

(Partner)
Membership No.19488

Schedule - 1

A. SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31ST MARCH 2019

1. 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, Kerala Co-operative Societies Act 1969 and circulars and guidelines issued by Reserve Bank of India from time to time and accounting standards issued by the Institute of Chartered Accountants of India to the extent applicable.

The preparation of the financial statement in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures of contingent liabilities at the date of the financial statements. Management believes that the estimate used in the financial statements are prudent and reasonable.

2. INVESTMENTS

2.1 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.

2.2 The entire investment portfolio is classified into two categories, viz, 'Held to Maturity' and 'Available for Sale' in line with the guidelines / directions of Reserve Bank of India. Disclosure of the investments under the two categories mentioned above is made under the following classifications, whenever applicable viz,

- i. Government securities
- ii. Other approved securities
- iii. Shares
- iv. Bonds (of PSU)
- v. Others

2.3 Basis of Classification

- i. Investments that the Bank intends to hold till maturity are classified as 'Held to Maturity'.
- ii. Investments which are not classified in the above category are classified as 'Available for Sale'.
- iii. An investment is classified under the above two 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 of securities from AFS to HTM for Rs 306880000/- and from HTM to AFS for Rs 253302781/- has been done during the year with the approval of the Board.

2.4 Securities classified 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 equally. Such amortization is shown under "Miscellaneous Expenditure (List C)". In case, the cost is less than the face value, the difference is ignored.

2.5 Securities classified under 'Available for Sale' are valued scrip wise on a quarterly basis and depreciation / appreciation is segregated category wise. While net appreciation is ignored, net depreciation under each category is provided for.

2.6 Cost of investment is based on the actual cost incurred.

2.7 The 'market value' for the purpose of valuation of investments included in the 'Available For Sale' category is the market price of the scrip as available from prices declared by the Financial Benchmark India Pvt Ltd (FBIL)

2.8 Broken period interest, if any, paid on acquisition of investment is debited to Profit and Loss Account. Broken period interest received on sale of securities is recognized as interest income.

2.9 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.

2.10 Investment portfolio is not classified under 'Held for Trading'. Investments are held under 'Available for sale' and is traded when the market conditions are favourable. The gain on such trading are disclosed under 'Interest and Discounts' in the Profit & Loss Account.

2.11 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. ADVANCES

All advances have been classified under four categories .i.e. 1) Standard Assets 2) Sub-Standard Assets, 3) Doubtful Assets and 4) Loss Assets as per Reserve Bank of India directives/guidelines.

Provisions on advances have been made in accordance with Reserve Bank of India directives/guidelines as under:-

A) For Standard Assets

- i)** 0.25% on direct advances to agricultural & SME Sectors
- ii)** 0.40% on all other advances.

B) For all Non-Performing Assets

- i)** Substandard – 10%
- ii)** Doubtful (up to one year) - 100% of unsecured portion plus 20% of secured portion.
- iii)** Doubtful (one to three years) - 100%of unsecured portion plus 30% of secured portion.
- iv)** Doubtful for more than 3 years - 100% of unsecured portion plus100% of secured portion.
- v)** Loss -100%
- vi)** For identification of NPA for EMI loans, the bank is calculating number of dues as dividing the difference between required balance and outstanding balance as on 31st

March plus arrears of interest by the EMI amount. The bank has been following this method consistently.

4. REVENUE RECOGNITION

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

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

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

4.4 Income on guarantees and letters of credit issued, locker rent, dividend on shares, processing fee are accounted for on receipt basis.

4.5 Interest on overdue Term Deposits is provided at 4% being the rate applicable to Savings Bank Accounts, on the balance outstanding at the end of the year.

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

4.7 Additional demands of taxes, ie GST, Income Tax etc. over and above that provided in accounts are charged off to Profit and Loss Account in the year in which it arises or paid.

4.8 The bank has allowed Rs. 80 lakhs as rebate on interest on loans other than gold, staff concessional loans and overdraft accounts for prompt repayment.

