

The balance sheet of the Reserve Bank changed significantly during the course of the year, reflecting the impact of monetary and liquidity management operations undertaken by the Bank to manage the recovery in growth while containing inflation. Monetary policy measures effected through increases in the Cash Reserve Ratio (CRR) contributed to the expansion in the Bank's liabilities in the form of banks' deposits while notes in circulation continued to dominate the liability side. Foreign currency assets of the Bank continued to dominate on the asset side. As return on foreign assets tracked the near zero policy rates maintained by the central banks of the advanced economies, income on such assets declined significantly. In monetary operations, sustained period of large net absorption of liquidity through reverse repo also involved higher net interest outgo. Reflecting these, the Bank's gross income fell from ₹60,732 crore in 2008-09 to ₹32,884 crore in 2009-10. Gross expenditure of the Bank rose modestly from ₹8,218 crore to ₹8,403 crore. After meeting the needs of necessary transfer to the Contingency Reserve (CR) and the Asset Development Reserve (ADR), ₹18,759 crore was allocated for transferring to the Government.

XI.1 The size of the Reserve Bank's balance sheet increased significantly in 2009-10 (July-June) in response to its policy actions and market operations. On the liability side, there was a high growth in notes in circulation, banks' deposits with the Reserve Bank due to the policy driven increases in CRR as well as deposit growth in the banking system and the Central Government's deposits with the Reserve Bank. The outstanding balances maintained by the Central Government under the Market Stabilisation Scheme (MSS), however, declined.

XI.2 On the asset side, there was significant increase in Bank's portfolio of domestic assets in the form of government securities parked by the banks with the Reserve Bank for availing funds under repo. Foreign currency assets declined largely due to valuation effect and use of a part of such assets for purchase of gold from the IMF.

XI.3 The Reserve Bank has continued to present its accounts covering the period July-June for the last 70 years. The financial statements of the Bank 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. The Bank presents two balance sheets. The first one relating to the sole function of currency management is presented as the Balance Sheet of the Issue Department. The second one reflecting the impact of all other functions of the Bank is known as the Balance Sheet of the Banking Department. The key financial results of the Reserve Bank's operations during the year 2009-10 (July-June) are presented in this Chapter.

INCOME

XI.4 The Reserve Bank's assets and liabilities reflect the outcome of its operations guided by the overall policy objectives relating to the economy and the financial system and not by commercial considerations.

XI.5 The two major components of the Bank's income are earnings from foreign sources and earnings from domestic sources. The net interest receipts are augmented by relatively small amounts of income from other sources viz., Discount Exchange, Commission etc.

Table XI.1: Gross Income

(Rupees crore)

Item	2005-06	2006-07	2007-08	2008-09	2009-10
1	2	3	4	5	6
A. Foreign Sources					
Interest, Discount, Exchange	24,538.03	35,152.99	51,883.27	50,796.21	25,102.55
B. Domestic Sources					
(i) Interest	1,207.04	5,144.52	4,958.35	9,056.27	6,646.35
(ii) Profit on sale of investment in shares of SBI	-	34,308.60	-	-	-
(iii) Other Earnings	575.24	742.22	909.17	879.50	1,135.24
Total : [(i)+(ii)+(iii)]	1,782.28	40,195.34 (5,886.74)	5,867.52	9,935.77	7,781.59
C. Total Income (Gross) (A+B)	26,320.31	75,348.33 (41,039.73)	57,750.79	60,731.98	32,884.14

Note: Figures in parentheses indicate the amount excluding profit on sale of shares in SBI of ₹34,308.60 crore.

XI.6 The gross income of the Reserve Bank for the year 2009-10 at ₹32,884.14 crore fell by 45.85 per cent from ₹60,731.98 crore in the previous year. (Table XI.1 and Charts XI.1a and b).

Earnings from Foreign Sources

XI.7 The earnings from deployment of foreign currency assets are given in Table XI.2.

XI.8 The Reserve Bank's earnings from the deployment of foreign currency assets and gold decreased by ₹25,693.66 crore (50.58 per cent) from ₹50,796.21 crore in 2008-09 to ₹25,102.55 crore in 2009-10 (Table XI.2). This was due to lower yield on foreign securities and lower interest

received on balances held abroad in the face of very low interest rate environment prevailing in the international markets. The rate of earnings on foreign currency assets and gold was lower at 2.09 per cent in 2009-10 as compared with 4.16 per cent in 2008-09. During the year, the Reserve Bank changed the accounting policy for valuation of securities, the impact of which is disclosed in the notes to accounts. As per the revised policy, depreciation as well as appreciation in foreign securities is being booked as a balance sheet item under the head "Investment Revaluation Account" under the broad group of "Other Liabilities" in lieu of the earlier system of depreciation being booked to the Profit & Loss Account and appreciation being ignored.

Chart XI.1: Assets and Income

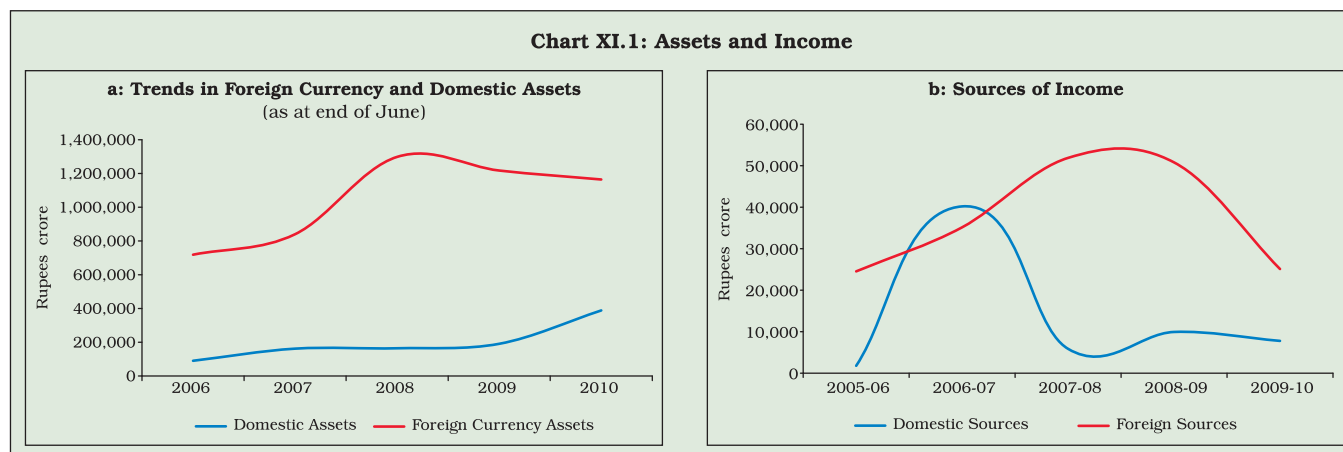


Table XI.2: Earnings from Foreign Sources

(Rupees crore)

