the same shall be treated as automatically incorporated and necessary approval will be taken after that. The significant accounting policy will contain everything which are as under:-

### **SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Basis of Preparation:**

The Bank's financial statements are prepared under the historical cost convention, on the accrual basis of accounting ongoing concern basis, unless otherwise stated and conform in all material aspects to Generally Accepted Accounting Principles (GAAP) in India, which comprise applicable statutory provisions, regulatory norms/guidelines prescribed by the Reserve Bank of India (RBI), Banking Regulation Act 1949, RRB Act, 1976 as amended by Regional Rural Bank (Amendment) Act, 2015 and accounting Standards issued by the Institute of Chartered Accountants of India to the extent applicable and practices generally prevalent in the banking industry in India

#### **B. Use of Estimates:**

The preparation of financial statements requires the management to make estimates and assumptions considered in the reported amount 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. Future results could differ from these estimates.

#### **C. Significant Accounting Policies:**

##### **1. Revenue recognition:**

1.1 Income and expenditure are accounted on accrual basis, except otherwise stated.

1.2 Interest income is recognised in the Profit and Loss Account as it accrues except:

- (i) income from Non-Performing Assets (NPAs), comprising of advances, leases and investments, which is recognised upon realisation, as per the prudential norms prescribed by the RBI/ respective country regulators in the case of foreign offices (hereafter collectively referred to as Regulatory Authorities),
- (ii) overdue interest on investments and bills discounted,
- (iii) Income on Rupee Derivatives designated as "Trading",

Which are accounted on realisation.

- 1.3 Profit or Loss on sale of investments is recognised in the Profit and Loss Account. However, the profit on sale of investments in the 'Held to Maturity' category is appropriated (net of applicable taxes and amount required to be transferred to statutory reserve), to 'Capital Reserve Account'.
- 1.4 Income (other than interest) on investments in "Held to Maturity (HTM)" category acquired at a discount to the face value, is recognised as follows :
- (i) On Interest bearing securities, it is recognised only at the time of sale/ redemption.
  - (ii) On zero-coupon securities, it is accounted for over the balance tenor of the security on a constant yield basis.
- 1.5 Dividend is accounted on an accrual basis where the right to receive the dividend is established.
- 1.6 All other commission and fee incomes are recognised on their realisation except for:
- (i) Guarantee commission on deferred payment guarantees, which is spread over the period of the guarantee;
  - (ii) Commission on Government Business and ATM interchange fees, which are recognised as they accrue; and
  - (iii) Upfront fees on restructured accounts, which is apportioned over the restructured period.
- 1.7 Brokerage, Commission etc. paid/ incurred in connection with issue of Bonds / Deposits are amortized over the tenure of the related Bonds / Deposits and the expenses incurred in connection with the issue are charged upfront.
- 1.8 The sale of NPA is accounted as per guidelines prescribed by RBI :-
- i. When the bank sells its financial assets to Securitisation 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 and Loss Account in the year of sale.
  - iii. If the sale is for a value higher than the NBV, the excess provision is written back in the year the amounts are received, as permitted by the RBI.

## 2. Investments:

The transactions in Government Securities are recorded on "Settlement Date". Investments other than Government Securities are recorded on "Trade Date".

### 2.1 Classification

Investments are classified into three categories, viz. Held to Maturity (HTM), Available for Sale (AFS) and Held for Trading (HFT) as per RBI Guidelines.

### 2.2 Basis of classification:

- i. Investments that the Bank intends to hold till maturity are classified as "Held to Maturity (HTM)".
- ii. Investments that are held principally for resale within 90 days from the date of purchase are classified as "Held for Trading (HFT)".
- iii. Investments, which are not classified in the above two categories, are classified as "Available for Sale (AFS)".

- iv. An investment is classified as HTM, HFT or AFS at the time of its purchase and subsequent shifting amongst categories is done in conformity with regulatory guidelines.
- v. Investments in subsidiaries, joint ventures and associates are classified as HTM.

