



# 2018 - 2019

## 20<sup>th</sup> ANNUAL REPORT



**KBS Bank**  
Krishna Bhima Samruddhi Local Area Bank

**REACHING THE UNREACHED**



Mr. D. Durga Prasad, Managing Director with villagers and branch staff during a village meeting at Chowdapur



Nominee of customer receiving claim cheque under PMJJBY from Mr. Suresh Goud, Branch Manager, Atmakur Branch



Nominee of customer receiving claim cheque under PMJJBY from Mr. Kumar J Chavan, Branch Manager, Chincholi Branch



Mr. TRV Satyanarayana, Chief Operating Officer addressing gathering in a village meeting held in Karnataka



Senior Management Team with staff during Training Programmes and Review meeting

**Board of Directors :**

Ms. Mahpara Ali	Director
Mr. V. Jaganmohan	Director
Mr. Ravi Shankar Kolathur	Director
Mr. Donepudi Durga Prasad	Managing Director
Mr. Narsimha Reddy	Director (Till May 08, 2018)
Mr. Balaji Gopalakrishnan	Director (Till May 14, 2019)

**Registered office :**

5-83/A2, Sara Complex,  
Yenugonda, Maheswari Theatre,  
Mahabubnagar, Telangana - 509 001.  
Tel : 08542 - 272661

**Corporate Office :**

1-98-9/3/28, Silicon Towers,  
Silicon Valley, Madhapur,  
Hyderabad, Telangana - 500 081.  
Tel : 040-23113232  
Fax: 040-231 13200  
[www.kbsbankindia.com](http://www.kbsbankindia.com)

**Auditors :**

Sagar & Associates  
Chartered Accountants  
Hyderabad  
From 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 16 Business Correspondent outlets spread across the districts.

The bank has its head office and registered office at Mahabubnagar 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 & 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 Rs. 9,700/- and that of an outstanding loan account is around Rs.38,800/- 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.

More details on the website of the Bank [www.kbsbankindia.com](http://www.kbsbankindia.com)

## DIRECTORS'REPORT : 2018-19

The Directors of your Bank are pleased to present the 20th 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 31,2019.

### Financial Highlights:

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

(Rs. in Lakh)

Particulars	Mar-19	Mar-18
Deposits	21859	18177
Advances	17715	15889
Total Business	39574	34066
Capital & Reserves	3912	3696
Interest Earned	3166	3025
Other Income	627	652
Total Income	3793	3677
Interest Expended	1345	1313
Operating Expenses	2017	1939
Provisions & Contingencies	124	120
Total Expenditure	3486	3372
Operating Profit	430	425
Profit Before Tax	307	305
Provision for Income Tax	95	83
Net Profit	212	222

### Performance of the Bank:

The year 2018-19 in retrospect was a stable year in terms of business. On the one hand, there was reasonable growth in business and income but on the other, there was a sharp increase in the NPAs. Through the year, the bank continued its focus on stabilizing the technology infrastructure and management information systems. The performance highlights are briefly described below:

#### The highlights of the bank's performance during 2018-19:

##### Total Business:

The total business of the Bank increased by Rs.55.08 Crore (i.e.16.17%) from Rs. 340.66 Crore as on March 31, 2018 to Rs.395.74 Crore as on March 31, 2019. This growth of 16.17% compares favorably and is a significant improvement over the negative growth of -1.06% that was clocked in the previous year 2017-18. While deposits have recorded a growth of Rs 36.82 cr, advances recorded a growth of Rs. 18.26 cr during the year.

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

##### Deposits:

Deposits of the bank increased by Rs.36.82 Crore (i.e.20.26% growth) from Rs.181.77 Crore as on March 31, 2018 to Rs. 218.59 Crore as on March 31, 2019. The average size of deposit is Rs. 9,745/- as on March 31, 2019 with 2,24,394 deposit accounts compared to Rs. 8,734/- with 2,08,044 deposit accounts as on March 31, 2018

##### Advances:

The total advances of the Bank increased by Rs. 18.26 Crore (11.50%) from Rs.158.89 Crore as at March 31, 2018 to Rs. 177.15 Crore as at March 31, 2019. The average loan size of disbursed portfolio in the MF segment went down from Rs. 45,885/- as on March 31, 2018 to Rs. 41,687/- as on March 31, 2019. The Average loan size stood at Rs 38,872/- as on March 31, 2019 compared to Rs 36,830/- as on March 31, 2018.

The cumulative loan disbursement of the Bank for the financial year 2018-19 amounted to Rs 158.76 Crore with 28,424 loan accounts against Rs. 141 Crore with 27,122 loan accounts during previous year 2017-18.



### Capital Structure:

The Authorized capital of the bank stood at Rs. 25 crores 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. 42.36 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. 304.29 lakh in the Share Premium Account and Rs.2265.78 lakh as General and other reserves and surplus as on March 31, 2019. The net worth of the Bank is Rs.39.12 Crore as on March 31, 2019 compared to Rs 36.96 as on March 31, 2018.

The Capital Adequacy Ratio, i.e. Capital to Risk Weighted Assets Ratio stood at 23.06% as on March 31, 2019 as compared to 24.35 % as on March 31, 2018

### Profitability:

The Profit after Tax (PAT) of the Bank is Rs. 2.12 Crore compared to Rs. 2.22 Crore for the year 2017-18. Although the gross income increased by 3.16%, the expenses increased by 3.66%. Consequently, Return on Equity (ROE) declined to 5.56% as on

March 31, 2019 from 6.19% as on March 31, 2018 and the Return on Assets (ROA) declined to 0.85% from a level of 0.96% a year earlier.

### Credit Deposit Ratio :

Consequent to the increase in advances and also Increase in deposits, the Credit Deposit ratio for the financial year ended March 31, 2019 stood at 81.04%. The corresponding ratio as on March 31,2018 was 87.41%.

### Priority Sector Advances:

The Priority Sector Advances stood at Rs. 131.34 Crore against the total advances of Rs.177.15 Crore as on March 31, 2019, which is 74.14% of total advances which is well above the required level of 40% prescribed by the Reserve Bank of India.

### Dividend:

The Bank has not proposed/declared any dividend for the financial year 2018-19.

### Non-performingAssets

The Banks Gross NPA stood at 4.18% as on March 2019 compared to 3.06% in March 2018 with a net addition of Rs. 2.55 Crore NPA during the year. The Bank maintained a Provision coverage ratio of 55.07% as on March 31, 2019. The Net NPA ratio is at 1.92% as on March 31, 2019.

### Performance Highlights and Key Indicators at a glance:

(Rs. in Lakh)

Particulars	Mar-19	Mar-18
Deposits	21,859	18,177
Advances	17,715	15,889
Capital & Reserve	3,912	3,696
C R A R	23.06	24.35
Saving Deposits to Total Deposits%	19.42%	20.86%
Priority sector Advances to Adjusted Net Bank Credit	74.14%	75.97%
Gross NPA to Total Advances	4.18%	3.06%
Net NPA to Total Advances	1.92%	0.93%
Cost of Deposits	6.98%	7.09%
Yield on advances	16.84%	18.11%
Spread	7.70%	8.04%
CD ratio	81.04%	87.41%
Return of Asset	0.85%	0.96%
Return on Equity	5.56%	6.19%
No of Employees	358	370
Average age of Employee	36	36
Business per employee	110.23	91.82
Net Interest Margin	7.30%	7.39%

## 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 17 BC locations in to full-time Banking outlets/Branches, subject to approval of Reserve Bank of India (RBI). During the year the Bank has been accorded approval on one time basis by the RBI for operating Point of Sales terminals within the operating area. The bank can carry out cash withdrawal, fund transfer, Aadhaar Enabled Payment System (AEPS). This facility has high potential in augmenting the Bank's business without fixed cost associated with brick and mortar outlet. During the year the Bank operated 25 ATMs of which 3 are offsite ATMs and 22 are onsite ATMs.

## Prospects for 2019 - 20 :

After the successful completion of nationwide general elections and the formation of a government at the Centre with substantial majority in the lower house of the parliament, a stable political environment is foreseen for the next five years.

The Union Budget 2019-20 augurs well for the banking sector. The budget 2019-20 has promised for significant developments which, among others, include merger of few more of the large PSU banks, infusion of capital of Rs.70,000 Cr in PSU Banks, reforms in FDI, money market, and stock market. The budget also aims at high retail participation in capital market by reducing the promoter stake from 35% to 25% in listed entities, and opening of market in Government securities for the retail customers; new Mudra loans for SHGs and other Government Schemes. All these developments are expected to provide a great fillip for economic activities and growth.

