

SCHEDULE-17

SIGNIFICANT ACCOUNTING POLICIES

1. General

The financial statements are prepared on historical cost basis by following going concern concept and conform to the statutory provisions and practices prevailing in India, unless otherwise stated.

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 Acceptances, endorsements and other obligations including guarantees in foreign currencies are valued as per the rates published by FEDAI as on the date of closing 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 are 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 amortisation is shown under "Income on Investments– Schedule 13 item II. 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 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: At rates put out by FIMMDA/PDAI;
- b. State Government Loans, Other approved Securities, preference shares, Debentures and PSU Bonds: On yield to maturity (YTM) basis at the rate prescribed by FIMMDA/ PDAI with such mark ups as laid down by RBI or FIMMDA/PDAI;
- c. Equity Shares: At break-up value based on the latest Balance Sheet, which are not older than one year on the date of valuation. In cases where latest Balance Sheets are not available, the shares are valued at Re.1 per company;

- d. Mutual Fund Units: At re-purchase price or Net Assets Value;
- e. Treasury Bills, Commercial Papers, Certificate of Deposits, Recapitalization Bonds, Subsidiaries, Joint Ventures and Sponsored Institutions: At carrying cost.

- 3.9 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.
- 3.10 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.
- 3.11 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.

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. However, the bank has made higher provisions for Sub-standard and Doubtful categories as follows:

Category of Asset	As prescribed by RBI	As followed by Bank
Sub-standard	10%	35%
Doubtful I	20%	65%
Doubtful II	30%	100%

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

- 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/ 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 guidelines.

5 Fixed Assets

- 5.1 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.
- 5.2 Premises taken on perpetual lease are considered as freehold premises and are not

amortized.

6 Depreciation on Fixed Assets

6.1 Depreciation is provided for on -

6.1.1 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.

6.1.2 Other Fixed assets on written down value method at the rates prescribed by the Income Tax Act 1961; additions effected before 30th September are depreciated for full year and additions effected thereafter are depreciated for half year.

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

6.2 No depreciation is provided in assets sold/disposed of during the year.

6.3 Amount equivalent to depreciation attributable to revalued portion of the assets is transferred from Revaluation Reserve Account to the Profit & Loss Account.

7 Revenue Recognition

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

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

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

7.4 Income on guarantees and letters of credit issued, Locker rent, income from Merchant Banking transactions, money transfer service, 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 product are accounted for on receipt basis.

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

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

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

7.8 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. Staff Retirement Benefits

Annual contribution to Gratuity Fund, Pension Fund and Leave Encashment Fund are provided for on the basis of an actuarial valuation. Transitional liability relating to Pension Fund and Sick Leave determined as per actuarial valuation is written off over a period of five years commencing from 2007-08 in terms of Revised Accounting Standard 15 (AS-15) as against remaining seven years out of ten years as approved by Reserve Bank of India vide its letter no. DBOD.BP.No. 271/21.01.002/2005-06 dated 23.08.2005.

9. Taxes on Income

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

- 9.2 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.