Chapter IV
Financial Institutions

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All-India financial institutions (FIs)[1] constitute an important segment of the financial system, which cater to the medium, long-term financing and, of late, working capital requirements of varied sectors in the economy. In November 1994, the Board for Financial Supervision (BFS) was constituted under the aegis of the Reserve Bank for comprehensive and integrated regulation and supervision over the commercial banks, FIs and non-banking financial companies (NBFCs) under one umbrella and the Reserve Bank of India (Board for Financial Supervision) Regulations were framed. The BFS Regulation 5(1) specifically provides that the Board shall perform all functions and exercise the powers of supervision and inspection in relation to different sectors of the financial system such as banking companies, FIs and NBFCs. In pursuance of the above, select FIs[2] have been brought under the supervisory purview of the Reserve Bank. The Reserve Bank regulates and supervises these institutions, keeping in view the need for enhancing the transparency in their performance and maintaining systemic stability. The supervision of all-India FIs by the Reserve Bank is of recent origin. It may be emphasised that the scope and coverage of the FIs inspection are very limited unlike that of NBFCs and are not as rigorous as that of banks.

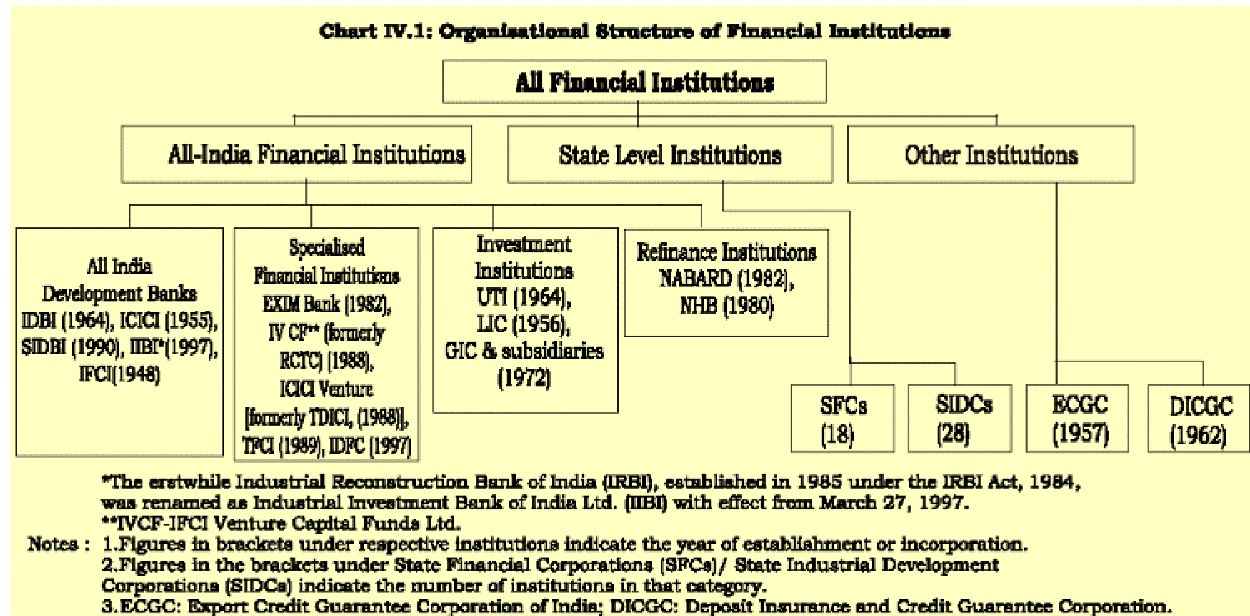
4.2 FIs could be broadly categorised into all-India level financial institutions (AIFIs), state-level institutions and other institutions, with the AIFIs being the most dominant in terms of assets and range of operations (Chart IV.1). The progressive deregulation of financial markets, the disintermediation pressures arising therefrom and the diversification in portfolio preferences of investors have warranted growing sophistication and innovation in financial services. These developments have necessitated introduction of policy measures for greater transparency in operations, better monitoring and more comprehensive regulation. In response to the same, the extant guidelines in respect of prudential supervision and regulation of FIs have been reviewed and new guidelines have been introduced by the Reserve Bank in various areas of operations of FIs.

4. 3 During the year 2000-01, financial assistance sanctioned and disbursed by AIFIs registered an increase, though of a lower order than during the previous year. Sanctions increased by Rs. 16,437 crore (16.2 per cent), and disbursements by Rs. 4,934 crore (7.3 per cent). During 1999-2000, sanctions had increased by 23.6 per cent and disbursements by 20.1 per cent.

4. 4 Resource mobilisation[3] by mutual funds registered a decline during 2000-01 as compared with the previous year. Net resource mobilisation by all mutual funds stood at Rs.13,339 crore *vis-à-vis* Rs.19,953 crore mobilised during 1999-2000.

1. Policy Developments Relating to Select All India Financial Institutions

4.5 During the year 2000-01 (April-March), several policy initiatives were undertaken by the Reserve Bank with regard to the regulation and supervision of select all-India FIs. The chronology of major policy measures pertaining to financial institutions is presented in Annexure. The policy developments and review of the operations of FIs are presented below.



Regulation of Financial Institutions

Prudential Norms relating to Income Recognition, Asset Classification, Provisioning and Capital Adequacy

4.6 Select all-India FIs were advised on May 5, 2000 that the provision for standard assets need not be netted from gross advances, but shown separately as 'contingent provision against standard assets' under 'other liabilities and provisions' in the balance sheets. It was also indicated that the provision would not be eligible for inclusion in tier II capital and the provision for standard asset should not be reckoned for arriving at net NPAs. Subsequently, on October 10, 2000, this stipulation was amended under which FIs were permitted to include the ‘general provision on standard assets’ in their supplementary (tier II) capital. It was also stipulated that the provisions on standard assets along with other 'general provisions and loss reserves' should not exceed 1.25 per cent of the total risk-weighted assets. The comparitive position of FIs and banks with respect to select regulatory parameters is given in Table IV.1.

Removal of ‘Past Due’ Concept

4.7 In view of the improvement in the payment and settlement systems, the recovery climate, upgradation of technology in the financial system, etc., the Reserve Bank advised FIs that the 'past due' concept (grace period of 30 days) with regard to the definition of NPAs is dispensed with, effective from the year ended March 31, 2001. Accordingly, NPA should be an advance where (i) interest remains overdue for a period of more than 180 days and/ or instalment of

principal remains overdue for a period of more than 365 days in respect of a term loan; (ii) the bill remains overdue and unpaid for a period of more than 180 days in the case of bills purchased and discounted; and (iii) any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

Parity of NPA Norms for Banks and FIs

4.8 In order to bring parity in the NPA norms for banks and FIs, it was clarified that an asset would be treated as non-performing, if interest and/or instalment of principal remain overdue for more than 180 days with effect from the year ending March 31, 2002 as against the present norm of an overdue period of 365 days or more in respect of principal and more than 180 days in respect of interest.

Risk-Weight on Securities guaranteed by State Governments

4.9 The FIs were earlier required to assign 100 per cent risk-weight on the investment in all the securities issued or guaranteed by the State Governments in case of default of interest or principal. Subsequently, FIs were advised on May 30, 2000 that they would need to assign a 100 per cent risk-weight only on those State Government guaranteed securities which were issued by the defaulting entities. It was also advised that due regard should be paid to the record of the particular State Government in honouring its guarantees, while processing any further request for loans to PSUs in that State on the strength of State Government guarantee.

Risk-weight for Market Risk in Investment Portfolio of non-Government Securities

4.10 In line with international best practices, some capital cushion needs to be provided for market risk in addition to credit risk. Accordingly, FIs were required to assign a risk-weight of 2.5 per cent for market risk with effect from March 31, 2001 in respect of investments in all securities. This risk-weight would be in addition to 20 per cent / 100 per cent risk-weight already assigned for credit risk in non-government/non-approved securities.

Treatment of Restructured Accounts

4.11 The norms relating to restructuring / rescheduling / re-negotiation of terms of standard and sub-standard loan assets, were reviewed in the light of international best practices and Bank for International Settlements (BIS) guidelines, and revised guidelines for FIs were issued on March 28, 2001.

4.12 In the context of restructuring of accounts, the stages at which restructuring / rescheduling /renegotiation of the terms of loan agreement could take place were identified as:

a) prior to commencement of commercial production;
b) after commencement of commercial production, but before the asset has been classified as sub-standard; and
c) after commencement of commercial production and the asset has been classified as sub-standard.

4.13 The norms for treatment of the accounts, subjected to restructuring / rescheduling / renegotiation of terms are detailed in Box IV.1.

Guidelines for Compromise Settlement of Dues of Banks and FIs through Lok Adalats

4.14 To settle disputes involving smaller amounts through the forum of *Lok Adalats*, FIs were issued guidelines for implementation. These guidelines indicate the ceiling amount for coverage of *Lok Adalats* upto Rs. 5 lakh, covering all NPA accounts, both suit filed and non-suit filed in the doubtful and loss categories. Keeping in view certain essential parameters, the settlement formula has been made flexible and left to the discretion of the Board of Directors of FIs. The organisational arrangements could be put in place in consultation with State / District/ *Taluka* level legal services authorities.

Box IV .1: Norms for Treatment of Restructured Accounts

(i) Treatment of Restructured Standard Accounts

a) Rescheduling of instalments of principal alone, at any of the first two stages would not cause a standard asset to be classified in the sub-standard category, provided the loan/ credit facility is fully secured.
b) Rescheduling of interest element at any of the first two stages would not cause an asset to be downgraded to sub-standard category, subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value (PV) terms, is either written off or provision is made to the extent of the sacrifice involved. For the purpose, the future interest due as per the original loan agreement in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR *plus* appropriate credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.
c) In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of sacrifice involved.

(ii) Treatment of Restructured Sub-standard Accounts

a) Rescheduling of the instalments of principal alone would render a sub-standard asset eligible to be continued in the sub-standard category for the specified period, provided the loan/credit facility is fully secured.
b) Rescheduling of interest element would render a sub-standard asset eligible to be continued to be classified in sub-standard category for the specified period subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in PV terms, is either written off or provision is made to the extent of the sacrifice involved.For the purpose, the future interest due as per the original loan agreement in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR *plus* appropriate credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.
c) In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved. Even in cases where the sacrifice is by way of write-off of the past interest dues, the asset should continue to be treated as sub-standard.

The sub-standard accounts at (a), (b) and (c) above, which have been subjected to restructuring, etc, whether in respect of principal, instalment or interest amount, by whatever modality, would be eligible to be upgraded to the standard category only after the specified period, i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period. The amount of provision made earlier, net of the amount provided for sacrifice in the interest amount in present value

terms as stated earlier, could also be reversed after the one-year period.

During this one-year period, the classification of the sub-standard asset would not deteriorate if the account demonstrates satisfactory performance. However, if lack of satisfactory performance is evidenced during the one-year period, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

(iii) Restructuring of Doubtful/Loss Assets

The existing instructions relating to doubtful/loss assets which are subsequently classified, as substandard consequent to restructuring/ renegotiations/ rescheduling will remain unchanged. Accordingly, the reversal of provisions made or amount written off till the asset becomes eligible to be classified as performing asset, will not be permitted as hitherto. Such substandard assets, if subsequently subjected to restructuring/ renegotiations/ rescheduling, would be governed by the above norms.

