
Schedule - 18

A. Significant Accounting Policies

1. General

1.1 The accounts have been prepared on the historical cost convention.

2. Income and expenditure

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

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

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

3. Fixed Assets and Depreciation

- 3.1. Fixed assets are stated at cost.
- 3.2. Land includes free hold and lease hold land.
- 3.3. Premises include land where segregated values are

not readily available.

3.4. Depreciation for the entire financial year is charged on all fixed assets held on the balance sheet date.

3.5. Depreciation on computers, motor vehicles, office equipments, furniture, electrical fittings, etc. is charged on straight line basis. In respect of assets added on or before 31 March 1999, the written down values as on 31 March 99 are considered as their original cost for application of the rates under straight line method.

3.6. Depreciation on premises situated on Free hold Land is charged on written down value basis.

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

4. Investments

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

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

5. Provisions for loans and advances

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

6. Foreign Currency Transactions

6.1. The Foreign Currency loans are reported at the closing exchange rate prevailing on the balance sheet date.

6.2. In respect of foreign currency loan borrowed from Kreditanstalt fur Wiederaufbau (KfW), Germany, the loan liability in rupee terms as on the transaction day, is compared with the restated loan liability on the balance sheet date. On such comparison, exchange loss, if any, is charged to "Interest Differential Fund - Forex Risk" in terms of the agreement with the lenders. Exchange gain, if any, on such comparison is credited to Foreign Currency Risk Fund (refer para 6.3).

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

7. Payments and Provisions to Employees

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

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

7.3. Provision for gratuity is made on the basis of liability as determined by actuarial valuation after considering the

interest provision on gratuity fund referred to in para 7.2 above and without deducting the amount to be borne by RBI in respect of employees who are transferred from RBI. The amount of gratuity due from RBI is accounted for as and when received.

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

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

8. Recognition of tax expense, Deferred Tax Assets and Deferred Tax Liabilities

8.1. Income Tax expense comprises Current tax and Deferred tax. Current tax expense is arrived at after considering all deductions and allowances available under the tax laws including the deduction under Sec. 36(i)(viii) towards the profit from the business of long term finance. Provision for current tax is made on the taxable income at the applicable tax rates. Deferred Tax Assets and Liabilities are reckoned for all timing differences that have arisen upto the end of the accounting year and that are expected to reverse in the subsequent accounting periods. These are computed based on the tax rates and tax laws enacted or substantively enacted by the Balance Sheet date.

B. Notes forming part of the Accounts

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

2. Interest @ 6.25 per cent per annum for the year 2002-03 on unutilised balances of CFSF and RPCF corpus, respectively, have been credited to the funds.

3. As per the Agricultural and Rural Debt Relief Scheme 1990, the Bank was acting as a channelising agent for disbursing the funds received from RBI towards grants to RRBs and loans/grants to State Co-operative Banks and State Co-operatives Land Development Banks.

4. In the absence of details of the balance of Pension Fund lying with RBI (Refer significant accounting policy para 7.4) as on 31 March 2003, the amount has been estimated and provision for pension is made after considering such estimated amount.

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

5(b). The interest and redemption proceeds payable on Bonds managed by RBI is transferred on the due date to a special account maintained with RBI to which interest and maturity claims are debited when paid by RBI. As at the year end, the balances in the aforesaid bank account is reflected as balance with RBI and an equal amount is reflected as Unclaimed Interest Liability and Unclaimed Maturity Liability.

5(c). The balances of the accounts referred to in para (a) and (b) above are subject to reconciliation and adjustments, if any.

6. Provision for Income Tax

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

(Rs. crore)				
Sr. No.	Deferred Tax Assets on account of	At 01 April, 2002	Charges/Credit during the year	As at 31 March, 2003
i	Provision for Retirement Benefits*	69.00	16.00	85.00
ii	Depreciation on Fixed Assets	35.00	(3.00)	32.00
	Total	104.00	13.00	117.00

*Provision made in the books but allowable for tax purposes on payment basis

7. The Bank has made payments towards subscription of debentures issued by various State Land Development Banks/Land Mortgage Banks and these are included under "Advances - Other Investment Credit - Medium Term and Long Term Project Loans". The value of Allotment Letters/ Debenture Scrips yet to be received as on date aggregates Rs.711.40 crore (Rs.137.21 crore).

8(a). 'Land' and 'Premises' include an aggregate amount of Rs.40.13 crore (Rs.47.11 crore) paid towards Office Premises and Staff Quarters at various locations in respect of which conveyance deeds/other Legal Documents have not yet been executed in favour of the Bank because of certain procedural delays being faced in connection therewith.

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

9. Expenditure on Study and Training includes Rs.3.165 crore (Rs.2.36 crore) relating to establishment expenses and operating expenses of Regional Training Establishments at Bolpur and Mangalore, which provide training to employees of commercial banks, co-operative banks and RRBs.

