CHAPTER - III

SURVEY OF ANNUAL REPORTS

The purpose of this chapter is to determine whether the commercial banks in U.K., Canada, Australia and India have substantially improved their financial reporting practices in sixteen specific areas of information, indicated in chapter I (pp. 14-15), vis-a-vis that of reporting in U.S.A. U.S.A. reports have been taken as standard for comparison as these were found to be the most informative and best presented amongst the countries under study. The purpose is also to determine how far international harmonisation of financial reporting practices exists in these sixteen areas of information and to suggest for further improvement where it is feasible and practicable.

With this end in view the ten leading commercial banks of each of U.S.A., U.K., Canada, and Australia were requested to send annual reports for the years 1978 to 1982. In India, of course, nineteen leading nationalised commercial banks and six private banks were requested to send their annual reports for the same period.

At the very out set of each section, effort has been made to focus the problem areas relating to the activities and reporting practices of commercial banks and then a discussion has been

made on the basis of the information contained in the annual reports of each country. Number of sample banks' annual reports received and examined is furnished in the following table :

TABLE - I

Annual Reports Examined

Year	Number of Reports Examined					Percentage of sample covered				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	10	6	8	7	25	100.0	60.0	80.0	70.0	100.0
1979	10	6	8	7	25	100.0	60.0	80.0	70.0	100.0
1980	10	6	8	7	25	100.0	60.0	80.0	70.0	100.0
1981	10	6	8	7	25	100.0	60.0	80.0	70.0	100.0
1982	10	6	8	7	25	100.0	60.0	80.0	70.0	100.0

Source :- Appendix-A, (pp. A1 - A5)

AUDITORS' OPINION IN ANNUAL REPORTS :

Audit is an ".... indepedent examination of financial information of an entity, whether profit oriented or not, and irrespective of its size, or legal form, when such an examination is conducted with a view to express an opinion thereon."[1] It is mandatory for banks in all the sample countries since long except in U.S.A. In U.S.A. although the issue was raised quite frequently, it was not until period ending after November 30, 1971, that the SEC amended Article 9 of Regulation S-X and introduced a

1. A.K. Chatterjee, Management Techniques of Bank Lending, 1st ed., Himalayan Publishing House, Bombay, 1982, p. 40.

requirement for mandatory independent audits for banks. Even before this amendment, there was trend towards audits, at least among the larger banks. A major factor for this trend was the requirement of the New York Stock Exchange that listed banks have independent audits.[1]

TABLE - II

Reports Containing Audit Reports

Year	Number of Reports					Percentage of Reports containing Audit Reports				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	10	6	8	7	25	100.0	100.0	100.0	100.0	100.0
1979	10	6	8	7	25	100.0	100.0	100.0	100.0	100.0
1980	10	6	8	7	25	100.0	100.0	100.0	100.0	100.0
1981	10	6	8	7	25	100.0	100.0	100.0	100.0	100.0
1982	10	6	8	7	25	100.0	100.0	100.0	100.0	100.0

Table-II above shows that 100 per cent of the banks' financial statements under investigation in U.S.A., U.K., Canada, and India contained opinions of the independent auditors. In Australia, however, four out of seven banks' financial statements contained opinions of the independent auditors and other three contained opinions of the Auditor General of that country.

Opinions of the auditors on financial statements differ widely in coverage in different countries and even differ among the banks

1. R.A. Daily and R.H. Strawser, "Independent Audits and the Reporting Practices of Banks", The Journal of Accountancy, July 1974, p. 44.

within the country itself. But these differences in coverage are found more acute in Australia than in any other country. In U.S.A., U.K., Canada and India the opinions of the auditors on the financial statements are more or less standardised within each country.

In U.S.A., U.K., Canada, Australia and India the auditors' reports are found to be unqualified during the test period.

In U.S.A. the auditors usually examine financial statements for three years and certify as 'fair', whereas the auditors in Canada examine the financial statements for one year and certify as 'fair'.

In U.K., Australia and India the auditors examine financial statements for one year and certify them as 'true and fair'. In U.K., Australia and India, unlike in U.S.A. and Canada, auditors consider that most important part of their report is the expression of opinion as to whether the accounts and all the financial information are 'true and fair.'

In U.K. the auditors examine the profit and loss account, balance sheet and notes on the current cost accounts in accordance with policies and methods adopted by the banks under current cost principles described in Standard Accounting Practice No. 16 and

certify them as 'true and fair' which is not done at all by the auditors in U.S.A., Canada, Australia and India.

In U.S.A. and Canada so much importance is attached to the 'generally accepted accounting principles' that auditors are required to report whether accounting standards present fairly the financial position in conformity with 'generally accepted accounting principles' applied on a basis consistent with that of the preceding year. Consistency, if one goes by the audit reports, does not seem to be as important a consideration in U.K., Australia and India as it is in the U.S.A. and Canada.

GAINS AND LOSSES ON SECURITIES DISPOSED :

Considerable interest relates to the exclusion of securities gains and losses from the income statement or its inclusion as a non-operating item. It has been the general feeling in the banking industry that banks are not in the business of buying and selling of securities. Nevertheless, under existing banking regulations and practices limiting the amount of depositors' funds which may be loaned, and the maintenance of secondary reserves as a source of liquidity, banks always have funds invested in securities. Banks have always recognised the interest income derived from such securities as an important element of operations, but have been slow to recognise the gains or losses resulting from changes in the investment portfolio as an element of income, much less as an element of entering in the

determination of operating income. Such profits or losses were considered to be incidental to, rather than part of, the normal banking function and following the normal operating concept of income determination, were taken directly to undivided profits or to a reserve account outside of the income statement.[1]

Banks have often been criticised for excluding gains and losses on the disposal of securities and the related income-tax effect from the determination of operating income.[2]

An area of accounting which has been debated widely in the United States is concerning realised gains and losses. For the most part US banks are concerned with fixed-interest securities rather than equities. Thus, gains and losses on securities arise mainly from changes in market

TABLE - III

Reports which Include Gains and Losses on the Disposal of Securities in the Income Statement.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Australia	India	U.S.A.	U.K.	Canada	Australia	India
1978	8	6	0	1	0	80.0	100.0	0.0	14.3	0.0
1979	8	6	0	1	0	80.0	100.0	0.0	14.3	0.0
1980	8	6	0	1	0	80.0	100.0	0.0	14.3	0.0
1981	9	6	1	1	0	90.0	100.0	12.5	14.3	0.0
1982	9	6	8	1	0	90.0	100.0	100.0	14.3	0.0

1. R.L. Donato, op. cit., p. 139.
2. R.A. Daily and R.H. Strawser, op. cit., p. 47.

rates of interest compared with the coupons. This gives rise to the widely supported argument that such gains and losses should be spread by some method over the life of the security. Although complicated amortization methods are permitted in the United States, the consensus of opinion was for gains and losses to be recognised on realisation and for such items to be shown, net of related taxation, below the operating earnings of the bank but in its net income determination.[1]

TABLE - IV

Reports which Indicate that Gains and Losses on the Disposal of Securities are Presented Net of Taxes.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	8	0	0	0	0	80.0	0.0	0.0	0.0	0.0
1979	8	0	0	0	0	80.0	0.0	0.0	0.0	0.0
1980	8	0	0	0	0	80.0	0.0	0.0	0.0	0.0
1981	9	0	0	0	0	90.0	0.0	0.0	0.0	0.0
1982	9	0	0	0	0	90.0	0.0	0.0	0.0	0.0

Table III indicates that the banks in U.S.A. and U.K. have made a good deal of improvement during the test period. The banks in U.S.A. and U.K. not only include the gains and losses on securities in the income statement, they also state the bases of their accounting in the 'notes to accounts'. In U.S.A., the gains and losses on securities

1. J. Rule, "Merchant Banks' Accounts - the Need for Disclosure", The Banker, December 1972, p. 49.

are shown in the consolidated statement of income, while in U.K. it is taken to 'operating profit' section in the notes to accounts.

In Canada, on the other hand, one bank includes gains and losses on the disposal of investment of securities in the income statement since 1981 and other seven banks include them in the income statement since 1982 annual reports. Prior to 1982, the banks in Canada were including gains and losses on securities in the 'statement of accumulated appropriations for losses.'

In case of Australia, though one bank includes gains and losses on securities in the 'profit and loss statement', other four banks simply state the bases of accounting in the 'notes to accounts'. Realised profits and losses on sales of investments other than trade investments are generally taken to profit and loss account in equal instalments over five years commencing with the year in which disposal takes place. As the majority of redeemable quoted investments are normally held, to or near to maturity, no provision is considered necessary for any difference between the book amounts and the market values of such individual stocks quoted below book amounts at the balance date, neither are any transfers made from reserves nor out of the current year's profits to write them down, apart from the amortization of the premiums on stocks bought above par.[1]

In India the banks hold investment securities in their investment portfolios but they neither disclose gains and losses on them

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1. Australia and New Zealand Banking Group Limited, Annual Report 1982, p. 22.

nor state any accounting bases for these in the financial statements.

Table-IV indicates that in U.S.A. 80 per cent of the banks in the years 1978 to 1980, 90 per cent of the banks in 1981 and 1982 show gains and losses on the disposal of securities net of taxes. The banks in other four countries are silent on this issue.

PREMIUM/DISCOUNT ON SECURITIES :

The premium paid for a bond presents an adjustment of the coupon rate of interest to the market yield at the time of purchase. The discount allowed on a bond is of similar nature, representing an adjustment of the coupon interest rate to the investment yield demanded by the buyer. It follows, then, that both bond premium and discount should be amortized or accreted, as the case may be, and the interest income should include an allocation of such premium or discount.

In the past, commercial banks have followed diverse as well as inconsistent methods of accounting and reporting.[1] Referring to the accounting principles followed by banks, Mr. Shirk wrote :

> "Consider first the method used to record investment securities purchased at a premium and at a discount. Some record premium items at cost and amortize the premium to the earliest call or maturity date. Discount items are recorded at cost and no portion of the discount is transferred to income during the period the securities are held. Others follow this practice but, in addition, make periodic transfer

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1. R.L. Donato, op. cit., p. 60.

of discount to income by increasing the carrying value of the securities. Still other reflect declines in market value by providing and applying reserves so that securities are carried at the lower of amortized cost or market value. Some banks carry securities purchased at a premium at par value and record discount items at cost, thus, premiums are written off immediately upon acquisition of the securities. One very large bank acquired securities at premium and immediately wrote them down to par by a charge to a valuation reserve. However, for accounting purposes the premium is being charged over the life of the securities. As the charge is reflected in the statement of income a similar amount is released from the reserve. One year the amortization was charged against operating earnings, the following year, because of a change in accounting methods, the amortization was treated as a "below the line" item... To make matters worse, many times the facts cited cannot be determined from the published annual reports."[1]

Although the great majority of banks followed the correct accounting treatment of amortizing bond premium to the earliest call or maturity date, many banks did not accumulate bond discount. Instead, they gave accounting recognition to the discount as profit on sale or redemption of the bonds.

TABLE - V

Reports which Indicate that Premiums on Securities are Amortized.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	10	5	8	4	0	100.0	83.3	100.0	57.1	0.0
1979	10	5	8	4	0	100.0	83.3	100.0	57.1	0.0
1980	10	5	8	5	0	100.0	83.3	100.0	71.4	0.0
1981	10	5	8	6	0	100.0	83.3	100.0	85.7	0.0
1982	10	4	8	6	0	100.0	66.7	100.0	85.7	0.0

1. Ibid., p. 61.

The clearing banks (commercial banks in U.K.) include in income, amortization or premiums and discounts on dated stocks on a straight line basis to maturity. When sold before maturity, the difference between proceeds and amortized cost is transferred to suspense account and written off arbitrarily over five years to income.[1]

TABLE - VI

Reports which Indicate that Discounts on Securities are Amortized.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	10	5	8	4	0	100.0	83.3	100.0	57.1	0.0
1979	10	5	8	4	0	100.0	83.3	100.0	57.1	0.0
1980	10	5	8	5	0	100.0	83.3	100.0	71.4	0.0
1981	10	5	8	6	0	100.0	83.3	100.0	85.7	0.0
1982	10	4	8	6	0	100.0	66.7	100.0	85.7	0.0

Table V and VI indicate that the banks in U.S.A. and Canada have completely overcome these problems, while a good deal of improvement has been made by the banks in U.K. and Australia. All these banks now state in their accounting policies in the 'notes to accounts' that investment securities have been carried at cost, adjusted for amortization of premium and accretion of discount. Some banks in U.S.A. also state that premiums and discounts on investment securities are amortized or accreted, respec-

1. J. Rule, op. cit., p. 49.

tively, to interest income on investment securities on the Straight-line method over the period of maturity (call dates, if earlier, with respect to premiums) of the related securities.

Some banks in U.K. report that these premiums and discounts are amortized through the profit and loss account over the period from date of purchase to date of maturity. If the date of maturity is at the borrower's option within a specified range of years, the maturity date which gives the more comparative result is adopted. The investments are included in the balance sheet at amortized cost. Profit and loss on the realisation of these investments are dealt with in the profit and loss account as they arise.

In India the banks under study have made no such statement or accounting treatment in the financial statements.

COMPOSITION OF SECURITIES PORTFOLIO :

The securities portfolio is one of the most important constituent of the bank's asset structure, usually next to bank loans. As a bank holds different types of securities with diverse objectives i.e., to observe legal requirements, to hedge the transactional uncertainties, to use presently unemployable funds etc., it is necessary that it furnishes sufficient details (like issuer, period, date of maturity, terms and conditions, rate of interest, cost price, market value etc.) about its holding of securities. Since, a major portion of the securi-

-ties is converted in short term, only sufficient details about these can enable users to understand real implications of such holdings.

