XI THE RESERVE BANK'S ACCOUNTS FOR 2012-13

The accounting year 2012-13 concluded with a surplus of ₹618.04 billion, reflecting an increase of 43.6 per cent over the corresponding figure of ₹430.40 billion for the previous year. While the income earned from investments in foreign assets increased modestly reflecting the decline in interest rates in international markets, the earnings from domestic assets increased significantly, mainly due to the increased portfolio of Government of India securities. The total income, before transfer to Contingency Reserve and Asset Development Reserve and excluding unrealised gains and losses directly adjusted in relevant accounts at ₹743.58 billion, registered an increase of 39.8 per cent over the year 2011-12. The total expenditure, at ₹125.49 billion, represented an increase of 23.8 per cent over the previous year's expenditure of ₹101.37 billion. After appropriation to Reserve Funds, the surplus payable to the Central Government amounted to ₹330.10 billion, the largest ever surplus transfer in absolute terms.

XI.1 The size of the Reserve Bank's balance sheet increased by ₹1,818 billion, *i.e.*, by 8.2 per cent, to ₹23,907 billion during the Reserve Bank's accounting year 2012-13 (July-June). On the assets side, this was explained by an increase in the Reserve Bank's holding of domestic securities, loans and advances as well as foreign assets. The increase in domestic assets by 14 per cent was mainly on account of purchases of Government securities worth ₹919.3 billion during the year through open market operations. The increase in foreign currency assets by 5.2 per cent was mainly due to valuation effect on the portfolio arising out of steep depreciation of the Indian rupee against the US dollar which is the numeraire currency for foreign exchange reserves. The value of gold reserves, however, fell by 11.3 per cent on account of decline in international gold prices. On the liabilities side, the expansion of the balance sheet is explained by the rise in notes in circulation by 8.9 per cent, besides accretion to the Currency and Gold Revaluation Account (CGRA) by 9.9 per cent. As on June 30, 2013, domestic assets constituted 36.2 per cent of total assets and foreign assets constituted the remaining 63.8 per cent as against 34.4 per cent and 65.7 per cent, respectively as on June 30, 2012.

XI.2 The financial statements of the Reserve Bank are prepared in accordance with the Reserve Bank of India (RBI) Act, 1934 and the notifications issued there under and in the form prescribed by the Reserve Bank of India General Regulations, 1949. The Reserve Bank prepares two balance sheets, one for the Issue Department relating to the sole function of currency management and the other for the Banking Department reflecting the impact of all other functions of the Reserve Bank. The balance sheet of the Reserve Bank is largely the offshoot of its activities undertaken in pursuance of its currency issue function as well as monetary and reserve management policy objectives. In recognition of the need for greater comparability and transparency, the Reserve Bank has been progressively moving towards greater disclosures in its financial statements (Box XI.1). Accordingly, the key financial results of the Reserve Bank's operations during the year 2012-13 along with the management commentary on the annual accounts and the supporting statement of significant accounting policies and notes to the accounts are set out in the following paragraphs. The Balance Sheet and Profit & Loss account with the report of the auditors and the statement of significant accounting policies and notes to the accounts are attached as Annexes I & II, respectively.

Box XI.1
Technical Committee to review the form of presentation of the Balance Sheet and Profit & Loss Account

The Reserve Bank had constituted a Technical Committee to review the form of presentation of the Bank's Balance Sheet and Profit & Loss Account (Chairman : Shri Y. H. Malegam) with a view to enhancing their readability and information content. The Committee submitted its report in April, 2013 and the same has been placed on the Bank's website (URL: http://www.rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=702).

The Technical Committee examined various aspects of the form and presentation of the financial statements of the Reserve Bank, with particular reference to their readability, information content, conformity to the International Financial Reporting Standards (IFRS), in addition to conducting a comparative analysis of the financial statements of other major central banks. Some of the major recommendations are:

a) Form of the Balance Sheet

- The Issue and Banking Department balance sheets may be merged to prepare a single balance sheet displaying at one place the total liabilities and assets of Reserve Bank.
- Only the main items of assets and liabilities may be reported in the Balance Sheet and all details thereof be shown in accompanying schedules.
- In determining the items which are to be shown separately in the schedules, items of similar nature can be grouped and shown as a single item and other items which are not material in value can be grouped and shown as a single item titled 'Others'.

b) Nomenclature and form of the Profit & Loss Account

- The 'Profit & Loss Account' may henceforth be called 'Income Statement'.
- A single Profit & Loss account (or as per nomenclature recommended, 'Income Statement') may continue to be prepared for the Bank as a whole.
- All the unrealised valuation adjustments (gains/losses) on various assets arising on translation of foreign currency assets or on marking of assets to market should be routed through the Income Statement, and the corresponding net transfers to the Contingency Reserve, Asset Development Reserve, Currency & Gold Revaluation Account, Investment Revaluation Account and Exchange Equalisation Account be shown as a single item in the Profit & Loss Account (Income Statement) under the heading 'Provisions'.
- Since interest income is the major source of income for the Bank, all items of a non interest earning nature be grouped under a single head and be shown as 'Other Income'.

c) Accounting Policy

- While RBI should prepare its financial statements generally in accordance with International Accounting Standard (IAS) / International Financial Reporting Standard (IFRS), it may make such departures as it considers appropriate.
- Gold, being an operating asset, be revalued at the end of each month at the prevalent international price and unrealised gain / loss arising from such revaluation may continue to be transferred to the CGRA.
- Rupee securities should be carried at fair value and any unrealised gain or loss on revaluation should be transferred to the Investment Revaluation Account(IRA). If the balance in IRA turns into debit at any time, the debit balance should be charged off to the Profit & Loss Account (Income Statement).
- While Oil Bonds will be treated as 'Held to Maturity' and carried in the Balance Sheet at cost, all other domestic securities, other than treasury bills, will be treated as 'Available for Sale' and accounted for accordingly. All foreign securities would also be treated as 'Available for Sale'.
- Repo and Reverse Repo transactions should be accounted for as lending and borrowing of funds and not as sale and purchase of securities.
- The transactions involving sale of securities to the Government as part of Government's surplus cash management are in the nature of reverse repo transactions and therefore the profit or loss arising from this operation should be kept in a separate transit account and reversed as and when the transaction is reversed.
- The overall value of forward exchange contracts is not discounted at present. The overall value of such contracts should henceforth be discounted on the Balance Sheet date using the prevalent Reverse Repo rate.

(Contd....)

d) Disclosures

Currently disclosures are made both in the Reserve Bank's Annual Report chapter on 'The Reserve Bank's Accounts' and also in the 'Significant Accounting Policies and Notes to the Accounts' attached to the financial statements. All the relevant disclosures should be made only in the 'Significant Accounting Policies and Notes to the Accounts'.

Implementation of the recommendations of the Committee involving changes in the format of the balance sheet and income statement would require the approval of the Central Government/amendments to RBI Act, 1934 and General Regulations framed thereunder. It is proposed to implement most of the recommendations during the ensuing accounting year 2013-14 so that the annual accounts of the next year will substantially reflect the changes envisaged by the Committee. Meanwhile, an attempt has been made in this chapter to provide greater disclosures, particularly regarding components of income and expenditure and a more detailed and analytical description of the individual items appearing in the balance sheet and profit and loss account by giving break up of figures, additional supporting tables and more analytical inputs. The description of the items in the text is provided in the order of their appearance in the Balance Sheet and Profit & Loss account.

