

X

THE BANK'S ACCOUNTS FOR 1997-98

10.1 The Bank has maintained high standards of disclosure and transparency in presentation of accounts. In the background of the policies and developments enumerated in the preceding sections, the key highlights as reflected from the operations of the Bank are presented in this section.

INCOME

10.2 The total income of the Bank for the year 1997-98 (July-June), after various provisions, increased by Rs.826.78 crore (or 6.2 per cent) from Rs.13,256.86 crore in 1996-97 to Rs.14,083.64 crore in 1997-98. The increase is mainly due to rise in income from foreign sources offset marginally by decrease in income from domestic sources. The sources of income are set out in Table 10.1.

Income from Foreign Investments

10.3 During the accounting year ended June

30, 1998, the Bank's net earnings from foreign currency assets rose by Rs.1,101.68 crore (or 24.0 per cent) from Rs.4,585.66 crore in 1996-97 to Rs.5,687.34 crore in 1997-98 mainly due to higher average level of foreign currency assets of Rs.96,659 crore in 1997-98, as against Rs.72,085 crore in 1996-97. However, the net earning on foreign currency assets declined from 6.36 per cent in 1996-97 to 5.88 per cent in 1997-98 which is mainly attributable to decrease in exchange gain to Rs.269.07 crore from Rs.784.77 crore in 1996-97. Excluding gains/losses on market operations, the net earning on foreign currency assets worked out to 5.86 per cent for 1997-98, as against 5.43 per cent in 1996-97. Capital gains (net) on sale of foreign securities at Rs.68.42 crore (realised capital gain of Rs.139.64 crore less depreciation of Rs.71.22 crore) in 1997-98 were lower compared with Rs.149.02 crore (realised capital gain of Rs.220.22 crore less depreciation of Rs.71.20

Table 10.1 : Income

(Rupees crore)

Item	1997-98	1996-97	1995-96	1994-95	1993-94
1	2	3	4	5	6
A. Foreign Investments					
Interest, Discount, Exchange, Commission	5,687.34	4,585.66	3,722.97	2,939.29	721.53
B. Domestic Investments					
Interest	7,999.73	6,954.88	6,098.74	5,056.97	5,039.93
Discount	21.37	1,601.88	2,025.25	1,158.54	1,323.76
Exchange	0.37	0.25	0.44	1.17	0.96
Commission	365.03	105.16	70.21	61.69	53.32
Rent realised and others	9.80	9.03	14.06	4.63	5.76
Total - Domestic	8,396.30	8,671.20	8,208.70	6,283.00	6,423.73
Total Income (Gross) [A+B]	14,083.64	13,256.86	11,931.67	9,222.29	7,145.26
C. Less transfer to :					
i) Contingency Reserve	2,158.72	4,204.92	3,664.79	1,502.70	1,863.71
ii) Asset Development Reserve	1,181.71	—	—	—	—
Total (i+ii)	3,340.43	4,204.92	3,664.79	1,502.70	1,863.71
Total Income (Net)	10,743.21	9,051.94	8,266.88	7,719.59	5,281.55

crore) in 1996-97. The foreign securities held in the 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 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 by the Bank as at the end of June 1998 was Rs.96.57 crore as against Rs.87.76 crore as at the end of the previous accounting year.

Income from Domestic Investments

10.4 Domestic income declined by Rs.274.90 crore (or 3.2 per cent) from Rs.8,671.20 crore in 1996-97 to Rs.8,396.30 crore in 1997-98, mainly due to sharp decline in discount earning, partially offset by increase in interest earning on holdings of government securities. The issue of *ad hoc* and tap Treasury Bills was discontinued with effect from April 1, 1997 and outstanding *ad hoc* and tap Treasury Bills as at the end of March 1997 were converted into special securities. This resulted in increased earnings in 1997-98 by way of interest with a corresponding decline in discount earning. The increase in interest earning is also attributable to devolvement and private placement of government securities (including Treasury Bills) of the order of Rs.22,730 crore in 1997-98 as against Rs.11,984 crore in 1996-97 and the net sales of government securities through open market operations being lower at Rs.5,922 crore during 1997-98 against Rs.11,544 crore in 1996-97. The subsequent conversions of special

securities into marketable securities with a higher coupon rate and enhanced rate of interest on Ways and Means Advances (WMA) to the Central Government also contributed to the improved earnings. However, compared with the previous year, the enlarged repo operations entailed interest cost and to that extent, a reduction in the net interest income.