The foregoing norms for restructuring, etc., of standard and sub-standard assets are applicable, in supercession of existing Reserve Bank norms, in respect of such assets as long as these relate to restructuring/ rescheduling / renegotiation of the loan agreement terms. FIs have the option to adopt the norms subsequent to date of issue of instruction, or earlier but during the financial year 2000-01. All other prudential guidelines relating to income recognition, asset classification and provisioning remain unaltered.

In addition to the existing disclosure requirements, as per Reserve Bank's guidelines, FIs have to separately disclose the total amount of those loans and the substandard assets, which have been subjected to restructuring, etc., in their published Annual Accounts. All standard and sub-standard accounts subjected to restructuring, etc., would continue to be eligible for fresh financing of funding requirements, by lenders as per their normal policy parameters and eligibility criteria.

Disclosures in the Published Annual Report

4.15 In order to bring about uniformity in the disclosure practices adopted by the FIs and with a view to improving the degree of transparency in their affairs, FIs were advised to disclose certain important financial ratios/data with effect from the financial year 2000-01. Such disclosures were to be made as part of the 'Notes on Accounts' to enable the auditors to authenticate the information, notwithstanding the fact that the same information might be contained elsewhere in the published annual report. These disclosures pertain to capital to risk-weighted assets ratio (CRAR)[4], Core CRAR, supplementary CRAR, amount of subordinated debt raised/ outstanding as tier II capital, risk-weighted assets, share holding pattern, asset quality and credit concentration, maturity pattern of rupee and foreign currency assets and liabilities, and details on operating results. Besides, separate details on loan assets and sub-standard assets which have been subjected to restructuring, etc., would also need to be disclosed. Furthermore, accounts restructured under corporate debt restructuring system also should be disclosed by FIs in their annual report as part of ‘notes on accounts’.

Excess of Provisions on Depreciation

4.16 FIs were advised on May 30, 2000 that the excess provision towards depreciation on investments in equity should be appropriated to the 'Investment Fluctuation Reserve Account' (IFRA) instead of 'Capital Reserve Account' (CRA). This excess provision would be eligible for inclusion in tier II capital. The existing amount of such provisions held in CRA would also stand transferred to IFRA. These amounts in IFRA could then be utilised to meet the depreciation requirement on investments. The extra provision needed in the event of a depreciation in the

value of investments should however be debited to the profit and loss account and if required, an equivalent amount may be transferred from the IFRA as a 'below the line' item after determining the profit for the year.

Raising of Resources by all-India FIs

4.17 In the context of progressive deregulation, introduction of Interest Rate Swaps (IRS)/ Floating Rate Agreements (FRA), introduction of Asset-Liability Management (ALM) system, shift in investors preference towards short-term instruments, etc., which have had a bearing on the resources raised by FIs, the guidelines for raising of resources by AIFIs were modified in June 2000. Under the guidelines, FIs need not seek the Reserve Bank's issue-wise prior approval/ registration for raising resources through either public issue or private placement if (a) the minimum maturity period is 3 years, (b) where bonds have call/ put or both options, the same is not exercisable before expiry of one year from date of issue, (c) YTM offered at the time of issue of bonds including instruments having call/put options, does not exceed 200 basis points over that on government securities of equal residual maturities, and (d) 'exit' option is not offered prior to expiry of one year, from date of issue.

4.18 It was also stipulated that the outstanding total resources mobilised at any point of time by an individual FI including funds mobilised under the 'umbrella limit' as prescribed by the Reserve Bank should not exceed 10 times its net owned funds as per the latest audited balance sheet. FIs were advised that the limit fixed for raising resources would be an enabling provision, and their requirements of resources along with maturity structure and interest rate offered thereon should be arrived on a realistic basis and derived, *inter alia,* from a sound system of ALM/ risk management. In case of floating rate bonds, FIs would need to seek prior approval from the Reserve Bank, with regard to 'reference rate' selected and the methods of floating rate determination. The same would not be required for subsequent individual issues so long as the underlying reference rate and method of floating rate determination remain unchanged. FIs were also advised to comply with the prudential requirements of other regulatory authorities such as SEBI, etc., as hitherto.

4.19 A system of monthly reporting to the Reserve Bank on raising of resources by FIs has been introduced. The format of consolidated return on raising of resources by way of money market instruments and bonds was revised on December 5, 2000 to facilitate inclusion of information on commercial paper and additional information on short-term borrowings, which have been included under the one-time 'umbrella limit'.

Rating for Public Deposits of FIs

4. 20 In order to improve the functional efficiency of the market, the rating for the term deposits accepted by FIs was made mandatory, effective November 1, 2000.

Repatriation of Global Depository Receipts (GDR) /American Depository Receipts (ADR) Proceeds

4. 21 Considering the fact that FIs, which are raising capital abroad for improving their capital

base, have largely rupee-denominated assets and that most of the risk limits are linked to their capital, FIs were advised on July 20, 2000 to repatriate the entire proceeds of GDRs / ADRs soon after the issue process was completed.

Classification and Valuation of Investments

4. 22 The FIs have been advised regarding classification and valuation of investments from time to time. In order to bring the existing practice in consonance with the international practice, revised guidelines effective from the half year ended March 31, 2001, were issued on November 9, 2000. These guidelines state that:

a) FIs are required to classify entire investment portfolio as on March 31, 2001, under three categories *viz.,* (i) Held to Maturity, (ii) Available for Sale and (iii) Held for Trading. Investments under (ii) and (iii) are to be marked to market as prescribed or at more frequent intervals, while those under 'Held to Maturity' need not be marked to market and should not exceed 25 per cent of total investments.
b) Classification, valuation, shifting of investments among the three categories, methodology for booking profit/ loss on sale of investments and provision for depreciation should be in accordance with the new guidelines.
c) Investments are to be classified as (i) Government securities (ii) other approved securities (iii) shares (iv) debentures and bonds (v) subsidiaries / joint ventures and (vi) others (CPs, units of mutual funds, etc.).

4. 23 FIs were advised to formulate an investment policy with the approval of their Board of Directors tailored to the requirements of classification, shifting and valuation of investments under the revised guidelines. The policy should also adequately address risk management aspects and ensure that the procedures being adopted by FIs are consistent, transparent and well-documented.

Supervision of Financial Institutions

On-site Inspection of FIs

4. 24 On-site inspection of FIs commenced since 1995, with inspections being conducted every alternate year. During the year 1999, it was observed that the financial position of certain FIs was changing rapidly. Therefore, it was decided that the inspection of all the FIs would be undertaken on an annual basis with effect from March 31, 2001 with reference to their balance sheet date from the accounting year 2000-01 till the FIs could be systematically differentiated as per the risk profile based on the off-site surveillance system and the proposed supervisory rating system. Accordingly, the inspection of all 10 FIs supervised by the Reserve Bank is to be taken up during the inspection cycle 2001-02, with reference to the balance sheet date of the FIs for accounting year 2000-01. During the year 2000-01, inspection of nine FIs, which fell due, had been completed.

Off-site Monitoring / Information System

4. 25 As a part of the integrated supervisory strategy, a Prudential Supervisory Reporting System (PSRS) for an on-going off-site surveillance was introduced in July 1999. The principal objective of the process has been to obtain periodic information pertaining to prudential concerns of the Reserve Bank, with particular reference to compliance with the prudential regulations prescribed for select FIs supervised by the Reserve Bank. An ancillary objective is to help build up the management information system (MIS) within the FIs on the prudential parameters. The PSRS, patterned broadly on lines of the off-site surveillance system comprises seven returns - three quarterly, two half yearly and two annual. The returns broadly cover assets and liabilities of FIs, capital adequacy statement, operational results, asset quality, ownership and management, large credit and list of subsidiaries and affiliates of the FIs.

Inspection Practices/ Procedures

4. 26 The Reserve Bank introduced changes in the practices/procedures followed in conducting the financial inspection of FIs since January 24, 2001. The modified procedures comprise the following: (a) the information requirements of the inspection team would be advised at least a month prior to commencement of inspection to ensure better time management and efficiency of the examination process; and (b) before the commencement of inspection, the management of the FI would be requested to make a presentation to the inspection team on the FI's perspective of its own risk exposures, the manner in which these risks were earlier addressed and the future strategy thereon.

4. 27 During the inspection, the inspection team would meet with the internal and external auditors to appreciate the scope of their work and the results of their audit. On completion of inspection, the Principal Inspecting Officer, along with his team members, as considered necessary, would meet the Audit Committee as also the chief executive officer (CEO) of the FI to discuss the major findings of the inspection. A system of discussing the provisioning-shortfall, owing to objective as well as subjective factors, by the inspection team with the statutory/ external auditors in the presence of the management of the FIs, would also be followed to enhance transparency and minimize any element of subjectivity.

Other Developments

Co-ordination between Banks and FIs on Issues of Common Interest

4. 28 With a view to securing more effective co-ordination between banks and FIs, which jointly finance large-scale projects, on issues of common interest, the Reserve Bank had convened an informal meeting of the Heads of select banks and FIs. Banks and FIs have since evolved ground rules for co-ordination on areas of mutual interest (Box IV. 2).

Valuation of Units of Mutual Funds

4. 29 FIs were advised in April 2000 to value the investments in mutual fund units at market rates, as per stock exchange quotations, if available. Otherwise, the latest net asset value (NAV) declared by the mutual fund in respect of each particular scheme should be used for valuation. Subsequently, the guidelines for classification and valuation of investments by FIs were revised

with effect from March 31, 2001, so as to bring the norms in consonance with the international best practices.

Interest Rate Surcharge on Import Finance

4. 30 In the context of developments in the foreign exchange markets and the overall monetary and credit situation prevalent at that time, with effect from May 2000, interest rate surcharge of 50 per cent of the actual lending rate on credit extended by FIs for imports, was reintroduced as a temporary measure. Certain specified categories of credit for import were exempted from this levy. Subsequently, certain categories of export-related imports were also exempted from this levy in November 2000. Subsequently, in January 2001, the interest rate surcharge was withdrawn.

Interest on Overdue Export Bills

4. 31 The FIs were advised to charge interest at the rate of 25 per cent per annum (minimum) with effect from May 26, 2000 in respect of overdue export bills from the date the bills fall due for payment, and also to ensure that the exporters do not delay repatriation of export proceeds beyond the due date.

Role of Brokers

4. 32 The FIs have been permitted to undertake transactions in securities among themselves or with banks and non-banks clients through members of the National Stock Exchange (NSE) and OTCEI. Since November 22, 2000, they have also been permitted to undertake transactions among themselves or with non-bank clients through the members of Bombay Stock Exchange (BSE) directly, without engaging any brokers. In case any transaction in securities is not undertaken on NSE, OTCEI and BSE, the same should be undertaken directly, without engaging any brokers.

Advances against Shares and Debentures

4. 33 In September 2000, the FIs were instructed that whenever the limits of advances granted to a borrower against the security of shares / debentures exceed Rs. 10 lakh, it should be ensured that the said shares/ debentures are transferred in the name of the FI concerned. In this regard, SEBI amended the SEBI (Depositories and Participants) Regulations, 1996 to facilitate pledge of dematerialised securities. In case of default by the borrower, the FI could invoke the pledge, subject to the provisions of the pledge documents, and the depository will register the FI as beneficial owner. Accordingly, FIs were permitted to accept shares/ debentures held in dematerialised form in addition to the physical form.

