

XV - The Reserve Bank's Accounts for 2000-01

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15.1 The key financial results of the Reserve Bank's operations during the year are presented in this chapter.

INCOME

15.2 The total income of the Reserve Bank for the year 2000-01 (July-June), declined by Rs. 112.10 crore (0.5 per cent) from Rs. 21,960.97 crore to Rs. 21,848.87 crore. The decline in income was mainly due to decrease in earnings from domestic sources. However, the earnings from foreign sources increased substantially; its share in total income also increased from 29.7 per cent in 1999-2000 to 46.2 per cent in 2000-01. The sources of income are set out in [Table 15.1](#).

Income from Foreign Sources

15.3 During the accounting year ended June 30, 2001, the Reserve Bank's net earnings from the deployment of foreign currency assets including gold increased by Rs. 3,571.35 crore (54.8 per cent) from Rs.6,514.73 crore in 1999-2000 to Rs.10,086.08 crore in 2000-01 due to the higher average level of foreign currency assets at Rs.1,68,577 crore in 2000-01 as against Rs.1,40,275 crore in 1999-2000 and also a higher return on these assets. In percentage terms, the net earnings on foreign currency assets and gold increased from 4.6 per cent in 1999-2000 to 6.0 per cent in 2000-01 due to higher interest earnings. Excluding gains/losses on account of securities transactions, the net earnings on foreign currency assets and gold worked out to 5.8 per cent for 2000-01 as against 5.0 per cent for 1999-2000. There was capital gain (net) on sale of securities at Rs. 378.38 crore (realised capital gain of Rs.606.08 crore and depreciation of Rs.227.70 crore) during the year 2000-01 as compared to capital loss of Rs. 464.68 crore (depreciation of Rs.496.53 crore and realised capital gain of Rs. 31.85 crore) in 1999-2000. The foreign securities held in the Reserve Bank's portfolio are valued at the end of every month at the lower of book value or market rate. If the market rate is lower than the book value, depreciation to the same extent is adjusted against current income. Appreciation is neither taken to profit and loss account nor to the reserves. Such unrealised appreciation in the value of foreign securities held in the Reserve Bank's portfolio at the end of June 2001 was Rs.703.29 crore as against Rs. 216.97 crore at the end of June 2000.

Table 15.1 : Income

Item	(Rupees crore)				
	2000-01	1999-2000	1998-99	1997-98	1996-97

1	2	3	4	5	6
A. Foreign Sources					
Interest, Discount, Exchange, Commission	10,086.08	6,514.73	6,306.59	5,687.34	4,585.66
B. Domestic Sources					
Interest	11,314.12	14,928.38	12,642.96	7,999.73	6,954.88
Discount	211.59	323.11	87.74	21.37	1,601.88
Exchange	0.85	0.14	0.19	0.37	0.25
Commission	210.37	185.62	175.02	365.03	105.16
Rent realised and others	25.86	8.99	7.83	9.80	9.03
Total – Domestic	11,762.79	15,446.24	12,913.74	8,396.30	8,671.20
Total Income (Gross) [A+B]	21,848.87	21,960.97	19,220.33	14,083.64	13,256.86
C. Less transfer to :					
(i) Contingency Reserve	6,202.57	6,554.50	8,917.65	2,158.72	4,204.92
(ii) Asset Development Reserve	704.78	711.55	1,274.59	1,181.71	
Total (i + ii)	6,907.35	7,266.05	10,192.24	3,340.43	4,204.92
Total Income (Net)	14,941.52	14,694.92	9,028.09	10,743.21	9,051.94

Income from Domestic Sources

15.4 Domestic income declined by Rs.3,683.45 crore (23.8 per cent) from Rs.15,446.24 crore in 1999-2000 to Rs.11,762.79 crore in 2000-01. This was mainly due to the decline of Rs.3,198.31 crore in the profits booked on sale of Rupee Securities *i.e.*, from Rs.3,280.54 crore in 1999-2000 to Rs.82.23 crore in 2000-01.

