

## Schedule 18

### A. Significant Accounting Policies

#### 1. General

1.1 The accounts are prepared on the historical cost convention.

#### 2. Income and Expenditure

2.1. Income and expenditure are accounted on accrual basis except the following, which are accounted on cash basis:

- (i) Interest on non-performing assets is identified as per RBI guidelines and interest in the case of Government guaranteed advances that are in arrears for more than 180 days.
- (ii) Income by way of penal interest charged due to delayed receipt of loan dues or non-compliance with terms of loan.
- (iii) Service charges on loans given out of Rural Promotion Corpus Fund (RPCF), Credit and Financial Services Fund (CFSF), Agriculture and Rural Enterprises Incubation Fund (AREIF) and KfW-NABARD V Fund for Adivasi Programme.
- (iv) Expenses not exceeding Rs.10,000/- at each location under a single head of expenditure.

2.2. Issue expenses relating to floatation of bonds are recognised as expenditure of the year in which the bonds are issued.

2.3. Interest on income tax refund is recognized, based on the date of the issue of refund order.

#### 3. Fixed Assets and Depreciation

3.1. Fixed assets are stated at cost.

3.2. Land includes free hold and lease hold land.

3.3. Premises include value of land where segregated values are not readily available.

3.4. Depreciation is charged for the entire financial year on all fixed assets held on the Balance Sheet date irrespective of the date of purchase and period for which put to use.

3.5. Depreciation on computers, motor vehicles, office equipments, furniture, electrical fittings, etc., is charged on straight line basis. In respect of assets added on or before 31 March 1999, the written down values as on 31 March 1999 are considered as their original cost for application of the rates under straight line method.

3.6. Depreciation on premises situated on freehold land is charged on written down value basis.

3.7. Amortisation of lease premium paid on leasehold land and depreciation on premises situated on leasehold land is computed and charged at higher of 5 per cent on written down value basis or the amount derived by amortising the premium / cost over the remaining lease period of the land on straight line basis.

#### 4. Investments

4.1. The investment portfolio categories, specified under RBI guidelines are further classified under three categories, viz., 'Held to Maturity', 'Available for Sale' and 'Held for Trading'. The investments under 'Held to Maturity' do not exceed 25 per cent of the total investments. The investments under this category are carried at acquisition cost unless it is more than the face value, in which case the premium over the face value, if any, is amortised over the period remaining to maturity. The investments under 'Available for Sale' and 'Held for Trading' are marked to market at prescribed intervals. While only net depreciation, if any, is provided for investments in each category classified as 'Available for Sale', depreciation or appreciation is recognised in each category for investments classified as 'Held for Trading'.

4.2. Investments are reported at cost and provision for depreciation/ diminution, if any, in value of investments is included under Current Liabilities and Provisions.

#### 5. Provisions for Loans and Advances

5.1. Advances are classified as Standard, Sub-Standard, Doubtful and Loss Assets and the required provisions are made as per the guidelines issued by the RBI from time to time. For this purpose, Government Guaranteed Advances and Advances to state governments are treated as Standard Assets. Additional provisions over and above those prescribed under RBI guidelines are made on certain categories of Standard Assets on a prudent basis.

## **6. Foreign Currency Transactions**

6.1 Foreign currency borrowings are reported at closing exchange rate prevailing on the Balance Sheet date whereas foreign currency borrowings supported by hedging agreements are taken at the contract price.

6.2. Foreign Currency Risk Fund has been created out of appropriation of the Bank's profits to meet any exchange loss in excess of balance available in 'Interest Differential Fund-Forex Risk'.

## **7. Payments and Provisions to Employees**

7.1. The Bank has a Provident Fund Scheme managed by RBI. Contributions under the scheme are provided and paid to RBI.

7.2. Gratuity Fund is an integral part of the operations of the Bank and interest is provided on the annual balance outstanding to the credit of the Fund. The Fund balance is reflected under Current Liabilities and Provisions.

7.3. Provision for gratuity is made on the basis of liability as determined by actuarial valuation after considering the interest provision on gratuity fund referred to in para 7.2 above and without deducting the amount to be borne by the RBI in respect of employees who are transferred from the RBI. The amount of gratuity due from the RBI is accounted for as and when received.

7.4. The Bank has a pension scheme for its employees. The amounts representing employer's contribution to Provident Fund relating to the pension optees (which is now part of Pension Fund) are maintained with RBI. The provision for pension is made based on actuarial valuation after considering the aforesaid balance with RBI.

