

XV

THE RESERVE BANK'S ACCOUNTS FOR 2001-02

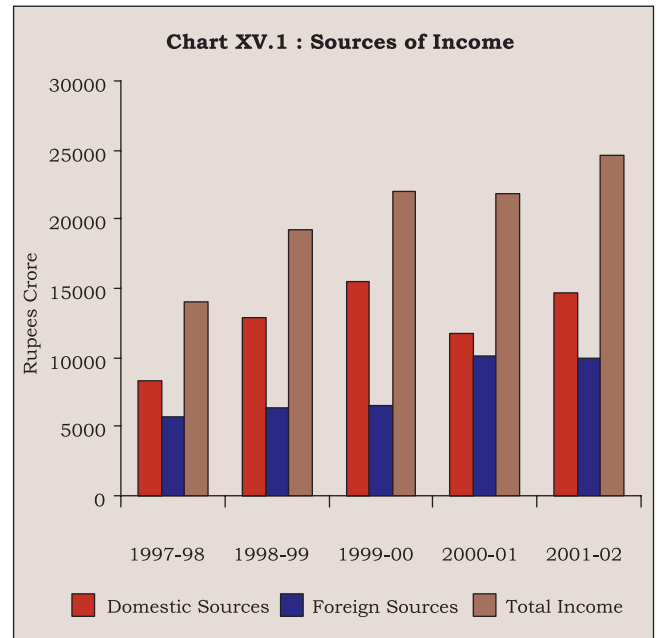
15.1 The key financial results of the Reserve Bank's operations during the year are presented in this section.

INCOME

15.2 The total income of the Reserve Bank for the year 2001-02 (July-June) increased by Rs.2,841.47 crore (13.0 per cent) from Rs.21,848.87 crore to Rs.24,690.34 crore. The increase in income was mainly due to profits booked on sale of Rupee Securities. The share of domestic and foreign sources in total income was 59.6 per cent and 40.4 per cent respectively. The sources of income are set out in Table 15.1 and Chart XV.1.

Income from Foreign Sources

15.3 During the accounting year ended June 30, 2002, the Reserve Bank's net earnings from the deployment of foreign currency assets including gold decreased by Rs.99.62 crore (1.0 per cent) from Rs.10,086.08 crore in 2000-01 to Rs.9,986.46 crore in 2001-02 due to a lower return on investment consequent upon decline in interest rates abroad although there was a higher average level of foreign



currency assets at Rs.2,23,565 crore in 2001-02 as against Rs.1,68,577 crore in 2000-01. In percentage terms, the net earnings on foreign currency assets and gold decreased from 6.0 per cent in 2000-01 to 4.5 per cent in 2001-02 due to lower interest rates

Table 15.1 : Income

(Rupees crore)

Item	2001-02	2000-01	1999-2000	1998-99	1997-98
1	2	3	4	5	6
A. Foreign Sources					
Interest, Discount, Exchange, Commission	9,986.46	10,086.08	6,514.73	6,306.59	5,687.34
B. Domestic Sources					
Interest	14,492.14	11,314.12	14,928.38	12,642.96	7,999.73
Discount	10.92	211.59	323.11	87.74	21.37
Exchange	0.08	0.85	0.14	0.19	0.37
Commission	189.51	210.37	185.62	175.02	365.03
Rent realised and others	11.23	25.86	8.99	7.83	9.80
Total - Domestic	14,703.88	11,762.79	15,446.24	12,913.74	8,396.30
Total Income (Gross) [A+B]	24,690.34	21,848.87	21,960.97	19,220.33	14,083.64
C. Less transfer to :					
(i) Contingency Reserve	6,996.04	6,202.57	6,554.50	8,917.65	2,158.72
(ii) Asset Development Reserve	827.91	704.78	711.55	1,274.59	1,181.71
Total (i + ii)	7,823.95	6,907.35	7,266.05	10,192.24	3,340.43
Total Income (Net)	16,866.39	14,941.52	14,694.92	9,028.09	10,743.21

prevailing in the international markets. Excluding gains/losses on account of securities transactions and depreciation, the net earnings on foreign currency assets and gold worked out to 4.1 per cent for 2001-02 as against 5.8 per cent for 2000-01. There was capital gain (net) on sale of securities at Rs.785.56 crore (realised capital gain of Rs.1,335.15 crore and depreciation of Rs.549.59 crore) during the year 2001-02 as compared to Rs.378.38 crore (realised capital gain of Rs.606.08 crore and depreciation of Rs.227.70 crore) during the year 2000-01. 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 provided for. Appreciation is neither taken to profit and loss account nor to the reserves. Such unrealised appreciation in the value of foreign securities held in the Reserve Bank's portfolio as at the end of June 2002 was Rs.781.81 crore as against Rs.703.29 crore as at the end of June 2001.

