

M. Anandam & Co.,
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To

**The Shareholders,
The Andhra Pradesh State Co-operative Bank Limited,
Hyderabad.**

Report on the Financial Statements:

We have audited the accompanying financial statements of the Andhra Pradesh State Co-operative Bank Limited ("the bank") which comprise the Balance Sheet as at 31st March 2015 and the Profit and Loss Account and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Incorporated in these financial statements are the returns of 37 branches and 1 training centre, situated at Co-operative Training Institute, audited by us.

Management Responsibility for the financial statements:

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the bank in accordance with forms A and B respectively of the Third Schedule to the Banking Regulation Act, 1949 (as applicable to Co-operative Societies / Co-operative Banks). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility:

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those standards require that we comply with ethical requirements and plan perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

**M. Anandam & Co.,
Chartered Accountants**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Basis for Qualified Opinion

1. Note No.18 Regarding the balances under Interest Receivables on Long Term Loans: In order to reconcile the difference between the account level balance and General ledger level balance, the bank has made certain adjustments which in our opinion are not properly documented. Hence, we are unable to comment on the same.
2. Note No.21 Regarding creation of outstanding liability: Consequent to the bifurcation, the bank has created a Liability of Rs. 4.15 crores in connection with the expenses to be incurred in 2015-16 for acquiring IT Servers of DCCBs, even though the actual work commenced only in 2015-16.
3. Note No.22 Regarding change in method of accounting: Consequent to the bifurcation of the Bank there is a change in method of accounting relating to advance tax and provision for income tax during the year 2014-15, resulting in understatement of advance tax paid by Rs.41 crores, understatement of provision for income tax by Rs.38.50 crores and understatement of profit after tax by Rs.2.50 crores

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us *except matters mentioned in para basis of qualified opinion*, the said accounts together with the notes thereon give the information required by the Banking Regulation Act, 1949 (as applicable to Cooperative Societies), in the manner so required for the co-operative banks and give a true and fair view in conformity with the accounting principles generally accepted in India:

- i. in the case of Balance Sheet, of the state of affairs of the Bank as at 31st March, 2015; and
- ii. in the case of Profit and Loss Account of the profit for the year ended on that date; and
- iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Emphasis of Matter:

We draw the attention to following notes to financial statements:

1. Note No. 9 regarding surplus provision for Standard Assets, NPAs, overdue interest reserve, other assets, Inter Branch Reconciliation and Inter Bank Reconciliation available amounting to Rs.945.24 crores after providing Rs.74.90 crores for the current year.
2. Note No.15 regarding pending receipt of permission from Reserve Bank of India under section 6 & 9 of the Banking Regulation Act, 1949 regarding Land and Buildings.
3. Note Nos.17 regarding amount payable/ receivable to/ from the Andhra Pradesh and Telangana State Governments which is subject to confirmation and reconciliation and regarding Dues payable by the bank to the Andhra Pradesh and Telangana State Governments which is kept pending as claims against these Governments are pending to be received from the Government
4. Note No.19 Regarding Long Term loans interest being calculated on ideal balances instead of actual balances.

Our opinion is not qualified in respect of these matters.

**M. Anandam & Co.,
Chartered Accountants**

Report on other Legal and Regulatory matters:

The Balance Sheet and the Profit and Loss Account have been drawn up in forms A & B respectively of the Third Schedule to the Banking Regulation Act, 1949 (as Applicable to Cooperative Societies /Co-operative Banks.

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 officers and branches of the Bank have been found adequate for the purposes of our audit.

We further report that

- i. The Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report, are in agreement with the books of account and the returns.
- ii. In our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books.

For M.Anandam & co.,
Chartered Accountants

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Partner
M.No.
FRN.000125S

Hyderabad
Date: 16.09.2015

The Andhra Pradesh State Cooperative Bank Limited
Balance Sheet as at 31st March 2015

Amount In Rs.

LIABILITIES	Sch No	As at 31.3.2015	As at 31.3.2014
Capital	1	3178900293.00	3159586465.00
Reserves and Surplus	2	15551631734.87	15051625038.64
Deposits	3	52084358433.22	46307844005.25
Borrowings	4	61691724636.18	69808019032.18
Other Liabilities and Provisions	5	10695550286.47	7652055774.04
Total		143202165383.74	141979130315.11
ASSETS	Sch No	As at 31.3.2015	As at 31.3.2014
Cash and Bank Balances with Reserve Bank of India	6	2405229151.13	1866263175.54
Balances with Banks & Money at Call and Short Notice	7	24761614335.96	24939515277.62
Investments	8	20160263235.00	14542088128.00
Advances	9	90649987009.91	95257578033.24
Fixed Assets	10	267261762.48	241874186.48
Other Assets	11 A	4748510683.26	4979417514.23
Deferred Tax Asset	11 B	209299206.00	152394000.00
Total		143202165383.74	141979130315.11
Contingent Liabilities	12	306755110.00	1567530612.00
Bills for Collection		904740.13	1212049.00
RBI- Deaf		74671159.38	0.00
Accounting Policies	17		
Notes on Accounts	18		

