Chapter I - Overview

Developments during 2002-03

1.1 The year 2002-03 was marked by a revival in industrial growth with a buoyant services sector. Nevertheless, the drought situation inhibited the farm sector, and the overall GDP growth for 2002-03 was moderate. In line with the resurgence of industrial growth, there was some pick-up in scheduled commercial banks' (SCBs) non-food credit, particularly in the second half of 2002-03. Portfolios of SCBs, on the asset side, showed some shift in favour of advances. Owing to the holding of Government securities by SCBs, far in excess of stipulated requirements and a fall in interst rates, their income profile continued to be driven by treasury operations. There has been a reduction in the ratio of non-performing assets (NPAs) to advances with various initiatives, such as, improved risk management practices and greater recovery efforts, driven, *inter alia*, by the recently enacted Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

1.2 Co-operative banks recorded moderate growth with less than satisfactory profitability. There was also some scaling down of activities of the development financial institutions. The performance of the non-banking financial companies during 2001-02 was less satisfactory. A number of regulatory measures by the Reserve Bank, such as, alignment of interest rates in this sector with the rates prevalent in the rest of the economy, tightening of prudential norms, standardisation of operating procedures and harmonisation of supervisory directions carried the financial sector reforms further.

Macro Environment

1.3 Overall GDP growth for 2002-03 at 4.3 per cent was lower than the 5.6 per cent growth in 2001-02, mainly because of a fall in agricultural GDP by over 3 per cent caused by the most severe drought in 14 years. Industrial production, on the other hand, witnessed broad-based upward expansion. Growth in the services sector was also higher, mainly on account of higher growth in construction, domestic trade and transport sectors, financing, insurance, real estate, and business services. The annual rate of inflation (WPI, point-to-point) remained low up to mid-January 2003, but edged up thereafter up to end-March 2003 owing to a hardening of prices of non-food articles and mineral oil. For the year 2002-03 as a whole, inflation (in terms of WPI), measured on an average basis, was, however, a shade lower at 3.4 per cent than that at 3.6 per cent in 2001-02.

1.4 Notwithstanding the lacklustre and uncertain global environment, robust growth in merchandise exports, higher services exports such as software, and buoyant inward remittances resulted in a surplus of US $ 4.1 billion (0.8 per cent of GDP) in the current account of balance of payments during 2002-03. Net capital flows were high at US $ 12.1 billion. With improvement in the capital account, India's foreign exchange reserves increased significantly from US $ 54.1 billion as at end-March 2002 to US $ 75.4 billion as at end-March 2003.

1.5 In the domestic economy, liquidity conditions remained comfortable during the year. Broad money (M_3) growth, net of the impact of the merger, increased by 13.2 per cent on top of a 14.1

per cent growth a year ago; this was in line with the projected level of 14.0 per cent during 2002-03. Among its components, aggregate deposits of scheduled commercial banks in 2002-03 were somewhat lower (adjusted for mergers). Reflecting the acceleration in industrial production, there was a sustained increase in credit flow to the commercial sector. During 2002-03, growth in both non-food credit (adjusted for mergers), as well as, investment in Government securities was much higher. There was also a larger flow of resources from non-banks, including issuance of Global and American Depository Receipts, Foreign Currency Convertible Bonds, and Commercial Papers (CPs).

1.6 Against this backdrop, while continuing the preference for soft interest rates, along with a vigil on movements in the price level, the overall stance of the Reserve Bank's monetary policy during 2002-03 continued to focus on the provision of adequate liquidity to meet credit growth and support investment demand in the economy. In line with the aforesaid objectives, the Cash Reserve Ratio (CRR) was reduced from 5.5 per cent to 5.0 per cent in June 2002 and further to 4.75 per cent in November 2002, cumulatively augmenting the lendable resources of banks by about Rs.10,000 crore. The Bank Rate and repo rate have emerged as important tools for the Reserve Bank to signal its policy intentions. In October 2002, the Bank Rate was lowered to 6.25 per cent. The repo rate was also reduced to 5.75 per cent in June 2002 and further cuts were effected in two stages, reducing it to 5 per cent by March 2003.

Scheduled Commercial Banks

1.7 The year 2002-03 was characterised by strong earnings for Indian commercial banks with all major income categories showing significant improvements. Return on assets (*i.e.*, the ratio of net profit to total assets), witnessed a marked improvement for SCBs to 1.0 per cent in 2002-03 - the highest over the last six years. Record low interest rates continued to drive the retail and housing segments, boosting both lending and fee-based income of banks.

1.8 Given the buoyant Government securities market resulting from declining yields arising from excess liquidity in the market, and soft interst rate conditions, the banking industry witnessed significant activity in trading in Government securities during the major part of the year. Notwithstanding some dampening of sentiments during the last quarter of 2002-03, the banking industry as a whole witnessed a sharp improvement in performance during 2002-03, driven largely by containment in interest expense (Table I.1).

Table I.1: Select Financial Sector Indicators: 2001-02 *Vis-À-Vis* 2002-03

	Financial Entity		Indicator	2001-02	2002-03
	1		2	3	4
I	**Scheduled Commercial Banks**	a)	Growth in Major Aggregates (Per cent)		
			Aggregate Deposits	14.6	13.4 *
			Non-food Credit	13.6	18.6 *
			Investment in Government Securities	20.9	27.3
		b)	Financial Indicators (as percentage of total assets)		
			Operating Profits	1.9	2.4
			Net Profits	0.8	1.0
			Spread	2.6	2.8
		c)	Non-Performing Assets (as percentage of advances)		
			Gross NPA	10.4	8.8

		Net NPA	5.5	4.4
II Urban Co-Operative Banks	a)	Growth in Major Aggregates (Per cent)		
		Deposits	15.1	9.1
		Credit	14.1	4.5
	b)	Financial Indicators (as percentage of total assets) @		
		Operating Profits	1.5	1.3
		Net Profits	-0.9	-1.1
		Spread	2.2	2.1
	c)	Non-Performing Assets (as percentage of advances)		
		Gross NPA	21.9	21.0
III All-India Financial Institutions	a)	Growth in Major Aggregates (Per cent)[1]		
		Sanctions	-39.9	-31.3
		Disbursements	-18.5	-30.5
	b)	Financial Indicators (as percentage of total assets) 2		
		Operating Profits	1.6	1.4
		Net Profits	0.7	0.9
		Spread	0.6	0.7
	c)	Non-Performing Assets (as percentage of advances) 2		
		Net NPA	8.8	10.6
IV Non-banking Financial Companies	a)	Growth in Major Aggregates (Per cent)		
		Public Deposits	4.1	—
	b)	Financial Indicators (as percentage of total assets)		
		Net Profits	-0.5	—
	c)	Non-Performing Assets (as percentage of advances)[3]		
		Net NPA	3.9	4.3 #

*Adjusted for merger. @ Relates to scheduled urban co-operative banks.

\# Figure pertains to September 2002.

1. Comprise IDBI, IFCI, IIBI, IDFC, SIDBI, IVCF, ICICI Venture, TFCI, LIC, UTI, and GIC.
2. Comprise following nine FIs, viz., IDBI, IFCI, IIBI, IDFC, Exim Bank, TFCI, SIDBI, NABARD and NHB.
3. For reporting companies with variations in coverage.

1.9 The significant improvement in the performance of SCBs masks the wide variation in performance across bank groups. For example, increase in income was the lowest for old private banks, owing to a modest increase in interest income. Foreign banks, on the other hand, experienced a decline in both income and expenses, with the decline in the latter outpacing that in the former, arising largely from containment in interest expenses. Taking advantage of the easy liquidity conditions, public sector banks (PSBs) contained their interest expenses within reasonable levels. Declining rates also allowed banks to realise gains on the sale of appreciated securities. Provisions and contingencies increased for most bank groups reflecting a greater appreciation on their part to improve the credit portfolio; an exception being the foreign banks for whom provisions in fact declined reflecting improvements in their asset portfolio.

1.10 Capital levels of the banking sector improved markedly during the year with the overall capital adequacy of SCBs rising from 10.4 per cent as at end-March 1997 to 12.6 per cent as at end-March 2003, owing to ploughing back of profits into reserves. All public sector banks had capital well above the stipulated minimum. At the aggregate level, out of the 93 SCBs (excluding RRBs), only two could not satisfy the stipulated 9.0 per cent capital adequacy ratio.

1.11 A marked improvement in credit risk management of banks was also evident. The overall non-performing assets (NPAs) of the banking sector declined by over Rs.2,000 crore to 8.8 per cent of gross advances as at end-March 2003. This was driven by the twin-track measures of improved risk management practices and greater recovery efforts. The recently enacted SARFAESI Act, which enabled banks to recover around Rs.500 crore till end-June 2003, had a salutary effect in this regard. Notwithstanding the improvement in asset quality, banks have been making pro-active efforts towards increasing their provisioning levels. This is reflected in the fact that the cumulative provisioning against gross NPAs of PSBs increased from 42.5 per cent in 2001-02 to 47.2 per cent in 2002-03. With increased provisioning, the net NPA to net advances of PSBs witnessed a distinct decline from 5.8 per cent in 2001-02 to 4.5 per cent in 2002-03.

1.12 Competitive pressures are increasingly making their presence felt in the Indian banking system. The interest margin for SCBs, defined as the excess of interest income over interest expense, normalised by total assets, has exhibited a declining trend from 3.1 per cent in 1995-96 to 2.8 per cent in 2002-03. This has been effected in a soft interest rate scenario. Further, there were expenditure curtailment and manpower rationalisation, as evidenced in their reduction in operating expenses, while harnessing the beneficial influence of technology.

Co-operative Banks

1.13 Co-operative banks recorded moderate growth during the year under review after the strong expansion in the latter half of the 1990s. The profitability of co-operative banking continues to be less than satisfactory. This largely reflects a narrowing of spreads – especially as co-operative banks typically do not trade in the Government securities market, and are, thus, not able to exploit lowered interest rates to their advantage. At the same time, there was some improvement in asset quality in case of urban co-operative banks with their gross non-performing assets (NPAs), as proportion of advances, recording a marginal decline during 2002-03.

1.14 The performance of rural co-operatives was also in line with the long-term trends. Profitability of the state co-operative banks continued to be strong during 2002-03. The NPAs of rural co-operatives continued to be high – with the asset quality of the lower tier being relatively worse than that of the upper tier.

Financial Institutions

1.15 The sharp declining trend in financial assistance by all-India Financial Institutions (FIs)[1] , noticed in the recent period, continued during 2002-03. When the financial assistance of the FIs is adjusted for the gross flow for repayments, flow of resources from some development financial institutions to corporates is found to be negative. While the merger of ICICI with ICICI Bank and the shrinkage in the size of balance sheets of some FIs explain, to a great extent, this decline in financial assistance, the subdued performance of the FIs is consistent with the increasing role of banks in financing of Indian industries. Besides, a sluggish capital market, lack of demand for new projects and increase in industrial production through utilisation of unused capacities all may have contributed to lower demand for long-term financial assistance.

1.16 The balance sheet of select FIs, as a group, showed a growth of 5.7 per cent over the previous year. The pattern of liabilities and assets, however, remained broadly similar. On the liability side, bonds and debentures constituted a major share in the total, as they provide more flexibility of structuring with call and put options as also the tradable facility in the secondary market by way of listing on the stock market. Total sources and deployment of funds of FIs (excluding ICICI) declined by 2.1 per cent during 2002-03 as against an increase of 19.8 per cent in the previous year. The performance of select FIs in respect of maintenance of a minimum capital to risk weighted assets ratio (CRAR) reveals that, except IFCI and IIBI, all FIs had a CRAR much above the norm of 9 per cent during 2002-03. There was, however, an increase in net non-performing loans (NPLs) of some FIs during 2002-03.

1.17 Resource mobilisation by mutual funds declined sharply during 2002-03 mainly due to the substantial net outflow of funds from UTI, which was restructured during the year. Private sector mutual funds also recorded a decline in mobilisation of funds while public sector funds (other than UTI) recorded a modest increase.

Non-Banking Financial Companies

1.18 The licensing process of the deposit-accepting non-banking financial companies (NBFCs) was completed during 2002-03. The number of non-banking financial companies, however, fell during the year, reflecting a combination of several factors, such as, mergers, closures and cancellation of licenses. The number of public-deposit-accepting companies also came down because of conversion to non-public-deposit accepting activities. At the same time, balance sheets of the NBFCs have been strengthening in recent years in response to prudential norms. In terms of capital adequacy, most of the reporting NBFCs registered a CRAR of at least the stipulated minimum of 12 per cent, with almost three-fourth reporting a CRAR of above 30 per cent. Besides, non-performing assets, in both gross and net terms, as a percentage of credit exposure, have also been declining.

1.19 The financial performance of NBFCs was, however, less satisfactory. In fact, the sector as a whole, recorded losses for the second year in succession during 2001-02. There was a decline in both fund-based and fee-based incomes. The reduction in expenditure was much more moderate as operating expenditures and tax provisions have tended to be sticky. Performance indicators for 2002-03 for the NBFCs are yet to be out. Nevertheless, leading information from the quarterly data on broad liquidity (L3), encompassing the monetary and liquid liabilities of the banking sector, post office banks, FIs and NBFCs, reveal that public deposits of NBFCs recorded a marginal growth during 2002-03.

1.20 The SARFAESI Act provides for sale of financial assets by banks and FIs to securitisation companies (SCs) or reconstruction companies (RCs). Recently IDBI, ICICI Bank, SBI and a few other banks jointly promoted the Asset Reconstruction Company (India) Limited (ARCIL) with an initial authorised capital of Rs.20 crore and paid-up capital of Rs.10 crore. ARCIL has been given license by the Reserve Bank to commence operations.

Developments during 2003-04

1.21 The Indian economy is poised to record strong growth during 2003-04. During the first quarter (April-June 2003), the growth in GDP accelerated to 5.7 per cent over the corresponding quarter of the previous year. There is likely to be a recovery in agricultural production, following normal monsoons after a year of drought. Besides, industrial growth continues to be strong. The increase in the index of industrial production accelerated to 5.6 per cent during 2003-04 (April-August) from 5.2 per cent during the corresponding period of the previous year, driven by an improved performance in the manufacturing sector. There are indications of sustained growth in the production of basic goods, capital goods and consumer goods. Consequent to all these factors, the overall growth in GDP during 2003-04 is expected to be around 6.5 - 7.0 per cent, with an upward bias. The surge in capital flows continued during 2003-04 (up to October), reinforced by the revival of FII investment. As a result, the Reserve Bank's foreign exchange reserves climbed to US $ 92.6 billion by end-October 2003. The exchange rate of the rupee which was Rs.47.50 per US dollar at end-March 2003 appreciated by 4.8 per cent to Rs.45.32 per US dollar by end-October 2003 but depreciated by 2.3 per cent against Euro, 2.5 per cent against Pound Sterling and 4.2 per cent against Japanese Yen during the period. During April-September 2003, while growth in exports was lower, that of imports was higher than those in the corresponding period of the previous year.

1.22 Liquidity conditions continued to be comfortable, driven by strong capital flows. Broad money (M_3) growth, at 7.4 per cent during this year so far (up to October 17, 2003) was somewhat lower than that of 8.1 per cent experienced during the corresponding period of 2002-03, after adjusting for mergers. Overall, remained within the projections the growth in M3 of the Monetary and Credit Policy of April 2003. SCBs' non-food credit offtake at 5.7 per cent (up to October 17, 2003) was somewhat lower as compared with 7.4 per cent, adjusted for merger effects, during the comparable period of the previous year. Nevertheless, some new trends in the credit market, such as, growth of retail credit, particularly to the housing sector, are noteworthy. The annual rate of WPI inflation, on a point-to-point basis, remained high in the range of 6.3 – 6.9 per cent during the first two months of 2003-04; thereafter it declined to 5.0 per cent by October 18, 2003.

1.23 Reflecting easy liquidity conditions as well as reductions in the repo rate by the Reserve Bank, interest rates continued to soften further in the financial markets. Another positive feature during the year was the revival of capital markets, with the BSE Sensex gaining by as much as 61 per cent during 2003-04 (up to end-October).

1.24 The performance of the commercial banking system during the quarter ended June 2003, as revealed from the supervisory returns of SCBs, indicate a significant improvement in their performance over the corresponding quarter of the previous year. The net profits to total assets of SCBs for the quarter ended June 2003 stood at 0.32 per cent as compared with 0.24 per cent during the comparable period of the previous year. The improvement in net profits was driven by containment of expenses, in general, and interest expended, in particular, and was achieved despite a sharp rise in provisions and contingencies across bank groups. Operating expenditures, by and large, remained at the same level as at end-June 2002; an exception being the new private banks for whom these expenses increased marginally. Reflecting the industrial recovery, financial assistance by FIs increased during April-September 2003.

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* As the Report pertains to 2002-03, the primary focus of the Chapter is confined to the year 2002-03.

[1] Comprising IDBI, IFCI, IDFC, IIBI, SIDBI, ICICI (till 2001-02), IVCF, ICICI Venture, TFCI, LIC, UTI and GIC.

Policy Developments in Commercial Banking

Chapter II

1. Introduction

2.1 Financial intermediaries are going through significant changes all over the world under the impact of deregulation, technological upgradation and financial innovations. Indeed, the traditional face of banking is no longer as it was even a few years ago. The way financial services are provided are changing dramatically. In many countries, banks are now providing services that do not come under the domain of traditional banking. The old institutional demarcations are getting increasingly blurred. Consequently, increased competition from non-bank intermediaries has led to a decline in traditional banking wherein banks only accepted deposits and made advances that stayed on their books till maturity. The business of banking has been moving rapidly in recent years to a 'one-stop shop' of varied financial services. This process of transformation is particularly striking in emerging market economies like India.

2.2 Recent international financial developments have also brought into sharp focus the importance of regulation and supervision of the financial system. In India, financial sector reforms have sought to strengthen the regulatory and supervisory framework and to bring them at par with the international best practices with suitable country-specific adaptations. This has been the guiding principle in the approach to the New Basel Accord. During 2002-03, improvements in management of risk and non-performing assets (NPAs) were sought to be achieved through the issuance of comprehensive guidelines on credit, market, country and operational risks to banks, and through the implementation of several regulatory changes. The changes in supervision included progress towards risk-based and consolidated supervision. Steps were also taken to improve credit delivery and to strengthen the technological and legal infrastructure.

2.3 In the context of the changing contours of banking, the present Chapter provides an overview of the policy initiatives in the Indian commercial banking sector during 2002-03 as well as 2003-04, so far. The overall thrust of monetary and credit policy and changes in its instruments and variables in terms of interest rates, refinance facilities and statutory preemptions are presented first. This is followed by developments in supervision and supervisory policy. In the context of ensuring a stable and sound banking system, policy developments regarding risk management and management of non-performing assets are discussed next. This is followed by a brief delineation of the evolving consultative approach to policy formulation. A discussion on steps for improvement in credit delivery, changes in money and Government securities markets and technological and legal infrastructure are presented in the subsequent sections. Actions taken on recommendations of the Joint Parliamentary Committee (JPC) on Stock Market Scam and Matters Relating Thereto are presented at the end of the Chapter.

2. Monetary and Credit Policy

2.4 A vibrant, resilient and competitive financial sector is vital for a growing economy. The Reserve Bank's endeavour has been to enhance the allocative efficiency of the financial sector and to preserve financial stability. Consequently, the Monetary and Credit Policy statements of the Reserve Bank have been focusing on the structural and regulatory measures to strengthen the financial system. The monetary policy framework has evolved over the recent period in response to the reforms in the financial sector. The reform measures have been guided by the objectives of increasing operational efficacy of monetary policy, redefining the regulatory role of the Reserve Bank, strengthening prudential norms, improving credit delivery systems, and developing technological and institutional infrastructure. In order to achieve the above objectives, the Reserve Bank has been adopting a policy of extensive consultations with experts and market participants before introducing policy measures while allowing sufficient lead time for better preparedness.

2.5 The monetary policy stance in recent years has underlined the Reserve Bank's commitment to maintain adequate liquidity in the market with a preference for soft interest rates**,** in order to revive economic growth while keeping a vigil on the price level. The monetary and credit policy for 2002-03 was set against the backdrop of easy liquidity conditions fostered by strong capital flows and weak credit off-take. Under the circumstances, the Reserve Bank proposed to continue its policy of active demand management of liquidity in order to maintain the current interest rate environment with a bias towards a soft interest rate regime in the medium-term. The overall stance of monetary policy for 2002-03 consisted of:

- Provision of adequate liquidity to meet credit growth and support investment demand in the economy while continuing a vigil on movements in the price level;
- In line with the above, continuation of the present stance on interest rates including preference for soft interest rates; and
- Imparting greater flexibility to the interest rate structure in the medium-term.

2.6 The monetary and credit policy of 2003-04 has proposed to continue with the broad policy stance of the previous year.

Interest Rate Structure

Bank Rate and Repo Rate

2.7 The monetary policy stance of preference for a soft and flexible interest rate regime for generating growth impulses was supported by the Reserve Bank's money market operations that combined judiciously open market operations and the Liquidity Adjustment Facility (LAF). The cut in the Bank Rate from 6.5 per cent to 6.25 per cent effective October 30, 2002 had a sobering impact on the structure of interest rates. The Bank Rate was further reduced by 25 basis points to 6.0 per cent on April 29, 2003. Moreover, in terms of short-term signalling, the one-day and 14 day repo rates were reduced from 6.0 per cent to 5.75 per cent effective June 27, 2002 and further to 5.5 per cent and 5.0 per cent effective October 30, 2002 and March 4, 2003, respectively. In view of the macroeconomic and overall monetary conditions, one-day repo rate was reduced further on August 25, 2003 to 4.5 per cent.

Interest Rates on Deposits

2.8 The interest rates on domestic and ordinary non-resident savings deposits as well as the Non-resident (External) Savings Accounts Scheme were reduced from 4.0 per cent to 3.5 per cent per annum effective March 1, 2003. The interest rate on deposits in Account 'A' under the Capital

Gain Account Scheme, 1988 introduced by the Government of India, was also revised downwards from 4.0 per cent to 3.5 per cent per annum with effect from March 1, 2003.

NRI Deposit Scheme

2.9 As announced in the Monetary and Credit Policy for 2003-04, it was decided that, with a view to providing uniformity in the maturity structure for all types of repatriable deposits, the maturity period of fresh non-resident external (NRE) deposits will normally be one year to three years, with immediate effect. If a bank wishes to accept deposits with a maturity of more than three years, it may do so provided the interest rate on such long-term deposits is not higher than that applicable to three-year NRE deposits. In order to bring consistency in interest rates offered to non-resident Indians, the interest rates on NRE deposits for one to three years contracted effective July 17, 2003 were limited to not exceeding 250 basis points above the LIBOR / SWAP rates for US dollar of corresponding maturity. The ceiling rate was later reduced on September 15, 2003 to 100 basis points and further, on October 18, 2003, to 25 basis points above the corresponding US dollar LIBOR / SWAP rates.

Interest Rates on Advances

2.10 In supersession of the earlier instructions on the system of charging interest on loans and advances at monthly rests, the banks have been advised the following:

- banks have the option to compound interest at monthly rests effective either from April 1, 2002, or July 1, 2002 or April 1, 2003;
- with effect from quarter beginning July 1, 2002, banks should ensure that the effective rate does not go up merely on account of the switchover to the system of charging / compounding interest at monthly rests and increase the burden on the borrowers; interest at monthly rests shall be applied to all running accounts (*e.g.,* cash credit, overdraft, export packing credit), all new and existing term loans and other loans of longer / fixed tenor but not to agricultural advances; and
- banks may obtain consent letters / supplemental agreements from the borrowers for the purpose of documentation.

Lending Rates (Non-Export Credit)

2.11 A soft and flexible interest rate regime has generally meant lower deposit rates. With the decline in the cost of funds to the banking sector, the Prime Lending Rates (PLRs) of commercial banks have also declined. The decline in PLRs, however, was somewhat muted given the structural rigidities, such as, high non-interest operating expenses and cost of servicing non-performing loans. Furthermore, banks have mobilised a large proportion of their deposits at relatively high fixed rates, which also limited the downward shift in the PLRs. In order to impel banks to reduce their lending rates, the Reserve Bank has encouraged them to improve manpower productivity and reduce establishment costs. Banks have also been advised on the need to reduce spreads over PLR. Nevertheless, as banks have been permitted to lend to exporters and their prime customers at sub-PLR rates effective April 19, 2001, the cost of bank borrowings to such corporates has been coming down even further.

2.12 In order to reduce information asymmetries, as proposed in the Monetary and Credit policy for 2002-03, the Reserve Bank is presently disseminating the bank-wise information on lending rate after consultation with select banks on its website.

2.13 In the annual policy Statement of April 2003, banks were advised to announce a benchmark PLR with the approval of their Boards, taking into consideration: (i) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirements of provisioning and capital charge, and profit margin. It was also indicated that the system of determination of benchmark PLR by banks and the actual prevailing spreads around the benchmark PLR would be reviewed in September 2003. Accordingly, the issues relating to the implementation of the system of benchmark PLR were discussed with select banks and the Indian Banks Association (IBA). The IBA has made the following suggestions: (i) permitting separate PLRs for working capital and term loans, (ii) continuation of the practice of multiple PLRs, (iii) flexibility in offering fixed or floating rate loans based on time-varying term premia and market benchmarks, (iv) flexibility in pricing of consumer loans, and (v) accounting for transaction costs for different types of loans.

2.14 In the Mid-term Review of Monetary and Credit Policy for 2003-04, it was clarified that since lending rates for working capital and term loans can be determined with reference to the benchmark PLR by taking into account term premia and/or risk premia, a need for multiple PLRs may not be compelling. It is also clarified that banks have the freedom to price their loan products based on time-varying term premia and relevant transaction costs. Banks may price floating rate products by using market benchmarks in a transparent manner. As IBA has indicated broad agreement with the approach proposed for the benchmark PLR, IBA may advise its members suitably, keeping in view the operational requirements.

Interest Rate on Export Credit

2.15 The Monetary and Credit Policy for 2002-03 also indicated that linking domestic interest rates on export credit to PLR has become redundant under the present circumstances as effective interest rates on export credit in Rupee terms were substantially lower than the PLR. Therefore, in order to encourage competition among banks and also to increase flow of credit to the export sector, the Reserve Bank liberalised the interest rates on local currency export credit effective May 1, 2003 for pre-shipment credit above 180 days and post-shipment credit above 90 days.

Refinance

Export Credit Refinance facility

2.16 With effect from April 1, 2002, scheduled commercial banks (SCBs) are provided export credit refinance to the extent of 15.0 per cent of the outstanding export credit eligible for refinance as at the end of the second preceding fortnight.

2.17 After deregulation of interest rates on post-shipment rupee export credit beyond 90 days and up to 180 days with effect from May 1, 2003, it was decided, in response to suggestions received from the exporting community, that the refinance facility would continue to be extended to eligible export credit remaining outstanding under post-shipment rupee credit beyond 90 days and up to 180 days.

Collateralised Lending Facility - Withdrawal

2.18 The liquidity support under the Collateralised Lending Facility (CLF) was provided to SCBs against the collateral of excess holdings of Government of India dated securities/Treasury bills over their SLR requirement. The extent of liquidity support available to each bank under the CLF was stipulated at 0.25 per cent of its fortnightly average outstanding aggregate deposits in 1997-98. However, subsequent to reduction in refinance limits under CLF by 50 per cent in two stages of 25 per cent each effective July 29, 2000 and August 12, 2000 the limit was reduced to 0.125 per cent of aggregate deposits of each bank in 1997-98. With the emergence of Liquidity Adjustment Facility (LAF) as the primary instrument for modulating systemic liquidity on a day-to-day basis, limits under CLF were reduced by another 50 per cent effective July 27, 2002 before it was completely withdrawn from October 5, 2002.

Statutory Pre-emptions

Cash Reserve Ratio (CRR)

2.19 There has been a distinct shift in the monetary policy framework and operating procedures from direct instruments of monetary control to market-based indirect instruments in the recent years. The rationalisation of CRR and its maintenance facilitated reducing reliance on reserve requirements, even while retaining it as a monetary tool. The CRR of SCBs that was at 15.0 per cent of Net Demand and Time Liabilities (NDTL) between July 1, 1989 and October 8, 1992 was brought down in phases to 4.5 per cent on June 14, 2003. While the CRR reduction over the last few years has been consistent with the objective of reducing it to the statutory minimum level of 3.0 per cent, the Reserve Bank could continue to use the instrument, in either directions, for liquidity management, taking into account the liquidity conditions, inflation trends and other macroeconomic developments. For example, the reserve requirements were increased temporarily in 1997 to combat pressures arising from contagion from East Asian financial crisis. However, as part of the medium-term objective of reducing CRR to its statutory minimum and also to step up lendable resources of the banks to support real activity, the CRR was reduced by as much as 400 basis points over last three years, with a reduction of 25 basis points since June 2003.

Statutory Liquidity Ratio (SLR)

2.20 While there was no change in SLR requirements during 2002-03 for SCBs in general, policy changes were effected in respect of composition of SLR assets of RRBs in 2002-03 on prudential considerations. The RRBs' balances maintained in call money or fixed deposits with their sponsor banks were earlier treated as 'cash' and hence reckoned towards their maintenance of SLR. As a prudential measure, RRBs were advised in April 2002 to maintain their entire SLR holdings in Government and other approved securities. Specifically, RRBs were advised to convert their existing deposits with sponsor banks into Government securities by March 31, 2003. A number of RRBs have already achieved the minimum level of SLR in Government securities. Some RRBs and their sponsor banks, however, expressed difficulties relating to premature withdrawal of deposits reckoned for SLR purposes and those were allowed to retain such deposits till maturity. RRBs were advised to achieve the target of maintaining 25 per cent SLR in Government securities and, on maturity, their deposits with sponsor banks may be converted into Government securities to be reckoned for SLR purposes.

Mid-Term Review of Monetary and Credit Policy for 2003-04

2.21 The Mid-term Review of Monetary and Credit Policy for 2003-04, announced on November 3, 2003 reviewed the recent monetary and macro developments in the Indian economy with expectations of higher GDP growth during 2003-04 (placed at 6.5 - 7.0 per cent, with an upward bias) and benign inflation outlook (4.0-4.5 per cent, with a downward bias). It was proposed to continue with the overall stance of monetary policy announced in April 2003 in terms of provision of adequate liquidity to meet credit growth and supporting investment demand with a vigil on the price level and a preference for soft and flexible interest rate environment. The Mid-term Review emphasised continuance of measures already taken with an accent on implementation, facilitating ease of transactions by the common persons, further broadening of the consultative process and continued emphasis on institutional capacity to support growth consistent with stability in a medium-term perspective (Box. II.1).

3. Supervision and Supervisory Policy[1] Supervision

Board for Financial Supervision

2.22 The Board for Financial Supervision (BFS), set up in November 1994 under the Reserve Bank of India (Board for Financial Supervision) Regulations, is entrusted with the supervision of commercial banks, select financial institutions (FIs) and non-banking financial companies (NBFCs). During the period from July 2002 to June 2003, the BFS reviewed the performance of banks, FIs and local area banks with reference to their position as on March 31, September 30 and December 31, 2002.

2.23 The BFS reviewed the monitoring by the Reserve Bank with regard to bank frauds and house-keeping in public sector banks (PSBs) including reconciliation of entries in inter-branch accounts, inter-bank accounts (including *nostro* accounts) and balancing of the books of accounts. Since it was perceived that a major reason behind bank frauds is non-observance of the laid down rules and procedures, based on the Report of the Expert Committee on Legal Aspects of Bank Frauds (Chairman: Dr. N.L. Mitra), all banks were advised to ensure that each and every desk in the branches certify that there was no laxity in implementing the laid down systems and procedures. Similarly, in the area of reconciliation of entries in inter-branch and inter-bank as well as balancing of books of account, considerable improvement has been ensured through constant monitoring by the Reserve Bank and continuous review by the BFS. The BFS also reviewed the monitoring of select all-India FIs and NBFCs over which the Reserve Bank has regulatory jurisdiction. Besides delineating the course of action to be pursued in respect of institution-specific supervisory concerns, the BFS provided guidance on several regulatory and supervisory policy issues. In addition, the BFS reviewed the status of supervision of urban co-operative banks. Considering the poor inherent financial strength of existing local area banks (LABs), the policy for licensing of LABs was revised.

2.24 A supervisory rating model for the FIs was approved and introduced from the inspection of 2002-03. The report on the weak / problem NBFCs with public deposits of Rs.20 crore and above is being reviewed by the BFS on a quarterly basis. However, with a view to protecting the interest of depositors in medium-sized companies as well, weak and problematic NBFCs, with public deposits of Rs.10 crore and above, have been brought within the purview of quarterly review of the BFS.

Annual Financial Inspections

2.25 For the year 2002-03, Annual Financial Inspections of 92 banks (26 PSBs, 30 private sector banks and 36 Foreign banks), 14 Local Head Offices of SBI and 4 LABs have been completed under Section 35 of Banking Regulation Act, 1949. Nine all-India FIs were inspected under Section 45 N of the Reserve Bank of India Act, 1934. Inspection of 4 foreign banks, closing their operations in India, was carried out under Section 44 of the Banking Regulation Act, 1949.

Box II.1: Major Policy Measures Announced in the Mid-term Review of Monetary and Credit Policy for the year 2003-04

1. Monetary Measures: Bank Rate was kept unchanged at 6.0 per cent, prevailing since April 29, 2003. Cash Reserve Ratio (CRR) was kept unaltered at 4.50 per cent, prevailing effective fortnight beginning June 14, 2003, in view of the existing liquidity situation.

2. Interest Rate Policy: It was clarified that since lending rates for working capital and term loans can be determined with reference to the benchmark PLR, by factoring in term premia and / or risk premia, a need for multiple PLRs may not be compelling. Banks were free to price their loan products based on time-varying term premia and relevant transaction costs. Freedom has also been given for pricing loan products on the basis of market benchmark in a transparent manner. Indian Banks' Association is to advise banks on the benchmark PLR keeping in view the operational requirement.

3. Credit Delivery Mechanism

- *Credit Facilities for Small Scale Industries:* In order to improve the flow of credit to small scale industries (SSIs), it was proposed that banks may, on the basis of good track record and the financial position of the SSI units, increase the loan limit from Rs.15 lakh to Rs.25 lakh (with the approval of their Boards) for dispensation of collateral requirement. It was further proposed that (i) the interest rate on the deposits of foreign banks placed with SIDBI towards their priority sector shortfall will be at the Bank Rate, (ii) SIDBI will take appropriate steps to ensure that priority sector funds are utilised expeditiously and benefits of reduction in interest rates are passed on to the borrowers. Finally, it was proposed that all new loans granted by banks to NBFCs for the purpose of on-lending to SSI sector would also be reckoned for priority sector lending.
- *Micro-finance:* Considering the recommendations of the four informal groups constituted to examine issues concerning micro-finance delivery, it was proposed that banks should provide adequate incentives to their branches in financing the self help groups (SHGs) and establish linkage with them. The approach to micro-finance to SHGs should be totally hassle-free and

may include consumption expenditures to enable smoothing of consumptions as needed relative to time-profile of income flows.

4. Money Market

- *Moving towards Pure Inter-bank Call/Notice Money Market:* In view of further market developments as also to move towards a pure inter-bank call/notice money market, it was proposed that with effect from the fortnight beginning December 27, 2003, non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 60 per cent of their average daily lending in the call/notice money market during 2000-01, down from 75 per cent announced in April 2003.
- *Rationalisation of Standing Facilities:* In order to move further towards phasing out sector-specific standing facilities as also to rationalise the rates at which liquidity is injected into the system, it was proposed that the "normal" and "back-stop" standing facilities will be available in the ratio of one-third to two-thirds (33:67) from the fortnight beginning December 27, 2003 as against the prevailing ratio of 50:50.

- Primary Dealers' Access to Call/Notice Money Market:
  With a view to further develop the repo market as also to ensure a balanced development of various segments of money market, it was proposed that with effect from February 7, 2004, PDs will be allowed to borrow, on average in a reporting fortnight, up to 200 per cent of their net owned funds as at end-March of preceding financial year.

5. Foreign Exchange Market

(a) Unhedged Forex Exposures of Corporates: It was decided that all foreign currency loans by banks above US $ 10 million can be extended to corporates only on the basis of a well laid out policy of the Board to ensure hedging, except for loans to finance exports and for meeting forex expenditure.

(b) Export Follow–up: Beginning January 1, 2004, all exporters may write-off outstanding export due on their own and may also extend the renewal period of realisation beyond 180 days on their own up to 10 per cent of their export proceeds in a calendar year.

(c) Issue of Units of Mutual Fund – General Permission:
In order to provide single window clearance to Indian Asset Management Companies (AMCs) who launch off-shore funds abroad, in consultation with SEBI, it was proposed to accord general permission to AMCs to issue units, remit dividend and redeem the units issued, once SEBI's approval is obtained for launching off-shore funds, subject to reporting requirements.

6. Prudential Measures

(a) Prudential Norms for FIs: To harmonise the asset classification norms of FIs and banks, in line with international norms, it was proposed to adopt the 90-day norm for recognition of loan impairment for FIs from the year ending March 31, 2006.

(b) Monitoring of Systemically Important Financial Intermediaries (SIFIs): In consultation with the Chairman, SEBI and Chairman, IRDA, it was decided to establish a special monitoring system in respect of SIFIs that would encompass (i) a reporting system for SIFIs on financial matters of common interest to the Reserve Bank, SEBI and IRDA; (ii) the reporting of intra-

group transactions of SIFIs; and (iii) the exchange of relevant information among the Reserve Bank, SEBI and IRDA.

(c) Corporate Governance: It was proposed to harmonise the approaches suggested by the Ganguly Committee and the SEBI Committee in regard to corporate governance by banks, and to extend such practices to PDs, NBFCs and other financial institutions.

Frauds

2.26 The notable features in respect of frauds during 2002-03 were the following:

- During July-December 2002, commercial banks reported 1,597 cases of frauds involving Rs.267 crore; during July-June 2001-02, 2,253 cases of frauds involving Rs.414 crore were reported by commercial banks.
- During July-March 2002-03, 69 caution advices were issued to commercial banks (except RRBs) in respect of firms / companies committing serious irregularities in their borrowal accounts; during July-June 2001-02, 81 caution advices were issued for alerting commercial banks (except RRBs) against fraudulent operations of certain unscrupulous elements.
- During July-December 2002, 40 cases of robberies / dacoities involving Rs.280 crore were reported by PSBs; during July-June 2001-02, 118 cases involving Rs.596 crore of robberies / dacoities were reported.

Computerisation of Fraud-related Information System

2.27 A module on fraud monitoring and reporting system was developed by the Reserve Bank and forwarded to banks. From the quarter ending June 2003, banks are required to submit a number of frauds and vigilance returns through this module to the Reserve Bank.

Committees related to Banking Supervision

Guidelines on Consolidated Accounting and Supervision of Banks and FIs

2.28 In view of the sharper focus on empowering supervisors to undertake consolidated supervision of bank groups and since the Core Principles for Effective Banking Supervision have underscored this requirement as an independent principle, the Reserve Bank set up a multi-disciplinary Working Group in November 2000 (Chairman: Shri Vipin Malik). The Working Group examined the feasibility of introducing consolidated accounting and other quantitative methods to facilitate consolidated supervision. Based on the recommendations of this Working Group, guidelines were issued to banks on February 25, 2003 and FIs on August 1, 2003.

2.29 Initially, consolidated supervision has been mandated for all groups where the controlling entity is a bank. All banks that come under the purview of consolidated supervision of the Reserve Bank have been advised to prepare and disclose Consolidated Financial Statements (CFS) from the financial year commencing from April 1, 2002, in addition to their single financial statements. The CFS are to be prepared in accordance with the Accounting Standard 21 (related to CFS) and other related Accounting Standards prescribed by the Institute of Chartered Accountants of India (ICAI), *viz.,* Accounting Standards 23 (relating to Investments in

Associates in CFS) and 27 (financial reporting of investment in joint ventures). In addition, banks are presently required to prepare Consolidated Prudential Reports (CPR). These reports have been initially introduced on a half-yearly basis from March 31, 2003 as part of the off-site reporting system on the lines of the existing off-site returns for banks. The banks are expected to prepare the CPR adopting the same principles as laid down in Accounting Standards 21, 23 and 27. However, since there is a possibility of including mixed conglomerates in due course, to start with, CPR is expected to contain information and accounts of related entities which carry on activities of banking or financial nature and need not include related entities engaged in insurance or business not pertaining to financial services.

2.30 For the purpose of application of prudential norms on a group-wide basis, the prudential norms / limits, such as, capital to risk-weighted asset ratio (CRAR), single / group borrower exposure limits, liquidity ratios, mismatches limits and capital market exposure limits have also been prescribed for compliance by the consolidated bank.

Working Group Relating to Empanelment of Statutory Auditors

2.31 The Working Group constituted to review and suggest modifications in the existing norms for empanelment of audit firms to be appointed as statutory auditors of PSBs, seven all-India FIs and the Reserve Bank submitted its report on March 12, 2003. The recommendations of the Group were approved with certain modifications by the Audit Sub-Committee of the BFS in its meeting held on April 25, 2003. The revised norms and other recommendations will be implemented with effect from the year 2004-05. The major recommendations of the Working Group for eligible audit firms are:

- minimum seven full-time chartered accountants with the firm (as against six) of which five should be full-time partners, each with a minimum continuous association of 15,10, 5, 5 and 1 year, respectively, with the firm;
- a professional staff of 18 (as against 15 in the existing norms); a minimum standing of 15 years (as against 10 years in the existing norms);
- a minimum statutory bank / branch audit experience of 15 years (as against 8 years in the existing norms); and
- at least one partner or paid chartered accountant with Certified Information Systems Auditor (CISA) / ISA or any other equivalent qualification.

Checklist for Computer Audit

2.32 An assessment of the system of computer audit in banks was made based on the findings of the inspection reports of banks for the years 1998-99 and 1999-2000. In this context, the following specific feedback received from banks was taken into account, *viz*., nature of the Information Technology (IT) management function, IT risk management, electronic data processing (EDP) audit systems, EDP audit methodology, and other related matters. It was evident from the assessment that the computer audit in India was still in a nascent stage and a major constraint encountered by banks has been the general shortage of skilled technical personnel for the task. The findings of the assessment were considered by the Audit SubCommittee of the BFS, which directed the constitution of a committee to examine the aspects related to computer audit in detail. It was also decided to draw up a checklist in a standardised form so that all banks operating in the country can ensure that their computerised branches put in place requisite controls in the computerised environment and that the branch auditors also verify the same and incorporate their observation in the report. Accordingly, a committee was constituted comprising representatives of the Reserve Bank, ICAI and a few select banks. The Committee recommended that the internal security audit checklist needed to be platform independent, while the necessary platform dependent control questionnaire could be framed by the banks themselves. The Committee classified the risk areas into 15 categories and prepared checklists in respect of each of the areas[2] . It is expected that these checklists would serve as a minimum standard in conducting computer audit in banks and FIs.

2.33 The main purpose for preparing checklists for conducting computer audit was to sensitise banks on the emerging concerns arising on account of computerisation and growing dependence on computers and technology for conducting business. The checklists, as approved by the Audit Sub-Committee of the BFS, were forwarded to banks and FIs in December 2002.

Supervisory Policy Developments

Quarterly Review

2.34 Currently, only half-yearly results of listed companies are subjected to limited review by the auditors. The Securities and Exchange Board of India (SEBI) made an amendment in January 2003 to clause 41 (related to half-yearly limited review of listed companies) of the Listing Agreement to make it mandatory for all listed companies (including commercial banks) to get their quarterly results subjected to "limited review" by the auditors of the company (or by a Chartered Accountant in case of public sector undertakings) and a copy of the Review Report is required to be submitted to the Stock Exchanges. It has been decided by the Audit

Sub-Committee of the BFS that such quarterly review should be carried out by the listed public sector banks also, on the same lines of half-yearly limited review, with effect from the quarter ended June 30, 2003.

Prompt Corrective Action

2.35 A system of Prompt Corrective Action (PCA), based on a pre-determined rule-based structured early intervention, has been put in place with effect from December 2002 as a part of ongoing efforts to enhance the existing supervisory framework. The Reserve Bank will initiate certain structured action in respect of banks which will hit trigger points in terms of three parameters, *viz*., (a) CRAR, (b) ratio of net NPAs to net advances, and (c) return on assets. It was decided that PCA scheme may be put into operation, initially for a period of one year from December 2002. The scheme was circulated among banks on December 21, 2002, advising them to take steps to ensure that they do not come under the provisions of PCA. Banks were also advised to place the scheme before their Board of Directors. It was also decided that the banks, which have already breached the trigger points under the PCA scheme, will be advised of the specific actions to be taken by them separately. Such banks were also cautioned of the impending actions. A review of the scheme is envisaged in December 2003.

Risk-Based Supervision

2.36 After having put in place the essential aspects of risk-based supervision (RBS) during 2001-02, the implementation of the RBS approach was taken up in phases during 2002-03. For ensuring a smooth transition to risk-based supervision of banks, the new RBS Manual has been prepared keeping in view international best practices customised to suit the Indian conditions. For compiling risk profiles of banks, the detailed risk profile template was designed for use by the Reserve Bank supervisory staff. Similar templates were designed for use of banks and forwarded to them for self-assessment of risks taken by them. In order to create greater awareness among bank professionals, training programmes on risk management and risk-based supervision are being conducted in the Reserve Bank training establishments on an ongoing basis since June 2002.

2.37 A Discussion Paper was issued in August 2001 to familiarise banks with the RBS approach. The paper also identified five areas of action for the commercial banks, *viz.*, (a) putting in place appropriate risk management architecture, (b) setting up of risk-based internal audit function, (c) upgrading management information and information technology systems, (d) undertaking human resource initiatives, and (e) setting up of dedicated compliance units necessary for adoption of the RBS approach. As part of the consultative process, high-level meetings were held with banks to identify issues on which they required further guidance / assistance from the Reserve Bank in the process of transition. Guidance notes on credit risk management, market risk management and risk based internal audit were issued to banks. Banks were advised to put in place an institutional mechanism to monitor the progress in preparedness for RBS, which is being reviewed by the Reserve Bank through periodic returns received from them and also by holding periodic meetings with them.

2.38 Eight banks, representing a mix of banks in the public sector, private sector and foreign banks have been identified for the implementation of RBS on a pilot basis. The compilation of risk profiles of the selected banks has commenced at Regional Offices of the Reserve Bank. Based on individual risk profiles, customised supervisory programme, together with bank-level action, will be prepared for each of the select banks. The customised programme will include the identified supervisory cycle for the bank, the intensity of supervision to be exercised and the mix of supervisory tools, including the RBS on-site inspection, to be applied for addressing the concerns identified in the risk profile.

2.39 The pilot RBS inspections of the select banks will be taken up independently after the annual financial inspections of these banks are completed under the present inspection system based on Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Systems (CAMELS) for the domestic banks, and an inspection system based on Capital Adequacy, Asset Quality, Liquidity, Compliance and Systems (CALCS) for the foreign banks. Under RBS, on-site inspections will be targeted to the areas of concern, which warrant on-location examination as revealed from the risk profile. On the basis of the experience gained in the pilot exercise the approach to RBS will be further fine-tuned and is likely to be extended to all banks in due course.

Changes in the Off-Site Monitoring and Surveillance System

2.40 After the introduction of Off-Site Monitoring and Surveillance (OSMOS) system in 1995, the scope and coverage of the off-site returns have been enhanced significantly. In view of the recent initiatives on consolidated supervision, country risk management and risk-based supervision, certain additional data needed to be collected through off-site returns. Accordingly, an upgraded OSMOS system, including new returns as well as enhancing the coverage of the existing ones, has been implemented from the quarter ended June 2003.

Supervisory Rating of Banks

2.41 Keeping in view the importance of monitoring and prevention of frauds, it was decided that compliance in this area should carry more weight while rating the banks. Accordingly, some changes were made in the system of rating banks under CAMELS / CALCS models wherein compliance regarding fraud monitoring and prevention would carry more weight.

Risk Based Internal Audit

2.42 The guidelines relating to risk-based internal audit systems were issued to banks in December 2002 wherein they were advised to immediately initiate necessary steps to review their current internal audit systems and prepare for the transition to a risk-based internal audit system in a phased manner, keeping in view their risk management practices, business requirements and manpower availability.

Prudential Norms

(a) Exposure Norms

Measurement of Credit Exposure on Derivative Products

2.43 Credit exposures on derivative products have important ramifications for banks. Consequently, it is crucial that these are measured appropriately. As per the instructions, prior to March 31, 2003, exposures by way of non-funded credit limits were captured at 50 per cent of such limits or outstandings, whichever is higher. Besides, the exposure of banks on derivative products, such as, Forward Rate Agreements (FRAs) and Interest Rate Swaps (IRS) was captured for computing exposure by applying the conversion factors to notional principal amounts as per the original exposure method. With effect from April 1, 2003, in addition to reckoning non-fund based limits at 100 per cent, banks have been advised to include forward contracts in foreign exchange and other derivative products at their replacement cost value in determining individual / group borrower exposure. As per the paper of the Basel Committee on Banking Supervision on International Convergence of Capital Measurement and Capital Standards, 1988, there are two methods to assess the exposure on account of credit risk in derivative products, *viz.*, (i) Original Exposure Method, and (ii) Current Exposure Method (Box II.2). Banks and FIs have been encouraged to follow the Current Exposure Method, which is more accurate in measuring credit exposure of a derivative product. In case a bank is not in a position to adopt the Current Exposure Method, it may follow the Original Exposure Method. However, banks have been advised that their endeavour should be to move over to the Current Exposure Method in course of time. Banks have been advised to adopt, effective from April 1, 2003, either of the above two methods, consistently for all derivative products, in determining individual / group borrower exposure. Banks would not be required to calculate potential credit exposure for single currency floating/floating interest rate swaps. The credit exposure on single currency floating / floating interest rate swaps are to be evaluated solely on the basis of their mark-to-market value.

Box II.2 : Measurement of Credit Risk Exposure of Derivative Products

There are two methods for measuring the credit risk exposure inherent in derivatives, as described below.

1. *The Original Exposure Method*

Under this method, the credit risk exposure of a derivative product is calculated at the beginning of the derivative transaction by multiplying the notional principal amount with the prescribed credit conversion factor. This method, however, does not take account of the ongoing market value of a derivative contract, which may vary over time. In order to arrive at the credit equivalent amount, a bank should apply the following credit conversion factors to the notional principal amounts of each instrument according to the nature of the instrument and its original maturity:

2. *The Current Exposure Method*

Under this method, the credit risk exposure / credit equivalent amount of the derivative products is computed periodically on the basis of the market value of the product to arrive at its current replacement cost. Thus, the credit equivalent of the off-balance sheet interest rate and exchange rate instruments would be the sum of the following two components:

(a) the total ‘replacement cost’ - obtained by marking-to-market all the contracts with positive value (*i.e.*, when the bank has to receive money from the counterparty); and

(b) an amount for ‘potential future changes in credit exposure’ - calculated by multiplying the total notional principal amount of the contract by the following credit conversion factors according to the residual maturity of the contract:

Original Maturity	Conversion Factor to be applied on Notional Maturity Principal Amount (per cent)		Residual Maturity	Conversion Factor to be applied on Notional Maturity Principal Amount (per cent)	
	Interest Rate Contract	Exchange Rate Contract		Interest Rate Contract	Exchange Rate Contract
Less than one year	0.5	2.0	Less than one year	Nil	1.0
One year and less than two years	1.0	5.0 (*i.e.*, 2+3)	One year and over	0.5	5.0
For each additional year	1.0	3.0			

Reference : Basel Committee on Banking Supervision (1988), *International Convergence of Capital Measurement and Capital Standards*, Bank for International Settlements, 2.44 In view of the critical importance of the infrastructure sector and high priority being accorded for development of various infrastructure services, infrastructure financing by banks was reviewed in consultation with Government of India and revised guidelines on financing of infrastructure projects were issued in February 2003. Accordingly, any credit facility in whatever form extended by lenders (*i.e.,*Basel. banks, FIs or NBFCs) to an infrastructure facility as broadly defined in the guidelines would be treated as 'infrastructure lending'. Specifically, a credit facility provided to a borrower company engaged in developing, or operating and maintaining, or developing, operating and maintaining any project in any of the following sectors would qualify as infrastructure facility:

- a road, including toll road, a bridge or a rail system;
- a highway project, including other activities being an integral part of the highway project;
- a port, airport, inland waterway or inland port;
- a water supply project, irrigation project, water treatment system, sanitation and sewerage system or solid waste management system;
- telecommunication services whether basic or cellular, including radio paging, domestic satellite service (*i.e.*, a satellite owned and operated by an Indian company for providing telecommunication service) and network of trunking, broadband network and internet services;
- an industrial park or special economic zone;
- generation or generation and distribution of power;
- transmission or distribution of power by laying a network of new transmission or distribution lines; and
- Any other infrastructure facility of similar nature.

2.45 In terms of the existing guidelines, credit exposure to borrowers belonging to a group may exceed the prudential exposure norm of 40 per cent of the bank's capital funds by an additional 10 per cent (*i.e.*, up to 50 per cent), provided the additional credit exposure is on account of extension of credit to infrastructure projects. In addition to the above, credit exposure to single borrower may exceed the prudential exposure norm of 15 per cent of the bank's capital funds by an additional 5 per cent (*i.e.*, up to 20 per cent) provided the additional credit exposure is on account of infrastructure lending. Banks may assign a concessional risk weight of 50 per cent for capital adequacy purposes on investment in securitised paper pertaining to an infrastructure facility which complies with certain conditions specified in the revised guidelines.

Norms for Foreign Banks

2.46 Effective March 31, 2002, foreign banks were brought on par with Indian banks for the purpose of computing the prudential credit exposure ceiling by broadening the concept of 'capital funds' as regulatory capital (*i.e.*, Tier I and Tier II capital) in India as defined under the capital adequacy standards. Consequent upon the adoption of the revised concept of capital funds, some foreign banks' exposures to individual / group borrowers exceeded the prudential exposure limits. Foreign banks are now not allowed to assume fresh exposure to single / group borrowers beyond the prudential credit exposure limits.

2.47 With a view to smoothening the transition to prudential exposure limits, relaxations were allowed in respect of the following:

- In case of merger / acquisition of different borrowing companies, foreign banks may continue with the excess group exposure till March 31, 2004 if their group exposure exceeds the prudential norm; and
- The existing fund and non-fund based facilities, such as, term loans, investments in bonds / debentures and performance guarantees, *etc*., exceeding the exposure ceilings, may continue till their expiry / maturity.

Underwriting by Merchant Banking Subsidiaries of Commercial Banks

2.48 Banks / subsidiaries were, hitherto, required to ensure that the funded and non-funded commitments, including investments and devolvements emanating from underwriting and other commitments (like stand-by facilities relating to a single legal person or entity) did not exceed 15 per cent of the net owned funds of the bank / subsidiary and the commitments under a single underwriting obligation did not exceed 15 per cent of an issue. These guidelines were reviewed and with a view to providing a level playing field to the merchant banking subsidiaries of banks, it was decided that the existing ceiling on underwriting commitments would not be applicable to them. The merchant banking subsidiaries of banks regulated by the SEBI would, consequently, be governed by the SEBI norms on various aspects of the underwriting exercise taken up by them. The prudential exposure ceiling on underwriting and similar commitments of banks, however, remained unchanged and would continue to be reckoned within the norms prescribed by the Reserve Bank earlier on overall borrower / issue size limits from time to time.