Income from Domestic Sources

15.4 Domestic income increased by Rs.2,941.09 crore (25.0 per cent) from Rs.11,762.79 crore in 2000-01 to Rs.14,703.88 crore in 2001-02. There was an increase of Rs.2,977.81 crore in the profits booked on sale of Rupee Securities, *i.e.*, from Rs.82.23 crore in 2000-01 to Rs.3,060.04 crore in 2001-02.

15.5 The interest income received on the Reserve Bank's investment in Government Securities also increased by an amount of Rs.335.15 crore from Rs.8,669.10 crore in 2000-01 to Rs.9,004.25 crore in

2001-02. The discount earned on Treasury Bills declined by Rs.200.67 crore from Rs.211.59 crore in 2000-01 to Rs.10.92 crore in 2001-02 as there was no acquisition of Treasury Bills at primary auctions by the Bank. Despite the reduction in the interest rates applicable to the Ways and Means advances, the interest income on these advances showed an increase of Rs.204.35 crore during 2001-02 from Rs.748.13 crore in 2000-01 to Rs.952.48 crore in 2001-02, reflecting increased recourse by the Central and State Governments to this facility. Interest earnings from loans and advances to banks/financial institutions declined by Rs.459.73 crore from Rs.1,630.17 crore in 2000-01 to Rs.1,170.44 crore in 2001-02, due to lower utilisation of refinance facility by Primary Dealers/Scheduled Commercial Banks combined with lower interest rates applicable on these advances.

EXPENDITURE

15.6 Total expenditure of the Reserve Bank increased by Rs.954.87 crore (17.1 per cent) from Rs.5,587.52 crore in 2000-01 to Rs.6,542.39 crore in 2001-02 (Table 15.2 and Chart XV.2).

Interest Payment

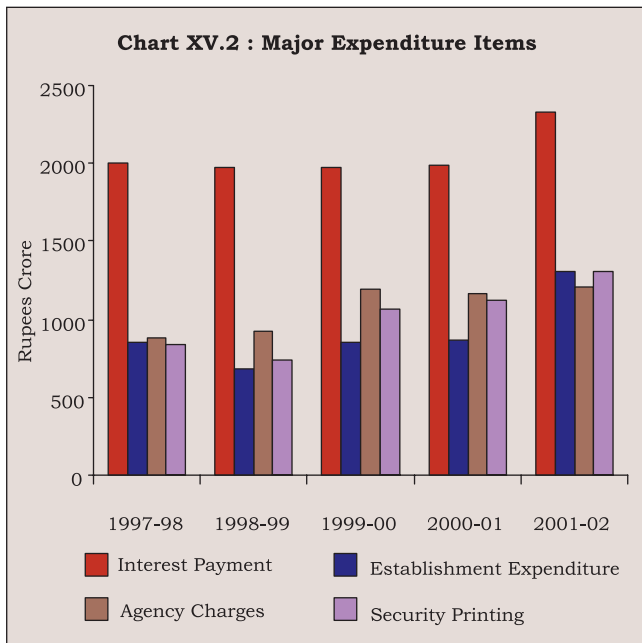
15.7 Interest payment increased by Rs.340.19 crore (17.0 per cent) from Rs.1,994.80 crore in 2000-01 to Rs.2,334.99 crore in 2001-02.

