

XI

THE RESERVE BANK'S ACCOUNTS FOR 2016-17

The balance sheet size of the Reserve Bank increased marginally by 1.88 per cent for the year ended June 30, 2017. While income for the year 2016-17 decreased by 23.56 per cent, the expenditure increased by 107.84 per cent. The year ended with an overall surplus of ₹306.59 billion as against ₹658.76 billion in the previous year, representing a decline of 53.46 per cent.

XI.1 The balance sheet of the Reserve Bank reflects its role in the functioning of the country's economy largely in terms of the activities carried out in pursuance of its currency issue function as well as monetary policy and reserve management objectives. The key financial results of the Reserve Bank's operations during the year 2016-17 (July – June) are set out in the following paragraphs.

XI.2 There was a marginal increase in the size of the Bank's balance sheet during

2016-17. The balance sheet increased by ₹610.83 billion, *i.e.*, 1.88 per cent from ₹32,430.11 billion as on June 30, 2016 to ₹33,040.94 billion as on June 30, 2017. The increase on the asset side was due to increase in foreign investments and domestic investments by 2.70 per cent and 7.45 per cent, respectively, and capital contribution to the subsidiaries of the Reserve Bank. On the liability side, the increase was mainly due to increase in Deposits by 76.96 per cent. Domestic assets constituted 24.32 per cent while the foreign

Table XI 1: Trends in Income, Expenditure and Net Disposable Income

(₹ billion)

Item	2012-13	2013-14	2014-15	2015-16	2016-17
1	2	3	4	5	6
a) Income	743.58	646.17	792.56	808.70	618.18
b) Transfers to CF and ADF (i+ii)	287.94	0.00	0.00	0.00	0.00
(i) Contingency Fund (CF)	262.47	0.00	0.00	0.00	0.00
(ii) Asset Development Fund (ADF) ¹	25.47	0.00	0.00	0.00	0.00
c) Net Income (a-b)	455.63	646.17	792.56	808.70	618.18
d) Total Expenditure	125.49	119.34	133.56 ²	149.90 ³	311.55 ⁴
e) Net Disposable Income (c-d)	330.14	526.83	659.00	658.80	306.63
f) Transfer to funds ⁵	0.04	0.04	0.04	0.04	0.04
g) Surplus transferred to the Government (e-f)	330.10	526.79	658.96	658.76	306.59
Transfer of Surplus to Government as per cent of Gross Income less Total Expenditure	53.4	99.99	99.99	99.99	99.99

Note: 1. Since June 30, 2015, transfers to CF and ADF are not reduced from income. Instead provisions are made, if considered necessary, and then transferred to CF/ADF.

2. Includes a provision of ₹10 billion towards additional capital contribution in NHB.

3. Includes a provision of ₹10 billion towards additional capital contribution in BRBNMPL.

4. Includes a provision of ₹0.50 billion towards capital contribution in newly formed subsidiary ReBIT and a provision of ₹131.40 billion towards transfer to CF.

5. An amount of ₹10 million each has been transferred to the National Industrial Credit (Long Term Operations) Fund, the National Rural Credit (Long Term Operation Fund), the National Rural Credit (Stabilisation) Fund and the National Housing Credit (Long Term Operations) Fund during each of the five years.

currency assets and gold (including gold held in India) constituted 75.68 per cent of total assets as on June 30, 2017 as against 24.59 per cent and 75.41 per cent, respectively, as on June 30, 2016.

XI.3 Provisions of ₹131.40 billion and ₹0.50 billion were made and transferred to Contingency Fund (CF) and Asset Development Fund (ADF) respectively, and surplus of ₹306.59 billion was transferred to the central government. The trends in income, expenditure, net disposable income and the surplus transferred to the Government is given in Table XI.1.

XI.4 During the year (i) the depreciation policy on fixed assets, other than land and building, was

changed from yearly to monthly pro-rata basis; (ii) Bank started keeping gold as deposits with other central banks and an additional item in this regard had been added in Schedule 6 – Gold Coin and Bullion forming part of balance sheet; and (iii) Repo borrowing and lending in foreign securities was started. These are reflected in Schedule 2 – Deposits and Schedule 9 – Loans and Advances, respectively.

XI.5 The balance sheet and the income statement prepared for the year 2016-17 along with the schedules, statement of significant accounting policies and supporting notes to the accounts are furnished below:

**RESERVE BANK OF INDIA
BALANCE SHEET AS ON JUNE 30, 2017**

(Amount in ₹ billion)

Liabilities	Schedule	2015-16	2016-17	Assets	Schedule	2015-16	2016-17
Capital		0.05	0.05	Assets of Banking Department (BD)			
Reserve Fund		65.00	65.00	Notes, Rupee Coin, Small Coin	5	0.14	0.12
Other Reserves	1	2.24	2.26	Gold Coin and Bullion	6	662.23	627.02
Deposits	2	5,065.28	8,963.48	Investments-Foreign-BD	7	6,727.84	9,319.94
Other Liabilities and Provisions	3	10,220.38	8,946.84	Investments-Domestic-BD	8	7,022.85	7,557.50
				Bills Purchased and Discounted		0.00	0.00
				Loans and Advances	9	520.41	172.56
				Investment in Subsidiaries	10	23.20	33.70
				Other Assets	11	396.28	266.79
Liabilities of Issue Department				Assets of Issue Department (ID)			
Notes Issued	4	17,077.16	15,063.31	Gold Coin and Bullion (as backing for Note issue)	6	729.07	690.30
				Rupee coin		1.71	6.12
				Investment-Foreign-ID	7	16,335.92	14,366.89
				Investment-Domestic-ID	8	10.46	0.00
				Domestic Bills of Exchange and other Commercial Papers		0.00	0.00
Total Liabilities		32,430.11	33,040.94	Total Assets		32,430.11	33,040.94

**RESERVE BANK OF INDIA
INCOME STATEMENT FOR THE YEAR ENDED JUNE 2017**

(Amount in ₹ billion)

INCOME	Schedule	2015-16	2016-17
Interest	12	735.43	660.51
Others	13	73.27	-42.33
Total		808.70	618.18
EXPENDITURE			
Printing of Notes		34.21	79.65
Expense on Remittance of Currency		1.09	1.47
Agency Charges	14	47.56	40.52
Interest		0.01	0.01
Employee Cost		44.77	46.21
Postage and Telecommunication Charges		0.78	1.02
Printing and Stationery		0.33	0.36
Rent, Taxes, Insurance, Lighting, etc.		1.40	1.23
Repairs and Maintenance		1.01	1.02
Directors' and Local Board Members' Fees and Expenses		0.02	0.02
Auditors' Fees and Expenses		0.03	0.04
Law Charges		0.07	0.06
Miscellaneous Expenses		6.42	6.96
Depreciation		2.20	1.08
Provisions		10.00	131.90
Total		149.90	311.55
Available Balance		658.80	306.63
Less:			
a) Contribution to:			
i) National Industrial Credit (Long Term Operations) Fund		0.01	0.01
ii) National Housing Credit (Long Term Operations) Fund		0.01	0.01
b) Transferable to NABARD:			
i) National Rural Credit (Long Term Operations) Fund ¹		0.01	0.01
ii) National Rural Credit (Stabilisation) Fund ¹		0.01	0.01
Surplus payable to the Central Government		658.76	306.59

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

S. Ramaswamy
Principal Chief General Manager

B.P. Kanungo
Deputy Governor

Viral V. Acharya
Deputy Governor

N. S. Vishwanathan
Deputy Governor

Urjit R. Patel
Governor

SCHEDULES FORMING PART OF BALANCE SHEET AND INCOME STATEMENT

(Amount in ₹ billion)