Recovery of Dues in respect of NPAs

4. 34 In line with the guidelines issued to public sector banks for recovery of dues relating to NPAs, all Central Public financial Institutions (*viz.*, IDBI, IFCI Ltd., IDFC Ltd., IIBI Ltd., TFCI Ltd., EXIM Bank, NABARD, SIDBI and NHB) were advised in July 2000 to implement the

modified guidelines which provided a simplified, non-discretionary and non-discriminatory mechanism for recovery of NPAs. Accordingly, notice was to be given by the FIs to eligible defaulting borrowers to avail of the opportunity for one-time settlement of their outstanding dues by August 31, 2000 which was extended up to September 30, 2000. The guidelines for settlement of the outstanding dues, which were initially to be operational up to March 31, 2001, were later extended up to June 30, 2001. All applications received by FIs up to June 30, 2001 were to be processed and decisions taken thereon at the earliest but not later than September 30, 2001.

Box IV.2: Co-ordination Issues between Banks and Financial Institutions

In the context of transition of the banks and the all-India FIs from a regulated to a deregulated regime, the issue of effective co-ordination between banks and financial institutions has gained prominence. One of the common problems faced by banks and FIs in the recent years is the level of NPAs. In this context, it has been increasingly recognised that one of the reasons for the rise in NPAs was lack of the requisite co-ordination between banks and FIs, particularly where they are joint financiers of large value projects.

Such jointly financed projects also give rise to certain operational issues which, can be better addressed through closer co-ordination between the two sets of lenders, *viz*., banks and FIs. Therefore, attention has been focused on large projects jointly financed by banks and FIs, in order to eschew delays and facilitate better solutions to the common problems. In this regard, pursuant to the recommendations of the Working Group on Harmonising the Role and Operations of Development Financial Institutions (DFIs) and Banks (Chairman: Shri. S.H. Khan), a Standing Co-ordination Committee was constituted in August 1999 under the aegis of IDBI, with representatives from select FIs and banks. The Committee evolved certain ground rules in the following areas for consideration and adoption by banks and FIs.

1. Timeframe for Sanction of Facilities

a) In the cases where only two lenders are involved, any issue relating to sanction of facilities should be resolved by mutual discussions between them within 60 days from the date of sanction by the Lead.
b) In cases where more than two lenders were involved, their agreement or disagreement for sanction of facilities must be conveyed by the Lead within 60 days from the date of receiving loan applications, complete in all respects and by the other participating institutions within 60 days from the date of receipt of appraisal note from the Lead.
c) In cases of fresh loan proposals involving more than two lenders, the sanction should be conveyed within a period of two months from the date of the appraisal note by the lenders which had initially agreed in-principle to participate in the financing and *prima facie*, rejection of the proposal, if any, should be conveyed within 30 days.
d) In case of accounts involving restructuring, the lead institutions should complete the restructuring process within three months from the date of receipt of complete proposal while the other participating lenders should convey their decision within two months from the date of receipt of appraisal note.

2. Asset Classification across Consortium Members

Normally banks and FIs may classify the accounts based on their performance as per their books of accounts. In cases of restructured and consortium accounts, the classification should be the same for all institutions/ banks concerned.

3. Disciplining Borrowers - Change in Management

The views of the majority of lenders in a consortium (say 70 per cent of total funded exposure), on a consortium-specific basis, should be adopted in regard to changing the management of a defaulting borrowing unit. If 70 per cent majority of lenders (in terms of their funded exposures) agree to effect a change in the management of the defaulting borrowal unit, or to convert the loans to equity for subsequent off-loading of the same to the highest

bidder through auction, they should take such decisions on a consortium-specific basis. Such action should be taken in certain specific circumstances (e.g. where sickness was induced by the same promoters in several units) in at least a few cases expeditiously in order to set a deterrent example in this regard.

4. Levy of Charges in Problem Accounts

While the consortium members should decide the rate of interest to be charged on borrowal accounts, the penal interest or other punitive charges, if any, should not exceed two percentage points above the contracted rate.

5. *Group Approach for Borrowers*

Normal funding requirements of the healthy performing units belonging to a group should not be hampered by adoption of group approach, unless the companies concerned are in defaulting list or the promoters are non-co-operative.

6. *Sharing of securities and cash flows*

While it was agreed, in principle, to the proposition of the banks and FIs sharing securities and cash flows in respect of consortium loans, it was felt that the exact modalities would need to be worked out.

Table IV.1: Comparative Position of Banks and FIs with respect to Select Regulatory Parameters

Sr. No.	Particulars	Norms for Banks	Norms for Fis
1	NPAs	An asset shall be treated as a NPA when	An asset would be treated as NPA for the following reasons: (A) Record of recovery
		(i) interest and/or instalment of principal remain overdue for a period of more than 180 days in respect of a term loan;	(i) The change to 180 days for instalment of principal/interest is applicable from the year ending March 31, 2002.
		(ii) the account remains out of order for a period of more than 180 days, in respect of Overdraft/Cash Credit(OD/CC);	(ii) Not applicable.
		(iii) the bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted;	(iii) A bill purchased/ discounted/ rediscounted shall be treated as NPA if it remains overdue and unpaid for a period more than 180 days;
		(iv) interest and/or instalment of principal remains overdue for two harvest seasons; in respect of short-term agricultural loans for production and marketing of seasonal agricultural crops such as paddy, wheat, oilseeds, sugarcane, etc.	(iv) not applicable;
		(v) any amount to be received remains overdue for a period more than 180 days in respect of other accounts;	(v) Any other credit facility (including deposits placed with the corporate sector or debentures subscribed for private placement basis) would need to be treated as NPA, if any amount to be received in respect of that facility remain overdue for a period more than 180 days.
			(vi) Government guaranteed advances shall be treated as NPAs only if concerned State Government repudiates its guarantee.
		The 90 day norm shall be adopted by banks from the year ending March 312004.	The 90 day norm has not been made applicable to FIs.

			(B) Time overrun In case of the projects under implementation, an asset becomes NPA where the time overrun has exceeded more than 50 per cent of the time period initially contracted for completion of the project. Based on valid grounds, however, the Board of the FI can treat an asset as standard even if the time overrun has been in excess of the above limit of 50 per cent and pass a resolution as what the permitted time overrun would be, but there can only be a one time refixing of the time period of the project. (C) Take over / OTS/Merger of units (i) In case sick units (under nursing program or otherwise) which are taken over by 'standard' category borrowers, the credit facilities extended to the transferee and the merged units are permitted to be classified separately for not more than three years from the date of take over. Thereafter, the conduct of the facilities by the combined entity determines the asset classification. (ii) In case of one time settlement (OTS) entered into between a FI and the new management of a sick unit after its merger with a healthy unit, the assets in respect of the merged (sick) unit are permitted to be treated as standard without waiting for the three year period, if the payments are being made as per the OTS scheme. (iii) In case of reverse merger too, where a sick unit takes over a healthy unit, the respective facilities of the two units are permitted to be classified separately for a period of three years; thereafter, the performance of the combined entity determines the classification.
2	Income Recognition	*Advances* (i) The banks should not take to income account, the interest on any NPA; (ii) Interest on advances against term deposits, National Savings Certificates, *Indira Vikas Patra, Kisan Vikas Patra,* and Life policies may be recognised, provided adequate margin is available in the accounts; (iii) If government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.	*Advances* (i) in respect of any NPA, the FI should not take to interest income, fees or any other charges unless actually realized. (ii) Not applicable to FIs. (iii) Same as in case of banks.
		Investments (i) Where interest/principal is in arrears, the banks should not reckon the income on the securities.	*Investments* (i) Same as in case of banks.

		(ii) Banks may book income on accrual basis on securities of corporate bodies/public sector undertakings in respect of which the payment of interest and repayment of principal have been guaranteed by the Central Government or a State Government, provided interest is serviced regularly and as such is not in arrears.	(ii) Generally the same, except that the words'public sector undertakings' are not mentioned in case of FIs.
		(iii) Banks may book income from dividend on shares of corporate bodies on accrual basis, provided dividend on the shares has been declared by the corporate body in its Annual General Meeting and the owner's right to receive payment is established.	(iii) Same as in case of banks.
		(iv) Banks may book income from government securities and bonds and debentures of corporate bodies on accrual basis, where interest rates on these instruments are pre-determined and provided interest is serviced regularly and is not in arrears.	(iv) Same as in case of banks.
		(v) Banks should book income from units of mutual funds on cash basis.	(v) Not applicable to FIs
		Reversal of Interest If any advance including bills purchased and discounted becomes NPA during any year, interest accrued and credited to income account in the previous year should be reversed or provided for, if the same is not realised. This is applicable to Government guaranteed accounts and non-performing investments also.	As in case of banks.
3	Asset Classification	All NPAs in the advances portfolio (except State Government guaranteed advances, where guarantee is not invoked) and Central Government advances, where the Central Government has not repudiated the guarantee, are to be classified into three categories (a) Sub-standard asset – if NPA for a period less than or equal to 18 months, (b) Doubtful asset-NPA for a period exceeding 18 months and (c) Loss asset-Asset where loss has been identified by the bank/internal/external auditor, but the mount has not been written off wholly.	Generally the same as in case of banks.
4	Provisioning	*Advances*	*Advances*

		Standard asset-0.25 per cent on global portfolio basis. Sub-standard asset-10 per cent of the outstanding balance. Doubtful asset (DA)-Unsecured portion 100 per cent *plus* the following per cent on the secured portion: 20 per cent, if a DA <1 year 30 per cent, if DA of 1-3 years 50 per cent, if DA>3 years Loss asset-100 per cent of the outstanding to be provided for.	Generally the same as in the case of banks. However, in case of doubtful/loss assets which are subsequently classified as sub-standard consequent to rescheduling/renegotiation, the provision made or the amount written off cannot be reversed till the asset becomes eligible to be classified as performing asset. The provision for government guaranteed account which has become NPA should be made only if the concerned State Government repudiates its guarantees.
		Investments Where the interest/principal is in arrears, the bank should make appropriate provisions for the depreciation in the value of the investment.	*Investments* Same as in case of banks.
5	CRAR	9 per cent of risk-weighted assets (RWA) on an ongoing basis. Capital Funds would include the following elements: Tier-I capital (i) paid-up capital, statutory reserves and other disclosed free reserves, if any; (ii) capital reserves representing surplus arising out of sale proceeds of assets;	Generally, the same as in case of banks, except that the under noted instruments are also permitted to be treated as tier-I capital: (i) Grant equivalent implicit in the 20 year preference shares with original maturity of 20 years; (ii) Government of India grant received in perpetuity in respect of KfW line of credit as portion of Interest Differential Fund; (iii) Certain 20 year bonds of FIs subscribed by Government of India that fulfill prescribed conditions; (iv) Reserves held under Section 36 (1) (viii) of the Income Tax Act, 1961.
		Equity investments in subsidiaries, intangible assets and losses in the current period and those brought forward from previous periods, should be deducted from tier-I capital.	Gap in provisioning also deducted for Fis.
		Tier-II capital: (i) Undisclosed reserves and cumulative perpetual preference shares; (ii) Revaluation reserves (at a discount of 55 per cent); (iii) General provisions and loss reserves, including general provisions on standard assets (not more than 1.25 per cent of RWA). (iv) Hybrid debt capital instruments; (v) Sub-ordinated debt (eligible to be reckoned as tier-II capital will be limited to 50 per cent of tier-I capital);	The same as in case of banks, except that redeemable, cumulative, non-convertible preference shares having initial maturity not less than 5 years will be eligible for inclusion in tier-II capital on the same footing as 'sub- ordinated debt' and will be subject to the progressive discounting and the ceiling applicable to sub-ordinated debt.
		Tier-II elements will be reckoned as capital upto a maximum of 100 per cent of total tier-I elements.	Same as in case of banks.
		Capital Adequacy for Subsidiaries	Not applicable to FIs.