TABLE - VII

Reports which Disclose the Composition of the Securities Portfolio.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	10	6	8	7	12	100.0	100.0	100.0	100.0	48.0
1979	10	6	8	7	12	100.0	100.0	100.0	100.0	48.0
1980	10	6	8	7	12	100.0	100.0	100.0	100.0	48.0
1981	10	6	8	7	12	100.0	100.0	100.0	100.0	48.0
1982	10	6	8	7	12	100.0	100.0	100.0	100.0	48.0

TABLE - VIII

Reports which Disclose the Market Value of Securities.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	10	6	0	6	5	100.0	100.0	0.0	85.7	20.0
1979	10	6	0	6	5	100.0	100.0	0.0	85.7	20.0
1980	10	6	0	6	5	100.0	100.0	0.0	85.7	20.0
1981	10	6	0	6	5	100.0	100.0	0.0	85.7	20.0
1982	10	6	0	6	7	100.0	100.0	0.0	85.7	28.0

Table VII shows that 100 per cent of the banks in U.S.A., U.K., Canada, Australia and 48 per cent of the banks in India disclose the composition of the investment securities portfolio. The exact details of composition, however, differ from country to country and even between the banks within the country.

In U.S.A. the composition of the securities portfolio is more or less shown as U.S. Government securities, U.S. Government Agencies securities, State and Political Sub-divisions securities, and Other securities. This classification is more standardised in U.S.A. than elsewhere. Some banks show this composition in the consolidated balance sheet, while others show them in 'notes to accounts.'

In U.K. also the composition of securities is more or less standardised as follows :

a) Listed securities of or guaranteed by British Government.

b) Others listed securities in Great Britain.

c) Other securities listed elsewhere.

d) Unlisted securities.

The composition of the investment securities is shown by the banks usually in the 'notes to accounts.'

In Canada, however, securities are shown mainly under three groups : i) Issued or guaranteed by Canada Government, ii) Issued or guaranteed by Provinces and Municipalities or School Corporations,

and iii) other securities. In Canada the usual practice is to show the composition of the securities portfolio in the 'Consolidated Assets and Liabilities.' Here also the composition of investment securities is more or less standardised.

In Australia the composition of investment securities, mainly shown in the 'notes to accounts', is not uniform and it varies from bank to bank. The varying composition details shown by different banks may thus be illustrated (Exhibits I to VII) :

Exhibit - I
Commonwealth Banking Corporation
Annual Report 1982, p.56

4. Australian Public Securities

The relationships of book values of "Other Commonwealth Securities" to market values of these securities as at 30 June 1982 are as follows:

	1982		1981	
	Book Value	Market Value	Book Value	Market Value
Commonwealth Trading Bank	1,091,325	935,127	1,009,803	927,610
Commonwealth Savings Bank	1,067,097	959,089	1,153,979	1,020,664
Commonwealth Banking Corporation	20,748	17,082	19,435	18,363

Exhibit - II
The Rural and Industries Bank of Western Australia
Annual Report 1982, p.14

Australian Public Securities		
(a) Commonwealth of Australia		
(i) Treasury Notes (at face value, less unearned discount)	57,291,765	50,491,800
(ii) Other securities (at lower of book or face value)	162,755,280	123,260,428
(b) Local and Semi-Government Authorities	106,255,551	96,826,939

Exhibit - III
State Bank of New South Wales
Annual Report 1982, p.3

5. Investments

(a) Commonwealth and State authorities securities –

(i) Commonwealth Government securities $249,905,292 comprised –

- Treasury notes $4,862,046 assessed at face value ($5,000,000) less unearned discount. Market value $4,862,046.
- Other Commonwealth securities $245,043,246 at redemption or amortised value. Face value $239,741,000 Market value $184,773,319

(ii) Local, quasi and semi-governmental authorities securities $159,733,568 comprised –

- Inscribed stock and debentures $49,951,436 at redemption or amortised value. Face value $48,658,500. Market value $37,010,083.
- Other non-marketable securities (credit foncier loans) with a face value of $109,782,132, for which there are no market values

Exhibit - IV

Bank of Queensland Limited
Annual Report 1982, p.19

NOTES TO AND FORMING PART OF THE ACCOUNTS

12. Australian Public Securities, Shares and Debentures and Other Investments

$'000

	Book Value		Market Value		Face Value	
	1982	1981	1982	1981	1982	1981
Australian public securities — Commonwealth Government						
i. Treasury notes (at cost with accrued interest)	492	280	—	—	500	280
ii. Other securities (at cost)	2,601	2,600	1,986	2,036	2,605	2,605
Shares and debentures in companies						
i. Shares — listed (at cost less amounts written off)	712	736	1,027	1,386	—	—
ii. Notes and debentures (at cost)						
a. Listed	14	114	14	115	—	—
b. Unlisted — directors' valuation	3,989	3,994	3,827	3,681	—	—
Investments						
Shares in wholly owned subsidiaries — unlisted						
Bank of Queensland Savings Bank Limited (nominal)	—	—				
Accounts Clearing Pty. Ltd. (at cost less amounts written off)	24	24				
B.Q.L. Nominees Pty. Ltd. (at cost)	200	200				
B.Q.L. Properties Limited (nominal)	—	—				
Shares in Permanent Finance Corporation Limited — listed (at cost)	3,154	3,154	3,637	3,916	—	—

Exhibit - V

Bank of New Zealand
Annual Report 1982, p.19

5. New Zealand and Overseas Government and Local Body Securities

Government and Local Body Securities are shown at original cost	*Trading Bank*		*Savings Bank*		*Finance Company*		*Consolidated*	
	1982 $000	1981 $000	1982 $000	1981 $000	1982 $000	1981 $000	1982 $000	1981 $000
Book Value	645,094	574,276	217,911	214,306	37,522	—	900,527	788,582
Market Value at Balance Date	646,374	572,666	212,596	204,760	37,522	—	896,492	777,426
Redemption Value	651,164	573,406	224,464	225,931	37,765	—	913,393	799,337

It is not considered necessary to make any provision for the difference between book and market values because the majority of the investments in respect of which the deficiency arises will normally be held to, or near to, maturity except in some cases when the opportunity for enhancing future income justifies disposal of stock before maturity.

	Trading Bank		*Savings Bank*		*Finance Company*		*Consolidated*	
	1982 $000	1981 $000	1982 $000	1981 $000	1982 $000	1981 $000	1982 $000	1981 $000
Included in the above Book Value figures are overseas Government and Local Body Securities amounting to	72,913	57,765	4,376	4,480	—	—	77,289	62,245
Total Income from Government and Local Body Securities	66,616	57,054	20,834	16,890	2,655	—	90,105	73,944

Australia and New Zealand Banking Group Limited
Annual Report 1982, p.27

13 Investments, Investments in Subsidiaries and Trade Investments

(a) Investments

Quoted investments are mainly redeemable at fixed dates within ten years and are stated in the balance sheets at cost adjusted for amortised premiums and discounts. The book amounts and valuations at middle market prices of these investments are given below.

	Consolidated		Holding Company	
	1982 $'000	1981 $'000	1982 $'000	1981 $'000
Book value				
Quoted in Australia:				
Australian Government securities	**1,137,291**	1,077,294	**974,647**	921,868
Australian Semi Government securities	**80,319**	76,296	**—**	—
Other securities	**2,162**	2,935	**1,582**	2,265
Quoted in other countries:				
Government and Local Authority securities	**202,825**	241,377	**2,569**	7,447
Other securities	**3,360**	4,838	**—**	—
Total book value of quoted investments	**1,425,957**	1,402,740	**978,798**	931,580
Unquoted investments:				
Australian Government and Semi Government securities	**551,595**	558,450	**—**	—
Australian Treasury notes	**290,340**	143,900	**107,605**	67,515
Treasury bills	**70,561**	40,142	**38,371**	4,433
Other securities including leveraged leasing	**260,686**	150,475	**169,861**	103,822
Total book value	**2,599,139**	2,295,707	**1,294,635**	1,107,350
Market value				
Quoted in Australia:				
Australian Government securities	**1,077,891**	962,827	**929,763**	830,502
Australian Semi Government securities	**73,890**	64,958	**—**	—
Other securities	**2,201**	2,550	**1,582**	1,948
Quoted in other countries:				
Government and Local Authority securities	**199,329**	232,871	**2,582**	7,151
Other securities	**3,385**	4,931	**—**	—
Total market value of quoted investments	**1,356,696**	1,268,137	**933,927**	839,601

(b) Investments in Subsidiaries

Investment in subsidiary — quoted — at directors' valuation 1979 (Market value 1982 $90,747 — 1981 $84,849)	**—**	—	**44,113**	41,827
Investments in subsidiaries — unquoted — at cost	**—**	—	**89,613**	89,325
— at directors' valuation 1981	**—**	—	**143,085**	143,085
	—	—	**276,811**	274,237

(c) Trade Investments

Trade Investments — quoted — at cost (Market value $Nil — 1981 $467)	**14**	173	**—**	—
— unquoted — at cost less amounts written off	**10,874**	10,824	**9,150**	9,001
	10,888	10,997	**9,150**	9,001

Exhibit - VII

National Commercial Banking Corporation of Australia Limited
Annual Report 1982, p.41

Dollars in Thousands	Group 1982	Group 1981	Holding Company 1982	Holding Company 1981
12. Public Securities				
At book value:				
a. Australian				
Quoted on a prescribed stock exchange				
Commonwealth bonds (at amortised value)	1,309,555	783,352	813,028	665,371
Local and semi-governmental authorities (at amortised value)*	83,511	42,683	7,779	13,454
Unquoted				
Commonwealth treasury notes (at face value less unearned interest)	282,555	261,979	61,289	119,207
Local and semi-governmental authorities (at amortised value)*	788,484	404,826		
b. Other countries				
Quoted on a prescribed stock exchange (at cost or face value less unearned interest)	2,629	3,252	1,778	2,083
Unquoted (at cost or face value less unearned interest)	11,113	8,068	777	668
	2,477,847	**1,504,160**	**884,651**	**800,783**
Market value of quoted public securities listed above is:				
a. Australian				
Commonwealth bonds	1,165,676	669,305	736,047	571,517
Local and semi-governmental authorities	76,219	36,850	7,600	12,512
b. Other countries	2,707	3,042	1,778	[illegible]

*During 1982 the method of valuing these securities was changed in respect of the Holding Company from 'lower of cost or redemption value' to 'amortised value'. The 1981 comparatives are shown at 'lower of cost or redemption value'. This change has had no significant effect on the accounts.

Thus, due to the above divergencies in presentation it is very difficult to make meaningful inter-bank comparisons.

In India the composition of investment securities is divided into two categories : (a) Securities of the Central and State Governments including Treasury Bills, (b) Others, including securities of foreign governments, Unit Trust of India etc. Only two banks out of twenty-five furnished figures separately for treasury bills. The composition of the investment securities is shown in the Balance Sheet.

Table VIII indicates that much improvement has been made in the matter of disclosing the market value of securities by the banks in U.S.A., U.K. and Australia. The banks in Canada, of course, do not disclose the market value of the securities. The Indian disclosure practice is also poor. One bank stated that 'market value of securities under the head investment has not been shown in view of exemption granted vide notification from the Ministry of Finance, Government of India, bearing No. 15/2/83 B.O.III dated 2nd April 1983'.[1] 20 per cent of the banks disclosed market value of investment securities for the years 1978 to 1981 and 28 per cent of the banks disclosed market value of securities in 1982.

In the context of the composition of securities the following comment in respect of market value of securities may appropriately

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1. Vijaya Bank, Annual Report 1982, p. 43.

be noted here :

> 'While the responses underline the problem of determining market value and the appropriateness of its application to particular types of asset, it is considered that practical difficulties should not preclude the disclosure of such value when it differs from the carrying amount, together with any necessary qualifying information. The disclosure of such amount gives an indication of both the potential position as regards liquidation of the asset and current investment yields.'[1]

TAX-EXEMPT SECURITIES :

The investment portfolios of banks consist of different types of securities. One differentiation is based on the tax liability of investment income. If a clear cut distinction is not drawn between the taxable and tax-exempted securities the income from individual securities becomes misleading. In all such instances income from tax-exempt securities will be understated by the analysts; there would also be an over provision for income tax to that extent. It is, therefore, necessary to draw a clear distinction between taxable securities and tax-exempt securities.

TABLE - IX

Reports which Disclose Income from Tax-Exempt Securities.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	7	0	0	0	0	70.0	0.0	0.0	0.0	0.0
1979	8	0	0	0	0	80.0	0.0	0.0	0.0	0.0
1980	8	0	0	0	0	80.0	0.0	0.0	0.0	0.0
1981	7	0	0	0	0	70.0	0.0	0.0	0.0	0.0
1982	7	0	0	0	0	70.0	0.0	0.0	0.0	0.0

1. Summary of responses to discussion paper "Disclosure in Financial Statements of Banks", first published March 1, 1980, Supplement to The Management Accountant, March 1982, p. 8.

Table IX indicates that there is still deficiency in regard to this item in U.S.A. During 1982 out of ten, seven banks disclosed that they had income from tax-exempt securities. Out of the remaining three, one bank stated in its annual report :

> '.... during the latter part of 1981 and throughout 1982 the bank sold a portion of its low-yielding tax-exempt bond portfolio having a book value of approximately $ 75 million. The sales resulted in an after-tax loss of $ 3.5 million in 1982 and $ 7.8 million in 1981 and the proceeds were invested in higher-yielding assets which will generate future taxable income.
>
> Although a portion of the deferred tax benefits remain at December 31, 1982, the afore-mentioned sale of low-yielding tax-exempt bonds will enable the Bank to generate taxable income which will be sufficient to absorb all existing tax loss carry forwards and credits in the near future.'[1]

The disclosure in another bank was :

> '.... during 1982, the company made substantial purchase of tax-exempt securities. This resulted in an increase in net income and a shortening in the average maturities of the fixed income portfolios. Capital gains on the sale of equity holdings were offset with losses from sales of bonds. The reinvestment of the proceeds from these sales resulted in a significant improvement in the overall yield of the tax-exempt bond portfolio. Except for sales under such circumstances, it is the customary practice and policy of the company to hold bonds to maturity.'[2]

Yet another bank revealed :

> '.... yields on tax-exempt obligations have been computed on a fully tax-equivalent basis using applicable statutory rates.'[3]

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1. National Bank of North America, Annual Report 1982, p. 35.
2. American Express, Annual Report 1982, p. 49.
3. Marine Midland Banks, INC., Annual Report 1982, p. 65.