Item	As on		Variation	
	June 30, 2009	June 30, 2010	Absolute	Per cent
1	2	3	4	5
Average Foreign Currency Assets (FCA)	12,19,693.16	12,03,828.90	(-)15,864.26	(-)1.30
Earnings (Interest, Discount, Exchange gain/loss, Capital gain/loss on securities) [a]	51,688.38	25,102.55	(-)26,585.83	(-)51.43
Depreciation on Securities [b]	892.17	-	(-)892.17	(-)100.00
Earnings Net of Depreciation [a-b]	50,796.21	25,102.55	(-)25,693.66	(-)50.58
<i>Memo :</i>				
Unrealised appreciation on Securities	10,896.95	-	(-)10,896.95	(-)100.00
Earnings as percentage of Average FCA	4.24	2.09		
Earnings (net of depreciation) as percentage of Average FCA	4.16	2.09		

Earnings from Domestic Sources

XI.9 The earnings from domestic sources decreased from ₹9,935.77 crore in 2008-09 to ₹7,781.59 crore in 2009-10, registering a decrease

of 21.68 per cent (Table XI.3). The decline was the combined effect of increase in coupon income on a larger portfolio of government securities and decrease in depreciation on securities on the one hand and increase in net interest outgo under the

Table XI.3: Earnings from Domestic Sources

(Rupees crore)

Item	As on		Variation	
	June 30, 2009	June 30, 2010	Absolute	Per cent
1	2	3	4	5
Domestic Assets	1,90,652.64	3,88,594.36	1,97,941.72	103.82
Weekly Average of Domestic Assets	1,72,220.65	2,25,373.78	53,153.13	30.86
Earnings	9,935.77	7,781.59	(-) 2,154.18	(-) 21.68
<i>of which:</i>				
<i>Interest and Other Income</i>	9,056.27	6,646.35	(-) 2,409.92	(-) 26.61
(i) Profit on Sale of Securities	16,500.32	8,667.27	(-) 7,833.05	(-) 47.47
(ii) Interest on Securities [a - b]	(-) 8,747.54	(-) 2,435.08	6,312.46	72.16
<i>of which</i>				
(a) Interest on Domestic Securities, LAF operations and Dividend	8,683.11	13,027.82	4,344.71	50.04
(b) Depreciation on Securities	17,430.65	15,462.90	(-)1,967.75	(-) 11.29
(iii) Interest on Loans and Advances	1,254.80	378.97	(-) 875.83	(-) 69.80
(iv) Other Interest Receipts	48.69	35.19	(-) 13.50	(-) 27.73
<i>Other Earnings</i>	879.50	1,135.24	255.74	29.08
(i) Discount	-	-	-	-
(ii) Exchange	0.01	0.01	0.00	0.00
(iii) Commission	778.12	687.08	(-) 91.04	(-) 11.70
(iv) Rent realised and others	101.37	448.15	346.78	342.09
<i>Memo:</i>				
Earnings in percentage terms (on average domestic assets)	5.77	3.45	-	-

Table XI.4: Expenditure

(Rupees crore)

Item	2005-06	2006-07	2007-08	2008-09	2009-10
1	2	3	4	5	6
I. Interest Payment	1,524.41	1,135.38	2.58	1.33	1.02
<i>of which:</i>					
Scheduled Banks	1,523.72	1,134.85	1.90*	0.00*	0.00*
II. Establishment	919.88	1,425.81	1,430.87	2,448.25	1,986.82
III. Non-Establishment	3,404.81	4,603.06	4,663.68	5,768.30	6,415.28
<i>of which:</i>					
a) Agency charges	1,833.55	2,042.50	2,111.14	2,999.19	2,855.02
b) Security printing	1,034.86	2,020.89	2,032.23	2,063.17	2,754.12
Total [I+II+III]	5,849.10	7,164.25	6,097.13	8,217.88	8,403.12

* Pursuant to amendment to the Reserve Bank of India Act, 1934, interest payable on eligible CRR balances was withdrawn with effect from fortnight beginning March 31, 2007.

LAF operations and decrease in interest earnings on loans and advances as well as profit on sale of securities on the other.

EXPENDITURE

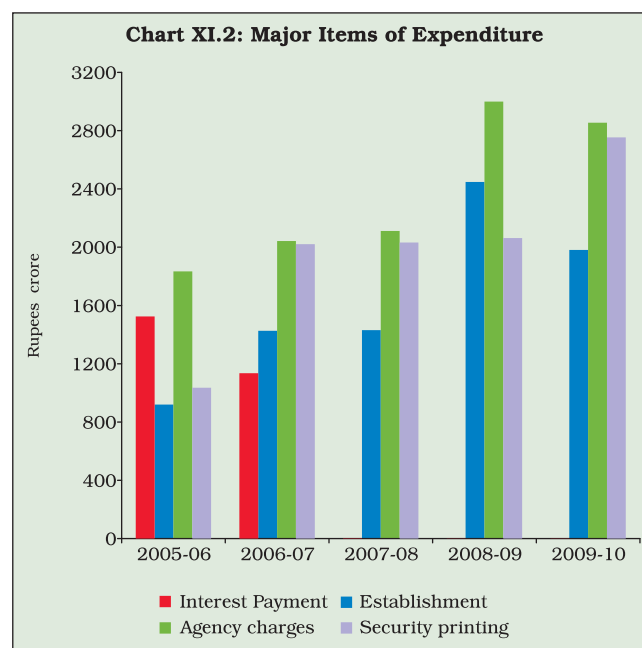
XI.10 Expenditure comprises the establishment expenses, besides expenditure that arises in the process of performing statutory functions of the Bank, such as agency charges and security printing charges. Total expenditure of the Reserve Bank increased by ₹185.24 crore (2.25 per cent) from ₹8,217.88 crore in 2008-09 to ₹8,403.12 crore in 2009-10 despite a decline of ₹461.43 crore in establishment expenditure (Table XI.4 and Chart XI.2). The increase in expenditure was mainly on account of increase in security printing charges.