This is the Balance Sheet referred to in our report of even date

For The Andhra Pradesh State Cooperative Bank Limited

Managing Director President Director Director
(K.Nagamalleswara Rao) (P.Venkateswara Rao) (L.Shiva Shankar Reddy) (D.Jagan Mohan Rao)

Dy. General Manager
(Banking)
(Ch.Sambasiva Rao)

Dy. General Manager
(DoS)
(K.Uday Bhaskar)

For M/s M Anandam & Co
Chartered Accountants
FRN. 000125S

R. Sivaraman
Partner

M No. 023952

Place: Hyderabad,
Date: 16.09.2015

SCHEDULE 1 - CAPITAL		As at 31.3.2015	As at 31.3.2014
Authorized Capital			
a. 4980000 Shares of 'A' Class of Rs. 1000/- each		4980000000.00	4980000000.00
b. 200000 shares of 'B' Class of Rs. 100/- each		20000000.00	20000000.00
		5000000000.00	5000000000.00
Issued Subscribed and Paid up Capital			
a. 'A' Class Shares		3173541200.00	3154631200.00
b. 'B' Class Shares		5359093.00	4955265.00
		3178900293.00	3159586465.00
SCHEDULE 2 - Reserves and Surplus		As at 31.3.2015	As at 31.3.2014
a. Statutory Reserves			
Opening Balance		2514268769.70	2302780341.81
Additions During the Year		283446135.42	211488427.89
Total		2797714905.12	2514268769.70
b. Agricultural Credit Stabilization Fund			
Opening Balance		2233075757.00	2044866754.00
Additions During the Year		179696280.00	188209003.00
Deductions during the year		3.00	0.00
Total		2412772034.00	2233075757.00
c. Building Fund			
Opening Balance		279340203.79	279340203.79
Additions During the Year		0.00	0.00
Deductions during the year		0.00	0.00
Total		279340203.79	279340203.79
d. Dividend Equalization fund			
Opening Balance		49317555.10	49317555.10
Additions During the Year		13874174.00	0.00
Deductions during the year		0.00	0.00
Total		63191729.10	49317555.10
e. Bad and Doubtful Debts Reserve			
Opening Balance		538457639.61	538457639.61
Additions During the Year		0.00	0.00
Deductions during the year		0.00	0.00
Total		538457639.61	538457639.61
f. Investment Depreciation Reserve			
Opening Balance		342647372.00	342647372.00
Additions During the Year		0.00	0.00
Deductions during the year		0.00	0.00
Total		342647372.00	342647372.00
g. Debenture Redemption Reserve			
Opening Balance		13899987.06	13899987.06
Additions During the Year		0.00	0.00
Deductions during the year		13899987.06	0.00
Total		0.00	13899987.06
h. Other Funds & Reserves (Details as per Annexure- I)		As at 31.3.2015	As at 31.3.2014
Opening Balance		1225040269.02	1204021250.02
Additions During the Year		188900000.00	219123226.00
Deductions during the year		170001757.00	198104207.00
Total		1243938512.02	1225040269.02
j. Contingent Provision against Standard Assets			
Opening Balance		7023111600.00	7023111600.00
Additions During the Year		0.00	0.00
Deductions during the year		0.00	0.00
Total		7023111600.00	7023111600.00
k. Special Reserve under IT Act u/s 36(8)			
Opening Balance		233967826.00	211400826.00
Additions During the Year		23367000.00	22567000.00
Deductions during the year		0.00	0.00
Total		257334826.00	233967826.00

