SCHEDULE 17- SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Preparation:

The accompanying financial statements have been prepared under the historical cost convention, on the accrual basis of accounting on going concern basis, unless otherwise stated and conform in all material aspect to Generally Accepted Accounting Principles (GAAP) in India, which comprise applicable statutory provisions, regulatory norms/guidelines prescribed by the Reserve Bank of India (RBI), Banking Regulation Act, 1949, Insurance Regulatory and Development Authority (IRDA), Pension Fund Regulatory and Development Authority (PFRDA), SEBI (Mutual Funds) Regulations, 1996, Companies Act, Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI), and the prevalent accounting practices in India. In case of foreign entities, Generally Accepted Accounting Principles as applicable to the foreign entities are followed.

B. Use of Estimates:

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

C. Basis of Consolidation:

1. Consolidated financial statements of the Group **(comprising of 29 subsidiaries, 8 Joint Ventures and 22 Associates)** have been prepared on the basis of:

   a. Audited accounts of State Bank of India (Parent).

   b. Line by line aggregation of each item of asset/ liability/income/expense of the subsidiaries with the respective item of the Parent, and after eliminating all material intra-group balances/transactions, unrealised profit/loss, and making necessary adjustments wherever required for non-uniform accounting policies as per AS 21 "Consolidated Financial Statements" issued by the ICAI.

   c. Consolidation of Joint Ventures – 'Proportionate Consolidation' as per AS 27 "Financial Reporting of Interests in Joint Ventures" of the ICAI.

   d. Accounting for investment in 'Associates' under the 'Equity Method' as per AS 23 "Accounting for Investments in Associates in Consolidated Financial Statements" of the ICAI.

2. The difference between cost to the group of its investment in the subsidiary entities and the group's portion of the equity of the subsidiaries is recognised in the financial statements as goodwill / capital reserve.

3. Minority interest in the net assets of the consolidated subsidiaries consists of:

   a. The amount of equity attributable to the minority at the date on which investment in a subsidiary is made, and

   b. The minority share of movements in revenue reserves/loss (equity) since the date the parent-subsidiary relationship came into existence.

D. Significant Accounting Policies

1. Revenue recognition:

1.1 Income and expenditure are accounted on accrual basis, except otherwise stated. As regards, foreign offices/entities, income and expenditure are recognised as per the local laws of the country in which the respective foreign offices/entities are located.

1.2 Interest income is recognised in the Profit and Loss Account as it accrues except (i) income from Non-Performing Assets (NPAs), comprising of advances, leases and investments, which is recognised upon realisation, as per the prudential norms prescribed by the RBI/ respective country regulators in the case of foreign offices/entities (hereafter collectively referred to as Regulatory Authorities), (ii) overdue interest on investments and bills discounted, (iii) Income on Rupee Derivatives designated as "Trading", which are accounted on cash basis.

1.3 Profit or Loss on sale of investments is recognised in the Profit and Loss Account. However, the profit on sale of investments in the 'Held to Maturity' category is appropriated (net of applicable taxes and amount required to be transferred to statutory reserve) to 'Capital Reserve Account'.

1.4 Income from finance leases is calculated by applying the interest rate implicit in the lease to the net investment outstanding in the lease, over the primary lease period. Leases effective from April 1, 2001 are accounted as advances at an amount equal to the net investment in the lease as per Accounting Standard 19 – Leases, issued by ICAI. The lease rentals are apportioned between principal and finance income based on a pattern reflecting a constant periodic return on the net investment outstanding in respect of finance leases. The principal amount is utilized for

reduction in balance of net investment in lease and finance income is reported as interest income.

1.5 Income (other than interest) on investments in "Held to Maturity" (HTM) category acquired at a discount to the face value, is recognised as follows :

i. On Interest bearing securities, it is recognised only at the time of sale/ redemption.

ii. On zero-coupon securities, it is accounted for over the balance tenor of the security on a constant yield basis.

1.6 Dividend is accounted on an accrual basis where the right to receive the dividend is established.

1.7 All other commission and fee incomes are recognised on their realisation except for (i) Guarantee commission on deferred payment guarantees, which is spread over the period of the guarantee; (ii) Commission on Government Business and ATM interchange fees, which are recognised as they accrue; and (iii) Upfront fees on restructured accounts, which is apportioned over the restructured period.

1.8 One time Insurance Premium paid under Special Home Loan Scheme (December 2008 to June 2009) is amortised over average loan period of 15 years.