Establishment Expenditure

XI.11 The establishment expenditure for the year 2009-10 declined by ₹461.43 crore mainly on account of the lower provisions required to be made this year on long term employee benefits which are computed based on actuarial valuation. In 2008-09 there was an upward revision in the statutory limit of gratuity amount payable which required higher provision towards accrued liabilities.

Non-Establishment Expenditure

XI.12 The amount of agency charges paid during 2009-10 was ₹2,855.02 crore as against ₹2,999.19 crore during 2008-09 which includes a small component of fees paid by the Bank to the Primary Dealers as underwriting commission. This component decreased by ₹185.31 crore from ₹249.45 crore in 2008-09 to ₹64.14 crore in 2009-10 and constituted 2.25 per cent of the agency charges in 2009-10.



XI.13 The security printing charges (cheque, note forms *etc.*) increased substantially by ₹690.95 crore (33.49 per cent) from ₹2,063.17 crore in 2008-09 to ₹2,754.12 crore in 2009-10 mainly due to increase in procurement of bank notes by 24.7 per cent. There was also a moderate increase (3 to 11 per cent) in the cost of printing bank notes in different denominations.

Surplus Transferable to the Government of India

XI.14 The surplus transferable to the Government of India for the year 2009-10 amounted to ₹18,759 crore, including ₹1,407 crore payable to the Government towards the interest differential on special securities converted into marketable securities for compensating the Government for the difference in interest expenditure which the Government had to bear consequent on conversion of such special securities. The position of income, expenditure and net disposable income transferred to the Government in the last five years is given in Table XI.5.

Internal Reserves

XI.15 Contingency Reserve represents the amount set aside 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 needs of internal capital expenditure and make investments in subsidiaries and associate institutions, a further sum is provided and credited to the Asset Development Reserve. The amounts of transfer to the Contingency Reserve and the Asset Development Reserve and the surplus transferred to the Government as a percentage to the total income are set out in Table XI.6.

BALANCE SHEET

XI.16 The size of the overall balance sheet of the Bank increased noticeably during 2009-10 due to (a) expansion of notes in circulation (liabilities of

Table XI.5: Trends in Gross Income, Expenditure and Net Disposable Income

(Rupees crore)

Item	2005-06	2006-07	2007-08	2008-09	2009-10
1	2	3	4	5	6
Total Income (Gross)	26,320.31	41,039.73 (75,348.33) #	57,750.79	60,731.98	32,884.14
Less transfer to:					
(i) Contingency Reserve	10,936.42	20,488.97	33,430.74	26,191.40	5,168.39
(ii) Asset Development Reserve	1,126.79	1,971.51	3,207.92	1,309.70	549.63
Total (i + ii)	12,063.21	22,460.48	36,638.66	27,501.10	5,718.02
Total Income (Net)	14,257.10	18,579.25 (52,887.85) #	21,112.13	33,230.88	27,166.12
Total Expenditure	5,849.10	7,164.25	6,097.13	8,217.88	8,403.12
Net Disposable Income	8,408.00	11,415.00 (45,723.60) #	15,015.00	25,013.00	18,763.00
Less : Transfer to Funds *	4.00	4.00	4.00	4.00	4.00
Transfer of surplus to the Government	8,404.00	11,411.00 (45,719.60) #	15,011.00	25,009.00	18,759.00

Figures in parentheses indicate amounts including profit on sale of shares of the State Bank of India (SBI) divested on June 29, 2007.

* An amount of Rupees one crore each has been transferred to the National Industrial Credit (Long Term Operations) Fund, National Rural Credit (Long Term Operations) Fund, National Rural Credit (Stabilisation) Fund and National Housing Credit (Long Term Operations) Fund during each of the five years.

Table XI.6: Contingency and Asset Development Reserves and Surplus Transfer to the Government

(Rupees crore)					
Item	2005-06	2006-07	2007-08	2008-09	2009-10
1	2	3	4	5	6
Total Income (Gross)	26,320.31	41,039.73 *	57,750.79	60,731.98	32,884.14
Transfer to Contingency Reserve	10,936.42 (41.55)	20,488.97 (49.92)	33,430.74 (57.89)	26,191.40 (43.13)	5,168.39 (15.72)
Transfer to Asset Development Reserve	1,126.79 (4.28)	1,971.51 (4.80)	3,207.92 (5.55)	1,309.70 (2.16)	549.63 (1.67)
Transfer of Surplus to the Government	8,404.00 (31.93)	11,411.00 * (27.80)	15,011.00 (25.99)	25,009.00 (41.18)	18,759.00 (57.05)

* Excluding profit on sale of shares of SBI.
Note : Figures in parentheses indicate proportion to the total income.

the Issue Department) and (b) increase in the deposits of banks with the Reserve Bank (liabilities of the Banking Department), partly reflecting the increase in CRR. While the first component is demand driven, the second component changes in relation to growth in deposits as well as monetary policy changes effected through the instrument of CRR.

Issue Department – Liabilities

XI.17 The liabilities of the Issue Department equal the currency notes issued by the Government of India before the commencement of operations of Reserve Bank on April 1, 1935 plus the bank notes issued by the Reserve Bank since then in terms of Section 34(1) of the RBI Act. Notes in circulation increased by 20 per cent over the last year.

Issue Department - Assets

XI.18 In terms of RBI Act, the eligible assets for the Issue Department consist of gold coin & bullion, foreign securities, rupee coin, Government securities and internal bills of exchange. The total holding of gold by the Reserve Bank stands at 557.75 metric tons including purchase of 200 metric tons of gold from the IMF on November 3, 2009. A part of gold stock is marked as assets of the Issue Department and the remaining stock is reckoned as assets of the Banking Department and shown

under “Other Assets” in the balance sheet of the Banking Department.

