

The Bank's Accounts for 1998-99

10.1 The Bank has continued to maintain high standards of disclosure and transparency in the presentation of its accounts. In the background of policy developments elucidated in the preceding sections, the key financial results of the Bank's operations are presented in this section.

INCOME

10.2 The total income of the Bank for the year 1998-99, after various provisions, showed an increase of Rs. 5,136.69 crore (36.5 per cent) from Rs.14,083.64 crore to Rs.19,220.33 crore. The increase in income was mainly due to increase in earnings from domestic and foreign sources ([Table 10.1](#)).

Table 10.1 : Income

Item	(Rupees crore)				
	1998-99	1997-98	1996-97	1995-96	1994-95
1	2	3	4	5	6
A. Foreign Sources					
Interest, Discount, Exchange, Commission	6,306.59	5,687.34	4,585.66	3,722.97	2,939.29
B. Domestic Sources					
Interest	12,642.96	7,999.73	6,954.88	6,098.74	5,056.97
Discount	87.74	21.37	1,601.88	2,025.25	1,158.54
Exchange	0.19	0.37	0.25	0.44	1.17
Commission	175.02	365.03	105.16	70.21	61.69
Rent realised and Others	7.83	9.80	9.03	14.06	4.63
Total - Domestic	12,913.74	8,396.30	8,671.20	8,208.70	6,283.00
Total Income(Gross) [A+B]	19,220.33	14,083.64	13,256.86	11,931.67	9,222.29
C. Less transfer to :					
(i) Contingency Reserve	8,917.65	2,158.72	4,204.92	3,664.79	1,502.70
(ii) Asset Development Reserve	1,274.59	1,181.71	-	-	-
Total (i + ii)	10,192.24	3,340.43	4,204.92	3,664.79	1,502.70
Total Income (Net)	9,028.09	10,743.21	9,051.94	8,266.88	7,719.59

Income from Foreign Sources

10.3 During the accounting year ended June 30,1999, the Bank's net earnings from deployment of foreign currency assets including gold rose by Rs.619.25 crore (10.9 per cent) from Rs.5,687.34 crore in 1997-98 to Rs.6,306.59 crore in 1998-99. This was mainly due to higher average level of foreign currency assets at Rs.1,16,445 crore in 1998-99 as against Rs.96,659 crore in 1997-98. However, the net earnings on foreign currency assets and gold declined from 5.88 per cent in 1997-98 to 5.42 per cent in 1998-99, which is attributable to lower interest rates prevailing in the international market. Excluding gains/ losses on market operations, the net earning of foreign currency assets and gold worked out to 5.10 per cent for 1998-99 as against 5.86 per cent in 1997-98. There was capital loss (net) on sale of securities at Rs.20.67 crore (depreciation of Rs.189.62 crore *less* realised capital gain of Rs.168.95 crore) during the year 1998-99 as compared to capital gain of Rs.68.42 crore (realised capital gain of Rs.139.64 crore *less* depreciation of Rs.71.22 crore) in 1997-98. The foreign securities held in Bank's portfolio are valued at the end of every month at the lower of book value or market rate. If the market rate is lower than the book value, depreciation to the same extent is provided for. Appreciation is neither taken to profit and loss account nor to the reserves. Such unrealised appreciation in the value of foreign securities held in the Bank's portfolio as at the end of June 1999 was Rs.93.93 crore as against Rs.96.57 crore at the end of June 1998.

Income from Domestic Sources

10.4 Domestic income rose by Rs.4,517.44 crore (53.8 per cent) from Rs.8,396.30 crore to Rs.12,913.74 crore reflecting increase in interest from holdings in Government securities, Ways and Means Advances to Central and State Governments and loans and advances to banks and financial institutions partially offset by decrease in commission income.

10.5 The increase in interest from Government securities by Rs.3,089.98 crore from Rs.6,351.84 crore in 1997-98 to Rs.9,441.82 crore in 1998-99 is mainly on account of increase in Bank's holdings of Government paper from an average of Rs.1,24,887.62 crore in 1997-98 to Rs.1,45,184.70 crore in 1998-99 with a larger share of longer term securities carrying higher yield. The increase in interest earnings on Ways and Means Advances by Rs.299.30 crore from Rs.314.90 crore in 1997-98 to Rs.614.20 crore in 1998-99 was mainly due to increased recourse to this facility by the Central and State Governments during the year. Interest on loans and advances to banks/financial institutions also increased by Rs.388.48 crore from Rs.748.70 crore in 1997-98 to Rs.1,137.18 crore in 1998-99. Besides, there was an increase in profit booked on sale of Rupee securities at Rs.615.74 crore (from Rs.539.71 crore in 1997-98 to Rs.1,155.45 crore in 1998-99) on account of larger volume of open market operations (sales) in 1998-99. The rise in discount earnings is attributable to devolvement of Government Treasury bills on the Bank in various auctions.