Establishment Expenditure

15.8 Establishment expenditure increased by Rs.433.51 crore (49.8 per cent) from Rs.870.85 crore

Table 15.2 : Expenditure

Item	(Rupees crore)				
	2001-02	2000-01	1999-2000	1998-99	1997-98
1	2	3	4	5	6
I. Interest Payment	2,334.99	1,994.80	1,971.88	1,976.64	1,999.23
<i>of which :</i>					
a) Scheduled Banks	1,838.57	1,660.83	1,656.18	1,652.76	1,639.16
b) Payment in lieu of service charges on borrowings from IMF payable to Government of India	—	—	7.82	45.51	103.28
II. Establishment	1,304.36	870.85	846.75	683.59	848.43
III. Non-Establishment	2,903.04	2,721.87	2,522.29	1,884.86	1,914.45
<i>of which :</i>					
a) Agency charges	1,207.84	1,160.70	1,193.62	924.02	884.25
b) Security printing	1,304.49	1,122.78	1,068.44	733.96	834.23
Total [I+II+III]	6,542.39	5,587.52	5,340.92	4,545.09	4,762.11



in 2000-01 to Rs.1,304.36 crore in 2001-02, due to provision of Rs.440.80 crore made for gratuity and pension funds as per the actuarial valuation. Higher provision was necessitated by an increase in the number of pension optees, reduction in the discounting factor in the falling interest rate scenario and revision in staff salaries.

Non-establishment Expenditure

15.9 Agency charges represent the compensation paid to agency banks for handling Government business on behalf of Reserve Bank. Expenditure towards agency charges increased by Rs.47.14 crore (4.1 per cent) from Rs.1,160.70 crore in 2000-01 to Rs.1,207.84 crore in 2001-02. Expenditure on security printing comprising cost of printing of currency notes, cheque forms *etc.*, increased by Rs.181.71 crore (16.2 per cent) from Rs.1,122.78 crore in 2000-01 to Rs.1,304.49 crore in 2001-02 mainly due to upward revision in rates of printing currency notes and larger component of higher denomination notes.

APPROPRIATION

Net Disposable Income

15.10 The net disposable income of the Reserve Bank for the year 2001-02 amounted to Rs.10,324 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 2001-02 amounted to Rs.10,320 crore, inclusive of Rs.1,479 crore towards interest differential on special securities converted into marketable securities. The transfer on account of interest differential 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).

Table 15.3 : Appropriation of Net Disposable Income
(Rupees crore)

Item	2001-02	2000-01
1	2	3
Total Income (Net)	16,866.39	14,941.52
Total Expenditure	6,542.39	5,587.52
Net Disposable Income	10,324.00	9,354.00
Less : Transfer to Funds *	4.00	4.00
Surplus transfer to Government	10,320.00	9,350.00
<i>of which :</i>		
i) Towards normal transfer	8,841.00	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. 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.4,224 crore has been transferred to CR in 2001-02 as against Rs.400 crore transferred in the preceding year.

National Housing Credit (Long Term Operations) Fund

15.13 The National Housing Credit (Long Term Operations) Fund was established by the Reserve Bank in terms of Section 46-D(1) of the Reserve Bank of India Act, 1934 in January 1989 with an initial corpus of Rs.50 crore with the intention of crediting to the Fund every year such sums of money as it may consider necessary. Annual contribution to the Fund is being made from the profits of the Reserve Bank. The amount in the said Fund can be applied by RBI only for (i) making loans and advances to National Housing Bank (NHB) for its business and (ii) purchasing bonds and debentures issued by NHB. Consequent upon a decision of Government of India announced in the Union Budget for the year 1992-93, the Reserve Bank discontinued the practice of crediting large sums to the said Fund and since then only a token amount of Rupees one crore is being transferred to the Fund every year. A loan of Rs.700 crore was granted to NHB in the year 1997 out of NHC (LTO) Fund drawn from the Bank's Contingency Reserve for meeting the shortfall arising out of a dispute between NHB and Grindlays Bank. The amount of Rs.700 crore has been repaid by NHB in January 2002 consequent upon Court Settlement and the said sum has been transferred to Contingency Reserve of the Bank.

