

XI.1 The key financial results of the Reserve Bank's operations during the year 2007-08 are presented in this Chapter.

INCOME AND EXPENDITURE

XI.2 The gross income, expenditure, appropriations and net disposable income of the Reserve Bank for the last five years are furnished in Table 11.1.

Surplus Transferable to the Government of India

XI.3 The surplus transferable to the Government of India for the year 2007-08 amounted to Rs.15,011.00 crore, inclusive of Rs.1,699.00 crore 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.

INCOME

XI.4 The gross income of the Reserve Bank for the year 2007-08 was Rs.57,750.79 crore as against

the gross income of Rs.41,039.73 crore (excluding profit on sale of shares in SBI) in the year 2006-07 and registered an increase of 40.7 per cent over the previous year. This was mainly on account of increase in income from the foreign sources. Income from the domestic sources decreased by 0.3 per cent during the year (Table 11.2 and Chart XI.1).

XI.5 The share of transfer to the Contingency Reserve, Asset Development Reserve and surplus transferred to the Government as a percentage to the total income is given in Table 11.3.

Earnings from Foreign Sources

XI.6 The Reserve Bank's earnings from the deployment of foreign currency assets and gold increased by Rs.16,730.28 crore (47.6 per cent) from Rs.35,152.99 crore in 2006-07 to Rs.51,883.27 crore in 2007-08 (Table 11.4). This was mainly on account of increase in the level of foreign currency assets. Before accounting for mark-to-market depreciation on securities, the rate of earnings on foreign currency assets and gold was 5.1 per cent in 2007-08 as against 4.7 per cent in 2006-07. The rate of earnings on foreign currency

Table 11.1: Trends in Gross Income, Expenditure and Net Disposable Income

(Rupees crore)

Item	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6
Total Income (Gross)	14,323.70	19,028.28	26,320.31	41,039.73 (75,348.33) #	57,750.79
Less transfer to :					
(i) Contingency Reserve	969.47	6,125.92	10,936.42	20,488.97	33,430.74
(ii) Asset Development Reserve	188.09	687.09	1,126.79	1,971.51	3,207.92
Total (i + ii)	1,157.56	6,813.01	12,063.21	22,460.48	36,638.66
Total Income (Net)	13,166.14	12,215.27	14,257.10	18,579.25 (52,887.85) #	21,112.13
Total Expenditure	7,762.14	6,811.27	5,849.10	7,164.25	6,097.13
Net Disposable Income	5,404.00	5,404.00	8,408.00	11,415.00 (45,723.60) #	15,015.00
Less : Transfer to Funds *	4.00	4.00	4.00	4.00	4.00
Transfer of surplus to the Government	5,400.00	5,400.00	8,404.00	11,411.00 (45,719.60) #	15,011.00

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

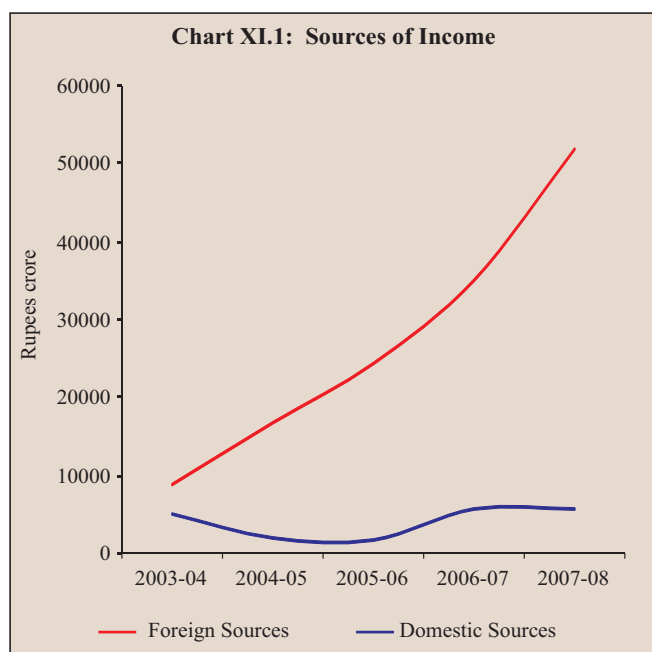
* : An amount of Rupees one crore each transferred to the National Industrial Credit (Long Term Operations) Fund, National Rural Credit (Long Term Operations) Fund, National Rural Credit (Stabilisation) Fund and National Housing Credit (Long Term Operations) Fund during each of the five years.