5. FIXED ASSETS AND DEPRECIATION

a) Premises and other Fixed Assets have been accounted for at Historical Cost. Depreciation on premises and other Fixed Assets including System software is provided for on Straight Line method in the manner and at the rate as per The Kerala Co-operative Societies Act. The depreciation for Furniture and fixture is done on diminishing balance method.

In a few cases as separate values for Land and Building are not available, depreciation is provided on total value including land.

In respect of assets acquired during the year the depreciation/amortization is charged for full year irrespective of the period the asset was put to use.

b) The physical verification of assets has revealed damages to the extent of Rs.9.8 lakhs in Furniture Account and Rs.12.8 lakhs in computer and electronics account, which has been taken at cost. The written down value after ascertaining the realisable value will be written off in the accounts.

6. EMPLOYEE BENEFITS

6.1 Provident Fund

Defined contribution plan of employees are covered by provident fund to which bank makes a defined contribution measured as a fixed percentage of Basic Salary and Dearness Allowance.

The employer contributes 12% of salary of an employee of which 8.33% towards Employees' pension scheme and 3.67% towards Employees Provident Fund.

6.2 Gratuity

The Bank has joined in Group Gratuity Insurance scheme of Life Insurance Corporation of India in respect of which the premium is paid by the bank. There exists a liability of Rs 16530621/- on account of the enhanced gratuity limit from Rs 1000000/- to Rs 2000000/- wef 29.03.2018 against which the Bank has made a provision of Rs 5000000/- during the year.

6.3 Earned Leave Encashment

The liability towards earned leave encashment as on 31st March 2019 has been estimated at Rs. 24125953/- on the basis of earned leave to the credit of each employee. Actuarial valuation as required by Accounting Standard-15 (employees benefits) issued by the Institute of Chartered Accountants of India has not been obtained. Provision for earned leave encashment for Rs.6273697/- has been made during the year. Current year payment Rs.7397418/- has been debited to the provision account instead of grouping separately under the head 'Salary and Allowances'. The aggregate amount of provision made up to 31st March 2019 amount to Rs 24125953/-

7. Accounting for Provisions and Contingent liabilities

7.1. The bank has recognized provisions only when it has a present obligation as a result of a past event.

8. Credit Information

The bank had taken membership in 'CRIF High Mark Credit Information Services Pvt Ltd, and 'Experian' credit information agencies. The bank is in the process of taking membership in at least Four Credit Information Companies as required under para 5.1.1 of the master circular on 'Management of Advances' dated 01.07.2015. The bank is also in the process of taking steps to upload the credit information.

9 Records Under Priority Sector

The bank is in the process of developing electronic records in respect of advances granted under priority sector and for weaker sections as envisaged in para 5 and 7.2 of Master Circular on "Priority sector lending-UCB's".

10 Other Liabilities

10.1. Unclaimed dividend included under suspense liability for more than 3 years from the date on which it was declared amounted to Rs. 3.02 lakhs and the bank has taken necessary decision to transfer the amount to Reserve Fund.

10.2. Other liabilities includes Rs 63509/- being amount payable to borrowers after adjusting the sale proceeds of gold ornaments which were auctioned on becoming NPA and after adjusting the outstanding dues. Amount is due from December 2006 and onwards to 29 borrowers and the bank are trying to identify the borrowers and settle the amount payable to them in compliance with para 11 of Annexure-6 to the Master Circular on 'Management of Advances- UCB's'.

B. NOTES ON ACCOUNTS

i) Provision for income tax.

Income Tax Appeals for 2010-11 to 2014-15 Assessment years were disposed of by Income Tax Appellate Tribunal/ Commissioner of Income Tax (appeals) allowing the claim of the Bank partially. The bank is liable for payment of tax on that portion of interest paid to non-members without deduction of tax at source. While giving effect to Appellate orders the Assessing Authority levied tax on interest paid to non-members and co-operative societies without deduction of tax. The Appellate orders had clearly stated that the bank is liable to deduct tax on interest paid to non-members and not liable for any deduction of tax on interest paid to members and co-operative societies.

