

XII

THE RESERVE BANK'S ACCOUNTS FOR 2017-18

The balance sheet size of the Reserve Bank increased by 9.49 per cent for the year ended June 30, 2018. While income for the year 2017-18 increased by 26.63 per cent, the expenditure decreased by 9.24 per cent. The year ended with an overall surplus of ₹500 billion as against ₹306.59 billion in the previous year, representing an increase of 63.08 per cent.

XII.1 The balance sheet of the Reserve Bank plays a critical role in the functioning of the country's economy largely reflecting 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 2017-18 (July - June) are set out in the following paragraphs.

XII.2 There was an increase in the size of the Bank's balance sheet during 2017-18. The balance sheet increased by ₹3,135.00 billion, i.e. 9.49 per cent from ₹33,040.94 billion as on June 30, 2017 to ₹36,175.94 billion as on June 30, 2018. The increase on the asset side was mainly

due to increase in foreign investments and loans and advances by 11.25 per cent and 849.55 per cent, respectively. On the liability side, the increase was due to increase in Notes issued and Other Liabilities and Provisions by 26.93 per cent and 16.95 per cent, respectively. Domestic assets constituted 23.18 per cent while the foreign currency assets and gold (including gold held in India) constituted 76.82 per cent of total assets as on June 30, 2018 as against 24.32 per cent and 75.68 per cent, respectively as on June 30, 2017.

XII.3 Provision of ₹141.90 billion was made and transferred to Contingency Fund (CF). No transfer was made to Asset Development Fund

Table XII.1: Trends in Income, Expenditure and Net Disposable Income

(₹ billion)

Item	2013-14	2014-15	2015-16	2016-17	2017-18
1	2	3	4	5	6
a) Income	646.17	792.56	808.70	618.18	782.81
b) Total Expenditure ¹	119.34	133.56 ²	149.90 ³	311.55 ⁴	282.77 ⁵
c) Net Disposable Income (a-b)	526.83	659.00	658.80	306.63	500.04
d) Transfer to funds ⁶	0.04	0.04	0.04	0.04	0.04
e) Surplus transferred to the Government (c-d)	526.79	658.96	658.76	306.59	500.00

Notes: 1. Since June 30, 2015, transfers to CF and ADF are being made through provisions head in Income Statement.

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 RBI's subsidiary ReBIT and a provision of ₹131.40 billion towards transfer to CF.

5. Includes a provision of ₹141.90 billion towards transfer to CF.

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

(ADF). A surplus of ₹500 billion was transferred to the central government. The trends in income, expenditure, net disposable income and the surplus transferred to the government are given in Table XII.1.

XII.4 The Balance Sheet and the Income Statement prepared for 2017-18 along with the schedules, statement of Significant Accounting Policies and supporting Notes to Accounts are as follows:

**RESERVE BANK OF INDIA
BALANCE SHEET AS ON JUNE 30, 2018**

(Amount in ₹ billion)

Liabilities	Schedule	2016-17	2017-18	Assets	Schedule	2016-17	2017-18
Capital		0.05	0.05	Assets of Banking Department (BD)			
Reserve Fund		65.00	65.00	Notes, Rupee Coin, Small Coin	5	0.12	0.09
Other Reserves	1	2.26	2.28	Gold Coin and Bullion	6	627.02	696.74
Deposits	2	8,963.48	6,525.97	Investments-Foreign-BD	7	9,319.94	7,983.89
Other Liabilities and Provisions	3	8,946.84	10,463.04	Investments-Domestic-BD	8	7,557.50	6,297.45
				Bills Purchased and Discounted		0.00	0.00
				Loans and Advances	9	172.56	1,638.55
				Investment in Subsidiaries	10	33.70	33.70
				Other Assets	11	266.79	405.92
Liabilities of Issue Department				Assets of Issue Department (ID)			
Notes issued	4	15,063.31	19,119.60	Gold Coin and Bullion (as backing for Note issue)	6	690.30	743.49
				Rupee Coin		6.12	9.26
				Investments-Foreign-ID	7	14,366.89	18,366.85
				Investments-Domestic-ID	8	0.00	0.00
				Domestic Bills of Exchange and other Commercial Papers		0.00	0.00
Total Liabilities		33,040.94	36,175.94	Total Assets		33,040.94	36,175.94

Nirmal Chand
Chief General
Manager-in-Charge

M. K. Jain
Deputy Governor

B.P. Kanungo
Deputy Governor

Viral V. Acharya
Deputy Governor

N. S. Vishwanathan
Deputy Governor

Urjit R. Patel
Governor

**RESERVE BANK OF INDIA
INCOME STATEMENT FOR THE YEAR ENDED JUNE 2018**

(Amount in ₹ billion)

INCOME	Schedule	2016-17	2017-18
Interest	12	660.51	738.71
Other income	13	-42.33	44.10
Total		618.18	782.81
EXPENDITURE			
Printing of Notes		79.65	49.12
Expenditure on Remittance of Currency		1.47	1.15
Agency Charges	14	40.52	39.03
Employee Cost		46.21	38.48
Interest		0.01	0.01
Postage and Telecommunication Charges		1.02	0.87
Printing and Stationery		0.36	0.23
Rent, Taxes, Insurance, Lighting, etc.		1.23	1.27
Repairs and Maintenance		1.02	1.03
Directors' and Local Board Members' Fees and Expenses		0.02	0.02
Auditors' Fees and Expenses		0.04	0.06
Law Charges		0.06	0.09
Miscellaneous Expenses		6.96	8.08
Depreciation		1.08	1.43
Provisions		131.90	141.90
Total		311.55	282.77
Available Balance		306.63	500.04
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
(c) Others			
Amount transferred to Central Government during the year		0.00	100.00
Surplus payable to the Central Government		306.59	400.00