1.9 Brokerage, Commission etc. paid/incurred in connection with issue of Bonds/Deposits are amortized over the tenure of the related Bonds/ Deposits and the expenses incurred in connection with the issue are charged upfront.

1.10 The sale of NPA is accounted as per guidelines prescribed by RBI :-

i. When the bank sells its financial assets to Securitisation Company (SC)/Reconstruction Company (RC), the same is removed from the books.

ii. If the sale is at a price below the net book value (NBV) (i.e., book value less provisions held), the shortfall is debited to the profit and loss account of the year of sale.

iii. If the sale is for a value higher than the NBV, the excess provision is reversed in the year the amounts are received, as permitted by the RBI.

1.11 Non-banking entities:

Merchant Banking:

a. Issue management and advisory fees are recognised as per the terms of the agreement with the client, net of pass-through.

b. Fees for private placement are recognised on completion of assignment.

c. Brokerage income in relation to stock broking activity is recognized on the trade date of transaction and includes stamp duty, transaction charges and is net of scheme incentives paid.

d. Commission relating to public issues is accounted for on finalisation of allotment of the public issue/receipt of information from intermediary.

e. Brokerage income relating to public issues/ mutual fund/other securities is accounted for based on mobilisation and intimation received from clients/intermediaries.

f. Depository income – Annual Maintenance Charges are recognised on accrual basis and transaction charges are recognised on trade date of transaction.

Asset Management:

a. Management fee is recognised on accrual basis at specific rates, applied on the average daily net assets of each scheme. The fees charged are in accordance with the terms of Scheme Information Document of respective schemes and are in line with the provisions of SEBI (Mutual Funds) Regulations, 1996 as amended from time to time.

b. Portfolio Advisory Service and Portfolio Management Service income is recognised on accrual basis as per the terms of the contract.

c. Recovery, if any, on realisation of devolved investments of schemes acquired by the company, in terms of right of subrogation, is accounted on the basis of receipts.

d. Recovery from funded guarantee schemes is recognised as income in the year of receipt.

e. Scheme Expenses: Expenses of schemes in excess of the stipulated rates and expenses relating to new fund offer are charged to the Profit and Loss Account in the year in which they are incurred in accordance with the requirements of SEBI (Mutual Funds) Regulations, 1996.

Credit Card Operations:

a. Joining membership fee and first annual fee is recognised over a period of one year as this more closely reflects the period to which the fee relates to.

b. Interchange income is recognised on accrual basis.

c. Interest & Subvention Income are recognised over the tenure of loans.

d. All other service income/fees are recorded at the time of occurrence of the respective events.

Factoring:

Factoring charges are accrued on factoring of debts at the applicable rates as decided by the company. Processing fees and Facility Continuation fees are recognised as income only when there is reasonable certainty of its receipt after execution of documents.

Life Insurance:

a. Premium of non-linked business is recognised as income (net of service tax) when due from policyholders. In respect of linked business, premium income is recognised when the associated units are allotted. In case of Variable Insurance Products, premium income is recognised on the date when the Policy Account Value is credited. Uncollected premium from lapsed policies is not recognised as income until such policies are revived.

b. Income from linked funds which includes fund management charges, policy administration charges, mortality charges, etc. are recovered from linked fund in accordance with terms and conditions of policy and recognised when recovered.

c. Premium ceded on reinsurance is accounted in accordance with the terms of the treaty or in-principle arrangement with the Re-Insurer.

d. Benefits paid:

  - Claims cost consist of the policy benefit amounts and claims settlement costs, where applicable.

  - Claims by death and rider are accounted when intimated. Intimations up to the end of the period are considered for accounting of such claims.

  - Claims by maturity are accounted on the policy maturity date.

  - Survival and Annuity benefits claims are accounted when due.

  - Surrenders are accounted as and when intimated. Benefits paid also includes amount payable on lapsed policies which are accounted for as and when due. Surrenders and lapsation are disclosed at net of charges recoverable.

  - Repudiated claims disputed before judicial authorities are provided for based on management prudence considering the facts and evidences available in respect of such claims.

  - Amounts recoverable from re-insurers are accounted for in the same period as the related claims and are reduced from claims.

e. Acquisition costs such as commission, medical fees, etc. are costs that are primarily related to the acquisition of new and renewal insurance contracts and are expensed as and when incurred.

f. Liability for life policies: The actuarial liability of all the life insurance policies has been calculated by the Appointed Actuary in accordance with the Insurance Act 1938, and as per the rules and regulations and circulars issued by IRDA and the relevant Guidance Notes and/or Actuarial Practice Standards (APS) issued by the Institute of Actuaries of India.