Thus it appears that though the banks have income from tax-exempt securities held by them they do not disclose it in financial statement.

The banks in U.K., Canada, Australia and India do neither disclose existence of tax-exempt securities nor state anything in respect of the tax-exempt securities' income. That disclosure on this count is urgently called for can hardly be overemphasised.

FIXED ASSET ACCOUNTING :

The relative position of fixed asset in the asset structure of a bank is rather insignificant when compared with its position in the asset structure of manufacturing concern. An elaborate accounting for fixed assets including controversies on the objective of depreciation - a measurement of expired cost or making good of the assets consumed - are, therefore, considered not very relevant in bank accounting. As a result, accounting for fixed assets in banks is neglected. So far so that banks do not follow acceptable methods of depreciating fixed assets to charge the cost of these assets systematically to the operation of the period covered by their useful life.

The banking industry has been considered for arbitrary write-downs of properties to nominal value.

Over years, accounting for fixed assets has undergone a change in U.S.A. In the past bank premises and other assets lacked in uniformity as to the accounting treatment. For many years banks made arbitrary write-downs of their premises when they felt that their earnings could stand it. This practice was considered to be conservative.

Under this policy of arbitrary write-downs, a great number of banks wrote their banking houses down to a nominal value of $1. Many did not capitalise furniture and fixtures acquired, instead they charged such items directly to expense.[1]

Supervisory authorities were responsible in part for the above incorrect treatment. They encouraged these practices on the general principle of greater safety. The effect of these practices was, obviously, to distort reported earnings since a write-down of buildings and equipment served to eliminate depreciation chargeable against current earnings.[2]

Present regulations of bank authorities are, however, more in line with generally accepted accounting principles dealing with fixed assets. Regulation F of the Federal Reserve System as well as Rules and Regulations of the Federal Deposit Insurance Corporation require that "All fixed assets acquired subsequent to December 31, 1959 shall be stated at cost less accumulated depreciation or amortization."[3]

The regulations of the Comptroller of Currency also require that the national banks report all fixed assets acquired subsequent to June 30, 1967 at cost less accumulated depreciation or amortization.[4]

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1. R.L. Donato, op. cit., p. 76.
2. R.L. Donato, op. cit., p. 77.
3. Board of Governors, Regulation F. Sec. 6, Rules and Regulations of the FDIC, Sec. 335.71(6) quoted by R.L. Donato, Ibid., p. 77.
4. Regulations of the Comptroller of Currency, Part 18, Sec. 18.8 (c)(3) quoted by R.L. Donato, Ibid., p. 77.

In India fixed assets generally consist of land and building. The Form prescribed under the Banking Companies Act requires that original cost, less total depreciation written off, should be shown. In case of many first class banks the premises are written off, or shown depreciated, much below their intrinsic value, such a situation, unless specifically prevented, arises in the corporate sector as a whole and thus a secret reserve stands created. Furniture and other assets which have been completely written off are not shown in the balance sheet.[1]

The most controversial issue in this field is whether the basis of depreciable property should be its original acquisition cost or replacement cost. Despite the considerable pressures from business community and the seeming plausibility of the argument several important tax systems like those of the U.S.A., U.K., India and Canada have not accepted the replacement cost basis for depreciation under historical accounting.[2]

In all the countries under consideration, the aggregate of all the depreciation allowances made year after year (including initial depreciation) is restricted to the original cost of the asset to the assessee, i.e., the basis of providing depreciation is taken to be the historical cost of the asset and not the replacement cost or any other value.[3] Measures like investment allowance are adopted to

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1. R.S. Davar, Law and Practice of Banking, Progressive Corporation (P) Ltd., Bombay, 1972, p. 803.

2. V.V. Boakar, Income Tax Reform in India, Popular Prakashan, Bombay, 1971, p. 159.

3. R.N. Goyale, "A Comparative Study of Depreciation Tax-Laws in India, U.S.A. and U.K.", The Chartered Accountant, July 1982, p. 9.

compensate partly for rise in prices of certain fixed assets.

The determination of the depreciation method and the rate at which the depreciation will be charged constitute ~~k~~ an important area in the managerial decision making process. The rate of depreciation and the depreciation method affect the cost and income allocation.

TABLE - X

Reports which Indicate that Fixed Assets are Carried in accordance with Generally Accepted Principles of Accounting.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	9	6	1	3	25	90.0	100.0	12.5	42.9	100.0
1979	10	6	1	3	25	100.0	100.0	12.5	42.9	100.0
1980	10	6	2	4	25	100.0	100.0	25.0	57.1	100.0
1981	10	6	3	4	25	100.0	100.0	37.5	57.1	100.0
1982	10	6	7	4	25	100.0	100.0	87.5	57.1	100.0

A study of the Table X above shows that cent per cent of the sample banks in U.S.A., U.K. and India indicate that fixed assets are shown at cost less accumulated depreciation or amortization. In case of Canada and Australia also there is a wider acceptance of this principle in recent years. This is probably due to the fact that The Bank Act of 1980 and the rules and regulations issued thereunder by the Ministry of Finance substantially revised many of the financial accounting and reporting practices applicable to the chartered banks of Canada effective

from November 1, 1981,[1] and these might have effected the case of fixed assets and depreciation also.

Straight line method of providing depreciation is almost universally used in the U.S.A., U.K., Canada and Australia.

The disclosure policies in India are very conservative as none of the banks in India show the method on which depreciation has been charged.

Canadian banks do not include depreciation as a separate item of expense anywhere in the financial statements. They show it in the statement of income under an aggregative head, 'premises and equipment expenses including depreciation.'

In U.S.A. and U.K. it is shown as a separate item of expense in a schedule usually forming part of the 'notes to accounts', while in India the banks list the amount of accumulated depreciation and subtract it directly from the related assets account in the balance sheet.

The bases of depreciation have been indicated by almost all the banks under present research except in India. The prevailing

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1. Bank of British Columbia, Annual Report 1982, p. 21.

pattern in this area may thus be illustrated :

> 'Premises and equipment, excluding land, are reported at original cost less accumulated depreciation and amortization. Land is reported at original cost. Depreciation is charged to operating expenses over the estimated useful lives of the related assets. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever are shorter. Depreciation and amortization are computed on the straight-line method, except that domestic depreciable assets acquired prior to 1973 are being depreciated or amortized principally on accelerated methods.'[1]

> 'Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the property, generally fifty years on buildings and ten years on equipment.'[2]

> 'Depreciation on premises and equipment is provided on a straight line basis over the estimated useful lives, generally as follows :-

Freehold buildings	50 years
Long leasehold buildings	50 years
Short leases	unexpired periods
Computers	5 years
Motor vehicles	5 years
Other plant and equipment (including fixed plant in buildings)	10-15 years

> Land is not depreciated.'[3]

The rates of depreciation used by the bank should be stated in the notes so that a proper comparison can be made between profits earned. Clearly any major variation between banks in rates of depreciation could mean that the profits are not being computed on comparable basis and adjustments are to be made in comparing the efficiency

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1. The Chase Manhattan Corporation, Annual Report 1982, p. 53.
2. Republic Bank Corporation, Annual Report 1982, p. 64.
3. National Westminister Bank PLC, Annual Report 1982, p. 37.

of one bank with that of another.

Because of the significant effects of the depreciation methods used on financial position and results of operations it is suggested that the following disclosures should be made in the financial statements or in notes thereto :

a) Depreciation expense for the period;

b) Balances of major classes of depreciable assets, by nature or function, at the balance sheet date;

c) Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date;

d) A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets; and

e) Rates of depreciation used.

PROVISION FOR LOAN LOSSES :

Due to the special nature of the banking industry, the actual extent of bad debts is never revealed in the balance sheet of the banks. In the first place, every bank is reluctant to treat a loan as bad, although by all means it is irrecoverable. Even if the accounts are sticky and repayments have stopped coming in, the banks charge interest on these accounts. The interest charged on the sticky accounts is a mere accounting exercise although no real income is made. Such interest incomes then are added to other real interest incomes and then the gross profits and net profits are worked out after deducting expense and taxes.

In U.S.A. there exists an elaborate system of loan gradation adopted by bank examiners. Under this system, loans are graded according to their levels of recoverability. Therefore, the balance sheets of banks reveal a more realistic situation and the profits shown are more real than in India.

The banking industry has also been criticised for its reporting practices with regard to loan loss provisions and the related reserves. The specific objections raised are the following :

a) The use of the maximum amount allowable under federal income tax laws, rather than the loan losses experience of the individual bank, in determining provisions for loan losses.

b) The exclusion of the provision for loan losses from determination of net income.

c) Presentation of the reserve for loan losses as a liability, capital reserves or in some manner other than as offset against the related asset account.[1]

TABLE - XI

Reports which Disclose that the Provision for Loan Losses is Included in the Income Statement.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	10	1	8	1	0	100.0	16.7	100.0	14.3	0.0
1979	10	1	8	1	0	100.0	16.7	100.0	14.3	0.0
1980	10	1	8	1	0	100.0	16.7	100.0	14.3	0.0
1981	10	1	8	1	0	100.0	16.7	100.0	14.3	0.0
1982	10	1	8	1	0	100.0	16.7	100.0	14.3	0.0

1. R.A. Daily and R.H. Strawser, op. cit., p. 49.

Table XI indicates that except in India there is definite trend among the banks in the sample countries to disclose the provision for loan losses. But the method of disclosure presentation differs.

In the case of U.S.A., U.K., Canada and Australia the banks directly include provision for loan losses in the income statements or a schedule thereto as a separate item for the determination of their income for the period. The usual patterns which can be observed from different annual reports are shown in Exhibits VIII to XII.

India is an exception in this area. Provisions are never disclosed. These are simply stated in the heading on the credit side of the profit and loss account as 'INCOME (Less provision made during the year for bad and doubtful debts and other usual or necessary provision).' An illustration of such disclosure is given in Exhibit XIII.

TABLE - XII

Reports which Disclose that the Provision for Loan Losses is Offset Against the Related Asset Account.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	10	0	0	3	0	100.0	0.0	0.0	42.9	0.0
1979	10	1	0	3	0	100.0	16.7	0.0	42.9	0.0
1980	10	1	0	3	0	100.0	16.7	0.0	42.9	0.0
1981	9	1	0	4	0	90.0	16.7	0.0	57.1	0.0
1982	9	1	0	4	0	90.0	16.7	0.0	57.1	0.0

Consolidated Statement of Condition

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Exhibit - VIII

Chase Manhattan Corporation
Annual Report 1982 (p.54)

(S in thousands)	December 31, 1982	1981
Assets		
Cash and Due from Banks	$ 4,517,914	$ 3,963,010
Interest-Bearing Deposits Placed with Banks	7,890,768	10,230,566
Investment Securities:		
U.S. Treasury Securities	1,996,359	1,253,279
Federal Agency Securities	213,249	500,274
State and Political Subdivision Securities	1,163,651	1,356,517
Other Bonds, Notes and Debentures	644,480	645,742
Federal Reserve Bank and Other Stock Investments	112,132	65,067
Total Investment Securities (Market Value of $3,850,000 and $3,085,000, Respectively)	4,129,871	3,820,879
Trading Account Securities	1,202,496	1,113,697
Federal Funds Sold and Securities Purchased Under Resale Agreements	363,490	592,856
Loans and Lease Financings:		
Loans	55,155,961	51,000,515
Lease Financings	375,580	330,676
	55,531,541	51,331,191
Less: Reserve for Possible Losses	558,277	541,082
Loans and Lease Financings, Net	54,973,264	50,790,109
Customers' Liability on Acceptances	3,813,382	3,552,229
Premises and Equipment	514,127	431,068
Accrued Interest Receivable	1,230,567	1,479,525
Other Assets	2,227,024	1,865,399
Total Assets	$80,862,903	$77,839,338
Liabilities and Stockholders' Equity		
Deposits:		
Demand	$ 9,588,619	$ 9,089,445
Savings	2,986,665	1,642,214
Other Time	9,362,219	12,986,981
Overseas Offices	34,920,344	31,581,030
Total Deposits	56,857,847	55,299,670
ederal Funds Purchased and Securities Sold Under Repurchase Agreements	5,055,844	4,854,867
ommercial Paper	3,316,917	4,296,208
ther Borrowed Money	4,366,202	1,866,146
cceptances Outstanding	3,865,281	3,603,482
ccrued Interest Payable	785,803	1,057,144
ccounts Payable, Accrued Expenses and Other Liabilities	2,282,856	2,919,714
	76,530,750	73,897,231
ng-Term Notes and Debentures	1,045,740	944,408
Total Liabilities	77,576,490	74,841,639
mmitments and Contingent Liabilities (Notes 3, 23, 24 and 25)		
eferred Stock (Without Par Value—Authorized Shares 20,000,000 and 7,000,000, Respectively):		
Redeemable Preferred Stock:		
Authorized and Outstanding Shares 1,500,000 and 1,630,000, Respectively	150,000	280,000
lonredeemable Preferred Stock:		
Authorized and Outstanding Shares 7,500,000 and 2,500,000, Respectively	375,000	125,000
nmon Stockholders' Equity:		
ommon Stock (Par Value $12.50 Per Share):		
1982 / 1981		
Authorized Shares 125,000,000 / 50,000,000		
Outstanding Shares 33,916,049 / 33,089,161	423,951	413,615
rplus	563,266	536,080
reign Exchange Translation Adjustments	(13,921)	—
tained Earnings	1,788,117	1,643,004
Total Common Stockholders' Equity	2,761,413	2,592,699
Total Liabilities and Stockholders' Equity	$80,862,903	$77,839,338

accompanying notes are an integral part of the financial statements.