Advances to Self-Help Groups against Group Guarantee

2.49 At present, banks are required to limit their commitment by way of unsecured advances in such a manner that 20 per cent of the banks' outstanding unsecured guarantees together with a total of outstanding unsecured advances do not exceed 15 per cent of their total outstanding advances.

2.50 Banks generally lend to Self-Help Groups (SHGs) against group guarantees without insisting on any security. Considering the high recovery rate in respect of banks' advances to SHGs and that this programme helps the poor, banks were advised in November 2002 that unsecured advances given by them to SHGs against group guarantee would be excluded for the purpose of computation of the prudential norms on unsecured guarantees and advances until further notice. The matter would be reviewed after a year in the light of growth in aggregate unsecured advances, and the recovery performance of advances to SHGs.

(b) Capital Adequacy

Basel II Developments

2.51 The New Basel Capital Accord, popularly known as Basel II, is being operationalised sometime around end-2006. The Accord represents the convergence of research and practice in supervision as it attempts to apply state-of-the-art financial modelling techniques to the prescription of capital adequacy. The Third Consultative Paper (CP 3) of the Basel Committee on Banking Supervision (BCBS) was released in April 2003 for comments by interested parties and national central banks. The Reserve Bank forwarded its comments on CP3 to BCBS in July

2003 (Box II.3).

Box II.3: The Third Consultative Paper (CP3) on the New Basel Capital Accord and Comments of the Reserve Bank

The Basel Committee on Banking Supervision (BCBS) released the Third Consultative Paper (CP3) on the New Basel Capital Accord (Basel II) in July 2003. In view of the aim of BCBS to finalise Basel II by end of 2003 with operationalisation expected by end-2006, CP3 is an important development. The CP3 document is a culmination of the comments received from more than 40 countries on the third Quantitative Impact Study (QIS3) held in October 2002. In response to the comments received from QIS3 technical guidance, the following significant modifications have been proposed in the new Accord:

- Fully secured lending (by mortgages on residential property that is or will be occupied by the borrower) will now receive a 35 per cent risk weighting in the standardised approach instead of the earlier 40 per cent.
- If a bank estimates its own loss given defaults (LGDs), where those estimates are volatile over the economic cycle, LGDs that are appropriate for an economic downturn should be used. A minimum LGD value of 10 per cent is proposed for retail exposures secured by mortgages.
- As an alternative to standard or own estimate haircuts for repo style transactions the method of Value at Risk (VaR) has been confirmed. In this context, the methodology of Backtesting has now been developed.
- Advanced and Foundation Internal Rating-based (IRB) approaches are presently available for high volatility commercial real estate lending. These are similar to the general IRB approaches to corporate lending, except that a separate risk weight function is used.
- A revolving retail exposures risk weight curve has been recalibrated in the light of QIS3 results.
- An alternative standard operational risk approach has been developed.

The basic comments of the Reserve Bank on the CP3 are as follows:

- All banks with cross-border business exceeding 20 to 25 per cent of their total business may be defined as internationally active banks.

- The Basel Committee may consider prescribing a material limit (up to 10 per cent of the total capital) up to which cross-holdings of capital and other regulatory investments could be permitted and any excess investments above the limit would be deducted from total capital.
- Only those Export Credit Agencies (ECAs) would be eligible for use in assigning preferential risk weights which, (a) disclose publicly their risk scores, rating process and procedure, (b) subscribe to the publicly disclosed OECD methodology, and (c) are recognised by national supervisors.
- Risk weighting of banks should be de-linked from the credit rating of sovereigns in which they are incorporated.
- It would be difficult for supervisors to take a view as to whether the External Credit Assessment Institutions (ECAIs) are using unsolicited ratings to put pressure on entities to obtain solicited ratings. Supervisors are neither equipped nor competent to identify such behaviour of rating agencies.

- While internationally active banks in emerging economies may initially be required to follow the Standardised Approach, they may be allowed to use the internal ratings for assigning preferential risk weights on certain types of exposures, after validation of the internal rating systems by national supervisors.
- There is a strong case for revisiting the risk weights assigned to sovereign exposures when the exposures are aggregated as a portfolio which enjoy the benefits of diversification similar to the approach adopted for retail procedures.
- The capital charge for specific risk in the banking and trading books should be consistent to avoid regulatory arbitrages.

References:

Bank for International Settlements (2003), *Third Consultative Paper,* Basel.

Reserve Bank of India (2003), *Comments of the RBI on the Third Consultative Document of the New Basel Capital Accord*, Mumbai.

Investment Fluctuation Reserve

2.52 With a view to building up of adequate reserves to guard against any possible reversal in the interest rate environment in future due to unexpected developments, banks were advised to build up an Investment Fluctuation Reserve (IFR) of a minimum of 5 per cent of the investment held in the Available for Sale (AFS) and Held for Trading (HFT) categories of the investment portfolio within a period of five years commencing from the year ended March 31, 2002. As suggested by banks and to give further relaxation in building IFR, it was decided that while IFR would continue to be treated as Tier II capital, it would not be subject to the ceiling of 1.25 percent of the total risk-weighted assets. However, for the purpose of compliance with the capital adequacy norms, Tier II capital including IFR would be considered up to a maximum of 100 per cent of total Tier I capital. The above treatment would be effective from March 31, 2003 onwards.

(c) Income Recognition / Asset Classification

Projects under Implementation involving Time Overrun

2.53 Banks were advised in May 2002 that the projects under implementation would be grouped under the following three categories for determining the date when the project ought to be completed and the manner in which the asset classification of the underlying loan should be determined:

- Projects where financial closure had been achieved and formally documented may be treated as standard assets for a period not exceeding two years, beyond the date of completion of the project (as originally envisaged at the time of initial financial closure of the project).
- Projects sanctioned before 1997, with an original project cost of Rs.100 crore or more, where financial closure was not formally documented, and where the deemed date of completion of the project has been decided by an independent group of outside experts may be treated as a standard asset for a period not exceeding two years, beyond the deemed date of completion of the project, as decided by the Group.
- Projects sanctioned before 1997, with original project cost of less than Rs.100 crore where financial closure was not formally documented, may be treated as standard assets only for a

period not exceeding two years, beyond the date of completion of the project (as originally envisaged at the time of sanction).

- In February 2003, banks were allowed to recognise income on accrual basis in respect of the above three categories of projects under implementation which are classified as 'standard' in terms of the above guidelines.

Recovery of Agricultural Loans affected by Natural Calamities

2.54 The year 2002 witnessed one of the worst droughts. As part of relief measures, the Reserve Bank advised banks in November 2002 not to effect recovery of any amount either by way of principal or interest during that financial year in respect of *Kharif* crop loans in the districts affected by failure of the South-West monsoon as notified by the State Governments. Further, the principal amount of crop loans in such cases should be converted into term loans and will be recovered over a period of minimum five years in case of small and marginal farmers, and four years in case of other farmers. Interest due in financial year 2002-03 on crop loans should be deferred and no interest should be charged on the deferred interest.

2.55 Banks were advised that in such cases of conversion or re-scheduling of crop loans into term loans, the term loans may be treated as current dues and need not be classified as NPA. The asset classification of these loans would thereafter be governed by the revised terms and conditions and would be treated as NPA, if interest and / or instalment of principal remain unpaid for two harvest seasons, not exceeding two half years.

(d) Provisioning Norms

Inter-branch Accounts

2.56 Banks were advised to make 100 per cent provision from the year ended March 31, 1999 for the net debit position in their inter-branch accounts, arising out of the unreconciled debit and credit entries outstanding for more than three years as on March 31 every year. The period was reduced to two years from the year ended March 31, 2001 and further to one year from the year ended March 31, 2002. Banks are required to reconcile the entries in their inter-branch accounts within a period of six months. With this objective in view and in keeping with the best banking practices, it was decided that with effect from the year ending March 31, 2004, banks would be required to make 100 per cent provision for the net debit position in their inter-branch accounts in respect of entries which are un-reconciled and outstanding for more than six months.

2.57 With a view to reducing the level of long pending outstanding entries in the clearing adjustment accounts of banks, they have been allowed as a one-time measure, to net off the entries representing 'clearing differences -receivable' against entries representing 'clearing differences - payable' up to Rs.500 which are outstanding for more than three years as on March 31, 2003.

Accounting Standards

2.58 A Working Group (Chairman: Shri N.D. Gupta) was constituted to recommend steps to eliminate/reduce gaps in compliance by banks with Accounting Standards (AS) as issued by ICAI. The Working Group examined compliance by banks with the AS 1 to 22, which were already in force for the accounting period commencing from April 1, 2001, as also AS 23 to 28, which were to come into force for subsequent periods. The Working Group observed in its Report, that out of Accounting Standards which are already in force, *viz*., AS 1 to 22, banks in India are generally complying with most of the AS, except the following eight, leading to qualification in the financial statement. These pertain to AS 5 (net profit or loss for the period, prior period items and changes in accounting policies), AS 9 (revenue recognition), AS 11 (accounting for the effect of changes in foreign exchange rates), AS 15 (accounting for retirement benefits in the financial statements of employers), AS 17 (segment reporting), AS 18 (related-party disclosures), AS 21 (consolidated financial statements) and AS 22 (accounting for taxes on income).

2.59 In view of the above and also with a view to eliminating gaps in compliance with the AS, the Working Group made certain recommendations for compliance by banks with the concerned accounting standards. The Working Group has not made any recommendation on AS 11 (accounting for effects of changes in foreign exchange rates), since the ICAI was in the process of revising the concerned accounting standard. In March 2003, the Reserve Bank issued detailed guidelines on the basis of the Group's recommendations for the guidance of the banks.

Other Structural and Regulatory Changes

Setting up of New Private Sector Banks

2.60 With a view to impart greater competition in the banking system the Reserve Bank had set up a committee in January 1998 to review the licensing policy for setting up new private sector banks. Subsequently, the Reserve Bank issued guidelines for entry of new banks in the private sector in January 2001.

2.61 The applications received by the Reserve Bank within the stipulated period were scrutinised to ensure *prima facie* eligibility and thereafter referred to a High-Level Advisory Committee (Chairman: Dr.I.G. Patel) set up by the Reserve Bank. In their Report submitted to the Reserve Bank in June 2001, the Committee had recommended two applications as suitable for issue of 'in-principle' approvals for setting up new banks in private sector. The applications recommended were from Shri Ashok Kapur and two other banking professionals with Rabobank Netherlands, and Kotak Mahindra Finance Ltd., a non-banking financial company.

2.62 'In principle' approvals to the above two applicants, valid for one year, were issued on February 7, 2002. On being satisfied that the Kotak Mahindra Finance Ltd. complied with the requisite conditions laid down by the Reserve Bank as part of the 'in-principle' approval, they were granted a licence for commencement of banking business under Section 22 (1) of Banking Regulation Act, 1949 on February 6, 2003. The bank commenced operations with effect from March 22, 2003 and was included in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from April 12, 2003. The other applicant has been granted extension of time till November 30, 2003 to complete all necessary formalities and to commence banking operations.

Foreign Direct Investment in the Banking Sector

2.63 The Finance Minister announced in the Union Budget 2003-04 that the limit for foreign direct investment in banking companies would be raised from 49 per cent to 74 per cent, to facilitate setting up of subsidiaries by foreign banks and for attracting investments in private sector banks. Accordingly, the Reserve Bank has proposed to the Government of India to lift the limit of voting rights. Even though comprehensive amendments to the Banking Regulation Act, 1949 are under active consideration of the Government and the Reserve Bank, an amendment to Section 12 of the Banking Regulation Act, 1949 (relating to voting rights of shareholders, among others) was suggested as an immediate measure to facilitate investment in private sector banks up to 74 per cent as envisaged in the Union Budget.

Setting Up of Off- Shore Banking Units

2.64 Following the announcement in the EXIM Policy 2002-07 by the Government of India, the Reserve Bank issued guidelines in November 2002 allowing banks operating in India to set up Off-Shore Banking Units (OBUs) in Special Economic Zones (SEZs) which would be virtually foreign branches of Indian banks located in India. The salient features of the scheme for setting up OBUs in SEZs are:

- All banks operating in India, authorised to deal in foreign exchange, are eligible to set up OBUs, with a preference for banks having overseas branches and experience of running OBUs.
- Banks would be required to obtain prior permission of the Reserve Bank for opening an OBU in a SEZ under Section 23(1)(a) of the Banking Regulation Act, 1949 (relating to opening of new place of business in India).
- Since OBUs would be branches of Indian banks, no separate assigned capital for such branches would be required. However, with a view to enabling them to start their operations, the parent bank would be required to provide a minimum of US $10 million to its OBU.
- The Reserve Bank would grant exemption from CRR requirements to the parent bank in respect of its OBU branch.
- The sources of raising foreign currency funds would only be external.
- The OBUs would be required to follow scrupulously ‘Know Your Customer’ and other anti-money laundering instructions issued by the Reserve Bank.
- The OBUs would be required to maintain separate *nostro* accounts with correspondent banks, which would be distinct from *nostro* accounts maintained by other branches of the same bank.
- Deposits of OBUs will not be covered by deposit insurance.
- The loans and advances of OBUs would not be reckoned as net bank credit for computing priority sector lending obligations.

Guidelines on Lenders’ Liability Laws

2.65 Based on the recommendations of a Working Group constituted by the Government of India on Lenders’ Liability Laws, banks and all-India FIs were advised on May 5, 2003 to adopt prescribed broad guidelines and frame the Fair Practices Code duly approved by their Board of Directors. The Fair Practices Code is expected to improve the quality of banking services to borrowers by making their own service obligations more transparent. The salient features of the guidelines are as follows:

- Loan application forms in respect of priority sector advances (up to Rs.2 lakh) should include information such as fees / charges payable for processing and pre-payment options.
- Banks and FIs should devise a system of giving acknowledgement for receipt for all loan applications.
- In case of rejection of applications of small borrowers seeking loans up to Rs.2 lakh, the main reason(s) for rejection should be conveyed in writing within the stipulated time.
- Lenders should ensure proper assessment of credit application by borrowers. The margin and security stipulation should not be used as a substitute for due diligence on creditworthiness of the borrower.
- Lenders should ensure timely disbursement of loans sanctioned in conformity with the terms and conditions governing such sanction, give notice of any change in the terms and conditions, including interest rates and service charges and ensure that changes in interest rates and charges are effected only prospectively.
- Post-disbursement supervision by lenders, particularly in respect of loan up to Rs.2 lakh, should be constructive with a view to taking care of any genuine difficulty that the borrower may face.
- Lenders should refrain from interference in the affairs of borrowers except for what is provided in the terms and conditions of the loan sanction documents.
- Consent or objection to a request for transfer of borrowal account, either from the borrower or from a bank / FI, should be conveyed within 21 days from the date of receipt of request.

4. Risk Management

2.66 In order to reap the benefits of financial market development and ensure financial sector stability, the risks introduced by each market need to be effectively managed before other markets are developed and more risks are injected into the financial system. The market development strategy, therefore, needs to accord priority to mitigate the risks introduced by more sophisticated financial markets and the risks to macroeconomic control from institutional reforms. The taxonomy of risks facing the four major financial markets: money, debt, equity and foreign exchange and the measures to mitigate them are delineated in Box II.4.

Bank Financing of Equities and Investment in Shares

2.67 In view of the increasing importance of efficiency of the risk management systems, banks were advised to review more specifically their risk management systems pertaining to capital market exposures and exposures to stock broking entities / market makers. The review, which is to be placed before the Board of Directors, should, *inter alia*, assess the efficiency of the risk management systems in place in the bank, assess the extent of compliance with the guidelines issued and identify the gaps in compliance for initiating appropriate steps immediately.

Guidelines on Country Risk Management

2.68 With a view to furthering compliance with the Core Principles for Effective Banking Supervision, released by the BIS in 1997, the Reserve Bank has framed guidelines on country risk management and provisioning. These guidelines were issued to banks on February 19, 2003 (Box II.5).

Management of Operational Risk

2.69 Operational risk covers a broad range of risks that are internal to the bank. Operational risk arises out of deficiencies in the internal systems, control systems failures and non-adherence to prescribed procedure. In recent years, size of operation of banks have increased manifold. Besides, banks are diversifying into various para-banking activities. Due to increased exposure of banks to various sectors and activities, the risks associated with them have also increased. Managing operational risk has, thus, gained importance with the change in the scale of banking operations. The nature and scope of operational risks has also received an added importance in view of the Basel II requirements (Box II.6).

Guidance Notes on Management of Credit and Market Risks

2.70 Guidelines on risk management systems were issued to banks in October 1999. These, together with the asset-liability management (ALM) guidelines issued earlier in February 1999, have been intended at providing a benchmark to the banks which were yet to establish integrated risk management systems. As a step towards enhancing and fine-tuning the existing risk management practices in banks, draft guidance notes on management of credit risk and market risk based on the recommendations of two Working Groups constituted in the Reserve Bank drawing experts from select banks and FIs were issued and also placed on the Reserve Bank's website for wider discussion by banks, FIs and other market participants during 2001-02.

2.71 With regard to credit risk, the guidance note covers areas pertaining to the policy framework, the types of credit risk models, managing credit risk in inter-bank and off-balance sheet exposures and implications for credit risk management arising from the New Capital Accord. With regard to market risk, the guidance note encompasses areas of liquidity, interest rate risk and foreign exchange risk management as well as the treatment of market risk in the proposed New Capital Accord. Issues like Value-at-Risk and stress-testing have also been dealt with in the guidance note. These draft guidance notes were subsequently revised in the light of the feedback received and the revised Guidance Notes issued to banks were placed on the website of the Reserve Bank in October

Box II.4: Necessary Measures for Mitigating Select Risks in Major Financial Markets

Source and Type of Risk	Money Market	Debt Securities Market	Equity Market	Foreign Exchange Market
Credit Risk	Detailed financial information disclosure on asset quality, capital adequacy and liquidity position. Enhance credit risk analysis.	Improve credit pricing ability by standardising bond contracts, requiring the use of rating agencies.	—	Conduct detailed credit analysis on borrowers, with a special focus on foreign currency earning and exchange risk hedging capacities. Apply high underwriting standards to foreign currency borrowers.

	Strengthen framework for repurchase agreements and collateral seizure.			
Liquidity Risk	Contain maturity mismatch and maintain minimum level of liquid assets.	Reduce fragmentation, develop benchmark securities and use primary dealers.	Accounting and auditing standards ensuring quality of financial disclosure.	Promote liquid market for foreign exchange transactions by fostering efficient and transparent trading and market conduct arrangements.
	Strengthen liquidity management skills and techniques.	Make available collateralised line of credit to support primary dealers.	Restrictions on exposure and concentration.	Establish limits against foreign currency mismatches.
Settlement risk	—	Dematerialise securities, Centralise depository, Automated settlement on real time basis.	Regulatory capital requirements, supervision of financial condition; early warning system. Membership restrictions in trading system / settlement system.	—
Interest rate Risk	— -	Comply with prudential requirements for risk management of portfolios. Achieve an adequate degree of transparency in large positions, Trading data.	—	—
Exchange rate Risk	—	—	—	Establish internal limits and monitoring mechanisms for foreign exchange exposure, including off-balance sheet items. Establish net open position limits. Set capital requirements against exchange rate risk. Develop instruments for hedging exchange rate risk.

Reference:

Karacadag, C., V. Sundarajan and J. Elliott (2003), "Managing Risks in Financial Market Development", *IMF Working Paper*, No.116, IMF, Washington D.C.

Box II.5: Guidelines on Country Risk Management

Country risk, which has an overarching effect on a bank's international activities, is the risk that economic, social and political conditions in a foreign country might adversely affect a bank's financial interests. Besides credit transactions, country risk includes investments in foreign subsidiaries, electronic banking agreements, electronic data processing servicing, and other outsourcing arrangements with foreign providers. It is, therefore, important that banks with significant international exposure have an effective country risk management process in place, commensurate with the volume and complexity of their international activities.

The Core Principles for Effective Banking Supervision, released in 1997, had observed that "banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk in their international lending and investment activities and for maintaining reserves against such risks" (Principle XI). The assessment made by the Reserve Bank in 1999, regarding its compliance with the Core Principles revealed that country risk management (CRM) was one of the areas where there was an observed deficiency in India. Accordingly, after obtaining the views of banks on the draft guidelines, the Reserve Bank published the final guidelines on CRM in February 2003. These guidelines are applicable only in respect of countries where a bank has exposure of 2.0 per cent or more of its assets. The salient features of the guidelines may be grouped under the following seven heads: (a) policy and procedures, (b) scope, (c) ratings, (d) exposure limits, (e) monitoring, (f) provisioning, and (g) disclosures.

- **Policy and Procedures –** The CRM policy should address the issues of identifying, measuring, monitoring and controlling country exposure risks. The policy should specify the responsibility and accountability at various levels for the CRM decisions. The banks would need to institute appropriate systems and procedures, laid down with the approval of the Board, for dealing with country risk problems. Finally, the CRM policy should stipulate rigorous application of the 'Know Your Customer' (KYC) principle in international activities.

- **Scope –** Banks would need to reckon both funded (*e.g.*, cash and bank balances, deposit placements, investments, loans and advances) and non-funded (*e.g.*, letters of credit, guarantees, performance bonds, bid bonds, warranties, committed lines of credit) exposures from their domestic as well as foreign branches while identifying, measuring, monitoring and controlling country risks. Banks would also need to account for indirect country risk (exposures to a domestic commercial borrower with a large economic dependence on a certain country), which may be reckoned at 50 per cent of the exposure. Exposures would need to be computed on a net basis (*i.e.*, gross exposures *less* collaterals, guarantees, insurance, *etc*).

- **Ratings –** Banks need to institute appropriate systems to move over to internal assessment of country risks. Instead of relying solely on rating agencies or other external sources as the country risk monitoring tool, banks should also incorporate information from the relevant country managers of the foreign branches into their country risk assessments. The frequency of periodic reviews of country risk ratings should be at least once a year, with the provision for more frequent reviews in case of major events in the country where the bank exposure is high.

- **Exposure Limits –** The Boards of banks may set country exposure limits in relation to the bank's regulatory capital (tier-I *plus* tier-II) with sub-limits, if necessary, for products, branches, maturity, *etc.* In case of foreign banks, the regulatory capital would be the sum of tier-I and tier-II capital held in their Indian books.

- **Monitoring of Exposures** – Banks should switch over to real-time monitoring of country exposures by March 31, 2004. In the interim period, banks should monitor their country exposures on a weekly basis. Country risk exposures would need to be reviewed at quarterly intervals. The review should include progress in establishing internal country rating systems, compliance with regulatory norms, internal limits, stress tests and the exit options available to the banks in respect of countries in the 'high risk and above' categories.

- **Provisioning** – Banks would need to make provisions, with effect from the year ending March 31, 2003, on the net funded country exposures on a graded scale ranging from 0.25 per cent (in case of insignificant risk) to 100 per cent (in case of restricted / off-credit risks). While banks may not make any provision for 'home country' exposures (*i.e.*, exposure to India), they would need to include exposures of foreign branches of Indian banks to the host country. These provisions for country exposures would be allowed to be treated as tier-II capital, subject to a ceiling of 1.25 per cent of the risk-weighted assets.

- **Disclosures** – Banks would need to disclose as part of the 'Notes on Accounts' to the balance sheet as on March 31 every year, (a) the risk category-wise country exposures, and (b) the extent of aggregate provisions held thereagainst.

It was decided that a review of the guidelines would be undertaken after one year, taking into account the experience of banks in implementing the guidelines.

Reference:

Reserve Bank of India (2003), *Risk Management Systems in Banks – Guidelines on Country Risk Management*, RBI: Mumbai.

Box II.6: Operational Risk and New Capital Accord

The scope of operational risk is measured by the probability and impact of the unexpected losses stemming from the deficiency or failure of internal processes, people and systems, or from external events. A quantitative assessment requires such losses to be quantified as expected and assumes that probabilities and actual losses can be measured. Complete quantification is difficult in practice. The analysis of the probability and size of operational risks is also defeated by the lack of relevant data. One possible way out is to systematize operational risk and place them in the loss probability and size matrix (Table A).

Table A: Size and Probability of Unexpected Losses

Severity	Probability	
	Low	High
Low	C	B
High	D	A

For operational risk policy, the following rules result from an analysis of the size and probability of losses.

- Business areas with a high likelihood and high level of operational risk (Cell **A**) to be avoided.
- Areas with a low level but high probability of losses (Cell **B**) are often not perceived as "risk areas", but merely "cost-intensive" or "low quality". In such cases, problems are frequently to be found in process and system design.
- Small-scale losses with a low degree of probability (Cell **C**) should be accepted if the costs of prevention exceed the amount of reduction in the losses.
- The significant operational losses are mostly located where the probability is low, but the severity is high (Cell **D**). For such cases, preventive measures such as governance, internal control and management incentives are most important.

Given the fact that lack of adequate internal controls are behind many a major loss, the Basel Committee on Banking Supervision has in a recent study drafted several principles for executive management and boards of directors for monitoring by the banking supervisory authorities.

The new Basel Accord provides a menu of approaches towards measurement of operational risk. Three such approaches have been proposed: basic indicator approach, standardised approach and the advanced measurement approach. Under the first approach, operational risk capital allocation is based on a single indicator (*viz*., Gross Income) as a proxy for operational risk exposure. Under the second approach, banks' activities are divided into eight business lines (corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management, and retail brokerage). The capital charge for each business line is calculated by multiplying gross income by a factor (denoted as *beta*) assigned to that business line. Under the third approach, the regulatory capital requirement will equal the risk measure generated by the bank's internal operational risk measurement using both qualitative and quantitative criteria. The qualitative criteria include independent operational risk management function, active involvement of board of directors / senior management in oversight of operational risk management process, regular reporting of operational risk exposure and loss experience and documentation of risk management system. Among the quantitative criteria are the demonstrated ability of the bank to capture potentially severe 'tail' loss events and sufficient 'granularity' in risk measurement systems to capture the major drivers of operational risk. In addition, the process of operational risk measurement would also need to include four key elements: tracking internal loss data, using relevant external data, employing scenario analysis to evaluate its exposure to high severity events and finally, capturing key business environment and internal control factors that can change the operational risk profile of the bank. These approaches are gradually increasing in the degree of sophistication and have built-in incentives to encourage banks to continuously improve their risk management and measurement capabilities and undertake more accurate assessment of regulatory capital.

Since operational risk is one of the important elements of the New Capital Accord, banks would be required to stress upon their internal control and systems, particularly towards clearing of backlog in balancing of books to ward off clearing differences and inter-branch and *nostro* accounts reconciliation. The progress made by banks in India in reconciliation of clearing differences as well as inter branch and *nostro* accounts, which are prone to frauds, should be closely monitored by banks. It is also imperative that banks make concerted efforts to build up appropriate systems to reduce the outstandings as early as possible and also to avoid incidence of fresh outstandings. In order to prevent fraud and mitigate operational risk arising out of it, banks would be required to strengthen their internal systems and procedures and take specific steps, particularly in the following areas: (a) strictly follow the principles of corporate governance; (b) adhere to the KYC principle; (c) build robust systems and procedures to prevent fraud; and (d) strengthen internal audit and control systems and put in place accountability process for audit and inspection staff.

References:

Basel Committee on Banking Supervision (1998),
Framework for Internal Control Systems in Banking Organisations, Basel.

Basel Committee on Banking Supervision (2003), *The New Basel Capital Accord (Third Consultative Document),* Basel.

Weigand, C. (2002), *Operational Risk in the New Basel Capital Accord,* presentation at Bank of Netherlands (available at www.dnb.nl).

2.72 Banks could use these guidance notes for upgrading their risk management systems. The design of risk management framework should be oriented towards the banks' own requirements dictated by the size and complexity of business, risk philosophy, market perception and the expected level of capital. The systems, procedures and tools prescribed in the guidance notes for effective management of credit risk and market risk are merely indicative in nature. The risk management systems in banks should, however, be adaptable to changes in business size, the market dynamics and the introduction of innovative products by banks in future.

5. NPA Management by Banks

One-Time Settlement / Compromise Schemes

2.73 The guidelines for compromise settlements of chronic NPAs up to Rs.5 crore were issued in July 2000. On a review and in consultation with the Government of India, it was decided to give one more opportunity to the borrowers to come forward for settlement of their outstanding dues. The revised guidelines applicable to public sector banks will cover NPAs (below the prescribed ceiling) relating to all sectors including the small sector. The guidelines will not, however, cover cases of wilful default, fraud and malfeasance. The revised guidelines issued on January 29, 2003 for compromise settlement of dues relating to NPAs of public sector banks in all sectors are as follows:

- Guidelines are applicable for compromise settlement of chronic NPAs up to Rs. 10 crore.
- The guidelines will cover all NPAs in all sectors irrespective of the nature of business, which have become doubtful or loss assets as on March 31, 2000 with outstanding balance of Rs. 10 crore and below on the cut off date.
- The guidelines will also cover NPAs classified as sub-standard assets as on March 31, 2000, which have subsequently become doubtful or loss assets.
- The guidelines will be applicable to cases in which the banks have initiated action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 and also cases pending before Courts / Debt Recovery Tribunals

(DRTs) / Board for Industrial and Financial Reconstruction (BIFR), subject to consent decree being obtained from the Courts / DRTs / BIFR.

- The last date for receipt of applications from borrowers under the scheme was September 30, 2003 and their processing should be completed by December 31, 2003.

2.74 Guidelines for special One-Time Settlement Scheme for loans up to Rs.50,000 to small and marginal farmers by PSBs which were issued in March 2002 were to be operational up to December 31, 2002. The Government and the Reserve Bank had received requests from banks for extending the time limit of the operation of the guidelines. In view of the above and keeping in view the drought / flood situation in different parts of the country, it was decided, in consultation with the Government of India, to extend the operation of the guidelines, for a further period of 3 months, *i.e.*, up to March 31, 2003.

Lok Adalats

2.75 The Reserve Bank has issued guidelines to commercial banks and FIs to enable them to make increasing use of *Lok Adalats.* They have been advised to participate in the *Lok Adalats* convened by various DRTs / Debt Recovery Appellate Tribunals (DRATs) for resolving cases involving Rs. 10 lakh and above to reduce the stock of NPAs. As on June 30, 2003, the number of cases filed by banks in *Lok Adalats* stood at 2,72,793 involving an amount of Rs.1,193.3 crore and amount recovered in 87,907 cases was Rs. 190.5 crore.

Debt Recovery Tribunals

2.76 The Government set up a Working Group (Chairman: Shri S. N. Aggarwal) to review the existing provisions of the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 and the rules framed thereunder in the light of the suggestions received from various quarters, such as, banks, FIs, DRTs and individuals as also to examine the adequacy of the infrastructure available to DRTs. The Working Group suggested amendments to the Act and Rules framed thereunder. The Government has substantially amended the Debts Recovery Tribunal (Procedure) Rules, 2003 to facilitate better administration of the Act including plural remedies for banks. As on June 30, 2003, out of 57,915 cases (involving Rs.82,266 crore) filed by banks to the DRTs, 22,163 cases (involving Rs.19,633 crore) have been adjudicated and the amount recovered so far stood at Rs. 5,787 crore.

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002

2.77 The Government issued the SARFAESI Act, 2002 which, *inter alia,* provides, for enforcement of security interest for realisation of dues without the intervention of courts or tribunals. The Government has also notified the Security Interest (Enforcement) Rules, 2002 to enable secured creditors to authorise their officials to enforce the securities and recover the dues from the borrowers. The PSBs and FIs have been advised to take action under the Act and report compliance to the Reserve Bank.

2.78 The Act provides for sale of financial assets by banks / FIs to securitisation companies

(SCs) / reconstruction companies (RCs)[3]. Guidelines have been issued to ensure that the process of asset reconstruction proceeds on sound lines. These guidelines, *inter alia*, prescribe the financial assets which can be sold to SCs / RCs by banks / FIs, procedure for such sales, prudential norms for the sale transactions and related disclosures (Box II.7).

CDR Mechanism

2.79 A scheme of Corporate Debt Restructuring (CDR) was developed in India based on international experience and detailed guidelines on the same were issued for implementation by banks and FIs in 2001 (Box II.8). The objective of the framework has been to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities, outside the purview of BIFR, DRTs and other legal proceedings.

2.80 Consequent upon the Union Budget announcements, 2002-2003, a High Level Group (Chairman: Shri Vepa Kamesam) was constituted in order to revamp the earlier CDR scheme. Based on the recommendations made by the High Level Group and in consultation with the Government, a revised scheme of CDR was finalised and forwarded to banks in February 2003. The progress made under CDR mechanism up to June 30, 2003 is as under:

Table II.1 : Progress under CDR Scheme

(Amount in Rs. crore)

Particulars	No. of cases	Amount involved
1	2	3
Cases referred to CDR forum	71	53,736
Final schemes approved	41	38,638
Rejected	18	7,252
Pending	12	7,846

Box II.7: Final Guidelines and Directions for SCs / RCs by the Reserve Bank

The Reserve Bank issued the final guidelines and directions to securitisation companies (SCs) and reconstruction companies (RCs) in April 2003. The guidelines have been finalised taking into account the feedback received from banks, FIs and others. The regulations would facilitate the smooth formation and functioning of SCs / RCs. The guidelines and directions cover the aspects concerning asset reconstruction and securitisation as also those relating to registration, owned funds, permissible business, operational structure for giving effect to the business of securitisation and asset reconstruction, deployment of surplus funds, internal control systems, prudential norms, and disclosure requirements for these companies.

In terms of the provisions of the SARFAESI Act, 2002, SCs are required to raise funds through the instrument of security receipts. The Reserve Bank has, however, clarified that the SCs / RCs can raise funds through the instrument of security receipts by the trust(s) set up by them.

In addition to the guidelines and directions, which are mandatory, the Reserve Bank has also issued guidance notes of recommendatory nature covering aspects relating to acquisition of assets, issue of security receipts, *etc.* The Reserve Bank is in the process of framing a set of standard guidelines in the matter of takeover of the management, sale or lease of whole or part of the business of the borrower. The SCs / RCs have been advised not to proceed against exercising the measures of takeover of management, sale or lease of the borrowers' business as provided for in Section 9 of the SARFAESI Act, 2002, until guidelines in this regard are notified by the Reserve Bank. As regards enforcement of security interest, SCs / RCs may follow the Security Interest (Enforcement) Rules, 2002 notified by the Government of India as also the relevant provisions in the SARFAESI Act, 2002.

Box II.8: Resolution of Corporate Distress: East Asian Experience

Both firm and country characteristics influence the way corporate financial distress is resolved. Firms differ in their capital and ownership structures, while country differences include variations in legal standards and regulatory framework. Besides the use of bankruptcy procedures, alternative means exist to deal with financial distress; these commonly include: out-of-court settlements with creditors and other stakeholders or re-scheduling or partial write-off of debt. In the aftermath of the Asian crisis, a large number of East Asian corporations experienced financial distress at the same time. Country experiences in East Asia on bankruptcy law, creditor rights and the efficiency of judicial systems suggests wide differences in prevailing practices after the crisis (Table A).

Table A: Main Features of Bankruptcy Codes in East Asia

Country	Timetable to render Judgement	Does Management stay in bankruptcy?	Is there automatic stay?	Do secured creditors get priority?
Indonesia	30 working days after a creditor's petition is registered (after August 1998)	No	No	Costs of proceedings are paid first, followed by claims on wages and secured creditors
Korea	120 working days after a creditor's petition is registered	No	No	Secured creditors paid first
Malaysia	180 working days after a creditor's petition is registered	No	No	Secured creditors paid first
Philippines	No timetable	Yes	Yes	Taxes are paid first, followed by wages, cost of proceedings and secured creditors
Thailand	No timetable	No	No	Costs of proceedings are paid first, followed by taxes, wage claims and secured creditors

Reference:

Claessens S., S. Djankor and L. Klapper (2003), 'Resolution of Corporate Distress in East Asia', *Journal of Empirical Finance*, Vol.10.

2.81 The salient features of the revised CDR scheme issued in February 2003 are as follows:

- It will cover multiple banking accounts / syndication / consortium accounts with outstanding exposure of Rs.20 crore and above.

- It will be a voluntary system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA).
- CDR will have a three-tier structure consisting of : (a) CDR Standing Forum and its Core Group (the policy-making body), (b) CDR Empowered Group (the functional group deciding on the restructuring of cases referred to the CDR mechanism), and (c) the CDR Cell (the secretariat to the CDR system).
- The revised guidelines provide exit options for lenders who do not wish to commit additional financing or wish to sell their existing stake.
- 'Stand-still' agreement binding for 90 days or 180 days by debtors and creditors respectively, under which both sides commit themselves not to take recourse to any legal action during the 'stand-still' period.

Credit Information on Defaulters and Role of Credit Information Bureau

2.82 In order to alert banks and FIs and put them on guard against the defaulters to other lending institutions and help them in better management of their NPAs, the Reserve Bank has put in place a scheme on sharing credit data. The scheme aims at collecting from / disseminating to them details about borrowers with outstanding aggregating Rs.1 crore and above which are classified by them as 'doubtful' or 'loss' assets or where suits have been filed by them. Whereas information on non-suit filed accounts (*i.e.*, doubtful and loss accounts) is disseminated on half-yearly basis, *viz*., as on March 31 and September 30 (on floppy diskettes for their confidential use), the information on suit-filed accounts is published as on March 31 every year and is updated on quarterly basis. The information on suit-filed accounts is now published in a compact diskette (CD) form and is also available on the Reserve Bank website. The defaulters list (non – suit filed accounts) has been disseminated as on September 30, 2002; the defaulters list (suit filed accounts) as on March 31, 2002 has been published in CD form and is also placed on the Bank's website. Its quarterly updates up to December 31, 2002, have also been placed on the website.

2.83 Following the recommendations of Working Group on Wilful Defaulters (Chairman: Shri S.S. Kohli), with a view to making the scheme of wilful defaulters effective, the banks and FIs were advised on May 30, 2002, a revised definition of 'wilful default', including diversion and siphoning of funds by borrowers and penal measures to be initiated against wilful defaulters by them. In another step in this direction, the Reserve Bank set up a Working Group in response to observations made in the JPC Report regarding diversion of funds by borrowers with malafide intention and recommendation of criminal action against them in case of wrong certification on end-use of funds. The Group submitted its report in April 2003 and their recommendations are under consideration of the Reserve Bank. As a transparency measure, the banks / FIs were advised on July 29, 2003 to put in place a high-level grievances redressal mechanism for giving a hearing to representing borrowers that they have been wrongly classified as wilful defaulters.

2.84 Banks and FIs were advised on June 4, 2002 to submit periodic data on suit-filed accounts of Rs.1 crore and above, till December 2002 and suit filed accounts of wilful defaults of Rs.25 lakh and above, till the quarter ending December 2002 to the Reserve Bank as well as to Credit Information Bureau of India Ltd. (CIBIL) and thereafter to CIBIL only. However, the periodic data relating to non-suit filed accounts for their defaulters lists would continue to be submitted to the Reserve Bank only, as in the past. Furthermore, with a view to broad-base credit information / data with CIBIL, banks and FIs were advised on October 1, 2002 to furnish information in respect of suit-filed accounts between Rs.1 lakh and Rs.1 crore from the period ended March 2002 in a phased manner to CIBIL only. They were also advised on October 1, 2002 to obtain consent of their borrowers and their guarantors for disclosure of their names in case of default, in a phased manner, and submit the progress-returns thereon to CIBIL as per prescribed schedule. This would enable CIBIL to build up comprehensive credit information and a database on all (non-suit filed) borrowal accounts (performing as well as non-performing) and to share it with its members and also to take over credit information dissemination function in its entirety from the Reserve Bank. However, on a review of the position and considering the constraints expressed by banks in adhering to the time schedule for obtaining the consent clause, banks were advised, on February 10, 2003, that the revised schedule for obtaining the consent clause and submission of returns to CIBIL would be operative by September 2004 and December 2004, respectively.

6. Consultative Process in Policy Formulation

2.85 As part of the initiative to strengthen the consultative process to aid policy making, the Reserve Bank has initiated steps to enhance interaction with financial market participants. Periodical meetings are being held between Reserve Bank functionaries, representatives of select banks and experts to monitor the developments in money and credit markets, as also to discuss specific problems affecting the banking industry. These meetings are a step towards enhanced transparency and good governance in the conduct of monetary and financial policies.

Meetings with Bankers on Credit Deployment

2.86 In order to monitor closely credit conditions as also to get regular feedback on the direction of growth sectors and industries, since August 2001 monthly meetings with the executives of select banks (comprising public sector, private and foreign banks) along with IDBI are being held on fifteenth of every month. The number of participating banks was increased from 15 to 21 from February 2003, in view of the interest expressed by some banks in participating in these meetings. These meetings provide a platform to discuss likely credit flow to various industries, expectations on macroeconomic scenario and various policy issues impinging on the banking industry, so as to have the required inputs for formulation of the monetary policy.

Resource Management Discussions

2.87 The Resource Management Discussion meetings are held every year prior to the announcement of the annual Monetary and Credit Policy Statement with select banks. These meetings mainly focus on perception and outlook of the bankers on economy, liquidity condition, credit outflow, development of different markets and direction of interest rates along with their expectations from the policy and suggestions in this respect. During 2002-03 these meetings were conducted with 10 banks (including two foreign banks and two private sector banks) during the second and third week of March 2003. The feedback received from these meetings was taken into consideration while formulating the monetary and credit policy for 2003-04.

7. Credit Delivery

Priority Sector Lending

2.88 As a further step to improve the credit delivery mechanism by simplifying procedures, encouraging decentralised decision making and enhancing competition, the following measures were initiated during the year:

- The limit on advances granted to dealers in drip irrigation / sprinkler irrigation system / agricultural machinery was increased, irrespective of their location, from Rs.10 lakh to Rs.20 lakh, under priority sector lending for agriculture.
- The existing overall limit of Rs.10 lakh in respect of setting up of small business was increased to Rs.20 lakh without any ceiling for working capital. Further, banks are now free to fix individual limits for working capital depending upon the requirements of different activities.
- The individual credit limit to artisans, village and cottage industries was raised to Rs.50,000 from the existing limit of Rs.25,000. This will be under the overall limit of 25 per cent advances to weaker sections under priority sector or 10 per cent of net bank credit.
- In order to increase further credit flow to housing sector, the existing limit of housing loans for repairing damaged houses was increased from Rs.50,000 to Rs.one lakh in rural and semi-urban areas and to Rs.two lakh in urban areas. Further, in view of increasing demand for housing in rural and semi-urban areas and to improve financing to housing sector in these areas, it was decided that the banks, with the approval of their Boards, would be free to extend direct finance to the housing sector up to Rs.10 lakh in rural and semi-urban areas as part of priority sector lending.

Rural Credit

Relief for Drought-Affected Farmers

2.89 As alluded to earlier, the guidelines for relief measures by banks in the drought affected districts (as notified by the State Governments) were issued in November 2002.

2.90 In order to further mitigate the hardship of farmers in drought-affected states, the Government had decided in December 2002, as a one-time measure, to waive completely, the first year's deferred interest liability on *Kharif* loans in those States. There will be a cap on the amount to be waived as equivalent to 20 per cent of the total deferred liability of interest for the first year only. This instalment of deferred interest, which is to be waived by banks, would be reimbursed by the Government. No interest would be charged on the deferred interest, and the balance of the deferred interest would be recovered in reasonable instalments.

Working Group to suggest Amendments in the Regional Rural Banks Act, 1976

2.91 With a view to examining the various aspects of functioning of RRBs and to make recommendations that enable these banks to take care of the financial needs of the rural populace, the Government set up a Working Group (Chairman: Shri M.V.S. Chalapathy Rao) to suggest amendments in the Regional Rural Banks Act, 1976 (Box II.9).

Box II.9: Major Recommendations of the Working Group to suggest Amendments in

Regional Rural Banks Act, 1976

- The scope of financial services to be provided by RRBs, as per the amendments proposed in the preamble to Regional Rural Banks Act, 1976, needs to be widened.
- Capital adequacy norms, with due adaptation, needs to be introduced in RRBs in a phased manner along with RRB-specific amount of equity based on their risk-weighted asset ratio.
- Based on financial health of RRBs, differentiated ownership structures should be allowed.
- Prescribed minimum level of shareholding should be at 51 per cent for sponsor institutions.
- The area of operation of RRBs need to be extended to cover all districts.
- Keeping in view the regional character and distinct socio-economic identity of issues, RRBs falling in one socio-economic zone may be amalgamated so as to create one or a few RRBs in each State.
- RRBs may have a minimum of five and a maximum of eleven Board members, including the Chairman. The number of Directors may not be fixed uniformly for all RRBs as at present.
- As part of consolidation process, some sponsor banks may be eased out and some FIs and other strategic managing partners may take over as sponsor institutions.
- The regulatory framework for RRBs must be on the lines of those for commercial banks with provision for such bank-specific relaxations as may be necessary for specific time period. RRBs may also be subjected to the statutory norms of licensing and each RRB should be required to obtain a license from the Reserve Bank under the provisions of the Banking Regulation Act, 1949 within a specific time period.
- Half-yearly financial audit may be introduced in the RRBs.
- In order to strengthen the RRBs to cater to the needs of the rural economy for all kinds of financial services, diversification of their business needs to be encouraged without losing focus on fulfilling the financial needs of the rural poor.
- RRBs may avail of all the services of their sponsor banks / institution or other established and authorised public sector portfolio management service providers based on their own judgement of costs and benefits for professionalisation of the investment function for achieving optional returns on the bank's resources.
- Various IT-based innovations may be adopted by RRBs at different stages of their development for providing competitive customer services in a cost-effective manner.
- The induction of technology in RRBs may be monitored by a national-level Standing Committee that may guide RRBs on various issues arising out of the implementation of computerisation plans by various RRBs.

Rural Infrastructure Development Fund

2.92 Both public and private sector banks that have shortfalls in lending to the priority sector or to agriculture have to contribute specified allocations to the Rural Infrastructure Development Fund (RIDF). The RIDF was established with NABARD for assisting State Governments/ State-owned corporations in quick completion of on-going projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. The IXth *tranche* of RIDF has been set up during the year 2003-04 in NABARD with a *corpus* of Rs. 5,500 crore.

2.93 In the case of RIDF-I to VI, the rate of interest on deposits placed in the Fund was uniform for all banks irrespective of the extent of their shortfall. Effective from RIDF-VII, it was decided to link the rate of interest on RIDF deposits to the banks' performance in lending to agriculture. Accordingly, effective from RIDF-VII, banks are receiving interest at rates inversely proportional to their shortfall in agricultural lending. In the case of RIDF-IX, interest rate on loans out of RIDF have been linked to the Bank Rate and fixed at 2.0 percentage points above the Bank Rate.

Review Group on the Working of Local Area Banks

2.94 Guidelines for establishment of Local Area Banks (LABs) were announced in 1996. Since no comprehensive review of the LAB had been undertaken, a Review Group (Chairman: Shri G. Ramchandran) was appointed by the Reserve Bank in July 2002 with outside experts to study and make recommendations on the LAB scheme. The major recommendations of the Group accepted by the Reserve Bank are as under:

- There should be no licensing of new LABs till measures to strengthen the existing LABs were put through and the existing LABs are placed on a sound footing.
- The existing LABs should be asked to reach net worth of at least Rs.25 crore over a period of five years for attaining viability.
- LABs should maintain a minimum capital adequacy of 15 per cent, and
- LABs need to be treated like any other commercial bank and therefore, regulation and supervision should be entrusted to the same wing of the Reserve Bank which is responsible for regulation and supervision of commercial banks.

Credit to SSIs

2.95 To give the benefit of the soft interest rate policy of the Reserve Bank to small-scale industry (SSI), banks have been advised to set the interest rate on advances to SSI units keeping in view general southward movement in interest rates. Further, as per the announcement made in the Union Budget 2003-04, the Indian Banks Association has already advised the banks to adopt the interest rate band of two per cent above and below its PLR for secured advances. To mitigate the problem of delayed payment, banks have been advised to fix sub-limits within the overall working capital limits to the large borrowers specifically for meeting the payment obligation in respect of purchases from SSI. To make available timely credit to the sector a time frame has been fixed for disposal of loan applications. In the recently announced Mid-term Review of Monetary and Credit Policy for 2003-04 banks have been allowed to increase the loan limit from Rs. 15 lakh to Rs. 25 lakh (with the approval of their Boards) for dispensation of collateral requirement, on the basis of good track record and the financial position of the SSI units. Moreover, all new loans granted by banks to NBFCs for the purpose of on-lending to SSI sector would also be reckoned under priority sector lending.

8. Money and Government Securities Markets

Money Market

Reliance on Call Notice / Money Market

2.96 The Monetary and Credit Policy for 2002-03 stipulated prudential limits in a symmetric way on both borrowing and lending of banks in the call/notice money market. This was done to preserve the integrity of the financial system and to facilitate the development of the term money market as well as the repo market. Accordingly, after consultation with banks, prudential limits in respect of both borrowing and lending came into effect in two stages, effective October 5, 2002 and December 14, 2002. At present, in the second stage, with effect from the fortnight beginning December 14, 2002, lending of SCBs, on a fortnightly average basis, should not exceed 25 per cent of their owned funds. Banks are, however, allowed to lend a maximum of 50 per cent on any day during a fortnight. Similarly, borrowings by SCBs should not exceed 100 per cent of their owned funds or 2 per cent of aggregate deposits, whichever is higher. Banks are, however, allowed to borrow a maximum of 125 per cent of their owned funds on a particular day during a fortnight.

2.97 In order to ensure smooth adjustment to this stipulation without any disruption in asset-liability management (ALM), banks were advised to unwind their position as borrowers and/or lenders in the call/notice money market in excess of the prudential limit, as specified for the first stage, by October 4, 2002. The Reserve Bank may, however, consider allowing temporary access to the call/notice money market in excess of the stipulated limit to any bank facing mismatches, on request. Increased access over stipulated norms may also be permitted by the Reserve Bank for a longer period for banks with fully functional ALM system to the satisfaction of the Reserve Bank.

2.98 With effect from October 5, 2002, Primary Dealers (PDs) are free to lend up to 25 per cent of their net owned funds (NOF) on average basis, during a reporting fortnight. So far as borrowing by PDs in call/notice money market is concerned, in stages I and II, PDs would be allowed to borrow up to 200 per cent and 100 per cent, respectively, of their NOF as at end-March of the preceding financial year. These phases will be effective contingent upon certain developments in the repo market.

Progress Towards Pure-Inter-Bank Call Money Market

2.99 With a view to moving towards a pure inter-bank call/notice money market, non-bank participants are allowed in the second stage to lend, with effect from June 14, 2003, on average in a reporting fortnight, up to 75 per cent of their average daily lending in the call/notice market during 2000-01. The Mid-term Review of Monetary and Credit Policy for 2003-04 has proposed that with effect from fortnight beginning December 27, 2003, non-bank participants would be allowed to lend, on average in a reporting fortnight to 60 per cent of their average daily lending in call / notice money market during 2000-01. The time-table for further phasing out of non-bank participation will be announced in consultation with market participants.

Borrowings by Co-operative Banks from Money Market

2.100 Consequent upon developments relating to co-operative banks during early part of 2001 and in order to reduce excessive reliance of some urban co-operative banks (UCBs) in call / notice money market, it was stipulated on April 19, 2001 that borrowings by UCBs in the call /

notice money market on a daily basis should not exceed 2.0 per cent of their aggregate deposits as at end March of the previous financial year. Subsequently, the same stipulation was extended to State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) on April 29, 2002.

Certificates of Deposit (CDs) Market

2.101 In order to impart transparency and flexibility and encourage secondary market transactions in the financial market, it was stipulated that banks and FIs should issue CDs without prejudice to the Depositories Act, 1996, in dematerialised form effective June 30, 2002. Existing outstandings of CDs in physical form were to be converted into demat form by October 2002.

2.102 In order to increase the investor base, minimum size of issues of CDs by banks and FIs was reduced to Rs.1 lakh in June 2002. The Fixed Income Money Market and Derivatives Association of India (FIMMDA) also issued a standardised procedure, documentation and operational guidelines for issue of CDs in both physical and demat form on June 20, 2002. Further, with a view to providing more flexibility to pricing of CDs and giving additional choice to both investors and issuers, CDs are now permitted to be issued as a coupon-bearing instrument as well and banks may issue CDs on a floating rate basis, provided the methodology of computing the floating rate is objective, transparent and market based. The standardised procedures and documentations in this regard would be issued by FIMMDA in consultation with market participants.

Interest Rate Derivatives

2.103 Following the announcement in the mid-term Review for the year 2002-03, the Reserve Bank had constituted a Working Group on Rupee Derivatives (Chairman: Shri Jaspal Bindra) in November 2002 with appropriate representations from banks, primary dealers, mutual funds and the Reserve Bank. The scope of the Group was expanded to cover the issues relating to exchange-traded interest rate derivatives - in addition to the issues on OTC interest rate derivatives - on the recommendations of the High Level Coordination Committee on Financial and Capital Markets. The Group submitted its Report in January 2003. The major recommendations of the Group are as follows:

- Less complex interest rate options to be permitted in the first phase may include vanilla caps, floors and collars, European Swaptions, call and put options on fixed income instruments / benchmark rates and unleveraged structured swaps based on overnight indexed swaps and Forward Rate Agreements (FRAs) where the risk profile of such structure is similar to that of the building blocks.
- SCBs, FIs and PDs should be allowed to both buy and sell options; corporates may sell options initially without being the net receivers of premium. Mutual funds and insurance companies may also write options as and when their respective regulators allow them.
- Four contracts, *viz*., a) short-term Mumbai Inter-Bank Offer Rate (MIBOR) Futures Contract, b) MIFOR Futures Contract, c) Bond Futures Contract, and d) Long-Term Bond Index Futures Contract, could be considered for trading on exchanges at the present stage.
- The market regulator should lay down only broad eligibility criteria and the exchanges should be free to decide on the underlying stocks and indices on which futures and options

could be permitted.

- Netting should be allowed on intra-day basis at client-level positions.
- ICAI could be requested to develop guidelines for accounting of exchange-based transactions on interest rate derivatives.
- The Reserve Bank may consider mandatory anonymous disclosure of deals done in a standardised manner on the negotiated dealing system platform.
- Brokers accredited by the FIMMDA may be permitted in the OTC derivatives market.
- SEBI may consider issuing guidelines in regard to derivative products that mutual funds can trade in. The IRDA should come out with guidelines for participation of insurance companies in derivatives markets.
- To make the OTC derivatives contracts legally enforceable, amendment to Section 18A of the Securities Contract and Regulation Act, 1956 may be followed up vigorously by the Reserve Bank with the Ministry of Finance. To clarify the status of derivatives contracts in India undertaken by banks / FIs / PDs, the Banking Regulation Act, 1949 may be amended.
- Derivative dealers can choose the pricing and valuation model for interest rate options according to their opinion on the suitability of the models.
- A common minimum information framework and a public disclosure system may be adopted by market participants.

