

# XI

## THE RESERVE BANK'S ACCOUNTS FOR 2015-16

*The balance sheet size of the Reserve Bank increased by 12.25 per cent for the year ended June 30, 2016. While income for the year 2015-16 increased marginally by 2.04 per cent, the expenditure increased by 12.23 per cent primarily due to provision made for reimbursing service tax on agency commission paid to agency banks. The year ended with an overall surplus of ₹658.76 billion as against ₹658.96 billion in the previous year, representing a marginal decline of 0.03 per cent.*

XI.1 The balance sheet of the Reserve Bank is largely a reflection 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 2015-16 (July-June) are set out in the following paragraphs (Table XI.1).

XI.2 The year 2015-16 witnessed an overall increase in the size of the balance sheet by ₹3,538.52 billion, *i.e.*, 12.25 per cent from ₹28,891.59 billion as on June 30, 2015 to ₹32,430.11 billion as on June 30, 2016. The increase on the asset side was due to increase

in foreign investments and domestic investments by 7.98 per cent and 35.64 per cent, respectively, and on the liability side due to increase in notes in circulation and other liabilities and provisions by 15.92 per cent and 14.77 per cent, respectively. As on June 30, 2016 domestic assets constituted 24.59 per cent while the foreign currency assets and gold (including gold held in India) constituted 75.41 per cent of total assets as against 21.86 per cent and 78.14 per cent, respectively, as on June 30, 2015.

XI.3 No transfers were made to Contingency Fund (CF). A provision of ₹10 billion was made for additional capital contribution in Bharatiya

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

(₹ billion)

Item	2011-12	2012-13	2013-14	2014-15	2015-16
1	2	3	4	5	6
a) Income	531.76	743.58	646.17	792.56	808.70
b) Transfers to CF and ADF (i+ii)	270.25	287.94	0.00	0.00	0.00
(i) Contingency Fund (CF)	246.77	262.47	0.00	0.00	0.00
(ii) Asset Development Fund (ADF)*	23.48	25.47	0.00	0.00	0.00
c) Net Income (a-b)	261.51	455.63	646.17	792.56	808.70
d) Total Expenditure <sup>@</sup>	101.37	125.49	119.34	133.56	149.90
e) Net Disposable Income (c-d)	160.14	330.14	526.83	659.00	658.80
f) Transfer to funds*	0.04	0.04	0.04	0.04	0.04
g) Surplus transferred to the Government (e-f)	160.10	330.10	526.79	658.96	658.76
Transfer of Surplus to Government as per cent of Gross Income less Total Expenditure	37.20	53.40	99.99	99.99	99.99

# : 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.

@ : Includes a provision of ₹10 billion each towards additional capital contribution in NHB in 2014-15 and in BRBNMPL in 2015-16.

\* : 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.

Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL) and transferred to Asset Development Fund (ADF) and the entire surplus of ₹658.76 billion was transferred to the central government.

XI.4 The Technical Committee [Chairman: Shri Y.H. Malegam (Technical Committee II)] constituted during 2013-14 to review the level and adequacy of internal reserves and surplus distribution policy of the Reserve Bank, had recommended, *inter alia*, that domestic securities

should be carried at fair value. Accordingly, domestic securities, with certain exceptions, are being carried at fair value with effect from July 31, 2015 and are also subjected to daily amortisation.

XI.5 The Balance Sheet and the Income Statement prepared for 2015-16 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, 2016**

(Amount in ₹ billion)

Liabilities	Schedule	2014-15	2015-16	Assets	Schedule	2014-15	2015-16
Capital		0.05	0.05	<b>Assets of Banking Department (BD)</b>			
Reserve Fund		65.00	65.00	Notes, rupee coin, small coin	5	0.11	0.14
Other Reserves	1	2.22	2.24	Gold Coin and Bullion	6	578.84	662.23
Deposits	2	5,186.86	5,065.28	Investments-Foreign-BD	7	7,276.29	6,727.84
Other Liabilities and Provisions	3	8,905.03	10,220.38	Investments-Domestic-BD	8	5,174.97	7,022.85
				Bills Purchased and Discounted		0.00	0.00
				Loans and Advances	9	802.32	520.41
				Investment in subsidiaries	10	13.20	23.20
				Other Assets	11	313.43	396.28
<b>Liabilities of Issue Department</b>				<b>Assets of Issue Department (ID)</b>			
Notes issued	4	14,732.43	17,077.16	Gold Coin and Bullion (as backing for Note issue)	6	637.23	729.07
				Rupee coin		1.99	1.71
				Investment-Foreign-ID	7	14,082.75	16,335.92
				Investment-Domestic-ID	8	10.46	10.46
				Domestic Bills of Exchange and other Commercial Papers		0.00	0.00
<b>Total Liabilities</b>		<b>28,891.59</b>	<b>32,430.11</b>	<b>Total Assets</b>		<b>28,891.59</b>	<b>32,430.11</b>

**RESERVE BANK OF INDIA  
INCOME STATEMENT FOR THE YEAR ENDED JUNE 2016**

(Amount in ₹ billion)

