

2019 - 2020
21st ANNUAL REPORT



KBS Bank

Krishna Bhima Samruddhi Local Area Bank

REACHING THE UNREACHED



PMJJBY claim amount of Rs 2 Lakh handing over by Raichur Branch staff with Branch Manager Chandrkanth S Hiremat



PMJJBY claim amount of Rs. 2 Lakh handing over by Lingasugur Branch staff with Branch Manager Mr. Mallana Goud



PMJJBY claim amount of Rs. 2 Lakh handing over by staff of Chincholi Branch with Branch Manager Mr. Sridhar Joshi



PMJJBY claim amount of Rs. 2 Lakh handing over by staff of Raichur Branch with Executive Mr. D Srinivas



PMJJBY claim amount of Rs. 2 Lakh handing over at Heroor village by Kaliburagi Branch staff with Branch Manager Mr. C Naresh



PMJJBY claim amount of Rs. 2 Lakh handing over at Pargi BC by Mr. Nagi Reddya and Branch Manager Mr. P Santosh

Board of Directors :

| | |
|----------------------------------|-------------------------------|
| Ms. Mahpara Ali | Director |
| Mr. V. Jaganmohan | Director (Till June 3, 2020) |
| Mr. Ravi Shankar Kolathur | Director (Till July 30, 2020) |
| Mr. V. Narsi Reddy | Additional Director |
| Mr. T. Eswara Chandra Rao | Additional Director |
| Mr. Donepudi Durga Prasad | Managing Director |

Corporate & Registered Office :

1-98/8 to 11/FC/501 and 1-98/8 to 11/FC/502,
5th Floor, Fortune Chambers,
Image Garden Function Hall Lane, Silicon Valley,
Madhapur, Hyderabad -500 081

Tel : 040-2311 3232

Fax: 040-2311 3200

www.kbsbankindia.com

Auditors :

Sagar & Associates

Chartered Accountants

Hyderabad

Firm Regn. No. 003510S

Registrar and Transfer Agent :

Bigshare Services Pvt Limited

306, Right Wing, Amrutha Ville,
Opp. Yashoda Hospital,
Somajiguda, Rajbhavan Road,
Hyderabad, Telangana - 500 082.

Tel : 040- 2337 4967 / 2337 0295

Krishna Bhima Samruddhi Local Area Bank

KBS Bank (Krishna Bhima Samruddhi Local Area Bank) started operation in 2001. KBS Bank is one of the three Local Area Banks presently operating in the country. Today the bank operates in eleven districts in three states viz. Jogulamba Gadwal, Mahabubnagar, Medchal, Nagarkarnool, Ranga Reddy, Vikarabad, Wanaparthy and Narayanpet in Telangana; Prakasam in Andhra Pradesh and Kalaburagi, Raichur and Yadgir in Karnataka covering 1766 villages. As on date the Bank has 29 branches and 14 Business Correspondent outlets spread across the districts.

The bank has its registered office and Corporate office at Madhapur in Rangareddy District.

What sets apart KBS is its business model. Perhaps it is the only bank in the country, whose business model has been built on Financial Inclusion as its core objective and Micro Finance as its delivery model. Right at the beginning the Bank had adopted the mission “to be a sustainable local community based institution providing financial services to the under-served.....”.Over the years the Bank has taken a multitude of initiatives in the direction and the mission and Vision of the bank has been revised to read as follows...

Mission

To be a partner in progress of our customers by

- Delivering simple, dependable and innovative banking services
- Being cost effective using technology effectively
- Being proactive in understanding customers’ needs and preferences and
- Connecting the last mile in Banking to the doorstep of our customers.

Vision

- Make a difference by creating value for the under-served and un-served customers

In keeping with its mission, the Bank has been offering various savings and credit products to its customers, customized to suit their requirement. It also provided service at the doorstep of the customer, for both deposits as well as credit, keeping in mind the specific needs of the segment it serves. The very fact that the

average size of a deposit account is Rs10,630/- and that of an outstanding loan account is around Rs 42,326/- would suffice to indicate that the Bank has been catering to the needs of customers who normally find it difficult to access the mainstream banking system for their needs.

As regards credit, the bank offers wide range of loans catering to different segments, especially the poor and the under-served to meet their various needs across a wide spectrum of economic activities. While non-farm micro enterprises form a major share of the loans of the Bank, loans to small and marginal farmers for agriculture and dairy farmers for milch animals also account for a sizable portion of the total credit.

Technology

The Bank has always been operating in a fully computerized environment. Since the year 2010, the Bank has migrated to a Core Banking Solution. Bank operates in B@ncs24x7 CBS software provided by C-Edge Technologies Ltd. under ASP model, a CBS solution which is used by over 150 mid-size Banks across India. The Bank also offers alternate delivery channel products such as ATM, Mobile Banking, IMPS, NEFT, RTGS and POS terminals.Very shortly Bank will be going to introduce UPI facility

More details on the website of the Bank www.kbsbankindia.com

DIRECTORS'REPORT : 2019-20

The Directors of your Bank are pleased to present the 21st Annual Report of the bank together with the Audited Statement of Accounts and the report on business and operations of the Bank for the financial year ended March 31,2020.

Financial Highlights:

The financial highlights for the year under review are presented below :

(Rs. in Lakh)

| Particulars | Mar-20 | Mar-19 |
|----------------------------|------------|------------|
| Deposits | 247,57 | 218,59 |
| Advances | 199,72 | 177,15 |
| Total Business | 447,29 | 395,74 |
| Capital & Reserves | 41,72 | 39,12 |
| Interest Earned | 37,30 | 31,66 |
| Other Income | 904 | 627 |
| Total Income | 46,34 | 37,93 |
| Interest Expended | 16,80 | 13,45 |
| Operating Expenses | 22,18 | 20,18 |
| Provisions & Contingencies | 153 | 124 |
| Total Expenditure | 40,51 | 34,86 |
| Operating Profit | 736 | 430 |
| Profit Before Tax | 584 | 307 |
| Provision for Income Tax | 317 | 95 |
| Net Profit | 267 | 212 |

Performance of the Bank:

The year 2020-21 in retrospect was a good year in terms of overall performance. The Bank achieved a growth in Business and reduction in NPA below the previous year figure. Throughout the year, the bank continued its focus on NPA reduction and growth in Business. The performance highlights are briefly described below:

The highlights of the bank's performance during 2019-20:

Total Business:

The total business of the Bank increased by Rs 51.55 Crore (i.e. 13.03%) from Rs 395.74 Crore as on March 31, 2019 to Rs 447.29 Crore as on March 31, 2020. This growth of 13.03% compares favorably and is a significant improvement over the previous year 2018-19. While deposits have recorded a growth of Rs 28.99 cr, (13.26%) advances recorded a growth of Rs. 22.56 Cr (12.74%) during the year.

The total number of customers (outreach) stood at 241,434 as on March 31, 2020 compared to 2, 30 620 as on March 31, 2019.

Deposits:

Deposits of the bank increased by Rs 28.99 Crore (i.e. 13.26% growth) from Rs 218.59 Crore as on March 31, 2019

to Rs. 247.57 Crore as on March 31, 2020. The Bank's growth of 13.26 % is well above ASCB growth of 9.50%. The average size of deposit is Rs 10,630/- as on March 31, 2020 with 2,41, 434 deposit accounts compared to Rs. 9,745/- with 2,24,394 deposit accounts as on March 31, 2019.

Advances:

The total advances of the Bank increased by Rs. 22.56 Crore (12.74%) from Rs 177.15 Crore as at March 31, 2019 to Rs. 199.72 Crore as at March 31, 2020. The Bank growth of 12.74 % is well above ASCB growth of 6.40 %, which is almost double of ASCB. The average loan size of disbursed portfolio in the MF segment stood at Rs. 50,716/- as on March 31, 2020 compared to Rs. 41,687/- as on March 31, 2019. The Average loan size stood at Rs 42,326/- as on March 31, 2020 compared to Rs 38,872/- as on March 31, 2019.

The cumulative loan disbursement of the Bank for the financial year 2019-20 amounted to Rs 196.50 Crore with 33,452 loan accounts against Rs. 158.76 Crore with 28,424 loan accounts during previous year 2018-19.

Capital Structure:

The Authorized capital of the bank stood at Rs. 25 crore comprising of 2.50 crore Equity shares of Rs. 10.00 each.

The paid-up capital of the bank stood at Rs. 134,222,620/- comprising of 13,422,262 Equity shares of Rs. 10.00 each as on March 31, 2019.

Reserves:

During the year, an amount of Rs. 53.35 lakh has been transferred to statutory reserves. No incremental reserves have been created in Investment Fluctuation Reserve account since it is already well above the regulatory requirement of 5%. The Bank has Rs. 304 lakh in the Share Premium Account and Rs. 2,525 lakh as General and other reserves and surplus as on March 31, 2020. The net worth of the Bank is Rs 41. 72 Crore as on March 31, 2020 compared to Rs 39. 12 Crore as on March 31, 2019.

The Capital Adequacy Ratio, i.e. Capital to Risk Weighted Assets Ratio stood at 21.87% as on March 31, 2020 as compared to 23.06% as on March 31, 2019.

Profitability:

The Profit after Tax (PAT) of the Bank is Rs. 2.67 Crore compared to Rs 2.12 Crore for the year 2018-19. Although the gross income increased by 22.19%, the expenses increased by 21.96%. Consequently, Return on Equity (ROE) improved to 6.59% as on March 31, 2020 from 5.56% as on March 31, 2019 and the Return on Assets (ROA) improved to 0.91% from a level of 0.85% a year earlier.

Performance Highlights and Key Indicators at a glance:

(Rs. in Lakh)

| Particulars | Mar-20 | Mar-19 |
|--|--------|--------|
| Deposits | 247,57 | 218,59 |
| Advances | 199,72 | 177,15 |
| Capital & Reserve | 41,72 | 39,12 |
| C R A R | 21.87 | 23.06 |
| Saving Deposits to Total Deposits% | 18.83% | 19.42% |
| Priority sector Advances to Adjusted Net Bank Credit | 73.38% | 74.14% |
| Gross NPA to Total Advances | 2.82% | 4.18% |
| Net NPA to Total Advances | 0.85% | 1.92% |
| Cost of Deposits | 7.36% | 6.98% |
| Yield on advances | 17.54% | 16.84% |
| Spread | 7.97% | 7.7% |
| CD ratio | 80.67% | 81.04% |
| Return of Asset | 0.91% | 0.85% |
| Return on Equity | 6.59% | 5.56% |
| No of Employees | 350 | 358 |
| Average age of Employee | 37 | 36 |
| Business per employee | 127.80 | 110.23 |
| Net Interest Margin | 6.97% | 7.3% |

Credit Deposit Ratio:

The Credit Deposit ratio for the financial year ended March 31, 2020 stood at 80.67%. The corresponding ratio as on March 31, 2019 was 81.04%. During the year Bank has tried to maintain optimum CD Ratio at any point of time by taking timely measures viz. focused deposit mobilization drives, managing the interest rates and credit growth.

Priority Sector Advances:

The Priority Sector Advances stood at Rs. 146.54 Crore against the total advances of Rs 199.72 Crore as on March 31, 2020, which is 73.38% of total advances well above the required level of 40% prescribed by the Reserve Bank of India. Bank has obtained the necessary approval and access for dealing in Priority Sector Lending certificates at opportune times.

Dividend:

The Bank has not proposed / declared any dividend for the financial year 2019-20.

Non- performing Assets

The Banks Gross NPA stood at 2.82% as on March 2020 compared to 4.18% in March 2019 with a net reduction of Rs. 1.78 Crore NPA during the year. The Bank increased the Provision coverage ratio to 70.47% as on March 31, 2020 above the last year coverage ratio of 55.07%. The Net NPA ratio is at 0.85% as on March 31, 2020.

Expansion in the Area of operation and Branch Network

During the year 2018-19 the bank operated through 29 branches. The Bank proposes to convert the existing 14 BC locations in to full-time Banking outlets/Branches, subject to approval of Reserve Bank of India (RBI). During the year the Bank operated 26 ATMs of which 3 are offsite ATMs and 23 are onsite ATMs.

Prospects for 2020-21:

Year 2019-20 had been good for the Bank despite that the Banking industry experienced several tremors and odds during the year. The previous year performance highlights have already been elaborated in the previous section of the report. We need not reiterate that the performance for 2019-20 had been quite enthusiastic.

The Indian economy started slowing down during the midyear and by December 2019 the unprecedented and unpredicted COVID-19 pandemic impact was seen on the world economy. India is no exception and was not spared from the devastation and starting from March 22, 2020 India has been under lockdown.

The lockdown has devastating effect on the economy. All most all sectors have been severely affected. Many sectors have seen job cuts. MSME sector have been the worst affected with many units closed or near to closure. Unemployment is wide spread at its peak. The Government treasury has been significantly reduced with heavy expenditure on health and welfare schemes declared during the lockdown and incomes are becoming zero in terms of levies, taxes and fees collection.

In order to give thrust to the weak economy the Government of India has announced special stimulus package to counter effect the COVID-19 situation on the economy. The package was declared in several phases. The COVID -19 packages has estimated to be worth Rs. 20 Lakh Crores and includes almost of all sectors under "Atmanirbhar Bharat" package.

Apart from the stimulus package, Reserve Bank of India has also reduced the repo rates for inflation management and liquidity infusion. The Cash Reserve Ratio has also been reduced to ensure extra liquidity and ease of the Banks for lending. RBI had issued circular on COVID-19 – Regulatory Package wherein guidelines regarding moratorium of Payments towards – Term Loan instalments and deferment of interest on Working Capital facilities for a period of six months on payment of all instalments/ interest due falls between March 1, 2020 and August 31, 2020. Banks were also exempted from NPA classification norms for the accounts comes under the purview of RBI relief package

There have been several welfare schemes declared by almost all state governments in order to ensure survival of the weaker sections of the society. Government of Telangana and Karnataka has started releasing the amounts under the respective Crop Loan waiver schemes of the states.

Though for the time being there are no preventions or established

method of cure of the new novel corona virus, and the people have to live with the virus, it would be definitely have an effect on the life style , eco system and ultimately the business.

Several steps have been taken by the Reserve bank of India for ensuring ease of liquidity in the market, so that business can survive and regrow. Most of the Banks have come up with top-up loans and special loan products for extending credit to the public to provide immediate liquidity for re-starting the activities. KBS Bank has also launched a product namely " Samruddhi Credit Plus" a term loan product for all customers both new and existing with concession in processing fees, moratorium of six month, relaxed margin and with a minimum loan amount just Rs.15,000/-. The product is ideal for our customers who belong to lowest section of the society and the middle class group. The product is very well accepted widely by the customers.

Despite all these efforts, financial, non-financial assistances, the forecast till date does not show a gloomy picture. Though there have been several strategic steps taken by the Governments still we cannot ignore the predictions of the impact of COVID-19 as still it is unfolded and the devastating effect of COVID-19 pandemic on the economy is evident from the wide spread loss of jobs, unemployment, closure of Businesses.

In the first quarter of 2020-21, the GDP of India contracted by a massive 23.9 per cent year-on-year (Y-o-Y), the first GDP contraction in more than 40 years. As per the National Statistical Office (NSO), gross value added (GVA) was at -22.8 per cent.

During his press briefing, RBI Governor has on 22nd May, 2020 expressed the following:

- a) Global economy is experiencing a recessionary trend;
- b) Macro- economic effect of COVID 19 is devastating;
- c) There is a demand collapse both in urban and rural areas;
- d) This demand deficiency is likely to continue and its revival depends on recovery of the economy from COVID 19 effect;
- e) Private consumptions has steeply come down;
- f) Supply disruptions are likely to continue;
- g) Inflation outlook is uncertain;
- h) GDP growth estimates are in negative territory;
- i) Full effects of COVID 19 are still unfolding;

This COVID 19 has debilitating effect on the economy and commercial activity has come to a grinding halt. Because of restrictions on movement and mobility of people, there had been no activity worth mentioning during the last two months.

Impact of COVID 19 on Micro Entrepreneurs

As per the study conducted by 'Sa-Dhan' (The Association of Community Development Finance Institutions) during May 2020 on the effects of this pandemic on Micro entrepreneurs across 112 districts from 20 States in the country, the following is the feedback received from micro entrepreneurs surveyed:

There is strong evidence of disruption in the lives of micro entrepreneurs.