7.5. Provision for Encashment of Ordinary Leave is made on the basis of actuarial valuation.

## **8. Recognition of Tax Expense, Deferred Tax Assets and Deferred Tax Liabilities**

8.1 Income tax expense is arrived at after considering all deductions and allowances available under the tax laws including the deduction under Sec. 36 (1) (vii) regarding provision for doubtful debts and section 36(1)(viii) towards the profit from the business of long term finance. Provision for current tax is made on the taxable income at the applicable tax rates. Deferred Tax

Assets and Liabilities are reckoned for all timing differences that have arisen upto the end of the accounting year and that are expected to reverse in the subsequent accounting periods. These are computed based on the tax rates and tax laws enacted or substantively enacted by the Balance Sheet date.

## **B. Notes forming part of the Accounts**

1. In terms of TAWA Command Area Development Project Agreement, interest chargeable by the GoI on loans to NABARD at 6.5 per cent per annum has been accounted to the extent of 4.5 per cent by credit to the 'Interest Differential Fund' to be utilised for certain specified purposes and the balance of 2 per cent has been paid to GoI.

2. Interest at 6.00 per cent per annum for the year 2003-04 on unutilised balances of CFSE, RPCF, KfW fund for Watershed Development, Funds under CE-BAIF project, KfW NABARD IGWDP - Andhra Pradesh, NABARD V Adivasi Special Development Programme (Gujarat) and KfW NABARD IX Adivasi Development Programme have been credited to the respective funds.

3. As per the Agricultural and Rural Debt Relief Scheme 1990, the Bank was acting as a channelising agent for disbursing the funds received from RBI towards grants to RRBs and loans/grants to SCBs and SLDBs.

4. In the absence of details of the balance of Pension Fund lying with RBI (Refer significant accounting policy para 7.4) as on 31 March 2004, the amount has been estimated and provision for pension is made after considering such estimated amount.

5. (a) In respect of Bonds issued by the Bank, which were managed by RBI, the accounting of the collections and redemption of the bonds are based on advices received from RBI up to 30 September 2003.

(b) From 1 October 2003, RBI froze the current account, meant for redemption and interest payment of above bonds. The servicing of these bonds thereafter is taken over by NABARD. The outstanding balance payable on account of 'bonds matured but not claimed' and unclaimed interest has been shown net of payments made by NABARD from 1 October 2003 onwards.

6. (a) During the year, borrowing from KfW, Germany, to the extent of 58.80 million Euro and interest thereon has been hedged by entering into currency SWAP agreement, at the rates ranging between Rs 50.505 and Rs 50.55, per Euro, for a period of 10 years, with four different counter parties. Consequently, the liability towards KfW borrowings has been shown at contract price only. The difference between forward SWAP rate and exchange rate at which borrowing was valued in the books, amounted to Rs 15.33 crore was credited to Interest Differential Fund (Forex risk) as exchange loss in the earlier years on account of revaluation of the aforesaid loan has been debited to the said account.

(b) The hedging contract is disclosed as an 'Off the Balance Sheet' item and the amount represents the contracted value of the SWAP agreement. The amount of principal outstanding liability at the year-end exchange rate is Rs. 312.51 crore.

7. Sundry creditors include an amount of Rs. 100 crore received from GoI on account of scheme for revitalization of co-operative credit structure. The amount has been kept under Sundry Creditors - Remittance from GoI pending receipt of necessary details / operational mechanism of the scheme from GoI.

(a) Investments in shares of ADFCs have been classified under 'Held To Maturity' category, keeping in view Accounting Standard 13 of ICAI and principle of prudence, the depreciation of Rs. 65 lakh has been provided on the basis of investee's break-up value of shares.

(b) The valuation of AFS investments have been marked to market at the close of the year to recognize depreciation in value category-wise. On the other hand, the depreciation or appreciation in investments held for trading have been booked on a monthly basis.

## 8. Provisions for Income Tax

Major components of Deferred Tax Assets and Liabilities are as under:

(Rs.crore)

Sr. No.	Deferred Tax Assets on account of	As on 01.04.2003	Debit/Credit During the year	As on 31.03.2004
1.	Provision for Retirement Benefits made in the books but allowable for tax purposes on payment basis	85.00	38.46	123.46
2.	Depreciation on Fixed Assets	32.00	-2.06	29.94
	<b>Total</b>	<b>117.00</b>	<b>36.40</b>	<b>153.40</b>

9. The Bank has made payments towards subscription of debentures issued by various State Land Development Banks/Land Mortgage Banks and these are included under 'Advances - Other Investment Credit - Medium Term and Long Term Project Loans'. The value of Allotment Letters/ Debenture Scrips yet to be received as on date aggregates Rs. 219.85 crore (Rs. 711.40 crore).

