

The balance sheet of the Reserve Bank expanded significantly during the year, mainly reflecting the impact of liquidity management operations undertaken by the Bank. The income from foreign assets declined for the second successive year, reflecting the low interest rates in international markets. The decline in income from foreign assets in 2010-11 was, however, more than offset by earnings from domestic assets which have expanded. While the Bank's gross income increased by 12.73 per cent to ₹37,070.12 crore in 2010-11, there was a 3 per cent increase in total expenditure to ₹8,655.22 crore. After meeting the needs of necessary transfer to the Contingency Reserve and the Asset Development Reserve, ₹15,009 crore was allocated for transferring to the Government.

XI.1 The size of the Reserve Bank's balance sheet increased significantly in 2010-11 (July-June) mainly on account of its liquidity management operations. On the liability side, the expansion was on account of a large increase in notes in circulation as also an increase in banks' deposits with the Reserve Bank in line with the deposit growth in the banking system (see Box II.6). On the asset side, there was a significant increase in Bank's portfolio of domestic assets in the form of government securities on account of open market purchases, repo purchases and disinvestment of Government of India's surplus balance parked with the Reserve Bank. The increase in foreign currency assets mainly reflected the valuation effect on the portfolio.

XI.2 The financial statements of the Reserve 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 Reserve 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 2010-11 (July-June) are presented in this Chapter.

INCOME

XI.3 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.4 The two major components of the Bank's income are earnings from foreign sources and earnings from domestic sources. The major source of the net interest receipts is augmented by relatively small amounts of income from other sources, viz., discount, exchange, commission, etc.

XI.5 The gross income of the Reserve Bank for the year 2010-11 was ₹37,070.12 crore, an increase of 12.73 per cent over the previous year (Table XI.1). The increase in income from domestic sources more than offset the decline in income from foreign sources.

Earnings from Foreign Sources

XI.6 The Reserve Bank's earnings from the deployment of foreign currency assets and gold decreased by ₹3,952.86 crore (15.75 per cent) from ₹25,102.55 crore in 2009-10 to ₹21,149.69 crore in 2010-11. The rate of earnings on foreign currency assets and gold was lower at 1.74 per cent in 2010-11 as compared with 2.09 per cent in 2009-10 (Table XI.2).

Earnings from Domestic Sources

XI.7 The earnings from domestic sources increased by ₹8,138.84 crore from ₹7,781.59 crore in 2009-10 to ₹15,920.43 crore in 2010-11, registering an increase of 104.59 per cent (Table XI.3). The increase was mainly due to the effect of earnings on

Table XI.1: Gross Income

(₹ crore)

Item	2006-07	2007-08	2008-09	2009-10	2010-11
1	2	3	4	5	6
A. Foreign Sources					
Interest, Discount, Exchange	35,152.99	51,883.27	50,796.21	25,102.55	21,149.69
B. Domestic Sources					
(i) Interest	5,144.52	4,958.35	9,056.27	6,646.35	15,031.84
(ii) Profit on sale of shares of SBI	34,308.60	-	-	-	-
(iii) Other Earnings	742.22	909.17	879.50	1,135.24	888.59
Total : [(i)+(ii)+(iii)]	40,195.34 (5,886.74)	5,867.52	9,935.77	7,781.59	15,920.43
C. Total Income (Gross) (A+B)	75,348.33 (41,039.73)	57,750.79	60,731.98	32,884.14	37,070.12

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

LAF operations, governments' cash management operations involving higher availment of ways and means advances (WMA) from the Reserve Bank and higher coupon receipt on an increased portfolio of government securities. The rate of earnings on average domestic assets increased from 3.45 per cent in the previous year to 3.77 per cent in 2010-11.