Nearly half of the respondents surveyed as part of the study have stated that there has been a total loss of income from their primary source of earning.

A third of the micro entrepreneurs sampled have stated that they need some form of monetary support or subsidy;

The loss of income has greatly affected the capacity of micro entrepreneurs to make repayment of loan instalments;

Based on the above predictions the following forecast on the impact of COVID-19 economic slowdown could be worth noticing:

- a) KBS Bank, with most of its clients as micro entrepreneurs, is no exception to the happenings across the Globe and business of the Bank is largely impacted across all the branches.
- b) KBS Bank had large clientele in the areas severely affected by the pandemic.
- c) COVID 19 has emerged as a crisis of unseen proportions, adversely impacting lives and business of micro entrepreneurs, who constitute large chunk of Bank's clientele.
- d) With total shutdown of all economic activity, it is inevitable that the micro entrepreneurs would be hit particularly hard;
- e) The typical business model of the Bank requires to have decentralized operations with frequent contact with clients;
- f) Door-step banking involves physical collection of cash from borrowers/depositors. Being a banking institution, catering to the financial needs of small, marginal farmers and micro entrepreneurs is becoming a real challenge to the staff;
- g) With first COVID related death registered from Gulbarga town during mid-March, activity in the entire Gulbarga Dist, where Bank has 5 branches is literally frozen and even now positive cases are surfaced throwing challenge for movement of public as well as to the staff ;
- h) Subsequent to the National Lockdown from 25th of March, 2020, business at all our branches across three States got severely affected;
- i) With categorization of districts as containment / non-containment areas, followed by Red / Orange / Green zones, many of the branches have come under either Red or Orange zones;
- j) Bank branches at Gadwal, Ileeja and Vikarabad , Pargi BC had to be shut down for several days as they are located in Red and containment zones;
- k) Even in areas where, branches are allowed to function, they functioned with almost half of the normal reduced staff-strength for several weeks;
- l) Even though Banking is identified as an essential services to provide un-interrupted service to customers, in many areas,

the working hours were curtailed and branches had function only for 3-4 hours per day during April and May;

- m) Sometimes at the instance of District Collector, branches were asked to open at 8 am and shut down at 1 pm e.g. Wanaparthy, Atmakur
- n) After introduction of PM Garib Kalyan Yojana, Banks are again directed to work as per their normal business hours with complete attendance;

However, due to continuation of restrictions and the nervousness surrounded among the public, business at the Branches had severely affected and none of the customers visited the branches up to 15th May 2020

The extent, to which these adverse implications of COVID-19 pandemic will impact Bank's business prospects, will depend only on future developments.

Since negative influence of the pandemic has not still unfolded to its full, it is too early to conclude on its alarming impact on Bank's business and profitability. Hence, by all indications as are visible at present, Bank's profitability will have a big jolt during 2020-21 and Bank may not be able to repeat its 2019-20 performance in the current financial year. However, Bank may reassess the situation during the third quarter of the financial year, by which time, it is expected that a clear picture may emerge.

The Human Resource (HR):

The Bank is about to enter its twenty one years of service. The Bank believes in sustainable growth of Business. Such growth can be achieved with development and enrichment of all stake holders of the Bank including the employees of the Bank. Being in service industry Human resource is the major resource for the very existence and growth of the Bank. Keeping the future in mind the Bank continues to focus on capability building of employees. The Bank has made intensive efforts to ensure that employees' capabilities are developed so that employees can handle challenges of future while staying abreast with the functional domain knowledge of Banking. The Bank remains focused on creating and enhancing the capabilities of its employees through training, mentoring, role enrichment and providing them with challenging roles and responsibilities for various positions. The Bank undertakes several initiatives suited to the needs of the employees for carrier development and improved efficiency.

The Bank has a Management level committee to look into the HR functions within the scope of its Terms of Reference. The Human Resource Development committee of the Board reviews the HR Policy and supervises the HR functions for issuing suitable instructions and necessary amendments as per the need of the time. The HRD Committee of the Board meets on half yearly basis and also as and when required. As on March 31, 2020 the Bank has 358 employees. About 47% of the workforce belongs to the age group of 30 years to 40 years.

The Bank provides training to the staff on an ongoing basis through in-house training programmes or External agencies. During the year the Bank organized six in house training programmes covering various aspects viz. regulatory, operational, customer service, Credit etc. and 399 participants were imparted training under these programmes. Apart from in-house training programmes the bank sponsored employees for attending programmes organized by outside agencies viz. NIRB, Bangalore and RBI.

Apart from a sound compensation policy in order to boost employee morale and loyalty, the Bank also provides various facilities to the employees with financial and non-financial benefits which among others include interest free Festival Advance, concessionary interest on Housing Loan, Vehicle loan, loan for personal computer, Mortgage Loan, Furniture loan and Personal Loan on liberalized conditions and Over Draft facility.

Information & Communication Technology:

The Bank is committed to its objective of improved customer service for valued customers while achieving operational excellence. Towards this the bank has embarked upon technology upgradation for better customer service during the years.

The Bank has 23 on-site and 3 off-site ATMs and plans to populate all the branches with onsite ATMs. The Rupay Debit- cum- ATM cards issued by the bank are accepted at almost all the ATMs in the country. One ATM, at Vikarabad is having EMV certification and for all other ATMs EMV certification is under process. (EMV stands for Euro pay, MasterCard, Visa. It is the global standard for chip-based Debit and Credit Card transactions) compatibility.

As it is continuing endeavor to use technology to further improve the customer's experience while transacting with the Bank, it joined NPCI for enabling customers to receive LPG subsidy amounts under the DBTL scheme. The Bank is also live on Aadhar Payment Bridge System (ABPS) with NPCI enabling the Bank customers to receive Aadhar based benefits in their accounts. The bank is also providing ATM - cum -debit RuPay cards enabled for use in Debit POS and e- commerce payment gateways. The bank is already providing RTGS/NEFT facility at all branches. The new Core Banking Solution Software B@ncs 24 has stabilized. The Bank is now running on the B@ncs24x7 CBS software networked to all Branches, BC Locations, HHD devices and ATMs. Since September 2018 bank is providing Mobile Banking facility to our customers, with funds transfer facility. Shortly Bank will be going to introduce UPI facility to our customers, to enable funds transfer from / to customers' accounts.

An intranet site is developed to enable the staff members to access all the reports daily and to know the performance / progress instantly.

Software was developed to generate notices to gold loan borrowers, so that the Branch staff may download the notices from server and send them to borrowers.

A Dashboard is under development with the features of interactive information sharing in addition to the access of Reports / Circulars and other important business instructions.

Risk Management:

The risk management objective of the Bank is to balance the trade-off between risk and return and ensure that the Bank operates within the Board approved risk appetite statement. Over the last few years, Bank has tried to enhance capabilities to strengthen operational risk management and re-invent itself as a bank driven by technology. With this objective Bank has made significant investments in technology and processes and further strengthened our risk management architecture.

The Bank has established adequate Risk Management framework, policies and procedures for managing the risk factors. The Risk Management Committee (RMC) of the Board oversees the implementation of Credit risk and Operational Risk policy prescriptions. On day to day basis the functional heads are responsible for the credit and operational risk monitoring and mitigation. There has been a NIL/negligible market risk.

The Bank has established a separate Risk Management Department under the supervision of a Manager at the Head office, reporting to the Managing Director. The Risk Management Department has the overall responsibility of taking steps mitigate all the risks and rewards of various banking products and services; manage and report to ensure that the Bank's operation remain within the parameters in all aspects; Formulate processes to ensure compliance with various policies for different components of the bank's operation; Ensure the implementation of AML and KYC and report compliance; ensure compliance, and secure approval and issue of Internal Circulars which confirm to both the Regulatory and Internal guidelines etc.

The Asset Liability Management & Investment Committee (ALMICO) of the management looks into the management of Liquidity risks and ensures adherence to the prudential limits. The Asset Liability Management and Investment Committee of the Board oversee the Liquidity risk and Investment Risk. Being all SLR investments of the Bank made only in Government securities the Investment Risk of the Bank is negligible. The non SLR investments are in the form of Liquid Mutual Funds where the Risk is minimum compared to other similar options. The ALMI Committee of the Board reviews the investment portfolio. The investment operation of the Bank is subject to internal audit as well as statutory Audit. The Asset Liability Management Policy of the Bank stipulates broad framework and parameters for liquidity risk management to ensure that the Bank is in a position to meet its daily liquidity obligations as well as to withstand a period of liquidity stress while maintaining the required CRR and SLR level. The liquidity profile of the Bank is analyzed on a static as well as on a dynamic basis by using the gap analysis technique supplemented by monitoring of key liquidity ratios and conduct of liquidity stress tests periodically.

The Bank has a structured and standardized credit approval process, including a well-established procedure of comprehensive credit appraisal and documentation. Every extension of credit facility or material change of a credit facility to any counterparty requires credit approval at the appropriate authority level. Internal risk rating remains the foundation of the credit assessment process, which provides standardization and objectivity to the process.

The Bank's compliance department is adequately staffed. The Bank has always maintained the statutory ratios above the stipulated limits. During the year the Bank is compliant to the RBI stipulation with regards to Capital Adequacy Norm, CRR & SLR, Statutory Liquidity, Priority Sector Lending, NPA norms, Provision Coverage Ratio, IRAC norms, etc without any deviations.

The Board level Credit Committee reviews and guides the bank on the Credit Administration process. The Executive Committee of the Board monitors and supervises the Credit operation viz. portfolio health, NPA management, internal controls in credit and Credit Risk management. The Risk and Compliance department carries out the Risk Management function under guidance of the Senior Management.

Annual Financial Inspection (AFI) by Reserve Bank of India:

The Reserve Bank of India had conducted eighteenth Annual Financial Inspection for the financial year 2018-19. During the year 2019-20 the Bank has taken steps to comply with the action points raised in the AFI-2018-19 report and submitted compliance reports to the RBI. We record our appreciation for the guidance of the Reserve Bank of India in this regard.

Vigilance Mechanism:

In line with the provisions of Section 177 of the Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014 Bank has an established Vigil mechanism. The Vigil mechanism of the bank has been vested under the direct supervision of the Audit Committee of the Board. The Vigilance cases are dealt within the purview of the Vigilance Policy of the bank and the Reserve Bank of India's guidelines. The Policy is reviewed and amended by the Board as per the necessity and from time to time. The vigilance cases identified and reported through the vigilance mechanism and in-turn reports to the Audit Committee of the Board and the Board for review. The Vigilance Policy of the bank also contains the whistle blower policy for protection of the whistle blower. The fraud cases identified are dealt in accordance to the extant guidelines of Reserve Bank of India. All Fraud/Vigilance cases and disciplinary proceeding are reported to the Board and the Audit Committee. During the year the bank has introduced a simplified Disciplinary Proceeding which prescribes the procedure based on law of Principles of natural justice from investigation to till closure of any internal disciplinary proceedings. The Bank has with requisite exceptions, tried to implement the policy of transferring employees. The HR Policy also mandates for compulsory availment of leave by all staff.

Internal Audit:

The Bank's Internal Audit department functions and reports independently to the Audit committee of the Board and the Managing Director on the quality and effectiveness of the Bank's internal controls, risk management, governance systems and processes on an ongoing basis, thereby ensuring that the bank complies with both internal and regulatory guidelines.

The department also carries out the concurrent audit function. The Internal Audit Policy is drawn on the RBI's guidelines on Risk Based Supervision (RBS) through Risk Based Internal Audit (RBIA) and Concurrent Audit System in Commercial Banks. The Audit Committee of the Board comprises of four non- executive directors including three Independent directors chaired by a director who is a qualified member of Institute of Chartered Accountants of India. Audit committee of the Board reviews and recommends to the Board for change in the Audit Policy and the processes as per the necessity. The internal audit and concurrent audit reports are placed before the Audit committee for review. The Board reviews the efficacy of the internal audit function, effectiveness of controls laid down by the Bank. The Internal Audit team is well staffed and equipped with relevant expertise and tools for efficient audit function. The internal audit and control functions are sufficient to safeguard the assets and interest of the Bank and timely identification of the risks for initiating remedial measures.

Customer Service:

The Bank is committed to ensure that its customers have a totally satisfying experience while conducting their banking transactions at the branches. The process of relocating the branches wherever considered necessary to provide ease of access to the customers and renovating the branch premises to make them more spacious with improved ambience and additional amenities is being given top priority. Efforts made to equip the Branch premises for providing necessary ambience such as Air conditioning, drinking water, toilet to the customer. Branches have also been provided with passbook printers.

The Bank has a toll free number for customer's service and complaint redressal. The Bank has declared 15th day of every month as Customers Day. Each Branch has "May I Help You" counter to assist and educate the customers in transacting at the Branch.

The Bank has constituted Customer Service Committees at branch level and Standing Committee of Customer Service at Head Office level. These Committees meet periodically to monitor the implementation of customer service measures at branches and BC locations and address deficiencies on an ongoing basis. The Customer Service committee of the Board comprises of three Members out of which two are Non-executive Independent Director. The Customer Service Committee of the Board oversees the functioning of the Bank's Standing Committee on Customer Service. The bank has complied with the parameters prescribed

by RBI in the area of customer service. The suggestions received from the customers are examined and, if found proper and appropriate, implemented in the bank.

The Bank has the door step service model, which is unique in the industry. The Customer Service Representatives and Micro Saving Agents of the Bank deliver the Banking services viz. deposit collection, loan installment collection against receipt at the door step of the customer. Apart from it Bank has 14 Business Correspondent locations catering Banking services at the remote villages in the operating area which are far distant from the Branch. The customers need not travel to the Branch for major transactions viz. cash with drawal, cash deposit, electronic fund transfer etc and all transactions are being done at the BC location. The Customer complaints including ATM complaints are addressed with in the stipulated time frame. The Bank has separate team for reconciliation of RTGS/NEFT/ATM and POS transactions and CTS clearance is being done on a daily basis.

The ATM network of the Bank is well maintained and Bank has earned a reputation of “always maintains cash at the KBS ATMs’ in the area of operation. The Bank is thankful to the Regional office of the Reserve Bank of India for providing adequate cash all through the year.

The Bank has Mobile Banking Services since September 2018. The Mobile banking services have been widely accepted by the customers. The Bank has also implemented Immediate Payment Service (IMPS) through mobile banking platform in the beginning of year 2019. After IMPS implementation the transactions through Mobile Banking of the Bank has gained more pace. The Bank shall implement UPI facility very soon.

Customer Complaints Redressal:

The Grievance Redressal mechanism of an organization is a gauge to measure its operational efficiency and customer service and at the same time acts as an effective tools of managing risks like operational, reputational and compliance risk.

Bank has a three tier mechanism of Grievance Redressal. Customer Service Committees are operational at the Branch, Head Office and Board level to supervise the grievance redressal process. The Branch Customer Service Committee meets at monthly intervals where customers are invited and they interact with the Branch staff. The management level committee i.e. Standing Committee on Customer Service meets once in a quarter and the minutes of such committees, with suggestions for improving customer service received from the Branches through the Branch level customer Service committee are placed before the Customer Service Committee of the Board, which meets half yearly.

The Bank has designated Customer Grievance Redressal officer and the contact details of the Grievance redressal officer is displayed at the Business places and the website of the Bank. The Bank takes action on the customer complaint/grievances received by all means i.e. over phone, email or written

communication. Customer grievances are dealt with utmost priority, within the ambit of prescribed guidelines. Complaint/suggestion Boxes has been placed in Branches. The help line number and contact details of the base branch have been displayed at the ATMs for ATM related complaints.

Government Schemes and Programme:

The bank participates in Government Schemes under which Bank is eligible to participate. The Bank now has a customer base of around 241,434 Customers, being serviced through a network of 29 branches and 14 BC locations over 1766 villages. The Bank enables the customers to receive in their account the LPG subsidy amounts under the DBTL scheme. Bank has entered in to Memorandum of Understanding with New India Assurance Company (NIAC) for participating in the Pradhan Mantri Suraksha Bima Yojana (PMSBY) and with Life Insurance Corporation (LIC) to provide the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY). During the Financial year 2019-20 the Bank has issued/renewed 28,579 insurance policies under the Pradhan Mantri Suraksha Bima Yojana and 32,544 policies under the Pradhan Mantri Jeevan Jyoti Bima Yojana and has settled 17 insurance claims to the nominees of the deceased customers enrolled under the Pradhan Mantri Jeevan Jyoti Bima Yojana scheme. 452 crop loan customers have been covered under the Pradhan Mantri Fasal Bima Yojana during the financial year 2019-20.