INCOME	Schedule	2014-15	2015-16
Interest	12	744.82	749.24
Others	13	47.74	59.46
<b>Total</b>		<b>792.56</b>	<b>808.70</b>
EXPENDITURE			
Printing of Notes		37.62	34.21
Expense on Remittance of Currency		0.98	1.09
Agency Charges	14	30.45	47.56
Interest		0.01	0.01
Employee Cost		40.58	44.77
Postage and Telecommunication Charges		0.91	0.78
Printing and Stationery		0.34	0.33
Rent, Taxes, Insurance, Lighting, etc.		1.14	1.40
Repairs and Maintenance		1.04	1.01
Directors' and Local Board Members' Fees and Expenses		0.03	0.02
Auditors' Fees and Expenses		0.03	0.03
Law Charges		0.04	0.07
Miscellaneous Expenses		7.97	6.42
Depreciation		2.42	2.20
Provisions		10.00	10.00
<b>Total</b>		<b>133.56</b>	<b>149.90</b>
<b>Available Balance</b>		<b>659.00</b>	<b>658.80</b>
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 <sup>1</sup>		0.01	0.01
ii) National Rural Credit (Stabilisation) Fund <sup>1</sup>		0.01	0.01
<b>Surplus payable to the Central Government</b>		<b>658.96</b>	<b>658.76</b>

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

S. Ramaswamy  
Principal Chief General  
Manager

N. S. Vishwanathan  
Deputy Governor

S. S. Mundra  
Deputy Governor

R. Gandhi  
Deputy Governor

Urjit R. Patel  
Deputy Governor

Raghuram G. Rajan  
Governor

## SCHEDULES FORMING PART OF BALANCE SHEET AND INCOME STATEMENT

(Amount in ₹ billion)

		2014-15	2015-16
<b>Schedule 1:</b>	<b>Other Reserves</b>		
	(i) National Industrial Credit (Long Term Operations) Fund	0.24	0.25
	(ii) National Housing Credit (Long Term Operations) Fund	1.98	1.99
	<b>Total</b>	<b>2.22</b>	<b>2.24</b>
<b>Schedule 2:</b>	<b>Deposits</b>		
	<b>(a) Government</b>		
	(i) Central Government	1.01	1.00
	(ii) State Governments	0.43	0.42
	<b>Sub total</b>	<b>1.44</b>	<b>1.42</b>
	<b>(b) Banks</b>		
	(i) Scheduled Commercial Banks	3,711.94	4,031.02
	(ii) Scheduled State Co-operative Banks	32.22	33.85
	(iii) Other Scheduled Co-operative Banks	69.97	75.97
	(iv) Non-Scheduled State Co-operative Banks	10.71	13.20
	(v) Other Banks	122.01	140.00
	<b>Sub total</b>	<b>3,946.85</b>	<b>4,294.04</b>
	<b>(c) Others</b>		
	(i) Administrators of RBI Employee PF A/c	40.75	43.80
	(ii) Depositor Education and Awareness (DEA) Fund	78.75	105.85
	(iii) Balances of Foreign Central Banks	14.71	15.21
	(iv) Balances of Indian Financial Institutions	4.33	11.43
	(v) Balances of International Financial Institutions	1.45	3.20
	(vi) Mutual Fund	0.01	0.01
	(vii) Others	1,098.57	590.32
	<b>Sub total</b>	<b>1,238.57</b>	<b>769.82</b>
	<b>Total</b>	<b>5,186.86</b>	<b>5,065.28</b>
<b>Schedule 3:</b>	<b>Other Liabilities and Provisions</b>		
	(i) Contingency Fund (CF)	2,216.14	2,201.83
	(ii) Asset Development Fund (ADF)	217.61	227.61
	(iii) Currency and Gold Revaluation Account (CGRA)	5,591.93	6,374.78
	(iv) Investment Revaluation Account (IRA)-Foreign Securities	32.14	132.66
	(v) Investment Revaluation Account (IRA)-Rupee Securities	0.00	391.46
	(vi) Foreign Exchange Forward Contracts Valuation Account (FCVA)	0.00	0.00
	(vii) Provision for Forward Contracts Valuation Account (PFCVA)	0.39	14.69
	(viii) Provision for payables	16.81	32.33
	(ix) Gratuity and Superannuation Fund	140.05	157.66
	(x) Surplus Transferable to the Government of India	658.96	658.76
	(xi) Bills Payable	0.17	0.20
	(xii) Miscellaneous	30.83	28.40
	<b>Total</b>	<b>8,905.03</b>	<b>10,220.38</b>
<b>Schedule 4:</b>	<b>Notes Issued</b>		
	(i) Notes held in the Banking Department	0.11	0.14
	(ii) Notes in Circulation	14,732.32	17,077.02
	<b>Total</b>	<b>14,732.43</b>	<b>17,077.16</b>