Exhibit - IX

The Chase Manhattan Corporation
Annual Report 1982 (p.66)

NOTE 5: RESERVE FOR POSSIBLE LOSSES

Changes in the Reserve for Possible Losses for the three years ended December 31, 1982 are shown below:

($ in thousands)	1982	1981	1980
Balance at Beginning of Year	$541,082	$467,807	$420,777
Addition:			
Provision Charged to Expenses	263,000	211,000	189,500
Deduction:			
Charge-Offs	317,917	165,649	184,508
Less: Recoveries	87,941	39,748	45,485
Net Charge-Offs	229,976	125,901	139,023
Foreign Exchange Translation Adjustment	(15,829)	(11,824)	(3,447)
Balance at End of Year	$558,277	$541,082	$467,807

Exhibit - X

Lloyds Bank Plc
Reports and Accounts 1982 (p.29)

17 Advances and other accounts

In the consolidated balance sheet, advances and other accounts include £1,465·2 million *(1981: £1,007·6 million)* receivable in respect of equipment leased to customers.

Advances and other accounts are stated after deduction of amounts refinanced under fixed rate refinancing schemes, and after deducting provisions for bad and doubtful debts.

Provisions for bad and doubtful debts comprise:

	Lloyds Bank Group			
	1982		1981	
	Specific £m	General £m	Specific £m	General £m
Balance at 1 January	119·3	107·0	72·9	67·0
Balance included on acquisition of subsidiary	16·4	—	17·2	2·1
Exchange adjustments	(4·2)	3·0	1·1	3·5
Advances written off	(58·8)	—	(32·0)	
Recoveries of advances written off in previous years	11·6	—	8·8	-
Charge to profit and loss account	186·4	32·5	51·3	34·4
Balance at 31 December	270·7	142·5	119·3	107·0
	413·2		226·3	

218% = +

	Lloyds Bank Plc			
	1982		1981	
	Specific £m	General £m	Specific £m	General £m
Balance at 1 January	37·5	41·2	34·6	27·5
Exchange adjustments	—	0·6		0·7
Advances written off	(33·6)	—	(17·7)	
Recoveries of advances written off in previous years	6·6	—	4·0	
Charge to profit and loss account	69·3	5·0	16·6	13·0
Balance at 31 December	79·8	46·8	37·5	41·2
	126·6		78·7	

Exhibit - XI

National Bank of Canada
Annual Report 1982 (p.18)

Consolidated Statement of Income
for the year ended October 31

	1982	1981
	(thousands of dollars)	
Interest Income		
Loans, excluding leases	$ 2,366,257	$ 2,211,830
Lease financing	21,838	17,024
Securities	184,366	168,094
Deposits with banks	185,026	175,347
Total interest income, including dividends	2,757,487	2,572,295
Interest Expense		
Deposits	2,275,736	2,135,346
Bank debentures	27,814	17,804
Liabilities other than deposits	45,653	41,054
Total interest expense	2,349,203	2,194,204
Net interest income	408,284	378,091
Provision for loan losses	97,825	78,304
Net interest income after loan loss provision	310,459	299,787
Other income	134,781	110,618
Net interest and other income	445,240	410,405
Non-Interest Expenses		
Salaries	263,029	247,700
Pension contributions and other staff benefits (Note 8)	29,024	26,424
Premises and equipment expenses, including depreciation (Note 3)	77,845	67,082
Other expenses	84,031	91,772
Total non-interest expenses	453,929	432,978
Income (loss) before provision for or recovery of income taxes	(8,689)	(22,573)
Provision for (recovery of) income taxes (Note 9)	355	(33,066)
Income (loss) before minority interest in subsidiaries and extraordinary item	(9,044)	10,493
Minority interest in subsidiaries	187	3,264
Income (loss) before extraordinary item	(9,231)	7,229
Extraordinary item, net of income taxes of $1,240	—	4,660
Net income (net loss) for the year	$ (9,231)	$ 11,889

Average number of common shares outstanding	24,692,199	21,148,117
Income (loss) per common share before extraordinary item	$ (0.80)	$ 0.20
Net income (net loss) per common share	$ (0.80)	$ 0.42

Exhibit - XII

National Commercial
Banking Corporation
of Australia Limited

Annual Report 1982 (p.43)

Dollars in Thousands	Group **1982**	Group 1981	Holding Company **1982**	Holding Company 1981
17. Operating Profit Before Income Tax Expense				
Profit on operations for the year is determined after including:				
Income				
Dividends received from:				
Related corporations (refer Note 18)			32,030	16,481
Other corporations	11,552	909	3,139	275
Interest received from:				
Subsidiaries			21,926	5,215
Other persons	2,046,214	1,047,499	838,721	636,068
Profit on sale of fixed assets	1,105	337	181	146
Expenses				
Depreciation and amortisation of fixed assets	27,980	14,477	10,279	8,613
Interest paid to:				
Subsidiaries			8,181	2,706
Other persons	1,438,803	636,619	633,169	395,559
Loss on sale of fixed assets	2,396	929	873	902
Provisions for:				
Annual leave	1,256	1,455	(466)	1,142
Doubtful debts (refer Note 10)	48,494	28,549	21,608	17,870
Diminution in value of investments	5,321		3,527	
Long service leave, retiring allowances, etc.	13,038	6,605	7,707	6,239
Outstanding insurance claims	(934)	1,916		
Self insurance risks		1,650		1,550
Staff profit sharing scheme	1,950		1,100	
Rental on leased assets	47,384		37,132	
Operating profit as a percentage of average stockholders' funds	16.5%	17.8%	13.1%	18.9%

31 दिसम्बर 1982 को समाप्त वर्ष के लिए लाभ-हानि लेखा
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1982

31-12-1981 को समाप्त वर्ष Year ended 31-12-1981	व्यय EXPENDITURE	31-12-1982 को समाप्त वर्ष Year ended 31-12-1982	31-12-1981 को समाप्त वर्ष Year ended 31-12-1981	आय (जिसमें से वर्ष के दौरान डूबन्त और शंकास्पद ऋणों के लिए किए गए उपबंध और अन्य सामान्य या आवश्यक उपबंध घटा दिए गए हैं.) INCOME (less provision made during the year for bad and doubtful debts and other usual or necessary provisions)	31-12-1982 को समाप्त वर्ष Year ended 31-12-1982
रु. पै. Rs. p.		रु. पै. Rs. p.	रु. पै. Rs. p.		रु. पै. Rs. p.
	1. निक्षेपों, उधारों, आदि पर दिया गया ब्याज Interest paid on Deposits, Borrowings, etc.		1211,23,92,206 61	1. ब्याज और मितिकाटा Interest and Discount	1452,56,07,145 18
960,02,22,615 71	2. वेतन और भत्ते, भविष्य निधि और बोनस Salaries and Allowances, Provident Fund and Bonus	1162,18,99,123 01	201,63,87,030 27	2. कमीशन, विनिमय और दलाली Commission, Exchange and Brokerage	227,93,30,522 99
315,30,25,612 26	3. निदेशकों और स्थानीय बोर्डों के सदस्यों की फीस और भत्ते Directors' and Local Board Members' Fees and Allowances	352,94,43,678 16	10,82,109 21	3. भाटक Rents	24,63,991 25
8,86,825 55	4. भाटक, कर, बीमा, रोशनी आदि Rent, Taxes, Insurance, Lighting, etc.	9,14,677 88	...	4. विनिधानों, स्वर्ण और चाँदी, भूमि, परिसरों और अन्य आस्तियों के विक्रय से प्राप्त शुद्ध लाभ Net Profit on Sale of Investments, Gold and Silver, Land, Premises and other Assets ..	...
39,43,86,275 80	5. विधि प्रभार Law Charges	53,53,75,189 88	...	5. विनिधानों, स्वर्ण और चाँदी, भूमि, परिसर और अन्य आस्तियों के पुनर्मूल्यांकन पर शुद्ध लाभ Net profit on revaluation of Investments, Gold and Silver, Land, Premises and other Assets	...
71,14,244 00	6. डाक-महसूल, तार और स्टाम्प Postage, Telegrams and Stamps	84,37,813 42	...	6. गैर-बैंककारी आस्तियों से आय और ऐसी आस्तियों के विक्रय या उनमें किए गए व्यवहार से हुआ लाभ Income from Non-banking Assets, and Profit from Sale of or Dealing with such Assets ..	...
7,49,04,742 00	7. लेखापरीक्षकों की फीस ** Auditors' Fees **	9,51,17,485 45	...	7. अन्य प्राप्तियाँ : Other Receipts	81,06,729 03
6,83,000 00	8. बैंक-संपत्ति मध्ये अवक्षयण Depreciation on Bank's Property	14,12,950 00	34,92,526 06	सहायक बैंकों के शेयरों पर प्राप्त लाभांश Dividends on Shares in Subsidiaries	95,05,847 02
7,43,05,674 37	8 क. बैंक-संपत्ति की मरम्मत A. Repairs to Bank's Property ..	8,91,02,566 58	...	8. हानि Loss	...
2,45,03,456 65	9. स्टेशनरी, मुद्रण, विज्ञापन, आदि* Stationery, Printing, Advertisement, etc.*	3,21,28,012 27			
15,50,13,486 45	10. गैर-बैंककारी आस्तियों के विक्रय या उनमें किए गए व्यवहार में हानि Loss from Sale of or Dealing with Non-banking Assets	17,66,04,568 37			
...	11. अन्य व्यय Other Expenditure	...			
49,71,46,107 88	12. लाभ का अतिशेष Balance of Profit	54,45,18,071 92			
15,11,61,831 48		19,00,60,098 53			
	** इसमें 1981 के रु. 2,60,550.00 शामिल हैं. ** Including Rs. 2,60,550.00 for 1981 * जनसंपर्क और प्रचार पर हुए खर्च 3,04,51,625.13 रुपये इसमें शामिल हैं. *Include expenditure on public relations and publicity amounting to Rs. 3,04,51,625.13				
1413,33,53,872 15	योग TOTAL	1682,50,14,235 47	1413,33,53,872 15	योग TOTAL	1682,50,14,235 47

The Table XII shows that in U.S.A. all the banks except one in 1981 and 1982, offset the provision for loan losses against the related asset account in the consolidated statements of condition. In U.K. only one bank out of six disclose it in the 'Notes on accounts' under the head 'advances and other accounts' since 1979. In Australia three banks from 1978 to 1980 and four banks from 1981 to 1982, out of seven, disclose the provision for loan losses by way of deduction from loans, advances and bills discounted etc., in the 'Notes to accounts.'

In Canada the banks disclose the provision for loan losses in the 'Statement of Appropriations for Contingencies.' The balance at the beginning of the year of this 'Appropriations for Contingencies' is added by 'Provision for loan losses included in the income statement,' 'Transfer from (to) retained earnings,' deducted by 'Loss experience on loans' and the 'Closing balance at the end of the year' and then shown on the liabilities side of the 'Statement of Asset and Liabilities' as a first item of 'Capital and Reserves.'

In U.S.A., Canada and Australia, of the banks studied almost all indicate the accounting policies for loans, loan losses, provisions for loan losses, interest, unearned discount etc. But the picture is very gloomy in India. The banks in India mention on the credit side of the profit and loss account at the top as 'Less provision made during the year for bad and doubtful debts and other usual or necessary provisions' without disclosing the provision for loan losses. Similarly, in the balance sheet on the asset side it

is added after 'Advances' as 'Other than bad and doubtful debts for which provision has been made to the satisfaction of the auditors' without disclosing the actual provision for loan losses.

In India there is no specific requirement at present to compel a company to provide for bad and doubtful debts and advances in the accounts. For better appreciation of the working results it is necessary to provide in full for the bad and doubtful debts and advances in the accounts. Hence, it is suggested that disclosure of provision for bad and doubtful debts and advances in the accounts should be made a compulsory requirements[1] through a statutory change.

Disclosure is surely the only way to build confidence - on fact rather than conjecture. It is in the interest of depositors, investors and the banking community in general that capital and resources remain adequate and prudent provision is made against potential losses. Discovery of misplaced confidence in one bank could be detrimental to others by reasons of suspicion aroused in an atmosphere of secrecy.[2]

LOAN CLASSIFICATION :

In U.S.A. all the banks except one classified loans into certain broad categories without any standardised headlings, such as commercial, international, real estate, retail, and others etc. Five banks showed classification in the 'Notes to Accounts' while

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1. Report of the High Powered Expert Committee on Companies and MRTP Acts, Ministry of Law, Justice and Company Affairs, Government of India, New Delhi, August 1978, p. 76.

2. J. Rule, op. cit., p. 45.

other three showed them in 'Consolidated Statements of Condition.'

But all the Canada banks classified loans more or less into certain standardised headings and showed them in the 'Consolidated Assets and Liabilities' such as i) Day, Call and Short loans to investment dealers and brokers, secured, ii) Banks, iii) Mortgages, and iv) Others.

In U.K. one bank classified loans into loans to customers, loans to bankers and others, while two classified into 'specific' and 'general' loans (Exhibits XIV to XVI), other two into 'group' and 'bank' loans and the rest one with no classification. All these classifications were shown in the 'Notes to Financial Statements.'

In Australia the loans were shown in aggregate under more or less standardised caption as loans, advances, lease financing, bills discounted etc. in the balance sheet.

In India the loans were classified under categories such as (a) loans, cash credits and overdrafts and (b) bills discounted and purchased and these were aggregated under the caption 'advances' in the balance sheet.

In the present study it is found that the U.S.A. disclosures in this area are the most valuable to the reader, but, as second best, the Australian, U.K. and the Canadian approach is an improvement over the present basis of non-disclosure.