EXPENDITURE

XI.8 The Reserve Bank's expenditure comprises its establishment expenses besides expenditure that arises in the process of performing statutory functions of the Bank, such as, agency charges and security printing charges. The total expenditure of the Reserve Bank increased by ₹252.10 crore (3.00 per cent) from ₹8,403.12 crore in 2009-10 to ₹8,655.22 crore in 2010-11 largely due to an increase in establishment expenditure and agency charges, moderated by a decline in security printing charges (Table XI.4).

Establishment Expenditure

XI.9 The establishment expenses for 2010-11 were ₹2,300.71 crore as against ₹1,986.82 crore for 2009-10 registering an increase of ₹313.89 crore (15.80 per cent). The increase is mainly due to the revision of wages of all categories of staff with retrospective effect.

Non-Establishment Expenditure

XI.10 The amount of agency charges paid during 2010-11 was ₹3,012.49 crore compared with ₹2,855.02 crore in 2009-10. The increase of ₹157.47 crore (5.52 per cent) is mainly attributable to the increase in the volume of government business conducted by agency banks. Agency charges also includes a small component of fees paid by the Reserve Bank to the Primary Dealers as underwriting commission. This component decreased from ₹64.14 crore in 2009-10 to ₹36.76 crore in 2010-11 and constituted 1.22 per cent of the agency charges in 2010-11.

Table XI.2: Earnings from Foreign Sources

(₹ crore)

Item	As on		Variation	
	June 30, 2010	June 30, 2011	Absolute	Per cent
1	2	3	4	5
Average Foreign Currency Assets (FCA)	12,03,828.90	12,17,751.21	13,922.31	1.16
Earnings (Interest, Discount, Exchange gain/loss, Capital gain/loss on securities)	25,102.55	21,149.69	(-) 3,952.86	(-) 15.75
Earnings as percentage of Average FCA	2.09	1.74		

Table XI.3: Earnings from Domestic Sources

(₹ crore)

Item	As on		Variation	
	June 30, 2010	June 30, 2011	Absolute	Per cent
1	2	3	4	5
Domestic Assets	3,88,594.36	5,35,907.16	1,47,312.80	37.91
Weekly Average of Domestic Assets	2,25,373.78	4,22,033.42	1,96,659.64	87.26
Earnings	7,781.59	15,920.43	8,138.84	104.59
<i>of which:</i>				
<i>Interest and Other Income</i>	6,646.35	15,031.84	8,385.49	126.17
(i) Profit on Sale of Securities	8,667.27	3,091.15	(-) 5,576.12	(-) 64.34
(ii) Interest on Securities [a - b]	(-)2,435.08	11,165.65	13,600.73	-
<i>of which</i>				
(a) Interest on Domestic Securities, LAF operations and Dividend	13,027.82	22,321.67	9,293.85	71.34
(b) Depreciation on Securities	15,462.90	11,156.02	(-) 4,306.88	(-) 27.85
(iii) Interest on Loans and Advances	378.97	731.05	352.08	92.90
(iv) Other Interest Receipts	35.19	43.99	8.80	25.01
<i>Other Earnings</i>	1,135.24	888.59	(-) 246.65	(-)21.73
(i) Discount	-	-	-	-
(ii) Exchange	0.01	0.01	0.00	0.00
(iii) Commission	687.08	781.47	94.39	13.74
(iv) Rent realised and others	448.15	107.11	(-) 341.04	(-) 76.10
<i>Memo:</i>				
Earnings in percentage terms (on average domestic assets)	3.45	3.77	-	-

XI.11 The expenditure incurred on security printing charges (cheque, note forms, etc.) in 2010-11 decreased by ₹377.75 crore (13.72 per cent) to ₹2,376.37 crore. This decrease was mainly on account of less supply made by presses *vis-à-vis* indents made for notes in the denomination of ₹100 (20 per cent) and ₹1,000 (53 per cent) during 2010-11. Overall, the supply of notes was 7 per cent less than the indent.