THE RESERVE BANK'S ACCOUNTS FOR 2015-16

		2014-15	2015-16
<b>Schedule 5:</b>	<b>Notes, Rupee Coin, Small Coin (with RBI)</b>		
	(i) Notes	0.11	0.14
	(ii) Rupee coin	0.00	0.00
	(iii) Small coin	0.00	0.00
	<b>Total</b>	<b>0.11</b>	<b>0.14</b>
<b>Schedule 6:</b>	<b>Gold Coin and Bullion</b>		
	(i) Banking Department	578.84	662.23
	(ii) Issue Department as backing for Note issue	637.23	729.07
	<b>Total</b>	<b>1,216.07</b>	<b>1,391.30</b>
<b>Schedule 7:</b>	<b>Investments - Foreign</b>		
	(i) Investments - Foreign - BD	7,276.29	6,727.84
	(ii) Investments - Foreign - ID	14,082.75	16,335.92
	<b>Total</b>	<b>21,359.04</b>	<b>23,063.76</b>
<b>Schedule 8:</b>	<b>Investments-Domestic</b>		
	(i) Investments - Domestic -BD	5,174.97	7,022.85
	(ii) Investments - Domestic - ID	10.46	10.46
	<b>Total</b>	<b>5,185.43</b>	<b>7,033.31</b>
<b>Schedule 9:</b>	<b>Loans and Advances</b>		
	<b>(a) Loans and Advances to :</b>		
	(i) Central Government	0.00	0.00
	(ii) State Governments	25.77	19.86
	<b>Sub total</b>	<b>25.77</b>	<b>19.86</b>
	<b>(b) Loans and Advances to:</b>		
	(i) Scheduled Commercial Banks	732.03	450.92
	(ii) Scheduled State Co-operative Banks	0.00	0.00
	(iii) Other Scheduled Co-operative Banks	0.45	0.00
	(iv) Non-Scheduled State Co-operative Banks	0.00	0.00
	(v) NABARD	0.00	0.00
	(vi) Others	44.07	49.63
	<b>Sub total</b>	<b>776.55</b>	<b>500.55</b>
	<b>Total</b>	<b>802.32</b>	<b>520.41</b>
<b>Schedule 10:</b>	<b>Investment in Subsidiaries/Associates</b>		
	(i) Deposit Insurance and Credit Guarantee Corporation	0.50	0.50
	(ii) National Housing Bank	4.50	14.50
	(iii) National Bank for Agriculture and Rural Development	0.20	0.20
	(iv) Bhartiya Reserve Bank Note Mudran (P) Ltd.	8.00	8.00
	<b>Total</b>	<b>13.20</b>	<b>23.20</b>
<b>Schedule 11:</b>	<b>Other Assets</b>		
	(i) Fixed Assets (net of accumulated depreciation)	3.92	3.49
	(ii) Accrued income (a + b)	206.26	228.91
	a. on loans to employees	3.16	3.15
	b. on other items	203.10	225.76
	(iii) Swap Amortisation Account	94.33	154.97
	(iv) Revaluation of Forward Contracts Account (RFCA)	0.00	0.00
	(v) Miscellaneous	8.92	8.91
	<b>Total</b>	<b>313.43</b>	<b>396.28</b>

		2014-15	2015-16
<b>Schedule 12:</b>	<b>Interest</b>		
	<b>(a) Domestic Sources</b>		
	(i) Interest on holding of Domestic Securities	436.30	430.79
	(ii) Net Interest on LAF Operations	28.29	5.06
	(iii) Interest on MSF Operations	1.88	1.32
	(iv) Profit on Sale of Domestic Securities	139.15	21.68
	(v) Depreciation	-98.28	0.00
	(vi) Interest on Loans and Advances	14.06	3.98
	(vii) Premium /Discount on Amortisation of Domestic Securities	0.00	42.58
	<b>(b) Foreign Sources</b>		
	(i) Interest on holding of Foreign Securities	223.42	243.83
	<b>Total</b>	<b>744.82</b>	<b>749.24</b>
<b>Schedule 13:</b>	<b>Income-Others</b>		
	(i) Discount from Foreign Assets	4.40	4.94
	(ii) Exchange from Foreign Exchange Transactions	29.62	38.36
	(iii) Commission	13.38	15.31
	(iv) Rent Realised	0.05	0.05
	(v) Profit/loss on sale of Bank's property	0.02	0.02
	(vi) Provision no longer required and miscellaneous income	0.27	0.78
	<b>Total</b>	<b>47.74</b>	<b>59.46</b>
<b>Schedule 14:</b>	<b>Agency Charges</b>		
	(i) Agency Commission on Government Transactions	29.63	46.93
	(ii) Underwriting Commission paid to the Primary Dealers	0.33	0.35
	(iii) Sundries (Handling charges paid to banks for Relief/Savings Bonds subscriptions)	0.00	0.01
	(iv) Fees paid to the Custodians	0.49	0.27
	<b>Total</b>	<b>30.45</b>	<b>47.56</b>

## 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, 2016 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 RBI 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 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 CNK & Associates, LLP  
Chartered Accountants  
(ICAI Firm Registration No. 101961W)

Manish Sampat  
Partner  
Membership No. 101684

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

Brijmohan Agarwal  
Partner  
Membership No. 33254

Place: Mumbai

Date: August 11, 2016



## STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED JUNE 30, 2016

### (a) General

1.1 The Reserve Bank of India was established under the RBI 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 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 RBI 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 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 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 are credited/debited respectively 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. 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 the month.

Appreciation or depreciation is recorded in the Investment Revaluation Account (IRA)-foreign securities. Credit balance in IRA is carried forward to the subsequent year. Debit balance, if any, at the end of the year in IRA is charged to the 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, 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 the 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 and Provisions', RFCVA forms 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 from 2015-16 are marked to market on a daily basis and the resultant gain/loss is booked in Income Account.

#### 2.5 Domestic Investments

##### (a) Rupee securities:

Rupee securities except those mentioned below in (d) and (e) are marked to market as on the last business day of the month with effect from 2015-16. The revaluation gain/loss is booked in 'IRA-Rupee Securities'. Credit balance in IRA is carried forward to the following financial year. Debit balance, if any, at the end of the year in IRA 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, is transferred to Income Account. Rupee securities, except those held as assets of Issue Department 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 Fund, Provident Fund, Leave Encashment (Retired Employees) Fund, Medical Assistance Fund, Depositor Education and Awareness (DEA) Fund are treated as 'Held to Maturity' and are held at amortised cost.
- (e) Non-interest bearing rupee securities held as assets of Issue Department are held at cost.

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

From 2014-15, 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 are 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 ₹100,000 and above), motor vehicles, furniture, *etc.* is provided on straight-line basis at the following rates.

Asset Category	Rate of Depreciation
Motor vehicles, furniture, <i>etc.</i>	20.00 per cent
Computers, Microprocessors, Software, <i>etc.</i>	33.33 per cent

- (c) Fixed Assets, costing less than ₹100,000 (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 ₹100,000 and above are capitalised and depreciation is calculated at the applicable rates.
- (e) Depreciation is provided on year-end balances of the Fixed Assets.
- (f) Depreciation on subsequent expenditure:
- i. 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;
  - ii. 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*

- i. 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.
- ii. Land acquired on short-term lease (i.e. up to 99 years) is amortised over the period of the lease.