15.5 The interest income received on the Reserve Bank's investment in Government Securities also declined by an amount of Rs.293.22 crore from Rs.8,962.32 crore in 1999-2000 to Rs.8,669.10 crore in 2000-01 due to depreciation in the value of Government Securities adjusted in interest income account. The discount earned on Treasury Bills also came down during 2000-01 due to significantly lower purchases by the Reserve Bank in primary and secondary markets. Despite the reduction in the interest rates applicable to the Ways and Means advances, the interest income on these advances showed a marginal rise of Rs.32.30 crore from Rs.715.83 crore in 1999-2000 to Rs.748.13 crore in 2000-01, reflecting increased recourse by the Central and State Governments to this facility. Interest earnings from loans and advances to banks/financial institutions also rose by Rs.292.33 crore from Rs.1,337.84 crore in 1999-2000 to Rs.1,630.17 crore in 2000-01.

EXPENDITURE

15.6 Total expenditure of the Reserve Bank increased by Rs. 246.60 crore (4.6 per cent) from Rs. 5,340.92 crore in 1999-2000 to Rs. 5,587.52 crore in 2000-01 ([Table 15.2](#)). The increase was largely in respect of non-establishment expenses.

Interest Payment

15.7 Interest payment increased by Rs.22.92 crore (1.2 per cent) from Rs.1,971.88 crore in

1999-2000 to Rs.1,994.80 crore in 2000-01.

Establishment Expenditure

15.8 Establishment expenditure increased by Rs. 24.10 crore (2.8 per cent) from Rs.846.75 crore in 1999-2000 to Rs.870.85 crore in 2000-01.

Table 15.2 : Expenditure

Item	(Rupees crore)				
	2000-01	1999-2000	1998-99	1997-98	1996-97
1	2	3	4	5	6
I. Interest Payment	1,994.80	1,971.88	1,976.64	1,999.23	1,912.60
of which :					
a) Scheduled Banks	1,660.83	1,656.18	1,652.76	1,639.16	1,520.44
b) Payment in lieu of service charges on borrowings from IMF payable to Government of India		7.82	45.51	103.28	183.66
II. Establishment	870.85	846.75	683.59	848.43	519.48
III. Non-Establishment	2,721.87	2,522.29	1,884.86	1,914.45	1,352.43
of which :					
a) Agency charges	1,160.70	1,193.62	924.02	884.25	829.93
b) Security printing	1,122.78	1,068.44	733.96	834.23	386.48
IV. Total [I+II+III]	5,587.52	5,340.92	4,545.09	4,762.11	3,784.51

Non-establishment Expenditure

15.9 Expenditure towards agency charges decreased by Rs.32.92 crore (2.8 per cent) from Rs.1,193.62 crore in 1999-2000 to Rs.1,160.70 crore in 2000-01. However, expenditure on security printing, comprising cost of printing of currency notes, cheque forms *etc.*, increased by Rs. 54.34 crore (5.1 per cent) from Rs.1,068.44 crore in 1999-2000 to Rs.1,122.78 crore in 2000-01 mainly due to the rise in supplies of note forms. Further, the expenditure under the head 'Printing and Stationery' which includes computer consumables and related software, has increased by Rs.75.83 crore from Rs. 12.93 crore during 1999-2000 to Rs. 88.76 crore during 2000-01 on account of the replacement of the cheque processing software for use in the mainframe computer systems in the National Clearing Cells (NCCs) of the Reserve Bank at the four metropolitan centres.

APPROPRIATION

Net Disposable Income

15.10 The net disposable income of the Reserve Bank for the year 2000-01 amounted to Rs.9,354.00 crore. Since 1991-92, transfers to statutory funds on a significant scale have been discontinued. However, pending amendment to the Reserve Bank of India Act, 1934 for vesting in the Reserve Bank the discretion in the matter of transfer to statutory funds from the profits of the Reserve Bank, a token contribution of Rupees one crore each, has been made to the four funds. The appropriation of the net disposable income is summarised in [Table 15.3](#).