Surplus transferable to the Government of India

XI.12 The surplus transferable to the Government of India for the year 2010-11 amounted to ₹15,009 crore. This included ₹1,322 crore payable to the Government towards the interest differential on special securities converted into marketable securities. The interest differential was paid for compensating the Government for the difference in interest expenditure which the Government had to

Table XI.4: Expenditure

(₹ crore)

Item	2006-07	2007-08	2008-09	2009-10	2010-11
1	2	3	4	5	6
I. Interest Payment	1,135.38	2.58	1.33	1.02	55.06
<i>of which:</i>					
Scheduled Banks	1,134.85	1.90*	0.00*	0.00*	0.00*
II. Establishment	1,425.81	1,430.87	2,448.25	1,986.82	2,300.71
III. Non-Establishment	4,603.06	4,663.68	5,768.30	6,415.28	6,299.45
<i>of which:</i>					
a) Agency charges	2,042.50	2,111.14	2,999.19	2,855.02	3,012.49
b) Security printing	2,020.89	2,032.23	2,063.17	2,754.12	2,376.37
Total [I+II+III]	7,164.25	6,097.13	8,217.88	8,403.12	8,655.22

* : 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. The amount in 2007-08 was paid towards interest on CRR balances relating to the previous year.

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

(₹ crore)

Item	2006-07	2007-08	2008-09	2009-10	2010-11
1	2	3	4	5	6
Total Income (Gross)	41,039.73 (75,348.33) #	57,750.79	60,731.98	32,884.14	37,070.12
Less transfer to:					
(i) Contingency Reserve	20,488.97	33,430.74	26,191.40	5,168.39	12,167.27
(ii) Asset Development Reserve	1,971.51	3,207.92	1,309.70	549.63	1,234.63
Total (i + ii)	22,460.48	36,638.66	27,501.10	5,718.02	13,401.90
Total Income (Net)	18,579.25 (52,887.85) #	21,112.13	33,230.88	27,166.12	23,668.22
Total Expenditure	7,164.25	6,097.13	8,217.88	8,403.12	8,655.22
Net Disposable Income	11,415.00 (45,723.60) #	15,015.00	25,013.00	18,763.00	15,013.00
Less : Transfer to Funds *	4.00	4.00	4.00	4.00	4.00
Transfer of surplus to the Government	11,411.00 (45,719.60) #	15,011.00	25,009.00	18,759.00	15,009.00

: 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 ₹ 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.

bear consequent to conversion of such special securities. The position of income, expenditure and surplus transferred to the Government in the last five years is given in Table XI.5.

Internal Reserves

XI.13 Contingency Reserve represents the amount set aside on a year-to-year basis for meeting unexpected and unforeseen contingencies, including depreciation in the 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.14 The size of the overall balance sheet of the Reserve Bank increased noticeably during 2010-11

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

(₹ crore)

Item	2006-07	2007-08	2008-09	2009-10	2010-11
1	2	3	4	5	6
Total Income (Gross)	41,039.73 *	57,750.79	60,731.98	32,884.14	37,070.12
Transfer to Contingency Reserve	20,488.97 (49.92)	33,430.74 (57.89)	26,191.40 (43.13)	5,168.39 (15.72)	12,167.27 (32.82)
Transfer to Asset Development Reserve	1,971.51 (4.80)	3,207.92 (5.55)	1,309.70 (2.16)	549.63 (1.67)	1,234.63 (3.33)
Transfer of Surplus to the Government	11,411.00 * (27.80)	15,011.00 (25.99)	25,009.00 (41.18)	18,759.00 (57.05)	15,009.00 (40.49)
Transfer of Surplus to the Government as percentage of Total Income (Gross) less Expenditure	33.69	29.06	47.62	76.63	52.82

* : Excluding profit on account of sale of shares of SBI.

Note: Figures in parentheses indicate proportion to the total income (gross).

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

Issue Department – Liabilities

XI.15 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. The notes in circulation increased by 15.11 per cent during 2010-11, as compared with 20 per cent during 2009-10.