		2015-16	2016-17
Schedule 1:	Other Reserves		
	(i) National Industrial Credit (Long Term Operations) Fund	0.25	0.26
	(ii) National Housing Credit (Long Term Operations) Fund	1.99	2.00
	Total	2.24	2.26
Schedule 2:	Deposits		
	(a) Government		
	(i) Central Government	1.00	947.74
	(ii) State Governments	0.42	0.43
	Sub total	1.42	948.17
	(b) Banks		
	(i) Scheduled Commercial Banks	4,031.02	4,729.90
	(ii) Scheduled State Co-operative Banks	33.85	36.36
	(iii) Other Scheduled Co-operative Banks	75.97	84.08
	(iv) Non-Scheduled State Co-operative Banks	13.20	15.30
	(v) Other Banks	140.00	175.86
	Sub total	4,294.04	5,041.50
	(c) Financial Institutions Outside India		
	(i) Repo borrowing – Foreign	0.00	0.00
	(ii) Reverse Repo Margin – Foreign	0.00	0.00
	Sub total	0.00	0.00
	(d) Others		
	(i) Administrators of RBI Employee PF A/c	43.80	50.17
	(ii) Depositors' Education and Awareness Fund	105.85	146.97
	(iii) Balances of Foreign Central Banks	15.21	19.22
	(iv) Balances of Indian Financial Institutions	11.43	5.90
	(v) Balances of international Financial Institutions	3.20	3.05
	(vi) Mutual Fund	0.01	0.01
	(vii) Others	590.32	2,748.49
	Sub total	769.82	2,973.81
	Total	5,065.28	8,963.48
Schedule 3:	Other Liabilities and Provisions		
	(i) Contingency Fund (CF)	2,201.83	2,282.07
	(ii) Asset Development Fund (ADF)	227.61	228.11
	(iii) Currency and Gold Revaluation Account (CGRA)	6,374.78	5,299.45
	(iv) Investment Revaluation Account-Foreign Securities (IRA-FS)	132.66	0.00
	(v) Investment Revaluation Account-Rupee Securities (IRA-RS)	391.46	570.90
	(vi) Foreign Exchange Forward Contracts Valuation Account (FCVA)	0.00	0.00
	(vii) Provision for Forward Contracts Valuation Account (PFCVA)	14.69	29.63
	(viii) Provision for payables	32.33	39.17
	(ix) Gratuity and Superannuation Fund	157.66	172.06
	(x) Surplus Transferable to the Government of India	658.76	306.59
	(xi) Bills Payable	0.20	0.12
	(xii) Miscellaneous	28.40	18.74
	Total	10,220.38	8,946.84

THE RESERVE BANK'S ACCOUNTS FOR 2016-17

		2015-16	2016-17
Schedule 4:	Notes Issued		
	(i) Notes held in the Banking Department	0.14	0.12
	(ii) Notes in circulation	17,077.02	15,063.19
	Total	17,077.16	15,063.31
Schedule 5:	Notes, Rupee Coin, Small Coin (with RBI)		
	(i) Notes	0.14	0.12
	(ii) Rupee coin	0.00	0.00
	(iii) Small coin	0.00	0.00
	Total	0.14	0.12
Schedule 6:	Gold Coin and Bullion		
	(a) Banking Department		
	(i) Gold coin and bullion	662.23	627.02
	(ii) Gold deposit	0.00	0.00
	Sub total	662.23	627.02
	(b) Issue Department (as backing for Note issue)	729.07	690.30
	Total	1,391.30	1,317.32
Schedule 7:	Investments-Foreign		
	(i) Investments – Foreign-BD	6,727.84	9,319.94
	(ii) Investments – Foreign-ID	16,335.92	14,366.89
	Total	23,063.76	23,686.83
Schedule 8:	Investments-Domestic		
	(i) Investments – Domestic-BD	7,022.85	7,557.50
	(ii) Investments – Domestic-ID	10.46	0.00
	Total	7,033.31	7,557.50
Schedule 9:	Loans and Advances		
	(a) Loans and Advances to :		
	(i) Central Government	0.00	25.50
	(ii) State Governments	19.86	24.18
	Sub total	19.86	49.68
	(b) Loans and Advances to:		
	(i) Scheduled Commercial Banks	450.92	80.25
	(ii) Scheduled State Co-operative Banks	0.00	0.00
	(iii) Other Scheduled Co-operative Banks	0.00	0.00
	(iv) Non-Scheduled State Co-operative Banks	0.00	0.00
	(v) NABARD	0.00	0.00
	(vi) Others	49.63	42.63
	Sub total	500.55	122.88
	(c) Loans and Advances to Financial Institutions outside India:		
	(i) Repo Lending – Foreign	0.00	0.00
	(ii) Repo Margin – Foreign	0.00	0.00
	Sub total	0.00	0.00
	Total	520.41	172.56
Schedule 10:	Investment in subsidiaries/Associates		
	(i) Deposit Insurance and Credit Guarantee Corporation	0.50	0.50
	(ii) National Housing Bank	14.50	14.50
	(iii) National Bank for Agriculture and Rural Development	0.20	0.20
	(iv) Bharatiya Reserve Bank Note Mudran (P) Ltd.	8.00	18.00
	(v) Reserve Bank Information Technology (P) Ltd.	0.00	0.50
	Total	23.20	33.70

		2015-16	2016-17
Schedule 11:	<p>Other Assets</p> <p>(i) Fixed Assets (net of accumulated depreciation) 3.49 4.08</p> <p>(ii) Accrued income (a + b) 228.91 232.46</p> <p style="padding-left: 20px;">a. on loans to employees 3.15 3.10</p> <p style="padding-left: 20px;">b. on other items 225.76 229.36</p> <p>(iii) Swap Amortisation Account 154.97 18.48</p> <p>(iv) Revaluation of Forward Contracts Account 0.00 0.00</p> <p>(v) Miscellaneous 8.91 11.77</p> <p style="text-align: right;">Total 396.28 266.79</p>		
Schedule 12:	<p>Interest</p> <p>(a) Domestic Sources</p> <p>(i) Interest on holding of Rupee Securities 430.79 542.17</p> <p>(ii) Net Interest on LAF Operations 5.06 -174.26</p> <p>(iii) Interest on MSF Operations 1.32 0.60</p> <p>(iv) Interest on Loans and Advances 3.98 6.89</p> <p style="text-align: right;">Sub total 441.15 375.40</p> <p>(b) Foreign Sources</p> <p>(i) Interest Income from Foreign Securities 187.61 192.96</p> <p>(ii) Net Interest on Repo/Reverse Repo transaction 0.00 0.00</p> <p>(ii) Interest on Deposits 106.67 92.15</p> <p style="text-align: right;">Sub total 294.28 285.11</p> <p style="text-align: right;">Total 735.43 660.51</p>		
Schedule 13:	<p>Income Others</p> <p>(a) Domestic Sources</p> <p>a. Exchange 0.00 0.00</p> <p>b. Discount 0.00 0.00</p> <p>c. Commission 15.31 18.41</p> <p>d. Rent Realised 0.05 0.06</p> <p>e. Profit/Loss on sale and redemption of Rupee Securities 21.68 4.62</p> <p>f. Amortisation of premium/discount of Rupee Securities 42.58 35.47</p> <p>g. Profit/loss on sale of Bank's property 0.02 0.03</p> <p>h. Provision no longer required and miscellaneous income 0.78 -1.67</p> <p style="text-align: right;">Sub total 80.42 56.92</p> <p>(b) Foreign Sources</p> <p>a. Amortisation of premium/discount of Foreign Securities -59.50 -52.92</p> <p>b. Profit/Loss on sale and redemption of Foreign Securities 13.99 4.83</p> <p>c. Exchange gain/loss from Foreign Exchange transactions 38.36 -51.16</p> <p style="text-align: right;">Sub total -7.15 -99.25</p> <p style="text-align: right;">Total 73.27 -42.33</p>		
Schedule 14:	<p>Agency Charges</p> <p>(i) Agency Commission on Government Transactions 46.93 39.70</p> <p>(ii) Underwriting Commission paid to the Primary Dealers 0.35 0.53</p> <p>(iii) Sundries (Handling charges paid to banks for Relief/Savings Bonds subscriptions) 0.01 0.04</p> <p>(iv) Fees paid to the External Asset Managers, Custodians, etc. 0.27 0.25</p> <p style="text-align: right;">Total 47.56 40.52</p>		

INDEPENDENT AUDITORS' REPORT

TO THE PRESIDENT OF INDIA

Report on the Financial Statements

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, 2017 and the Income Statement for the year ended on that date (hereinafter referred to as "financial statements"), which have been audited by us.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and correct view of the state of affairs and results of operations of the Bank in accordance with the requirements of the provisions of the Reserve Bank of India Act, 1934 and Regulations framed thereunder and the accounting policies and practices followed by the Bank. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and correct view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and correct presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to explanations given to us and as shown by the books of account of the Bank, the Balance Sheet read with Significant Accounting Policies is a full and fair Balance Sheet containing all necessary particulars and is properly drawn up in accordance with the requirements of the provisions of the Reserve Bank of India Act, 1934 and Regulations framed there under so as to exhibit true and correct view of the state of affairs of the Bank.

Other Matters

We report that we have called for information and explanation from the Bank which was necessary for the purpose of our audit and such information and explanation have been given to our satisfaction.

We refer to para no. XI.6.2 of Notes to Accounts to the financial statements wherein the final accounting impact of Specified Bank Notes (SBNs) which have ceased to be Notes in Circulation shall be passed by the Bank on the outcome of possible events described in the said para and on completion of verification of SBNs received.

We also report that the financial statements include the accounts of eighteen accounting units of the Bank which have been audited by Statutory Branch Auditors and we have relied on their report in this regard.