BALANCE SHEET

Liabilities and Assets of the Issue Department

Issue Department – Liabilities

XI.3 The liabilities of the Issue Department reflect the quantum of notes in circulation. Section 34 (I) of the RBI Act 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 liabilities of the Issue Department at ₹12,016.24 billion consisted of notes in circulation (₹12,016.16 billion) and a small quantum of notes held in the Banking Department (₹0.08 billion). The corresponding figure of notes in circulation as on June 30, 2012 was ₹11,034.65 billion. The notes in circulation increased by 8.9 per cent during 2012-13 as compared with an increase of 13.8 per cent during 2011-12 and 15.1 per cent in 2010-11 (details of currency operations are given in chapter VIII). Thus, while there was an overall increase in the notes in circulation, the annual rate of increase witnessed a downward trend in recent years.

Issue Department – Assets

XI.4 The eligible assets of the Issue Department for backing its currency liabilities consist of gold (coin and bullion), foreign securities, rupee coin, Government of India securities, internal bills of exchange and other commercial papers. The Reserve Bank holds 557.75 metric tonnes of gold of which 292.26 metric tonnes is held as an asset of the Issue Department and the balance 265.49 metric tonnes is treated as part of the Banking Department's other assets. The value of these gold holdings held in the Issue Department decreased by 11.3 per cent from ₹760.09 billion as on June 30, 2012 to ₹674.31 billion as on June 30, 2013 reflecting declining international bullion prices (Table XI.1). Consequent upon an increase in the overall liabilities of the Issue Department, there was an increase in the assets held in the form of foreign securities, with the year-ending figure at ₹11,329.10 billion as against ₹10,261.97 billion as on June 30, 2012. The value of Rupee coins in the Issue

Table XI.1: Holding of Gold

	As on June 30, 2012		As on June 30, 2013	
	Value in ₹ billion	Volume in metric tonnes	Value in ₹ billion	Volume in metric tonnes
1	2	3	4	5
Gold held in Issue Department	760.09	292.26	674.31	292.26
Gold held in Banking Department (under 'Other Assets')	690.46	265.49	612.54	265.49
Total	**1,450.55**	**557.75**	**1,286.85**	**557.75**

Department increased from ₹2.21 billion as at June 30, 2012 to ₹2.36 billion as at June 30, 2013, registering a marginal increase of 6.8 per cent. There was no change in the holding of the Government of India Rupee securities which continued at ₹10.46 billion.

Liabilities and Assets of the Banking Department

Banking Department-Liabilities

XI.5 The liabilities of the Banking Department increased by 7.6 per cent over the previous year, details of which are outlined in the following paragraphs:

i) **Capital Paid-up**: 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 Government of India. The paid-up capital continues to be ₹0.05 billion as per section 4 of the RBI Act.

ii) **Reserve Fund**: The original Reserve Fund of ₹0.05 billion was created in terms of section 46 of the RBI Act as contribution from the Central Government for the currency liability of the then sovereign government taken over by the Reserve Bank. Thereafter, ₹64.95 billion was credited to this Fund out of gains on periodic revaluation of gold up to October 1990, taking it to ₹65 billion. The accumulation in the Fund has been static since then and appreciation/depreciation on account of valuation of gold and foreign currency is booked in the Currency and Gold Revaluation Account (CGRA) which is a part of the head 'Other Liabilities' in the balance sheet.

iii) **National Industrial Credit (Long Term Operations) Fund**: Created in July 1964, under section 46C of the RBI Act with an initial corpus of ₹100 million, the Fund witnessed annual contribution from the Reserve Bank for financial assistance to eligible financial institutions. Since 1992-93, a token amount of ₹10 million is contributed each year. The same practice has been followed for the year 2012-13 and the balance in the Fund stood at ₹220 million as on June 30, 2013.

iv) **National Housing Credit (Long Term Operations) Fund**: Set up in January 1989 under section 46D of the RBI Act for extending financial accommodation to the National Housing Bank, the initial corpus of ₹500 million was enhanced by the annual contributions from the Reserve Bank thereafter. From the year 1992-93, only a token amount of ₹10 million is contributed each year. The balance in the fund stood at ₹1,960 million as on June 30, 2013.

v) **Contribution to other Funds**: It may be noted that there are two other Funds constituted under section 46A of the RBI Act, *viz.*, National Rural Credit (Long Term Operations) Fund and National Rural Credit (Stabilisation) Fund for which now a token contribution of ₹10 million each is made every year. Since these funds are now placed with National Bank for Agriculture and Rural Development (NABARD), an amount of ₹20 millions is transferred to NABARD every year.

vi) **Deposits**: These represent the cash balances maintained with the Reserve Bank by the Central and State Governments, banks, all India financial institutions, such as, Export Import Bank (EXIM Bank) and NABARD, foreign central banks, international financial institutions, and the balance in different accounts relating to the Employees' Provident Fund, Gratuity and Superannuation Funds. Total deposits stood at ₹3,738.92 billion as on June 30, 2013 as compared with ₹3,723.68 billion as on June 30, 2012, registering a marginal increase of 0.4 per cent.

- *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. Accordingly, the Central and the State Governments maintain deposits with the Reserve Bank. The current year-end balances of deposits maintained by the Central and State Governments at ₹1.00 billion and ₹0.43 billion, respectively, totalling ₹1.43 billion were almost the same as at the end of the previous year.

- *Deposits – Banks*

  Banks maintain balances in their current accounts with the Reserve Bank to meet the Cash Reserve Ratio (CRR) requirements and as working funds to meet payment and settlement obligations. The total bank deposits as on June 30, 2013 stood at ₹3,571.51 billion as compared with ₹3,600.21 billion as on June 30, 2012, registering a marginal decline of 0.8 per cent reflecting reduction in CRR requirement during the year.

- *Deposits - Others*

  These include deposits of foreign central banks, domestic and international financial institutions, deposits placed by mutual funds, accumulated retirement benefits and miscellaneous deposits *viz.*, balances of Clearing Corporation of India Ltd, primary dealers, employee credit societies, *etc.* and sundry deposits.

  As may be seen from the detailed break-up provided in table XI.2, there was an overall increase of 36 per cent during the year 2012-13, mainly contributed by higher accumulated retirement benefits.

vii) **Bills Payable:** The Reserve Bank extends remittance facilities to its constituents and also for its own payment requirements. To this end, Demand Drafts (DDs) and Payment Orders (POs) are issued by the offices of the Reserve Bank. The balance in this item represents the unencashed DDs/POs and the balances under the erstwhile Remittance Facility Scheme, 1975 held under Remittance Clearance Account. The total amount outstanding under this head increased from ₹0.27 billion as on June 30, 2012 to ₹1.87 billion as on June 30, 2013. The increase on the balance sheet date was on account of issue of a demand draft favouring the Government of India for ₹1.64 billion which was subsequently paid on July 5, 2013.

viii) **Other Liabilities:** Internal reserves and provisions of the Reserve Bank are major

Table XI.2: Deposits: Others

(₹ billion)

Particulars	As on June 30	
	2012	2013
1	2	3
I. Rupee Deposits from the Foreign Central Banks and the Foreign Financial Institutions	11.18	15.33
II. Deposits from the Indian Financial Institutions	1.27	0.70
III. Deposits placed by Mutual Funds	0.01	0.01
IV. Accumulated Retirement Benefits (i+ii)	105.39	141.02
(i) Provident Fund	33.55	36.10
(ii) Gratuity and Superannuation Fund	71.84	104.92
V. Miscellaneous	4.20	8.89
Total	**122.05**	**165.95**

components of other liabilities. While Contingency Reserve (CR) and Asset Development Reserve (ADR) form the Bank's internal reserves, having been provided as normally provided by banks, the remaining components of 'Other Liabilities', such as, CGRA, Investment Revaluation Account (IRA) and Exchange Equalisation Account (EEA), *etc.* are in the nature of provisions as they represent unrealised gains/losses. Other liabilities increased from ₹7,263.55 billion as on June 30, 2012 to ₹8,082.86 billion as on June 30, 2013, reflecting a rise of 11.3 per cent mainly on account of accretion to the CGRA.