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

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SCHEDULES FORMING PART OF BALANCE SHEET AND INCOME STATEMENT

(Amount in ₹ billion)

		2016-17	2017-18
Schedule 1:	Other Reserves		
	(i) National Industrial Credit (Long Term Operations) Fund	0.26	0.27
	(ii) National Housing Credit (Long Term Operations) Fund	2.00	2.01
	Total	2.26	2.28
Schedule 2:	Deposits		
	(a) Government		
	(i) Central Government	947.74	1.01
	(ii) State Governments	0.43	0.42
	Sub total	948.17	1.43
	(b) Banks		
	(i) Scheduled Commercial Banks	4,729.90	4,744.18
	(ii) Scheduled State Co-operative Banks	36.36	35.20
	(iii) Other Scheduled Co-operative Banks	84.08	84.01
	(iv) Non-Scheduled State Co-operative Banks	15.30	19.15
	(v) Other Banks	175.86	188.41
	Sub total	5,041.50	5,070.95
	(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	50.17	46.81
	(ii) Depositors' Education and Awareness Fund	146.97	195.67
	(iii) Balances of Foreign Central Banks	19.22	18.80
	(iv) Balances of Indian Financial Institutions	5.90	2.40
	(v) Balances of International Financial Institutions	3.05	3.20
	(vi) Mutual Fund	0.01	0.01
	(vii) Others	2,748.49	1,186.70
	Sub total	2,973.81	1,453.59
	Total	8,963.48	6,525.97
Schedule 3:	Other Liabilities and Provisions		
	(i) Contingency Fund (CF)	2,282.07	2,321.08
	(ii) Asset Development Fund (ADF)	228.11	228.11
	(iii) Currency and Gold Revaluation Account (CGRA)	5,299.45	6,916.41
	(iv) Investment Revaluation Account-Foreign Securities (IRA-FS)	0.00	0.00
	(v) Investment Revaluation Account-Rupee Securities (IRA-RS)	570.90	132.85
	(vi) Foreign Exchange Forward Contracts Valuation Account (FCVA)	0.00	32.62
	(vii) Provision for Forward Contracts Valuation Account (PFCVA)	29.63	0.00
	(viii) Provision for payables	39.17	27.88
	(ix) Gratuity and Superannuation Fund	172.06	175.13
	(x) Surplus Transferable to the Government of India	306.59	500.00
	(xi) Bills Payable	0.12	0.05
	(xii) Miscellaneous	18.74	128.91
	Total	8,946.84	10,463.04

THE RESERVE BANK'S ACCOUNTS FOR 2017-18

		2016-17	2017-18
Schedule 4:	Notes Issued		
	(i) Notes held in the Banking Department	0.12	0.09
	(ii) Notes in circulation	15,063.19	19,119.51
	Total	15,063.31	19,119.60
Schedule 5:	Notes, Rupee Coin, Small Coin (with RBI)		
	(i) Notes	0.12	0.09
	(ii) Rupee Coin	0.00	0.00
	(iii) Small Coin	0.00	0.00
	Total	0.12	0.09
Schedule 6:	Gold Coin and Bullion		
	(a) Banking Department		
	(i) Gold Coin and Bullion	627.02	696.74
	(ii) Gold deposit	0.00	0.00
	Sub Total	627.02	696.74
	(b) Issue Department (as backing for Notes issued)	690.30	743.49
	Total	1,317.32	1,440.23
Schedule 7:	Investments- Foreign		
	(i) Investments-Foreign –BD	9,319.94	7,983.89
	(ii) Investments- Foreign-ID	14,366.89	18,366.85
	Total	23,686.83	26,350.74
Schedule 8:	Investments- Domestic		
	(i) Investments –Domestic -BD	7,557.50	6,297.45
	(ii) Investments-Domestic-ID	0.00	0.00
	Total	7,557.50	6,297.45
Schedule 9:	Loans and Advances		
	(a) Loans and Advances to :		
	(i) Central Government	25.50	554.35
	(ii) State Governments	24.18	14.93
	Sub total	49.68	569.28
	(b) Loans and Advances to:		
	(i) Scheduled Commercial Banks	80.25	1,006.90
	(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	42.63	62.37
	Sub total	122.88	1,069.27
	(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	172.56	1,638.55
Schedule 10:	Investment in Subsidiaries/Associates		
	(i) Deposit Insurance and Credit Guarantee Corporation (DICGC)	0.50	0.50
	(ii) National Housing Bank (NHB)	14.50	14.50
	(iii) National Bank for Agriculture and Rural Development (NABARD)	0.20	0.20
	(iv) Bharatiya Reserve Bank Note Mudran (P) Ltd. (BRBNMPL)	18.00	18.00
	(v) Reserve Bank Information Technology (P) Ltd. (ReBIT)	0.50	0.50
	Total	33.70	33.70