During the year 2019-20, total 1510 crop loan customers of the Bank were benefitted under the Crop Loan Waiver Scheme floated by Government of Telangana. Similarly 661 customers of the Bank were benefitted under the CLWS of Karnataka Government. Bank had received Rs. 56.65 lakh and transferred to the respective accounts of 145 beneficiary customers under the Crop Loan waiver scheme of Karnataka and Rs. 11.54 lakh received under CLWS of Telangana was passed on to 69 customers.

Insurance Services:

The Bank facilitates the customers to avail Life and General Insurance services. In order to provide these services, the bank has tied up with AVIVA Life Insurance Company for life and Bajaj Allianz for general insurance. The overall insurance process and procedures are guided by IRDAI. In addition, the bank has entered in to a Memorandum of Understanding with Life Insurance Corporation of India (LIC) for participating in the Pradhan Mantri Suraksha Bima Yojana and Life Insurance Corporation (LIC) to provide the PM Jeevan Bima Yojana. Bank also facilitates Pradhan Mantri Fasal Bima Yojana for the crop loan customers.

Life Insurance: Bank is offering Credit Suraksha product from AVIVA Life Insurance Company, which insures coverage of loan amount with additional fifty percentage coverage up to Rs.50,000 and absolute loan amount for above Rs.50, 000 and up to Rs.1, 00,000. During the FY 2019-20 there are 26,035 customers enrolled under the Credit Suraksha product; Bank facilitated settlement of 119 claims with the insurance company.

Livestock Insurance: livestock insurance is offered for the cattle financed by bank. KBS bank finances the milch animals, mainly buffaloes and cows and these animals get insured for the life. Currently bank is offering cattle insurance through Bajaj Allianz. During the FY 2019-20 there are 8 customers enrolled under the policy and one claim made by customer was settled with the insurance company.

Micro Enterprise Shield (MES): Bank has tied up with Bajaj Allianz with effect from September 2018 for providing MES Insurance to the credit customers. Under the MES insurance Policy the stock/building of the unit financed by bank are insured by the customer. During the FY 2019-20 there are 664 customers enrolled under the MES Policy and one claim with the insurance company preferred which was made by the customer and it was settled with the insurance company

Business Correspondents (BC) operation:

The Business Correspondent of the Bank operates through 14 locations. These BC locations are attached to 10 branches and managed by 12 Transaction assistants under the supervision and control of either a Business Development Executive or an Assistant Manager. These Brick & Mortar (BC) locations are used to offer the other services like remittances, loan disbursements, other day to day transactions for the bank customers, credit business is being taken care of by the Bank staff. The BC Locations are connected by V SATs/SIM based router to the branch server and in turn branches are connected to DC either through lease line or V SATs. Thus the BC locations are connected to the Core Banking Solution software of the Bank and functioning on real time mode.

There are 24 Grahak Mitras spread across 15 branches who are helpful in mobilizing /collect the deposits. Grahak Mitras move from place to place in cities and villages to mobilize deposits i.e. Savings A/c's, Daily deposit, Recurring deposits and Term deposits. Very few Grahak Mithras are doing credit business and sourcing the loans above 1 lakh.

From December 2018 Bank has appointed Gram Tarang Inclusive Development Services Private Limited (GTIDS) as Business Correspondent of the Bank.

As at the end of March-2020, the Deposits through BC's (GTIDS) constitute around 20% of the Total deposits of the Bank as against 20.29% as of March, 2019. The Deposits sourced by BCs stood at Rs. 48.87 cr at the end of March-2020 vs Rs.44.35 cr in Mar-19. (Net incremental of Rs 4.52 crore as at 31-03-2020)

Auditors and Auditors Report:

M/s. Sagar & Associates, Chartered Accountants, Hyderabad, the Statutory Auditors of the bank for the financial year 2019-20, have audited the accounts of the bank for the year and have submitted the Statutory Audit Report.

M/s. Sagar & Associates, Chartered Accountants have completed their second year of tenure as Statutory Auditor of the Bank. Your directors have recommended the name of M/s. Sagar &

Associates for re-appointment as statutory auditors of the bank for the financial year 2020-21, subject to approval of the shareholders and the Reserve Bank of India.

Related Party Transactions:

The particulars of contracts or arrangements with related parties as per the Section 188 of the Companies Act, 2013 entered by the Company during the financial year ended March 31, 2020 is stated in the notes on Accounts forming part of the Annual Report. Further there are no materially significant related party transactions during the year under review with Promoters, Directors, Key Managerial Personnel and their relatives, which may have potential conflict with interest of the company at large. The related party transactions were placed approved by the audit committee and the Board.

Corporate Governance:

The Bank has always adopted practices and policies to ensure a culture of good Corporate Governance. This is done through a three tier management structure – The Branch management, The Head Office supervision and thirdly the Board level supervision.

The Board has been constituted in accordance with the Banking Regulation Act, 1949. During the financial year 2019-20 the Board comprised of six well experienced personalities from the fields of banking, finance, SME, agri-business and rural development, technology, education and research. As on March 31, 2020 the Board comprised of three non-executive independent directors, two Non executive professional Director and the Managing Director. Mr. B Gopal Krishnan Non-executive professional director resigned on May 14, 2019. Mr. V Narsi Reddy and Mr. T Eswara Chandra Rao have joined the Board as Additional Directors in Non executive professional category in February 2020. Mr. V Jaganmohan, Independent director has resigned from the Board w.e.f. June 4, 2020

A brief profile of the directors (for the financial year 2019-20) is given below: -

1. Ms. Mahpara Ali. Mrs. Mahpara Ali holds Master's Degree in Arts. She also holds Diploma in International Banking and Finance from Indian Institute of Banking and Finance. She is an independent director under section 149 of the Companies Act, 2013. She has served in State Bank of India (SBI) for 39 years. She Joined as Probationary Officer and held many key assignments covering all areas of banking. Before retirement she held the position of Chief General Manager of Strategic Training Unit (STU) of SBI. She has been director of the bank since May 2013.

2. Mr. V. Jagan Mohan. Mr. V. Jagan Mohan holds a Master's Degree in Business Administration from Osmania University. He is an independent director under section 149 of the Companies Act, 2013. He is a professional banker with more than 28 years of experience with State Bank of India in various capacities and locations. He has served as the Managing director of AP State Cooperative Bank Ltd, Hyderabad, and of Coastal Local Area Bank

Ltd, Vijayawada. He was also the Chairman and CEO of Kakatiya Grameen Bank, Warangal. Mr. V Jaganmohan joined the Bank on November 24, 2012 and resigned on June 04, 2020.

3. Mr. Ravi Shankar Kolathur. Mr. Kolathur is a member of the Institute of Chartered Accountants of India and also a member of Institute of Cost and Management Accountants. He was awarded with gold medal in Bachelor's degree from Osmania University in the year 1976. He is an independent director under section 149 of the Companies Act, 2013. He has work experience of 30 years in senior and top management in different positions in the field of: Manufacturing, Accounting Practice, Financial Advisory, Merchant Banking, Stock-Broking, Real Estate, Infrastructure, Higher Education, Financial Accounting, Cost / Management Accounting, Auditing, Fund raising, IPO / Placements, Treasury, ERP Implementation, Corporate Law, Financial Modeling, Investor Services, Recruitment, Compensation & Benefits, Business Strategy, Performance Management etc. Mr. Ravi Shankar Kolathur is the chairman of the Audit Committee. He has been director of the bank since August 2012.

4. Mr. Donepudi Durga Prasad. Managing Director of the Bank is a professional Banker with more than four decades of experience in banking with Andhra Bank and served in different positions. Before superannuation he served as General Manager – Priority Sector Department, Andhra Bank. He also served as Convenor of State Level Bankers' Committee of Andhra Pradesh.

5. Mr. Balaji Gopalakrishnan. Mr. Balaji Gopalakrishnan is a Chartered Financial Analyst (CFA). He served as a Managing Director at Credit Suisse, New York from 2004 to 2018. Before that he was in Goldman Sachs for several years. Mr Gopalakrishnan has a Masters in Electrical Engineering from Polytechnic University of New York (NYU) and Bachelors in

Engineering from Coimbatore Institute of Technology. He has extensive experience in modeling, trading and marketing of various financial products and complex securities. Mr. B Gopalakrishnan joined the Bank on November 12, 2018 and resigned on May 14, 2019.

6. Mr. Tatineni Eswara Chandra Rao. A professional Banker with more than 40 years' experience. Joined in Bank of Maharashtra, a Nationalized Bank in the year 1975 as Probationary Officer and handled various assignments in different capacities for 37 years before retiring in the year 2012 as Deputy General Manager. He also served as Managing Director of Coastal Local Area Bank Ltd, Vijayawada, during October 2013 to January 2019. Mr. T Eswara Chandra Rao joined the Board as additional director w.e.f. February 25, 2020.

7. Mr. V Narsi Reddy: Mr. V Narsi Reddy is M.Sc. (Agriculture), is a professional Banker with more than 30 years of experience in Banking. He retired as General Manager in State Bank of India in June 2019. In his career in State Bank of India he had worked in different areas of Agriculture finance, General Banking, MSME, Mid. Corporate, Corporate finance, Information Technology, Digital Banking, Risk Management, Audit, Human Resource Management etc.

He was also the Chairman of Andhra Pradesh Grameena Vikas Bank (APGVB) for above 54 months on deputation from SBI as General Manager. Mr. V Narsi Reddy joined the Board as additional director w.e.f. February 25, 2020.

The Board met seven (7) times during the Financial Year 2019-20 on 21.05.2019, 30.07.2019, 21.09.2019, 25.10.2019, 29.01.2020, 25.02.2020 and 23.03.2020.

Attendance of directors in the board meetings :

| Sl No. | Name | Number of meetings entitled to attend during FY 2019-2020 | Number of Meetings attended during FY 2019-2020 |
|--------|---------------------------|---|---|
| 1 | Ms. Mahpara Ali | Seven | Seven |
| 2 | Ms. V Jaganmohan | Seven | Seven |
| 3 | Mr. Ravi Shankar Kolathur | Seven | Seven |
| 4 | Mr. V Narsi Reddy | Two | Two |
| 5 | Mr. T Eswara Chandra Rao | Two | Two |
| 6 | Mr. Durga Prasad Donepudi | Seven | Seven |

The board reviews the matters covered under the Reserve Bank of India's circular on Calendar of Reviews issued from time to time.

The profiles of the directors have been verified and are in compliance with the Fit and Proper criteria guidelines issued by Reserve Bank of India. The directors have submitted the annual declarations/disclosure forms as required under section 184, 149 of the Companies Act, 2013.

Change in Board of Directors:

Mr. Balaji Gopalakrishnan appointed as non-executive additional director of the Bank on 12th November 2018 has resigned from the Board w.e.f. May 14, 2019. Mr. V Narsi Reddy and Mr. T Eswara Chandra Rao have been appointed as Additional Directors, Non executive professional category w.e.f. February 25, 2020 to hold office till this annual general meeting. Mr. V Jaganmohan has resigned from the Board w.e.f. June 04, 2020.

At present the Board comprises the Managing Director and two independent directors and two additional directors in non executive Professional category. As per the provisions of Companies Act, 2013 and terms of appointment, the tenure of Managing Director and Independent directors are fixed and not liable to retire by rotation. Hence, no director is liable to retire by rotation at the ensuing twenty first annual general meeting of the Bank.

Committees of the Board:

The Bank has ten committees of Directors at the Board level. Details of the composition of the committees of Board as on March 31, 2020 and number of meetings of the committee held during FY 2019 - 20 are given below:

| S. No | Name of the Committee | Composition of the Committee | Designation | Meetings held during the FY 2019-20 |
|-------|---|------------------------------|------------------------------------|--|
| 1 | Asset Liability Management & Investment Committee | 1. Ms. Mahpara Ali | Chairperson | 21.05.2019 30.07.2019 25.10.2019 29.01.2020 |
| | | 2. Mr. V. Narsi Reddy | Member(Joined w.e.f. 25.02.2020) | |
| | | 3. Managing Director | Member | |
| | | 4. CFO | (Permanent Invitee) | |
| 2 | Executive Committee | 1.Ms. Mahpara Ali | Chairperson | 21.05.2019 30.07.2019 25.10.2019 29.01.2020 23.03.2020 |
| | | 2. Mr. V. Narsi Reddy | Member | |
| | | 3. Mr. T Eswara Chandra Rao | Member(Joined w.e.f. 25.02.2020) | |
| | | 4.Managing Director | Member | |
| 3 | Audit Committee | 1. Mr. Ravi Shankar Kolathur | Chairman | 21.05.2019 30.07.2019 21.09.2019 29.01.2020 23.03.2020 |
| | | 2.Ms. Mahpara Ali | Member | |
| | | 3. Mr. V. Jaganmohan | Member | |
| | | 4.Mr. T Eswara Chandra Rao | Member(Joined w.e.f. 25.02.2020) | |
| 4 | Human Resource Development Committee | 1. Mr. V. Jaganmohan | Chairman | 21.05.2019 25.10.2019 |
| | | 2. Ms. Mahpara Ali | Member | |
| | | 3. Mr. V. Narsi Reddy | Member(Joined w.e.f. 25.02.2020) | |
| | | 4. Managing Director | Member | |
| 5 | Customer Service Committee | 1. Mr. T Eswara Chandra Rao | Chairman(Joined w.e.f. 25.02.2020) | 21.05.2019 25.10.2019 |
| | | 2. Mr. V. Jaganmohan | Member | |
| | | 3. Mr. V. Narsi Reddy | Member(Joined w.e.f. 25.02.2020) | |
| | | 4. Managing Director | Member | |
| 6 | Risk Management Committee | 1. Mr. V. Narsi Reddy | Chairman(Joined w.e.f. 25.02.2020) | 25.10.2019 23.03.2020 |
| | | 2. Mr. V. Jaganmohan | Member | |
| | | 3. Managing Director | Member | |

| S. No | Name of the Committee | Composition of the Committee | Designation | Meetings held during the FY 2019-20 |
|-------|--|------------------------------|-------------------------------------|--|
| 7 | Information and Communication Technology Committee | 1. Mr. V. Jaganmohan | Chairman | 21.05.2019 30.07.2019 25.10.2019 29.01.2020 |
| | | 2. Mr. Ravi Shankar Kolathur | Member | |
| | | 3. Mr. V. Narsi Reddy | Member (Joined w.e.f. 25.02.2020) | |
| | | 4. Managing Director | Member | |
| | | 5. COO | Permanent Invitee | |
| 8 | Share Allotment & Transfer | 1. Mr. T Eswara Chandra Rao | Chairman (Joined w.e.f. 25.02.2020) | NIL |
| | | 2. Mr. V. Jaganmohan | Member | |
| | | 3. Mr. V. Narsi Reddy | Member (Joined w.e.f. 25.02.2020) | |
| 9 | Nomination and Remuneration Committee | 1. Mr. V. Jaganmohan | Chairman | 21.05.2019 29.01.2020 23.03.2020 |
| | | 2. Ms. Mahpara Ali | Member | |
| | | 3. Mr. V. Narsi Reddy | Member (Joined w.e.f. 25.02.2020) | |
| | | 4. Managing Director | Member | |
| 10 | Credit Committee | 1. Ms. Mahpara Ali | Chairperson | 21.05.2019 30.07.2019 25.10.2019 23.03.2020 |
| | | 2. Mr. Ravi Shankar Kolathur | Member | |
| | | 3. Mr. V. Jaganmohan | Member | |
| | | 4. Mr. V. Narsi Reddy | Member (Joined w.e.f. 25.02.2020) | |
| | | 5. Managing Director | Member | |

Mr. B Gopalakrishnan who was member of the ALMI Committee, Executive Committee, Audit Committee and Risk Management Committee as on March 31, 2019 has ceased to be member of the committees from the date of his resignation w.e.f. May 14, 2019. Mr. V Narsi Reddy and Mr. T Eswara Chandra Rao have joined the Board of the Bank and inducted in various committees of the Board on February 25, 2020.