For Borkar & Muzumdar
Chartered Accountants
(ICAI Firm Registration No. 101569W)

Devang Vaghani
Partner
Membership No. 109386

For Khandelwal Jain & Co
Chartered Accountants
(ICAI Firm Registration No. 105049W)

I. C. Jain
Partner
Membership No. 08791

Place: Mumbai

Date: August 10, 2017

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED JUNE 30, 2017

(a) General

1.1 The Reserve Bank of India was established under the Reserve Bank of India Act, 1934 (the Act) “to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage”.

1.2 The main functions of the Bank are:-

- a) Issue of Bank notes.
- b) Management of the monetary system.
- c) Regulation and supervision of banks and Non-Banking Finance Companies (NBFCs).
- d) Acting as the lender of last resort.
- e) Regulation and supervision of the Payment and Settlement Systems.
- f) Maintaining and managing the country's Foreign Exchange Reserves.
- g) Acting as the banker to banks and the Governments
- h) Acting as the debt manager of the Governments.
- i) Regulation and development of foreign exchange market.
- j) Developmental functions including in the areas of rural credit and financial inclusion.

1.3. The Act requires that the issue of Bank notes should be conducted by the Bank in an Issue Department which shall be separate and kept wholly distinct from the Banking Department and

the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department. The Act requires that the assets of the Issue Department shall consist of gold coins, gold bullion, foreign securities, rupee coins and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department. The Act requires that the liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and Bank notes for the time being in circulation.

(b) Significant Accounting Policies

2.1 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. These are based on historical cost except where it is modified to reflect revaluation. The accounting policies followed in preparing the financial statements are consistent with those followed in the previous year unless otherwise stated.

2.2 Revenue Recognition

- (a) Income and expenditure are recognised on accrual basis except penal interest which is accounted for only when there is certainty of realisation. Dividend income on shares is recognised on accrual basis when the right to receive the same is established.
- (b) Balances unclaimed and outstanding for more than three clear consecutive accounting 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, if any, are considered and charged against income in the year of payment.

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

2.3 Gold & Foreign Currency Assets and Liabilities

Transactions in gold and foreign currency assets and liabilities are accounted for on settlement date basis.

a) Gold

Gold, including the Gold Deposits placed abroad, is revalued on the last business day of the month at 90 per cent of the daily average price quoted by London Bullion Market Association 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 on revaluation are credited/debited to the Currency and Gold Revaluation Account (CGRA).

b) Foreign Currency Assets and Liabilities

All foreign currency assets and liabilities (excluding foreign currency received under the swaps that are in the nature of repos and contracts where the rates are fixed contractually) are translated at the exchange rates prevailing on the last business day of the week/month/year as applicable. Unrealised gains and losses arising from such translation of foreign currency assets and liabilities are accounted for in CGRA.

Foreign securities, other than Treasury Bills, Commercial Papers and certain "held to

maturity" securities (such as investments in notes issued by the International Monetary Fund and bonds issued by India Infrastructure Finance Company (IIFC), UK which are valued at cost) are marked to market (MTM) as on the last business day of each month. Unrealised gains/losses on revaluation is recorded in the Investment Revaluation Account – Foreign Securities (IRA-FS). Credit balance in IRA-FS is carried forward to the subsequent year. Debit balance, if any, at the end of the year in IRA-FS is charged to the Contingency Fund and the same is reversed on the first working day of the following 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. On sale/redemption of foreign dated securities, valuation gain/loss in relation to the securities sold, lying in IRA-FS, is transferred to Income Account.

c) Forward/Swap Contracts

Forward contracts entered into by the Bank as part of its intervention operations are revalued on a yearly basis on June 30. While mark to market gain is credited to the 'Foreign Exchange Forward Contracts Valuation Account' (FCVA) with contra debit to 'Revaluation of Forward Contracts Account' (RFCA), mark to market loss is debited to FCVA with contra credit to the 'Provision for Forward Contracts Valuation Account' (PFCVA). Debit balance in FCVA, if any, on June 30, is required to be charged to the Contingency Fund and reversed on the first working day of the following year. On maturity

of the contract, the actual gain or loss is required to be recognised in the Income Account and the unrealised gains/losses previously recorded in the FCVA, RFCA and PFCVA would be reversed. The balance in the RFCA and PFCVA represent the net unrealised gains and losses respectively on valuation of such forward contracts.

In the case of swaps at off-market rates that are in the nature of repo, the difference between the future contract rate and the rate at which the contract is entered into is amortised over the period of the contract and recorded in the Income account with contra in 'Swap Amortisation Account' (SAA). The amounts recorded in the SAA are reversed on maturity of the underlying contracts. Further, the amounts received under these swaps are not subject to periodic revaluation.

While FCVA and PFCVA form part of 'Other Liabilities', RFCA and SAA form part of 'Other Assets'.

2.4 Transactions in Exchange Traded Currency Derivatives (ETCD)

The ETCD transactions undertaken by the Bank as part of its intervention operations are marked to market on daily basis and the resultant gain/loss is booked in income account.

2.5 Domestic Investments

- (a) Rupee securities except those mentioned below in (d) are marked to market as on the last business day of each month with effect from 2015-16. The unrealised gains/losses on revaluation are booked in 'Investment Revaluation Account–Rupee Securities (IRA-RS)'. Credit balance in IRA-RS is carried forward to the following financial year. Debit balance, if any, at the end of the year in

IRA-RS is charged to the Contingency Fund and the same is reversed on the first working day of the following financial year. On sale/redemption of rupee securities, valuation gain/loss, in respect of securities sold/redeemed, lying in IRA-RS, is transferred to Income Account. Rupee securities are subjected to daily amortisation.

- (b) Treasury Bills are valued at cost.
- (c) Investments in shares of subsidiaries are valued at cost.
- (d) Oil bonds and rupee securities earmarked for various staff funds like Gratuity and Superannuation, Provident Fund, Leave Encashment, Medical Assistance Fund, Depositors' Education and Awareness Fund (DEA Fund) are treated as 'Held to Maturity' and are held at amortised cost.
- (e) Transactions in domestic investment are accounted for on settlement date basis.

2.6 Liquidity Adjustment Facility (LAF) Repo/ Reverse Repo and Marginal Standing Facility (MSF)

Repo transactions under LAF and Marginal Standing Facility (MSF) are treated as lending and accordingly being shown under 'Loans and Advances' whereas 'Reverse Repo' transactions under LAF are being treated as deposits and shown under 'Deposit-Others'.

2.7 Fixed Assets

- (a) Fixed Assets are stated at cost less depreciation.
- (b) Depreciation on computers, microprocessors, software (costing ₹0.10 million and above), motor vehicles, furniture, *etc.* is provided on straight-line basis at the following rates.

Asset Category	Rate of depreciation
Electrical installations, UPS, Motor vehicles, furniture, fixture, CVPS/SBS Machines, <i>etc.</i>	20 per cent
Computers, Servers, micro-processors, printers, Software, laptops, e-book reader/i-pad, <i>etc.</i>	33.33 per cent

- (c) Fixed Assets, costing less than ₹0.10 million (except easily portable electronic assets) are charged to income in the year of acquisition. Easily portable electronic assets, such as, laptops, *etc.* costing more than ₹10,000 are capitalised and depreciation is calculated at the applicable rate.
- (d) Individual items of computer software costing ₹0.10 million and above are capitalised and depreciation is calculated at the applicable rates.
- (e) Depreciation is provided on year-end balances of the Fixed Assets on monthly pro rata basis. In case of additions/deletions of assets other than land and building, depreciation is provided on monthly pro-rata basis including the month of addition/deletion of such assets.
- (f) Depreciation on subsequent expenditure
- Subsequent expenditure incurred on existing asset which has not been fully depreciated in the books of accounts, is depreciated over the remaining useful life of the principal asset;
 - Subsequent expenditure incurred on modernisation/addition/overhauling of the existing asset, which has already been fully depreciated in the books of accounts, is first capitalised and thereafter depreciated fully in the year in which the expenditure is incurred.

- (g) Land and building: The significant accounting policy in respect of depreciation on land and building was revised with effect from July 2015 as follows:

Land

- Land acquired for lease periods of more than 99 years are treated as if they are on perpetual lease basis. Such leases are considered as freehold properties and accordingly not subjected to amortisation.
- Land acquired on short-term lease (*i.e.*, up to 99 years) is amortised over the period of the lease.