Exhibit - XIV

Barclays Bank PLC
Annual Report 1982 (p.44)

. Advances and other accounts

Advances and other accounts comprise:

	The Group 1982 £m	The Group 1981 £m	The Bank 1982 £m	The Bank 1981 £m
Lendings to customers	35,269·0	27,673·1	14,972·3	11,897·1
Less: provisions	749·1	538·0	277·8	250·5
	34,519·9	27,135·1	14,694·5	11,646·6
Placings with banks (over 30 days)	7,037·2	6,704·0	167·9	149·2
Other accounts	2,136·1	1,773·7	663·4	495·7
	43,693·2	35,612·8	15,525·8	12,291·5

The movements in provisions for bad and doubtful debts in the year are:

	The Group 1982 £m	The Group 1981 £m	The Bank 1982 £m	The Bank 1981 £m
Provisions at beginning of year	538·0	446·6	250·5	236·4
Exchange and other adjustments	25·0	29·6	–	–
	563·0	476·2	250·5	236·4
Provisions raised, less amounts released	330·2	146·4	103·0	47·6
	893·2	622·6	353·5	284·0
Amounts written off	144·1	84·6	75·7	33·5
Provisions at end of year	749·1	538·0	277·8	250·5

Provisions at 31st December:

	The Group 1982 £m	The Group 1981 £m	The Bank 1982 £m	The Bank 1981 £m
Specific	534·5	335·8	183·9	140·4
General	214·6	202·2	93·9	110·1
	749·1	538·0	277·8	250·5

The charge against profit in respect of bad and doubtful debts comprises:

	The Group 1982 £m	The Group 1981 £m	The Bank 1982 £m	The Bank 1981 £m
Charge for specific provisions	325·0	122·1	118·5	45·3
Charge/(credit) for general provisions	5·2	24·3	(15·5)	2·3
	330·2	146·4	103·0	47·6
Recoveries of amounts previously written off	(11·9)	(6·3)	(6·9)	(1·9)
	318·3	140·1	96·1	45·7

Notes on the Accounts—continued

Amount in £ millions

18 Customers' accounts

		Group	Midland Bank plc 1982	Group	Midland Bank plc 1981
Advances					
Sterling	Customers	11,016.2	8,853.6	9,008.1	7,168.6
	Money market	573.0	178.2	812.3	302.7
	Other accounts	422.9	349.9	447.2	379.5
		12,012.1	9,381.7	10,267.6	7,850.8
Currency	Customers	15,798.1	3,728.9	11,784.2	3,114.5
	Money market	5,597.3	3,053.7	5,139.7	2,788.5
	Other accounts	590.3	261.8	405.7	123.9
		21,985.7	7,044.4	17,329.6	6,026.9
		33,997.8	16,426.1	27,597.2	13,877.7

Advances of Midland Bank plc and the Group are stated after deduction of amounts refinanced with the Export Credits Guarantee Department and the Department of Industry.

Bad debt provisions
The movements on the bad debt provisions of the Group are as follows

	Specific 1982	Specific 1981	General 1982	General 1981	Total 1982	Total 1981
Group						
Balance at 1 January 1982	308.9	185.8	69.1	46.2	378.0	232.0
Acquisition of subsidiaries	0.2	72.1	0.3	15.5	0.5	87.6
	309.1	257.9	69.4	61.7	378.5	319.6
Exchange adjustment	14.7	0.9	4.5	3.7	19.2	4.6
Advances written off	(130.2)	(65.5)	—	—	(130.2)	(65.5)
Recoveries of advances written off in previous years	20.2	5.8	—	—	20.2	5.8
Net charge to profit and loss account	162.0	109.8	34.1	3.7	196.1	113.5
Balance at 31 December 1982	375.8	308.9	108.0	69.1	483.8	378.0
Midland Bank plc						
Balance at 1 January 1982	112.9	96.5	26.0	23.6	138.9	120.1
Exchange adjustment	3.4	1.3	2.2	2.4	5.6	3.7
Advances written off	(35.9)	(21.2)	—	—	(35.9)	(21.2)
Recoveries of advances written off in previous years	2.3	1.9	—	—	2.3	1.9
Net charge to profit and loss account	36.4	34.4	32.5	—	68.9	34.4
Balance at 31 December 1982	119.1	112.9	60.7	26.0	179.8	138.9

Exhibit - XVI

Lloyds Bank Plc
Reports and Accounts 1982 (p.29)

17 Advances and other accounts

In the consolidated balance sheet, advances and other accounts include £1,465·2 million *(1981: £1,007·6 million)* receivable in respect of equipment leased to customers.

Advances and other accounts are stated after deduction of amounts refinanced under fixed rate refinancing schemes, and after deducting provisions for bad and doubtful debts.

Provisions for bad and doubtful debts comprise:

	Lloyds Bank Group			
	1982		1981	
	Specific £m	General £m	Specific £m	General £m
Balance at 1 January	119·3	107·0	72·9	67·0
Balance included on acquisition of subsidiary	16·4	—	17·2	2·1
Exchange adjustments	(4·2)	3·0	1·1	3·5
Advances written off	(58·8)	—	(32·0)	—
Recoveries of advances written off in previous years	11·6	—	8·8	--
Charge to profit and loss account	186·4	32·5	51·3	34·4
Balance at 31 December	270·7	142·5	119·3	107·0
	413·2		226·3	

	Lloyds Bank Plc			
	1982		1981	
	Specific £m	General £m	Specific £m	General £m
Balance at 1 January	37·5	41·2	34·6	27·5
Exchange adjustments	—	0·6	--	0·7
Advances written off	(33·6)	—	(17·7)	—
Recoveries of advances written off in previous years	6·6	—	4·0	—
Charge to profit and loss account	69·3	5·0	16·6	13·0
Balance at 31 December	79·8	46·8	37·5	41·2
	126·6		78·7	

LOAN LOSSES ACCOUNT :

Since banks deal with money, loans not only constitute the most important asset of the banking industry, these remain susceptible to losses. Vulnerability of a bank loan to losses is both higher as well as severe as compared to loan losses of a non-financial business.

The loan losses of commercial banks can generally be classified into two categories : recurring and non-recurring losses and both categories require charge from a different source. Most of the banks provide for both types of losses by making a single charge which approximates the maximum permissible under the Income Tax Acts.

It is expected that since loan losses are both important as well as sensitive matter the banks would provide reasonable details in the loan losses account. Our examination of the annual reports revealed the undermentioned patterns.

TABLE - XIII

Reports which Include an Analysis of the Changes in the Provision for Loan Losses Account.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	9	4	8	0	0	90.0	66.7	100.0	0.0	0.0
1979	9	4	8	0	0	90.0	66.7	100.0	0.0	0.0
1980	9	5	8	3	0	90.0	83.3	100.0	42.9	0.0
1981	9	5	8	4	0	90.0	83.3	100.0	57.1	0.0
1982	9	5	8	6	0	90.0	83.3	100.0	85.7	0.0

In U.S.A. all annual reports other than one, relating to American Express Company, present an analysis of changes in the provision for loan losses account. The effect of provision is incorporated both in the balance sheet and income account making an express statement. All these banks also report categorically the basis for such provision as shown below. These statements are quite expressive. The basis for determining loan losses is also stated in a number of cases.

> "Substantially all nonaccrual loans are commercial loans upon which principal or interest is more than 30 days past due and which are not secured by adequate collateral or for which, in the opinion of management, there is reasonable doubt as to collectibility. Interest previously recorded but not revived is charged against current interest income."[1]

> "The general policy of the Corporation is to discontinue accrual of interest income on loans as to which reasonable doubt exists with respect to the timely collectibility of such interest based on certain factors, included if payment of principal or interest is past due sixty days or more. When such past due payment or other factors are deemed to indicate reasonable doubt as to collectibility, the loan is transferred to nonaccrual status, the accrual of interest is discontinued, and any accrued but unpaid interest on such loan previously recorded is reversed against interest income of the current period. Interest income on such loan is recognized subsequently only in the period realized. Loans are returned to an accrual status when factors indicating doubtful collectibility no longer exist."[2]

> "A loan is placed on nonaccrual status when, in the opinion of management, the future collectibility of interest and principal is in serious doubt. In addition, a loan is placed on nonaccrual when principal or interest is past 90 days or more unless in the determination of management the principal and interest on the loan continue to be fully collectible."[3]

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1. Marine Midland Banks, INC., Annual Report 1982, p. 47. (Emphasis added by the author)
2. The Chase Manhatten Corporation, Annual Report 1982, pp.52-53. (Emphasis added)
3. Republic Bank Corporation, Annual Report 1982, p. 63. (Emphasis added)

"The adequacy of the loan loss reserve is determined by management based on a number of factors, including loss experience, review of problem loans, quality of the portfolio and business conditions. It is policy to charge off any loan or portion thereof when it is deemed uncollectible in the ordinary course of business. In addition, it is policy to charge off consumer loans, other than credit card loans, contractually past due 120 days or more on which payment has been received for 90 days. Credit card loans contractually past due 135 days or more are charged off."[1]

"The allowance for loan losses is established through charges to earnings in the form of a provision for loan loss. Loans which are determined to be uncollectible are charged against this allowance account and subsequent recoveries, if any, are credited to this account. The amount charged to earnings is based on several factors which include, but are not limited to, analytical reviews of loan loss experience in relation to outstanding loans; a continuing review of problem loans and overall portfolio quality; regular examinations and appraisals of the loan portfolio conducted by the banks internal staff, independent auditors and supervisory authorities; and management's judgment with respect to current and expected economic conditions and their impact on the existing loan portfolio."[2]

Besides normal accounting disclosure, banks like National Bank of North America, The Chase Manhattan Corporation, Republic Bank Corporation, Marine Midland Banks, INC., etc., attached due importance to this analysis and made analysis in considerable details at times figuring in Directors' Report. Percentage of loan losses to the total loss is usually disclosed in such banks and reasons for variations in these reserves are also discussed. Exhibits XVII and XVIII present such typical disclosures.

The only accounting snag noticed in U.S.A. is interchangeable use of terms "Reserve" and "Provisions." No other country resorts to

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1. SEAFIRST Corporation, Annual Report 1982, p. 35 (Emphasis added).
2. Bank of New York Company, INC., Annual Report 1982, p. 31.

Exhibit - XVII

Republic Bank Corporation

Annual Report 1982 (P.49)

ALLOWANCE FOR LOAN LOSSES
($ in millions)

	Years Ended December 31				
	1978	1979	1980	1981	1982
Balance, beginning of year	$44.3	$58.7	$66.2	$76.3	$ 88.8
Provision charged to income	17.4	19.0	31.2	33.1	67.0
Acquired in purchase transactions	2.2	.9	1.1	.9	—
Disposed of in sales transaction	—	—	—	—	(.2)
Loans charged off:					
Commercial	6.6	7.3	12.9	20.3	25.3
Real estate	1.9	2.7	.5	.8	.6
Consumer	5.3	9.7	15.3	10.0	8.2
International	.3	.1	.1	.5	8.7
Total	14.1	19.8	28.8	31.6	42.8
Recoveries:					
Commercial	3.3	3.7	3.3	6.1	3.9
Real estate	.6	1.3	.3	.8	.1
Consumer	1.8	1.8	2.7	3.0	2.6
International	3.2	.6	.3	.2	.1
Total	8.9	7.4	6.6	10.1	6.7
Net loan charge-offs	5.2	12.4	22.2	21.5	36.1
Balance, end of year	$58.7	$66.2	$76.3	$88.8	$119.5
Net loan charge-offs as % of average loans	.12%	.23%	.37%	.29%	.39%
Allowance as % of year-end loans	1.18%	1.11%	1.15%	1.06%	1.20%
Allowance to net loan charge-offs	11.08x	5.32x	3.43x	4.12x	3.31x

ALLOWANCE FOR LOAN LOSSES BY TYPE OF LOANS
December 31 ($ in millions)

	Allowance Amount					Allowance to Loan Category				
	1978	1979	1980	1981	1982	1978	1979	1980	1981	1982
Commercial	$17.3	$20.6	$23.3	$28.6	$50.2	.67%	.69%	.68%	.66%	1.00%
Real estate	5.6	8.0	7.8	12.5	13.1	.56	.58	.53	.66	.52
Consumer	7.6	10.5	11.2	8.7	9.0	1.23	1.25	1.36	1.01	.98
International	4.3	4.0	4.5	6.2	20.6	.56	.54	.50	.48	1.41
Unallocated	23.9	23.1	29.5	32.8	26.6					
Total allowance for loan losses	$58.7	$66.2	$76.3	$88.8	$119.5	1.18%	1.11%	1.15%	1.06%	1.20%

Note: The above allocation is not, in the judgment of management, as important as the evaluation of the total allowance which is available to absorb losses with respect to any type of loan.

Loan Loss Reserve and Charge-offs

The reserve for loan losses is increased as provisions for loan losses are charged against income. The reserve is reduced as charge-offs, less recoveries, are recorded. In determining the amount of provisions for loan losses, management considers a number of factors. These include judgments covering possible future losses on nonperforming loans, recent loan examination classifications and expected performance of various categories of loans within an anticipated range of future economic conditions.

Charge-offs of commercial loans reflect management's judgment with respect to the ultimate collectibility of all or part of a loan. Charge-offs of consumer loans occur when payments are contractually 120 days past due for installment loans and 150 days past due for revolving loans such as credit cards. The reserve for loan losses is later adjusted for liquidations of collateral and other recoveries.

The table below summarizes the activity in the reserve for loan losses over the past five years.

(in millions)	**1982**	1981	1980	1979	1978
Total loans at year end	**$12,250**	$11,092	$9,833	$9,168	$8,164
Average total loans	**11,448**	10,203	9,247	8,301	7,641
Reserve for loan losses:					
Balance beginning of year	**121.2**	108.2	104.5	94.4	92.4
Charge-offs:					
Commercial, financial and agricultural	**43.6**	37.6	32.2	19.1	26.2
Real estate — construction	**—**	.3	1.0	.7	1.0
Real estate — mortgage	**.7**	.9	.9	1.0	1.9
Consumer installment	**21.5**	22.9	22.9	15.8	12.1
International	**8.8**	11.7	15.5	7.6	17.1
Total charge-offs	**74.6**	73.4	72.5	44.2	58.3
Recoveries on loans charged off:					
Commercial, financial and agricultural	**7.9**	6.4	4.1	3.5	7.1
Real estate — construction	**—**	2.0	3.8	—	—
Real estate — mortgage	**.4**	.1	.1	—	.5
Consumer installment	**7.2**	6.3	5.3	5.1	4.6
International	**1.7**	2.9	.4	.5	.4
Total recoveries	**17.2**	17.7	13.7	9.1	12.6
Total net charge-offs	**57.4**	55.7	58.8	35.1	45.7
Provision charged to income	**72.4**	68.7	62.5	45.2	47.7
Balance end of year	**136.2**	121.2	108.2	104.5	94.4
Reserve ratios:					
Total net charge-offs to average total loans	**.50%**	.55%	.64%	.42%	.60%
Year-end reserve to year-end total loans	**1.11**	1.09	1.10	1.14	1.16

such practice. The use of term "Reserve" in relation to the item of "Provision" is, therefore, surprising.