EXPENDITURE

10.6 Total expenditure of the Bank declined by Rs.217.02 crore (4.6 per cent) from Rs.4,762.11 crore in 1997-98 to Rs.4,545.09 crore ([Table 10.2](#)). The decrease is mainly due to decline in expenditure on establishment and security printing which has been partly offset by increase in

agency charges.

Table 10.2 : Expenditure

Item	(Rupees crore)				
	1998-99	1997-98	1996-97	1995-96	1994-95
1	2	3	4	5	6
I. Interest Payment	1,976.64	1,999.23	1,912.60	2,541.65	2,863.93
of which:					
a) Scheduled Banks	1,652.76	1,639.16	1,520.44	2,076.82	2,150.87
b) Payment in lieu of Service Charges on Borrowings from IMF payable to Government of India	45.51	103.28	183.66	309.54	514.42
II. Establishment	683.59	848.43	519.48	682.30	487.81
III. Non-Establishment	1,884.86	1,914.45	1,352.43	1,100.54	805.84
of which:					
a) Agency Charges	924.02	884.25	829.93	601.00	432.08
b) Security Printing	733.96	834.23	386.48	372.67	280.07
IV. Total [I+II+III]	4,545.09	4,762.11	3,784.51	4,324.49	4,157.58

Interest Payment

10.7 Interest payment decreased marginally by Rs.22.59 crore (1.1 per cent) from Rs.1,999.23 crore in 1997-98 to Rs.1,976.64 crore in 1998-99 mainly due to decrease in payment in lieu of service charges on borrowings from IMF payable to Government of India, which has been offset partly by a small increase in interest paid to scheduled banks on their cash balances. While decrease in IMF charges is due to reduction in Government's Liability to IMF, increase in interest paid to scheduled banks is mainly due to increase in the level of their balances eligible for reckoning of interest receivable.

Establishment Expenditure

10.8 Establishment expenditure came down by Rs.164.84 crore (19.4 per cent) from Rs.848.43 crore in 1997-98 to Rs.683.59 crore in 1998-99. The higher expenditure in 1997-98 was mainly due to an ad hoc provision of Rs.220 crore made towards leave encashment liability in respect of the retiring employees for the first time in that year. No further provision was considered necessary for the year 1998-99 in terms of actuarial assessment.

Non-establishment Expenditure

Agency Charges

10.9 Expenditure towards agency charges increased by Rs.39.77 crore (4.5 per cent) from Rs.884.25 crore in 1997-98 to Rs.924.02 crore in 1998-99 mainly due to increase in commission paid to the agency banks for handling Government business, partly offset by decrease in commission paid to Primary Dealers for underwriting issues of Government securities. The rate of commission payable to the agency banks for handling Government business has been raised from 11.22 paise to 11.80 paise for turnover of every Rs.100 for the quinquennium April 1, 1997 to March 31, 2002.

Security Printing

10.10 Expenditure on security printing, comprising cost of printing of currency notes, cheque forms etc., has come down by Rs.100.27 crore (12.0 per cent) from Rs.834.23 crore in 1997-98 to Rs.733.96 crore. The reduction in expenditure during the year was mainly because only 971 million pieces of imported notes were received in 1998-99 as against 2,629 million pieces received in the preceding year. Besides, the reduced supply of currency notes from some presses also accounted for the lower expenditure in 1998-99.

APPROPRIATION

Net Disposable Income

10.11 The net disposable income for the year 1998-99 amounted to Rs.9,028.09 crore as against Rs.10,743.21 crore in 1997-98 ([Table 10.1](#)). Since 1991-92 significant transfers to statutory funds have been discontinued but pending amendment to the Reserve Bank of India Act, 1934 for vesting Bank with the discretion in the matter of transfer of amounts to statutory funds from the profits of the Bank, a token contribution of Rupees one crore each, has been made to the four statutory funds.

Surplus transferable to Government of India

10.12 For the year 1998-99, a sum of Rs.4,479 crore is transferable to the Government inclusive of Rs.1,479 crore towards interest differential on special securities converted into marketable securities. In the year 1997-98, Special Securities of the order of Rs.20,000 crore carrying interest at 4.6 per cent, held by the Bank were converted into marketable securities at market related rates to augment the stock of eligible securities in the Bank's investment portfolio for open market operations. The above transfer is intended to compensate the Government for the difference in interest expenditure, which the Government had to bear consequent on the conversion. The appropriation of the net disposable income is summarised in [Table 10.3](#).