Surplus transferable to Government of India

15.11 The surplus transferable to the Central Government for the year 2000-01 amounted to Rs.9,350 crore, inclusive of Rs.1,479 crore towards interest differential on special securities converted into marketable securities ([Table 15.3](#)). In the year 1997-98, special securities of the order of Rs.20,000 crore carrying interest at 4.6 per cent per annum held by the Reserve Bank were converted into marketable securities at market related rates to augment the stock of eligible securities in the Reserve Bank's investment portfolio for open market operations. The above transfer is intended to compensate the Government for the difference in interest expenditure, which the Government had to bear consequent upon the conversion.

Table 15.3 : Appropriation of Net Disposable Income

Item	(Rupees crore)	
	2000-01	1999-2000
1	2	3
Total Income (Net)	14,941.52	14,694.92
Total Expenditure	5,587.52	5,340.92
Net Disposable Income	9,354.00	9,354.00
Less : Transfer to Funds *	4.00	4.00
Surplus transfer to Government	9,350.00	9,350.00
of which :		
i) Towards Normal Transfer	7,871.00	7,871.00
ii) Interest differential on account of conversion of special securities into marketable securities	1,479.00	1,479.00

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

BALANCE SHEET

Liabilities

National Industrial Credit (Long Term Operations) Fund

15.12 The National Industrial Credit (Long Term Operations) Fund was established by the Reserve Bank in July 1964 with an initial corpus of Rs.10 crore and annual contributions from the Reserve Bank's disposable surplus in terms of Section 46-C(1) of the Reserve Bank of India

Act, 1934 for the purpose of making loans and advances to eligible financial institutions. Consequent upon the announcement in the Union Budget for 1992-93, the Reserve Bank decided to discontinue the practice of crediting large sums to the said Fund. Subsequently, no further disbursements from the Fund have been made. It was decided in 1997-98 to transfer the unutilised balance in the Fund arising from repayments to Contingency Reserve (CR) on a year-to-year basis. Accordingly, an amount of Rs.400 crore has been transferred to CR in 2000-01 as against Rs.350 crore transferred in the preceding year.

Deposits – Banks

15.13 'Deposits - Banks' represent balances maintained by the banks in current account with the Reserve Bank mainly for maintaining Cash Reserve Ratio (CRR) and as working funds for clearing adjustments. The aggregate deposits of scheduled commercial banks with the Reserve Bank increased by Rs.13,253.51 crore (21.8 per cent) from Rs. 60,854.47 crore as on June 30, 2000 to Rs.74,107.98 crore as on June 30, 2001 mainly due to the rise in the quantum of demand and time liabilities on which scheduled commercial banks are required to maintain CRR. The aggregate deposits of the scheduled state co-operative banks, other scheduled co-operative banks, non-scheduled state co-operative banks and other banks increased by Rs.581.81 crore (18.3 per cent) from Rs.3,180.78 crore as on June 30, 2000 to Rs.3,762.59 crore as on June 30, 2001.

Deposits – Others

15.14 'Deposits - Others' include deposits from financial institutions, employees' provident fund deposits, surplus earmarked pending transfer to the Government and sundry deposits. Deposits under this head have declined by Rs.148.14 crore (0.9 per cent) from Rs.16,469.99 crore as on June 30, 2000 to Rs.16,321.85 crore as on June 30, 2001 due to fall in deposits of foreign central banks.

Other Liabilities

15.15 'Other Liabilities' include the internal reserves and provisions of the Reserve Bank and net credit balance in the RBI General Account. These liabilities have increased by Rs.9,419.17 crore (14.5 per cent) from Rs.65,069.30 crore as on June 30, 2000 to Rs.74,488.47 crore as on June 30, 2001 mainly on account of increase in the levels of internal reserves.