Table 11.2: Gross Income

(Rupees crore)

Item	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6
A. Foreign Sources					
Interest, Discount, Exchange	9,103.50	16,979.47	24,538.03	35,152.99	51,883.27
B. Domestic Sources					
(i) Interest	4,872.41	1,607.34	1,207.04	5,144.52	4,958.35
(ii) Profit on sale of investment in shares of SBI	-	-	-	34,308.60	-
(iii) Other Earnings	347.79	441.47	575.24	742.22	909.17
Total : [(i)+(ii)+(iii)]	5,220.20	2,048.81	1,782.28	40,195.34 (5,886.74)	5,867.52
C. Total Income (Gross) (A+B)	14,323.70	19,028.28	26,320.31	75,348.33 (41,039.73)	57,750.79

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



assets and gold, after accounting for depreciation, increased from 4.6 per cent in 2006-07 to 4.8 per cent in 2007-08.

Income from Domestic Sources

XI.7 The income from domestic sources in 2007-08 at Rs.5,867.52 crore was similar to last year's level at Rs.5,886.74 crore (excluding profit on sale of shares in SBI to the Government of India). The head 'Interest on Securities' includes (i) interest on domestic securities, dividend and interest on LAF operations which together decreased from Rs.5,234.58 crore in 2006-07 to Rs.4,533.87 crore in 2007-08 and (ii) depreciation on securities which increased from Rs.5,570.03 crore to Rs.7,048.06 crore (Table 11.5).

Table 11.3: Contingency and Asset Development Reserves and Surplus Transfer to the Government

(Rupees crore)

Item	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6
Total Income (Gross)	14,323.70	19,028.28	26,320.31	41,039.73*	57,750.79
Transfer to Contingency Reserve	969.47 (6.8)	6,125.92 (32.2)	10,936.42 (41.6)	20,488.97 (49.9)	33,430.74 (57.9)
Transfer to Asset Development Reserve	188.09 (1.3)	687.09 (3.6)	1,126.79 (4.3)	1,971.51 (4.8)	3,207.92 (5.6)
Transfer of surplus to the Government	5,400.00 (37.7)	5,400.00 (28.4)	8,404.00 (31.9)	11,411.00* (27.8)	15,011.00 (26.0)

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

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

Table 11.4: Earnings from Foreign Sources

(Rupees crore)

Item	As on		Variation	
	June 30, 2007	June 30, 2008	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	8,39,878.79	12,98,552.05	4,58,673.26	54.6
Gold	27,655.43	39,548.32	11,892.89	43.0
Special Drawing Rights (SDR)	5.78	47.57	41.79	723.0
Reserve Position in the IMF**	1,875.16	2,268.53	393.37	21.0
Total Foreign Exchange Reserves (FER)	8,69,415.16	13,40,416.47	4,71,001.31	54.2
Average FCA	7,70,814.47	10,75,984.86	3,05,170.39	39.6
Earnings (Interest, Discount, Exchange gain/loss, Capital gain/loss on securities)	36,142.11	54,715.15	18,573.04	51.4
Depreciation on Securities	(-) 989.12	(-) 2,831.88	(-) 1,842.76	186.3
Earnings Net of Depreciation	35,152.99	51,883.27	16,730.28	47.6
<i>Memo:</i>				
Unrealised appreciation on Securities	312.26	2,122.72	1,810.46	579.8
Earnings as percentage of Average FCA	4.7	5.1	-	-
Earnings (net of depreciation) as percentage of Average FCA	4.6	4.8	-	-
** : 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.				

EXPENDITURE

XI.8 Total expenditure of the Reserve Bank decreased by Rs.1,067.12 crore (14.9 per cent) from

Rs.7,164.25 crore in 2006-07 to Rs.6,097.13 crore in 2007-08 (Table 11.6 and Chart XI.2). No interest is payable to the scheduled banks on eligible cash

Table 11.5: Earnings from Domestic Sources

(Rupees crore)