Directors Responsibility Statement under section 134(5) of the Companies Act, 2013:

Your directors confirm that:

- In preparation of the annual accounts, applicable accounting standards have been followed along with proper explanation relating to material departure, if any.
- The accounting policies have been selected and applied consistently and the judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as at

March 31, 2019 and of the profit of the bank for the year ended March 31, 2019.

- Proper and sufficient care was taken for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 2013 and Banking Regulation Act, 1949 and other applicable laws, for safeguarding the assets of the bank and for preventing and detecting fraud and other irregularities.
- The annual accounts have been prepared on a going concern basis.
- Proper and adequate systems have been devised and implemented to ensure compliance with the provisions of all applicable laws and such systems are operating effectively.

Policy on Appointment and Remuneration of Directors:

The Bank has a Nomination and Remuneration committee of the Board constituted in accordance to the provisions of section 178 of the Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014.

Policy on Appointment of Directors:

The appointment of directors is subject to the possession by the candidate of the prescribed experience under section 10-A of The Banking Regulation Act, 1949. The candidate must qualify the fit and proper criteria prescribed in the circular on *“Fit and Proper’ Criteria for Directors on the Boards of Banks”* issued by the Reserve Bank of India from time to time for being appointed as a director.

The Nomination and Remuneration committee determine the ‘fit and proper’ status of the existing Directors/ proposed candidates based on the broad criteria i.e. Educational qualification, experience and field of expertise, track record and integrity as prescribed by the Reserve Bank of India and the Banking Regulation Act, 1949.

The appointment of Managing Director is made subject to compliance with the fit and proper criteria guidelines and approval of the Reserve Bank of India.

The Directors do not have any pecuniary relationship with the Bank except to the extent of payment of sitting fees to the directors for attending the Board meetings and Committees of the Board meetings and remuneration paid to the Managing Director.

Policy on Remuneration to Directors:

The remuneration paid to the Managing Director is approved by the Reserve Bank of India alongside the appointment.

The Directors other than the Managing Director are paid sitting fees for attending the Board and Committees of the Board meetings as fixed by the Board in accordance to the provisions of section 197 of the Companies Act, 2013 and Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014.

None of the other directors are paid any remuneration other than sitting fees for attending meetings of the Board and Committee and reimbursement of eligible expenses.

Declaration by Independent Directors:

All directors have submitted the fit and proper Forms and declarations as prescribed by the Reserve Bank of India and the annual disclosure forms as prescribed under section 184 of the Companies Act, 2013 for the FY 2019-20. The three Independent Directors in the Board viz. Ms. Mahpara Ali, Mr. V. Jaganmohan and Mr. Ravi Shankar Kolathur have furnished the Declarations in the format prescribed under section 149(6) for the FY 2019-20.

Sd/-
Place : Hyderabad
Date : June 30, 2020

Foreign Exchange earnings and outgo:

The business of the Bank is such that there is neither earning nor outgo in Foreign Exchange.

Extract of Annual Return:

Pursuant to section 92(3) of the Companies Act, 2013 as amended and rule 12(1) of the Companies (Management and Administration) Rules, 2014, an extract of the annual return in Form- MGT 9 is given as annexure to this report.

Statutory Disclosure:

Considering the nature of activities of the Bank, the particulars required under Section 134 (3)(m) of the Companies Act, 2013 read with the Companies (Accounts) Rules, regarding energy conservation, Technology absorption etc. do not apply. However the bank is using the technology commensurate to its size and requirements for the legally permitted transactions. The Bank has been operating in fully computerized environment since inception. The Branches and Business correspondent locations operates on the Core Banking Solution. The field staff of the Bank uses Hand Held Devices for transactions at the field. The Bank has 26 ATMs of which there are off site ATMs. Bank has Mobile Banking facility enabled for IMPS/RTGS and NEFT transactions. The Bank continues its effort to create awareness among the employees for saving the power and resources, wherever possible.

Acknowledgements:

Your Directors place on the record their sincere appreciation for the support and guidance that the Bank has received from the Reserve Bank of India, other regulatory authorities, other banks and various stakeholders and organizations collaborating with the Bank in different initiatives. The directors also place on record their appreciation of the support and the trust reposed by valued customers and solicits their continued support and cooperation. Your directors express their sincere thanks to M/s Sagar & Associates, Chartered Accountants, the statutory auditors of the bank and C Edge Technologies Ltd., for their continued support and guidance. Your Directors also wish to place on record their most sincere appreciation of the commitment, support and sincere efforts in Customer Service as well as growth of the Bank during the year and look forward to their continued cooperation in realization of the corporate goals in the years ahead.

On behalf of the Board of Directors

Sd/-
Mahpara Ali
Director

Sd/-
Donepudi Durga Prasad
Managing Director

INDEPENDENT AUDITOR'S REPORT

To the Members

KRISHNA BHIMA SAMRUDDHI LOCAL AREA BANK LIMITED

Hyderabad

Report on audit of the Standalone Financial Statements

Opinion

1. We have audited the standalone financial statements of KRISHNA BHIMA SAMRUDDHI LOCAL AREA BANK LIMITED ('the Bank'), which comprises the Balance Sheet as at 31st March 2020, the Statement of Profit and Loss and the Statement of Cash Flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information. Incorporated in these financial statements are the returns for the year ended as on that date for all 29 branches audited by us.
2. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013 in the manner so required for banking Companies and are in conformity with accounting principles generally accepted in India and give a true and fair view
 - a. in case of the Balance sheet, of the state of affairs of the Bank as at 31st March 2020;
 - b. its profit in case of Profit and loss account for the year ended on that date and
 - c. in case of statement of cash flows for the year ended on that date.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| S.No. | Key Audit Matter | How our audit addressed the Key Audit Matter |
|-------|---|---|
| 1. | <p>Income Recognition and Asset Classification</p> <p>Classification of Advances and Identification of and provisioning of Non-performing Advances in accordance with the RBI guidelines</p> <p>Advances include Cash credits, Overdrafts loans repayable on demand and Term loans. These are further categorized as secured by Tangible assets (including advances against Books debts), covered by Bank / Government Guarantees and unsecured advances.</p> <p>Advances constitute 64.23% of the Bank's total assets. They are, inter-alia, governed by income recognition, asset classification and provisioning (IRAC) norms and</p> | <p>Our audit approach towards advances with reference to the IRAC Norms and other related circulars / directives issued by RBI and also internal policies and procedures of the Bank includes the testing of the following:</p> <ul style="list-style-type: none"> • The accuracy of the data input in the system for income recognition and asset classification into performing and non-performing Advances and provisioning in accordance with the IRAC Norms in respect of the all 29 branches audited by us; • Existence and effectiveness of monitoring mechanisms such as Internal Audit, Systems Audit, Credit Audit and Concurrent Audit as per the policies and procedures of the Bank; |

Basis for Opinion

3. We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Emphasis of Matter

4. As described in Schedule 18 (ix) (a) to the notes on financial statements, in accordance with Reserve Bank of India COVID-19 Regulatory Package, ageing of accounts opting for moratorium offered by the Bank and moving into Stage 3 (based on days past due status as of 31st March 2020) has been determined with reference to position as of 29 February 2020. Further, the extent to which the COVID-19 Pandemic will impact the bank's financial performance is dependent on future developments, which are highly uncertain a COVID -19 is still unfolded . Our opinion is not modified in respect of the above matter.

| | |
|---|--|
| <p>other circulars / directives issued by the RBI from time to time which provides guidelines related to classification of Advances into performing and non-performing Advances (NPA). The Bank classifies these Advances based on IRAC norms as per its accounting policy No. 2.1(b).</p> <p>Identification of performing and non-performing advances involves establishment of proper mechanism. The Bank accounts for all the transactions related to Advances in its Information Technology System (IT System) viz. B@ncs 24 which also identifies whether the advances are performing or non-performing. Further, NPA provision is done manually.</p> <p>The carrying value of these advances (net of provisions) may be materially mis-stated if, either individually or in aggregate, the IRAC norms are not properly followed.</p> <p>Considering the nature of the transactions, regulatory requirements, existing business environment, estimation/ judgment involved in valuation of securities, it is a matter of high importance for the intended users of the Standalone financial statements. Considering these aspects, we have determined this as a Key Audit Matter.</p> <p>Accordingly, our audit was focused on income recognition, asset classification and provisioning pertaining to advance due to the materiality of the balances.</p> | <p>We have examined the efficacy of various internal controls over advances to determine the nature, timing and extent of the substantive procedures and compliance with the observations of the various audits conducted as per the monitoring mechanism of the Bank and RBI inspection.</p> <p>In carrying out substantive procedures at the all 29 branches audited by us, we have examined all large advances/stressed advances while other advances have been examined on a sample basis including review of valuation reports of independent valuer's provided by the Bank's management.</p> <p>We have also relied on the reports of External IT system , Audit experts with respect to the business logics / parameters inbuilt in B@ncs 24x7 for tracking, identification and stamping of NPAs and provisioning is calculated manually.</p> |
|---|--|

Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements

- The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that

give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the audit of the Financial Statements

- Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the Bank has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all re-

lationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

8. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 and Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014
9. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:
 - a. we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
 - b. the transactions of the Bank, which have come to our notice, have been within the powers of the Bank;
 - c. the returns received from the offices; and branches of the Bank have been found adequate for the purposes of our audit.
10. Further, as required by section 143(3) of the Act, we report that
 - a. we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b. In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books.
 - c. The reports on the accounts of the branch offices of the bank audited under section 143(8) of the Act by branch auditors of the Bank have been sent to us and have been properly dealt with by us in preparing this report;
 - d. The Balance Sheet, the Statement of Profit and Loss and the Statement of Cash Flows dealt with by this report are in agreement with the books of account.
 - e. In our opinion, the aforesaid standalone financial

statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, to the extent they are not inconsistent with the accounting policies prescribed by RBI.

- f. On the basis of written representations received from the directors as on 31 March 2020 and taken on record by the Board of Directors, none of the directors are disqualified as on 31 March 2020 from being appointed as a director in terms of Section 164(2) of the Act.
- g. With respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure A"
- h. with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the

Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

- i. The Bank does not have any pending litigations which would impact its financial position
- ii. The Bank did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses and
- iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank.

for Sagar & Associates
Chartered Accountants
FR No: 003510S

B. Srinivasa Rao
Partner
M.No. 202352

Date : 03-06-2020
Place: Hyderabad

“ANNEXURE A”

“ANNEXURE A” TO THE INDEPENDENT AUDITOR’S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF KRISHNA BHIMA SAMRUDDHI LOCAL AREA BANK LIMITED

Report on the Internal Financial Controls Over Financial Reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

1. We have audited the internal financial controls over financial reporting of KRISHNA BHIMA SAMRUDDHI LOCAL AREA BANK LIMITED (“the Bank”) as at 31 March 2020 in conjunction with our audit of the standalone financial statements of the Bank for the year ended on that date.

Management’s Responsibility for Internal Financial Controls over Financial Reporting

2. The Bank’s management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 (“the Act”).

Auditor’s Responsibility

3. Our responsibility is to express an opinion on the Bank’s internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) and the Standards on Auditing, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting were established and maintained and if such controls operated effectively in all material respects.

4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank’s internal financial controls system over financial reporting.

Meaning of Internal Financial Controls over Financial Reporting

6. A Bank’s internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank’s internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorisations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

7. Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

for Sagar & Associates
Chartered Accountants
FR No: 003510S

B. Srinivasa Rao
Partner
M.No. 202352

Date : 03-06-2020
Place: Hyderabad

Opinion

8. In our opinion, the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2020, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

Rs.

| BALANCE SHEET AS ON | Sch | 31-Mar-2020 | 31-Mar-2019 |
|--|------------|---------------------|---------------------|
| CAPITAL AND LIABILITIES | | | |
| Capital | 1 | 1342,22,620 | 1342,22,620 |
| Reserves and Surplus | 2 | 2829,30,855 | 2570,07,743 |
| Deposits | 3 | 24757,51,042 | 21858,94,408 |
| Borrowings | 4 | - | - |
| Other Liabilities and Provisions | 5 | 2163,48,988 | 1801,09,365 |
| Total | | 31092,53,505 | 27572,34,136 |
| ASSETS | | | |
| Cash and Balances with Reserve Bank of India | 6 | 655,29,340 | 903,61,226 |
| Balances with Banks and Money at Call and Short Notice | 7 | 4702,42,037 | 3453,96,204 |
| Investments | 8 | 4854,09,795 | 4482,81,386 |
| Advances | 9 | 19971,52,847 | 17715,15,429 |
| Fixed Assets | 10 | 311,07,177 | 390,51,764 |
| Other Assets | 11 | 598,12,309 | 626,28,127 |
| Total | | 31092,53,505 | 27572,34,136 |
| Contingent Liabilities | 12 | 177,67,234 | 325,65,978 |
| Bills for Collection | | - | - |
| Principal Accounting Policies | 17 | | |
| Notes To Accounts | 18 | | |

The schedules referred to above form an integral part of the Balance Sheet

In terms of our report of even date

for Sagar & Associates

Chartered Accountants

Firm Regn. No. 003510S

Sd/-
B. Srinivasa Rao
Partner
M.No. 202352

for and on behalf of Board of Directors

Sd/-
Mahpara Ali
Director

Sd/-
Donepudi Durga Prasad
Managing Director

Sd/-
Ravi Shankar Kolathur
Director

Sd/-
J. Murali Krishna
Chief Financial Officer

Sd/-
V. Jaganmohan
Director

Sd/-
P. A. Pattnaik
Company Secretary

Place: Madhapur
Date: June 03, 2020

Rs.

| PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED | Sch | 31-Mar-2020 | 31-Mar-2019 |
|---|------------|--------------------|--------------------|
| I. INCOME | | | |
| Interest Earned | 13 | 3730,28,180 | 3165,64,452 |
| Other Income | 14 | 904,18,867 | 627,33,406 |
| Total | | 4634,47,047 | 3792,97,858 |
| II. EXPENDITURE | | | |
| Interest Expended | 15 | 1679,78,990 | 1344,80,563 |
| Operating Expenses | 16 | 2218,04,512 | 2017,74,828 |
| Provisions and Contingencies | | 470,07,481 | 218,80,200 |
| Total | | 4367,90,983 | 3581,35,591 |
| III. PROFIT / LOSS | | | |
| Net Profit / (Loss) for the Year | | 266,56,063 | 211,62,267 |
| Add: Profit / (Loss) Brought Forward | | 1607,80,252 | 1438,63,378 |
| Total | | 1874,36,315 | 1650,25,645 |
| IV. APPROPRIATIONS / TRANSFERS | | | |
| Statutory Reserve | | 53,35,060 | 42,35,508 |
| Capital Reserve | | - | 4,76,716 |
| Investment Fluctuation Reserve | | - | - |
| Interim and Proposed Dividend | | - | - |
| Tax on Dividend | | - | - |
| Staff Welfare Fund Reserve | | 10,00,000 | - |
| Balance Carried Over to Balance Sheet | | 1811,01,255 | 1603,13,421 |
| Total | | 1874,36,315 | 1650,25,645 |
| Principal Accounting Policies | 17 | | |
| Notes on Accounts | 18 | | |

The schedules referred to above form an integral part of the Profit and Loss Account

In terms of our report of even date

for Sagar & Associates

Chartered Accountants

Firm Regn. No. 003510S

Sd/-

B. Srinivasa Rao

Partner

M.No. 202352

for and on behalf of Board of Directors

Sd/-

Mahpara Ali

Director

Sd/-

Donepudi Durga Prasad

Managing Director

Sd/-

Ravi Shankar Kolathur

Director

Sd/-

J. Murali Krishna

Chief Financial Officer

Sd/-

V. Jaganmohan

Director

Sd/-

P. A. Pattnaik

Company Secretary

Place: Madhapur

Date: June 03, 2020

Rs.