Table 10.3 : Appropriation of Disposable Income

(Rupees crore)

Item	1998-99	1997-98
1	2	3
Total Income (Net)	9,028.09	10,743.21
Total Expenditure	4,545.09	4,762.11
Net Disposable Income	4,483.00	5,981.10
<i>Less</i> : Transfer to Funds #	4.00	4.00
Surplus transfer to Government	4,479.00	5,977.10
of which		
i) Towards Normal Transfer	3,000.00	3,000.00
ii) Towards FCNRA Losses	-	1,826.60
iii) Interest differential on account of Conversion of Special Securities into Marketable Securities	1,479.00	1,150.50

An amount of Rupees one crore each was transferred to NIC (LTO) Fund, NRC (LTO) Fund, NRC (Stabilisation) Fund and NHC (LTO) Fund during each of the two years.

BALANCE SHEET

Liabilities

National Industrial Credit (Long Term Operations) Fund

10.13 The National Industrial Credit (Long Term Operations) Fund was established by the Bank in July 1964 with an initial corpus of Rs.10 crore and annual contributions from the Bank's disposable surplus in terms of Section 46C(1) of Reserve Bank of India Act, 1934. The Fund was applied for the purpose of making loans and advances to eligible financial institutions. Consequent on the announcement in the Union Budget for 1992-93, the Bank decided to discontinue the practice of crediting large sums to the said fund, except a token contribution. Simultaneously, no further disbursements from the fund have been made. It was decided in 1997-98 to transfer the unutilised balance in the fund to Contingency Reserve (CR) on a year to year basis. Accordingly, an amount of Rs.300 crore has been transferred to CR in 1998-99 as against Rs.400 crore transferred in the preceding year.

Deposits - Banks

10.14 'Deposits-Banks' represent balances maintained by the banks in current account with Reserve Bank mainly for maintaining CRR and working funds for clearing adjustments. The aggregate deposits of scheduled commercial banks with the Reserve Bank increased by Rs.6,333.27 crore (9.9 per cent) from Rs.63,672.95 crore as on June 30, 1998 to Rs.70,006.22 crore as on June 30, 1999 mainly due to increase in net demand and time liabilities of the scheduled commercial banks. The aggregate deposits of the scheduled state co-operative banks,

other scheduled cooperative banks, non-scheduled state cooperative banks and other banks, increased by Rs.757.93 crore (41.6 per cent) from Rs.1,819.55 crore as on June 30, 1998 to Rs.2,577.48 crore as on June 30, 1999.

Deposits - Others

10.15 'Deposits - Others' include deposits from financial institutions, employees' provident fund deposits, surplus earmarked pending transfer to the Government and sundry deposits. The amount under 'Deposits-Others' decreased marginally by Rs.550.37 crore (4.3 per cent) from Rs.12,778.20 crore as on June 30, 1998 to Rs.12,227.83 crore as on June 30, 1999 mainly due to lesser amount of surplus transferable to the Government for the year 1998-99.

Other Liabilities

10.16 'Other Liabilities' include internal reserves and provisions of the Bank and net credit balance in RBI General Account. These liabilities have increased by Rs.10,206.72 crore (23.0 per cent) from Rs.44,349.49 crore as on June 30, 1998 to Rs.54,556.21 crore as on June 30, 1999 mainly on account of increase in the levels of Contingency Reserve and Asset Development Reserve by Rs.10,492.24 crore, but have been partly offset by decrease of Rs.319.74 crore in the level of Exchange Fluctuation Reserve.

10.17 The reserves comprising Exchange Fluctuation Reserve, Exchange Equalisation Account, Contingency Reserve and Asset Development Reserve reflected in 'Other Liabilities' are in addition to the Reserve Fund of Rs.6,500 crore held by the Bank as a distinct balance sheet head.

Exchange Fluctuation Reserve and Exchange Equalisation Account

10.18 Gains/losses on valuation of foreign currency and gold are not booked in profit and loss account but in a separate account called Exchange Fluctuation Reserve (EFR), the balances in which represent accumulated net gain on valuation of foreign currency and gold. During 1998-99, there was a depletion of Rs.319.74 crore in the EFR reducing the balance to Rs.24,823.29 crore as on June 30, 1999 from Rs.25,143.03 crore as on June 30, 1998. This was mainly on account of depreciation in the international price of gold which was partially offset by appreciation in the value of foreign currency assets. EFR is also utilised for replenishing Exchange Equalisation Account (EEA) *inter alia* to meet exchange losses on accrual basis in respect of liabilities under schemes involving exchange guarantees provided by Reserve Bank in respect of funds parked by financial institutions like IDBI. The balance in the EEA as on June 30, 1999 amounted to Rs.618.61 crore and fully provides for the exchange difference on foreign currency funds parked by Indian financial institutions. These funds are expected to be withdrawn by December 1999. As exchange guarantees are no longer being given by the Reserve Bank and also the schemes which enjoyed such guarantees, have almost come to a close, the EFR will not come under pressure in future on this account. The EFR, however, comes under pressure whenever there is appreciation of rupee against US dollar and non-US dollar currencies and depreciation in the value of gold. In order to gauge the magnitude of the impact of these market movements on EFR, it may be noted that a one per cent appreciation of the Rupee against the US dollar at the current level of foreign currency assets will drain EFR by Rs.1,314 crore. Likewise