Banking Department – Liabilities

XI.19 The liabilities of the Banking Department include the following:

- (a) Capital paid-up: The Reserve Bank of India was constituted as a private share holders’ Bank in 1935 with an initial paid-up capital of ₹5 crore. The Bank was nationalised with effect from January 1, 1949 and the entire ownership is now vested in the Government of India. The paid-up capital continues to be ₹5 crore as per section 4 of the RBI Act.
- (b) Reserve Fund: The original Reserve Fund of ₹5 crore was created in terms of section 46 of the RBI Act as contribution from the Central Government for the currency liability of the then sovereign government taken over by the Reserve Bank. Thereafter, ₹6,495 crore was credited to this Fund by way of gain on periodic revaluation of gold up to October 1990, thus taking it to ₹6,500 crore. Since then such valuation gain / loss is booked in the “Currency and Gold Revaluation Account” under the head “Other Liabilities” in the balance sheet.
- (c) National Industrial Credit (Long Term Operations) Fund: This Fund was created on

July 1, 1964 under section 46C of the RBI Act with an initial corpus of ₹10 crore plus annual contributions by the Bank for financial assistance to eligible Financial Institutions. Since 1992-93, only a token amount of ₹1 crore each year is being contributed.

- (d) National Housing Credit (Long Term Operations) Fund: This Fund was created in January 1989 under section 46D of the RBI Act with an initial corpus of ₹50 crore plus annual contributions by the Bank thereafter for extending financial accommodation to the National Housing Bank. Since 1992-93, only a token amount of ₹1 crore each year is being contributed.

There are two other Funds viz. National Rural Credit (Long Term Operations) Fund and National Rural Credit (Stabilisation) Fund constituted under section 46A of the RBI Act which are now placed with the National Bank for Agriculture and Rural Development. A token contribution of ₹1 crore is made each year to each of these two Funds.

- (e) Deposits: These represent the cash balances with the Reserve Bank of the Central and the State Governments, banks, all India financial institutions such as EXIM Bank, NABARD *etc.*, foreign central banks, international financial institutions, the balance in different accounts relating to the Employees' Provident Fund, Gratuity and Superannuation Funds.
- (f) Bills payable: This represents Demand Drafts (DDs) and Payment Orders outstanding for payment and balances under the Remittance Clearance Account pending encashment of the DDs issued.
- (g) Other Liabilities: Internal reserves and provisions of the Reserve Bank are the major components of other liabilities. In terms of specific sub-heads, other liabilities include balances lying in Contingency Reserve (CR), Asset Development Reserve (ADR), Currency and Gold Revaluation Account (CGRA),

Exchange Equalisation Account (EEA), Investment Revaluation Account (IRA) and also the surplus pending transfer to the Government and provision for outstanding expenses. Other liabilities decreased from ₹3,95,707.55 crore as on June 30, 2009 to ₹3,28,809.36 crore as on June 30, 2010 .

XI.20 The Contingency Reserve and the Asset Development Reserve reflected in "Other Liabilities" are in addition to the 'Reserve Fund' of ₹6,500 crore held by the Reserve Bank as a distinct balance sheet head.

Currency and Gold Revaluation Account (CGRA), Exchange Equalisation Account (EEA) and Investment Revaluation Account (IRA)

XI.21 Gains / losses on valuation of foreign currency assets and gold due to movements in the exchange rates and / or prices of gold are not taken to the Profit and Loss Account but instead booked as a balance sheet item named as the Currency and Gold Revaluation Account (CGRA). The balance in this account represents accumulated net gain on such valuation of foreign currency assets and gold. During 2009-10, the balances in CGRA declined by ₹79,708.05 crore, decreasing its balance from ₹1,98,842.03 crore as on June 30, 2009 to ₹1,19,133.98 crore as on June 30, 2010. The decrease was mainly on account of appreciation of the Indian Rupee against the US dollar and depreciation of other currencies against the US dollar.

XI.22 The balance in the Exchange Equalisation Account (EEA) represents provision made for exchange losses that could arise from forward commitments. The balance in EEA as on June 30, 2010 stood at ₹18.87 crore.

XI.23 As per the revised policy, the Reserve Bank has started valuing foreign dated securities at market price prevailing on the last business day of each month and appreciation/depreciation, as the case may be, is being adjusted against the balance held in the Investment Revaluation Account (IRA).

Table XI.7: Balances in CGRA, EEA and IRA

(Rupees crore)

As on June 30	CGRA	EEA	IRA
1	2	3	4
2006	86,789.18	3.28	-
2007	21,723.52	9.68	-
2008	1,63,211.83	0.00	-
2009	1,98,842.03	26.98	-
2010	1,19,133.98	18.87	9,370.96

The balance in IRA as on June 30, 2010 stood at ₹9,370.96 crore. The balances in CGRA, EEA and IRA are grouped under "Other Liabilities" in the balance sheet (Table XI.7).

Contingency Reserve

XI.24 The Reserve Bank maintains a Contingency Reserve (CR) to enable it to absorb unexpected and unforeseen contingencies. With a transfer of ₹5,168.39 crore to CR during 2009-10 from the Reserve Bank's income, the balance in CR increased to ₹1,58,560.60 crore as on June 30, 2010 from ₹1,53,392.21 crore as on June 30, 2009. The balance available in the CR is sufficient to meet the contingent liabilities.

Asset Development Reserve

XI.25 To meet the internal capital expenditure and make investments in its subsidiaries and associate institutions, the Reserve Bank had created a separate Asset Development Reserve (ADR) in 1997-98 with the aim of reaching one per cent of the Reserve Bank's total assets within the overall indicative target of 12 per cent set for CR and ADR taken together. In the year 2009-10, an amount of ₹549.63 crore was transferred from income to ADR raising its level from ₹14,081.95 crore as on June 30, 2009 to ₹14,631.58 crore as on June 30, 2010. CR and ADR together constituted 11.15 per cent of the total assets of the Bank as on June 30, 2010 (Table XI.8). ADR now accounts for 0.94 per cent of the total assets of the Bank as against one per cent last year due to expansion of the asset size.