Issue Department - Assets

XI.16 In terms of the RBI Act, the eligible assets for the Issue Department consist of gold coin and 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 tonnes. A part of gold stock is marked as assets of the Issue Department and reflected accordingly in the balance sheet of the Issue Department. The remaining stock of gold is reckoned as assets of the Banking Department and is shown under “Other Assets” in the balance sheet of the Banking Department.

Banking Department – Liabilities

XI.17 The liabilities of the Banking Department include the following:

- a) Capital paid-up: The Reserve Bank was constituted as a private shareholders’ 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 in July 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 is being contributed each year.
 - 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 is being contributed each year.
- 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 NABARD. A token contribution of ₹1 crore is made each year to each of these two Funds.
- e) Deposits: These represent the cash balances maintained with the Reserve Bank by 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 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 increased from ₹3,28,809.36 crore as on June 30, 2010 to ₹4,14,197.15 crore as on June 30, 2011, mainly due to accretion to CGRA.
- h) The CR and the ADR 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.18 Gains/losses on valuation of foreign currency assets and gold due to movements in the exchange rates and/or price of gold are not taken to the Profit and Loss Account but instead booked under a balance sheet head named as the Currency and Gold Revaluation Account (CGRA). The balance in this account represents accumulated net gain on valuation of foreign currency assets and gold. During 2010-11, there was an increase of ₹63,152.06 crore in the CGRA, thus increasing its balance from ₹1,19,133.98 crore as on June 30, 2010 to ₹1,82,286.04 crore as on June 30, 2011. This reflected the increase in the value of gold as also appreciation of other currencies against the US dollar.

XI.19 The balance in the Exchange Equalisation Account (EEA) represents provision made for the exchange losses arising out of forward commitments.

The balance in the EEA as on June 30, 2011 was ₹1.12 crore.

XI.20 The Reserve Bank values foreign dated securities at market prices prevailing on the last business day of each month and the appreciation/depreciation arising therefrom is transferred to the Investment Revaluation Account (IRA). The balance in IRA as on June 30, 2011 was ₹4,269.09 crore. The balances in CGRA, EEA and IRA are grouped under "Other Liabilities" in the balance sheet (Table XI.7).

Contingency Reserve

XI.21 The Reserve Bank maintains a Contingency Reserve (CR) to enable it to absorb unexpected and unforeseen contingencies. With transfer of ₹12,167.27 crore from the Reserve Bank's income to CR during 2010-11, the balance in CR increased to ₹1,70,727.87 crore as on June 30, 2011 from ₹1,58,560.60 crore as on June 30, 2010. The balance available in the CR is considered sufficient to meet contingent liabilities.

Asset Development Reserve

XI.22 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 2010-11, an amount of ₹1,234.63 crore was transferred from income to ADR raising its level from

Table XI.7: Balances in Currency and Gold Revaluation Account (CGRA), Exchange Equalisation Account (EEA) and Investment Revaluation Account (IRA)

(₹ crore)			
As on June 30	CGRA	EEA	IRA
1	2	3	4
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
2011	1,82,286.04	1.12	4,269.09

Table XI.8 : Balances in Contingency Reserve and Asset Development Reserve

(₹ crore)

As on June 30	Balance in CR	Balance in ADR	Total	Percentage to total assets
1	2	3	4 (2+3)	5
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
2011	1,70,727.87	15,866.21	1,86,594.08	10.34

₹14,631.58 crore as on June 30, 2010 to ₹15,866.21 crore as on June 30, 2011. CR and ADR together constituted 10.34 per cent of the total assets of the Reserve Bank as on June 30, 2011 (Table XI.8). ADR now accounts for 0.88 per cent of the total assets of the Bank as against the target of one per cent.

