



Significant Accounting Policies forming part of the Financial Statements

FOR THE YEAR ENDED MARCH 31, 2023

SCHEDULE 17

1 CORPORATE INFORMATION

Ujjivan Financial Services Limited (UFSL), was established as a non banking financial services company in the year 2005 with the mission to provide a full range of financial services to the 'economically poor' who were not adequately served by financial institutions. In 2015, the Reserve Bank of India (RBI) licenced the formation of small finance banks - a new category of specialised banks to serve the financially unserved and underserved population, especially the micro-enterprises, workers, small and marginal farmers.

On November 11, 2016, UFSL received a banking licence from RBI to carry out small finance bank business in India. Ujjivan Small Finance Bank Limited (USFB or the Bank) took over the business of UFSL and started its operations on February 01, 2017. A scheduled bank status was accorded by Reserve Bank of India vide Notification: DBR.PSBD.No. 467/16.02.006/2017-2018 published in the Gazette of India on August 25, 2017. The Bank has its registered and corporate office in Bengaluru and regional offices in Noida, Kolkata, Bengaluru and Pune. The bank operates in India and does not have a branch in any foreign country.

USFB is a mass market focused bank in India, catering to financially unserved and underserved segments and committed to building financial inclusion in the country. USFB has a diversified portfolio with branches spread across 24 states and union territories. Apart from the network of branches, ATMs and automated cash recyclers, USFB has phone banking unit that services customers in various languages, a mobile banking application that is accessible in various languages as well as internet banking facility for individual and corporate customers. USFB also has portfolio of loans to financial institutions.

2 BASIS OF PREPARATION

The accompanying financial statements have been prepared under the historical cost convention and on accrual basis except where otherwise stated, and in compliance with the Generally Accepted Accounting Principles ("GAAP") in India and in accordance with statutory requirements prescribed under the Banking Regulation Act 1949, circulars and guidelines issued by the RBI from time to time

(RBI guidelines), accounting standards referred to in Section 133 of the Companies Act, 2013 (the Act) head with Rule 7 of the Companies (Accounts) Rules, 2014 and Companies (Accounting Standards) amendment rules, 2016 to the extent applicable and practices prevailing within the banking industry in India. The financial statements are presented in Indian Rupees rounded off to the nearest thousands unless otherwise stated.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 USE OF ESTIMATES

The preparation of financial statements in conformity with Indian GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities (including contingent liability) and the reported income and expenses during the period. The management believes that the estimates used in preparation of financial statements are prudent and reasonable. Actual results could differ from estimates and the differences between the actual results and the estimates are recognised prospectively in which actuals are ascertained.

3.2 PROPERTY, PLANT AND EQUIPMENT (Fixed Assets)

Property, Plant and Equipment (PPE), Capital work in Progress are stated at cost, net of accumulated depreciation and accumulated impairment if any. The cost of an asset comprises its purchase price and any cost directly attributable to bringing the asset to its working condition and location for its intended use. Subsequent expenditure on PPE after its purchase is capitalised only if such expenditure meets recognition criteria stipulated in the relevant Accounting Standard.

Any trade discounts and rebates are deducted in arriving at the purchase price. Such costs includes the cost of replacing the part of the plant and equipment. When significant parts of the plant and equipment are required to be replaced at intervals, the Bank depreciates them separately based on its specific useful lives. Assets under development as on the balance sheet date are shown as Capital Work in Progress. Advance paid towards such development are shown as capital advance.

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Depreciable amount for PPE is the cost of an asset, or other amount substituted for cost, less its estimated residual value. Depreciation on PPE has been provided on the straight-line method as per the useful life prescribed in Schedule II to the Companies Act, 2013. Leasehold improvements are amortised over the duration of the lease. 'Point of Sale' terminals are fully depreciated in the year of purchase.

The useful life being followed by the Bank as prescribed in Schedule II to the Companies Act, 2013 is as under:

Asset	Estimated Useful Life as specified under Schedule II of the Companies Act, 2013 (years)
Computer	3
Furniture and Fittings	10
Office Equipment	5
Motor Vehicle	8
Server	6

PPE purchased/sold during the year are depreciated on a pro-rata basis.

PPE costing less than ₹ 5,000/- each are fully depreciated in the year of purchase.

The salvage value considered for computing depreciation is as per Schedule II of Companies Act, 2013 (i.e. 5% of Cost) except for Software and Lease hold assets.

An item of PPE is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on derecognition is recognised in the Profit and Loss Account.