It may be noted that the CR and the ADR reflected in 'Other Liabilities' are in addition to the 'Reserve Fund' of ₹65 billion held by the Reserve Bank as a distinct balance sheet head (Table XI.3).

a) **Contingency Reserve (CR):** It represents the amount set aside on a year-to-year basis for meeting unexpected and unforeseen contingencies, including depreciation in the value of securities, and risks arising out of monetary/exchange rate policy operations. The CR increased by ₹262.47 billion (13.4 per cent) from ₹1,954.05 billion as on June 30, 2012 to ₹2,216.52 billion as on June 30, 2013.

Table XI.3: Details of Other Liabilities

(₹ billion)

Particulars	As on June 30	
	2012	2013
1	2	3
a. Contingency Reserve		
Balance at the beginning of the year	**1,707.28**	**1,954.05**
Add: Accretion during the year	246.77	262.47
Balance at the end of the year	**1,954.05**	**2,216.52**
b. Asset Development Reserve		
Balance at the beginning of the year	**158.66**	**182.14**
Add: Accretion during the year	23.48	25.47
Balance at the end of the year	**182.14**	**207.61**
c. Currency and Gold Revaluation Account		
Balance at the beginning of the year	**1,822.86**	**4,731.72**
Add: Net Accretion (+)/Net Depletion (-) during the year	(+)2,908.86	(+) 469.41
Balance at the end of the year	**4,731.72**	**5,201.13**
d. Investment Revaluation Account		
Balance at the beginning of the year	**42.69**	**122.22**
Add: Net Accretion (+)/Net Utilisation (-)during the year	(+) 79.53	(-) 97.37
Balance at the end of the year	**122.22**	**24.85**
e. Exchange Equalisation Account		
Balance at the beginning of the year	**0.01**	**24.05**
Transfer from Exchange Account	24.05	16.99
Add: Net Accretion (+)/Net Utilisation (-) during the year	(-)0.01	(-) 24.05
Balance at the end of the year	**24.05**	**16.99**
f. Provision for Outstanding Expenses	**16.16**	**18.43**
g. Surplus Transferable to the Government of India	**160.10**	**330.10**
h. Miscellaneous	**73.11**	**67.23**
i. Total (a to h)	**7,263.55**	**8,082.86**

b) **Asset Development Reserve (ADR)**: In order to meet the needs of internal capital expenditure and make investments in subsidiaries and associate institutions, a further sum is provided and credited to the ADR, which is a reserve created in 1997-98 with the aim of reaching one per cent of the Reserve Bank's total assets. In 2012-13, ₹25.47 billion was transferred from income to ADR raising its level to ₹207.61 billion as on June 30, 2013. As against the target of 12 per cent of total assets set for CR and ADR together based on the recommendations of an internal study group (Chairman: Shri V. Subrahmanyam), CR and ADR together constituted 10.1 per cent of the total assets of the Reserve Bank as on June 30, 2013; the position as at the end of the last five years is given in Table XI.4.

c) **Currency and Gold Revaluation Account (CGRA):** Unrealised gains/losses on valuation of Foreign Currency Assets (FCA) and gold due to movements in the exchange rates and/or price of gold are not taken to the Profit & Loss Account but instead booked under a balance sheet head named as the Currency and Gold Revaluation Account (CGRA). Unlike the CR, which is created by apportioning realised gains, the CGRA is not a reserve account as it represents the accumulated net balance of unrealised gains and losses arising out of valuation of FCA and gold. As CGRA balances mirror the changes in prices of gold and in exchange rate, its balance varies with the size of asset base and volatility in the exchange rate and price of gold. During 2012-13, the balances in CGRA increased by ₹469.41 billion from ₹4,731.72 billion as on June 30, 2012 to ₹5,201.13 billion as on June 30, 2013, reflecting an overall increase of 9.9 per cent. In the recent past, even though FCA and gold have declined as a percentage of total assets, the CGRA has risen due to sharp depreciation of Indian Rupee against US Dollar. It, thus, acts as a cushion against fluctuations in exchange rates/price of gold which have in the recent times exhibited sharp volatility.

Table XI.4 : Balances in Contingency Reserve and Asset Development Reserve

(₹ billion)

As on June 30	Balance in CR	Balance in ADR	Total	CR and ADR as percentage to total assets
1	2	3	4=(2+3)	5
2009	1,533.92	140.82	1,674.74	11.9
2010	1,585.61	146.32	1,731.92	11.3
2011	1,707.28	158.66	1,865.94	10.3
2012	1,954.05	182.14	2,136.19	9.7
2013	2,216.52	207.61	2,424.13	10.1

d) **Investment Revaluation Account (IRA):** The Reserve Bank values foreign dated securities at market prices prevailing on the last business day of each month and the appreciation/depreciation arising therefrom is transferred to the IRA. The unrealised gains/losses arising from such periodic revaluation are adjusted against the balance in IRA. The balance in IRA as on June 30, 2013 was ₹24.85 billion, as compared with ₹122.22 billion as on June 30, 2012. The substantial draw down in this account was mainly due to unrealised Marked to Market (MTM) losses arising from a rise in yields, particularly of US government securities.

e) **Exchange Equalisation Account (EEA):** The balance in the Exchange Equalisation Account (EEA) represents provision made for MTM losses on forward commitments mainly arising out of intervention operations. The balance in EEA as on June 30, 2013 was ₹16.99 billion, as against a balance of ₹24.05 billion as on June 30, 2012. The position of balances in CGRA, EEA & IRA for the last five years is given in Table XI.5.

f) **Provision for Outstanding Expenses:** Section 47 of the RBI Act, 1934 stipulates that after making provisions for contingencies and corpus funds as defined therein, and those which are usually provided by bankers, the balance of profits of the Reserve Bank is to be transferred to the Central Government. Accordingly, provision for an amount of ₹18.43 billion has been made for the year 2012-13; the corresponding figure for the year 2011-12 was ₹16.16 billion.

g) **Surplus transferable to the Government of India:** The surplus transferable to the government for the year 2012-13 amounted to ₹330.10 billion. This includes ₹0.10 billion towards notional service tax payable on account of the MICR cheque processing charges on a self-assessment basis as was done in the earlier years and ₹13.22 billion (same as in the previous year) payable to the government towards the interest differential representing the difference in interest expenditure borne by the government consequent on conversion of special securities into marketable securities. This sum is not separately provided for and is included in the surplus transferable to the Government. The amount transferred to the Government this year was the highest ever and the transferred amount as percentage of gross income less expenditure at 53.4 per cent was higher than 52.8 per cent and 37.2 per cent in 2010-11 and 2011-12, respectively (Table XI.15).

Table XI.5: Balances in Currency and Gold Revaluation Account (CGRA), Exchange Equalisation Account (EEA) and Investment Revaluation Account (IRA)

(₹ billion)

As on June 30	CGRA	EEA	IRA
1	2	3	4
2009	1,988.42	0.27	-
2010	1,191.34	0.19	93.71
2011	1,822.86	0.01	42.69
2012	4,731.72	24.05	122.22
2013	5,201.13	16.99	24.85

h) **Miscellaneous:** This is a residual head including sub-accounts such as balances payable on account of leave encashment, reserve for interest earned on securities earmarked for the employee funds, the value of collateral held as margin for repo transactions, medical provisions for employees, *etc.* Miscellaneous liabilities stood at ₹67.23 billion as on June 30, 2013 as against ₹73.11 billion as on June 30, 2012.