10. Prior period items included in the profit and loss account are as follows:

(Rs.crore)			
Sr. No.	Particulars	2002-03	2001-02
1	Interest Received	-	3.49 Dr.
2	Depreciation	2.95	-
3	Other Receipts	0.11	0.47 Cr.
4	Interest Paid (WDF)	-	12.98 Dr.
5.	Other Expenses	0.72	-

11. Capital adequacy ratio of the Bank as on 31 March 2003 is 39.05 per cent as against a minimum of 9 per cent stipulated by RBI.

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

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

14. The following additional information is disclosed in terms of RBI circulars (Ref.No.DBS.FID.C-18/01.02.00/2000-01 dated March 23, 2001 and ref. No.DBS.FID No.C-14 / 01.02.00/2001-02 dated February 08, 2002) :

I. Capital

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

(per cent)		
Particulars	31 March, 2003	31 March, 2002
CRAR	39.05	36.92
Core CRAR	37.80	35.67
Supplementary CRAR	1.25	1.25

(b)

(Rs. crore)		
Particulars	31 March, 2003	31 March, 2002
Amount of subordinated debt raised and outstanding	Nil	Nil

(f) Asset classification

Classification	2002-03		2001-02	
	Rs. crore	Per cent	Rs. crore	Per cent
Standard	45,360.65	99.9965	41,062.17	99.9978
Sub-standard	0.85	0.0019	0.05	0.0001
Doubtful	0.11	0.0002	0.22	0.0005
Loss	0.65	0.0014	0.66	0.0016
Total	45,362.26	100.0000	41,063.10	100.0000

(g) Provisions made during the year :

(Rs. crore)		
Provisions against	2002-03	2001-02
Standard Assets	45.98	13.23
Non-performing advances	(-) 0.02	0.02
Investments	-	-
Income Tax	377.00	365.00
Total	422.96	378.25

(i) Provision for Non-Performing Assets

(Rs. crore)		
Particulars	2002-03	2001-02
a) Opening balance as at the beginning of the financial year	0.89	0.87
Add Provision made during the year	0.11	0.02
Less Write off, write back of excess provision	0.14	-
b) Closing balance at the close of the financial year	0.86	0.89

(c) Risk-weighted assets

(Rs. crore)		
Particulars	31 March, 2003	31 March, 2002
On – Balance Sheet Items	16,521.72	15,805.61
Off – Balance Sheet Items	77.86	75.66

(d) Pattern of Capital contribution as on the date of the balance sheet

(Rs. crore)		
Contributor	31 March, 2003	31 March, 2002
Reserve Bank of India	1,450	1,450
Government of India	550	550
Total	2,000	2,000

II. Asset quality and credit concentration (excluding staff advances)

(e)

Particulars	As on	
	31 March, 2003	31 March, 2002
Percentage of Net NPAs to Net Loans & Advances	0.0017	0.0001

(h) Movement in NPAs :

(Rs. crore)		
Particulars	2002-03	2001-02
A) NPAs as at beginning of the year	0.93	0.93
B) Add: Additions during the year	0.84	0.03
C) Sub-total (A+B)	1.77	0.96
D) Less: Reductions during the year	0.16	0.03
E) NPAs as at the end of the year (C-D)	1.61	0.93

(j) Credit exposure as percentage to Capital Funds & as percentage to Total Assets :

Category	2002-03		2001-02		
	Credit Exposure as % to		Credit Exposure as % to		
	Capital Funds	Total Assets	Capital Funds	Total Assets	
1	Largest Single Borrower	52.48	6.59	43.25	5.43
2	Largest Borrower Group	Not Applicable	Not Applicable	Not Applicable	Not Applicable
3	Ten Largest Single Borrower				
	No.1	52.48	6.59	43.25	5.43
	No.2	49.22	6.18	31.37	3.94
	No.3	30.04	3.77	29.64	3.72
	No.4	25.28	3.18	25.65	3.22
	No.5	24.30	3.05	23.37	2.94
	No.6	24.20	3.04	23.36	2.93
	No.7	22.02	2.77	21.19	2.66
	No.8	20.93	2.63	20.36	2.56
	No.9	20.51	2.58	19.50	2.45
	No.10	19.69	2.47	18.77	2.36
4	Ten Largest Borrower Groups	Not Applicable	Not Applicable	Not Applicable	Not Applicable

(k) Credit exposure to the five largest industrial sectors as percentage to total loan assets.

Not Applicable

III. Liquidity:

(l) Maturity pattern of rupee assets and liabilities and of foreign currency assets and liabilities :

Item	(Rs. crore)					
	Less than or equal to 1 year	More than 1 year upto 3 years	More than 3 years upto 5 years	More than 5 years upto 7 years	More than 7 years	Total #
Rupee assets	16,024.31	14,305.19	10,488.51	5,352.67	4,564.57	50,735.25
Foreign Currency Assets	-	-	-	-	-	-
Total Assets	16,024.31	14,305.19	10,488.51	5,352.67	4,564.57	50,735.25
Rupee liabilities	10,948.98	10,163.40	4,618.60	2,603.16	22,099.58	50,433.72
Foreign currency liabilities	-	2.62	11.80	19.99	267.12	301.53
Total Liabilities	10,948.98	10,166.02	4,630.40	2623.15	22,366.70	50,735.25

In terms of RBI instructions, provisions towards NPAs and Standard Assets, that are reflected as Liabilities in the Balance Sheet, have been reduced in the aforesaid table from the Assets.