Gains or losses arising from disposal or retirement of PPE are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised net, within "Other Income" as Profit/(Loss) on sale of PPE, as the case maybe, in the Profit and Loss Account in the year of disposal or retirement.

PPE held for sale is valued at lower of their carrying amount and net realisable value, any write-down is recognised in the Profit and Loss Account.

3.3 INTANGIBLE ASSETS

Intangible Assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Intangible assets are amortised on a straight line basis over the estimated useful economic life. The Bank uses a rebuttable assumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Software with perpetual license and system development expenditure, if any, is amortised over an estimated economic useful life of 6 years or license period, whichever is lower.

The amortization period and the amortisation method are reviewed at least at the Balance Sheet date. If the expected useful life of the asset significantly differs from previous estimates, the amortisation period is changed accordingly. If there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method is changed to reflect the changed pattern. Such changes are accounted for in accordance with AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.

3.4 IMPAIRMENT OF ASSETS

The carrying values of assets / cash generating units at the Balance Sheet date are reviewed for impairment, if any indication of impairment exists. If the carrying amount of the assets exceed the estimated recoverable amount, an impairment is recognised for such excess amount. The impairment loss is recognised as an expense in the Profit and Loss Account, unless the asset is carried at revalued amount, in which case, any impairment loss of the revalued asset is treated as a revaluation decrease to the extent a revaluation reserve is available for that asset.

The recoverable amount is the greater of the net selling price and their value in use. Value in use is arrived at by discounting the future cash flows to their present value based on an appropriate discount factor.

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When there is indication that an impairment loss recognised for an asset in earlier accounting periods no longer exists or may have decreased, such reversal of impairment loss is recognised in the Profit and Loss Account, to the extent the amount was previously charged to the Profit and Loss Account.

3.5 INVESTMENTS

Classification and Valuation of the Bank's Investments are carried out in accordance with RBI guidelines on Investment Classification and Valuation which are as follows:

Categorisation of Investments:

The Bank classifies its Investment at the time of purchase into one of the following three categories:

- (i) Held to Maturity (HTM) – Securities acquired with the intention to hold till maturity.
- (ii) Held for Trading (HFT) – Securities acquired with the intention to trade.
- (iii) Available for Sale (AFS) – Securities which do not fall within the above two categories. Subsequent shifting amongst the categories is done in accordance with RBI guidelines.

Classification of Investments:

For the purpose of disclosure in the Balance Sheet, Investments in India are classified under six groups viz., (i) Government Securities, (ii) Other Approved Securities, (iii) Shares, (iv) Debentures and Bonds, (v) Investments in Subsidiaries and Joint Ventures and (vi) Other Investments. Investments outside India are classified under three groups viz., (i) Government Securities (Including local authorities), (ii) Subsidiaries and/or Joint Ventures abroad and (iii) Other Investments

Purchase and sale transactions in securities are recorded under 'Settlement Date' accounting, except in the case of equity shares where 'Trade Date' accounting is followed.

Basis of Classification:

Investments that are held principally for sale within 90 days from the date of purchase are classified under HFT category.

Investments which the Bank intends to hold till maturity are classified as HTM securities. Investments which are not classified in the above categories are classified under AFS category

Acquisition cost and profit/loss on disposal:

- (i) Broken period interest on debt instruments is treated as a receivable at the time of acquisition and post acquisition broken period interest treated as a revenue item.
- (ii) Brokerage, commission, etc. pertaining to Investments, paid at the time of acquisition is charged to the Profit and Loss Account.
- (iii) Profit or loss arising on disposal of investments are computed based on the weighted average cost method.

Transfer between categories:

Transfer between categories is done at the lower of the acquisition cost/book value/market value on the date of the transfer and depreciation, if any, on such transfer is fully provided for, in accordance with the RBI guidelines.

Valuation of Investments:

- (i) Held to Maturity – Each security in this category is carried at its acquisition cost. Any premium on acquisition of the security is amortised over the balance period to maturity. The amortized amount is classified under Interest earned – Income on Investments (Item II of Schedule 13). The book value of the security is reduced to the extent of amount amortised during the relevant accounting period. Diminution, other than temporary, is determined and provided for each Investment individually.
- (ii) Held for Trading – 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.
- (iii) Available for Sale – 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.