Banking Department – Assets

XI.6 The assets of the Banking Department comprise Notes, Rupee Coin, Small Coin, Bills Purchased and Discounted, Balances Held Abroad, Investments, Loans and Advances and Other Assets. They are presented in the balance sheet in descending order of liquidity.

i) **Notes, Rupee Coin and Small Coin**

This is the stock of bank notes, one rupee notes, rupee coins of ₹1, 2, 5 and 10 and small coins kept in the vaults of the Banking Department to meet the day to day requirements of the banking functions conducted by the Reserve Bank. The value of this stock came down by 11.1 per cent from ₹0.09 billion as on June 30, 2012 to ₹0.08 billion as on June 30, 2013.

ii) **Bills purchased and discounted**

Though the Reserve Bank can undertake purchase and discounting of commercial bills under the RBI Act, no such activity has been undertaken; consequently, there was no such asset in the books of the Reserve Bank as on June 30, 2013.

iii) **Balances Held Abroad**

The Foreign Currency Assets (FCA) of the Bank consists of (a) Balances held abroad in foreign currency shown as a distinct item under assets of the Banking Department, (b) foreign securities held as assets of Issue Department and (c) foreign securities held as part of Investments in the Banking Department.

Table XI.6: Details of Foreign Currency Assets

(₹ billion)

Particulars	As on June 30	
	2012	2013
1	2	3
I. Held in Issue Department	10,261.97	11,329.10
II. Held in Banking Department		
(a) Included in Investments*	590.57	523.57
(b) Balances Held Abroad	3,640.27	3,395.01
Total	**14,492.81**	**15,247.68**

*including Foreign Securities and Shares in BIS and SWIFT (items ii plus iii of Table XI.7)

Notes :
1. Uncalled amount on partly paid shares of the Bank for International Settlements (BIS) as on June 30, 2013 was ₹1.08 billion (SDR 12,041,250). The amount was ₹1.03 billion (SDR 12,041,250) in the previous year.
2. 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 (₹597.00 billion) under the Note Purchase Agreement) up to a maximum amount of SDR 8,740.82 million (₹784.80 billion/US$ 13.15 billion). As on June 30, 2013, investments amounting to SDR 1,118.8 million (₹100.45 billion/US$ 1.68 billion) have been made under the NAB.
3. RBI has agreed to invest up to an amount, the aggregate of which shall not exceed US$ 5 billion (₹298.50 billion), in the bonds issued by India Infrastructure Finance Company (UK) Limited. As on June 30, 2013, the Reserve Bank has invested US$ 950 million (₹56.71 billion) in such bonds.
4. Under a Currency Swap arrangement, the Reserve Bank has agreed to provide short-term funding support to SAARC countries in US Dollar or Indian Rupee ranging from US$ 100 million to US$ 400 million within an overall cap of USD 2 billion. As on June 30, 2013, the Royal Monetary Authority of Bhutan (RMA) has drawn Indian Rupee equivalent to USD 100 million (*i.e.*, ₹5.4 billion) under this arrangement.

Balances held abroad include (a) deposits with other central banks, (b) deposits with the Bank for International Settlements (BIS), (c) balances with foreign commercial banks and (d) investments in foreign treasury bills and securities.

The position of FCA of the Bank for the last two years is given in Table XI.6. The details of Foreign Exchange Reserves (FER) which predominantly comprise FCA, besides gold, SDRs and Reserve Tranche Position (RTP) for this period are given in paragraph 9 of the enclosed Notes to the Accounts (Annex II).

The increase in the level of FCA in rupee terms in 2012-13 was mainly on account of depreciation of the rupee against the US dollar after adjusting for appreciation of the US dollar against other currencies in which the Reserve Bank's FCA are held. The valuation gains more than offset the decline in FCA on account of forex sales to authorised dealers.

iv) **Investments:** Investments of Banking Department (Table XI.7) comprise the following:

a) The Bank's holdings of Government of India Rupee Securities stood at ₹6,739.33 billion as compared with ₹5,702.12 billion last year. This includes the Bank's own holdings of Government securities worth ₹5,946.87 billion together with ₹912.63 billion representing collateral received under Repurchase agreement (Repo) less the securities given as collateral for Reverse Repo sales amounting to ₹120.17 billion. Securities purchased (Repo) and sold (Reverse repo) under the Liquidity Adjustment Facility (LAF) are added to and reduced from 'Investments' respectively. The Marginal Standing Facility (MSF) balance outstanding at the year-end was nil as against ₹6 billion as on June 30, 2012.

Table XI.7: Investments of the Banking Department

(₹ billion)

Investments	2011-12	2012-13
1	2	3
i) Government of India Rupee securities	5,702.12	6,739.33
ii) Foreign securities	588.03	520.90
iii) Shares in BIS/SWIFT	2.54	2.67
iv) Holdings in Subsidiaries / Associate Institutions	13.20	13.20
Total	**6,305.89**	**7,276.10**

b) Foreign securities represent debt of Sovereigns and Supra–national institutions and other instrument or institution as approved by the Central Board of the Bank in accordance with the provisions of the RBI Act. A part of foreign securities (₹520.90 billion) are held in the Banking Department as asset earmarked to cover day to day expansion in Issue Department liabilities.

c) Shares held in the BIS and the Society for Worldwide Interbank Financial Telecommunication (SWIFT) amounting to ₹2.67 billion as compared with ₹2.54 billion last year.

d) The details of holdings in subsidiaries / associate institutions as on June 30, 2013 are given in Table XI.8.

v) Loans and Advances

a) Central and State Governments – These loans take the form of Ways and Means Advances (WMA) extended in terms of section 17(5) of the RBI Act and Overdraft (OD) facilities, limits for which are fixed from time to time in consultation with the governments. The loans and advances to the Central Government as on June 30, 2013 stood at ₹146.61 billion. As on June 30, 2012, the corresponding figure was 'Nil'. Loans and advances to the State Governments as on June 30, 2013 stood at ₹21.45 billion as compared with ₹7.31 billion as on June 30, 2012.

b) Loans and advances to Commercial and Co-operative banks – These loans represent refinance facility made available to banks. They have increased from ₹169.64 billion to ₹188.82 billion, mainly on account of increase in export credit refinance limit from 15 per cent to 50 per cent of the outstanding export credit eligible for refinance, to enhance credit flows to the export sector, with effect from the fortnight beginning June 30, 2012.

c) Loans and advances to NABARD – The Reserve Bank can extend loans to NABARD under section 17 (4E) of the RBI Act. Such loans are presently Nil.

d) Loans and advances to Others – This mainly includes the loans given under special refinance schemes to EXIM Bank and collateralised loans to primary dealers. The quantum of such loans has come down substantially from ₹28.90 billion as on June 30, 2012 to ₹8.24 billion as on June 30, 2013 due to repayment of loans by National Housing Bank (NHB) with no fresh availment and discontinuation of the special refinance scheme to EXIM Bank in April, 2013.

Table XI.8: Holdings in subsidiaries/associates

(₹ million)

	Cost	% holding
1	2	3
(a) Deposit Insurance and Credit Guarantee Corporation (DICGC)	500.00	100
(b) National Bank for Agriculture and Rural Development(NABARD)*	200.00	1
(c) National Housing Bank (NHB)	4,500.00	100
(d) Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL)	8,000.00	100
	13,200.00	

* The Reserve Bank divested its stake in NABARD as per the decision of the Government of India. Thus, out of 72.5 per cent of NABARD's total share capital of ₹20 billion earlier held by the Reserve Bank, 71.5 per cent was transferred to the Government of India at par on October 13, 2010. The Reserve Bank now has a one per cent shareholding in NABARD as required under the NABARD Act, 1981.

vi) Other Assets

'Other Assets' of Banking Department (Table XI.9) comprise fixed assets (net of depreciation), gold held abroad (265.49 metric tonnes), accrued income (mainly comprising interest income accrued on balance sheet date on the Bank's domestic and foreign investments), and miscellaneous assets. Miscellaneous assets comprise mainly loans and advances to staff, amount spent on projects pending completion, the margin offered for reverse repo transactions, security deposit paid, and items in transit representing inter-office transactions (RBI General Account), *etc.* The value of 'Other Assets' decreased from ₹902.60 billion to ₹854.56 billion as on June 30, 2013, mainly on account of a 11.3 per cent decline in the value of gold holdings .