		2016-17	2017-18
Schedule 11:	Other Assets		
	(i) Fixed Assets (net of accumulated depreciation)	4.08	4.41
	(ii) Accrued income (a + b)	232.46	232.99
	a. on loans to employees	3.10	3.16
	b. on other items	229.36	229.83
	(iii) Swap Amortisation Account	18.48	23.10
	(iv) Revaluation of Forward Contracts Account (RFCA)	0.00	32.62
	(v) Miscellaneous	11.77	112.80
	Total	266.79	405.92
Schedule 12:	Interest		
	(a) Domestic Sources		
	(i) Interest on holding of Rupee Securities	542.17	479.68
	(ii) Net Interest on LAF Operations	-174.26	-95.41
	(iii) Interest on MSF Operations	0.60	1.25
	(iv) Interest on Loans and Advances	6.89	7.79
	Sub total	375.40	393.31
	(b) Foreign Sources		
	(i) Interest Income from Foreign Securities	192.96	234.28
	(ii) Net Interest on Repo / Reverse Repo transaction	0.00	0.00
	(iii) Interest on Deposits	92.15	111.12
	Sub total	285.11	345.40
	Total	660.51	738.71
Schedule 13:	Other Income		
	(a) Domestic Sources		
	(i) Exchange	0.00	0.00
	(ii) Discount	0.00	0.00
	(iii) Commission	18.41	20.35
	(iv) Rent Realised	0.06	0.05
	(v) Profit/Loss on sale and redemption of Rupee Securities	4.62	60.36
	(vi) Depreciation on Rupee Securities inter portfolio transfer	0.00	-0.08
	(vii) Amortisation of premium/discount of Rupee Securities	35.47	31.13
	(viii) Profit / Loss on sale of Bank's property	0.03	0.01
	(ix) Provision no longer required and Miscellaneous Income	-1.67	3.67
	Sub total	56.92	115.49
	(b) Foreign Sources		
	(i) Amortisation of premium/discount of Foreign Securities	-52.92	-36.08
	(ii) Profit/Loss on sale and redemption of Foreign Securities	4.83	5.36
	(iii) Exchange gain/loss from Foreign Exchange transactions	-51.16	-40.67
	Sub total	-99.25	-71.39
	Total	-42.33	44.10
Schedule 14:	Agency Charges		
	(i) Agency Commission on Government Transactions	39.68	37.60
	(ii) Underwriting Commission paid to the Primary Dealers	0.53	1.13
	(iii) Sundries (Handling charges and turnover commission paid to banks for Relief / Savings Bonds subscriptions; SBLA etc.)	0.06	0.08
	(iv) Fees paid to the External Asset Managers, custodians, etc.	0.25	0.22
	Total	40.52	39.03

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, 2018 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, 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' judgement, 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 explanations from the Bank considered necessary for the purpose of our audit and such information and explanations have been given to our satisfaction.

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

For Chhajed & Doshi
Chartered Accountants
(ICAI Firm Registration No. 101794W)

Nitesh Jain
Partner
Membership No. 136169

For G. P. Kapadia & Co.
Chartered Accountants
(ICAI Firm Registration No. 104768W)

Nimesh Bhimani
Partner
Membership No. 30547

Place: Mumbai

Date: August 08, 2018

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED JUNE 30, 2018

(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 Financial 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 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 charged from the banks 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 except those pertaining to legal/litigation cases, 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 average of the gold price, quoted daily by the 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 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 are 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. 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 and oil bonds except those mentioned below in (d) are marked to market as on the last business day of each month. The unrealised gains/losses on revaluation is 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/oil bonds, valuation gain/loss, in respect of rupee securities/oil bonds sold/redeemed, lying in IRA-RS, is transferred to income account. Rupee securities and oil bonds 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 and 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 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 except art and paintings which are held at cost.
- (b) Depreciation on Fixed Assets, other than land and buildings, acquired and capitalised during the year (from July 01 to June 30) would be reckoned on a monthly pro-rata basis from the month of capitalisation, and effected on an annual basis at prescribed rates depending upon the useful life of the assets applied.
- (c) Depreciation on the following fixed assets (costing more than ₹0.10 million) is provided on a straight-line basis depending on the useful life of an asset in the following manner:

Asset Category	Useful life (Rate of Depreciation)
Electrical installations, UPS, Motor vehicles, furniture, fixture, CVPS/ SBS Machines, etc.	5 years (20 per cent)
Computers, Servers, Micro-processors, Printers, Software, Laptops, e-book reader/ i-Pad, etc.	3 years (33.33 per cent)

- (d) Fixed Assets, costing up to ₹0.10 million (except easily portable electronic assets like Laptop/e-book reader) 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 on monthly pro-rata basis at the applicable rate.
- (e) Individual items of computer software costing ₹0.10 million and above are

capitalised and depreciation is calculated on monthly pro-rata basis at the applicable rate.

- (f) 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 for on monthly pro-rata basis including the month of addition/deletion of such assets.
- (g) Depreciation on subsequent expenditure:
- Subsequent expenditure incurred on an existing fixed asset which has not been fully depreciated in the books of account, is depreciated over the remaining useful life of the principal asset;
 - Subsequent expenditure incurred on modernisation/addition/overhauling of an existing fixed 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.
- (h) Land and building: The accounting treatment in respect of land and building is as follows:

Land

- Land acquired on leasehold basis for a period of more than 99 years is treated as if it is on a perpetual lease basis. Such leases are considered as freehold properties and accordingly not subjected to amortization.
- Land acquired on lease up to 99 years is amortised over the period of the lease.
- Land acquired on a freehold basis is not subject to any amortisation.

Buildings

- i. 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.
- ii. Impairment of buildings: For assessment of impairment, buildings are classified into two categories, as under:
 - a. Buildings which are in use but have been identified for demolition in future or 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 charged as depreciation.
 - b. Buildings which have been discarded/vacated: These buildings are shown at realisable value (net selling price-if the asset is likely to be sold in future) or scrap value less demolition cost (if it is to be demolished). If the resultant amount is negative, then the carrying value of such buildings is shown at ₹1. The difference between the book value and realisable value (net selling price)/scrap value less demolition cost is charged as depreciation.

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 ACCOUNTS**XII.5 LIABILITIES AND ASSETS OF THE BANK****XII.5.1 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 as the unrealised gain/loss on account of valuation of gold and foreign currency is since being 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 ₹0.27 billion as on June 30, 2018.

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 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 ₹2.01 billion as on June 30, 2018.

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, Depositor Education and Awareness Fund (DEA Fund), amount outstanding against Reverse Repo, Medical Assistance Fund (MAF) etc.

Total deposits decreased by 27.19 per cent from ₹8,963.48 billion as on June 30, 2017 to ₹6,525.97 billion as on June 30, 2018.