an appreciation of US dollar against non-US dollar currencies by one per cent will deplete the EFR by about Rs.510 crore. Further a one per cent fall in gold prices will result in erosion of the EFR by about Rs.129 crore. The EFR at the end of June 1999 was equivalent to 17.2 per cent of foreign currency assets and gold holdings, as against 23.0 per cent at the end of June 1998. The balances in EFR and EEA, which are reflected in 'Other Liabilities' in the balance sheet, are given in [Table 10.4](#).

Table 10.4: Balances in Exchange Fluctuation Reserve and Exchange Equalisation Account

(Rupees crore)

As on June 30	Exchange Fluctuation Reserve (EFR)	Exchange Equalisation Account (EEA)
1	2	3
1995	7,538.15	2,681.69
1996	11,976.42	2,818.70
1997	10,080.93	758.89
1998	25,143.03	639.00
1999	24,823.29	618.61

Contingency Reserve and Asset Development Reserve

10.19 The Bank maintains a Contingency Reserve to be able to absorb unexpected and unforeseen contingencies. The Bank has been pursuing a pro-active policy of strengthening the CR and has accordingly set an indicative target of 12 per cent of the size of the Bank's assets to be achieved in phases by the year 2005, subject to review, if considered essential. In order to be in a position to meet the internal capital expenditure and investments in its subsidiaries and associate institutions, the Bank had created in 1997-98 a separate 'Asset Development Reserve' (ADR) with the aim of reaching one per cent of the size of the Bank's assets within the overall target of 12 per cent set for CR.

10.20 The balance in CR has gone up from Rs.13,789.41 crore as on June 30, 1998 to Rs.23,007.06 crore as on June 30, 1999 due to the transfer of Rs.8,917.65 crore from income and transfer of the unutilised balance of Rs.300 crore from National Industrial Credit (Long Term Operations) Fund in 1998-99. Further, in 1998-99, an amount of Rs.1,274.59 crore was transferred from income to ADR raising its level from Rs.1,181.71 crore as on June 30, 1998 to Rs.2,456.30 crore as on June 30, 1999. As a proportion of total assets, CR and ADR together constituted 7.6 per cent of total assets of the Bank as on June 30, 1999 as against 5.1 per cent as on June 30, 1998. Balances in CR and ADR are given in [Table 10.5](#)

Table 10.5 : Balances in the Contingency Reserve and Asset Development Reserve

(Rupees crore)

As on June 30	Balance in CR	Balance in ADR	Total	Percentage to total assets
1995	4,060.80	-	4,060.80	1.9
1996	7,725.59	-	7,725.59	3.3
1997	11,230.69	-	11,230.69	4.5
1998	13,789.41	1,181.71	14,971.12	5.1
1999	23,007.06	2,456.30	25,463.36	7.6

ASSETS

Foreign Currency Assets

10.21 The foreign currency assets comprise foreign securities held in Issue Department, balances held abroad and a part of the investments with the Banking Department. Such assets which stood at Rs.1,01,830.77 crore as on June 30, 1998 rose to Rs.1,32,505.09 crore as on June 30, 1999. In US dollar terms, these assets rose from US dollar 23.98 billion as on June 30, 1998 to US dollar 30.56 billion as on June 30, 1999.

Investment in Government of India Rupee Securities

10.22 Investment in Government of India rupee securities which stood at Rs.1,42,417.43 crore as on June 30, 1998 rose by Rs.5,548.52 crore (3.9 per cent) to Rs.1,47,965.95 crore mainly due to devolvement and private placement of Government securities with the Bank, largely offset by Open Market Operations (sales).

Investment in Subsidiaries and Associate Institutions

10.23 It has been decided by the Government that the authorised capital of NABARD should be increased from Rs.500 crore to Rs.2,000 crore. The increase of Rs.1,500 crore is to be jointly shared by the Central Government and Reserve Bank by annual contributions of Rs.100 crore and Rs.400 crore, respectively, for three years commencing from 1996-97. Accordingly, the Bank has paid the last instalment of its share of Rs.400 crore to NABARD for 1998-99. The total contribution made by the Bank to NABARD stood at Rs.1,200 crore and the amount is temporarily parked in 'Other Assets' pending amendment to the NABARD Act, 1981 for increasing its authorised capital. Investments in subsidiaries and associate institutions are given in [Table 10.6](#).