Table XI.9: Details of Other Assets

(₹ billion)

Particulars		As on June 30	
		2012	2013
1		2	3
I.	Fixed Assets (net of accumulated depreciation)	4.37	4.50
II.	Gold	690.46	612.54
III.	Accrued income (a + b)	195.11	223.88
	a. on loans to employees	2.83	2.98
	b. on other items	192.28	220.90
IV.	Miscellaneous	12.66	13.64
	Total	**902.60**	**854.56**

ANALYSIS OF INCOME AND EXPENDITURE

INCOME

XI.7 The Reserve Bank's income is drawn from (i) Interest receipts, (ii) Discount, (iii) Exchange, (iv) Commission and (v) Others including Rent Realised, Profit or loss on sale of Bank's property and Provisions no longer required. Of these, Interest earnings form the major portion supplemented by relatively small amounts of income from discount, exchange, commission and others. Details of the gross income and the earnings from domestic and foreign sources for the last five years are presented in Table XI.10.

Earnings from Foreign Sources

XI.8 The income from foreign sources is mainly derived from deployment of the foreign currency assets. It increased by ₹9.36 billion (4.7 per cent) from ₹198.10 billion in 2011-12 to ₹207.46 billion in 2012-13. The rate of earnings on foreign currency assets was low at 1.5 per cent in 2012-13 due to the low interest rates prevalent in international markets (Table XI.11).

Table XI.10: Gross Income

(₹ billion)

Item		2008-09	2009-10	2010-11	2011-12	2012-13
1		2	3	4	5	6
A.	**Foreign Sources**					
	Interest, Discount, Exchange	507.96	251.02	211.50	198.10	207.46
B.	**Domestic Sources**					
	(i) Interest	90.56	66.47	150.32	323.39	523.06
	(ii) Other Earnings	8.80	11.35	8.88	10.27	13.05
	Total: (i) + (ii)	99.36	77.82	159.20	333.66	536.11
C.	**Gross Income (A+B)**	607.32	328.84	370.70	531.76	743.58
D.	**Transfer to Contingency Reserve**	261.91	51.68	121.67	246.77	262.47
E.	**Transfer to Asset Development Reserve**	13.10	5.50	12.35	23.48	25.47
F.	**Total Income(C-D-E)**	332.31	271.66	236.68	261.51	455.64

Table XI.11: Earnings from Foreign Sources

(₹ billion)

Item	Year ended		Variation	
	June 30, 2012	June 30, 2013	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	14,492.81	15,247.69	754.88	5.2
Average FCA	13,477.55	14,281.58	804.03	6.0
Earnings from FCA (interest, discount, exchange gain/loss, capital gain/loss on securities)	198.10*	207.46	9.36	4.7
Earnings from FCA as percentage of average FCA	1.5	1.5	-	-

* Figure includes an income of ₹9.3 million on gold deposits held abroad, nil in present year.

Earnings from Domestic Sources

XI.9 The earnings from domestic sources increased from ₹333.66 billion in 2011-12 to ₹536.11 billion in 2012-13 recording an increase of 60.7 per cent. A detailed break-up of the various components of domestic income has been provided in Table XI.12. The net income from domestic securities increased from ₹304.24 billion in 2011-12 to ₹503.67 billion in 2012-13, an increase of 65.6 per cent. The net increase was a combination of the following factors:

- Increase in coupon income on an increased portfolio of rupee securities (from ₹276.73 billion in 2011-12 to ₹408.68 billion in 2012-13).
- Reduction in the average daily liquidity injection under the Liquidity Adjustment Facility (LAF) window from ₹928.18 billion in 2011-12 to

Table XI.12: Earnings from Domestic Sources

(₹ billion)

Item	Year ended		Variation	
	June 30, 2012	June 30, 2013	Absolute	Per cent
1	2	3	4	5
Domestic Assets	**7,596.54**	**8,662.02**	**1,065.48**	**14.0**
Weekly Average of Domestic	**6,140.50**	**7,724.84**	**1,584.34**	**25.8**
Assets Earnings (I + II+III)	**333.66**	**536.11**	**202.45**	**60.7**
I. Interest and other Securities related Income				
i) Profit on Sale of Securities	93.40	85.47	-7.93	-8.5
ii) Net Interest on LAF operations	77.66	64.79	-12.87	-16.6
iii) Interest on MSF operations	0.40	0.11	-0.29	-72.5
iv) Interest on holding of Domestic Securities	276.73	408.68	131.95	47.7
v) Depreciation	143.95	55.38	-88.57	-61.5
Total (i+ii+iii+iv-v)	**304.24**	**503.67**	**199.43**	**65.6**
II. Interest on Loans and Advances				
i) To Government (Central & States)	13.00	1.26	-11.74	-90.3
ii) To Banks & Financial Institutions	5.68	17.65	11.97	210.7
iii) To Employees	0.47	0.48	0.01	2.1
Total (i+ii+iii)	**19.15**	**19.39**	**0.24**	**1.3**
III. Other Earnings				
i) Discount	-	0.28	0.28	-
ii) Exchange	-	-	-	-
iii) Commission	9.52	11.13	1.61	16.8
iv) Rent realised, Profit or Loss on sale of Bank's property and Provisions no longer required.	0.75	1.64	0.89	118.7
Total (i+ii+iii+iv)	**10.27**	**13.04**	**2.77**	**27.00**

₹831.50 billion in 2012-13 and also a reduction in the repo rate resulting in reduced interest income from LAF and Marginal Standing Facility (from ₹77.66 billion in 2011-12 to ₹64.79 billion in 2012-13). Softening of yields in 2012-13 as compared to the previous financial year resulted in reduction in depreciation booked on rupee securities from ₹143.95 billion in 2011-12 to ₹55.38 billion in 2012-13. (The 10 year generic yield as on June 28, 2013 was 7.5 per cent as compared with 8.2 per cent as on June 29, 2012).

- The rate of earnings on average domestic assets increased from 5.4 per cent in the previous year to 7.2 per cent in 2012-13.
- Due to the relatively stable cash position of the Central Government resulting in Central Government availing Ways and Means Advances (WMA) only for 27 days and no overdraft (OD), compared to availment of WMA for 263 days and OD for 74 days in the previous year. The daily average utilisation of WMA/OD by the Central Government was ₹8.44 billion in 2012-13 as against ₹142.39 billion in 2011-12. This resulted in decrease in interest income received on account of WMA/OD from the Central Government for 2012-13 from ₹12.66 billion in 2011-12 to ₹0.67 billion in 2012-13.
- As regards, the states, the interest towards WMA/OD recovered for 2012-13 was higher at ₹0.59 billion as compared to ₹0.35 billion for 2011-12. This is attributable to, *inter alia*, higher daily average utilisation of WMA/OD by states at ₹7.14 billion in 2012-13 as against ₹4.07 billion in 2011-12.

EXPENDITURE

XI.10 The Reserve Bank incurs expenditure in the course of performing its statutory functions by way of agency charges/commission, security printing charges, expenses on remittance of treasure besides staff related and other expenses. The total expenditure of the Reserve Bank increased by 23.8 per cent from ₹101.37 billion in 2011-12 to ₹125.49 billion in 2012-13. The expenditure can be categorised into following sub groups:

I) Interest Payment

II) Establishment Expenditure

III) Non-establishment Expenditure

The detailed break-up of the major heads of expenditure is provided in Table XI.13.