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 21A 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 ₹1.01 billion and ₹0.42 billion respectively as on June 30, 2018, totalling ₹1.43 billion as compared to ₹947.74 billion and ₹0.43 billion respectively and totalling to ₹948.17 billion as on June 30, 2017. The decrease in Central Government deposit is on account of redemption of Market Stabilisation Scheme (MSS) securities.

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 ₹5,070.95 billion as on June 30, 2018 as compared to ₹5,041.50 billion as on June 30, 2017.

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, MAF, amount outstanding under Reverse Repo etc. 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 ₹195.67 billion as on June 30, 2018. The amount under Deposits-Others decreased by 51.12 per cent from ₹2,973.81 billion as on June 30, 2017 to ₹1,453.59 billion as on June 30, 2018 primarily due to decrease in reverse repo deposits.

v) **Other Liabilities and Provisions**

The major components of ‘Other Liabilities and Provisions’ are provisions and valuation heads. While Contingency Fund (CF) and Asset Development Fund (ADF) represent provisions made for unforeseen contingencies and amount set aside for investment in subsidiaries and internal capital expenditure respectively, the remaining components of ‘Other Liabilities and Provisions’, such as, Currency and Gold Revaluation Account (CGRA), Investment Revaluation Account (IRA) and Foreign Exchange Forward Contracts Valuation Account (FCVA), represent unrealised marked to market gains/losses. ‘Other Liabilities and Provisions’ increased by

16.95 per cent from ₹8,946.84 billion as on June 30, 2017 to ₹10,463.04 billion as on June 30, 2018, primarily due to increase in CGRA.

a. *Contingency Fund (CF)*

Contingency Fund represents the provision made by the Bank on year-to-year basis. This is specific provision meant 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, 2018, a provision of ₹141.90 billion was made and transferred to CF and an amount of ₹168.74 billion was also charged to CF on account of debit balance of 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, 2018 was ₹2,321.08 billion as compared to ₹2,282.07 billion as on June 30, 2017 (Table XII.2).

b. *Asset Development Fund (ADF)*

The Asset Development Fund was created in 1997-98. It represents provision specifically made to make investments in subsidiaries and associate institutions and meet internal capital expenditure. No provision was made for transferring to ADF in the year 2017-18. The balance in ADF remains as ₹228.11 billion as on June 30, 2018.

Table XII.2: Balances in Contingency Fund (CF) and Asset Development Fund (ADF)

(₹ billion)

As on June 30	Balance in CF	Balance in ADF	Total	CF and ADF as percentage to total assets
1	2	3	4=(2+3)	5
2014	2,216.52	207.61	2,424.13	9.2
2015	2,216.14*	217.61	2,433.75	8.4
2016	2,201.83*	227.61	2,429.44	7.5
2017	2,282.07#	228.11	2,510.18	7.6
2018	2,321.08@	228.11	2,549.19	7.05

*: 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 the net impact of provision of ₹131.40 billion and charging of the debit balance of IRS and FCVA amounting to ₹65.85 billion as on June 30, 2017.

@: Increase in CF is the net impact of provision of ₹141.90 billion and charging of the debit balance of IRA-FS amounting to ₹168.74 billion as on June 30, 2018.

c. Currency and Gold Revaluation Account (CGRA)

The major sources of market risk faced by the Reserve Bank are currency risk, interest rate risk and movement in gold prices. Unrealised gains/losses on valuation of Foreign Currency Assets (FCA) and Gold are not taken to the Income Account but instead recorded in the CGRA. Net balance in CGRA, therefore, varies with the size of the asset base, its valuation, and movement in the exchange rate and price of gold. CGRA provides a buffer against exchange rate/gold price fluctuations. It can come under pressure if there is an appreciation of the rupee vis-a-vis major currencies or a fall in the price of gold. When CGRA is not sufficient to fully meet exchange losses, it is replenished from the contingency

fund. During 2017-18, the balance in CGRA increased by 30.51 per cent from ₹5,299.45 billion as on June 30, 2017 to ₹6,916.41 billion as on June 30, 2018 mainly due to depreciation of rupee against US dollar and rise 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. As per the extant policy, the debit balance of ₹168.74 billion as on June 30, 2018 in IRA-FS was adjusted against the Contingency Fund on June 30, 2018 which was reversed on the first working day of the following year. Accordingly, the balance in IRA-FS is NIL as on June 30, 2018.

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

Rupee securities and oil bonds (with exception as mentioned under Significant Accounting Policy) held as assets of the Banking Department are marked to market as on the last business day of each month and the unrealised gains/losses arising therefrom are booked in the Investment Revaluation Account- Rupee Securities (IRA-RS). The balance in IRA-RS decreased by 76.73 per cent from ₹570.90 billion as on June 30, 2017 to ₹132.85 billion as on June 30, 2018 due to increase in yields on Government of

Table XII.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
2014	5,721.63	42.98	0.00	37.91	0.00
2015	5,591.93	0.00	0.39	32.14	0.00
2016	6,374.78	0.00	14.69	132.66	391.46
2017	5,299.45	0.00	29.63	0.00	570.90
2018	6,916.41	32.62	0.00	0.00	132.85

India securities held by the Bank during the year.

- 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, 2018 resulted in a net gain of ₹32.62 billion, which was credited to the FCVA with contra debit to the Revaluation of Forward Contracts Account (RFCA). As per the extant policy, the amounts recorded in these accounts will be reversed on the maturity of the contracts. The balance in FCVA as on June 30, 2018 was ₹32.62 billion.

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

- 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 decreased by 28.82 per cent from ₹39.17 billion in 2016-17 to ₹27.88 billion in 2017-18.

- 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 funds 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 RBI Act, 1934, the Bank is not liable to pay income tax or super tax on any of its income, profits or gains. Accordingly, after adjusting the expenditure, provision for CF and contribution of ₹0.04 billion to the statutory funds, the surplus transferable to the Government of India for the year 2017-18 amounted to ₹500 billion (including ₹8.49 billion as against ₹9.93 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). Out of ₹500 billion, an amount of ₹100 billion was transferred to Central Government during the year.