Buildings

- The life of all buildings is assumed as thirty years and depreciation is charged on a 'Straight-line' basis over a period of thirty years. In respect of buildings constructed on lease hold land (where the lease period is less than 30 years) depreciation is charged on a 'Straight-line' basis over the lease period of the land.
- In the case of existing buildings, where only the Written Down Value (WDV) is available and original cost and accumulated depreciation are not available separately, it is assumed that such buildings have completed half of their useful life (*i.e.*, 15 years) and there is a residual life of 15 years. The WDV as on June 30, 2015 will be considered as cost of such existing buildings and will be amortised on a straight line basis over the residual life of the building.

- iii. If the completed life of the building is known and if it was less than 30 years as on June 30, 2015, then the WDV of the building as on June 30, 2015 is being amortised over the remaining useful life of the building, *i.e.*, 30 years less number of years completed as on June 30, 2015.
- (h) Impairment of buildings: For assessment of impairment, buildings are required to be classified into two categories, as under:
- i. *Buildings which are in use but have been identified for demolition in future/ will be discarded in future:* The value in use of such buildings is the aggregate of depreciation for the future period up to the date it is expected to be discarded/ demolished. The difference between the book value and aggregate of depreciation so arrived at is required to be charged as depreciation.
 - ii. *Buildings which have been discarded/ vacated:* These buildings are to be shown at realisable value (net selling price – if the asset is likely to be sold in future)/scrap value less demolition cost (if it is to be demolished). If the amount is negative, then the carrying value of such buildings have to be shown at ₹1. The difference between the book value and realisable value (net selling price)/scrap value less demolition cost is required to be charged as depreciation. The asset is required to be shown under the head ‘Other assets’ – ‘Miscellaneous’.

2.8 Employee Benefits

The liability on account of long term employee benefits is provided based on an actuarial valuation under the ‘Projected Unit Credit’ method.

NOTES TO THE ACCOUNTS

XI.6 LIABILITIES AND ASSETS OF THE BANK

XI.6.1 LIABILITIES OF BANKING DEPARTMENT

i) Capital

The Reserve Bank was constituted as a private shareholders’ bank in 1935 with an initial paid-up capital of ₹0.05 billion. The Bank was nationalised with effect from January 1, 1949 and its entire ownership remains vested with the Government of India. The paid-up capital continues to be ₹0.05 billion as per section 4 of the RBI Act, 1934.

ii) Reserve Fund

The original Reserve Fund of ₹0.05 billion was created in terms of section 46 of the RBI Act, 1934 as contribution from the Central Government for the currency liability of the then sovereign government taken over by the Reserve Bank. Thereafter, an amount of ₹64.95 billion was credited to this Fund from out of gains on periodic revaluation of gold up to October 1990, taking it to ₹65 billion. The fund has been static since then and unrealised gain/loss on account of valuation of gold and foreign currency is booked in the Currency and Gold Revaluation Account (CGRA) which appears under ‘Other Liabilities and Provisions’.

iii) Other Reserves

This includes National Industrial Credit (Long Term Operations) Fund and National Housing Credit (Long Term Operations) Fund.

a) *National Industrial Credit (Long Term Operations) Fund*

This fund was created in July 1964, under section 46C of the RBI Act, 1934 with an

initial corpus of ₹100 million. The fund witnessed annual contributions from the Reserve Bank for financial assistance to eligible financial institutions. Since 1992-93, a token amount of ₹10 million is being contributed each year to the Fund from the Bank's income. The balance in the fund stood at ₹0.26 billion as on June 30, 2017.

b) *National Housing Credit (Long Term Operations) Fund*

This fund was set up in January 1989 under section 46D of the RBI Act, 1934 for extending financial accommodation to the National Housing Bank. The initial corpus of ₹500 million has been enhanced by annual contributions from the Reserve Bank thereafter. From the year 1992-93, only a token amount of ₹10 million is being contributed each year from the Bank's income. The balance in the fund stood at ₹2.00 billion as on June 30, 2017.

Note: Contribution to other Funds

There are two other Funds constituted under section 46A of the RBI Act, 1934 viz., National Rural Credit (Long Term Operations) Fund and National Rural Credit (Stabilisation) Fund which are maintained by National Bank for Agriculture and Rural Development (NABARD) for which a token amount of ₹10 million each is set aside and transferred to NABARD every year.

iv) Deposits

These represent the balances maintained with the Reserve Bank by banks, the Central and State Governments, All India Financial

Institutions, such as, Export Import Bank (EXIM Bank), NABARD etc., foreign central banks, international financial institutions, balances in Employees' Provident Fund, Depositors' Education and Awareness (DEA) Fund and amount outstanding against Reverse Repo.

Total deposits increased by 76.96 per cent from ₹5,065.28 billion as on June 30, 2016, to ₹8,963.48 billion as on June 30, 2017.

a. *Deposits – Government*

The Reserve Bank acts as banker to the Central Government in terms of sections 20 and 21 and as banker to the State Governments by mutual agreement in terms of section 21(A) of the RBI Act, 1934. Accordingly, the Central and the State Governments maintain deposits with the Reserve Bank. The balances held by the Central and State Governments was ₹947.74 billion and ₹0.43 billion, respectively, as on June 30, 2017, totalling ₹948.17 billion as compared to ₹1.00 billion and ₹0.42 billion respectively and totalling to ₹1.42 billion as on June 30, 2016. The increase in Central Government deposit is on account of outstanding Market Stabilisation Scheme (MSS).

b. *Deposits – Banks*

Banks maintain balances in their current accounts with the Reserve Bank to provide for the Cash Reserve Ratio (CRR) requirements and for working funds to meet payment and settlement obligations. The deposits held by banks was ₹5,041.50 billion as on June 30, 2017 as compared to ₹4,294.04 billion as

on June 30, 2016. The increase in bank deposits may be attributed to withdrawal of Specified Bank Notes (SBN).

c. *Deposits – Others*

‘Deposits- Others’ consists of balances of Administrator of RBI Employees Provident Fund, balance in DEA Fund balances of foreign central banks, Indian and International Financial Institutions and amount outstanding under Reverse Repo. DEA Fund was created in the year 2013-14 for promotion of depositors’ interest and for such other related purposes. The balance in the DEA Fund was ₹146.97 billion as on June 30, 2017. The amount under Deposits-Others increased by 286.30 per cent from ₹769.82 billion as on June 30, 2016 to ₹2,973.81 billion as on June 30, 2017 primarily due to increase in reverse repo deposits post withdrawal of Specified Bank Notes (SBN).

v) **Other Liabilities and Provisions**

The major components of ‘Other Liabilities and Provisions’ consist of Contingency Fund (CF), Asset Development Fund (ADF), Gratuity and Superannuation Funds, Balances in Revaluation Accounts viz., Currency and Gold Revaluation Account (CGRA), Investment Revaluation Account-Foreign securities (IRA-FS), Investment Revaluation Account –Rupee Securities (IRA-RS), Foreign Exchange Forward Contracts Valuation Account (FCVA) and Provision for Forward Contract Valuation Account (PFCVA). While Contingency Fund (CF) and Asset Development Fund (ADF) represent provisions made for unforeseen contingencies, and internal capital

expenditure and investment in subsidiaries, respectively, the remaining components of ‘Other Liabilities and Provisions’, such as, Currency and Gold revaluation account (CGRA), Investment Revaluation Account-Foreign Securities (IRA-FS), Investment Revaluation Account-Rupee Securities (IRA-RS), Foreign Exchange Forward Contracts Valuation Account (FCVA) and Provisions for Forward Contracts Valuation Accounts (PFCVA), represent unrealised MTM gains/losses. ‘Other Liabilities and Provisions’ decreased by 12.46 per cent from ₹10,220.38 billion as on June 30, 2016 to ₹8,946.84 billion as on June 30, 2017, primarily due to decrease in CGRA and IRA- FS.

a. *Contingency Fund (CF)*

Contingency Fund represents the amount set aside on a year-to-year basis for meeting unexpected and unforeseen contingencies, including depreciation in the value of securities, risks arising out of monetary/exchange rate policy operations, systemic risks and any risk arising on account of the special responsibilities enjoined upon the Bank. As on June 30, 2017, an amount of ₹131.40 billion was transferred to CF and an amount of ₹65.85 billion was charged to CF on account of (i) MTM loss of ₹29.63 billion on valuation of forward contracts and (ii) debit balance of ₹36.22 billion in the IRA-FS. The charge to CF is reversed on the first working day of the following year.