Other Assets

10.24 'Other Assets' comprise mainly dead stock, gold holdings in the Banking Department, amounts spent on projects pending completion, contribution to NABARD towards equity pending allotment of shares, staff advances etc. These assets have increased by Rs.843.16 crore (6.9 per cent) from Rs.12,242.71 crore to Rs.13,085.87 crore mainly due to increase in income

accrued but not received and contribution of Rs.400 crore made in 1998-99 to NABARD towards its equity, offset partly by decrease in the value of gold.

Auditors

10.25 The accounts of the Bank were audited by M/s. Lodha & Co., Calcutta, M/s. V.K. Mehta & Co., New Delhi, M/s. Brahmayya & Co., Chennai, M/s. Mukund M. Chitale & Co., Mumbai, M/s. N.C.Rajagopal & Co., Chennai and M/s. Kapoor Tandon & Co., Kanpur. While the first four audit firms were re-appointed by the Central Government, the latter two have been appointed for the first time.

Table 10.6 : Investments in Subsidiaries/Associate Institutions

(Rupees crore)		
Institutions	Book value of shares held as at 30.6.99	Book value of shares held as at 30.6.98
1	2	3
1. Deposit Insurance and Credit Guarantee Corporation	50.00	50.00
2. NABARD	250.00	250.00
3. State Bank of India	1,222.73	1,222.73
4. Discount and Finance House of India	20.99	20.99
5. Securities Trading Corporation of India Ltd.,	72.06	72.06
6. National Housing Bank	350.00	350.00
7. Bharatiya Reserve Bank Note Mudran Limited	800.00	800.00
8. Infrastructure Development Finance Co. Ltd.	150.00	150.00

Total**2,915.78****2,915.78**

**Balance Sheet
As At 30th June 1999**

ISSUE DEPARTMENT

(Rupees Thousands)

1997-98 Rs.	LIABILITIES	1998-99 Rs.	1997-98 Rs.	ASSETS	1998-99 Rs.
	Notes held in the 21,19,18 Banking Department	26,50,45	10474,63,23	Gold Coin and Bullion : (a) Held in India	9584,16,17
				(b) Held outside India	-
156841,09,55	Notes in circulation	183703,44,54	50700,00,00	Foreign Securities	67700,00,00
156862,28,73	Total Notes issued	183729,94,99	61174,63,23	Total	77284,16,17
			81,82,92	Rupee Coin	107,56,20
				Government of India	
			95605,82,58	Rupee Securities	106338,22,62
				Internal Bills of Exchange -and other Commercial Paper	-
156862,28,73	Total Liabilities	183729,94,99	156862,28,73	Total Assets	183729,94,99

BANKING DEPARTMENT

1997-98 Rs.	LIABILITIES	1998-99 Rs.	1997-98 Rs.	ASSETS	1998-99 Rs.
5,00,00	Capital paid-up	5,00,00	21,19,18	Notes	26,50,45
6500,00,00	Reserve Fund	6500,00,00	10,29	Rupee Coin	9,22
	National Industrial Credit (Long Term Operations) Fund	4982,00,00	27,60	Small Coin	32,32
5281,00,00	National Housing Credit (Long Term Operations) Fund	882,00,00		Bills Purchased and Discounted :	
881,00,00				(a) Internal	-
				(b) External	-
				(c) Government Treasury Bills	-
	Deposits		36241,26,79	Balances Held Abroad	41193,82,56
	(a) Government		64616,88,63	Investments	68154,77,49
50,27,60	(i) Central Government	100,65,20		Loans and Advances to :	
14,86,59	(ii) State Governments	102,69,09	10013,00,00	(i) Central Government	5620,00,00
			1846,57,37	(ii) State Governments	2971,53,56
	(b) Banks			Loans and Advances to :	
63672,95,18	(i) Scheduled Commercial Banks	70006,22,49	237,85,96	(i) Scheduled Commercial Banks	6201,44,10
718,35,91	(ii) Scheduled State Co-operative Banks	793,60,25	2,00,00	(ii) Scheduled State Co-operative Banks	2,50,00
864,54,37	(iii) Other Scheduled Co-operative Banks	1078,85,14		(iii) Other Scheduled Co-operative Banks	98,76,00
56,48,19	(iv) Non-Scheduled State Co-operative Banks	27,41,49	4255,09,57	(iv) Non-Scheduled State Co-operative Banks	-
180,16,77	(v) Other Banks	677,61,97	850,00,00	(v) NABARD	5073,36,27
12778,20,16	(c) Others	12227,83,35		(vi) Others	4515,67,20
1098,21,56	Bills Payable	806,31,01		Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund :	
44349,48,72	Other Liabilities	54556,21,03	2266,84,10	(a) Loans and Advances to :	
			807,00,00	(i) Industrial Development Bank of India	2000,00,00
			170,00,00	(ii) Export Import Bank of India	752,00,00
			2004,75,00	(iii) Industrial Investment Bank of India Ltd.	170,00,00
				(iv) Others	2004,75,00
				(b) Investments in bonds / debentures issued by :	
				(i) Industrial Development Bank of India	-
				(ii) Export Import Bank of India	-
				(iii) Industrial Investment Bank of India Ltd.	-
				(iv) Others	-
				Loans, Advances and Investments from National Housing Credit	