- 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 ₹0.12 billion as on June 30, 2017 to ₹0.05 billion as on June 30, 2018.

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, global provision etc. The balance under this head increased by 587.89 per cent from ₹18.74 billion as on June 30, 2017 to ₹128.91 billion as on June 30, 2018. The increase was mainly on account of transfer of ₹107.20 billion to 'Other Liabilities and Provisions' representing the value of Specified Bank Notes (SBNs) which have not been paid and were part of liability head 'Notes issued'.

XII.5.2 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 RBI Act, 1934 requires that all bank notes 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 increased by 26.93 per cent from ₹15,063.31 billion as on June 30, 2017 to ₹19,119.60

billion as on June 30, 2018. The increase is on account of continued efforts of Reserve Bank to supply adequate quantity of banknotes to meet the transactional needs of the public.

(ii) The legal tender character of banknotes in the denominations of ₹500 and ₹1,000, referred to as 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 repealed by SBN (Cessation of Liabilities) Act, 2017] 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 subsection (1) of Section 26 of the Act with effect from December 31, 2016. A grace period was provided to Indian citizens who were outside India between November 9 and December 30, 2016 to deposit SBNs held by them at any of the five Reserve Bank offices (Mumbai, New Delhi, Chennai, Kolkata and Nagpur), subject to certain conditions.

SBNs were received by the Reserve Bank either directly or from bank branches/post offices through the currency chest mechanism. Verification and processing of the SBNs has been completed. The total value of SBNs in circulation as on November 08, 2016, post verification and reconciliation, was ₹15,417.93 billion. The total value of SBNs returned from circulation is ₹15,310.73 billion. However, in terms of a Gazette Notification issued by Government of India on May 12, 2017, SBNs confiscated

or seized by law enforcement agencies or produced before a court on or before December 30, 2016 can be tendered at any office of RBI for deposit to a bank account or exchange of value thereof with legal tender subject to the order of the court and satisfaction of conditions stipulated in the said Notification. Further, matter relating to exchange of SBNs held by certain District Central Cooperative Banks (DCCBs), which could not be accepted by RBI under extant legal provisions, is pending before the Hon'ble Court. Payment of the value of such SBNs is subject to the orders of the Hon'ble Court. In the meantime, an amount of ₹107.20 billion, representing the value of SBNs which has not been paid on June 30, 2018 and was forming part of liability head 'Notes issued', has been removed from balance of 'Notes issued' and transferred to specific head created for the purpose under 'Other Liabilities and Provisions'. All future payments of exchange value of SBNs to eligible tenderers under the Rules framed by the Government of India will be made out of the specific head.

XII.6 ASSETS

XII.6.1 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, 2018 was ₹0.09 billion as against ₹0.12 billion as on June 30, 2017.

ii) Gold Coin and Bullion

As on June 30, 2018, the Bank holds 566.23 metric tonnes of gold as compared to 557.77 metric tonnes as on June 30, 2017. The increase is on account of addition of 8.46 metric tonnes of gold during the year.

Of 566.23 metric tonnes, 292.30 metric tonnes (292.28 metric tonnes as on June 30, 2017) is held as backing for notes issued and shown separately as an asset of Issue Department. The balance 273.93 metric tonnes as on June 30, 2018 as compared to 265.49 metric tonnes is treated as an asset of Banking Department. The value of gold held as asset of Banking Department increased by 11.12 per cent from ₹627.02 billion as on June 30, 2017 to ₹696.74 billion as on June 30, 2018, primarily on account of depreciation of Rupee *vis-à-vis* USD and the addition of 8.44 metric tonnes of gold during the year (Table XII.6).

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 2017-18; consequently, there was no such asset in the books of the Reserve Bank as on June 30, 2018.

iv) Investments-Foreign-Banking Department (BD)

The Foreign Currency Assets (FCA) of the Reserve Bank 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

Table XII.4: Details of Foreign Currency Assets

(₹ billion)

Particulars	As on June 30	
	2017	2018
1	2	3
I Investments-Foreign –ID	14,366.89	18,366.85
II Investments-Foreign –BD*	9,319.94	7,983.89
Total	23,686.83	26,350.74

*: includes Shares in BIS and SWIFT and SDRs transferred from Gol valued at ₹104.79 billion as on June 30, 2018 compared to ₹98.47 billion as on June 30, 2017.

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 (₹428.35 billion/US\$ 6.25 billion). As on June 30, 2018, investments amounting to SDR 0.47 billion (₹45.39 billion/US\$ 0.66 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 (₹342.88 billion), in the bonds issued by India Infrastructure Finance Company (UK) Limited. As on June 30, 2018, the Reserve Bank has invested US\$ 2.10 billion (₹144.01 billion) in such bonds.
3. In terms of the Note Purchase Agreement 2016 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 (₹685.75 billion).
4. During the year 2013-14, the Reserve Bank and Government of India (Gol) entered into a MoU for transfer of SDR holdings from Gol to RBI in a phased manner. As on June 30, 2018, SDR 1.06 billion (₹101.92 billion; US\$ 1.49 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, 2018, Swap with Bhutan, amounting US\$ 0.1 billion (₹6.74 billion) is outstanding.

(SDRs) acquired from the Government of India.

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

Investments-Foreign-ID are the FCA eligible as per section 33 (6) of the RBI Act, 1934, used for backing of notes in circulation. The remaining of FCA constitutes 'Investments-Foreign-BD'.