Based on the above, the balance in CF as on June 30, 2017 was ₹2,282.07 billion as compared to ₹2,201.83 billion as on June 30, 2016.

b. Asset Development Fund (ADF)

The Asset Development Fund created in 1997-98, represents the amounts set aside each year to meet internal capital expenditure and make investments in subsidiaries and associated institutions. A provision of ₹0.50 billion was made for capital contribution in Reserve Bank Information Technology Pvt. Ltd. (ReBIT) and transferred to Asset Development Fund (ADF). The balance in ADF accordingly increased from ₹227.61 billion as on June 30, 2016 to ₹228.11 billion as on June 30, 2017 (Table XI.2).

c. Currency and Gold Revaluation Account (CGRA)

Unrealised gains/losses on valuation of Foreign Currency Assets (FCA) and Gold are not taken to the Income Account, instead recorded in the Currency and Gold Revaluation Account (CGRA). CGRA represents accumulated net balance of unrealised gains arising

out of valuation of FCA and Gold and, therefore, its balance varies with the size of the asset base, movement in the exchange rate and price of gold. During 2016-17, the balance in CGRA decreased by 16.87 per cent from ₹6,374.78 billion as on June 30, 2016 to ₹5,299.45 billion as on June 30, 2017 mainly due to appreciation of rupee against US dollar and fall in the international price of gold.

d. Investment Revaluation Account-Foreign securities (IRA-FS)

The foreign dated securities are marked to market on the last business day of each month and the unrealised gains/losses arising therefrom are transferred to the IRA-FS. The balance in IRA-FS decreased from credit balance of ₹132.66 billion to a debit balance of ₹36.22 billion as on June 30, 2017. As per the extant policy, the debit balance of ₹36.22 billion in IRA-FS was adjusted against the Contingency Fund on June 30, 2017 which is reversed on the first working day of the following year. Accordingly, the balance of IRA-FS as on June 30, 2017 was nil.

e. Investment Revaluation Account-Rupee Securities (IRA-RS)

From July 2015, the Rupee securities (with exception as mentioned under significant accounting policy) held as assets of Banking Department are marked to market on the last business day of the month and the unrealised gains/losses arising therefrom are booked in the Investment Revaluation Account-Rupee Securities (IRA-RS). The balance in IRA-RS as on June 30,

Table XI.2: Balances in Contingency Fund and Asset Development Fund

(₹ billion)

As on June 30	Balance in CF	Balance in ADF	Total	CF and ADF as per centage to total assets
1	2	3	4=(2+3)	5
2013	2216.52	207.61	2424.13	10.1
2014	2216.52	207.61	2424.13	9.2
2015	2216.14*	217.61	2433.75	8.4
2016	2201.83*	227.61	2429.44	7.5
2017	2282.07#	228.11	2510.18	7.6

* The decline in the CF is due to charging of the debit balance in the Forward Contract Valuation Account on account of MTM loss on forward contract as on June 30, 2015 and 2016.

Increase in CF is net impact of transfer of ₹131.40 billion and charging of debit balance of IRA-FS and FCVA amounting to ₹65.85 billion.

2017 was ₹570.90 billion as compared to ₹391.46 billion as on June 30, 2016.

f. Foreign Exchange Forward Contracts Valuation Account (FCVA) & Provision for Forward Contracts Valuation Account (PFCVA)

Marking to market of outstanding forward contracts as on June 30, 2017 resulted in a net loss of ₹29.63 billion, which was debited to the FCVA with contra credit to the PFCVA. As per the extant policy, the debit balance of ₹29.63 billion in FCVA was adjusted against the Contingency Fund on June 30, 2017 and reversed on the first working day of the following year. Accordingly, the balance in FCVA became nil and the balance in PFCVA as on June 30, 2017 was ₹29.63 billion, as against a balance of ₹14.69 billion on June 30, 2016.

The balances in CGRA, IRA-FS, FCVA, PFCVA and IRA-RS for the last five years are given in Table XI.3.

Table XI.3: Balances in Currency and Gold Revaluation Account (CGRA), Foreign Exchange Forward Contracts Valuation Account (FCVA), Provision for Forward Contracts Valuation Account (PFCVA), Investment Revaluation Account-Foreign Securities (IRA-FS) and Investment Revaluation Account-Rupee Securities (IRA-RS)

(₹ billion)					
As on June 30	CGRA	FCVA	PFCVA*	IRA-FS	IRA-RS#
1	2	3	4	5	6
2013	5,201.13	16.99	-	24.85	-
2014	5,721.63	42.98	0.00	37.91	-
2015	5,591.93	0.00	0.39	32.14	-
2016	6,374.78	0.00	14.69	132.66	391.46
2017	5,299.45	0.00	29.63	0.00	570.90

*: Started in 2013-14. #: Started in 2015-16

g. Provision for payables

This represents the year end provisions made for expenditure incurred but not defrayed and income received in advance/payable, if any. Provision for payables increased from ₹32.33 billion as on June 30, 2016 to ₹39.17 billion as on June 30, 2017 due to higher provisions on outstanding expenditure for printing of notes.

h. Surplus transferable to the Government of India

Under Section 47 of the Reserve Bank of India Act, 1934 after making provisions for bad and doubtful debts, depreciation in assets, contribution to Staff and Superannuation Fund and for all matters for which provisions are to be made by or under the Act or that are usually provided by bankers, the balance of the profits of the Bank is required to be paid to the Central Government. Under Section 48 of the Reserve Bank of India Act, 1934, the Bank is not liable to pay income tax or super tax or any other tax on any of its income, profits or gains and is also exempt from payment of wealth tax. Accordingly, after adjusting the expenditure, transfer to ADF and CF and contribution of ₹0.04 billion to the statutory funds, the surplus transferable to the Government of India for the year 2016-17 amounted to ₹306.59 billion, (including ₹9.93 billion as against ₹10.35 billion in the previous year payable towards the difference in interest expenditure borne by the Government consequent on conversion of special securities into marketable securities).

i. *Bills Payable*

The Reserve Bank provides remittance facilities for its constituents through issue of Demand Drafts (DDs) and Payment Orders (POs) (besides electronic payment mechanism). The balance under this head represents the unclaimed DDs/POs. The amount outstanding under this head decreased from ₹0.20 billion as on June 30, 2016 to ₹0.12 billion as on June 30, 2017.

j. *Miscellaneous*

This is a residual head representing items such as interest earned on earmarked securities, amounts payable on account of leave encashment, medical provisions for employees, etc. The balance under this head decreased from ₹28.40 billion as on June 30, 2016 to ₹18.74 billion as on June 30, 2017.

XI.6.2 Liabilities of Issue Department- Notes Issued

(i) The liabilities of Issue Department reflect the quantum of currency notes in circulation. Section 34 (1) of the Reserve Bank of India Act, 1934 requires that all banknotes issued by the Reserve Bank since April 1, 1935 and the currency notes issued by the Government of India before the commencement of operations of the Reserve Bank, be part of the liabilities of the Issue Department. The notes issued decreased by 11.79 per cent from ₹17,077.16 billion as on June 30, 2016 to ₹15,063.31 billion as on June 30, 2017. The decrease is the net impact of withdrawal from circulation of the old ₹500 and ₹1000 notes issued till November 08, 2016 and subsequent remonetisation efforts made by the Reserve Bank.

(ii) The legal tender character of banknotes in the denominations of ₹500 and ₹1,000, referred to as Specified Bank Notes (SBNs), was withdrawn by Government of India vide Gazette Notification No. 3407 (E) of November 8, 2016. An ordinance on Specified Bank Notes (Cessation of Liabilities) was promulgated on December 30, 2016 (subsequently made into an Act) stipulating that SBNs shall cease to be liabilities of Reserve Bank under Section 34 of RBI Act and shall cease to have the guarantee of Central Government under sub-section (1) of Section 26 of the Act with effect from December 31, 2016. However, grace periods were provided vide various Gazette notifications, to persons/entities specified in these notifications and subject to conditions specified therein to exchange SBNs.

Until June 30, 2017, SBNs were received by the Reserve Bank either directly or from bank branches/post offices through the currency chest mechanism. Some of these SBNs are still lying in the currency chests. The value of the SBNs received by the currency chests has been credited to the banks' account on "said to contain basis". Till such time these notes are processed by the Reserve Bank for their numerical accuracy and authenticity, only an estimation of SBNs received back is possible. Subject to future corrections based on verification process when completed, the estimated value of SBNs received as on June 30, 2017 is ₹15.28 trillion. Moreover, vide notification no G.S.R. 611 (E) dated June 20, 2017, Government of India allowed District Central Cooperative Banks (DCCBs) to deposit SBNs accepted by them from their customers within the period of 10th November to 14th November, 2016. Further, in terms of AP (DIR series) circular no. 45/2015-16

dated February 04, 2016, rules governing import and export of Indian currency notes to, *inter alia*, Nepal are different *vis-à-vis* other countries. As such, Reserve Bank is in discussion with Government of India with regard to the acceptance or otherwise of SBNs held by citizens/Financial Institutions in Nepal.

Therefore, the value of notes in circulation is subject to adjustments to be made after the completion of the verification process of the SBNs received as also for the notes to be received from DCCBs and Nepalese citizens/Financial Institutions.