EXPENDITURE

10.5 The total expenditure of the Bank rose by Rs.977.60 crore (or 25.8 per cent) from Rs. 3,784.51 crore in 1996-97 to Rs.4,762.11 crore in 1997-98. The rise in expenditure is mainly due to increase in 'Security Printing' and 'Establishment' expenditure, as shown in Table 10.2.

Interest Payment

10.6 Interest payment has gone up marginally by Rs.86.63 crore (or 4.5 per cent) from Rs.1,912.60 crore in 1996-97 to Rs.1,999.23 crore in 1997-98. The increase in interest payment is due to overall increase in the Net Demand and Time Liabilities (NDTL) of the scheduled commercial banks besides payment of interest on entire Cash Reserve Ratio balances (*minus* the statutory minimum of 3 per cent) at 4 per cent per annum with effect from October 25, 1997. The increase in interest payment to scheduled banks by Rs.118.72 crore is, however, partially offset by reduced outgo on account of payment in lieu of service charges on borrowings from IMF

Table 10.2 : Expenditure

(Rupees crore)

Item	1997-98	1996-97	1995-96	1994-95	1993-94
1	2	3	4	5	6
I. Interest Payment	1,999.23	1,912.60	2,541.65	2,863.93	2,767.46
of which :					
a) Scheduled banks	1,639.16	1,520.44	2,076.82	2,150.87	2,070.85
b) Payment in lieu of service charges on borrowings from IMF payable to Government of India	103.28	183.66	309.54	514.42	583.76
II. Establishment	848.43	519.48	682.30	487.81	322.17
III. Non-Establishment	1,914.45	1,352.43	1,100.54	805.84	687.92
of which:					
a) Agency Charges	884.25	829.93	601.00	432.08	334.33
b) Security Printing	834.23	386.48	372.67	280.07	273.24
IV. Total [I+II+III]	4,762.11	3,784.51	4,324.49	4,157.58	3,777.55

payable to the Government of India following reduction in the liability to IMF.

Establishment Expenditure

10.7 Establishment expenses have gone up by Rs.328.95 crore (or 63.3 per cent) from Rs. 519.48 crore in 1996-97 to Rs.848.43 crore in 1997-98 mainly due to a newly created provision of Rs.220 crore towards estimated liability, accumulated so far on accrual basis, on account of leave encashment by the Bank's retiring and serving employees conforming to the Accounting Standard No.15 of the Institute of Chartered Accountants of India.

Non-Establishment Expenditure

Agency Charges

10.8 During 1997-98, there was a marginal increase of Rs.54.32 crore (or 6.5 per cent) from Rs.829.93 crore in 1996-97 to Rs.884.25 crore in expenditure on agency charges. The turnover commission payable to the Bank's agencies for conducting government business alone accounts for a sum of Rs.786.37 crore in 1997-98 as against Rs.636.82 crore in 1996-97. The increase is due to a 17 per cent growth in turnover in government business handled by the agencies over the previous year. The present rate of turnover commission to agency banks at 11.22 paise per Rs.100 of government business turnover is due for revision from April 1, 1997.

Security Printing

10.9 Expenditure on security printing has gone up substantially by Rs.447.75 crore (or 115.9 per cent) from Rs.386.48 crore in 1996-97 to Rs.834.23 crore in 1997-98. The expenditure in the current year is higher mainly due to cost of production of increased quantity of note forms by 22 per cent as compared to 1996-97 as also import of note forms from foreign suppliers.

APPROPRIATION

Net Disposable Income

10.10 The net disposable income for the year 1997-98 amounted to Rs.5,981.10 crore as against Rs.5,267.43 crore in 1996-97, as presented in Table 10.3. Since 1991-92, significant transfers to statutory funds have

been discontinued but pending amendment to the Reserve Bank of India Act, 1934 vesting in the Bank the discretion in the matter of transfer of amounts to statutory funds from profits of the Bank, a token contribution of Rupees one crore each has been made to four statutory funds.

Table 10.3 : Appropriation of Disposable Income

Item	(Rupees crore)	
	1997-98	1996-97
1	2	3
Total Income (Net)	10,743.21	9,051.94
Total Expenditure	4,762.11	3,784.51
Net Disposable Income	5,981.10	5,267.43
Less : Transfer to Funds #	4.00	4.00
Surplus transfer to Government	5,977.10	5,263.43
of which :		
i) Towards FCNRA losses	1,826.60	2,763.43
ii) Interest differential on account of conversion of special securities into marketable securities	1,150.50	—
# 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.		