### 2.3 Miscellaneous:

- i. In determining the acquisition cost of an investment:
  - a. Brokerage/commission received on subscriptions is reduced from the cost.
  - b. Brokerage, Commission, Securities Transaction Tax (STT) etc., paid in connection with acquisition of investments are expensed upfront and excluded from cost.
  - c. Broken period interest paid / received on debt instruments is treated as interest expense/income and is excluded from cost/sale consideration.
  - ~~d.~~ Cost is determined on the weighted average cost method for investments under AFS and HFT category and on FIFO basis (first in first out) for investments under HTM category.
- ii. Transfer of securities from HFT/AFS category to HTM category is carried out at the lower of acquisition cost/book value/market value on the date of transfer. The depreciation, if any, on such transfer is fully provided for. However, transfer of securities from HTM category to AFS category is carried out on acquisition price/book value. After transfer, these securities are immediately revalued and resultant depreciation, if any, is provided.
- iii. Treasury Bills and Commercial Papers are valued at carrying cost.
- ~~iv.~~ **Held to Maturity category:** a) Investments under Held to Maturity category are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised over the period of remaining maturity on constant yield basis. Such amortisation of premium is adjusted against income under the head "interest on investments".
- v. **Available for Sale and Held for Trading categories:** Investments held under AFS and HFT categories are individually revalued at the market price or fair value determined as per Regulatory guidelines, and only the net depreciation of each group for each category (viz., (i) Government securities (ii) Other Approved Securities (iii) Shares (iv) Bonds and Debentures (v) Subsidiaries and Joint Ventures; and (vi) others) is provided for and net appreciation, is ignored. On provision for depreciation, the book value of the individual security remains unchanged after marking to market.
- vi. Investments are classified as performing and non-performing, based on the guidelines issued by the RBI in the case of domestic offices and respective regulators in the case of foreign offices. Investments of domestic offices become non-performing where:
  - a. Interest/installment (including maturity proceeds) is due and remains unpaid for more than 90 days.
  - b. In the case of equity shares, in the event the investment in the shares of any company is valued at Rs. 1 per company on account of the non availability of the latest balance sheet, those equity shares would be reckoned as NPI.
  - c. If any credit facility availed by an entity is NPA in the books of the Bank, investment in any of the

- securities issued by the same entity would also be treated as NPI and vice versa.
- d. The above would apply mutatis-mutandis to Preference Shares where the fixed dividend is not paid.
  - e. The investments in debentures/bonds, which are deemed to be in the nature of advance, are also subjected to NPI norms as applicable to investments.
  - f. In respect of foreign offices, provisions for NPIs are made as per the local regulations or as per the norms of RBI, whichever is more stringent.
- vii. Accounting for Repo/ Reverse Repo transactions (other than transactions under the Liquidity Adjustment Facility (LAF) with the RBI):
- a. The securities sold and purchased under Repo/ Reverse Repo are accounted as Collateralized lending and borrowing transactions. However, securities are transferred as in the case of normal outright sale/ purchase transactions and such movement of securities is reflected using the Repo/Reverse Repo Accounts and Contra entries. The above entries are reversed on the date of maturity. Costs and revenues are accounted as interest expenditure/income, as the case may be. Balance in Repo Account is classified under schedule 4 (Borrowings) and balance in Reverse Repo Account is classified under Schedule 7 (Balance with Banks and Money at Call & Short Notice).
  - b. Securities purchased/sold under LAF with RBI are debited/credited to Investment Account and reversed on maturity of the transaction. Interest expended/earned thereon is accounted for as expenditure/revenue.