XI.7 ASSETS

XI.7.1 ASSETS OF BANKING DEPARTMENT

i) Notes, Rupee Coin and Small Coin

This head represents the balances of banknotes, 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 of the banking functions conducted by the Reserve Bank. The balance as on June 30, 2017 was ₹0.12 billion as against ₹0.14 billion as on June 30, 2016.

ii) Gold Coin and Bullion

Bank holds 557.77 metric tonnes of gold, of which 292.28 metric tonnes is held as backing for notes issued and shown separately as an asset of Issue Department. The balance 265.49 metric tonnes is treated as an asset of Banking Department. The value of gold held as asset of Banking Department decreased by 5.32 per cent from ₹662.23 billion as on June 30, 2016 to ₹627.02 billion as on June 30, 2017 primarily on account of decline in international gold prices and appreciation of INR *vis-à-vis* USD.

iii) Bills purchased and discounted

Though the Reserve Bank can undertake purchase and discounting of commercial bills under the RBI Act, 1934, no such activity was undertaken in 2016-17; consequently, there was no such asset in the books of the Reserve Bank as on June 30, 2017.

iv) Investments Foreign-Banking Department (BD)

The Foreign Currency Assets (FCA) of the Reserve Bank are reflected under two heads in the Balance Sheet: (a) 'Investments-Foreign-BD' shown as asset of Banking Department and (b) 'Investments-Foreign-ID' shown as asset of Issue Department.

Investments-Foreign-BD include (i) deposits with other central banks, (ii) deposits with the Bank for International Settlements (BIS), (iii) balances with foreign branches of commercial banks, (iv) investments in foreign treasury bills and securities, and (v) Special Drawing Rights (SDR) acquired from the Government of India (GoI).

Investments-Foreign-ID comprises Deposits, T-bills and dated securities.

The position of FCA for the last two years is given in Table XI.4.

v) Investments- Domestic-Banking Department (BD)

Investments comprise dated government rupee securities, treasury bills and special oil bonds. However, as on June 30, 2017, the Reserve Bank did not hold any domestic treasury bill. The Reserve Bank's holding of domestic securities increased by 7.61 per cent, from ₹7,022.85 billion as on June 30, 2016 to ₹7,557.50 billion as on June 30, 2017. The increase was on account of (a)

Table XI.4: Details of Foreign Currency Assets

(₹ billion)

Particulars	As on June 30	
	2016	2017
1		3
I Investment Foreign –ID	16,335.92	14,366.89
II Investment Foreign –BD*	6,727.84	9,319.94
Total	23,063.76	23,686.83

* : includes Shares in BIS and SWIFT and SDRs transferred from GoI valued at ₹98.47 billion.

Notes:

1. The Reserve Bank has agreed to make resources available under the IMF's New Arrangements to Borrow (NAB). Currently India's commitment under NAB stands at SDR 4.44 billion (₹399.80 billion/US\$ 6.18 billion). As on June 30, 2017, investments amounting to SDR 0.57 billion (₹51.36 billion/US\$ 0.76 billion) have been made under the NAB.
2. The Reserve Bank has agreed to invest up to an amount, the aggregate of which shall not exceed US\$ 5 billion (₹323.69 billion), in the bonds issued by India Infrastructure Finance Company (UK) Limited. As on June 30, 2017, the Reserve Bank has invested US\$ 2.10 billion (₹135.95 billion) in such bonds.
3. In terms of the Note Purchase Agreement 2012 entered into by RBI with IMF, RBI would purchase SDR denominated Notes of IMF for an amount up to the equivalent of US\$ 10 billion (₹647.38 billion).
4. During the year 2013-14, the Reserve Bank and Government of India (GoI) entered into a MoU for transfer of SDR holdings from GoI to RBI in a phased manner. As on June 30, 2017, SDR1.06 billion (₹95.80 billion; US \$1.48 billion) were held by the Bank.
5. With a view to strengthening regional financial and economic cooperation, the Reserve Bank of India has agreed to offer an amount of US\$ 2 billion both in foreign currency and Indian rupee under the SAARC Swap Arrangement to SAARC member countries. As on June 30, 2017, there are no outstanding swaps with any of the SAARC countries.

liquidity management operations conducted by way of net Open Market Operation (OMO) purchases of government securities amounting to ₹299.70 billion (face value) and (b) valuation gains on account of lower level of G-sec yields on June 30, 2017 compared to last year.

vi) Loans and Advances

a) Central and State Governments

These loans are extended in the form of Ways and Means Advances (WMA) in terms of Section 17(5) of the RBI Act, 1934 and the limit in case of Central Government is fixed from time to time in consultation with the GoI and in case of State Governments, the limits are fixed based on the recommendations of Advisory Committee/Group constituted for this purpose. Loans and advances to the Central Government outstanding as on June 30, 2017 was ₹25.50 billion. No loans and advances to the Central Government were outstanding as on June 30, 2016. Loans and advances to the State Governments as on June 30, 2017 stood at ₹24.18 billion as compared with ₹19.86 billion as on June 30, 2016.

b) Loans and advances to Commercial, Co-operative Banks, NABARD and others

- **Loans and advances to Commercial and Co-operative Banks:** These mainly include amounts outstanding against repo under Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF). The amount outstanding decreased by 82.20 per cent from ₹450.92 billion as on June 30, 2016 to ₹80.25 billion as on June 30, 2017 primarily due to reduction in amount outstanding against repo to banks.

- **Loans and advances to NABARD:**
The Reserve Bank can extend loans to NABARD under section 17 (4E) of the RBI Act, 1934. No loans were outstanding as on June 30, 2017.
- **Loans and advances to others**
The balance under this head represents loans and advances to National Housing Bank (NHB), liquidity support provided to Primary Dealers (PDs) and outstanding repo/term repo conducted with the PDs. The balance under this head decreased by 14.10 per cent from ₹49.63 billion as on June 30, 2016 to ₹42.63 billion as on June 30, 2017 primarily due to decrease in amount outstanding against repo to PDs.

vii) Investment in Subsidiaries/Associates

During the year, a new subsidiary of the Reserve Bank viz. Reserve Bank Information Technology Pvt. Ltd. (ReBIT) was set up to take care of the Information Technology (IT) requirements including cyber security needs of the Bank as also the other entities regulated by it.

The details of investment in subsidiaries/associate institutions as on June 30, 2017 are given in table XI.5. The total holding increased from ₹23.20 billion as on June 30, 2016 to ₹33.70 billion on account of additional capital contribution of ₹10 billion to Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL) and capital contribution of ₹0.50 billion to ReBIT.

viii) Other Assets

'Other Assets' comprise fixed assets (net of depreciation), accrued income on domestic

Table XI.5: Holdings in Subsidiaries/ Associates

(Amount in ₹ billion)

1	Cost	Per cent holding
	2	3
a) Deposit Insurance and Credit Guarantee Corporation (DICGC)	0.50	100
b) National Bank for Agriculture and Rural Development (NABARD)	0.20	0.40
c) National Housing Bank (NHB)	14.50	100
d) Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL)	18.00	100
e) Reserve Bank Information Technology Pvt. Ltd. (ReBIT)	0.50	100
Total	33.70	

and foreign investments, accrued income on loans and advances to the employees, balances held in (i) Swap Amortisation Account (SAA) (ii) Revaluation of Forward Contracts Account (RFCA) and miscellaneous assets. Miscellaneous assets comprise mainly loans and advances to staff, amount spent on projects pending completion, security deposit paid etc. The amount outstanding under 'Other Assets' decreased by 32.68 per cent from ₹396.28 billion as on June 30, 2016 to ₹266.79 billion as on June 30, 2017 primarily on account of decrease in swap amortisation.

a. Swap Amortisation Account (SAA)

In the case of swaps that are in the nature of repo at off-market rates, the difference between the future contract rate and the rate at which the contract is entered into is amortised over the period of the contract and held in the SAA. The balance held in this account is to be reversed on maturity of the outstanding contracts. The amount outstanding in SAA declined by 88.08 per cent from ₹154.97 billion as on June 30, 2016 to ₹18.48 billion as on June 30, 2017 due

to maturities of such contracts during 2016-17.

b. *Revaluation of Forward Contracts Account (RFCA)*

Forward contracts that are entered into as part of intervention operations are marked to market on June 30. The net gain, if any, is recorded in FCVA with contra entry in the RFCA. There was no balance in RFCA as on June 30, 2017 as there was marked to market loss on forward contracts.