10. (a) 'Land' and 'Premises' include an aggregate amount of Rs. 46.96 crore (Rs. 40.13 crore) paid towards Office Premises and Staff Quarters at various locations in respect of which conveyance deeds/other Legal Documents have not yet been executed in favour of the Bank because of certain procedural delays being faced in connection therewith.

(b) In respect of 'Land' and 'Premises', whose cost is Rs.24.99 crore (Rs.18.37 crore) conveyancing is yet to be done, pending settlement of legal disputes with the vendors.

11. Expenditure on Study and Training includes Rs.2.59 crore (Rs.3.165 crore) relating to establishment expenses and operating expenses of Regional Training Colleges at Bolpur and Mangalore, which provide training to employees of commercial banks, co-operative banks and RRBs.

12. During the year an amount of Rs. 1.686 crore, being the recoveries made from the employees against advance for furnishing residence of officers (FRSO) (consisting of Rs.1.426 crore effected upto 31 March 2003 and Rs 0.26 crore during the year 2003-04) was recognized as income and credited to Profit & Loss Account, which were hitherto credited to Sundry Creditors account and shown as liability in the Balance Sheet.

13. Prior period items included in the Profit & Loss Account are as follows:

		(Rs. crore)	
Sr. No.	Particulars	2003-04	2002-03
1	Depreciation	1.87	2.95
2	Other Receipts	1.43	0.11
3	Other Expenses	-	0.72

14. Capital adequacy ratio of the Bank as on 31 March 2004 is 39.41 per cent as against a minimum of 9 per cent as stipulated by RBI.

15. Figures in the Balance Sheet and Profit & Loss Account are rounded off to the nearest rupee.

16. The figures in parentheses are in respect of the previous year.

17. The following additional information is disclosed in terms of RBI circular (Ref.No.DBS.FID.C-2/01.02.00/2003-04 dated July 10, 2003):

## I. Capital

### (a) Capital to Risk-weighted Assets Ratio (CRAR)

(Per cent)

Particulars	31 March 2004	31 March 2003
CRAR	39.41	39.05
Core CRAR	37.77	37.80
Supplementary CRAR	1.64	1.25

### (f) Asset Classification

Classification	2003-04		2002-03	
	Rs. crore	Per cent	Rs. crore	Per cent
Standard	48,789.46	99.99836	45,359.80	99.99645
Sub-standard	0.78	0.00160	0.85	0.00188
Doubtful	0.02	0.00004	0.11	0.00024
Loss	0.00	0.00000	0.65	0.00143
<b>Total</b>	<b>48,790.26</b>	<b>100.00</b>	<b>45,361.41</b>	<b>100.00</b>

### (g) Provisions made during the Year

(Rs. crore)

Provisions against	2003-04	2002-03
Standard Assets	51.36	45.98
Non Performing Advances	0.27*	-0.02
Investments	0.65	0.00
Income Tax	375.00	390.00
<b>Total</b>	<b>427.28</b>	<b>435.96</b>

\* includes NPA provision of Rs 0.26 crore against advances to staff

### (b)

(Rs. crore)

Particulars	31 March 2004	31 March 2003
Amount of subordinated debt raised and outstanding	Nil	Nil

### (c) Risk weighted Assets

(Rs. crore)

Particulars	31 March 2004	31 March 2003
On - Balance Sheet Items	19087.02	16,521.72
Off - Balance Sheet Items	77.92	77.86

### (d) Pattern of Capital contribution as on the date of the Balance Sheet

(Rs. crore)

Contributor	31 March 2004	31 March 2003
Reserve Bank of India	1,450	1,450
Government of India	550	550
<b>Total</b>	<b>2,000</b>	<b>2,000</b>

## II. Asset quality and Credit concentration (Excluding Staff Advances)

### (e)

Particulars	31 March 2004	31 March 2003
Percentage of Net NPAs to Net Loans and Advances	0.0014 %	0.0017%

**(h) Movement in NPAs**

(Rs. crore)

Particulars	2003-04	2002-03
NPAs as at beginning of the year	1.61	0.93
Add: Additions during the year	0.01	0.84
Sub-Total	1.62	1.77
Less: Reductions during the year	0.82	0.16
NPAs as at the end of the year	0.80	1.61