Surplus transferable to Government of India

10.11 For the year 1997-98, a sum of Rs.5,977.10 crore is transferable to the Government inclusive of Rs.1,826.60 crore for meeting FCNRA losses and Rs.1,150.50 crore towards interest differential on special securities converted into marketable securities. The Government of India had agreed to bear the exchange risk liabilities relating to FCNRA deposits with effect from July 1, 1993 and the Bank has been transferring additional profits to the Government, to meet these liabilities to the extent the Bank earns adequate profits. The FCNRA scheme has been finally closed and an amount equivalent to the exchange loss booked on the outflows of US \$ 1,317 million during the year 1997-98 at Rs.1,826.60 crore has been earmarked for transfer to Government to enable them to meet the loss without any additional budgetary provision.

10.12 An amount of Rs.1,150.50 crore is earmarked from disposable income for transfer

to Government towards interest differential on account of conversion of special securities into marketable securities. 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 rates which the Government has to bear consequent on conversion.

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 the 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 above Fund except a token contribution. Simultaneously, no further disbursements from the Fund were being made. On the advice of Statutory Auditors for the year 1994-95 that the repayment of advances should be taken to Profit and Loss Account, it was decided to transfer the unutilised balance in the Fund to Contingency Reserve (CR) on a year-to-year basis. Accordingly, an amount of Rs.400 crore has been transferred to CR in 1997-98.

Deposits - Banks

10.14 The deposits represent balances maintained by the banks in current account with the Reserve Bank mainly towards Cash Reserve Ratio and working funds for clearing adjustments. The aggregate deposits of scheduled commercial banks with the Reserve Bank increased by Rs.8,425.59 crore (or 15.3 per cent) from Rs.55,247.36 crore as on June 30, 1997 to Rs.63,672.95 crore as on June 30, 1998; the increase is attributable to spurt

in net demand and time liabilities of the scheduled commercial banks despite phased reduction in Cash Reserve Ratio. As compared to the above, the aggregate deposits of the scheduled state co-operative banks, other scheduled co-operative banks, non-scheduled state co-operative banks, and other banks increased by Rs.293.76 crore (or 19.3 per cent) from Rs.1,525.79 crore as on June 30, 1997 to Rs.1,819.55 crore as on June 30, 1998.

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 of 'Deposits-Others' increased by Rs.890.35 crore (or 7.5 per cent) from Rs.11,887.85 crore as on June 30, 1997 to Rs.12,778.20 crore as on June 30, 1998 mainly due to temporary parking of increased amount of surplus transferable to the Government (from Rs.5,263.43 crore for 1996-97 to Rs.5,977.10 crore for 1997-98), besides increase in balances of superannuation funds.

Uncleared Items of Credit

10.16 The 'Uncleared Items of Credit' represent the amount of outstanding entries in respect of unpaid drafts, payment orders/banker's cheques, unclaimed interest on government securities and other miscellaneous unadjusted credits beyond three accounting years. Clearance of these entries depends to a large extent on the response from the beneficiaries and, over the years, an amount of Rs.87.07 crore had accumulated in 'Uncleared Items of Credit' in the absence of response to the Bank's repeated reminders. The Bank's Statutory Auditors have been suggesting that the items of liabilities outstanding beyond a specified time limit may be written back to the Bank's income. The matter was reviewed in the context of the practice obtaining in this regard in commercial banks and it was decided that outstandings in the 'Uncleared Items of Credit' as on June 30, 1997 should be written back to the Bank's income. Accordingly, the balance in the 'Uncleared Items of Credit Account' has been written back to income. In future, the amounts held in Sundry Deposits Account, Draft Payable Account and such other transitory accounts will be transferred to the Bank's income after the prescribed period.

Other Liabilities

10.17 'Other Liabilities' include the internal reserves and provisions of the Bank and net credit balance in RBI General Account. Other liabilities have increased by Rs. 19,996.97 crore (or 82.1 per cent) from Rs.24,352.52 crore as on June 30, 1997 to Rs.44,349.49 crore as on June 30, 1998 mainly on account of gains on revaluation of foreign currency assets amounting to Rs.15,062.10 crore booked in Exchange Fluctuation Reserve and the transfer of Rs.3,740.43 crore (including the amount of Rs.400 crore of unutilised balance written back from National Industrial Credit [Long Term Operations Fund]) to Contingency Reserve.