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- (iv) Market value of government securities (excluding treasury bills) is determined based on the prices / YTM declared by Financial Benchmarks India Pvt Limited (FBIL)
- (v) Treasury bills are valued at carrying cost, which includes discount amortised over the period to maturity.
- (vi) Provision for non-performing Investments is made in conformity with RBI guidelines.
- (vii) Provisions created on account of depreciation in the 'AFS' or 'HFT' categories are found to be in excess of the required amount in any year, the excess shall be credited to the Profit & Loss Account and an equivalent amount (net of taxes, if any and net of transfer to Statutory Reserves as applicable to such excess provision) shall be appropriated to an Investment Reserve Account (IRA) in Schedule 2 – "Reserves & Surplus" under the head "Revenue and Other Reserves". The balance in the IRA account is used to meet provision on account of depreciation in AFS and HFT categories by transferring an equivalent amount to the Profit and Loss Appropriation account as and when required.
- (viii) Unquoted equity shares are valued at their break-up value. If latest Balance sheet is not available then unquoted equity share is valued at ₹ 1 per share.
- (ix) Units of the scheme of Mutual Funds are valued at the lower of cost and Net asset value (NAV) provided by the respective schemes of Mutual Funds.

Disposal of Investments:

Profit / Loss on sale of Investments under AFS and HFT categories are recognised in the Profit and Loss Account. Profit in respect of Investments sold from HTM category is included in the Profit on Sale of Investments and an equivalent amount (net of taxes, if any, and net of transfer to Statutory Reserves as applicable to such profits) is appropriated from the Profit and Loss Appropriation account to Capital Reserve account as per RBI guidelines.

Repurchase and reverse repurchase transactions:

In accordance with the RBI guidelines, repurchase (Repo) and reverse repurchase (Reverse Repo) transactions in government securities and corporate debt securities are reflected as borrowing and lending transactions respectively. Borrowing cost on repo transactions is accounted for as interest expense and revenue on reverse repo transactions is accounted for as interest income.

Investment Fluctuation Reserve:

As per the RBI circular RBI/2017-18/147 DBR. No.BP.BC.102/21.04.048/2017-18 dated April 2, 2018, to build up adequate reserves to protect against increase in yields in future, the Bank has created an Investment Fluctuation Reserve (IFR) to the extent of the lower of following:

- a) net profit on sale of investments during the year;
- b) net profit for the year less mandatory appropriations.

This reserve will be created until the amount of IFR is at least 2% of the HFT and AFS portfolio, on a continuing basis and where feasible, this should be achieved within a period of three years.

3.6 ADVANCES

Advances are classified as Performing Advances (Standard) and Non- Performing Advances (NPAs) in accordance with the RBI guidelines on Income Recognition and Asset Classification (IRAC). Further, NPAs are classified into sub-standard, doubtful and loss assets. Advances are stated net of specific loan loss provision and Inter Bank Participating Certificates (IBPC) with risk sharing issued. The bank transfers advances through Inter-Bank Participation arrangements with and without risk, which are accounted for in accordance with the RBI guidelines, as follows:

- a) In the case of participation with risk, the aggregate amount of participation transferred out of the Bank is reduced from Advances; and participations transferred in to the Bank are classified under Advances.



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- b) In the case of participation without risk, the aggregate amount of participation issued by the Bank is classified under borrowings; and where the bank is participating in, the aggregate amount of participation is shown as due from banks under Advances.

The bank transfers advances through securitisation arrangements to special purpose vehicles setup for this purpose. Upon due execution/delivery of the requisite transaction documents and payment of purchase consideration, the value of amounts transferred is reduced from advances, the criteria for transfer of receivables in terms of the master directions of the Reserve Bank of India on "Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021, as updated on 2022" are satisfied, based on appropriate legal advice regarding compliance with true sale criteria stipulated in the said directions. In case these criteria are not fulfilled, the amount received is shown as borrowings.

Provisioning:

Specific provisions for Non- Performing Advances and floating provisions are made in conformity with the RBI guidelines or the policy of the bank, whichever is higher. While framing this policy, the bank has stipulated accelerated provisioning based on past experience, evaluation of securities and other related factors.

A general provision on standard assets is made in accordance with RBI guidelines or as per provisioning policy of the bank whichever is higher. Provision made against standard assets is included in 'Other Liabilities and Provisions'.

Floating Provisions:

Provisions made in excess of the Bank's policy for specific loan loss provisions for non-performing assets and regulatory general provisions are categorised as floating provisions. Creation of floating provisions is considered by the Bank up to a level approved by the Board of Directors. In accordance with the RBI guidelines, floating provisions are used up to a level approved by the Board only for contingencies under extraordinary circumstances and for making specific provisions for impaired accounts as per

these guidelines or any regulatory guidance / instructions. Floating provisions to the extent not considered for computation of tier-II capital is subtracted from advances (schedule 9) and the balance has been included under the "Other Liabilities" vide Schedule 18(4.1) of the financial statements.