*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. 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 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 will be amortised over the remaining useful life of the building i.e. 30 years less number of years completed as on June 30, 2015.
  - iv. If the completed life of the building was more than 30 years as on June 30, 2015, then the WDV of the building may be fully amortised in the current year 2015-16.
- (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 in the Gol. 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 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 ₹0.25 billion as on June 30, 2016.

##### 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 ₹1.99 billion as on June 30, 2016.

*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, DEA Fund and amount outstanding against reverse repo.

Total deposits declined by 2.34 per cent from ₹5,186.86 billion as on June 30, 2015, to ₹5,065.28 billion as on June 30, 2016.

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 ₹1.00 billion and ₹0.42 billion, respectively, as on June 30, 2016, totalling ₹1.42 billion.

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 stood at ₹4,294.04 billion as on June 30, 2016.

c. *Deposits-Others*

'Deposits-Others' consists of balances of Administrator of Reserve Bank's Employees Provident Fund, balance in DEA Fund, balances in accounts 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 ₹105.85 billion as on June 30, 2016. The amount under Deposits-Others decreased by 37.85 per cent from ₹1,238.57 billion as on June 30, 2015 to ₹769.82 billion as on June 30, 2016 primarily due to reduction in amount outstanding under reverse repo transactions.

**(v) Other Liabilities and Provisions**

The major components of 'Other Liabilities and Provisions' consist of CF, ADF, Gratuity and Superannuation Funds, Balances in Revaluation Accounts viz; CGRA, IRA-

Foreign Securities, IRA-Rupee Securities, FCVA and PFCVA. While CF and ADF represent provisions made for unforeseen contingencies and to meet internal capital expenditure and make investments in Subsidiaries and associate institutions respectively, the remaining components of 'Other Liabilities and Provisions', such as, CGRA, IRA- Foreign Securities, IRA-Rupee Securities, FCVA and PFCVA, represent unrealised MTM gains/losses. 'Other Liabilities and Provisions' increased by 14.77 per cent from ₹8,905.03 billion as on June 30, 2015 to ₹10,220.38 billion as on June 30, 2016, primarily due to increase in CGRA, IRA-Foreign Securities and addition of a new head of account called IRA-Rupee Securities.

a. *Contingency Fund*

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. The balance in Contingency Fund decreased from ₹2,216.14 billion as on June 30, 2015 to ₹2,201.83 billion as on June 30, 2016 due to MTM loss of ₹14.30 billion on valuation of forward contracts, which was charged to the Contingency Fund as on June 30, 2016 but reversed on the first working day of the following year.

b. *Asset Development Fund*

The Asset Development Fund created in 1997-98, represents the amounts set

**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
2012	1954.05	182.14	2136.19	9.7
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

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

aside each year to meet internal capital expenditure and make investments in subsidiaries and associate institutions. The balance in ADF increased from ₹217.61 billion in 2014-15 to ₹227.61 billion as provision of ₹10 billion made for additional capital contribution in BRBNMPL was transferred to ADF as on June 30, 2016 (Table XI.2).

c. *Currency and Gold Revaluation Account*

Unrealised gains/losses on valuation of Foreign Currency Assets (FCA) and Gold are not taken to the Income Account but 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 2015-16, the balance in CGRA increased by 14.0 per cent from ₹5,591.93 billion as on June 30, 2015 to ₹6,374.78 billion as on June 30, 2016 mainly due to depreciation of

rupee against US dollar (appreciation of USD against other major currencies has been off-set by depreciation of INR) and rise in the price of gold.

d. *Investment Revaluation Account (IRA)-Foreign Securities*

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-Foreign Securities. The balance in IRA-Foreign Securities increased from ₹32.14 billion as on June 30, 2015 to ₹132.66 billion as on June 30, 2016 as yields on securities held by the Bank declined.

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

From July 2015, the Rupee securities (with exceptions 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 IRA-Rupee Securities. The balance in this account as on June 30, 2016 was ₹391.46 billion.

f. *Foreign Exchange Forward Contracts Valuation Account & Provision for Forward Contracts Valuation Account*

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

July 1, 2016. Accordingly, the balance in FCVA became nil and the balance in PFCVA as on June 30, 2016 was ₹14.69 billion, as against a balance of ₹0.39 billion in PFCVA as on June 30, 2015.

The balances in CGRA, IRA-Foreign Securities, FCVA and PFCVA for the last five years is given in Table XI.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 increased from ₹16.81 billion in 2014-15 to ₹32.33 billion in 2015-16 primarily due to the provision made for reimbursing service tax on agency commission paid to agency banks.

h. *Surplus transferable to the Government of India*

Under Section 47 of the RBI Act, 1934, after making provisions for bad and doubtful debts, depreciation in assets, contribution to Staff and Superannuation

**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) and Investment Revaluation Account (IRA)-Foreign Securities**

(₹ billion)

As on June 30	CGRA	FCVA	PFCVA*	IRA-Foreign Securities
1	2	3	4	5
2012	4,731.72	24.05	--	122.22
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

\*: Opened during 2013-14.



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 RBI 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 and provision of ₹10 billion for additional capital contribution in BRBNMPL and contribution of ₹0.04 billion to the statutory funds, the surplus transferable to the Gol for the year 2015-16 amounted to ₹658.76 billion, (including ₹10.35 billion as against ₹11.46 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 increased from ₹0.17 billion as on June 30, 2015 to ₹0.20 billion as on June 30, 2016.

j. *Miscellaneous*

This is a residual head representing items such as interest earned on earmarked securities, amounts payable on leave encashment, medical provisions for

employees, etc. The balance under this head decreased from ₹30.83 billion as on June 30, 2015 to ₹28.40 billion as on June 30, 2016.