The analysis of loan losses is relatively conservative in the U.K. Banks. As a matter of practice banks do not show such item categorically on the balance sheet and the profit and loss account, the usual practice being a simple statement that these items are netted to loan loss provision. The basis for provision is, however, disclosed in as many as four out of six banks. Such disclosure is not as deterministic as in the U.S.A. The common form of disclosure is :

> "Specific and general provisions for bad and doubtful debts are based on the year end appraisal of advances. The specific element relates to identified risk advances; the general element relates to other bank advances where possible risks are anticipated. The charge in the profit and loss account accordingly represents the increase in provisions less recoveries for the year. The outstanding provisions are deducted from customers' accounts in the balance sheet."[1]

The analysis of the changes in provision for loan losses account in Canada is strikingly at variance with that of the other countries. In Canada banks maintain an 'Appropriation for Contingencies' account to provide for unforeseen future losses in respect of loans.

The provision for loan losses in Canada results from applying a five-year weighted average ratio of loan loss experience to outstanding eligible loan at the year-end* and it is charged to income and

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1. Midland Bank PLC, Annual Report 1982, p. 27.

*The method of calculation and definition of eligible loans are prescribed in regulations issued by the Ministry of Finance.

credited to 'Appropriation for Contingencies' account. Increase or decrease in specific provisions required to adjust loans to estimated realisable value together with write offs and cash recoveries on loans previously written off comprise the loan loss experience for the year. The loan loss experience (representing net new specific provision for losses on loans plus write off less recoveries of loans previously written off) is thus not deducted in arriving at net income but instead is charged to 'Appropriation for Contingencies.'

Exhibits XIX and XX present a bird's eye view of how the difference between the actual loan loss experience for the year and the provision for losses is charged or credited to the 'Statement of Appropriation for Contingencies.'

Loan loss experience and provision for loan losses were found to figure prominently in a number of reports giving typical importance to the items these deserved. The following disclosure may be considered by the way of illustrations (Exhibits XXI and XXII).

Analysis of loan losses provision is as conservative in Australia as in the U.K. As a matter of practice banks do not disclose such losses on the body of the balance sheet and the profit and loss account. A mere statement that figures are net of loan losses is considered sufficient. Equally depressing is the disclosure of basis for loss provisions. Like U.K., Australian banks too do not consider it important enough to be discussed in the Directors' Report.

Bank of Montreal and Subsidiaries

Consolidated Statement of Income

For the Year Ended October 31
($ in thousands except per share amounts)

Bank of Montreal
Annual Report 1982 (pp.34-35)

	1981	1982
Interest, Dividend and Fee Income		
Loans	$ 7,028,306	$ 7,307,819
Lease financing	38,116	45,501
Securities	601,761	635,312
Deposits with banks	823,202	935,477
Total interest, dividend and fee income	8,491,385	8,924,109
Interest Expense		
Deposits	7,005,699	7,360,976
Bank debentures	68,329	113,012
Liabilities other than deposits	59,436	80,059
Total interest expense	7,133,464	7,554,047
Net Interest Income	1,357,921	1,370,062
Provision for loan losses	196,320	318,673
Net Interest Income After Provision for Loan Losses	1,161,601	1,051,389
Other operating income	293,083	350,535
Net Interest and Other Income	1,454,684	1,401,924
Non-Interest Expense		
Salaries	540,247	631,559
Pension and other staff benefits	62,303	62,901
Premises and equipment	184,678	220,724
Other expenses	218,125	247,774
Total non-interest expense	1,005,353	1,162,958
Income Before Provision for Income Taxes	449,331	238,966
Provision (credit) for income taxes (Note 9)	92,147	(22,400)
Income Before Minority Interest in Earnings of Subsidiary	357,184	261,366
Minority interest in earnings of subsidiary	4,320	4,320
Net Income	$ 352,864	$ 257,046
Net income per common share (Note 8)	$6.16	$3.70

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Exhibit - XX

Consolidated Statement of Appropriations for Contingencies

For the Year Ended October 31

	1981	1982
Beginning of Year		
Tax allowable	$ 153,829	$ 180,680
Tax paid	21,400	22,000
Total	175,229	202,680
Changes During Year		
Loan loss experience for the year	(268,084)	(550,187)
Provision for losses on loans based on five-year average loss experience	196,320	318,673
Transfer from retained earnings	99,215	244,400
Net Change During Year	27,451	12,886
End of Year		
Tax allowable	180,680	92,889
Tax paid	22,000	122,677
Total	$ 202,680	$ 215,566

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Consolidated Statements of Condition

National Bank of North America and Subsidiaries

(Amounts in Thousands Except Share Amounts)	December 31 1982	1981
Assets		
Cash and due from banks	$ 328,035	$ 410,249
Interest bearing deposits with banks	1,144,512	908,716
Investment securities (Note A)		
U.S. Treasury and Federal agencies	417,383	279,664
State and municipal	251,079	311,549
Other	13,625	13,625
Total (approximate market value of $655,260 and $498,734)	682,087	604,838
Trading account securities (at market)	4,798	6,616
Federal funds sold and securities purchased under agreements to resell	39,534	15,737
Loans, less unearned income of $24,394 and $30,992	4,086,540	3,563,206
Allowance for loan losses	(42,775)	(36,207)
Loans-net (Note B)	4,043,765	3,526,999
Foreclosed real estate (Note B)	5,590	1,408
Premises and equipment-net (Notes C, F and K)	47,141	47,368
Due from customers on acceptances	345,367	285,435
Other assets	166,511	161,925
Total Assets	$6,807,340	$5,969,291
Liabilities and Equity Capital		
Deposits (Note D)		
Demand	$1,142,996	$1,135,878
Retail savings and time	1,840,412	1,537,112
Other domestic time	577,715	481,860
Foreign office	1,657,500	1,570,914
Total	5,218,623	4,725,764
Short-term borrowed funds (Note E)		
Federal funds purchased	378,065	296,400
Securities sold under agreements to repurchase	143,149	131,332
Other	239,529	76,721
Total	760,743	504,453
Acceptances outstanding	349,456	289,351
Accounts payable and accrued liabilities (Note G)	92,994	80,051
Long-term debt (Note F)	13,822	15,507
Total Liabilities	6,435,638	5,615,126
Equity capital (Notes H, I and M)		
Common stock, $5 par value:		
Authorized 7,773,867 shares; issued and outstanding 7,675,138 shares	38,376	38,376
Surplus	137,624	137,624
Undivided profits	195,702	178,165
Total Equity Capital	371,702	354,165
Total Liabilities and Equity Capital	$6,807,340	$5,969,291

Notes to consolidated financial statements appear on pages 33 through 36.

Exhibit - XXII

Bank of Montreal

Annual Report 1982 (p.53)

The loan loss experience of the Bank is the amount of net new reservations for loan losses, less principal recoveries on loans previously written off. The amount of net new reservations is determined through a quarterly management review of individual loans where there is doubt as to their collectibility of principal or interest.

Loan loss experience rose from $268.1 million in 1981 to $550.2 million, an increase of $282.1 million. Major increases occurred in all segments of the portfolio reflecting unfavourable worldwide economic conditions. It was not just the lower rated or lesser quality borrowers that experienced difficulty. Many long-established customers have not been able to meet their loan commitments as scheduled.

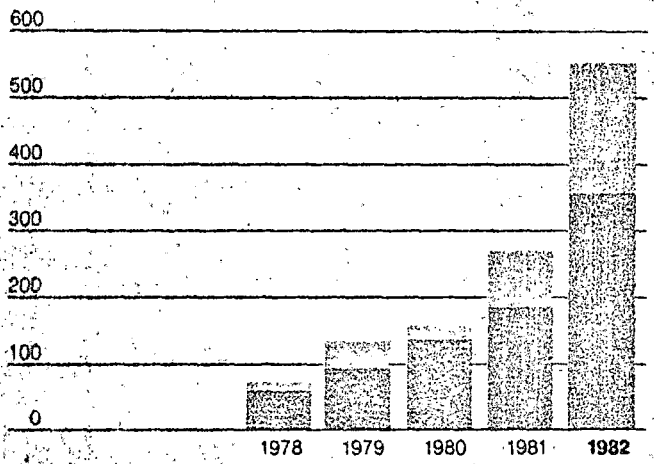
Domestic reservations of $360.0 million represented 65% of the year's actual loan loss experience. Large commercial advances, those with reservations over $250,000, accounted for 62% of the domestic losses in 1982, as compared to 49% in 1981.

International loan loss experience rose 118% to $190.2 million in 1982, as a result of reservations placed upon several large corporate and sovereign risk loans.

The provision for loan losses is based on the ratio of the loan loss experience for the most recent five years to the eligible loans for the same period. The charge to income for 1982 was $318.7 million compared with $196.3 million in 1981. The provision, as a percentage of average assets, was 0.51% for 1982, up from 0.36% in the preceding year.

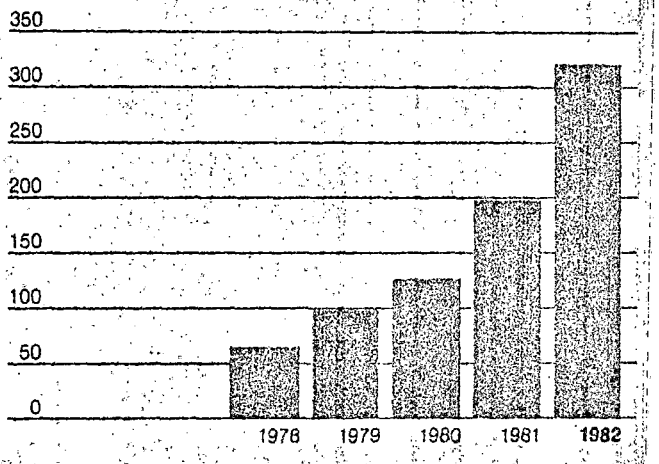
The substantial increase in the loan loss experience for 1982 together with increases in the several preceding years are the reason for the substantial increase in the 1982 provision. The five year averaging formula that is used to determine the amount of the provision tends to moderate the year-to-year change and will tend to maintain it at relatively high levels even after the actual loan loss experience begins to decline.

Loan Loss Experience
($ in millions)



	1978	1979	1980	1981	1982
Eligible loans	21,282	26,378	32,980	43,731	**48,609**
Loan loss experience					
International	16.0	33.1	26.8	87.4	**190.2**
Domestic	54.0	94.4	127.4	180.7	**360.0**
Total Bank	70.0	127.5	154.2	268.1	**550.2**
Percentage of eligible loans					
International	0.28	0.48	0.27	0.64	**1.13**
Domestic	0.35	0.49	0.55	0.60	**1.13**
Total Bank	0.33	0.48	0.47	0.61	**1.13**

Provision for Loan Losses
($ in millions)



	1978	1979	1980	1981	1982
Provision for loan losses	62.4	94.1	123.7	196.3	**318.7**
As a percentage of average assets	0.22	0.27	0.30	0.36	**0.51**

As noted earlier in India provision for bad and doubtful debts is not disclosed in the annual reports and, therefore, question of disclosing changes in the provisions simply does not arise. Although an abnormal rise in percentage of loan losses is a matter of common knowledge in India the problem is not even touched in the Directors' Report. In view of clear cut disclosure of loan losses in other countries, the Government may well consider the feasibility of requiring disclosure of provision for loan losses.

CHANGES IN CAPITAL ACCOUNTS :

Accounting for the corporate form involves a recognition of the artificially unlimited life. The equity section of the balance sheet with its related footnotes is one of the few places in financial statements in which the narrative information is more important than the reported numbers on the face of the statements. The knowledgeable users understand that the value of an investment can be significantly altered by transactions which affect equity and by legal changes and the related rights, limitations and privileges of various classes of owners.

TABLE - XIV

Reports which Include an Analysis of the Changes in the Capital Accounts.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	10	6	0	1	0	100.0	100.0	0.0	14.3	0.0
1979	10	6	0	1	0	100.0	100.0	0.0	14.3	0.0
1980	10	6	0	1	0	100.0	100.0	0.0	14.3	0.0
1981	10	6	0	1	0	100.0	100.0	0.0	14.3	0.0
1982	10	6	8	2	0	100.0	100.0	100.0	28.6	0.0

Table XIV shows that cent per cent of the banks in U.S.A. and U.K. provide analyses of changes in the capital accounts in the financial statements. In Canada incorporation of analyses was adopted only since annual reports for 1982 onwards. In Australia one bank showed the analysis of changes throughout the test period and another adopted it since 1982. In India there is no such practice to provide it in the financial statements. Thus it is found that the practice of including an analysis of changes in the capital accounts has acquired popularity in U.S.A. and U.K. since long but in Canada it got fillip only since 1982 annual reports. Though of recent origin, it is also gradually getting importance in Australia.

It is common practice in U.S.A. to show an analysis of the changes in the capital both common and preferred stock in 'Consolidated Statements of Changes in the Shareholders' Equity' which constitutes one of the main parts of the financial statements. The Statements of Changes in the Shareholders' Equity includes analysis of other data also, such as capital surplus, retained earnings, foreign exchange translations, treasury stock etc. The data are generally furnished for three years. In 1982 out of ten banks examined, eight banks furnished data for three years and two banks for two years only. All these data might help the prospective interested parties to take valuable decisions at a glance (Exhibit XXIII).