		Banks to voluntarily build-in the risk- weighted components of their subsidiaries into their own balance sheet on notional basis, at par with the risk-weights applicable to the bank's own assets. The additional capital is to be built up in the bank's book in phases from March 2001.	
6	Investments	*Classification* The entire investment portfolio of banks (including SLR securities and non-SLR securities) should be classified into three categories, *viz*., Held to Maturity (HTM), Available for Sale (AFS) and Held for Trading (HFT) categories.Holding period under HFT not more than 90 days. The investments under HTM should not exceed 25 per cent of bank's total investments. Banks have the freedom to decide the extent of holdings under AFS and HFT categories. *Valuation* HTM – not necessary, unless book value is more than face value, in which case the premium is to be amortised over the period remaining to maturity. AFS-annual or more frequent (net appreciation in each classification to be ignored, net depreciation to be provided for). HFT-monthly or more frequent (net appreciation and net depreciation can be taken to Profit and Loss account).	*Classification* Generally the same as in case of banks, except that the under noted norms apply for equity shares. Investments in equity shares as part of project finance are to be valued at cost for a period of two years after commencement of production or five years after subscription, whichever is earlier. In respect of other investments in equity shares, valuation may be done as per market value which would be the market price of the scrip as available from the trades/quotes on the stock exchange. Those scrips for which current quotation are not available or where the shares are not quoted on the stock exchanges, should be valued at break-up value (without considering revaluation reserves, if any) which is to be ascertained from the company's latest balance sheet (which should not be more than one year prior to the date of valuation). In case the latest balance sheet is not available, the shares are to be valued at rupee one per company.
7	Exposure Norms	The exposures to individual and group borrowers are 20 per cent and 50 per cent of the capital funds[5], respectively; and 60 per cent in case the exposure is on infrastructure sector. The maximum exposure to (with effect from March 2002)[6]: Individual borrowers-15 per cent of capital funds; Group borrowers-40 per cent of capital funds (can be exceeded by an additional 10 per cent if the exposure is for financing infrastructure projects alone). Components of exposure would comprise 100 per cent of funded and non-funded exposure. With effect from April 2003, forward contracts in foreign exchange and other derivative products like currency swaps, options, etc., at their replacement cost are to be included, while determining exposure.	Same as in case of banks, except (i) investment exposure not reckoned for FIs, (ii) in respect of term loans, the exposure limit is reckoned on the basis of undrawn commitments. In cases where disbursements are yet to commence, exposure limit is reckoned on the basis of sanctioned limit or the extent to which the Fis have entered into commitments with the borrowing companies in terms of agreements, as the case may be. In respect of all other facilities (other than term loans), exposure limits shall continue to be reckoned on the basis of sanctioned limits or outstandings, whichever are higher.

		Ceiling for investment in shares is 5 per cent of bank's total outstanding advances as on March 31 of the previous year (including Commercial Paper).	Not applicable.
8	Disclosure Requirements	The following information is to be disclosed as 'Notes on Accounts' in the balance sheet by public sector banks: (i) Percentage shareholding of the Government of India; (ii) Percentage of net NPA to net advances; (iii) Amount of provisions made towards NPAs, depreciation in the value of investment and income tax, separately; (iv) capital adequacy ratio (tier-I and tier-II capital), separately; (v) sub-ordinated debt raised as tier-II capital; (vi) gross value of investments in and outside India; aggregate of provisions for depreciation and net value of investments: (vii) interest income as percentage to average working funds; (viii) non-interest income as percentage to average working fund; (ix) Operating profit as percentage to average working fund; (x) Return on Assets; (xi) Business per employee; (xii) Profit per employee; (xiii)Maturity pattern of loans and advances; (xiv) Maturity pattern of investments in securities; (xv) Foreign currency assets and liabilities; (xvi) Movements in NPAs; (xvii)Maturity pattern of deposits and borrowings; (xviii) Lending to sensitive sectors. Additional disclosure in the 'Notes on Accounts' from the accounting year ended March 31, 2001 (i) Treatment of restructured accounts; (ii) Investment in shares etc: (a) Investments in shares, (b) Investments in convertible debentures, and, (c) units of equity oriented mutual funds. Additional information in the 'Notes on Accounts' in the balance sheet from the accounting year ending March 31, 2002: (i) Movement of provisions held towards NPAs, (ii) Movement of provisions held towards depreciation on invesments.	Generally the same as in case of banks, except that items (i), (iii), (vi), (xi) and (xviii) are not applicable to FIs. (iii) Same as banks. However, investments includes only those items which are other than in the nature of an advance. The undernoted additional disclosures have been prescribed for FIs. (i) Risk-weighted assets-for on and off-balance sheet items separately; (ii) The shareholding pattern as on the date of the balance sheet; (iii) Amount and percentage of net NPAs under prescribed asset classification categories; (iv) Credit exposure as percentage to capital funds and as percentage to total assets, in respect of : (a) the largest single borrower (b) the largest borrower group (c) the 10 largest single borrowers (d) the 10 largest borrower groups (v) Detailed disclosures on forward rate agreements and interest rate swaps. (vi) Credit exposure to the five largest sectors/ industries as percentage to total loan assets.

9	ALM Guidelines	ALM guidelines were introduced for banks in February 1999. Banks were to ensure coverage of 60 per cent of their liabilities and assets initially, and subsequently cover 100 per cent of their business by April 1, 2000. The prudential norms prescribed are only for negative liquidity mismatches in the first two time buckets (*viz*., 1-14 days and 15-29 days) at 20 per cent each of the cash outflows in these time buckets.	ALM guidelines for FIs were issued in December 1999 and implemented since April 2000. The guidelines envisages preparation of periodical Liquidity Gap Statement and Interest Rate Sensitivity statement in accordance with the detailed prescriptions contained in the guidelines. The prudential norms prescribed are only for negative liquidity mismatches in the first two time buckets (*viz*., 1-14 days and 15-29 days) at 10 per cent and 15 per cent of cash outflows in these time buckets. The FIs are expected to fix their own prudential limits with the approval of their Board/Asset Liability Committee (ALCO) for cumulative negative gaps. In the case of interest rate gaps, the Board/ALCO will have to fix the prudential limits for each FI.
10	Resource Raising	Not applicable for banks.	Regulation has been laid down regarding the total borrowing of the FI and the quantum of resources they can raise through the umbrella limit (i.e., term-money borrowings, certificate of deposits, term-deposits, inter-corporate deposits and commercial paper). At present, their total borrowings are required to be within a ceiling of 10 times of their NOF, while borrowings through the aforesaid umbrella limit for the said instruments are required to be within the ceiling of one time of their NOF.

Moving towards Pure Inter-bank Call Money Market

4. 35 At present, several non-bank FIs and mutual funds are permitted to lend directly in the call/notice money market. Following the recommendations of the Committee on Banking Sector Reforms (Chairman: Shri M.Narasimham), it was decided to move towards a pure inter-bank (including PDs) call/notice money market. With a view to formulating a smooth phasing out of these institutions from the call/notice money market, pursuant to the announcement in the Mid-Term Review of October 2000, a Technical Group, comprising representatives from Reserve Bank, non-banks and banks was constituted. In the light of the recommendations of the Group and the feedback received on the recommendations, the FIs participation in the call money market will be phased out in the following four stages:

a) In stage I, with effect from May 5, 2001 non-banks would be allowed to lend up to 85.0 per cent of their average daily lending in call market during 2000-01.
b) In stage II, with effect from the date of operationalisation of the Clearing Corporation, non-banks would be allowed to lend up to 70.0 per cent of their average daily lending in call market during 2000-01.
c) In stage III, with effect from three months after stage II, access of non-banks to call/notice money market would be equivalent to 40.0 per cent of their average daily lending in call market during 2000-01.
d) In stage IV, with effect from three months after stage III, access of non-banks to call/notice money market would be equivalent to 10.0 per cent of their average daily lending in call market during 2000-01.

4. 36 From a date to be notified by the Reserve Bank, after the on-set of stage IV, non-banks will not be permitted to lend in call/notice money market.

4. 37 In view of the above, FIs were advised on April 21, 2001 to submit a daily return in a prescribed format to facilitate monitoring of their operations in the call/notice money market on a daily basis.

2. Financial Assets of Financial Institutions

4. 38 During 2000-01, the aggregate financial assets of banks and FIs grew by 14.4 per cent compared with the growth of 15.3 per cent recorded in the previous year [Appendix Table IV.1(A)]. The financial assets of FIs grew at a lower rate of 7.8 per cent in 2000-01 than 12.7 per cent in 1999-2000 (and 15.1 per cent in 1998-99). Consequently, the share of FIs in the aggregate financial assets of FIs and banks taken together moved down from 36.1 per cent in 1999-2000 to 34.0 per cent in 2000-01 (Chart IV.2).

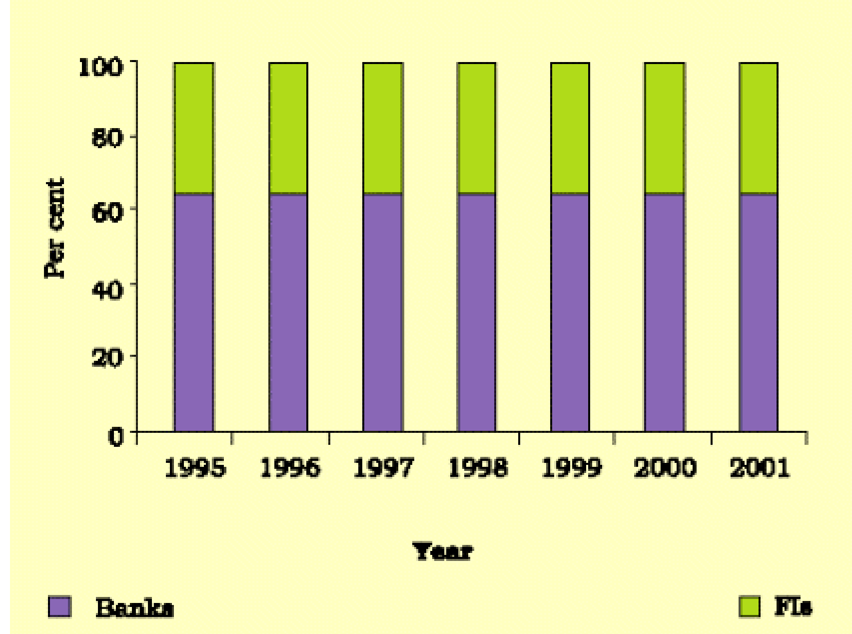
4.39 At the disaggregated level, the financial assets of all-India term lending institutions recorded a growth of 6.6 per cent in 2000-01 as compared with 9.5 per cent in 1999-2000 [Appendix Table IV.1(B)]. Among these institutions, during 2000-01, the financial assets of NABARD recorded the highest growth (16.2 per cent) followed by ICICI (12.5 per cent). The financial assets of IDBI and IFCI declined by 0.8 per cent and 3.0 per cent, respectively, in 2000-01. Among the investment institutions, the financial assets of all the three institutions witnessed lower increase in 2000-01 than in the previous year (Chart IV.3).