Table XI.8: 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 (2+3)	5
2006	73,281.10	7,592.82	80,873.92	10.00
2007	93,770.07	9,564.33	1,03,334.40	10.31
2008	1,27,200.81	12,772.25	1,39,973.06	9.57
2009	1,53,392.21	14,081.95	1,67,474.16	11.89
2010	1,58,560.60	14,631.58	1,73,192.18	11.15

Banking Department - Assets

XI.26 The assets of the Banking Department comprise Notes, Rupee Coin, Small Coin, Bills Purchased and Discounted, Balances Held Abroad, Investments, Loans and Advances and Other Assets. They are presented in the balance sheet in the descending order of liquidity.

Notes, Rupee Coin and Small Coin

XI.27 This is the stock of bank notes, one rupee notes, rupee coins of ₹1, 2, 5 and 10 and small coins kept in the vaults of the Banking Department to meet the day to day requirements arising out of usual receipt and payment transactions as a banker.

Balances Held Abroad

XI.28 This represents foreign currency balances held abroad. This is part of Bank's foreign currency assets shown under assets of the Banking Department.

Foreign Currency Assets

XI.29 The foreign currency assets (FCA) comprise foreign securities held in Issue Department, balances held abroad and investments in foreign securities held in Banking Department. The RBI Act provides the legal framework for deployment of the FCAs as well as gold. FCAs comprise deposits with other central banks, the BIS, foreign commercial banks,

securities representing debt of sovereigns and supra-national institutions with residual maturity not exceeding 10 years and any other instruments or institutions as approved by the Central Board of the Reserve Bank in accordance with the provisions of the Act. The decrease in the level of foreign currency assets in Rupee terms was mainly on account of appreciation of Rupee against US Dollar and revaluation of non-US dollar currency assets and use of a part of such assets for purchase of gold from the IMF. The position of outstanding foreign currency assets and domestic assets over the last five years is given in Table XI.9.

XI.30 FCAs form a major part of the foreign exchange reserves of the country. The comparative position of the foreign exchange reserves in the last two years is given in Table XI.10. It may be noted that although SDRs and Reserve Tranche Position (RTP) formed part of India's official reserves, these are held by the Government of India and therefore not reflected in the Reserve Bank's balance sheet.

XI.31 Following the commitment made by India, as part of the G-20 framework, RBI agreed to purchase SDR denominated notes from the International Monetary Fund up to a total amount of US\$10 billion (₹46,600 crore). As on June 30, 2010, US\$ 527.55 million (₹2,458.40 crore) was invested in notes of the IMF. The Reserve Bank can be called upon to invest the remaining amount of US\$ 9.47 billion (₹44,141.60 crore).

Table XI.9: Outstanding Foreign Currency and Domestic Assets

(Rupees crore)

As on June 30	Foreign Currency Assets	Domestic Assets
1	2	3
2006	7,18,701.18	90,106.99
2007	8,39,878.79	1,62,058.59
2008	12,98,552.05	1,64,431.13
2009	12,17,541.80	1,90,652.64
2010	11,64,431.33	3,88,594.36

XI.32 The Reserve Bank has agreed to invest up to an amount, the aggregate of which shall not exceed US\$ 5 billion (₹23,300 crore), in the bonds issued by the India Infrastructure Finance Company (UK) Limited. The Reserve Bank has so far invested US\$ 250 million (₹1,165 crore) in such bonds.

XI.33 Gold includes ₹31,462.88 crore (US\$ 6,699 million) reflecting the purchase of 200 metric tons of gold from the IMF under its limited gold sales programme. The purchase was an official sector transaction and was executed over a two week period during October 19-30, 2009 at market-based prices. As a result of this purchase, the Reserve Bank's gold holdings have increased from 357.75 metric tons to 557.75 metric tons.

XI.34 Special Drawing Rights include SDR 3,082.5 million (₹21,243.57 crore) allocated under general allocation and SDR 214.6 million (₹1478.95 crore) allocated under special allocation by the IMF on August 28 and September 9, 2009, respectively.

Table XI.10: Foreign Exchange Reserves

(Rupees crore)

Item	As on		Variation	
	June 30, 2009	June 30, 2010	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	12,17,541.80	11,64,431.33	-53,110.47	-4.36
Gold	46,914.09	92,704.13	45,790.04	97.60
Special Drawing Rights (SDR)	2.48	22,718.63	22,716.15	9,15,973.79
Reserve Position in the IMF*	5,973.89	6,117.62	143.73	2.41
Total Foreign Exchange Reserves (FER)	12,70,432.26	12,85,971.71	15,539.45	1.22

* Reserve Position in the International Monetary Fund (IMF), which was shown as a *memo item* from May 23, 2003 to March 26, 2004 has been included in the reserves from the week ended April 2, 2004.

Investment in Government of India Rupee Securities

XI.35 Without adjusting for transfer of securities under the Liquidity Adjustment Facility (LAF) operations, the investment in Government of India securities decreased by ₹5,725.57 crore from ₹1,98,627.19 crore as on June 30, 2009 to ₹1,92,901.62 crore as on June 30, 2010. The decline was the combined effect of increase on account of purchase of securities under the open market operations and decrease on account of depreciation in value of securities held by the Bank as well as increase in sale of securities from the Bank's portfolio to the Government of India towards investment of their surplus cash balances.

Investments in Shares of Subsidiaries and Associate Institutions

XI.36 There was no change in the Reserve Bank's investments in shares of its subsidiaries and associate institutions during the year (Table XI.11). Investments in shares are valued at cost.

Other Assets

XI.37 'Other Assets' comprise income accrued but not received, fixed assets (net of depreciation), gold holdings in the Banking Department, amounts spent on projects pending completion and staff advances etc. The level of 'Other Assets' increased by ₹27,537.93 crore from ₹31,138.75 crore as on

Table XI.11: Investments in Shares of Subsidiaries and Associate Institutions

(Rupees crore)

Institution	Book value of shares held as on	
	June 30, 2009	June 30, 2010
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. National Housing Bank	450.00	450.00
4. Bharatiya Reserve Bank Note Mudran (Pvt.) Ltd.	800.00	800.00
Total	2,750.00	2,750.00

June 30, 2009 to ₹58,676.68 crore as on June 30, 2010 mainly on account of purchase of 200 metric tons of gold from IMF during October 19-30, 2009 at a value of ₹31,462.88 crore (US\$ 6,699 million).