Item	As on		Variation	
	June 30, 2007	June 30, 2008	Absolute	Per cent
1	2	3	4	5
Domestic Assets	1,62,058.59	1,64,431.13	2,372.54	1.5
Weekly Average of Domestic Assets	1,10,226.68	1,06,412.90	(-)3,813.78	(-)3.5
Earnings	5,886.74*	5,867.52	(-)19.22	(-)0.3
<i>of which:</i>				
Interest and Other Income	5,144.52	4,958.35	(-)186.17	(-)3.6
(i) Profit on Sale of Securities	5,059.74	7,089.80	2,030.06	40.1
(ii) Interest on Securities [a - b]	(-)335.45	(-) 2,514.19	(-) 2,178.74	649.5
<i>of which:</i>				
(a) Interest on Domestic Securities, LAF operations and Dividend	5,234.58	4,533.87	(-) 700.71	(-) 13.4
(b) Depreciation on Securities	5,570.03	7,048.06	1478.03	26.5
(iii) Interest on Loans and Advances	371.41	325.60	(-) 45.81	(-) 12.3
(iv) Other Interest Receipts	48.82	57.14	8.32	17.0
<i>Other Earnings</i>	742.22	909.17	166.95	22.5
(i) Discount	-	-	-	-
(ii) Exchange	0.03	0.01	(-)0.02	(-) 66.7
(iii) Commission	449.67	521.19	71.52	15.9
(iv) Rent realised and others	292.52	387.97	95.45	32.6
<i>Memo:</i>				
Earnings (excluding profit on sale of shares of SBI) in percentage terms (on average domestic assets)	5.3	5.5	-	-
*: Excluding profit on sale of shares of SBI.				

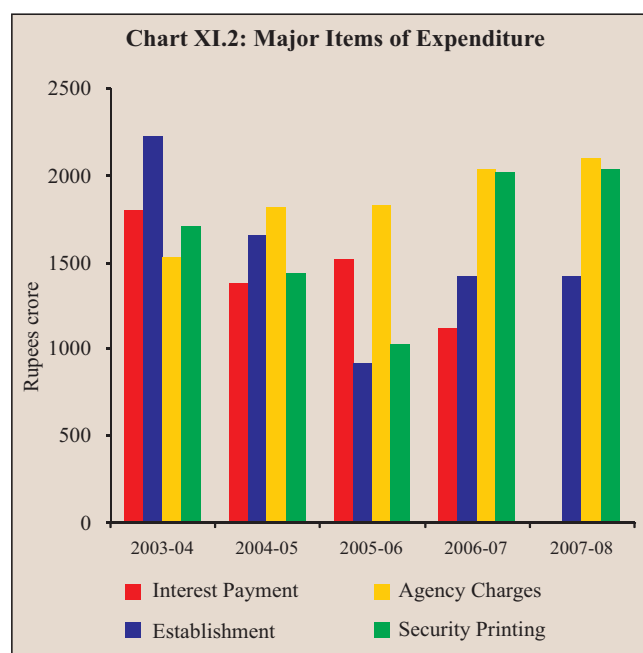
reserve ratio (CRR) balances with effect from the fortnight beginning March 31, 2007. The expenditure, excluding interest on CRR balances, increased marginally by Rs.65.83 crore from Rs.6,029.40 crore in 2006-07 to Rs.6,095.23 crore in 2007-08. The establishment expenditure also included provision for medical benefits of retiring employees for Rs.6.32 crore and provision towards unavailed LFC for Rs.1.35 crore.

Interest Payment

XI.9 Pursuant to amendment to Reserve Bank of India Act, 1934, interest payable on eligible CRR balances was withdrawn with effect from fortnight beginning March 31, 2007. Hence, interest payment, which mainly consisted of interest on CRR balances, decreased by Rs.1,132.80 crore (99.8 per cent) from Rs.1,135.38 crore in 2006-07 to Rs.2.58 crore in 2007-08. Out of this, Rs.1.90 crore was paid towards interest on CRR balances relating to the previous year.

Establishment Expenditure

XI.10 The establishment expenditure increased marginally by Rs.5.06 crore from Rs.1,425.81 crore in 2006-07 to Rs.1,430.87 crore in 2007-08 due to normal yearly increase on account of increments, promotion, DA revision, etc. The establishment expenditure during 2007-08 comprised salary (30.4 per cent), allowances (21.4 per cent), funds (18.8 per cent) and miscellaneous expenditure (29.4 per cent).