2.104 Meanwhile, guidelines for enabling regulated entities to participate in exchange-traded interest rate derivatives (IRDs) were finalised by the Reserve Bank in consultation with the Government and SEBI. Accordingly, it has been decided to allow SCBs (excluding RRBs and LABs), PDs and specified all-India FIs to deal in exchange-traded IRDs in a phased manner. In the first phase, the SEBI has decided to introduce anonymous order driven system for trading in IRDs on The Stock Exchange, Mumbai (BSE) and National Stock Exchange (NSE). In the first phase, such entities can transact only in interest rate futures on notional bonds and T-Bills for the limited purpose of hedging the risk in their underlying investment portfolio. PDs are, however, allowed to hold trading positions in IRDs subject to some prudential regulations. Allowing transactions in a wider range of products, as also market making for entities other than PDs will be considered in the next stage on the basis of the experience gained.

2.105 For the present, only the interest rate risk inherent in the Government securities classified under the AFS and HFT categories have been allowed to be hedged.

2.106 Interest rate derivative transactions undertaken on the exchanges shall be deemed as hedge transactions, if and only if, a) the hedge is clearly identified with the underlying Government securities in the AFS and HFT categories, b) the effectiveness of the hedge can be reliably measured, and c) the hedge is assessed on an ongoing basis and is ‘highly effective’ throughout the period.

2.107 The existing norm of 5 per cent of total transactions undertaken during a year as the aggregate upper limit for contract for each of the approved brokers should be observed by SCBs and all-India FIs who participate through approved Futures and Options members of the exchanges.

2.108 It is required that the regulated entities should seek approval of their Board of Directors for formulating the policy framework and appropriate risk control measures before trading in interest rate futures on the stock exchanges. the Reserve Bank is in the process of harmonising the regulatory and prudential norms for OTC and exchange-traded derivatives.

Collateralised Borrowing and Lending Obligation (CBLO)

2.109 The mid-term review of Monetary and Credit Policy for 2002-03 had announced the proposal to promote collateralised borrowing/ lending operations by market participants through Collateralised Borrowing and Lending Obligations (CBLO) to reduce their reliance on the call/notice money market. The CBLO has been operationalised as a money market instrument through the Clearing Corporation of India Limited (CCIL) on January 20, 2003. The CBLO may have original maturity between one day and up to one year. The regulatory provisions and accounting treatment for CBLO are the same as those applicable to other money market instruments. However, in order to develop CBLO as a money market instrument, it has been exempted from CRR stipulations subject to bank maintaining minimum CRR of 3 per cent. Securities lodged in the gilts account of the bank maintained with CCIL under Constituents' Subsidiary General Ledger (CSGL) facility remaining unencumbered at the end of any day can be reckoned for SLR purposes by the concerned bank.

Discounting / Rediscounting Of Bills By Banks

2.110 In December 1999, the Reserve Bank had constituted a Working Group on Discounting of Bills by Banks (Chairman: Shri K.R. Ramamoorthy). The Working Group had examined the suggestions of various banks, FIs and NBFCs in respect of granting freedom to banks in discounting of bills. After considering the recommendations of the Working Group, revised guidelines were issued to banks on January 24, 2003 in supercession of the earlier instructions and banks were advised to adhere to the new guidelines while purchasing/ discounting/negotiating/rediscounting of genuine commercial/trade bills. The important features of the revised guidelines are:

- Banks are presently required to open letters of credit (LCs) and purchase/ discount/negotiate bills under LCs only in respect of genuine commercial and trade transactions of their borrower constituents who have been sanctioned regular credit facilities by them. Accommodation bills should not be purchased/discounted/negotiated by banks.
- The practice of drawing bills of exchange claused 'without recourse' and issuing letters of credit bearing the legend 'without recourse' should be discouraged because such notations deprive the negotiating bank of the right of recourse it has against the drawer under the Negotiable Instruments Act.
- Bills rediscounting should be restricted to usance bills held by other banks. Banks should not rediscount bills earlier discounted by non-banking financial companies (NBFCs) except in respect of bills arising from sale of light commercial vehicles and two / three wheelers.
- While discounting bills of services sector, banks should ensure that actual services are rendered and accommodation bills are not discounted. Services sector bills should not be eligible for rediscounting and,
- Banks should not enter into repo transactions using bills discounted / rediscounted as collateral.

Government Securities Market

Separate Trading for Registered Interest and Principal of Securities (STRIPS)

2.111 Operational arrangements, including software development on separate trading for registered interest and principal of securities are being formulated. Dates for consolidation of coupon strips (March 25 / September 25 and May 30 / November 30) would be aligned with coupon payment dates in future issuances. The coupon payment dates of 6.01 per cent Government Stock 2028, issued on August 7, 2003, were aligned to March 25 / September 25. PDs, which meet certain laid down financial criteria, would be authorised to undertake stripping and reconstitution of securities. The Public Debt Office of the Reserve Bank would act as a registry of stripped bonds.

Debt Buy Back Scheme of Government of India

2.112 The Union Budget 2003-04 observed that a large proportion of the banks' holding of Central Government domestic debt, contracted under the high interest rate regime of the past, is thinly traded. Such loans should ordinarily command a premium over their face value with the softening of interest rates. However, owing to limited liquidity, banks are often unable to encash the same. In view of this, the Government proposed to buy back such loans from banks, on a voluntary basis, that are in need of liquidity by offering a premium that was to be set on a transparent basis. If banks declare the premium received as business income, for income tax purposes, it was decided that they would be allowed additional deduction to the extent that such income is used for provisioning of their NPAs.

2.113 After completion of the necessary modalities, on July 19, 2003, the buy back auction of 19 high coupon, relatively illiquid Government securities was conducted by the Reserve Bank. The debt buy back auction was conducted through an interactive platform developed by Clearing Corporation of India Limited (CCIL), where the participants were allowed to revise their bids in a live interactive mode. The details of the auction are given below.

- A total of 131 offers, amounting to a total of Rs. 14,434 crore (face value), were received. The entire amount was accepted as these were at or above the minimum discount of 7.5 per cent stipulated by the Government. The market value of these securities bought back amounted to Rs. 19,394 crore.
- The net cash outflow for the Government amounted to Rs. 2,539 crore after accounting for the outflows due to premium (Rs. 3,472 crore) and accrued interest on securities bought back (Rs. 500 crore), and inflows on securities reissued by way of premium received (Rs. 1,120 crore) and accrued interest (Rs. 313 crore).
- In exchange of the securities bought back, the Government reissued four securities of equal face value (Rs. 14,434 crore), in a pre-announced manner.

Trading of Government Securities on Stock Exchanges

2.114 With a view to encouraging wider participation of all classes of investors, including retail investors in Government securities, it was decided to introduce trading in Government securities through a nation-wide, anonymous, order-driven, screen-based trading system in the stock exchanges in the same manner in which trading takes place in equities. This facility of trading of Government securities on the stock exchanges would be available to banks in addition to the present Negotiated Dealing System of the Reserve Bank, which will continue to remain in place. Accordingly, with effect from January 16, 2003, trading of Government of India dated securities in dematerialised form is being allowed on automated order driven system of the NSE, BSE and Over-the-Counter Exchange of India (OTCEI). The scheme will subsequently be extended to Government of India Treasury Bills and State Government securities.

Guidelines for Uniform Accounting for Repo / Reverse Repo Transactions

2.115 On a review of the accounting practices followed by all Reserve Bank regulated entities for accounting repo / reverse repo transactions, it emerged that there were divergent practices prevailing among them. In order to ensure uniform accounting treatment and impart an element of transparency, guidelines for uniform accounting for repo / reverse repo transactions was finalised in consultation with the FIMMDA. The uniform accounting will be applicable from the financial year 2003-04. The uniform accounting principles for the present would not apply to repo / reverse repo transactions under the Liquidity Adjustment Facility (LAF) with the Reserve Bank.

2.116 The legal character of repo under the current law, as outright purchase and outright sale transactions is kept intact by ensuring that the securities sold are excluded from the Investment Account of the seller of securities and are included in the Investment Account of the buyer of securities. The buyer of the securities can reckon the approved securities acquired for the purpose of Statutory Liquidity Ratio. The securities bought would have to be marked-to-market as per the investment classification guidelines. In case of entities not following any investment valuation norms, the valuation of securities acquired will be in accordance with the norms followed by them in respect of securities of similar nature. Banks are required to make disclosures on the securities sold under repo and purchased under reverse repo in the 'Notes on Accounts' to the balance sheet.

9. Legal Reforms in the Banking Sector

2.117 The Committee on Banking Sector Reforms (Chairman: Shri M.Narasimham) in 1998 observed that a legal framework that clearly defined the rights and liabilities of parties to contracts and provides for speedy resolution of disputes is a *sine qua non* for efficient trade and commerce, especially for financial intermediation. Keeping this in view, several legislative initiatives have been undertaken in the banking and financial sector over the past several years (Box II.10).

2.118 A revised Banking Ombudsman Scheme, 2002 was brought into force by the Reserve Bank in the place of Banking Ombudsman Scheme, 1995 with effect from June 2002. The new Scheme provides for review of an award passed by the Banking Ombudsman. The Scheme also empowers the Ombudsman to act as an arbitrator for resolving disputes between a bank and its constituent as well as between one bank and another bank through the process of conciliation, mediation and arbitration.

Box II.10: Legal Reforms in Banking

A. Laws Enacted

- The Negotiable Instruments (Amendments and Miscellaneous Provisions) Act, 2002, effective from February 6, 2003, introduces the concepts of 'electronic cheque' and 'cheque truncation' by expanding the definition of 'cheque' as given in the extant Act. It also enhances the punishment for dishonour of cheques from one year to two years, excludes the nominee directors from prosecution and provides for speedy and time-bound disposal of criminal complaints by summary trial, day-to-day hearing and complainant's evidence through affidavit.
- The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act, 2002, effective from the date of promulgation of the first Ordinance, *i.e.*, June 21, 2002, has been extended to cover co-operative banks by a notification dated January 28, 2003.
- The Prevention of Money Laundering Act, 2002, notified by the Government of India in January 2003, intends to combat menace of crime-related money and provides the enabling legal framework.
- The Multi-state Co-operative Societies Act, 2002, which came into force with effect from August 2002 in replacement of the Act of 1984, empowers the Central Government to give directions to the multi-state cooperative societies in the public interest or to supersede their Board only with respect to those multi-state co-operative societies in which not less than 51 per cent of the paid-up share capital or of the total shares is held by the Central Government.

B. Bills introduced in the Parliament

- The Financial Companies Regulation Bill, 2000, introduced in Parliament in December 2000, proposes compulsory registration of all financial companies with the Reserve Bank, prior approval of the Reserve Bank for any substantial change in the management, stipulation for minimum requirement of net-owned funds and prohibiting all unincorporated bodies from issuing advertisement in any manner for soliciting public deposits.
- The Banking Regulation (Amendment) Bill, 2003, has been introduced in Parliament in April 2003. The Bill provides for the removal of the extant restriction that no person holding shares in the banking company is entitled, in respect of any shares held by him, to exercise voting rights on poll in excess of 10 per cent of total voting rights of all the shareholders of that banking company. This amendment is expected to encourage foreign banks to set up their subsidiaries and attract foreign investors.
- The Banking Regulation (Amendment) and Miscellaneous Provisions Bill, 2003, proposes amending the definition of 'approved securities', 'banking', and 'banking policy'; providing for banking company to undertake the business of insurance, derivatives, securitisation transactions, credit, debit and other cards issued by the banks; criminal liability for use of words "bank", 'banker" and "banking" by any company other than banking company without the approval of the Reserve Bank; prohibition on connected lending and advances to associate companies of the banks; prohibition on acquisition of more than five per cent in the share capital of the banking companies without the approval of the Reserve Bank and empowering the Reserve Bank to supersede the Board of Directors of a banking company in

certain circumstances.

C. Bills submitted to the Government

- The Payment and Settlement Systems Bill, 2002, based on the recommendation of the Committee on Payment Systems (Chairman: Dr. R.H. Patil), constituted by the Reserve Bank, calls for the enactment of a separate statute for regulation and supervision of the payment and settlement systems in the country.
- The Amendments to the Reserve Bank of India Act, 1934 propose separation of the debt management of the Government from monetary management, disclosure of credit information to other central banks or monetary authority outside India on reciprocal basis and other regulatory authorities in India, streamlining the cash reserve ratio by removing the prescribed limit to accord professional flexibility in the management of monetary policy and empowering the Reserve Bank for electronic transfer of fund and multiple payment system.
- The Bank Deposit Insurance Corporation Bill, based on the recommendations of the Joint Team of the Finance Ministry, the Reserve Bank and the Deposit Insurance and Credit Guarantee Corporation (DICGC), envisages a pro-active role by DICGC requiring power to cancel registration in case of default in payment of premium, sharing of information by the Bank as to the health of the bank, *etc.*

10. Technological Developments

Payment and Settlement System

2.119 Payment and settlement systems play an important role to ensure that funds move safely, quickly and in a timely manner. Settlement systems in the country have traditionally been Deferred Net Settlement (DNS) systems. The Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) have come out with a set of Core Principles for Systemically Important Payment Systems. These principles are the current international standards and codes for the deferred net settlement systems in any country. The status of compliance with these principles in the Indian context is detailed in Box II.11.

Retail Funds Transfer System

2.120 The growth in usage of non-conventional modes of retail funds transfer system has been substantial. Electronic Funds Transfer (EFT) using the RBI-EFT scheme has shown the highest jump with a ten-fold rise both in terms of volume and value during 2002-03 as compared with the previous year. ECS (Credit Clearing) grew by 26 per cent in terms of volume, while ECS (Debit Clearing) showed a marked rise of 62 per cent in terms of number of transactions during 2002-03 over the previous year. A new product, the Special EFT (SEFT) covering about 127 centres with more than 2,300 designated branches of banks was introduced during the year to provide quicker transfer of funds in a safe and secure electronic mode. Large-scale usage of cards was also witnessed during the year. While the number of debit cards issued grew at a rate faster than that of credit cards, smart-card based products have just been making their foray in the Indian scenario. The year also witnessed a significant change from individual bank-owned Automated Teller Machines (ATMs) to shared ATMs, where ATMs are shared across many banks and the services are outsourced.

Reports of Committees

Committee on Payment System

2.121 In order to examine various issues relating to the payments system, a Committee on Payment Systems (Chairman: Dr. R.H.Patil) was set up with broad-based representation from the banking industry. The Committee examined the relevant aspects of regulation and supervision of payment and settlement systems. The major recommendations of the Committee were, among others, enactment of a separate statute for regulation and supervision of the payment system in the country. The draft provides legal base for netting, finality of settlement and powers to formulate regulations. The Report of the Committee along with the draft bill has been forwarded to the Government for further action.

Working Group on Cheque Truncation

2.122 With the passage of amendments to the Negotiable Instruments Act, 1881 the Reserve Bank constituted a Working Group on cheque truncation and e-cheques (Chairman: Dr. R.B. Barman). The Working Group in its Report, submitted in July 2003, has recommended, *inter alia* (i) truncation of physical cheques at the place of first deposit (presenting bank) and settlement on basis of the current structure of MICR fields and (ii) targeting the four metro centres in the first phase including all banks and all clearings at a centre from a cut-off date. A pilot project is also recommended to be implemented within a period of one year at a metro centre and covering two nearby smaller towns so that the impact on inter-city clearing could also be evaluated.

Working Group on Critical Infrastructure in the Financial Sector

2.123 As part of the efforts to have plans for protecting critical computer infrastructure and representing the concerns of the financial sector, a Working Group (Chairman: Shri R. Gandhi) analysed the various issues and submitted its Report to the Government as part of the Working Group on Critical Information Systems Protection set up by the Government. The group has indicated the types of systems which form part of the critical infrastructure, as part of the requirements of the banking and financial sector.

Developments in Technology in Banking

2.124 A number of banks commenced the process of setting up core banking solutions, which are at various stages of implementation. While the new private banks, foreign banks and a few old private sector banks have already such systems in place, the PSBs are also rapidly moving towards the attainment of this requirement. Computerisation of the business of banks has been receiving high importance. While all PSBs have already crossed the 70 per cent level of computerisation of their business, the advice from the Central Vigilance Commission (CVC) to achieve 100 per cent computerisation – has resulted in renewed vigour in these banks to attain this requirement.

Box II.11: Status of Compliance with Core Principles for Systemically Important Payment Systems

	Principle	Observation
1.	The system should have a well-founded legal basis under all relevant jurisdictions.	The existing deferred net settlement systems are all based on contractual agreements between the participant banks and the manager of the clearing house.
2.	System's rules and procedures should enable participants to have a clear understanding of the system's impact on each of the financial risks they incur.	The rules and procedures for clearing exist in the form of the model Uniform Rules and Regulations (URR) which are adopted by all clearing houses. These elucidate the duties and responsibilities of all the participants. For electronic based systems, such as, the ECS-Credit and Debit, and EFT-Procedural Guidelines clearly define the rights and obligations of all the participants in the respective systems.
3.	System should have clearly defined procedures for management of credit risks and liquidity risks.	Well laid out procedures for management of any situation arising out of such risks exist. The Rule 11 of the model URR provides the facility of partial unwind. The clearing is carried out by withdrawing all instruments drawn on the defaulting bank as though it did not participate in the clearing, thus resulting in the risk not materalising.
4.	System should provide prompt final settlement on day of value, preferably during the day and at a minimum, at the end of the day.	All clearings of the major centres of the country, which account for more than 85 per cent of the clearing value perform the accounting of the clearing settlements on the same day itself. The system ensures settlement being accounted for at different time zones, and at the latest, by the end of the day. This includes Delivery *versus* Payment (DvP) transactions (Government securities), inter-bank clearing and high value clearing also. In case of low-value MICR clearing, the existence of a 'return clearing' for unpaid cheques as well as the statutory need for the drawee bank branch to physically verify the payment instrument, require a longer time for settlement finality, which is by the end of the day.
5.	System in which multilateral netting takes place should, at a minimum, be able to ensure timely completion of daily settlements if participant with the largest single settlement obligation cannot settle.	Settlement risk is addressed through a system of partial unwind. There has not been a single instance of failure to settle on a daily basis in all systemically important payment systems till date.
6.	Assets used for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or less credit risk.	The final settlement occurs across the books of the Reserve Bank in the major centres and across the books of public sector banks (mainly the SBI) at other centres.
7.	System should ensure a high degree of security and operational reliability and should have contingent arrangements for timely completion of daily processing.	High degree of security and reliability is achieved with the state- of-the-art cheque processing system for cheque clearing; other settlements for systemically important systems take place on robust, reliable and secure computer systems.

8. The system should provide a means of making payments which is practical for its users and efficient for the economy.	The existing systems are all the result of many years of their operation and thus are tuned to meet the requirements of the participants as also meet the overall requirements for the economy as a whole. The Reserve Bank as the overseer of the payment system has also taken several initiatives to increase efficiency of the system by inducting newer technology and bringing about changes in procedures.
9. System should have objective and publicly disclosed criteria for participation, which permit fair and open access.	The access criteria laid down for becoming members of the clearing house are explicit and are disclosed. Constituents have to be banks fulfilling certain other minimum criteria (not applicable in case of post offices). For other players such as PDs and mutual funds, explicit rules of eligibility have been laid down by the central bank. The model URR for clearing houses provide for orderly removal of a member from the clearing house in case its continuance may cause dislocation / risk to the smooth functioning of the system.
10. Governance arrangements should be effective, accountable and transparent.	The clearing house is an association of member banks governed by URR. It has a Standing Committee for day-to-day governance and a general body where all major decisions are discussed and approved by the members. The members enter into contracts with the bank managing the clearing house wherein the duties and responsibilities are clearly spelt out.

2.125 Networking in banks is also an important activity which has been receiving focused attention. As part of the Indian Financial Network (INFINET), the number of Very Small Aperture Terminals (VSATs) rose from 924 at end-March 2002 to more than 2000 at end-June 2003. The notification of the Institute for Development and Research in Banking Technology (IDRBT) as the Certification Authority and the establishment of Registration Authorities in various banks during the year would lead to exchange of secured electronic message using digital signatures and Public Key Infrastructure (PKI)-based encryption.

Integration of IT Strategy and Business Strategies of Banks

2.126 The World Bank had sanctioned a Modernisation and Institutional Development Loan (MIDL) of US $ 83.7 million in 1995 under the Financial Sector Development Project to six participating banks (PBs). The financial assistance is intended to help the PBs to build financial strength and long-term competitiveness in a more liberalised business and banking environment.

2.127 During its visit in February 2001, the World Bank Review Team had observed that the computerisation efforts of the PBs had largely gone into house keeping areas like book-keeping and reconciliation. The IT infrastructure was found to be driven by technology and not by business and customer needs. The impact of the computerisation was characterised by a focus on "hardware" installation and was not fully reflected in productivity. They further observed that the progress in networking was not very satisfactory. There was an absence of integration of IT strategies with business strategy of PBs. As a result, even where proper infrastructure had been set up, it was not used by the customers to the extent necessary to break even and hence the consequential benefits were not accruing to banks. The World Bank suggested that the Reserve Bank could take a lead role and issue guidelines to banks, helping them integrate their IT strategy with business strategies. It was, therefore, decided to engage the services of the National Institute of Bank Management (NIBM) to conduct a study on integration of IT strategy with strategic business plans of banks. The purpose of the study is not to analyse the performance of the six participating banks but to consider these banks as case studies. The NIBM forwarded a detailed project report on the subject on May 30, 2003 which is being processed for issue of suitable guidelines to the banks.

11. Other Developments

Immediate Credit for Cheques

2.128 Based on the recommendation of the Indian Banks' Association (IBA), it has been decided that the present ceiling of Rs.7,500 should be enhanced to Rs.15,000 for immediate credit of outstation / local cheques subject to the existing guidelines issued by the Reserve Bank. These guidelines mainly relate to extension of such facility to all individual depositors without laying any stipulation for minimum balance for the purpose, proper conduct of account of customer, charging of interest for the period the bank is out of funds in the event of cheque being returned unpaid and publicity of availability of such facilities at branches.

Savings Bank Accounts

2.129 Banks have been advised that they should inform customers regarding the requirement of minimum balance at the time of opening the savings bank account and also any subsequent changes in this regard to the account holders in a transparent manner as deemed fit by them.
2.130 Banks have been allowed to open savings bank accounts in the names of State Government departments / bodies / agencies in respect of grants / subsidies released for implementation of various programmes / schemes sponsored by State Governments on production of an authorisation to the bank from the respective Government departments certifying that the concerned Government department or body has been permitted to open savings bank account. An amended directive has been issued to the banks in this regard in December 2002.

Dishonour of Cheques - Streamlining of Procedure

2.131 On January 28, 1992, banks were advised to implement the recommendation of the Goiporia Committee relating to return / despatch of dishonoured instruments to the customer within 24 hours. However, in light of the recommendations of the JPC on the Stock Market Scam and Matters Relating Thereto, the extant instructions relating to return of all dishonoured cheques have been reviewed. It has been suggested that in addition to the existing instructions in respect of dishonoured instruments for want of funds, banks may follow the additional instructions laid down in the circular dated June 26, 2003 which could cover all cheques dishonoured on account of insufficient funds and not only those relating to settlement transactions of Stock Exchanges. These instructions, *inter alia*, cover procedure for return / despatch of dishonoured cheques, banks' MIS on such cheques and procedure for dealing with cases of frequent dishonour of cheques.

2.132 Banks have also been advised to adopt, with the approval of their respective Boards, appropriate procedure for dealing with dishonoured cheques with inherent preventive measures, lay down requisite internal guidelines for their officers and staff and ensure strict compliance thereof.

Zero per cent Interest Finance Schemes for Consumer Durables

2.133 Banks were advised to charge interest on loans for purchase of consumer durables without reference to their PLR regardless of size of the loan amount. It was observed that some of the banks were providing low / zero per cent interest rates on consumer durables advances to borrowers through adjustment of discount available from manufacturers / dealers of consumer goods. Some of the banks promote such schemes by releasing advertisement in different newspapers and media indicating that they were promoting / financing consumers under such schemes. Since such loan schemes lack transparency in operations and distort pricing mechanism of loan products, banks were advised to refrain from offering such products.

Credit Facilities to Indian Joint Ventures / Wholly-owned Subsidiaries Abroad

2.134 The existing exchange control regulations permit Authorised Dealers to undertake investments in overseas markets subject to limits approved by their respective Boards. In view of the above, it was decided to revise the existing ceiling from 5 per cent of their unimpaired Tier - I capital to 10 per cent of unimpaired capital funds (Tier I and Tier II capital) for banks to offer credit / non-credit facilities to Indian joint ventures / wholly owned subsidiaries abroad, subject to the prescribed conditions. This facility has been permitted to banks to provide additional avenues for deployment of funds held in Foreign Currency Non-Resident (Bank) Deposit (FCNR(B)), Exchange Earners Foreign Currency (EEFC) and Resident Foreign Currency (RFC) accounts. The position would be reviewed after one year.

'Know Your Customer' – Identification of Depositors

2.135 As part of the 'Know Your Customer' (KYC) principle, the Reserve Bank has issued several guidelines relating to identification of depositors and advised the banks to put in place systems and procedures to control financial frauds, identify money laundering and suspicious activities and scrutinize / monitor large-value cash transactions. They have also been advised from time to time to be vigilant while opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds. Taking into account recent developments, both domestic and international, it was decided to reiterate, reinforce and consolidate the extant instructions on KYC norms and cash transactions with a view to safeguarding banks from being unwittingly used for the transfer or deposit of funds derived from criminal activity (both in respect of deposit and borrowal accounts), or for financing of terrorism.

Bank Finance for PSU Disinvestment Programme of Government of India

2.136 Disinvestment in public sector undertakings (PSUs) has relevance for the economic reform process of the country and availability of bank finance to the bidders would help in the successful completion of the disinvestment programme. Banks were, therefore, allowed to extend finance to the successful bidders for acquisition of shares of PSUs under the Government of India’s disinvestment programme. It was, however, specified initially that shares pledged to the bank should be marketable without lock-in period. The guidelines were subsequently relaxed allowing banks to extend finance to the successful bidders even though the shares of the disinvested company acquired / to be acquired by the successful bidder are subjected to a lock-in period / other such restrictions which affect their liquidity, subject to fulfillment of certain conditions.

2.137 Banks are precluded from financing investments of NBFCs in other companies and inter-corporate loans / deposits to / in other companies. The position was reviewed and banks are advised that Special Purpose Vehicles (SPVs) which comply with the certain conditions would not be treated as investment companies and therefore would not be considered as NBFCs, and such SPVs would be eligible for bank finance for PSU disinvestment by the Government of India.

12. Implementation of Recommendations of Joint Parliamentary Committee

2.138 The Parliament constituted a Joint Committee on ‘Stock Market Scam and Matters Relating Thereto’ (Chairman: Shri P. M. Tripathi) on April 27, 2001 with Members of Parliament as members. The terms of reference of the JPC were:

- To go into the irregularities and manipulations in all their ramifications in all transactions, including insider trading, relating to shares and other financial instruments and the role of the banks, brokers and promoters, stock exchanges, FIs, corporate entities and regulatory authorities;
- to fix the responsibility of the persons, institutions or authorities in respect of such transactions;
- to identify the misuse, if any, of and failures / inadequacies in the control and supervisory mechanism;
- to make recommendations for safeguards and improvements in the systems to prevent recurrence of such failures;
- to suggest measures to protect small investors; and
- to suggest deterrent measures against those found guilty of violating the regulations.

2.139 After several rounds of deliberations with various agencies and others, the Committee submitted its Report to Parliament on December 19, 2002. The JPC made in all 275 observations / recommendations; about one-third of which pertain to the Reserve Bank. These observations / irregularities mainly concern violations of the Reserve Bank norms / guidelines on banking transactions by a few commercial / co-operative banks particularly in collusion with certain stock brokers, laxity in follow-up of inspection reports, diversion of funds by borrowers, lack of coordination / effective monitoring / prompt action on the part of various regulators to check the scam, *etc.* The Committee, *inter alia,* recommended strengthening of supervision / monitoring systems of banking and financial sectors, legislative reforms to strengthen the supervision system, action against officials / borrowers involved in scam-related transactions, anticipation and pre-emptive action in a coordinated manner by regulators, insurance cover for depositors of NBFCs and corporate governance in banks.

2.140 The implementation of the recommendations of the JPC on Stock Market Scam and matters relating thereto has been taken up on an urgent basis to remove certain irregularities that have occurred in the transitional phase (Box II.12).

Box II.12: Progress Report on the Recommendations of the Joint Parliamentary Committee (JPC) on the Stock Market Scam and Matters Relating Thereto

The Reserve Bank has taken the following major measures on the recommendations of JPC:

(a) Urban Co-operative Banks (UCBs)

(i) UCBs have been advised to designate a senior official as compliance officer who should ensure to furnish compliance to the observations made in the inspection report to the Reserve Bank within the prescribed time limit.

(ii) UCBs have been advised to furnish important findings of the inspection of UCBs to the Chief Secretary of the State concerned.

(iii) Concurrent audit has been introduced for all UCBs. (iv) Instructions have been introduced to the UCBs making it obligatory on the part of Audit Committee to monitor implementation of the Reserve Bank guidelines. (v) UCBs have been advised that they should rectify the deficiencies / irregularities observed during the inspection in all respects for specific compliance in each case within a maximum period for four months from the date of inspection.

(vi) The UCBs have been advised to co-opt two professional directors with experience in banking and related areas with a view to improving the governance standards in the banks.

(vii) The Reserve Bank has also initiated steps to strengthen off-site surveillance of UCBs. With this end in view, an Off-Site Surveillance Division (OSS) has been set up in the Reserve Bank to detect early warning signals which will facilitate initiation of immediate corrective action.

(viii) The Reserve Bank has also initiated a Technical Assistance Programme (TAP) to strengthen the Management Information System (MIS) in UCBs in collaboration with external training institutions like the National Institute of Bank Management (NIBM), Pune, so as to ensure a robust MIS in UCBs as a support for decision making and regulatory compliance.

(ix) With effect from June 2002, an asset-liability management system has been introduced in scheduled UCBs under which the UCBs are required to manage their asset-liability mismatches within acceptable tolerance levels.

(x) The Regional Offices of the Reserve Bank have been advised to monitor the credit-deposit (CD) ratio of all UCBs to ensure that the high level of CD ratio is not being achieved by violating the statutory requirements on maintenance of cash reserve and liquid assets.

(xi) Instructions have been issued to UCBs regarding the ban on granting of loans and advances to the directors and their relatives on concerns in which they have interest.

(b) Commercial Banks

(i) Banks have been advised to put in place appropriate risk management systems to identify, measure, monitor and control the various risks to which they are exposed and also apprise their Boards in regard to the robustness of risk management systems and their compliance with RBI guidelines.

(ii) The effectiveness of risk management system would be examined specifically during the Annual Financial Inspection of the bank.

(iii) Detailed guidelines have been issued for uniform compliance with accounting standards.

(iv) Adoption of the prescribed system and risk control procedures for capital market exposures within the limits prescribed by the Reserve Bank in its circular of May 11, 2001 has been reiterated.
(v) Detailed instructions have been issued regarding the procedure to be followed by banks in respect of dishonoured cheques.

(c) Overseas Corporate Bodies (OCBs)

(i) Investments under the portfolio investment scheme by OCBs were banned with effect from November 29, 2001. Subsequently, with effect from September 16, 2003, OCBs are not permitted to make fresh investment under FDI scheme (including automatic route) and in other investments / deposits / loans under the various routes / schemes available to the non-residents under the extant Exchange Control Regulations. Further, the facility of opening and maintaining fresh Non-Resident (External) Accounts (NRE) (Savings, Current, Recurring or Fixed), Foreign Currency (Non-Resident) Accounts (Banks) [FCNR(B)] and Non-Resident Ordinary (NRO) Accounts with Authorised Dealers (ADs) in India by OCBs, stands withdrawn.

(ii) A floppy-based system for collection of sale / purchase statistics in respect of NRIs / OCBs (only sales in case of OCBs) from banks has since been introduced. A software has since been developed to receive the data by e-mail. In respect of Foreign Institutional Investors also, where data collection is through floppy-based system, it is proposed to convert this procedure to enable receipt of data through the e-mail module and the revised procedure is expected to be introduced shortly. The process of monitoring would be improved further once the Integrated Foreign Exchange Management System (IFMS) facilitated web-based reporting is operationalised.

(d) Other Measures

(i) The Reserve Bank has constituted various Working Groups to look into the systemic areas, *e.g.*, penal measures and criminal action against the borrowers who divert the funds with malafide intention, preparation of pilot policy statement on take over / merger of banks, identifying existing constraints in laws relating to regulation of financial markets, examination of existing system of supervision over UCBs, *etc.* Their recommendations are under examination / finalisation.

(ii) The Reserve Bank has forwarded to the Government of India amendments relating to Banking Regulation Act, in areas like enhancement of penal provision for false returns, non-compliance with the Reserve Bank instructions / directives and role of Nominee Directors.

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* The primary focus of the Chapter is on policy developments during 2002-03; nevertheless, wherever necessary, references are made to the recent policy developments.

1 While the policy measures are discussed in this Chapter with respect to fiscal 2002-03 (April-March) and 2003-04 (so far), the supervisory details are discussed over the period covering July 2002-June 2003, since the Reserve Bank's accounting year spans over July-June.

2 The categories are as follows: 1. Business Strategy; 2. Long-term Information System (IS) Strategy; 3. Short-term IS Strategy; 4. IS Security Policy; 5. Implementation of Security Policy; 6. IS Audit Guidelines; 7. Acquisition and Implementation of Packaged Software; 8. Development of software - in-house and outsourced; 9. Physical Access Controls; 10. Checklist for Operating System; 11. General Checklist for Application Systems Controls; 12. Database Controls; 13. Checklist for Network Management; 14. Maintenance related; and 15. Internet Banking.

3 Chapter VI looks into the details of the SC / RCs.

Chapter III - Developments in Commercial Banking

1. Introduction

3.1 The revival of industrial activity induced a distinct shift in the operating macroeconomic environment for commercial banks in 2002-03. Along with continued strong capital flows, there was a revival of non-food credit offtake during the year. Commercial banks were able to fund this increased demand from industry without impinging on liquidity conditions by unwinding positions - in both domestic and foreign investments - built up during the previous years of poor credit off-take. Their performance during the year, thus, reflected the mix of a falling interest rate regime and a revival of credit demand. Easy liquidity conditions continued though the first half of 2003-04, driven by strong capital flows.

3.2 The net profits of scheduled commercial banks (SCBs), excluding Regional Rural Banks (RRBs) continued to record substantial growth during 2002-03 over and above the strong performance last year. The return on assets witnessed a marked improvement driven by increases in all major income categories. The spurt in the retail and housing segments boosted both lending and fee incomes. Trading income continued to be strong in consonance with a sustained rally in the Government securities markets, reflecting the softening of the interest rate regime. Interest expenses decelerated sharply with the reduction in deposit rates (Table III.1).

Table III.1: Changes in the Income Expenditure Profile of Scheduled Commercial Banks

(Amount in Rs. crore)

Indicator	2001-02		2002-03	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Income (a+b)	**18,956**	**14.3**	**21,342**	**14.1**
a) Interest Income	11,867	10.3	13,760	10.8
b) Other Income	7,089	41.7	7,582	31.5
2. Expenses (a+b+c)	**13,783**	**11.0**	**15,841**	**11.4**
a) Interest Expenses	9,375	12.0	6,091	7.0
b) Operating Expenses	-499	-1.5	4,406	13.1
c) Provisions and Contingencies	4,907	36.7	5,344	29.3
3. Operating Profits	**10,080**	**51.0**	**10,845**	**36.3**
4. Net Profits	**5,173**	**80.8**	**5,501**	**47.5**

3.3 Banks have been taking pro-active steps to align their risk management processes in line with international best practices. In tandem with the changing face of competition, banks have also undertaken significant initiatives to strengthen their business practices. This included greater product sophistication with increasing leveraging of information technology to deliver value-added services to customers. Besides, there was a greater emphasis on integrated risk management systems to monitor credit, market and operational risks, sharper focus on recovery management including setting up of specialised asset recovery management branches, and on corporate governance practices.

2. Assets and Liabilities of Scheduled Commercial Banks[1]

3.4 The size of the balance sheet of SCBs recorded slower growth during 2002-03 as compared with that of the previous year, adjusted for merger effects. However, all bank groups, except foreign and new private banks, witnessed double-digit asset growth (Table III.2).

Table III.2: Consolidated Balance Sheet of Scheduled Commercial Banks

(Amount in Rs.crore)

Item	As at end-March 2002		As at end-March 2003	
	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5
Total Liabilities	**15,36,425**	**100.0**	**16,98,916**	**100.0**
1. Capital	21,472	1.4	21,594	1.3
2. Reserves & Surplus	62,684	4.1	76,288	4.5
3. Deposits	12,05,930	78.5	13,55,880	79.8
3.1 Demand Deposits	1,52,929	10.0	1,64,590	9.7
3.2 Savings Bank Deposits	2,55,598	16.6	3,02,303	17.8
3.3 Term Deposits	7,97,403	51.9	8,88,987	52.3
4. Borrowings	1,02,226	6.6	87,476	5.1
5. Other Liabilities and Provisions	1,44,113	9.4	1,57,678	9.3
Total Assets	**15,36,425**	**100.0**	**16,98,916**	**100.0**
1. Cash and balances with RBI	86,761	5.7	86,118	5.1
2. Balances with banks and money at call and short notice	1,18,576	7.7	74,554	4.4
3. Investments	5,87,253	38.2	6,93,791	40.8
3.1 In Government securities (a+b)	4,31,796	28.1	5,36,381	31.6
a. In India	4,28,418	27.9	5,33,143	31.4
b. Outside India	3,378	0.2	3,238	0.2
3.2 In other approved securities	21,753	1.4	19,276	1.1
3.3 In non-approved securities	1,33,704	8.7	1,38,134	8.1
4. Loans and Advances	6,45,438	42.0	7,40,473	43.6
4.1 Bills purchased & discounted	53,094	3.5	58,783	3.5
4.2 Cash Credit, Overdrafts, *etc.*	3,22,199	21.0	3,51,519	20.7
4.3 Term Loans	2,70,145	17.6	3,30,171	19.4
5. Fixed Assets	20,091	1.3	20,278	1.2
6. Other Assets	78,306	5.1	83,702	4.9

Source: Balance sheets of respective banks.

3.5 The size of bank assets of an economy is a measure of financial maturity. The size of bank assets in relation to GDP has important implications for financial development of any economy. The ratio of bank assets to GDP at market prices, at about 70 per cent for India, compares favourably with those of developing countries in Asia and Latin America (Chart III.1).

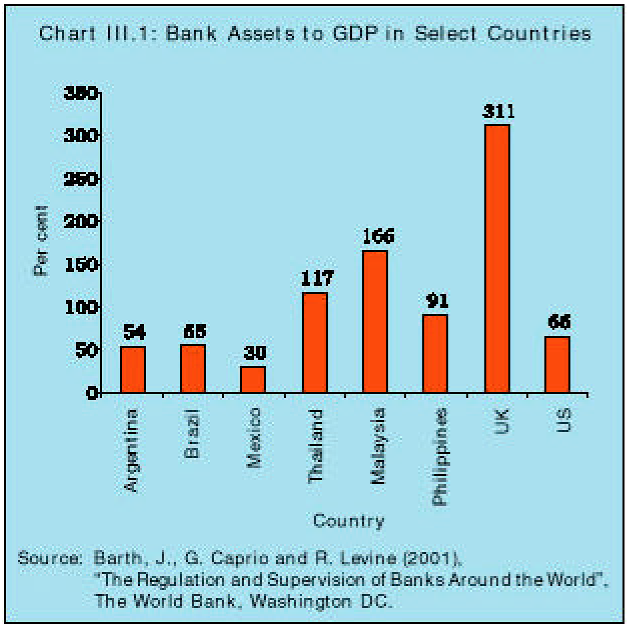


Chart III.1: Bank Assets to GDP in Select Countries

Source: Barth, J., G. Caprio and R. Levine (2001), "The Regulation and Supervision of Banks Around the World", The World Bank, Washington DC.

3.6 The changes in the composition of the balance sheet of SCBs, by and large, reflected the changing macroeconomic environment. Deposits continued to account for about four-fifth of the liabilities. The share of Government paper in total assets continued to climb in response to the rally in the Government securities markets. At the same time, the share of bank credit in total assets also recorded an increase with the revival of industrial activity. This was funded by an unwinding of positions in the call/term money markets, and a drawdown of *nostro* balances abroad in respect of all bank groups [Appendix Table III.1(A) to III.1(C)]. The increase in profitability in recent years raised the share of reserves and surpluses with banks well above the average recorded during the past five years.

Bank-group wise Position

3.7 The broad overall trends held, more or less, for all bank groups during 2002-03. Reflecting the improving investment climate, the advances portfolio of the public sector banks (PSBs) witnessed a turnaround after several years. A similar phenomenon was evidenced for old private banks as well. New private banks did witness an increase in term deposits, with an accompanying increase in term loans. Foreign banks continued to be active in the Government securities market, although their share in total assets was lower than that of PSBs.

Intra-year Variations[2]

3.8 The dynamics of the balance sheet flows indicate a stronger growth of credit and investments during 2002-03 (Table III.3). During 2003-04 so far, deposit growth remained on the moderate side and bank credit off-take was subdued.

Table III.3: Select Banking Indicators

(Amount in Rs. crore)

Indicator	Outstanding as on March	Financial Year Flows (per cent)

		21, 2003	2001-02	2002-03
1		**2**	**3**	**4**
1.	Aggregate Deposits (a+b)	12,80,853	14.6	16.1 (13.4)
	a) Demand Deposits	1,70,289	7.4	11.3
	b) Time Deposits	11,10,564	15.9	16.9 (13.7)
2.	Bank Credit (a+b)	7,29,215	15.3	23.7
	a) Food Credit	49,479	35.0	-8.3
	b) Non-food Credit	6,79,736	13.6	26.9
3.	Investments in Government Securities	5,23,417	20.9	27.3

Note :Figures in brackets exclude the impact of mergers since May 3, 2002.

Source: Section 42 (2) returns of commercial banks.

Deposits

3.9 Deposit mobilisation (net of impact of mergers) by SCBs during 2002-03 was, more or less, in line with the projection of deposit growth, at 14.0 per cent, envisaged in the Monetary and Credit Policy Statement of April 2003 (Appendix Table III.2). The lower deposit growth during 2002-03 partly reflected the deceleration in the monetary base. Time deposits (net of mergers) decelerated reflecting a number of factors, such as, lower accrual of interest in view of the recent softening of deposit rates, and a shift to current accounts in consonance with higher industrial activity. Consequently, demand deposits registered a healthy growth, reflecting the higher non-food credit off-take, fuelled by the revival of industrial production. Deposit expansion remained subdued in 2003-04 so far, primarily reflecting the deceleration in time deposits in response to lower interest rates and impact of the last year's drought. Demand deposits, on the other hand, have remained buoyant during the current year.

Certificates of Deposit (CDs)

3.10 CDs issued by SCBs continued to decline during 2002-03 with the prevalence of easy liquidity conditions - although there was a mild revival in 2003-04 so far (Appendix Table III.3). The discount rates on CDs also continued to soften. The main issuers, as in the past, were mainly banks with a relatively modest retail base, such as, UTI Bank, ICICI Bank, IndusInd Bank, Centurion Bank and Karnataka Bank during 2002-03, and ICICI Bank, UTI Bank, IndusInd Bank, Canara Bank and CitiBank N.A. during 2003-04 so far.

Standing Liquidity Facilities

3.11 The Reserve Bank has been in the process of phasing out sector-specific refinance facilities. The Collateralised Lending Facility (CLF), hitherto available to scheduled commercial banks against the collateral of excess holdings of Government of India dated securities/ Treasury bills (over their investments as part of Statutory Liquidity Ratio (SLR) required to be maintained), has been withdrawn in a phased manner, completely, effective from October 5, 2002. The Export Credit Refinance (ECR) Facility, provided on the basis of banks' eligible outstanding Rupee export credit, both at the pre-shipment and post-shipment stages, remains the only standing facility.

3.12 The apportionment of the standing facilities into normal and back-stop facilities was altered from the initial ratio of two-third to one-third (*i.e.*, 67:33) to one half (*i.e.*, 50:50) each, effective from November 16, 2002. While the normal facility continues to be provided at the Bank Rate, in view of the need to rationalise the multiplicity of rates at which liquidity is injected, effective from April 30, 2003, the following measures were taken in order to increase the efficacy of Liquidity Adjustment Facility (LAF) operations:

- The 'back-stop' interest rate is placed at the reverse repo cut-off rate at which funds were injected earlier during the day in the regular LAF auctions,

- Where no reverse repo bid is accepted as part of LAF auctions, the 'back-stop' interest rate would generally be 2.0 percentage points over the repo cut-off rate of the day under the LAF.

- On the days when no bids for repo or reverse repo auctions are received/ accepted, the 'back-stop' interest rate would be decided by the Reserve Bank on an *adhoc* basis.

3.13 With effect from April 1, 2002, scheduled banks are provided export credit refinance to the extent of 15.0 per cent of the outstanding export credit eligible for refinance as at the end of the second preceding fortnight. In response to suggestions received from the exporting community (after deregulation of interest rates on post-shipment Rupee export credit beyond 90 days and up to 180 days), with effect from May 1, 2003, the Reserve Bank announced that the refinance facility would continue to be extended to eligible export credit remaining outstanding under post-shipment Rupee credit beyond 90 days and up to 180 days.

3.14 There was a substantial increase in aggregate export credit, consistent with high export growth during 2002-03. The export credit refinance limit, however, declined steadily during 2002-03 (and 2003-04 so far) as a large part of the drawals were in the form of pre-shipment credit in foreign currency and export bills rediscounted which are not eligible for refinance (Appendix Table III.4). The average daily utilisation of the export credit refinance facility picked up in May 2002 (48 per cent of the limit as on May 17, 2002) on account of a temporary hardening of interest rates arising out of border tensions but thereafter declined to negligible levels with the return of easy liquidity conditions. The average daily utilisation of liquidity support under the CLF provided to SCBs ranged between Rs.30 crore and Rs.175 crore during April-May 2002 and was virtually vacated when it was withdrawn completely on October 5, 2002.

Bank Credit

3.15 Bank credit (net of impact of mergers) increased during 2002-03. There was, however, a change in the composition of the credit off-take. Food credit recorded a drop on account of lower procurement operations during the year. Non-food credit, on the other hand, registered a pick-up, reflecting a turnaround in the industrial climate, especially during the latter half of the year. Besides, there was a sharp increase in foreign currency credit demand reflecting relatively lower cost of funds to the borrower *vis-à-vis* Rupee loans. During 2003-04 so far, bank credit growth remained moderate. Food credit contracted owing to lower procurement and higher off-take.

Non-food credit off-take remained relatively subdued amidst buoyancy in industry reflecting, *inter alia*, increased recourse by corporates to internal sources of financing as well as external commercial borrowings. More recently, *i.e.*, since September 2003, some signs of a pick-up in non-food credit are clearly discernible.

Other Investments

3.16 Besides conventional credit, banks have been investing significantly in non-SLR investments in the form of commercial paper, shares, bonds, and debentures issued by the private corporate sector and public sector undertakings (PSUs) (Table III.4). The sharp increase in such investments during 2002-03 reflects partly the impact of merger effects. In particular, there was a substantial drop in investments in CP, reflecting a decline in issuances during the latter half of the year. Non- SLR investments showed some decline in 2003-04 primarily on account of a fall in the holdings of bonds and debentures of the private corporate sector.

Table III.4: Scheduled Commercial Banks' Select Non-Slr Investments

(Rs. crore)

Instrument	March 22, 2002	March 21, 2003
1	**2**	**3**
1. Commercial Paper	8,497	4,007
	(10.5)	(4.3)
2. Investment in shares issued by (a+b)	5,914	9,019
	(7.3)	(9.7)
a) Public sector undertakings	1,587	1,430
	(2.0)	(1.5)
b) Private corporate sector	4,327	7,589
	(5.3)	(8.2)
3. Investments in bonds/debentures issued by (a+b)	66,589	79,828
	(82.2)	(86.0)
a) Public sector undertakings	39,520	46,854
	(48.8)	(50.5)
b) Private corporate sector	27,069	32,973
	(33.4)	(35.5)
Total (1+2+3)	**81,000**	**92,854**
	(100.0)	**(100.0)**

Note: Data are based on statutory Section 42 (2) returns submitted by scheduled commercial banks.
Figures in brackets are percentages to the total. Constituents, may not add to total due to rounding off of figures.

Commercial Paper (CP)

3.17 Banks' investments in CPs issued by the corporates declined during 2002-03, especially during the second half of the year. This reflected, in part, a fall in primary issuances by manufacturing companies having access to sub-PLR lending *etc.* The principal investors of CP included the following banks, *viz.*, State Bank of India, HDFC Bank, Union Bank of India, Punjab National Bank and Central Bank of India. The top five issuers of CP were EXIM Bank, IDBI, Indian Petroleum Corporation Ltd. (IPCL), the erstwhile ICICI Ltd. and HDFC. The discount rate on CP invested by SCB's declined steadily from 7.4-10.3 per cent in March 2002 to 6.0-7.8 per cent by March 2003, and further to 4.7-6.5 per cent by September 2003. The spread of the weighted average discount rate (WADR) between the prime-rated and medium-rated companies widened to 156 basis points by end-November 2002 from 89 basis points in mid-April 2002, but narrowed to 59 basis points by end-March 2003 and thereafter to 65 basis points as at end-September 2003.

Commercial Bills

3.18 The market for bills rediscounting recorded a general decline in activity during 2002-03. However, during 2003-04 so far, it showed a marked increase from an average of Rs.281 crore during the first quarter of 2003-04 to Rs. 567 crore during the following quarter. The share of SIDBI, at 78.2 per cent of the total transactions during 2002-03 and 84.5 per cent of total transactions during the first half of 2003-04, continued to be substantial.

Forward Rate Agreements (FRAs) / Interest Rate Swaps (IRS)

3.19 There was a sharp increase in volume in the markets for futures products, such as, FRAs and IRS during 2002-03. While there was a spurt in both the number of contracts and the outstanding notional principal amount, participation in the market continues to remain restricted mainly to select foreign and private sector banks and a primary dealer. In a majority of these contracts, the NSE-Mumbai Inter-Bank Offered Rate (MIBOR) and Mumbai Inter-Bank Forward Offered Rate (MIFOR) were used as the benchmark rates. The other benchmark rates used include the 1-year Government of India security secondary market yield and primary cut-off yield on 364-day Treasury Bills. FRA/ IRS transactions continued to increase sharply to 12,951 contracts at Rs.3,33,736 crore as on September 19, 2003.

Sectoral Deployment of Gross Bank Credit

3.20 The gross bank credit of select SCBs (covering major banks accounting for 85-90 per cent of bank credit of all SCBs) recorded marginally higher growth during 2002-03 as compared with the previous year (Table III.5 and Appendix Table III.5). There was a sharp acceleration in non-food credit, driven mainly by an acceleration in advances to industry (medium and large) and housing.

3.21 Fiscal 2002-03 witnessed a sharp pickup in housing loans, which witnessed a quantum rise to 6.1 per cent of non-food gross bank credit as at end-March 2003, up from 4.6 per cent as at end-March 2002, reflecting several policy initiatives in this regard. In fact, banks have consistently exceeded the targets prescribed for providing housing loans during 2001-02 and 2002-03 (Table III.6).[3]

Changing Pattern of Export Financing

3.22 The share of export credit in net bank credit remained at a level of 8.0 per cent as in the previous year, notwithstanding higher export growth during the year (Chart III.2). This might be due to the changes in the financing pattern of exports brought about by the liberalised policy regime, softening of domestic and global interest rates and availability of alternative sources of finance at competitive rates.

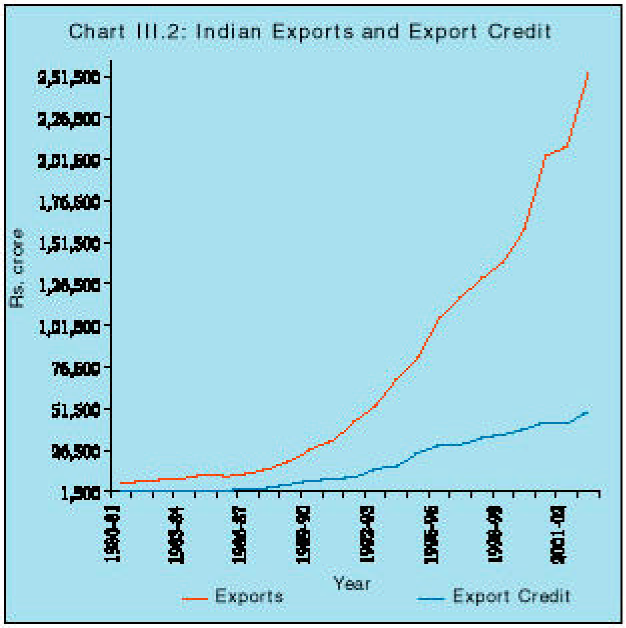


Chart III.2: Indian Exports and Export Credit

Table III.6: Housing Finance by Scheduled Commercial Banks

(Amount in Rs. crore)

Item	April-March	
	2001-02	2002-03
1	2	3
Minimum Prescribed	5,046	8,574
Allocation	(31.1)	(69.9)
Disbursements	14,746	33,841
	(51.9)	(129.5)

Notes : 1. Data are provisional.
2. Figures in brackets indicate percentage changes over the previous year.

Industry-wise Deployment of Credit

3.23 The increase in industrial credit was, by and large, spread across all sectors (Chart III.3 and Appendix Table III.6). Industry-wise, significant credit growth was observed in electricity, cotton textiles, infrastructure and iron and steel. However, four out of 26 industries, *i.e.*, coal, engineering, tobacco and tobacco products and sugar recorded a decline in credit during 2002-03.