SCHEDULES TO BALANCE SHEET AS ON**31-Mar-2020****31-Mar-2019****SCHEDULE 1 : CAPITAL**

| | | |
|--|---------------------|---------------------|
| Authorised Capital | 25,00,00,000 | 25,00,00,000 |
| 250,00,000 Equity Shares of Rs. 10/- each | | |
| Issued Capital | | |
| Issued 13422262 Equity Shares of Rs. 10/- each | 13,42,22,620 | 13,42,22,620 |
| Subscribed & Paid-up capital | | |
| 13422262 Equity Shares of Rs. 10/- each | 13,42,22,620 | 13,42,22,620 |
| Total | 13,42,22,620 | 13,42,22,620 |

SCHEDULE 2 : RESERVES AND SURPLUS**I. Statutory Reserves**

| | | |
|----------------------------|-------------------|-------------------|
| Opening Balance | 532,02,921 | 4,89,67,413 |
| Additions during the Year | 53,35,060 | 42,35,508 |
| Deductions during the Year | - | - |
| Total | 585,37,981 | 532,02,921 |

II. Capital Reserves

| | | |
|----------------------------|------------------|------------------|
| Opening Balance | 27,68,191 | 22,91,475 |
| Additions during the year | - | 4,76,716 |
| Deductions during the year | - | - |
| Total | 27,68,191 | 27,68,191 |

III. Share Premium

| | | |
|----------------------------|-------------------|-------------------|
| Opening Balance | 304,29,380 | 304,29,380 |
| Additions during the year | - | - |
| Deductions during the year | - | - |
| Total | 304,29,380 | 304,29,380 |

IV. Investment Fluctuation Reserve

| | | |
|----------------------------|------------------|------------------|
| Opening Balance | 93,75,000 | 93,75,000 |
| Additions during the year | - | - |
| Deductions during the year | - | - |
| Total | 93,75,000 | 93,75,000 |

V. Revenue and Other Reserves

| | | |
|----------------------------|-----------------|-----------------|
| Opening Balance | 4,52,000 | 4,52,000 |
| Addition During the Year | - | - |
| Deductions during the year | - | - |
| Total | 4,52,000 | 4,52,000 |

VI. Balance in Profit and Loss Account

| | | |
|---|--------------------|--------------------|
| Opening Balance | 1607,80,252 | 1438,63,378 |
| Addition During the Year | 213,21,002 | 164,50,043 |
| Deductions during the year | 10,00,000 | - |
| Add: Deferred Tax | 2,67,049 | 4,66,831 |
| Less : Depreciation relating to earlier years | - | - |
| Total | 1813,68,302 | 1607,80,252 |

Total (I to VI)**2829,30,855****2570,07,744**

| SCHEDULES TO BALANCE SHEET AS ON | 31-Mar-2020 | 31-Mar-2019 |
|--|---------------------|---------------------|
| SCHEDULE 3 : DEPOSITS | | |
| A. I. Demand Deposits | | |
| (i) From Banks | - | - |
| (ii) From Others | 146,82,510 | 171,24,940 |
| II. Savings Bank Deposits | 4661,05,206 | 4246,06,185 |
| III. Term Deposits | | |
| (i) From Banks | - | - |
| (ii) From Others | 19949,63,326 | 17441,63,283 |
| Total (I, II and III) | 24757,51,042 | 21858,94,408 |
| B. I. Deposits of branches in India | 24757,51,042 | 21858,94,408 |
| II. Deposits of branches out side India | - | - |
| Total | 24757,51,042 | 21858,94,408 |
| SCHEDULE 4 : BORROWINGS | | |
| I. Borrowings in India | | |
| i. Reserve Bank of India | - | - |
| ii. Other Banks | - | - |
| iii. Other Institutions and Agencies | - | - |
| II. Borrowings outside India | - | - |
| Total | - | - |
| (Secured borrowings included in I & II above) | | |
| SCHEDULE 5 : OTHER LIABILITIES AND PROVISIONS | | |
| I. Bills Payable & Liabilities | - | - |
| II. Inter-Office adjustments (net) | - | - |
| III. Interest Accrued | - | - |
| IV. Others (including provisions) | 2163,48,987 | 1801,09,365 |
| V. Proposed dividend (Inc Dividend Distribution tax) | - | - |
| Total | 2163,48,987 | 1801,09,365 |
| SCHEDULE 6 : CASH AND BALANCES WITH RESERVE BANK OF INDIA | | |
| I. Cash in hand (including foreign currency notes) | 457,37,308 | 705,69,194 |
| II. Balances with Reserve Bank of India | | |
| (i) in current Account | 197,92,032 | 197,92,032 |
| (ii) in other Accounts | - | - |
| Total - (I & II) | 655,29,340 | 903,61,226 |
| SCHEDULE 7 : BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE | | |
| I. In India | | |
| i. Balance with banks | | |
| a. in current accounts | 1326,21,708 | 1020,64,718 |
| b. in other deposit accounts | 3376,20,329 | 2433,31,486 |
| ii. Money at call and short notice | | |
| a. with banks | - | - |
| b. with other institutions | - | - |
| Total | 4702,42,037 | 3453,96,204 |

SCHEDULES TO BALANCE SHEET AS ON**31-Mar-2020****31-Mar-2019**

| | | |
|-------------------------------------|--------------------|--------------------|
| II. Outside India | | |
| i. In current accounts | - | - |
| ii. In Other deposit accounts | - | - |
| iii. Money at call and short notice | - | - |
| Total | - | - |
| Total - (I & II) | 4702,42,037 | 3453,96,204 |

SCHEDULE 8 : INVESTMENTS

| | | |
|--|--------------------|--------------------|
| I. Investments in India in | | |
| i. Government Securities | 4751,31,889 | 4497,72,155 |
| ii. Other approved securities | - | - |
| iii. Shares | - | - |
| iv. Debentures and Bonds | - | - |
| v. Subsidiaries and / or joint ventures | - | - |
| vi. Others | 102,77,906 | - |
| Total | 4854,09,795 | 4497,72,155 |
| Less: Depreciation | - | 14,90,769 |
| Net Investments | Total | 4482,81,386 |
| 4854,09,795 | 4854,09,795 | 4482,81,386 |
| II. Investments outside India in | | |
| i. Government securities (including local authorities) | - | - |
| ii. Subsidiaries and/or joint ventures abroad | - | - |
| iii. Other investments | - | - |
| Total | - | - |
| Total - (I & II) | 4854,09,795 | 4482,81,386 |

SCHEDULE 9:ADVANCES

| | | |
|--|---------------------|---------------------|
| A i) Bills purchased and discounted | - | - |
| ii) Cash credits, overdrafts and loans repayable on demand | 860,96,724 | 967,54,919 |
| iii) Term Loans | 19110,56,123 | 16747,60,510 |
| Total | 19971,52,847 | 17715,15,429 |
| B i) Secured by Tangible Assets | 18853,13,719 | 16683,03,605 |
| ii) Covered by Bank / Government Guarantee | - | - |
| iii) Unsecured | 1118,39,128 | 1032,11,824 |
| Total | 19971,52,847 | 17715,15,429 |
| C I) Advances in India | | |
| i) Priority Sectors | 14654,48,272 | 13134,48,775 |
| ii) Public Sector | - | - |
| iii) Banks | - | - |
| iv) Others | 5317,04,575 | 4580,66,654 |
| Total | 19971,52,847 | 17715,15,429 |
| II) Advances outside India | | |
| i) Due from Banks | - | - |
| ii) Due from Others | - | - |
| Total | - | - |
| Total (C. I & II) | 19971,52,847 | 17715,15,429 |

| SCHEDULES TO BALANCE SHEET AS ON | 31-Mar-2020 | 31-Mar-2019 |
|---|--------------------|--------------------|
| SCHEDULE 10 : FIXED ASSETS | | |
| I. Premises | - | - |
| II. Other Fixed assets (including furniture and fixtures) | | |
| At cost as on 31st March of the preceding year | 1223,06,521 | 1200,29,751 |
| Additions during the year | 66,22,670 | 34,91,660 |
| Deductions during the year | 46,98,496 | 12,14,889 |
| Depreciation to date | 931,23,518 | 832,54,758 |
| Total | 311,07,177 | 390,51,764 |
| SCHEDULE 11 : OTHER ASSETS | | |
| I. Inter-Office adjustments (net) | - | - |
| II. Interest accrued | 175,46,216 | 194,76,546 |
| III. Tax paid in advance / Tax deducted at source | 285,39,589 | 233,63,176 |
| IV. Stationery and stamps | 14,56,970 | 25,71,444 |
| V. Non-banking assets acquired in satisfaction of claims | - | - |
| VI. Deferred Tax Asset (Net) | 14,33,195 | 11,66,146 |
| VII. Others | 108,36,340 | 160,50,816 |
| Total | 598,12,309 | 626,28,128 |
| SCHEDULE 12 : CONTINGENT LIABILITIES | | |
| I. Claims against the bank not acknowledged as debts | 165,46,349 | 315,46,349 |
| II. Liability for partly paid investments | - | - |
| III. Capital Commitments | - | - |
| IV. Liability on account of outstanding forward exchange contracts | - | - |
| V. Guarantees given on behalf of constituents | | |
| a. In India | - | - |
| b. Outside India | - | - |
| VI. Acceptances, endorsements and other obligations | - | - |
| VII. Other items for which the bank is contingently liable | 12,20,885 | 10,19,629 |
| Total | 177,67,234 | 325,65,978 |
| SCHEDULES TO PROFIT AND LOSS ACCOUNT FOR THE YEAR END | | |
| SCHEDULE 13 : INTEREST EARNED | | |
| I. Interest/discount on advances/bills | 3215,54,776 | 2781,92,647 |
| II. Income on Investments | 323,52,945 | 314,82,107 |
| III. Interest on balances with Reserve Bank of India and other inter-bank funds | 191,20,459 | 68,89,698 |
| IV. Others | - | - |
| Total | 3730,28,180 | 3165,64,452 |
| SCHEDULE 14: OTHER INCOME | | |
| I. Profit on sale of Asset / Investments | 43,76,732 | 37,59,322 |
| II. Miscellaneous Income | 860,42,135 | 589,74,084 |
| Total | 904,18,867 | 627,33,406 |
| SCHEDULE 15: INTEREST EXPENDED | | |
| I. Interest on Deposits | 1679,78,990 | 1344,80,563 |
| II. Interest on Reserve Bank of India/Inter-bank borrowings | - | - |
| II. Others | - | - |
| Total | 1679,78,990 | 1344,80,563 |

| SCHEDULES TO PROFIT AND LOSS ACCOUNT FOR THE YEAR END | 31-Mar-2020 | 31-Mar-2019 |
|--|--------------------|--------------------|
| SCHEDULE 16: OPERATING EXPENSES | | |
| I. Payments to and provision for employees | 1147,32,189 | 1014,17,808 |
| II. Rent, taxes and lighting | 191,14,643 | 185,93,993 |
| III. Printing and Stationery | 29,77,843 | 21,82,350 |
| IV. Advertisement and publicity | 2,48,778 | 5,43,426 |
| V. Depreciation on bank's property | 138,60,662 | 155,95,053 |
| VI. Directors' fees, allowances and expenses | 16,09,372 | 18,51,465 |
| VII. Auditors' Fees and Expenses | 9,33,432 | 8,33,768 |
| VIII. Law Charges | - | 40,000 |
| IX. Postage, Telephones. Etc. | 25,64,472 | 23,82,732 |
| X. Repairs and maintenance | 31,23,617 | 103,61,126 |
| XI. Insurance | 61,30,209 | 53,99,322 |
| XII. Other expenditure | 565,09,295 | 425,73,785 |
| Total | 2218,04,512 | 2017,74,828 |
| PROVISIONS AND CONTINGENCIES | | |
| I. Provision for Non Performing Assets | 104,14,260 | 126,86,522 |
| II. Provision on Standard Assets | 6,30,611 | 5,59,563 |
| III. Provision for Current Tax | 167,10,679 | 95,05,894 |
| IV. Prov for Income Tax Prior Years | 150,00,000 | - |
| V. Provision for Deferred Tax | - | - |
| VI. Provision for Depreciation on Investments | 8,39,231 | (9,87,631) |
| VII. Other Provisions | - | 1,15,852 |
| VIII. General Provision | 34,12,700 | - |
| Total | 470,07,481 | 218,80,200 |

The schedules referred to above form an integral part of the Profit and Loss Account

In terms of our report of even date

for Sagar & Associates

Chartered Accountants

Firm Regn. No. 003510S

Sd/-
B. Srinivasa Rao
Partner
M.No. 202352

Place: Madhapur
Date: June 03, 2020

for and on behalf of Board of Directors

Sd/-
Mahpara Ali
Director

Sd/-
Donepudi Durga Prasad
Managing Director

Sd/-
Ravi Shankar Kolathur
Director

Sd/-
J. Murali Krishna
Chief Financial Officer

Sd/-
V. Jaganmohan
Director

Sd/-
P. A. Pattnaik
Company Secretary

SCHEDULE 17 : SIGNIFICANT ACCOUNTING POLICIES

1) General :

The Financial Statements are prepared in accordance with the historical cost convention and accrual basis of accounting and are in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP). The Accounting Policies applied are consistent with those applied in the earlier years except as otherwise stated elsewhere. They are also based on the going concern concept and conform to the statutory provisions and practices prevailing in India.

These Financial Statements have been prepared to comply with the Accounting Standards (AS) notified.

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 expenses for the reporting year. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Future results could differ from these estimates.

The normal operating cycle for the company is 12 months.

2) Revenue, Income and Expenditure Recognition:

2.1 Income:

- a) Income on advances classified under standard assets category is recognized on accrual basis.
- b) Income on Non-performing advances is recognized as and when realized as per the IRAC norms
- c) Interest on Investments and Bank Fixed deposits is recognized on accrual basis.
- d) Other Incomes like commission, exchange and other charges are recognized as and when realized.

2.2 Expenditure:

- a) Revenue Expenditure is accounted on accrual basis.

3) Investments:

3.1 The Investment portfolio of the Bank is classified into the following three categories:

- a) Held to Maturity (HTM)
- b) Available for Sale (AFS)
- c) Held for Trading (HFT)

3.2 Valuation :

- a) All investments held under HTM category are aggregated classification wise, and accounted for at acquisition cost. However, excess of cost over the face value being premium is amortized over the period remaining to maturity.
- b) Securities held under AFS category are valued scrip-wise, at market / estimated realizable value (worked out as per RBI guidelines) and aggregated classification wise. Treasury bills under AFS category are valued at carrying cost. The net depreciation under each group of classification, if any, is fully provided for, while net appreciation is ignored.
- c) Securities held under HFT category are to be valued scrip wise at monthly intervals at market / estimated realizable value (worked out as per RBI guidelines) and aggregated classification wise. The net depreciation under each group of classification, if any, is fully provided for while net appreciation is ignored. However there are no securities under this category.
- d) The shifting of securities as allowed by RBI as part of one time transfer of securities from one category to another is done at the lowest of the acquisition cost, book value or market value and treated as book value in the new category. The Bank shifted one stock from HTM to AFS category having aggregate book value of Rs.149.72 lakh and one stock from AFS to HTM category having aggregate book value of Rs.480.25 lakh during the financial year 2019-20 after due approval of the Board as allowed by RBI.
- e) Investment fluctuation reserve: As per Reserve Bank of India guidelines, Investment Fluctuation Reserve (IFR) of a minimum 5% of the investment portfolio comprising of investments held in "Available for Sale" categories should be created. The total amount held in the IFR as on March 31st, 2020 is Rs. 93.75 Lakhs.

4) Advances:

- a) The loans are classified as secured and un-secured after taking into consideration, the estimated value of primary security in terms of Livestock, Standing Crops, Other assets and collaterals hypothecated / mortgaged, wherever applicable.
- b) The loans and advances are also classified as Standard, Substandard, Doubtful and Loss Assets as per IRAC norms.
- c) All assets, which are not treated as standard assets are classified as Non-Performing Assets.
- d) Irrespective of the above classification, where any asset, in the opinion of the management, auditors and Reserve Bank of India, is considered irrecoverable with reasonable efforts, the same is classified as Loss Assets. However there are no loans under this category.
- e) Provision on Standard Assets is made at 0.50% on advances to Agriculture and 0.25% on SME sectors, 1% on advances to commercial real estate, 0.40% on all other advances.