I.Profit and Loss Account (GL 205 & GL 561)			
Opening Balance		598498059.36	544323979.89
Additions During the Year		30242938870.77	10890649136.32
Deductions during the year		30248314016.90	10836475056.85
Total		593122913.23	598498059.36
Total a to l		15551631734.87	15051625038.64
SCHEDULE 3 - Deposits			
		As at 31.3.2015	As at 31.3.2014
a.Current Account			
From DCCB's & CUB's		1180472117.40	782376740.45
From Others		149920246.16	124202880.15
b. Savings Bank Deposits		2508823621.55	2141962416.28
c. Term Deposits			
From DCCB's & CUB's		33852622333.62	28157470352.16
From Others		14392520114.49	15101831616.21
Total		52084358433.22	46307844005.25
SCHEDULE 4 - Borrowings			
		As at 31.3.2015	As at 31.3.2014
From NABARD		60343581760.00	69467814756.00
From Central government		1125193800.00	58623600.00
From State Government		222949076.18	281580676.18
Other Banks		0.00	0.00
Other Institutions and Agencies		0.00	0.00
Total		61691724636.18	69808019032.18
SCHEDULE 5 - Liabilities and Other Provisions			
		As at 31.3.2015	As at 31.3.2014
a. Bills Payable		100683475.41	94470902.26
b Inter Office Adjustments Net			
c. Interest Accrued		2658251292.77	2800478963.62
d. Others including provisions		7926730340.91	4736069257.21
e. Inter Office Adjustment Net		9885177.38	21036650.95
Total		10695550286.47	7652055774.04
SCHEDULE 6 - Cash and Balances with Reserve Bank of India			
		As at 31.3.2015	As at 31.3.2014
a. Cash on hand (including foreign currency notes and gold)		200464782.25	113392725.31
b. Balance with Reserve Bank of India			
In Current Account		2204764368.88	1752870450.23
In Other Accounts		0.00	0.00
Total		2405229151.13	1866263175.54
SCHEDULE 7 - Balances with Banks & Money at Call & Short Notice			
		As at 31.3.2015	As at 31.3.2014
a. Balances with Banks			
In current Accounts		61614335.96	69515277.62
In Other Deposit Accounts			0.00
b. Money at call and Short Notice			
With Banks		2470000000.00	2487000000.00
With other Institutions		0.00	0.00
Total		24761614335.96	24939515277.62
SCHEDULE 8 - Investments			
		As at 31.3.2015	As at 31.3.2014
a.Government Securities & Treasury Bills		19903133228.00	13884958121.00
b.Trustee securities approved		0.00	0.00
c.Trustee securities Non-approved		250000000.00	650000000.00
d.Debentures and Bonds		0.00	0.00
e.Investments in shares approved		2125000.00	2125000.00
f.Investment in Shares - non approved		5005007.00	5005007.00
Total		20160263235.00	14542088128.00

SCHEDULE 9 - Advances		As at 31.3.2015	As at 31.3.2014
A a. Bills purchased and Discounted		599016.10	807741.10
b. Cash Credits, overdrafts and loans repayable on Demand		70120584036.43	75805586808.23
c. Term Loans		20528803957.38	19451183483.91
d. Amt.Receivable from GOI under ADWDRS-08			0.00
Total		90649987009.91	95257578033.24
B. a. Secured by Tangible Assets		86872442597.17	89260800083.39
b. Covered by Bank / government guarantees		659650000.00	1629619795.94
c. Unsecured		3117894412.74	4367158153.91
Total		90649987009.91	95257578033.24
Advances classification:			
a. DCCB's		80782212400.00	84692566449.00
b. Public Sector / Government		0.00	0.00
c. Societies		3640952787.89	3411612437.14
d. Individuals & Institutions		6226821822.02	7153399147.10
Total		90649987009.91	95257578033.24
SCHEDULE 10 - Fixed Assets		As at 31.3.2015	As at 31.3.2014
A. Premises			
At Cost on 31st March of the preceding Year		124629671.06	110801952.06
Additions during the year		4395889.00	13827719.00
Deductions during the year		0.00	0.00
Depreciation to date		78373921.37	75257286.37
Total		50651638.69	49372384.69
B. Premises under Construction		22440270.00	2955340.00
C. Other Fixed Assets including furniture			
At Cost on 31st March of the preceding Year		398417607.85	344529025.84
Additions during the year		47166289.00	53888582.01
Deductions during the year		91445.00	0.00
Depreciation to date		251322598.06	208871146.06
Total		194169853.79	189546461.79
Total A+B		267261762.48	241874186.48
SCHEDULE 11 A - Other Assets		As at 31.3.2015	As at 31.3.2014
a. Interest Accrued		3062696882.97	2857532822.99
b. Tax paid in Advance / Tax deducted at source		548917464.00	966417464.00
c. Stationery and stamps		2938151.31	5075691.15
d. Others		1133958184.98	1150391536.09
e. Inter Office Adjustment Net			0.00
Total		4748510683.26	4979417514.23
SCHEDULE 11 B Deferred Tax Asset		As at 31.3.2015	As at 31.3.2014
Deferred Tax Asset		209299206.00	152394000.00
Total		209299206.00	152394000.00
SCHEDULE 12 - Contingent Liability		As at 31.3.2015	As at 31.3.2014
a. Bank Guarantees issued		58177000.00	65600000.00
b. I.T Assessment pending in appeal		248578110.00	1501930612.00
Total		306755110.00	1567530612.00

The Andhra Pradesh State Cooperative Bank Limited
Profit & Loss Statement for the Period 01.04.2014 to 31.03.2015

Amount in Rs.