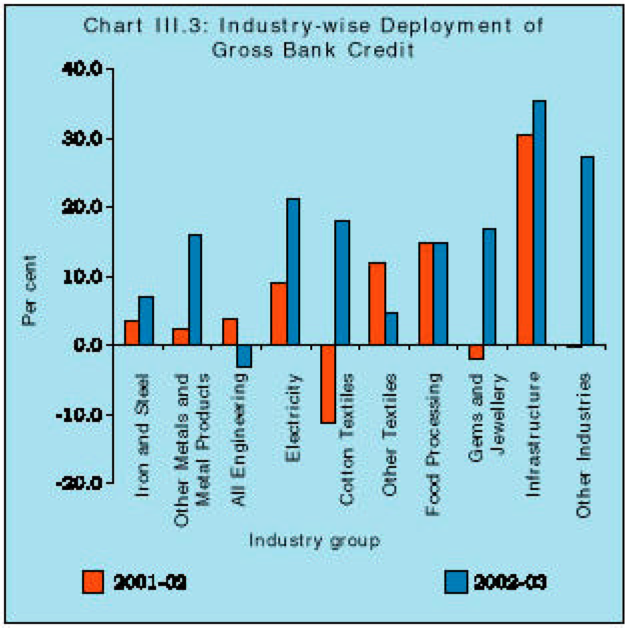


Table III.5: Sectoral Deployment of Gross Bank Credit: Flows

(Variations over the year)

(Amount in Rs. crore)

Sector	2001-02		2002-03	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Priority sector	20,845	13.5	28,540	16.3
2. Industry (Medium and Large)	9,487	5.8	28,011	16.3
3. Housing	6,203	38.4	12,308	55.1
4. Non-banking financial companies	1,843	23.6	4,399	45.6
5. Wholesale trade (other than food procurement)	2,614	14.6	1,939	9.5
6. Other sectors	12,595	18.0	9,481	11.5
7. Total (1 to 6)	**53,587**	**12.5**	**84,678**	**17.5**
of which:				
Export Credit	-343	-0.8	6,424	14.9

Note : Data are provisional and relate to select scheduled commercial banks which account for 85-90 per cent of bank Credit of all scheduled commercial banks.

Bank Credit to Sick/Weak Industries

3.24 There has been a decline in the number of sick-SSI and non-SSI (sick / weak) industrial units financed by SCBs in recent years (Appendix Table III.7). The quantum of bank loans locked up in sick/weak industries increased marginally to Rs.26,065 crore as at end-March 2002.

Lending to Sensitive Sectors

3.25 The overall exposure of SCBs to sensitive sectors comprising capital market, real estate and commodities, underwent a compositional shift during 2002-03 (Table III.7 and Appendix Table III.8). There was a jump in housing finance - so much so that the overall exposure to sensitive sectors of most bank groups has gone up. PSBs continued to account for about two-thirds of the total exposure of SCBs to sensitive sectors.

Table III.7: Lending to Sensitive Sectors by Scheduled Commercial Banks

(Amount in Rs. crore)

Advances to	Outstanding as at end-March		Per cent to total	
	2002	2003	2002	2003
1	2	3	4	5
1. Capital market	3,082	2,504	14.8	10.5
2. Real estate	9,012	12,464	43.3	52.0
3. Commodities	8,727	8,979	41.9	37.5
Total (1+2+3)	**20,821**	**23,947**	**100.0**	**100.0**

3.26 Most bank groups, excluding the foreign bank category, unwound their exposure to the capital market during 2002-03, partly on account of the subdued performance of the capital market with limited activity being witnessed during 2002-03 and partly on account of the new growth driver: housing finance. Most commercial banks are engaged in offering retail credit for housing on highly competitive prices and customer-friendly terms, supported by strong marketing efforts to enhance their customer appeal. Consequently, real estate lending by most bank groups experienced moderate to significant increases, a decline being evidenced only in case of old private banks who, in fact, experienced a cutback in their overall lending to sensitive sectors. Exposure to commodities was on the lower side for most bank groups, with declines being evident for the State Bank group, foreign banks and old private banks.

Credit-Deposit Ratio

3.27 According to the data available from the Basic Statistical Returns (BSR), the credit-deposit (C-D) ratio of SCBs as at end-March 2002 (as per utilisation) was 58.4 per cent (Appendix Table III.9) The total flow of resources, as reflected in the credit *plus* investment to deposit (IC-D) ratio showed an increase (as per utilisation) over the last few years. The same trend has been observed in all the regions, except the western region. The western region showed a decline as at end-March 2002 as compared with end-March 2001 mainly due to a decline in the IC-D ratio of Maharashtra, which may be partly attributed to the impact of the merger.

Credit to Government

3.28 Commercial banks continued to invest heavily in Government paper, as the sustained softening of interest rates continued to fuel a rally in gilt prices. As a result, commercial bank SLR investments further increased to 38.5 per cent of their net demand and time liabilities (NDTL) as at end-March 2003 from 36.0 per cent as at end-March 2002, much above the stipulated minimum norm of 25.0 per cent. This climbed to over 40 per cent of NDTL by end-September 2003, amidst surplus liquidity in financial markets.

Role of Banks as Authorised Dealers (ADs)

3.29 A distinctive feature of the 1990s has been the growing influence of capital flows on the operations of the monetary and banking system (Box III.1). Not only has the liberalisation of the external sector significantly enhanced the quantum of funds channeled between residents and nonresidents manifold, but increasingly, the relaxation of balance sheet restrictions in respect of foreign exchange operations has transformed banks into active participants in the foreign exchange markets. Switches in capital flows, therefore, now directly affect bank liquidity. Second, the resultant impact on interest rates has been impacting bank profitability. Third, given the differential between domestic and international interest rates, the allocation between domestic and foreign assets also influences bank profitability, especially in view of the increasing liberalisation of banks' foreign exchange operations. The turnover in the foreign exchange business of banks increased by an annual average of about 4 per cent, in US dollar terms, between 1997-98 and 2002-03. While inter-bank transactions still continue to account for around 80 per cent of the total turnover, the merchant banking business of the ADs has grown much faster in recent years (Table III.8).

Table III.8: Composition of Foreign Exchange Turnover of Authorised Dealers

(Amount in US $ million, ratios in per cent)

Year	Merchant		Inter-Bank		Total	
	Purchase	Sale	Purchase	Sale	Purchase	Sale
1	2	3	4	5	6	7
1997-98	97,937	1,11,989	5,58,019	5,38,103	6,55,956	6,50,091
	(14.9)	(17.2)	(85.1)	(82.8)	(100.0)	(100.0)
1998-99	1,18,097	1,34,587	5,40,752	5,34,294	6,58,849	6,68,881
	(17.9)	(20.1)	(82.1)	(79.9)	(100.0)	(100.0)
1999-2000	1,23,747	1,28,294	4,66,042	4,65,844	5,89,789	5,94,139
	(21.0)	(21.6)	(79.0)	(78.4)	(100.0)	(100.0)
2000-01	1,33,214	1,48,018	5,90,638	5,62,379	7,23,852	7,10,397
	(18.4)	(20.8)	(81.6)	(79.2)	(100.0)	(100.0)
2001-02	1,34,966	1,37,420	6,04,678	6,10,295	7,39,644	7,47,715
	(18.2)	(18.4)	(81.8)	(81.6)	(100.0)	(100.0)
2002-03	1,65,544	1,63,664	6,24,151	6,31,380	7,89,695	7,95,044
	(21.0)	(20.6)	(79.0)	(79.4)	(100.0)	(100.0)

Note: Figures in brackets are shares in total turnover.

Box III.1: Banks as Authorised Dealers

The Reserve Bank designates specific banks as authorised dealers (ADs) for undertaking various foreign exchange transactions. There are currently 92 banks (inclusive of 35 foreign banks) functioning as ADs through 27,762 branches. The Reserve Bank also authorises companies to transact in foreign exchanges through two other channels, *viz.*, full-fledged money-changers (FFMCs), who are allowed to buy and sell foreign exchange against Indian Rupees, and restricted money changers (RMCs), who can only buy foreign exchange against Indian Rupees. The Reserve Bank also permits ADs and FFMCs to enter into agency/franchising agreements with entities for the purposes of carrying on RMC business subject to certain conditions. In addition, the Reserve Bank authorises certain development finance institutions to undertake specific types of foreign exchange transactions incidental to their main business.

The Foreign Exchange Management Act (FEMA), 1999, allows an AD in India or a branch outside India of an Indian bank to lend in foreign currency subject to certain conditions. An AD is allowed to grant loans to its constituents in India, wholly-owned subsidiaries abroad, joint ventures abroad of Indian entities and another AD in India. An AD in India may borrow in foreign currency subject to certain conditions, including its head office or branch or correspondent outside India up to 25 per cent of its unimpaired Tier I capital, or US $ 10 million, whichever is higher.

ADs play a crucial role in the development of India's foreign exchange market. In view of the gradual approach to external liberalisation, ADs have been given powers to buy and sell foreign exchange on behalf of their clients by ensuring proper documentation without the intervention of the Reserve Bank, subject to limits deemed sufficient to cover the underlying authorised transactions. For foreign exchange transactions beyond the limits set for specific purposes, however, the permission of the Reserve Bank is required for the release of foreign exchange. For specified current account transactions relating to purposes like education, medical treatment, employment, emigration, family maintenance and private travel, only self-certification is needed.

In view of the substantial autonomy in conducting foreign exchange business, ADs have emerged as main agencies responsible for implementation of the FEMA and the notifications under the Act. The Reserve Bank has decided not to specify the documents to be verified by ADs while transacting in foreign exchange. Both ADs and their customers desiring to carry out foreign exchange transactions have the responsibility to ensure that all applicable regulatory requirements and guidelines are being followed in course of their business.

The Reserve Bank would mainly focus on the effective monitoring of the operations of ADs, under the liberalised regime. As a result, the inspection approach of the Reserve Bank has shifted from transaction-specific inspection to systems-supervision. ADs are required to report their turnover to the Reserve Bank on a daily basis. The Reserve Bank scrutinises returns submitted by the ADs to ensure effective implementation of the FEMA regulations/ notifications.

International Banking Statistics

3.30 Monitoring of the cross-border flow of funds has assumed critical importance in view of the growing liberalisation of the external sector. The Reserve Bank now compiles and disseminates international banking statistics (IBS) on the lines of the reporting system devised by the Bank for International Settlements (BIS). Such statistics provide an understanding of the total magnitude of international assets and liabilities of the banking system and their composition, mainly in terms of maturity, currency composition and country of residence. International assets / liabilities cover claims / liabilities of reporting banks with / toward nonresidents in any currency and residents only in foreign currency.

3.31 The locational banking statistics (LBS) provide the gross position of international assets and international liabilities of all banking offices located in India. They report exclusively banks' international transactions including the transactions with any of their own branches / subsidiaries /joint ventures located outside India.

3.32 International liabilities of banks recorded a sharp increase during both 2001-02 and 2002-03 partly driven by the accretion to non-resident deposits and their large-scale foreign currency borrowings (Table III.9). International liabilities were predominantly denominated in either US dollars or Indian Rupees, given the large size of Rupee non-resident deposits.

Table III.9: International Liabilities of Banks Classified According to Type

(Rs. crore)

Liability type	Amount outstanding as at end-March		
	2001	2002	2003
1	2	3	4
1. Deposits and Loans	1,04,148	1,20,604	1,45,930
of which:			
Foreign Currency Non-Resident Bank [FCNR(B)] Scheme	37,991	39,636	43,989
Foreign Currency Borrowings*	1,222	5,514	18,411
Non-resident External Rupee (NRE) Accounts	29,413	33,233	53,124
Non-Resident Non-Repatriable (NRNR) Rupee Deposits	25,867	27,181	15,207
2. Own Issues of Securities Bonds (including IMDs/RIBs)	43,652	43,582	44,087
3. Other Liabilities	4,580	7,150	10,475
ADRs / GDRs	850	1,862	3,833
Equities of banks held by non-residents	382	547	556
Capital/remittable profits of foreign banks in India and other unclassified International liabilities	3,348	4,741	6,086
Total International Liabilities	**1,52,380**	**1,71,336**	**2,00,493**

* Inter-bank borrowing in India and from abroad, external Commercial borrowings of banks.

3.33 Banks' international assets, as at end-March 2003, on the other hand, remained roughly the same as at end-March 2002 (Table III.10). There was, however, a dramatic change in the composition of banks' international assets, with a large scale substitution of *nostro* balances, including term deposits with non-resident banks, with foreign currency loans to residents, reflecting higher domestic demand for relatively cheaper foreign currency loans. The bulk of the international assets continued to be held in US dollars, although the share of Euro persisted to record a steady rise.

Table III.10: International Assets of Banks Classified According to Type

(Rs. crore)

Asset type	Amount outstanding as at end-March		
	2001	2002	2003

1	2	3	4
	80,389	95,794	97,657
1. Loans and Deposits			
of which:			
Loans to non-residents*	4,397	5,218	4,634
Foreign Currency Loans to Residents**	13,446	19,561	36,859
Outstanding export bills Drawn on non-residents by Residents	11,119	15,190	19,242
Nostro balances@	51,287	55,642	36,708
2. Holdings of debt securities	607	952	1,027
3. Other assets@@	2,237	4,629	5,890
Total International Assets	**83,233**	**1,01,375**	**1,04,574**

* Includes Rupee loans and Foreign Currency (FC) loans out of non-resident deposits.

** Includes loans out of FCNR (B) deposits, PCFCs, FC lending To and FC Deposits with banks in India, *etc.*

@ Including balances in term deposits with non-resident banks (including FCNR funds held abroad).

@@ Capital supplied to and receivable profits from foreign branches/subsidiaries of Indian banks and other unclassified International assets.

3.34 The consolidated banking statistics (CBS) provide comprehensive and consistent quarterly data on banks' financial claims on other countries, both on immediate borrower basis for providing a measure of country transfer risk, and on ultimate risk basis for assessing country credit risk exposures of the domestic banking system. The immediate country risk refers to the country where the original risk lies and the ultimate country risk relates to the country where the final risk lies. The consolidated claims of banks, based on immediate country risk, as at end-March 2003 were mainly concentrated on the US, Hong Kong and the UK (Table III.11).

Table III.11: Consolidated International Claims of Banks on Countries Other Than India: Amount Outstanding

(based on CBS statement)

(Rs. crore)

Country	Ultimate country risk basis			Immediate country risk basis		
	March 2001	September 2001	March 2002	June 2002	September 2002	March 2003
1	2	3	4	5	6	7
France	1,638	2,445	2,230	2,582	2,599	2,461
	(2.2)	(2.9)	(2.4)	(2.7)	(2.7)	(2.7)
Germany	4,542	4,567	4,078	3,689	3,463	3,281
	(6.1)	(5.4)	(4.4)	(3.9)	(3.6)	(3.6)
Hong Kong	2,025	2,869	3,107	14,317	14,115	13,416
	(2.7)	(3.4)	(3.3)	(15.1)	(14.7)	(14.7)
Italy	2,666	4,623	3,706	3,362	3,362	2,832
	(3.6)	(5.5)	(4.0)	(3.6)	(3.5)	(3.1)
Singapore	1,936	3,239	4,118	6,080	5,976	5,776
	(2.6)	(3.8)	(4.4)	(6.4)	(6.2)	(6.3)
United Kingdom@	7,900	8,599	11,351	12,140	13,500	12,779
	(10.6)	(10.2)	(12.2)	(12.8)	(14.0)	(14.0)
United States of America	30,037	31,704	35,473	20,940	21,607	20,446

	(40.4)	(37.5)	(38.2)	(22.1)	(22.5)	(22.5)
All Other Countries	23,621	26,446	28,762	31,534	31,609	30,070
	(31.8)	(31.3)	(31.0)	(33.3)	(32.8)	(33.0)
Total Consolidated International Claims	**74,365**	**84,492**	**92,825**	**94,644**	**96,231**	**91,061**
(including claims on India)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

@ excluding Guernsey, Isle of Man and Jersey.

Notes: 1. Figures in brackets are percentages to total.

2. The country-wise CBS has been compiled based on country of ultimate risk till March 2002. The data from the quarter ended June 2002 onwards, adopt country of immediate risk-based classification. Hence, the data for March 2003 are not strictly comparable with those of earlier years/quarters.

3.35 The distribution of consolidated international claims of banks on various countries, other than India, according to residual maturity reveals that banks continue to prefer to invest/lend for short-term purposes although there was a slight shift to longer-term maturities during the year (Table III.12).

Table III.12: Maturity (Residual) Classification of Consolidated International Claims of Banks: Amount Outstanding

(based on CBS statement)

(Rs. crore)

Country	**Ultimate country risk basis**			**Immediate country risk basis**		
	March 2001	**September 2001**	**March 2002**	**June 2002**	**September 2002**	**March 2003**
1	**2**	**3**	**4**	**5**	**6**	**7**
Up to 6 months	35,679	52,572	70,879	61,842	63,285	59,831
	(48.0)	(62.2)	(76.4)	(65.3)	(65.8)	(65.7)
6 months - 1 year	2,105	3,830	4,401	10,502	7,245	6,412
	(2.8)	(4.5)	(4.7)	(11.1)	(7.5)	(7.0)
1 year - 2 years	971	2,213	3,674	3,916	4,887	4,247
	(1.3)	(2.6)	(4.0)	(4.1)	(5.1)	(4.7)
Over 2 years	7,683	8,213	9,224	14,197	18,895	18,861
	(10.3)	(9.7)	(9.9)	(15.0)	(19.6)	(20.7)
Unallocated	27,927	17,664	4,647	4,185	1,919	1,710
	(37.6)	(20.9)	(5.0)	(4.4)	(2.0)	(1.9)
Total	**74,365**	**84,492**	**92,825**	**94,644**	**96,231**	**91,061**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

Notes:1. Unallocated residual maturity comprises maturity not applicable (*e.g.*, equities) and maturity information not available from reporting bank branches.

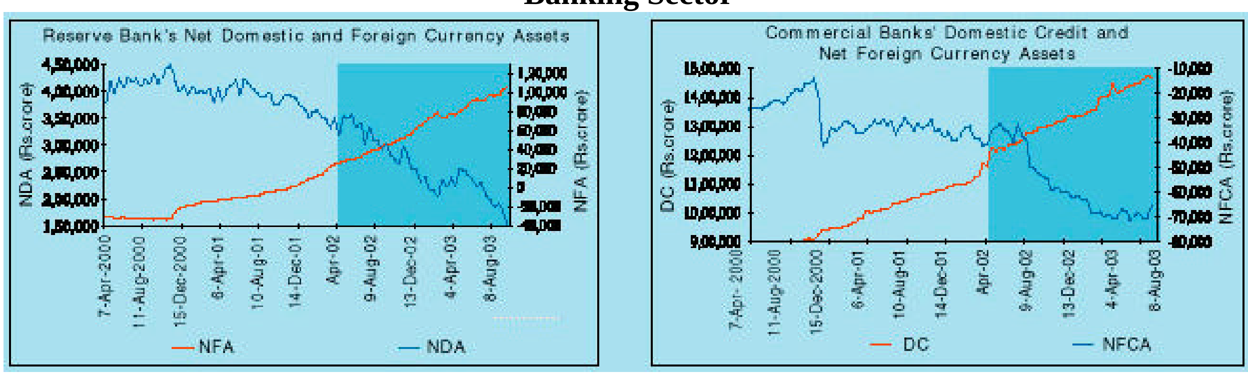
2. Figures in brackets are percentages to total.

3. The country-wise CBS has been compiled based on country of ultimate risk till March 2002. The data from the quarter ended June 2002 onwards, adopt country of immediate risk-based classification. Hence, the data for March 2003 are not strictly comparable with those of earlier years/quarters.

3.36 The contours of the management of liquidity by commercial banks during 2002-03 were different from that of 2001-02, essentially because of a revival of credit demand with a turnaround in industrial activity. The analysis of banks' liquidity management is facilitated by the compilation of the Commercial Bank Survey following the recommendations of the Working Group on Money Supply: Analytics and Methodology of Compilation (Chairman: Dr. Y. V. Reddy) (Box III.2, Table III.13 and Appendix Table III.10).

3.37 Portfolio management by banks, reinforced by the Reserve Bank's simultaneous operations in the foreign exchange and Government securities markets, allowed a smooth reallocation of domestic and foreign asset flows during 2002-03 (Chart III.4). Besides, the announcement of indicative calendars for the auctions of the Central Government dated securities as well as Treasury bills during 2002-03 provided greater manoeuvrability to banks to plan their investments and manage their liquidity[4]. The availability of surplus liquidity with the banking system ensured the continuation of a regime of softening interest rates, even while funding the higher demand for credit (Chart III.5). The higher credit off-take during 2002-03 was, by and large, funded by a redeployment of assets - essentially a liquidation of both domestic and foreign investments built up in the previous phase of easy liquidity so that there was no need for banks to either canvass for deposits or cut down their exposures in gilts - without putting immediate pressure on interest rates. The share of deposit mobilisation in the sources of funds declined to 91.7 per cent, net of merger effects, during 2002-03 from 96.6 per cent during the previous year. The resultant gap was funded by a mix of higher call/term funding from financial institutions, overseas foreign currency borrowings and drawdown of foreign currency assets. In contrast to 2001-02, when banks parked a sizeable portion of the liquidity emanating from foreign currency flows in foreign assets because of a lack of domestic demand, they preferred, during 2002-03, to liquidate such investments to advance loans in foreign currency to domestic corporates.

Chart III.4: Movements in Net Demestic Assets and Net Foreign Currency Assets of the Banking Sector



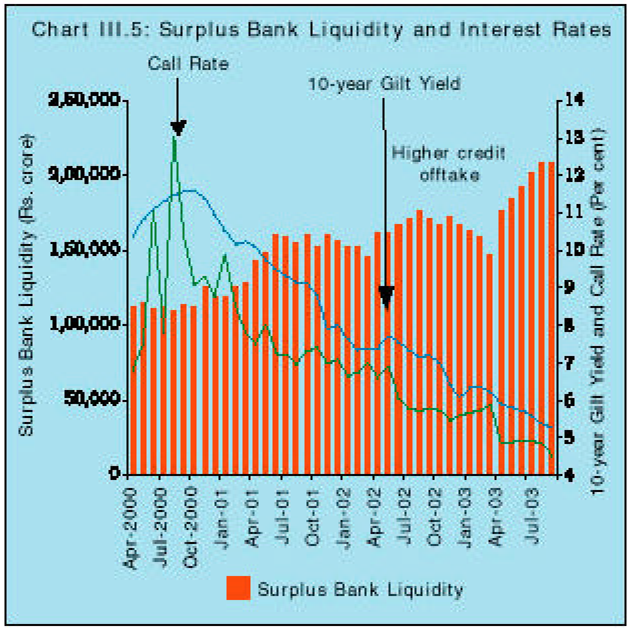


Chart III.5: Surplus Bank Liquidity and Interest Rates

Box III.2: Commercial Bank Survey

The Reserve Bank publishes an analytical Commercial Bank Survey of commercial banks' assets and liabilities, following the recommendations of the Working Group on Money Supply: Analytics and Methodology of Compilation (Chairman: Dr. Y. V. Reddy). The Commercial Bank Survey draws not only on the Form A submitted by banks under Section 42(2) of the Reserve Bank of India Act, 1934, which has been the traditional source of fortnightly data on commercial banks, but also on the Memorandum and Annexures A and B appended to Form A on the recommendations of the Reddy Working Group. This allows it to capture three critical changes taking place in the bank balance sheets in the light of financial sector reforms:

- Broadening of the concept of bank credit from the conventional credit (in the form of loans, cash credit, overdrafts and bills purchased and discounted) to include investments in non-SLR money market and capital market instruments.

- Composition of net foreign assets of commercial banks, comprising their holdings of foreign currency assets, netted for non-resident repatriable foreign currency fixed deposits. Consequently, bank deposits are adjusted for these non-resident deposits to arrive at deposits of residents.

- Introduction of a capital account, comprising capital and reserves.

The gradual firming up of the reporting system for commercial banks set up on the basis of the Reddy Working Group report increasingly provides a comprehensive view of the intra-year flow of funds within the financial system. The enhanced coverage in the CBS has narrowed down the gap between identified liabilities and assets in commercial bank data to about Rs.6,000 crore (0.5 per cent of deposits) from about Rs.84,000 crore (6.6 per cent of deposits) in Form A as at end-March 2003.

References:

Reserve Bank of India (1998), *Report of the Working Group on Money Supply: Analytics and Methodology of Compilation*
(Chairman: Dr. Y. V. Reddy), Mumbai.
Reserve Bank of India (2000), “New Monetary Aggregates”,
Reserve Bank of India Bulletin, Mumbai.
Reserve Bank of India (2003), *Annual Report*, Mumbai.

Table III.13: Operations of Scheduled Commercial Banks

(Rs. crore)

Variable	Outstanding as on March 21, 2003	2002-03				2001-02			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
1	2	3	4	5	6	7	8	9	10
I. Components									
Aggregate Deposits of Residents	**11,58,942**	**24,073**	**37,484**	**32,201**	**52,675**	**32,122**	**29,675**	**20,856**	**53,337**
Demand Deposits	1,70,289	5,405	11,654	-4,535	4,717	4,412	10,074	-9,382	5,392
Time Deposits of Residents	9,88,653	18,668	25,829	36,735	47,958	27,710	19,601	30,237	47,945
Call/Term Funding from Financial Institutions	**12,638**	**2,142**	**227**	**792**	**6,448**	**-1,471**	**409**	**1,865**	**-341**
II. Sources									
Credit to the Government	**5,23,417**	**23,798**	**22,680**	**18,716**	**47,047**	**12,049**	**13,791**	**21,088**	**24,213**
Credit to the Commercial Sector	**8,46,494**	**27,881**	**39,481**	**20,322**	**22,825**	**33,676**	**31,320**	**11,217**	**9,349**
Food Credit	49,479	-2,468	-1,415	-7,645	7,030	1,702	4,015	-2,079	10,349
Non-food Credit	6,35,192	39,439	32,541	19,945	7,522	28,347	25,673	12,649	-2,367
Net Credit to Primary Dealers	4,093	-5,886	959	5,817	2,874	526	115	-401	221
Investments in Other Approved Securities	24,129	-306	-965	-459	-1,233	-644	-1,452	62	-997
Other Investments (in non-SLR Securities)	1,33,601	-2,898	8,361	2,664	6,633	3,745	2,970	986	2,143
Net Foreign Currency Assets of Commercial Banks	**-68,366**	**-8,820**	**-9,027**	**-15,136**	**2,748**	**-2,670**	**-3,544**	**-941**	**4,952**
Foreign Currency Assets	31,082	-5,345	-7,955	-14,412	4,718	-3,483	-1,996	2,023	5,886
Non-resident Foreign Currency Repatriable Fixed Deposits	92,240	-703	-230	669	1,655	475	1,425	2,018	835
Overseas Foreign Currency Borrowings	7,208	4,178	1,302	55	315	-1,288	123	946	99
Net Bank Reserves	**65,823**	**-5,700**	**-1,619**	**11,055**	**-2,943**	**-3,929**	**-1,277**	**-7,373**	**16,304**
Capital Account	**86,541**	**1,625**	**-1,815**	**-742**	**15,152**	**1,150**	**958**	**2,297**	**4,403**
Memo:									
Release of resources through changes in CRR	—	0	3,500	0	6,500	0	8,000	0	4,500
Net open market sales to commercial banks	—	7,338	12,803	13,228	3,131	0	1,904	9,614	4,106

Notes: 1. Q1 refers to the quarter ending June, and so on.
2. Deposits have been adjusted for the full impact of the mergers while credit has been adjusted for the initial impact of the same since May 3, 2002.

3.38 The portfolio allocation of banks' foreign currencies has several macro and monetary implications. If banks choose to park balances abroad, the entire transaction set is money -and output-neutral. If banks advance loans in foreign currency to residents, the transaction set is money-neutral because funds are still deployed abroad but there is an output effect arising out of the funds received by domestic industry. If banks convert their foreign currencies with the Reserve Bank in Rupees and advance loans to domestic corporates, there is a monetary as well as an output effect. If domestic corporates convert their foreign currency loans to meet domestic expenditure, the monetary impact depends on whether the banking system is able to meet this demand through a substitution within its existing portfolio or whether it accesses the Reserve Bank for Rupee resources. Since such exchange rate risk is borne by the domestic corporates, the Mid-term Review of the Monetary and Credit Policy of November 2003, requires banks to extend foreign currency loans above US $ 10 million only on the basis of a well-laid out policy by each bank to ensure hedging, except in case of exports receivables and for meeting foreign exchange expenditures.

3.39 Fiscal 2002-03 commenced with the usual ample liquidity conditions during April, thereby unwinding the end-of-the-year tightening in the market for funds. This was counter-balanced by the commencement of the market borrowing programme of the Central Government, reinforced by the Reserve Bank's open market (including repo) purchases. Liquidity conditions, in fact, tightened in the first half of May, as the Government's market borrowing programme progressed and with a substantial pick up in food credit. This led to a withdrawal of banks from LAF auctions and a drawdown of their balances with the Reserve Bank. Furthermore, border tensions created market uncertainty, necessitating a series of private placements of the Government securities with the Reserve Bank during the second half of May. The reduction of CRR by 50 basis points, reinforced by Government bond redemptions, augmented liquidity conditions in June, facilitating banks' subscriptions in the auctions of Government securities and advance tax outflows. The repo rate reduction of 25 basis points on June 27 restored sentiments and regenerated interest in the Government securities market.

3.40 There was a sharp increase in non-food credit off-take during the remaining part of the year, engendered by the turnaround in industrial activity. Besides the liquidity injected by a CRR cut of 25 basis points in November, this was, by and large, funded by a deployment of assets through the following means, *viz.,* (a) a decline in food credit, as a result of drought conditions, (b) a drawdown of *nostro* balances (especially to meet foreign currency credit demand), (c) reduced subscriptions in the LAF repo auctions, and (d) liquidation of non-SLR investments. As a result, ample liquidity conditions continued to prevail, notwithstanding a few stray episodes of temporary tightness, *viz.*, around mid-November (gilt auction outflows before transiting to a higher average daily CRR maintenance), in mid-January (sizeable open market sales) and the latter part of February (on-tap sales of State Governments loans). The impact of capital flows on bank liquidity was neutralised as the Reserve Bank continued to counterbalance its purchases of foreign currency with open market sales of Government securities even as the tempo of Government's market borrowing moderated. The ample liquidity facilitated a smooth phasing out of the collateralised lending support facility to banks by the Reserve Bank effective from the fortnight beginning October 5, 2002. The year 2003-04 so far was also characterised by easy liquidity emanating predominantly from a continued upsurge in capital inflows which more than counterbalanced the deceleration in commercial banks' domestic deposit mobilisation and relatively moderate credit demand. A reduction in the CRR by 25 basis points to 4.5 per cent of NDTL in June 2003 also released additional funds to the banking system. Mirroring easy liquidity conditions, the repo rate was cut by 50 basis points to 4.5 per cent in August 2003. As a consequence, commercial banks' investments in the Government securities remained strong through primary auctions and open market (including repo) operations.

3.41 The turnover in the call money markets declined since the latter half of 2002-03 on account of substantial improvement in liquidity during this period for which the need to borrow came down markedly for borrowers. Also, some earlier chronic borrowers turned into occasional lenders now in this market. Further, with repo rates under LAF ruling consistently higher than call rates during April-mid October 2003, lenders have a tendency to place larger funds into

Reserve Bank's LAF, thereby depressing the turnover in the call/notice segment.

Maturity Profile of Assets and Liabilities of Banks

3.42 The maturity profile of commercial banks' liabilities continues to be relatively short, with the bulk of the deposits in the one- to three-year maturity bucket (Table III.14). In case of assets, a large part of the investment portfolio is long-term in nature, with a maturity of over five years. The portfolio of loans and advances remains relatively in line with the deposit portfolio with a sizeable part in the less than three-year maturity bucket.

Table III.14: Bank Group-Wise Maturity Profile of Select Liabilities/Assets

(per cent)

Asset/Liability	**Public Sector Banks**		**Old Private Sector Banks**		**New Private Sector Banks**		**Foreign Banks**	
	2002	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
I. Deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	29.4	34.2	50.5	49.4	58.5	53.4	54.5	53.4
b) Over 1 year to 3 years	52.2	44.7	40.5	39.2	37.3	41.9	23.6	42.6
c) Over 3 years to 5 years	9.7	9.4	4.0	5.3	2.2	1.9	10.8	3.9
d) Over 5 years	8.7	11.7	5.0	6.1	2.0	2.8	11.1	0.1
II. Borrowings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	60.9	74.9	92.1	82.9	52.9	45.7	77.4	87.4
b) Over 1 year to 3 years	15.9	14.9	4.1	13.2	31.3	39.2	4.7	12.4
c) Over 3 years to 5 years	11.9	5.5	2.4	2.1	9.5	6.6	16.2	0.0
d) Over 5 years	11.3	4.7	1.4	1.8	6.3	8.5	1.7	0.2
III. Loans and Advances	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	41.6	39.3	41.3	43.5	35.8	36.1	65.6	64.7
b) Over 1 year to 3 years	33.2	35.2	37.5	36.1	28.5	29.6	20.3	22.1
c) Over 3 years to 5 years	11.4	11.7	10.4	8.8	13.9	12.9	6.2	5.9
d) Over 5 years	13.8	13.8	10.8	11.6	21.8	21.4	7.8	7.3
IV. Investments (at book value)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Up to 1 year	11.6	12.3	14.2	18.9	40.0	44.9	45.7	46.6
b) Over 1 year to 3 years	15.9	13.7	16.5	14.6	22.0	29.0	23.2	24.8
c) Over 3 years to 5 years	15.6	15.8	9.4	9.6	12.6	6.3	16.2	12.4
d) Over 5 years	56.9	58.2	59.9	56.9	25.4	19.8	14.9	16.2

Source: Balance sheets of respective banks.

Bank Stock Prices

3.43 Bank scrips, as indicated by both the recently introduced BANKEX at the BSE as well as the S&P CNX Bank Index at the NSE recorded impressive gains throughout 2002-03, notwithstanding sluggish conditions in the capital markets (Chart III.6). The market preference for bank scrips was also reflected in a sharp increase in the trading volumes of bank scrips, especially PSB scrips (Table III.15). In the capital market segment of the NSE, of the 16 listed PSBs, 9 yielded a positive daily mean return and of the 19 private banks, 14 yielded positive daily mean returns (Table III.16). While market expectations of take-overs and mergers in case of certain private sector banks and disinvestments in case of PSBs added to the sharp increase in bank stock prices, it primarily reflected the positive impact of the following two factors:

Chart III.6: Movements in Indices Bank Stocks

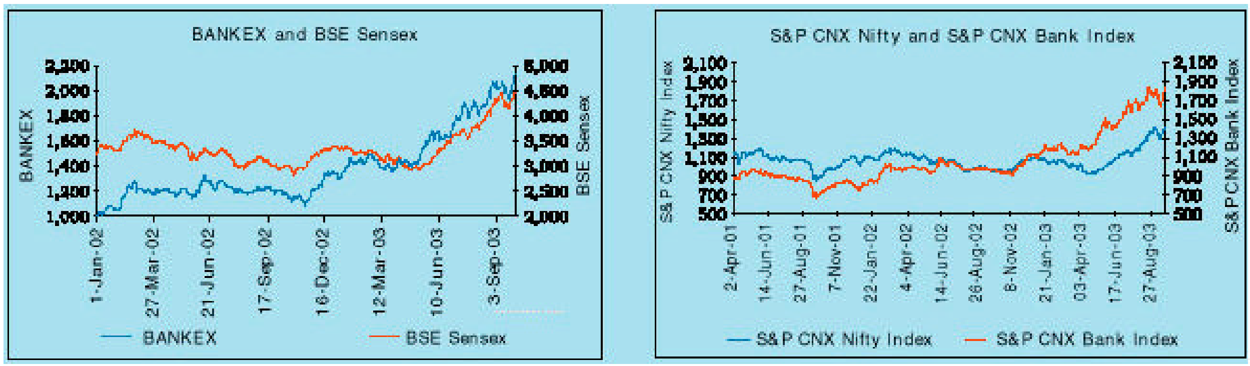


Table III.15: Turnover Details of Bank Shares at The NSE

Category	2001-02		2002-03	
	Value (Rs.lakh)	Per cent to total Turnover	Value (Rs.lakh)	Per cent to total turnover
1	2	3	4	5
Public Sector Banks	4,33,567	0.8	16, 40,648	2.7
Private Banks	2,19,800	0.4	4,26,216	0.7
Total	6,53,367	1.2	20,66,864	3.3
Total Turnover	**5,13,16,740**		**6,17,98,860**	

- An increase in bank profitability, especially as a result of trading profits in a regime of southward-bound interest rates, which seemed to have enhanced the sensitivity of bank stock prices to monetary policy measures during the year, such as reductions in policy rates.

- Progress of banking sector reforms, including the relaxation of foreign direct investment (FDI) norms for private sector banks.

3.44 The major gainers, in terms of average daily prices, included the Bank of Baroda, Indian Overseas Bank, Vijaya Bank, Dena Bank and the Oriental Bank of Commerce (Table III.16). The most active scrips, in terms of average daily turnover, worked out to be the State Bank of India, Syndicate Bank, ICICI Bank, Bank of Baroda and Bank of India.

Table III.16: Share Prices of Banks at the NSE

Name of the Bank	Average Daily Closing Price (Rs.)	
	2001-02	2002-03
1	2	3
Public Sector Banks		
Allahabad Bank	—	13.5 *
Andhra Bank	8.5	17.0
Bank of Baroda	45.9	59.3
Bank of India	16.2	31.2
Canara Bank	—	61.5 +
Corporation Bank	130.4	120.9
Dena Bank	6.9	10.8
Indian Overseas Bank	8.1	12.9
Oriental Bank of Commerce	35.6	46.7
Punjab National Bank	—	56.1 @
Syndicate Bank	9.4	14.6

Union Bank of India	—	20.0 #
Vijaya Bank	7.5	12.4
State Bank of India	208.0	250.7
State Bank of Bikaner and Jaipur	286.2 **	—
State Bank of Travancore	263.1 **	—
Private Sector Banks		
Bank of Rajasthan Ltd.	10.5	15.3
City Union Bank Ltd.	21.3	30.9
Federal Bank Ltd.	50.2	87.1
Jammu and Kashmir Bank Ltd.	48.8	95.2
Karnataka Bank Ltd.	33.8	61.2
Karur Vysya Bank Ltd.	127.8	194.7
Laxmi Vilas Bank Ltd.	45.9	65.9
Nedungadi Bank Ltd.	41.5	34.9 ++
South Indian Bank Ltd.	29.1	36.5
United Western Bank	22.8	22.8
Vysya Bank Ltd.	132.6	258.3
Bank of Punjab Ltd.	12.9	13.9
Centurion Bank Ltd.	9.3	8.7
Global Trust Bank Ltd.	22.4	18.9
HDFC Bank Ltd.	227.0	217.6
ICICI Bank Ltd.	117.0	137.4
IDBI Bank Ltd.	19.5	18.9
IndusInd Bank Ltd.	12.5	15.9
UTI Bank Ltd.	30.3	38.9

* From November 29, 2002;
+ From December 23, 2002;
** Up to December 27, 2001;
++ Up to September 30, 2002;
@ From April 26, 2002;
# From September 24, 2002.
Note : Averages are calculated using daily closing prices.
Source: National Stock Exchange.

3. Financial Performance of Scheduled Commercial Banks

3.45 During 2002-03, there was a significant increase in the profitability of the scheduled commercial banking system. The rise in profits was primarily driven by two factors. First, there was a significant rise in trading incomes consequent upon the easy liquidity conditions prevailing in the market which boosted 'other income' of the banking sector. Secondly, as a result of the reduction in deposit rates, the interest expended in general, and, the interest outgo on deposits, in particular, was largely contained (Table III.17).

Table III.17: Important Financial Indicators of Scheduled Commercial Banks

(Amount in Rs. crore)

Year	2000-01		2001-02		2002-03	
	Amount	Per cent to Total Assets	Amount	Per cent to Total Assets	Amount	Per cent to Total Assets
1	2	3	4	5	6	7
1. Income (a+b)	1,32,076	10.2	1,51,032	9.8	1,72,374	10.1
a) Interest Income	1,15,091	8.9	1,26,958	8.3	1,40,718	8.3
b) Other Income	16,985	1.3	24,074	1.6	31,656*	1.9

2. Expenditure (a+b+c)	1,25,672	9.7	1,39,456	9.1	1,55,297	9.1
a) Interest Expended	78,141	6.0	87,516	5.7	93,607	5.5
b) Operating Expenses	34,178	2.6	33,679	2.2	38,085	2.2
of which:						
Wage bill	23,218	1.8	21,785	1.4	23,613	1.4
c) Provisions and Contingencies	13,353	1.0	18,261	1.2	23,605	1.4
3. Operating Profit	19,757	1.5	29,837	1.9	40,682	2.4
4. Net Profit	6,403	0.5	11,576	0.8	17,077	1.0
5. Spread (1a-2a)	36,950	2.9	39,441	2.6	47,111	2.8

Note: The number of scheduled commercial banks in 2000-01, 2001-02 and 2002-03 were 100, 97 and 93 respectively.

* Includes profit on shares of ICICI Bank Ltd. Held by erstwhile ICICI Ltd.

Income

3.46 The total income of SCBs increased by 14.1 per cent in 2002-03, which was higher than the average growth rate of 12.1 per cent recorded over the period 1997-2002. Among bank groups, the increase in income was the highest for the new private bank group. Total income, in fact, declined for foreign banks due largely to a rationalisation in the number of foreign banks operating in India. The high growth in income in the new private bank category meant that the ratio of income to total assets of SCBs increased from 9.8 per cent in 2001-02 to 10.2 per cent in 2002-03. However, except for new private banks, all other bank groups registered declines in this ratio (Appendix Table III.11). The bottomline of certain PSBs also improved owing to the fact that the Reserve Bank allowed banks to recognise income on accrual basis in respect of some categories of projects under implementation which had a time overrun [Appendix Table III.12(A) to (G)].

Interest Income

3.47 Interest income comprises the major income of most bank groups. For PSBs, for instance, interest income typically comprises over 80 per cent of their total income. The two major sources of interest income are income on advances and income on investments. On account of high-interest loans contracted in the past, income on advances still comprised a major portion of interest income, accounting for around 46 per cent of interest income of PSBs in 2002-03, as compared with 50 per cent in 1997-98. Besides, there also was the impact of the larger credit off-take during the year. The other major income component for banks is income on investments. The fall in the share of interest income has been compensated, to a large extent, by the rise in income on investments. The share of this income for PSBs, which was 43 per cent in 1997-98 jumped to 47 per cent in 2002-03. Typically, the ratio of interest income to total assets of SCBs has hovered around 8.3 per cent during the last five years.

3.48 The composition of commercial bank assets has been changing in recent years in response to the prevalence of easy liquidity conditions, driven by strong capital flows on the supply side and weak credit off-take on the demand side as well as the tightening of prudential norms. As a result, the rate of accretion to investments was higher than that of earning advances (*i.e.*, advances, net of NPAs) during 1997 to 2003. The composition of income has also been changing in response to the changes in asset patterns and the underlying macroeconomic conditions. The share of interest on advances in total income has been declining, reflecting both the slower expansion of credit as well as the softening of interest rates. The share of interest income from investments in total income, on the other hand, increased because of the larger pool of investments, partly offset by the decline in yields.

Other Income

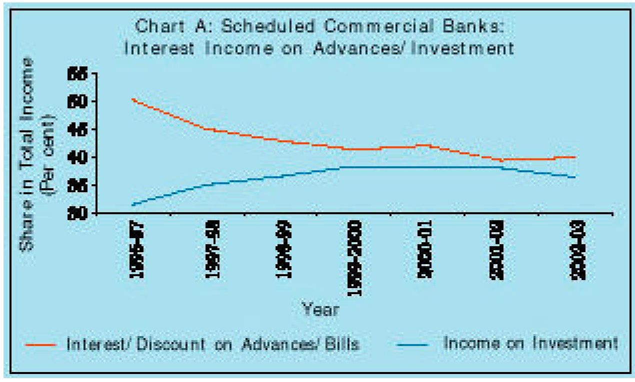
3.49 The other major component of income is income generated from fee-based activities such as those from commission and brokerage, profit on sale of land, building as well as net income arising out of exchange transactions. Of these, commission, exchange and brokerage typically comprise the major part of other incomes. Recent years have, however, witnessed significant gains to banks, primarily PSBs and to a lesser extent, private banks, owing to their sharp rise in trading incomes. The deepening of Government securities markets coupled with the sustained decline in yields resulted in a sharp increase in profits from sale of investments. The issue has, therefore, arisen as to whether the treasury is the major source of bank income (Box III.3). In fact, in 2002-03, trading incomes of PSBs increased by nearly 65 per cent over the previous year, reflecting the gains made on this account by almost all banks, with a virtual quadrupling of trading income in case of certain banks. Forex income, on the other hand, has traditionally been high in case of the foreign bank group, reflecting their high off-balance sheet activities, primarily forward exchange contracts. Public sector banks have also recorded substantial forex income over the last two years.

Box III.3: Is Treasury Income a Major Source of Bank Income?

An analysis of the sources of income of the commercial banks indicates a change in the pattern of their income in the recent years. Interest/discount earned on advances/bills, which is the core income of banks, has fallen below 40 per cent of their total income. Interest income on investments accounted for 36 per cent of the total income in 2002-03.

The above change in the pattern of income is in tandem with the changing pattern of assets in banks' balance sheet. While investments recorded a compounded annual growth rate of 20.7 per cent during 1997 to 2003, earning advances (*i.e.*, advances netted for non-performing assets) increased at a lower rate of 18.6 per cent during the same period.

Due to the change in the asset pattern, income from investments registered a higher compound annual growth rate of 17.4 per cent during the period 1996-97 to 2002-03 as compared with the interest on advances at 10.2 per cent, narrowing down the gap between their shares in total income. The steep decline in lending rates also contributed to the changing pattern of income (Chart A).



Profits from the sale of investments (securities trading) for SCBs went up by 39 per cent to Rs.13,245 crore from Rs.9,541 crore in the previous year. Fifty-one banks recorded increase in trading profits during 2002-03. On the other hand, nine banks reported net loss on sale of investments. Trading profits accounted for about 7.7 per cent of the total income of banks and about 33 per cent of their operating profits during 2002-03.

During 1996-97 to 2000-01, the ratio of trading profits in operating profits was much lower varying between 3.5 and 16.1 per cent, it went up sharply thereafter to 32 per cent in 2001-02 and increased further to 32.6 per cent in 2002-03 (Chart B).

The share of profits from securities trading varied across bank groups. Old private sector banks depended heavily on securities trading which contributed over 50 per cent of their operating profits both in 2001-02 and 2002-03. Foreign banks, which booked profits over Rs.1,000 crore from securities trading in 2001-02, registered a decline in trading profits to Rs.504 crore, which contributed only 13.5 per cent of their operating profits. The SBI group booked higher profits of Rs.2,675 crore from securities trading during the year as compared with Rs.1,034 crore in 2001-02. However, its share in operating profits was below 25 per cent, lower than the system average of 32.6 per cent.

At the bank level, while 27 banks (accounting for about 14 per cent of total assets of the banking system) earned more than 50 per cent of their profits from securities trading, 16 banks (mostly small foreign banks whose combined share in total assets is less than 0.5 per cent) had not made any profits from securities trading. For another 10 banks, trading profits were below 15 per cent of their operating profits. Thirty-eight banks earned more than Rs.100 crore each from securities trading in 2002-03.

Trading profits thus, at the system level, appeared to have a significant share in the profitability of banks during 2002-03. At bank level, while it was the major source of profits for some banks, some other banks did not earn any profits from securities trading.

Expenditure

3.50 The expenditure of SCBs clocked a growth of 11.4 per cent in 2002-03, lower than the average annual growth of 11.7 per cent witnessed over the period 1997-2002. Among bank groups, foreign banks witnessed a sharp containment in their expenses arising from the three factors: (a) significant reduction in their interest expenses,

(b) containment of their wage costs, and (c) lowering of provisions and contingencies; all these led to a lowering of the overall expenditure to asset ratio to 8.8 per cent from 10.1 per cent a year earlier. Other bank groups also experienced a significant reduction in overall expenses arising from the containment of interest expenses and operating expenses. An exception was, however, the new private banks whose expenses increased markedly, reflecting partly the rise in interest expenses (interest on notes and bonds issued, effected in the earlier year) and partly on account of a rise in operating expenses.

Interest Expenditure

3.51 Interest on deposits comprises the major component of interest expense. For PSBs, this accounted for around 65 per cent of total expenditure and over 90 per cent of interest expense over the last five years. For foreign banks, interest on deposits, both as percentage of total expenses, as well as interest expenses, is much lower than their counterparts in the public and private sectors. Over the last few years, in tandem with the fall in interest rates across the board and the introduction of floating rate deposits by the Reserve Bank, there have been significant declines in interest expenses across all categories of banks. This is reflected in the fact that the share of interest expense has witnessed a noticeable decline for most bank groups. Illustratively, for PSBs, the share of interest expenses in total expenses, which was over 65 per cent in 1997-98 has come down to about 60 per cent in 2002-03. Similar declines were evidenced for most other bank groups as well.

Operating Expenses

3.52 Operating expenses comprise, among others, wage expenses and non-wage expenses such as rent, taxes and lighting, advertisement, directors' fees and allowance and legal charges. For most bank groups, operating expenses registered marginal increases, especially in case of PSBs on account of higher depreciation, audit fees and expenses on account of repairs and maintenance. Additionally, the charging of retirement benefit relating to leave encashment led to a rise in wage expenses in several PSBs. Foreign banks, on the other hand, witnessed a reduction in operating expenses indicating a containment in their wage bill, which is generally low among bank groups. Given the gradual lowering of operating expenses across bank groups, for SCBs as a whole, operating expenses to total assets witnessed a declining trend over the last few years.

Wage Bill

3.53 Payments to and provision for employees is a major item of operating expenses, especially for PSBs and comprised around 20 per cent of their total expenses over the last few years. The share of the wage bill increased in 2000-01, wherein the voluntary retirement scheme (VRS) introduced in PSBs sharply increased their wage bill and consequently, their operating expenses as well. The enlargement in the wage bill over the period 1997-2001 for PSBs was 12.5 per cent, and inclusive of 2001-02, was 8.6 per cent. The rationalisation of manpower following the VRS has sharply curtailed the wage bill of PSBs and brought down its share in total expenses to around 17 per cent. The share, however, continues to remain high on account of higher contributions to provident funds, gratuity fund and provision for leave encashment facility. The share of the wage bill in total expenses for most other bank groups is markedly lower, ranging from around 13 per cent in old private banks to less than 5 per cent in new private banks in 2002-03. In fact, the more technology-intensive new private and foreign banks tend to have a much lower proportion of the wage bill in total expenses as compared with their old private and public sector counterparts.

Provisions and Contingencies

3.54 The major items on provisions and contingencies consist of provisions for loan losses, provisions for depreciation in value of investments and provisions for taxes. Provisions typically constitute around 10-12 per cent of total expenses of SCBs, but there is a marked variation across bank groups. Owing to their higher non-performing assets reflecting the past legacy, PSBs generally have higher loan loss provisions in absolute terms than foreign banks, for whom it is generally on the lower side, due to the their better overall asset quality. All bank groups and PSBs, in particular, witnessed sharp increases in provisions, and especially in loan loss provisions, both in percentage terms and also as ratio to total expenses. Apart from the *ad hoc* general provisions made for the impending 90-day delinquency norms, the provision on standard assets on global portfolio basis, introduced effective end-March 2000, has raised overall provisioning levels. The international experience with regard to provisioning is generally supportive of the fact that loan loss provisions tend to be counter-cyclical (Box III.4).

Box III.4: Cyclicality of Loan Loss Provisions

It is widely perceived that risk-based minimum capital requirements tend to have a counter-cyclical effect on the economy. After all, during an economic downturn, the quality of the bank loan portfolio deteriorates, which leads to an increase in capital requirements for provisioning of such loans.

Empirical tests of the hypothesis of income smoothing for loan-loss provisioning have arrived at different results. Based on data on individual US banks, a positive relation between loan loss provisions and bank earnings was observed (Greenwalt and Sinkey, 1988). More recently, for Spanish banks, a fairly robust and significant relationship between loan loss provisions and the business cycle was evidenced for the period 1986-2000 (Fernandez *et al.*, 2002).

Recent internal empirical research looked into trends in loan loss provisioning by Indian banks (Charts A and B). Annual loan-loss provisioning for 75 Indian banks (27 PSBs, 8 new private, 20 old private and 20 foreign banks) for the period 1997-2003[5], indicated that loan loss provisions tend to display a downward movement during the period when GDP growth is high. Probing the question further, it is hypothesised that banks tend to show imprudent loan loss behaviour and are susceptible to have pro-cyclical effect on their capital, if one of the following three conditions are met:

1. Loan loss provisions are negatively associated with banks' earnings (*i.e.*, if a bank is prudent in smoothing income, it should keep aside higher provisions during periods of better earnings).

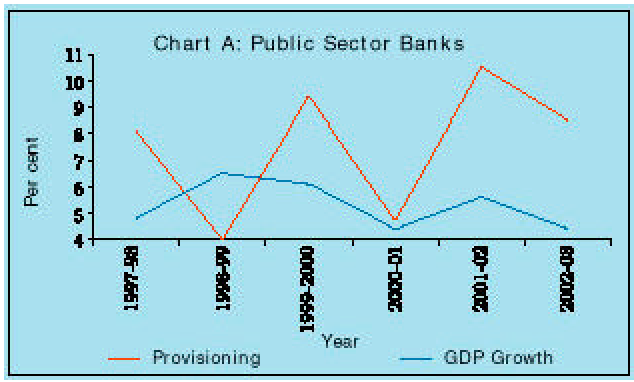
2. Loan loss provisions are negatively related to real loan growth (*i.e.*, rapid growth of bank lending is associated with a deterioration in the quality of the loan portfolio).

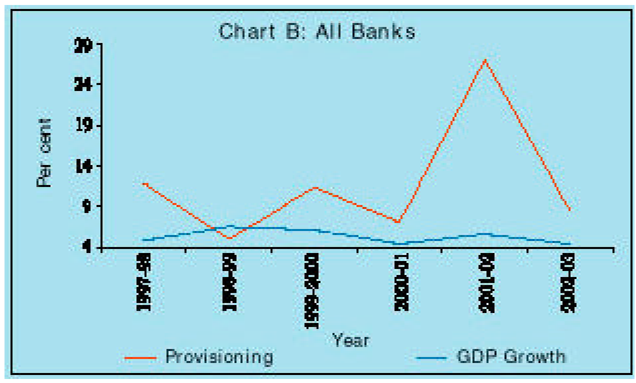
3. Loan loss provisions are negatively related to real GDP growth, to address its relationship with the economic cycle.

Accordingly, the behaviour of loan loss provisions (as percentage of bank assets) was sought to be explained in terms of the following factors, *viz.*, operating profits (normalised by total assets), loan growth and GDP growth. In addition, year control dummies were introduced to catch time-specific effects, such as trends in the regulatory stance. The results suggest that there is a negative and significant relationship between the ratio of loan loss provisions and bank earnings signifying the fact that on an average, banks have not followed an income-smoothing pattern. The real loan growth rate, on the contrary, has a positive coefficient. This indicates that banks have been prudent during periods of rapid credit growth. The observed negative relationship between GDP growth and loan loss provisions suggests that banks in India do not make sufficient provisions before economic recessions.

Furthermore, an attempt was made to ascertain the diversity of behaviour of loan-loss provisioning across banks (through inclusion of bank-group wise dummy variable). It was found that loan loss provisions are lower for new and old private banks *vis-à-vis* the foreign bank category.