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

Exchange Fluctuation Reserve and Exchange Equalisation Account

15.17 Gains/losses on valuation of foreign currency assets and gold due to movements in the exchange rates and/or prices of gold are not booked in profit and loss account but in a separate account called Exchange Fluctuation Reserve (EFR), which represents accumulated net gain on

valuation of foreign currency assets and gold. During 2000-01, there was an accretion of Rs.1,516.01 crore to the EFR raising the balance to Rs.29,124.44 crore as on June 30, 2001 from Rs.27,608.43 crore as on June 30, 2000. This was mainly on account of appreciation in the value of foreign currency assets. The EFR at the end of June 2001 was equivalent to 14.2 per cent of foreign currency assets and gold holdings of the Reserve Bank, as against 16.8 per cent at the end of June 2000. The balance in Exchange Equalisation Account (EEA) is utilised to meet exchange losses on accrual basis in respect of liabilities under schemes involving exchange guarantees provided by the Reserve Bank in respect of funds parked by Indian Financial Institutions. After meeting the exchange difference on foreign currency funds parked by these institutions (since withdrawn fully on February 5, 2001), the balance in the EEA as on June 30, 2001 stood at Rs.49.46 crore. Balances in EFR and EEA are given in [Table 15.4](#).

Table 15.4 : Balances in Exchange Fluctuation Reserve and Exchange Equalisation Account

(Rupees crore)

As on June 30	Exchange Fluctuation Reserve	Exchange Equalisation Account
1	2	3
1997	10,080.93	758.89
1998	25,143.03	639.00
1999	24,823.29	618.61
2000	27,608.43	791.27
2001	29,124.44	49.46

Contingency Reserve and Asset Development Reserve

15.18 The Reserve Bank maintains a Contingency Reserve (CR) to enable it to absorb unexpected and unforeseen contingencies. The Reserve Bank has been pursuing a pro-active policy of strengthening the CR and has accordingly set an indicative target of 12 per cent of the Reserve Bank's total assets to be achieved in phases by the year 2005, subject to review, if considered essential. The balance in CR has gone up from Rs.29,911.56 crore as on June 30, 2000 to Rs.36,514.13 crore as on June 30, 2001 due to the transfer of Rs.6,202.57 crore from income and transfer of the unutilised balance of Rs.400 crore from National Industrial Credit (Long Term Operations) Fund in 2000-01. The balance in CR was sufficient to meet contingent liabilities as on June 30, 2001.

15.19 In order to meet the internal capital expenditure and make investments in its subsidiaries and associate institutions, the Reserve Bank had created, in 1997-98, a separate Asset Development Reserve (ADR) with the aim of reaching one per cent of the Reserve Bank's total assets within the overall target of 12 per cent set for CR. In the year 2000-01, an amount of Rs.704.78 crore was transferred from income to ADR raising its level from Rs.3,167.85 crore as on June 30, 2000 to Rs. 3,872.63 crore as on June 30, 2001. As a proportion of total assets, CR and ADR together constituted 9.9 per cent of total assets of the Reserve Bank as on June 30,

2001 as against 9.2 per cent as on June 30, 2000. Balances in CR and ADR as at end-June are given in [Table 15.5](#).

Table 15.5 : Balances in Contingency Reserve and Asset Development Reserve

(Rupees crore)

As on June 30	Balance in CR	Balance in ADR	Total	Percentage to total assets
1	2	3	4	5
1997	11,230.69	-	11,230.69	4.5
1998	13,789.41	1,181.71	14,971.12	5.1
1999	23,007.06	2,456.30	25,463.36	7.6
2000	29,911.56	3,167.85	33,079.41	9.2
2001	36,514.13	3,872.63	40,386.76	9.9

ASSETS

Foreign Currency Assets

15.20 The foreign currency assets comprise foreign securities held in Issue Department, balances held abroad and investments in foreign securities held in Banking Department. Such assets rose from Rs.1,50,901.13 crore as on June 30, 2000 to Rs.1,91,226.06 crore as on June 30, 2001. In US dollar terms, these assets rose from US \$ 33.77 billion as on June 30, 2000 to US \$ 40.65 billion as on June 30, 2001.