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

v) Investments- Domestic-Banking Department (BD)

Investments comprise Dated Government Rupee Securities, Treasury Bills and Special Oil Bonds. As on June 30, 2018, the Reserve Bank did not hold any domestic Treasury bills. The Reserve Bank's holding of domestic securities decreased by 16.67 per cent, from ₹7,557.50 billion as on June 30, 2017 to ₹6,297.45 billion as on June 30, 2018. The decrease was on account of (a) liquidity management operations conducted by way of net Open Market Operations (OMO) sale of government securities amounting to ₹681.05 billion (face value) (b) redemption of government securities and (c) valuation impact.

A part of Investments-Domestic- BD is also earmarked for various staff funds and DEA Fund as explained in para 2.5(d). As on June 30, 2018, ₹463.83 billion (face value) was earmarked for staff funds and DEA Fund taken together.

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 increased from ₹25.50 billion as on June 30,

2017 to ₹554.35 billion as on June 30, 2018. Loans and advances to the State Governments decreased to ₹14.93 billion as on June 30, 2018 from ₹24.18 billion as on June 30, 2017.

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 increased from ₹80.25 billion as on June 30, 2017 to ₹1,006.90 billion as on June 30, 2018 primarily due to increase 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 are outstanding as on June 30, 2018.
- *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 increased by 46.31 per cent from ₹42.63 billion as on June 30, 2017 to ₹62.37 billion as on June 30, 2018 primarily due to increase in amount outstanding against Repo to PDs.

Table XII.5: Holdings in Subsidiaries/ Associates

		(₹ billion)	
		Cost	Per cent holding
1		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 (P) Ltd.(ReBIT)	0.50	100
Total		33.70	

vii) Investment in Subsidiaries/Associates

The details of investment in subsidiaries/ associate institutions as on June 30, 2018 are given in Table XII.5. The total holding as on June 30, 2018 was ₹33.70 billion same as in the previous year.

viii) Other Assets

‘Other Assets’ comprise fixed assets (net of depreciation), accrued income, 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, interim amount transferred to central government, etc. The amount outstanding under ‘Other Assets’ increased by 52.15 per cent from ₹266.79 billion as on June 30, 2017 to ₹405.92 billion as on June 30, 2018 primarily on account of interim transfer made to central government during the year.

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 as on June 30, 2018 was ₹23.10 billion as compared to ₹18.48 billion as on June 30, 2017.

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 a debit balance of ₹32.62 billion in RFCA as on June 30, 2018 on account of marked to market gain on forward contracts.

XII.6.2 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, Investments–Foreign

Table XII.6: Physical holding of Gold

	As on	As on
	June 30, 2017	June 30, 2018
	Volume in	Volume in
	metric tonnes	metric tonnes
1	2	3
Gold held for backing Notes issued (held in India)	292.28	292.30
Gold held as asset of Banking Department (held abroad)	265.49	273.93
Total	557.77	566.23

ID, Government of India Rupee Securities and Domestic Bills of Exchange. The Reserve Bank holds 566.23 metric tonnes of gold, of which 292.30 metric tonnes are held as backing for Notes issued as on June 30, 2018 (Table XII.6). The value of gold held as backing for notes issued increased by 7.70 per cent from ₹690.30 billion as on June 30, 2017 to ₹743.49 billion as on June 30, 2018, primarily on account of depreciation of Rupee *vis-à-vis* USD. Consequent upon the increase in Notes issued, Investments-Foreign-ID held as backing for notes issued increased by 27.84 per cent from ₹14,366.89 billion as on June 30, 2017 to ₹18,366.85 billion as on June 30, 2018. The balance of Rupee Coins held by the Issue Department increased by 51.31 per cent from ₹6.12 billion as on June 30, 2017 to ₹9.26 billion as on June 30, 2018.

FOREIGN EXCHANGE RESERVE

XII.7 The Foreign Exchange Reserves (FER) predominantly comprise FCA, besides Gold, Special Drawing Rights (SDRs) and Reserve Tranche Position (RTP). The SDR (other than the amount acquired from GoI and included under Investments-Foreign–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 FER as on June 30, 2017 and June 30, 2018 in Indian Rupees and the US dollar, which is the numéraire currency for our FER, is furnished in Tables XII.7 (a) and (b).

ANALYSIS OF INCOME AND EXPENDITURE INCOME

XII.8 The main components of Reserve Bank's income are 'Interest Receipts', which forms the major portion and 'Other income' including

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

Components	As on June 30		Variation	
	2017	2018	Absolute	Per Cent
1	2	3	4	5
Foreign Currency Assets (FCA)	23,455.08 [^]	26,098.07 [#]	2,642.99	11.27
Gold	1,317.32 [@]	1,440.23 [*]	122.91	9.33
Special Drawing Rights (SDR)	95.80	101.92	6.12	6.39
Reserve Position in the IMF	150.30	170.40	20.10	13.37
Foreign Exchange Reserves (FER)	25,018.50	27,810.62	2,792.12	11.16

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

[#]: Excludes (a) SDR Holdings of the Reserve Bank amounting to ₹101.92 billion, which is included under the SDR holdings, (b) Investment of ₹144.01 billion in bonds issued by IIFC (UK), and (c) ₹6.74 billion lent to Bhutan under a Currency Swap arrangement made available for SAARC countries.

[@]: 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.

^{*}: Of this, Gold valued at ₹743.49 billion is held as an asset of Issue Department and Gold valued at ₹696.74 billion is held under asset of Banking Department.

(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) Depreciation on Rupee Securities inter portfolio transfer (vii) Rent Realised (viii) Profit or loss on sale of Bank's property and (ix) Provisions no longer required and Miscellaneous income. Certain items of income such as interest on LAF repo, Repo in foreign security and exchange

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

Components	As on June 30		Variation	
	2017	2018	Absolute	Per Cent
1	2	3	4	5
Foreign Currency Assets (FCA)	362.39 [*]	380.77 ^{**}	18.38	5.07
Gold	20.35	21.00	0.65	3.19
Special Drawing Rights (SDR)	1.48	1.49	0.01	0.68
Reserve Position in the IMF	2.32	2.48	0.16	6.9
Foreign Exchange Reserves (FER)	386.54	405.74	19.20	4.97

^{*}: Excludes (a) SDR Holdings of the Reserve Bank amounting to US\$ 1.48 billion, which is included under the SDR holdings, (b) US\$ 2.10 billion invested in bonds of IIFC (UK).