Income	Sch No	For the Year ended 31.3.2015	For the Year ended 31.3.2014
Interest Earned	13	9694777346.24	8867502410.89
Other Income	14	33585659.94	80510340.35
Total		9728363006.18	8948012751.24
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Expenditure	Sch No	For the Year ended 31.03.2015	For the Year ended 31.03.2014
Interest Expended	15	7722582409.69	6866864931.76
Operating Expenses	16	753995971.26	716004396.09
Total		8476578380.95	7582869327.85
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Net profit for the Year		1251784625.23	1365143423.39
Income Tax		500424638.00	519391361.03
Deferred Tax Asset		(56905206.00)	(24910000.00)
Profit After Tax		808265193.23	870662062.36
Deferred Tax Income			0.00
Profit Brought forward		598498059.36	544323979.89
Total		1406763252.59	1414986042.25
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Appropriations			
Transfer to Statutory reserves		269546148.36	211488427.89
Transfer to Agricultural Credit Stabilization fund		179696277.00	188209003.00
Transfer to Other Reserves		192874174.00	214700000.00
Dividend		171523740.00	202090552.00
Balance Carried Over to Balance Sheet		593122913.23	598498059.36
Total		1406763252.59	1414986042.25
This is the Profit and Loss Account referred to in our report of even date			
For The Andhra Pradesh State Cooperative Bank Limited Managing Director President Director Director (K.Nagamalleswara Rao) (P.Venkateswara Rao) (L.Shiva Shankar Reddy) (D.Jagan Mohan Rao)		For M/s M Anandam & Co Chartered Accountants FRN. 000125S R.Sivaraman Partner M No. 023952	
Dy. General Manager (Banking) (Ch.Sambasiva Rao)		Dy. General Manager (DoS) (K.Uday Bhaskar)	

Place : Hyderabad
 Date : 16.09.2015

The Andhra Pradesh State Cooperative Bank Limited
Schedule for Profit & Loss Statement for the Period 01.04.2014 to 31.03.2015

SCHEDULE 13 - Interest Earned	For the Year ended 31.03.2015	For the Year ended 31.03.2014
a. Interest / discount on advances / Bills	6845012852.29	6015054495.92
b. Income on Investments	1165354605.50	1198376951.25
c. Interest on Balances with Reserve Bank of of India and other inter bank funds		
d. Others	1684409888.45	1654070963.72
Total	9694777346.24	8867502410.89

SCHEDULE 14 - Other Income	For the Year ended 31.03.2015	For the Year ended 31.03.2014
a. Commission, exchange and brokerage	2035774.12	2277404.70
b. Miscellaneous Income	31549885.82	78232935.65
total	33585659.94	80510340.35

SCHEDULE 15 - Interest Expended	For the Year ended 31.03.2015	For the Year ended 31.03.2014
a. Interest on deposits	3902006044.69	3501481794.22
b. Interest on Reserve Bank of India /inter bank borrowings	3820576365.00	3365383137.54
Total	7722582409.69	6866864931.76

SCHEDULE 16 - Operating Expenses	For the Year ended 31.03.2015	For the Year ended 31.03.2014
a. Payments to and provision for employees	392828174.33	378364210.52
b. Rent Taxes and lighting	51172618.31	46519854.24
c. Printing and stationery	4950622.91	4883711.47
d. Advertisement and Publicity	2849802.00	3348170.00
e. Depreciation on Banks Property	45568087.00	49840925.00
f. Directors fees, allowances & expenses	3343934.00	1115762.00
g. Auditors fees, allowances & expenses	2536951.00	1719845.00
h. Law Charges	2657470.00	1133100.00
i. Postages, Telegrams & Telephones etc.	5011800.21	5749045.45
j. Repairs and Maintenance	31733849.41	24823747.15
k. Insurance	2117296.81	3624344.33
APCOB share-Relief pkg-Bkg OTS	70147.00	0.00
m. APCOB Share -Waiver of Int & Other Charges	33154003.00	5668389.00
r. Spl Reserve under IT Act	23367000.00	22567000.00
l. Other Expenses	152634215.28	166646291.93
Total	753995971.26	716004396.09

The Andhra Pradesh State Cooperative Bank Limited.

SCHEDULE 17

ACCOUNTING POLICIES:

1. Basis of preparation

1.1. The accompanying financial statements have been prepared under the historical cost convention. They conform to Generally Accepted Accounting Principles (GAAP) in India, which comprise the statutory provisions, guidelines of regulatory authorities, Reserve Bank of India (RBI) / NABARD, and the practice prevalent in the banking industry in India.

2. Use of Estimates

2.1. 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. Any revision to the accounting estimates is recognized prospectively in the current and future periods.