In Canada like that of U.S.A. the banks follow more or less the same format, use the same title and incorporate data for two

Statement of Changes in Common Stockholders' Equity

($ in thousands)	Year Ended December 31, 1982	1981	1980
Common Stock			
Balance at Beginning of Year (33,089,161 Shares, 32,492,462 Shares and 32,059,322 Shares, Respectively)	$ 413,615	$ 406,156	$ 400,742
Conversion of Capital Notes and Debentures (485,609 Shares, 589,449 Shares and 429,890 Shares Issued, Respectively)	6,070	7,368	5,374
Exercise of Stock Options (24,785 Shares, 7,250 Shares and 3,250 Shares, Respectively)	310	91	40
Shares Issued Pursuant to Dividend Reinvestment Plan (316,494 Shares)	3,956	—	—
Balance at End of Year (33,916,049 Shares, 33,089,161 Shares and 32,492,462 Shares, Respectively)	423,951	413,615	406,156
Surplus			
Balance at Beginning of Year	536,080	510,523	496,404
Conversion of Capital Notes and Debentures	21,286	25,321	18,274
Exercise of Stock Options	752	236	90
Shares Issued Pursuant to Dividend Reinvestment Plan	9,372	—	—
Issuance Costs Related to Preferred Stock	(4,114)	—	(4,245)
Issuance Costs Related to Dividend Reinvestment Plan	(110)	—	—
Balance at End of Year	563,266	536,080	510,523
Foreign Exchange Translation Adjustments			
Balance at Beginning of Year	—	—	—
Aggregate Translation Gain (Loss) After Applicable Income Tax Expense of $4,580 for Year Ended December 31, 1982	(13,921)	—	—
Balance at End of Year	(13,921)	—	—
Retained Earnings			
Balance at Beginning of Year	1,643,004	1,366,036	1,129,387
Net Income	307,483	412,150	354,178
Cash Dividends Declared:			
Redeemable Preferred Stock	(15,404)	(20,606)	(20,606)
Nonredeemable Preferred Stock	(32,965)	(13,125)	(6,709)
Common Stock	(114,001)	(101,451)	(90,214)
Balance at End of Year	1,788,117	1,643,004	1,366,036
Total Common Stockholders' Equity	$2,761,413	$2,592,699	$2,282,715

years only under the sub-heads capital, contributed surplus, general reserve and retained earnings (Exhibit XXIV). But in U.K. the common practice is to show analysis of the changes in the capital, both common and preferred, in the 'notes to accounts.' Banks in Australia follow U.K. practices.

It may be concluded from the above that the U.S. and Canada presentation practices are better for the users than those of the U.K. and Australia. Banking industry in India is totally unresponsive to such a disclosure.

CONSOLIDATION OF SUBSIDIARIES :

Consolidated financial statements present a combined financial position and results of operations of a group of companies controlled by a single managerial body with all intra-company relationships and transactions eliminated so that, in effect, we see the family group; as if it were a single enterprise dealing only with outside world. In all the countries under study, except India, consolidation of accounts is a legal requirement.

Tables XV and XVI present a status report regarding consolidation of subsidiaries in commercial banks at the international level.

Exhibit - XXIV

National Bank of Canada

Annual Report 1982 (p.19)

Consolidated Statement of Changes in Shareholders' Equity

for the year ended October 31

	1982	1981
	(thousands of dollars)	
Capital Stock (Note 7)		
Balance at beginning of year	$ 121,087	$ 40,219
Increases during the year		
Common shares	3,982	6,270
Preferred shares	27,500	74,598
Balance at end of year	$ 152,569	$ 121,087
Contributed Surplus		
Balance at beginning of year	$ 159,147	$ 126,377
Additions from capital stock issues	9,571	32,770
Balance at end of year	$ 168,718	$ 159,147
General Reserve		
Balance at beginning of year	$ 22,824	$ 30,238
Transfer to retained earnings	—	7,414
Balance at end of year	$ 22,824	$ 22,824
Retained Earnings		
Balance at beginning of year	$ 194,774	$ 164
Prior period adjustments, net of income taxes of $9,306	—	184,162
Net income (net loss) for the year	(9,231)	11,889
Dividends — Common shares	(7,224)	(25,561)
— Preferred shares	(10,471)	(2,960)
Expenses related to the issuance of shares	(1,309)	(535)
Transfer from (to) appropriations for contingencies	(20,000)	34,998
Income taxes related to the above transfer	—	(14,797)
Transfer from general reserve	—	7,414
Balance at end of year	$ 146,539	$ 194,774

TABLE - XV

Reports which Indicate that the Financial Statements are Consolidated.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia*	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	10	6	0	4	0	100.0	100.0	0.0	100.0	0.0
1979	10	6	0	4	0	100.0	100.0	0.0	100.0	0.0
1980	10	6	0	5	0	100.0	100.0	0.0	100.0	0.0
1981	10	6	0	5	0	100.0	100.0	0.0	100.0	0.0
1982	10	6	8	5	0	100.0	100.0	100.0	100.0	0.0

*The remaining banks had no subsidiaries.

TABLE - XVI

Reports which Indicate that there are Unconsolidated Subsidiaries.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Austra-lia	India	U.S.A.	U.K.	Canada	Austra-lia	India
1978	0	0	8	0	1	0.0	0.0	100.0	0.0	3.3
1979	0	0	8	0	1	0.0	0.0	100.0	0.0	3.3
1980	0	0	8	0	1	0.0	0.0	100.0	0.0	3.3
1981	0	0	8	0	1	0.0	0.0	100.0	0.0	3.3
1982	0	0	0	0	1	0.0	0.0	0.0	0.0	3.3

The banks in Canada, prior to the Bank Act of 1980 effective from annual reports 1982, were required to consolidate only the wholly-owned subsidiaries and the banks' investment in other controlled corporations were carried at cost; and income from such investments was recognised only when dividend had been received. The statement of assets and liabilities of significant non-consolidated subsidiaries were, however, shown

separately[1] as per requirements of Bank Act 1967. Investments in associated corporations (20% to 50% owned companies) are now accounted for by the equity method instead of the cost method.[2] Besides consolidation, the Bank Act of 1980 also requires condensed financial statements of certain subsidiaries (Exhibit XXV). The process of consolidation has perhaps gone too far in Canada - unconsolidated statements of principal banks stand omitted.

In Australia, however, out of the seven banks studied, three had no subsidiaries and since 1980 two had no subsidiaries.

In India, the State Bank of India, the only bank with subsidiaries (seven in number) shows no consolidated financial statements. It simply discloses group consolidated position in the form of a statement (Exhibit XXVI) without any consolidated profit and loss account. Neither does it disclose basis for consolidation nor does it contain auditors' opinion on such consolidation.

The position of the banks in U.S.A. and U.K. is unique in matters of consolidation. Besides detailed consolidation (Exhibit XXVII and XXVIII), in each of the two countries consolidation policies are stated categorically. Every consolidated statement form part of the main report and is, therefore, subject to audit opinion. Besides, unconsolidated results of principal bank are also incorporated on traditional pattern.

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1. Bank of British Columbia, Annual Report 1982, p. 20.
2. Canadian Imperial Bank of Commerce, Annual Report 1982, p. 33.

Condensed Financial Statements of Certain Subsidiaries

which are included in the consolidated financial statements of the Bank
(annexed in accordance with Section 215 (3)(e) of the 1980 Bank Act)

CIBC MORTGAGE CORPORATION

BALANCE SHEET as at October 31
(in thousands of dollars)

ASSETS	1982	1981
Cash	$ 15,017	$ 25,015
Securities	144,204	63,886
Mortgage loans	3,967,071	2,224,528
Other assets	61,967	27,595
	$4,188,259	$2,341,024

LIABILITIES AND SHAREHOLDERS' EQUITY		
Payable to Canadian Imperial Bank of Commerce	$ 336,455	$ 211,966
Promissory notes	688,828	—
Investment certificates and debentures	2,804,803	1,887,392
Other liabilities	176,423	120,800
Shareholders' equity:		
Capital stock		
Preferred shares	30,000	30,000
Common shares	145,000	85,000
Contributed surplus	75	75
Retained earnings	6,675	5,791
	$4,188,259	$2,341,024

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended October 31, 1982
with comparative figures for the ten months ended October 31, 1981
(in thousands of dollars)

	1982	1981
Interest income	$ 459,489	$ 202,022
Other income	2,002	2,172
	461,491	204,194
Less:		
Interest expense	421,496	184,512
Administrative and other expenses	36,240	10,827
	457,736	195,339
Net income before provision for income taxes and extraordinary item	3,755	8,855
Provision for (reduction in) deferred income taxes	(1,497)	3,971
Net income before extraordinary item	5,252	4,884
Extraordinary item—disposal of properties (net of taxes)	3,302	—
Net income for the period	8,554	4,884
Retained earnings at beginning of period	5,791	4,227
	14,345	9,111
Dividends—preferred shares	3,270	120
—common shares	4,400	3,200
Retained earnings at end of period	$ 6,675	$ 5,791

NOTES

1. The corporation is subject to the provisions of the Loan Companies Act (Canada). The Bank acts as the corporation's sole agent in acquiring first mortgage loans and in promoting and selling of the corporation's promissory notes and one to five year investment certificates which are guaranteed by the Bank.
2. The Bank owns all of the common shares of CIBC Mortgage Corporation. The non-voting preferred shares are owned by a third party.
3. The corporation changed its name to CIBC Mortgage Corporation from Kinross Mortgage Corporation during the year.

COMMERCE LEASING LIMITED

BALANCE SHEET as at October 31
(in thousands of dollars)

ASSETS	1982	1981
Net investment in lease receivables	$226,498	$234,325
Fixed assets less accumulated depreciation	181	96
Other assets	116	180
	$226,795	$234,601

LIABILITIES AND SHAREHOLDER'S EQUITY		
Payable to Canadian Imperial Bank of Commerce	$136,276	$153,371
Notes payable	20,847	3,000
Other liabilities	681	1,500
Shareholder's equity:		
Capital stock	77,000	77,000
Deficit	(8,009)	(270)
	$226,795	$234,601

STATEMENT OF LOSS AND DEFICIT
for the year ended October 31
(in thousands of dollars)

	1982	1981
Income	$ 31,094	$ 30,185
Less:		
Interest expense	24,389	24,433
Selling and administrative expenses	4,007	3,399
Provision for bad debts	10,926	3,519
	39,322	31,351
Loss before provision for income taxes	8,228	1,166
Reduction in deferred income taxes	489	560
Net loss for the year	7,739	606
Deficit (retained earnings) at beginning of year	270	(336)
Deficit at end of year	$ 8,009	$ 270

NOTES

1. The company is engaged in direct finance leasing.
2. The Bank owns the entire capital stock of Commerce Leasing Limited which consists of preferred shares of $77,000,000 and common shares of $300.

Condensed Financial Statements of Certain Subsidiaries (continued)

COMMERCE—UD INC.

BALANCE SHEET as at October 31, 1982
with comparative figures as at March 31, 1982
(in thousands of dollars)

ASSETS	1982 October 31	March 31 Restated (Note 2)
Cash	$ 735	$ 97
Finance receivables	94,173	147,880
Investments in and advances to subsidiaries	—	360,266
Fixed assets less accumulated depreciation	—	684
Other assets	2,125	3,354
	$ 97,033	$512,281
LIABILITIES AND SHAREHOLDER'S EQUITY		
Payable to Canadian Imperial Bank of Commerce	$ 20,057	$407,379
Notes and debentures payable (secured)	63,861	87,308
Other liabilities	1,541	1,663
Shareholder's equity:		
Capital stock	13,000	13,000
Retained earnings (deficit)	(1,426)	2,931
	$ 97,033	$512,281

STATEMENT OF LOSS AND RETAINED EARNINGS (DEFICIT)
for the seven months ended October 31, 1982
with comparative figures for the year ended March 31, 1982
(in thousands of dollars)

	Seven Months ended 31/10/82	Year ended 31/3/82 Restated (Note 2)
Interest income	$ 10,845	$ 28,753
Less:		
Interest expense	8,285	22,680
General and administrative expenses	1,213	2,915
Provision for credit losses	5,704	4,784
	15,202	30,379
Loss before income tax recovery and losses of subsidiaries	(4,357)	(1,626)
Recovery of income taxes	—	(1,031)
	(4,357)	(595)
Losses of subsidiaries	—	(172)
Net loss for the period	(4,357)	(767)
Retained earnings at beginning of period	2,931	4,348
	(1,426)	3,581
Dividends	—	650
Retained earnings (deficit) at end of period	$ (1,426)	$ 2,931

NOTES

1. *The company is engaged in providing commercial finance by way of conditional sales contracts and lease financing for industry.*
2. In April 1982, the affairs of the company were restructured to enable the company to continue operations separately as a financial leasing subsidiary of the Bank as provided for under the 1980 Bank Act. Pursuant to this, the share investments in subsidiary and other companies were sold by the company to the Bank.
   For comparative purposes, the figures for March 31, 1982 have been restated to account for the subsidiaries by the equity method.
3. The Bank owns the entire capital stock of Commerce—UD Inc.
4. The company changed its name to Commerce—UD Inc. from United Dominions Corporation (Canada) Limited on September 30, 1982.