Non-Establishment Expenditure

XI.11 The expenditure incurred on security printing (cheque, note forms, etc.) charges in 2007-08 (July-June) increased by Rs.11.34 crore (0.6 per cent) to Rs.2,032.23 crore from Rs.2,020.89 crore in 2006-07. Although the supply of banknotes in 2007-08 increased by 1,146.34 million pieces as compared with 2006-07, the increase in expenditure was only marginal because of the reduction in printing charges. The amount of agency charges paid during 2007-08 was Rs.2,111.14 crore as against Rs.2,042.50 crore during 2006-07. The increase of Rs.68.64 crore

Table 11.6: Expenditure

Item	(Rupees crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6
I. Interest Payment	1,808.48	1,386.28	1,524.41	1,135.38	2.58
of which:					
Scheduled Banks	1,323.23	1,276.83	1,523.72	1,134.85	1.90
II. Establishment	2,232.99	1,653.17	919.88	1,425.81	1,430.87*
III Non-Establishment	3,720.67	3,771.82	3,404.81	4,603.06	4,663.68
of which:					
a) Agency charges	1,539.12	1,824.17	1,833.55	2,042.50	2,111.14
b) Security printing	1,709.56	1,443.57	1,034.86	2,020.89	2,032.23
Total [I+II+III]	7,762.14	6,811.27	5,849.10	7,164.25	6,097.13

* : Includes provision towards Gratuity and Superannuation Fund and Leave Encashment Fund of Rs.221.02 crore (previous year Rs.453.01 crore).

during 2007-08 is mainly attributed to the rise in volume of Government transactions conducted by the agency banks.

BALANCE SHEET

LIABILITIES

National Industrial Credit (Long Term Operations) Fund

XI.12 There were no operations in the National Industrial Credit (Long Term Operations) Fund (established under Section 46 C of the Reserve Bank of India Act, 1934) during 2007-08 except the credit of Rs.1.00 crore to the Fund out of the Reserve Bank's income.

National Housing Credit (Long Term Operations) Fund

XI.13 The National Housing Credit (Long Term Operations) Fund was established by the Reserve Bank in terms of Section 46 D(1) of the Reserve Bank of India Act, 1934 in January 1989. A token contribution of Rs.1.00 crore was made to the Fund out of the Reserve Bank's income during 2007-08.

Deposits - Banks

XI.14 'Deposits - Banks' represent balances maintained by banks in their current accounts with the Reserve Bank mainly for maintaining CRR and as working funds for clearing adjustments.

Deposits - Others

XI.15 'Deposits - Others' include deposits from financial institutions, employees' provident fund deposits and sundry deposits.

Other Liabilities

XI.16 'Other Liabilities' include the internal reserves and provisions of the Reserve Bank, surplus earmarked pending transfer to the Government and net credit balance in the RBI General Account. These liabilities increased by Rs.1,93,768.08 crore (150.0 per cent) from Rs.1,29,200.02 crore as on June 30, 2007 to Rs.3,22,968.10 crore as on June 30, 2008 mainly on account of increase in the level of Currency and Gold Revaluation Account (CGRA).

XI.17 The reserves, viz., Contingency Reserve, Asset Development Reserve, Currency and Gold Revaluation Account and Exchange Equalisation Account reflected in 'Other Liabilities' are in addition to the 'Reserve Fund' of Rs.6,500.00 crore held by the Reserve Bank as a distinct balance sheet head.

Currency and Gold Revaluation Account (CGRA) and Exchange Equalisation Account (EEA)

XI.18 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 under a balance sheet head named as the Currency and Gold Revaluation Account (CGRA). The balance represents accumulated net gain on valuation of foreign currency assets and gold. During 2007-08, there was an accretion of Rs.1,41,488.31 crore in CGRA, thus increasing its balance from Rs.21,723.52 crore as on June 30, 2007 to Rs.1,63,211.83 crore as on June 30, 2008. The balance in CGRA at the end of June 2008 was equivalent to 12.2 per cent of foreign currency assets and gold holdings of the Reserve Bank as compared with 2.5 per cent at the end of June 2007. The increase was on account of depreciation of the US dollar against other currencies, depreciation of the Indian Rupee against US dollar and increase in the price of gold. The balance in the Exchange Equalisation Account (EEA) represents provision made for exchange losses arising out of forward contracts. As on June 30, 2008, there was no balance in EEA as revaluation of forward contracts resulted in net gain which was ignored. The balances in CGRA and EEA are grouped under 'Other Liabilities' in the balance sheet (Table 11.7).