The bank has filed Appeals/rectification petition against levy of tax on interest paid to co-operative societies without deduction of tax. The disputed tax amounted to Rs 171.93 lakhs for 2010-11 to 2014-15 Assessment years. When the appeals are disposed of the bank expect a favourable decision and full refund of tax disputed and paid. 2016-17 Assessment has been completed under sec 143(3) and the tax demanded is Rs 63.16 lakhs against which Rs 15.49 lakhs is yet to be paid. The bank has disputed in appeal the disallowance of provision made for pay revision Rs 1.35 crores and the disputed amount of tax is Rs 46.61 lakhs. 2017-18 and 2018-19 Assessments are pending before the concerned Assessing officer and the bank has paid the entire amount of tax due on the returned income. Income Tax Department has issued Show Cause notices for levy of penalty under sec 271(C) for non-deduction of tax at source on interest payment for 2015-16 to 2017-18 Assessment Years amounting to Rs.25394469/-.The Bank has filed petitions in response to these notices for dropping the penalty proceedings. The matter is pending before the Department.

No further provision is considered necessary for the above Assessment years.

RECONCILIATION

Inter branch transactions in accounts with H.D.F.C; Draft payable accounts, clearing and other adjustment account have been reconciled. In the opinion of the management there will not be any material impact of such reconciliation on the financial statements. The long pending reconciliation of transactions with The Kerala State Co-operative Bank and suspense account has been completed under the instructions from the Kerala State Co-operative Bank has been credited to Profit & Loss Account under Miscellaneous income amounting to which Rs.18.50 lakhs.

I) RESERVE FUND AND OTHER RESERVES

SINo	Particulars	Amount in Rs.
1.	Statutory Reserve Fund	
	a) Opening Balance	86205238.22
	b) Additions:	
	i) Unclaimed dividend 2014 -15	2140519.00
	ii) Current Year Profit Appropriation	7301214.00
	c) Closing Balance	95646971.22
2	Investment Fluctuation Reserve	
	a) Opening Balance	14910712.58

	b) Additions :Previous Year Profit Appropriation	13316630.56
	c) closing Balance	28227343.14
3	Building Recoupment Fund	
	a) Opening Balance	1303226.75
	b) Additions During the Year	320645.35
	c) Closing Balance	1623872.10
4	Reserve for NPA (Represents excess provision made for Non-Performing Assets transferred)	
	a) Opening	113426486.00
	b) Additions During the year	7500000.00
	c) Closing Balance	120926486.00

ii) **PREMIUM ON INVESTMENTS**

Premium on investments is amortised over the remaining period of maturity. An amount of Rs.898195.00 (previous year Rs.368472.00) has been amortised during the year and disclosed under 'Other Expenditure' (List C) in the Profit & Loss Account.

iii) **Trading in Government Securities:**

The Bank has shifted securities from AFS to HTM and from HTM to AFS. The resultant mark to market loss amount to Rs 3360000/-. There is a profit of Rs 35000/- on maturity of a Govt. Security held under AFS category. The net loss of Rs 3325000/-has been deducted from Interest and Discounts in Profit and loss Account.

iv) **Investment in Debt Mutual Fund:**

Investment in Debt Mutual Fund which is under Non SLR Category has earned a profit amounting to Rs.13522443.51 and is shown in Profit & Loss Account under the head 'Other Income'. No investments are held under this category as on 31st March 2019.

v) **AUDITORS FEES**

The details of auditor's fee of Rs.3260656.00 are as follows:

1) Co-operative Department Auditors	- Rs. 2085856.00
2) Statutory Auditors	
a) For statutory Audit -	Rs..268000.00
b) For Tax Audit	<u>Rs. 26800.00</u>
	- Rs. 294800.00
3) Concurrent Auditors	- Rs. 845000.00
4) IS Audit	- Rs. <u>35000.00</u>
	- <u>Rs. 3260656.00</u>

vii) **SHARE CAPITAL**

Subscribed capital includes Rs.140865080/- in respect of Rs.140388800/- A class shares of Rs.100 each. The fraction amount received of Rs.476280.00 is also included in the total amount of Rs.140865080.00 of A class share capital.