XI.7.2 ASSETS OF ISSUE DEPARTMENT

The eligible assets of the Issue Department held as backing for notes issued consist of gold coin and bullion, rupee coin, Investment – Foreign ID, Government of India rupee securities and domestic bills of exchange. The Reserve Bank holds 557.77 metric tonnes of gold, of which 292.28 metric tonnes are held as backing for notes issued (Table XI.6). The value of gold held as backing for notes issued decreased by 5.32 per cent from ₹729.07 billion as on June 30, 2016 to ₹690.30 billion as on June 30, 2017, on account of decline in international gold prices and appreciation of INR *vis-à-vis* USD. Consequent upon the decrease in notes issued, Investment-Foreign-ID held as backing for notes issued decreased by 12.05 per cent from ₹16,335.92

Table XI.6: Physical Holding of Gold

1	As on June 30, 2016	As on June 30, 2017
	Volume in metric tonnes	Volume in metric tonnes
Gold held for backing note issue (held in India)	292.28	292.28
Gold held as asset of Banking Department (held abroad)	265.49	265.49
Total	557.77	557.77

billion as on June 30, 2016 to ₹14,366.89 billion as on June 30, 2017. The balance of Rupee coins held by the Issue Department increased by 257.89 per cent from ₹1.71 billion as on June 30, 2016 to ₹6.12 billion as on June 30, 2017. The non-interest bearing rupee securities held as assets of Issue Department and valued at ₹10.46 billion have redeemed during the year and thus the balance as on June 30, 2017 is nil.

FOREIGN EXCHANGE RESERVE

XI.8 The Foreign Exchange Reserves (FER) predominantly comprise FCA, beside Gold, Special Drawing Rights (SDRs) and Reserve Tranche Position (RTP). The Special Drawing Rights, (other than the amount acquired from Gol

Table XI.7(a): Foreign Exchange Reserves in Rupee

(₹ billion)

	As on June 30		Variation	
	2016	2017	Absolute	Per Cent
1	2	3	4	5
Foreign Currency Assets (FCA)	22,787.43 [^]	23,455.08 [#]	667.65	2.93
Gold	1,391.30 [@]	1,317.32 [*]	(-) 73.98	(-) 5.32
Special Drawing Rights (SDR)	100.58	95.80	(-) 4.78	(-) 4.75
Reserve Position in the IMF	162.27	150.30	(-) 11.97	(-) 7.38
Foreign Exchange Reserves (FER)	24,441.58	25,018.50	576.92	2.36

[^] : Excludes (a) SDR Holdings of the Reserve Bank amounting to ₹100.58 billion, which is included under the SDR holdings, (b) Investment of ₹141.99 billion in bonds issued by IIFC (UK), (c) ₹27.04 billion lent to Sri Lanka and ₹6.72 billion lent to Bhutan under a Currency Swap arrangement made available for SAARC countries.

[#] : Excludes (a) SDR Holdings of the Reserve Bank amounting to ₹95.80 billion, which is included under the SDR holdings, (b) Investment of ₹135.95 billion in bonds issued by IIFC (UK).

[@] : Of this, Gold valued at ₹729.07 billion is held as an asset of Issue Department and Gold valued at ₹662.23 billion is held under asset of Banking Department.

^{*} : Of this, Gold valued at ₹690.30 billion is held as an asset of Issue Department and Gold valued at ₹627.02 billion is held under asset of Banking Department.

Table XI.7(b): Foreign Exchange Reserves in USD

(US\$ billion)

	As on June 30		Variation	
	2016	2017	Absolute	Per Cent
1	2	3	4	5
Foreign Currency Assets (FCA)	339.04*	362.39**	23.35	6.89
Gold	20.58	20.35	(-) 0.23	(-) 1.12
Special Drawing Rights (SDR)	1.49	1.48	(-) 0.01	(-) 0.67
Reserve Position in the IMF	2.40	2.32	(-) 0.08	(-) 3.33
Foreign Exchange Reserves (FER)	363.51	386.54	23.03	6.34

* : Excludes (a) SDR Holdings of the Reserve Bank amounting to US\$ 1.49 billion, which is included under the SDR holdings, (b) US\$ 2.1 billion invested in bonds of IIFC (UK), and (c) LKR equivalent of US\$ 0.4 million lent to Sri Lanka & BTN equivalent to US\$ 0.1 billion equivalent of INR currency lent to Bhutan under a Currency Swap arrangement made available for SAARC countries.

** : Excludes (a) SDR Holdings of the Reserve Bank amounting to US\$ 1.48 billion, which is included under the SDR holdings, (b) US\$ 2.1 billion invested in bonds of IIFC (UK).

and included under Foreign Investment–BD) does not form part of Reserve Bank's balance sheet. Similarly, the RTP, which represents India's quota contribution to IMF in foreign currency is not part of Reserve Bank's balance sheet. The position of foreign exchange reserves as on June 30, 2016 and June 30, 2017 in Indian rupees and the US dollar, which is the numeraire currency for our foreign exchange reserves, are furnished in Tables XI.7 (a) and (b).

ANALYSIS OF INCOME AND EXPENDITURE

INCOME

XI.9 The main components of Reserve Bank's income are Interest Receipts and 'Others' including (i) Discount, (ii) Exchange, (iii) Commission, (iv) Amortisation of Premium/Discount on Foreign and Rupee Securities, (v) Profit/Loss on Sale and

Redemption of Foreign and Rupee Securities, (vi) Rent Realised, (vii) Profit or loss on sale of Bank's property, and (viii) Provisions no longer required and miscellaneous income. Interest receipts forms the major portion. Certain items of income such as interest on LAF repo, Repo in foreign security, exchange gain are reported on net basis.

Till 2015-16, the items in (iv) and (v) were grouped under the head 'Interest'. However, from the year 2016-17, re-grouping of income items has been done and accordingly, the income in nature of 'interest' has been included under the head 'Interest' and other income types have been grouped under 'Others'. The change can be seen in the Income Statement and the related schedules.

Earnings from Foreign Sources

XI.10 The income from foreign sources, decreased by 35.27 per cent from ₹287.13 billion in 2015-16 to ₹185.86 billion in 2016-17 mainly on account of the appreciation of the rupee and reduced premium income on the swaps that are in the nature of repo. Therefore, the rate of earnings on foreign currency assets was lower at 0.80 per cent in 2016-17 as compared with 1.29 per cent in 2015-16 (Table XI. 8).

Earnings from Domestic Sources

XI.11 The net income from domestic sources decreased by 17.11 per cent from ₹521.57 billion in 2015-16 to ₹432.32 billion in 2016-17 mainly due to higher net expenditure on interest under LAF on account of absorption of surplus liquidity in the banking system post withdrawal of Specified Bank Notes (SBNs) (Table XI. 9).

XI.12 *Interest on holding of rupee securities* increased by 25.85 per cent from ₹430.79 billion in 2015-16 to ₹542.17 billion in 2016-17. The coupon income increased on account of increase in the

Table XI.8: Earnings from Foreign Sources

(₹ billion)

Item	As on June 30		Variation	
	2016	2017	Absolute	Per Cent
1	2	3	4	5
Foreign Currency Assets (FCA)	23,063.76	23,686.83	623.07	2.70
Average FCA	22,229.65	23,110.09	880.44	3.96
Earnings from FCA (interest, discount, exchange gain/loss, capital gain/loss on securities)	287.13	185.86	(-) 101.27	(-) 35.27
Earnings from FCA as per cent of average FCA	1.29	0.80	(-) 0.49	(-) 37.98

Reserve Bank's holding of Government securities as a result of OMO purchases of around ₹1.10 trillion between April 2016 and June 2017.

XI.13 *The net interest income from Liquidity Adjustment Facility (LAF)/Marginal Standing Facility (MSF) operations decreased by ₹180.04 billion from ₹6.38 billion in 2015-16 to ₹(-)173.66 billion in 2016-17. The decrease in net interest*

income on LAF/MSF operations was on account of higher expenditure on interest payment under reverse repo in 2016-17 due to absorption of surplus liquidity in the banking system post withdrawal of Specified Bank Notes (SBNs).

XI.14 Profit on sale of securities decreased to ₹4.62 billion in 2016-17 from ₹21.68 billion in 2015-16.