Investment in Government of India Rupee Securities

15.21 Investment in Government of India Rupee Securities which stood at Rs.1,48,908.36 crore as on June 30, 2000 increased by Rs.8,119.05 crore (5.5 per cent) to Rs. 1,57,027.41 crore as on June 30, 2001.

Investments in Shares of Subsidiaries and Associate Institutions

15.22 The Reserve Bank's investments in the shares of its subsidiaries and associate institutions have increased by Rs.1,200 crore on account of conversion of advance contribution made towards capital of NABARD (during the period from 1996-97 to 1998-99) into its capital and transfer of the same amount to the Reserve Bank's investment account during the current accounting year ([Table 15.6](#)).

Table 15.6 : Investments in Shares of Subsidiaries/Associate Institutions

(Rupees crore)

Institutions

Book value of shares

		held as at	
		30.6.2001	30.6.2000
1		2	3
1.	Deposit Insurance and Credit Guarantee Corporation	50.00	50.00
2.	NABARD	1,450.00	250.00
3.	State Bank of India	1,222.73	1,222.73
4.	Discount and Finance House of India	20.99	20.99
5.	Securities Trading Corporation of India Ltd.	72.06	72.06
6.	National Housing Bank	350.00	350.00
7.	Bharatiya Reserve Bank Note Mudran Ltd.	800.00	800.00
8.	Infrastructure Development Finance Co. Ltd.	150.00	150.00
	Total	4,115.78	2,915.78

Other Assets

15.23 'Other Assets' comprise mainly dead stock, gold holdings in the Banking Department, amounts spent on projects pending completion, staff advances, *etc.* The level of 'Other Assets' has decreased by Rs. 591.29 crore (4.2 per cent) from Rs.13,972.81 crore as on June 30, 2000 to Rs.13,381.52 crore as on June 30, 2001 mainly due to transfer of advance contribution of Rs.1,200 crore to NABARD towards its capital to the Reserve Bank's investment account as explained in paragraph 15.22 above.

Auditors

15.24 The accounts of the Reserve Bank for the year 2000-01 were audited by M/s. N. C. Rajagopal & Co., Chennai, M/s. Kapoor Tandon & Co., Kanpur, M/s. P.K.Mitra & Co., Kolkata, M/s. Chandabhoy & Jassoobhoy, Mumbai, M/s. R. K. Khanna & Co., New Delhi and M/s. P. B.Vijayaraghavan & Co., Chennai appointed by the Central Government.

RESERVE BANK OF INDIA BALANCE SHEET AS AT 30TH JUNE 2001 ISSUE DEPARTMENT

				(Rupees Thousands)	
1999-2000	LIABILITIES	2000-2001	1999-2000	ASSETS	2000-2001
Rs.		Rs.	Rs.		Rs.
	Notes held in the			Gold Coin and Bullion :	
15,29,23	Banking Department	16,07,87	10761,25,93	(a) Held in India	10753,13,72
201486,11,42	Notes in circulation	<u>226374,82,89</u>	-	(b) Held outside India	-
			<u>86700,00,00</u>	Foreign Securities	<u>106700,00,00</u>
201501,40,65	Total Notes issued	226390,90,76			
			97461,25,93	Total	117453,13,72
			115,30,85	Rupee Coin	115,47,97
			103924,83,87	Government of India	
				Rupee Securities	108822,29,07