^{**}: Excludes (a) SDR Holdings of the Reserve Bank amounting to US\$ 1.49 billion, which is included under the SDR holdings, (b) US\$ 2.10 billion invested in bonds of IIFC (UK) and (c) BTN equivalent to US\$ 0.10 billion equivalent of INR currency lent to Bhutan under a Currency Swap arrangement made available for SAARC countries.

gain are reported on net basis.

The head 'Depreciation on Rupee Securities inter portfolio transfer' has been added in the current year 2017-18. The balance in this head represents the depreciation booked on earmarking of rupee securities for the purpose of DEA Fund and staff funds as explained in para 2.5 (d).

Earnings from Foreign Sources

XII.9 The income from foreign sources, increased by 47.43 per cent from ₹185.86 billion in 2016-17 to ₹274.01 billion in 2017-18 mainly

Table XII.8: Earnings from Foreign Sources

(₹ billion)

Item	As on June 30		Variation	
	2017	2018	Absolute	Per Cent
1	2	3	4	5
Foreign Currency Assets (FCA)	23,686.83	26,350.74	2,663.91	11.25
Average FCA	23,110.09	25,170.70	2,060.61	8.92
Earnings from FCA (interest, discount, exchange gain/loss, capital gain/loss on securities)	185.86	274.01	88.15	47.43
Earnings from FCA as per cent of average FCA	0.80	1.09	0.29	36.25

on account of the general rise in yield/interest rates across all currencies. The rate of earnings on foreign currency assets was higher at 1.09 per cent in 2017-18 as compared with 0.80 per cent in 2016-17 (Table XII. 8).

Earnings from Domestic Sources

XII.10 The income from domestic sources increased by 17.69 per cent from ₹432.32 billion in 2016-17 to ₹508.80 billion in 2017-18 mainly on account of lower net interest outgo under LAF/MSF operations consequent to lower surplus liquidity in the banking system as compared to 2016-17 (Table XII.9).

XII.11 Interest on holding of Rupee Securities and oil bonds decreased by 11.53 per cent from ₹542.17 billion in 2016-17 to ₹479.68 billion in 2017-18. The coupon income decreased on account of decrease in the RBI's holding of Government securities as a result of net OMO sale of ₹681.05 billion in 2017-18.

XII.12 The net interest income from LAF/MSF operations increased by ₹79.50 billion from ₹(-)173.66 billion in 2016-17 to ₹(-)94.16 billion in 2017-18. The increase in net interest income from LAF/MSF operations was due to lower interest outgo under reverse repo in 2017-18 consequent to lower surplus liquidity in the banking system.

XII.13 Profit on sale and redemption of securities increased by 1206.49 per cent to ₹60.36 billion in 2017-18 as against ₹4.62 billion in 2016-17 on account of increase in sale operations amounting to ₹900.00 billion in 2017-18 as compared to sale operations of ₹0.30 billion in 2016-17.

XII.14 Premium/Discount on amortisation of domestic securities: The rupee securities and oil bonds, held by the Bank are amortised on daily

basis during the period of residual maturity and the premium/discount is booked in the income head. The net income from premium/discount on amortisation of domestic securities decreased by 12.24 per cent from ₹35.47 billion during 2016-17 to ₹31.13 billion for 2017-18.

XII.15 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 9.12 per cent from ₹5.37 billion during 2016-17 to ₹5.86 billion in 2017-18. Of the total, interest income received from the Centre on account of WMA/OD increased from ₹3.98 billion in 2016-17 to ₹4.34 billion in 2017-18 and interest income received from the State on account of WMA/OD/Special Drawing Facility (SDF) increased from ₹1.39 billion during 2016-17 to ₹1.52 billion in 2017-18. The increased earning was on account of higher utilisation of WMA/OD facility by Central and State Governments in 2017-18.

b. *Banks & Financial institutions:* Interest on loans and advances to banks and financial institutions increased by 27.36 per cent from ₹1.06 billion in 2016-17 to ₹1.35 billion in 2017-18.

c. *Employees:* Interest on loans and advances to employees increased by 26.09 per cent from ₹0.46 billion in 2016-17 to ₹0.58 billion in 2017-18.

XII.16 *Commission:* The commission income increased by 10.54 per cent from ₹18.41 billion in 2016-17 to ₹20.35 billion in 2017-18 primarily on account of increase in management commission received for servicing outstanding Central and

Table XII.9: Earnings from Domestic Sources

(₹ billion)

Item	2016-17	2017-18	Variation	
			Absolute	Per cent
1	2	3	4	5
Earnings (I+II+III)	432.32	508.80	76.48	17.69
I. Earnings from domestic securities				
i) Interest on holding of domestic securities	542.17	479.68	-62.49	-11.53
ii) Profit on Sale and redemption of Securities	4.62	60.36	55.74	1,206.49
iii) Depreciation on Rupee securities inter portfolio transfer	0.00	-0.08	-0.08	-
iv) Premium /discount on amortisation of domestic securities	35.47	31.13	-4.34	-12.24
v) Net Interest on LAF Operations	-174.26	-95.41	78.85	45.25
vi) Interest on MSF operations	0.60	1.25	0.65	108.33
Sub total (i+ii+iii+iv+v+vi)	408.60	476.93	68.33	16.72
II. Interest on Loans and Advances				
i) Government (Central & States)	5.37	5.86	0.49	9.12
ii) Banks & Financial Institutions	1.06	1.35	0.29	27.36
iii) Employees	0.46	0.58	0.12	26.09
Sub total (i+ii+iii)	6.89	7.79	0.90	13.06
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	18.41	20.35	1.94	10.54
iv) Rent realised, Profit or Loss on sale of Bank's Property, Provisions no longer required and Miscellaneous	-1.58	3.73	5.31	336.08
Sub total (i+ii+iii+iv)	16.83	24.08	7.25	43.08

State government loans, which includes savings bonds, Government Securities (G-Secs), Treasury Bills (T-Bills) & Cash Management Bills (CMBs).