There are several policy implications for such observed behaviour of Indian banks. First, there is a policy incentive to encourage banks to make sufficient provisioning to take care of exigencies. Keeping this in mind, the Union Budget 2002-03 raised the allowance for deduction by banks against provisions made for bad and doubtful debts from 5 per cent of their total income to 7.5 per cent. Second, though a minimum requirement for standard loans (which amounts to a *de facto* general provision) can be considered a minimum requirement of a forward-looking system, *ceteris paribus*, it might be desirable to set aside more resources during periods of economic growth than during downturns. This pattern of general provisions is labelled 'dynamic provisioning'. The fundamental principle underpinning such provisioning is that provisions are set against loans outstanding in each accounting time period in line with an estimate of expected long-run loss.





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Operating Profits

3.55 As on March 31, 2003, the operating profits of SCBs exhibited a growth of 36 per cent over the previous year, far higher than the annual average growth rate of 16 per cent recorded over the last six years. In fact, the operating profits of SCBs witnessed their highest growth in 2002-03, leaving aside the new private banks, for whom the growth was the highest owing to the inclusion of a new private bank and the lead effect of a merger in the earlier year. As a result, the operating profit to total assets of PSBs, which generally has been in the range of 1.4-1.8 per cent, jumped to 2.3 per cent in 2002-03. The ratio also witnessed a sharp rise in the case of new private banks and a marginal rise in case of foreign banks. For old private banks, the ratio has stayed roughly at the same level as in the earlier year, although it is much higher than those in the preceding three years.

Net Profit

3.56 Net profits of SCBs increased by nearly 50 per cent in 2002-03, on top of a rise of 81 per cent in the previous year. Among bank groups, the increase in net profit was the highest for new private banks, although most other bank groups also registered substantial increases (Chart III.7). Within the PSB group, the increase was much higher in case of nationalised banks as compared with the State Bank group. This was due largely to the large non-interest incomes generated from treasury operations. In recent times, treasury operations have emerged as a major profit centre for Indian banks, with a significant increase in 2002-03 as compared with 2001-02. Forex incomes, although not as large as treasury income, have also been contributing significantly to bank's operating profits in recent years, despite the pressure on margins and the thinning of inter-bank spreads (Table III.18 and Appendix Table III.13).

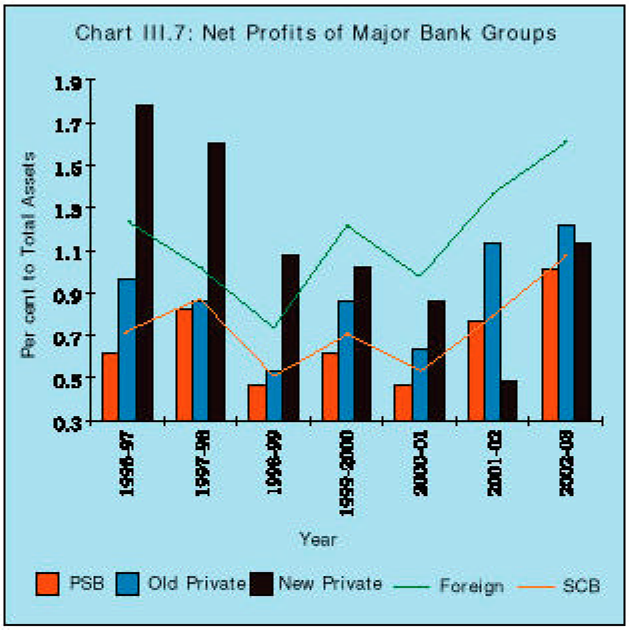

Chart III.7: Net Profits of Major Bank Groups

Table III.18: Bank Group-Wise Break-Up of Major Income

(Rs. crore)

Bank Group	Trading Income		Forex Income		Operating Profit	
	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
1	2	3	4	5	6	7
Scheduled Commercial Banks	**9,541**	**13,245**	**2,464**	**2,813**	**29,837**	**40,682**
Public Sector Banks	5,999	9,924	1,547	1,672	21,677	29,715
Nationalised Banks	4,965	7,249	998	1,035	12,957	18,486
State Bank Group	1,034	2,675	549	638	8,720	11,229
Old Private Sector Banks	1,408	1,466	113	123	2,516	2,804
New Private Sector Banks	1,109	1,351	135	129	2,131	4,434
Foreign Banks	1,024	504	668	888	3,514	3,728

Notes : 1. Trading Income - Net Profit on Sale of Investment.
2. Forex Income - Net Profit on Exchange Transaction.

Trends during the First Quarter of 2003-04

3.57 The performance of the commercial banking system during the quarter ended June 2003 has been analysed based on off-site returns of domestic transactions of SCBs. The data reveals a significant improvement in performance of SCBs over the corresponding period of June 2002.

The net profits to total assets of SCBs for the quarter ended June 2003 stood at 0.32 per cent as compared with 0.24 per cent for the quarter ended June 2002. The improvement in net profits was driven by a containment in expenses in general, and interest expended, in particular, despite a sharp rise in provisions and contingencies across bank groups. Operating expenditures, by and large, remained at the same level for the quarter ended June 2002; an exception being the new private banks for whom these expenses increased owing to a rise in the wage bill.

3.58 The international experience suggests that bank profitability was low in 2002, but generally remained adequate given the poor economic backdrop. There are, however, diverse developments across countries (Table III.19).

Table III.19: Profitability of Major Banks

(As per cent of total assets)

Country	Pre-tax profits		Provisioning expenses		Net interest Margin		Operating costs	
	2001	2002	2001	2002	2001	2002	2001	2002
1	2	3	4	5	6	7	8	9
United States (10)	1.49	1.66	0.71	0.72	3.10	3.11	4.06	3.46
Japan (12)	-0.93	0.04	1.36	0.28	1.14	0.81	1.20	0.82
Germany (4)	0.14	0.05	0.24	0.39	0.90	0.80	1.62	1.50
United Kingdom (4)	1.27	1.11	0.31	0.36	2.07	2.02	2.48	2.40
France (4)	0.74	0.58	0.22	0.20	0.94	1.03	1.87	1.81
Italy (6)	0.81	0.48	0.55	0.67	2.04	2.16	2.39	2.61
Spain (4)	1.20	0.93	0.44	0.49	2.86	2.66	2.60	2.37
Canada (6)	0.92	0.51	0.41	0.59	1.95	2.06	2.84	2.76
Sweden (4)	0.82	0.70	0.10	0.09	1.49	1.48	1.51	1.44
Memo:								
India*	0.49	0.75	1.03	1.19	2.85	2.57	2.64	2.19

* Pertain to 100 scheduled commercial banks in 2001 and 97 for 2002. Financial year is April-March. The profit figure refers to net profits.

Note: 1. Figures are a percentage to total assets.

2. Figures in brackets indicate number of major banks included.

Source: BIS Annual Report (2003).

3.59 The focus of the reform process in India has been on improving the productivity, efficiency and profitability of the banking system. In fact, raising the efficiency levels through greater manpower productivity and increased deployment of technology in order to reduce transactions cost has been at the core of the banking sector reform process. Attempts have, therefore, been underway to consolidate the gains of earlier reform measures. In this context, the issue has arisen whether there have been the efficiency gains consequent upon the reform measures in the financial sector (Box III.5).

Box III.5: Efficiency in Indian Banking

Banking sector reforms in India were introduced in order to improve efficiency in the process of financial intermediation. It was expected that banks would take advantage of the changing operational environment and improve their performance. Towards this end, the Reserve Bank initiated a host of measures for the creation of a competitive environment. Deregulation of interest rates on both the deposit and lending sides imparted freedom to banks to appropriately price their products and services. To compete effectively with non-banking entities, banks were permitted to undertake newer activities like investment banking, securities trading and insurance business. This was facilitated through amendments in the relevant Acts which permitted PSBs to raise equity from the market up to a threshold limit (49 per cent) and also by enabling the entry of new private and foreign banks. This changing face of banking led to an erosion of margins on traditional banking business, promoting banks to search for newer activities to augment their fee incomes. At the same time, banks also needed to devote focused attention to operational efficiency in order to contain their transactions costs. Simultaneously with the deregulation measures, prudential norms were instituted to strengthen the safety and soundness of the banking system.

In the international context, it has been found that, overall, depository financial institutions/banks experience annual average efficiency of around 77 per cent, keeping enough room of augmenting outputs from the same level of inputs. Inefficiencies emanate from either of the two components, *viz.*, technical and allocative. Due to the former, there is likely to be sizeable under-utilisation or wastage of resources. On the other hand, due to higher allocative inefficiency banks might not be able chose correct input combinations in terms of their price. Inefficiency at financial institutions has generally been found to consume a considerable portion of costs and that it is a much greater source of performance problems than either scale or product mix inefficiencies, and has a strong empirical association with higher probabilities of failure.

Recent internal empirical research found that over the period 1992-2003, there has been a discernible improvement in the efficiency of Indian banks. The increasing trend in efficiency has been fairly uniform, irrespective of the ownership pattern. The rate of such improvement has, however, not been sufficiently high. The analysis also reveals that PSBs and private sector banks in India did not differ significantly in terms of their efficiency measures. Foreign banks, on the other hand, recorded higher efficiency as compared with their Indian counterparts.

The pattern of efficiency improvement is broadly in consonance with what is expected from an industry undergoing deregulation and transformation. Clearly, all the bank groups registered efficiency gains, even in the face of increasing competition in the financial marketplace. However, while sustaining the current trends in efficiency, there remains scope for banks to expand their asset base relative to their input usage by adapting innovations in production technology.

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Off-Balance Sheet Activities

3.60 Off-balance sheet activities of SCBs, comprising forward exchange contracts, guarantees, acceptances and endorsements, rose sharply in 2002-03 (Appendix Table III.14). Accordingly, the share of off-balance sheet operations in terms of total liabilities increased to nearly 69 per cent in 2002-03. Out of this, nearly three-fourths were forward exchange contracts, mostly related to exports and imports.

3.61 Foreign banks were particularly active in off-balance sheet activities with the result that the ratio of their off-balance sheet activity to total liabilities rose from 394 per cent in 2001-02 to 483 per cent in 2002-03.

Cost of Funds

3.62 Prudent resource management within a sound asset-liability management framework has lowered the cost of funds across bank groups (Table III.20). Falling interest rates have meant that both the return on advances and investments have come down across bank groups. For new private sector banks, the interest paid on both deposits and borrowings have been higher reflecting, *inter alia*, the lagged effect of the inclusion of a new private bank with high borrowings, as also the inclusion of a new scheduled bank operational since March 2003. These factors, consequently, led to a rise in the cost of funds for this bank group.

Table III.20: Bank Group-Wise Cost of Funds and Returns

(per cent)

Variable/ Bank Group	**Public Sector Banks**		**Old Private Sector Banks**		**New Private Sector Banks**		**Foreign Banks**	
	2001-02	**2002-03**	**2001-02**	**2002-03**	**2001-02**	**2002-03**	**2001-02**	**2002-03**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Cost of Funds	6.8	6.1	7.6	6.6	3.8	4.4	6.2	5.3
Return on Advances	9.6	9.0	10.9	9.7	4.7	10.3	11.0	10.3
Return on Investments	10.2	9.2	10.5	9.2	5.8	8.2	10.5	7.7

Notes : 1. Cost of funds = (Interest Paid on Deposits+Interest Paid on Borrowings)/(Deposits+Borrowings).
2. Return on Advances = Interest Earned on Advances / Advances.
3. Return on Investments = Income on Investment / Investment.

Spread

3.63 The spread of SCBs increased by 19.5 per cent in 2002-03. Most bank groups, recorded a double-digit increase in spread arising largely from the containment in interest expenditure in a softer interest regime. Spreads of foreign banks are typically higher than their public sector and private counterparts, owing to their lower interest costs on deposits. The substantial increase in spreads meant that the spread to total assets ratio increased significantly for most bank groups. However, the ratio of spread to total assets has continually been shrinking for most bank groups as yields on assets have declined more than proportionately *vis-à-vis* the cost of liabilities[6].

Investment Fluctuation Reserve

3.64 Banks were advised to build up the Investment Fluctuation Reserve (IFR) of a minimum of five per cent of the investment held in the 'Available for Sale' (AFS) and 'Held for Trading' (HFT) categories of the investment portfolio within a period of five years commencing from the year ended March 31, 2002. The bank group-wise position reveals that, as at end-March 2003, while SCBs had built up an IFR ratio (defined as IFR as percent of investments under AFS and HFT categories, taken together) of 1.8 per cent, the IFR ratios of certain bank groups have been higher than this figure (Table III.21 and Appendix Table III.18). New private sector banks were observed to be lagging behind in respect of their IFR position. The bank-wise position in respect of PSBs reveals that several of them have made substantial progress and built up a comfortable IFR ratio since the Reserve Bank advised banks on this issue in January 2002. While banks are required to build up an IFR portfolio of a minimum of five per cent of their investments within a period of five years, it is observed that 17 PSBs had already built up IFR ratio of 2.0 per cent or more.

Table III.21: Bank Group-Wise Investment Fluctuation Reserves (IFR)

(As at end-March 2003)

(Amount in Rs. crore)

Bank Group	**Available for Sale (AFS)**	**Held for Trading (HFT)**	**IFR**	**IFR/ (AFS+HFT) (per cent)**
1	**2**	**3**	**4**	**5=4/(3+2)**
Scheduled Commercial Banks	**5,13,190**	**28,637**	**9,635**	**1.8**
Public Sector Banks	4,09,268	13,782	7,697	1.8
Nationalised Banks	2,35,003	3,210	4,334	1.8
State Bank Group	1,74,265	10,572	3,363	1.8
Old Private Sector Banks	31,078	1,964	694	2.1
New Private Sector Banks	45,702	4,161	559	1.1
Foreign Banks	27,142	8,730	685	1.9

3.65 The large policy-induced changes in the interest rate environment have brought forth the issue of interest rate sensitivity of banks' balance sheet. The impact on the bottomline of banks, under such circumstances, is likely to depend on whether the future interest rate movement is in tandem with the banks' respective interest rate expectations. Building up an adequate cushion, as entailed in the IFR, in a benign interest rate environment, is likely to mitigate the adverse effects of interest rate movement (Box III.6).

Box III.6: Effect of Interest Rate Changes on Banks' Income

The changes in interest rates affect bank earnings through the net interest income and the level of other interest-sensitive income and operating expenses. This impacts the underlying value of the bank's assets, liabilities and off-balance sheet instruments because the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change. Interest rate risk arises out of the exposure of a bank to adverse movements in interest rates. While accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value, excessive interest rate risk-taking can pose a significant threat to a bank's earnings and capital base. The primary form of the interest rate risk arises from timing differences in the maturity (for fixed rate) and repricing (for floating rate) of bank assets, liabilities and off-balance-sheet (OBS) positions. Thus, effective risk management to maintain interest rate risk within prudent levels is essential to the safety and soundness of banks.

A number of techniques are available for measuring the interest rate risk exposure of both earnings and economic value. Their complexity ranges from simple calculations to static simulations using current holdings to highly sophisticated dynamic modelling techniques that reflect potential future business and business decisions. The gap method for measuring a bank's interest rate risk exposure generates simple indicators of the interest rate risk sensitivity of both earnings and economic value to changing interest rates. This essentially measures the gap between interest-sensitive assets and liabilities (including OBS positions) in the specific time bands in which these interest sensitive assets and liabilities are located. The gap is positive (negative) when maturing/re-pricing assets are more (less) than the liabilities. After calculating the net gap by adding the gaps within each time band, adjusted for hedging, the impact on earnings is estimated by computing the likely losses or gains in the event of a change in the interest rate, in terms of the net interest income (NII) earned by the banks. The net interest income takes into account both the interest earned as well as interest paid on interest bearing liabilities and risk arising out of interest rate movement would directly affect the NII earned by the banks (BIS, 2003).

A preliminary internal exercise within the Reserve Bank using the gap method to calculate the impact of interest rate changes on banks' net interest income carried out with reference to banks' asset-liability profile as on March 31, 2003 as reported through their offsite statement, suggests the following:

- The banking system as a whole is likely to have a positive impact of 4.9 per cent on net interest income in the event of a rise in interest rates by 200 basis points.

- Among the bank groups, the positive impact of a rise in interest rates by 200 basis points would be largest in case of public sector bank group.

- On the other hand, in the event of a fall in interest rates by 200 basis points, new private banks and old private banks would have positive impact on their net interest income.

- The foreign bank group would have the least impact on net interest income in a rising or falling interest rate regime.

It needs to be recognised that estimates of this nature are essentially indicative. For instance, the study focuses only on interest earnings and is subject to usual limitations associated with the gap method. Furthermore, banks' interest rate risk positions are dynamic in nature. The analysis does not incorporate the appreciation/depreciation of banks' securities portfolio consequent to these interest rate changes. Under current regulations, banks are required to follow a conservative accounting practice in respect of unrealised capital gains on their investment portfolio and therefore have latent reserves to serve as a cushion in the event of an interest rate shock.

Reference:
Bank for International Settlements (2003), Principles for the Management and Supervision of Interest Rate Risk, Basel.

4. Non-performing Assets[7]

3.66 Credit risk is an important factor impinging on financial entities. The solvency crisis of financial systems, such as the American Savings and Loan crisis in the 1980s, the Nordic banking crisis at the beginning of the 1990s and more recently, the banking sector problems in Japan and Turkey have, in large measure, been a consequence of accumulation of problem loans over time. In order to contain the growth in non-performing assets (NPAs), recovery management has become a keyword for the banking industry in recent years. In the Indian context, several initiatives have been taken by the Reserve Bank in conjunction with the Government to contain the NPAs of banks. As a consequence, NPAs of SCBs have witnessed a secular decline since the initiation of income recognition and asset classification (IRAC) norms. It is instructive to turn to the relevant empirical and theoretical literature revealing the factors behind the credit risk (Box III.7).

Box III.7: Determinants of Credit Risk

Credit risk has received extensive theoretical and empirical investigation. However, such research has concentrated mostly on evaluation of *ex-ante* risks of borrowers and/or of individual loan operations, and on studying the response of lenders to such evaluations. Credit spreads, collateral, loan term structures and commitments between borrowers and lenders over time (*i.e.*, relational lending) have been some of the widely investigated topics. Other relevant variables, such as *ex-post* credit losses, have been largely ignored, especially at the microlevel of financial institutions, possibly as a result of lack of reliable data on loan losses.

The majority of the studies pertaining to determinants of credit risk have dealt primarily with the US banking industry and to a lesser extent, the Latin American banking sector. These studies primarily employ macroeconomic variables to explain credit losses. Available research on this score in the Indian context have attempted to examine the regional dimension of the non-performing loan problem and more recently, the issue whether the non-performing loans are explained by poor operating efficiency or otherwise. These studies utilised microeconomic variables to explain impaired loans in Indian banks. However, it is widely believed that problem loans are caused by both macro as well as microeconomic factors.

Recent internal empirical research sought to explain problem loans in terms of GDP growth (macroeconomic) and bank-specific (microeconomic) factors. The evidence suggested that: (a) problem loans are not immediately written down and are, in fact, carried forward for several periods, (b) the GDP growth rate (current and lagged) negatively impacted the problem loan ratio. However, while the contemporary impact was observed to be strongly significant, the lagged impact was not significant at standard levels. Several microeconomic variables, such as, lagged credit growth and operating efficiency were also observed to impact problem loans significantly.

References:

Berger, Allan and Robert de Young (1997), "Problem Loans and Cost Efficiency in Commercial Banks", *Journal of Banking and Finance*, Vol. 21.

Das, Abhiman and Saibal Ghosh (2003), "Determinants of Credit Risk in Indian State-owned Banks: An Empirical Investigation", Paper presented at the Conference on Money, Risk and Investment, Nottingham Trent University, U.K.

Rajaraman, Indira and Garima Vasishtha (2002), "Non-performing Loans of PSU Banks: Some

Panel Results", *Economic and Political Weekly*, Special Issue on Money, Banking and Finance.

3.67 The decline in NPAs has also been evidenced across bank groups, except in 2000-01. In line with this declining trend, NPAs declined sharply in 2002-03, reflecting, *inter alia*, the salutary impact of earlier measures towards NPA reduction and the enactment of the SARFAESI Act ensuring prompter recovery without intervention of court or tribunal (Box III.8). The progress under this Act has been significant, as evidenced by the fact that during 2002-03, reductions outpaced addition, especially for PSBs and reflected in an overall reduction of non-performing loans to 9.4 per cent of gross advances from 14.0 per cent in 1999-2000 (Table III.22 to Table III.25). The bank-wise gross/ net NPAs as percentage to advances/assets are provided in Appendix Tables III.19 (A) to 19(F). Sector-wise NPAs of individual public and private sector banks are presented in Appendix Tables III.20(A) and 20(B).

Box III.8: Progress under the SARFAESI Act

The enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act has provided a significant impetus to banks to ensure sustained recovery. The Act provides, *inter alia*, for enforcement of security interest for realisation of dues without the intervention of courts or tribunals. The Government of India has also notified the Security Interest (Enforcement) Rules, 2002 to enable secured creditors to authorise their officials to enforce the securities and recover the dues from the borrowers. Banks and financial institutions (FIs) have already initiated the process of recovery under the Act. The Government has advised the PSBs and financial institutions to take action under the SARFAESI Act and report the compliance to the Reserve Bank. The Supreme Court has stayed the operation of the Act to a limited extent so that secured assets, can be seized under the Act, but cannot be sold / leased or assigned.

Since the Act provides for sale of financial assets by banks / financial institutions to Securitisation Companies (SC) / Reconstruction Companies (RC) created thereunder, a set of guidelines has been issued to banks and All-India financial institutions so that the process of asset reconstruction proceeds on smooth and sound lines in a uniform manner. These guidelines, *inter alia*, prescribe the financial assets which can be sold to SC / RC by banks / FIs, procedure for such sales (including valuation and pricing aspects), prudential norms for the sale transactions (*viz.*, provisioning / valuation norms, capital adequacy norms and exposure norms) and related disclosures required to be made in the Notes on Accounts to their balance sheets.

Since the commencement / enforcement of the SARFAESI Act till end-June 2003, PSBs have issued 33,736 notices for an outstanding amount of Rs.12,147 crore and have recovered Rs. 499.20 crore from 9,946 cases (Table A).

Table A: Bank-wise Details of Progress under SARFAESI Act

(As at end-June 2003)

(Amount in Rs.crore)

Name of the Bank	Notices issued	Amount Outstanding	Recovered cases	Amount recovered	Per cent of amount recovered to amount outstanding
1	2	3	4	5	6
Allahabad Bank	1,579	514.8	610	21.9	4.2

Andhra Bank	401	73.9	118	9.5	12.8
Bank of Baroda	125	429.5	19	7.8	1.8
Bank of India	1,241	405.8	692	34.3	8.4
Bank of Maharashtra	332	52.7	61	2.6	4.9
Canara Bank	1,011	350.5	393	34.5	9.8
Central Bank of India	2,617	1,204.9	395	39.1	3.3
Corporation Bank	247	155.0	98	18.5	11.9
Dena Bank	348	358.6	147	22.3	6.2
Indian Bank	1,007	425.8	240	19.5	4.6
Indian Overseas Bank	1,879	509.9	747	29.4	5.8
Oriental Bank of Commerce	2,217	427.5	1,184	41.9	9.8
Punjab National Bank	3,015	711.8	1,086	39.3	5.5
Punjab and Sind Bank	1,102	499.0	509	23.0	4.6
Syndicate Bank	1,226	156.9	480	17.2	10.9
Union Bank of India	1,601	757.2	524	22.6	2.9
United Bank of India	148	14.1	54	1.8	13.0
UCO Bank	1,130	88.4	138	4.6	5.2
Vijaya Bank	1,988	239.9	638	26.4	11.0
State Bank of India	7,141	3,974.0	1,037	48.0	1.2
State Bank of Bikaner and Jaipur	606	114.5	217	3.9	3.4
State Bank of Hyderabad	827	282.5	102	9.8	3.5
State Bank of Indore	403	68.6	123	6.6	9.6
State Bank of Mysore	344	102.1	34	4.6	4.5
State Bank of Patiala	807	126.0	210	4.4	3.5
State Bank of Saurashtra	325	70.8	59	3.6	5.1
State Bank of Travancore	69	32.5	31	2.1	6.6
Total	**33,736**	**12,147.2**	**9,946**	**499.2**	**4.1**

References :

Reserve Bank of India (2003), *Annual Report*, 2002-03, Mumbai.

Reserve Bank of India (2002), *Report on Trend and Progress of Banking in India*, 2001-02, Mumbai.

Table III.22: Bank Group-Wise Gross and Net Npas of Scheduled Commercial Banks

(as at end-March)

(Amount in Rs. crore)

Bank Group/Year	Gross	Gross NPAs			Net	Net NPAs		
	Advances	Amount	Per cent To Gross Advances	Per cent to total Assets	Advances	Amount	Per cent To Net Advances	Per cent to total Assets
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
2000	4,75,113	60,408	12.7	5.5	4,44,292	30,073	6.8	2.7
2001	5,58,766	63,741	11.4	4.9	5,26,328	32,461	6.2	2.5
2002	6,80,958	70,861	10.4	4.6	6,45,859	35,554	5.5	2.3
2003	7,78,043	68,714	8.8	4.0	7,40,473	32,764	4.4	1.9
Public Sector Banks								
2000	3,79,461	53,033	14.0	6.0	3,52,714	26,187	7.4	2.9
2001	4,42,134	54,672	12.4	5.3	4,15,207	27,977	6.7	2.7
2002	5,09,368	56,473	11.1	4.9	4,80,681	27,958	5.8	2.4
2003	5,77,813	54,086	9.4	4.2	5,49,351	24,963	4.5	1.9
Old Private Sector Banks								
2000	35,404	3,815	10.8	5.2	33,879	2,393	7.1	3.3
2001	39,738	4,346	10.9	5.1	37,973	2,771	7.3	3.3
2002	44,057	4,851	11.0	5.2	42,286	3,013	7.1	3.2
2003	51,329	4,568	8.9	4.3	49,436	2,741	5.5	2.6
New Private Sector Banks								

2000	22,816	946	4.1	1.6	22,156	638	2.9	1.1
2001	31,499	1,617	5.1	2.1	30,086	929	3.1	1.2
2002	76,901	6,811	8.9	3.9	74,187	3,663	4.9	2.1
2003	94,718	7,232	7.6	3.8	89,515	4,142	4.6	2.2
Foreign Banks								
2000	37,432	2,614	7.0	3.2	35,543	855	2.4	1.0
2001	45,395	3,106	6.8	3.0	43,063	785	1.8	0.8
2002	50,631	2,726	5.4	2.4	48,705	920	1.9	0.8
2003	54,184	2,829	5.2	2.4	52,171	918	1.8	0.8

Source: 1. Balance sheets of respective banks.
2. Returns submitted by respective banks.

Movements in Provisions for Non-performing Assets

3.68 With effect from the year ended March 2002, banks were directed to submit additional returns as part of Notes on Accounts in their balance sheet relating to (a) movements in provisions for non-performing loans, and (b) movements in provisions for depreciation in investments. A major part of SCBs' total provisions was accounted for by PSBs, which accounted for 47.2 per cent of gross NPAs as at end-March 2003. For the State Bank group, provisions were lower than that in the previous year reflecting an improvement in their asset quality. Foreign banks, inspite of their improved asset quality *vis-à-vis* other banks, typically had higher provisions (Table III.26).

Table III.23: Bank Group-Wise Movements in Non-Performing Assets - 2002-03

(Amount in Rs.crore)

Particular	Scheduled Commercial Banks (93)	Public Sector Banks (27)	Old Private Banks (21)	New Private Banks (9)	Foreign Banks (36)
1	2	3	4	5	6
Gross NPAs					
As at end-March 2002	70,153	56,473	4,389	6,821	2,469
Additions during the year	21,863	16,065	1,625	2,649	1,523
Reductions during the year	23,302	18,452	1,447	2,239	1,164
As at end-March 2003	68,714	54,086	4,568	7,232	2,829
Net NPAs					
As at end-March 2002	35,256	27,958	2,775	3,663	860
As at end-March 2003	32,764	24,963	2,741	4,142	918
Memo:					
Gross Advances	7,78,043	5,77,813	51,329	94,718	54,184
Net Advances	7,40,473	5,49,351	49,436	89,515	52,171
Ratio					
Gross NPA/Gross Advances	8.8	9.4	8.9	7.6	5.2
Net NPA/Net Advances	4.4	4.5	5.5	4.6	1.8

Note : Figures in brackets indicates the number of banks in that category for the year 2002-03.
Source : Balance sheets of respective banks.

Table III.24: Classification of Loan Assets of Scheduled Commercial Banks–Bank Group-Wise

(Amount in Rs.crore)

Bank Group/ Year	Standard Assets		Sub-standard Assets		Doubtful Assets		Loss Assets		Total NPAs		Total Advances
	Amount	Per Cent	Amount	per cent	Amount	Per Cent	Amount	per cent	Amount	per cent	Amount
1	2	3	4	5	6	7	8	9	10	11	12

Scheduled Commercial Banks											
2000	4,14,917	87.2	19,594	4.1	33,688	7.1	7,558	1.6	60,840	12.8	4,75,757
2001	4,94,716	88.6	18,206	3.3	37,756	6.8	8,001	1.4	63,963	11.4	5,58,679
2002	6,09,972	89.6	21,382	3.1	41,201	6.0	8,370	1.2	70,953	10.4	6,80,925
2003	7,09,260	91.2	20,078	2.6	39,731	5.1	8,971	1.2	68,780	8.8	7,78,040
Public Sector Banks											
2000	3,26,783	86.0	16,361	4.3	30,535	8.0	6,398	1.7	53,294	14.0	3,80,077
2001	3,87,360	87.6	14,745	3.3	33,485	7.6	6,544	1.5	54,774	12.4	4,42,134
2002	4,52,862	88.9	15,788	3.1	33,658	6.6	7,061	1.4	56,507	11.1	5,09,369
2003	5,23,724	90.6	14,909	2.6	32,340	5.6	6,840	1.2	54,089	9.4	5,77,813
Old Private Sector Banks											
2000	31,447	88.8	1,577	4.5	2,061	5.8	347	1.0	3,985	11.2	35,432
2001	35,166	88.7	1,622	4.1	2,449	6.2	413	1.0	4,484	11.3	39,650
2002	39,262	89.0	1,834	4.2	2,668	6.1	348	0.8	4,850	11.0	44,112
2003	46,761	91.1	1,474	2.9	2,772	5.4	321	0.6	4,567	8.9	51,328
New Private Sector Banks											
2000	21,870	95.9	560	2.5	294	1.3	92	0.4	946	4.1	22,816
2001	29,905	94.9	963	3.1	620	2.0	11	0.0	1,594	5.1	31,499
2002	70,010	91.2	2,904	3.8	3,871	4.9	41	0.0	6,816	8.8	76,826
2003	87,487	92.4	2,700	2.9	3,675	3.9	856	0.9	7,231	7.6	94,718
Foreign Banks											
2000	34,817	93.0	1,096	2.9	798	2.1	721	1.9	2,615	7.0	37,432
2001	42,285	93.1	876	1.9	1,202	2.6	1,033	2.3	3,111	6.9	45,396
2002	47,838	94.5	856	1.7	1,004	2.0	920	1.8	2,780	5.5	50,618
2003	51,288	94.7	995	1.8	944	1.7	954	1.8	2,893	5.3	54,181

Notes : 1. The figures furnished in this table may not tally with the data in Table III.22 due to different sources of data collection.
2. Figures are provisional.
3. Constituent items may not add up to the totals due to rounding off.

Source : Returns submitted by respective banks.

Table III.25: Distribution of Scheduled Commercial Banks by Ratio of Net Npas to Net Advances

(Number of banks)

Net NPAs/ Net Advances	End-March				
	1999	2000	2001	2002	2003
1	2	3	4	5	6
Public Sector Banks	**27**	**27**	**27**	**27**	**27**
1. Up to 10 per cent	18	22	22	24	25
2. Above 10 and up to 20 per cent	8	5	5	3	2
3. Above 20 per cent	1	—	—	—	—
Old Private Sector Banks	**25**	**24**	**23**	**22**	**21**
1. Up to 10 per cent	17	18	16	17	19
2. Above 10 and upto 20 per cent	5	5	4	3	1
3. Above 20 per cent	3	1	3	2	1
New Private Sector Banks	**9**	**8**	**8**	**8**	**9**
1. Up to 10 per cent	9	8	8	8	8
2. Above 10 and upto 20 per cent	—	—	—	—	1
3. Above 20 per cent	—	—	—	—	—
Foreign Banks	**41**	**42**	**42**	**40**	**36**
1. Up to 10 per cent	27	31	31	26	28
2. Above 10 and upto 20 per cent	11	7	6	5	4
3. Above 20 per cent	3	4	5	9	4

Table III.26: Bank Group-Wise Movements in Provisions for Non-Performing Assets - 2002-03

(Amount in Rs.crore)

Particular	Scheduled Commercial Banks (93)	Public Sector Banks (27)	Old Private Banks (21)	New Private Banks (9)	Foreign Banks (36)
1	2	3	4	5	6

Provisions for NPA					
As at end-March 2002	30,749	24,807	1,432	3,097	1,414
Add : Provision made during the year	13,181	9,861	778	1,731	810
Less : Write-off, write back of excess during the year	12,049	9,131	573	1,786	559
As at end-March 2003	31,881	25,537	1,637	3,042	1,665
Memo:					
Gross NPAs	68,714	54,086	4,568	7,232	2,829
Cumulative provision to Gross NPAs (per cent)	46.4	47.2	35.8	42.1	58.9

Note : Figures in brackets indicates the number of banks in that group for the year 2002-03.
Source: Balance sheets of respective banks.

Movements in Provisions for Depreciation in Investment

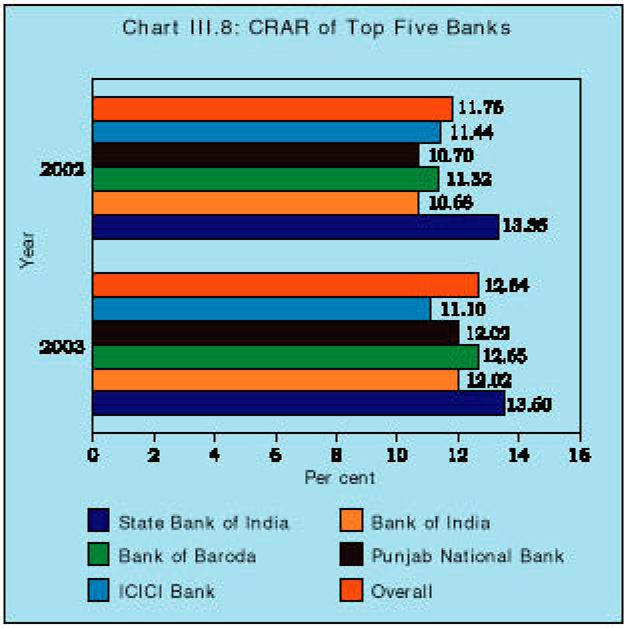
3.69 PSBs increased their provisions for depreciation in investments during the year by an amount exceeding the write-back. New private banks, on the other hand, unwound their provisions reflecting possibly the greater proportion of investments in the AFS and HFT categories (Table III.27).

Incremental Non-performing Assets

3.70 The recoveries of NPAs in 2002-03 have exceeded additions implying that, incremental NPAs, both in gross and net terms, have turned negative. In absolute terms, for SCBs as a whole, gross NPAs declined by Rs.2,147 crore. There was a marginal increase in the incremental gross NPAs of nationalised banks with additions outpacing recoveries. Net NPAs, on the other hand, declined by over Rs.1,800 crore, reflecting the increased provision made by them during the year. The largest decline was effected by the State Bank group. This, in effect, served to make the incremental ratio of gross NPAs to gross advances negative for most bank groups in 2002-03. Incremental net NPAs also mirrored a similar trend (Table III.28 and Table III.29).

5. Capital Adequacy

3.71 As at end-March 2003, all the 27 PSBs had capital to risk-weighted assets ratio (CRAR) above the stipulated minimum levels of 9 per cent. Of these, 26 banks had CRAR levels in excess of 10 per cent. For PSBs as a whole, the CRAR as at end-March 2003 stood distinctly higher at 12.64 per cent than that of 11.76 per cent as at end-March 2002. Capital adequacy for top five banks (in terms of total assets) was more or less around the overall CRAR for the PSBs (Chart III.8). Perhaps, in view of the impending operationalisation of the new Capital Accord, banks, especially those with international presence, have been holding capital well above the stipulated levels.



3.72 All the old private sector banks and foreign banks operating in India had CRAR above the stipulated levels. Two new private sector banks had CRAR below the prescribed minimum (Table III.30). Bank-wise details of CRAR of various bank groups are given in Appendix Table III.21 (A) to 21(C).

Table III.27: Bank Group-Wise Movements in Provisions for Depreciation on Investment - 2002-03

(Rs.crore)

Particular	**Scheduled Commercial Banks (93)**	**Public Sector Banks (27)**	**Old Private Banks (21)**	**New Private Banks (9)**	**Foreign Banks (36)**
1	**2**	**3**	**4**	**5**	**6**
Provisions for Depreciation					
As at end-March 2002	4,524	2,400	124	1,894	107
Add : Provisions made during the year	925	985	79	-191	52
Less : Write-off, write back of excess during the year	575	458	62	41	14
As at end-March 2003	4,875	2,927	141	1,662	145

Note : Figures in brackets indicates the number of banks in that group for the year 2002-03.
Source: Balance sheets of respective banks.

Table III.28: Bank Group-Wise Incremental Gross and Net Npas

(Rs.crore)

Bank Group	**Incremental Gross NPAs**		**Incremental Net NPAs**	
	2001-02	**2002-03**	**2001-02**	**2002-03**
1	**2**	**3**	**4**	**5**
Scheduled Commercial Banks	**7,120**	**-2,147**	**3,093**	**-2,790**
Public Sector Banks	1,801	-2,387	-19	-2,995
Nationalised Banks	2,681	119	468	-1,822
State Bank Group	-880	-2,506	-487	-1,173
Old Private Sector Banks	505	-283	243	-272
New Private Sector Banks	5,195	421	2,734	479

Foreign Banks	-380	103	135	-2

Source : Balance sheets of respective banks.

Equity Capital

3.73 The amendments in the State Bank of India Act, 1955 as well as the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980 have enabled

Table III.29: Bank Group-Wise Incremental Ratio of Gross and Net Npas

(Per cent)

Bank Group	Incremental Ratio of Gross NPAs to				Incremental Ratio of Net NPAs to			
	Gross Advances		Total Assets		Net Advances		Total Assets	
	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	**5.8**	**-2.2**	**3.0**	**-1.3**	**2.6**	**-2.9**	**1.3**	**-1.7**
Public Sector Banks	2.7	-3.5	1.4	-1.8	0.0	-4.4	0.0	-2.3
Nationalised Banks	5.0	0.3	3.4	0.1	0.9	-4.1	0.6	-2.1
State Bank Group	-6.4	-11.0	-1.9	-5.6	-3.5	-4.8	-1.1	-2.6
Old Private Sector Banks	11.7	-3.9	5.8	-2.4	5.6	-3.8	2.8	-2.3
New Private Sector Banks	11.4	2.1	5.4	2.4	6.2	3.1	2.9	2.7
Foreign Banks	-7.3	2.9	-3.4	3.3	2.4	-0.1	1.2	-0.1

Source: 1. Balance sheets of respective banks.
2. Returns received from respective banks.

Table III.30: Distribution of Scheduled Commercial Banks by CRAR

(No. of banks)

Bank Group	2001-02				2002-03			
	Below 4 per cent	Between 4-9 per cent	Between 9-10 per Cent	Above 10 per cent	Below 4 per cent	Between 4-9 per cent	Between 9-10 per cent	Above 10 per cent
1	2	3	4	5	6	7	8	9
State Bank Group	—	—	—	8	—	—	—	8
Nationalised Banks	1	1	2	15	—	—	1	18
Old Private Sector Banks	—	—	2	19	—	—	2	19
New Private Sector Banks	—	1	1	6	2	—	1	6
Foreign Banks	—	—	2	33	—	—	—	36
Total	**1**	**2**	**7**	**81**	**2**	**—**	**4**	**87**

PSBs to increasingly take recourse to the capital market to shore up their capital base. Over the period 1993-2002, as many as 12 PSBs raised capital through public issues to the tune of Rs.6,501 crore.

3.74 During 2002-03, the Union Bank of India made an Initial Public Offering (IPO) in August 2002 by a public issue of 18 crore equity shares at an issue price of Rs.16 per share aggregating Rs.288 crore. The bank also returned capital of Rs.58 crore to the Government immediately prior to the issue. Consequent upon this IPO, the shareholding of the Government in the bank stands reduced to 60.9 per cent. Allahabad Bank made an IPO in October 2002 by public issue of 10 crore shares of Rs.10 each at par aggregating Rs.100 crore. Consequent upon the issue, the Government shareholding in the bank has reduced to 71.2 per cent. Canara Bank made a public issue of 11 crore equity shares at an issue price of Rs.35 aggregating Rs.385 crore. Subsequent upon this issue, the Government shareholding in the bank stands reduced to 73.2 per cent. With this, the total amount raised by PSBs through equity issues over the period 1993-2003 has aggregated Rs.7,274 crore. The Government shareholding in PSBs which have accessed the capital market, presently ranges from a low of 57.2 per cent to a high of 75 per cent.

Return of Capital

3.75 During 2002-03, three nationalised banks, *viz.*, the Union Bank of India (Rs.58 crore), Canara Bank (Rs.278 crore) and Andhra Bank (Rs.50 crore) returned capital to the Government. With this, the total capital returned by nationalised banks to Government till end-March 2003 aggregated Rs.1,253 crore.

Writing off Losses against Paid-up Capital

3.76 With the approval of the Central Government, the Central Bank of India and UCO Bank wrote off losses of Rs. 681 crore during the year 2001-02 and Rs.1,665 crore during 2002-03, respectively, from its paid-up capital.

Indian Banks' Operations Abroad

3.77 Several Indian banks have been operating in other countries across the world. As at end-September 2003, the number of Indian banks having overseas operations remained at nine, of which eight banks were in public sector and one in the private sector. With the closure of State Bank of India's Flushing, New York branch in the USA, and the foreign currency banking unit of Indian Overseas Bank in Colombo, the total number of overseas branches of the nine Indian banks has been reduced to 92.

3.78 The number of representative offices of Indian banks abroad increased from 15 to 18 with the opening of representative offices in London and New York by ICICI Bank Limited, in Dubai by HDFC Bank Limited, in Shenzhen (China) and Ho Chi Minh City (Vietnam) by Bank of India, and in London by Punjab National Bank. The State Bank of India had earlier closed down its Representative offices in Ho Chi Minh City (Vietnam), Sao Paulo (Brazil) and Jakarta (Indonesia).

3.79 The number of joint ventures and subsidiaries abroad of Indian banks stood at 5 and 15, respectively.

Foreign Banks' Operations in India

3.80 Foreign banks have been permitted more liberal entry into the Indian financial market since the inception of reforms. As at end-September 2003, the number of foreign banks in India were 35 with 207 branches. However, the number of their Representative Offices remained unchanged at 26.

3.81 Under a Scheme of Amalgamation and in terms of Section 44A of the Banking Regulation Act, 1949, the Indian branches of Standard Chartered Grindlays Bank Limited (SCGB) were merged with the Indian branches of Standard Chartered Bank (SCB). Accordingly, SCGB was de-scheduled in August 2002 in terms of Clause (b) of sub-section (6) of section 42 of the Reserve Bank of India Act, 1934.

3.82 The Development Bank of Singapore Limited, incorporated in Singapore with one branch in Mumbai, changed its name to 'DBS Bank Limited' with effect from July 21, 2003 in terms of clause (c) of sub-section (6) of Section 42 of the Reserve Bank of India Act, 1934 (2 of 1934).

3.83 Five banks, *viz.*, Commerzbank, Dresdner Bank AG, KBC Bank, the Siam Commercial Bank P.C.L., and the Toronto Dominion Bank have wound up their banking operations in India. The Overseas Chinese Banking Corporation Limited is in the process of closing their operations in India.

6. Regional Spread of Banking

3.84 The total number of branches of SCBs as at end-June 2003 stood at 66,514. Branch expansion of commercial banks has recorded an average annual growth of nearly one per cent over the last five years. The share of rural branches declined marginally to 48.7 per cent as at end-June 2003 from 49.0 per cent as at end-June 2002 reflecting the branch rationalisation policy wherein loss-making rural branches at centres served by two commercial bank branches (excluding that of regional rural banks) may be closed by mutual consultation. There was a marginal rise in the share of urban branches, whereas the proportion of metropolitan branches stayed at the same level as earlier (Appendix Table III.22).

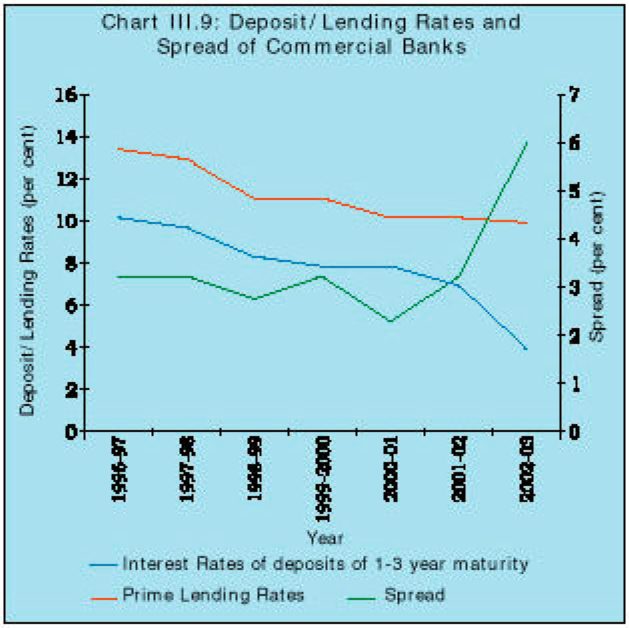
3.85 The state-wise distribution of branches reveals that all regions witnessed a rise in the number of branches over the period July 2002 to June 2003, although in absolute terms, the additions to bank branches have been declining over the last few years. In line with the regional distribution of the national income, the Southern and Central regions accounted for the highest percentage of bank branches. In fact, the Southern region experienced the opening of the maximum number of branches during the year, particularly in the States of Andhra Pradesh and Karnataka. The Northern region also experienced a significant increase in the number of branches opened during the year, particularly in Punjab (31) and Delhi (26) (Appendix Table III.23).

3.86 While questions have been raised about the usefulness of 'social banking' in India on efficiency grounds, recent evidence on Indian rural branch expansion programme between 1997 and 1990 suggests that the programme made a significant dent on rural poverty and increased non-agricultural output (Box III.9).

7. Interest Rates of Scheduled Commercial Banks

3.87 Fiscal 2002-03 continued to see a softening of interest rates in most markets (Table III.31). In the credit markets, commercial bank deposit rates continued to fall reflecting the ample liquidity in the banking system. Lending rates remained relatively sticky, reflecting the impact of structural factors as well as the revival of credit demand during the latter half of the year. As a result, the spread between long-term deposit rates and lending rates widened during the year

(Chart III.9).



Domestic Deposit Rates

3.88 The deposit rates, in general have come down during 2002-03, following moderation in inflation expectations (Table III.32). Maturity-wise, longer term deposit rates of commercial banks showed a larger decline than the short-term rates.

3.89 The Reserve Bank has been encouraging banks to adopt floating rate deposit schemes, notwithstanding the poor response from the depositors as these were in the long-term interest of banks as well as depositors. In order to improve flexibility in the interest rate, banks were given freedom to decide the period of reset on variable rate deposits. In this context, a Working Group (Chairman: Shri H.N. Sinor), with members from major banks and the Reserve Bank to examine various issues concerning the deposit rates and procedure, submitted its Report in May 2003.

Box III.9: Branch Banking and Indian Banks

Access to finance has been considered to be a critical factor in enabling people to transform their production and employment activities and come out of poverty. Financial development, in this context, may enable the poor to obtain access to credit and consequently, improve their economic performance. Accordingly, in many emerging and developing countries, where a significant proportion of the poor remains cut-off from access to credit, Government intervention in the banking sector is perceived to channelise credit to the needy sectors of the society. The evidence on the success of such interventions in reducing poverty has, however, been limited.

There is some recent evidence that the branch expansion programme in India undertaken since the nationalisation had a positive impact on poverty and non-agricultural output. Using data on sixteen major Indian States over the period 1961-2000, the following has been observed:

- branch licensing rule succeeded in encouraging commercial banks in opening branches in backward rural locations,
- rural banks managed to reach the rural poor, and
- commercial banks offered opportunities for households to save. The saving accounts provided households with means of accumulating capital which could be used to invest in various productive activities.

It, thus, seems that social banking programmes as employed by the Government served to redistribute resources to the rural poor. This would suggest that expanding access of finance to poor, rural setting can generate significant social returns.

Reference:

Burgess, R. and R. Pande (2003), "Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment",
STICERD Discussion Paper, No.40, London School of Economics (August).

Table III.31: Structure of Interest Rates

(Per cent)

Interest Rate	March 2002	March 2003	September 2003
1	2	3	4
I. Credit Markets			
1.Deposit Rate			
Public Sector Banks	4.25-8.75	4.00-7.00	3.75-6.25
Foreign Banks	4.25-10.00	3.00-8.50	3.00-8.00
Private Banks	5.00-10.00	3.50-8.00	3.00-8.00
2.Lending Rate			
Public Sector Banks	10.00-12.50	9.00-12.25	9.00-12.25
Foreign Banks	9.00-17.50	6.75-17.50	5.05-17.50
Private Banks	10.00-15.50	7.00-15.50	8.00-15.50
II. Money Markets			
3.Call Borrowing (Average)	6.97	5.86	4.50
4.Commercial Paper			
WADR (61-90 days)	7.78	6.53	5.26
WADR (91-180 days)	8.00	6.21	4.89
Range	7.41-10.25	6.00-7.75	4.74-6.50
5.Certificates of Deposit			
Range	5.00-10.03	5.00-7.10	4.25-6.00
Typical Rate			
3 months	7.38	-	5.00
12 months	10.00	5.25	5.31
6.Treasury Bills			
91 days	6.13	5.89	4.57
364 days	6.16	5.89	4.59
III.Debt Markets			
7.Government Securities Market			
5-year	6.75	5.92	4.79
10-year	7.30	6.13	5.13
8.AAA rated Corporate Bonds			

1-year	8.05	6.21	5.05
5-year	8.40	6.79	5.54

8. Regional Rural Banks

Mobilisation and Deployment of Funds

3.90 Regional Rural Banks (RRBs) continue to be important in rural institutional financing in terms of geographical coverage, clientele outreach, business volume and contribution to the development of the rural economy. In line with macroeconomic trends, deposit mobilisation by RRBs has been slowing down in recent years.

Table III.32: Movements in Deposit and Lending Interest Rates

(per cent)

Interest Rate	March 2002	March 2003	September 2003
1	2	3	4
I. Domestic Deposit Rates			
Public Sector Banks			
a) Up to 1 year	4.25 - 7.50	4.00 - 6.00	3.75-5.50
b) 1 year up to 3 years	7.25 - 8.50	5.25 - 6.75	4.75-6.00
c) Over 3 years	8.00 - 8.75	5.50 - 7.00	5.25-6.25
Private Sector Banks			
a) Up to 1 year	5.00 - 9.00	3.50 - 7.50	3.00-7.00
b) 1 year up to 3 years	8.00 - 9.50	6.00 - 8.00	5.50-7.50
c) Over 3 years	8.25 - 10.00	6.00 - 8.00	5.75-8.00
Foreign Banks			
a) Up to 1 year	4.25 - 9.75	3.00 - 7.75	3.00-7.75
b) 1 year up to 3 years	6.25 - 10.00	4.15 - 8.00	3.50-8.00
c) Over 3 years	6.25 - 10.00	5.00 - 9.00	3.75-8.00
II. Prime Lending Rates			
Public Sector Banks	10.00 - 12.50	9.00 - 12.25	9.00-12.25
Private Sector Banks	10.00 - 15.50	7.00 - 15.50	8.00-15.50
Foreign Banks	9.00 - 17.50	6.75 - 17.50	5.05-17.50

At the same time, there was a recovery in credit off-take. The Monetary and Credit Policy Statement of April 2002 announced that RRBs should maintain their entire SLR holdings in the form of Government and other approved securities by converting existing deposits with sponsor banks into approved securities by March 2003. However, SLR deposits maturing beyond March 31, 2003 have been allowed to be retained with sponsor banks till they mature, and upon maturity, these deposits are to be converted into Government securities. As a result, there was a sharp accretion in investments in Government securities, largely funded by a drawdown of inter-bank assets (Table III.33).

Financial Performance of RRBs

3.91 The data in respect of 196 RRBs for 2001-02 and 2002-03 indicate that there has been an overall decline in the number of profit-making RRBs in 2002-03. The performance of the loss-making RRBs witnessed a sharp downturn during 2002-03. On the expenditure front, both the interest expenses as well as operating expenses of the loss-making RRBs witnessed a sharp rise, the latter owing largely to the rise in the wage bill. The increase in operating profits of the profit-making RRBs in 2002-03 was largely offset by the significant losses of the loss-making RRBs. As a consequence, the loss-making RRBs, in terms of their net profit to total assets, fared poorly than in the previous year leading to a decline in the ratio for RRBs as a whole (Table III.34).

Purpose-wise Outstanding Loans and Advances

3.92 The composition of credit extended by RRBs continued to be broadly the same. While the shares of agricultural and non-agricultural loans are broadly equal, there has been a marginal bias in favour of the latter in recent years (Table III.35).

9. Priority Sector Lending

Public Sector Banks

3.93 The outstanding priority sector advances of PSBs increased by 18.6 per cent during 2002-03. At this level, priority sector advances formed 42.5 per cent of net bank credit (NBC). While 'other priority sector advances' registered the largest rise, direct and indirect advances to agriculture, taken together, also registered an increase. Advances to agriculture constituted 15.3 per cent of NBC as on the last reporting Friday of March 2003 (Appendix Table III.24). The bank-wise details of advances to agriculture and weaker sections as well as NPAs arising out of advances to weaker sections are furnished in Appendix Tables III.25 (A) and 25(B).

Private Sector Banks

3.94 Total priority sector advances extended by private sector banks rose as a proportion of NBC. The share of other priority sector category was the highest at 21.3 per cent of NBC, followed by advances to agriculture and small-scale industries (Appendix Table III.26). Bank-wise details of advances to priority sector, agriculture and weaker sections as well as NPAs arising out of advances to weaker sections are furnished in Appendix Table III.27 (A) and 27(B).

Foreign Banks

3.95 Foreign banks operating in India are required to achieve the target of 32.0 per cent of NBC for the priority sector with sub-targets of 10.0 per cent of NBC for small-scale industries and 12.0 per cent of NBC for exports. Lending to the priority sector by foreign banks constituted 33.9 per cent of NBC as on the last reporting Friday of March 2003, of which the share of export credit, as percentage to NBC was 18.7 per cent (Appendix Table III.28).