   The liability in respect of non-linked business has been calculated by using prospective gross premium valuation method. The unit liability in respect of linked business has been taken as the value of the units standing to the credit of the policy holders, using the Net Asset Value (NAV) prevailing at the valuation date. The variable insurance policies have also been valued in a manner similar to the ULIP business by taking liability as the policy account standing to the credit of the policy holders plus additional provisions for adequacy of charges to meet expenses.

General Insurance:

a. Premium is recorded in the books at the commencement of risk. In case the premium is recovered in instalments, amount to the extent of instalment due is recorded on the due date

of the instalment. Premium (net of service tax), including reinstatement premium, on direct business and reinsurance accepted, is recognized as income over the contract period or the period of risk, whichever is appropriate, on a gross basis under 1/365 method. Any subsequent revision to premium is recognized over the remaining period of risk or contract period. Adjustments to premium income arising on cancellation of policies are recognised in the period in which they are cancelled.

b. Commission received on reinsurance ceded is recognised as income in the period in which reinsurance risk is ceded. Profit commission under re-insurance treaties, wherever applicable, is recognized as income in the year of final determination of the profits as intimated by Reinsurer and combined with commission on reinsurance ceded.

c. In respect of proportional reinsurance ceded, the cost of reinsurance ceded is accrued at the commencement of risk. Non-proportional reinsurance cost is recognized when due. Non-proportional reinsurance cost is accounted as per the terms of the reinsurance arrangements. Any subsequent revision to, refunds or cancellations of premiums is recognized in the period in which they occur.

d. Reinsurance inward acceptances are accounted for on the basis of returns, to the extent received, from the insurers.

e. Acquisition costs such as commission, policy issue expenses etc. are costs that vary with, and are primarily related to the acquisition of new and renewal insurance contracts and are expensed in the period in which they are incurred. The primary test for determination as acquisition cost is obligatory relationship between the costs and the execution of the insurance contracts (i.e. commencement of risk).

f. Claim is recognized as and when a loss occurrence is reported. Provision for claims outstanding payable as on the date of Balance Sheet is net of reinsurance, salvage value and other recoveries as estimated by the management.

g. Provision in respect of claim liabilities that may have been incurred during an accounting period but not reported or claimed (IBNR) or not enough reported (i.e. reported with information insufficient for making a reasonable estimate of likely claim amount) (IBNER) before the end of the accounting period, is the amount determined by the Appointed Actuary/Consulting Actuary based on actuarial principles in accordance with the Guidance Notes issued by the Institute of Actuaries of India with the concurrence of the IRDA and any directions issued by IRDA in this respect.

Custodial & related services:

The revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

Pension Fund Operation:

Management fee is recognized at specified rates agreed with the relevant schemes, applied on daily net assets of each scheme, and is in conformity with the regulatory guidelines issued by Pension Fund Regulatory and Development Authority (PFRDA). The Company presents revenues net of Service Tax.

Trustee Operations:

Mutual Fund Trusteeship fees are recognised on an accrual basis in accordance with the respective terms of trust deeds as entered into with the counterparty and is in conformity with the limits specified under SEBI (Mutual Funds) Regulations, 1996.

Corporate Trusteeship Acceptance fees are recognised on acceptance of trusteeship assignment. Corporate Trusteeship service charges are recognised on the basis of terms of trusteeship contracts/agreements entered into with clients.

2. Investments:

The transactions in Government Securities are recorded on "Settlement Date". Investments other than Government Securities are recorded on "Trade Date".

2.1 Classification:

Investments are classified into three categories, viz. Held to Maturity (HTM), Available for Sale (AFS) and Held for Trading (HFT)

2.2 Basis of classification:

i. Investments that the Bank intends to hold till maturity are classified as "Held to Maturity (HTM)".

ii. Investments that are held principally for resale within 90 days from the date of purchase are classified as "Held for Trading (HFT)".

iii. Investments, which are not classified in the above two categories, are classified as "Available for Sale (AFS)".

iv. An investment is classified as HTM, HFT or AFS at the time of its purchase and subsequent shifting amongst categories is done in conformity with regulatory guidelines.