**(i) Credit exposure as percentage to Capital Funds and as percentage to Total Assets**

Sr. No.	Category	2003-04		2002-03	
		Credit Exposure as % to		Credit Exposure as % to	
		Capital Funds	Total Assets	Capital Funds	Total Assets
I	Largest Single Borrower	41.60	5.43	52.48	6.59
II	Largest Borrower Group	Not Applicable	Not Applicable	Not Applicable	Not Applicable
III	Ten Largest Single Borrowers				
1.	U. P. State Land Development Bank	41.60	5.43	49.22	6.18
2.	Andhra Pradesh Co-operative Bank	39.43	5.14	52.48	6.59
3.	ICICI Bank	26.86	3.50	8.87	1.11
4.	Punjab State Co-operative Bank	25.03	3.26	14.33	1.80
5.	Haryana State Land Development Bank	22.33	2.91	25.28	3.18
6.	Punjab State Land Development Bank	21.58	2.81	24.30	3.05
7.	Andhra Pradesh State Govt.	20.16	2.63	30.04	3.77
8.	Madhya Pradesh State Govt.	18.88	2.46	17.41	2.19
9.	U. P. State Govt.	18.73	2.44	24.20	3.04
10.	Tamil Nadu State Govt.	17.93	2.34	19.69	2.47
IV	Ten Largest Borrower Groups	Not Applicable	Not Applicable	Not Applicable	Not Applicable

**(j) Credit exposure to the Five largest Industrial Sectors as percentage to Total Loan Assets -Not Applicable****III. Liquidity****(i) Maturity pattern of rupee Assets and Liabilities****(ii) Maturity pattern of Foreign Currency Assets and Liabilities**

(Rs. crore)

Item	Less than or equal to 1 year	More than 1 year upto 3 years	More than 3 years upto 5 years	More than 5 years upto 7 years	More than 7 years	Total #
Rupee Assets	17,259.75	15,642.84	11,200.86	6,394.96	5,189.55	55,687.96
Foreign Currency Assets	0	0	0	0	0	0
Total Assets	17,259.75	15,642.84	11,200.86	6,394.96	5,189.55	55,687.96
Rupee Liabilities	9,818.80	9,044.94	9,328.91	3,147.39	24,050.91	55,390.95
Foreign Currency Liabilities	0	2.58	11.62	19.70	263.11	297.01
Total Liabilities	9,818.80	9,047.52	9,340.53	3,167.09	24,314.02	55,687.96

# In terms of RBI instructions, provisions towards Standard Assets and also the provision against depreciation in the value of investment, that are reflected as Liabilities in the Balance Sheet, have been reduced in the aforesaid table from the Assets.

#### IV. Operating Results

Sr. No.	Particulars	For the year ended 31 March 2004	For the year ended 31 March 2003
1.	Interest income as a percentage to working funds	8.02	8.45
2.	Non interest income as a percentage to working funds	0.11	0.10
3.	Operating profit as a percentage to working funds	3.61	3.96
4.	Return on Assets (per cent)	2.78	3.22
5.	Profit per Employee (Rs. crore)	0.28	0.29

#### V Movement in the Provisions

##### (a) Provision for Non-Performing Assets

(Rs. crore)

Sr. No.	Particulars	2003-04	2002-03
i)	Opening balance as at the beginning of the financial year	0.86	0.89
	Add Provision made during the year	0.01	0.11
	Less Write off, write back of excess provision	0.77	0.14
ii)	Closing balance as at the close of the financial year	0.10	0.86

##### (b) Provision for Depreciation in Investments

(Rs. crore)

Sr. No.	Particulars	2003-04
1.	Opening balance as at the beginning of the financial year	Nil
2.	Add	
	i) Provisions made during the year	0.65
	ii) Appropriation, if any, from Investment Fluctuation Reserve Account during the year	Nil
3.	Sub-Total (1+2.i+2.ii)	0.65
4.	Less	
	i) Write off during the year	Nil
	ii) Transfer, if any, to Investment Fluctuation Reserve Account	Nil
5.	Closing balance as at the close of the financial year (3-4.i-4.ii)	0.65

#### VI. Restructured Accounts

No loan has been subjected to restructuring during the year.

#### VII. Forward Rate Agreements and Interest Rate Swaps

No Forward Rate Agreement / Interest Rate Swaps as permitted by RBI circular No. MPD. BC. 187/ 07.01.279/

1999 - 2000 dated 07 July 1999 has been entered into during the year.

#### VIII. Interest Rate Derivatives

No Interest Rate Derivative transaction has been entered into during the year.