Table III.33: Important Banking Indicators of Regional Rural Banks

(Outstanding on)

(Amount in Rs.crore)

Item	March 30, 2001	March, 29 2002	March 28, 2003	Variations 2001-02	2002-03
1	2	3	4	5	6
				(3-2)	(4-3)

1 Liabilities to the Banking System	**177**	**188**	**179**	**11**	**-9**
				(6.2)	**(-4.8)**
2 Liabilities to Others	**38,696**	**44,873**	**50,190**	**6,177**	**5,317**
				(16.0)	**(11.8)**
2.1 Aggregate Deposits (a+b)	37,027	43,220	48,346	6,193	5,126
				(16.7)	(11.9)
a) Demand Deposits	6,499	7,716	8,802	1,217	1,086
				(18.7)	(14.1)
b) Time Deposits	30,528	35,504	39,544	4,976	4,040
				(16.3)	(11.4)
2.2 Borrowings	24	12	131	-12	119
				(-50.0)	(991.7)
2.3 Other Demand and Time Liabilities*	1,645	1,641	1,713	-4	72
				(-0.2)	(4.4)
3 Assets with the Banking System	**16,973**	**18,509**	**15,091**	**1,536**	**-3,418**
				(9.0)	**(-18.5)**
4 Bank Credit	**15,579**	**18,373**	**21,773**	**2,794**	**3,400**
				(17.9)	**(18.5)**
5 Investments (a+b)	**7,546**	**6,772**	**12,524**	**-774**	**5,752**
				(-10.3)	**(84.9)**
a) Government Securities	1,588	1,915	8,311	327	6,396
				(20.6)	(334.0)
b) Other Approved Securities	5,958	4,857	4,213	-1,101	-644
				(-18.5)	(-13.3)
6 Cash Balances	**441**	**472**	**515**	**31**	**43**
				(7.0)	**(9.1)**
Memo:					
a. Cash Balance-Deposit Ratio	1.2	1.1	1.1		
b. Credit-Deposit Ratio	42.1	42.5	45.0		
c. Investment/Deposit Ratio	20.4	15.7	25.9		
d. Investment+Credit/Deposit Ratio	62.5	58.2	70.9		

* includes Participation Certificates issued to others.

Note: Figures in brackets are percentage variations.

Differential Rate of Interest (DRI) Scheme

3.96 The differential rate of interest (DRI) Scheme, introduced in 1972, is being implemented by all SCBs throughout the country. Under the scheme, bank finance is provided at a concessional rate of interest of 4.0 per cent per annum to the weaker sections for engaging in productive and gainful activities, thereby enabling an improvement in their economic conditions. Banks are required to lend at least one per cent of their aggregate advances as at the end of the previous year under the scheme. Moreover, two-thirds of the total DRI advances must be routed through the bank's rural and semi-urban branches. The annual income ceiling for eligibility is Rs.7,200 per family in urban or semi-urban areas and Rs.6,400 per family in rural areas. The outstanding advances of PSBs under the DRI Scheme as at end-March 2003 amounted to Rs. 300 crore in 3.70 lakh borrowal accounts. The DRI advances of the banks as at the end of March 2003 formed 0.08 per cent of the total advances outstanding as at the end of the previous year, *i.e.*, March 2002 which is lower than the relative target of one per cent.

Table III.34: Financial Performance of Regional Rural Banks

(Amount in Rs. crore)

Particular	2001-02	2002-03	Variation

	Loss Making [29]	Profit Making [167]	RRBs [196]	Loss Making [40]	Profit Making [156]	RRBs [196]	during 2002-03
1	2	3	4	5	6	7	8 = (7)-(4)
A. Income (i+ii)	**484**	**5,080**	**5,564**	**774**	**5,157**	**5,931**	**367 (6.6)**
i) Interest income	449	4,743	5,191	727	4,775	5,501	310 (6.0)
ii) Other income	36	337	373	48	383	430	57 (15.4)
B. Expenditure (i+ii+iii)	**576**	**4,380**	**4,956**	**989**	**4,418**	**5,407**	**451 (9.1)**
i) Interest expended	361	2,968	3,329	567	2,946	3,513	184 (5.5)
ii) Provisions and contingencies	28	138	166	66	124	190	24 (14.5)
iii) Operating expenses *of which :*	187	1,274	1,461	356	1,348	1,703	243 (16.6)
Wage Bill	158	1,107	1,264	321	1,159	1,480	216 (17.1)
C. Profit							
i) Operating Profit/Loss	-64	838	774	-149	863	714	-59 (-7.7)
ii) Net Profit/Loss	-92	700	608	-215	739	524	-83 (-13.7)
D. Total Assets	**6,169**	**50,635**	**56,804**	**10,282**	**53,332**	**63,614**	**6,811 (12.0)**
E. Financial Ratios (as percentage of total assets)							
i) Operating Profit	-1.0	1.7	1.4	-1.4	1.6	1.1	
ii) Net Profit	-1.5	1.4	1.1	-2.1	1.4	0.8	
iii) Income	7.9	10.0	9.8	7.5	9.7	9.3	
iv) Interest income	7.3	9.4	9.1	7.1	9.0	8.6	
v) Other Income	0.6	0.7	0.7	0.5	0.7	0.7	
vi) Expenditure	9.3	8.6	8.7	9.6	8.3	8.5	
vii) Interest expended	5.9	5.9	5.9	5.5	5.5	5.5	
viii) Operating expenses	3.0	2.5	2.6	3.5	2.5	2.7	
ix) Wage Bill	2.6	2.2	2.2	3.1	2.2	2.3	
x) Provisions and Contingencies	0.5	0.3	0.3	0.6	0.2	0.3	
xi) Spread (Net Interest Income)	1.4	3.5	3.3	1.5	3.4	3.1	

Source: NABARD.

Special Agricultural Credit Plans (SACP)

3.97 In order to enable achievement of the targeted agricultural lending, PSBs were advised to formulate Special Agricultural Credit Plans (SACP) since 1994-95, and fix self-set targets for achievement during the year (April - March). Since the introduction of the SACP, there has been a substantial increase in the flow of credit to agriculture from Rs.8,255 crore in 1994-95 to Rs.33,921 crore in 2002-03 against the target of Rs.36,838 crore for the year 2002-03.

Government - sponsored Schemes

3.98 The total number of Swarozgaris assisted under the Swarnajayanti Gram Swarozgar Yojana (SGSY) during the year 2002-03 (up to February 2003) was 5,35,133. Bank credit to the tune of Rs. 781 crore and Government subsidy amounting to Rs. 404.88 crore were disbursed under this Scheme. Of the Swarozgaris assisted, 1,60,638 (30.0 per cent) belonged to the Scheduled Castes and 78,157 (14.6 per cent) to the Scheduled Tribes, while 2,57,664 (48.2 per cent) were women and 4,166 (0.8 per cent) were physically handicapped.

Table III.35: Purpose-Wise Break-Up of Outstanding Advances

(Amount in Rs.crore)

Purpose		2001	2002
1		2	3
1.	Short-term Loans (crop loans)	3,095	3,812
2.	Term Loans (for agriculture and allied activities)	871	782
3.	Indirect Advances	N.A.	N.A.
I.	**Total (Agriculture) (1 to 3)**	**3,966 (44.9)**	**4,594 (43.5)**
4.	Rural Artisans, etc.	181	198
5.	Other Industries	70	107
6.	Retail Trade, etc.	1,123	1,279
7.	Other Purposes	3,483	4,393
II.	**Total (Non-agriculture) (4 to 7)**	**4,857 (55.1)**	**5,977 (56.5)**
Total (I+II)		**8,823 (100.0)**	**10,571 (100.0)**

N.A. Not Available.

Note: Figures in brackets are percentages to the total.

Source: NABARD.

3.99 The total number of applications sanctioned under the Scheme of Liberation and Rehabilitation of Scavengers (SLRS) during 2002-03 were 12,310. Out of this, disbursements added up to Rs. 20 crore in 11,091 cases as on March 31, 2003.

3.100 As for the Prime Minister's *Rozgar Yojana* (PMRY), as per provisional figures, the number of applications sanctioned under the Scheme during the year 2002-03 numbered 2,22,996 involving an aggregate sanctioned amount of Rs.1,449 crore.

Kisan Credit Cards (KCC)

3.101 The *Kisan* Credit Card is a successful financial innovation which was introduced pursuant to the announcement made in the Union Budget of 1998-99. The KCCs are issued by SCBs, including the RRBs and co-operative banks. These cards were introduced to simplify credit delivery. The banks were advised in June 2000 that they should consider issue of KCCs for limits below Rs.5,000 also, in order to facilitate wider coverage under the Scheme. They have also been advised to pay interest on the credit balances in the accounts under the KCC Scheme.

3.102 In pursuance of the Union Finance Minister's announcement in his Budget Speech for the year 2001-02, banks have been asked to provide personal accident insurance packages to the KCC holders, as is often done with other credit cards, to cover them against accidental death or permanent disability, up to a maximum amount of Rs.50,000 and Rs.25,000 respectively. The premium burden is to be shared by the card issuing institutions and the KCC holder in the ratio of 2:1. Cumulatively, 101.5 lakh KCCs have been issued by public sector banks since inception of the scheme up to March 2003. During the year 2002-03, public sector banks issued 26.9 lakh KCCs as against the self-set target of 25.8 lakh. All eligible agricultural farmers are required to be covered under the KCC scheme by March 2004. Accordingly, all commercial banks have been advised the revised targets to be achieved.

3.103 The work regarding National Impact Assessment Survey of KCC scheme for assessing the impact of the scheme on the beneficiaries has been entrusted to the National Council of Applied Economic Research (NCAER), New Delhi. The NCAER has since launched the survey and the report is expected by December 2003. The survey covers 53 districts in 10 states and also the state of Assam to cover the North-Eastern region.

Lead Bank Scheme

3.104 The main focus of the Lead Bank Scheme (LBS) has been on enhancing the proportion of bank finance to the priority sector. As at end-March 2003, the LBS covered 582 districts, including the two new districts formed due to reorganisation / bifurcation of the existing districts. The assignment of the new districts to public sector banks is detailed in Table III.36.

3.105 The period of temporary transfer of lead responsibility of Amanita, Badge, Plasma and Stringer districts in Jammu and Kashmir from the State Bank of India to Jammu and Kashmir Bank Ltd., has been extended up to March 2005.

Table III.36: Lead Bank Responsibility in Respect of New Districts

District	State	Date of Allocation	Name of the Lead Bank
1	**2**	**3**	**4**
Aral	Bihar	September 16, 2002	Punjab National Bank
Imphal (West) *	Manipur	January 6, 2003	United Bank of India
Imphal (East)*	Manipur	January 6, 2003	United Bank of India

* Original Imphal district has been bifurcated into these two districts.

Micro finance

3.106 Recognising micro finance interventions as an effective tool for poverty alleviation, the Reserve Bank had issued comprehensive guidelines to banks in February 2000 for mainstreaming micro credit and enhancing the outreach of micro credit providers. These guidelines stipulate that micro credit extended by banks to individual borrowers directly or through any intermediary would henceforth be reckoned as part of their priority sector lending. The Reserve Bank has not specified any model of micro finance (mF) institutions.

3.107 The Self-Help Group (SHG) Bank linkage programme has, however, emerged as the major programme and is being implemented by commercial banks, RRBs and co-operative banks. There are presently three models of the SHG- Bank linkage programme in the country.

- Model I, lending directly to SHGs without intervention/facilitation of any NGO, which accounts for 20 per cent of the total linkage under the programme.

- Model II, lending directly to SHGs with facilitation by NGOs and other formal agencies, which amounts to 72 per cent of the total linkage.

- Model III, lending through NGO as facilitator and financing agency, which represents the balance eight per cent of the total linkage.

3.108 While 523 districts in all the States/Union Territories have been covered under this programme, 504 banks including 48 commercial banks, 192 RRBs and 264 co-operative banks along with 2,800 NGOs are now associated with the SHG-Bank linkage programme. The number of SHGs linked to banks aggregated 7,17,360 as on March 31, 2003. This translates into an estimated 11.6 million very poor families brought within the fold of formal banking services as on March 31, 2003. More than 90 per cent of the groups linked with banks are exclusive women groups. Cumulative disbursement of bank loans to these SHGs stood at Rs.2,049 crore as on March 31, 2003 with an average loan of Rs.28,559 per SHG and Rs.1,766 per family. 3.109 Micro finance initiatives have shown that banking with the poor is a viable proposition; the repayment rates in this respect are also higher at nearly 95 per cent. The Reserve Bank has been making efforts to give a fillip to mF initiatives through creating an enabling environment. As a part of this effort a High-Level meeting (Chairman: Shri Vepa Kamesam) on mF was convened in October 2002 wherein four Groups were set up to look into issues relating to: (i) structure and sustainability; (ii) funding; (iii) regulations; and (iv) capacity building of mF institutions. The second High-Level meeting of the series was held in August 2003 wherein the group reports were discussed. Thereafter, for greater public debate, the reports of the groups were circulated among banks to elicit their responses before a final view could be taken on the recommendations, particularly on regulatory issues. The feedback has been received from banks and the recommendations are under consideration.

10. Local Area Banks

3.110 The five banks which are presently functional are:

1. Coastal Local Area Bank Ltd.,Vijayawada in the districts of Krishna, Guntur and West Godavari in Andhra Pradesh.

2. Capital Local Area Bank Ltd., Phagwara in the districts of Hoshiarpur, Jalandhar and Kapurthala in Punjab.

3. South Gujarat Local Area Bank Ltd., Navsari in the districts of Navsari, Surat and Bharuch in Gujarat.

4. Krishna Bhima Samruddhi Local Area Bank Ltd., Mehboobnagar in the districts of Raichur and Gulbarga in Karnataka and Mehboobnagar in Andhra Pradesh.

5. The Subhadra Local Area Bank Ltd., Kolhapur, which was issued licence on July 10, 2003, has commenced banking business from September 30, 2003 in the districts of

Kolhapur, Sangli and Belgaum.

3.111 The performance of the LABs as at end-March 2003 reveals that most of them had moderate to high credit-deposit ratios (Table III.37). During 2002-03, the operations of four local area banks continued to remain profitable. Their rise in income was marginal and expenses outpaced incomes. Given the higher provisioning levels, in spite of healthy operating profits, their net profits were substantially lower than the previous year as reflected in the lower return on assets (*i.e.*, net profits to total assets) (Table III.38).

11. Diversification in Banking Activities

3.112 The State Bank of India was given 'in principle' approval to its proposals (i) to convert the Discount and Finance House of India Limited (DFHI) into its subsidiary under Section 19(1)(a) of Banking Regulation Act, 1949 and (ii) to divest its stake in Securities Trading Corporation of India Limited (STCI).

3.113 Bank of India was given approval to merge with itself its wholly owned subsidiary, *viz.*, BoI Asset Management Company Limited.

Table III.37: Performance of Local Area Banks

(As at end-March 2003)

(Amount in Rs. crore)

Name of the LAB	Deposits	Advances	C-D ratio (per cent)
1	2	3	4
Coastal Local Area Bank Ltd.	24.1	18.0	74.8
Capital Local Area Bank Ltd.	75.4	45.3	60.1
South Gujarat Local Area Bank Ltd.	11.4	9.6	84.6
Krishna Bhima Samruddhi Local Area Bank Ltd.	2.5	3.9	162.5

3.114 During the year under review, 17 public sector banks, nine private sector banks and one foreign bank and a subsidiary of a private sector bank were given 'in principle' approval for acting as corporate agents of insurance companies to undertake distribution of insurance products on non-risk participation basis. For entering into a referral arrangement with insurance companies subject to prescribed conditions, five public sector banks, two private sector banks and one foreign bank were given approval during the year.

3.115 State Bank of India, Bank of Baroda and Punjab National Bank were given approval to promote a new Asset Management Company (AMC) 'UTI Asset Management Company Private Limited' and a trustee company, *viz.*, 'UTI Trustee Company Private Limited', with each bank contributing Rs.2.5 crore and Rs.2.5 lakh, respectively. These three banks were also given approval for promoting 'UTI Mutual Fund' with each bank contributing capital amounting to Rs.2,500 constituting 25 per cent of the corpus of the fund, subject to necessary clearance from Securities and Exchange Board of India (SEBI).

3.116 ICICI Bank Limited was given approval for investing in the equity of National Multi

Commodity Exchange of India (NMCE) up to an amount of Rs.8 crore subject to the condition that the bank will provide only normal banking service to NMCE and its members, and will not guarantee trades executed by the members of the exchange. Further, ICICI Bank Limited was given approval for making an additional contribution of up to Rs.81 crore to the share capital of ICICI Lombard General Insurance Company Limited. The bank was also given approval for making an additional investment of Rs.259 crore in the equity of ICICI Prudential Life Insurance Company Limited.

3.117 State Bank of India was given 'no objection' to its undertaking the portfolio management of SLR and non-SLR funds of the RRBs sponsored by the bank subject to prescribed conditions.

3.118 Central Bank of India, Corporation Bank, Bank of Baroda, Vysya Bank, Punjab National Bank and Vijaya Bank were also given approval for equity contribution to their subsidiaries / joint ventures companies.

Table III.38: Financial Performance of Local Area Banks

(Amount in Rs.crore)

			Variation during 2002-03	
Item	**2001-02**	**2002-03**	**Absolute**	**Percentage**
1	**2**	**3**	**4**	**5**
A. Income (a+b)	**15.1**	**17.1**	**2.0**	**13.7**
a) Interest income	11.0	12.7	1.7	15.6
b) Other income	4.1	4.4	0.3	6.8
B. Expenditure (a+b+c)	**12.1**	**16.9**	**4.8**	**39.1**
a) Interest expended	6.1	7.7	1.6	26.0
b) Provisions and contingencies	0.7	2.6	1.9	276.9
c) Operating expenses	5.4	6.7	1.3	25.3
of which :				
Wage Bill	2.0	2.4	0.4	22.8
C. Profit				
a) Operating Profit/Loss (-)	3.6	2.7	-0.9	-26.5
b) Net Profit/Loss (-)	2.9	0.2	-2.7	-92.6
D. Total Assets	**118.9**	**146.2**	**27.3**	**23.0**
E. Financial Ratios (as percentage of total assets)				
a) Operating Profit	3.1	1.8		
b) Net Profit	2.5	0.5		
c) Income	12.7	11.7		
d) Interest income	9.3	8.7		
e) Other Income	3.5	3.0		
f) Expenditure	10.2	11.6		
g) Interest expended	5.1	5.3		
h) Operating expenses	4.5	4.6		
i) Wage Bill	1.7	1.7		
j) Provisions and Contingencies	0.6	1.7		
k) Spread (Net Interest Income)	4.1	3.4		

Source: Based on Off-site returns.

Local Advisory Boards of Foreign Banks

3.119 On a review of the need for constitution of Local Advisory Boards, foreign banks have been advised in August 2003 that the constitution of Local Advisory Boards by them will no longer be a regulatory requirement and they may decide about their constitution according to their corporate needs. Such constitution of Local Advisory Boards would not require the regulatory approval of the Reserve Bank.

The Prevention of Money Laundering Act

3.120 The Prevention of Money Laundering Act (PMLA), 2002, which received Presidential assent provides the broad legal framework for countering money laundering as defined under the Act. Under the Act, banking companies, financial institutions and intermediaries are required to maintain a record of all transactions (the nature and value of which will be prescribed), and furnish information of such transactions to the Designated Authority (under the Act) within the prescribed time frame; they need to verify and maintain records of the identity of all its clients as prescribed by the Central Government by Rules. It has further been envisaged that they will not be liable to any civil proceedings against them for furnishing such information. The procedure and manner of maintaining and furnishing the information is to be prescribed by the Central Government by framing the relevant Rules in consultation with the Reserve Bank, which is currently in progress.

12. Banks' Liquidation and Amalgamations

3.121 There were 78 banks under liquidation as on December 31, 2002. The matter regarding early completion of liquidation proceedings is being pursued with official/court liquidators.

Amalgamation of Banks

3.122 Nedungadi Bank Limited had been recording profits consistently till the year ended March 31, 2000. However, the bank reported a net loss of Rs. 67.8 crore for the first time for the year ended March 31, 2001. The financial position of the bank did not improve subsequently in the year ended March 31, 2002. The net worth of the bank amounting to Rs.60.4 crore stood fully eroded by the accumulated losses of Rs. 65.5 crore and it was not possible to wipe out these losses in a reasonable time. As the bank's capital was fully eroded, its CRAR had turned negative at (-) 1.9 per cent as against the regulatory requirement of minimum of 9 per cent. As the bank required approximately Rs.125 crore to achieve the minimum CRAR of 9 per cent, there was no option available but to consider amalgamation of Nedungadi Bank Limited with another bank.

3.123 As a precursor to amalgamation, Nedungadi Bank was placed under moratorium for a period of three months from November 2, 2002. During this interim period, the Reserve Bank had prepared a Draft Scheme of Amalgamation of the Nedungadi Bank Limited with the Punjab National Bank, in exercise of powers conferred on it by sub-section (4) of Section 45 of the Banking Regulation Act, 1949.[8] The Reserve Bank on November 13, 2002 notified the draft scheme of amalgamation of Nedungadi Bank Limited with Punjab National Bank. The draft scheme was forwarded to both the banks for their comments and the Reserve Bank invited suggestions or objections on the draft scheme by November 30, 2002. The said Scheme of amalgamation was sanctioned by the Central Government in terms of sub-section (7) of Section 45 of the Act, through a notification dated January 31, 2003. The scheme of amalgamation of Nedungadi Bank Limited with Punjab National Bank came into force with effect from February

1, 2003.

13. Other Developments

Donation by Banks

3.124 As per the extant instructions, banks may make donations for various purposes during a financial year, within the prescribed limit of 1 per cent of their published profit for the previous year. On a review of the matter in the wake of representations received from Indian Banks' Association/banks, it has been decided that the donations made by banks to the Prime Minister's Relief Fund would be exempted from the above ceiling provided the proposal has the approval of the bank's Board and the donation amount is reasonable *vis-à-vis* its stated profit. However, the restriction on the overall limit on donations up to a maximum of Rs. 5 lakh for loss-making banks would apply in this case as well.

Insurance Business by Banks

3.125 As per existing guidelines for entry of banks into insurance business, banks which satisfy certain parameters, *i.e.*, minimum net worth of not less than Rs. 500 crore, CRAR not less than 10 per cent, net profit for the last three continuous years, reasonable level of non-performing assets and a satisfactory track record of the performance of their subsidiaries, if any, are eligible to set up insurance joint venture on risk participation basis. Banks which are not eligible as joint venture participants, as above, would be allowed to take up strategic investment up to a certain limit for providing infrastructure and services support, if these banks satisfy some of the criteria specified therein. Further, any SCB or its subsidiary would be permitted to undertake insurance business as agent of an insurance company and distribute insurance products without any risk participation. The referral model, by which banks can provide physical infrastructure to insurance companies within their select branch premises and earn fee for each referral made by them, was not specifically indicated in the earlier guidelines. As the referral arrangement is akin to sub-agency and is incidental to the main activities of an agency business, it was decided that banks can undertake this activity with prior approval of Reserve Bank/ Insurance Regulatory and Development Authority.

Progress in Use of Hindi

3.126 During the year, four quarterly meetings of the Official Language Implementation Committee (OLIC) of PSBs were held and the follow-up actions were taken on the decisions taken in these meetings, particularly regarding the use of Hindi in data processing and core banking solution facility to operate ATMs in Hindi / Regional languages, conduct of high-level meetings in Hindi and increase in bilingual data processing work in branches. In order to increase the number of branches doing data processing work in Hindi, guidelines were issued to banks by the Reserve Bank.

3.127 The 23rd Rajbhasha Sammelan of banks was held in Hyderabad in October 2002. Its various recommendations to increase the use of Hindi were approved by the Official Language Implementation Committee *viz.*, a) Department of Electronics, Government of India, should develop a Operating System (OS) in Hindi and ensure that all Hindi software developers follow Unicode standards; b) Special programmes may be conducted for senior executives for providing information regarding Official Language Act, Rules and various provisions of Official Language and the senior executives may address in Hindi in their top-level meetings; c) During the course of inspection of branches / tours, senior executives should also get information regarding use of Hindi; and d) Senior executives should initiate use of Hindi at their level.

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[1] The assets and liabilities of scheduled commercial banks are analysed primarily on the basis of end-March audited annual accounts.
[2] This sub-section is based on the statutory returns submitted by scheduled commercial banks under Section 42 (2) of the Reserve Bank of India Act, 1934.
[3] For the purpose of achievement of the target which was prescribed up to 2002-03, banks were allowed to deploy funds under housing finance allocation in any of the following categories: (a) direct finance; (b) indirect finance; (c) investment in bonds of NHB/HUDCO or combination thereof; and (d) investments by banks in rated securitised debt instruments issued by any Special Purpose Vehicle (SPV), or entity representing housing loans granted by approved housing finance companies (under the supervision of NHB).
[4] Net demand and time liabilities available with the banking system *less* statutory pre-emptions and credit off-take.
[5] As part of additional disclosures, banks have been mandated to disclose provisions towards loan losses from the year 1996-97 onwards in the 'Notes on Accounts' in the balance sheet.
[6] Bank-wise details of select parameters of PSBs, private sector banks and foreign banks are furnished in Appendix Tables III.15(A) to 15(I), III.16(A) to 16(H) and III.17(A) to 17(H), respectively.
[7] Non-performing assets refer to non-performing loans and advances.
[8] This Section deals with powers of Reserve Bank to apply to Central Government for suspension of business by a banking company.

Developments in Co-operative Banking

Chapter IV

1. Introduction

4.1 Co-operative banks, with their extensive branch network and localised operational base, play a key role in the development process, in general and credit delivery and deposit mobilisation, in particular. Different segments of the co-operative banking sector address specific credit needs of diverse sections of the population, both in terms of location as well as tenor (Chart IV.1). While co-operatives enlarge the reach of banking, both geographically and socio-economically, their conduct of banking business often poses a number of challenges, especially in terms of high levels of loan delinquency. Their large number also poses a challenge to regulation. This is compounded further by regulatory overlaps among several supervisors, including the Reserve Bank, the State Governments and the National Bank for Agriculture and Rural Development (NABARD).

Chart IV.1: Organisational Structure of Co-operative Credit Institutions

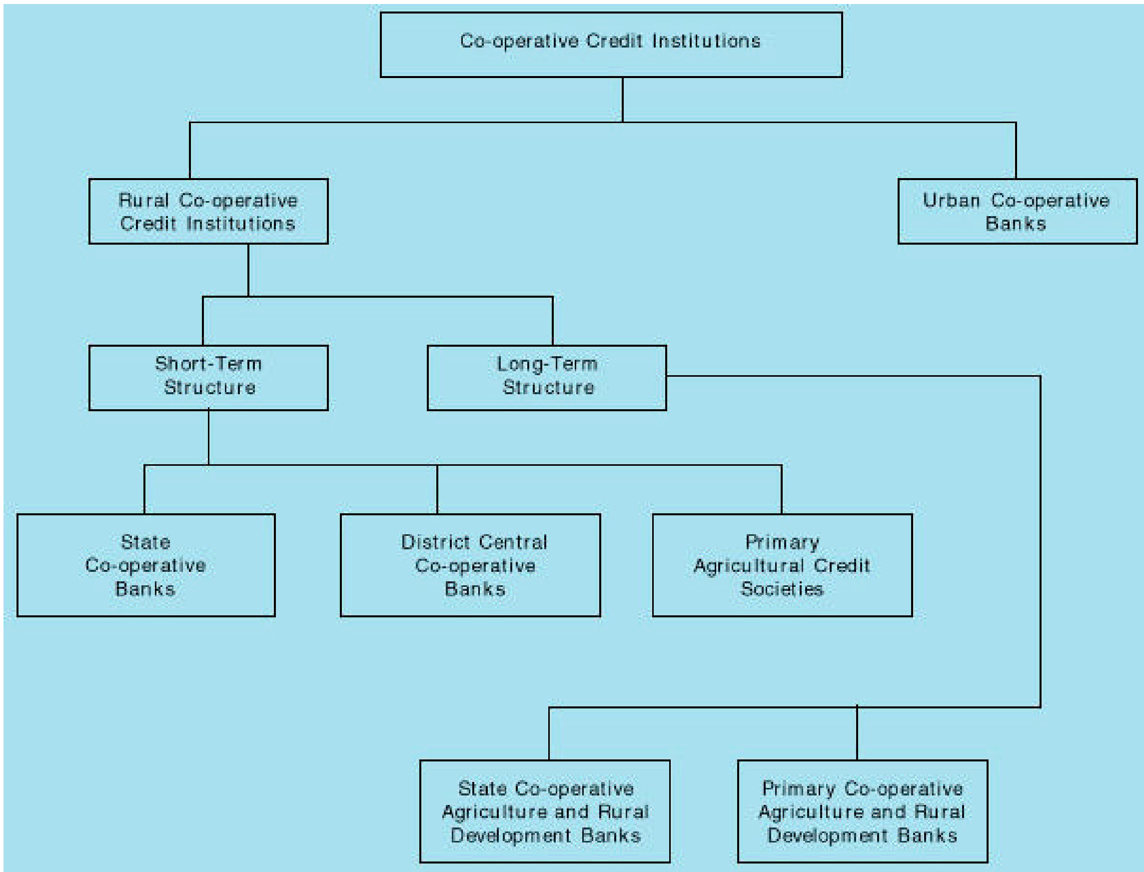


Table IV.1: Spread of Urban Co-operative Banks - State-wise

(as on March 31, 2003)

State		No. of banks	State		No. of banks
1	2	3	4	5	6
1.	Andhra Pradesh	169	16.	Manipur	5
2.	Assam	13	17.	Meghalaya	3
3.	Bihar	9	18.	Mizoram	1
4.	Chhatisgarh	14	19.	Nagaland	1
5.	Delhi	19	20.	Orissa	19
6.	Goa	7	21.	Pondicherry	1
7.	Gujarat	362	22.	Punjab	5
8.	Haryana	8	23.	Rajasthan	44
9.	Himachal Pradesh	5	24.	Tamil Nadu	136
10.	Jammu & Kashmir	4	25.	Tripura	1
11.	Jharkhand	1	26.	Uttar Pradesh	78
12.	Karnataka	324	27.	Uttaranchal	7
13.	Kerala	65	28.	West Bengal	55
14.	Madhya Pradesh	77	29.	Sikkim	1
15.	Maharashtra	670	30.	**Total**	**2,104**

4.2 The Reserve Bank continued to strengthen the co-operative bank supervisory framework during 2002-03. The Reserve Bank's initiatives in respect of UCBs included the institution of a system of off-site surveillance for scheduled UCBs, greater balance sheet disclosure norms and enhancement of governance principles. This was reinforced by several initiatives by the State

Governments and NABARD as well.

4.3 Co-operative banks continued to grow during 2002-03 (Appendix Table IV.1). The profitability of co-operative banking, nevertheless, remained unsatisfactory, largely reflecting a narrowing of spreads. At the same time, however, some improvement in their asset quality was discernible.

2. Urban Co-operative Banks

4.4 UCBs are registered under the Cooperative Societies Acts of the respective State Governments. UCBs having a multi-state presence are registered under the Multi-state Cooperative Societies Act and regulated by the Central Government. Besides, the Reserve Bank also has regulatory and supervisory authority for bank-related operations under certain provisions of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies). UCBs are included in the Second Schedule of the Reserve Bank of India Act, 1934, provided their net demand and time liabilities are at least Rs.100 crore and subject to certain other related criteria.

4.5 The number of UCBs increased to 2,104 as at end-March 2003, which included 89 salary earners' banks and 133 *Mahila* banks. Of these, 163 were under liquidation as at end-March 2003. The spatial pattern of UCBs remains highly skewed - largely concentrated in few States, such as, Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu (Table IV.1). Apart from a few large banks, most of the UCBs are very small in size, often with a single branch (Table IV.2).

4.6 The number of scheduled UCBs climbed to 57, after the inclusion of four during 2002-03 and one in April 2003, accounting for about 35 per cent of total UCB deposits. Of these, 39 were located in Maharashtra, 11 in Gujarat, 3 in Andhra Pradesh, 2 in Goa and one each in Karnataka and Uttar Pradesh. Two banks were subsequently descheduled.

Table IV.2: Size-distribution of Urban Co-operative Banks – Deposit-wise

(as on March 31, 2003)

Deposit size	No. of banks
1	2
Less than Rs.10 crore	846
Rs.10-25 crore	459
Rs.25-50 crore	226
Rs.50-100 crore	205
Rs.100-250 crore	137
Rs.250-500 crore	42
Rs.500-1,000 crore	17
Above Rs.1,000 crore	9
Total	**1,941 #**

Excluding 163 banks under liquidation.

Regulation and Supervision of UCBs

4.7 The regulation and supervision of UCBs is performed by the Urban Banks Department

(UBD) of the Reserve Bank in co-ordination with the Registrars of Co-operative Societies of the State Governments and the Central Registrar of Co-operative Societies. As UCBs are primarily co-operative societies, they are subject to dual control - on the one hand by the State Government under the Co-operative Societies Act of the respective State, and on the other, by the Reserve Bank under the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies). While the registration, administration, amalgamation and liquidation of UCBs are governed by the provisions of the State Cooperative Societies Acts, the Reserve Bank exercises regulation and supervision over their banking- related functions, by virtue of the powers conferred on it by the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).

4.8 In the Monetary and Credit Policy of 2001-02, the Reserve Bank had mooted a proposal for setting up a separate supervisory body for UCBs, to take over the entire function of inspection/ supervision of UCBs in view of the adverse consequences of the present multiplicity of authorities involved in supervising UCBs. The apex body could be under the control of a separate high-level supervisory board consisting of representatives of the Central Government, State Governments and the Reserve Bank as well as independent experts and could be accorded the responsibility of inspection and supervision of UCBs to ensure their conformity with prudential, capital adequacy and management norms laid down by the Reserve Bank. The Reserve Bank has discussed the issues with the Central Government and the response of the Central Government is awaited.

4.9 UCBs have been going through a difficult phase since early 2001 with intermittent cases of irregularities. With a view to examining their problems and suggesting solutions, a Committee was constituted under the chairmanship of Shri Anant G. Geete, the then Minister of State for Finance, Government of India. In formulating its recommendations, keeping in view the need for protecting the interest of depositors and the integrity of the country’s payment system, the Committee was guided by two considerations: (a) removing the avoidable irritants facing the sector, and (b) bringing UCBs under a robust regulatory framework. Based on the recommendations of the Committee, the Reserve Bank undertook several measures during 2002-03 (Box IV.1).

Licensing of New Banks

4.10 The number of UCBs has been rising rapidly in recent years. The Reserve Bank has constituted a Screening Committee of eminent external experts to examine not only the background and credentials of promoters but also to consider the environment / business projections submitted by the promoters and other factors influencing the viability of the proposed bank.

During the year under review, the Committee considered 90 proposals for the organisation of new banks, and granted ‘in principle’ approval in two cases. In addition, 22 proposals were closed, as the promoters of the proposed banks failed to comply with the stipulated eligibility requirements. During the period under review, 131 licences were issued for opening new branches.

Box IV.1: Action taken by the Reserve Bank in response to the Recommendations of Anant Geete Committee

- The norms of classifying UCBs as ‘weak’ and ‘sick’ were modified with effect from March 31, 2002. A new system of grading of banks based on their level of CRAR, level of net NPAs, record of losses and compliance with certain regulatory requirements has been introduced.
- Non-scheduled UCBs have since been allowed to place their surplus funds with strong scheduled UCBs, subject to certain conditions.
- The ceiling on unsecured advances granted to any single borrower / connected group has been enhanced for sound UCBs. The revised limits are Rs. 50,000 for non-scheduled UCBs with demand and time liabilities (DTL) of less than Rs. 10 crore, Rs. 1 lakh for non-scheduled UCBs with DTL of more than Rs. 10 crore and Rs. 2 lakh for scheduled UCBs.
- As announced in the Monetary and Credit Policy for 2003-04, both ‘gold’ loans and small loans up to Rs. 1 lakh shall continue to be governed by the 180-day norm for recognition of loan impairment.
- UCBs will be eligible to apply for opening extension counters in residential colonies. The condition of having accounts of at least 500 direct beneficiaries for extension counters has been withdrawn.

Inspections

4.11 The on-site financial inspection carried out by the Reserve Bank continues to be one of the main instruments of supervision over UCBs. During 2002-03, the Reserve Bank carried out statutory inspections of 944 UCBs as against 847 UCBs conducted during the previous year.

Off-site surveillance

4.12 The Reserve Bank has been gradually reinforcing the traditional practice of on-site supervision with off-site supervision. With a view to strengthening the system of supervision of UCBs, the Reserve Bank has introduced, to begin with, a system of off-site surveillance for scheduled UCBs (Box IV.2).

Supervision of newly licensed UCBs

4.13 Some of the newly licensed UCBs have been reported to be facing financial problems including default in repayment of deposits. In order to step up supervisory control over such banks, Regional Offices of the Reserve Bank were advised to take the following measures:

- Submission of statutory returns by newly licensed UCBs to be closely watched and scrutinised on priority basis.
- Continuous defaults in submission of returns / maintenance of CRR/SLR by UCBs to be brought to the notice of the Reserve Bank for prompt corrective action.
- Registered notices to such banks in the event of non-submission of the returns after one month from their due date to be sent.
- Special scrutiny of books of accounts of banks defaulting in maintenance of CRR/ SLR for more than three months to be conducted by Regional Offices of the Reserve Bank.

Box IV.2: Off-Site Surveillance of Urban Co-operative Banks

The Reserve Bank set up a Prudential Supervisory Reporting System (PSRS) for off-site surveillance (OSS) of urban cooperative banks (UCBs) as part of the new supervisory strategy piloted by the Board for Financial Supervision. While the main objective of the PSRS is to provide relevant information to the Reserve Bank on areas of prudential interest, the OSS returns have also been designed to address the management information needs and to strengthen the Management Information System (MIS) capabilities within the reporting institutions. This is in consonance with the collateral objective of sensitising bank managements to the prudential concerns of the supervisory authority, and thereby facilitating self-regulation. The PSRS comprises a set of eight returns designed to monitor regulatory compliance and obtain information from UCBs on areas of prudential interest. Prudential concerns monitored through these returns relate to solvency, liquidity, capital adequacy, asset quality/portfolio risk profile, concentration of exposures, and connected or related lendings of the supervised institutions.

A beginning towards off-site surveillance of UCBs was made in April 2001 with the introduction of a set of 10 OSS returns for all (then 52) scheduled UCBs. These UCBs submit OSS returns to respective Regional Offices of the Reserve Bank to enter into the database.

The Joint Parliamentary Committee has directed that all UCBs with deposits over Rs.100 crore should be brought under the ambit of off-site surveillance of the Reserve Bank. Presently, the PSRS covers all scheduled UCBs. The application package being developed as part of the computerisation project would be made available to the existing 55 scheduled UCBs before the end of 2003. Upon successful implementation in scheduled UCBs, the coverage would be gradually extended to all banks with a deposit size of over Rs. 100 crore, followed by banks with deposits of over Rs.50 crore and the smaller banks.

Unlike similar off-site surveillance systems elsewhere, the database of the Urban Banks Department (UBD) of the Reserve Bank, in addition to the OSS returns, would also have on-site inspection data (including rating models), as well as data in respect of all other regulatory and supervisory returns submitted by the banks. Together with OSS data, it would provide a comprehensive account of bank / bank groups.

In order to capture data at source, *i.e.*, at the UCBs, the Reserve Bank is also developing software for the UCBs to assist in preparation and submission of all supervisory and regulatory returns (including OSS returns) electronically. The returns, submitted by UCBs to the respective Regional Offices of UBD, would be automatically uploaded to the database at the Regional Office after checking for consistency and accuracy of the data. This data would then be replicated to the Central Office server on a daily basis. The facility for replication of data to the Central Office already exists in respect of 14 out of the 17 Regional Offices of UBD and OSS data from these Regional Offices are regularly transmitted to the Central Office.

- New banks to be visited by respective regional heads of UBD to have an 'on the spot' feel of their working.

Interactive mechanism for supervision

4.14 In its meetings with the Reserve Bank and the Board for Financial Supervision, in context of the irregularities in recent securities transactions of certain UCBs, the Public Accounts Committee (PAC) of Parliament had stressed that the supervisory focus should be on prevention of irregularities rather than taking *post facto* penal action. It was felt that, to meet this end, there was a need to evolve an interactive mechanism for supervision of UCBs. Accordingly, it was decided by the Reserve Bank that:

- The system of market intelligence would be further strengthened to pick up early warning signals from the sector and initiate prompt corrective action.
- A code of responsibilities for auditors of UCBs, especially chartered accountants, would be prepared.
- Regional Offices of the Reserve Bank would address the need for training auditors of UCBs and hold discussions with the Association of Chartered Accountants / leading firms of chartered accountants.
- There would be a revision of the guidelines of statutory audit rating system.
- The Reserve Bank would write to State Governments for appointment of professional chartered accountants, from a panel prepared by the Comptroller and Auditor General, for undertaking statutory audit of UCBs.

Weak banks

4.15 Based on the new classification, the number of UCBs classified under the class II / III / IV category as on March 31, 2003 stood at 944. During the period under review, 142 weak banks could not comply with the stipulated minimum capital requirements.

Prudential norms and ALM Guidelines for UCBs

4.16 The Reserve Bank continued with its efforts to enhance the financial health of UCBs. In pursuance, certain policy changes were made in regard to prudential norms on capital adequacy, income recognition, asset classification and provisioning in respect of UCBs.

4.17 Capital adequacy requirements for UCBs are, at present, lower than those prescribed for commercial banks. By March 31, 2005, all UCBs would have to fall in line with the discipline applicable to commercial banks. Accordingly, they are required to adhere to capital adequacy standards in a phased manner over a period of three years (Table IV.3).

4.18 The Reserve Bank has also prescribed asset-liability management norms to scheduled UCBs, effective July 1, 2002. These norms are to be extended to non-scheduled UCBs in due course, in a phased manner.

Extension of 90-day NPA norms

4.19 The Reserve Bank has been tightening prudential norms in line with the best international practices in recent years. Accordingly, to ensure greater transparency, the time period for reckoning an advance as non-performing would be reduced from the existing norm of 180 days to 90 days, with effect from March 31, 2004. In this connection, banks were instructed to move over to charging of interest at monthly rests, with effect from April 1, 2002. However, 'gold' loans and small loans up to Rs. 1 lakh will continue to be covered by the 180-day norm for recognition of loan impairment.

Asset Classification

4.20 In accordance with the recommendations of the Committee on Banking Sector Reforms (Chairman: Shri M. Narsimham), an asset, which has remained in the sub-standard category for 12 months will be treated as 'doubtful' with effect from March 31, 2005. UCBs are permitted to phase the consequent additional provisioning, over a four-year period commencing from the year ending March 31, 2005, with a minimum of 20 per cent each year.

Table IV.3: CRAR for Urban Co-operative Banks

(per cent of risk-weighted assets)

As on March 31	CRAR for scheduled UCBs	CRAR for non-scheduled UCBs	*Memo:* CRAR for Commercial Banks
1	2	3	4
2002	8	6	9
2003	9	7	9
2004	As applicable to commercial banks	9	9
2005	As applicable to commercial banks	As applicable to commercial banks	

Investment portfolio of UCBs: Investment in Government and Other Approved Securities

4.21 In the light of developments in the urban co-operative banking sector in 2001, to safeguard the interest of depositors, it was made mandatory for UCBs to hold a proportion of their SLR assets in the form of Government and other approved securities. UCBs have also been advised to effect purchase / sale transactions in Government securities necessarily through the SGL account with the Reserve Bank or Constituent SGL accounts with the designated agencies or dematerialised accounts with other banks/depositories. They are required to route such transactions through the NDS / CCIL system. They are also required to make fresh investments in permitted instruments such as PSU bonds, bonds / equity of specified All-India Financial Institutions, infrastructure bonds issued by Financial Institutions, and units of UTI only in dematerialised form. UCBs have been prohibited from dealing with brokers as counter-parties, and advised to have their transactions in Government securities subjected to concurrent audit every quarter, and confirm to the Reserve Bank that the investments as reported by the UCB, are, in fact, owned by it.

4.22 On the recommendations of the Anant Geete Committee, the non-scheduled UCBs have been allowed to place their surplus funds with strong scheduled UCBs. UCBs have also been advised to limit their call money borrowings to 2 per cent of their aggregate deposits as at end-March of the previous financial year. UCBs have, however, been permitted to lend freely in the call money market without any limit. They have been advised not to issue banker's cheques / pay orders/demand drafts against instruments presented for clearing unless the proceeds thereof are collected and credited to the account of the parties concerned. Urban banks have also been advised not to issue such instruments by debit to cash credit / overdraft accounts which are already overdrawn beyond the limit sanctioned or likely to be overdrawn with the issue of such instruments.

Bank Finance against Shares and Debentures

4.23 From October 2001, UCBs are permitted to lend to individuals only with a per-party-limit of Rs.5 lakh (physical security) and Rs.10 lakh (in demat form). A return has been prescribed to monitor compliance in this regard.

Advances against Security of Real Estate

4.24 UCBs have been cautioned to desist from indiscriminate financing against the security of real estate and advised to strictly follow the policy guidelines issued by the Reserve Bank in this regard.

Unsecured Advances

4.25 On the recommendation of the Geete Committee, the ceiling on unsecured advances granted by UCBs to any single borrower / connected group has been enhanced, but only for sound UCBs[2] .

Prohibition on loans to Directors

4.26 The overall ceiling on loans and advances (both secured and unsecured) to all directors of UCBs, their relatives and concerns in which they are interested was brought down from the earlier ceiling of 10 per cent of the bank's demand and time liabilities (DTL) to 5 per cent. Following recommendations of the Joint Parliamentary Committee and with a view to preventing certain irregularities which surfaced in the case of some UCBs, a total ban has been imposed, with effect from October 1, 2003, on grant of loans and advances to directors of UCBs, their relatives and concerns in which they have interest.

Interest rates on Advances

4.27 In April 2002, the stipulation of Minimum Lending Rate (MLR) was withdrawn for UCBs. However, in the current environment of low inflation, unreasonably high or low rates on lending could adversely affect the earning and overall quality of their credit portfolio. UCBs have, therefore, been encouraged to review both their minimum and maximum interest rates charged on advances and align these rates within reasonable limits. They are also required to publish and prominently display the rates in every branch.

Guidelines for Recovery of Dues Relating to NPAs

4.28 The Reserve Bank has issued guidelines to all UCBs on sale of financial assets to securitisation companies (SC) / reconstruction companies (RC) created under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

4.29 In view of the increasing trend in NPAs of UCBs, the Reserve Bank has issued guidelines to the State Governments for one-time settlement applicable to all NPAs which have become ‘doubtful’ or ‘loss’ as on March 31, 2000 with outstanding balances of Rs.10 crore and below on the cut-off date, and NPAs classified as ‘sub-standard’ as on March 31, 2000 which have subsequently turned ‘doubtful’ or ‘loss’.

4.30 The guidelines will also cover cases in which UCBs have initiated action under the SARFAESI Act, 2002, as also those pending before courts / Board for Industrial and Financial Restructuring (BIFR), subject to a ‘consent’ decree being obtained from the Court / BIFR. The scheme is to be notified by the respective State Governments and approved by the Board of Directors of the banks concerned within the provisions of the Co-operative Societies Act / rules / notifications / administrative guidelines issued by the Registrar of Co-operative Societies concerned. A Settlement Advisory Committee (SAC) should be constituted by the UCBs to review all applications received and to recommend eligible cases to the Competent Authority for sanction.

Frauds and filing of Police Complaints

4.31 UCBs have been advised that, as a general rule, all cases of frauds on banks, whether committed by outsiders on their own or with connivance of bank officials, or committed by banks’ officials themselves, should invariably be reported to the investigating agencies. Criminal cases, where appropriate, should be filed with the courts, immediately after the bank has concluded that a fraud has been perpetrated. Taking into account recent domestic and international developments in the area of financial frauds, related to money laundering and terrorist activities, detailed instructions have been issued to all UCBs, reiterating and consolidating existing instructions on “Know Your Customer” (KYC) norms and cash transactions.

Professionalisation of Management

4.32 The requirement regarding the appointment of at least two directors on the boards of newly constituted UCBs, with suitable banking experience or with chartered accountancy qualifications with bank audit experience, has now been extended to all existing UCBs. All UCBs have been advised to amend their by-laws to incorporate the above requirement.

4.33 UCBs have also been advised that the Audit Committee of their Board of Directors should review the internal audit / statutory audit / the Reserve Bank inspection reports and monitor the action taken to rectify the deficiencies pointed out in such reports. Based on the observations of the Joint Parliamentary Committee, all the UCBs have been directed to implement concurrent audit.

Electronic Data Processing (EDP) – Audit System

4.34 It has been decided to introduce an EDP audit system for UCBs which have fully / partially computerised their operations. Detailed guidelines have been issued to them in this regard. Accordingly, an EDP Audit Cell is to be immediately constituted in banks which have an independent Inspection and Audit Department. As for other banks, they are required to create a dedicated group of persons who, when required, can perform functions of EDP auditors.

Technical Assistance Programme for Strengthening MIS in Co-operative Banks

4.35 The Reserve Bank has set in motion a Technical Assistance Programme to strengthen the Management Information System in cooperative banks. The programme, which has been put into operation on the direction of the Board for Financial Supervision, is being implemented in association with the National Institute of Bank Management, Pune and the College of Agricultural Banking, Pune. The programme is being largely funded by the Reserve Bank, with a nominal contribution by the beneficiary institutions.

Inspection under Section 35 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies)

4.36 It has been decided to give UCBs a maximum period up to 4 months from the date of the inspection report, to remove the irregularities pointed out in the inspection report. A certificate signed by the Chief Executive Officer of the bank or the Compliance Officer duly countersigned by the Chief Executive Officer and supported by board resolution, to the effect that all irregularities / violations of the Reserve Bank directions / guidelines / deficiencies pointed out in the inspection report have been fully rectified / complied with, should be furnished by the cooperative bank to the Regional Office concerned within four months from the date of the inspection report. In case of non-compliance, the Reserve Bank will invoke penal provisions contained in the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).

Introduction of Grading System

4.37 UCBs and their associations represented to the Reserve Bank for a review of the norms and for a change in the nomenclatures of weak and sick due to possible stigma attached to these terms. Accordingly, it has been decided to introduce a system of rating of UCBs into four grades and implement a system of ‘corrective action’, depending on the grade assigned to the bank, so as to arrest further deterioration in the financial position of these banks. The system of classifying UCBs as ‘weak’ or ‘sick’, which was introduced with effect from March 31, 2002 has, thus, been replaced by a new system of grading of banks based on their level of CRAR, net NPAs, record of losses and compliance with liquidity requirements. A corresponding framework of supervisory action has also been put in place.

Supervisory Rating System

4.38 A system of supervisory rating for UCBs, under the Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Systems (CAMELS) model, has been introduced. The rating system is initially being implemented for scheduled UCBs commencing from the year ending March 31, 2003. A simplified rating system will be made applicable to non-scheduled UCBs with effect from March 31, 2004.

4.39 With a view to enhancing transparency in the disclosures made in the balance sheets, all UCBs with deposits of Rs. 100 crore and above have been advised to disclose, with effect from the year ending March 31, 2003, specified information on CRAR, investments, advances against real estate/shares and debentures, advances made to directors / their relatives / firms or companies in which the directors have interest, cost of deposits, level of non-performing assets, profitability and movement of provision against NPAs as “notes on accounts” to balance sheets. They are also required to indicate their record of payment of deposit insurance premium to the Deposit Insurance and Credit Guarantee Corporation (DICGC) (Box IV.3).

Financial Performance

4.40 The growth in the UCB sector decelerated during 2002-03, reflecting in part the effect of past irregularities (Table IV.4). Notwithstanding the pick-up in credit demand in the economy, the UCBs’ credit-deposit ratio recorded a fall during 2002-03. Lead information for large UCBs, based on the reporting system set up by the Working Group on Money Supply (Chairman: Dr. Y.V. Reddy), suggests that deposits declined marginally by Rs. 30 crore during 2003-04 (up to August), while credit offtake declined by 5.6 per cent.

Refinance Facilities

4.41 The Reserve Bank continued to extend refinance facilities under various provisions of the Reserve Bank of India Act, 1934 in respect of advances granted by UCBs to tiny / cottage industrial units, covered under 22 broad groups of industries.

Priority Sector Lending

4.42 As at end-March 2002, 1,817 UCBs achieved the stipulated target of allocating 60 per cent of their total advances to priority sector and 1,407 banks accomplished the required level of 15 per cent of total advances to weaker sections in the priority sector. Of the then existing 51 scheduled UCBs, 28 banks achieved the required priority sector lending target of 60 per cent of the total advances, and 11 banks met the prescribed level of lending to weaker sections. In terms of composition of priority sector lending, there was a shift away from lending to small business enterprises and cottage and small-scale industries to housing (Chart IV.2).

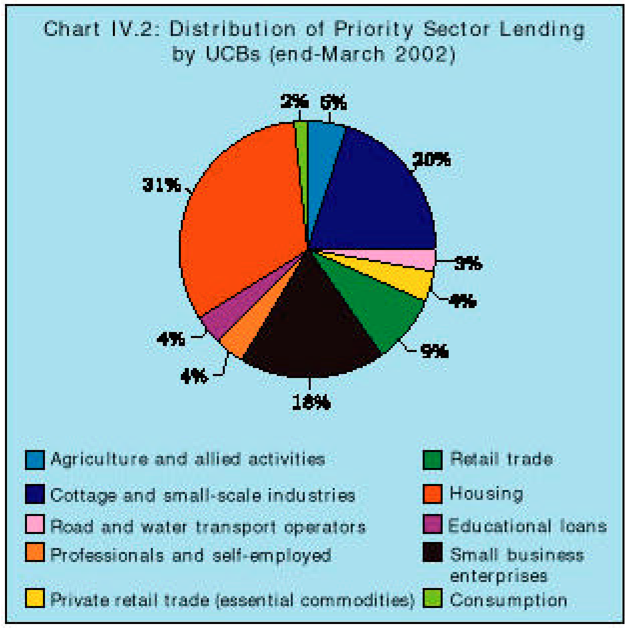


Chart IV.2: Distribution of Priority Sector Lending by UCBs (end-March 2002)

Box IV.3: Deposit Insurance and Co-operative Banks

In terms of section 5 (ccvi) of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies), a primary credit society is permitted to undertake banking business. The primary credit societies are also permitted to accept deposits from the public withdrawable by cheques. However, such primary co-operative societies with paid up capital and reserves of more than Rs. one lakh are automatically defined as primary co-operative banks and, therefore, come under the purview of Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) and are registered with the DICGC.