## **XI.6.2 LIABILITIES OF ISSUE DEPARTMENT Notes Issued**

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 currency notes in circulation increased by 15.92 per cent from ₹14,732.43 billion as on June 30, 2015 to ₹17,077.16 billion as on June 30, 2016.

## **XI.7 ASSETS**

### **XI.7.1 ASSETS OF BANKING DEPARTMENT**

i) **Notes, Rupee coin and small coin**

This head represents the balances of Bank notes, one rupee notes, rupee coins of ₹1, 2, 5 and 10 and small coins kept in the vaults of the Banking Department to meet the day to day requirements of the banking functions conducted by the Reserve Bank. The balance as on June 30, 2016 was ₹0.14 billion as against ₹0.11 billion as on June 30, 2015.

ii) **Gold coin and bullion**

The 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 increased by 14.41 per cent

from ₹578.84 billion as on June 30, 2015 to ₹662.23 billion as on June 30, 2016 primarily on account of rise in international gold prices and depreciation of INR *vis-a-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 2015-16; consequently, there was no such asset in the books of the Reserve Bank as on June 30, 2016.

### iv) Investments Foreign-Banking Department

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.

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.

**Table XI.4: Details of Foreign Currency Assets**

(₹ billion)

Particulars	As on June 30	
	2015	2016
1	2	3
I Investment Foreign –ID	14,082.75	16,335.92
II Investment Foreign –BD*	7,276.29	6,727.84
<b>Total</b>	<b>21,359.04</b>	<b>23,063.76</b>

\* : includes Shares in BIS and SWIFT and SDRs valued at ₹100.58 billion.

#### Notes:

- RBI has agreed to make resources available under the IMF's New Arrangements to Borrow (NAB) [which subsumes the earlier commitment of US\$ 10 billion (₹676.17 billion) under the Note Purchase Agreement]. Consequent to the payment of quota increase to IMF under the Fourteenth General Review of Quotas in February 2016, India's commitment under NAB has been reduced to SDR 4,440.91 million (₹419.15 billion /US\$ 6.20 billion) in February 2016 as against SDR 8,740.82 million (₹824.99 billion /US\$12.20 billion) previously. As on June 30, 2016, investments amounting to SDR 783.99 million (₹73.99 billion/US\$ 1.09 billion) have been made under the NAB.
- RBI has agreed to invest up to an amount, the aggregate of which shall not exceed US\$ 5 billion (₹338.08 billion), in the bonds issued by India Infrastructure Finance Company (UK) Limited. As on June 30, 2016, the Reserve Bank has invested US\$ 2.10 billion (₹141.99 billion) in such bonds.
- 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 (₹676.17 billion).
- 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, 2016, SDR 1.07 billion (₹100.58 billion; US\$ 1.49 billion) were held by the Bank.
- 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, 2016, Sri Lanka (Central Bank of Sri Lanka) has availed US\$ 400 million (₹27.05 billion) and Bhutan has availed ₹6.72 billion (US \$ 99.34 million).

## v) Investments - Domestic-Banking Department

Investments comprise dated government rupee securities, treasury bills and special oil bonds. However, as on June 30, 2016 the Reserve Bank did not hold any domestic treasury bills. The Reserve Bank's holding of domestic securities increased by 35.71 per cent, from ₹5,174.97 billion as on June 30, 2015 to ₹7,022.85 billion as on June 30, 2016. The increase was on account of (a) liquidity management operations conducted by way of net Open Market Operation (OMO) purchases of government securities amounting to ₹1,384.38 billion and (b) valuation gains on account of lower level of G-sec yields on June 30, 2016 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. No loans and advances to the Central Government were outstanding as on June 30, 2016 and June 30, 2015. Loans and advances to the State Governments as on June 30, 2016 stood at ₹19.86 billion as compared with ₹25.77 billion as on June 30, 2015.

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

Loans and advances to Commercial and Co-operative Banks mainly include

amounts outstanding against repo under LAF and MSF. The amount outstanding decreased by 38.44 per cent from ₹732.48 billion as on June 30, 2015 to ₹450.92 billion as on June 30, 2016 primarily due to reduction in amount outstanding against repo.

*Loans and Advances to NABARD:* The Reserve Bank can extend loans to NABARD under section 17 (4E) of the RBI Act, 1934. As on June 30, 2016 no loans were outstanding.

*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 12.62 per cent from ₹44.07 billion as on June 30, 2015 to ₹49.63 billion as on June 30, 2016 primarily due to increase in amount outstanding against repo.

## vii) Investment in Subsidiaries/Associates

The details of investment in subsidiaries/associate institutions as on June 30, 2016 are given in table XI.5. The total holding increased

**Table XI.5: Holdings in Subsidiaries/Associates as on June 30, 2016**

(Amount in ₹ billion)

Particulars	Amount	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)	8.00	100
<b>Total</b>	<b>23.20</b>	

from ₹13.20 billion as on June 30, 2015 to ₹23.20 billion on account of additional capital subscription in NHB.

#### viii) Other Assets

'Other Assets' comprise fixed assets (net of depreciation), accrued income on loans to employees and domestic and foreign investments, 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' increased by 26.43 per cent from ₹313.43 billion as on June 30, 2015 to ₹396.28 billion as on June 30, 2016 primarily on account of increase 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 amount outstanding in SAA rose by 64.28 per cent from ₹94.33 billion as on June 30, 2015 to ₹154.97 billion as on June 30, 2016 as no Swaps matured during 2015-16. The amount held in this account will be reversed on maturity of the underlying contracts.