Contingency Reserve and Asset Development Reserve

XI.19 The Reserve Bank maintains a Contingency Reserve (CR) to enable it to absorb unexpected and unforeseen contingencies. The balance in CR increased from Rs.93,770.07 crore as on June 30, 2007 to Rs.1,27,200.81 crore as on June 30, 2008 with transfer of Rs.33,430.74 crore to CR during 2007-08 from the Reserve Bank's income. The balance in CR is sufficient to meet contingent liabilities.

Table 11.7: Balances in Currency and Gold Revaluation Account and Exchange Equalisation Account

(Rupees crore)

As on June 30	Currency and Gold Revaluation Account	Exchange Equalisation Account
1	2	3
2004	62,283.04	5.65
2005	26,906.21	0.50
2006	86,789.18	3.28
2007	21,723.52	9.68
2008	1,63,211.83	-

XI.20 In order 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. In the year 2007-08, an amount of Rs.3,207.92 crore was transferred from income to ADR raising its level from Rs.9,564.33 crore as on June 30, 2007 to Rs.12,772.25 crore as on June 30, 2008. CR and ADR together constituted 9.6 per cent of total assets of the Bank as on June 30, 2008 (Table 11.8).

ASSETS

Foreign Currency Assets

XI.21 The foreign currency assets comprise foreign securities held in the Issue Department, balances held abroad and investments in foreign securities held

in the Banking Department. Such assets rose from Rs.8,39,878.79 crore as on June 30, 2007 to Rs.12,98,552.05 crore as on June 30, 2008. The increase in the level of foreign currency assets was mainly on account of net purchases of US dollars from the market, interest and discount received and revaluation gains (Table 11.9 and Chart XI.3).

Investment in Government of India Rupee Securities

XI.22 Investment in Government of India Rupee Securities, which was Rs.89,079.66 crore as on June 30, 2007, increased by Rs.7,095.67 crore (8.0 per cent) to Rs.96,175.33 crore as on June 30, 2008. The increase was on account of purchase of Oil Bonds under the Special Market Operations and the Liquidity Adjustment Facility (LAF) operations.

Investments in Shares of Subsidiaries and Associate Institutions

XI.23 There was no change in the Reserve Bank's investments in the shares of its subsidiaries and associate institutions during the year (Table 11.10).

Other Assets

XI.24 'Other Assets' comprise mainly fixed assets, gold holdings in the Banking Department, amounts spent on projects pending completion and staff advances. The level of 'Other Assets' increased by Rs.3,561.44 crore (13.1 per cent) from Rs.27,244.51 crore as on June 30, 2007 to Rs.30,805.95 crore as on June 30, 2008.

Table 11.8 : Balances in Contingency Reserve and Asset Development Reserve

(Rupees crore)

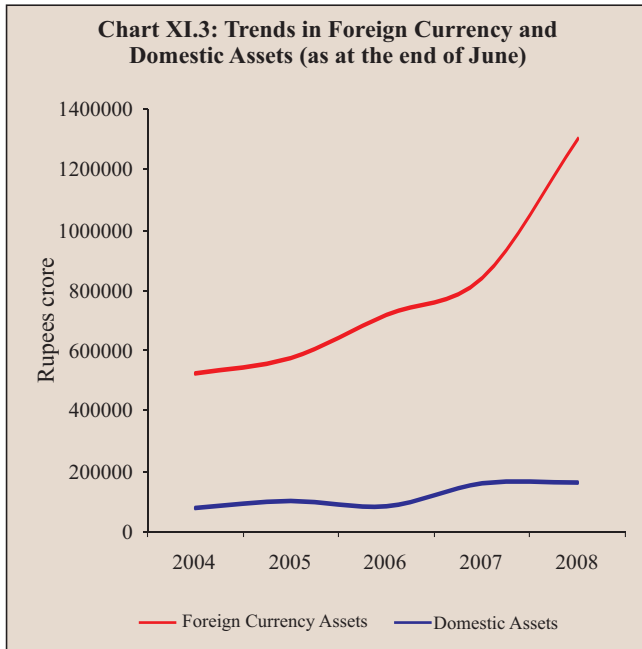
As on June 30	Balance in CR	Balance in ADR	Total	Percentage to total assets
1	2	3	4	5
2004	56,218.76	5,778.94	61,997.70	10.2
2005	62,344.68	6,466.03	68,810.71	10.1
2006	73,281.10	7,592.82	80,873.92	10.0
2007	93,770.07	9,564.33	1,03,334.40	10.3
2008	1,27,200.81	12,772.25	1,39,973.06	9.6