10.18 The reserves *viz.*, 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

10.19 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 1997-98, there was an accretion of Rs.15,062.10 crore to the EFR bringing the balance to Rs.25,143.03 crore as on June 30, 1998 from Rs.10,080.93 crore as on June 30, 1997. This was mainly on account of depreciation of the Rupee against US dollar. The revaluation loss on account of appreciation of US dollar against non-US dollar currencies over the year was Rs.1,762.94 crore, as against Rs.1,350.73 crore during the previous year. EFR is also utilised for replenishing Exchange Equalisation Account (EEA) to meet, *inter alia*, the exchange losses on accrual basis in respect of liabilities under schemes involving exchange guarantees provided by the Reserve Bank, like funds parked by financial institutions. The balance in the EEA as on June 30, 1998 amounted to Rs.639 crore and fully provides for the exchange difference on foreign currency funds parked by Indian financial institutions which are expected to be withdrawn by March 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 an appreciation of the rupee against gold, US dollar and non-US dollar currencies. 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 result in a drawdown of EFR by Rs.1,018 crore. Likewise, an appreciation of US dollar against non-US dollar currencies by one per cent will deplete the EFR by about Rs.340 crore. Furthermore, a one per cent fall in gold prices will result in erosion of the EFR by about Rs.130 crore. The EFR at the end of June 1998 was equivalent to 22.96 per cent of foreign currency assets of the Reserve Bank, as against 9.6 per cent at the end of June 1997. The balances in EFR and EEA which are part of '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
1993	3,801.64	8,794.68
1994	4,187.77	4,268.99
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

Contingency Reserve and Asset Development Reserve

10.20 The Bank maintains a Contingency Reserve (CR) to be able to absorb unexpected and unforeseen contingencies. The CR has been utilised to strengthen the provisions meant for meeting depreciation on securities, exchange guarantees, and risks arising out of monetary/exchange rate policy compulsions, requiring intervention of the Bank in the securities, money and forex markets, besides meeting obligations arising out of developmental

functions devolving on the Bank. On the suggestion by the Statutory Auditors, 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 has created a separate 'Asset Development Reserve' with the aim of reaching one per cent of the size of Bank's assets within the overall target of 12 per cent set for CR.

10.21 The balance in CR has gone up from Rs.11,230.69 crore as on June 30, 1997 to Rs.13,789.41 crore as on June 30, 1998 by transfer of Rs.2,558.72 crore in 1997-98. This includes an amount of Rs.400 crore representing unutilised balance transferred from the National Industrial Credit (Long Term Operations) Fund and unclaimed items of credit written back during the year. An amount of Rs.1,181.71 crore has also been transferred to Asset Development Reserve (ADR). As a proportion to the balance sheet size, the CR and ADR together constituted 5.1 per cent as on June 30, 1998 as against 4.5 per cent as on June 30, 1997. ADR stands at the level of 0.4 per cent of total assets, as on June 30, 1998. The balances in CR as at the end of last six years and ADR as on June 30, 1998 are given in Table 10.5.

ASSETS

Foreign Currency Assets

10.22 The foreign currency assets comprise foreign securities, held in the Issue Department, balances held abroad and a part

of the investments with the Banking Department. Such assets which stood at Rs.90,983.18 crore as on June 30, 1997 rose to Rs.1,01,830.77 crore as on June 30, 1998. The increase in the level of assets in rupee terms was on account of depreciation of rupee against US dollar. In US dollar terms, the assets fell from 25.40 billion as on June 30, 1997 to 23.98 billion as on June 30, 1998.

Investment in Government of India Rupee Securities

10.23 Investment in Government of India Rupee Securities which stood at Rs.1,24,795.59 crore as on June 30, 1997 rose by Rs.17,621.84 crore (or 14.1 per cent) to Rs.1,42,417.43 crore as on June 30, 1998 largely due to devolvement and private placement of government securities with the Bank.

Loans and Advances to Central Government

10.24 A scheme of Ways and Means Advances (WMA) for the Central Government, to tide over temporary mismatches in receipts and payments, is in force from April 1, 1997. The advances to the Central Government stood at Rs.10,013 crore as on June 30, 1998. Under the scheme, the limits were set at Rs.12,000 crore for the first half (April-September) and Rs.8,000 crore for the second half (October-March) of the financial year 1997-98. The quarterly interest rate for the financial year 1997-98 was set at 3 percentage points below the average implicit cut-off yield on 91-day Treasury Bill auctions held in the previous quarter. The Central Government ran a surplus from July 1, 1997 to February 6, 1998, which was invested in the Central Government securities held in the Reserve Bank's investment portfolio.