3. Revenue recognition

3.1. Income and expenditure are accounted on accrual basis.

3.2. Interest income is recognized in the Profit and Loss Account as it accrues except (i) Income from Non-performing Assets (NPAs), comprising of advances, loans and investments, which is recognized upon realization, as per the prudential norms prescribed by the RBI (hereafter referred to as Regulatory Authority).

3.3. Unrealized interest on Non-Performing Assets wherever capitalized is reversed and wherever kept separately under ~~%Interest Receivable+~~ account, an equivalent provision is made under Reserve for overdue interest.

3.4. Profit/Loss on sale of investments is credited/debited to ~~%Profit/Loss on Sale of Investments+~~

3.5. All other commission and fee income are recognized on their realization.

3.6. Income (other than interest) on investments in ~~%Held to Maturity+(HTM)~~ category acquired at a discount to the face value, is recognized as follows :

a) On interest bearing securities, it is recognized only at the time of sale/redemption.

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

3.7 Dividend is accounted on realization basis.

The Andhra Pradesh State Cooperative Bank Limited.

4) Investments

4.1 Investments are accounted for in accordance with the extant regulatory guidelines. The Bank follows trade date method for accounting of its investments.

4.2 Classification

4.3 Investments are classified into the following six groups:

- 4.3.1 Govt. Securities.
- 4.3.2 Trustee Securities. - approved
- 4.3.3 Trustee Securities - non-approved
- 4.3.4 Debentures & Bonds
- 4.3.5 Investments in Shares - approved
- 4.3.6 Investments in shares. non-approved.

4.4 Valuation

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

4.4.2 Treasury Bills are valued at carrying cost.

4.4.3 Each scrip in the Current category is revalued at the market price or fair value **determined as per Regulatory guidelines**, and Net depreciation under each category is provided for and net appreciation, if any is ignored. On provision for depreciation. The book value of the individual securities remains unchanged after marking to market.

4.4.4 Held to Maturity category: Each scrip under Held to Maturity category is carried at its acquisition cost or at amortized cost, if acquired at a premium over the face value. Any premium on acquisition is amortized over the remaining maturity period of the security on constant yield basis. Such amortization of premium is accounted under Expenditure under the Head **P & L A/cq**

4.4.5 The Bank has categorized the securities into permanent and current categories as per the NABARD guidelines.

4.4.6 Investments are classified as performing and non-performing, based on the guidelines issued by the Reserve Bank of India.

5 Loans / Advances and Provisions thereon

5.1 Loans and Advances are classified as performing and non-performing, based on the guidelines issued by the Reserve Bank of India / NABARD.

5.2 In addition to the specific provision on NPAs, general provisions are also made for standard assets as per the extant guidelines prescribed by the Reserve Bank of India.

The Andhra Pradesh State Cooperative Bank Limited.

6 Fixed Assets and Depreciation :

- 6.1 Fixed assets are shown at Original cost less depreciation to date
- 6.2 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 capitalized only when it increases the future benefits from such assets or their functioning capability.
- 6.3 Depreciation is provided on the written down value method at the rates prescribed under the Income Tax Rules 1962, and guidelines of NABARD which are considered appropriate by the management.
- 6.4 Depreciation is charged Asset-wise. In respect of the assets purchased during the year depreciation is charged based on the number of days from the date of purchase.

7 Employee Benefits:

Post-Employment Benefits:

Defined Benefit Plan

- 7.1 The Bank operates a Provident Fund Scheme. All eligible employees are entitled to receive benefits under the Bank's Provident Fund Scheme. The Bank contributes monthly at a determined rate (currently 12.5% of employee's basic pay plus eligible allowances). These contributions are remitted to the Trust established for the purpose and are charged to Profit and Loss Account.
- 7.2 A.P. State Cooperative Bank Employees Gratuity Trust was formed in the year 2008-09 and entered into Group Gratuity-cum-Life Assurance Scheme with LIC of India w.e.f. 01.03.2009.
- 7.3 The Bank entered into Group Leave Encashment Scheme with Life Insurance Corporation of India w.e.f. 01.03.2009.
- 7.4 The Board of Management vide its Resolution No.41 dated 04.11.2011 approved the APCOB Employees Performance Incentive .cum. Contributory Superannuation Benefit Scheme with effect from 04.11.2011 for providing the defined superannuation benefit to the employees of the Bank by entering into a scheme of Insurance with SBI Life Insurance Company Limited and further resolved to set up the APCOB Employees Performance Incentive .cum. Contributory Superannuation Benefit Scheme Trust+

The Andhra Pradesh State Cooperative Bank Limited.