Deposits - Banks

15.14 '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 decreased by Rs.19,095.76 crore (25.8 per cent) from Rs.74,107.98 crore as on June 30, 2001 to Rs.55,012.22 crore as on June 30, 2002 mainly due to the reduction in the rate of CRR requirement from 7.5 per cent to 5.0 per cent during the year 2001-02. 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.1,445.22 crore (38.4 per

cent) from Rs.3,762.59 crore as on June 30, 2001 to Rs.5,207.81 crore as on June 30, 2002. One contributing factor to this increase was the upward revision of requirement of CRR in respect of scheduled state co-operative banks and regional rural banks on par with scheduled commercial banks.

Deposits - Others

15.15 '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 increased by Rs.1,805.11 crore (11.0 per cent) from Rs.16,321.85 crore as on June 30, 2001 to Rs.18,126.96 crore as on June 30, 2002 due to increase in Provident Fund balances of employees and deposits by international financial institutions.

Other Liabilities

15.16 '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.34,755.48 crore (46.6 per cent) from Rs.74,488.47 crore as on June 30, 2001 to Rs.1,09,243.95 crore as on June 30, 2002 mainly on account of increase in the levels of internal reserves.

15.17 The reserves, *viz.*, Contingency Reserve, Asset Development Reserve, Currency & Gold Revaluation Account 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.

Currency and Gold Revaluation Account and Exchange Equalisation Account

15.18 Gains/losses on valuation of foreign currency assets 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 Currency and Gold Revaluation Account (CGRA), the balance in which represents accumulated net gain on valuation of foreign currency assets and gold. This account was earlier known as Exchange Fluctuation Reserve. During 2001-02, there was an accretion of Rs.21,886.33 crore to the CGRA, thus increasing the balance to Rs.51,010.77 crore as on June 30, 2002 from Rs.29,124.44 crore as on June 30, 2001. The CGRA at the end of June 2002 was equivalent to 18.0 per cent of foreign currency assets and gold holdings of the Reserve Bank, as against 14.2 per cent at the end of June 2001. This was mainly on

account of appreciation in the foreign currency assets. The balances in Exchange Equalisation Account (EEA) were to meet exchange losses on accrual basis in respect of liabilities under schemes involving exchange guarantees provided by the Reserve Bank and for exchange losses arising out of forward commitments. At present as there is no scheme involving exchange guarantees, utilisation of the account was only for the purpose of meeting the loss on forward commitments. The balance in the EEA as on June 30, 2002 stood at Rs.51.50 crore. The balances in CGRA and EEA, which are part of 'Other Liabilities' in the Balance Sheet are given in Table 15.4.

Table 15.4 : Balances in Currency and Gold Revaluation Account and Exchange Equalisation Account

(Rupees crore)

As on June 30	Currency and Gold Revaluation Account	Exchange Equalisation Account
1	2	3
1998	25,143.03	639.00
1999	24,823.29	618.61
2000	27,608.43	791.27
2001	29,124.44	49.46
2002	51,010.77	51.50

Contingency Reserve and Asset Development Reserve

15.19 The Reserve Bank maintains a Contingency Reserve (CR) to enable it to absorb unexpected and unforeseen contingencies. The Reserve Bank has 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 necessary. The balance in CR has gone up from Rs.36,514.13 crore as on June 30, 2001 to Rs.48,434.17 crore as on June 30, 2002. A transfer of Rs.6,996.04 crore was made to CR during 2001-02 from income in addition to transfer of the unutilised balance of Rs.4,224 crore from National Industrial Credit (Long Term Operations) Fund, and Rs.700 crore from National Housing Credit (Long Term Operations) Fund. The balance in CR was sufficient to meet contingent liabilities.

15.20 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 2001-02, an amount of Rs.827.91 crore was transferred from income to ADR raising its level from Rs.3,872.63 crore as on June 30, 2001 to Rs.4,700.54 crore as on June 30, 2002. As a proportion of total assets, CR and ADR together constituted 11.7 per cent of total assets of the Reserve Bank as on June 30, 2002 as against 9.9 per cent as on June 30, 2001. The 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
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
2002	48,434.17	4,700.54	53,134.71	11.7

ASSETS

Foreign Currency Assets

15.21 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.1,91,226.06 crore as on June 30, 2001 to Rs.2,67,333.18 crore as on June 30, 2002.