3. Term-Lending and Investment Institutions

Financial Assistance

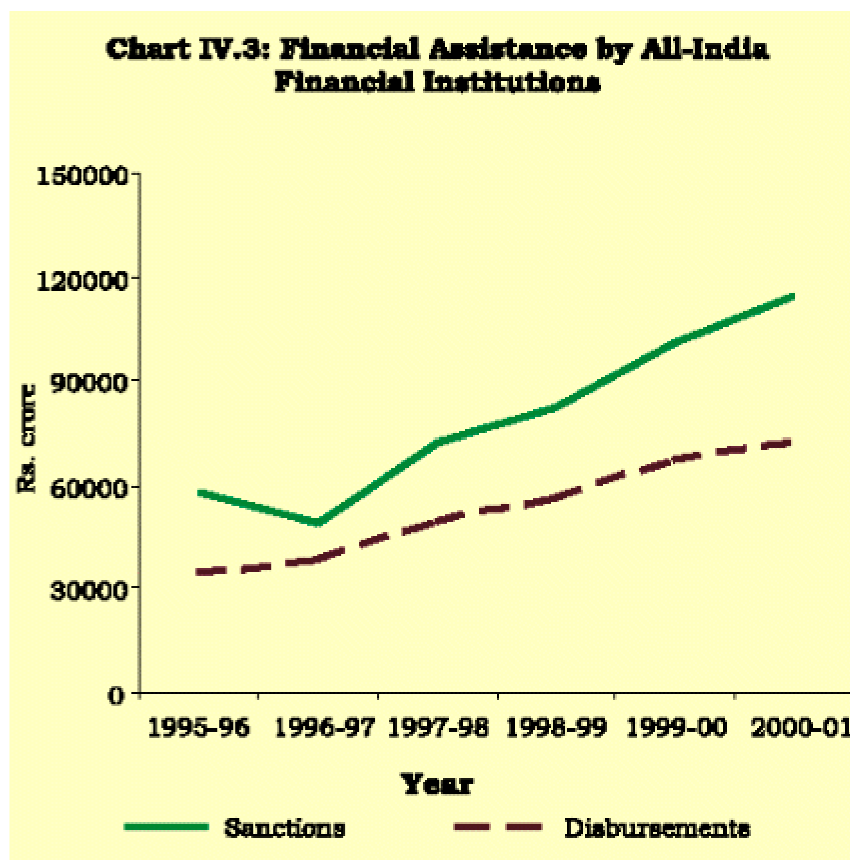
4. 40 During 2000-01, financial assistance sanctioned and disbursed by AIFIs stood at Rs.1,17,667 crore and Rs.72,528 crore, respectively. Sanctions increased by 16.2 per cent and disbursements by 7.3 per cent respectively, as compared with 23.6 per cent and 20.1 per cent, respectively, during 1999-2000 (Appendix Table IV.2 and Chart IV.3). All-India development banks' (AIDBs) sanctions grew by 16.7 per cent and disbursements by 9.2 per cent, during 2000-01. Specialised financial institutions (*viz.*, IFCI Venture Capital Funds Ltd., ICICI Venture and TFCI) witnessed a marginal decline in disbursements to Rs.254 crore from Rs.260 crore even as their sanctions increased by 37.7 per cent to Rs.339 crore. Disbursements by investment institutions also declined marginally to Rs.12,694 crore (from Rs.12,764 crore in 1999-2000), while their sanctions increased by 13.2 per cent to Rs.17,900 crore.

4. 41 Disbursements by ICICI witnessed a significant increase both in 1999-2000 and 2000-01 and accounted for 62.0 per cent of the disbursements by three major fi nancial institutions in 2000-01. The share of disbursements by IDBI, on the other hand, declined from 37.6 per cent in 1998-99 to 33.9 per cent in 2000-01 (Table IV.2).



Trend in Assets and Liabilities of Financial Institutions

4. 42 During 2000-01, the total assets/ liabilities of AIFIs showed a growth rate of 6.2 per cent as compared with 8.5 per cent in the previous year (Appendix Table IV.3).



4. 43 The composition of liabilities displayed a movement away from borrowings and towards debt in the form of bonds and debentures and deposits. External sources continued to be the important source of finance for FIs, constituting 80.9 per cent of the total resource base, while capital and reserves constituted the remaining 19.1 per cent. Funds raised through bonds and debentures comprised 50.9 per cent of the total liabilities as at end-March 2001 [Chart IV.4 (A)].

Table IV.2: Disbursements of Major Financial Institutions

(Rs. crore)

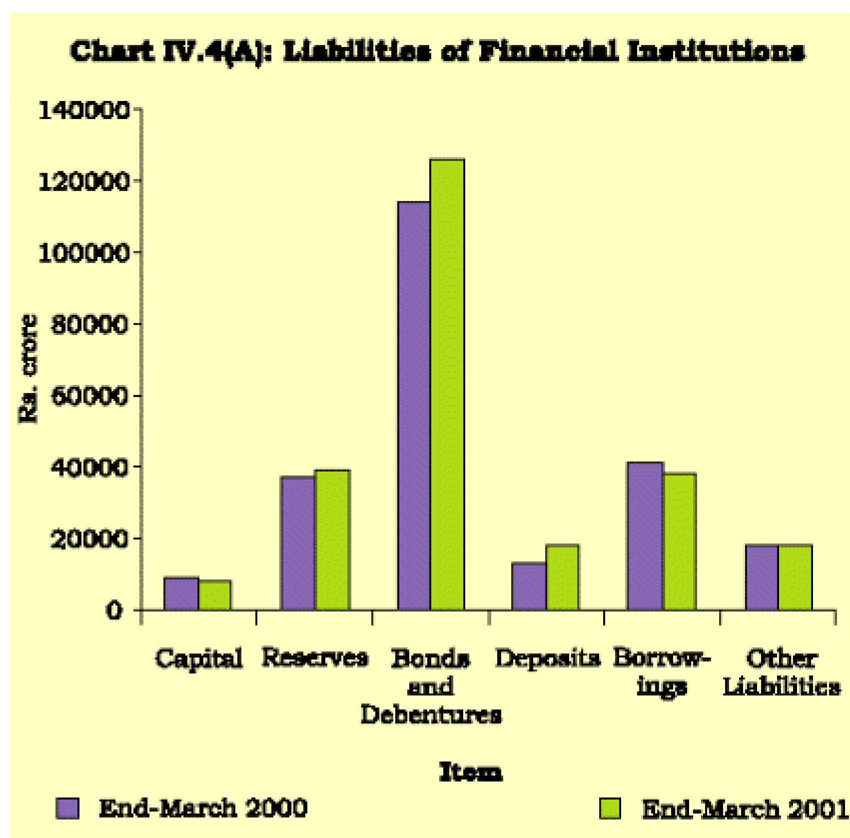
Year / Institution	1998-99		1999-2000 (Provisional)		2000-01 (Provisional)		Percentage variation	
	Amount	Per cent Share	Amount	Per cent Share	Amount	Per cent Share	Col. (4) over Col.(2)	Col. (6) over Col.(4)
1	2	3	4	5	6	7	8	9
Disbursements								
i) IDBI	14,470.1	37.6	17,059.4	37.0	17,498.3	33.9	17.9	2.6
ii) ICICI	19,225.1	49.9	25,835.7	55.9	31,964.6	62.0	34.4	23.7
iii) IFCI	4,819.3	12.5	3,272.1	7.1	2,120.9	4.1	-32.1	-35.2
A. Total (i+ii+iii)	**38,514.5**	**100.0**	**46,167.2**	**100.0**	**51,583.8**	**100.0**	**19.9**	**11.7**
B. AIFIs	56,296.0		67,594.1		72,528.2		20.1	7.3
C. A as per cent of B	68.4		68.3		71.1			

4. 44 Loans and advances constituted the major item (72.9 per cent) on the asset side of the balance sheet of FIs, and posted a growth of 7.5 per cent during the year ended March 2001. While cash and bank balances increased by 6.9 per cent, investments posted a rise of 3.4 per cent as at the end of March 2001 [Chart IV.4 (B)].

Sources and Uses of Funds of Financial Institutions

4. 45 During 2000-01 (April-March), internal sources as a proportion of total sources constituted 51.1 per cent as against 50.2 per cent during the preceding year. The share of external sources amounted to 29.5 per cent as against 27.1 per cent during 1999-2000. The share of 'other sources' of funds (which includes interest/dividends received, etc.,) declined to 19.4 per cent from 22.7 per cent (Appendix Table IV.4 and Chart IV.5 (A)).

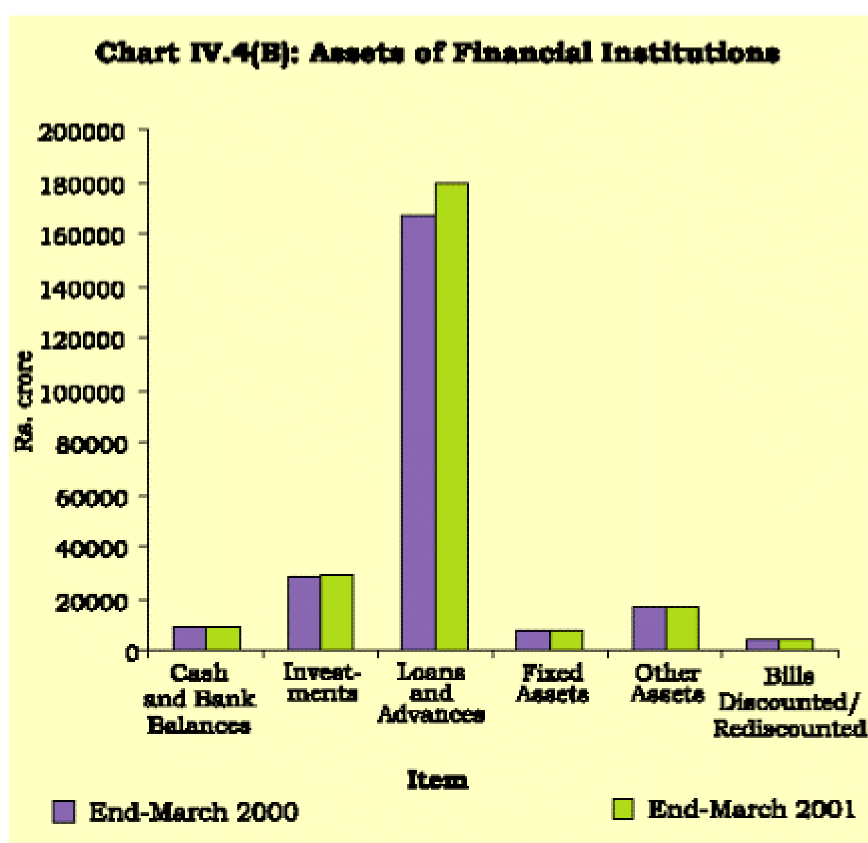
4. 46 On the uses side, fresh deployments as a proportion of total uses declined marginally from 55.6 per cent during the year 1999-2000 (April-March) to 55.1 per cent, while the share of repayments of past borrowings increased from 17.9 per cent to 18.5 per cent in 2000-01. The share of 'other deployments', declined marginally from 26.5 per cent in 1999-2000 to 26.4 per cent in 2000-01, of which the interest payments component has also increased marginally from 13.6 per cent in 1999-2000 to 13.9 per cent in 2000-01 as evidenced from Appendix Table IV.5 and Chart IV.5 (B).