Schedule No. 18

NOTES TO ACCOUNTS

(Disclosure in terms of RBI guidelines)

1. INVESTMENTS

a) The investment portfolio of the Bank is grouped and shown in the Balance Sheet under the following categories:

- i) Central and State Government Securities.
- ii) Other trustee securities.
- iii) Debentures
- iv) Investment in non-approved securities.
- v) Investment in shares other than cooperatives.
- vi) Investment in shares of Coop. institutions.

b) Investments are valued at cost. The excess of acquisition cost, if any, over face value is amortized till maturity by charging P&L account and the value of respective securities is reduced to that extent.

c) Investments under Current Category are marked to market and valued at the market rates available on the balance sheet date (scrip-wise).

d) The scrip wise depreciation under each group is fully provided for, whereas appreciation, under any of the aforesaid groups is ignored..

e) SLR investments:

- i) Permanent category ----- Rs. 670.45 Crores
- ii) Current category(Including T-Bills) ----- Rs.1319.86 Crores

f) Book value/face value vis-à-vis market value of investments under Permanent category is shown below.

(Rs. in Crores)

SI No	Type of Security	Book Value	Face Value	Market Value
i)	Central and State Govt. Securities(Permanent)	670.45	663.11	HTM Category need not be marked to Market.
ii)	Other Trustee Securities	0	0	
iii)	Other institutions (Debentures)	0	0	
iv)	Total	670.45	663.11	

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g) i) Non-SLR investments

(Disclosure as per para 14 of the letter No.RPCD.CO. RF.
BC.65/070203/ 2003 – 04, dated 23.02.2004 of RBI, Mumbai)

(Rs. in Crores)

Sl. No	Issuer	Amount	Extent of Private placement	Extent of below investment grade Securities already invested	Extent of unrated securities already invested	Extent of unlisted securities
1	PSU	25.00	0	0	0	25.00
2	FI(shares)	0.71	0.71	0	0	0.50
3	TOTAL	25.71	0.71	0	0	25.50
4	Provision held towards depreciation	0.50	0	0	0	0
5	Net	25.21				25.50

ii) Non –Performing Non-SLR Investments:

(Rs. in Crores)

Sl. No	Particulars	Amount
a)	Opening Balance	0.50
b)	Additions during the year since 1 st April 2014	0
c)	Reduction during the above period	0
d)	Closing balance	0.50
e)	Total provisions held	0.50

2. ADVANCES TO DIRECTORS NIL

3. COST OF DEPOSITS

Average cost of deposits for the year 2014-15 - 8.74

4. NON-PERFORMING ASSETS (NPAS)

(Rs. in Crores)

Particulars	2014-15	2013-14
a) Gross NPAs	240.25	216.55
b) Net NPAs	79.99	56.30
c) % of Gross NPAs to total advances	2.65	2.27
d) % of net NPAs to net advances	0.89	0.60

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5. MOVEMENT OF NPAS

(Rs. in Crores)

Particulars	2014-15	2013-14
a) Gross NPAs at the beginning of the year	216.55	161.77
b) Additions during the Year	224.43	115.07
c) Collections / written off during year	200.74	60.29
d) Gross NPAs at the end of the year	240.24	216.55

6. PROFITABILITY

Particulars	2014-15	2013-14
a) Interest income as percentage of average working funds	7.54	7.11
b) Non-interest income as % of average working funds	0.03	0.06
c) Operating profit of % of average working funds	0.99	1.11
d) Return on assets (%)	0.54	0.67
e) Business per employee (Deposit + Advances) (Rs. in lakhs)	2667.93	2359.39
f) Profit per employee (Rs. in lakhs)	14.48	15.80

7. PROVISIONS

(Rs. in Crores)

	Particulars	2014-15	As on 31.03.14
A	Provision for NPA	160.24	160.24
B	i) Provision for overdue interest	153.82	153.82
	ii) Provision for Inter Branch reconciliation	0.15	0.81
	iii) Provision for Inter Bank reconciliation	0.19	0.65
C	Provision for other Assets	3.43	3.51

8. MOVEMENT IN PROVISIONS

a) Movement in provisions towards NPAs

(Rs. in Crores)

Sl. No.	Particulars	2014-15	2013-14
I	Opening Balance	160.24	160.24
ii	Provision made during the year	0	0
lii	Sub-Total	160.24	160.24
iv	Less: Provision / write off during the year	0.00	0.00
V	Closing Balance	160.24	160.24

Fresh provision for NPAs as per IRAC norms has not been made during the year as there is an existing provision for NPAs to the extent of Rs.160.24 crores available which is in excess of the required provision of **Rs.48.56 Crores**.

b) Movement in provisions towards depreciation on Investments

(Rs. in Crores)

Sl. No.	Particulars	2014-15	2013-14
I	Opening balance	34.26	34.26
ii	Provision made during the year	0.00	0.00
lii	Provision write off during the year	0.00	0.00
iv	Closing balance	34.26	34.26

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c) Movement in provisions towards Standard Assets

(Rs. in Crores)