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

As on June 30	Balance in the CR (Rs. crore)	Balance in ADR (Rs. crore)	Total (Rs. crore)	Percentage to total assets
1	2	3	4	5
1993	859.14	—	859.14	0.5
1994	2,674.35	—	2,674.35	1.5
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

10.25 The WMA limits were revised downwards to Rs.11,000 crore for the first-half (April-September) and Rs.7,000 crore for the second-half (October-March) for the financial year 1998-99. The interest rate on WMA was also linked to the Bank Rate effective April 1998. The Government availed of WMA on an increasing scale from February 6, 1998 and the availment ranged from Rs.43 crore to Rs.11,000 crore.

Investments in Subsidiaries and Associate Institutions

10.26 During the year, pursuant to its developmental responsibilities, the Bank continued to contribute to the capital of its subsidiaries and associate institutions. The authorised capital of NABARD is slated to be increased from Rs.500 crore to Rs.2,000 crore. The increase is to be jointly shared by the Central Government and the 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 its share of Rs.400 crore to NABARD for 1997-98. The Bank also contributed Rs.129.70 crore towards the equity capital and Rs.350 crore towards subordinated debt of Infrastructure Development Finance Company Ltd. (IDFC). Pending issue of shares/bonds, the contributions to the equity of NABARD and subordinated debt to IDFC have been treated as advances towards equity/subordinated debt. The authorised capital of National Housing Bank, a wholly owned subsidiary of the Reserve Bank was increased from Rs.300 crore to Rs.350 crore and the enhanced capital was contributed by the Bank. During the year, the entire equity of Bharatiya Reserve Bank Note Mudran Ltd. (BRBNML) at Rs.800 crore was allotted to the Reserve Bank.

10.27 In 1997-98, the Bank disinvested a major part of its holding (Rs.178.84 crore) out of Rs.250.90 crore in Securities Trading Corporation of India Ltd., diluting its equity holding from 50.18 per cent to 14.92 per cent.

10.28 The particulars of the Bank's present investment in subsidiaries/associate institutions are presented in Table 10.6.

Other Assets

10.29 'Other Assets' have increased by Rs.3,030.62 crore (or 32.9 per cent) from

Table 10.6 : Investments in Subsidiaries/ Associate Institutions

(Rupees crore)

Institutions	Book value of shares held as at 30.6.98	Book value of shares held as at 30.6.97
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	250.90
6. National Housing Bank	350.00	300.00
7. Bharatiya Reserve Bank Note Mudran Limited	800.00	545.00
8. Infrastructure Development Finance Co. Ltd.	150.00	—
Total	2,915.78	2,639.62

Rs.9,212.09 crore as on June 30, 1997 to Rs.12,242.71 crore as on June 30, 1998 mainly due to increase in income accrued but not received, parked in 'Other Assets', advance towards equity of NABARD and advance towards equity and subordinated debt of IDFC (*vide* Para 10.26).

Auditors

10.30 The accounts of the Bank were audited by M/s. Lodha & Co., Calcutta, M/s. Brahmayya & Co., Chennai, M/s. V.K. Mehta & Co., New Delhi, M/s. Mukund M. Chitale & Co., Mumbai, M/s. J.N. Sharma & Co., Kanpur and M/s. Fraser & Ross, Chennai. While the first three audit firms were re-appointed by the Central Government, M/s. Mukund M. Chitale & Co., Mumbai, M/s. J.N. Sharma & Co., Kanpur and M/s. Fraser & Ross, Chennai were appointed for the first time.

RESERVE BANK OF INDIA
BALANCE SHEET AS AT 30TH JUNE 1998

ISSUE DEPARTMENT

(Rupees Thousands)