2.3 Valuation:

A. Banking Business:

i. In determining the acquisition cost of an investment:

a. Brokerage/commission received on subscriptions is reduced from the cost.

b. Brokerage, commission, securities transaction tax, etc. paid in connection with acquisition of investments are expensed upfront and excluded from cost.

c. Broken period interest paid / received on debt instruments is treated as interest expense/income and is excluded from cost/sale consideration.

d. Cost of investment under AFS and HFT category is determined at the weighted average cost method by the group entities and cost of investments under HTM category is determined on FIFO basis (first in first out) by SBI and weighted average cost method by other group entities.

ii. Transfer of securities from HFT/AFS category to HTM category is carried out at the lower of acquisition cost/book value/ market value on the date of transfer. The depreciation, if any, on such transfer is fully provided for. However, transfer of securities from HTM category to AFS category is carried out on acquisition price/ book value. After transfer, these securities are immediately revalued and resultant depreciation, if any, is provided.

iii. Treasury Bills and Commercial Papers are valued at carrying cost.

iv. Held to Maturity category: Investments under Held to Maturity category are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised over the period of remaining maturity on constant yield basis. Such amortisation of premium is adjusted against income under the head "interest on investments". A provision is made for diminution, other than temporary, for each investment individually. Investments in Regional Rural Banks (RRBs) are valued at equity cost determined in accordance with AS 23 of the ICAI.

v. Available for Sale and Held for Trading categories: Investments held under AFS and HFT categories are individually revalued at the market price or fair value determined as per Regulatory guidelines, and only the net depreciation of each group for each category is provided for and net appreciation, is ignored. On provision for depreciation, the book value of the individual securities remains unchanged after marking to market.

vi. In case of sale of NPA (financial asset) to Securitisation Company (SC)/ Asset Reconstruction Company (ARC) against issue of Security Receipts (SR), investment in SR is recognised at lower of (i) Net Book Value (NBV) (i.e., book value less provisions held) of the financial asset and (ii) Redemption of SR. Security receipts issued by an asset reconstruction company (ARC) are valued in accordance with the guidelines applicable to non-SLR instruments. Accordingly, in cases where the security receipts issued by the ARC are limited to the actual realisation of the financial assets assigned to the instruments in the concerned scheme, the Net Asset Value, obtained from the ARC, is reckoned for valuation of such investments.

vii. Investments are classified as performing and non-performing, based on the guidelines issued by the RBI in the case of domestic offices/entities and respective regulators in the case of foreign offices/ entities. Investments of domestic offices become non-performing where:

a. Interest/instalment (including maturity proceeds) is due and remains unpaid for more than 90 days.

b. In the case of equity shares, in the event the investment in the shares of any

company is valued at Re. 1 per company on account of the non availability of the latest balance sheet, those equity shares would be reckoned as NPI.

c. If any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities issued by the same issuer would also be treated as NPI and vice versa.

d. The above would apply mutatis-mutandis to preference shares where the fixed dividend is not paid.

e. The investments in debentures/bonds, which are deemed to be in the nature of advance, are also subjected to NPI norms as applicable to investments.

f. In respect of foreign offices, provisions for non performing investments are made as per the local regulations or as per the norms of RBI, whichever is higher.

viii. **Accounting for Repo/ reverse repo transactions (other than transactions under the Liquidity Adjustment Facility (LAF) with the RBI)**

The securities sold and purchased under Repo/ Reverse repo are accounted as Collateralized lending and borrowing transactions. However securities are transferred as in the case of normal outright sale/ purchase transactions and such movement of securities is reflected using the Repo/Reverse Repo Accounts and Contra entries. The above entries are reversed on the date of maturity. Costs and revenues are accounted as interest expenditure/income, as the case may be.

a. Balance in Repo A/c is classified under schedule 4 (Borrowings) and balance in Reverse Repo A/c is classified under schedule 7 (Balance with Banks and Money at Call & Short Notice).

b. Securities purchased / sold under LAF with RBI are debited / credited to Investment Account and reversed on maturity of the transaction. Interest expended / earned thereon is accounted for as expenditure / revenue.

B. Insurance Business:

In case of life and general insurance subsidiaries, investments are made in accordance with the Insurance Act, 1938, the IRDA (Investment) Regulations, 2000, and various other circulars or notifications issued by IRDA in this context from time to time.

(i) Valuation of investment pertaining to non-linked life insurance business and general insurance business: -

- All debt securities, including government securities are stated at historical cost, subject to amortisation of premium or accretion of discount.
- Listed equity securities are measured at fair value on the Balance Sheet date. For the purpose of determining fair value, the closing price at primary exchange i.e. National Stock Exchange of India Limited ('NSE') is considered. If NSE price is not available on a particular valuation day, the closing price of the secondary exchange i.e. BSE Limited ('BSE') is considered.
- Unlisted equity securities are measured at historical cost.
- Investments in mutual fund units are valued at the Net Asset Value (NAV) of previous day in life insurance and of balance sheet date in general insurance.