Subscribed capital of B class shares includes 7585 shares issued at Rs.5 and 3641 shares issued at Rs.10 totalling to 11226 numbers and amounted to Rs 74335/-

viii) REVALUATION OF LAND

137.081 cents land was revalued during the year 2015-16 at Rs.93709200/- on the basis of valuation certificate issued by an approved valuer has been disclosed as 'Revaluation Reserve' under the head 'Reserves Fund and other Reserves'.

C. DETAILS REGARDING DISCLOSURE NORMS PRESCRIBED FOR UCBs

- i) Capital to Risk Weight Asset Ratio.(CRAR) : - 12.62%
- ii) Movement of CRAR i.e., CRAR as on Balance Sheet date for the current Year Vis-a Vis previous year

(Rs. In Crore)		
Particulars	31/03/19	31/03/18
1) Share Capital	14.09	12.25
2) Funds & Reserves	36.26	32.70
3) Capital to Risk Weighted Assets Ratio (CRAR)	12.62%	13.76 %

*Worksheet attached

iii) Investments

(Rs. In Crore)			
Item No	Particulars	31/03/19	31/03/18
a)	Face value	186.05	182.05
	Book value	185.73	182.60
b)	Market value	193.99	188.68

- d) Details of issuer composition of non-SLR investments and non-performing Non-SLR Investments.

Issuer Composition of Non SLR Investments.

(Rs. In Crore)			
No.	ISSUER	2018-19	2017-18
1	PSU	Nil	Nil
2	Financial Institution	Nil	Nil
3	Banks		
	a) The Federal Bank LTD	5.10	0.10
	b) HDFC Bank LTD	1.30	1.09
	c) ICICI Bank LTD	9.23	8.49
	d) Thrissur District Co-op Bank	16.54	21.45
	e) The South Indian Bank LTD	0.14	0.14
	f) Easaf SFB Kodungallur	15.00	15.51
	g) State Bank of India	6.50	5.00
	h) Ujjivan SFB FD	5.00	0.00
	i) United India Insurance CD A/C	0.00	0.00
	Subtotal	58.81	51.78
4	Private Corporates	Nil	Nil

5	Subsidiaries & Joint Ventures	Nil	Nil
6	Others	Nil	Nil
7	Provision held towards Depreciation	Nil	Nil
	Grand Total	58.81	51.78

Non Performing Non SLR Investments**(Rs. In Crore)**

Particulars	31.03.2019	31.03.2018
Opening Balance	0.00	0.00
Additions during the year since 1 st April	0.00	0.00
Reduction during the above period	0.00	0.00
Closing Balance	0.00	0.00
Total Provisions Held	0.00	0.00

iv) Advances against real estate, construction business, housing**(Rs. In Crore)**

A. Direct Exposures			
	Particulars	31.03.2019	31.03.2018
1	Residential Mortgages	25.14	20.61
2	Commercial Mortgages (including non-fund based limits)	Nil	Nil

v) Advances against shares & debentures:- NIL**vi) Advance to Directors, their Relatives, Companies, firms in which they are interested:****(Rs. In Crore)**