1996-97 Rs.	LIABILITIES	1997-98 Rs.	1996-97 Rs.	ASSETS	1997-98 Rs.
7,29,11	Notes held in the Banking Department 21,19,18		11738,65,26	Gold Coin and Bullion :	
143409,79,22	Notes in circulation 156841,09,55		—	(a) Held in India 10474,63,23	
143417,08,33	Total Notes issued 156862,28,73	156862,28,73	45200,00,00	(b) Held outside India —	
			56938,65,26	Foreign Securities 50700,00,00	
			51,37,49	Total	61174,63,23
			86427,05,58	Rupee Coin	81,82,92
			—	Government of India	95605,82,58
				Rupee Securities	—
				Internal Bills of Exchange and other Commercial Paper	
143417,08,33	Total Liabilities 156862,28,73	156862,28,73	143417,08,33	Total Assets 156862,28,73	156862,28,73
BANKING DEPARTMENT					
1996-97 Rs.	LIABILITIES	1997-98 Rs.	1996-97 Rs.	ASSETS	1997-98 Rs.
5,00,00	Capital paid-up 5,00,00	5,00,00	7,29,11	Notes 21,19,18	
6500,00,00	Reserve Fund 6500,00,00	6500,00,00	10,98	Rupee Coin 10,29	
5680,00,00	National Industrial Credit (Long Term Operations) Fund 5281,00,00	5281,00,00	12,27	Small Coin 27,60	
880,00,00	National Housing Credit (Long Term Operations Fund) 881,00,00	881,00,00	—	Bills Purchased and Discounted :	
	Deposits		—	(a) Internal —	
	(a) Government		—	(b) External —	
50,20,49	(i) Central Government 50,27,60	50,27,60	—	(c) Government Treasury Bills —	
5,08,09	(ii) State Governments 14,86,59	14,86,59	37247,56,56	Balances Held Abroad 36241,26,79	
	(b) Banks		49543,76,40	Investments 64616,88,63	
55247,35,66	(i) Scheduled Commercial Banks 63672,95,18	63672,95,18	—	Loans and Advances to :	
621,51,75	(ii) Scheduled State Co-operative Banks 718,35,91	718,35,91	153,59,00	(i) Central Government 10013,00,00	
678,03,76	(iii) Other Scheduled Co-operative Banks 864,54,37	864,54,37	27,00,00	(ii) State Governments 1846,57,37	
29,93,53	(iv) Non-Scheduled State Co-operative Banks 56,48,19	56,48,19	2,19,70	Loans and Advances to :	
196,29,57	(v) Other Banks 180,16,77	180,16,77	—	(i) Scheduled Commercial Banks 237,85,96	
11887,84,56	(c) Others 12778,20,16	12778,20,16	—	(ii) Scheduled State Co-operative Banks 2,00,00	
746,45,05	Bills Payable 1098,21,56	1098,21,56	—	(iii) Other Scheduled Co-operative Banks —	
24352,51,66	Other Liabilities 44349,48,72	44349,48,72	4120,00,59	(iv) Non-Scheduled State Co-operative Banks 4255,09,57	
			322,01,25	(v) NABARD 850,00,00	
				(vi) Others —	
				Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund :	
				(a) Loans and Advances to :	
				(i) Industrial Development Bank of India 2266,84,10	
				(ii) Export Import Bank of India 807,00,00	
				(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 —	
				Other Assets 12242,70,56	
106880,24,12	Total Liabilities 136450,55,05	136450,55,05	106880,24,12	Total Assets 136450,55,05	136450,55,05

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

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1998

(Rupees Thousands)

1996-97 Rs.	INCOME		1997-98 Rs.
9051,93,79	Interest, Discount, Exchange, Commission, etc. ¹		10743,21,29
9051,93,79	Total		10743,21,29
EXPENDITURE			
1912,60,52	Interest		1999,23,70
519,47,71	Establishment		848,43,09
28,90	Directors' and Local Board Members' Fees and Expenses		33,08
24,88,50	Remittance of Treasure		24,92,87
829,92,48	Agency Charges		884,25,43
386,48,21	Security Printing (Cheque, Note forms etc.)		834,23,04
8,60,74	Printing and Stationery		9,92,91
7,82,51	Postage and Telecommunication charges		10,26,19
27,29,80	Rent, Taxes, Insurance, Lighting etc.		39,39,21
58,27	Auditors' Fees and Expenses		54,41
44,37	Law Charges		49,49
33,25,38	Depreciation and Repairs to Bank's Property		64,70,19
32,83,19	Miscellaneous Expenses		45,37,92
3784,50,58	Total		4762,11,53
5267,43,21	Available Balance		5981,09,76
	LESS: Contribution to:		
	National Industrial Credit (Long Term Operations) Fund	1,00,00	
	National Rural Credit (Long Term Operations) Fund ²	1,00,00	
	National Rural Credit (Stabilisation) Fund ²	1,00,00	
	National Housing Credit (Long Term Operations) Fund	1,00,00	
4,00,00			4,00,00
5263,43,21	Surplus Payable to Central Government		5977,09,76
<p>1. After making the usual or necessary provisions in terms of Section 47 of the Reserve Bank of India Act, 1934.</p> <p>2. These funds are maintained by National Bank for Agriculture and Rural Development (NABARD).</p>			