Table XI 9: Earnings from Domestic Sources

(₹ billion)

Item	2015-16	2016-17	Variation	
			Absolute	Per cent
1	2	3	4	5
Earnings (I + II+III)	521.57	432.32	-89.25	-17.11
I. Earnings from domestic securities				
i) Interest on holding of domestic securities	430.79	542.17	111.38	25.85
ii) Profit on Sale and redemption of Securities	21.68	4.62	-17.06	-78.69
iii) Premium/discount on amortisation of domestic securities	42.58	35.47	-7.11	-16.70
iv) Net Interest on LAF Operations	5.06	-174.26	-179.32	-3543.87
v) Interest on MSF operations	1.32	0.60	-0.72	-54.55
Sub total (i+ii+iii+iv+v)	501.43	408.60	-92.83	-18.51
II. Interest on Loans and Advances				
i) Government (Central & States)	1.99	5.37	3.38	169.85
ii) Banks & Financial Institutions	1.58	1.06	-0.52	-32.91
iii) Employees	0.41	0.46	0.05	12.20
Sub total (i+ii+iii)	3.98	6.89	2.91	73.12
III. Other Earnings				
i) Discount	0.00	0.00	0.00	0.00
ii) Exchange	0.00	0.00	0.00	0.00
iii) Commission	15.31	18.41	3.10	20.25
iv) Rent realised, Profit or Loss on sale of Bank's Property, Provisions no longer required and miscellaneous	0.85	-1.58	-2.43	-285.88
Sub total (i+ii+iii+iv)	16.16	16.83	0.67	4.15

XI.15 Premium/Discount on amortisation of domestic securities: As per the extant accounting policy, the rupee securities held by the Bank are amortised on daily basis during the period of residual maturity and the premium/discount is credited to 'Amortisation of Premium/Discount on Rupee Securities' account. The income booked under 'Amortisation of Premium/Discount on Amortisation of Rupee Securities' was ₹35.47 billion for 2016-17 as compared to ₹42.58 billion during 2015-16.

XI.16 Interest on loans and advances

a. Central and State Government

Interest income on Ways and Means Advances (WMA)/Overdraft (OD) received from the Centre and States increased by 169.85 per cent from ₹1.99 billion during 2015-16 to ₹5.37 billion in 2016-17.

Interest income received from the Centre on account of WMA/OD increased from ₹0.81 billion during 2015-16 to ₹3.98 billion in 2016-17. The increased earnings was on account of increased WMA/OD facility availed by Gol in 2016-17 due to the stress in its cash balance.

Interest income received from the States on account of WMA/OD/Special Drawing Facility (SDF) increased from ₹1.18 billion during 2015-16 to ₹1.39 billion in 2016-17. The increased earnings were on account of higher utilisation of these facilities.

b. Banks & Financial institutions:

Interest on loans and advances to banks and financial institutions decreased from ₹1.58 billion in 2015-16 to ₹1.06 billion in 2016-17.

c. Employees:

Interest on loans and advances to employees increased marginally from ₹0.41 billion in 2015-16 to ₹0.46 billion in 2016-17.

XI.17 Commission: The commission income increased from ₹15.31 billion in 2015-16 to ₹18.41 billion in 2016-17 primarily on account of (i) increase in floatation charges due to increased market borrowing of states including UDAY issuances during 2016-17, and (ii) increase in management commission received for outstanding amount on central and state government loans; which includes savings bonds, G-secs and T-bills (including increased MSS issuances after withdrawal of SBNs).

XI.18 Rent realised, Profit or Loss on sale of Bank's Property, Provisions no longer required and miscellaneous income: Earnings from these income heads declined from ₹0.85 billion in 2015-16 to ₹(-)1.58 billion in 2016-17.

EXPENDITURE

XI.19 The Reserve Bank incurs expenditure in the course of performing its statutory functions by way of agency charges/commission, printing of notes, expenses on remittance of treasure besides staff related and other expenses. The total expenditure of the Reserve Bank increased by 107.84 per cent from ₹149.90 billion in 2015-16 to ₹311.55 billion in 2016-17 primarily due to increase in expenditure on printing of new notes as a part of remonetisation of currency and provisions.

i) Interest

During 2016-17, an amount of ₹0.01 billion was credited as interest to Dr B.R. Ambedkar Fund (set up for giving scholarship to wards of staff) and Employees Benevolent Fund.

Table XI.10: Expenditure

(₹ in billion)

Item	2012-13	2013-14	2014-15	2015-16	2016-17
1	2	3	4	5	6
i. Interest Payment	0.03	0.04	0.01	0.01	0.01
ii. Employees Cost	58.59	43.24	40.58	44.77	46.21
iii. Agency charges/ commission	28.07	33.25	30.45	47.56	40.52
iv. Printing of notes	28.72	32.14	37.62	34.21	79.65
v. Provisions	0.00	0.00	10.00	10.00	131.90
vi. Others	10.08	10.67	14.90	13.35	13.26
Total (i+ii+iii+iv+v+vi)	125.49	119.34	133.56	149.90	311.55

ii) Employee cost

The employee cost increased by 3.22 per cent from ₹44.77 billion in 2015-16 to ₹46.21 billion in 2016-17. The increase is mainly on account of wage revision and revision in Gratuity limits.

iii) Agency Charges

a. Agency Commission on Government Transactions

The Reserve Bank discharges the function of banker to the government through a large network of agency bank branches that serve as retail outlets for government transactions. The Reserve Bank pays commission to these agency banks at prescribed rates which were last revised with effect from July 01, 2012. The agency charges on account of government business for 2016-17 was ₹39.70 billion as compared with ₹46.93 billion for the year 2015-16, reflecting a decrease of 15.40 per cent. The agency charges in 2015-16 were higher on account of the cumulative provision

made in 2015-16 for an amount of ₹10.64 billion for reimbursing service tax on agency commission paid to banks for 2012-13, 2013-14 and 2014-15.

b. Underwriting Commission paid to Primary Dealers

Reserve Bank paid total underwriting commission of ₹0.53 billion during 2016-17 as compared to ₹0.35 billion during 2015-16. The increase was mainly on account of persistent phase of market volatility picking up post demonetisation from mid November 2016 and becoming more marked from February to April 2017 as a reaction to the shift in monetary policy stance.

c. Fees paid to the External Asset Managers, custodians etc.

Fees paid for overseas custodial services during 2016-17 amounted to ₹0.25 billion as compared to ₹0.27 billion in 2015-16.

iv) Printing of notes

Expenditure incurred on printing of notes during 2016-17 was ₹79.65 billion as compared to ₹34.21 billion in 2015-16.

The increase was mainly on account of following reasons:

- Supply of notes during the year at 29,043 million pieces was 37 per cent higher than the total supply during previous year (21,195 million pieces). Supply of higher denomination notes during 2016-17 was 13,702 million pieces as against 5,268 million pieces supplied in 2015-16, higher by 160 per cent.
- In the wake of withdrawal of SBNs, there was an increase in the number of remittances in our remonetisation efforts

resulting in higher freight and forwarding expenses. For urgent supply of notes across the country, notes were also remitted by air resulting in increased expense on freight charges.

- c. Reimbursement of cost for finished banknotes, work in progress, raw materials, *etc.* as the printing presses had to discontinue printing of ₹500 and ₹1000 denomination banknotes which were withdrawn in November 2016.

v) Others

Other expenses consisting of expenditure on remittance of treasure, printing and stationery, audit fees and related expenses, depreciation, miscellaneous expenses, *etc.* decreased marginally by 0.67 per cent from ₹13.35 billion in 2015-16 to ₹13.26 billion in 2016-17. This is primarily because of fall in depreciation expense due to introduction of monthly pro-rata depreciation from 2016-17.

vi) Provisions

In 2016-17, a provision of ₹0.50 billion was made for capital contribution in Reserve Bank Information Technology Pvt. Ltd. (ReBIT) and transferred to Asset Development Fund (ADF) and a provision of ₹131.40 billion was made for transfer to Contingency Fund (CF).

CONTINGENT LIABILITIES

XI.20 The total contingent liabilities of the Bank amounted to ₹1,107.05 billion, the main

components of which are (a) ₹1,105.79 billion towards the exposure of Bank in forwards and swaps; and (b) the Bank holds partly paid shares, denominated in SDR, of Bank of International Settlements (BIS). The uncalled liability on partly paid shares of the BIS as on June 30, 2017 was ₹1.08 billion as compared to ₹1.14 billion in the previous year. The balances are callable at three months' notice by a decision of the BIS Board of Directors.

PRIOR PERIOD TRANSACTIONS

XI.21 For the purpose of disclosure, prior period transactions of ₹0.10 million and above only have been considered. The prior period transactions under expenditure and income amounted to ₹0.42 billion and ₹0.03 billion respectively.

PREVIOUS YEAR'S FIGURES

XI.22 Figures for the previous year have been rearranged, wherever necessary, to make them comparable with the current year.

AUDITORS

XI.23 The statutory auditors of the Bank are appointed by the Central Government in terms of section 50 of the RBI Act, 1934. The accounts of the Reserve Bank for the year 2016-17 were audited by M/s Borkar & Muzumdar, Mumbai and M/s Khandelwal Jain & Co., as the Statutory Central Auditors and M/s M C Bhandari & Co., M/s Brahmayya & Co. and M/s Mehra Goel & Co. as Statutory Branch Auditors.