5) Fixed Assets and Depreciation / Amortization:

- a) Fixed Assets are stated at Cost less accumulated depreciation. Cost includes taxes, duties, freight and incidental expenses related to the acquisition and installation of the assets.
- b) Intangible Assets comprising of computer software and licenses expected to provide future enduring economic benefits are carried at cost less accumulated amortization and impairment losses, if any. Cost comprises of purchase price and directly attributable expenditure for making the asset ready for its intended use. Any technology support cost or annual maintenance cost for such software is charged to the Statement of Profit and Loss.
- c) Depreciation on tangible assets is provided on Straight Line Method (SLM) which reflects the management's estimate of the useful lives of the respective fixed assets. As per the Companies Act, 2013, the bank has reviewed and fixed the useful life of its fixed assets. Such useful Life of the fixed assets are given here under :

| Asset Category | Useful Life of the Asset (in no of Years) |
|--|---|
| 1. Assets for Own Use: | |
| I. Furniture and Fixtures | 10 |
| II. Office Equipment | 5 |
| III. Professional Equipment (Comprising of Computers, Printers, Peripherals, etc) | 3 |
| IV. Vehicles | 5 |
| V. Leased Premises - constructions | 5 |

- e) Fixed Assets costing up to Rs. 5,000/- are depreciated fully in the year of purchase and put to use.

6) Impairment of Fixed Assets:

- a) Whenever events or changes in circumstances indicate that the carrying amount of fixed assets may be impaired, such assets are put to a test of recoverability, based on discounted cash flows expected from use or disposal thereof. If the assets are impaired, the impairment loss is recognized which is the excess of the carrying amount over the recoverable amount.
- b) After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.
- c) A previously recognized impairment loss is increased or reversed depending on changes in circumstances. However, the carrying amount after reversal is not increased beyond the carrying amount that would have prevailed by charging usual depreciation if there was no impairment.

7) Provisioning and Write off :

- a) Provisioning in respect of Non-performing assets is made as per guidelines applicable to banks, issued by Reserve Bank of India.
- b) Bank has adopted a policy to write off selective cases, wherever 100% provision is made.

8) Pre-operative Expenditure :

- a) The pre-operative expenditure incurred with regard to shifting of existing branches and opening of new branches are treated as revenue expenditure during the year of shifting. However during the financial year the bank has not booked any pre-operative expenses.

9) Prior Period and Extra Ordinary Items :

Prior Period and Extra Ordinary items having material impact on the financial affairs are disclosed separately.

10) Staff Benefits:

- a) **Provident Fund:** Contribution is accounted on actual liability basis and paid to Employee's Provident Fund Organization.
- b) **Gratuity:** Gratuity is being computed as per statutory norms on actuarial valuation basis and paid into a trust created with and for this purpose, through the group schemes of Life Insurance Corporation of India.

11) Taxes on Income :

- a) Current Tax is the amount of tax payable on the taxable income for the year determined in accordance with the provisions of the Income Tax Act, 1961.
- b) Deferred Tax is recognized on the timing differences – being differences between the taxable incomes and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

Deferred Tax Assets subject to the consideration of prudence are recognized and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

In situations where the Company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that they can be realized against future taxable profits.

12) Provisions, Contingent Liabilities and Contingent Assets :

- a) **Provisions** involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events – it is probable that there will be an outflow of resources and a reliable estimate can be made of the amount of the obligation.
- b) **Contingent Liabilities** are not recognized but are disclosed in the Notes.
- c) **Contingent Assets** are neither recognized nor disclosed in the financial statements.

13) Net Profit :

- a) Net Profit is arrived at after accounting for the following "Provisions and Contingencies" :

Depreciation and amortization on Investments

Provision for Taxation including Income Tax & Deferred Tax

Provision for Loan Losses

Provision for Standard Assets and NPAs

Provision for disputed tax on the Interest on NPA

Other usual and necessary provisions

14) Earnings per Share :

Basic and Diluted earnings per equity share are reported in accordance with Accounting Standard-20-Earnings per Share - notified by the Central Government under the Companies (Accounting Standards) Rules, 2006.

Basic earnings per equity share have been computed by dividing Net Profit / (Loss) after Tax for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

Diluted earnings per equity share is computed by dividing the Net Profit / (Loss) after Tax for the year by the weighted average number of equity shares considered for deriving basic earnings per equity share and also the weighted average number of equity shares that could have been issued upon conversion of all dilutive potential equity shares.

SCHEDULE 18 : NOTES ON ACCOUNTS

1. Capital

| S.No | Particulars | 31-Mar-2020 | 31-Mar-2019 |
|-------|---|-------------|-------------|
| i) | Common Equity Tier 1 capital ratio (%) | 21.50 | 22.68 |
| ii) | Tier 1 capital ratio (%) | 21.50 | 22.68 |
| iii) | Tier 2 capital ratio (%) | 0.37 | 0.38 |
| iv) | Total capital Ratio (CRAR) (%) | 21.87 | 23.06 |
| v) | Percentage of the shareholding of the Government of India in public sector banks | Nil | Nil |
| vi) | Amount of Equity capital raised | Nil | Nil |
| vii) | Amount of additional Tier 1 capital raised; of which PNCPS: PDI: | Nil | Nil |
| viii) | Amount of Tier 2 capital raised of which Debt capital instrument: Preference share capital instruments: Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-cumulative Preference shares (RNCPS) / Redeemable Cumulative Preference shares (RCPS) | Nil | Nil |

2) a. Investments

(Rs. in Lakhs)

| Particulars | 31-Mar-2020 | 31-Mar-2019 |
|---|-------------|-------------|
| 1. Value of Investments | | |
| a) Gross Value of Investments | | |
| i) In India | 4751.32 | 4497.72 |
| ii) Outside India | Nil | Nil |
| b) Provision for Depreciation | | |
| i) In India | NIL | 14.91 |
| ii) Outside India | Nil | Nil |
| c) Net Value of Investments | | |
| i) In India | 4751.32 | 4482.81 |
| ii) Outside India | NIL | Nil |
| 2. Movement of provisions held towards Depreciation on investments | | |
| i) Opening Balance | 14.91 | 24.78 |
| ii) Add: Provision made during the year | 8.39 | Nil |
| iii) Less: provisions reversed during the year | 23.30 | 9.87 |
| iv) Closing Balance | NIL | 14.91 |

Bank booked a net depreciation of Rs.14.91 lacs during 2018-19 due to marking to market of AFS securities.

During current financial year, Bank shifted securities from AFS to HTM category and booked depreciation of Rs.8.39 lacs. The total depreciation of Rs.23.30 lacs is reversed to Investments account during the financial year 2019-20.

b. **Repo Transactions** : Bank does not deal in any repo transaction.

c. **Non SLR Investment Portfolio:**

The Bank has invested in below mentioned Mutual fund portfolio under Non SLR category as on March 31, 2020. The details are under

| Name of Bank /Mutual Fund | Scheme Name | Amount in Rs. |
|---------------------------|---------------------|--------------------|
| State Bank of India | Regular Plan Growth | 1,00,42,702 |
| Aditya Birla Sun Life | Liquid Fund | 2,35,204 |
| Total | | 1,02,77,906 |

d. **Sale and transfers to/ from HTM category**

The Bank has shifted one stock of HTM category having aggregate book value of Rs.149.72 Lakh to AFS Category and One stock of AFS category having aggregate book value of Rs.480.25 lakh to HTM during the financial year, with the due approval of Board, as allowed by RBI and AFS category stock was sold during the FY -2019-20.

3) **Derivatives :**

The bank does not deal in any derivatives products.

4) **Asset Quality**

i) **Non Performing Asset**

(Rs. in Lakhs)

| | Item | 31-Mar-2020 | 31-Mar-2019 |
|-------|--|-------------|-------------|
| (i) | Net NPAs to Net Advances (%) | 0.85 | 1.92 |
| (ii) | Movement of NPAs (Gross) | | |
| | (a) Opening Balance | 740.75 | 485.89 |
| | (b) Additions during the year | 133.06 | 412.44 |
| | (c) Reduction during the year | 310.63 | 157.58 |
| | (d) Closing Balance | 563.18 | 740.75 |
| (iii) | Movement of Net NPAs | | |
| | (a) Opening Balance | 332.79 | 144.86 |
| | (b) Additions during the year | -51.18 | 234.16 |
| | (c) Reduction during the year | 115.29 | 46.23 |
| | (d) Closing Balance | 166.32 | 332.79 |
| (iv) | Movement of Provision For NPAs | | |
| | (excluding provisions on standard assets) | | |
| | (a) Opening Balance | 407.96 | 341.03 |
| | (b) Provision made during the year | 184.24 | 178.28 |
| | (c) Write-off/Write -Back of excess provisions | 195.34 | 111.36 |
| | (d) Closing Balance | 396.86 | 407.96 |

ii) **Loan Assets subjected to Restructuring / Rescheduled**

The bank has not rescheduled/ restructured any loan either during the current year or during the previous year.

iii) **Details of financial assets sold to Securitization / Reconstruction Company**

The bank has not sold any financial assets to Securitization / Reconstruction Company during current year or the previous year.

iv) **The bank has neither sold nor purchased any non performing financial assets during the current year or previous year.**

v) **Provisions on Standard Advances:**

(Rs. in Lakhs)

| Particulars | 31-Mar-2020 | 31-Mar-2019 |
|--------------------------------------|-------------|-------------|
| Provisions towards Standard Advances | 70.84 | 64.54 |

5) **Business Ratios :**

| Particulars | 31-Mar-2020 | 31-Mar-2019 |
|--|-------------|-------------|
| Interest income as a percentage to Working Funds | 13.99 | 14.08 |
| Non-Interest income as a percentage to Working Funds | 3.39 | 2.79 |
| Operating Profit as a percentage to Working Fund | 2.76 | 1.91 |
| Return on Assets | 0.91 | 0.85 |
| Business (Deposits plus advances) per employee (Rs. in lakh) | 127.80 | 110.23 |
| Profit per Employee (Rs. in lakh) | 0.76 | 0.59 |

6) **Asset Liability Management:**

Maturity pattern of certain items of assets and liabilities

(Rs. in Lakhs)

| Period | Deposits | Loans & Advances | Investments | Borrowings | Foreign Currency Assets | Foreign Currency Liabilities |
|--------------------------------|-----------------|------------------|----------------|------------|-------------------------|------------------------------|
| 1Day | 318.36 | 1627.11 | 102.78 | - | - | - |
| 2 to 7 Days | 472.13 | 114.88 | - | - | - | - |
| 8 to 14 days | 762.84 | 57.61 | - | - | - | - |
| 15 to 28 days | 656.06 | 75.35 | - | - | - | - |
| 29 days to 3 months | 3216.80 | 2515.93 | - | - | - | - |
| Over 3 months & up to 6 months | 3788.54 | 3573.58 | - | - | - | - |
| Over 6 months & up to 1 year | 8355.16 | 5419.29 | - | - | - | - |
| Over 1 year & up to 3 years | 6594.69 | 6329.06 | - | - | - | - |
| Over 3 years & up to 5 years | 351.49 | 199.09 | 81.91 | - | - | - |
| Over 5 years | 241.44 | 59.63 | 4669.41 | - | - | - |
| Total | 24757.51 | 19971.53 | 4854.10 | - | - | - |

7) **Exposures :**

i) **Exposure to Real Estate Sector**

The bank has provided housing loans, which are fully secured by mortgage on residential property that is or will be occupied by the borrowers or that is rented and are classified under priority sector.

The loans given to commercial real estate are classified as Non priority sector loans.

(Rs. in Lakhs)

| S.No | Category | 31-Mar-2020 | 31-Mar-2019 |
|------|---|---------------|---------------|
| a) | Direct exposure | | |
| i. | Residential Mortgages | 429.65 | 396.24 |
| | - Included under Priority Sector | | |
| | - Non Priority Sector | 99.30 | 11.21 |
| ii. | Commercial Real Estate | 274.81 | 512.89 |
| iii. | Investments in Mortgage Backed Securities (MBS) and other securitized exposures : | | |
| | a. Residential | Nil | Nil |
| | b. Commercial Real Estate. | Nil | Nil |
| | c. Indirect Exposure | Nil | Nil |
| | Total Exposure to Real Estate Sector | 803.76 | 920.34 |

ii) Exposure to Capital Market

The bank has not made any investment in capital market.

iii) Risk category wise Country Exposure

The bank does not have any overseas operations; hence there is no risk of country exposure.

iv) Details of Single Borrower Limit / Group Borrower Limit exceeded

The Bank has not exceeded the prudential exposure limit in the case of single borrower or Group borrower during the current year / previous year.

v) Unsecured Advances

An Unsecured loan is a loan that is not backed by any security, either primary or collateral. It is a loan that is issued and supported only by the borrower's creditworthiness, Joint Liability, Group Pressure, etc., rather than by some sort of collateral. The unsecured advances breakup is as under:

(Rs. in Lakhs)

| Particulars | 31-Mar-2020 | 31-Mar-2019 |
|-----------------------------------|----------------|----------------|
| Crop Loans | 1.57 | 22.15 |
| Agri Allied Loans | - | 14.83 |
| Agri Investment Loan | 3.53 | 6.41 |
| NFS – Micro Enterprises Loan | 0.38 | 23.90 |
| Housing Loans | - | - |
| Samruddhi Kisan Credit Card Loans | - | 12.84 |
| SHG/FED/CDFI Loans | - | - |
| General Purpose Loans | 1044.17 | 874.08 |
| Sudhama Loans | - | - |
| Personal loan to staff | 50.84 | 52.12 |
| Salaried class term loan | 0.37 | 6.02 |
| Salaried class Overdraft | - | - |
| Personal loan to Staff | 17.53 | 19.77 |
| Total | 1118.39 | 1032.12 |

8) i) Amount of Provision made for Income Tax during the year:

(Rs. in Lakhs)

| Particulars | 31-Mar-2020 | 31-Mar-2019 |
|------------------------------------|-------------|-------------|
| Provision for Income Tax – Current | 167.11 | 95.06 |
| Provision for Tax – Earlier years | 150.00 | - |

ii) Penalties imposed by RBI: NIL

9) Additional Disclosures:

Provisions & contingencies:

- a) **COVID-19 Regular Package:** Due to the pandemic, RBI has announced relief package to all the borrowers vide circs. RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20, dated March 27, RBI/2019-20/220 DOR.No.BP.BC.63/21.04.048/2019-20, dated April 17, 2020 and RBI/2019-20/244, dor.No.BP.BC.71/ 21.04.048/2019-20, dated May 23, 2020 to extend six months moratorium on repayment of instalments on term loans and deferment of interest on working capital limits. Further, RBI has directed Banks to make a general provision of not less than 10% on SMA accounts as on 29th February, 2020, if the accounts are likely to deteriorate in credit quality, due to non-servicing of debt. Bank has identified 359 such accounts with an outstanding liability of Rs.1,36,50,802/- and made a provision of Rs.34,12,700/-.

