

Subhadra Local Area Bank Limited

Schedule no.18 of the Balance Sheet and Profit & Loss Account for the year ended March 31 , 2018

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

A. OVERVIEW

Subhadra Local Area Bank Limited is a banking company engaged in providing wide range of banking services. Subhadra Local Area Bank is a banking company governed by the Banking regulation Act, 1949 and obtained RBI approval on 10th July 2003.

B. BASIS OF PREPARATION

The financial statements are prepared and presented under the historical cost convention and accrual basis of accounting, unless otherwise stated and conform with statutory provisions under the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India from time to time, accounting standards (ASs) specified under Section 133 of the Companies Act, 2013 to the extent applicable and current practices prevailing within the banking industry in India.

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 the date of the financial statements and the reported income and expense for the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Future results could differ from these estimates.

C. SIGNIFICANT ACCOUNTING POLICIES:

1) INVESTMENTS

The Bank classifies its investments into Held to Maturity (HTM), Held for Trading (HFT) and Available for Sale (AFS) in accordance with the Reserve Bank of India guidelines.

Valuation:

I) Held to Maturity

Investments classified under Held to Maturity category are carried at their acquisition cost, except where it is acquired at premium in which premium on acquisition is amortized over the remaining maturity period of the security on a constant yield to maturity basis.

II) Available For Sale.

Investment classified under the AFS categories are marked to market as per RBI guidelines. Securities are valued scrip-wise and depreciation / appreciation is aggregated for each classification. Net appreciation in each classification, is ignored ,while net depreciation is provided for.

2) ADVANCES

Advances are classified as performing and non-performing based on the Reserve Bank of India guidelines. Interest on non-performing advances is transferred to interest suspense account and not recognized in the Profit and Loss Account until received.

Advances are classified as secured or unsecured in accordance with the Reserve Bank of India guidelines. Advances are net of interest in suspense. Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of wholesale and retail advances, subject to the minimum provisioning level prescribed in the Reserve Bank of India guidelines. The specific provision levels for retail loan nonperforming assets are also based on the nature of product and delinquency levels. The Bank maintains general provision for standard assets at levels stipulated by RBI from time to time. Provisions made in excess of these regulatory levels or provisions which are not made with respect to specific non-performing assets are categorized as floating provisions. Creation of further floating provisions are considered by the Bank up to a level approved by the Board of Directors of the Bank. Floating provisions are not reversed by credit to Profit and Loss account and can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining Board approval and with prior permission of RBI.

Provision for standard assets and floating provision are included under Other Liabilities. Provisions have been made on gross basis. Tax Relief, which will be available when advances are written off, will be accounted for in the year of write off.

3) FIXED ASSETS & DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation. Cost includes cost of purchase and all expenditure like site preparation, installation costs and professional fees incurred on the asset before it is ready to use. Subsequent expenditure incurred on assets put to use is capitalized only when it increases the future benefit/ functioning capability from/of such assets.

Fixed assets are depreciated using Straight-line method(SLM) basis as per useful life prescribed in part C of schedule II of the Companies Act 2013 and as per details given below.

<u>ASSET</u>	<u>ESTIMATED USEFUL LIFE(YEARS)</u>
Building	60
Office Equipment	5
Furniture Fixtures	10
Computers & data processing units	
A) Service & network	6
B) End user devices, such as desktop, laptops	3
Motor Car	8

Motor-Cycle/Scooters	10
Leasehold Improvements	Over the period of lease
Others (including software and system development)	5

4) IMPAIRMENT OF ASSETS

The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired. Impairment loss, if any, is provided in the profit and loss account to the extent the carrying amount of assets exceeds their estimated recoverable amount in accordance with the **AS 28** "Impairment of Assets", issued by the Institute of Chartered Accountants of India.

5) LEASE ACCOUNTING

Lease payments for assets taken on operating lease are recognized in the profit and loss account over the lease term in accordance with the **AS 19**, Leases, issued by the Institute of Chartered Accountants of India.

6) EMPLOYEE BENEFITS

PROVIDENT FUND

In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund. The Bank contributes an amount, on a monthly basis, at a determined rate (currently 12% of employee's basic salary) and the Bank has no liability for future provident fund benefits other than its annual contribution.

LEAVE ENCASHMENT

The Bank provides for leave encashment liability of its employees who are eligible for encashment of accumulated leave.