Amounts recovered during the year against bad debts written off in earlier periods which was hitherto included as credit to provisions and contingencies have been reclassified as part of other income. Provision no longer considered necessary in the context of the current status of the borrower as a performing asset, are reduced from provisions and contingencies in the Profit and Loss account. Restructured/rescheduled assets are classified in accordance with RBI guidelines, keeping in mind special dispensation permitted wherever allowed.

Recording and Presentation

Provisions created against individual accounts as per RBI guidelines are not netted in the individual account. For presentation in financial statements, provision created is netted against gross amount of Advance. Provision held against an individual account is adjusted against account balance at individual level only at the time of write-off / settlement of the account. Provision made against standard assets in accordance with the RBI guidelines as above is disclosed separately under Other Liabilities and not netted off against Advances.

Priority Sector Lending Certificates (PSLCs):

The Bank enters into transactions for the sale or purchase of Priority Sector Lending Certificates (PSLCs). In the case of a sale transaction, the Bank sells the fulfilment of priority sector obligation and in the case of a purchase transaction the Bank buys the fulfilment of priority sector obligation through the RBI trading platform. There is no transfer of risks or loan assets. The fee received for the sale of PSLCs is recorded as 'Miscellaneous Income' and the fee paid for purchase of the PSLCs is netted off with 'Miscellaneous income'.

3.7 REVENUE RECOGNITION

Interest income on loans, advances and investments (including deposits with banks and

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other institutions) are recognised in the Profit and Loss Account on accrual basis, except in the case of Non- Performing Assets. Interest Income on Non- Performing Assets is recognised upon realisation as per the prudential norms of the RBI.

Interest on advances transferred under securitisation arrangements meeting the criteria stipulated in para 3.6 above are not recognised in Profit and Loss Account. The bank's share of the securitisation income is recognised on receipt basis.

Revenues from loan documentation charges are recognised upfront when it become due, except in cases where the Bank is uncertain of its ultimate collection.

Interest on Government securities, debentures and other fixed income securities is recognised on a period proportion basis. Income on discounted instruments is recognised over the tenor of the instrument on a constant Yield to Maturity method.

Dividend on equity shares, preference shares and on mutual fund units is recognised as income when the right to receive the dividend is established.

Commission on Bank Guarantee is recognised upfront in the Profit and Loss Account.

Fees received on sale of Priority lending certificates is recognised upfront in the Profit and Loss Account.

3.8 EMPLOYEE BENEFITS

Provident Fund: Contribution towards provident fund of employees is made to the regulatory authorities, where the Bank has no further obligations. Such benefits are classified as defined contribution schemes as the Bank does not carry any further obligations, apart from the contributions made on a monthly basis.

Gratuity: Every employee is entitled to a benefit equivalent to 15 days salary last drawn for each completed year of service in line with the Payment of Gratuity Act, 1972. The same is payable at the time of separation from the Bank or retirement, whichever is earlier. The benefits vest after five years of continuous service. The Gratuity scheme of the Bank is a defined

benefit scheme and the expense for the period is recognised based on actuarial valuation at the Balance Sheet date. The present value of the obligation under such benefit plan is determined based on independent actuarial valuation using the Projected Unit Credit Method which recognises each period of service give rise to an additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation. Actuarial losses/ gains are recognised in the Profit and Loss Account in the year in which they arise. Payment obligations under the Group Gratuity scheme are managed through purchase of appropriate policies from insurers.

Short term Employee benefits:

The undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered by employees are recognised during the period when the employees render the service. These benefits include performance incentive and compensated absences which are expected to occur within twelve months after the end of the period in which the employee renders the related service.

Long term Employee benefits:

The Bank accrues the liability for compensated absences based on the actuarial valuation as on the Balance Sheet date conducted by an independent actuary which includes assumptions about demographics, early retirement, salary increases, interest rates and leave utilisation. The net present value of the Banks' obligation is determined using the Projected Unit Credit Method as on the Balance Sheet date. Actuarial gains / losses are recognised in the Profit and Loss Account in the period in which they arise.

Employee Stock Option Plan (ESOP)

In accordance with the Guidance Note on Accounting for Share-based Payments, issued by The Institute of Chartered Accountants of India, the cost of equity-settled transactions is measured using the fair value method. Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the



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grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Schedule 18 (33). The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve. The options that do not vest because of failure to satisfy vesting condition are reversed by a credit to employee compensation expense, equal to the amortised portion of value of lapsed portion. In respect of the options which expire unexercised the balance standing to the credit of Employee's Stock Option (Grant) Outstanding accounts is transferred to Profit & Loss Account.