(B.A. Patil)
Chief General Manager

(Jagdish Capoor)
Deputy Governor

(Y.V. Reddy)
Deputy Governor

(S.P. Talwar)
Deputy Governor

(Bimal Jalan)
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 1998 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 1998 and the Profit and Loss Account of the Bank for the year ended on that date and report that where we have called for explanations and information 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.
Auditors

M/s. V.K. Mehta & Co.
Auditors

M/s. Brahmayya & Co.
Auditors

M/s. Mukund M. Chitale & Co.
Auditors

M/s. J.N. Sharma & Co.
Auditors

M/s. Fraser & Ross
Auditors

Dated August 13, 1998

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.

Generally, 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.

The profit/loss on sale of Foreign Securities is recognised with respect to the Book Value of these securities.

In respect of Rupee Securities, profit/loss is recognised on redemption or when either the entire holding of a particular stock is sold or when the sale proceeds of a part of the holding of a particular stock exceeds the book value of the entire holding of that stock.

In respect of Zero Coupon Bonds, the income thereon is accounted for on redemption.

3. FOREIGN EXCHANGE TRANSLATION

Assets and Liabilities in foreign currencies are translated at the exchange rates prevailing on the last business day of the year except in cases where rates are contractually fixed. Income and Expenditure are translated on the basis of exchange rates prevailing on the last business day of the preceding week.

4. GOLD AND FOREIGN CURRENCY ASSETS

(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. Unrealised gains/losses are adjusted to the Exchange Fluctuation Reserve.

(b) Foreign Currency Assets

Foreign currency assets are valued at the exchange rates prevailing on the last business day of the week, as also on the last business day of the month and unrealised gains/losses are adjusted to the Exchange Fluctuation Reserve.

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

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.

5. RUPEE SECURITIES

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

6. SHARES

Investments in shares are valued at cost.

7. TREASURY BILLS

Treasury Bills are valued at cost.

8. FIXED ASSETS

Fixed Assets are stated at cost less depreciation.

Depreciation on computers, motor vehicles, office equipment, furniture and electrical fittings, etc. is charged on the straight-line

basis. Depreciation on other assets including premises & fixtures is charged on written down value basis.

Depreciation on fixed assets is charged only if held for a period of more than 6 months as at the year-end.

9. RETIREMENT BENEFITS

The liability on account of retirement benefits other than for leave encashment is valued periodically on an actuarial basis. The liability on account of leave encashment has been valued on estimated basis pending actuarial valuation.

10. NATIONAL INDUSTRIAL CREDIT (LONG TERM OPERATIONS) FUND

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

NOTES TO THE ACCOUNTS – 1997-98

1. SURPLUS TRANSFER TO GOVERNMENT

(Rupees crore)

Surplus transferable to Government includes :	
i) Towards FCNRA Losses	1,826.60
ii) Interest differential on account of conversion of special securities into marketable securities	1,150.50

2. CHANGES IN THE ACCOUNTING POLICIES AND PROCEDURES

(i) Balances under Uncleared Items of Credit Account

Hitherto, balances unclaimed and outstanding for three consecutive accounting years in Drafts Payable Account, Payment Orders Account, Sundry Deposits Account, Unclaimed Interest – PDO Account and for twelve consecutive years in the Remittance Clearance Account were transferred to “Uncleared Items of Credit” Account and included under “Other Deposits”. From the current year, it has been decided to write back such balances and, accordingly, such unclaimed outstanding balances as on June 30, 1998 have been written back and included in the Bank's income.

(ii) Leave Encashment

The liability for leave encashment was hitherto accounted for on cash basis. The Bank, during the year, has accounted for liability for leave encashment as on June 30, 1998 on accrual basis. Pending actuarial valuation, such liability has been estimated. Consequent upon this change, profit for the year is lower by Rs.220 crore.

(iii) Depreciation

- In view of faster rate of technological obsolescence in respect of certain assets, the rates for depreciation have been revised upwards from the current year. Hitherto, the depreciation on furniture and electrical fittings was charged on written down value basis. From the current year, the Bank has charged the depreciation on furniture and electrical fittings on straight-line basis to absorb the unamortised value at the enhanced rates.
- The aforesaid changes have no material impact on profit.