##### 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, 2016 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, Gol non-interest bearing rupee securities and domestic bills of exchange and other commercial papers. The Reserve Bank holds 557.77 metric tonnes of gold, of which 292.28 metric tonnes is held as backing for notes issued (Table XI.6). The value of gold held as backing for notes issued increased by 14.41 per cent from ₹637.23 billion as on June 30, 2015 to ₹729.07 billion as on June 30, 2016, on account of rise in international gold prices and depreciation of INR *vis-a-vis* USD. Consequent upon an increase in notes issued, foreign currency assets held as backing for notes issued (Investment-Foreign-ID) increased by 16.0 per cent from ₹14,082.75 billion as on June 30, 2015 to ₹16,335.92 billion as on June 30, 2016. The balance of Rupee coins held by the Issue

**Table XI 6: Physical Holding of Gold**

Category	As on June 30, 2015	As on June 30, 2016
	Volume in metric tonnes	Volume in metric tonnes
1	2	3
Gold held for backing note issue (held in India)	292.26	292.28*
Gold held as asset of Banking Department (held abroad)	265.49	265.49
<b>Total</b>	<b>557.75</b>	<b>557.77</b>

\* The gold held as part of Issue Department Assets increased by 0.02 metric tonnes (18688.131 fine grams), due to the transfer of excess RBI Platinum Jubilee gold coins to the gold reserves.

Department decreased by 14.07 per cent from ₹1.99 billion as on June 30, 2015 to ₹1.71 billion as on June 30, 2016. Investment-domestic-ID consisting of non-interest bearing rupee securities remained unchanged at ₹10.46 billion.

### XI.8 FOREIGN EXCHANGE RESERVE

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

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

(₹ billion)

Components	As on June 30		Variation	
	2015	2016	Absolute	Per Cent
1	2	3	4	5
Foreign Currency Assets (FCA)	21,100.57 <sup>^</sup>	22,787.43 <sup>#</sup>	1,686.86	7.99
Gold	1,216.07 <sup>*</sup>	1,391.30 <sup>@</sup>	175.23	14.41
Special Drawing Rights (SDR)	259.03	100.58	(-) 158.45	(-) 61.17
Reserve Position in the IMF	83.96	162.27	78.31	93.27
Foreign Exchange Reserves (FER)	22,659.63	24,441.58	1,781.95	7.86

<sup>^</sup> : Excludes (a) SDR Holdings of the Reserve Bank acquired from GOI, amounting to ₹99.08 billion, which is included under the SDR holdings, (b) Investment of ₹133.89 billion in bonds issued by IIFC (UK) and (c) ₹25.50 billion lent to Sri Lanka under a Currency Swap arrangement made available for SAARC countries.

<sup>#</sup> : 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.

<sup>\*</sup> : Of this, gold valued at ₹637.23 billion is held as asset of Issue Department as backing for notes issued and gold valued at ₹578.84 billion is held as asset of Banking Department.

<sup>@</sup> : Of this, gold valued at ₹729.07 billion is held as asset of Issue Department as backing for notes issued and gold valued at ₹662.23 billion is held as asset of Banking Department.

**Table XI.7(b): Foreign Exchange Reserves**

(US\$ billion)

Components	As on June 30		Variation	
	2015	2016	Absolute	Per Cent
1	2	3	4	5
Foreign Currency Assets (FCA)	331.55 <sup>*</sup>	339.04 <sup>**</sup>	7.49	2.26
Gold	19.07	20.58	1.51	7.92
Special Drawing Rights (SDR)	4.06	1.49	(-) 2.57	(-) 63.30
Reserve Position in the IMF	1.32	2.40	1.08	81.82
Foreign Exchange Reserves (FER)	356.00	363.51	7.51	2.11

<sup>\*</sup> : Excludes (a) SDRs equivalent to US\$ 1.55 billion acquired by the Reserve Bank from GOI, which is included under the SDR holdings, (b) Investment of US\$ 2.1 billion in bonds issued by IIFC (UK) and (c) LKR equivalent to US\$ 0.4 billion received from Sri Lanka under a Currency Swap arrangement made available for SAARC countries.

<sup>\*\*</sup> : 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.

of Reserve Bank's balance sheet. The position of Foreign Exchange Reserves as on June 30, 2015 and June 30, 2016 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'. 'Others' includes (i) Discount, (ii) Exchange, (iii) Commission, (iv) Rent Realised, (v) Profit or loss on sale of Bank's property, and (vi) Provisions no longer required and miscellaneous. Interest receipts forms the major portion, supplemented by relatively small amounts of income from other sources, viz., discount, exchange, commission

**Table XI.8: Earnings from Foreign Sources**

(₹ billion)

Item	June 30		Variation	
	2014-15	2015-16	Absolute	Per Cent
1	2	3	4	5
Foreign Currency Assets	21,359.04	23,063.76	1,704.72	7.98
Average FCA	18,909.29	22,229.65	3,320.36	17.56
Earnings from FCA (interest, discount, exchange gain/loss, capital gain/loss on securities)	257.44	287.13	29.69	11.53
Earnings from FCA as per cent of average FCA	1.36	1.29	(-).07	(-) 5.14

and others. Certain items of income such as interest on LAF repo, exchange gain are reported on net basis.

### Earnings from Foreign Sources

XI.10 The income from foreign sources, increased by 11.53 per cent from ₹257.44 billion in 2014-15 to ₹287.13 billion in 2015-16 mainly on account of increase in the size of foreign currency assets which increased from ₹21,359.04 billion as on June 30, 2015 to ₹23,063.76 billion as on June 30, 2016. The rate of earnings on foreign currency assets was lower at 1.29 per cent in 2015-16 as compared with 1.36 per cent in 2014-15 due to decline in interest rates in global financial markets. (Table XI. 8).