Banking Department - Assets

XI.23 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.24 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.25 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.26 The foreign currency assets (FCA) comprise foreign securities and balances held abroad. The RBI Act provides the legal framework for deployment of the FCA as well as gold. FCA comprise deposits

with other central banks, the Bank for International Settlements (BIS), foreign commercial banks, securities representing debt of sovereigns and supra-national institutions with residual maturity not exceeding 10 years and any other instrument or institution as approved by the Central Board of the Reserve Bank in accordance with the provisions of the Act. The increase in the level of FCA in Rupee terms was mainly on account of appreciation of non-US dollar currency assets. The position of outstanding FCA and domestic assets over the last five years is given in Table XI.9.

XI.27 FCA 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 the Reserve Tranche Position (RTP) form 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.28 The Reserve Bank has agreed to make resources available under the IMF's New Arrangements to Borrow (NAB) up to an amount of SDR 8,740.82 million (₹62,559.91 crore). As on June 30, 2011, investments amounting to SDR 750 million (₹5,367.90 crore) have been made in notes issued under NAB.

XI.29 The Reserve Bank has agreed to invest up to an amount, the aggregate of which shall not exceed US\$ 5 billion (₹22,360 crore), in the bonds issued by the India Infrastructure Finance Company (UK) Limited. As on June 30, 2011, the Reserve Bank had invested US\$ 250 million (₹1,118 crore) in such bonds.

Table XI.9: Outstanding Foreign Currency and Domestic Assets

(₹ crore)

As on June 30	Foreign Currency Assets	Domestic Assets
1	2	3
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
2011	12,68,743.82	5,35,907.16

Table XI.10 : Foreign Exchange Reserves

(₹ crore)

Item	As on		Variation	
	June 30, 2010	June 30, 2011	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	11,64,431.33	12,68,743.82	1,04,312.49	8.96
Gold	92,704.13	1,10,317.23	17,613.10	19.00
Special Drawing Rights (SDR)	22,718.63	20,631.97	(-) 2,086.66	(-) 9.18
Reserve Position in the IMF*	6,117.62	13,302.68	7,185.06	117.45
Total Foreign Exchange Reserves (FER)	12,85,971.71	14,12,995.70	1,27,023.99	9.88

*: 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.30 The investment in Government of India securities increased by ₹1,03,181.38 crore from ₹1,92,901.62 crore as on June 30, 2010 to ₹2,96,083.00 crore as on June 30, 2011, excluding the securities purchased (Repo) under the Liquidity Adjustment Facility (LAF). The increase was primarily on account of open market purchases by the Reserve Bank and disinvestment of surplus cash balance by the Government.

Investments in shares of subsidiaries and associate institutions

XI.31 The Reserve Bank divested its stake in NABARD as per the decision of the Government of India. Thus, out of 72.5 per cent of NABARD's total

share capital of ₹2,000 crore earlier held by the Reserve Bank, 71.5 per cent was transferred to Government of India at par on October 13, 2010. The Reserve Bank now holds one per cent of shareholding in NABARD (Table XI.11). Investments in shares are valued at cost.

Other Assets

XI.32 '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 value of 'Other Assets' increased by ₹11,172.21 crore from ₹58,676.68 crore as on June 30, 2010 to ₹69,848.89 crore as on June 30, 2011 mainly on account of increase in the value of gold holdings by 19 per cent from ₹44,126.92 crore as on June 30, 2010 to ₹52,510.70 crore as on June 30, 2011.

Auditors

XI.33 The accounts of the Reserve Bank for the year 2010-11 were audited by M/s. V. Sankar Aiyar & Co., Mumbai and M/s. Jain Chowdhary & Co., Mumbai as the Statutory Central Auditors. Branch offices were audited by the Statutory Branch Auditors, namely, M/s. S. Ramanand Aiyar & Co., New Delhi, M/s. K.K. Mankeshwar & Co., Nagpur, M/s. M.K. Dandeker & Co., Chennai and M/s. S. N. Guha & Co., Kolkata. The auditors were appointed by the Central Government in terms of section 50 of the RBI Act.