B) The details of provisions debited to Profit and Loss Account

(Rs. in Lakhs)

| Particulars | 31-Mar-2020 | 31-Mar-2019 |
|---|---------------|---------------|
| Provision for depreciation on investments | 8.39 | (9.87) |
| Provision for Non-Performing Assets | 104.14 | 126.86 |
| Provision for Bad debts | - | 1.16 |
| Provision towards standard assets | 6.31 | 5.59 |
| Provision for taxation (including Deferred Tax) | 167.11 | 95.06 |
| Provision for Tax – Earlier years | 150.00 | - |
| General Provision on SMA accounts as per RBI directives | 34.12 | - |
| Total | 470.07 | 218.80 |

a) The Bank was not having any floating provisions at the end of the financial year 2019-20 and has not made any additional or drawdown the provision during the current year.

b) During the year the bank has not drawn down any reserves made in earlier years.

a. Complaints :

| Particulars | ATM | Others |
|---|-----|--------|
| Number of complaints pending at the beginning of the year | NIL | NIL |
| Number of complaints received during the year | 119 | NIL |
| Number of complaints redressed during the year | 119 | NIL |
| Number of complaints pending at the end of the year | NIL | NIL |

b. No awards were passed by the Banking Ombudsman against the bank during the current year. Bank, being a non-scheduled Bank, does not come under the purview of Banking Ombudsman or under Right to Information Act.

e) The bank has not issued any Letter of Comfort (LOCs) during the current year.

f) The Provision Coverage Ratio stood at 70.47% as at the end of March 2020 Vs 55.07% at the end of March 2019.

g) The Bank has not undertaken any bancassurance business.

h) Claims against the bank not acknowledged as debts :

Income Tax Proceedings:

As on 31.03.2020, the following demands are pending, which are contested by the Bank. These amounts are shown under contingent liabilities as under:

(Rs. in Lakhs)

| Assessment Year | Particulars | Disputed tax liability and Provision | | | Disputed tax liability and Provision | |
|-----------------|--|--------------------------------------|----------------|--|--------------------------------------|--|
| | | 31-03-2019 | | | 31-03-2020 | |
| | | Disputed tax demand | Provision held | Balance shown as Contingent liability as on 31.03.2019 | Provision Held as on 31.03.2020 | Balance shown as Contingent liability as on 31.03.2020 |
| 1 | 2 | 3 | 4 | (5)=(3-4) | 6 | 7 |
| 2009-10 | Income Tax Demand for Rs.13,94,370/- with the contention that Bank has not deducted TDS on certain entities who are otherwise liable to pay tax and also for non-filing of Form 15 G / Form 15 H | 7.54 | - | 7.54 | 7.54 | - |
| 2009-10 | Interest on above demand | 6.40 | - | 6.40 | 1.60 | 4.80 |
| 2009-10 | Penalty on above TDS | 11.64 | - | 11.64 | 2.91 | 8.73 |
| | Total (A) | 25.58 | - | 25.58 | 12.05 | 13.53 |

| Assessment Year | Particulars | Disputed tax liability and Provision | | | Disputed tax liability and Provision | |
|-----------------|---|--------------------------------------|----------------|--|--------------------------------------|--|
| | | 31-03-2019 | | | 31-03-2020 | |
| | | Disputed tax demand | Provision held | Balance shown as Contingent liability as on 31.03.2019 | Provision Held as on 31.03.2020 | Balance shown as Contingent liability as on 31.03.2020 |
| 1 | 2 | 3 | 4 | (5)=(3-4) | 6 | 7 |
| 2013-14 | Income Tax Demand on account of share application amount of Rs.2.25 crore and De recognized Interest amount of Rs.26,67,521/- on NPA amount | 70.74 | 12.02 | 58.72 | 70.74 | 0 |
| 2013-14 | Interest on above demand | 30.64 | - | 30.64 | 7.66 | 22.98 |
| | Total (B) | 101.38 | 12.02 | 89.36 | 78.40 | 22.98 |
| 2014-15 | Income Tax Demand on account of Share Premium of Rs.4.15 crore | 147.02 | 4.80 | 142.22 | 76.37 | 70.65 |
| 2014-15 | Interest on above demand | 58.30 | - | 58.30 | - | 58.30 |
| | Total (C) | 205.32 | 4.80 | 200.52 | 76.37 | 128.95 |
| | Total (D) = (A)+ (B)+(C) | 332.28 | 16.82 | 315.46 | 166.82 | 165.46 |
| | Un-Claimed deposits (E) | - | - | 10.20 | - | 12.21 |
| | Total =(D) + (E) | 332.28 | 16.82 | 325.66 | 166.82 | 177.67 |

Bank has made a provision of Rs.16.82 lacs during 2017-18 against the above demands. Bank has decided to settle all the above long pending IT dues under 'Vivad Se Vishwas' scheme and made an overall provision of Rs.166.82 lacs as on 31.03.2020. Thus, net of these provisions, the contingent liabilities are Rs.177.67 lacs.

10) Concentration of Deposits, Advances, Exposures and NPAs

a) Concentration of Deposits:

| Particulars | 31-Mar-2020 |
|---|-------------|
| Total Deposits of twenty largest depositors (Rs in Lakhs) | 1937.73 |
| Percentage of Deposits of twenty largest depositors to Total Deposits | 7.83% |

b) Concentration of Advances:

| Particulars | 31-Mar-2020 |
|--|-------------|
| Total Advances of twenty largest borrowers (Rs in Lakhs) | 606.00 |
| Percentage of Advances of twenty largest borrowers to Total Advances | 3.03% |

c) Concentration of exposures:

| Particulars | 31-Mar-2020 |
|--|-------------|
| Total Exposure of twenty largest borrowers/customers (Rs in Lakhs) | 664.26 |
| Percentage of Exposures of twenty largest borrowers/customers to Total Exposure on borrowers/customers | 2.34% |

The bank has not made any investment in shares/debentures, PSU Bonds and Commercial Papers, as such the investment exposure of the bank is NIL.

d) Concentration of NPAs:**(Rs. in Lakhs)**

| Particulars | 31-Mar-2020 |
|---|-------------|
| Total Exposure of Top four NPA accounts | 135.10 |

e) Sector-wise Advances:**(Rs. in Lakhs)**

| Sl. No. | Sector | Amount |
|---------|--|---------|
| 1 | Agriculture & allied activities | 4559.89 |
| 2 | Industry (Micro & small, Medium and Large) | 9493.72 |
| 3 | Services | 5866.71 |
| 4 | Personal Loans | 51.21 |

f) Sector-wise NPAs:

| Sl. No. | Sector | % of NPAs to Total Advances in that sector |
|---------|--|--|
| 1 | Agriculture & allied activities | 3.65% |
| 2 | Industry (Micro & small, Medium and Large) | 2.74% |
| 3 | Services | 2.32% |
| 4 | Personal Loans | 0.73% |

g) Movement of NPAs:**(Rs. in Lakhs)**

| Particulars | Amount |
|--|---------------|
| Gross NPAs as on April 1, 2019 | 740.75 |
| Additions (Fresh NPAs) during the year | 133.06 |
| Sub-total (A) | |
| Less: (i) Upgradations | 8.59 |
| (ii) Recoveries (excluding recovery made from upgraded accounts) | 185.65 |
| (iii) Write-offs (including compromises approved) | 116.39 |
| Sub-total (B) | |
| Gross NPAs as on March 31, 2020 (A-B) | 563.18 |

h) Overseas Assets, NPAs and Revenue

The bank does not have any overseas operations.

11) Off-balance Sheet Sponsored

The bank has not sponsored any off balance sheet item.

12) Un-amortized Pension and Gratuity Liabilities - NIL**13) Intra-Group Exposures – NIL**

14. Transfers to Depositor Education and Awareness Fund (DEAF) :
(Rs. in Lakhs)

| Particulars | 20119 - 20 | 2018 - 19 |
|---|--------------|--------------|
| Opening balance of amounts transferred to DEAF | 10.20 | 7.63 |
| Add: Amount transferred to DEAF during the year | 2.01 | 2.57 |
| Less: Amounts reimbursed by DEAF towards claims | - | - |
| Closing balance of amounts transferred to DEAF | 12.21 | 10.20 |

i) Disclosure Requirements as per Accounting Standards :
a) Effect of changes in Accounting Policies : NIL

b) Accounting Standard – 9: Revenue Recognition: Revenue and Expenditure have been generally accounted for on Accrual Basis

c) Accounting Standard– 15: Employee Benefits:

Provision has been made for employee benefits viz. Gratuity (as applicable to the bank) in accordance with the Revised Accounting Standard – 15. The liability of Gratuity was considered as per the statutory norms based on actuarial valuation and paid into a trust created for this purpose, through the group schemes of Life Insurance Corporation of India.

This is in compliance with the Revised Accounting Standard–15 on Employee Benefits notified by the Institute of Chartered Accountants of India.

d) Accounting Standard – 17 : Segment Reporting:
Part A: Business segments:
(Rs. in Lakhs)

| Business Segments | Treasury | | Corporate/Whole sale Banking | | Retail Banking | | Other Banking Operations | | Total | |
|---|--------------|---------------|------------------------------|---------------|----------------|---------------|--------------------------|---------------|--------------|---------------|
| | Current Year | Previous Year | Current Year | Previous Year | Current Year | Previous Year | Current Year | Previous Year | Current Year | Previous Year |
| Revenue | 557.49 | 420.35 | | | 3,215.55 | 2,781.93 | 861.43 | 590.7 | 4,634.47 | 3,792.98 |
| Result | | | | | | | | | | |
| Unallocated Expenses | | | | | | | | | 3,897.84 | 3,362.56 |
| Operating Profit | | | | | | | | | 736.63 | 430.42 |
| Provisions and Contingencies (exc. tax) | 8.39 | (9.88) | | | 144.58 | 133.62 | | | 152.97 | 123.74 |
| Income Tax | | | | | | | | | 317.10 | 95.06 |
| Deferred Tax liability /Asset | | | | | | | | | - | - |
| Net Profit | | | | | | | | | 266.56 | 211.62 |
| Other Information | | | | | | | | | | |
| Segment Assets | 4,854.10 | 4,482.81 | | | 19,971.53 | 17,715.15 | | | 24,825.63 | 22,197.96 |
| Unallocated Assets | | | | | | | | | 6,266.91 | 5,374.38 |
| Total Assets | | | | | | | | | 31092.535 | 27,572.34 |
| Segment Liabilities | | | | | 24,757.51 | 21,858.94 | | | 24,757.51 | 21,858.94 |
| Un allocated Liabilities | | | | | | | | | 6,335.02 | 5,713.40 |
| Total Liabilities | | | | | | | | | 31092.535 | 27,572.34 |

Note: An amount of Rs.2.78 lacs being accrued interest on Mutual Funds as on 31-03-2020 is included under the head 'Other Income' in the Profit & Loss Account. Under segment reporting, the same is considered under Treasury income.

Part B : Geographic segments

(Rs. in Lakhs)

| | DOMESTIC | | INTERNATIONAL | | TOTAL | |
|---------|--------------|---------------|---------------|---------------|--------------|---------------|
| | Current Year | Previous Year | Current Year | Previous Year | Current Year | Previous Year |
| Revenue | 4,634.47 | 3,792.98 | | | 4,634.47 | 3,792.98 |
| Assets | 31,092.54 | 27,572.34 | | | 31,092.54 | 27,572.34 |

Accounting Standard – 18 : Related Party Disclosures

(Rs. in Lakhs)

| Items / Related Party | Parent (As per Ownership or control) | Subsidiaries | Associates / Joint ventures | Key Management Personnel | Relatives of Key Management Personnel | TOTAL |
|-----------------------|--------------------------------------|--------------|-----------------------------|--------------------------|---------------------------------------|-------|
| Rendering of Services | | | | 43.89 | | 43.89 |

The details of remuneration of Key Management Persons of the Bank are appended hereunder:

(Rs. in Lakhs)

| SI No | Name | Date of Joining | Designation | Remuneration | |
|-------|-----------------------|-----------------|-------------------------|--------------|--------------|
| | | | | 2019-2020 | 2018-2019 |
| 1 | Donepudi Durga Prasad | 06-07-2017 | Managing Director | 23.80 | 17.00 |
| 2 | J. Murali Krishna | 06-06-2019 | Chief Financial Officer | 8.19 | 0.00 |
| 3 | P A Patnaik | 01-01-2011 | Company Secretary | 11.90 | 10.00 |
| 4 | S Srinivasaraghavan * | 08-09-2014 | Chief Financial Officer | 0.00 | 15.03 |
| | | | Total | 43.89 | 42.03 |

*Note: Mr S Srinivasa Raghavan resigned and left the service on 15-11-2018.

| Sr. No. | Name(s) of the Related party | Nature of Relationship Nature of contracts/ arrangements/ transactions | Value of contracts/ arrangements/ transactions during the Year (' In Lakhs) | Duration of contracts/ arrangements/ transactions |
|---------|------------------------------|---|---|---|
| 1. | M/s PRSV & Co LLP | Appointed as consultants for: 1. Attending income tax assessments proceedings, stay petitions and penalty proceedings in respect of IT related issues; 1. Verification of monthly TDS / TCS payments and submission of returns; 2. Tax consultancy and advisory services; One of the independent directors, is a partner in the said firm | Rs.1.00 lac Per quarter No Payments made during the FY 2019-20 | For the period 01.04.2020 to 31.03.2021 |

f) Accounting Standard – 21 : Consolidated Financial Statements :

The Bank does not have any Subsidiaries, Joint Ventures or Associates. Hence, Consolidated Financial Statements are not prepared.

g) Accounting Standard - 22 : Accounting for Taxes on Income :

Deferred tax Asset arising on account of timing difference between financial statements and taxation statements have been recognized as per the procedure prescribed in Accounting Standard -22 issued by ICAI. The detail of components of Deferred Tax Asset / (Liability) are shown below for the Year ended 31.03.2020

(Rs. in Lakhs)

| Particulars | | Deference in Exp. | Deferred Tax as at 31.03.2020 |
|---|--------|-------------------|-------------------------------|
| Deferred Tax Liability | | | |
| Depreciation as per Companies Act | 138.61 | | |
| Depreciation on GOI stock | 8.39 | | |
| Deferred Tax Asset | | | |
| Depreciation as per Income Tax Act | 90.05 | 56.95 | 14.33 |
| Deferred Tax Asset at the beginning of the year | | | 11.66 |
| Net Deferred Tax Asset as on March 31, 2020 | | | 2.67 |

h) Accounting Standard -23: Accounting for Investments in Associates in Consolidated Financial Statements:

This accounting Standard is not applicable since the Bank has no Associates

i) Accounting Standard -24 : Discontinuing Operations

This accounting Standard is not applicable since the Bank did not close any of its branches/activities during the year.

j) Accounting Standard 25 : Interim Financial Reporting

Bank is preparing and presenting half yearly financial statement as per guidelines prescribed by Reserve Bank of India

k) Accounting Standard – 28 : Impairment of Assets

In the opinion of Bank's Management, there is no impairment to the assets during the year to which Accounting Standard – 28 – Impairment of Assets applies.

l) Accounting Standard – 29 : Description of Contingent Liabilities :

1. Claims against the Bank not acknowledged as debts - Rs.165.46 Lacs
2. Other items – An Amount of Rs.12.21 Lacs is transferred to Depositor Education and Awareness Fund (DEAF) of which Rs.2.01 lacs pertains to the financial year 2019-20

The previous year figures have been re-grouped / re-classified wherever necessary to make them comparable with the current year's figures.

Wherever certain items are not relevant or applicable to the bank, the same have been omitted.

In terms of our report of even date

for Sagar & Associates

Chartered Accountants

Firm Regn. No. 003510S

Sd/-
B. Srinivasa Rao
Partner
M.No. 202352

for and on behalf of Board of Directors

Sd/-
Mahpara Ali
Director

Sd/-
Donepudi Durga Prasad
Managing Director

Sd/-
Ravi Shankar Kolathur
Director

Sd/-
J. Murali Krishna
Chief Financial Officer

Sd/-
V. Jaganmohan
Director

Sd/-
P. A. Pattnaik
Company Secretary

Place: Madhapur
Date: June 03, 2020

Other Disclosures

A. Capital

(a) CRAR

| Particulars | 31-03-2020 | 31-03-2019 |
|--------------------|------------|------------|
| CRAR | 21.87% | 23.06% |
| Core CRAR | 21.50% | 22.68% |
| Supplementary CRAR | 0.37% | 0.38% |

(b) The bank has not raised any subordinated debt during the current year / previous year.

(c) Risk weighted assets

(Rs. in Lakhs)

| Particulars | Total Assets | Risk weighted Assets |
|--|--------------|----------------------|
| Risk weighted assets - On Balance sheet items | 31,092.53 | 19,333.47 |
| Risk weighted assets - Off Balance sheet items | 177.67 | Nil |

The bank does not have any investment from foreign holdings (Foreign Institutional Investors, Foreign Companies, Foreign Financial Institutions, NRIs, Overseas Corporate Bodies etc.,) as on March 31, 2020.

(d) Shareholding pattern as on March 31, 2020

| S.No | Particulars | % of holding |
|------|--------------|---------------|
| 1 | Corporates | 24.67 |
| 2 | Individuals | 75.33 |
| | Total | 100.00 |

B. Asset quality and credit concentration

a) Net NPAs to net loans and advances

| Particulars | 31-Mar-2020 | 31-Mar-2019 |
|------------------------------------|-------------|-------------|
| Net NPAs to net loans and advances | 0.85% | 1.92% |

b) Net NPAs under the prescribed asset classification categories as on March 31, 2020.