## IX. Related Party Transactions

(Rs. crore)

Name of the Party	Nature of Relationship	Nature of Transaction	Amt. of Transaction during the year	Outstanding
Reserve Bank of India	Holding 72.50% of NABARD Capital	Borrowings (net of repayments)	(1598.48)	4193.60
		Interest on Borrowings	148.31	
		Contribution Recd. in NRC Funds maintained by NABARD	2.00	
		Maintenance fee for Bonds	0.06	
Government of India	Holding - 27.50% of NABARD Capital	Borrowings (net of repayments)	(26.06)	565.19
		Interest on Borrowings	41.58	
		Guarantee fee	5.41	
ADFT, Chennai	Control - 52.10% of Share Capital held by NABARD	Lending (net of repayments)	0.00	0.00
		Interest on Lending	0.00	0.00
ABFL, Hyderabad	Control 47.82% of Share Capital held by NABARD	Lending (net of repayments)	(0.89)	1.36
		Interest on Lending	0.17	0.02
KADFC, Bangalore	Control - 82.41% of Share Capital held by NABARD	No Transaction	0.00	0.00
NABARD Consultancy Services Pvt. Ltd	Wholly Owned Subsidiary	Expenses incurred by NABARD	0.57	0.38
Shri. Y.C.Nanda	Key Management Personnel - Chairman up to 30 June 2003	Remuneration including perquisites	0.012	
Smt. Ranjana Kumar	Key Management Personnel - Chairperson from 21 November 2003	Remuneration including perquisites	0.023	
Shri Y.S.P. Thorat	Key Management Personnel - Managing Director from 17 March 2004	Remuneration including perquisites	0.002	

## X. Information on Business Segments

### a) Brief Background

The primary business segments recognised by the Bank are as under:

- i) Direct Finance: Loans given to state governments for rural infrastructure development and loans given to VAs /NGOs for developmental activities are included in this segment.

- ii) Refinance: Loans and Advances given to state governments, commercial banks, LDBs, SCBs, RRBs etc., as refinance against the loans disbursed by them to the ultimate borrowers.

- iii) Treasury: The investment of funds under call money, treasury bills, short term deposits, Govt. securities, etc.

- iv) Unallocated: This segment includes income from staff loans and other miscellaneous receipts and

the expenditure incurred for the developmental role of the Bank and common administrative expenses.

Secondary business segments identified by geography cover the business at the following states:

- i) South Zone: Karnataka, Kerala, Tamil Nadu, Andhra Pradesh and RTC, Mangalore.
- ii) East Zone: Tripura, Mizoram, Orissa, West

Bengal, RTC Bolpur, Nagaland, Sikkim, Assam, Manipur, Arunachal Pradesh and Meghalaya.

- iii) North Zone: Madhya Pradesh, Haryana & Punjab, Bihar, New Delhi, Jharkand, Chhattisgarh, Himachal Pradesh, Uttar Pradesh, NBSC Lucknow, Jammu & Kashmir, Rajasthan and Uttaranchal.
- iv) West Zone: Gujarat, Goa, Maharashtra and Head Office, Mumbai.

#### b) Information on Primary Business Segment

(Rs. crore)

Sr. No.	Segment	Segment Revenue from External Customers	Segment Results	Segment Assets	Segment Liabilities
1	Direct Finance	1,510.93	201.95	14,147.46	12,828.18
2	Refinance	2,427.75	1,232.90	35,660.19	#20,492.95
3	Treasury	309.40	306.58	2,487.74	0.00
4	Unallocated	19.19	-281.00	3,593.21	505.92
<b>Total</b>		<b>4,267.27</b>	<b>1,460.43</b>	<b>55,888.60</b>	<b>33,827.05</b>
<i># Includes balances in NRC (LTO) and NRC (Stab.) Funds where there is no external obligation.</i>					

#### c) Information on Secondary Business Segment

(Rs. crore)

Sr. No.	Geographical Segments	Segment Revenue from External Customers	Segment Assets
1	East Zone	440.35	5,606.69
2	North Zone	1,739.75	23,031.99
3	South Zone	1,241.08	15,552.60
4	West Zone	846.09	11,697.32
<b>Total</b>		<b>4,267.27</b>	<b>55,888.60</b>

18 Previous year's figures have been regrouped and recast wherever necessary.

For Gupta Sharma & Associates  
Chartered Accountants

P. S. S. R. Sarma  
Chief General Manager  
Finance and Accounts Department  
New Delhi, 12 June 2004

Ashok Gupta  
Partner  
Membership No.17244  
New Delhi, 12 June 2004

Ranjana Kumar  
Chairperson  
New Delhi, 12 June 2004

Y. S. P. Thorat  
Managing Director

N. S. Sisodia  
Director

K. J. Udeshi  
Director