			(Long Term Operations) Fund :	
			(a) Loans and Advances to National Housing Bank	875,00,00
			(b) Investments in bonds / debentures issued by National Housing Bank	-
		12242,70,56	Other Assets	13085,86,85
136450,55,05	Total Liabilities	152746,41,02	136450,55,05	Total Assets
				152746,41,02

Significant Accounting Policies and Notes to the Accounts as per Annexure.

Profit and Loss Account for the Year Ended 30th June 1999

		(Rupees Thousands)	
1997-98	INCOME		1998-99
Rs.			Rs.
10743,21,29	Interest, Discount, Exchange, Commission, etc.¹		9028,09,47
10743,21,29		Total	9028,09,47
	EXPENDITURE		
1999,23,70	Interest		1976,63,80
848,43,09	Establishment		683,58,65
33,08	Directors' and Local Board Members' Fees and Expenses		38,27
24,92,87	Remittance of Treasure		30,83,86
884,25,43	Agency Charges		924,02,38
834,23,04	Security Printing (Cheque, Note forms etc.)		733,96,22
9,92,91	Printing and Stationery		10,33,02
10,26,19	Postage and Telecommunication charges		12,23,95
39,39,21	Rent, Taxes, Insurance, Lighting etc.		41,07,41
54,41	Auditors' Fees and Expenses		57,97
49,49	Law Charges		56,39
64,70,19	Depreciation and Repairs to Bank's Property		67,22,93
45,37,92	Miscellaneous Expenses		63,64,62
4762,11,53		Total	4545,09,47
5981,09,76	Available Balance		4483,00,00
	LESS: Contribution to:		
	National Industrial Credit (Long Term Operations) Fund	1,00,00	
	National Rural Credit (Long Term Operations) Fund²	1,00,00	
	National Rural Credit (Stabilisation) Fund²	1,00,00	
	National Housing Credit (Long Term Operations) Fund	1,00,00	
4,00,00			4,00,00
5977,09,76	Surplus Payable to Central Government		4479,00,00

1. After making the usual or necessary provisions in terms of Section 47 of the Reserve Bank of India Act, 1934.
2. These funds are maintained by National Bank for Agriculture and Rural Development (NABARD).

(B. Ramani Raj)	(Jagdish Capoor)	(Y.V. Reddy)	(S.P. Talwar)	(Bimal Jalan)
Chief General Manager	Deputy Governor	Deputy Governor	Deputy Governor	Governor

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet of the Bank as at 30th June 1999 and the Profit and Loss Account for the year ended on that date.

We have examined the above Balance Sheet of the Reserve Bank of India as at 30th June 1999 and the Profit and Loss Account of the Bank for the year ended on that date and report that where we have called for information and explanations from the Bank, such information and explanations have been given and have been satisfactory.

In our opinion and according to the best of our information and explanations given to us and as shown by the books of accounts of the Bank, the Balance Sheet read with Significant Accounting Policies and Notes to the Accounts is a full and fair Balance Sheet containing all necessary particulars and is properly drawn up in accordance with the Reserve Bank of India Act, 1934 and regulations framed thereunder so as to exhibit a true and correct view of the state of the Bank's affairs.

M/s. Lodha & Co.	M/s. V.K. Mehta & Co.	M/s. Brahmayya & Co.	M/s. Mukund M. Chitale & Co.	M/s. N.C. Rajagopal & Co.	M/s. Kapoor Tandon & Co.
Auditors	Auditors	Auditors	Auditors	Auditors	Auditors

Dated August 12, 1999

ANNEXURE

RESERVE BANK OF INDIA

Significant Accounting Policies and Notes to the Accounts

SIGNIFICANT ACCOUNTING POLICIES

1. CONVENTION

The financial statements are prepared in accordance with the Reserve Bank of India Act, 1934 and the notifications issued thereunder and in the form prescribed by the Reserve Bank of India General Regulations.

Historical cost basis of accounting is used except where it is modified to reflect revaluation.

The accounting practices and policies followed in the statements, unless otherwise stated, are consistent with those followed in the previous year.

2. REVENUE RECOGNITION

Income and expenditure are recognised on accrual basis except dividend, which is accounted for on cash basis. Only realised gains are recognised. Provision for outstanding expenditure is made only for unpaid bills in each case of Rs. 1 lakh and above.