Table 11.9: Outstanding Foreign Currency and Domestic Assets

(Rupees crore)

As on June 30	Foreign Currency Assets	Domestic Assets
1	2	3
2004	5,24,865.01	84,872.74
2005	5,75,863.66	1,06,952.94
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

Chart XI.3: Trends in Foreign Currency and Domestic Assets (as at the end of June)



Auditors

XI.25 The accounts of the Reserve Bank for the year 2007-08 were audited by M/s. Kalyaniwalla & Mistry, Mumbai and M/s. Mukund M. Chitale & Co., Mumbai as the statutory central auditors. The branch

Table 11.10 : Investments in Shares of Subsidiaries/Associate Institutions

(Rupees crore)

Institution	Book value of shares held as on	
	June 30, 2007	June 30, 2008
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

offices were audited by the statutory branch auditors, namely, M/s. Walker, Chandiok & Co., New Delhi, M/s. K.K. Mankeshwar & Co., Nagpur, M/s. Karra & Co., Chennai and M/s. K.C. Sarkar & Co., Kolkata. The auditors were appointed by the Central Government.

ANNUAL REPORT

**RESERVE BANK OF INDIA
BALANCE SHEET AS AT 30TH JUNE 2008
ISSUE DEPARTMENT**

(Rupees thousands)

2006-07	LIABILITIES	2007-08	2006-07	ASSETS	2007-08
16,99,84	Notes held in the Banking Department	16,22,71	22592,97,15	Gold Coin and Bullion:	
506545,30,17	Notes in Circulation	612323,93,51	-	(a) Held in India	32308,81,20
			482800,79,66	(b) Held outside India	-
506562,30,01	Total Notes Issued	612340,16,22	505393,76,81	Foreign Securities	578878,86,61
			122,10,20	Total	611187,67,81
			1046,43,00	Rupee Coin	106,05,41
			-	Government of India Rupee Securities	1046,43,00
			-	Internal Bills of Exchange and other Commercial Paper	-
506562,30,01	Total Liabilities	612340,16,22	506562,30,01	Total Assets	612340,16,22

BANKING DEPARTMENT

2006-07	LIABILITIES	2007-08	2006-07	ASSETS	2007-08
5,00,00	Capital paid-up	5,00,00	16,99,84	Notes	16,22,71
6500,00,00	Reserve Fund	6500,00,00	3,84	Rupee Coin	3,57
16,00,00	National Industrial Credit (Long Term Operations) Fund	17,00,00	3,82	Small Coin	6,23
190,00,00	National Housing Credit (Long Term Operations) Fund	191,00,00			
	Deposits			Bills Purchased and Discounted:	
	(a) Government			(a) Internal	-
81236,85,31	(i) Central Government	191626,05,59		(b) External	-
41,18,09	(ii) State Governments	41,31,39		(c) Government Treasury Bills	-
	(b) Banks				
206613,01,42	(i) Scheduled Commercial Banks	298809,97,22		Balances Held Abroad	688343,34,97
2620,36,50	(ii) Scheduled State Co-operative Banks	4122,66,68	329695,08,67	Investments	129208,79,55
3475,30,34	(iii) Other Scheduled Co-operative Banks	5186,27,25			
50,70,07	(iv) Non-Scheduled State Co-operative Banks	63,20,69	118166,19,46	Loans and Advances to:	
5774,86,24	(v) Other Banks	8699,14,56		(i) Central Government	-
59249,57,87	(c) Others	12110,22,52	19421,00,00	(ii) State Governments	-
			174,40,00	Loans and Advances to:	
419,19,77	Bills Payable	319,29,20		(i) Scheduled Commercial Banks	2102,14,00
				(ii) Scheduled State Co-operative Banks	-
				(iii) Other Scheduled Co-operative Banks	-
				(iv) Non-Scheduled State Co-operative Banks	-
				(v) NABARD	-
				(vi) Others	132,68,98
129200,02,09	Other Liabilities	322968,10,34	33,28,48	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	50,00,00
				(b) Investments in bonds/debentures issued by	
				National Housing Bank	-
				Other Assets	30805,95,43
495392,07,70	Total Liabilities	850659,25,44	495392,07,70	Total Assets	850659,25,44