Sl. No.	Particulars	2014-15	2013-14
I	Opening Balance	702.31	702.31
ii	Add: Provision made during the year	0.00	0.00
iii	Less: Provision write back during the year	0.00	0.00
iv	Closing Balance	702.31	702.31

Fresh provision for standard assets has not been made during the year as there is an existing provision to the extent of Rs 702.31 crores available which is in excess of the required provision of Rs.25.68 Crores.

d) Movement in provision for OD interest

(Rs. in Crores)

Sl. No.	Particulars	2014-15	2013-14
I	Opening Balance	153.82	153.82
ii	Provision made during the year	0.00	0.00
iii	Provision used to write off interest receivable	0.00	0.00
iv	Closing Balance	153.82	153.82

Fresh provision for overdue interest has not been made during the year as there is an existing provision to the extent of Rs 153.82 crores available which is in excess of the required provision of Rs 0.54 Crores.

e) Provision for Other Assets

(Rs. in Crores)

Sl. No.	Particulars	2014-15	2013-14
I	Opening Balance	3.51	3.51
ii	Add: Provision made during the year	0.00	0.00
iii	Provision write off during the year	0.08	0.00
iv	Closing Balance	3.43	3.51

9. The Bank has made a provision of Rs.1020.14 crores over the years for the following with a view to strengthen the financial stability of the Bank in terms of the Reserve Bank of India Guidelines.

(Rs. in Crores)

Sl. No.	Particulars	Amt Available	Amt Required	Surplus
I	Prov for Standard Assets	702.31	25.68	676.63
ii	Prov for N P A	160.24	45.56	114.68
iii	Prov for OD Interest	153.82	0.54	153.28
iv	Prov for other Assets	3.43	3.11	0.32
V	Prov for Inter Branch Recon.	0.15	0.00	0.15
Vi	Prov for Inter Bank Recon.	0.19	0.01	0.18
	Total	1020.14	74.90	945.24

10. PAYMENT TO DICGC

Insurance premium of Rs.1.5783 Crores is paid by the Bank to DICGC covering all the eligible deposits up to the period 31.03.2015

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11. PENALTY IMPOSED BY RBI

No penalty has been imposed by RBI/NABARD for any violation during the year

12. RECONCILIATION OF INTER-BANK, INTER-BRANCH ACCOUNTS

The Bank was having a provision for Rs. 1.46 Crores towards the un-reconciled debit entries pertaining to earlier years under Inter Bank reconciliation & Inter Branch Reconciliation. During the year all the old un-reconciled entries amounting to a tune of Rs.1.12 Crores is written off. The bank is holding the balance provision of Rs.0.34 Crores.

13. CAPITAL TO RISK WEIGHTED ASSETS RATIO (CRAR)

The Capital to Risk Weighted Assets Ratio of the bank as on 31.03.2015 is 11.82%

14. Employee Benefits:

(a) Changes in the present value of obligations : (Rs. in crores)

Employee Benefits	Gratuity	Leave Encashment
Present value of obligation as at the beginning of the year	24.16	11.15
Interest cost	2.21	1.02
Current service cost	1.84	0.83
Past service cost for new optees	-	-
Benefits paid	(5.56)	(3.61)
Actuarial loss / gain on obligations	0.93	2.59
Present value of obligation at year end	23.58	11.98

(b) Changes in the fair value of plan assets:

Employee Benefits	Gratuity	Leave Encashment
Fair value of Plan Assets at the beginning of the year	31.65	12.62
Acquisition Adjustments	-	-
Expected Return on Plan Assets	2.60	1.00
Employer's contribution	0.05	1.89
Benefits paid	(5.56)	(3.60)
Actuarial loss / gain on obligations	-	-
Fair value of Plan assets at the end of the year	28.74	11.91

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(c) Amount recognized in Balance Sheet :

Employee Benefits	Gratuity	Leave Encashment
Estimated Present value of obligations as at the end of the year	23.58	11.98
Fair value of plan assets as at the end of the year	28.74	11.91
Net liability recognized in Balance Sheet	-	0.07

(d) Expenses recognized in Profit & Loss Account :

	Gratuity	Leave Encashment
Current service cost	1.84	0.83
Past service cost for new optees	-	
Interest cost	2.21	1.02
Expected return on plan assets	(2.60)	(1.00)
Net actuarial (Gain) / Loss recognized in the year	0.93	2.59
Total expenses to be recognized in Profit & Loss account / contributed to funds	2.38	3.44
Total Expenses recognized in profit & loss account/ contributed to funds	0.05	1.94

(e) Principal actuarial assumption at the Balance Sheet date:

Actuarial Assumptions	Gratuity	Leave Encashment
Discount rate	7.80%	7.80%
Expected rate of return on plan assets	9.00%	9.00%
Expected rate of salary increase	4%	4%
Method used	Projected unit credit	Projected unit credit

Note: Till last year, bank has reported the data provided by LIC. This year the bank is reporting the data provided by the actuarial report. The figures are regrouped wherever required.