  Unrealized gains or losses arising due to changes in the fair value of listed equity shares and mutual fund units pertaining to shareholders' investments and non-linked policyholders investments are taken to "Revenue & Other Reserves (Schedule 2)" and "Liabilities relating to Policyholders in Insurance Business (Schedule 5)" respectively, in the balance sheet.

(ii) Valuation of investment pertaining to linked business: -

- Government securities with remaining maturity of more than one year are valued at prices obtained from Credit Rating Information Services of India Limited ('CRISIL') except Government of India scrips which are valued at prices obtained from FIMMDA. Debt securities other than Government securities with

remaining maturity of more than one year are valued on the basis of CRISIL Bond Valuer. The amortised or average cost of Government and other debt securities with remaining maturity of one year or less are amortised over the remaining life of the securities. Unrealised gains or losses arising on such valuation are recognized in the Profit & Loss Account.

- Listed equity securities are measured at fair value on the Balance Sheet date. For the purpose of determining fair value, the closing price at primary exchange i.e. NSE is considered. If NSE price is not available on a particular valuation day, closing price of the secondary exchange i.e. BSE is considered.
- Investments in mutual fund units are valued at the previous day's Net Asset Value (NAV).

  Unrealized gains or losses arising due to changes in the fair value of equity securities and mutual fund units are recognized in the Profit & Loss Account.
- Unlisted equity securities are measured at historical cost.

3. Loans /Advances and Provisions thereon:

3.1 Loans and Advances are classified as performing and non-performing, based on the guidelines issued by the RBI. Loan Assets become Non-Performing Assets (NPAs) where:

i. In respect of term loans, interest and/or instalment of principal remains overdue for a period of more than 90 days;

ii. In respect of Overdraft or Cash Credit advances, the account remains "out of order", i.e. if the outstanding balance exceeds the sanctioned limit/drawing power continuously for a period of 90 days, or if there are no credits continuously for 90 days as on the date of balance-sheet, or if the credits are not adequate to cover the interest due during the same period;

iii. In respect of bills purchased/discounted, the bill remains overdue for a period of more than 90 days;

iv. In respect of agricultural advances for short duration crops, where the instalment of principal or interest remains overdue for two crop seasons;

v. In respect of agricultural advances for long duration crops, where the principal or interest remains overdue for one crop season.

3.2 NPAs are classified into Sub-Standard, Doubtful and Loss Assets, based on the following criteria stipulated by RBI:

i. Sub-standard: A loan asset that has remained non-performing for a period less than or equal to 12 months.

ii. Doubtful: A loan asset that has remained in the sub-standard category for a period of 12 months.

iii. Loss: A loan asset where loss has been identified but the amount has not been fully written off.

3.3 Provisions are made for NPAs as per the extant guidelines prescribed by the regulatory authorities, subject to minimum provisions as prescribed below:

Substandard Assets:
i. A general provision of 15% on the total outstanding;
ii. Additional provision of 10% for exposures which are unsecured ab-initio (i.e. where realisable value of security is not more than 10 percent ab-initio);
iii. Unsecured Exposure in respect of infrastructure loan accounts where certain safeguards such as escrow accounts are available – 20%.

Doubtful Assets:

-Secured portion:
i. Upto one year – 25%
ii. One to three years – 40%
iii. More than three years – 100%

-Unsecured portion 100%
Loss Assets: 100%

3.4 In respect of foreign offices, classification of loans and advances and provisions for NPAs are made as per the local regulations or as per the norms of RBI, whichever is more stringent.

3.5 Advances are net of specific loan loss provisions, unrealised interest, ECGC claims received and bills rediscounted.

3.6 For restructured/rescheduled assets, provisions are made in accordance with the guidelines issued by the RBI, which require that the difference between the fair value of the loan before and after restructuring is provided for, in addition to provision for NPAs. The Provision for Diminution in Fair Value (DFV) and interest sacrifice, arising out of the above, is reduced from advances.

3.7 In the case of loan accounts classified as NPAs, an account may be reclassified as a performing asset if it conforms to the guidelines prescribed by the regulators.