				Internal Bills of Exchange and other Commercial Paper	
201501,40,65	Total Liabilities	226390,90,76	201501,40,65	Total Assets	226390,90,76
BANKING DEPARTMENT					
1999-2000 Rs.	LIABILITIES	2000-2001 Rs.	1999-2000 Rs.	ASSETS	2000-2001 Rs.
5,00,00	Capital paid-up	5,00,00	15,29,23	Notes	16,07,87
6500,00,00	Reserve Fund	6500,00,00	13,01	Rupee Coin	27,22
4633,00,00	National Industrial Credit (Long Term Operations) Fund	4234,00,00	10,79	Small Coin	19,53
	National Housing Credit (Long Term Operations) Fund	884,00,00		Bills Purchased and Discounted :	-
				- (a) Internal	-
				- (b) External	-
				- (c) Government Treasury Bills	-
	Deposits		32371,86,53	Balances Held Abroad	84391,70,96
	(a) Government		79728,58,63	Investments	52805,26,01
100,01,44	(i) Central Government	100,57,70	5298,00,00	Loans and Advances to :	
41,14,10	(ii) State Governments	41,13,26	2386,65,37	(i) Central Government	9014,00,00
				(ii) State Governments	3603,33,89
	(b) Banks			Loans and Advances to :	
60854,46,74	(i) Scheduled Commercial Banks	74107,97,74	8712,61,15	(i) Scheduled Commercial Banks	3616,03,35
	(ii) Scheduled State Co-operative Banks	926,45,87	215,88,00	(ii) Scheduled State Co-operative Banks	2,09,34
845,53,64	(iii) Other Scheduled Co-operative Banks	1758,71,79	5104,70,01	(iii) Other Scheduled Co-operative Banks	58,50,00
	(iv) Non-Scheduled State Co-operative Banks	47,92,98	5187,26,15	(iv) Non-Scheduled State Co-operative Banks	-
52,35,21	(v) Other Banks	1029,48,09		(v) NABARD	5826,35,27
657,89,27	(c) Others	16321,84,89		(vi) Others	3285,49,47
16469,99,00	Bills Payable	652,00,73		Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund :	
743,95,87	Other Liabilities	74488,46,62		(a) Loans and Advances to :	
			1740,00,00	(i) Industrial Development Bank of India	1440,00,00
65069,30,47			697,00,00	(ii) Export Import Bank of India	617,00,00
			170,00,00	(iii) Industrial Investment Bank of India Ltd.	160,00,00
			2004,75,00	(iv) Others	2004,75,00
				(b) Investments in bonds/debentures issued by :	
				- (i) Industrial Development Bank of India	-
				- (ii) Export Import Bank of India	-
				- (iii) Industrial Investment Bank of India Ltd.	-
				- (iv) Others	-
				Loans, Advances and Investments from National Housing Credit (Long Term Operations) Fund :	
			875,00,00	(a) Loans and Advances to National Housing Bank	875,00,00
				- (b) Investments in bonds/debentures issued by National Housing Bank	-
			13972,81,38	Other Assets	13381,51,76
158480,65,25	Total Liabilities	181097,59,67	158480,65,25	Total Assets	181097,59,67

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

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2001

		(Rupees Thousands)
1999-2000	INCOME	2000-2001
Rs.	Rs.	Rs.
14694,92,17	Interest, Discount, Exchange, Commission etc. ¹	14941,51,55
14694,92,17	EXPENDITURE	14941,51,55
	Total	14941,51,55

1971,87,87	Interest		1994,80,44
846,75,36	Establishment		870,84,77
47,65	Directors' and Local Board Members' Fees and Expenses		36, 53
16,81,63	Remittance of Treasure		36,77,68
1193,62,39	Agency Charges		1160,69,64
1068,43,68	Security Printing (Cheque, Note forms etc.)		1122,78,07
12,93,16	Printing and Stationery		88,76,26
18,68,19	Postage and Telecommunication Charges		16,84,79
44,94,69	Rent, Taxes, Insurance, Lighting etc.		47,39,32
64,35	Auditors' Fees and Expenses		81,95
1,49,64	Law Charges		2,00,11
81,23,32	Depreciation and Repairs to Bank's Property		105,61,35
83,00,24	Miscellaneous Expenses		139,80,64
<u>5340,92,17</u>		Total	<u>5587,51,55</u>
9354,00,00	Available Balance		9354,00,00
	LESS: Contribution to:		
	National Industrial Credit (Long Term Operations) Fund	1,00,00	
	National Rural Credit (Long Term Operations) Fund ²	1,00,00	
	National Rural Credit (Stabilisation) Fund ²	1,00,00	
	National Housing Credit (Long Term Operations) Fund	1,00,00	
4,00,00			4,00,00
<u>9350,00,00</u>	Surplus payable to Central Government		<u>9350,00,00</u>