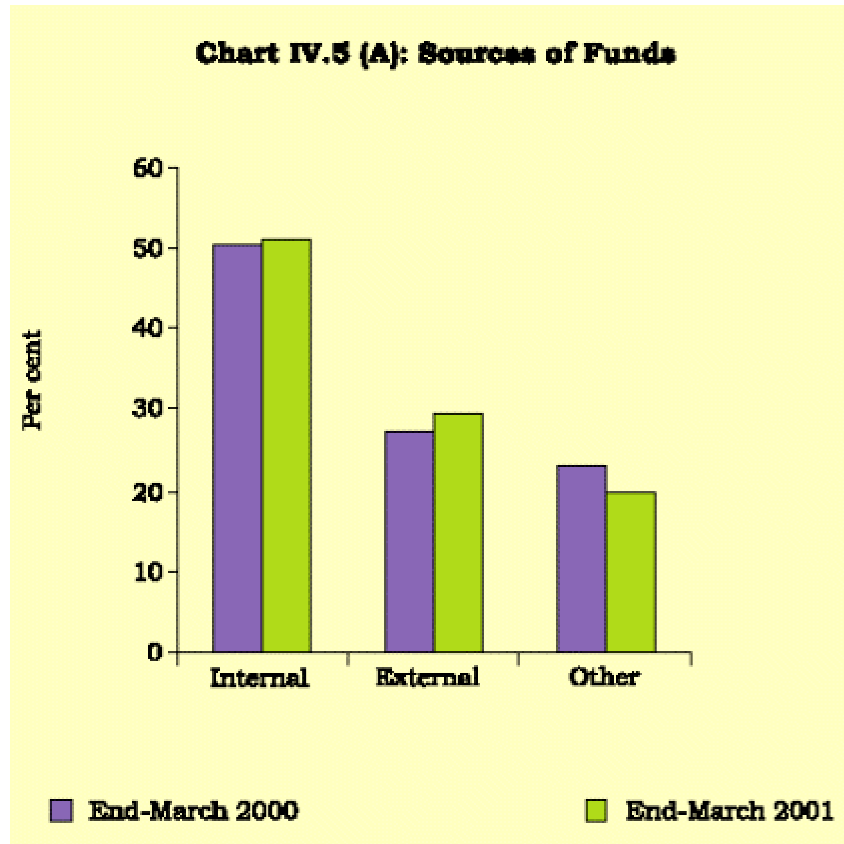


Financial Performance of Select all-India Financial Institutions

4. 47 The profitability analysis of the 10 FIs indicates that the combined net profits of these institutions registered a decline of 35.1 per cent during the year 2000-01. With income increasing by 6.0 per cent and expenditure by more than 12.0 per cent, net profits of FIs showed a decline. The spread (net interest income) of FIs as a ratio of total assets declined from 1.69 per cent in 1999-2000 to 1.61 per cent in 2000-01 (Table IV.3).

4. 48 Among the major financial institutions (IDBI, ICICI and IFCI), both IDBI and IFCI witnessed a decline in their income during the year 2000-01, reflecting primarily a fall in interest income (in case of IDBI) and a sharp drop in other income (in case of IFCI). However, the rise in expenditure was more pronounced in case of all the three institutions, the largest increase being in the case of ICICI, which recorded a rise of 20.7 per cent in 2000-01 due primarily to a rise in provisions. Consequently, the net profits of IDBI and ICICI posted declines during the year 2000-01, while IFCI posted a net loss (Appendix Table IV.5).





4. 49 As a move towards greater disclosure, FIs have been advised to disclose, among other parameters, certain operating ratios in their audited balance sheet from the year 2000-01 (Appendix Table IV.6). These ratios reveal that, among the select financial institutions regulated and supervised by the Reserve Bank, IFCI has a negative return on assets and net loss per employee.

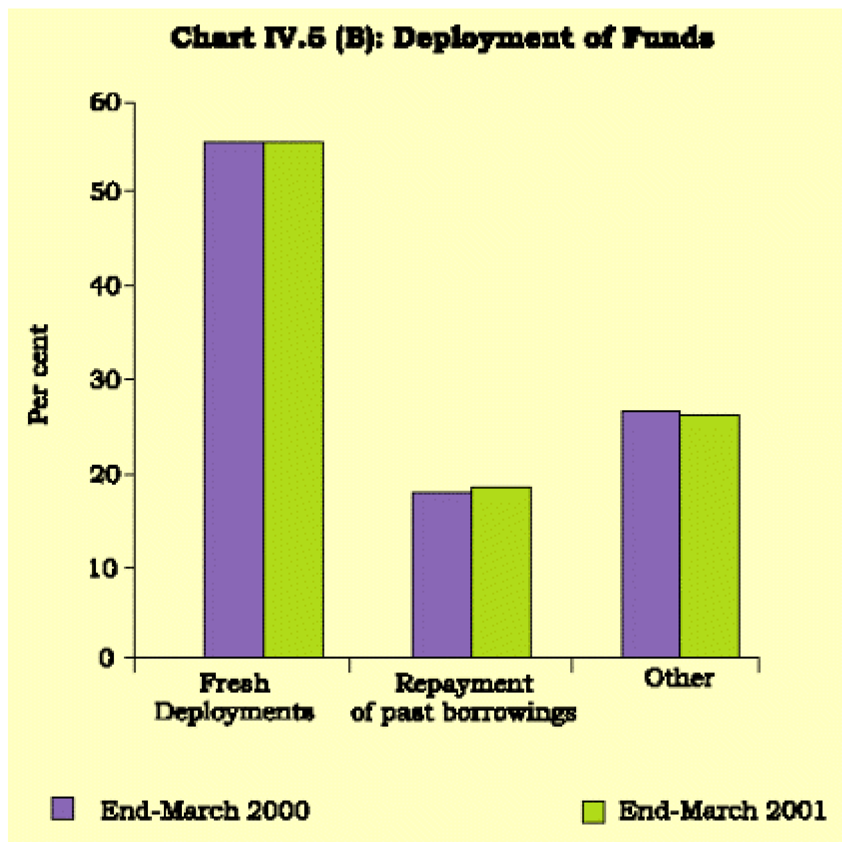
Prime Lending Rates of FIs

4. 50 There has been a general downward movement in interest rates over the period January 2001 to July 2001(Table IV.4). The long-term PLR (LTPLR) of IDBI declined from 14.0 per cent in January 2001 to 13.5 per cent in July 2001, and that of ICICI from 13.0 per cent to 12.5 per cent. The LTPLR of IFCI remained at 13.0 per cent during this period. The medium-term PLR (MTPLR) and short-term PLR (STPLR) of these institutions have also recorded concomitant declines.

Resources Raised by Major Financial Institutions

4. 51 During the year 2000-01 (April-March), total resources mobilised by three major all-India FIs by way of issue of bonds (both public issue of bonds/ debentures as well as private placements) aggregated Rs. 18,867 crore (Table IV.5). This amount was higher than Rs.16,312 crore raised during 1999-2000, but lower than Rs.29,037 crore raised during 1998-99. Of the total resources raised during the year 2000-01, Rs.14,806 crore (78.5 per cent) was raised through private placements, whereas the remaining amount was raised through public issues.

Institution-wise, ICICI raised the maximum amount of Rs.10,677 crore (56.6 per cent of the total resources raised), whereas IDBI and IFCI raised Rs. 5,481 crore and Rs. 2,709 crore, respectively. ICICI raised Rs. 7,776 crore through private placements, whereas IFCI mobilised the entire amount through the private placement route.



FIs' Money Market Operations

4. 52 FIs are allowed to participate in the call/ notice money market as lenders (which is currently being phased out) and borrow the funds by way of term money with the maturity range of three to six months within the umbrella limit prescribed for the individual FIs. Investment institutions, *viz.*, UTI, LIC and GIC are at present allowed to participate in the call/notice money market as lenders only.

4. 53 During the year 2000-01 (April-March), the average quarterly outstanding borrowing by way of term money in respect of select FIs stood at Rs.1,091 crore as compared with Rs.465 crore during the previous year. The cost of borrowing ranged between 7.25 per cent and 11.95 per cent as against 11.10 per cent and 11.25 per cent per annum in the previous year. The maturity period ranged between 90 days to 184 days, roughly the same as during the previous year.

Table IV.3 : Financial Performance of Select Financial Institutions*

(Rs. crore)

Item		1999–2000	2000–01	Variation of Col. (3) over Col. (2)	
				Absolute	Percentage
1		2	3	4	5
A.	**Income (i+ii)**	**24,410.41 (100.00)**	**25,867.15 (100.00)**	**1,456.74**	**5.97**
	i) Interest Income	22,152.18 (90.75)	23,519.05 (90.92)	1,366.87	6.17
	ii) Other Income	2,258.23 (9.25)	2,348.10 (9.08)	89.87	3.98
B.	**Expenditure (i+ii+iii)**	**21,147.73 (100.00)**	**23,748.09 (100.00)**	**2,600.36**	**12.30**
	i) Interest Expended	18,244.60 (86.27)	19,567.24 (82.40)	1,322.64	7.25
	ii) Provisions	686.64 (3.25)	1,578.77 (6.65)	892.13	129.93
	iii) Other Expenses	2,216.49 (10.48)	2,602.08 (10.96)	385.59	17.40
	of which : Wage Bill	362.27 (1.71)	476.35 (2.01)	114.08	31.49
C.	**Profit**				
	i) Operating Profit	**3,949.32**	**3,697.83**	**-251.49**	**–6.37**
	ii) Net Profit	**3,262.68**	**2,119.06**	**-1,143.62**	**–35.05**
D.	**Total Assets**	**2,32,043.02**	**2,46,518.00**	**14,474.98**	**6.24**
E.	**Financial Ratios (per cent) @**				
	i) Operating Profit	1.71	1.50	-0.21	-
	ii) Net Profit	1.41	0.86	-0.55	-
	iii) Income	10.52	10.49	-0.03	-
	iv) Interest Income	9.55	9.54	-0.01	-
	v) Other Income	0.97	0.95	-0.02	-
	vi) Expenditure	9.11	9.63	0.52	-
	vii) Interest Expended	7.86	7.94	0.07	-
	viii) Other Operating Expenses	0.96	1.06	0.10	-
	ix) Wage Bill	0.16	0.19	0.04	-
	x) Provisions and Contingencies	0.30	0.64	0.34	-
	xi) Spread (Net Interest Income)	1.69	1.61	-0.08	-

@ Ratios to Total Assets.

* IDBI,ICICI,TFCI,EXIM Bank, NABARD,SIDBI,IDFC,IFCI, NHB and IIBI.

Notes: 1. Figures in brackets are percentage shares to the respective total.
2. NHB data is as on June 30, 2001.

4. 54 The average quarterly lending of the select FIs including investment institutions (*viz.*, UTI, LIC and GIC) in the call/ notice money market during 2000-01 (April-March) amounted to Rs.4,374 crore as compared with Rs.3,996 crore during the previous year. Institution-wise, the largest lender in the call/ notice money market during 2000-01 (April-March) was UTI with an average daily lending at Rs.878 crore followed by LIC at Rs.811 crore (Appendix Table IV.7).