3.8 Amounts recovered against debts written off in earlier years are recognised as revenue in the year of recovery.

3.9 In addition to the specific provision on NPAs, general provisions are also made for standard assets as per extant RBI Guidelines. These provisions are reflected in Schedule 5 of the Balance Sheet under the head "Other Liabilities & Provisions – Others" and are not considered for arriving at Net NPAs.

4. Floating Provision:

The Bank has a policy for creation and utilisation of floating provisions separately for advances, investments and general purpose. The quantum of floating provisions to be created is assessed at the end of each financial year. The floating provisions are utilised only for contingencies under extra ordinary circumstances specified in the policy with prior permission of Reserve Bank of India.

5. Provision for Country Exposure for Banking Entities:

In addition to the specific provisions held according to the asset classification status, provisions are held for individual country exposures (other than the home country). Countries are categorised into seven risk categories, namely, insignificant, low, moderate, high, very high, restricted and off-credit and provisioning made as per extant RBI guidelines. If the country exposure (net) of the Bank in respect of each country does not exceed 1% of the total funded assets, no provision is maintained on such country exposures. The provision is reflected in schedule 5 of the Balance Sheet under the "Other liabilities & Provisions – Others".

6. Derivatives:

6.1 The Bank enters into derivative contracts, such as foreign currency options, interest rate swaps, currency swaps, and cross currency interest rate swaps and forward rate agreements in order to hedge on-balance sheet/off-balance sheet assets and liabilities or for trading purposes. The swap contracts entered to hedge on-balance sheet assets and liabilities are structured in such a way that they bear an opposite and offsetting impact with the underlying on-balance sheet items. The impact of such derivative instruments is correlated with the movement of the underlying assets and accounted in accordance with the principles of hedge accounting.

6.2 Derivative contracts classified as hedge are recorded on accrual basis. Hedge contracts are not marked to market unless the underlying Assets / Liabilities are also marked to market.

6.3 Except as mentioned above, all other derivative contracts are marked to market as per the generally accepted accounting practices prevalent in the industry. In respect of derivative contracts that are marked to market, changes in the market value are recognised in the profit and loss account in the period of change. Any receivable under derivatives contracts, which remain overdue for more than 90 days, are reversed through profit and loss account to "Suspense A/c - Crystallised Receivables". In cases where the derivative contracts provide for more settlement in future and if the derivative contract is not terminated on the overdue receivables remaining unpaid for 90 days, the positive MTM pertaining to future receivables is also reversed from Profit and Loss Account to "Suspense A/c - Positive MTM".

6.4 Option premium paid or received is recorded in profit and loss account at the expiry of the option. The balance in the premium received on options sold and premium paid on options bought is considered to arrive at Mark to Market value for forex Over the Counter options.

6.5 Exchange Traded Derivatives entered into for trading purposes are valued at prevailing market rates based on rates given by the Exchange and the resultant gains and losses are recognized in the Profit and Loss Account.

7. Fixed Assets' Depreciation and Amortisation:

7.1 Fixed assets are carried at cost less accumulated depreciation/ amortisation.

7.2 Cost includes cost of purchase and all expenditure such as site preparation, installation costs and

professional fees incurred on the asset before it is put to use. Subsequent expenditure incurred on assets put to use is capitalised only when it increases the future benefits from such assets or their functioning capability.

7.3 The rates of depreciation and method of charging depreciation in respect of domestic operations are as under:

Sr. No.	Description of fixed assets	Method of charging depreciation	Depreciation/ amortisation rate
1	Computers & ATM	Straight Line Method	33.33% every year
2	Computer software forming an integral part of hardware	Straight Line Method	33.33% every year
3	Computer Software which does not form an integral part of hardware	-	100% depreciated in the year of acquisition
4	Assets given on financial lease upto 31st March 2001	Straight Line Method	At the rate prescribed under the Companies Act .
5	Other fixed assets	Written down value method	At the rate prescribed under the Income-tax Rules 1962

7.4 In respect of assets acquired during the year for domestic operations, depreciation is charged for half a year in respect of assets used for upto 180 days and for the full year in respect of assets used for more than 180 days, except depreciation on computers and software, which is charged for the full year irrespective of the period for which the asset was put to use.

7.5 Items costing less than Rs. 1,000 each are charged off in the year of purchase.

7.6 In respect of leasehold premises, the lease premium, if any, is amortised over the period of lease and the lease rent is charged in the respective year (s).

7.7 In respect of assets given on lease by the Bank on or before 31st March 2001, the value of the assets given on lease is disclosed as Leased Assets under fixed assets, and the difference between the annual lease charge (capital recovery) and the depreciation is taken to Lease Equalisation Account.