(Rs. in Lakhs)

| Category | Gross NPA | Provision | Net NPA | Percentage of provision to Gross NPA |
|--------------------|---------------|---------------|---------------|--------------------------------------|
| Sub-Standard | 132.03 | 25.54 | 106.49 | 4.54% |
| Doubtful – 1 | 263.30 | 216.68 | 46.62 | 38.47% |
| Doubtful – 2 | 157.19 | 143.98 | 13.21 | 25.57% |
| Doubtful – 3 | 10.66 | 10.66 | - | 1.89% |
| Grand Total | 563.18 | 396.86 | 166.32 | 70.47% |

c) Provisions made towards Standard assets, NPAs, investments and income tax

(Rs. in Lakhs)

| Particulars | 31-Mar-2020 | 31-Mar-2019 |
|--|---------------|---------------|
| Provision for depreciation on investments | 8.39 | (9.87) |
| Provision for Non-Performing Assets | 104.14 | 126.86 |
| Provision for Bad debts | - | 1.16 |
| Provision towards standard assets | 6.31 | 5.59 |
| Provision for taxation | 167.11 | 95.06 |
| Provision for Tax – Earlier years | 150.00 | - |
| General Provision on SMA as per RBI directions | 34.12 | - |
| Total | 470.07 | 218.80 |

d) Movement in net NPAs

| Particulars | 31-Mar-2020 | 31-Mar-2019 |
|-------------------------------|-------------|-------------|
| (a) Opening Balance | 332.79 | 144.86 |
| (b) Additions during the year | -51.18 | 234.16 |
| (c) Reduction during the year | 115.29 | 46.23 |
| (d) Closing Balance | 116.32 | 332.79 |

e) Credit exposure as percentage to capital funds and as percentage to total assets, in respect of

| Particulars | Credit exposure as percentage to capital funds | Percentage to Total assets |
|---|--|----------------------------|
| The largest single borrower | 2.44% | 0.33% |
| The largest borrower group | | |
| The 10 largest single borrowers | 10.46% | 1.42% |
| The 10 largest borrower groups | | |
| Total Capital funds & Assets (Rs In lakhs) | 4228.04 | 31092.54 |

f) Credit exposure to the five largest industrial sectors (if applicable) as percentage to total loan assets

| Particulars | Percentage to total assets |
|---------------------------------|----------------------------|
| Five largest industrial sectors | --- |

c. Forward rate agreements and interest rate swaps

The bank has not made any forward rate agreements and interest rate swaps during the current year / previous year.

D. Business Correspondent Operations

The Bank appointed M/s. Gram Tarang Inclusive Development Services Pvt Ltd was appointed as Business Correspondent with effect from 01-12-2019 with approval of Board in the meeting held on 12-11-2018 and continuing as Business Correspondent for the FY 2019-20. The details of the business as follows

| Particulars | 31-Mar-2020 | 31-Mar-2019 |
|------------------------------|-------------|-------------|
| Deposits (Rs in lacs) | 4887 | 4718 |
| Advances (Rs in lacs) | 187 | 290 |
| Percentage to total Deposits | 19.74% | 21.58% |
| Percentage to total Advances | 0.94% | 1.64% |
| No of Locations | 14 | 17 |

E. Disclosures on Remuneration

| S.No. | Particulars | | Remarks |
|-------|---------------------------|---|---|
| 1 | Qualitative disclosures | <p>1. Information relating to the composition and mandate of the Remuneration Committee.</p> <p>2. Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy.</p> | <p>The functions of Remuneration committee are performed by Human Resources and Development Committee consisting of five directors as members.</p> <p>Scope of the committee To oversee the framing, review and implementation of compensation policy of the bank on behalf of the board.</p> <p>The Human Resources and Development committee reviews all aspects of the compensation structure such as proportion of fixed component & variable component of pay etc.</p> |
| 2 | Quantitative disclosures. | Number of meetings held by the Remuneration committee during the financial year. | <p>Current Year Previous Year</p> <p>3 3</p> |

F. Disclosures relating to Securitization

The bank has not entered into any securitization transaction during the financial year.

G. Credit default swaps

The bank does not deal in Credit default swaps.

H. Liquidity Coverage Ratio:

Bank has been following Basel-I framework which is applicable to Local Area Banks. Hence, Liquidity Coverage Ratio is not applicable.

I. Divergence in Asset Classification and Provisioning for NPAs(Ref. RBI Cir .DBR.BP.BC.No.32/21.04.018/2018-19)

| S.No | Particulars | Amount Rs. In '000' |
|------|---|---------------------|
| 1. | Gross NPAs as on March 31, 2019* as reported by the bank | 740.75 |
| 2. | Gross NPAs as on March 31, 2019 as assessed by RBI | 740.75 |
| 3. | Divergence in Gross NPAs (2-1) | - |
| 4. | Net NPAs as on March 31, 2019 as reported by the bank | 332.79 |
| 5. | Net NPAs as on March 31, 2019 as assessed by RBI | 332.79 |
| 6. | Divergence in Net NPAs (5-4) | - |
| 7. | Provisions for NPAs as on March 31, 2019 as reported by the Bank | 407.98 |
| 8. | Provisions for NPAs as on March 31, 2019 as assessed by RBI | 407.98 |
| 9. | Divergence in provisioning (8-7) | Nil |
| 10. | Reported Net Profit after Tax (PAT) for the year ended 31, March 2019 | 211.62 |
| 11. | Adjusted (notional) Net Profit after Tax (PAT) for the year ended March 31, 2019 after taking into account the divergence in provisioning | Nil |

* March 31, 2019 is the close of the reference period in respect of which divergences were assessed.

J. Reconciliation of ATM and POS Transactions:

ATM & POS reconciliation is completed till March 31, 2020.

| ATM pending entries summary Transaction Type | 31-03-2020 | |
|---|-------------|------------------|
| | No of Tran | Amount (Rs.) |
| Acquirer | 398 | 9,68,000 |
| Issuer | 666 | 11,83,000 |
| On us | 33 | 89,400 |
| Total | 1097 | 22,40,400 |

POS pending entries Summary

| Particulars | No of transactions | Amount |
|-------------|--------------------|--------|
| Issuer | Nil | Nil |

CASH FLOW STATEMENT

(in Rs.)

| SI No | Particulars | 31-March-2020 | | 31-March-2019 | |
|----------|--|----------------|---------------------|----------------|---------------------|
| A | Cash Flow from Operating activities | | 12,99,30,720 | | 22,07,59,170 |
| B | Cash Flow from Investing activities | | (2,91,83,822) | | 4,77,46,361 |
| C | Cash Flow from Financial activities | | (7,32,951) | | 4,66,831 |
| | Net Change in Cash & Cash Equivalents | | 10,00,13,947 | | 26,89,72,362 |
| D | Cash & Cash Equivalents at the beginning of the year | | 43,57,57,430 | | 16,67,85,069 |
| E | Cash & Cash Equivalents at the end of the year | | 53,57,71,377 | | 43,57,57,430 |
| | Net Change in Cash & Cash Equivalents | | 10,00,13,947 | | 26,89,72,362 |
| A | CASH FLOW FROM OPERATING ACTIVITIES | | | | |
| I | Net Profit after Taxes | 2,66,56,063 | | 2,11,62,267 | |
| | Add : Tax Provision | 3,17,10,679 | | 95,05,894 | |
| | Sub Total | | 5,83,66,742 | | 3,06,68,161 |
| | Less : Amount Transferred to Provision for leave encashment | - | - | - | - |
| | Sub Total | - | 5,83,66,742 | - | 3,06,68,161 |
| | Adjustments :- | | | | |
| i | Depreciation on Fixed Assets | | 1,38,60,662 | | 1,55,95,053 |
| ii | Provision for NPAs(pbdd) | | 1,04,14,260 | | 1,26,86,522 |
| iii | Provision for Standard Assets | | 6,30,611 | | 5,59,563 |
| iv | Depreciation on Investments | | 8,39,231 | | (9,87,631) |
| v | Interest paid on Subordinated Debts | | - | | - |
| vi | Other Provisions | | | | |
| | Provision for Restructured accounts(interest sacrifice) | - | | - | |
| | Provision for Retired employee's Medical Bills | - | | - | |
| | Adhoc provision for loan loss & Misc.Items / other provision | - | | - | |
| | Provision for Contingent Liabilities | - | | - | |
| | Floating Provision for Loan Losses | - | | - | |
| | Deferred Tax asset for Current year / DTL | - | - | - | - |
| | Sub Total | | 8,41,11,506 | | 5,85,21,668 |
| | Less : Direct Taxes (Actual advance Tax paid) | | 1,25,00,000 | | 85,00,000 |
| | Sub Total | | 7,16,11,506 | | 5,00,21,668 |
| I | Increase in Deposits | 28,98,56,635 | | 36,81,82,394 | |
| II | Increase /Decrease in Borrowings | - | | - | |
| III | Increase in Advances | (22,56,37,419) | | (18,26,49,433) | |
| IV | Increase in Other Liabilities & Provisions | (2,12,15,821) | | (72,21,060) | |
| V | Increase/ Decrease in Other Assets | 1,53,15,819 | | (75,74,398) | |
| | Sub Total | | 5,83,19,214 | | 17,07,37,502 |
| | Net Cash Flow from Operating Activities | | 12,99,30,720 | | 22,07,59,170 |

| SI No | Particulars | 31-March-2020 | | 31-March-2019 | |
|----------|---|---------------|----------------------|---------------|---------------------|
| B | CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| I | Investment in subsidiaries and /or Joint Ventures | - | | - | |
| II | Income Earned on Such Investment | - | | - | |
| III | Increase in Investments | (3,71,28,409) | | 3,55,55,508 | |
| III | Fixed Assets | | | | |
| | Additions during the year | 32,46,091 | | 1,09,75,964 | |
| | Deductions during the year | 46,98,496 | | 12,14,889 | |
| | Net Cash used in Investing Activities | - | (2,91,83,822) | - | 4,77,46,361 |
| C | CASH FLOW FROM FINANCING ACTIVITIES | | | | |
| I | Share Capital | - | | - | |
| II | Share Premium | - | | - | |
| III | Subordinated Bonds | - | | - | |
| IV | Redemption of Bonds (Series -1) | - | | - | |
| V | Interest paid on Subordinated Bonds | - | | - | |
| VI | Dividend paid | - | | - | |
| VII | Other Reserves | (7,32,951) | | 4,66,831 | |
| | Net Cash Provided by (used in) Financing Activities | | (7,32,951) | | 4,66,831 |
| D | CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | | | |
| I | Cash in Hand (including Foreign Currency Notes) | 7,05,69,194 | | 3,26,48,887 | |
| II | Balance with Reserve Bank of India | 1,97,92,032 | | 1,97,92,032 | |
| III | Balance with Banks and Money at call and short Notice | 34,53,96,204 | | 11,43,44,150 | |
| | Total : | | 43,57,57,430 | | 16,67,85,069 |
| E | CASH & CASH EQUIVALENTS AT THE END OF THE YEAR | | | | |
| I | Cash in Hand(including Foreign Currency Notes) | 4,57,37,308 | | 7,05,69,194 | |
| II | Balance with Reserve Bank of India | 1,97,92,032 | | 1,97,92,032 | |
| III | Balance with Banks and Money at call and short Notice | 47,02,42,037 | | 34,53,96,204 | |
| | Total : | | 53,57,71,377 | | 43,57,57,430 |

In terms of our report of even date

for Sagar & Associates
Chartered Accountants
Firm Regn. No. 003510S

Sd/-
B. Srinivasa Rao
Partner
M.No. 202352

Place: Madhapur
Date: June 03, 2020

for and on behalf of Board of Directors

Sd/-
Mahpara Ali
Director

Sd/-
Donepudi Durga Prasad
Managing Director

Sd/-
Ravi Shankar Kolathur
Director

Sd/-
J. Murali Krishna
Chief Financial Officer

Sd/-
V. Jaganmohan
Director

Sd/-
P. A. Pattnaik
Company Secretary

FINANCIAL HIGHLIGHTS**(Amount in Rs. Lakh)**

| Particulars | 31-Mar-16 | 31-Mar-17 | 31-Mar-18 | 31-Mar-19 | 31-Mar-20 |
|---|------------------|------------------|------------------|------------------|------------------|
| Deposits Outstanding | 185.96 | 196.93 | 181.77 | 218.59 | 247.58 |
| Advances Outstanding | 142.89 | 147.37 | 158.89 | 177.15 | 199.72 |
| Income | 36.81 | 38.34 | 36.77 | 37.93 | 46.34 |
| Expenditure | 31.12 | 33.05 | 32.52 | 33.63 | 38.98 |
| Operating Profit (Profit before Prov & Contingencies) | 5.69 | 5.29 | 4.25 | 4.30 | 7.37 |
| Profit Before Tax (PBT) | 5.20 | 4.04 | 3.05 | 3.07 | 5.84 |
| Profit After Tax (PAT) | 3.60 | 2.40 | 2.22 | 2.12 | 2.67 |
| Equity (Capital + Reserves) | 32.62 | 34.69 | 36.96 | 39.12 | 41.72 |
| Total Assets at the end of the period | 224.31 | 238.07 | 233.73 | 275.72 | 310.93 |
| No Of Employees | 374.00 | 385.00 | 371.00 | 359.00 | 350 |

KEY FINANCIAL INDICATORS

| Particulars | 31-Mar-16 | 31-Mar-17 | 31-Mar-18 | 31-Mar-19 | 31-Mar-20 |
|--|------------------|------------------|------------------|------------------|------------------|
| Return on Equity | 11.44 | 7.13 | 6.19 | 5.56 | 6.59 |
| Return on Avg. Assets | 1.71 | 1.02 | 0.96 | 0.85 | 0.91 |
| Cost of Deposits | 8.05 | 7.57 | 7.09 | 6.98 | 7.36 |
| Yield on Advances | 20.3 | 19.33 | 18.11 | 16.84 | 17.54 |
| Average Yield on Assets | 17.23 | 16.22 | 15.13 | 14.68 | 15.34 |
| Gross NPAs to Advances | 2.09 | 2.74 | 3.06 | 4.18 | 2.82 |
| Net NPAs to Net Advances | 0.63 | 0.83 | 0.93 | 1.92 | 0.85 |
| Provision Coverage Ratio | 70.18 | 70.18 | 70.19 | 55.07 | 70.47 |
| Credit-Deposit Ratio | 76.84 | 74.83 | 87.41 | 81.04 | 80.67 |
| Capital Adequacy Ratio - Tier-I Capital | 22.51 | 22.76 | 23.97 | 22.68 | 21.50 |
| Capital Adequacy Ratio - including Tier-II Capital | 22.8 | 23.12 | 24.35 | 23.06 | 21.87 |
| Business per Employee (Rs.in 000s) | 8,792.81 | 8,942.79 | 9,182.15 | 11,023.43 | 12,779.73 |
| Operating Profit per Employee (Rs.in 000s) | 152.22 | 137.43 | 114.47 | 119.9 | 210.47 |
| Net Profit per Employee (Rs.in 000s) | 96.27 | 62.37 | 59.81 | 58.95 | 76.16 |



Mr. D Durga Prasad, MD addressing the gathering at Gram Sava conducted by Manvi branch, at Hirekotnikal village



Food distribution during Lock down by staff of Aland Branch with Branch Manager Mr. Venkatesh Joshi



Gram Sava at Ramsandra village by Branch Manager Mr. S. Venu with Staff of Yadgir Branch



Drawing competition and chappal distribution by staff of Kodangal Branch at Mahanthipur Village of Bomraspet Mandal



20th Bank Formation Day celebration at Kamalapur Branch. Ms Harsha Kulkarni along with Dignitaries on dias



Ms. P Vandana, Branch Manager with Staff of Mahabubnagar Branch at the Bank's Stall in a DFS initiative Customer Outreach Programme



Training Programme on Operational issues for joint costodians



OD intervention Training for CSR at COD Hyderabad



Corporate & Registered Office :

1-98/8 to 11/FC/501 and 1-98/8 to 11/FC/502, 5th Floor, Fortune Chambers
Image Garden Function Hall Lane, Silicon Valley, Madhapur, Hyderabad - 500 081, Telangana
Tel : 040 - 2311 3232

www.kbsbankindia.com