### Earnings from Domestic Sources

XI.11 The net income from domestic sources decreased by 2.53 per cent from ₹535.12 billion in 2014-15 to ₹521.57 billion in 2015-16, mainly on account of decline in (i) profit on sale of rupee securities, (ii) net interest on LAF operations and (iii) interest on loans and advances (Table XI.9).

XI.12 Interest on holding of rupee securities was marginally lower at ₹430.79 billion in 2015-16 as compared to ₹436.30 billion in the previous year. This was because of lower daily average balance of rupee securities in 2015-16 compared to 2014-15, and consequently lower coupon income. From July to November 2015, the holding of rupee

securities went down progressively on account of regular open market operations (OMO) sales. The holding of rupee securities increased towards the later part of the year on account of OMO purchases.

XI.13 The net interest income from Liquidity Adjustment Facility (LAF)/Marginal Standing Facility (MSF) operations (interest on repo under LAF and MSF less interest paid by the Reserve Bank on Reverse Repo) decreased by 78.85 per cent from ₹30.17 billion in 2014-15 to ₹6.38 billion in 2015-16. The decrease in net interest income on LAF/MSF operations was on account of higher expenditure on interest payment under reverse repo in 2015-16 as compared to 2014-15.

XI.14 Profit on sale of securities decreased by 84.42 per cent to ₹21.68 billion in 2015-16 from ₹139.15 billion in 2014-15. This was largely on account of change in the method of management of surplus cash balance of GoI since December 2014.

XI.15 As mentioned in para 5.2.6 of the Report of Technical Committee to review the form of presentation of the Balance Sheet and Profit & Loss Account, when the Government of India had surplus cash balances, part of these balances were utilised to purchase securities from RBI's portfolio and when these surplus funds were needed to be used by the Government, the securities so sold to the Government were purchased back by RBI.

These transactions were made at the face value of the securities, irrespective of their market value on that date, and profit or loss on sale arising on account of difference between face value and book value was accounted for as profit/loss. However, since December 2014, these transactions are treated as reverse repo transactions, and therefore no profit is booked.

XI.16 As mentioned in the significant accounting policy, the rupee securities 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 ₹42.58 billion for 2015-16.

#### **XI.17 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 decreased by 57.93 per cent from ₹4.73 billion as on June 30, 2015 to ₹1.99 billion as on June 30, 2016. Interest income received on account of WMA/OD from the Centre during 2015-16 period was lower at ₹0.81 billion as compared to ₹3.57 billion during 2014-15. This decrease in interest income was due to lower average utilisation of WMA in 2015-16 as compared to OD for 19 days in the previous year. As regards the States, the interest on WMA/OD/ special drawing facility (SDF) received during 2015-16 was ₹1.18 billion marginally higher than ₹1.16 billion in 2014-15. This is attributable to marginal increase in daily average utilisation of WMA/OD/SDF by the States in 2015-16.

##### *b. Banks & Financial institutions*

Interest received on loans and advances from banks and financial institutions decreased from ₹8.87 billion in 2014-15 to ₹1.58 billion in 2015-16 mainly on account of discontinuance of Export Credit Refinance Scheme.

##### *c. Employees*

Interest received on loans and advances from employees decreased marginally from ₹0.46 billion in 2014-15 to ₹0.41 billion in 2015-16.

#### **Other earnings**

XI.18 Other income from domestic sources increased by 17.78 per cent from ₹13.72 billion in 2014-15 to ₹16.16 billion in 2015-16 mainly on account of increase in commission income due to (i) increase in floatation charges on account of increased market borrowing of states during 2015-16; and (ii) increase in management commission received on outstanding amount of Central and State Government loans.

#### **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 12.23 per cent from ₹133.56 billion in 2014-15 to ₹149.90 billion in 2015-16 primarily due to provision made for reimbursing service tax on agency commission paid to agency banks (Table XI.10).

##### **(i) Interest**

During 2015-16 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.9: Earnings from Domestic Sources**

(Amount in ₹ billion)

Item	2014-15	2015-16	Variation	
			Absolute	Per cent
1	2	3	4	5
<b>Earnings (I + II+III)</b>	<b>535.12</b>	<b>521.57</b>	<b>-13.55</b>	<b>-2.53</b>
<b>I. Earnings from domestic securities</b>				
i) Interest on holding of domestic securities	436.30	430.79	-5.51	-1.26
ii) Depreciation #	(-98.28)	0.00	98.28	100.00
iii) Profit on Sale of Securities	139.15	21.68	-117.47	-84.42
iv) Premium /discount on amortisation of domestic securities	0.00	42.58	42.58	-
v) Net Interest on LAF Operations	28.29	5.06	-23.23	-82.11
vi) Interest on MSF operations	1.88	1.32	-0.56	-29.79
<b>Sub total (i+ii+iii+iv+v+vi)</b>	<b>507.34</b>	<b>501.43</b>	<b>-5.91</b>	<b>-1.16</b>
<b>II. Interest on Loans and Advances</b>				
i) Government (Central & States)	4.73	1.99	-2.74	-57.93
ii) Banks & Financial Institutions	8.87	1.58	-7.29	-82.19
iii) Employees	0.46	0.41	-0.05	-10.87
<b>Sub total (i+ii+iii)</b>	<b>14.06</b>	<b>3.98</b>	<b>-10.08</b>	<b>-71.69</b>
<b>III. Other Earnings</b>				
i) Discount	0.00	0.00	0.00	0.00
ii) Exchange	0.00	0.00	0.00	0.00
iii) Commission	13.38	15.31	1.93	14.42
iv) Rent realised, Profit or Loss on sale of Bank's Property, Provisions no longer required and miscellaneous	0.34	0.85	0.51	150.00
<b>Sub total (i+ii+iii+iv)</b>	<b>13.72</b>	<b>16.16</b>	<b>2.44</b>	<b>17.78</b>

# Till 2014-15, revaluation of rupee securities was done based on Lower of Book Value or Market Value (LOBOM) and depreciation was adjusted against Income. However from 2015-16, based on recommendation of Technical Committee I and II, rupee securities are carried at fair value and marked to market (MTM) gain or loss is booked in the Investment Revaluation Account (IRA) - Rupee Securities.