More specific to the geographic area of the Bank's operations, two out of the three states in which the Bank operates have stable governments, and this augurs well for developmental activities in the region. The monsoon prospects have been forecast to be normal. Besides the monsoon factor, the irrigation facilities in the operating districts have substantially increased. The government's stated major objective is the development of the agriculture sector. Accordingly, budget allocations have been made for fertilizer subsidy, zero budget farming, Pradhan Mantri Matsya Sampada Yojana (PMMSY), Pradhan Mantri Krishi Sinchai Yojana, Pradhan Mantri Kisan Samman Nidhi Yojana etc. All these measures are expected to lead to robust agricultural activity and production in the area, consequent to which agricultural credit market activities are expected to witness healthy growth.

The political environment of the country has stabilized. The Union Budget 2019-20 holds good news for the Banking Industry. After a number of setbacks in 2016-17 the Banking Industry has recovered in 2018-19 viz. significant number of PSU banks have come out of PCA list; merger of PSU Banks, huge Recovery of Bad loan through the Insolvency and Bankruptcy Code (IBC) route up to Rs.70,000

crore, posting a recovery rate of 43%, high provision coverage ratio. The budget 2019-20 has promised for significant developments which among others include merger of few more large PSU Bank, infusion of capital of Rs.70,000 Cr in PSU Banks, several reforms in FDI, money Market, and Stock market, the budget also aimed at high retail participation in capital market by reducing the promoter stake from 35% to 25% in listed entities and opening of market in Government securities for the retail customers; new mudra loans for SHGs and other Government Schemes. All these developments would have tremendous effect on the industries.

Coming to Bank's ecosystem, in two states out of the three have got stable government which is beneficial for the development of the region. The Monsoon prospect has been forecasted to be normal which would augur well for the customer segment of the bank. Apart from monsoon the irrigation in the operating districts have substantially increase. All small finance banks have come into operation many have opened branches in KBS operating districts. During year the government major objective would be development of the agriculture sector. In this context the budget allocation has been made for fertilizer subsidy, zero budget farming, Pradhan Mantri Matsya Sampada Yojana (PMMSY), Pradhan Mantri Krishi Sinchai Yojana, Pradhan Mantri Kisan Samman Nidhi Yojana etc. If all this goes as planned the agricultural credit market would see a healthy growth.

After obtaining the approval from the Reserve Bank for opening of POS terminals, Bank has identified 45 new locations in the operating areas for providing banking services through POS terminals. These POS terminals would be operated through the new BC - Gram Tarang Inclusive Development Services Ltd., (GTDIS) shortly names as Gram Tarang. The new BC had wider experience. It is expected that the bank could achieve desired expansion of delivery channel, more business through Gram Tarang and the POS terminals without any additional capex.

With the new POS terminal becoming fully operational the total delivery channel of the bank could be above 90 including 17 BC and 29 Branches. The Bank had planned for aggressive lending with controlled NPA during the year. Apart from these new facilities such as Mobile Banking, IMPS introduced during the year and widely appreciated by the customers; Bank also plans to augment the other income through hiring of safe deposit lockers; income from government schemes viz. PMJJBY, PMSBY etc. During year the Bank plans to expand its outreach by additional 200 villages from presently covered 1766 villages. The Bank has projected to increase the number of deposit account by 25,000 i.e. by 10%, and loan account by 7,000 i.e. 15 %.

The bank over the past couple of years has been pursuing a strategy of diversification. Though the initial results of this strategy have been most, it holds significant potential for growth

in the context of the legacy business mix of the bank. In order to continue with this strategy on the larger scale, the Bank has identified Gold Loan, Micro loans and advances below Rs.5 lakh, Agri-allied loans and Housing loan as key thrust areas for growth in this year.

The Reserve Bank of India and other Banks have greatly supported the Bank's efforts for making cash available to replenish our ATMs, the bank could operate its ATMs much better than many banks in most of the places. This is helping the bank in earning higher fee-based income as an 'acquirer Bank' shall focus on increasing the low-cost deposits by mobilizing CASA in rural and semi urban areas for reduction in cost of capital.

With many new small finance banks having come into operation with their branches located also in the districts where the Bank operates, securing and growing business have become increasingly competitive. In such a competitive scenario, the Bank will continue its efforts to innovate and design products and services that will prove a niche for the Bank to maintain and grow its business profitably.

#### **The Human Resource (HR):**

The Bank is about to enter its twenty 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 career development and improved efficiency.

The Bank has a Management level committee to look in to 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, 2019 the Bank has 358 employees. About 54% of the work force 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 252 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.

The bank undertook promotion exercise of its staff in all grades. During the year 47 staff have been promoted in different cadre. 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.

#### **Information & Communication Technology:**

During the year Bank has made some remarkable development in technology front viz., Mobile Banking Services and IMPS were launched to the bank's valued customers and also received approval for Reserve Bank of India for opening of Point of Sale terminals in new locations within the area of operation. 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 22 on-site and 3 off-site ATMs and plans to populate all the branches with on-site ATMs. The RuPay Debit- cum- ATM cards issued by the bank are accepted at almost all the ATMs in the country. All our ATMs are EMV (EMV stands for Europay, Master Card, Visa Card). 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, POS 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.



### **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 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 oversees 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 techniques 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 counter party 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 and the report is awaited. During the year 2018-19 the Bank has taken steps to comply with the action points raised in the AFI 2017-18 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 with in 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 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 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 availing 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 Internal Audit (RBIA) and Concurrent Audit System in Commercial Banks. The Audit Committee of the Board comprises three non-executive 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 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 efficiencies on an ongoing basis. The Customer Service committee of the Board comprises of three Members out of which two are Non-executive Independent Directors. 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 17 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 withdrawal, cash deposit, electronic fund transfer etc and all transactions are being done at the BC location. The Customer complaints including ATM complaints are addressed within 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 identified 45 new locations in the area of operation as Point of sell Terminals for providing Banking services such as, cash withdrawal; cash deposit and Aadhaar enable payment system. This will enable any customer or non customer to avail the basic Banking services even at the remotest places of the operational area. The Bank in the mid-year implemented Mobile Banking Services since September 2018. The Mobile banking services have been widely accepted by the customers. The transactions made through Mobile Banking platform have been overwhelming. 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.

#### 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 tool 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 interval 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 2,30,620 Customers, being serviced through a network of 29 branches and 17 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 2018-19 the Bank has issued/renewed 18,964 insurance policies under the Pradhan Mantri Suraksha Bima Yojana and 16,108 policies under the Pradhan Mantri Jeevan Jyoti Bima Yojana and has settled 10 insurance claims to the nominees of the deceased customers enrolled under the Pradhan Mantri Jeevan Jyoti Bima Yojana scheme. 542 crop loan customers have been covered under the Pradhan Mantri Fasal Bima Yojana during the financial year 2018-19.

#### 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 Royal Sundaram/ 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.

**Life Insurance:** Bank is offering Credit Plus Suraksha product which provides 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 2018-19 there are 24,013 customers enrolled under the Credit Plus Suraksha product; Bank facilitated settlement of 62 claims with the insurance company.

**Livestock Insurance:** livestock insurance is offered to cattle financed by bank. KBS bank finances the milk 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 2018-19 there are 778 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 2018-19 there are 4 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 17 locations. These locations are attached to the base branches for operational control and monitoring.

The BASIX Sub-K iTransactions Ltd continued as Business Correspondent (BC) of the Bank for the financial year 2018-19. However, from December 2018 Bank has appointed Gram Tarang Inclusive Development Services Private Limited (GTIDS) as Business Correspondent of the Bank. Sub-K had discontinued as BC of the Bank from March, 2019 and GTIDS has taken over the BC business.

Presently BC is looking after mainly for the deposit business through the counters taken care by 16 Transaction assistants and 31 Grahak Mitras. These Grahak Mitras move around in villages/town(s) for mobilizing savings i.e. Savings Accounts/Daily deposits/Recurring deposits and term deposits. Very few Grahak Mitras are doing credit business and sourcing the loans above Rs. 1 lakh. The BC locations are used to offer the services to loan customers of bank through Customer Service Representative and Business Development Executives of the Bank. The BC locations are connected to the Core Banking Solution software of the Bank and functioning on real time mode.