Investment in Government of India Rupee Securities

15.22 Investment in Government of India Rupee Securities which stood at Rs.1,57,027.41 crore as on June 30, 2001 decreased by Rs.21,959.55 crore (14.0 per cent) to Rs.1,35,067.86 crore as on June 30, 2002.

Investments in Shares of Subsidiaries and Associate Institutions

15.23 The Reserve Bank's investments in the shares of its subsidiaries and associate institutions have decreased by Rs.93.05 crore on account of disinvestment of Reserve Bank's holding in Discount and Finance House of India (Rs.20.99 crore) and Securities Trading Corporation of India Ltd. (Rs.72.06 crore). The details of Reserve Bank's investments in the shares of its subsidiaries and associate institutions are given in Table 15.6.

Table 15.6 : Investments in Shares of Subsidiaries/Associate Institutions

(Rupees crore)

Institution	Book value of shares held as at June 30	
	2002	2001
1	2	3
1. Deposit Insurance and Credit Guarantee Corporation	50.00	50.00
2. National Bank for Agriculture and Rural Development	1,450.00	1,450.00
3. State Bank of India	1,222.73	1,222.73
4. Discount and Finance House of India	–	20.99
5. Securities Trading Corporation of India Ltd.	–	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	4,022.73	4,115.78

Other Assets

15.24 'Other Assets' comprise mainly dead stock, gold holdings in the Banking Department, amounts spent on projects pending completion and staff advances. The level of 'Other Assets' has decreased by Rs.666.18 crore (5.0 per cent) from Rs.13,381.52 crore as on June 30, 2001 to Rs.12,715.34 crore as on June 30, 2002.

Auditors

15.25 The accounts of the Reserve Bank for the year 2001-02 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.

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ANNUAL REPORT

**RESERVE BANK OF INDIA
BALANCE SHEET AS AT 30TH JUNE 2002
ISSUE DEPARTMENT**

(Rupees Thousands)

2000-2001	LIABILITIES	2001-2002	2000-2001	ASSETS	2001-2002
16,07,87 226374,82,89	Notes held in the Banking Department Notes in circulation	11,18,43 259072,77,63	10753,13,72 — 106700,00,00	Gold Coin and Bullion : (a) Held in India (b) Held outside India Foreign Securities	13293,30,60 — 169000,00,00
226390,90,76	Total Notes issued	259083,96,06	117453,13,72 115,47,97 108822,29,07 —	Total Rupee Coin Government of India Rupee Securities Internal Bills of Exchange and other Commercial Paper	182293,30,60 222,78,25 76567,87,21 —
226390,90,76	Total Liabilities	259083,96,06	226390,90,76	Total Assets	259083,96,06

BANKING DEPARTMENT

2000-2001	LIABILITIES	2001-2002	2000-2001	ASSETS	2001-2002
5,00,00 6500,00,00	Capital paid-up Reserve Fund	5,00,00 6500,00,00	16,07,87 27,22 19,53	Notes Rupee Coin Small Coin	11,18,43 25,80 20,20
4234,00,00	National Industrial Credit (Long Term Operations) Fund	11,00,00	—	Bills Purchased and Discounted :	—
884,00,00	National Housing Credit (Long Term Operations) Fund	185,00,00	—	(a) Internal (b) External (c) Government Treasury Bills	— — —
	Deposits		84391,70,96	Balances Held Abroad	98168,54,31
	(a) Government		52805,26,01	Investments	63037,35,48
100,57,70	(i) Central Government	100,68,63	9014,00,00	Loans and Advances to :	
41,13,26	(ii) State Governments	41,12,80	3603,33,89	(i) Central Government (ii) State Governments	8169,00,00 5167,88,65
	(b) Banks			Loans and Advances to :	
74107,97,74	(i) Scheduled Commercial Banks	55012,21,84	3616,03,35	(i) Scheduled Commercial Banks	336,12,00
926,45,87	(ii) Scheduled State Co-operative Banks	1687,88,76	2,09,34 58,50,00	(ii) Scheduled State Co-operative Banks (iii) Other Scheduled Co-operative Banks	4,80,90 2,51,00 —
1758,71,79	(iii) Other Scheduled Co-operative Banks	1651,31,31	5826,35,27	(iv) Non-Scheduled State Co-operative Banks (v) Other Banks	— 5654,85,04 1043,96,39
47,92,98	(iv) Non-Scheduled State Co-operative Banks	41,05,74	3285,49,47	Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund :	
1029,48,09	(v) Other Banks	1827,55,07		(a) Loans and Advances to :	
16321,84,89	(c) Others	18126,96,21	1440,00,00	(i) Industrial Development Bank of India	—
652,00,73	Bills Payable	53,26,57	617,00,00 160,00,00	(ii) Export Import Bank of India (iii) Industrial Investment Bank of India Ltd.	— —
74488,46,62	Other Liabilities	109243,95,11	2004,75,00	iv) Others	—
				(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	—
			875,00,00	Loans, Advances and Investments from National Housing Credit (Long Term Operations) Fund :	
				(a) Loans and Advances to National Housing Bank	175,00,00
				(b) Investments in bonds/debentures issued by National Housing Bank	—
			13381,51,76	Other Assets	12715,33,84
181097,59,67	Total Liabilities	194487,02,04	181097,59,67	Total Assets	194487,02,04