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

THE RESERVE BANK'S ACCOUNTS FOR 2007-08

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2008

(Rupees thousands)

2006-07	INCOME	2007-08
52887,85,08	Interest, Discount, Exchange, Commission, etc. ¹	21112,12,68
52887,85,08	Total	21112,12,68
	EXPENDITURE	
1135,38,41	Interest	2,58,19
1425,81,16	Establishment	1430,86,61
1,50,46	Directors' and Local Board Members' Fees and Expenses	1,79,12
21,22,84	Remittance of Treasure	30,56,42
2042,49,63	Agency Charges	2111,13,56
2020,89,24	Security Printing (Cheque, Note forms, etc.)	2032,23,04
17,49,52	Printing and Stationery	16,29,01
34,87,24	Postage and Telecommunication Charges	38,60,16
60,05,12	Rent, Taxes, Insurance, Lighting, etc.	69,17,25
1,81,82	Auditors' Fees and Expenses	2,01,16
1,76,95	Law Charges	2,13,64
181,40,07	Depreciation and Repairs to Bank's Property	156,16,54
219,52,25	Miscellaneous Expenses	203,57,98
7164,24,71	Total	6097,12,68
45723,60,37	Available Balance	15015,00,00
	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
45719,60,37	Surplus payable to the Central Government	15011,00,00

1. After making the usual or necessary provisions in terms of Section 47 of the Reserve Bank of India Act, 1934 amounting to Rs.36638,65,84 thousands (2006-07: Rs.22460,47,52 thousands).

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

S.V. Raghavan
Chief General Manager

Usha Thorat
Deputy Governor

Shyamala Gopinath
Deputy Governor

V. Leeladhar
Deputy Governor

Rakesh Mohan
Deputy Governor

Y.V. Reddy
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, 2008 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, 2008 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 Kalyaniwalla & Mistry
Chartered Accountants
Daraius Z. Fraser
Partner
(M. No. 42454)

For Mukund M.Chitale & Co.
Chartered Accountants
Mukund M.Chitale
Partner
(M.No. 14054)

Dated August 14, 2008

RESERVE BANK OF INDIA

SIGNIFICANT ACCOUNTING POLICIES AND
NOTES TO THE ACCOUNTS FOR 2007-08

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. Foreign Securities other than Treasury Bills are valued at lower of book value or market price prevailing on the last business day of each month. The depreciation is adjusted against current income. Foreign Treasury Bills are valued at cost. Forward exchange contracts are evaluated half-yearly and net loss, if any, is provided for.

Exchange gains and losses arising from translation of foreign currency assets and liabilities are accounted for in the Currency and Gold Revaluation Account and remain adjusted therein.

4. RUPEE SECURITIES

Rupee securities, other than Treasury Bills, held in the Issue and Banking Departments, are valued at lower of book value or market price. 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 (including software costing Rs. 1 lakh and above), motor vehicles, office equipments, furniture and electrical fittings, etc., is provided on straight-line basis.

Depreciation on other assets including premises and fixtures is provided on written-down value basis.

Software costing less than Rs.1 lakh and other Fixed Assets costing less than Rs.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 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.

NOTES TO THE ACCOUNTS

1. SURPLUS TRANSFER TO GOVERNMENT OF INDIA

Surplus transferable to the Government includes Rs.1,699.00 crore (previous year Rs.1,914.00 crore) representing interest differential pertaining to the period April 1, 2007 - March 31, 2008 on account of conversion of Special Securities into marketable securities.

2. EARMARKED SECURITIES

The Reserve Bank has earmarked certain Government securities having a book value of Rs.7,202.24 crore (previous year Rs.7,287.41 crore) from its Investments Account in order to cover the liabilities in the Provident Fund, Gratuity and Superannuation Fund and Encashment of Ordinary Leave.

3. RESERVE FUND

Reserve Fund comprises initial contribution of Rs.5.00 crore made by the Government of India and appreciation of Rs.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

4.1 Deposits of Central Government include Rs.1,74,432.56 crore (previous year Rs.81,136.77 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.