As at the end of Mar-19, the Deposits through BCs constituted around 21.59% of the total deposits of the Bank as against 21.23% as on March, 2018. The Deposits sourced by BCs stood at Rs. 47.18 cr at the end of Mar 2019 vs Rs.38.58 cr in Mar-18.

#### Auditors and Auditors Report:

M/s. Sagar & Associates, Chartered Accountants, Hyderabad, the Statutory Auditors of the bank for the financial year 2018-19 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 first 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 2019-20, subject to approval of Reserve Bank of India.

### Related Party Transactions:

The Bank has not entered into any contract or arrangements with any of the related parties referred to in sub-section (1) of section 188 of the Companies Act, 2013 except to the extent of payment of remuneration disclosed in the Notes to the Accounts.

### 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 2018-19 the Board comprised of five well experienced personalities from the fields of banking, finance, SME, agri-business and rural development, technology, education and research. As on March 31, 2019 the Board comprised of three non-executive independent directors, one Non executive professional Director and the Managing Director. However, the Non-executive professional director who joined the Bank during the financial year has resigned in May 2019.

### A brief profile of the directors (for the financial year 2018-19) 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. Jaganmohan.** Mr. V. Jaganmohan 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. He has been director of the bank since November 2012.

### Attendance of directors in the board meetings :

Sl No.	Name	Number of meetings entitled to attend	Number of Meetings attended
1	Ms. Mahpara Ali	Eight	Eight
2	Ms. V Jaganmohan	Eight	Eight
3	Mr. Ravi Shankar Kolathur	Eight	Eight
4	Mr. Narsimha Reddy	One	One
5	Mr. Balaji Gopalakrishnan	Four	Four
6	Mr. Donepudi Durga Prasad	Eight	Eight

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. Narsimha Reddy.** Mr. Narsimha Reddy is a Master in Business Administration and CAIIB. Mr. N. Reddy has over three and half decades of quality experience with State bank of India and its Associates. He has extensive experience in credit appraisal, risk management, treasury, human resources, Customer Service, and commercial/SME/Retail Banking. Mr. Narsimha Reddy joined the board on June 14, 2017 and has resigned from the directorship of the Bank w.e.f. May 8, 2018.

5. **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.

6. **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.

The Board met eight (8) times during the Financial Year 2018-19 on 08.05.2018, 25.07.2018, 30.07.2018, 17.09.2018, 12.11.2018, 04.01.2019, 26.02.2019 and 26.03.2019.



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. March 14, 2019.

At present the Board comprises the Managing Director and three independent directors. 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 twentieth 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, 2019 and number of meetings of the committee held during FY 2018-19 are given

S. No	Name of the Committee	Composition of the Committee	Designation	Meetings held during the FY 2018-19
1	Asset Liability Management & Investment Committee	1. Ms. Mahpara Ali	Chairperson	08.05.2018
		2. Mr. Ravi Shankar Kolathur	Member	25.07.2018
		3. Mr. B Gopalakrishnan	Member(Resigned w.e.f. 14.05.2019)	12.11.2018
		4. Managing Director	Member	04.01.2019
		5. CFO	(Permanent Invitee)	26.03.2019
2	Executive Committee	1.Ms. Mahpara Ali	Chairperson	08.05.2018
		2.Mr. V. Jaganmohan	Member	25.07.2018
		3. Mr. B Gopalakrishnan	Member(Resigned w.e.f. 14.05.2019)	12.11.2018
		4.Managing Director	Member	04.01.2019
3	Audit Committee	1. Mr. Ravi Shankar Kolathur	Chairman	26.03.2019
		2.Ms. Mahpara Ali	Member	08.05.2018
		3. Mr. V. Jaganmohan	Member	25.07.2018
		4.Mr. B Gopalakrishnan	Member(Resigned w.e.f. 14.05.2019)	12.11.2018
4	Human Resource Committee	1. Mr. V. Jaganmohan	Chairman	04.01.2019
		2. Ms. Mahpara Ali	Member	26.02.2019
		3. Mr. Ravi Shankar Kolathur	Member	26.03.2019
5	Customer Service Committee	4. Managing Director	Member	08.05.2018
		1. Mr. Ravi Shankar Kolathur	Chairman	04.01.2019
		2. Ms. Mahpara Ali	Member	
		3. Managing Director	Member	
6	Risk Management Committee	1. Mr. Ravi Shankar Kolathur	Chairman	12.11.2018
		2. Mr. V. Jaganmohan	Member	26.03.2019
		3. Mr. B Gopalakrishnan	Member(Resigned w.e.f. 14.05.2019)	
		4. Managing Director	Member	

S. No	Name of the Committee	Composition of the Committee	Designation	Meetings held during the FY 2018-19
7	Information and Communication Technology Committee	1. Mr. V. Jaganmohan	Chairman	27.04.2018 25.07.2018 17.09.2018 12.11.2018 26.02.2019
		2. Mr. Ravi Shankar Kolathur	Member	
		3. Managing Director	Member	
		4. COO	Permanent Invitee	
8	Share Allotment & Transfer Committee	1. Mr. V. Jaganmohan	Chairman	30.07.2018
		2. Ms. Mahpara Ali	Member	17.09.2018
		3. Mr. Ravi Shankar Kolathur	Member	
9	Nomination and Remuneration Committee	1. Mr. V. Jaganmohan	Chairman	08.05.2018
		2. Ms. Mahpara Ali	Member	17.09.2018
		3. Managing Director	Member	12.11.2018 04.01.2019
10	Credit Committee	1. Ms. Mahpara Ali	Chairperson	08.05.2018
		2. Mr. Ravi Shankar Kolathur	Member	25.07.2018
		3. Mr. V. Jaganmohan	Member	12.11.2018
		4. Managing Director	Member	04.01.2019
		5. Chief Credit Officer	Permanent Invitee	26.03.2019

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.

#### [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. 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).

#### 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 placed at the website of the Bank [www.kbsbankindia.com](http://www.kbsbankindia.com) in the download section.

#### 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 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.

#### 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. The Bank continues its effort to create awareness among the employees for saving the power and resources, wherever possible.

On behalf of the Board of Directors

Sd/-

Place : Hyderabad

Date : July 30, 2019

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 comprise the Balance Sheet as at 31st March 2019, 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 on that date of 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 in case of the Balance sheet, of the state of affairs of the Bank as at 31st March 2019;
- b. profit in case of Profit and loss account for the year ended on that date; and
- c. true and fair view in case of statement of cash flows for the year ended on that date.

#### 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.

#### Key Audit Matters

4. 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><b><u>Income Recognition and Asset Classification</u></b></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 64.47% of the Bank's total assets. They are, inter-alia, governed by income recognition, asset classification and provisioning (IRAC) norms and 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>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"> <li>• The accuracy of the data input in the system for income recognition, 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;</li> <li>• 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;</li> </ul>



<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 24x7 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 misstated 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/ judgement 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>
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#### **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 relationships 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**

7. 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
8. 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.
9. 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 2019 and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2019 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 : 21-05-2019  
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 2019 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 Board of Directors 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.

#### **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 and the Standards on Auditing, issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both issued by the ICAI. 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 was 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 bank; (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 authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the bank’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 : 21-05-2019  
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 31 March 2019, 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.

<b>BALANCE SHEET AS ON</b>	<b>Sch</b>	<b>31-Mar-19</b>	<b>31-Mar-18</b>
<b>CAPITAL AND LIABILITIES</b>			
Capital	1	13,42,22,620	13,42,22,620
Reserves and Surplus	2	25,70,07,743	23,53,78,646
Deposits	3	2,18,58,94,408	1,81,77,12,014
Borrowings	4	-	-
Other Liabilities and Provisions	5	18,01,09,365	14,99,71,024
<b>Total</b>		<b>2,75,72,34,136</b>	<b>2,33,72,84,304</b>
<b>ASSETS</b>			
Cash and Balances with Reserve Bank of India	6	9,03,61,226	5,24,40,919
Balances with Banks and Money at Call and Short Notice	7	34,53,96,204	11,43,44,150
Investments	8	44,82,81,386	48,38,36,894
Advances	9	1,77,15,15,429	1,58,88,65,995
Fixed Assets	10	3,90,51,764	5,12,42,616
Other Assets	11	6,26,28,127	4,65,53,730
<b>Total</b>		<b>2,75,72,34,136</b>	<b>2,33,72,84,304</b>
Contingent Liabilities	12	6,01,48,357	4,77,94,184
Bills for Collection		-	-
<b>Principal Accounting Policies</b>	<b>17</b>		
<b>Notes To Accounts</b>	<b>18</b>		

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**

Place: Madhapur  
Date: May 21, 2019

**for and on behalf of Board of Directors**

Sd/-  
V. Jaganmohan  
**Director**

Sd/-  
P. A. Pattnaik  
**Company Secretary & CFO**

Sd/-  
Ravi Shankar Kolathur  
**Director**

Sd/-  
Donepudi Durga Prasad  
**Managing Director**

Sd/-  
Mahpara Ali  
**Director**

Rs.

**PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED****Sch****31-Mar-19****31-Mar-18****I. INCOME**

Interest Earned	13	31,65,64,452	30,25,08,762
Other Income	14	6,27,33,406	6,51,71,856
<b>Total</b>		<b>37,92,97,858</b>	<b>36,76,80,618</b>

**II. EXPENDITURE**

Interest Expended	15	13,44,80,563	13,13,04,113
Operating Expenses	16	20,17,74,828	19,39,09,732
Provisions and Contingencies		2,18,80,200	2,02,75,764
<b>Total</b>		<b>35,81,35,591</b>	<b>34,54,89,609</b>

**III. PROFIT / LOSS**

Net Profit / (Loss) for the Year		2,11,62,267	2,21,91,009
Add: Profit / (Loss) Brought Forward		14,38,63,378	12,68,49,233
<b>Total</b>		<b>16,50,25,645</b>	<b>14,90,40,242</b>

**IV. APPROPRIATIONS / TRANSFERS**

Statutory Reserve		42,35,508	44,41,405
Capital Reserve		4,76,716	12,12,487
Investment Fluctuation Reserve			
Interim and Proposed Dividend			
Tax on Dividend			
Balance Carried Over to Balance Sheet		16,03,13,421	14,33,86,350
<b>Total</b>		<b>16,50,25,645</b>	<b>14,90,40,242</b>

**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****for and on behalf of Board of Directors**

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

Sd/-  
V. Jaganmohan  
**Director**

Sd/-  
Ravi Shankar Kolathur  
**Director**

Sd/-  
Mahpara Ali  
**Director**

Sd/-  
P. A. Pattnaik  
**Company Secretary & CFO**

Sd/-  
Donepudi Durga Prasad  
**Managing Director**

Place: Madhapur  
Date: May 21, 2019

		Rs.	
SCHEDULES TO BALANCE SHEET AS ON		31-Mar-19	31-Mar-18
<b>SCHEDULE 1 : CAPITAL</b>			
<b>Authorised Capital</b>		25,00,00,000	25,00,00,000
250,00,000 Equity Shares of Rs. 10/- each			
<b>Issued Capital</b>			
Issued 13422262 Equity Shares of Rs. 10/- each		13,42,22,620	13,42,22,620
<b>Subscribed &amp; Paid-up capital</b>			
13422262 Equity Shares of Rs. 10/- each		13,42,22,620	13,42,22,620
<b>Total</b>		<b>13,42,22,620</b>	<b>13,42,22,620</b>
<b>SCHEDULE 2 : RESERVES AND SURPLUS</b>			
<b>I. Statutory Reserves</b>			
Opening Balance		4,89,67,413	4,45,26,008
Additions during the Year		42,35,508	44,41,405
Deductions during the Year		-	-
<b>Total</b>		<b>5,32,02,921</b>	<b>4,89,67,413</b>
<b>II. Capital Reserves</b>			
Opening Balance		22,91,475	10,78,988
Additions during the year		4,76,716	12,12,487
Deductions during the year		-	-
<b>Total</b>		<b>27,68,191</b>	<b>22,91,475</b>
<b>III. Share Premium</b>			
Opening Balance		3,04,29,380	3,04,29,380
Additions during the year		-	-
Deductions during the year		-	-
<b>Total</b>		<b>3,04,29,380</b>	<b>3,04,29,380</b>
<b>IV. Investment Fluctuation Reserve</b>			
Opening Balance		93,75,000	93,75,000
Additions during the year		-	-
Deductions during the year		-	-
<b>Total</b>		<b>93,75,000</b>	<b>93,75,000</b>
<b>V. Revenue and Other Reserves</b>			
Opening Balance		4,52,000	4,52,000
Addition During the Year		-	-
Deductions during the year		-	-
<b>Total</b>		<b>4,52,000</b>	<b>4,52,000</b>
<b>VI. Balance in Profit and Loss Account</b>			
Opening Balance		14,38,63,378	12,68,49,233
Addition During the Year		1,64,50,043	1,65,37,117
Deductions during the year		-	-
Add: Deferred Tax		4,66,831	4,77,028
Less : Depreciation relating to earlier years		-	-
<b>Total</b>		<b>16,07,80,252</b>	<b>14,38,63,378</b>
<b>Total (I to VI)</b>		<b>25,70,07,744</b>	<b>23,53,78,646</b>



**SCHEDULES TO BALANCE SHEET AS ON****31-Mar-19****31-Mar-18****SCHEDULE 3 : DEPOSITS****A. I. Demand Deposits**

(i) From Banks

(ii) From Others

**II. Savings Bank Deposits****III. Term Deposits**

(i) From Banks

(ii) From Others

**Total (I, II and III)****B. I. Deposits of branches in India**

II. Deposits of branches out side India

**Total****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 &amp; II above)

**SCHEDULE 5 : OTHER LIABILITIES AND PROVISIONS****I. Bills Payable & Liabilities****II. Inter-Office adjustments (net)****III. Interest Accrued****IV. Others (including provisions)****V. Proposed dividend ( Inc Dividend Distribution tax)****Total****SCHEDULE 6 : CASH AND BALANCES WITH RESERVE BANK OF INDIA****I. Cash in hand**

(including foreign currency notes)

**II. Balances with Reserve Bank of India**

(i) in current Account

(ii) in other Accounts

**Total - (I & II)****SCHEDULE 7 : BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE****I. In India****i. Balance with banks**

a. in current accounts

b. in other deposit accounts

**ii. Money at call and short notice**

a. with banks

b. with other institutions

**Total**

		Rs.	
SCHEDULES TO BALANCE SHEET AS ON		31-Mar-19	31-Mar-18
II. Outside India			
i. In current accounts		-	-
ii. In Other deposit accounts		-	-
iii. Money at call and short notice		-	-
<b>Total</b>		-	-
<b>Total - (I &amp; II)</b>		<b>34,53,96,204</b>	<b>11,43,44,150</b>
<b>SCHEDULE 8 : INVESTMENTS</b>			
I. Investments in India in			
i. Government Securities		44,97,72,155	48,63,15,294
ii. Other approved securities		-	-
iii. Shares		-	-
iv. Debentures and Bonds		-	-
v. Subsidiaries and / or joint ventures		-	-
vi. Others		-	-
<b>Total</b>		<b>44,97,72,155</b>	<b>48,63,15,294</b>
<b>Less: Depreciation</b>		<b>14,90,769</b>	<b>24,78,400</b>
<b>Net Investments</b>		<b>44,82,81,386</b>	<b>48,38,36,894</b>
II. Investments outside India in			
i. Government securities (including local authorities)		-	-
ii. Subsidiaries and/or joint ventures abroad		-	-
iii. Other investments		-	-
<b>Total</b>		-	-
<b>Total - (I &amp; II)</b>		<b>44,82,81,386</b>	<b>48,38,36,894</b>
<b>SCHEDULE 9:ADVANCES</b>			
A i) Bills purchased and discounted		-	-
ii) Cash credits, overdrafts and loans repayable on demand		9,67,54,919	10,45,51,358
iii) Term Loans		1,67,47,60,510	1,48,43,14,637
<b>Total</b>		<b>1,77,15,15,429</b>	<b>1,58,88,65,995</b>
B i) Secured by Tangible Assets		1,66,83,03,605	1,48,83,56,280
ii) Covered by Bank / Government Guarantee		-	-
iii) Unsecured		10,32,11,824	10,05,09,715
<b>Total</b>		<b>1,77,15,15,429</b>	<b>1,58,88,65,995</b>
C I) Advances in India			
i) Priority Sectors		1,31,34,48,775	1,20,71,63,598
ii) Public Sector		-	-
iii) Banks		-	-
iv) Others		45,80,66,654	38,17,02,397
<b>Total</b>		<b>1,77,15,15,429</b>	<b>1,58,88,65,995</b>
II) Advances outside India			
i) Due from Banks		-	-
ii) Due from Others		-	-
<b>Total</b>		-	-
<b>Total ( C. I &amp; II )</b>		<b>1,77,15,15,429</b>	<b>1,58,88,65,995</b>