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

(₹ crore)

Institution	Book value of shares held as on	
	June 30, 2010	June 30, 2011
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	20.00
3. National Housing Bank	450.00	450.00
4. Bharatiya Reserve Bank Note Mudran (Pvt.) Ltd.	800.00	800.00
Total	2,750.00	1,320.00

ANNUAL REPORT

**RESERVE BANK OF INDIA
BALANCE SHEET AS AT 30th JUNE 2011
ISSUE DEPARTMENT**

(₹ Thousands)

2009-10	LIABILITIES	2010-11	2009-10	ASSETS	2010-11
32,61,51	Notes held in the Banking Department	15,14,26	48577,21,52	Gold Coin and Bullion:	
842008,36,40	Notes in Circulation	969261,23,85	-	(a) Held in India	57806,52,57
			792300,92,96	(b) Held outside India	-
842040,97,91	Total Notes Issued	969276,38,11	840878,14,48	Foreign Securities	910165,61,91
			116,40,43	Total	967972,14,48
			1046,43,00	Rupee Coin	257,80,63
			-	Government of India Rupee Securities	1046,43,00
			-	Internal Bills of Exchange and other Commercial Paper	-
842040,97,91	Total Liabilities	969276,38,11	842040,97,91	Total Assets	969276,38,11

BANKING DEPARTMENT

2009-10	LIABILITIES	2010-11	2009-10	ASSETS	2010-11
5,00,00	Capital paid-up	5,00,00	32,61,51	Notes	15,14,26
6500,00,00	Reserve Fund	6500,00,00	6,34	Rupee Coin	5,34
19,00,00	National Industrial Credit (Long Term Operations) Fund	20,00,00	3,08	Small Coin	2,25
193,00,00	National Housing Credit (Long Term Operations) Fund	194,00,00	-	Bills Purchased and Discounted :	
			-	(a) Internal	-
			-	(b) External	-
			-	(c) Government Treasury Bills	-
	Deposits			Balances Held Abroad	303530,92,97
	(a) Government		339226,34,23	Investments	458606,21,75
36457,41,08	(i) Central Government	100,51,30		Loans and Advances to :	
41,33,15	(ii) State Governments	42,44,43		(i) Central Government	770,00,00
	(b) Banks		310068,81,35	(ii) State Governments	76,51,00
307759,41,00	(i) Scheduled Commercial Banks	381206,41,38		Loans and Advances to:	
4065,43,76	(ii) Scheduled State Co-operative Banks	3679,82,18		(i) Scheduled Commercial Banks	1746,69,00
4986,76,82	(iii) Other Scheduled Co-operative Banks	5755,36,42		(ii) Scheduled State Co-operative Banks	-
68,63,80	(iv) Non-Scheduled State Co-operative Banks	67,31,80		(iii) Other Scheduled Co-operative Banks	-
9224,79,62	(v) Other Banks	10357,81,03		(iv) Non-Scheduled State Co-operative Banks	-
12807,72,53	(c) Others	12430,75,91		(v) NABARD	-
				(vi) Others	795,28,48
			73,38,00	Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund:	
			2623,17,00	(a) Loans and Advances to:	
				(i) Industrial Development Bank of India	-
				(ii) Export Import Bank of India	-
			41,00,00	(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	-
			275,22,98	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	-
			58676,68,49	Other Assets	69848,88,89
711017,32,98	Total Liabilities	835389,73,94	711017,32,98	Total Assets	835389,73,94

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

THE RESERVE BANK'S ACCOUNTS FOR 2010-11

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30th JUNE 2011

(₹ thousands)