### **3. Loans /Advances and Provisions thereon:**

- 3.1 Loans and Advances are classified as performing and non-performing, based on the guidelines issued by the RBI. Loan Assets become Non-Performing Assets (NPAs) where:
- i. In respect of term loans, interest and/or instalment of principal remains overdue for a period of more than 90 days;
  - ii. In respect of Overdraft or Cash Credit advances, the account remains "out of order", i.e. if the outstanding balance exceeds the sanctioned limit/drawing power continuously for a period of 90 days, or if there are no credits continuously for 90 days as on the date of balance-sheet, or if the credits are not adequate to cover the interest due during the same period;
  - iii. In respect of bills purchased/discounted, the bill remains overdue for a period of more than 90 days;
  - iv. In respect of agricultural advances: (a) for short duration crops, where the instalment of principal or interest remains overdue for two crop seasons; and (b) for long duration crops, where the principal or interest remains overdue for one crop season.
- 3.2 NPAs are classified into Sub-Standard, Doubtful and Loss Assets, based on the following criteria stipulated by RBI:

- i. Sub-standard: A loan asset that has remained non-performing for a period less than or equal to 12 months.
  - ii. Doubtful: A loan asset that has remained in the sub-standard category for a period of 12 months.
  - iii. Loss: A loan asset where loss has been identified but the amount has not been fully written off.
- 3.3 Provisions for NPAs as per the extant guidelines prescribed by the regulatory authorities, subject to minimum provisions are as prescribed below:

Sub standard i. A general provision of 25% on the total outstanding;  
 Assets: ii. Unsecured Exposure in respect of infrastructure advances where certain safeguards such as escrow accounts are available - 25%.

DoubtfulAssets:

- i. For Secured Portion: Upto one year – 50%
- ii. For Secured Portion: One to three years – 100%
- iii. For Secured Portion: More than three years – 100%
- iv. Unsecured portion – 100%

LossAssets: 100%

However we make 100% Provision irrespective of the category of advances whether NPA secured or unsecured.

- 3.4 Advances are net of specific loan loss provisions, unrealised interest, ECGC claims received and bills rediscounted.
- 3.5 In the case of loan accounts classified as NPAs, an account may be reclassified as a performing asset if it conforms to the guidelines prescribed by the regulators.
- 3.6 Amounts recovered against debts written off in earlier years are recognised as revenue in the year of recovery.
- 3.7 In addition to the specific provision on NPAs, general provisions are also made for standard assets as per extant RBI Guidelines. The bank provide for a provision of 0.40% of total standard outstanding advance irrespective of type of advances. These provisions are reflected in Schedule 5 of the Balance Sheet under the head "Other Liabilities & Provisions – Others" and are not considered for arriving at the Net NPAs.

#### 4. Fixed Assets Depreciation and Amortisation:

4.1 Fixed Assets are carried at cost less accumulated depreciation/ amortisation.

4.2 Cost includes cost of purchase and all expenditure such as site preparation, installation

Costs and professional fees incurred on the asset before it is put to use. Subsequent expenditure/s incurred on the assets put to use are capitalised only when it increases the future benefits from such assets or their functioning

capability.

**4.3** The rates of depreciation and method of charging depreciation in respect of domestic operations are as under:

Sl. No.	Description of Fixed Assets	Method of charging depreciation	Depreciation/ amortisation rate
1	Computers	Straight Line Method	33.33% every year
2	Computer Software forming an integral part of the Computer hardware	Straight Line Method	33.33% every year
3	Computer Software which does not form an integral part of Computer hardware and cost of Software Development	Straight Line Method	33.33% every year
4	Automated Teller Machine / Cash Deposit Machine / Coin Dispenser / Coin Vending Machine	Straight Line Method	20.00% every year
5	Servers	Straight Line Method	25.00% every year
6	Network Equipment	Straight Line Method	20.00% every year
7	Other fixed assets	Straight Line Method	On the basis of estimated useful life of the assets. Estimated useful life of major group of Fixed Assets are as under: Premises 60 Years Vehicles 5 Years Safe Deposit 20 Years Lockers Furniture & Fixtures 10 Years

**4.4** In respect of assets acquired during the year (for domestic operations), depreciation is charged on proportionate basis for the number of days the assets have been put to use during the year.

**4.5** Assets costing less than Rs. 1,000 each are charged off in the year of purchase.

**4.6** In respect of leasehold premises, the lease premium, if any, is amortised over the period of lease and the lease rent is charged in the respective year(s).