7.8 In respect of fixed assets held at foreign offices/ entities, depreciation is provided as per the regulations /norms of the respective countries.

8. Leases:

The asset classification and provisioning norms applicable to advances, as laid down in Para 3 above, are applied to financial leases also.

9. Impairment of Assets:

Fixed Assets are reviewed for impairment whenever events or changes in circumstances warrant that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net discounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

10. Effect of changes in the foreign exchange rate:

10.1 Foreign Currency Transactions

i. Foreign currency transactions are recorded on initial recognition in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency on the date of transaction.

ii. Foreign currency monetary items are reported using the Foreign Exchange Dealers Association of India (FEDAI) closing spot/forward rates.

iii. Foreign currency non-monetary items, which are carried in terms at historical cost, are reported using the exchange rate at the date of the transaction.

iv. Contingent liabilities denominated in foreign currency are reported using the FEDAI closing spot rates.

v. Outstanding foreign exchange spot and forward contracts held for trading are revalued at the exchange rates notified by FEDAI for specified maturities, and the resulting profit or loss is recognised in the Profit and Loss account.

vi. Foreign exchange forward contracts which are not intended for trading and are outstanding at the balance sheet date, are valued at the closing spot rate. The premium or discount arising at the inception of such a forward exchange contract is amortised

as expense or income over the life of the contract.

vii. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded are recognised as income or as expense in the period in which they arise.

viii. Gains / Losses on account of changes in exchange rates of open position in currency futures trades are settled with the exchange clearing house on daily basis and such gains/losses are recognised in the profit and loss account.

10.2 Foreign Operations:

Foreign Branches/Subsidiaries / Joint Ventures of the Bank and Offshore Banking Units have been classified as Non-integral Operations and Representative Offices have been classified as Integral Operations.

a. Non-integral Operations:

i. Both monetary and non-monetary foreign currency assets and liabilities including contingent liabilities of non-integral foreign operations are translated at closing exchange rates notified by FEDAI at the balance sheet date.

ii. Income and expenditure of non-integral foreign operations are translated at quarterly average closing rates.

iii. Exchange differences arising on net investment in non-integral foreign operations are accumulated in Foreign Currency Translation Reserve until the disposal of the net investment.

iv. The Assets and Liabilities of foreign offices/subsidiaries /joint ventures in foreign currency (other than local currency of the foreign offices/ subsidiaries/joint ventures) are translated into local currency using spot rates applicable to that country.

b. Integral Operations:

i. Foreign currency transactions are recorded on initial recognition in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency on the date of transaction.

ii. Monetary foreign currency assets and liabilities of integral foreign operations are translated at closing exchange rates notified by FEDAI at the balance sheet date and the resulting profit/loss is included in the profit and loss account.

iii. Foreign currency non-monetary items which are carried in terms of historical cost are reported using the exchange rate at the date of the transaction.

11. Employee Benefits:

11.1 Short Term Employee Benefits:

The undiscounted amounts of short-term employee benefits, such as medical benefits, which are expected to be paid in exchange for the services rendered by employees are recognised during the period when the employee renders the service.

11.2 Long Term Employee Benefits:

i. Defined Benefit Plan

a. The Bank operates a Provident Fund scheme. All eligible employees are entitled to receive benefits under the Provident Fund scheme. The Bank contributes monthly at a determined rate (currently 10% of employee's basic pay plus eligible allowance). These contributions are remitted to a trust established for this purpose and are charged to Profit and Loss Account. The Bank is liable for annual contributions and interests, which is payable at minimum specified rate of interest. The Bank recognizes such annual contributions and interest as an expense in the year to which they relate.

b. The group entities operate separate gratuity and pension schemes, which are defined benefit plans.

c. The group entities provide for gratuity to all eligible employees. The benefit is in the form of lump sum payments to vested employees on retirement, on death while in employment, or on termination of employment, for an amount equivalent to 15 days basic salary payable for each completed year of service, subject to a ceiling in terms of service rules.