1. After making the usual or necessary provisions in terms of section 47 of the Reserve Bank of India Act, 1934.

2. These funds are maintained by National Bank for Agriculture and Rural Development (NABARD).

K. B. Chakraborti
Chief General Manager

G. P. Muniappan
Deputy Governor

Vepa Kamesam
Deputy Governor

Y. V. Reddy
Deputy Governor

Bimal Jalan
Governor

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet of the Bank as at 30th June, 2001 and the Profit and Loss Account for the year ended on that date.

We have examined the above Balance Sheet of the Reserve Bank of India as at 30th June, 2001 and the Profit and Loss Account of the Bank for the year ended on that date and report that where we have called for information and explanations from the Bank, such information and explanations have been given and have been satisfactory.

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

M/s. N.C. Rajagopal & Co.	M/s. Kapoor Tandon & Co.	M/s. P.K. Mitra & Co.	M/s. Chandabhoy & Jassoobhoy	M/s. R.K.Khanna & Co.	M/s. P. B. Vijayaraghavan & Co.
Auditors	Auditors	Auditors	Auditors	Auditors	Auditors

Dated August 16,2001

RESERVE BANK OF INDIA

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS 2000-01

SIGNIFICANT ACCOUNTING POLICIES

1. CONVENTION

The financial statements are prepared in accordance with the Reserve Bank of India Act, 1934 and the notifications issued thereunder and in the form prescribed by the Reserve Bank of India General Regulations, 1949.

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

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

2. REVENUE RECOGNITION

Income and expenditure are recognised on accrual basis except dividend and interest on advances to staff (other than housing loan) which are accounted on receipt basis. Only realised gains are recognised. Provision for outstanding expenditure is made for unpaid bills in each case of Rs.1 lakh and above. Balances unclaimed and outstanding for more than three consecutive years in certain transitory accounts including Drafts Payable Account, Payment Orders Account, Sundry Deposits Account, Remittance Clearance Account and Earnest Money Deposit Account are reviewed and written back to the Bank's income. Claims in this respect are considered and charged against Bank's income as and when paid.

Income and expenditure in foreign currency are translated on the basis of exchange rates prevailing on the last business day of the preceding week.

3. GOLD AND FOREIGN CURRENCY ASSETS AND LIABILITIES

(a) Gold

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

(b) Foreign Currency Assets and Liabilities

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

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

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

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

4. RUPEE SECURITIES

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

5. SHARES

Investments in shares are valued at cost.

6. FIXED ASSETS

Fixed Assets are stated at cost less depreciation.

Depreciation on computers, motor vehicles, office equipments, furniture and electrical fittings, *etc.*, is charged on a straight-line basis. Depreciation on other assets including premises and

fixtures is charged on written-down value basis.

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

7. RETIREMENT BENEFITS

The liability on account of retirement benefits and leave encashment to employees is estimated based on an actuarial valuation.

8. CONTINGENCY RESERVE AND ASSET DEVELOPMENT RESERVE

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

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

9. NATIONAL INDUSTRIAL CREDIT (LONG TERM OPERATIONS) FUND

Unutilised balance in the Fund, arising from repayments, is transferred to Contingency Reserve on a year-to-year basis.

NOTES TO THE ACCOUNTS

1. SURPLUS TRANSFER TO GOVERNMENT OF INDIA

Surplus transferable to the Government includes an amount of Rs.1,479 crore representing interest differential pertaining to the period April 1, 2000 – March 31, 2001 on account of conversion of special securities into marketable securities.

2. RBI GENERAL ACCOUNT

RBI General Account represents inter-office transactions and balances under reconciliation. Reconciliation of the entries is in progress and necessary adjustments are being effected as and when ascertained.