COMMERCE FACTORS LIMITED

BALANCE SHEET as at October 31
(in thousands of dollars)

ASSETS	1982	1981
Cash	$ 936	$ —
Purchased accounts and loans receivable	347	6,757
Fixed assets less accumulated depreciation	—	124
Other assets	13	501
	$ 1,296	$ 7,382
LIABILITIES AND SHAREHOLDER'S EQUITY		
Payable to Canadian Imperial Bank of Commerce	$ 75	$ 4,575
Balance payable on purchased accounts receivable	558	1,529
Other liabilities	616	1,182
Shareholder's equity:		
Capital stock	4,950	1,750
Deficit	(4,903)	(1,654)
	$ 1,296	$ 7,382

STATEMENT OF LOSS AND DEFICIT
for the year ended October 31
(in thousands of dollars)

	1982	1981
Income	$ 1,730	$ 3,293
Less:		
Interest expense	507	699
Provision for bad debts	2,304	616
Other expenses	2,168	2,337
	4,979	3,652
Loss for the year	3,249	359
Deficit at beginning of year	1,654	1,295
Deficit at end of year	$ 4,903	$ 1,654

NOTES

1. The company is in the process of winding up its factoring and commercial financing operations and the year's expenses include a provision for the estimated wind up costs.
2. The Bank owns the entire capital stock of Commerce Factors Limited which consists of preferred shares of $4,950,000 (1981: $1,750,000) and common shares of $6 (1981: $6).
3. The company has assumed the credit risk relative to receivables totalling *$0.9 million at October 31, 1982 (1981: $37.9 million).*

Exhibit - XXVI

State Bank of India

Annual Report 1982 (p.92)

स्टेट बैंक समूह 31 दिसम्बर 1982 को समेकित स्थिति

(राशि करोड़ रुपयों में)

STATE BANK GROUP-CONSOLIDATED POSITION AS AT 31ST DECEMBER 1982 (*Amounts in crores of rupees*)

31 दिसम्बर 1981 को As at 31st December 1981	दायित्व LIABILITIES	31 दिसम्बर 1982 को As at 31st December 1982	31 दिसम्बर 1981 को As at 31st December 1981	आस्तियाँ ASSETS	31 दिसम्बर 1982 को As at 31st December 1982
304	पूँजीगत निधियाँ Capital funds	414		नकदी, एवं माँग राशियों सहित अन्य बैंकों में जमा रकम Cash and balances with other banks including money at call	3,254
14,990	जमाराशियाँ Deposits	17,586	2,422	विनिधान Investments	5,216
1,608	उधार राशियाँ Borrowings	2,543	4,760	अग्रिम Advances	13,098
1,473	वसूली के लिए बिल–दूसरी तरफ के अनुसार Bills for collection as per contra	2,268	10,858	प्राप्य बिल–दूसरी तरफ के अनुसार Bills receivable as per contra	2,268
3,077	स्वीकृतियाँ-दूसरी तरफ के अनुसार Acceptances as per contra	3,898	1,473	स्वीकृतियों के लिए ग्राहकों के दायित्व –दूसरी तरफ के अनुसार Customers' liabilities for acceptances as per contra	3,898
1,725	अन्य दायित्व Other liabilities	2,123	3,077	परिसर और फर्नीचर Premises and furniture	102
			79	अन्य आस्तियाँ Other assets	996
			508		
23,177	योग TOTAL	28,832	23,177	योग TOTAL	28,832

टिप्पणी : आंतर समूह शेषों को अलग कर दिया गया है.

Note: Intra-Group balances have been eliminated.

एक करोड़ = दस मिलियन

One crore = 10 million

SEAFIRST CORPORATION and Subsidiaries

CONSOLIDATED STATEMENT OF CONDITION

(In Thousands) December 31,	1982	1981	1980
ASSETS			
Cash and Due from Banks	$ 854,567	$ 882,944	$1,048,259
Time Deposits with Banks	216,771	471,058	385,615
Funds Sold	401,062	649,896	583,599
Investment Securities, Market Value $337,422 for 1982, $396,902 for 1981, and $420,168 for 1980 (Note 2)	420,584	539,270	512,290
Trading Account Securities	11,397	1,605	4,101
Total Loans (Note 3)	7,225,984	7,090,822	6,200,321
Less: Reserve for Possible Loan Losses (Note 4)	(175,804)	(73,714)	(62,399)
Loans, Net of Reserve	7,050,180	7,017,108	6,137,922
Lease Financing, Net of Reserve (Note 5)	403,817	466,452	435,929
Premises and Equipment (Note 6)	224,300	213,476	176,939
Due from Customers on Acceptances	192,947	279,809	120,643
Accrued Interest Receivable and Other Assets	252,827	225,482	182,417
Total Assets	$10,028,452	$10,747,100	$9,587,714
LIABILITIES			
Demand Deposits	$ 1,600,092	$ 1,838,365	$2,155,605
Savings Deposits and NOW Accounts	1,386,785	1,100,794	980,270
Savings Bonds and Certificates (Note 7)	1,765,579	1,568,495	1,358,136
Certificates of Deposit and Other Time Deposits (Note 7)	1,682,363	2,796,496	2,008,357
Deposits in Foreign Offices	1,740,220	844,876	736,978
Total Deposits	8,175,039	8,149,026	7,239,346
Funds Purchased (Note 8)	892,971	1,302,344	1,358,666
Accrued Interest and Taxes (Note 9)	84,278	212,678	177,411
Acceptances Outstanding	192,947	279,809	120,643
Obligations Under Capital Leases and Other Debt	27,660	22,661	13,478
Long-Term Debt (Note 10)	94,950	94,950	110,000
Other Liabilities	102,910	118,365	82,290
Total Liabilities	9,570,755	10,179,833	9,101,834
SHAREHOLDERS' EQUITY (Note 11)			
Preferred Stock, no par value per share: 3,000,000 shares authorized; none outstanding			
Common Stock, $5 par value per share: 36,000,000 shares authorized			

	1982	1981	1980
Shares Outstanding	16,219,606	15,973,875	15,287,659

	1982	1981	1980
Common Stock	81,098	79,869	76,438
Surplus	131,789	127,984	110,888
Undivided Profits	244,810	359,414	298,554
Total Shareholders' Equity	457,697	567,267	485,880
Total Liabilities and Shareholders' Equity	$10,028,452	$10,747,100	$9,587,714

The accompanying notes are an integral part of this statement.

Exhibit - XXVIII
Grindlays Bank p.l.c.
Annual Report 1982 (p.19)

GRINDLAYS BANK p.l.c.

Group balance sheet

31st December 1982

	Note	1982 £'000	1981 £'000
Assets			
Cash and short term funds	12	1,414,864	1,280,016
Term deposits with banks and public bodies	13	278,699	252,871
Investments	14	268,312	199,820
Advances and other accounts	15	2,917,649	2,643,901
Leased assets	17	25,501	16,567
Associated companies	19	964	965
Premises and equipment	20	53,022	65,415
Premium arising on acquisitions		2,120	4,632
		4,961,131	4,464,187
Liabilities			
Current, deposit and other accounts		4,632,891	4,247,725
Due to holding company		1,402	1,396
Tax		34,130	18,724
Dividend payable		2,050	1,900
		4,670,473	4,269,745
Capital resources			
Share capital	21	60,000	60,000
Reserves	22	97,361	72,482
		157,361	132,482
Minority interest		1,402	1,584
Loan capital	23	131,895	60,376
		290,658	194,442
		4,961,131	4,464,187
Acceptances			
Acceptances on behalf of customers for which a corresponding customer liability exists.		**379,540**	302,516

N J Robson
A J O Ritchie
A J W S Leonard
} Directors

T P Daly Group Financial Controller

The notes to the accounts are shown on pages 22 to 29.

In matters of consolidation it is noticed that reporting in Australia and Canada are on two extremes. In between is the position of U.K. and U.S.A. In Australia, consolidated accounts are throughout accompanied on the same pattern with unconsolidated accounts of the principal bank. As a matter of fact against common presentation of items figures are disclosed in comparative manner for both the group and the holding company (Exhibit XXIX). The auditors' report specifically deal with the state of affairs and profit of the group and the holding company. In Canada, on the other extreme, there is no disclosure of unconsolidated accounts whatsoever. Throughout one finds only consolidated statements.

It may, thus, be concluded that banks under study have been able to show a good attempt towards group reporting and harmonise such disclosure internationally.

SOURCE AND APPLICATION OF FUNDS STATEMENT :

Historically, the balance sheet and the trading and profit and loss account have been considered as the two major financial statements in the external reports of business enterprises. The balance sheet presents a static picture of the sources of enterprise resources and the composition of these resources at a specified point in time. The accompanying trading and profit and loss account explains the results of operating activities of the enterprise for a specified period of time ending on the balance sheet date. Neither of these, however, reveals the information covering periodic results of the financing activities of the enterprise which is nece-

BALANCE SHEET

	Note	BANK 1982 $	BANK 1981 $	GROUP 1982 $	GROUP 1981 $
CAPITAL					
Authorised 25,000,000 shares of $1.00 each		25,000,000	25,000,000	25,000,000	25,000,000
Issued 6,806,250 shares fully paid	5	6,806,250	5,671,875	6,806,250	5,671,875
RESERVES					
(used in the business of the Bank)	6	6,644,675	5,038,627	6,644,675	5,038,627
Unappropriated profit		797,258	706,085	811,991	720,628
		7,441,933	5,744,712	7,456,666	5,759,255
SHARE CAPITAL AND RESERVES		14,248,183	11,416,587	14,262,916	11,431,130
CURRENT LIABILITIES AND PROVISIONS					
Deposits and bills payable		76,722,501	71,884,076	76,722,195	71,883,315
Balances due to other banks		351,933	734,780	351,933	734,780
Bank acceptances		9,800,000	7,871,000	9,800,000	7,871,000
Other liabilities and provisions	7	1,517,162	1,163,884	1,603,219	1,120,699
Acceptances received	5	197,268	—	197,268	—
Calls in advance		—	2,470	—	2,470
Australian income tax		597,994	701,466	599,897	706,162
Further dividend proposed		442,406	317,625	442,406	317,625
		89,629,264	82,675,301	89,716,918	82,636,051
		103,877,447	94,091,888	103,979,834	94,067,181
CONTINGENT LIABILITIES	8	116,903,730	68,305,063	116,903,730	68,305,063
		$220,781,177	$162,396,951	$220,883,564	$162,372,244

Notes to and forming part of these accounts appear on pages 15 to 20.

ssary to an overall evaluation of the enterprise. The statement of source and application of funds commonly referred to as the 'funds statement' provides this kind of information. More specifically, the funds statement shows the sources of new funds, which entered the business enterprise during the accounting period, and the amount of new funds provided from each of the sources. In addition, the funds statement shows the application of these new funds to various uses by the enterprise.

The funds statement has acquired considerable importance. It is no longer considered as a supporting schedule to the balance sheet, the trading and the profit and loss account, although the information which it contains is a selection, reclassification and summarisation of information contained in these financial statements. It is, instead, a complementary statement, an important report in its own right which cannot easily be obtained or cannot be obtained at all from the other financial statements.

The 'International Standards Committee' has recognised the growing importance of the funds statement and has laid down amongst others, the following standards[1] for financial statements covering reporting periods beginning on or after January 1, 1979 :

1. "A statement of changes in financial position should be included as an integral part of the financial statements.

2. The statement of changes in financial position should be presented for each period for which the income statement is prepared.

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1. International Accounting Standards Committee, London : International Accounting Standards 7 (paragraph 20 and 22).

3. Each enterprise or group of enterprise should adopt the form of presentation for the statement of changes in financial position which is most informative in the circumstances."

Besides the International Accounting Standards Committee, other authoritative accounting bodies like the Securities and Exchange Commission (SEC)[1] and the Accounting Principles Board (APB)[2], have also considered the funds statement important enough to require its inclusion in financial reports.

In U.S.A. both American Institute of Certified Public Accountants and the Stock Exchanges encourage the inclusion of the funds statement in annual reports. The Canadian and American Institutes have also recommended that the auditors should express an opinion on the statement of source and application of funds where ever it forms part of the financial statements presented to shareholders.[3]

The Institute of Chartered Accountants in Australia has recommended that a statement of source and application of funds should be presented to shareholders as supplementary information with annual accounts of companies, to facilitate a clear understanding of the operations of the period. Whilst the statement need not necessarily be audited, it is considered that the directors should give auditors the

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1. Securities and Exchange Commission, Accounting Series Release No. 142, "Reporting Cash Flow and Other Related Data," Washington D.C., 1973.

2. APB Opinion No. 19, "Reporting Changes in Financial Position," AICPA, New York, 1971.

3. "Professional Notes - Auditors' Reporting Standards," Accountancy, London, August 1969, p. 571.

opportunity to satisfy as to the truth and fairness of the statement.[1]

In India preparation and publication of funds statement is not a mandatory requirement though increasing number of non-financial institutions are incorporating such statements on a voluntary basis.

TABLE - XVII

Reports which Include Statement of Source and Application of Funds.

Year	Number of Reports					Percentage of Reports Examined				
	U.S.A.	U.K.	Canada	Australia	India	U.S.A.	U.K.	Canada	Australia	India
1978	10	5	0	3	0	100.0	83.3	0.0	42.9	0.0
1979	10	6	0	3	0	100.0	100.0	0.0	42.9	0.0
1980	10	6	0	4	0	100.0	100.0	0.0	57.1	0.0
1981	10	6	0	5	0	100.0	100.0	0.0	71.4	0.0
1982	10	6	0	5	0	100.0	100.0	0.0	71.4	0.0

One can safely conclude from the Table XVII that there is an unmistakable trend towards inclusion of funds statement in the published annual accounts of U.S.A., U.K. and Australia.

It is interesting to note that in U.S.A. and U.K. the funds statement has already become popular and in Australia it is well on the way towards popularity. The picture is, however, very gloomy in Canada and India, though in Canada the requirement to include such a statement was adopted in amendments to the Act of 1966. In either of these countries the environment is still unfavourable, at least so far as the

1 Sir Ronald Irish, Auditing, 4th ed., The Law Book Company Limited, Australia, 1972, p. 681.

banking industry is concerned.

From the preceding survey of the annual reports it is clear that, excepting India, there is an unmistakable trend towards disclosure improvement. Canadian and Australian banks have improved their financial reporting by about 23 per cent and 14 per cent respectively during the period of investigation. During the same period U.K. banks have practically not improved their financial reporting practices. But due to earlier improvements, even at the end of the study period, their reporting practices have an edge over the Canadian and Australian banks. No worth mention improvements have been made by U.S. banks during this period. But it was mainly because their reporting practices had been so advanced that they had a little scope for improvement. On international reporting canvas India presents the most depressing picture. It had the lowest disclosure at the beginning of the study period and rate of improvement during the study period has also been the lowest (Table XXXVIII, p. 226). Such poor disclosure is appalling. More appalling, however, is the absence of initiative to improve it.