Vesting occurs upon completion of five years of service. The Bank makes annual contributions to a fund administered by trustees based on an independent external actuarial valuation carried out annually.

d. Some group entities provide for pension to all eligible employees. The benefit is in the form of monthly payments as per rules and regular payments to vested employees on retirement or, on death while in employment, or on termination of employment. Vesting occurs at different stages as per rules. The entities make contributions to funds administered by trustees based on an independent external actuarial valuation carried out annually.

e. The cost of providing defined benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains/losses are immediately recognised in the statement of profit and loss and are not deferred.

ii. Defined Contribution Plans:

The Bank operates a new pension scheme (NPS) for all officers/ employees joining the Bank on or after 1st August, 2010, which is a defined contribution plan, such new joinees not being entitled to become members of the existing SBI Pension Scheme. As per the scheme, the covered employees contribute 10% of their basic pay plus dearness allowance to the scheme together with a matching contribution from the Bank. Pending completion of registration procedures of the employees concerned, these contributions are retained as deposits in the Bank and earn interest at the same rate as that of the current account of Provident Fund balance. The Bank recognizes such annual contributions and interest as an expense in the year to which they relate. Upon receipt of the Permanent Retirement Account Number (PRAN), the consolidated contribution amounts are transferred to the NPS Trust.

iii. Other Long Term Employee benefits:

a. All eligible employees of the Group are eligible for compensated absences, silver jubilee award, leave travel concession, retirement award and resettlement allowance. The costs of such long term employee benefits are internally funded by the group entities.

b. The cost of providing other long term benefits is determined using the projected unit credit method with actuarial valuations being carried out at each balance sheet date. Past service cost is immediately recognised in the statement of profit and loss and is not deferred.

11.3 Employee benefits relating to employees employed at foreign offices/ entities are valued and accounted for as per the respective local laws/regulations.

12. Taxes on income

Income tax expense is the aggregate amount of current tax, deferred tax and fringe benefit tax expense incurred by the Group. The current tax expense and deferred tax expense are determined in accordance with the provisions of the Income Tax Act, 1961 and as per Accounting Standard 22 – Accounting for Taxes on Income respectively after taking into account taxes paid at the foreign offices/entities, which are based on the tax laws of respective jurisdiction. Deferred Tax adjustments comprise changes in the deferred tax assets or liabilities during the year. Deferred tax assets and liabilities are recognised by considering the impact of timing differences between taxable income and accounting income for the current year, and carry forward losses.

Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. The impact of changes in deferred tax assets and liabilities is recognised in the profit and loss account. Deferred tax assets are recognised and re-assessed at each reporting date, based upon management's judgement as to whether their realisation is considered as reasonably/virtually certain.

In Consolidated Financial Statement, income tax expenses are the aggregate of the amounts of tax expense appearing in the separate financial statements of the parent and its subsidiaries/joint ventures, as per their applicable laws.

13. Earnings per Share:

13.1 The Bank reports basic and diluted earnings per share in accordance with AS 20 -'Earnings per Share' issued by the ICAI. Basic Earnings per Share are computed by dividing the net profit after tax for the year (other than minority) by the weighted average number of equity shares outstanding for the year.

13.2 Diluted Earnings per Share reflect the potential dilution that could occur if securities or other

contracts to issue equity shares were exercised or converted during the year. Diluted Earnings per Share are computed using the weighted average number of equity shares and dilutive potential equity shares outstanding at year end.

14. Provisions, Contingent Liabilities and Contingent Assets:

14.1 In conformity with AS 29, "Provisions, Contingent Liabilities and Contingent Assets", issued by the Institute of Chartered Accountants of India, the Bank recognises provisions only when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

14.2 No provision is recognised for

i. any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group entities ; or

ii. any present obligation that arises from past events but is not recognised because

a. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

b. a reliable estimate of the amount of obligation cannot be made.

Such obligations are recorded as Contingent Liabilities. These are assessed at regular intervals and only that part of the obligation for which an outflow of resources embodying economic benefits is probable, is provided for, except in the extremely rare circumstances where no reliable estimate can be made.

14.3 Provision for reward points in relation to the debit card holders of the Bank is being provided for on actuarial estimates.

14.4 Contingent Assets are not recognised in the financial statements.

15. Bullion Transactions:

The Bank imports bullion including precious metal bars on a consignment basis for selling to its customers. The imports are typically on a back-to-back basis and are priced to the customer based on price quoted by the supplier. The Bank earns a fee on such wholesale bullion transactions. The fee is classified under commission income. The Bank also accepts deposits and lends gold, which is treated as deposits/advances as the case may be with the interest paid/received classified as interest expense / income.

16. Special Reserves:

Revenue and other Reserve include Special Reserve created under Section 36(i)(viii) of the Income Tax Act, 1961. The Board of Directors have passed a resolution approving creation of the reserve and confirming that it has no intention to make withdrawal from the Special Reserve.

17. Share Issue Expenses:

Share issue expenses are charged to the Share Premium Account.