Table XI.13: Expenditure

(₹ billion)

Item	2008-09	2009-10	2010-11	2011-12	2012-13
1	2	3	4	5	6
I. Interest Payment	0.01	0.01	0.55	0.59	0.03
of which:					
Scheduled Banks*	0.00	0.00	0.00	0.00	0.00
II. Establishment	24.48	19.87	23.01	29.93	58.59
III. Non-establishment	57.68	64.15	62.99	70.85	66.87
of which:					
(a) Agency charges/commission	29.99	28.55	30.12	33.51	28.07
(b) Security printing charges	20.63	27.54	23.76	27.04	28.72
Total (I+II+III)	82.17	84.03	86.55	101.37	125.49

* Pursuant to amendment to the Reserve Bank of India Act, 1934, interest payable on eligible cash reserve ratio (CRR) balances was withdrawn with effect from the fortnight beginning March 31, 2007.

I. Interest Payment

This has come down from ₹0.59 billion in 2011-12 to ₹0.03 billion in 2012-13. This item mainly represents the Bank's contribution by way of interest credited to some of the employee welfare funds.

II. Establishment Expenditure

The establishment expenses increased by 95.8 per cent from ₹29.93 billion in 2011-12 to ₹58.59 billion in 2012-13. The increase in the establishment expenditure is mainly due to the increase in the accrued liabilities of the gratuity and superannuation fund as assessed on the basis of actuarial calculations. The contribution for the year 2012-13 was ₹35.32 billion as against ₹8.22 billion in the previous year. The Bank's investments equivalent to the balances in Provident Fund, Gratuity & Superannuation Fund and Leave Encashment Fund have been earmarked for these Funds. Provident Fund and Gratuity & Superannuation Fund are held as 'Deposits' with the Bank. Leave Encashment Fund for retiring employees is included under 'Other Liabilities'.

III. Non-Establishment Expenditure

a) **Agency Charges**: Under agency charges, four types of expenses are booked (Table XI.14).

i) Commission paid to agency banks for conduct of government business (receipts and payments): The Reserve Bank discharges the function of banker to the government through a large network of agency bank branches that serve as retail outlets for government transactions. The Reserve Bank pays commission to the agency banks at prescribed rates which were revised with effect from July 01, 2012. The agency commission paid to the banks on account of Government business for the year 2012-13 was ₹27.26 billion as compared with ₹32.13 billion for the year 2011-12. The reduction of 15.2 per cent in agency commission paid during the year can largely be attributed to the revision in agency commission rates.

Table XI.14: Agency Charges

(₹ million)

	2011-12	2012-13
1	2	3
Agency Commission on Government Transactions	32,128.78	27,264.39
Underwriting Commission paid to Primary Dealers	722.69	218.65
Handling charges paid to banks for Relief/Savings Bonds subscriptions	1.25	1.11
Payment to External Asset Managers	656.07	582.38
Total	**33,508.79**	**28,066.53**

ii) Fees paid to Primary Dealers (PDs) as underwriting commission for the borrowing programme of the Central Government: The underwriting commission payable to the PDs is based on the amount of Government of India (GoI) borrowing through dated securities and underwriting fee quoted by the PDs. Both these factors depend upon other relating factors like fiscal deficit and the consequent borrowing programme of the GoI, liquidity position in the market, interest rate movement and consequent yield movements of the security, *etc.* The expenditure on underwriting commission decreased from ₹722.69 million in 2011-12 to ₹218.65 million in 2012-13.

iii) Fees amounting to ₹0.58 billion was paid to the external asset managers who are entrusted with the management of a small portion of the Reserve Bank's foreign exchange reserves as against ₹0.66 billion in 2011-12, registering a decline of 12.1 per cent.

b) **Security printing**: The expenditure incurred on security printing charges (primarily for printing of currency notes) increased by 6.3 per cent from ₹27.04 billion in 2011-12 to ₹28.72 billion in 2012-13. This rise was mainly on account of increase of 5.7 per cent in the total supply of banknote forms and a marginal increase in rates quoted by Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL) for notes supplied by them.

c) **Others**: Other non-establishment expenses are incurred on heads such as Remittance of Treasure, Printing and Stationery, audit fees and expenses, miscellaneous expenses, *etc.* The audit fees and expenses of ₹30.14 million include fees and expenses for Statutory Audit, Concurrent Audit and Special Audit for various purposes conducted in the Bank. Miscellaneous expenses mainly include contributions to various academic and training institutes, *etc.*

XI.11 The trends over the last five years in Income, Expenditure and Net Disposable Income have been indicated in Table XI.15.

Table XI.15: Trends in Gross Income, Expenditure and Net Disposable Income

(₹ billion)

Item	2008-09	2009-10	2010-11	2011-12	2012-13
1	2	3	4	5	6
a) Gross Income	607.32	328.84	370.70	531.76	743.58
b) Transfers to Internal Reserves (i+ii)	275.01	57.18	134.02	270.25	287.94
(i) Contingency Reserve	261.91	51.68	121.67	246.77	262.47
(ii) Asset Development Reserve	13.10	5.50	12.35	23.48	25.47
c) Net Income (a-b)	332.31	271.66	236.68	261.51	455.63
d) Total Expenditure	82.18	84.03	86.55	101.37	125.49
e) Net Disposable Income (c-d)	250.13	187.63	150.13	160.14	330.14
f) Transfer to funds*	0.04	0.04	0.04	0.04	0.04
g) Surplus transferred to the Government (e-f)	250.09	187.59	150.09	160.10	330.10
Transfer of Surplus to Government as a per cent of Gross Income less Total Expenditure	47.6	76.6	52.8	37.2	53.4

*: 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.

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

Auditors

The accounts of the Reserve Bank for the year 2012-13 were audited by M/s. V. Sankar Aiyar & Co., Mumbai and M/s. Haribhakti & Co., Mumbai as the Statutory Central Auditors. Branches and other offices were audited by the Statutory Branch Auditors, namely, M/s. S.K. Mehta & Co., New Delhi, M/s P G Joshi & Co., Nagpur, M/s. P.K.F. Sridhar & Santhanam & Co., Chennai and M/s Lodha & Co., Kolkata. The auditors were appointed by the Central Government in terms of section 50 of the RBI Act, 1934.

Chapter Annex I

RESERVE BANK OF INDIA
BALANCE SHEET AS AT 30th JUNE 2013
ISSUE DEPARTMENT

(₹ thousands)

2011-12	LIABILITIES	2012-13	2011-12	ASSETS	2012-13
				Gold Coin and Bullion:	
89,169	**Notes held in the Banking Department**	**80,169**	760,096,797	(a) Held in India	**674,316,432**
11,034,645,327	**Notes in Circulation**	**12,016,157,427**	–	(b) Held outside India	–
			10,261,966,851	**Foreign Securities**	**11,329,100,584**
11,034,734,496	**Total Notes Issued**	**12,016,237,596**	11,022,063,648	**Total**	**12,003,417,016**
			2,206,548	**Rupee Coin**	**2,356,280**
			10,464,300	**Government of India Rupee Securities**	**10,464,300**
			–	**Internal Bills of Exchange and other Commercial Paper**	–
11,034,734,496	**Total Liabilities**	**12,016,237,596**	11,034,734,496	**Total Assets**	**12,016,237,596**

BANKING DEPARTMENT

(₹ thousands)