XII.17 *Rent realised, Profit or Loss on sale of Bank's Property, Provisions no longer required and Miscellaneous income*: Earnings from these income heads increased by 336.08 per cent from ₹(-)1.58 billion in 2016-17 to ₹3.73 billion in 2017-18.

EXPENDITURE

XII.18 The Reserve Bank incurs expenditure in the course of performing its statutory functions by way of agency charges/commission, printing of notes, expenditure on remittance of currency besides staff related and other expenses. The

total expenditure of the Bank decreased by 9.24 per cent from ₹311.55 billion in 2016-17 to ₹282.77 billion in 2017-18 primarily due to decrease in expenditure towards printing of notes (Table XII.10).

i) Interest

During 2017-18 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.

ii) Employee cost

The total employee cost for the year 2017-18 decreased by 16.73 per cent from ₹46.21 billion in 2016-17 to ₹38.48 billion in 2017-18. The decrease was mainly due to net impact of decrease in Bank's contribution

Table XII.10: Expenditure

(₹ billion)					
Item	2013-14	2014-15	2015-16	2016-17	2017-18
1	2	3	4	5	6
i. Interest Payment	0.04	0.01	0.01	0.01	0.01
ii. Employees Cost	43.24	40.58	44.77	46.21	38.48
iii. Agency charges/ commission	33.25	30.45	47.56	40.52	39.03
iv. Printing of notes	32.14	37.62	34.21	79.65	49.12
v. Provisions	0.00	10.00	10.00	131.90	141.90
vi. Others	10.67	14.90	13.35	13.26	14.23
Total (i+ii+iii+iv+v+vi)	119.34	133.56	149.90	311.55	282.77

towards various superannuation funds and marginal increase in pay revision. Contributions to superannuation funds depends on the actuarial valuation of the liabilities under these funds.

iii) Agency Charges/commission

Till 2016-17, the item 'Turnover commission paid to banks on relief bonds/savings bond' was included in sub head 'Agency commission on Government transactions'. The same has now been re-grouped with 'sub-head (iii)-Sundries' of Schedule 14.

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 receipts and payments. The Reserve Bank pays commission to these agency banks at prescribed rates which were last revised with effect from July 01, 2012. The agency commission paid on account of government business decreased by

5.24 per cent from ₹39.68 billion in the year 2016-17 to ₹37.60 billion in the year 2017-18. The decrease may be attributed to migration of government transactions to electronic mode, especially in the light of implementation of GST framework with effect from July 1, 2017 and integration of Government systems with RBI's e-Kuber for direct processing of government payments and receipts.

b. Underwriting Commission paid to Primary Dealers

The Reserve Bank paid total underwriting commission of ₹1.13 billion during 2017-18 as compared to ₹0.53 billion during 2016-17. The increase of 113.21 per cent in underwriting commission in 2017-18 was due to sporadic phases of volatility of yields and uncertainties arising out of modifications in GoI borrowing calendar, variations in market liquidity, banking sector developments, etc.

c. Sundries

This includes the expenses incurred on handling charges, turnover commission paid to banks for relief/savings bonds subscriptions and commission paid on Securities Borrowing and Lending Arrangement (SBLA) etc. The commission paid under this head increased from ₹0.06 billion in 2016-17 to ₹0.08 billion in 2017-18.

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

Fees paid for custodial services, during 2017-18 amounted to ₹0.22 billion as compared to ₹0.25 billion in 2016-17.

iv) Printing of Notes

Expenditure incurred on printing of banknotes decreased by 38.33 per cent from ₹79.65 billion in the year 2016-17 to ₹49.12 billion during the year 2017-18. The decrease was mainly on account of reduced supply of notes during the year 2017-18 at 25,003 million pieces which was 14 per cent lower than that of the previous year's supply of 29,043 million pieces.

v) Others

Other expenses consisting of expenditure on remittance of currency, printing and stationery, audit fees and related expenses, miscellaneous expenses, etc. increased by 7.32 per cent from ₹13.26 billion in 2016-17 to ₹14.23 billion in 2017-18. This is primarily because of increase in depreciation on fixed assets during 2017-18.

vi) Provisions

In 2017-18, a provision of ₹141.90 billion was made for transfer to Contingency Fund (CF).

CONTINGENT LIABILITIES

XII.19 The total contingent liabilities of the Bank amounted to ₹743.00 billion, the main components of which are (a) ₹733.00 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, 2018 was ₹8.61 billion. The balances are callable at three months' notice by a decision of the BIS Board of Directors.

PRIOR PERIOD TRANSACTIONS

XII.20 For the purpose of disclosure, prior period transactions of ₹0.01 million and above only have been considered. The prior period transactions under expenditure and income amounted to ₹0.90 billion and ₹0.15 billion respectively.

PREVIOUS YEAR'S FIGURES

XII.21 Figures for the previous year have been rearranged, wherever necessary, to make them comparable with the current year.

AUDITORS

XII.22 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 2017-18 were audited by M/s Chhajed & Doshi, Mumbai and M/s G. P. Kapadia & Co., Mumbai, as the Statutory Central Auditors and M/s M C Bhandari & Co., Kolkata, M/s P. B. Vijayaraghavan & Co., Chennai and M/s Mehra Goel & Co., New Delhi as Statutory Branch Auditors.