**5. Leases:**

The asset classification and provisioning norms applicable to advances, as laid down in Para 3 above, are applied to financial leases also.



## **6. Impairment of Assets:**

Fixed Assets are reviewed for impairment whenever events or changes in circumstances warrant that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future Net Discounted Cash Flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

## **7. Employee Benefits:**

### **7.1 Short Term Employee Benefits:**

The undiscounted amounts of short-term employee benefits, such as medical benefits which are expected to be paid in exchange for the services rendered by employees, are recognised during the period when the employee renders the service.

### **7.2 Long Term Employee Benefits:**

#### **i. Defined Benefit Plan**

- a. Employees of the Bank are covered by Employees Pension Fund Schemes and National Pension Schemes under Government of India. All eligible employees are entitled to receive benefits under the Employees Pension Fund scheme and NPS. The Bank contributes monthly at a determined rate (currently 10% of Basic Pay in case of pensioners and 10% of wages i.e Basic plus DA for NPS). These contributions are remitted to Employees Pension Trust account and respective PRAN accounts of NPS holders on monthly basis, for this purpose and are charged to Profit and Loss Account. The Bank recognizes such annual contributions as an expense in the year to which it relates. Shortfall, if any, is provided for on the basis of actuarial valuation.
- b. The Bank operates Gratuity and Pension schemes which are defined benefit plans.
  - i) The Bank provides for gratuity to all eligible employees. The benefit is in the form of lump sum payments to vested employees on retirement, or on death while in employment, or on termination of employment, for an amount equivalent to 15 days basic salary payable for each completed year of service, subject to a maximum amount of Rs. 20 lakhs. Vesting occurs upon completion of five years of service, for this Bank has taken a policy with SBI Life Insurance Co. Ltd. and makes periodic contributions to the fund as per actuarial valuation carried out annually.
  - ii) The Bank provides for pension to all eligible employees as per APRB (Employees) Pension Regulation, 2018. The benefit is in the form of monthly payments as per rules to vested employees on retirement or on death while in employment, or on termination of employment. Vesting occurs at different stages as per rules.

ii. **Other Long Term Employee benefits:**

- a. All eligible employees of the Bank are eligible for gratuity and Leave encashment as per Sponsor Bank Guidelines. The costs of such long term employee benefits are internally funded by the Bank.

**8. Taxes on income:**

Income tax expense is the aggregate amount of current tax and deferred tax expense incurred by the Bank. The current tax expense and deferred tax expense are determined in accordance with the provisions of the Income Tax Act, 1961 and as per Accounting Standard 22 - Accounting for Taxes on Income respectively after taking into account taxes paid at the foreign offices, which are based on the tax laws of respective jurisdictions. Deferred Tax adjustments comprises of changes in the deferred tax assets or liabilities during the year. Deferred tax assets and liabilities are recognized by considering the impact of timing differences between taxable income and accounting income for the current year, and carry forward losses. Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. The impact of changes in deferred tax assets and liabilities is recognized in the profit and loss account. Deferred tax assets are recognized and re-assessed at each reporting date, based upon management's judgment as to whether their realization is considered as reasonably/virtually certain.

**9. Provisions, Contingent Liabilities and Contingent Assets:**

9.1 In conformity with AS 29, "Provisions, Contingent Liabilities and Contingent Assets", issued by the Institute of Chartered Accountants of India, the Bank recognises provisions only when it has a present obligation as a result of a past event, and would result in a probable outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

9.2 No provision is recognised for:

- i. any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or
- ii. any present obligation that arises from past events but is not recognised because:
- a. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- b. a reliable estimate of the amount of obligation cannot be made.

Such obligations are recorded as Contingent Liabilities. These are assessed at regular intervals and only that part of the obligation for which an outflow of resources embodying economic benefits is probable, is provided for, except in the extremely rare circumstances where no reliable estimate can be made.

9.3 Provision for reward points in relation to the debit card holders of the Bank is being provided for on actuarial estimates.

9.4 Contingent Assets are not recognised in the financial statements.