2009-10	INCOME	2010-11
27166,12,24	Interest, Discount, Exchange, Commission, etc.¹	23668,21,72
27166,12,24	Total	23668,21,72
	EXPENDITURE	
1,01,60	Interest	55,06,44
1986,82,29	Establishment	2300,70,71
2,08,15	Directors' and Local Board Members' Fees and Expenses	2,29,61
37,12,10	Remittance of Treasure	45,52,77
2855,02,06	Agency Charges	3012,48,83
2754,12,35	Security Printing (Cheque, Note forms, etc.)	2376,37,20
26,58,89	Printing and Stationery	23,32,59
42,48,93	Postage and Telecommunication Charges	71,84,43
85,15,56	Rent, Taxes, Insurance, Lighting, etc.	85,50,27
2,51,17	Auditors' Fees and Expenses	3,13,86
2,75,54	Law Charges	3,26,84
274,21,93	Depreciation and Repairs to Bank's Property	243,91,95
333,21,67	Miscellaneous Expenses	431,76,22
8403,12,24	Total	8655,21,72
18763,00,00	Available Balance	15013,00,00
	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
18759,00,00	Surplus payable to the Central Government	15009,00,00

1. After making the usual or necessary provisions in terms of section 47 of the Reserve Bank of India Act, 1934 amounting to ₹13401,90,26 thousands (2009-10 - ₹5718,01,83 thousands).
2. These funds are maintained by the National Bank for Agriculture and Rural Development (NABARD).

A.K. Bera
Chief General Manager

H.R. Khan
Deputy Governor

Anand Sinha
Deputy Governor

Subir Gokarn
Deputy Governor

K.C. Chakrabarty
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, 2011 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, 2011 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 V. Sankar Aiyar & Co.
Chartered Accountants
Firm Registration No.109208W
S.Venkatraman
Partner
(M. No. 34319)

For Jain Chowdhary & Co.
Chartered Accountants
Firm Registration No.113267W
S.C. Jain
Partner
(M. No. 14871)

Dated: August 11, 2011
Place: Mumbai

RESERVE BANK OF INDIA

SIGNIFICANT ACCOUNTING POLICIES AND NOTES
TO THE ACCOUNTS FOR THE YEAR 2010-11

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 transit 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 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 amortization 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, <i>etc.</i>	20 per cent
Computers, Microprocessors, Software, <i>etc.</i>	33.33 per cent

Depreciation on leasehold land and building 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 per cent
Building(s) constructed on Freehold Land	10 per cent

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 ₹1,322.00 crore (previous year – ₹1,407.00 crore) representing interest differential pertaining to the period April 1, 2010-March 31, 2011 on account of conversion of special securities issued by the Government of India into marketable securities.

2. EARMARKED SECURITIES

The Reserve Bank has earmarked certain Government securities having a book value of ₹10,066.55 crore (previous year ₹9,466.68 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.

3. 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).

4. DEPOSITS

(a) Government

There is no outstanding balance maintained by the Central Government under the Market Stabilisation Scheme (MSS).

Deposits of State Governments include balance of Government of the Union Territory of Puducherry.

(b) Others

Particulars	As on June 30	
	2010	2011
1	2	3
I. Rupee Deposits from the Foreign Central Banks and the Foreign Financial Institutions	3,246.36	725.23
II. Deposits from the Indian Financial Institutions	516.33	198.94
III. Accumulated Retirement Benefits	8,817.13	9,401.14
IV. Miscellaneous	227.91	2,105.45
Total	12,807.73	12,430.76