**SCHEDULES TO BALANCE SHEET AS ON****31-Mar-19****31-Mar-18****SCHEDULE 10 : FIXED ASSETS**

I. Premises	-	-
II. Other Fixed assets (including furniture and fixtures)		
At cost as on 31st March of the preceding year	12,00,29,751	10,07,90,876
Additions during the year	34,91,660	2,10,80,804
Deductions during the year	12,14,889	18,41,929
Depreciation to date	8,32,54,758	6,87,87,135
<b>Total</b>	<b>3,90,51,764</b>	<b>5,12,42,616</b>

**SCHEDULE 11 : OTHER ASSETS**

I. Inter-Office adjustments (net)	-	-
II. Interest accrued	1,94,76,546	1,67,00,385
III. Tax paid in advance / Tax deducted at source	2,33,63,176	1,48,04,136
IV. Stationery and stamps	25,71,444	17,96,282
V. Non-banking assets acquired in satisfaction of claims	-	-
VI. Deferred Tax Asset ( Net)	11,66,146	6,99,315
VII. Others	1,60,50,816	1,25,53,612
<b>Total</b>	<b>6,26,28,128</b>	<b>4,65,53,730</b>

**SCHEDULE 12 : CONTINGENT LIABILITIES**

I. Claims against the bank not acknowledged as debts	3,32,28,469	3,32,28,469
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	2,69,19,888	1,45,65,715
<b>Total</b>	<b>6,01,48,357</b>	<b>4,77,94,184</b>

**SCHEDULES TO PROFIT AND LOSS ACCOUNT FOR THE YEAR END****31-Mar-19****31-Mar-18****SCHEDULE 13 : INTEREST EARNED**

I. Interest/discount on advances/bills	27,81,92,647	26,34,78,729
II. Income on Investments	3,14,82,107	3,49,58,292
III. Interest on balances with Reserve Bank of India and other inter-bank funds	68,89,698	40,71,741
IV. Others	-	-
<b>Total</b>	<b>31,65,64,452</b>	<b>30,25,08,762</b>

**SCHEDULE 14: OTHER INCOME**

I. Profit on sale of Asset / Investments	37,59,322	1,11,85,663
II. Miscellaneous Income	5,89,74,084	5,39,86,193
<b>Total</b>	<b>6,27,33,406</b>	<b>6,51,71,856</b>

**SCHEDULE 15: INTEREST EXPENDED**

I. Interest on Deposits	13,44,80,563	13,13,04,113
II. Interest on Reserve Bank of India/Inter-bank borrowings	-	-
II. Others	-	-
<b>Total</b>	<b>13,44,80,563</b>	<b>13,13,04,113</b>

**SCHEDULES TO PROFIT AND LOSS ACCOUNT FOR THE YEAR END****31-Mar-19****31-Mar-18****SCHEDULE 16: OPERATING EXPENSES**

I. Payments to and provision for employees	10,14,17,808	10,05,17,656
II. Rent, taxes and lighting	1,85,93,993	1,66,50,010
III. Printing and Stationery	21,82,350	25,26,327
IV. Advertisement and publicity	5,43,426	1,16,242
V. Depreciation on bank's property	1,55,95,053	1,45,43,652
VI. Directors' fees, allowances and expenses	18,51,465	18,49,882
VII. Auditors' Fees and Expenses	8,33,768	6,82,111
VIII. Law Charges	40,000	15,000
IX. Postage, Telephones. Etc.	23,82,732	25,65,524
X. Repairs and maintenance	1,03,61,126	93,70,578
XI. Insurance	53,99,322	39,31,484
XII. Other expenditure	4,25,73,785	4,11,41,266

**Total****20,17,74,828****19,39,09,732****PROVISIONS AND CONTINGENCIES**

I. Provision for Non Performing Assets	1,26,86,522	89,32,764
II. Provision on Standard Assets	5,59,563	5,07,488
III. Provision for Current Tax	95,05,894	82,91,966
IV. Provision for Deferred Tax	-	-
V. Provision for Depreciation on Investments	(9,87,631)	24,78,400
VI. Other Provisions	1,15,852	65,146

**Total****2,18,80,200****2,02,75,764**

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/-  
V. Jaganmohan  
**Director**

Sd/-  
P. A. Pattnaik  
**Company Secretary & CFO**

Sd/-  
Ravi Shankar Kolathur  
**Director**

Sd/-  
Donepudi Durga Prasad  
**Managing Director**

Sd/-  
Mahpara Ali  
**Director**

Place: Madhapur  
Date: May 21, 2019

## **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)

For disclosure purpose they are grouped and shown in the Balance Sheet under six groups.

#### **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 deprecation 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 deprecation 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 three stocks of HTM category having aggregate book value of Rs. 199.91 lakh to AFS Category during the financial year 2018-19 after due approval of the Board as allowed by RBI.



#### 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
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 :**

- a) 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

(All Amounts are in Rs. Lakh unless otherwise stated)

S.No	Particulars	31-Mar-19	31-Mar-18
i)	Common Equity Tier 1 capital ratio (%)	22.68	23.97
ii)	Tier 1 capital ratio (%)	22.68	23.97
iii)	Tier 2 capital ratio (%)	0.38	0.38
iv)	Total capital Ratio (CRAR) (%)	23.06	24.35
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

Particulars	31-Mar-19	31-Mar-18
<b>1. Value of Investments</b>		
a) Gross Value of Investments		
i) In India	4497.72	4863.15
ii) Outside India	Nil	Nil
b) Provision for Depreciation		
i) In India	14.91	24.78
ii) Outside India	Nil	Nil
c) Net Value of Investments		
i) In India	4482.81	4838.37
ii) Outside India		Nil
<b>2. Movement of provisions held towards Depreciation on investments</b>		
i) Opening Balance	24.78	Nil
ii) Add: Provision made during the year		24.78
iii) Less: Write-off, write-back of excess provisions during the year	9.87	Nil
iv) Closing Balance	14.91	24.78

**b. Repo Transactions:**

Bank does not deal in any repo transaction.

**c. Non SLR Investment Portfolio:**

The total Investments held by the bank as on March 31, 2019 are SLR securities. The bank does not have any Non SLR Portfolio on the said date.

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

The bank has shifted three stocks of HTM category having aggregate book value of Rs. 199.91 Lakh to AFS Category during the financial year, with the due approval of Board, as allowed by RBI and out of which two stocks are sold during the FY-2018-19

**3) Derivatives :**

The bank does not deal in any derivatives products.

**4) Asset Quality**

**i) Non Performing Asset**

	Items	31-Mar-19	31-Mar-18
(i)	Net NPAs to Net Advances (%)	1.92	0.93
(ii)	Movement of NPAs (Gross)		
	(a) Opening Balance	485.89	403.56
	(b) Additions during the year	412.44	166.23
	(c) Reduction during the year	157.58	83.9
	(d) Closing Balance	740.75	485.89
(iii)	Movement of Net NPAs		
	(a) Opening Balance	144.86	120.33
	(b) Additions during the year	234.16	108.45
	(c) Reduction during the year	46.22	83.92
	(d) Closing Balance	332.79	144.86
(iv)	Movement of Provision For NPAs (excluding provisions on standard assets)		
	(a) Opening Balance	341.03	283.23
	(b) Provision made during the year	178.28	115.88
	(c) Write-off/Write -Back of excess provisions	111.36	58.08
	(d) Closing Balance	407.96	341.03

**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:**

Particulars	31-Mar-19	31-Mar-18
Provisions towards Standard Advances	64.54	58.94

5) **Business Ratios :**

Particulars	31-Mar-19	31-Mar-18
Interest income as a percentage to Working Funds	14.08	14.68
Non-Interest income as a percentage to Working Funds	2.79	3.16
Operating Profit as a percentage to Working Fund	1.91	2.06
Return on Assets	0.85	0.96
Business (Deposits plus advances) per employee (Rs. in lakh)	110.23	91.82
Profit per Employee (Rs. in lakh)	0.59	0.6

6) **Asset Liability Management:**

Maturity pattern of certain items of assets and liabilities

Period	Deposits	Loans & Advances	Investments	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
1 Day	286.56	902.82	22.12	-	-	-
2 to 7 Days	304.29	490.75	53.65	-	-	-
8 to 14 days	437.24	283.59	96.04	-	-	-
15 to 28 days	438.25	41.59	128.77	-	-	-
29 days to 3 months	2513.63	1976.55	239.74	-	-	-
Over 3 months & up to 6 months	3344.00	5308.78	186.90	-	-	-
Over 6 months & up to 1 year	5623.26	4075.12	941.46	-	-	-
Over 1 year & up to 3 years	7373.09	3399.97	1009.93	-	-	-
Over 3 years & up to 5 years	1052.27	316.53	907.13	-	-	-
Over 5 years	486.35	919.45	897.10	-	-	-
<b>Total</b>	<b>21858.94</b>	<b>17715.15</b>	<b>4482.84</b>	-	-	-

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.