Balances unclaimed and outstanding for more than three consecutive years in certain transitory heads of accounts including Drafts Payable Account, Payment Orders Account, Sundry Deposits Account are reviewed and written back to Bank's Income. Claims in this respect are considered and charged against Bank's Income as and when paid.

In respect of Zero Coupon Bonds, the income thereon is accounted for on redemption. Income and expenditure in foreign currency are translated on the basis of exchange rates prevailing on the last business day of the preceding week.

3. GOLD AND FOREIGN CURRENCY ASSETS AND LIABILITIES

(a) Gold

Gold is valued at the end of the month at 90 per cent of the daily average London price for the month. The rupee equivalent is determined on the basis of the exchange rate prevailing on the last business day of the month. Gains/ losses arising therefrom are adjusted to the Exchange Fluctuation Reserve.

(b) Foreign Currency Assets and Liabilities

All foreign currency assets are translated at the exchange rates prevailing on the last business day of the week, and also on the last business day of the month.

At the year end, assets and liabilities in foreign currencies are translated at the exchange rates prevailing on the last business day except in cases where rates are contractually fixed. Foreign securities are valued at lower of book value or market price prevailing on the last business day of each month. The depreciation is adjusted against current income.

Forward exchange contracts are evaluated half-yearly and net loss, if any, is provided for.

Profit/loss on sale is recognised with respect to the book value of foreign currency assets. Exchange gains and losses arising from translation of foreign currency assets and liabilities are accounted for in Exchange Fluctuation Reserve and remain adjusted therein.

4. RUPEE SECURITIES

Rupee securities other than Treasury bills are valued at lower of book value or market price or rates based on the yield curve prevailing on the last business day of the month where market price for such securities is not available. The depreciation in the value is adjusted against current income. Treasury bills are valued at cost.

5. SHARES

Investments in shares are valued at cost.

6. FIXED ASSETS

Fixed assets are stated at cost less depreciation.

Depreciation on computers, motor vehicles, office equipments, furniture and electrical fittings, etc., is charged on the straight-line basis. Depreciation on other assets including premises and fixtures is charged on written-down value basis.

Depreciation on fixed assets is charged only if held for a period of more than six months as at the year-end.

7. RETIREMENT BENEFITS

The liability on account of retirement benefits including leave encashment to retiring employees is valued periodically on an actuarial basis.

8. CONTINGENCY RESERVE AND ASSET DEVELOPMENT RESERVE

Contingency Reserve represents amount provided on a year to year basis for meeting unexpected and unforeseen contingencies including depreciation in value of securities, exchange guarantees and risks arising out of monetary/exchange policy compulsions.

In order to meet the internal capital expenditure and investments in subsidiaries and associate institutions a further specified sum is provided and credited to Asset Development Reserve.

9. NATIONAL INDUSTRIAL CREDIT (LONG TERM OPERATIONS) FUND

Unapplied surplus on account of repayment of loans is transferred to Contingency Reserve on a year to year basis.

NOTES TO THE ACCOUNTS - 1998-99

1. SURPLUS TRANSFER TO GOVERNMENT

Surplus transferable to Government includes an amount of Rs.1,479.00 crore representing interest differential pertaining to the period April 1, 1998 - March 31, 1999, on account of conversion of special securities into marketable securities.

2. CHANGES IN THE ACCOUNTING POLICIES AND PROCEDURES

(i) Leave Encashment

The liability for leave encashment for retiring employees was being accounted for on cash basis till 1996-97. In 1997-98, the Bank decided to account for leave encashment on accrual basis and made an *ad-hoc* provision of Rs.220 crore. In 1998-99, leave encashment liability has been determined on actuarial basis at Rs.127.59 crore. Accordingly, differential amount of Rs.92.41 crore has been written back to Income.

(ii) Profit/Loss on sale of Rupee Securities

Profit/loss on sale of Rupee securities was recognised hitherto on redemption or when either the entire holding of a particular stock was sold or when the sale proceeds of part of the holding of particular stock exceeded the book value of that stock. From the current year, profit/loss on sale of Rupee securities has been recognised with respect to the book value of the respective securities.

3. RBI GENERAL ACCOUNT

RBI General Account represents inter-office transactions and balances under reconciliation. During 1997-98, pending complete reconciliation, a provision of Rs.57.80 crore was made towards net amount of pending debit entries outstanding up to the period June 30, 1992. Reconciliation of the entries subsequent to June 30, 1992 is in progress and necessary adjustments are being effected as and when ascertained.

4. RESERVE FUND

The Reserve Fund comprises initial contribution of Rs. 5 crore made by the Government of India and appreciation of Rs.6,495 crore on account of revaluation of gold up to October 1990. Subsequent gains/losses on monthly revaluation of gold are taken to Exchange Fluctuation Reserve.