2011-12	LIABILITIES	2012-13	2011-12	ASSETS	2012-13
50,000	**Capital paid-up**	**50,000**	89,169	**Notes**	**80,169**
65,000,000	**Reserve Fund**	**65,000,000**	418	**Rupee Coin**	**296**
210,000	**National Industrial Credit (Long Term Operations) Fund**	**220,000**	125	**Small Coin**	**63**
1,950,000	**National Housing Credit (Long Term Operations) Fund**	**1,960,000**		**Bills Purchased and Discounted :**	
			–	(a) Internal	–
			–	(b) External	–
			–	(c) Government Treasury Bills	–
	Deposits				
	(a) Government		3,640,273,093	**Balances Held Abroad**	**3,395,014,738**
1,004,903	(i) Central Government	**1,002,895**			
424,570	(ii) State Governments	**424,847**			
	(b) Banks		6,305,897,052	**Investments**	**7,276,101,007**
3,419,535,741	(i) Scheduled Commercial Banks	**3,391,427,816**			
33,242,701	(ii) Scheduled State Co-operative Banks	**32,038,844**		**Loans and Advances to :**	
53,643,644	(iii) Other Scheduled Co-operative Banks	**55,210,206**	–	(i) Central Government	**146,610,000**
916,213	(iv) Non-Scheduled State Co-operative Banks	**2,241,459**	7,307,400	(ii) State Governments	**21,449,487**
92,870,015	(v) Other Banks	**90,595,353**		**Loans and Advances to:**	
122,045,831	**(c) Others**	**165,973,592**	167,962,800	(i) Scheduled Commercial Banks	**187,170,300**
			390,000	(ii) Scheduled State Co-operative Banks	–
			1,290,000	(iii) Other Scheduled Co-operative Banks	**1,650,000**
270,361	**Bills Payable**	**1,873,179**	–	(iv) Non-Scheduled State Co-operative Banks	–
			–	(v) NABARD	–
			28,902,498	(vi) Others	**8,236,648**
				Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund:	
				(a) Loans and Advances to:	
			–	(i) Industrial Development Bank of India	–
			–	(ii) Export Import Bank of India	–
7,263,548,128	**Other Liabilities**	**8,082,855,793**	–	(iii) Industrial Investment Bank of India Ltd.	–
			–	(iv) Others	–
				(b) Investments in bonds/ debentures issued by:	
			–	(i) Industrial Development Bank of India	–
			–	(ii) Export Import Bank of India	–
			–	(iii) Industrial Investment Bank of India Ltd.	–
			–	(iv) Others	–
				Loans, Advances and Investments from National Housing Credit (Long Term Operations) Fund:	
			–	(a) Loans and Advances to National Housing Bank	–
			–	(b) Investments in bonds/debentures issued by National Housing Bank	–
			902,599,552	**Other Assets**	**854,561,276**
11,054,712,107	**Total Liabilities**	**11,890,873,984**	11,054,712,107	**Total Assets**	**11,890,873,984**

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30th JUNE 2013

(₹ thousands)

2011-12	INCOME		2012-13
261,508,821	**Interest, Discount, Exchange, Commission,** *etc.*[1]		**455,635,749**
261,508,821	**Total**		**455,635,749**
	EXPENDITURE		
587,780	**Interest**		**25,725**
29,934,972	**Establishment**		**58,595,877**
29,802	**Directors' and Local Board Members' Fees and Expenses**		**30,613**
528,245	**Remittance of Treasure**		**640,702**
33,508,790	**Agency Charges**		**28,066,536**
27,037,058	**Security Printing (Cheques, Note forms,** *etc.***)**		**28,724,406**
257,177	**Printing and Stationery**		**228,203**
804,859	**Postage and Telecommunication Charges**		**818,627**
1,022,927	**Rent, Taxes, Insurance, Lighting,** *etc.*		**1,503,660**
26,794	**Auditors' Fees and Expenses**		**30,139**
27,879	**Law Charges**		**36,316**
2,424,716	**Depreciation and Repairs to Bank's Property**		**2,390,152**
5,177,822	**Miscellaneous Expenses**		**4,404,794**
101,368,821	**Total**		**125,495,750**
160,140,000	**Available Balance**		**330,140,000**
	Less: Contribution to:		
	National Industrial Credit (Long Term Operations) Fund	10,000	
	National Rural Credit (Long Term Operations) Fund[2]	10,000	
	National Rural Credit (Stabilisation) Fund[2]	10,000	
	National Housing Credit (Long Term Operations) Fund	10,000	
40,000			**40,000**
160,100,000	**Surplus payable to the Central Government**		**330,100,000**

1. After making the usual or necessary provisions in terms of section 47 of the Reserve Bank of India Act, 1934 amounting to ₹287,940,115 thousands (2011-12 - ₹270,254,407 thousands).
2. These funds are maintained by the National Bank for Agriculture and Rural Development (NABARD).

S. Ganesh Kumar	**Urjit R. Patel**	**Harun R. Khan**	**Anand Sinha**	**K.C. Chakrabarty**	**D. Subbarao**
Chief General Manager	Deputy Governor	Deputy Governor	Deputy Governor	Deputy Governor	Governor

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, 2013 and the Profit & Loss Account 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 consistently 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. 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 and Notes to the Accounts is a full and fair Balance Sheet containing all necessary particulars and is properly drawn up in accordance with the requirements of the provisions of the Reserve Bank of India Act, 1934 and Regulations framed thereunder 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 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 Haribhakti & Co Chartered Accountants (Registration No. 103523W)	For V Sankar Aiyar & Co Chartered Accountants (Registration No. 109208W)
Shailesh Haribhakti Partner Membership No. 30823	G. Sankar Partner Membership No. 46050

Dated: August 08, 2013
Place: Mumbai

Chapter Annex II

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

1. **General**

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

1.2 The main functions of the Bank are :-

a) Issue of Bank notes.

b) Management of the monetary system.

c) Regulation and supervision of banks and Non –Banking Finance Companies (NBFCs).

d) Acting as a lender of the 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 a banker to the banks and the Governments.

h) Acting as the manager of the debt 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:-

a) 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.

b) the assets of the Issue Department shall consist of gold coin, gold bullion, foreign securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department.

c) 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.

2. **Significant Accounting Policies**

I. Convention

The financial statements are prepared in accordance with the Reserve Bank of India Act, 1934 and the notifications issued thereunder and in the form prescribed by the Reserve Bank of India General Regulations, 1949 and are based on historical cost except where it is modified to reflect revaluation.

The accounting practices and policies followed in the financial statements are consistent with those followed in the previous year unless otherwise stated.

II. Revenue Recognition

Income and expenditure are recognised on accrual basis except dividend, which is accounted for on receipt basis and penal interest which is accounted for only when there is certainty of realisation. Only realised gains are recognised.

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 in this respect are considered and charged against income in the year of payment.

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

III. 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 at the end 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 to the Currency and Gold Revaluation Account (CGRA).

b) Foreign Currency Assets and Liabilities

All foreign currency assets and liabilities are translated at the exchange rates prevailing on the last business day of the week as well as on the last business day of the month. At the year-end, foreign currency assets and liabilities are translated at the exchange rates prevailing on the last business day, except in cases where rates are contractually fixed. Exchange gains and losses arising from such translation of foreign currency assets and liabilities are accounted for in CGRA and remain adjusted therein. Forward exchange contracts are valued half-yearly, and net loss, if any, is provided for in the Exchange Equalisation Account (EEA).

Foreign securities other than Treasury Bills are valued at market price prevailing on the last business day of each month except certain "held to maturity" securities, which are valued at cost. Appreciation or depreciation, if any, is transferred to the Investment Revaluation Account (IRA). Credit balance in IRA is carried forward to the subsequent year. Debit balance, if any, at the end of the year in IRA is charged to the Profit and Loss Account and the same is reversed to the credit of the Profit & Loss Account on the first working day of the succeeding 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. In the case of foreign securities, it is recognised with reference to the amortised cost. Further, on sale/redemption of foreign dated securities, gain/loss in relation to the securities sold lying in IRA, is transferred to the Profit & Loss Account.