Table IV.4: Lending Rate Structure of Major Financial Institutions

(per cent per annum)

PLR	IDBI	ICICI	IFCI
1	2	3	4
January 2001			
LTPLR	14.0	13.0	13.0
MTPLR	13.0	13.0	-
STPLR	12.5	13.0	12.5
March 2001			
LTPLR	14.0	12.5	13.0
MTPLR	13.0	12.5	-
STPLR	12.5	12.5	12.5
July 2001			
LTPLR	13.5	12.5	13.0
MTPLR	12.5	12.5	-
STPLR	12.0	12.5	12.5

Notes: 1. All interest rates are exclusive of interest tax unless stated otherwise.
2. Interest rates indicated are the range/band which includes Prime Lending Rates also.
3. LTPLR: Long-term Prime Lending Rate (for term-loans exceeding 3 years) STPLR: Short-term Prime Lending Rate (for term-loans below 3 years). In case of ICICI, the STPLR is of variable maturity with interest rates reset annually. MTPLR: Medium-term Prime Lending Rate (applicable for ICICI for loans with maturity exceeding 1 year).

Asset Classification and Capital Adequacy of Financial Institutions

4. 55 The ratio of net NPA to net loan as on March 31, 2001, in respect of ICICI, SIDBI and EXIM Bank was below 10 per cent that of IFCI, IDBI, IIBI and TFCI ranged between 14.0 per cent and 23.0 per cent (Table IV.6).

4. 56 In December 1998, the minimum CRAR to be achieved by FIs was enhanced from the then existing 8 per cent to 9 per cent, with effect from the year ending March 31, 2000. Judged thus, as at end-March 2001 all financial institutions (except IFCI) were well above the 9 per cent benchmark figure as evidenced from Table IV.7. The CRAR of IDBI, SIDBI, IIBI, NHB and TFCI witnessed significant improvements. EXIM Bank, NABARD, IFCI, ICICI and IDFC showed a decline in their CRAR as compared with the previous year's position. The CRAR of IFCI was 6.2 per cent which is lower than the required level of 9 per cent as at the end of March 2001.

4. Reserve Bank Assistance to Financial Institutions

4. 57 During 2000-01 (July-June), no long-term assistance was sanctioned by the Reserve Bank to any FI. The outstanding long-term borrowings by IDBI, SIDBI, EXIM Bank and IIBI under NIC (LTO) Fund facility as at end-June 2001 stood at Rs.4,222 crore. The outstanding long-term borrowing by NHB from the NHC (LTO) Fund as at end-June 2001 stood at Rs.875 crore.

4. 58 Under Section 17(4A)/(4BB) of the Reserve Bank of India Act, 1934, the Reserve Bank sanctioned *ad-hoc* borrowing limits amounting to Rs.161 crore to 13 State Financial Corporations (SFCs) during the year 2000-01, at the Bank Rate against *ad-hoc* bonds guaranteed by respective State Government/Union Territories. There was no outstanding borrowing by SFCs as at end-June 2001 (Table IV.8).

Table IV.5: Resources Raised by Major FIs

(Amount in Rs.

	ICICI			IDBI			IFCI			Total		
	1998–99	1999–00	2000–01	1998–99	1999–00	2000–01	1998–99	1999–00	2000–01	1998–99	1999–00	2000–01
1	2	3	4	5	6	7	8	9	10	11	12	13
Public Issue of Bonds/Debentures	3,064.4 (23.9)	2,574.9 (37.6)	2,900.8 (27.2)	4,342.0 (34.2)	2,073.5 (27.0)	1,161.0 (21.2)	– (0.0)	– (0.0)	– (0.0)	7,406.4 (25.5)	4,648.4 (28.5)	4,061.8 (21.5)
Private placement of Bonds/Debentures	9,745.4 (76.1)	4,274.0 (62.4)	7,776.5 (72.8)	8,341.0 (65.8)	5,602.6 (73.0)	4,320.0 (78.8)	3,543.8 (100.0)	1,786.5 (100.0)	2,709.0 (100.0)	21,630.2 (74.5)	11,663.1 (71.5)	14,805.5 (78.5)
Total	**12,809.8 (100.0)**	**6,848.9 (100.0)**	**10,677.3 (100.0)**	**12,683.0 (100.0)**	**7,676.1 (100.0)**	**5,481.0 (100.0)**	**3,543.8 (100.0)**	**1,786.5 (100.0)**	**2,709.0 (100.0)**	**29,036.6 (100.0)**	**16,311.5 (100.0)**	**18,867.3 (100.0)**

Notes: 1.Figures in brackets indicate percentage to total.
2.Data for 2000–01 are provisional.

Table IV.6: Asset Classification of Select Financial Institutions
(As at end-March)

(Amount in Rs.crore)

Institution	Standard		Sub-standard		Doubtful		Loss		Net Loans Outstanding #		Net NPA/Net Loans (per cent)	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
1	2	3	4	5	6	7	8	9	10	11	12	13
IDBI	49,424	48,107	4,055	3,014	3,620	5,356	-	-	57,099	56,477	13.4	14.8
ICICI	48,382	54,525	1,793	885	2,166	2,097	-	-	52,341	57,507	7.6	5.2
IFCI	15,738	14,818	2,177	934	1,926	2,963	-	-	19,841	18,715	20.7	20.8
SIDBI	14,613	13,934	115	61	82	113	-	-	14,810	14,108	1.3	1.2
NABARD	29,031	35,771	833	-	218	-	-	-	30,082	35,771	3.5	-
NHB	3,668	N.A.	-	N.A.	-	N.A.	-	-	3,668	N.A.	-	N.A.
IIBI	3,286	2,108	380	201	278	424	-	-	3,944	2,733	16.7	22.9
EXIM Bank	4,231	4,562	200	236	174	171	-	-	4,605	4,969	8.1	8.2
IDFC	895	1,199	-	-	-	-	-	-	895	1,199	-	-
TFCI	746	604	101	81	28	75	-	-	875	760	14.7	20.5

N.A. Not available - Nil
Net of provisioning and write-offs.
Notes: 1. NPA in any year is the aggregate of the amounts under sub-standard, doubtful and loss categories.
2. IDFC has been included since 1999.
Source: Published balance sheet of respective institutions.

5. Mutual Funds

Policy Developments relating to Mutual Funds

4. 59 During 2000-01, several steps were taken by SEBI to impart flexibility to the operations of mutual funds (MFs) and to safeguard the interests of the investors in mutual funds. Investment norms relating to mutual funds were liberalised allowing them to invest in mortgage-backed securities of investment grade and above. Further, the open ended schemes were allowed to invest up to 5 per cent of their net asset value in unlisted equity shares. The above two measures are expected to increase the funds to the housing sector and venture capital industry. Eligibility criteria for overseas investment were changed allowing apportionment of US$ 500 million limit of overseas investments among Indian MFs. The norms relating to code of conduct, criteria for classification of NPAs and their disclosures, treatment of income accrued on NPAs and the provisions to be made, disclosure of NPAs in the half-yearly portfolio reports, were stipulated.

The period for initial offer of a scheme and despatch of certificates, standardisation of format, treatment of unclaimed deposits and standards for trading by the employees were tightened as well. Disclosure and transparency standards relating to Asset Management Companies (AMCs) were also tightened.

Table IV.7: Capital Adequacy Ratio@ of Select Financial Institutions

Institution	As at End-March			
	1998	1999	2000	2001
1	2	3	4	5
1. IDBI	13.7	12.7	14.5	15.8
2. ICICI	13.0	12.5	17.2	14.6
3. IFCI	11.6	8.4	8.8	6.2
4. SIDBI	30.3	26.9	27.8	28.1
5. IIBI	12.8	11.7	9.7	13.9
6. EXIM Bank	30.5	23.6	24.4	23.8
7. NABARD	52.5	53.3	44.4	38.5
8. IDFC	-	235.5	119.7	85.5
9. NHB*	16.7	17.3	16.5	16.8
10. TFCI	16.4	15.4	16.2	18.6

@ As per cent of risk-weighted assets.
* Relate to general fund.

Table IV.8: RBI Assistance to Financial Institutions

(Rs. crore)

Type of Assistance	Amount outstanding as on June 30, 2001
1	2
A. Long Term Credit [NIC(LTO)Fund]	
1. IDBI	1,440.0
2. SIDBI	2,004.8
3. EXIM Bank	617.0
4. IIBI	160.0
Total of A	**4,221.8**
B. Long Term Credit [NHC(LTO)Fund]	
1. NHB	875.0
Total of B	**875.0**
C. Medium/ short-term credit	
1. IDBI	-
2. SFCs	-
Total of C	**-**
D. Total (A+B+C)	**5,096.8**

Resource Mobilisation by Mutual Funds

4. 60 Net resource mobilisation by all mutual funds registered a decline of 33.2 per cent to Rs.13,339 crore from Rs.19,953 crore in the previous year (Table IV.9). During 2000-01, public sector mutual funds raised Rs.1,623 crore which was more than three times the amount of Rs.513 crore raised during the previous year. The resource mobilisation by the private sector mutual funds at Rs.9,717 crore though much higher than that by public sector mutual funds was lower by 34.7 per cent as compared with Rs.14,892 crore mobilised during the previous year (Appendix Table IV.8). Resource mobilisation by UTI witnessed a sharp decline of 56.0 per cent to Rs.1,999 crore during 2000-01.

4. 61 As detailed in the previous year's Report, a High Level Committee (Chairman: Shri Deepak Parekh) was constituted by the Government in 1998 to review the objectives and working of the US-64 scheme of UTI. The progress in implementation of the recommendations of the Committee is presented in Box IV.3. Subsequently, a Committee on 'Corporate Positioning' (Chairman: Shri Y.H. Malegam) was appointed, which submitted its Report on October 31, 2001. The recommendations are given in Box IV.4.

Table IV.9 : Resources Mobilised by Mutual Funds
(April-March)

(Rs. crore)

Mutual Funds	1997-98	1998-99(P)	1999-2000(P)	2000-01(P)
1	2	3	4	5
I. Bank-sponsored (1 to 6)	**236.89**	**-88.34**	**155.58**	**348.23**
1.SBI MF	190.11	-71.79	477.60	351.88
2.Canbank MF	46.78	-16.55	-361.03	-5.41
3.Indian Bank MF	..	..	..	..
4.BOI MF	..	..	..	..
5.PNB MF	..	..	40.72	2.12
6.BOB MF	..	..	-1.71	-0.36
II. FIs-sponsored (7 to 9)	**203.39**	**546.81**	**357.41**	**1,274.51**
7.GIC MF	-19.20	-12.05	-206.28	-41.81
8.LIC MF	99.75	348.36	284.52	566.00
9.IDBI MF	122.84	210.50	279.17	750.32
III. Unit Trust of India	**2,875.00**	**170.00**	**4,548.00**	**1,999.00**
	(2,592.00)	**(1,300.00)**	**(5,762.00)**	**(1,201.00)**
IV. Private Sector MFs	**748.62**	**2,066.90**	**14,892.17**	**9,717.35**
Total (I+II+III+IV)	**4,063.90**	**2,695.37**	**19,953.16**	**13,339.09**

P Provisional
.. Nil or negligible

Notes: 1. For UTI, the figures are gross value (with premium) of net sales under all domestic schemes and for other mutual funds, figures represent net sales under all on-going schemes.
2. Figures in brackets in case of UTI pertain to net sales at Face value.