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

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2002

(Rupees Thousands)

2000-2001	INCOME	2001-2002
14941,51,55	Interest, Discount, Exchange, Commission etc. ¹	16866,38,78
14941,51,55	Total	16866,38,78
	EXPENDITURE	
1994,80,44	Interest	2334,98,63
870,84,77	Establishment	1304,35,96
36,53	Directors' and Local Board Members' Fees and Expenses	86,91
36,77,68	Remittance of Treasure	24,78,54
1160,69,64	Agency Charges	1207,83,63
1122,78,07	Security Printing (Cheque, Note forms etc.)	1304,49,25
88,76,26	Printing and Stationery	27,67,68
16,84,79	Postage and Telecommunication Charges	20,96,49
47,39,32	Rent, Taxes, Insurance, Lighting etc.	52,48,49
81,95	Auditors' Fees and Expenses	88,02
2,00,11	Law Charges	1,85,37
105,61,35	Depreciation and Repairs to Bank's Property	125,26,52
139,80,64	Miscellaneous Expenses	135,93,29
5587,51,55	Total	6542,38,78
9354,00,00	Available Balance	10324,00,00
	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
9350,00,00	Surplus payable to Central Government	10320,00,00

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

K. B. Chakraborti
Chief General Manager

G. P. Muniappan
Deputy Governor

Vepa Kamesam
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, 2002 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, 2002 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.

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, in conformity with the accounting principles generally accepted in India.

M/s. N.C. Rajagopal & Co. **M/s. Kapoor Tandon & Co.** **M/s. P.K. Mitra & Co.** **M/s. Chandabhoj & Jassoobhoj** **M/s. R.K.Khanna & Co.** **M/s. P. B. Vijayaraghavan & Co.**
Auditors Auditors Auditors Auditors Auditors Auditors

Dated August 14, 2002

RESERVE BANK OF INDIA**SIGNIFICANT ACCOUNTING POLICIES
AND NOTES TO THE ACCOUNTS 2001-02****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 which is accounted for 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. Unrealised gains/losses are adjusted to the Currency and Gold Revaluation Account.

(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 other than Treasury Bills are valued at lower of book value or market price prevailing on the last business day of each month. The depreciation is adjusted against current income. Foreign Treasury Bills are valued at cost.

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 Currency and Gold Revaluation Account 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.1479 crore representing interest differential pertaining to the period April 1, 2001 – March 31, 2002 on account of conversion of Special Securities into marketable securities.

2. CHANGES IN THE ACCOUNTING POLICIES AND PROCEDURES

Staff Loans and Advances

Hitherto, the interest on all staff loans and advances other than Housing Loan was accounted for on receipt basis. From this year onwards, interest on all the staff loans and advances is accounted for on accrual basis.

3. 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.