**Table XI.10: Expenditure**

(₹ in billion)

Item	2011-12	2012-13	2013-14	2014-15	2015-16
1	2	3	4	5	6
i. Interest Payment	0.59	0.03	0.04	0.01	0.01
ii. Employees Cost	29.93	58.59	43.24	40.58	44.77
iii. Agency charges/ commission	33.51	28.07	33.25	30.45	47.56
iv. Printing of notes	27.04	28.72	32.14	37.62	34.21
v. Provisions*	0.00	0.00	0.00	10.00	10.00
vi. Others	10.30	10.08	10.67	14.90	13.35
<b>Total (i+ii+iii+iv+v+vi)</b>	<b>101.37</b>	<b>125.49</b>	<b>119.34</b>	<b>133.56</b>	<b>149.90</b>

\* New head added in 2014-15 based on recommendation of Technical committee formed to review the form of balance sheet and profit and loss account of the Bank.

**(ii) Employee cost**

The employee cost increased by 10.33 per cent from ₹40.58 billion in 2014-15 to ₹44.77 billion in 2015-16 due to revision in pay and allowances.

**(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. It pays commission to these agency banks at prescribed rates which were last revised



with effect from July 01, 2012. The agency commission paid to these banks on account of government business increased by 58.39 per cent from ₹29.63 billion for 2014-15 to ₹46.93 billion for 2015-16, due to increase in government expenditure, including pension arrears and growth in the economy resulting in higher levels of government tax and non-tax receipts and provision made for reimbursing service tax on agency commission paid to agency banks.

b. *Underwriting Commission paid to Primary Dealers*

The Reserve Bank paid total underwriting commission of ₹0.35 billion during 2015-16 as compared to ₹0.33 billion during 2014-15. The underwriting commission was marginally on higher side on account of higher borrowing during 2015-16 (₹5,850 billion as compared to ₹5,740 billion in 2014-15). Further in the quarter Jan-Mar 2016, the hardening of yields on account of concerns over UDAY bonds issuance, large SDL issuance, fiscal impact of One Rank One Pension (OROP) and 7th Pay Commission, also contributed to higher underwriting commission.

c. *Fees paid to the custodians etc.*

Fees paid for overseas custodial services during 2015-16 amounted to ₹0.27 billion as compared to ₹0.49 billion in 2014-15.

iv) **Printing of notes**

The expenditure incurred on printing of notes decreased by 9.06 per cent from ₹37.62 billion in 2014-15 to ₹34.21 billion in 2015-16

mainly on account of decrease in the overall supply of bank notes, particularly of higher denomination notes and downward revision of rates by BRBNMPL during 2015-16.

v) **Others**

Other expenses consisting of expenditure on remittance of treasure, printing and stationery, audit fees and related expenses, miscellaneous expenses, etc. decreased by 10.41 per cent from ₹14.90 billion in 2014-15 to ₹13.35 billion in 2015-16. This was primarily on account of decrease in expenditure on Banking Development Scheme from ₹3.03 billion in 2014-15 to ₹0.89 billion in 2015-16.

vi) **Provisions**

A provision of ₹10 billion was made on June 30, 2016 and transferred to the Asset Development Fund (ADF) for contribution towards additional share capital of BRBNMPL.

**CONTINGENT LIABILITIES**

XI.20 Based on the suggestions made by Statutory Auditors of Reserve Bank, beginning 2015-16, the contingent liabilities of Reserve Bank are being disclosed. For the purpose of disclosure, contingent liabilities of ₹1,00,000 and above only have been considered. The contingent liabilities as on June 30, 2016 stood at ₹1.30 billion. A large part of the contingent liability is on account of partly paid shares of Bank of International Settlements (BIS). The Bank holds partly paid shares, denominated in SDR, of BIS. The uncalled liability on partly paid shares of the BIS as on June 30, 2016 was ₹1.14 billion as compared to ₹1.08 billion in the previous year. The balances are callable at three months' notice by a decision of the BIS Board of Directors. The remaining amount of ₹0.16 billion is on account of payments due to

staff vendors and other entities which are under dispute.

#### **PRIOR PERIOD TRANSACTIONS**

XI.21 Based on the suggestions made by Statutory Auditors of Reserve Bank, beginning 2015-16, the prior period transactions are being disclosed. For the purpose of disclosure, prior period transactions of ₹1,00,000 and above only have been considered. The prior period transactions under expenditure and income amounted to ₹11.47 billion and ₹0.03 billion, respectively. Out of ₹11.47 billion, an amount of ₹10.64 billion is on account of provision made for reimbursing service tax on agency commission paid to banks for 2012-13, 2013-14 and 2014-15.

#### **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 2015-16 were audited by M/s CNK & Associates, LLP, Mumbai and M/s Borkar and Muzumdar, Mumbai as the Statutory Central Auditors and M/s M Choudhury & Co., M/s Brahmayya & Co. and M/s V K Verma & Co. as Statutory Branch Auditors.