Auditors

XI.38 The accounts of the Reserve Bank for the year 2009-10 were audited by M/s. Mukund M. Chitale & Co., Mumbai and M/s. V. Sankar Aiyar & Co., Mumbai as the Statutory Central Auditors. Branch offices were audited by the statutory branch auditors, namely, M/s. Basant Ram & Sons, New Delhi, M/s. Vedprakash Agrawal & Co., Nagpur, M/s. G. Natesan & Co., Chennai and M/s. S. K. Basu & Co., Kolkata. The auditors were appointed by the Central Government in terms of section 50 of RBI Act, 1934.

RESERVE BANK OF INDIA
BALANCE SHEET AS AT 30TH JUNE 2010
ISSUE DEPARTMENT

(Rupees thousands)

2008-09	LIABILITIES	2009-10	2008-09	ASSETS	2009-10
21,25,80	Notes held in the Banking Department	32,61,51	38326,27,06	Gold Coin and Bullion:	
701655,32,71	Notes in Circulation	842008,36,40	–	(a) Held in India	48577,21,52
			662064,41,42	(b) Held outside India	–
				Foreign Securities	792300,92,96
701676,58,51	Total Notes issued	842040,97,91	700390,68,48	Total	840878,14,48
			239,47,03	Rupee Coin	116,40,43
			1046,43,00	Government of India Rupee Securities	1046,43,00
			–	Internal Bills of Exchange and other Commercial Paper	–
701676,58,51	Total Liabilities	842040,97,91	701676,58,51	Total Assets	842040,97,91
BANKING DEPARTMENT					
2008-09	LIABILITIES	2009-10	2008-09	ASSETS	2009-10
5,00,00	Capital paid-up	5,00,00	21,25,80	Notes	32,61,51
6500,00,00	Reserve Fund	6500,00,00	4,77	Rupee Coin	6,34
	National Industrial Credit (Long Term Operations) Fund	19,00,00	3,41	Small Coin	3,08
18,00,00	National Housing Credit (Long Term Operations) Fund	193,00,00			
192,00,00					
	Deposits			Bills Purchased and Discounted :	
	(a) Government			(a) Internal	–
22990,42,88	(i) Central Government	36457,41,08		(b) External	–
41,34,50	(ii) State Governments	41,33,15		(c) Government Treasury Bills	–
	(b) Banks				
250664,49,62	(i) Scheduled Commercial Banks	307759,41,00		Balances Held Abroad	339226,34,23
3520,91,11	(ii) Scheduled State Co-operative Banks	4065,43,76	512320,77,65		
3489,08,20	(iii) Other Scheduled Co-operative Banks	4986,76,82		Investments	310068,81,35
67,07,47	(iv) Non-Scheduled State Co-operative Banks	68,63,80	151675,42,39		
6671,76,11	(v) Other Banks	9224,79,62		Loans and Advances to :	
16475,59,86	(c) Others	12807,72,53		(i) Central Government	–
				(ii) State Governments	73,38,00
				Loans and Advances to:	
195,86,03	Bills Payable	79,45,62	280,00,00	(i) Scheduled Commercial Banks	2623,17,00
			–	(ii) Scheduled State Co-operative Banks	–
			–	(iii) Other Scheduled Co-operative Banks	41,00,00
			–	(iv) Non-Scheduled State Co-operative Banks	–
			–	(v) NABARD	–
			11102,82,48	(vi) Others	275,22,98
395707,55,24	Other Liabilities	328809,35,60		Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund:	
				(a) Loans and Advances to:	
				(i) Industrial Development Bank of India	–
				(ii) Export Import Bank of India	–
				(iii) Industrial Investment Bank of India Ltd.	–
				(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	–
				Loans, Advances and Investments from National Housing Credit (Long Term Operations) Fund:	
				(a) Loans and Advances to National Housing Bank	–
				(b) Investments in bonds/ debentures issued by National Housing Bank	–
			31138,74,52	Other Assets	58676,68,49
706539,11,02	Total Liabilities	711017,32,98	706539,11,02	Total Assets	711017,32,98

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

THE RESERVE BANK'S ACCOUNTS FOR 2009-10

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2010

(Rupees thousands)

2008-09	INCOME	2009-10
33230,88,41	Interest, Discount, Exchange, Commission <i>etc.</i> ¹	27166,12,24
33230,88,41	Total	27166,12,24
	EXPENDITURE	
1,32,87	Interest	1,01,60
2448,25,15	Establishment	1986,82,29
1,66,90	Directors' and Local Board Members' Fees and Expenses	2,08,15
32,45,84	Remittance of Treasure	37,12,10
2999,19,46	Agency Charges	2855,02,06
2063,16,97	Security Printing (Cheque, Note forms <i>etc.</i>)	2754,12,35
20,63,03	Printing and Stationery	26,58,89
52,69,10	Postage and Telecommunication Charges	42,48,93
85,87,49	Rent, Taxes, Insurance, Lighting <i>etc.</i>	85,15,56
2,26,68	Auditors' Fees and Expenses	2,51,17
2,32,80	Law Charges	2,75,54
234,56,38	Depreciation and Repairs to Bank's Property	274,21,93
273,45,74	Miscellaneous Expenses	333,21,67
8217,88,41	Total	8403,12,24
25013,00,00	Available Balance	18763,00,00
	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
25009,00,00	Surplus Payable to the Central Government	18759,00,00
<p>1. After making the usual or necessary provisions in terms of section 47 of the Reserve Bank of India Act, 1934 amounting to ₹5718,01,83 thousands (2008-09 - ₹27501,09,93 thousands).</p> <p>2. These funds are maintained by National Bank for Agriculture and Rural Development (NABARD).</p>		

S.V. Raghavan
Chief General Manager

Subir Gokarn
Deputy Governor

K.C. Chakrabarty
Deputy Governor

Usha Thorat
Deputy Governor

Shyamala Gopinath
Deputy Governor

D. Subbarao
Governor

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA

We, the undersigned auditors of the Reserve Bank of India (hereinafter referred to as the Bank), do hereby report to the Central Government upon the Balance Sheet of the Bank as at June 30, 2010 and the Profit and Loss Account for the year ended on that date.