4. RESERVE FUND

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

5. DEPOSITS - OTHERS

(Rupees crore)

Particulars	As at June 30	
	2002	2001
1	2	3
I. Rupee Deposits from Foreign Central Banks and Foreign Financial Institutions	3,646.43	3,404.06
II. Deposits from Indian Financial Institutions	359.79	336.92
III. Accumulated Retirement Benefits	3,631.62	2,970.11
IV. Surplus transferable to Government of India	10,320.00	9,350.00
V. Miscellaneous	169.12	260.76
Total	18,126.96	16,321.85

6. OTHER LIABILITIES

(Rupees crore)

Particulars	As at June 30	
	2002	2001
1	2	3
I. Contingency Reserve		
Balance at the beginning of the year	36,514.13	29,911.56
Add : Transfer from National Industrial Credit (Long Term Operations) Fund *	4,224.00	400.00
Add: Transfer from National Housing Credit (Long Term Operations) Fund	700.00	—
Add : Accretion during the year	6996.04	6,202.57
Balance at the end of the year	48,434.17	36,514.13
II. Asset Development Reserve		
Balance at the beginning of the year	3,872.63	3,167.85
Add : Accretion during the year	827.91	704.78
Balance at the end of the year	4,700.54	3,872.63
III. Currency and Gold Revaluation Account		
Balance at the beginning of the year	29,124.44	27,608.43
Add : Net Accretion during the year	21,886.33	1,516.01
Balance at the end of the year	51,010.77	29,124.44
IV. Exchange Equalisation Account		
Balance at the beginning of the year	49.46	791.27
Transfer from Exchange Account	100.00	—
Add : Net Accretion(+)/ Net Utilisation(-) during the year	(-97.96)	(-741.81)
Balance at the end of the year	51.50	49.46
V. Provision for net debit entries in RBI General Account	63.15	57.80
VI. Provision for Outstanding Expenses	1,367.14	1,228.02
VII. Miscellaneous	3,616.68	3,641.99
Total (I to VII)	1,09,243.95	74,488.47

* Represents transfer of the unutilised balance in the Fund arising from repayments/outstanding balance taken over by the Government of India.

7. RUPEE INVESTMENTS

- a) Securities sold under LAF-REPO have been reduced from 'Investments'. Accordingly, the Bank has absorbed the liquidity in the market to the tune of Rs.24,710.00 crore as on June 30, 2002 for which securities amounting to Rs.25,945.50 crore were provided as collateral. These securities were repurchased on July 1, 2002.
- b) Amount of securities acquired and sold under liquidity support facility to Primary Dealers (PDs) which have been accounted for under investments, was nil as on June 30, 2002.

8. FOREIGN CURRENCY ASSETS

(Rupees crore)

Particulars	As at June 30, 2002	As at June 30, 2001
1	2	3
I. Held in Issue Department	1,69,000.00	1,06,700.00
II. Held in Banking Department -		
a) Included in Investments	164.64	134.35
b) Balances Held Abroad	98,168.54	84,391.71
Total	2,67,333.18	1,91,226.06

Notes: 1. There were outstanding forward exchange contracts under which the Reserve Bank has to sell US dollar equivalent to Rs.6,882.44 crore (as against sale contracts of US dollar equivalent to Rs. 3,876.10 crore as at June 30, 2001). Forward purchase contracts of US dollar equivalent to Rs.4,816.86 crore were outstanding as at June 30, 2002 as against Rs.112.90 crore as at June 30, 2001.

2. Uncalled amount on partly paid shares of the Bank for International Settlements as at June 30, 2002 - Rs. 81.79 crore.

9. OTHER ASSETS

(Rupees crore)

Particulars	As at June 30, 2002	As at June 30, 2001
1	2	3
I. Fixed Assets (net of accumulated depreciation)	478.56	390.33
II. Gold	2,979.07	2,409.64
III. Income accrued but not received	6,928.99	7,288.53
IV. Miscellaneous	2,328.72	3,293.02
Total	12,715.34	13,381.52

10. INTEREST, DISCOUNT, EXCHANGE, COMMISSION, ETC.

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

(Rupees crore)

Particulars	Year ended	
	Jun 30, 2002	Jun 30, 2001
1	2	3
(i) Profit on sale of Foreign and Rupee Securities	4,395.19	688.31
(ii) Rent realised	10.01	18.78
(iii) Net profit on sale of Bank's property	1.22	7.08

11. RETIREMENT BENEFITS

The Reserve Bank has made a provision of Rs. 440.80 crore towards pension and gratuity funds during the year based on actuarial valuation.