(iv) Reconciliation of RBI General Account

RBI General Account represents inter-office transactions and the balances under reconciliation. The reconciliation of outstanding entries relating to the period prior to June 30, 1992 was entrusted to two firms of Chartered Accountants. On their recommendations, as a prudent accounting policy, a provision of Rs.57.80 crore specifically earmarked towards pre-1992 entries, on a global basis has been made, during the year, to cover the net amount of pending debit entries upto June 30, 1992. The provision is to be utilised only against the entries relating to the period prior to June 30, 1992 subsequently matched. The reconciliation of RBI General Account from July 1, 1992 is presently in progress and the adjustments will be effected during the course of reconciliation.

3. RESERVE FUND

The Reserve Fund comprises initial contribution made by the Government of India of Rs.5 crore and appreciation of Rs.6,495 crore on account of revaluation of gold upto October 1990.

Subsequent gains/losses on monthly revaluation of gold are taken to Exchange Fluctuation Reserve.

4. DEPOSITS – OTHERS

(Rupees crore)

Particulars	As at June 30, 1998	As at June 30, 1997
1	2	3
I. Rupee Deposits from Foreign Central Banks/ Financial Institutions	4,107.98	3,822.56
II. Accumulated Retirement Benefits	2,021.48	1,690.33
III. Surplus transfer to Government of India	5,977.10	5,263.43
IV. Others	671.64	1,111.53
Total	12,778.20	11,887.85

5. OTHER LIABILITIES

(Rupees crore)

Particulars	As at June 30, 1998	As at June 30, 1997
1	2	3
I. Contingency Reserve		
Balance at the beginning of the year	11,230.69	7,725.59
Less : Transfer to National Housing Credit (Long Term Operations) Fund	—	700.00
Add : Transfer from National Industrial Credit (Long Term Operations) Fund	400.00@	—
Add : Accretion during the year	2,158.72	4,205.10
Balance at the end of the year	<u>13,789.41</u>	<u>11,230.69</u>
II. Exchange Fluctuation Reserve		
Balance at the beginning of the year	10,080.93	11,976.42
Add : Net accretion / Net utilisation (-) during the year	15,062.10	(-1,895.49)
Balance at the end of the year	<u>25,143.03</u>	<u>10,080.93</u>
III. Exchange Equalisation Account		
Balance at the beginning of the year	758.89	2,818.70
Add : Net accretion / Net utilisation (-) during the year	(-119.89)	(-2,059.81)
Balance at the end of the year	<u>639.00</u>	<u>758.89</u>
IV. Asset Development Reserve created during the year	1,181.71	—
V. Provision for net amount of pending debit entries in RBI General Account for pre-1992 period	57.80	—
VI. Provision for outstanding expenses	1,257.27	889.44
VII. Others	2,281.27	1,392.57
Total (I to VII)	44,349.49	24,352.52

@ Represents transfer of the unapplied surplus on account of repayment of loans made from the Fund.

6. TOTAL FOREIGN CURRENCY ASSETS

(Rupees crore)

Particulars	As at June 30, 1998	As at June 30, 1997
1	2	3
I. Held in Issue Department	50,700.00	45,200.00
II. Held in Banking Department		
a) Included in Investments	14,889.50	8,535.61
b) Balances Held Abroad	36,241.27	37,247.57
Total	1,01,830.77	90,983.18

Note: (i) There are outstanding forward exchange contracts under which the Reserve Bank has to purchase US dollars equivalent to Rs.847.66 crore and sell US dollars equivalent to Rs.7,837.62 crore (as against purchase contracts of US dollars equivalent to Rs.2,040.29 crore and sale contracts of US dollars equivalent to Rs.1,490.13 crore for the previous year).

(ii) Uncalled amount on partly paid shares of the Bank for International Settlements at Rs.66.07 crore.

7. OTHER ASSETS

(Rupees crore)

Particulars	As at June 30, 1998	As at June 30, 1997
1	2	3
I. Fixed Assets (Net of accumulated depreciation)	283.40	271.89
II. Gold	2,351.71	2,315.68
III. Income accrued but not received	5,171.34	3,425.29
IV. (i) Advance to Bharatiya Reserve Bank Note Mudran Limited	—	249.08
(ii) Advance to National Bank for Agriculture and Rural Development towards equity	800.00	—
(iii) Advance to Infrastructure Development Finance Company Limited towards subordinated debt	350.00	—
V. Others	3,286.26 [@]	2,950.15
Total	12,242.71	9,212.09

[@] An amount of Rs.0.09 crore representing old outstanding entries in Suspense Account for pre-1991 period has been written off in 1997-98.