5. DETAILS OF OTHER LIABILITIES

Particulars	As on June 30	
	2010	2011
1	2	3
I. Contingency Reserve		
Balance at the beginning of the year	1,53,392.21	1,58,560.60
Add: Accretion during the year	5,168.39	12,167.27
Balance at the end of the year	1,58,560.60	1,70,727.87
II. Asset Development Reserve		
Balance at the beginning of the year	14,081.95	14,631.58
Add: Accretion during the year	549.63	1,234.63
Balance at the end of the year	14,631.58	15,866.21
III. Currency And Gold Revaluation Account		
Balance at the beginning of the year	1,98,842.03	1,19,133.98
Add: Net Accretion (+)/Net Depletion (-) during the year	(-) 79,708.05	63,152.06
Balance at the end of the year	1,19,133.98	1,82,286.04
IV. Investment Revaluation Account		
Balance at the beginning of the year	–	9,370.96
Add: Net Accretion (+)/Net Utilization (-) during the year	9,370.96	(-)5,101.87
Balance at the end of the year	9,370.96	4,269.09
V. Exchange Equalisation Account		
Balance at the beginning of the year	26.98	18.87
Transfer from Exchange account	18.87	1.12
Add: Net Accretion (+)/Net Utilization (-) during the year	(-) 26.98	(-) 18.87
Balance at the end of the year	18.87	1.12
VI. Settlement Liabilities	–	16,688.64
VII. Provision for Outstanding Expenses	1,548.02	1,517.53
VIII. Surplus Transferable to the Government of India	18,759.00	15,009.00
IX. Miscellaneous	6,786.35	7,831.65
Total (I to IX)	3,28,809.36	4,14,197.15

6. 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.

7. RBI GENERAL ACCOUNT

‘Other Assets’ include ₹17.19 crore (corresponding figure in previous year was ₹18.37 crore) in respect of inter-office transactions and balances which are at various stages of reconciliation and necessary adjustments are being effected as and when reconciled.

8. 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 ₹1,04,690.00 crore (previous year ₹78,630.00 crore) and ₹2,600.00 crore (previous year ₹20.00 crore) respectively.

9. DETAILS OF FOREIGN CURRENCY ASSETS

Particulars	As on June 30	
	2010	2011
1	2	3
I. Held in Issue Department	7,92,300.93	9,10,165.62
II. Held in Banking Department		
(a) Included in Investments	32,904.06	55,047.27
(b) Balances Held Abroad	3,39,226.34	3,03,530.93
Total	11,64,431.33	12,68,743.82

Note :

- Uncalled amount on partly paid shares of the Bank for International Settlements (BIS) as on June 30, 2011 was ₹ 86.18 crore (SDR 1,20,41,250). The amount was ₹82.98 crore (SDR 1,20,41,250) in the previous year.
- RBI has agreed to make resources available under the IMF's New Arrangements to Borrow (NAB) {which subsumes the earlier commitment of US\$ 10 billion (₹46,600 crore) under the Note Purchase Agreement} up to a maximum amount of SDR 8,740.82 million (₹62,559.91 crore). As on June 30, 2011, investments amounting to SDR 750 million (₹5,367.90 crore) have been made under the NAB.
- RBI has agreed to invest up to an amount, the aggregate of which shall not exceed US dollar 5 billion (₹22,360 crore), in the bonds issued by India Infrastructure Finance Company (UK) Limited. Presently, RBI has invested US dollar 250 million (₹1,118 crore) in such bonds.

10. DETAILS OF OTHER ASSETS

Particulars	As on June 30	
	2010	2011
1	2	3
I. Fixed Assets (net of accumulated depreciation)	516.08	488.28
II. Gold	44,126.92	52,510.70
III. Income accrued but not received	12,969.29	15,901.04
IV. Miscellaneous	1,064.39	948.87
Total	58,676.68	69,848.89

11. INTEREST, DISCOUNT, EXCHANGE, COMMISSION, etc.

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

Particulars	Year ended	
	June 30, 2010	June 30, 2011
1	2	3
I. Profit on sale of Foreign and Rupee Securities	14,764.45	5,537.29
II. Net profit on sale of Bank's Property	1.87	2.93

12. AUDITORS' FEES

Out of total Auditors' Fees and Expenses of ₹3.14 crore, a sum of ₹24.00 lakh was paid to the Bank's Statutory Auditors as audit fees for audit of the Bank's accounts.

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