S.No	Category	31-Mar-19	31-Mar-18
a)	Direct exposure		
i.	Residential Mortgages		
	- Included under Priority Sector	396.24	333.12
	- Non Priority Sector		Nil
ii.	Commercial Real Estate	512.89	597.14
iii.	Investments in Mortgage Backed Securities (MBS) and other securitized exposures :		Nil
	a. Residential		
	b. Commercial Real Estate.		
	c. Indirect Exposure		Nil
	<b>Total Exposure to Real Estate Sector</b>	<b>909.13</b>	<b>930.26</b>



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:

Particulars	31-Mar-19	31-Mar-18
Crop Loans	22.14	22.38
Agri Allied Loans	14.82	47.18
Agri Investment Loan	6.41	9.18
NFS - Micro Enterprises Loan	23.90	109.40
Housing Loans	-	1.58
Samruddhi Kisan Credit Card Loans	12.84	14.64
SHG / FED / CDFI Loans	-	-
General Purpose Loans	874.08	737.15
Sudhama Loans	-	-
Personal loan to staff	52.11	41.23
Salaried class term loan	6.02	22.35
Salaried class Overdraft	-	-
Personal loan to Staff	19.77	-
<b>Total</b>	<b>1032.11</b>	<b>1005.10</b>

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

Particulars	31-Mar-19	31-Mar-18
Provision for Income Tax - Current	95.06	82.92
Provision for Tax - Earlier years	-	-

ii) **Penalties imposed by RBI: NIL**

9) **Additional Disclosures:**

**Provisions & contingencies:**

i. The details of provisions debited to Profit and Loss Account

Particulars	31-Mar-19	31-Mar-18
Provision for depreciation on investments	(9.87)	24.78
Provision for Non-Performing Assets	126.86	89.33
Provision for Bad debts	1.16	0.65
Provision towards standard assets	5.59	5.08
Provision for taxation (including Deferred Tax )	95.06	82.92
Provision for Tax - Earlier years	-	-
<b>Total</b>	<b>218.80</b>	<b>202.76</b>

- ii. The bank was not having any floating provisions at the end of the previous year and has not made any additional or drawdown the provision during the current year.
- iii. During the year the bank has not drawn down any reserves made in earlier years.

**a. Complaints :**

Complaints	ATM Complaints	Others
Number of complaints pending at the beginning of the year	NIL	NIL
Number of complaints received during the year	640	NIL
Number of complaints redressed during the year	640	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.
- v. The bank has not issued any Letter of Comfort (LOCs) during the current year.
- vi. The Provision Coverage Ratio stood at 55.07% as at the end of March 2019 and 70.19% at the end of March 2018.
- vii. The Bank has not undertaken any bancassurance business.
- viii. **Claims against the bank not acknowledged as debts :**

**Income Tax Proceedings:**

**a) Assmt. Year 2013-14 and 2014-15 :**

The Income tax assessment proceedings for Assmt.years 2013-14 and 2014-15 were completed in earlier years, and demands were raised with details as under :

Issues	A.Y. 2013-14		A.Y. 2014-15	
	Income	Tax	Income	Tax
NPA Interest	26,67,521/-	12,01,902/-	9,70,654/-	4,80,218/-
Share Application money	225,00,000/-	1,01,37,798/-	4,15,00,000/-	205,32,552/-

**The Bank made a provision for the following amounts:**

A.Y. 2013-14 Rs. 12,01,902 /- - NPA Interest

A.Y. 2014-15 Rs. 4,80,218 /- - NPA Interest

**No Provision was made against the balance demands:**

A.Y. 2013-14 Rs. 1,01,37,798 /-

A.Y. 2014-15 Rs. 2,05,32,552 /-

As the Bank was advised that these demands cannot be sustained.

**b) Assmt. Year 2009-10:**

A survey was conducted on 31-08-2015 by the TDS wing of Income Tax Department to verify the compliance with regard to provisions of TDS under Income Tax Act, 1961. Pursuant to the survey, various information was submitted. An order dated 31-03-2016 was passed wherein a demand of Rs. 13,94,370/- was raised for Assmt. Year 2009-10 for non-deduction of tax at source on Interest paid.

An appeal was filed against the said order of Income Tax Authorities.

Further, the Joint Commissioner of Income Tax (TDS), levied Penalty u/s 271C of Rs. 11,63,749/- vide his order dated 31-10-2016.

An Appeal was filed against this order as it was passed during the pendency of the original TDS Appeal for A.Y. 2009-10 on which the very basis of TDS levy was contested.

No provision was made against these demands as the Bank was advised that these demands cannot be sustained.

**ix) Concentration of Deposits, Advances, Exposures and NPAs**

**a. Concentration of Deposits:**

Particulars	31-Mar-19
Total Deposits of twenty largest depositors	1899.14
Percentage of Deposits of twenty largest depositors to Total Deposits	8.69%

**b. Concentration of Advances:**

Particulars	31-Mar-19
Total Advances of twenty largest borrowers	744.35
Percentage of Advances of twenty largest borrowers to Total Advances	4.20%

**c. Concentration of exposures:**

Particulars	31-Mar-19
Total Exposure of twenty largest borrowers/customers	873.00
Percentage of Exposures of twenty largest borrowers/customers to Total Exposure on borrowers/customers	4.93%

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:**

Particulars	31-Mar-19
Total Exposure of Top four NPA accounts	125.50

**x. Sector-wise Advances:**

Sl. No.	Sector	Amount
1	Agriculture & allied activities	4503.51
2	Industry (Micro & small, Medium and Large)	8225.52
3	Services	4980.10
4	Personal Loans	6.02

**xi. Sector-wise NPAs:**

Sl. No.	Sector	% of NPAs to Total Advances in that sector
1	Agriculture & allied activities	5.31%
2	Industry (Micro & Small, Medium and Large)	4.29%
3	Services	2.95%
4	Personal Loans	41.11%

**xii. Movement of NPAs:**

Particulars	Amount
Gross NPAs as on April 1, 2018	485.89
Additions (Fresh NPAs) during the year	412.44
Sub-total (A)	<b>898.33</b>
Less: (i) Upgradations	7.94
(ii) Recoveries (excluding recovery made from upgraded accounts)	71.95
(iii) Write-offs	77.69
Sub-total (B)	157.78
Gross NPAs as on March 31, 2019 (A-B)	<b>740.75</b>

**xiii. Overseas Assets, NPAs and Revenue**

The bank does not have any overseas operations.

**xiv. Off-balance Sheet Sponsored**

The bank has not sponsored any off balance sheet item.

**xv. Un-amortized Pension and Gratuity Liabilities - NIL****xvi. Intra-Group Exposures - NIL****xvii. Transfers to Depositor Education and Awareness Fund (DEAF) :**

Particulars	2018-19	2017-18	2016-17
Opening balance of amounts transferred to DEAF	7.63	4.98	2.82
Add: Amount transferred to DEAF during the year	2.57	2.65	2.16
Less: Amounts reimbursed by DEAF towards claims	-	-	-
Closing balance of amounts transferred to DEAF	10.20	7.63	4.98

**10) Disclosure Requirements as per Accounting Standards :****a) Effect of changes in Accounting Policies : NIL****Accounting Standard 9 – Revenue Recognition****b) AS - 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.