Particulars	31.03.2019	31.03.2018
a) Fund Based	0.00	0.00
b) Non Fund Based	0.00	0.00

vii) Cost of Deposits: Average Cost of Deposits**(Rs. In Crore)**

Particulars	31.03.2019	31.03.2018
Cost of Deposits: Average Cost of Deposits	6.59 %	6.78%

viii) Non-Performing Asset**(Rs. In Crore)**

Particulars	31.03.2019	31.03.2018
a) Gross NPAs	27.85	17.28
b) Net NPAs	15.77	5.94

ix) Movement of Non-Performing Assets**(Rs. In Crore)**

	Particulars	31.03.2019	31.03.2018
	Net NPA to net advances (%)	5.55%	2.49 %
11.	Movement of NPA gross		
	a) Opening balance	17.28	17.84
	b) Additions during the year	30.54	15.04
	c) Reductions during the year	19.97	15.60
	d) Closing balance	27.85	17.28
111.	Movement of net NPA		
	a) Opening Balance	5.94	7.50
	b) Closing Balance	15.77	5.94
111.	Movement of Provision for NPA (excluding provision on standard assets)		
	a) Opening balance	11.34	10.34
	b) Closing balance	12.09	11.34

Note: Net NPA to Advances (%) has been calculated after deducting provision for NPA aggregating to 12.09 crores.

x) Profitability**(Rs. In Crore)**

Particulars	31.03.2019	31.03.2018
a) Working Fund	580.63	520.27
b) Interest Income as a percentage of Working Funds	8.79 %	9.57 %
c) Non Interest Income as a percentage to Working Funds	0.48 %	0.57 %
d) Operating profits as a percentage to Working Funds	1.49 %	2.10 %
e) Return on Assets as a percentage	0.50 %	0.73 %
f) Business (Deposits plus advances) per employee	8.13	7.30
g) Profit per employee	0.03	0.04

xi) Provision made towards NPAs, depreciation in investments, Standard Assets**(Rs. In Crore)**

Particulars	31.03.2019
Provision made towards NPAs	12.09
Depreciation in investments	0.00
Provision towards Standard Assets	1.43

xii) Movement in provisions**(Rs. In Crore)**

Particulars	31.03.2019	31.03.2018
a) Provision towards Non Performing Assets	12.09	10.34
b) Provision towards Depreciation on Investments	0.00	0.00
c) Provision towards Standard Assets	1.43	1.43

xiii) Foreign currency assets & liabilities (if applicable):- Not Applicable

xiv) Payment of DICGC Insurance Premium **(Rs. In Crore)**

Particulars	31.03.2019	31.03.2018
a) Amount Paid	0.47	0.46
b) Balance to be Paid	0.00	0.00

xv) Penalty imposed by RBI: - NIL

xvi) Restructured Accounts (including application for Restructuring are under process: - NIL

xvii) Fixed Assets- Valuation / Revaluation of Land: - Rs. 9.37 crores

xviii) Movement of Amount Transferred to Depositors Education and Awareness Fund (DEAF)

(Amount in Rs crore)

Particulars	Current Year	Previous Year
Opening balance of amounts transferred to DEAF	0.68	0.55
Add: Amounts transferred to DEAF during the year	0.17	0.13
Less : Amounts reimbursed by DEAF towards claims	0.03	0.00
Closing balance of amounts transferred to DEAF	0.82	0.68

xix) Disclosures on Divergence in Asset Classification and Provisioning for NPAs as per RBI circular vide EBR BPBC No.63/21.04.018/2016-17 dated 18th April 2017: Nil

D. DISCLOSURES UNDER THE ACCOUNTING STANDARDS ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA.

i) a) Accounting Standard - 15 - Employee Benefits

Salary and Allowance to Staff	Rs. 59683582.00
Bonus	Rs. 1599704.00
Medical Allowance	Rs. 291000.00
Provident Fund Contribution	Rs. 2163796.00
Pension Scheme Contribution	Rs. 4872168.00
Gratuity	Rs. 193912.00
Other Benefits	Rs. 672524.00
Total	<u>Rs. 69476686.00</u>

b) Accounting Standard -AS 18 (Related Party Disclosures)

Related Party Disclosures:-

The Key managerial personnel of the bank and their remunerations are as below;

i) Honorarium to Chairman:

O A Sukumaran (01.04.2018 to 11.05.2018) : Rs 12333.00

K G Sivanandan (12.05.2018 to 31.03.2019) : Rs 107667.00

ii) Vice Chairman Allowance (12.05.2018 to 31.03.2019) : 53833.00

iii) Directors sitting fee: Rs.11,80,080.00

iv) Salary and Allowances to C E O

Sanal Chacko (01-04-2018 to 31-03-2019) :Rs.625324.00

c) Accounting Standard (AS) 20 (Earnings per Share)

Particulars	31.03.2019	31.03.2018
Net Profit in Rupees	29204854.69	37792519.56
Weighted average number of Equity shares	1312856	1128058
Earnings per share in Rupees (Diluted) (Nominal value per share Rs.100)	22.25	33.50

d) Accounting Standard (AS) 22 (Accounting for Taxes and Income)

The components of Deferred Tax Liability/Deferred Tax Asset arising out of timing difference are as follows

Tax effects of timing difference	As on 31.03.2019	As on 31.03.2018
Deferred Tax Assets		
Deferred Tax Assets on account of timing difference of provisions for expenditure	5542425.71	5780659.00
Deferred Tax Liability on account of Reserve Created for housing finance under section 36 (1) (viii)	(31131.90)	(499451.00)
Deferred Tax Asset/(Liability) on account of difference in Depreciation	158129.34	(655259.15)
Other Items	(349926.72) 2158087.95	6697135.86
Total Deferred Tax Asset	7858643.00	6697135.86
Total Deferred Tax Liability	(381058.62)	(1154710.15)
Net Deferred Tax Assets/ (Liabilities)	7477584.38	5542425.71

Deferred Tax Assets (Net) Rs.1935158.67 is credited to Profit & Loss Account.

Pursuant to Reserve Bank of India (RBI) circular no DBODNO.BP.BC.77/ 21.04.018/2013-14 DT 20th December 2013 the bank has created during the year, Deferred Tax Liability of Rs.31131.90 on special Reserve under Section 36(1)(viii) of the Income Tax Act, 1961.

Deferred Tax for timing differences between the book and tax profit for the year is accounted using the tax rate and laws that have been substantially enacted as on the balance sheet date. Deferred Tax assets arising out of timing differences are recognised to the extent, there is reasonable certainty that these would be realised in future.

e) Accounting Standard (AS) 28 (Impairment of Assets)

Loss due to damages to Furniture and Computer and Electronics Account as per note No 5(b).

**f) Accounting Standard (AS) 29 (Statement of Provisions, Liabilities , and
Contingent Liabilities)**

The Bank has recognized provisions only when it has a present obligation as a result of past event.

Details of Provision made		(Amount in crores)		
Sl No	Particulars	As on 31.03.2018	Current Years Adjustmen t	As on 31.03.2019
1	Provision for Income Tax	3.72	(3.39)	0.33
2	Provision for Leave Salary	2.52	(0.11)	2.41
3	Reserve for NPA	11.34	0.75	12.09
4	Building Recoupment Fund	0.13	0.03	0.16
5	Provisions for Suspense due to	0.46	(0.07)	0.39
6	Reserve u/s 36(1)(viii) of IT Act	0.25	0.01	0.26
7	Prov for Gratuity	0.00	0.50	0.50

g) Accounting Standard (AS) 4 (Contingencies and events occurring after the Balance Sheet Date)

h) Proposed Dividend: The Director Board yet to be proposed a dividend to its members.

i) Previous year's figures have been regrouped / rearranged wherever necessary to suit the current year's figures.

**Kodungallur
04/07/2019**

**Sanal Chacko
General Manager**

**K G Sivanandan
Chairman**

**P Ramankutty U K Dinesan
Vice Chairman Board Member**

**Cochin
04-07-2019**

**For Jayan and Krishnankutty
Chartered Accountants
(Reg. No.01295S)**

JAYAN M (Partner)