In terms of section 2(gg) of the DICGC Act 1961, in order to be an "eligible co-operative bank" for the deposit insurance cover, the law governing the UCBs entails the following provisions:

- An order for winding up, or an order sanctioning a scheme of compromise, or amalgamation, or reconstruction of the bank may be made only with the prior sanction in writing of the Reserve Bank.
- An order for the winding up of the bank shall be made if so required by the Reserve Bank in circumstances referred to in section 13 D of the DICGC Act.
- If so required, by the Reserve Bank in the public interest, an order shall be made for the supersession of the Committee of Management of the bank and the appointment of an administrator.

Presently, the Co-operative Societies Acts of four States (Meghalaya, Mizoram, Nagaland, and Arunachal Pradesh) and four Union Teritories (Lakshadweep, Chandigarh, Andaman & Nicobar Islands, and Dadra Nagar Haveli) do not have enabling provisions as required under section 2(gg) of the DICGC Act. The matter has been pursued with the respective State Governments to promote suitable legislative amendments in their co-operative acts, so that the banks, governed, by these acts, could also be brought under the purview of the DICGC.

Some of the State Governments like Madhya Pradesh and Karnataka have enacted a parallel legislation for cooperative societies, primarily to give a greater degree of autonomy to the unaided societies (*e.g.*, Madhya Pradesh Swayatta Adhiniyam, 1999 and Karnataka Souharda Sahakari Act, 1997). These enactments do not have the provisions as required by the DICGC Act. The matter has been taken up with the respective State Governments to initiate appropriate amendments to the State Acts. Further, in accordance with the National Policy on Co-operatives, the Co-operative Societies Acts of many States are being amended and recently the new Multi-State Co-operative Societies Act has been enacted to give effect to the new policy. This Act also does not meet all the requirements of the DICGC Act.

An institutional arrangement has been put in place for receiving from DICGC the names of banks which have defaulted in payment of deposit insurance premium and to follow up the matter with the banks concerned to try and ensure that no UCB operates without the DICGC cover at any point of time. The Regional Offices of the Reserve Bank have been advised to closely monitor the position of non-payment of DICGC premium with the concerned banks to ensure prompt payment of the premium.

The Inspecting Officers of the Reserve Bank have also been advised to incorporate the deficiencies observed in compilation / submission of DICGC returns, payment of premium *etc.*, in the Inspection Reports and furnish an extract of the same to DICGC.

UCBs have been advised to indicate the position of payment of DICGC premium in the Directors' Report attached to their annual reports.

Table IV.4: Major Aggregates of Urban Co-operative Banks

(growth rates in per cent)

Indicator	2000-01	2001-02 P	2002-03 P
1	2	3	4
Deposits	13.6	15.1	9.1
Borrowings	40.3	N.A.	N.A.
Loans Outstanding	18.2	14.1	4.5
Credit-Deposit Ratio	67.3	66.7	63.9

P: Provisional.
N.A. : Not Available.

Table IV.5: Gross Non-Performing Assets of Urban Co-operative Banks

(Amount in Rs. crore)

Date (March 31)	No of Reporting UCBs	Gross NPAs (Rs.crore)	Gross NPA as a percentage of total Advances
1	2	3	4
1999	1,474	3,306	11.7
2000	1,748	4,535	12.2
2001	1,942	9,245	16.1
2002	1,937	13,706	21.9
2003	1,941	13,647	21.0

Non-Performing Assets

4.43 The asset quality of UCBs, with gross non-performing assets (NPAs) of banks at 21.0 per cent of their aggregate advances as at end-March 2003, continues to be a cause of concern (Table IV.5). The level of NPAs of UCBs had jumped during 2001-02 because of difficulties faced by a few banks in Gujarat.

Liquidation

4.44 The Reserve Bank continues to maintain a constant vigil over the performance of UCBs. Due to their financial position, licences have been cancelled / licence applications have been rejected and the Registrars of Co-operative Societies were asked to initiate liquidation proceedings in respect of total 23 banks (Tables IV.6 and IV.7).

Financial Performance of Scheduled UCBs

4.45 The combined size of scheduled UCBs continued to expand during 2002-03 reflecting both the expansion of the existing banks as well as the entry of new scheduled banks (Table IV.8).

4.46 The composition of liabilities continued to undergo a shift with the share of deposits coming down (Table IV.9). The asset side also witnessed a change with the share of investments increasing while the share of bank credit has been declining. Scheduled UCB deposit growth decelerated to 3.3 per cent during the first half of 2003-04 from 10.6 per cent during the comparable half of the previous year. Credit growth, in tandem, declined by 6.1 per cent in sharp contrast to an increase of 2.8 per cent last year. The sharp increase in scheduled UCB deposits last year, reflected in part, the addition of new banks. During 2003-04 so far, while a bank has been added, two others have been descheduled.

4.47 Scheduled UCBs continued to record a net loss for the third year in succession (Table IV.10 and Appendix Table IV.2). Interest income declined as a proportion of total income as interest rates continued to soften and the share of the loan portfolio continued to shrink. Although interest expended also declined, the reduction was much less pronounced leading to a further narrowing of spreads (Table IV.11).

Table IV.6: Banks Under Liquidation - Cancellation of Licence

Bank	Date of speaking order	State
1	2	3
Armoor Co-op. Urban Bank Ltd., Armoor	August 26,2002	Andhra Pradesh
First City Co-op. Urban Bank Ltd., Hyderabad	April 5, 2002	Andhra Pradesh
Jawahar Co-op. Urban Bank Ltd., Hyderabad	May 8, 2002	Andhra Pradesh
Megacity Co-op. Urban Bank Ltd., Hyderabad	August 3, 2002	Andhra Pradesh
Mother Teresa Co-op. Urban Bank Ltd., Hyderabad	October 14, 2002	Andhra Pradesh
Praja Co-op. Urban Bank Ltd., Hyderabad	July 2, 2002	Andhra Pradesh
Datia Nagarik Sahakari Bank Ltd., Datia	May 14, 2002	Madhya Pradesh
The Peoples Co-op. Bank Ltd., Muzaffarpur	April 22, 2002	Bihar
The Begusarai Urban Dev. Co-op. Bank Ltd., Begusarai	April 22, 2002	Bihar
The Madhepura Urban Dev. Co-op. Bank Ltd., Madhepura	April 22, 2002	Bihar
Shree Adinath Sahakari Bank Ltd., Pune	June 25, 2002	Maharashtra

Shree Labh Co-op. Bank Ltd., Mumbai	July 31,2002	Maharashtra
Kalwa Belapur Sahakari Bank Ltd., Navi Mumbai	August 10, 2002	Maharashtra
Maa Sharda Mahila Nagari Sahakari Bank Ltd., Akola	August 10, 2002	Maharashtra
Independence Co-op. Bank Ltd., Deolali Camp	October 30, 2002	Maharashtra

Table IV.7: Rejection of Application for issue of Licence for Urban Co-operative Banks

Bank	Date	State
1	2	3
Shri Jamnagar Nagarik Sahakari Bank Ltd., Jamnagar	December 27, 2002	Gujarat
Rajampet Urban Co-op. Bank Ltd., Hyderabad	July 3, 2002	Andhra Pradesh
Yamunanagar UCB, Yamunanagar	August 6, 2002	Chandigarh
Theni Urban Co-op. Bank Ltd., Chennai	May 23, 2002	Tamil Nadu
Thiruvanaikovil Co-op. Urban Bank Ltd., Chennai	May 20, 2002	Tamil Nadu
The Nalanda Urban Dev. Co-op. Bank Ltd., Biharsharif	May 23, 2002	Bihar
The Shillong Co-op. Urban Bank Ltd., Meghalaya	May 23, 2002	Meghalaya
The Shillong Co-op. UBD Ltd., Shillong	October 26, 2002	Meghalaya

3. Rural Co-operatives

4.48 There is now a three-tier pyramidal cooperative credit structure in the rural cooperative banking sector with the state cooperative bank (StCB) at the apex (state) level, district central co-operative bank (DCCB) at the intermediate (district) level and primary agricultural co-operative society (PACS) at the grassroots (village) level, essentially to ensure flows of short-term credit for production purposes. Similarly, to provide long-term investment credit, both federal and unitary systems of land development banks were put in place depending on the suitability of the structure for the State in question. Thus, at the State level, state co-operative agricultural and rural development banks (SCARDB) and at the primary level, primary co-operative agricultural and rural development banks (PCARDB) or the branches of SCARDBs were established to facilitate augmentation of capital formation in agriculture.

Table IV.8: Scheduled Urban Co-operative Banks – Summary Statistics

(Amount in Rs. crore)

Particular	March 31, 2002	March 31, 2003
1	2	3
No. of scheduled UCBs	52	56
Share Capital	545	627
Reserves	1,931	2,195
Deposits	35,215	36,380
Borrowings	678	542
Loans and Advances	23,308	23,943
Investment in Government and other approved securities	8,630	10,487
Investments (Non-SLR)	4,973	3,161

Note : Based on UCB returns. Reserves include statutory reserves and other free reserves and provisions not in the nature of outside liabilities.

Table IV.9: Liabilities and Assets of Scheduled Urban Co-operative Banks

(As on March 31)

(Amount in Rs. crore)

Item		2002		2003*	
		Amount	Share (Per cent)	Amount	Share (Per cent)
1		2	3	4	5
Liabilities					
1.	Capital	531	1.1	627	1.2
2.	Reserves	5,940	12.6	7,534	14.4
3.	Deposits	34,285	72.4	36,683	70.0
4.	Borrowings	637	1.3	571	1.1
5.	Other Liabilities	5,946	12.6	7,022	13.3
Total Liabilities		**47,340**	**100.0**	**52,437**	**100.0**
Assets					
1.	Cash	2,266	4.8	2,578	4.9
2.	Balances with Banks	1,897	4.0	1,740	3.3
3.	Money at call and short notice	318	0.7	303	0.6
4.	Investments	12,997	27.4	14,524	27.7
5.	Loans and Advances	22,468	47.5	23,726	45.2
6.	Other Assets	7,393	15.6	9,566	18.3
Total Assets		**47,340**	**100.0**	**52,437**	**100.0**

* Data comprises of 49 audited banks and 8 unaudited banks including one UCB scheduled in April 2003.

Source: Balance sheet of respective banks.

4.49 Over the years, co-operatives have grown substantially in terms of network, coverage and outreach - as at end-March 2002, there were 30 StCBs (847 branches), 368 DCCBs (12,652 branches) and about 99,000 PACS. As at end-March 2002, there were 20 SCARDBs and 768 PCARDBs. While co-operatives form the major component of rural credit system in India, of late, UCBs have been also providing agricultural credit in their area of operations.

Table IV.10: Financial Performance of Scheduled Urban Co-operative Banks

(Amount in Rs. crore)

Item	2001-02	2002-03*	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**5,069 (100.0)**	**5,139 (100.0)**	**70**	**1.4**
i) Interest Income	4,449 (87.8)	4,498 (87.5)	49	1.1
ii) Other Income	620 (12.2)	641 (12.5)	21	3.3
B. Expenditure (i+ii+iii)	**5,485 (100.0)**	**5,735 (100.0)**	**251**	**4.6**
i) Interest Expended	3,404 (62.1)	3,415 (59.6)	12	0.4
ii) Provisions and Contingencies	1,136 (20.7)	1,317 (23.0)	181	15.9
iii) Operating Expenses	945 (17.2)	1,003 (17.5)	58	6.1

of which : Wage Bill	537 (9.8)	564 (9.8)	26	4.9
C. Profit				
i) Operating Profit	720	721	-1	0.1
ii) Net Profit	-416	-596	-181	—
D. Total Assets	**47,340**	**52,437**	**5,097**	**10.8**

* Data comprises of 49 audited banks and 8 unaudited banks including one UCB, scheduled effective April 2003.
Notes:
1. For details see notes to Appendix Table III.2.
2. Figures in brackets are percentage shares to the respective total.
Source: Balance sheet of respective banks.

State Co-operative Banks (StCBs)

4.50 The composition of the liabilities of the state co-operative banks (StCBs) in terms of major constituents (*viz*., capital, reserves, deposits, borrowings and other liabilities) remained broadly unaltered between end-March 2001 and end-March 2002 (Table IV.12). Scheduled state cooperative banks recorded an increase of 1.9 per cent during the first half of 2003-04 in sharp contrast to a decline of 7.8 per cent during the comparable period of the previous year. The seasonal decline in credit offtake, at 2.4 per cent, was also lower than that of 5.0 per cent last year.

Table IV.11: Select Financial Ratios of Co-operative Banks*

(per cent of assets)

Item	Scheduled UCBs		StCBs		CCBs	
	2001-02	2002-03	2000-01	2001-02	2000-01	2001-02
1	2	3	4	5	6	7
Operating Profit	1.52	1.34	1.70	2.08	1.73	1.90
Net Profit	-0.88	-1.14	0.39	0.31	0.06	-0.03
Income	10.71	9.80	10.27	10.14	10.75	10.74
Interest Income	9.40	8.58	9.90	9.62	10.17	10.14
Other Income	1.31	1.22	0.37	0.52	0.58	0.60
Expenditure	11.59	10.94	9.88	9.83	10.69	10.76
Interest Expended	7.19	6.51	7.85	7.33	7.19	7.14
Operating Expenses	2.00	1.91	0.71	0.73	1.83	1.70
Wage Bill	1.13	1.07	0.53	0.53	1.42	1.31
Provisions and Contingencies	2.40	2.51	1.32	1.77	1.67	1.93
Spread (Net Interest Income)	2.21	2.06	2.04	2.29	2.98	3.00

* As ratio to total assets.

Table IV.12: Liabilities and Assets of State Co-operative Banks

(As on March 31)

(Amount in Rs. crore)

Item	2001		2002 P	
	Amount	Share (Per cent)	Amount	Share (Per cent)
1	2	3	4	5
Liabilities				
Capital	695	1.3	807	1.4

Reserves	5,144	9.8	5,516	9.6
Deposits	32,626	62.2	35,500	61.8
Borrowings	11,693	22.3	11,550	20.1
Other Liabilities	2,318	4.4	4,105	7.1
Total Liabilities	**52,476**	**100.0**	**57,478**	**100.0**
Assets				
Cash and Bank Balance	2,313	4.4	3,492	6.1
Investments	16,156	30.8	16,436	28.6
Loans and Advances	29,861	56.9	32,111	55.9
Other Assets	4,146	7.9	5,439	9.5
Total Assets	**52,476**	**100.0**	**57,478**	**100.0**

P: Provisional.

4.51 The recovery performance of StCBs as a proportion of demand[3] at the all-India level declined from 84 per cent in 2000-01 to 81 per cent in 2001-02. Among the various States / Union Territories, the recovery performance improved considerably in Chandigarh, Andaman & Nicobar, Jammu & Kashmir, Nagaland, Tripura, Mizoram and West Bengal while it deteriorated significantly in Bihar, Assam and Pondicherry. States/Union Territories where StCBs achieved more than 90 per cent recovery during 2001-02 include Haryana, Madhya Pradesh, Tamil Nadu, Karnataka, Kerala, Punjab, Chattisgarh and Gujarat (Appendix Table IV.3).

Financial Performance of StCBs

4.52 Despite an increase in the spread (net interest income), higher expenses for provisions and contingencies led to a decline in the net profit for the StCBs. Out of 30 StCBs, 23 have made profits aggregating to Rs. 270 crore, while 7 made losses amounting to Rs. 93 crore (Table IV.13).

Central Co-operative Banks

4.53 The composition of the liabilities of CCBs remained broadly unaltered between end-March 2001 and end-March 2002 (Table IV.14). Deposits continued to account for over 60 per cent of the total liabilities while reserves recorded a strong growth of 17.8 per cent.

4.54 At the all-India level, the recovery performance of CCBs as a proportion of demand, more or less, remained the same. A few States, such as, Bihar, Chhattisgarh, Jammu and Kashmir, Madhya Pradesh, Punjab and West Bengal registered marked improvement in recovery performance while the recovery performance in Maharashtra and Karnataka deteriorated. Punjab, Tamil Nadu and Uttaranchal were the only States, which achieved more than 80 per cent recovery during 2001-02.

Financial Performance of CCBs

4.55 CCBs registered a marginal loss in 2001-02 as compared with a marginal profit during the previous year (Table IV.15). Interest income continued to account for nearly 95 per cent of the total income, while interest expenditure accounted for nearly two-thirds of total expenditure. During 2001-02, 258 CCBs made profits amounting to Rs. 698 crore, while 110 CCBs made losses to the tune of Rs.719 crore. The deterioration in the overall profitability of CCBs could be attributed to higher expense for provisions and contingencies.

Primary Agricultural Credit Societies (PACS)

4.56 Primary agricultural credit societies (PACS), the grass-root level arm of short-term co-operative credit, mediate directly with individual borrowers, grant short to medium-term loans and also undertake distribution and marketing functions. There were 98,247 PACS as on March 31, 2002 with about 10 crore members. A large number of PACS, however, face severe financial problems primarily due to significant erosion of own funds, deposits and low recovery rates. Various policies have been adopted to improve the financial health of the PACS. NABARD has been extending funds to develop the infrastructure for PACS.

Table IV.13: Financial Performance of State Co-operative Banks

(Amount in Rs. crore)

Item	2000-01	2001-02(P)	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**5,389**	**5,809**	**420**	**7.8**
	(100.0)	**(100.0)**		
i) Interest Income	5,194	5,508	314	6.0
	(96.4)	(94.8)		
ii) Other Income	195	301	107	54.4
	(3.6)	(5.2)		
B. Expenditure (i+ii+iii)	**5,185**	**5,632**	**447**	**8.6**
	(100.0)	**(100.0)**		
i) Interest Expended	4,121	4,192	70	1.7
	(79.5)	(74.4)		
ii) Provisions and Contingencies	690	1,024	334	48.4
	(13.3)	(18.2)		
iii) Operating Expenses	373	416	43	11.5
	(7.2)	(7.4)		
Of which : Wage Bill	280	304	24	8.6
	(5.4)	(5.4)		
C. Profit				
i) Operating Profit	**894**	**1,201**	**307**	**34.3**
ii) Net Profit	**204**	**177**	**-27**	**-13.2**
D. Total Assets	**52,476**	**57,478**	**5,002**	**9.5**

P : Provisional.

Notes :

Figures in brackets are percentage shares to the respective total.

Source : NABARD.

Table IV.14: Composition of Liabilities and Assets of Central Co-operative Banks

(Amount in Rs. crore)

Item	2001		2002(P)	
	Amount	Share (Per cent)	Amount	Share (Per cent)
1	2	3	4	5
Liabilities				
Capital	3,128	3.2	3,425	3.2
Reserves	9,105	9.4	10,723	10.0

Deposits	61,813	64.0	68,090	63.3
Borrowings	16,937	17.5	18,818	17.5
Other Liabilities	5,704	5.9	6,529	6.1
Total Liabilities	**96,687**	**100.0**	**1,07,585**	**100.0**
Assets				
Cash and Bank Balance	5,853	6.1	7,169	6.7
Investments	27,616	28.6	28,905	26.9
Loans and Advances	52,512	54.3	59,269	55.1
Other Assets	10,706	11.0	12,242	11.4
Total Assets	**96,687**	**100.0**	**1,07,585**	**100.0**

P. Provisional.

Long-term Co-operative Credit

4.57 The long-term co-operative credit structure comprises State Co-operative Agriculture and Rural Development Banks (SCARDBs) in 20 States/Union Territories with 768 Primary Co-operative Agriculture and Rural Development Banks (PCARDBs). The banks in the long-term co-operative credit structure have been displaying several weaknesses, which inhibit their ability to effectively compete with the commercial banks in the emerging liberalised economic environment.

State Co-operative Agriculture and Rural Development Banks (SCARDBs)

4.58 The profitability of SCARDBs showed a downward trend during 2001-02 as compared with 2000-01. NPAs formed 18.5 per cent of total loans outstanding as at end-March 2002, lower than 20.5 per cent as at end-March 2001. The recovery performance, at 55 per cent of demand, as at end-June 2002, however, deteriorated from 62 per cent as at end-June 2000. The recovery performance of the SCARDBs varied widely across the States during 2001-02.

Table IV.15: Financial Performance of Central Co-operative Banks

(Amount in Rs. crore)

	Item	2000-01	2001-02 P	Variation	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**10,393**	**11,543**	**1,150**	**11.1**
		(100.0)	**(100.0)**		
	i) Interest Income	9,829	10,903	1,074	10.9
		(94.6)	(94.5)		
	ii) Other Income	565	641	76	13.5
		(5.4)	(5.6)		
B.	**Expenditure (i+ii+iii)**	**10,332**	**11,564**	**1,233**	**11.9**
		(100.0)	**(100.0)**		
	i) Interest Expended	6,950	7,685	735	10.6
		(67.3)	(66.5)		
	ii) Provisions and Contingencies	1,611	2,057	446	27.7
		(15.6)	(17.8)		
	iii) Operating Expenses	1,770	1,822	52	2.9

	(17.1)	(15.8)		
Of which : Wage Bill	1,369	1,406	37	2.7
	(13.3)	(12.2)		
C. Profit				
i) Operating Profit	**1,672**	**2,036**	**363**	**21.7**
ii) Net Profit	**62**	**- 21**	**- 83**	**—**
D. Total Assets	**96,687**	**1,07,585**	**10,898**	**11.2**

P : Provisional.

Note: Figures in brackets are percentage to share to the respective total.

Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)

4.59 The credit extended by PCARDBs declined by 10.5 per cent during 2002-03 in sharp contrast to an increase of 20.7 per cent clocked during 2001-02. The profitability of PCARDBs also showed a downward trend during 2001-02 as compared with 2000-01. NPAs formed 30.4 per cent of total loans outstanding as at end-March 2002, a jump from 20.2 per cent as at end-March 2000. In tandem, the recovery performance deteriorated to 46 per cent of demand.

Health Status of Rural Co-operatives

4.60 The non-performing assets of rural cooperative banks remains high. The asset quality of the higher tier, *i.e.*, StCBs is, however, relatively better than that of the lower tier, *i.e.*, CCBs (Table IV.16).

Table IV.16: Composition of Gross NPAs
(As on March 31, 2002)

(Rs. crore)

Asset Quality	StCBs	CCBs
1	2	3
Substandard Assets	2,403	6,325
Doubtful Assets	1,821	4,245
Loss Assets	261	1,268
Total NPAs	4,485	11,838
Percentage of NPAs to loans Outstanding	13.4	19.7

4.61 The growing area of concern in the case of co-operative credit structure is the poor recovery performance. The repayment performance was much better in case of short-term co-operative credit structure. However, during 2001-02, both the short-term and long-term institutions have witnessed a fall in the ratio of recovery performance.

4.62 Various measures have been initiated to address the large NPA problems being faced by the rural credit co-operatives. First, NABARD has finalised guidelines on the lines of the onetime settlement scheme for NPAs of commercial banks, in consultation with the Reserve Bank. The cut-off date for NPAs has been fixed at March 31,1998 and the cut-off level amount at Rs. 5 lakh. The scheme was initially made operative up to March 31, 2002 and subsequently extended up to September 30, 2002 and settlement under the scheme was to be completed by December 31, 2002. Secondly, in consultation with the Central Government and the Reserve Bank, it has been decided to give one more opportunity to the borrowers to come forward for settlement of their outstanding dues. Hence, revised guidelines are now issued which provide for a simplified non-discretionary and non-discriminatory mechanism for compromise settlement of chronic NPAs of Rs.l0 lakh and below for individual borrowers, and Rs.10 crore and below in respect of institutions under all categories of loans and advances. The scheme will remain operative till end-September 2003 and settlement under the scheme is to be completed by end-March 2004. Thirdly, rural credit co-operatives have been instructed to follow the guidelines uniformly without any discrimination, as also to immediately pass on the recovered amounts to higher financing institutions. It is also clarified that for implementing the scheme, credit co-operatives would not receive financial support from the Government, the Reserve Bank or NABARD. Finally, banks have been given discretion to formulate One-Time Settlement scheme for amounts of NPAs beyond the above cut-off level and date with the approval of board of directors and the Registrars of Co-operative Societies.

4. NABARD and the Co-operative Sector

4.63 NABARD is the apex institution entrusted with a pivotal role in the sphere of policy planning and providing refinancing facilities to rural financial institutions to augment their resource base. In order to strengthen the effectiveness of NABARD, as also to enable it to effectively leverage its equity and mobilise additional resources for refinancing operations, the Government and the Reserve Bank have been contributing annually Rs.100 crore and Rs.400 crore, respectively, since 1996-97. With these contributions, the effective capital base of NABARD as at end-March 2002, rose to Rs.2000 crore. NABARD has also been permitted to issue capital gains tax exemption bonds since 2000-01.

Policy Initiatives by NABARD

Development Action Plans (DAPs)/ Memoranda of Understanding (MoUs)

4.64 The mechanism of preparation of institution-specific DAPs by co-operative banks introduced in 1994-95 as a measure of institutional strengthening was continued during 2002-03. A second phase of base-level MoUs has been introduced for the three years (2000-03). At the instance of NABARD, based on the past experience, the rural co-operative banks adopted the system of drawing up annual DAPs since 1997. MoUs were executed between NABARD and co-operative banks to obtain commitment for achieving the business targets envisaged in DAPs. The implementation of DAPs and compliance to MoU covenants were monitored by the Reserve Bank and NABARD along with the State Government representatives through the mechanism of monitoring review committees set up at the State and district levels.

Expert Committee on Rural Credit

4.65 An Expert Committee on Rural Credit (Chairman: Prof. V.S. Vyas), constituted by NABARD submitted its report in August 2001. In pursuance of its recommendations, NABARD has initiated action on some of the related areas, such as, financing asset-less poor, small farmers/tenants, dry land agriculture, agriculture sub-sectors, private capital formation and rural non-farm activities, initiating steps to strengthen RRBs and cooperatives, opening of DDM Offices and follow up of the recommendations made by the Task Force to study the fuctions of

Co-operative Credit System and to Suggest Measures for its Strengthening (Chairman : Shri Jagdish Capoor).

Revitalisation of Co-operative Credit Structure

4.66 The Capoor Committee, set up by the Government, to study the co-operative credit structure had suggested various measures for strengthening and revitalising the co-operative credit structure in its report submitted in July 2000. During 2001, an Inter-Ministerial Joint Committee under the Chairmanship of Shri Balasaheb Vikhe Patil, reviewed the recommendations, particularly those relating to the funding mechanism and sharing pattern of revitalisation assistance amongst the Government of India, States and Co-operatives. Based on these recommendations, NABARD placed its scheme before the Government in October 2002. The scheme, which envisaged linking of revitalisation assistance to co-operative banks to certain reforms to be carried out by the State Governments, included the following measures:

- adoption of essential features of Model Co-operative Societies Act, particularly removal of duality of control by State Governments and the Reserve Bank / NABARD;
- autonomy to co-operative credit institutions;
- audit of SCBs/DCCBs/SCARDBs by Chartered Accountants and freedom to PACS for this purpose;
- professionalisation of management;
- adoption of transparent HRD policies;
- abolition of common cadre system of PACS secretaries.

Resources of NABARD

4.67 The flow of resources to NABARD, including RIDF deposits, decelerated by 7.9 per cent during 2002-03 (Table IV.17). Market borrowings through the issue of bonds and debentures increased substantially in 2002-03. There was a large accretion to deposits under the Rural Infrastructure Development Fund (RIDF).

4.68 The Reserve Bank has also been assisting NABARD in providing refinance support to the rural sector by making available funds under the two General Lines of Credit (GLC-I and GLC-II). These limits have been enhanced periodically, and as at end-March 2002-03, the limit sanctioned under GLC-I and GLC-II stood at Rs.5,650 crore and Rs. 850 crore, respectively.

Table IV.17: Net Accretion in the Resources of NABARD (April-March)

(Rs. crore)

Type of Resource	2001-02	2002-03 P
1	2	3
Capital	0	0
Reserves and Surplus	655	693
NRC (LTO) Fund	531	222
NRC (Stabilisation) Fund	6	222
Deposits	-252	-21
Bonds and Debentures	2,465	2,624
Borrowings from Central Government	-65	-243
Borrowings from RBI	-100	-708
Foreign Currency Loans	9	51

Other Borrowings	—	—
RIDF Deposits*	2,474	2,434
Other Liabilities	451	444
Other Funds	111	67
Total	**6,283**	**5,786**

P Provisional.
* RIDF deposits raised from banks.
Source: NABARD.

Table IV.18: Deposits Mobilised under RIDF

(Rs.crore)

Year	RIDF-I	RIDF-II	RIDF-III	RIDF-IV	RIDF-V	RIDF-VI	RIDF-VII	RIDF-VIII	Total
1	2	3	4	5	6	7	8	9	10
1995-96	350	—	—	—	—	—	—	—	350
1996-97	842	200	—	—	—	—	—	—	1,042
1997-98	188	670	149	—	—	—	—	—	1,007
1998-99	140	500	498	200	—	—	—	—	1,338
1999-2000	67	539	797	605	300	—	—	—	2,307
2000-01	—	161	412	440	850	790	—	—	2,654
2001-02	—	155	264	—	689	988	1,495	—	3,591
2002-03	—	—	188	168	541	817	731	1,413	3,857
Total	**1,587**	**2,225**	**2,308**	**1,413**	**2,380**	**2,594**	**2,226**	**1,413**	**16,145**

Source: NABARD.

Rural Infrastructure Development Fund

4.69 The RIDF–I was initially set up in 1995-96 with a *corpus* of Rs.2,000 crore with the major objective of providing funds to State governments to enable them to complete ongoing infrastructure projects pertaining to irrigation, flood protection, rural roads and bridges. The *corpus* of RIDF is contributed by scheduled commercial banks to the extent of their shortfall in agricultural lending under the priority sector target subject to a maximum of 1.5 per cent of net bank credit. The RIDF-II to RIDF-VIII were established during the subsequent years up to 2002-03. The Government has announced a *corpus* of Rs.5,500 crore under RIDF-IX (Tables IV.18 and IV.19).

4.70 The interest rate on RIDF loans have been gradually reduced from 13.0 per cent in 1995-96 to 11.5 per cent in 2000-01 and further to 8.5 per cent as announced in the Union Budget 2002-03.

4.71 The scope of RIDF has been progressively widened to allow lending to *Gram Panchayat*s, Self-Help Groups and other eligible organisations for implementing village-level infrastructure projects. Furthermore, the projects eligible for RIDF loans have also been enlarged by including innovative projects, such as, information technology-enabled services and new activities, such as, system improvement and mini-hydel generation under the power sector, construction of primary/ secondary school buildings and primary health centres and rain water harvesting structures.

4.72 The Union Budget for 2002-03 announced that loans from RIDF would be linked to the reforms undertaken by the State Governments. Accordingly, out of the *corpus* of Rs.5,500 crore under RIDF-VIII, Rs.1,100 crore was to be allocated to the State Governments for reforms already taken up/to be taken up in agriculture and the rural sector. States achieving a reform implementation rating of 60 per cent or above were sanctioned the full allocation and those with a rating between 35 per cent and 60 per cent were sanctioned 50 per cent of the reform-linked allocation, while States having a rating of more than 60 per cent were eligible to share the unavailed amount of reform- linked allocations. Fifteen States, *viz.*, Andhra Pradesh, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, and West Bengal achieved a rating of 60 per cent and availed their full allocation. Other five States availed their non-reform linked allocations. Eight States in the North-Eastern Region were exempted from the linkage.

Table IV.19: Loans Sanctioned and Disbursed under RIDF

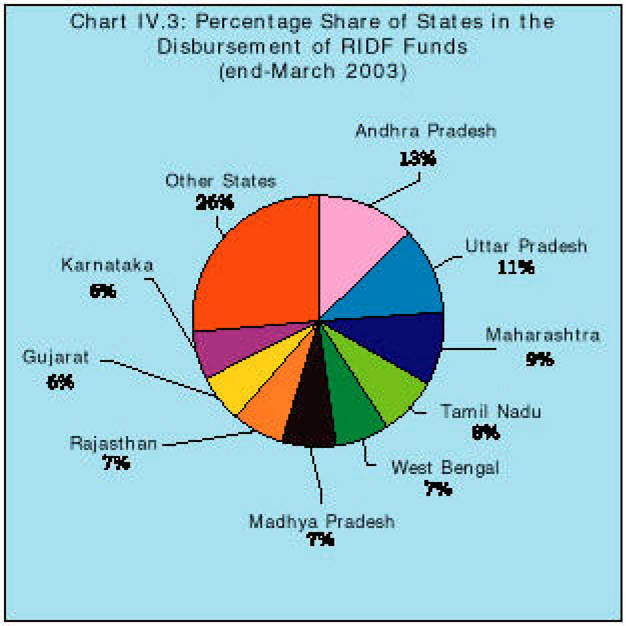
(As on March 31, 2003)

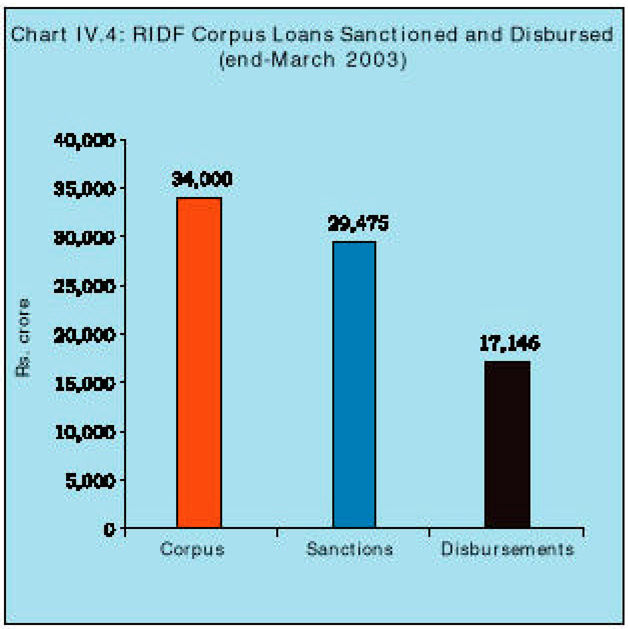
(Amount in Rs.crore)

RIDF	Year	Corpus	Loans Sanctioned	Loans Disbursed	Loan disbursed as percentage of loans sanctioned
1	2	3	4	5	6
I	1995	2,000	1,910.5	1,760.9	92.2
II	1996	2,500	2,627.8	2,373.7	90.3
III	1997	2,500	2,707.8	2,377.0	87.8
IV	1998	3,000	2,976.5	2,160.8	72.6
V	1999	3,500	3,532.5	2,502.2	70.8
VI	2000	4,500	4,579.3	2,788.4	60.9
VII	2001	5,000	5,056.8	2,055.7	40.6
VIII	2002	5,500	6,084.1	1,126.4	18.5
IX	2003	5,500	—	—	—
Total		**34,000**	**29,475.3**	**17,145.1**	**58.2**

Source: NABARD

4.73 Nine States together accounted for about 74 per cent of the total disbursements as at end-March, 2003 (Chart IV.3). However, there exists a huge gap between sanctions and disbursements, (Chart IV.4). Taking all the RIDF *tranches* together, Andhra Pradesh accounted for the largest disbursements followed by Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Madhya Pradesh, Rajasthan, Gujarat and Karnataka.





4.74 The State-wise analysis of ratio of disbursements to sanctions reveals that Sikkim topped the list with 80.5 per cent, followed by Mizoram, Punjab, Tamil Nadu, Rajastan and Uttar Pradesh.

4.75 Loans under RIDF are given for various types of rural infrastructural investments like irrigation projects, flood protection, watershed management, construction of rural roads and bridges. Of the total amount sanctioned under RIDF schemes, about 50 per cent was accounted for by construction of rural roads and bridges and 34 per cent by irrigation projects.

4.76 The utilisation of RIDF funds has been low as compared with sanctions largely due to several factors, such as, lack of budgetary support (where only part funding is envisaged from RIDF), delays in the completion of formalities for drawal of funds and in completing preliminary work in respect of irrigation projects (where land acquisition, and forest environmental clearance, as well as tendering procedures are required).

Credit from NABARD

4.77 The outstanding credit extended by NABARD to StCBs, RRBs and State Governments declined during 2002-03, mainly due to a decline in outstanding credit to State Governments and RRBs (Table IV.20). This was partly offset by higher credit to StCBs during the year. A major part of the outstanding refinance was for short-term purposes. Seasonal agricultural operations (SAO) amounted for bulk of the Rs.1,409 crore credit limit sanctioned to RRBs for short-term purposes. NABARD sanctioned long-term loans to 12 State Governments towards the contribution to the share capital of co-operative credit institutions. The interest rate structure of NABARD for refinance and credit to the ultimate beneficiaries of term loans remained the same during the year (Table IV.21).

Table IV.20: NABARD's Credit to StCBs, State Government and RRBs

(Rs. crore)

Category	2001-02*(July-June)				2002-03* (July-March)			
	Limits	Drawals	Repay-ments	Out-Standings	Limits	Drawals	Repay-ments	Out-standings
1	2	3	4	5	6	7	8	9
1. State Co-operative Banks								
a. Short-term	7,319	9,151	9,073	4,910	7,358	5,450	5,175	5,185
b. Medium-term	854	307	162	443	493	18	106	356
Total (a+b)	**8,173**	**9,459**	**9,235**	**5,353**	**7,851**	**5,468**	**5,281**	**5,540**
2. State Governments								
Long-term	63	50	59	487	61	28	74	441
3. Regional Rural Banks								
a. Short-term	1,381	1,257	1,246	1,201	1,406	858	1,190	869
b. Medium-term	16	9	16	34	3	0.3	10	24
Total (a+b)	**1,397**	**1,266**	**1,262**	**1,235**	**1,409**	**858**	**1,200**	**893**
4. Grand Total (1+2+3)	**9,633**	**10,775**	**10,557**	**7,075**	**9,321**	**6,354**	**6,554**	**6,875**

* Figures are provisional.
Source :NABARD.

Table IV.21: NABARD's Structure of Interest Rates for Term Loans

(per cent per annum)

Size of Limit	Rate of Interest to ultimate beneficiaries			Rate of Interest on refinance		
	Commercial Banks	RRBs	StCBs/ SCARDBs	Commercial Banks	RRBs/ SCBs/SCARDBs	StCBs/ SLDBs
1	2	3	4	5	6	7
Up to Rs.25,000 *	Rate of Interest to the beneficiaries			6.75	6.75	6.75
Above	Is to be determined by the banks					

Rs.25,000* and up to Rs.2 lakh	Subject to the guidelines laid down By the Reserve Bank of India	7.75	7.75	7.75
Above Rs.2 lakh*#		8.50	8.50	8.50

* 6.75 per cent for minor irrigation, land development, dry land farming, SGSY, SHGs and Wasteland Development

\# 7.75 per cent for cold storages / rural godowns / farm mechanisation /agribusiness centres, 6.75 per cent for agri export zones, as on November 26, 2002, and for North-Eastern Region, Sikkim, Andaman and Nicobar Islands.

Source: NABARD.

5. Issues in Micro Credit

4.78 The role of micro credit as the most suitable and feasible alternative in accomplishing the goals of growth and poverty alleviation is now well recognised. Micro finance embodies the basic democratic ethos of self-development through a participatory approach. The experiment of micro finance in India through the conduit of SHGs has demonstrated considerable democratic functioning and group dynamism. Their adroitness in assessing and appraising the credit needs of members, their business-like functioning and efficiency in recycling the funds often with repayment rates nearing cent per cent have proved that this is among the best alternatives in improving the credit delivery to the poor. Recognising their importance, both the Reserve Bank and NABARD have been spearheading the promotion and linkage of SHGs to the banking system through refinance support and initiating other proactive policies and systems. There are three models of credit linkage of SHGs with the banks, *viz.*, as noted earlier,

- SHGs, formed and financed by banks,
- SHGs, formed by formal agencies other than banks, NGOs and others but directly financed by banks,
- SHGs, financed by banks using NGOs and other agencies as financial intermediaries

4.79 A couple of case studies highlight the role played by the many micro-credit institutions in the rural economy (Box IV.4).

Progress of Micro Finance

4.80 The programme of micro finance has made rapid strides in India. The programme, which was heralded in 1992 with a modest pilot project of linking around 500 SHGs with half a dozen banks across the country, has grown to cover 31,000 rural outlets of more than 500 banks, with a loan portfolio of more than Rs.2,000 crore on March 31, 2003 (Table IV.22). The programme has enabled the formal banking system to reach the doorsteps of 116 lakh very poor households through the conduit of 7.17 lakh SHGs.

Box IV.4: Case Studies of Micro-Finance Models:

The Swayam Krishi Sangam (SKS) and the Prathama Bank are two good illustrations of successful models of SHGs. While the SKS model represents an SHG formed by a formal agency, other than the banks but directly financed by banks; the Prathama model, on the other hand, is a specimen of those SHGs formed and financed by the banks. The SKS has emerged as one of the catalytic forces behind the spread of micro-finance movement in Andhra Pradesh. The Prathama Bank, being the first regional rural bank, commands a long-standing experience in the field in the state of Uttar Pradesh.

The SKS and the Prathama Bank target the rural poor women, with the SKS focussing especially on the drought-prone region. The methodology adopted for group formation under the SKS, *inter alia*, includes (a) selection of villages based on the levels of poverty, main economic activities and type of land, and (b) conducting project meetings to create awareness. A group is formed with five members and a *sangam* evolves when eight such groups are constituted. The Prathama Bank, on the other hand, relies on the expertise of the *vikas volunteer vahini*s (VVV) - a club consisting of volunteers, who command local acceptability and goodwill and act as informal ambassadors of the bank to the villages. Village meets, with the help of VVVs, are organized by the bank to impart awareness among the people.

The SKS and Prathama models leverage technology and novelty in the promotion of SHGs. The SKS offers a variety of savings and loan products meant both for consumption and income generating activities and has pioneered smart cards and palm pilots (electronic passbooks). It has developed fully automated and integrated in-house management information systems (MIS), which enable virtual real time access to portfolio, client and staff information in all its branches. It has also developed Microsoft Excel-based financial models for different periodicities to monitor cash management, track financial performance against targets and project operational growth. These new initiatives have proved helpful in lowering the cost of transactions, increasing the productivity, reducing the scope for error and fraud and improvement in the accuracy and timeliness of management information systems.

The Prathama Bank has also taken several initiatives such as setting up of an exclusive Women Development Cell, Micro Credit Innovation Cell, launching of Rural Entrepreneurship Development Programme for training SHG members in various crafts, starting of SHG primary school in each village, launching of novel schemes like *Prathama Swachata* (Sanitation) Yojana and Gas (LPG) Connection Scheme.

Within a short span, both have posted an improved outreach and coverage. As at end-June 2003, the outreach and network of SKS has grown to cover 8 branches encompassing 524 village centres, serving 17,058 customers. As at end-fiscal 2003, with an outstanding credit portfolio of Rs.4.9 crore and savings portfolio of Rs.36 lakh, it has achieved the annual targets, maintaining a repayment rate of 99 per cent. Over 85 per cent of its clients are marginalised members of society. The total loans outstanding at about Rs.0.02 crore in the year 1999 have grown, within four years to Rs.5.12 crore in 2002-03. In the case of the Prathama Bank, as at end-March 2003, more than 4,500 SHGs encompassing 65,000 members were credit-linked with an amount of Rs.12.6 crore, disbursed for various income generating activities comprising dairy, retail shops, *zari* work, and other related activities.

A cost-benefit analysis involving the case studies under review reveal divergent trends, though administrative expenses for administering an outstanding loan of Rs.100 witnessed a decline in both cases in the recent years. While interest earning on an outstanding loan of Rs.100 increased in the case of the SKS, it, however, declined for the Prathama Bank. Furthermore, the gap between income and expenditure widened for SKS, while the Prathama Bank recorded a surplus income continuously over the years. While the SKS depends on foreign donations, the dependence of the Prathama Bank on outside agencies in the form of borrowings has been quite minimal.

Table IV.22: SHG Bank Linkage: Cumulative Progress

(Amount in Rs. crore)

As on March 31	No. of SHGs Financed	Bank Loan Disbursed
1	2	3
1999	32,995	57.07
2000	1,14,775	192.98
2001	2,63,825	480.87
2002	4,61,478	1,026.34
2003	7,17,360	2,048.67

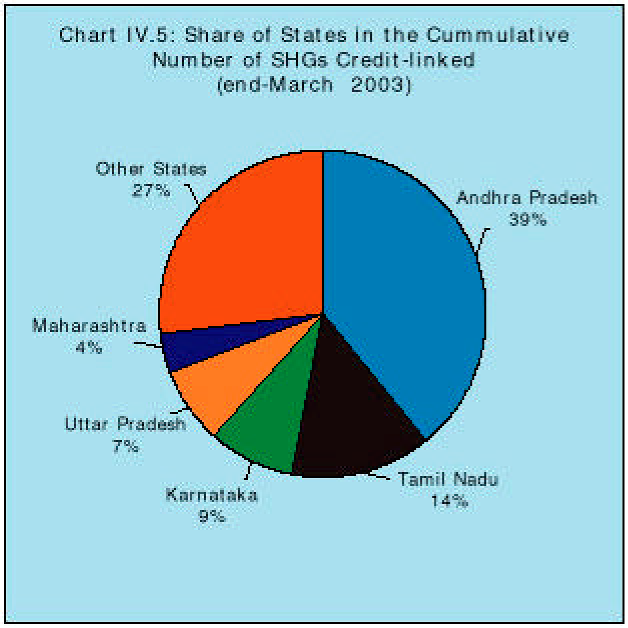
Source: NABARD.

4.81 The significant increase in the number of SHGs linked during the year was possible due to the active involvement of 504 banks, 2,800 NGOs and many other agencies including developmental departments of different State Governments. The credit linkage programme covered 523 districts in 30 States and Union Territories. The notable features are the active participation of women in the programme accounting for 90 per cent of the total SHGs and the strong loan repayment performance of SHGs at more than 95 per cent.

4.82 NABARD has been playing a catalytic role, both in terms of promotional grant support to NGOs and developing capacity building outreach of various partners in formation and nurturing of quality SHGs. The amount of cumulative grant support sanctioned for promotion and linkage of SHGs, as on March 31, 2003, aggregated to Rs.10.4 crore covering 564 NGOs and 78,011 SHGs. However, release of grants, at Rs.4.5 crore, constituted 43.2 per cent of the sanctioned grant, resulting in the promotion of 51,945 SHGs, of which 26,229 SHGs are with credit linkage. NABARD has also been supporting Farmers' Clubs (FCs) and independent volunteers to act as self-help promoting institutions (SHPIs). It is also providing revolving fund assistance to NGOs.

4.83 Thus, the micro finance programme has made significant progress, both in terms of coverage and outreach. However, there are some issues of concern, which deserve attention.

- The coverage of poor families in the SHG movement is yet to gain momentum. Out of 52 million poor families (260 million poor) in the country, only 11.6 million families (58 million poor) or 22.3 per cent of the poor families were covered as on March 31, 2003.
- Another area of major concern is the uneven growth of micro finance. As on March 31, 2003, of the total SHGs credit linked, Andhra Pradesh accounted for 39 per cent followed by Tamil Nadu, Karnataka and Uttar Pradesh. These four States together accounted for 69 per cent of the total SHGs credit-linked and four fifth of the total amount of bank loan as on March 31, 2003 (Chart IV.5).



1 Under the Banking Regulation Act, 1949 only urban co-operative banks (UCBs), state co-operative banks (StCBs) and district central co-operative banks (CCBs) are qualified to be called as banks in the co-operative sector. The discussion in this Chapter also covers issues relating to other credit co-operatives, *viz.*, primary agricultural credit societies (PACS) and the long-term structure of rural credit co-operatives. In this chapter, data on scheduled co-operative banks relate to 2002-03, while that for others primarily pertain to 2001-02.

2 These guidelines have been discussed in Box IV.1.

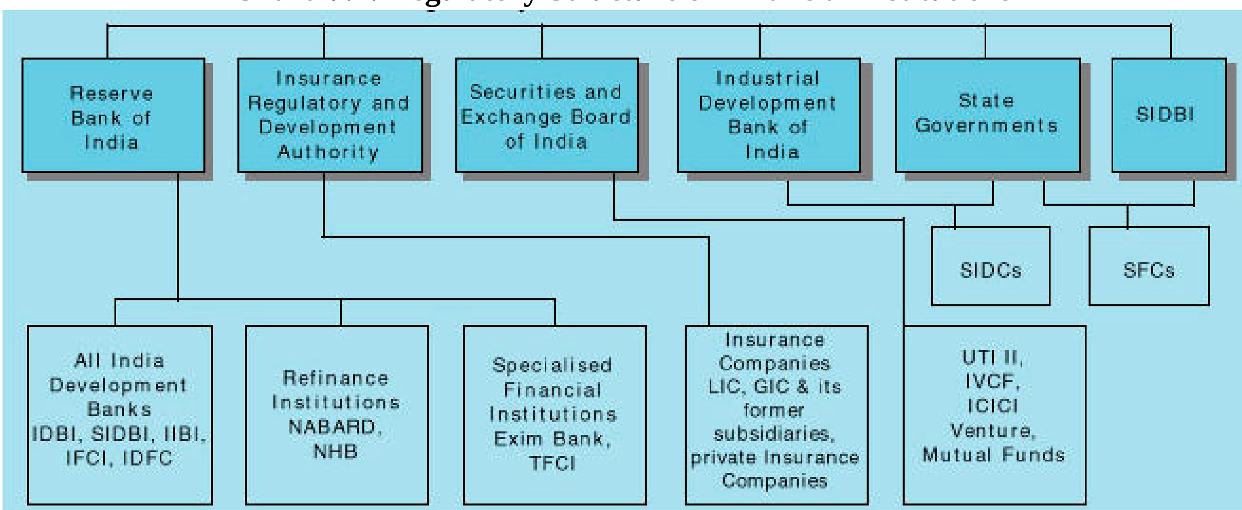
3 Demand is amount due as on a particular date. It includes both interest and principal repayment due as on that date.

Chapter V
Financial Institutions

5.1 The financial institutions (FIs) are in the process of great change in the context of the ongoing financial sector reforms and the emerging competitive financial system. FIs were set up when the capital markets were relatively underdeveloped and were incapable of meeting the long-term financing needs of the economy adequately. With the widening and deepening of markets for long-term funds, the justification for further prolonging the role of subsidised credit from FIs has weakened; more so because prolonged concessional finance by the Government has been deemed to be neither sustainable nor desirable. This is consistent with the process of financial sector reforms, with its focus on allocative efficiency and stability. With the withdrawal of concessional sources of finance of FIs and blurring of distinction between FIs and banks, FIs not only have to raise resources at market-related rates but also have to face a competitive environment on both asset and liability sides. Moreover, structural changes in the financial system coupled with the industrial slowdown in recent years have adversely impacted the volume of business and profitability of FIs. In view of this changed environment, FIs are in the process of adjusting and diversifying their business in terms of clients, activities and products.

5.2 The FI sector in India comprises diverse entities like term-lending institutions, investment institutions, specialised FIs and refinance institutions. Of these, nine FIs, *viz.*, Industrial Development Bank of India (IDBI), IFCI Ltd., Industrial Investment Bank of India Ltd. (IIBI), Small Industries Development Bank of India (SIDBI), Export Import Bank of India (Exim Bank), Tourism Finance Corporation of India Ltd. (TFCI), Infrastructure Development Finance Company Ltd. (IDFC), National Bank for Agriculture and Rural Development (NABARD) and National Housing Bank (NHB), fall within the regulatory and supervisory domain of the Reserve Bank (Chart V.1). The review of policy developments and performance of FIs in this Chapter, therefore, is primarily focussed on the above-mentioned nine FIs. Wherever necessary, specific references are made to other FIs as well.

Chart V.1: Regulatory Structure of Financial Institutions



5.3 In contrast to the rising trend in financial assistance sanctioned and disbursed by the FIs[1] during 1996-2000, the sharp decline recorded during 2001-02 continued during 2002-03 as well. Lack of demand for new projects, virtual exhaustion of unutilised capacities for meeting the increased demand for industrial products, competition from low rates provided by the commercial banks and delays in implementation of projects, have all contributed to the substantial decline in the financial assistance sanctioned and disbursed by select all-India FIs. Part of the decline, however, was also due to the merger of ICICI with ICICI Bank on March 30, 2002. Furthermore, the recent spurt in the growth of services sector may not have generated commensurate demand for project finance as a number of service industries are human capital-intensive with somewhat limited requirement of long-term finance.

5.4 During 2002-03, the financial performance of the FIs as a group showed further deterioration over the previous year. This can be attributed to declines in spread and non-interest income and rise in other expenses, with IFCI and IIBI accumulating high non-performing assets (NPAs) and related provisioning leading to their declining profitability and erosion of capital. If these two institutions are excluded, all FIs, however, are seen to have registered positive operating and net profit, as was the case in the previous year. The increase in NPAs in a number of FIs can be ascribed to the slow economic recovery and sectoral bottlenecks.

2. Policy Initiatives for Financial Instituitons

5.5 The focus of Reserve Bank's policy initiatives for select all-India FIs has, in recent years, been on the twin objectives of enhancing their stability and efficiency. Thus, the emphasis was on strengthening the prudential regulatory and supervisory framework of the FIs, improving their accounting and auditing standards, enhancing transparency and developing their technological infrastructure, while simultaneously introducing flexibility in their operations.

Prudential Norms

Capital Adequacy

5.6 Since February 20, 2002, FIs have been permitted to extend guarantees in respect of infrastructure projects in favour of other lending institutions, provided that the bank issuing the guarantee takes a funded share in the infrastructure project at least to the extent of 5 per cent of the project cost and undertakes normal credit appraisal, monitoring and follow-up of the project. In this context, risk weight for the loan extended by an FI against the guarantee of a bank in the capital to risk-weighted assets ratio (CRAR) computation of the FI were stipulated on August 8, 2002. Accordingly, a risk weight of 20 per cent would apply to that part of the loan which is covered by the banks' guarantee and the remaining amount of loan would attract 100 per cent risk weight. In line with the international practice, housing loans extended by the FIs to individuals against the mortgage of residential housing properties have been revised with effect from August 31, 2002. The details are presented in Table V.1.

Table V.1: Risk Weight for Housing Loans, Mortgage Backed Securities and Loans against Bank Guarantee

(per cent)

	Category	Old Risk Weight	New Risk Weight with effect from August 31, 2002
	1	2	3
1.	Housing loans to individuals against the mortgage of Residential housing properties	100	50
2.	Loans against the security of commercial real estate	100	100
3.	Loans to their own employees #	20	20
4.	Other loans not covered by banks guarantee	N.A.	100
5.	Investments by the FIs in Mortgage Backed Securities (MBS)	N.A.	50 (plus 2.5 for market risk) @
6.	If the assets underlying the MBS include commercial properties	100	100
7.	Loans against bank guarantee (for infrastructure projects)	N.A.	20

N.A. Not Applicable.

: Only those which are fully secured by superannuation benefits and the mortgage of flats/house.

@: Provided the assets underlying the MBS are the residential loan assets of the Housing Finance Companies which are recognised and supervised by NHB and satisfy certain conditions.