**c) AS - 17 : Segment Reporting:****Part A : Business segments**

The Bank's operations are solely in financial services and consisting of providing Banking services to the local population. The entire operations of the Bank are thus considered as belonging to retail banking.

**Part B : Geographic segments**

There is only one segment i.e. Domestic segment

**d) AS - 18 : Related Party Disclosures**

List of Related Parties and Transactions

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

Sl No	Name	Designation	Remuneration		
			2018-19	2017-18	2016-17
1	Donepudi Durga Prasad	Managing Director	17.00	12.52	-
2	S Srinivasaraghavan	Chief Financial Officer	15.03	24.05	23.86
3	P A Patnaik	Company Secretary and CFO	10.00	8.71	7.41

Subsidiaries : NIL

Joint Ventures : NIL

Associates : NIL

**e) AS - 21 : Consolidated Financial Statements :**

The Bank does not have any Subsidiaries, Joint Ventures or Associates.

Hence, Consolidated Financial Statements are not prepared.

**f) AS - 22 : Accounting for Taxes on Income :**

**Deferred Income Tax:**

The major components of Deferred Tax Asset / (Liability) are Computation of Deferred Tax for the Year ended 31.03.2019

Particulars		Deference in Exp.	Deferred Tax as at 31.03.2019
<b>Deferred Tax Liability</b>			
Depreciation as per Companies Act	155.95		
Depreciation on GOI stock	(9.88)		
<b>Deferred Tax Asset</b>			
Depreciation as per Income Tax Act	104.15	41.92	11.66
Deferred Tax Asset at the beginning of the year			6.99
<b>Net Deferred Tax Asset as on March 31, 2019</b>			4.67

**g) AS - 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.

**h) AS - 29 : Description of Contingent Liabilities (AS - 29) :**

1. Claims against the Bank not acknowledged as debts - Rs.332.28 Lacs
2. Other items - Rs. 269.20 Lacs

This constitutes written off Advances and amount transferred to Depositor Education and Awareness Fund (DEAF), of which Rs.121.61 lakh & 2.57 Lacs respectively pertains to Year 2018-19.



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

12) 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**

Place: Madhapur

Date: May 21, 2019

**for and on behalf of Board of Directors**

Sd/-

V. Jaganmohan

**Director**

Sd/-

P. A. Pattnaik

**Company Secretary & CFO**

Sd/-

Ravi Shankar Kolathur

**Director**

Sd/-

Donepudi Durga Prasad

**Managing Director**

Sd/-

Mahpara Ali

**Director**

## Other Disclosures

### A. Capital

#### (a) CRAR

Particulars	31-03-2019	31-Mar-18
CRAR	23.06%	24.35%
Core CRAR	22.68%	23.97%
Supplementary CRAR	0.38%	0.38%

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

#### (c) Risk weighted assets

Particulars	Total Assets	Risk weighted Assets
Risk weighted assets - On Balance sheet items	27572.34	17198.63
Risk weighted assets - Off Balance sheet items	269.20	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, 2019.

#### (d) Shareholding pattern as on March 31, 2019

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

### B. Asset quality and credit concentration

#### a) Net NPAs to net loans and advances

Particulars	31-Mar-19	31-Mar-18	31-Mar-17
Net NPAs to net loans and advances	1.92%	0.93%	0.83%

#### b) Net NPAs under the prescribed asset classification categories as on March 31, 2019.

Category	Gross NPA	Provision	Net NPA	Percentage of provision to Gross NPA
Sub-standard	424.62	91.83	332.79	12.40
Doubtful - 1	135.53	135.53	-	18.30
Doubtful - 2	147.26	147.26	-	19.88
Doubtful - 3	33.34	33.34	-	4.50
<b>Grand Total</b>	<b>740.75</b>	<b>407.96</b>	<b>332.79</b>	<b>55.07</b>

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

Particulars	31-Mar-19	31-Mar-18	31-Mar-17
Provision for depreciation on investments	(9.87)	24.78	-
Provision for Non-Performing Assets	126.87	89.33	106.68
Provision for Bad debts	1.15	0.65	5.50
Provision towards standard assets	5.60	5.08	12.74
Provision for taxation	95.06	82.92	129.76
Provision for Tax - Earlier years		-	34.30
<b>Total</b>	<b>218.81</b>	<b>202.76</b>	<b>288.98</b>

d) Movement in net NPAs

Particulars	March -19	31-Mar-18	31-Mar-17
(a) Opening Balance	144.86	120.33	89.02
(b) Additions during the year	234.16	108.45	75.44
(c) Reduction during the year	46.22	83.92	44.13
(d) Closing Balance	332.79	144.86	120.33

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	5.04%	0.73%
The largest borrower group		
The 10 largest single borrowers	16.44%	2.36%
The 10 largest borrower groups		
<b>Total Capital funds &amp; Assets</b>	<b>3965.18</b>	<b>27572.34</b>

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	---

**Forward rate agreements and interest rate swaps**

C. 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 had appointed M/s. Basix Sub-K iTransactions Limited, as a Business Correspondent in November 2013 for extending its reach into the rural areas for Financial Inclusion and mobilizing small savings. M/s. Basix Sub-K iTransactions Limited rendered services as BC of the Bank till 31-01-2019 in Telangana Dist and 28.02.2019 in Karnataka Dist for the FY 2018-19. M/s. Gram Tarang Inclusive Development Services Pvt Ltd was appointed as Business Correspondent with effect from 01-02-2019 for Telangana Dist and 01-03-2019 for Karnataka Branches after obtaining approval of Board approval in the meeting held on 12-11-2018. The details of the business as follows

Particulars	31-Mar-19	31-Mar-18
Deposits	4718	3857.77
Advances	290	150
Percentage to total Deposits	21.58%	21.22%
Percentage to total Advances	1.64%	0.94%
No of Locations	17	18

**E. Disclosures on Remuneration**

S No.	Particulars		Remarks
1	Qualitative disclosures	1. Information relating to the composition and mandate of the Remuneration Committee.  2. Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy.	The functions of Remuneration committee are performed by Human Resources and Development Committee consisting of five directors as members.  Scope of the committee To oversee the framing, review and implementation of compensation policy of the bank on behalf of the board.  The Human Resources and Development committee reviews all aspects of the compensation structure such as proportion of fixed component & variable component of pay etc.
2	Quantitative disclosures.	Number of meetings held by the Remuneration committee during the financial year.	Current Year    Previous Year 4                                  3

**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. So that, Liquidity Coverage Ratio is not applicable.

**I. Divergence in Asset Classification and Provisioning for NPAs (Ref. RBI Cir. No. DBS (H) /No.72/04.03.022/2017-18)**

S.No	Particulars	Amount Rs. In '000'
1	Gross NPAs as on March 31, 2018* as reported by the bank	485.89
2.	Gross NPAs as on March 31, 2018 as assessed by RBI	487.69
3.	Divergence in Gross NPAs (2-1)	1.80
4.	Net NPAs as on March 31, 2018 as reported by the bank	144.85
5.	Net NPAs as on March 31, 2018 as assessed by RBI	146.65
6.	Divergence in Net NPAs (5-4)	1.80
7.	Provisions for NPAs as on March 31, 2018 as reported by the Bank	341.03
8.	Provisions for NPAs as on March 31, 2018 as assessed by RBI	341.03
9.	Divergence in provisioning (8-7)	Nil
10.	Reported Net Profit after Tax (PAT) for the year ended 31, March 2018	221.91
11.	Adjusted (notional) Net Profit after Tax (PAT) for the year ended March 31, 2018 after taking into account the divergence in provisioning	Nil

\* March 31, 2018 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, 2019;

ATM pending entries summary Transaction Type	31-03-2019	
	No of Tran	Amount ( Rs.)
Acquirer	371	9,19,100
Issuer	635	11,00,200
Onus	33	89,400
<b>Total</b>	<b>1039</b>	<b>21,08,700</b>