We have examined the Balance Sheet of the Bank as at June 30, 2010 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 to our satisfaction.

These financial statements include the accounts of nineteen Accounting Units of the Bank which have been audited by the Statutory Branch Auditors. The branch audit reports have been furnished to us which we have considered in preparing our report.

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.

For Mukund M.Chitale & Co
Firm Registration No.106655W
Chartered Accountants
Abhay V. Kamat
Partner
(M. No. 39585)

For V. Sankar Aiyar & Co
Firm Registration No.109208W
Chartered Accountants
S.Venkatraman
Partner
(M. No. 34319)

Dated August 12, 2010
Place: Mumbai

RESERVE BANK OF INDIA

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS FOR THE YEAR 2009-10

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 and are based on historical cost except where it is modified to reflect revaluation.

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

2. REVENUE RECOGNITION

Income and expenditure are recognised on accrual basis except penal interest and dividend, which are accounted for on receipt basis. Only realised gains are recognised.

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 income. Claims in this respect are considered and charged against income in the year of payment.

Income and expenditure in foreign currency are recorded at the exchange rates prevailing on the last business day of the preceding week/preceding month/year-end rates, as applicable.

3. GOLD AND FOREIGN CURRENCY ASSETS AND LIABILITIES

(a) Gold

Gold is revalued 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 (CGRA).

(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 as well as 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. Exchange gains and losses arising from such translation of foreign currency assets and liabilities are accounted for in CGRA and remain adjusted therein. Forward exchange contracts are evaluated half-yearly and net loss, if any, is provided for.

Foreign securities other than Treasury Bills are valued at market price prevailing on the last business day of each month. The appreciation or depreciation, if any, is transferred to the Investment Revaluation Account (IRA). Credit balance in IRA is carried forward to the subsequent year. Debit balance, if any, at the end of the year in IRA is charged to the Profit and Loss Account and the same is reversed to the credit of the Profit and Loss Account on the opening day of the succeeding financial year.

Foreign Treasury Bills and Commercial Papers are carried at cost as adjusted by amortisation of discount. Premium or discount on foreign securities is amortised daily.

Profit/ loss on sale of foreign currency assets is recognised with respect to the book value, except in the case of foreign dated securities, where it is recognised with reference to the amortised cost. Further, on sale/ redemption of foreign dated securities, gain/loss in relation to the securities sold, lying in IRA is transferred to the Profit and Loss Account.

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 (LOBOM). Where the market price for such securities is not available, the rates are derived based on the yield curve prevailing on the last business day of the month. The depreciation in the value, if any, is adjusted against current interest 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, microprocessors, software (costing ₹1 lakh and above), motor vehicles, furniture, etc., is provided on straight-line basis at the following rates.

Asset Category	Rate of depreciation
Motor vehicles, furniture etc.	20%
Computers, Microprocessors, Software etc.	33.33%

Depreciation on leasehold land and building(s) is provided on written-down value basis at the following rates.

Asset Category	Rate of depreciation
Leasehold Land and Building(s) constructed thereon	Proportionate to Lease Period but not less than 5%
Building(s) constructed on Freehold Land	10%

Fixed Assets costing less than ₹1 lakh (except easily portable electronic assets such as laptops, mobile phones, etc. costing more than ₹10,000) are charged to the Profit and Loss Account in the year of acquisition.

Depreciation is provided on year-end balances of the Fixed Assets.

7. EMPLOYEE BENEFITS

The liability on account of long term employee benefits is provided based on an actuarial valuation.

8. CONTINGENCY RESERVE AND ASSET DEVELOPMENT RESERVE

Contingency Reserve (CR) represents the amount set aside 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 sum is provided and credited to the Asset Development Reserve (ADR).

NOTES TO THE ACCOUNTS

1. SURPLUS TRANSFER TO GOVERNMENT OF INDIA

Surplus transferable to the Government includes ₹1,407.00 crore (previous year – ₹1,436.00 crore) representing interest differential pertaining to the period April 1, 2009-March 31, 2010 on account of conversion of special securities issued by the Government of India into marketable securities.

2. CHANGES IN ACCOUNTING POLICIES AND PROCEDURES

2.1 Reserve Bank has changed the accounting policy for valuation of foreign dated securities which were hitherto being valued on the basis of lower of book value or market price (LOBOM) prevailing on the last business day of each month wherein depreciation was being adjusted against current income and appreciation was being ignored. Further, discount/ premium, if any, was not being amortised. As per revised policy, Reserve Bank has started valuing foreign dated securities at market price prevailing on the last business day of each month, wherein appreciation/ depreciation as the case may be is being transferred to the Investment Revaluation Account. Credit balance in IRA is carried forward to the subsequent year. Debit balance, if any, at the end of the year in IRA is charged to the Profit and Loss Account and the same is reversed to the credit of the Profit and Loss Account on the opening day of the succeeding financial year. Further, discount/premium, if any, is now being amortised on daily basis over the remaining period till maturity.

Due to aforesaid change, valuation of investment in foreign securities is higher by ₹7,768.11 crore and Other Liabilities (IRA and CGRA) is higher by ₹8,234.10 crore. Interest, Discount, Exchange, Commission *etc.* is, however, lower by ₹465.99 crore.

2.2 A new Fixed Asset Policy has been implemented with effect from July 1, 2009 in terms of which threshold limit for capitalising items of fixed assets has been raised from ₹10,000 to ₹1 lakh. Accordingly, items of fixed assets, individually costing ₹1 lakh and more (previous year – ₹10,000) are capitalised. However, valuable but easily portable electronic assets such as laptops, mobile phones, *etc.* are capitalised where the individual cost is more than ₹10,000. Further, expenditure on renovation/modernisation of an

existing asset is not capitalised unless such renovation/modernisation results in capacity increase or structural improvement of the existing assets and such expenditure is charged to Profit and Loss Account for the year in which expenditure is incurred.

Due to the aforesaid changes, the net expenditure debited to Profit and Loss Account for the year is higher by ₹48.02 crore and the Fixed Assets shown under Other Assets in the Balance Sheet is lower by ₹48.02 crore.