Employee Stock Purchase Scheme (ESPS)

ESPS is a contractual promise that permits an employee to acquire an employer's stock at a future date under the terms and conditions established on the grant date. The fair value of the entire purchase discount represents employee compensation. The compensation expense will be the difference between the value of the stock on the date of shareholder approval and the purchase/Exercise price for that offering.

3.9 Borrowing costs

Amortization of ancillary costs incurred in connection with the arrangement of bonds has been recognised in the profit and loss account. The unamortised amount has been shown under "Other Assets" vide Schedule 11 to the financial statements.

3.10 LEASES

Lease arrangements where risk and rewards incidental to ownership of assets substantially vest with the lessor are recognised as operating leases.

Lease rentals under operating lease are charged to the Profit and Loss Account on straight line basis over the lease term in accordance with AS-

19, Leases.

3.11 SEGMENT REPORTING

In accordance with guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated April 18, 2007 and Accounting Standard 17 (AS-17) on "Segment Reporting", the Banks' business has been segregated into Treasury, Retail Banking and Corporate/ Wholesale Segments.

Segment revenues consist of earnings from external customers and inter-segment revenues based on a transfer pricing mechanism. Segment expenses consist of interest expenses including allocated operating expenses and provisions. Segment results are net of segment revenues and segment expenses. Segment assets include assets related to segments and exclude tax related assets. Segment liabilities include liabilities related to the segment excluding net worth and dividend liability, if any.

Since the business operations of the Bank are primarily concentrated in India, the Bank is considered to operate only in the domestic segment.

3.12 EARNINGS PER SHARE

Earnings per share is calculated by dividing the Net Profit or Loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. Diluted earnings per equity share are computed using the weighted average number of equity shares and dilutive potential equity shares outstanding as on the end of the year except when its results are anti-dilutive.

3.13 TAXES ON INCOME

Tax expenses comprise of current and deferred taxes. Current tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 1961. Deferred taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets are recognized, in general, only to the extent that

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there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised; where there are unabsorbed depreciation and/or carry forward of losses under tax laws, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that such deferred tax asset can be realised against future taxable income.

In accordance with the directive of the RBI, Bank has recognised a provision for deferred tax liability on the Special Reserve created under section 36(1) (viii) of Income Tax Act, 1961.

Current tax and deferred tax assets and liabilities are off-set when they relate to income taxes levied by the same taxation authority, when the Bank has a legal right to off-set and when the Bank intends to settle on a net basis.

3.14 PROVISIONS AND CONTINGENCIES

A provision is recognised when there is a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

A disclosure of contingent liability is made when there is:

- i) a possible obligation arising from a past event, the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events not within the control of the Bank; or
- ii) a present obligation arising from a past event which is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets, if any, are not recognised in the financial statements since this may result in the recognition of income that may never be

realised.

3.15 CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes cash in hand (including balance in ATM), balances with RBI, balances with other Banks and money at call and short notice. Cash and Cash Equivalents for the purpose of Cash Flow Statement comprises of Cash at Bank and in hand and short term Investments with an original maturity of less than three months.

3.16 PROPOSED DIVIDEND

Proposed dividend / declared after the balance sheet date is accrued in the books of the Bank in the year in which the dividend is declared. Liability for balance preference dividend has been recognised since payment of the same is a prerequisite for payment of dividend to equity share holders.

3.17 TRANSACTIONS INVOLVING FOREIGN EXCHANGE

All transactions in foreign currency are recognised at the exchange rate prevailing on the date of the transaction.

Foreign currency monetary items outstanding on the balance sheet date are reported using the exchange rate prevailing on that date. Exchange differences arising on settlement of monetary items or on reporting of such monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or expense in the year in which they arise.

Non-monetary items which are measured in terms of historical cost denominated in foreign currency are reported using the exchange rate at the date of transaction. Non-monetary items which are measured at Fair Value or other similar value denominated in a foreign currency are translated using the exchange rate at the date when such value is determined.

3.18 CORPORATE SOCIAL RESPONSIBILITY

Expenditure towards CSR when required, in accordance with Companies Act are recognised in the profit and loss account.

3.19 SHARE ISSUE EXPENSES

Expenses on issue of shares of the Bank have been written off against the securities premium account.