3. RESERVE FUND

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

4. DEPOSITS - OTHERS

(Rupees crore)

Particulars	As at June 30, 2001	As at June 30, 2000
1	2	3
I. Rupee Deposits from Foreign Central Banks and Foreign Financial Institutions	3,404.06	3,559.79
II. Deposits from Indian Financial Institutions	336.92	243.31
III. Accumulated Retirement Benefits	2,970.11	2,590.88
IV. Surplus transferable to Government of India	9,350.00	9,350.00
V. Miscellaneous	260.76	726.01
Total	16,321.85	16,469.99

5. OTHER LIABILITIES

I. Contingency Reserve

Balance at the beginning of the year	29,911.56	23,007.06
Add : Transfer from National Industrial Credit (Long Term Operations) Fund *	400.00	350.00
Add : Accretion during the year	6,202.57	6,554.50
Balance at the end of the year	36,514.13	29,911.56

II. Asset Development Reserve

Balance at the beginning of the year	3,167.85	2,456.30
Add : Accretion during the year	704.78	711.55
Balance at the end of the year	3,872.63	3,167.85

III. Exchange Fluctuation Reserve

Balance at the beginning of the year	27,608.43	24,823.29
Add : Net Accretion during the year	1,516.01	2,785.14
Balance at the end of the year	29,124.44	27,608.43

IV. Exchange Equalisation Account

Balance at the beginning of the year	791.27	618.61
Add : Net Accretion/Net Utilisation(-) during the year	(-)741.81	172.66
Balance at the end of the year	49.46	791.27

V. Provision for net debit entries in RBI General Account for the period upto June 30, 1992

57.80	57.80
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VI.	Provision for Outstanding Expenses	1,228.02	1,201.78
VII.	Miscellaneous	3,641.99	2,330.61
	Total (I to VII)	74,488.47	65,069.30

*Represents transfer of the unutilised balance in the Fund arising from repayments.

6. FOREIGN CURRENCY ASSETS

(Rupees crore)

Particulars	As at June 30, 2001	As at June 30, 2000
1	2	3
I. Held in Issue Department	1,06,700.00	86,700.00
II. Held in Banking Department -		
a) Included in Investments	134.35	31,829.27
b) Balances Held Abroad	84,391.71	32,371.86
Total	1,91,226.06	1,50,901.13

Notes: (i) As on June 30, 2001 there were outstanding forward sale contracts of US dollar equivalent to Rs.3,876.10 crore (as against US dollar equivalent to Rs.8,214.82 crore as at June30, 2000). There were also forward purchase contracts of US dollar equivalent to Rs.112.90 crore outstanding as at June 30, 2001(as against US dollar equivalent to Rs.637.21 crore as at June 30, 2000).

(ii) Uncalled amount on partly paid shares of the Bank for International Settlements as at June 30, 2001 - Rs.66.75 crore.

7. OTHER ASSETS

(Rupees crore)

Particulars	As at June 30, 2001	As at June 30, 2000
1	2	3
I. Fixed Assets (net of accumulated depreciation)	390.33	342.52
II. Gold	2,409.64	2,411.66
III. Income accrued but not received	7,288.53	6,410.41
IV. (i) Advance to National Bank for Agriculture and Rural Development towards capital	-	1,200.00*
(ii) Advance to Infrastructure Development		

	Finance Co.Ltd.	-	350.00*
V.	Miscellaneous	3,293.02	3,258.22
	Total	13,381.52	13,972.81

* Transferred to Bank's Investment Account during the year 2000-01.

8. INTEREST, DISCOUNT, EXCHANGE, COMMISSION, ETC.

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

Particulars	Year ended 2001	(Rupees crore)
		Year ended June 30, 2000
1	2	3
(i) Profit on sale of Foreign and Rupee Securities	688.31	3,312.39
(ii) Rent realised	18.78	8.92
(iii) Net profit on sale of Bank's property	7.08	0.08