5. DEPOSITS - OTHERS

(Rupees crore)		
Particulars	As at June 30, 1999	As at June 30, 1998
1	2	3
I. Rupee Deposits from Foreign Central Banks and Foreign Financial Institutions	4,932.91	4,107.98
II. Deposits from Indian Financial Institutions	159.74	347.90
III. Accumulated Retirement Benefits	2,258.36	2,021.48
IV. Surplus transferable to Government of India	4,479.00	5,977.10
V. Miscellaneous	397.82	323.74
Total	12,227.83	12,778.20

6. OTHER LIABILITIES

(Rupees crore)		
Particulars	As at June 30, 1999	As at June 30, 1998
1	2	3
I. Contingency Reserve		
Balance at the beginning of the year	13,789.41	11,230.69
<i>Add</i> : Transfer from National Industrial Credit (Long Term Operations) Fund	300.00@	400.00@
<i>Add</i> : Accretion during the year	8,917.65	2,158.72
Balance at the end of the year	<u>23,007.06</u>	<u>13,789.41</u>

II. Asset Development Reserve		
Balance at the beginning of the year	1,181.71	-
<i>Add</i> : Net Accretion/ Utilisation(-) during year	1,274.59	1,181.71
Balance at the end of the year	<u>2,456.30</u>	<u>1,181.71</u>
III. Exchange Fluctuation Reserve		
Balance at the beginning of the year	25,143.03	10,080.93
<i>Add</i> : Net Accretion/ Utilisation(-) during year	(-) 319.74	15,062.10
Balance at the end of the year	<u>24,823.29</u>	<u>25,143.03</u>
IV. Exchange Equalisation Account		
Balance at the beginning of the year	639.00	758.89
<i>Add</i> : Net Accretion/ Utilisation(-) during year	(-) 20.39	(-) 119.89
Balance at the end of the year	<u>618.61</u>	<u>639.00</u>
V. Provision for net debit entries in RBI General		
Account for the period up to June 30, 1992	57.80	57.80
VI. Provision for Outstanding Expenses	1,516.45	1,257.27
VII. Miscellaneous	2,076.70	2,281.27
Total (I to VII)	<u>54,556.21</u>	<u>44,349.49</u>

@ Represents transfer of the unapplied surplus resulting from repayment of loans made from National Industrial Credit (Long Term Operations) Fund.

7. RUPEE INVESTMENTS

Securities acquired and sold under repo have been accounted for under investments. Accordingly, investments include Rs.237.79 crore against which there is commitment to sell for an aggregate consideration of Rs.237.90 crore on a future date.

8. FOREIGN CURRENCY ASSETS

(Rupees crore)

Particulars	As at June 30,	As at June 30,
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	1	1999 2	1998 3
I. Held in Issue Department		67,700.00	50,700.00
II. Held in Banking Department -			
a) Included in Investments		23,611.27	14,889.50
b) Balances Held Abroad		41,193.82	36,241.27
Total		1,32,505.09	1,01,830.77

- Note:**
- (i) There are outstanding forward exchange contracts under which the Reserve Bank has to sell US dollar equivalent to Rs. 4,214.59 crore (as against sale contracts of US dollar equivalent to Rs. 7,837.62 crore outstanding as at June 30, 1998). No forward purchase contracts are outstanding as on June 30, 1999 (as against purchase contracts of US dollar equivalent to Rs.847.66 crore outstanding as at June 30, 1998).
- (ii) Uncalled amount on partly-paid shares of the Bank for International Settlements is at Rs.59.42 crore.

9. OTHER ASSETS

		(Rupees crore)	
	Particulars	As at June 30, 1999	As at June 30, 1998
	1	2	3
I.	Fixed Assets (Net of Accumulated Depreciation)	295.44	283.40
II.	Gold	2,147.86	2,351.71
III.	Income Accrued but not Received	5,844.67	5,171.34
IV.	(i) Advance to National Bank for Agriculture and Rural Development Towards Equity	1,200.00	800.00
	(ii) Advance to Infrastructure Development Finance Co. Ltd., Towards Subordinated Debt	350.00	350.00
V.	Miscellaneous	3,247.90	3,286.26

Total**13,085.87****12,242.71**

10. INTEREST, DISCOUNT, EXCHANGE, COMMISSION ETC.

Interest, Discount, Exchange, Commission etc., include the following items:

		(Rupees crore)	
Particulars		Year ended June 30, 1999	Year ended June 30, 1998
1		2	3
(i)	Profit on Sale of Foreign and Rupee Securities	1,324.40	679.35
(ii)	Rent Realised	7.65	9.38
(iii)	Net Profit on Sale of Bank's Property	0.18	0.42