3. Data exclude amounts mobilised by off-shore funds and through roll-over schemes.
Source: UTI and respective mutual funds.

Box IV. 3 Implementation Status of High Level Committee Recommendations on US-64

Recommendations	Action taken
Recommendation # 1 Initial contributors to infuse permanent funds of at least Rs.500 crore.	Sixteen out of 35 institutions including IDBI, IFCI, SBI, ICICI and LIC invested a total amount of Rs.445.50 crore.
Recommendation # 2 Create a Special Unit Scheme 99 (SUS 99) to transfer PSU stock from US-64	A Special Unit Scheme (SUS 99) was launched in the month of June 1999 by transferring from US-64 PSU stock with a book value of Rs.3,300 crore as against 11.24 per cent UTI–SUS 99 (non-transferable) Government of India Special Securities 2004. At the time of transfer, the market value of the PSU stocks was Rs.1,528.28 crore.
Recommendation # 3 Strategic sale of significant equity holding by negotiation to the highest bidder, whenever feasible.	In June 2001, the Board of Trustees set up a three member sub-committee consisting of the Chairman and two other trustees for sale of strategic holdings. A few scrips have been identified for the purpose. The sub-committee would take appropriate action on a case-by-case basis.
Recommendation # 4 Remove tax on income distributed by US-64 and schemes investing more than 50 per cent in equity.	The Government through the Budget for 1998-99 granted exemption from tax on income distribution for a period of 3 years ending March 31, 2002.
Recommendation # 5 Launch of a new UTI scheme for investing in the equity of growth stocks in Information Technology (IT), Pharma and Fast Moving Consumer Goods (FMCG) sectors.	The UTI Growth Sector Fund was launched on May 27, 1999 with five fund options: Pharma & Healthcare, Services, Brand value, Software and Petro.
Recommendation # 6 Reconstitution of UTI Board to increase the size to 15 by additional 5 members.	The constitution of the Board of Trustees of UTI in a manner recommended by the Deepak Parekh Committee. would be possible only if the UTI Act is amended
Recommendation # 7 (a) Trustees to assume higher degree of responsibility and exercise greater authority. (b) Increase in remuneration of Trustees and publication of attendance record of Trustees in Annual Report.	The Trustees have noted the recommendation.
Recommendation # 8 Creation of a Separate Asset Management Company for US-64 with an independent Board of Directors.	Creation of a Separate Asset Management Company for US-64 with an independent Board of Directors would be possible. only if the UTI Act is amended. Meanwhile, the Asset Management Committee, which was setup in 1997, is overseeing the US-64 scheme
Recommendation # 9 Chinese wall to be created by appointing separate and independent fund managers for each scheme.	Independent fund managers have been appointed for the domestic schemes, offshore and Venture Capital Fund. Inter-

Inter-scheme transfers to be effected based on independent decisions and requirements of concerned fund at managers and market determined prices.

scheme transfers are being effected at market price as per SEBI guidelines. Such transfers are made based on the decisions of fund managers.

Recommendation # 10

Independent fund manager for US-64 with full responsibility and accountability.
Fund Manger should be helped by strong research team and research capability strengthened.

UTI has entrusted the management of US-64 to an independent fund management group headed by an Executive Director. UTI has organised an independent. Equity Research Cell

Recommendation # 11

Investment/disinvestment decisions to be based on research analysts' recommendation – analysts to have authority and responsibility.
Fund managers to have final authority and responsibility in decision-making based on his perception of market and research input.

While investment/disinvestment decisions take into account the inputs provided by Equity Research Cell and other information available with the Fund Managers, the ultimate responsibility of decision making would vest with the concerned fund manager.

Recommendation # 12

Focus on small investors to be strengthened and tilt towards corporate investors reduced.

Reducing tilt towards corporate investors has made some progress and is a continuing one.

Recommendation # 13

Making US-64 NAV driven.

Steps have been initiated to make US-64 NAV driven.

Recommendation # 14

Spread between sale and repurchase price to be gradually increased to deter short-term investors.

Since there is no sale of fresh units under US- 64 scheme with effect from July 2001 and since the scheme would be NAV based by January 1, 2002, the recommendation to gradually increase the difference between sale and repurchase price is no longer applicable.

Recommendation # 15

Dividend distribution policy to be thoroughly revamped to ensure that the Scheme is responsive to changing market conditions. UTI needs to follow a more conservative approach to build sufficient reserves during periods of good performance. As a rule, dividend needs to be curtailed when there is inadequate income.

As against income distribution ranging from 20-26 per cent per annum for the period 1993-97, the income distribution was at 13.50 per cent, 13.75 per cent and 10 per cent in the last three years, i.e., 1998-99, 1999-2000 and 2000-01, respectively.

Recommendation # 16

The rate of return offered to investors to be reviewed on a periodic basis.

As indicated in point 15.

Recommendation # 17

Portfolio composition to be changed to provide for more weightage to debt in US-64 portfolio consistent with the Scheme objectives.
Needs to happen without US-64 to resort to selling large part of equity portfolio in the market.

The portfolio composition of US-64 will have to be gradually re-oriented to give more weightage to debt. This will have to be done in a manner in which neither the Trust nor the market will be adversely impacted.

Recommendation # 18

Operations of US-64 to be brought under SEBI purview at the earliest. This would ensure transparency to unit holders and would significantly enhance investor

For US-64 to be structurally compliant with SEBI (MFs) Regulations would necessitate *inter-alia* amendments to the UTI Act.

confidence.

Recommendation # 19	
To commission an independent professional firm for detailed review of asset management process including back office, inter-scheme transfer and investor servicing.	The software based support for asset management back office was successfully implemented. The Trust has, however, not commissioned any independent professional firm for a detailed review of the asset management process including back office and inter-scheme transfers. As regards investor servicing M/s Mckinsey & Co. have been engaged by UTI to carry out a business process re-engineering assignment to ensure focus on marketing investor servicing and back office operations. Their recommendations are under implementation. This involves conversion of UTI offices into UTI-Financial Centres, setting up of the Central Data Centre, Central Processing Centre and development of a generic software for all the existing and for future schemes. M/s Tata Consultancy Services (TCS) have been retained by UTI for developing a generic software. This will offer improved services to the unit holders. The three separate Asset Management Committees (one each for US-64, Equity Schemes and Income Schemes) review the asset management process, back office work and investor servicing periodically.

Source: Unit Trust of India.

Box IV.4: Corporate Positioning Committee – Unit Trust of India

The Unit Trust of India (UTI) had constituted a Corporate Positioning Committee in July 2000 under the Chairmanship of Shri Y.H. Malegam to review and enhance the competitive positioning of UTI and to recommend appropriate follow-up action plans including amendments to the connected legislation for enabling the UTI to fully meet with the Mutual Fund Regulations of SEBI.

The Committee submitted its report in October 2001 and the major recommendations made by the Committee are summarised below:

? The structure of UTI should be in line with SEBI Regulations as applicable to mutual funds. Accordingly, there should be (i) a Sponsor (ii) a Trustee Company and (iii) an Asset Management Company (AMC).

? There should be a single Sponsor and there is a need for a separate Sponsoring Company with initial shareholders being the Sponsoring Institutions. The Sponsoring Company should have a capital of Rs.550 crore of which 40 per cent would be held by the Sponsoring Institutions with no individual institution holding more than 25 per cent of the capital. The remaining 60 per cent of the capital would be held by a strategic partner. There should be 3 year 'lock-in' for the capital to be held by the sponsoring institutions.

? A Trustee Company should be incorporated as a wholly-owned subsidiary of the sponsoring company. The Trustee Company should have a capital of Rs.5 crore.

? UTI should convert itself into an AMC whereby the infrastructure and organisation, presently forming part of US-64, would become the infrastructure and organisation of UTI. The AMC would issue bonds to US-64 in consideration of the transfer of the infrastructure.

? The AMC should have a capital of Rs.1,000 crore of which 40 per cent would be held by the Sponsoring Company and 60 per cent would be offered to the public.

? There should be a single AMC to manage all the schemes of the UTI and it would be entitled to charge management fees to the different schemes in accordance with the Mutual Fund Regulations.

? US-64 be made NAV based before the restructuring is attempted. The provision should also be made for the contingent liability, if any, on the guaranteed price to individual unitholder's holdings upto 3,000 units.

- ? The provision should be made for the contingent liability in respect of assured return schemes. The Committee also made specific recommendations to reduce the gap between the present value of the future liability and the value of assets under the schemes.
- ? The Development Reserve Fund, the corpus of which includes contributions from each scheme each year since 1984 should be transferred, free of consideration to the AMC after valuing the investments of the Fund at their fair market value.
- ? The valuation should be made of UTI as a whole by an independent valuer and prospective strategic partner should be invited to quote the value at which UTI's infrastructure and organisation should be converted into the AMC. The valuation should take into account the goodwill attached to UTI arising out of its large unitholder base, its low operating costs as a percentage of investible funds and other relevant factors. It should also take into account the contingent liabilities arising out of the assured return schemes after adjusting the balance available in the Development Reserve Fund.
- ? The UTI Act should be repealed and replaced by a new enactment.

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[1] Reserve Bank of India regulates and supervises only select All-India Financial Institutions and the same are covered in this section, *viz.*, Industrial Development Bank of India (IDBI), IFCI Ltd., ICICI Ltd., Industrial Investment Bank of India Ltd. (IIBI), Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB), National Bank for Agriculture and Rural Development (NABARD), Export Import Bank of India (EXIM Bank), Tourism Finance Corporation of India Ltd., (TFCI) and Infrastructure Development Finance Company Ltd. (IDFC). The Reserve Bank also calls for returns in respect of investment institutions *viz.*, Unit Trust of India (UTI), Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) and its erstwhile four subsidiaries, but does not supervise or regulate these institutions.

[2] These institutions are IDBI, ICICI Ltd., IFCI Ltd., IIBI Ltd., NABARD, NHB, EXIM Bank, TFCI, SIDBI and IDFC.

[3] Net resource mobilisation equals inflows net of redemptions/repurchases.

[4] CRAR represents the amount of capital maintained in consonance with the risk-adjusted aggregate of funded and non-funded assets of a FI. The risk-adjusted asset is arrived at by multiplying each asset with its corresponding risk-weight in the case of funded assets. Conversion factors are assigned in case of non-funded assets apart from weights. CRAR include core capital (tier-I) and supplementary capital (tier-II).
Core CRAR or tier-I capital includes paid-up capital, statutory reserves and other disclosed free reserves, if any. Balance if any of the special reserve created under Section 36 (1) (viii) of the Income Tax Act, 1961 is to be treated as capital. Besides capital reserves, equity investment in subsidiaries, intangible assets, gap in provisioning and losses in the current period and those brought forward from previous period will be deducted from tier-I capital. The core CRAR should not be less than 50 per cent of CRAR at any point of time.
Supplementary CRAR or tier-II capital includes undisclosed reserves and cumulative preference shares, revaluation reserves, general provisions and reserves, hybrid debt capital instruments, sub-ordinated debt. The supplementary capital is limited to a maximum of 100 per cent of tier-I capital.

[5] Paid-up capital and free reserves as per latest published balance sheet.

[6] The components of exposure are credit exposure (funded and non-funded credit limits) and investment exposure (underwriting and similar commitments). The sanctioned limits or outstandings, whichever is higher, shall be reckoned. In case of non-funded limits, only 50 per cent of such limits or outstandings, whichever is higher, may be taken into account.