15. The Properties situated at 1) Kadapa, 2) Nellore, 3) Anantapur, 4) Karimnagar 5) Adilabad devolved on account of merger of The Andhra Pradesh Central Cooperative Agricultural Development Bank Ltd., Of the above, properties situated at Kadapa, Nellore and Ananthapur have been leased out. The Bank has sought the permission from RBI vide Letter Dt. 29.04.2014 and 04.06.2014 for retention of the properties for future business purposes. The approval is awaited.
16. The process of collecting the title deeds of the properties situated at Kadapa and Ananthapur will be pursued by the residual APCOB.
17. The amounts receivable / payable to Governments of Andhra Pradesh and Telangana State are subject to reconciliation and confirmation.

As per the records of the Bank an amount of Rs.235.34 crores is payable by APCOB to both the Governments (Andhra State Government Rs.145.94 Crores and Telangana State Government Rs.89.40 Crores) which is kept pending as claims preferred by the

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Bank amounting to Rs.593.40 crores (accounted in the books of the Bank only to an extent of Rs.86.45 crores - Andhra Pradesh State Government Rs.67.21 Crores and Telangana State Government Rs.19.24 Crores) is still to be received from the Governments.

Out of the amount receivable from the Governments, an amount of Rs.385.35 Crores (not accounted in the books of the Bank)) is payable to various DCCBs (Andhra DCCBs Rs.258.69 Crores and Telangana DCCBs Rs.126.66 Crores against the claims made by them.

18. Reconciliation of Interest Receivable account under Long Term Loans:

Consequent to the observation made in previous year audit report, Bank has applied the programs developed by the software vendor to bring down the account level balances to Rs.49.26 Crores. Further the bank has also passed a rectification entry for Rs.1.09 Crores to tally the account level balances with General Ledger balances.

19. In case of Long Term Loans, the application software is presently calculating interest on ideal balances (expected balances created based on the repayment schedule) instead of actual balances. This aspect is being attended to.
20. Bank is in the process of transferring the liabilities outstanding under Sundry Creditors outstanding for a period exceeding 6 years as required under para no.37 of Byelaws of the Bank.
21. Consequent to the bifurcation of the bank, a liability of Rs.4,15,36,116/- is created in connection with the expenses to be incurred in F.Y 2015-16 for acquiring IT Servers of DCCBs, even though the actual work commenced only in 2015-16.
22. On account of bifurcation of bank there is a change in method of accounting relating to advance tax and provision for income tax during the year 2014-15, resulting in understatement of advance tax paid by Rs.41 crores, understatement of provision for income tax by Rs.38.50 crores and understatement of profit by Rs.2.50 crores
23. In the wake of the enactment of Andhra Pradesh reorganization Act, 2014 by the Parliament and the GOI fixing the Appointed Day as June 2nd, 2014 for the two states – State of Telangana and the residuary state of Andhra Pradesh – to come into existence, the Board of Management of The Andhra Pradesh State Cooperative Bank Ltd., (APCOB) in its meeting held on 26thApril, 2014 deliberated and resolved that there is a need for two State Cooperative Banks viz., a new Telangana State Cooperative Apex Bank Limited covering 10 Districts of Telangana State and the residual Andhra Pradesh State Cooperative Bank Limited covering 13 districts of Andhra Pradesh State, as NABARD refinance will not be available for multistate co-operative bank.

Accordingly, the bank has initiated the process of business reorganization to demerge the entity comprising 10 districts of Telangana state.

Further, the Board of Management and also General Body of the Bank, in their meetings on 11th December, 2014 resolved that the **Appointed Day** for commencement of the business by the reorganized/reconstituted Andhra Pradesh State Cooperative Apex Bank Ltd., is 2nd April, 2015. From the Appointed Day, the two Banks shall function as independent entities in each State under the respective statutes.

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24. Consequent to the general body resolution to bifurcate the bank, two writ petitions are filed in the Hon'ble high court and the cases are pending as on date.
25. Figures of the previous year have been regrouped wherever necessary.

For The Andhra Pradesh State Cooperative Bank Limited		For M.ANANDAM &CO....		
		Chartered Accountants		
		(FRN.000125S)		
		R.Sivaraman		
Managing Director	President	Director	Director	Partner
(K.Nagamalleswara Rao)	(P.Venkateswara Rao)	(L.Shivashankar Reddy)	(D.Jagan Mohan Rao)	M.No:023952
Dy. General Manager		Dy.General Manager		
(Banking)		(D o S)		
(Ch.Sambasiva Rao)		(K.Uday Bhaskar)		

Place: Hyderabad
Date: 16.09.2015