**POS pending entries Summary**

Particulars	No of transactions	Amount
Issuer	Nil	Nil

**CASH FLOWS STATEMENT**

Sl No	Particulars	31-March-2019		31-March-2018	
<b>A</b>	Cash Flow from Operating activities		22,07,59,170		(11,45,73,868)
<b>B</b>	Cash Flow from Investing activities		4,77,46,361		2,87,36,249
<b>C</b>	Cash Flow from Financial activities		4,66,831		4,77,028
	<b>Net Change in Cash &amp; Cash Equivalents</b>		<b>26,89,72,362</b>		<b>(8,53,60,591)</b>
<b>D</b>	Cash & Cash Equivalents at the beginning of the year		16,67,85,069		25,21,45,660
<b>E</b>	Cash & Cash Equivalents at the end of the year		43,57,57,430		16,67,85,069
	<b>Net Change in Cash &amp; Cash Equivalents</b>		<b>26,89,72,362</b>		<b>(8,53,60,591)</b>
<b>A</b>	<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
<b>I</b>	Net Profit after Taxes	2,11,62,267		2,21,91,009	
	Add : Tax Provision	95,05,894		82,91,966	
	<b>Sub Total</b>		<b>3,06,68,161</b>		<b>3,04,82,975</b>
	Less : Amount Transferred to Provision for leave encashment	-	-	-	-
	<b>Sub Total</b>	-	<b>3,06,68,161</b>	-	<b>3,04,82,975</b>
	<b>Adjustments :-</b>				
<b>i</b>	Depreciation on Fixed Assets		1,55,95,053		1,45,43,652
<b>ii</b>	Provision for NPAs(pbdd)		1,26,86,522		89,32,764
<b>iii</b>	Provision for Standard Assets		5,59,563		5,07,488
<b>iv</b>	Depreciation on Investments		(9,87,631)		24,78,400
<b>v</b>	Interest paid on Subordinated Debts		-		-
<b>vi</b>	<b>Other Provisions</b>				
	Provision for Restructured accounts(interest sacrifice)	-		-	
	Provision for Retired employee's Medical Bills	-		-	
	Adhoc provision for loan loss & Misce.Items / other provision	-		-	
	Provision for Contingent Liabilities	-		-	
	Floating Provision for Loan Losses	-		-	
	Deferred Tax asset for Current year / DTL	-	-	-	-
	<b>Sub Total</b>		<b>5,85,21,668</b>		<b>5,69,45,278</b>
	Less : Direct Taxes (Actual advance Tax paid)		85,00,000		1,25,00,000
	<b>Sub Total</b>		<b>5,00,21,668</b>		<b>4,44,45,278</b>
<b>I</b>	Increase in Deposits	36,81,82,394		(15,15,93,163)	
<b>II</b>	Increase /Decrease in Borrowings	-		-	
<b>IV</b>	Increase in Advances	(18,26,49,433)		(8,26,81,114)	
<b>V</b>	Increase in Other Liabilites & Provisions	(72,21,060)		5,08,04,995	
<b>VI</b>	Increase in Other Assets	(1,60,74,398)		2,44,50,136	
	<b>Sub Total</b>		<b>17,07,37,502</b>		<b>(15,90,19,147)</b>
	<b>Net Cash Flow from Operating Activities</b>		<b>22,07,59,170</b>		<b>(11,45,73,868)</b>



Sl No	Particulars	31-March-2019		31-March-2018	
<b>B</b>	<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
<b>I</b>	Investment in subsidiaries and /or Joint Ventures	-		-	
<b>II</b>	Income Earned on Such Investment	-		-	
<b>III</b>	Increase in Investments	3,55,55,508		3,52,73,396	
<b>III</b>	Fixed Assets				
	Additions during the year	1,09,75,964		(83,79,076)	
	Deductions during the year	12,14,889		18,41,929	
	<b>Net Cash used in Investing Activities</b>	-	<b>4,77,46,361</b>	-	<b>2,87,36,249</b>
<b>C</b>	<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
<b>I</b>	Share Capital	-		-	
<b>II</b>	Share Premium	-		-	
<b>III</b>	Subordinated Bonds	-		-	
<b>IV</b>	Redemption of Bonds (Series -1)	-		-	
<b>V</b>	Interest paid on Subordinated Bonds	-		-	
<b>VI</b>	Dividend paid	-		-	
<b>VII</b>	Other Reserves	4,66,831		4,77,028	
	<b>Net Cash Provided by (used in) Financing Activities</b>		<b>4,66,831</b>		<b>4,77,028</b>
<b>D</b>	<b>CASH &amp; CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>				
<b>I</b>	Cash in Hand (including Foreign Currency Notes)	3,26,48,887		4,99,72,176	
<b>II</b>	Balance with Reserve Bank of India	1,97,92,032		3,97,92,032	
<b>III</b>	Balance with Banks and Money at call and short Notice	11,43,44,150		16,23,81,452	
	<b>Total :</b>		<b>16,67,85,069</b>		<b>25,21,45,660</b>
<b>E</b>	<b>CASH &amp; CASH EQUIVALENTS AT THE END OF THE YEAR</b>				
<b>I</b>	Cash in Hand (including Foreign Currency Notes)	7,05,69,194		3,26,48,887	
<b>II</b>	Balance with Reserve Bank of India	1,97,92,032		1,97,92,032	
<b>III</b>	Balance with Banks and Money at call and short Notice	34,53,96,204		11,43,44,150	
	<b>Total :</b>		<b>43,57,57,430</b>		<b>16,67,85,069</b>

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: May 21, 2019

**for and on behalf of Board of Directors**

Sd/-  
V. Jaganmohan  
**Director**

Sd/-  
P. A. Pattnaik  
**Company Secretary & CFO**

Sd/-  
Ravi Shankar Kolathur  
**Director**

Sd/-  
Donepudi Durga Prasad  
**Managing Director**

Sd/-  
Mahpara Ali  
**Director**

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

Particulars	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19
Deposits Outstanding	163.10	185.96	196.93	181.77	218.59
Advances Outstanding	129.10	142.89	147.37	158.89	177.15
Income	32.97	36.81	38.34	36.77	37.93
Expenditure	26.63	31.12	33.05	32.52	33.63
Operating Profit (Profit before prov& contingencies)	6.34	5.69	5.29	4.25	4.30
Profit Before Tax (PBT)	5.28	5.20	4.04	3.05	3.07
Profit After Tax (PAT)	3.54	3.60	2.40	2.22	2.12
Equity (Capital + Reserves)	30.30	32.62	34.69	36.96	39.12
Total Assets at the end of the period	199.11	224.31	238.07	233.73	275.72
No of Employees	376	374	385	371	359

**KEY FINANCIAL INDICATORS**

Particulars	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19
Return on Equity	12.12	11.44	7.13	6.19	5.56
Return on Avg. Assets	1.94	1.71	1.02	0.96	0.85
Cost of Deposits	7.94	8.05	7.57	7.09	6.98
Yield on Advances	21.18	20.30	19.33	18.11	16.84
Average Yield on Assets	17.91	17.23	16.22	6.75	6.88
Gross NPAs to Advances	1.99	2.09	2.74	3.06	4.18
Net NPAs to Net Advances	0.59	0.63	0.83	0.93	1.92
Provision Coverage Ratio	71.03	70.18	70.20	70.19	55.07
Credit-Deposit Ratio	79.15	76.84	74.83	87.41	81.04
Capital Adequacy Ratio - Tier-I Capital	23.09	22.51	22.76	23.97	22.68
Capital Adequacy Ratio - including Tier-II Capital	23.37	22.80	23.12	24.35	23.06
Business per Employee (Rs.in 000s)	7,771.41	8,792.81	8,942.79	9,182.15	11,023.43
Operating Profit per Employee (Rs.in 000s)	168.63	152.22	137.43	114.47	119.90
Net Profit per Employee (Rs.in 000s)	94.06	96.27	62.37	59.81	58.95



Opening of new premises of Aland Branch



Mr. D. Durga Prasad, Managing Director along with Convener, SLBC, Karnataka addressing in a village meeting at Karnataka



Mr. V Jaganmohan, Director and the Senior Management Team addressing the staff



Launching of Mobile Banking facility



Handing over of waiver amount to beneficiary under Handloom Weavers Loan Waiver Scheme Telangana from Branch Manager Mrs. V Vasantha Lakshmi, Gadwal Branch



**Corporate Office :**

1-98-9/3/28, Silicon Towers, Silicon Valley, Madhapur, Hyderabad, Telangana - 500 081.  
Tel : 040-23113232, Fax: 040-231 13200

**Registered Office :**

5-83/A2, Sara Complex, Yenugonda, Maheswari Theatre, Mahabubnagar, Telangana - 509 001.  
Tel : 08542 - 272661

**[www.kbsbankindia.com](http://www.kbsbankindia.com)**