3. EARMARKED SECURITIES

The Reserve Bank has earmarked certain Government securities having a book value of ₹9,466.68 crore (previous year ₹8,849.97 crore) from its Investment Account in order to cover the liabilities in the Provident Fund, Gratuity and Superannuation Fund and Leave Encashment (Retiring Employees) Fund.

4. RESERVE FUND

Reserve Fund comprises initial contribution of ₹5.00 crore made by the Government of India and appreciation of ₹6,495.00 crore on account of revaluation of Gold up to October 1990. Subsequent gains / losses on monthly revaluation of Gold are taken to the Currency and Gold Revaluation Account (CGRA).

5. DEPOSITS

(a) Government

Deposits of Central Government include ₹317.00 crore (previous year – ₹22,889.92 crore) on account of operations under the Market Stabilisation Scheme (MSS). Deposits of State Governments include balance of Government of the Union Territory of Puducherry.

(b) Others

Particulars	(Rupees crore)	
	As on June 30	
	2009	2010
1	2	3
I. Rupee Deposits from the Foreign Central Banks and the Foreign Financial Institutions	3,758.94	3,246.36
II. Deposits from the Indian Financial Institutions	335.08	516.33
III. Accumulated Retirement Benefits	8,303.08	8,817.13
IV. Miscellaneous	4,078.50	227.91
Total	16,475.60	12,807.73

6. DETAILS OF OTHER LIABILITIES

Particulars	(Rupees crore)	
	As on June 30	
	2009	2010
1	2	3
I. Contingency Reserve		
Balance at the beginning of the year	1,27,200.81	1,53,392.21
Add: Accretion during the year	26,191.40	5,168.39
Balance at the end of the year	1,53,392.21	1,58,560.60
II. Asset Development Reserve		
Balance at the beginning of the year	12,772.25	14,081.95
Add: Accretion during the year	1,309.70	549.63
Balance at the end of the year	14,081.95	14,631.58
III. Currency and Gold Revaluation Account		
Balance at the beginning of the year	1,63,211.83	1,98,842.03
Add: Net Accretion (+) /	35,630.20	-
Net Depletion (-) during the year	-	(-)79,708.05
Balance at the end of the year	1,98,842.03	1,19,133.98
IV. Investment Revaluation Account		
Balance at the beginning of the year	-	-
Add: Net Accretion (+) /	-	9,370.96
Net Utilisation (-) during the year	-	-
Balance at the end of the year	-	9,370.96
V. Exchange Equalisation Account		
Balance at the beginning of the year	-	26.98
Transfer from Exchange Account	26.98	18.87
Add: Net Accretion (+) /	-	-
Net Utilisation (-) during the year	-	(-) 26.98
Balance at the end of the year	26.98	18.87
VI. Provision for Outstanding Expenses	1,822.88	1,548.02
VII. Surplus transferable to the Government of India	25,009.00	18,759.00
VIII. Miscellaneous	2,532.50	6,786.35
Total (I to VIII)	3,95,707.55	3,28,809.36

7. EMPLOYEE BENEFITS

In accordance with the Accounting Standard (AS) 15 – Employee Benefits (Revised), the liability for

long term employee benefits has been ascertained under the ‘Projected Unit Credit’ method and provided for in the accounts.

8. RBI GENERAL ACCOUNT

‘Other Assets’ include ₹18.37 crore (previous year ₹7.61 crore under ‘Other Liabilities’) in respect of inter-office transactions and balances under reconciliation which are at various stages of reconciliation and necessary adjustments are being effected as and when reconciled.

9. RUPEE INVESTMENTS

Securities purchased (Repo) and sold (Reverse Repo) under the Liquidity Adjustment Facility (LAF) are added to and reduced from ‘Investments’ respectively. As at the year-end, the outstanding Repos and Reverse Repos amounted to ₹78,630.00 crore (previous year ₹895.00 crore) and ₹20.00 crore (previous year ₹88,335.00 crore) respectively.

10. DETAILS OF FOREIGN CURRENCY ASSETS

Particulars	(Rupees crore)	
	As on June 30	
	2009	2010
1	2	3
I. Held in Issue Department	6,62,064.41	7,92,300.93
II. Held in Banking Department -		
a) Included in Investments	43,156.61	32,904.06
b) Balances Held Abroad	5,12,320.78	3,39,226.34
Total	12,17,541.80	11,64,431.33

Note :

1. Uncalled amount on partly paid shares of the Bank for International Settlements (BIS) as at June 30, 2010 was ₹82.98 crore (SDR 1,20,41,250). The amount was ₹89.47 crore (SDR 1,20,41,250) in the previous year.
2. RBI has agreed to purchase SDR denominated notes from the International Monetary Fund (IMF) up to a total amount of US Dollar 10 billion (₹46,600 crore). As on June 30, 2010, USD 527.55 million (₹2458.40 crore) was invested in notes of IMF. RBI can be called upon to invest the remaining amount of US Dollar 9.47 billion (₹44,141.60 crore).
3. RBI has agreed to invest up to an amount, the aggregate of which shall not exceed US Dollar 5 billion (₹23,300 crore), in the bonds issued by India Infrastructure Finance Company (UK) Limited. Presently, RBI has invested US Dollar 250 million (₹1,165 crore) in such bonds.

11. DETAILS OF OTHER ASSETS

(Rupees crore)

Particulars	As on June 30	
	2009	2010
1	2	3
I. Fixed Assets (net of accumulated depreciation)	609.40	516.08
II. Gold	8,587.82	44,126.92
III. Income accrued but not received	16,734.04	12,969.29
IV. Miscellaneous	5,207.49	1,064.39
Total	31,138.75	58,676.68

12. INTEREST, DISCOUNT, EXCHANGE, COMMISSION, etc.

Interest, Discount, Exchange, Commission, etc., include the following:

(Rupees crore)

Particulars	Year ended	
	June 30, 2009	June 30, 2010
1	2	3
I. Profit on sale of Foreign and Rupee Securities	18,957.36	14,764.45
II. Net profit on sale of Bank's Property	7.36	1.87

13. Previous year's figures have been regrouped / reclassified, wherever necessary, to conform to current year's presentation.