(m) Provision for depreciation in investments

Particulars		(Rs. crore)
A	Opening balance as at the beginning of the financial year	Nil
B	Add	
	i) Provisions made during the year	Nil
	ii) Appropriation, if any, from Investment Fluctuation Reserve Account during the year	Nil
C	Sub Total (A+B.i+B.ii)	Nil
D	Less	
	i) Write off during the year	Nil
	ii) Transfer, if any, to Investment Fluctuation Reserve Account	Nil
E	Closing balance as at the close of the financial year (C-D.i-D.ii)	Nil

IV. Operating results :

Particulars	For the year ended 31 March 2003	For the year ended 31 March 2002
(o) Interest income as a percentage to working funds	8.45	8.81
(p) Non interest income as a percentage to working funds	0.10	0.07
(q) Operating profit as a percentage to working funds	3.96	4.35
(r) Return on Assets (%)	3.22	3.58
(s) Profit per Employee (Rs. Crore)	0.29	0.28

V. Related Party Transactions

Name of the Party	Nature of Relationship	Nature of Transaction	Amt. of transaction during the year	Outstanding	
Reserve Bank of India	Holding 72.50% of NABARD Capital	Borrowings (net of repayments)	707.922	5,792.08	
		Interest on Borrowings	317.855	-	
		Contribution Recd. in NRC			
		Funds maintained by NABARD	2.00	-	
Government of India	Holding - 27.50% of NABARD Capital	Borrowings (net of repayments)	243.05	591.28	
		Interest on Borrowings	58.64	21.38	
ADFT, Chennai	Control - 52.10% of Share Capital held by NABARD	Lending (net of repayments)	-	-	
		Interest on Lending	-	-	
ABFL, Hyderabad	Control 47.82% of Share Capital held by NABARD	Lending (net of repayments)	0.28	2.25	
		Interest on Lending	0.33	-	
KADFC, Bangalore	Control - 82.41% of Share Capital by NABARD	No Transaction	-	-	
Shri Y. C. Nanda	Key Management Personnel - Chairman	Remuneration including perquisites	0.048	-	
Shri M. V. S. Chalapathi Rao	Key Management Personnel - Managing Director	Remuneration including perquisites	0.035	-	

VI. Information on Business Segments

a) Brief Background :

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

i) **Direct Finance** : Loans given to state governments for rural infrastructure development and loans given to voluntary agencies /non-governmental organisations for developmental activities are included in this segment.

ii) **Refinance** : Loans and Advances given to state

governments, commercial banks, land development banks, state co-op. banks, regional rural banks, etc., as refinance against the loans disbursed by them to the ultimate borrowers.

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

iv) **Unallocated** : This segment includes income from staff loans and other miscellaneous receipts and the expenditure incurred for the developmental role of the bank and common administrative expenses.

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

- i) **South Zone** : Karnataka, Kerala, Tamil Nadu, Andhra Pradesh and RTC, Mangalore.
- ii) **East Zone** : Tripura, Mizoram, Orissa, West Bengal, RTC Bolpur, Nagaland, Sikkim, Assam, Manipur, Arunachal Pradesh and Meghalaya.

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

b) Information on Primary Business Segment

(Rs. crore)				
Segment	Segment Revenue from External Customers	Segment Results	Segment Assets	Segment Liabilities
1 Direct Finance	1,319.65	200.74	13,171.70	12,247.49
2 Refinance	2,397.76	1,211.73	33,173.09	#29,490.66
3 Treasury	313.56	312.76	1,354.99	-
4 Unallocated	15.43	-200.97	3,185.08	3,502.46
Total	4,046.40	1,524.26	50,884.86	45,240.61
<i># Includes balances in NRC (LTO) and NRC (Stab.) Funds where there is no external obligation.</i>				

c) Information on Secondary Business Segment

(Rs. crore)		
Geographical Segments	Segment Revenue from External Customers	Segment Assets
1 East Zone	390.54	4,967.17
2 North Zone	1,590.23	20,789.25
3 South Zone	1,183.73	14,732.75
4 West Zone	881.90	10,395.69
Total	4,046.40	50,884.86

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

For V. Sankar Aiyar & Co
Chartered Accountants

P. S. S. R. Sarma
Chief General Manager
Finance and Accounts Department
Mumbai, 14 June 2003

N. Sampath Ganesh
Partner
14 June 2003.

Y.C. Nanda
Chairman

Vepa Kamesam
Director
Mumbai, 14 June 2003

R.C.A. Jain
Director