RETIREMENT BENEFITS:

The Bank provides for gratuity for all employees. The benefit is in the form of lump sum payments to vested employees on resignation, retirement, death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service. Vesting occurs upon completion of five year of services. Presently the bank is having Group Gratuity Policy from LIC of India covering the period since inception of the Bank. Accordingly the Bank has paid premium as per actuarial valuation done by LIC.

ESOP

The Bank follows fair value method to account for its employee compensation costs arising from grant of Employee Stock Options.

7) REVENUE RECOGNITION:

Income and expenditure is recognized in the profit or loss account on an accrual basis, except in the case of non-performing assets where it is recognized upon realization as per RBI norms. The various charges levied to the customers like processing fees, Bank guarantee charges etc. are also recognized on accrual basis.

Recovery in NPA accounts is appropriated to charges recoverable, interest overdue and principal amount in that order.

Income on discounted instruments is recognized over the tenure of the instrument on a constant yield basis. Dividend on equity shares, preference shares and on mutual fund units is recognized as income when the right to receive the dividend is established.

8) INCOME TAX

Income tax comprises the current tax provision, the net change in the deferred tax asset or liability in the year. Deferred tax assets and liabilities are recognized for the future tax consequences of timing differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets are recognized subject to Management's judgment that realization is more likely than no realization situation. Deferred tax assets and liabilities are measured using substantially enacted tax rates expected to apply to taxable income in the years in which the timing differences are expected to be received, settled or reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of substantial enactment of the change.

9) EARNING PER SHARE

The Bank reports basic and diluted earnings per equity share in accordance with AS 20, Earnings Per Share issued by the Institute of Chartered Accountants of India.

10) SEGMENT INFORMATION - BASIS OF PREPARATION

The classification of exposures to the respective segments now conform to the guidelines issued by RBI. Business Segments have been identified and reported taking into account, the target customer profile, the nature of products and services, the differing risks and returns, the organization structure, the internal business reporting system and the guidelines prescribed by RBI. The Bank operates in the following segments:

(a) Treasury

The treasury services segment primarily consists of net interest earnings on investments portfolio of the bank and gains or losses on investment operations.

(b) Retail Banking

The retail-banking segment serves retail customers through a branch network. This segment raises deposits from customers and makes loans and provides other services to such customers. Exposures are classified under retail banking taking into account the status of the borrower (orientation criterion), the nature of product, granularity of the exposure and the quantum thereof. Revenues of the retail-banking segment are derived from interest earned on retail loans.

(c) Wholesale Banking

The Bank is not dealing in wholesale Banking Segment.

(d) Other Banking Operations

There are no transactions in Other Banking Operations.

(e) Unallocated

All items which cannot be allocated to any of the above are classified under this segment. This includes capital and reserves, debt classifying as tier I or tier II capital and other unallocable assets and liabilities.

Segment revenue includes earnings from external customers plus earnings from funds transferred to other segments. Segment result includes revenue less interest expense less operating expense and provisions, if any, for that segment. Segment-wise income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve, which broadly tracks market discovered interest rates. Segment capital employed represents the net assets in that segment.

Geographic Segments

Since the Bank does not have any earnings emanating outside India, the Bank is considered to operate in only the domestic segment.

11) ACCOUNTING FOR PROVISIONS AND CONTINGENT LIABILITIES.

In accordance with AS 29, Provisions, Contingent Liabilities and Contingent Assets, issued by the Institute of Chartered Accountants of India, the Bank recognizes provisions when it has a present obligation as a result of a past event, it is probable that an 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. Provisions are determined based on management estimate required to settle the obligation at the balance sheet date, supplemented by experience of similar transactions. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates. In cases where the available information indicates that the loss on contingency is reasonably possible but amount of loss cannot be reasonably estimated, a disclosure is made in the financial statements.

Contingent Assets, if any, are not recognized in the financial statements since this may result in recognition of income that may never be realized.

12) TRANSACTION INVOLVING FOREIGN EXCHANGE:

Accounting for transactions involving foreign exchange is done in accordance with AS 11.

As per our report of even date attached

For UMMED JAIN & CO
Chartered Accountants
FRN NO.:-119250W

(C.A. Akhil Jain)
Partner
M. No. 137970

S.S.Bhandwale
General Manager

Dated : June 24, 2018

Siddharth Jain
Director
Din No. 07498043

S.N.Baheti
C.F.O.

For and on behalf of the Board of Directors

Kishor Mundargi
Director
Din No. 07498008

Ravi Kiran Malik
Director
Din No. 08037772

Vivek Kanwar
Company Secretary