IV. Rupee Securities

Rupee securities, other than Treasury Bills, held in the Issue and Banking Departments, are valued at lower of book value or market price (LOBOM). Where the market price for such securities is not available, the rates are derived based on the yield curve prevailing on the last business day of the month as notified by the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Depreciation in value, if any, is adjusted against current interest income.

Treasury Bills are valued at cost.

Securities received as collateral under Repurchase Agreement (Repo) and Marginal Standing Facility (MSF) are held in the Reserve Bank's books at face value.

V. Shares

Investments in shares are valued at cost.

VI. Fixed Assets

Fixed Assets are stated at cost less depreciation.

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, *etc.*	20 per cent
Computers, Microprocessors, Software, *etc.*	33.33 per cent

Amortisation of premium on leasehold land and depreciation on building is provided on written-down value basis at the following rates:

Asset Category	Rate of depreciation/ amortisation
Leasehold Land and Building(s) constructed thereon	Proportionate to lease period but not less than 5 per cent
Building(s) constructed on Freehold Land	10 per cent

Fixed Assets, costing less than ₹100,000 (except easily portable electronic assets*)* are charged to the Profit & Loss Account in the year of acquisition.

Valuable but easily portable electronic assets such as laptops, *etc.* costing more than ₹10,000 are capitalised.

Individual items of computer software costing ₹100,000/- and above are capitalised and depreciation is calculated at the applicable rates.

Depreciation is provided on year-end balances of the Fixed Assets.

VII. 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

1. Capital

The Capital of the Bank, of ₹0.05 billion, is held by the Government of India.

2. Reserve Fund

The Reserve Fund consists of ₹65 billion comprising an initial contribution of ₹0.05 billion by the Government of India and subsequent transfers aggregating to ₹64.95 billion from the Profit & Loss Account up to October 1990 representing unrealised gains on revaluation of gold. Such unrealised gains arising in subsequent periods have been transferred to CGRA.

3. National Industrial Credit (Long Term Operations) Fund

This fund was created in July 1964 under Section 46C of the Act with an initial corpus of ₹100 million to provide financial assistance to eligible financial institutions. Annual transfers are made from the Profit & Loss Account to the Fund.

4. National Housing Credit (Long Term Operations) Fund

This fund was created in January 1989 under Section 46D of the Act with an initial corpus of ₹500 million for extending financial accommodation to the National Housing Bank. Annual transfers are made from the Profit & Loss Account to the Fund.

5. Deposits – Government

The Bank acts as the banker to the Central Government in terms of Sections 20 and 21 of the Act and as banker to the state governments by mutual agreement in terms of Section 21A of the Act.

6. Deposits – Banks

These are balances maintained by banks in their current account with the Bank for maintaining Cash Reserve Ratio (CRR) and as working funds for meeting payment and settlement obligations. Deposits do not carry any interest.

7. Deposits – Others

These include mainly

a) deposits from financial institutions

b) sundry deposits and

c) balances in the (i) Employee Provident Fund and (ii) Gratuity & Superannuation Fund. Interest at a rate determined each year is credited to these Funds. Investments of an equivalent value have been earmarked in respect of all these Funds.

8. Internal reserves and provisions

8.1 Contingency Reserve represents the amounts provided on 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.

8.2 The Asset Development Reserve represents the amounts provided out of profits each year to meet internal capital expenditure and make investments in subsidiaries and associated institutions.

8.3 The Currency and Gold Revaluation Account reflects the unrealised gains/losses on revaluation of foreign currency assets and gold which are transferred to this account.

8.4 The Investment Revaluation Account represents the unrealised gains/losses arising on marking foreign securities to market which are transferred to this account.

8.5 The Exchange Equalisation Account represents the provision made for the unrealised exchange losses arising from forward commitments transferred to this account.

8.6 The movement in the Contingency Reserve and Asset Development Reserve during the year is as under:-

Table XI.16: Contingency and Asset Development Reserves

(Amount in ₹ billion)

	Contingency Reserve	Asset Development Reserve
As at June 30, 2012	1,954.05	182.14
Transfer during the year	262.47	25.47
Total (as on June 30, 2013)	**2,216.52**	**207.61**

9. Foreign Exchange Reserves

The Foreign Exchange Reserves as at June 30, 2012 and June 30, 2013 in Indian Rupees & the US dollar which is the numeraire for our foreign exchange reserves were as under:

Table XI.17(a): Foreign Exchange Reserves (in Rupees)

(₹ billion)

	As on		Variation	
	June 30, 2012	June 30, 2013	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	14,492.81	15,247.69#	754.88	5.2
Gold	1,450.56	1,286.86@	(-)163.70	(-)11.3
Special Drawing Rights (SDR)	246.59	259.20	12.61	5.1
Reserve Position in the IMF*	162.99	130.67	(-)32.32	(-)19.8
Total Foreign Exchange Reserves (FER)	**16,352.95**	**16,924.42**	**571.47**	**3.5**

: Detailed composition of foreign currency assets is given in TableXI.6

@ : Of this, gold valued at ₹674.31 billion is held as an asset of Issue Department and gold valued at ₹612.54 billion is held under 'Other Assets' in the Banking Department.

* : Reserve Position in the International Monetary Fund (IMF), which was shown as a memo item from May 23, 2003 to March 26, 2004 has been included in the reserves from the week ended April 2, 2004.

Table XI.17(b): Foreign Exchange Reserves (in USD)

(USD billion)

	As on		Variation	
	June 30, 2012	June 30, 2013	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	256.70*	254.37**	(-)2.33	(-)0.9
Gold	25.76	21.55	(-)4.21	(-)16.3
Special Drawing Rights (SDR)	4.38	4.34	(-)0.04	(-)0.9
Reserve Position in the IMF*	2.89	2.19	(-)0.7	(-)24.2
Total Foreign Exchange Reserves (FER)	**289.73**	**282.45**	**(-)7.28**	**(-)2.5**

* : excluding USD 673 million invested in bonds of IIFC (UK) which is not eligible for consideration as part of forex reserves.

** : excluding USD 950 million invested in bonds of IIFC (UK) and Bhutan currency (BTN) equivalent of USD 100 million received from Bhutan under a Currency Swap arrangement for SAARC countries, not eligible for consideration as part of forex reserves.

Table XI.18 Assumptions made for arriving at actuarial valuation of superannuation liabilities

Assumptions	Gratuity Fund		Pension Fund		LE Fund	
	30/06/2012	30/06/2013	30/06/2012	30/06/2013	30/06/2012	30/06/2013
1	2	3	4	5	6	7
Discount factor	8.25%	7.65%	8.60%	7.85%	8.25%	7.65%
Salary increase	5%	5%	5%	5%	5%	5%
Life expectancy tables used	LIC(1994-96) Ultimate	IALM(2006-08) Ultimate	LIC(1994-96) Ultimate	IALM(2006-08) Ultimate	LIC(1994-96) Ultimate	IALM(2006-08) Ultimate

Special Drawing Rights and Reserve Position in the IMF are not part of the Bank's balance sheet but are held by the Government of India and therefore not reflected in the Reserve Bank's balance sheet.

10. Employee Costs

The Bank's Investments equivalent to thebalances in Provident Fund, Gratuity & Superannuation Fund and Leave Encashment (LE) Fund have been ear-marked for these Funds. Provident Fund and Gratuity & Superannuation Fund are held as 'Deposits' with the Bank. Leave Encashment liability is included under 'Other Liabilities' (Table XI.18).

11. Taxation

Under Section 48 of the Reserve Bank 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.

12. Surplus transferred to Government of India (GOI)

Under Section 47 of the Act, after making provisions for bad and doubtful debts, depreciation in assets, contribution to staff and superannuation fund and for all matters for which provision is to be made by or under the Act or which are usually provided by bankers, the balance of the profits of the Bank are required to be paid to the Central Government.