4.2 DETAILS OF DEPOSITS - OTHERS

(Rupees crore)

Particulars	As on June 30	
	2007	2008
1	2	3
I. Rupee Deposits from Foreign Central Banks and Foreign Financial Institutions	4,682.19	4,266.24
II. Deposits from Indian Financial Institutions	1,327.36	253.61
III. Accumulated Retirement Benefits	6,950.57	7,149.68
IV. Surplus transferable to Government of India@	45,719.60	-
V. Miscellaneous	569.86	440.70
Total	59,249.58	12,110.23

@: Included in 'Other Liabilities' from 2007-08.

5. DETAILS OF OTHER LIABILITIES

(Rupees crore)

Particulars	As on June 30	
	2007	2008
1	2	3
I. Contingency Reserve		
Balance at the beginning of the year	73,281.10	93,770.07
Add: Accretion during the year	20,488.97	33,430.74
Balance at the end of the year	93,770.07	1,27,200.81
II. Asset Development Reserve		
Balance at the beginning of the year	7,592.82	9,564.33
Add: Accretion during the year	1,971.51	3,207.92
Balance at the end of the year	9,564.33	12,772.25
III. Currency and Gold Revaluation Account		
Balance at the beginning of the year	86,789.18	21,723.52
Add: Net Accretion (+) /	-	1,41,488.31
Net Depletion (-) during the year	(-)65,065.66	-
Balance at the end of the year	21,723.52	1,63,211.83
IV. Exchange Equalisation Account		
Balance at the beginning of the year	3.28	9.68
Transfer from Exchange Account	14.86	21.69
Add: Net Accretion (+) /		
Net Utilisation (-) during the year	(-) 8.46	(-) 31.37
Balance at the end of the year	9.68	-
V. Provision for Outstanding Expenses	1,558.32	1,759.01
VI. Surplus transferable to Government of India #	-	15,011.00
VII. Employee Benefits Transitory Reserve	-	346.89
VIII. Miscellaneous	2,574.10	2,666.31
Total (I to VIII)	1,29,200.02	3,22,968.10

#: Included in 'Other Deposits' in 2006-07.

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 as against the 'Aggregate' method of valuation used up to the previous year. As a result, the excess provision of Rs.346.89 crore after providing for medical and LFC benefits has been transferred to the 'Employee Benefits Transitory Reserve' and the same is disclosed under 'Other Liabilities' in the Balance Sheet.

7. RBI GENERAL ACCOUNT

'Other Liabilities' include Rs.61.49 crore (previous year Rs.922.45 crore) 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.

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 Rs.22,805.00 crore (previous year Rs.9,895.00 crore) and Rs.300.00 crore (previous year Rs.1,000.00 crore), respectively.

9. DETAILS OF FOREIGN CURRENCY ASSETS

(Rupees crore)

Particulars	As on June 30	
	2007	2008
1	2	3
I. Held in Issue Department	4,82,800.80	5,78,878.87
II. Held in Banking Department -		
a) Included in Investments	27,382.90	31,329.83
b) Balances Held Abroad	3,29,695.09	6,88,343.35
Total	8,39,878.79	12,98,552.05

Note : Uncalled amount on partly paid shares of the Bank for International Settlements (BIS) as at June 30, 2008 was Rs.84.49 crore (SDR 1,20,41,250). The amount was Rs.74.37 crore (SDR 1,20,41,250) in the previous year.

10. DETAILS OF OTHER ASSETS

(Rupees crore)

Particulars	As on June 30	
	2007	2008
1	2	3
I. Fixed Assets (net of accumulated depreciation)	430.67	479.75
II. Gold	5,062.46	7,239.51
III. Income accrued but not received	16,008.77	22,203.28
IV. Miscellaneous	5,742.61	883.41
TOTAL	27,244.51	30,805.95

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

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

(Rupees crore)

Particulars	Year ended	
	June 30, 2007	June 30, 2008
1	2	3
I. Profit on sale of Foreign and Rupee Securities	5,314.24	7,823.52
II. Net profit on sale of Bank's Property	9.43	25.10
III. Dividend from Subsidiaries & Associate Institutions@	440.07	440.07
IV. Profit on sale of investment in shares of SBI*	34,308.60	-

@ : Dividend in respect of Bank's holding in the equity of SBI for the years ended June 2006 and 2007, respectively, accounted on cash basis.

* : Bank's entire equity holding in State Bank of India of 31,43,39,200 shares (book value Rs.1,222.73 crore) was transferred to the Government of India on June 29, 2007.

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