Asset Classification in respect of Projects Under Implementation

5.7 In order to ensure that the loan assets relating to projects under implementation are properly valued, they have been classified, on the basis of their project cost and their date of financial closure, under the following three categories, *viz.*,

(a) projects where financial closure had been achieved and formally documented (Category I);

(b) projects with original project cost of Rs.100 crore or *more* and whose date of financial closure has not been formally documented (Category II); and
(c) projects with original project cost of *less* than Rs. 100 crore and whose date of financial closure has not been formally documented (Category III).

5.8 Accordingly, in the case of Category I, the two-year time period should be counted from the date of completion of the project, as envisaged at the time of original financial closure and the asset may be treated as standard only for a period not exceeding two years. The asset classification of projects falling under Category II is required to be decided with reference to the 'deemed date of completion' of such projects decided by the Independent Group of experts from outside as well as lending institutions. In such cases assets may be treated as standard assets only for a period not exceeding two years from the deemed date of completion. In the case of Category III, the date of commencement of commercial production would be deemed to be the date exactly two years after the date of completion of the project as originally envisaged. In such cases the assets may be treated as standard only for a period of two years. It was advised to FIs that, as a prudential measure, the provisions held by the FIs in respect of such accounts should not be reversed even in cases where, certain accounts might become eligible for upgradation to the 'standard' category.

Compromise Settlement of Chronic NPAs

5.9 The FIs were advised to implement the revised guidelines for compromise settlement of chronic NPAs that had earlier been issued to public sector banks. These guidelines will provide a simplified, non-discretionary and non-discriminatory mechanism for achieving the maximum realisation of dues from the stock of NPAs within a stipulated time. The revised guidelines will cover NPAs (up to Rs.10 crore) relating to all sectors including the small-scale sector. The guidelines will not, however, cover cases of wilful default, fraud and malfeasance. The FIs should identify cases of wilful default, fraud and malfeasance and initiate prompt action against them. The last date for receipt of the applications under the revised One-Time Settlement Scheme was extended from April 30, 2003 to September 30, 2003 and the date of completion of processing of the applications was also extended from October 31, 2003 to December 31, 2003.

Investments

5.10 In view of certain suggestions and queries by some of the FIs, the Reserve Bank issued further clarifications / modifications in July 2002 on a number of issues relating to investments (Box V.1).

Exposure Norms

5.11 For the purpose of exposure norms, FIs' lending on infrastructure projects guaranteed by banks is treated as follows- the entire loan of the FIs is to be reckoned as an exposure on the borrowing entity and not on the bank guaranteeing the loan. This is expected to correctly reflect the degree of credit concentration. In case the funded facility is by way of a term loan, the level of exposure should be reckoned, as per the existing norm, *viz.*,

- before commencement of disbursement, the sanctioned limit or the extent up to which the FI has entered into commitment with the borrowing entity in terms of the agreement, as the case may be; and

- after commencement of disbursement, the aggregate of the outstanding amount *plus* the undisbursed or undrawn commitment.

5.12 Investments of FIs in mortgage backed securities would constitute an exposure not to the housing finance company originating the housing loan, which was securitised, but to the pool of assets / mortgages / obligors underlying such securities. The investing institution, therefore, should guard against the concentration of exposure to a particular industry / sector, institution or a geographical area. In case of a large number of underlying obligors, the exposure may be treated against the sector to which the pool of assets belongs. Thus, exposures need to be measured with reference to the industry or sector to which a security actually belongs.

Box V.1: Investment Norms for Financial Institutions*

No.	Items	Norms
1.	Holding Period	• Till maturity for investments 'Held to Maturity' (HTM). • No prescribed period for investments 'Available for Sale' (AFS). • Not more than 90 days for investments 'Held for Trading' (HFT).
2	Amount	• The investments included under HTM should not exceed 25 per cent of the bank's total investments. • Freedom to decide on the extent of holdings for AFS and HFT.
3.	Eligible Instruments	• Only fixed income securities are to be classified under the HTM category. However, certain exceptions in respect of preference shares, equity in joint ventures and subsidiaries, bonds / debentures in the nature of advance have been permitted. • Fis are free to decide on the quantum and nature of investments to be placed in AFS and HFT categories.
4.	Method of Valuation	• HTM: Mark to market is not necessary. To be carried at acquisition cost unless acquisition cost is more than face value, where premium is to be amortised over the period remaining to maturity. • AFS: Mark to market - annually or more frequently. Net appreciation in each classification is to be ignored, net depreciation is to be provided for. • HFT: Mark to market - monthly or more frequently. Net appreciation and depreciation can be taken to income account.
5.	Valuation of Specific Instruments	Market value for the purpose of valuation. Investments in the AFS and HFT categories would be the market price of the scrip as available form various sources like stock exchanges, Primary Dealers Association of India (PDAI), Fixed Income Money Market and Derivatives Association (FIMMDA), *etc*. In respect of unquoted securities the procedure is as under:
	a) Central Government Securities	• YTM Rates put out by PDAI / FIMMDA. • Treasury Bills at carrying cost.
	b) State Government Securities	50 basis points above YTM of Central Government securities of equivalent maturity put out by PDAI / FIMMDA.
	c) Other approved Securities	25 basis points above the yields of the Central Government securities of equivalent maturity put out by PDAI / FIMMDA.
	d) Debentures/ Bonds	All debentures / bonds, other than those which are in the nature of advance, should be valued on YTM basis. Such debentures may be of different companies having different ratings. These will be valued with appropriate mark-up over the YTM rates for Central Government securities as put out by PDAI / FIMMDA periodically. The mark-up will be graded according to the ratings assigned to the debentures / bonds by the rating agencies. The unrated / quoted instruments with arrears of dues are to be valued in the manner specified.

e)	Preference Shares	The valuation of preference shares should be on YTM basis. These will be valued with appropriate mark-up (according to the rating assigned by the rating agencies) over the YTM rates for Central Government securities put up by the PDAI / FIMMDA periodically subject to the specified conditions.
f)	Equity Shares	Investment in equity shares as part of the project finance should be compulsorily placed in the AFS category. Such equity should be valued by notionally extending to it the asset-classification of the outstanding loans of the issuing company and provision for depreciation in the value of equity made accordingly. In case the said loans are in the standard category, provision as applicable to the standard loan assets would be required for the depreciation in the equity value but in case the loans are in the doubtful category, the equity held should be treated as an unsecured facility and fully provided for. - Other investments in equity shares should be valued at: • Market price, if quoted. • Break-up value if not quoted. • Re 1 per company, if balance sheet is not available. - Thinly traded shares, as defined by the Reserve Bank, should be valued in the manner specified.
g)	Mutual Fund Units	Investment in quoted mutual fund units should be valued as per stock exchange quotations. Investment in non-quoted mutual fund units is to be valued on the basis of the latest re-purchase price declared by the mutual fund in respect of each particular scheme. In case of funds with a lock-in period, where repurchase price / market quote is not available, Units could be valued at net asset value (NAV). If NAV is not available, these could be valued at cost, till the end of the lock-in period.
h)	Commercial Paper	Commercial paper should be valued at the carrying cost.

* The entire investment portfolio of the FIs (including SLR securities and non-SLR securities) should be classified under three categories, *viz*,. ‘Held to Maturity’, ‘Available for Sale’ and ‘Held for Trading’.

5.13 The norms relating to credit exposures were modified and the non-fund based exposures are presently to be reckoned at 100 per cent value, instead of the present limit of 50 per cent. For determining the credit exposure in respect of forward contracts in foreign exchange, and other foreign exchange derivative products, such as, currency swaps or options, these should be included at their replacement cost in determining the individual / group borrower exposures. The Reserve Bank has suggested to FIs two methodologies for arriving at the 'replacement cost' of derivatives, *viz.*, Original Exposure Method and Current Exposure Method. Under the Current Exposure Method, the FIs need to mark-to-market derivative products at least on a monthly basis and they may follow their internal methods for determining the mark-to-market values of the derivative products. However, FIs will not be required to calculate potential credit exposure for single currency floating / floating interest rate swaps. The credit exposure on these contracts will be evaluated solely on the basis of their mark-to-market value. The FIs are encouraged to follow, with effect from April 1, 2003, the Current Exposure Method, which is a more accurate method of measuring credit exposure in a derivative product, for determining individual / group borrower exposures. In case an FI is not in a position to adopt the Current Exposure Method, it may follow the Original Exposure Method. However, its endeavour should be to move over to Current Exposure Method in course of time[2].

3. Supervision and Audit

Consolidated Accounting and Consolidated Supervision

5.14 The consolidated supervision of financial intermediaries has acquired special significance in the Indian context due to the emergence of complex group structures. The primary objective of consolidated supervision is to evaluate the strength of an entire group taking into account all the risks (including those arising from the operations of related entities) that may affect the supervised entity in the group. This is regardless of whether these risks are carried in the books of the supervised entity or the entities related to it. Failures of large and established international banks in the past on account of the operations of their subsidiaries illustrate the magnitude of such risks. Against this background, the Reserve Bank had set up a multi-disciplinary Working Group on Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision (Chairman: Shri Vipin Malik) which submitted its recommendations in December 2001. Draft guidelines were issued on the basis of the recommendations of the Working Group and with appropriate modifications for the select all-India FIs. As the availability of appropriate management information system (MIS) is a prerequisite to support the consolidated supervision, the FIs were advised to build up the requisite MIS for the purpose of development of the database.

5.15 In light of the feedback received from the FIs, the Reserve Bank issued final guidelines on August 1, 2003 to be implemented for the year 2003-04. The supervisory framework for consolidated supervision of the FIs comprises the following three components, *viz.*, (a) consolidated financial statements; (b) consolidated prudential returns; and (c) application of prudential regulations like capital adequacy, large exposures and liquidity gaps on group-wide basis.

Rotation of Auditors

5.16 Instances of auditors being appointed by certain FIs for a long period were examined by the Reserve Bank, and FIs were advised to ensure rotation of the partner of the audit firm conducting audit, if the firm continues for more than four years.

Computer Audit

5.17 Pursuant to the directions of the Audit Sub-Committee of the Board for Financial Supervision (BFS), a 'Committee on Computer Audit' was constituted in October 2001 with members from the Reserve Bank, Institute of Chartered Accountants of India and select commercial banks. The Report was forwarded to FIs in December 2002 for its consideration by their Board of Directors. The Committee classified the possible areas of audit interest in the information system environment into 15 broad categories and prepared 'standardised checklists' under each category to facilitate the conduct of computer audit[3]. These checklists are only in the nature of guidelines and FIs are free to develop more elaborate checklists to conduct Information System Audit suitable to the information technology environment in which they operate and propose to operate.

Modification of Audit Review and Reporting System

5.18 The submission of the monthly concurrent audit report by the FIs to Reserve Bank has been replaced with half-yearly reviews of the investment portfolio of FIs. Such reviews need to include the major irregularities, if any, observed in the concurrent audit report of the treasury transactions during the half-yearly reporting period.

Supervisory Rating System for the FIs

5.19 A supervisory rating model for the FIs has been developed based on capital adequacy, asset quality, management, earnings, liquidity and systems (CAMELS) and introduced from the annual financial inspections conducted with reference to the position as on March 31, 2002 (June 30, 2002 in case of the National Housing Bank). The basic purpose of assigning the supervisory rating is to provide a summary measure of the performance and health of the FI concerned for requisite supervisory intervention.

On-site inspection

5.20 The Reserve Bank has been undertaking on-site inspection of nine FIs under section 45N of the Reserve Bank of India Act, 1934 from 1995 onwards. The annual financial inspection of all nine FIs supervised by the Reserve Bank was taken and completed during the inspection cycle of 2002-03. Further, the inspection cycle of 2003-04 has been set in motion and inspection of all the nine FIs would be taken up with reference to the date of balance sheet of the FIs for the accounting year 2002-03.

Off-site Surveillance System

5.21 The FIs presently submit the off-site returns, *viz.*, Financial Institutions Division -Off-Site Monitoring and Surveillance System (FID-OSMOS) to the Reserve Bank. The review of the performance of the FIs based on the off-site returns submitted by them is being presented to the Board for Financial Supervision (BFS) on a quarterly basis. During 2002-03 (July-June), the BFS reviewed three quarterly and one annual reviews. The latest quarterly report placed before the BFS related to the quarter ended June 2003. The Board reviewed overall and institution-specific issues, such as, utilisation of special reserves for provisioning or meeting other liabilities, scope of the Reserve Bank regulation and supervision of FIs, negative spreads observed in the FIs, NPA levels of FIs, financial position of FIs, inspection reports of FIs, restructuring of assets and liabilities of FIs and their asset quality. The BFS provides guidance on matters of regulatory and supervisory policy issues. It also gives directions on specific issues which are complied with promptly. Based on the feedback received from the FIs, certain modifications have been undertaken in the software used for the returns to be submitted by FIs.

4. Other Policy Developments

Connected Lending

5.22 Matters relating to "connected lending" by FIs have been engaging the attention of the Reserve Bank and in consultation with the Government of India, detailed guidelines were issued to FIs (Box V.2).

Box V.2: Connected Lending by the select All-India Financial Institutions

In order to obviate the possibility of conflict of interest in the lending operations of the FIs, it has been decided in consultation with the Government of India that the FIs should not:
(a) grant any loan or advance on the security of its own shares; or
(b) enter into any commitment for granting any loan or advance to or on behalf of:
(i) any of its Directors, or
(ii) any firm or company (with some exceptions) in which any of its Directors is interested as Partner, Manager, Employee or Guarantor, or
(iii) any individual in respect of whom any of its Directors is a Partner or a Guarantor.
While extending non-fund based facilities, such as, guarantees, Letters of Credit (LCs), acceptances, on behalf of Directors and the companies / firms in which the Directors are interested, the FIs were advised to ensure that:
(a) adequate and effective arrangements have been made so that the commitments would be met by the applicants out of their own resources;
(b) the FI will not be called upon to grant any loan or advance to meet the liability consequent upon the invocation of guarantee or devolvement of LCs; and
(c) no liability would devolve on the FI on account of LCs / acceptances.

Furthermore, without prior approval of the Board or without the knowledge of the Board, no loans or advances should be granted, except to the extent permitted, to the undernoted categories of counterparties:

(a) relatives of the FI's Directors (including Chairman / Managing Director);
(b) Directors of other FIs and banks and their relatives;
(c) Directors of subsidiaries / trustees of mutual funds/ trustees of venture capital funds set up by the financing FIs or other FIs and banks, and their relatives.

In order to obviate the possibility of development of reciprocal arrangements amongst the FIs / banks, sanction by the Board of Directors / Management Committee is required for advances, aggregating Rs. 25 lakh and above for the abovementioned categories of borrowers. The proposals for credit facilities of an amount less than Rs.25 lakh to these borrowers may be sanctioned by the appropriate authority in the financing FI, but the matter should be reported to the Board.

In cases where the FIs have already entered into transactions covered within the prohibitions stipulated above, immediate steps should be initiated to recover the amounts due to the FI within the period stipulated at the time of grant of the loan or advance, or where no such period has been stipulated, before December 21, 2003. In case of any difficulty in complying with the foregoing provisions, the Reserve Bank may extend the period for the recovery of the loan or advance but not beyond the period of three years.

The above norms relating to grant of loans and advances will equally apply to awarding of contracts.

Transactions in Dematerialised form

5.23 The Reserve Bank has over a period of time, been encouraging the holding of government securities in dematerialised mode. FIs were advised to comply fully with Reserve Bank instructions whereby they should necessarily hold their investments in Government securities in either of the following entities, *viz.,* a) Subsidiary General Ledger (SGL) (with the Reserve Bank) or Constituent Subsidiary General Ledger (CSGL)[4], b) Stock Holding Corporation of India Ltd. (SHCIL), and c) in a dematerialised account with depositories.[5] Only one CSGL or dematerialised account can be opened by any such entity. In case the CSGL accounts are opened with a scheduled commercial bank or state cooperative bank, the account holder has to open a designated funds account (for all CSGL related transactions) with the same bank. In case a CSGL account is opened with any of the non-banking institutions, the particulars of the designated funds account (with a bank) should be intimated to that institution. The entities maintaining the CSGL / designated funds accounts will be required to ensure availability of clear funds in the designated funds accounts for purchases and of sufficient securities in the CSGL account for sales before putting through the transactions. No further transactions by a regulated entity should be undertaken in physical form with any broker. A specific time-frame has been separately indicated for each category of regulated entities to comply with these guidelines. Extension of dates for compliance, however, would be considered by the Reserve Bank in case of those having genuine difficulties in meeting the time schedule.

Issue of Certificates of Deposits (CDs)

5.24 In compliance with the announcement of the annual Monetary and Credit Policy Statement of April 2002, the Fixed Income Money Market and Derivatives Association (FIMMDA) issued standardised procedures, documentation and operational guidelines for issue of CDs on June 20, 2002. In order to impart more transparency and to encourage secondary market transactions, the existing outstanding CDs were required to be converted into demat form by October 2002. The existing regulations require CDs to be issued at a discount to face value and the issuing bank is free to determine the discount rate. With a view to providing more flexibility for pricing of CDs and to give additional choice to both investors and issuers, banks and FIs may issue CDs on floating rate basis provided the methodology of computing the floating rate is objective, transparent and market-based. The interest rate on floating rate CDs would have to be reset periodically in accordance with a predetermined formula that indicates the spread over a transparent benchmark. The standard procedures and documentation in this regard would be issued separately by FIMMDA in consultation with market participants.

5. Review of Operations

Financial Assistance: Sanctioned and Disbursed

5.25 The rising trend in financial assistance sanctioned and disbursed by all-India FIs (AIFIs)[6] during 1996-2000 was reversed during 2001-02 and the sharp declining trend continued during 2002-03 (Chart V.2 and Table V.2). The merger of ICICI with ICICI Bank explains a part of the decrease in financial assistance. Sanctions and disbursements, however, increased sharply during April-September 2003.

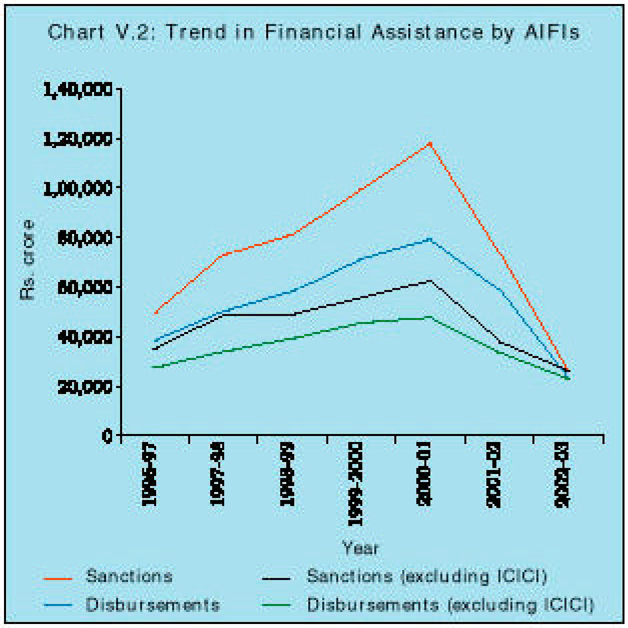


Table V.2: Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Year: April-March)

(Amount in Rs. crore)

	Institution	2001-02		2002-03		Percentage variation during 2002-03	
		S	D	S	D	S	D
	1	2	3	4	5	6	7
A.	All India Development Banks (IDBI, IFCI, SIDBI, IIBI, IDFC)	27,619	20,725	19,335	14,501	-30.0	-30.0
B.	Specialised Fis (IVCF, ICICI Venture, TFCI)	873	869	475	490	-45.6	-43.6
C.	Investment Institutions (LIC, UTI, GIC #)	9,363	11,668	6,200	8,112	-33.8	-30.5
D.	**Total Assistance by All-India FIs (A+B+C)**	**37,855**	**33,262**	**26,010**	**23,103**	**-31.3**	**-30.5**

S : Sanctions D : Disbursements

: Data include GIC and its former subsidiaries.

Source : Respective FIs and IDBI for UTI.

5.26 Sanctions and disbursements essentially constitute gross financial assistance by FIs to the commercial sector, in terms of, *inter alia*, project loans, venture capital, underwriting, direct subscription, guarantees, non-project finance, refinance, bills rediscounting, direct discounting, loans and subscription to shares / bonds of FIs, and loans to leasing companies. This provides a lead to the investment climate, in terms of planned investments and their fructification. Due to existence of alternative sources of project finance for the Indian corporates, as well as reflecting the paucity of new business in view of the economic slowdown, the net flow of resources from FIs in recent years have shown some downturn. Illustratively, net flow of resources from all-India Development Banks to the corporate sector continued to be negative both for 2001-02 and 2002-03 (Table V.3).

Table V.3: Resource Flow from All-India Development Banks to the Corporate Sector*

(Rs. crore)

Item	2001-02	2002-03
1	2	3
Sanctions	27,619	19,335
Disbursements	20,725	14,501
Credit	-4,706	-5,321
of which:		
Investments in stocks / shares / bonds / debentures of industrial Concerns	762	-1,105
Loans and advances to Industrial concerns	-4,571	-2,960
Bills of Exchange and promissory notes discounted and rediscounted	-897	-1,256

* Includes IDBI, IFCI, IDFC, IIBI and SIDBI.

5.27 The subdued performance of the FIs is consistent with the general receding contribution of the FIs in the financing pattern. Nevertheless, sluggish capital market, lack of demand for new projects and increase in industrial production through utilisation of unused capacities all may have contributed to lower demand for long-term financial assistance. Even in the area of project finance, a core function of FIs, there is some attenuation of the role of FIs (Box V.3). Besides, the commercial banks, due to their access to low cost of funds, in view of the relatively shorter maturity structure of their liabilities, were able to lend at a relatively lower rates as compared to the FIs. Delays in implementation of projects could have also hindered the demand for fresh financial assistance. Furthermore, the recent spurt in the growth of the services sector may not have generated commensurate demand for project finance, as most of the service industries are human capital intensive with limited requirement of long-term finance. During 2002-03, the financial assistance sanctioned and disbursed by select all-India FIs as well as investment institutions showed a further decline than the previous year (Appendix Table V.1).

Box V.3: Declining Role of Financial Institutions in Project Financing

Project financing, being the core activity of the FIs, is a component of direct finance and accounts for a substantial share in their total sanctions and disbursements. However, with financial liberalisation, banks have also started financing projects and, thus, have been competing with FIs. During 2002-03, assistance sanctioned towards project finance by all-India FIs (including insurance institutions but excluding UTI) declined sharply. A similar trend was also seen in disbursements.

The withdrawal of concessional sources of funds and restrictions on raising short-term funds of maturities of less than one year forced the FIs to raise high cost funds directly from a relatively under-developed long-term debt market. The blue-chip companies could raise financial resources for industrial projects directly from the capital market more cost effectively. Thus, FIs financed mostly riskier industrial projects which were unable to raise funds directly from the market. Among others, they financed large-scale infrastructure projects carrying low returns and long gestation periods. With the opening up of infrastructure and core sectors to private sector investment, there was an initial spurt in lending to these sectors on account of expected opportunities. As the FIs could raise resources only at high fixed rates of interest for lending to industrial projects, over the long-term, their operations became unsustainable in the face of declining interest rates over a period.

As can be seen from Table A, the share of equity capital (including preference capital) in the financing of projects increased significantly during the 1990s. Thus, the overall share of loans and bonds / debentures in financing of projects decreased during the same period.

Component-wise, of the total loan financing of projects, it has been found that the share of Development Financial Institutions (DFIs) declined during the 1990s, while the share of banks rose from a low level during 1985-90 by more than double during 1995-2001, thereby overtaking the position of FIs in project finance. Thus, DFIs have been facing competition from banks as well as the capital market in their core business of project financing. Further, as several DFIs had to borrow from the market for a relatively shorter tenure of 3-4 years and invest in projects with long gestation periods, the locking up of funds in projects adversely affected their cash flows and led to a further maturity mismatch in assets and liabilities.

Table A: Share of Different Sources in Project Finance

(as percentage of total project cost)

Period	No. of Companies	Equity	Reserves and Surplus	Loan	Bonds / Debentures	Others
1	2	3	4	5	6	7
1970-71 to 1974-75	356	28.5	12.2	53.5	4.4	1.4
1975-76 to 1979-80	408	32.0	5.1	59.8	0.9	2.2
1980-81 to 1984-85	1,554	26.9	8.3	49.2	14.1	1.5
1985-86 to 1989-90	1,620	41.4	1.6	30.0	26.2	0.8
1990-91 to 1994-95	2,040	47.0	1.9	43.4	7.1	0.6
1995-96 to 2000-01	1,012	53.0	0.3	43.0	3.4	0.3

Note : Data are for all non-financial and non-Government companies which issue prospectus.
Source: Department of Company Affairs, Ministry of Finance, Government of India.

Asset and Liability Structure of FIs

5.28 The balance sheet of select FIs, as a group, showed a growth of 5.7 per cent during 2002-03 over the previous year. The pattern of liabilities, however, remained broadly similar to that of the previous year. Bonds / debentures constituted a major share in the total, as bonds / debentures provide more flexibility of structuring with call / put options as also the tradable facility in the secondary market by way of listing on the stock market. With interest rate liberalisation and general softening of the interest rates, especially the deposit rates, deposits of the FIs improved its share while the share of borrowings declined during the year (Table V.4).

5.29 The composition of assets similarly did not register any marked change. Loans and advances, the dominant component, recorded a marginal decline in its share, reflecting the decline in the sanctions and disbursements of loans and advances. As the activities in the capital market continued to remain subdued during the major part of 2002-03, there was a marginal decline in the share of investments (Table V.4).

Table V.4: Composition of Liabilities and Assets of Financial Institutions

(Amount in Rs. Crore)

Item	Outstanding as at end-March		Distribution (per cent)	
	2001-02	2002-03	2001-02	2002-03
1	2	3	4	5
Liabilities	**1,73,900**	**1,83,751**	**100.0**	**100.0**
Capital	6,811	6,784	3.9	3.7
Reserves	16,836	18,259	9.7	9.9
Bonds and Debentures	83,595	89,639	48.1	48.8
Deposits	15,088	20,144	8.7	11.0
Borrowings	24,400	21,862	14.0	11.9
Other Liabilities	27,170	27,063	15.6	14.7
Assets	**1,73,900**	**1,83,751**	**100.0**	**100.0**
Cash	5,628	8,014	3.2	4.4
Investments	21,671	21,760	12.5	11.8
Loans and Advances	1,31,510	1,36,823	75.6	74.5
Bills Discounted/ Rediscounted	2,987	1,606	1.7	0.9
Fixed Assets	3,226	2,988	1.9	1.6
Other Assets	8,878	12,560	5.1	6.8

Note : Data include IDBI, IFCI, IIBI, IDFC, TFCI, Exim Bank, NABARD, NHB and SIDBI

Source : Balance Sheets of respective FI.

Sources and Uses of Funds

5.30 Total sources and deployment of funds of FIs (excluding ICICI) declined by 2.1 per cent during 2002-03 as against an increase of 19.8 per cent in the previous year. In view of the large liquidity overhang in the system and the continuance of the declining interest rate environment, the dependence on external funds increased during the year. The share of internal sources in the total continued to account for half of the total resources though its share declined as compared with the previous year (Table V.5).

Table V.5: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. Crore)

Sources / Deployment of Funds	2001-02		2002-03	
	Amount	Share (per cent)	Amount	Share (per cent)
1	2	3	4	5
Sources of Funds	**97,613**	**100.0**	**95,562**	**100.0**
Internal	51,241	52.5	49,048	51.3
External	28,438	29.1	32,280	33.8
Other Sources	17,934	18.4	14,234	14.9
Deployment of Funds	**97,613**	**100.0**	**95,562**	**100.0**
Fresh Deployments	48,289	49.5	52,028	54.4
Repayment of past borrowings	20,815	21.3	17,478	18.3
Other Deployments	28,509	29.2	26,056	27.3
of which: Interest Payments	14,222	14.6	10,733	11.2

* Financial Institutions comprise IDBI, IFCI, IIBI, Exim Bank, TFCI, IDFC, NABARD, SIDBI and NHB.

Note : Share is expressed as a percentage of total of that category.

5.31 With the pick up in industrial production in the later part of 2002-03, the share of fresh deployments in the total uses of funds showed an increase. Taking advantage of the falling interest rate environment, the FIs retired their high cost old debt and replaced it with cheaper debts; despite that the share of repayment of borrowings fell during 2002-2003 as against an increase in the previous year. Other deployments also came down on account of a decline in the interest payments. The combined share of repayment of past borrowings and interest payment during 2002-03 is higher than that of share of external sources of funds. This implies that internal or other sources of funds are being used to meet the repayment of the high cost borrowings of the past (Appendix Table V.2).

Financial Assets of all-India FIs

5.32 The modest acceleration in financial assets of FIs could be attributed to a mild pick up in the economic activity in the latter half of the year and financial restructuring of some of the FIs in the current year as against the slow pace of economic activity in the previous year. Institution-wise, Exim Bank registered maximum rise followed by NHB, IDFC, NABARD, and IFCI, while IDBI recorded the maximum decline [Appendix Table V.3 (A)]. During 2002-03, the growth of aggregate financial assets of banks and FIs accelerated as compared to the previous year. The growth in the financial assets of banks was sharper as compared to the FIs resulting in a modest increase in the share of banks in total assets [Table V.6 and Appendix Table V.3 (B)].

Table V.6: Financial Assets* of All-India Financial Institutions and Banks

(Amount in Rs. crore)

	As at the end of March		Variation during
	2002	2003	2002-2003
1	2	3	4
A.All-India Financial Institutions	1,70,247	1,82,223	11,976 (7.0)
B.Scheduled Commercial Banks#	12,23,008	13,98,967	1,75,959 (14.4)
C. Total (A+B)	**13,93,255**	**15,81,190**	**1,87,935 (13.5)**
Memo:			
FIs' assets as percentage of total assets	12.2	11.5	
SCBs' assets as percentage of total assets	87.8	88.5	

* Include investment, loans and advances, money market assets, deposits, cash in hand and balances with banks and other assets excluding fixed assets.

As per returns under Section 42 of the Reserve Bank of India Act, 1934 and include cash in hand and balances with the banking system, investments, bank credit and dues from banks. Hence, it does not include non-SLR investments, foreign currency assets and bank reserves.

Note: Figures in brackets are percentage changes.

Financial Performance of FIs

5.33 During the financial year ended March 2003, the performance of all-India FIs as a group showed further deterioration over the previous year on account of declines in spread and non-interest income and rise in other expenses. IFCI and IIBI registered losses during the year. Excluding these two institutions, all FIs, however, registered positive operating and net profit. It is significant to note that, notwithstanding the decline in operating profit, the increase in net profit for all FIs was achieved through a sharp decline in tax provisions (Table V.7). In order to enhance transparency, FIs are required to provide additional financial parameters from 2000-01 (Appendix Table V.4). IFCI recorded some improvement in return on average assets and net profit per employee but the ratios continued to remain in the negative zone.

Table V.7: Financial Performance of Select All India Financial Institutions[@]

(Amount in Rs. Crore)

Item		2001-02	2002-03	Variation during 2002-03	
				Amount	Percentage
1		2	3	4	5
1.	**Income (a+b)**	**17,206**	**15,822**	**-1,383**	**-8.0**
	a) Interest Income	14,391	13,194	-1,197	-8.3
	b) Non-interest Income	2,815	2,628	-187	-6.6
2.	**Expenditure (a+b)**	**14,443**	**13,182**	**-1,261**	**-8.7**
	a) Interest expenditure	13,284	11,825	-1,459	-11.0
	b) Other Expenses	1,159	1,358	198	17.1
	Of which: Wage Bill	404	391	-13	-3.2
	c) Provisions for Taxation	1,501	947	-553	-36.9
3.	**Profit**				
	Operating Profit	2,763	2,640	-122	-4.4
	Net Profit	1,262	1,693	431	34.2
4.	**Financial Ratios (as percentage of Total Assets)**				
	Operating profit	1.6	1.4		
	Net Profit	0.7	0.9		
	Income	9.9	8.6		
	Interest Income	8.3	7.2		
	Other Income	1.6	1.4		
	Expenditure	8.3	7.2		
	Interest Expenditure	7.6	6.4		
	Other Operating Expenses	0.7	0.7		
	Wage Bill	0.2	0.2		
	Tax Provisions	0.9	0.5		
	Spread (Net Interest Income)	0.6	0.7		

[@] Include IDBI, IFCI, IIBI, TFCI, IDFC, Exim bank, NABARD, NHB and SIDBI.

Notes : 1. In case of NHB, net profit is after deduction of transfer to IFR.

2. Net profit refers to profit after taxation.

Source : Annual accounts of respective FI.

Performance of FIs' Scrips / Stocks

5.34 Of the nine FIs under the Reserve Bank's regulatory domain, two FIs (*viz.*, IDBI and IFCI) are listed on the National Stock Exchange (NSE) and The Stock Exchange, Mumbai (BSE). The performance of stocks of IDBI and IFCI was rather lacklustre during 2002-03. Nevertheless, since April 2003, there has been significant recovery in the stock prices of these two FIs. This may be attributed to the restructuring packages of these two institutions offered by the Government supported by the general upbeat confidence witnessed in the stock prices of financial intermediaries (Chart V.3).

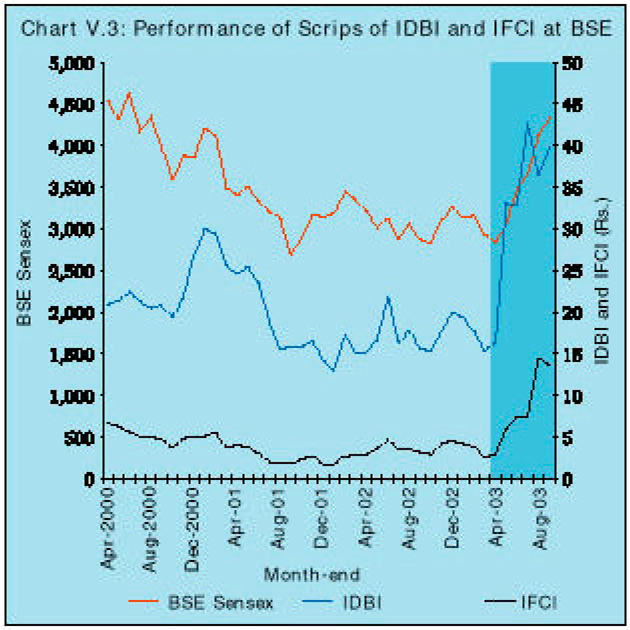


Chart V.3: Performance of Scrips of IDBI and IFCI at BSE

Prime Lending Rate (PLR)

5.35 In line with the downward trend in the general interest rate during 2002-03, the long-term PLRs of IDBI also declined during the year under review. The medium-term and short-term PLR of IDBI, however, remained unaltered. In case of IFCI the long- and short-term PLRs remained unchanged (Table V.8).

Table V.8: Lending Rate Structure of Major Financial Institutions

(Per cent per annum)

Effective from	PLR	IDBI	IFCI
1	2	3	4
March 2001	Long-term PLR	14.0	13.0
	Medium-term PLR	12.5	—
	Short-term PLR	12	12.5
July 2001	Long-term PLR	13.1	13.0
	Medium-term PLR	12.5	-
	Short-term PLR	12.0	12.5
March 2002	Long-term PLR	11.5	12.5
	Medium-term PLR	12.5	—
	Short-term PLR	12.0	12.5
July 2002	Long-term PLR	10.7	12.5
	Medium-term PLR	12.5	—
	Short-term PLR	12.0	12.5
March 2003	Long-term PLR	10.2	12.5
	Medium-term PLR	12.5	—
	Short-term PLR	12.0	12.5

Note :Interest rates are exclusive of interest tax unless stated otherwise. PLR = Prime Lending Rate.
Source:Respective FIs.

Capital Adequacy

5.36 The performance of select FIs in respect of maintenance of a minimum capital to risk-weighted assets ratio (CRAR) reveals that, except IFCI and IIBI, all FIs had a CRAR much above the norm of 9 per cent during 2002-03. IFCI, in recent years, has been facing the problem of asset-liability mismatches, arising out of bunching of repayments as also requirement for meeting heavy provisioning due to high NPAs and consequent financial loss. All these factors have led to erosion of IFCI's capital. Furthermore, raising resources in a cost-effective manner has become difficult due to downgrading of IFCI by the rating agencies. Consequently, shoring up of capital by way of fresh issue of equity has become difficult. In order to mitigate this problem and augment its capital, the Government initiated a capital restructuring package. In the case of IIBI, accumulation of high NPAs and consequent provisioning coupled with the problem of declining profitability contributed to the sharp decline in its CRAR (Table V.9).

Table V.9: Capital Adequacy Ratio of Select Financial Institutions
(end-March)

(Per cent)

Institution	1997	1998	1999	2000	2001	2002	2003
1	2	3	4	5	6	7	8
1. IDBI	14.7	13.7	12.7	14.5	15.8	17.9	18.72
2. IFCI	10.0	11.6	8.4	8.8	6.2	3.1	-2.95
3. IIBI	10.6	12.8	11.7	9.7	13.9	13.6	3.51
4. IDFC	N.A.	N.A.	235.5	119.7	85.5	56.9	57.13
5. Exim Bank	31.5	30.5	23.6	24.4	23.8	33.1	26.92
6. TFCI	N.A.	16.4	15.4	16.2	18.6	18.5	20.85
7. SIDBI	31.5	30.3	26.9	27.8	28.1	45.0	43.92
8. NABARD	40.4	52.5	53.3	44.4	38.5	36.9	41.59
9. NHB	N.A.	16.7	17.3	16.5	16.8	22.1	22.29

N.A. Not Available
Source: Respective FIs.

Non-Performing Assets

5.37 There was an increase in net non-performing assets (NPA) of the select FIs during 2002-03. This could be attributed both to the slow economic recovery and to sectoral bottlenecks (like time and cost overruns). The increase in net NPAs in the case of some refinancing institutions as expected was marginal. Nevertheless, in terms of ratio of net NPA to net loans and advances, the performance of term lending institutions like IIBI, IFCI and TFCI has remained a matter of concern (Table V.10 and Appendix Table V.5).

Table V.10: Net Non-Performing Assets*
(end-March)

(Amount in Rs. crore)

	Net NPAs		Ratio of Net NPAs / Net Loans (per cent)	
Institution	2002	2003	2002	2003
1	2	3	4	5
Term Lending Institution	**11,372**	**14,297**	**15.0**	**18.8**
1. IDBI	6,355	7,157	13.4	15.8

2.	IFCI	3,873	5,983	22.5	34.8
3.	IIBI	539	819	24.1	40.3
4.	Exim Bank	448	184	7.4	2.2
5.	TFCI	157	152	20.2	20.5
6.	IDFC	—	3	0.0	0.1
Refinancing FI		**382**	**474**	**0.7**	**0.7**
7.	SIDBI	382	473	3.0	3.8
8.	NABARD	—	1	—	—
9.	NHB	—	—	—	—
Total		**11,754**	**14,771**	**8.8**	**10.6**

* Net of provisioning and write offs.
Source : Respective FIs.

Mobilisation of Resources by way of Bonds / Debentures by Select all-India FIs

5.38 During 2002-03, total resources mobilised by way of issue of rupee bonds / debentures (including private placement and public issue) by select all-India FIs increased mainly on account of substantial borrowings by IDBI, Exim Bank and NHB (Table V.11). Some of the FIs exercised call options to retire their high-cost borrowings. With the rising demand in the housing sector, NHB mobilised substantial funds for its refinancing operations. Similarly, mobilisation of resources by Exim Bank increased sharply. Consequently, the total outstandings increased at a higher rate as compared with the previous year. Inclusive of other instruments, such as, CDs, CPs, ICDs, term money borrowings, there was a similar increase (Appendix Table V.6).

Table V.11: Resources Raised by Way of Rupee Bonds / Debentures by Select All-India Financial Institutions

(Amount in Rs. crore)

	Resources raised (during the year)		Outstandings (end-March)	
Institution	2001-02	2002-03	2001-02	2002-03
1	2	3	4	5
IDBI	4,213	5,009	45,464	45,280
IIBI	551	150	1,807	1,468
IFCI	651	267	19,789	20,046
TFCI	48	93	689	632
Exim Bank	625	2,505	3,067	5,424
IDFC	250	400	1,000	1,400
SIDBI	1,224	961	3,020	2,498
NABARD	2,549	2,988	6,078	8,703
NHB	238	1,877	3,003	4,675
Total	**10,349**	**14,250**	**83,917**	**90,126**

Source : Respective FIs.

5.39 Of the total resources raised by the select FIs, private placements continued to constitute a major proportion. Private placements are relatively less expensive and less time consuming. During 2002-03, however, the share of private placement declined, due to larger public issues by IDBI, the only FI (among the select group) to access the market through public issues (Table V.12).

Table V.12: Resources Raised through Public Issues / Private Placement of Bonds / Debentures by Select All-India Financial Institutions

(Amount in Rs.crore)

Financial Institution	Public Issue of Bonds/Debentures		Private Placement of Bonds/Debentures		Total	
	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
1	2	3	4	5	6	7
IDBI	654	2,825	3,559	2,184	4,213	5,009
IFCI	0	0	651	267	651	267
IIBI	0	0	551	150	551	150
IDFC	0	0	250	400	250	400
TFCI	0	0	48	93	48	93
Exim Bank	0	0	625	2,505	625	2,505
NHB	0	0	238	1,877	238	1,877
SIDBI	0	0	1,224	961	1,224	961
NABARD	0	0	2,549	2,988	2,549	2,988
Total	**654**	**2,825**	**9,695**	**11,425**	**10,349**	**14,250**
	(6.3)	**(19.8)**	**(93.7)**	**(80.2)**	**(100.0)**	**(100.0)**

Data are provisional.
Figures in brackets indicate the share in the total resources raised during the year in percentage.
Source: Respective FIs.

5.40 With yields falling across different maturities in Government securities, the weighted average interest rate across FIs at which the resources were mobilised by way of rupee bonds / debentures, declined over the previous year (Table V.13 and Appendix Table V.7). No such general trend was observed in the case of the weighted average maturity of instruments across FIs.

Table V.13: Weighted Average Cost/Maturity of Resources Raised by way of Rupee Bonds/ Debentures by Select All-India Financial Institutions

	Weighted Average Cost (per cent)		Weighted Average Maturity (years)	
Institution	2001-02	2002-03	2001-02	2002-03
1	2	3	4	5
IDBI	10.3	8.4	4.3	2.8
IIBI	12.9	12.8	6.4	7.0
IFCI	11.1	6.8	8.7	5.1
TFCI	10.5	10.1	7.0	8.5
Exim Bank	10.8	8.9	6.4	6.1
IDFC	9.0	7.6	5.0	5.6
SIDBI	7.5	6.6	1.0	2.3
NABARD	8.0	6.1	2.6	3.2
NHB	8.7	6.4	7.4	4.0

Data are provisional.
Source: Respective FIs.

FIs' Money Market Operations

5.41 With a view to moving towards a pure inter-bank call / notice money market, it was announced in the Monetary and Credit Policy Statement for the year 2001-02 on April 19, 2001 that access of non-bank entities, *i.e.*, FIs, mutual funds (MFs) and insurance companies, in this market would be gradually reduced in four stages. Accordingly, as part of Stage I, they were allowed to lend up to 85 per cent of their average lending during 2000-01. Thereafter, since June

14, 2003, as part of Stage II, non-bank entities were permitted to lend, on average in a reporting fortnight, up to 75 per cent of their average lending during 2000-01. Accordingly, the effective limit for twelve FIs (*viz.*, UTI, LIC, IDBI, NABARD, GIC, Exim Bank, NHB, SIDBI, IIBI, ECGCI, IFCI and TFCI) which have been permitted to lend in call / notice money market now stands at Rs. 2,749 crore. As a result, the average daily lending by FIs has declined during the year 2003-04 so far. With effect from fortnight beginning December 27, 2003, non-banks would be allowed to lend, on average in a reporting fortnight, up to 60 per cent of their average daily lending in the call / notice money market during 2000-01.

5.42 During the year 2002-03, one major insurance company had requested for enhanced access to the call / notice money market in view of unexpected large inflows and the Reserve Bank accorded the permission for a limited period.

5.43 Nine institutions, *viz*., IDBI, IFCI, EXIM Bank, SIDBI, IIBI, TFCI, NABARD, IDFC and NHB are given umbrella limits to raise resources equivalent to 100 per cent of their net owned fund (NOF) as per their latest audited balance sheet. They are permitted by the Reserve Bank to raise resources by way of term money, issue of CDs and CPs, acceptance of term deposits and Inter-Corporate Deposit (ICDs), wherever applicable.

5.44 The average aggregate amount of resources raised by the FIs by way of these instruments declined from Rs. 10,081 crore (32.9 per cent of limits) for the year 2001-02 to Rs. 6,472 crore (25.6 per cent of limits) for the year 2002-03 (Table V.14). ICDs and term deposit continued to remain the most preferred instrument followed by CPs, CDs and term money.

5.45 During the first half of 2003-04, the average aggregate amount of resources raised by the FIs by way of these instruments declined further.

Reserve Bank Assistance to FIs

5.46 During 2002-03 (July-June), no long-term assistance was sanctioned by the Reserve Bank to any FI. While there were no outstanding long-term borrowings with any institution under the National Industrial Credit (Long Term Operations) funds as at end-June 2003, the outstanding credit to NHB under the National Housing Credit (Long Term Operations) funds was Rs.175 crore as at end-June 2003 (Table V.15). The Reserve Bank sanctioned *ad hoc* borrowing limits aggregating Rs.166 crore to State Financial Corporations (SFCs) during 2002-03 at the Bank Rate, against *ad hoc* bonds guaranteed by the respective State Governments/ Union Territories for not less than two years.

Table V.14: Money Market Operations of select All-India Financial Institutions

(Rs. crore)

Sr. No.	Instrument	2002-03	2003-04	2002-03
1	2	3	4	5
I.	**Average Lendings**		(Up to October 3, 2003)	(Up to October. 4, 2002)
	1. Call / Notice Money	2,508	1,903	2,763

II.	**Average Borrowings**		(Up to September 5, 2003)	(Up to September. 6, 2002)
1.	Term Money	373	202	476
2.	Term Deposit	1,548	2,253	1,183
3.	Inter Corporate Deposits	3,078	1,760	4,193
4.	Certificates of Deposit	504	397	519
5.	Commercial Paper	964	1,649	552
	Total #	**6,467**	**6,261**	**6,923**

: Total may not tally due to rounding off.

Table V.15: RBI Assistance to FIs

(Amount outstanding in Rs.crore)

Type of Assistance	June 30, 2002	June 30, 2003
1	2	3
Long Term Credit [NHC(LTO)Fund]		
NHB	175.0	175.0
Medium / Short Term Credit		
SFCs	30.8	17.0
Total	**205.8**	**192.0**

Notes :
(1) RBI's assistance to FIs under long-term credit NIC (LTO) is nil for both the years.
(2) Medium/short-term credit to IDBI was nil for both the years.

Role of FIs in Technological Progress

5.47 Banks, the major competitors of FIs, have a wide network of branches, and diversified portfolios especially in short-term assets and liabilities, and limited deposit insurance by virtue of being part of the payment and settlement system. The spread ratio, a major determinant of profitability, ruled much higher in the case of banks *vis-à-vis* FIs. Predominance of short-term liabilities in the balance sheet of banks, however, restrain the banks from lending large long-term loans in keeping with the prudent principles of asset liability management. FIs are advantageously placed in extending investment credit at minimal transaction cost *vis-à-vis* banks.

5.48 The contribution of a particular group of FIs, *viz.*, DFIs have been particularly significant in a specific field, *viz.*, technological progress. In absence of institutions like Venture Capital Funds, DFIs acted as important technology policy vehicles as they promote knowledge creation and their absorption by an economy. Cross-country as well as the Indian experience is replete with examples where DFIs played a significant role in technological innovation (Box V.4).

6. Restructuring of Financial Institutions

5.49 Around the world, the FIs, mostly established and supported by the Government, have diversified / restructured due to changes in their operating environment in recent years, in many countries (Box V.5). The financial liabilities of two major FIs, *viz.*, IDBI and IFCI Ltd., were restructured during the year with the intervention of the Government of India to bring down the cost of funds of these FIs.

Restructuring package for IDBI

5.50 As part of the restructuring exercise of IDBI, under the aegis of Government of India, a consensus was reached that on maturity of the existing investments / bonds, PSU banks / FIs having exposure to IDBI would rollover their investments in IDBI for a further similar period of maturity. The re-investment would be at the rates of interest prevailing in the market at the time of reinvestment. IDBI would continue to service the interest on its existing borrowings at the originally contracted rate of interest. However, Government would reimburse the difference between the contracted rate and 8 per cent to IDBI.

Industrial Development Bank of India (Transfer of Undertaking and Repeal) Bill, 2002

5.51 With the Narasimham Committee's recommendations for conversion of DFIs into either commercial bank or non-banking finance companies, followed by the suggestion of the Working Group for Harmonising the Role and Operations of DFIs and Banks (Chairman: Shri S.H.Khan) for IDBI's conversion into a bank, the Government had proposed necessary legislative changes in its Budget 2002-03 to corporatise IDBI within the next year. Accordingly, Industrial Development Bank of India (Transfer of Undertaking and Repeal) Bill, 2002 was introduced in the Lok Sabha on December 4, 2002.

5.52 Some of the important features of the Repeal Bill are as follows:

- On the date to be decided by the Government, the Industrial Development Bank of India Act shall stand repealed and the undertaking of the IDBI shall vest in the company to be called 'Industrial Development Bank of India Limited'.
- The new company shall be deemed to be a banking company under Section 5(C) of the Banking Regulation Act, 1949 and carry on the banking business as per the provisions of the Act and is not required to obtain license from the Reserve Bank.
- Further, the new company would be given exemption from maintaining the SLR under Section 24 of the Banking Regulation Act, 1949 for a period of five years from the appointed day.

Box V.4: Role of Development Financial Institutions (DFIs) in Technological Progress

The aim of technology policy is to promote knowledge creation and its exploitation for economic development. There is often a need for a catalyst, particularly in developing countries, to convert knowledge creation to knowledge commercialisation for sustained technological progress. Firms, in the initial stages of development, need some assistance in acquiring, assimilating, transforming and exploiting knowledge.

DFIs have played an important role in this context. The long-standing debate on the relative merits of stock market-based (U.S., U.K.) *versus* bank-based (Germany, Japan) financial systems in technological progress needs to be flagged in this context. Attributing the success of the information technology revolution in the U.S. to market-based financial system, some have argued that stock markets are better at choosing the information technology winners than the bank-based systems. Others, however, have pointed out that stock markets are neither necessary nor sufficient condition for promoting information technology. In particular, developing countries suffer from underdeveloped stock markets which may make the price discovery process of a firm inadequate and may not accurately reflect the true long-term profitability of firms.

DFIs were set up in a number of countries with the objective of developing the absorptive capacity of firms for commercial exploitation of innovative technology over time. Apart from providing long-term loans, DFIs have been expected to promote projects, enhance managerial skills, develop entrepreneurship and help develop technological capabilities. By working closely with the Government, technology institutions and firms, DFIs were expected to influence technology policy and ensure that development of technological capabilities is achieved through policy implementation. DFIs are the only organised source of venture capital in many developing countries.

In India, in the absence of developed capital market, DFIs were the major source of much needed long-term finance to industry. They provided conditional grants or subsidised loans for technology development and new venture creation activities. Venture capital activity was initiated by a DFI. The DFIs played a role in providing impetus to interaction between firms and technology institutes by developing programs and providing facilities to encourage such interaction (Table A).

With the decline in the number of DFIs, in the face of financial sector reforms, innovative financing mechanisms of banks and capital markets together are expected to take care of the need for project financing. The Government of India has been proactively involved in coming out with restructuring packages for some of the select FIs taking into account their weak financial performance, growing NPAs and adverse market conditions for raising of resources by the FIs. Restoration of the financial health of the FIs is expected to revive project financing activities over time in tune with the risk-return profile.

Table A: Support of the DFIs to Technology Development in India: An Illustration

Support	SIDBI	IFCI
Infrastructure support	Common facilities, testing	Science and technology parks
Technical knowledge support	Quality programs	Technology consulting, project profiles
Informational support	Awareness workshops, Technology Institute -firm interaction	Market surveys, opportunity identification
Purchasing support	On some programs	Technology source identification
Marketing support	Quality programs, modernisation programs	Market surveys
Planning support	On some programs	On some programs
Financial support	Loans to small scale industry, venture capital, environmental funding	Project loans
Managerial support	Modernisation packages	Diagnostics, turnaround assistance
Educational support	Skill upgradation, entrepreneurship development programs	Support to entrepreneurship development programs

References:

Allen, F. (1993), "Stock Markets and Resource Allocation", in C. Mayer and X. Vives (eds.), *Capital Markets and Financial Intermediation,* Cambridge, Cambridge University Press.

George, G. and G. N. Prabhu (2003), "Developmental financial institutions as technology policy instruments: implications for innovation and entrepreneurship in emerging economies", *Research Policy*.

Singh, Ajit and B. Weisse (2001), "Information Technology, Venture Capital and the Stock Market", *Cambridge University Working Paper*.

Box V.5: Cross Country Experience of Development Financial Institutions

Development Finance Institutions (DFIs) were established to resolve a typical market inadequacy: the shortage of long-term investments and the perceived risk aversion of savers and creditors. In view of the inadequate provision of long-term credit through banks or markets, many of these institutions were sponsored by national governments. Although the oldest such government sponsored institution began with the establishment of the Societe Generale pour favoriser I'Industrie National in France in 1822, it was well over two decades later that development banking came into its own with the establishment of the Credit Mobiliser in France in 1848 for financing of Continental European railway expansion. In Asia too, such institutions were established as early as in the early 20th century - an important example being the Industrial Bank of Japan (IBJ) founded in 1900. The IBJ assisted not only in the development of the domestic capital markets, but it also performed the role of obtaining portfolio capital for the industrial firms in Japan.

DFIs emerged as specialised FIs to develop and promote specific strategic industrial sectors and to promote social and economic development. In most countries, governments played an important role in promoting DFIs to mitigate the problems of underinvestment and undertransmittance of expertise in long-term industrial finance. Historically, the DFIs played a key role in the speedy industrial development of Europe and Japan. A distinction has also been made between industrial banking and development banking. In the German-Japanese model of industrial banking, the banks assume an active entrepreneurial role in order to achieve industrial development. In contrast, the Anglo-Saxon model is based on financial orthodoxy but it recognises the problems engendered by the lack of capital markets in developing countries. Development banks in developing countries tend to take a passive role of waiting for potential entrepreneurs.

DFIs have also been used as a channel for government support to the priority sector or to counter the effects of problems in any sector (*e.g.*, support in response to problems in banking sector in Japan, channel for fiscal policy and directing of flow of funds to targeted sectors for economic recovery in Malayasia, support to small and medium enterprise (SME) sector in Korea and Thailand). The DFIs have been provided support by governments by guaranteeing or underwriting their bonds issued (*e.g.*, Japan, France).
With drying up of subsidised sources of funds and financial sector reforms in a number of

countries, the DFIs have chartered into totally new areas, such as, lending to the

SME sector, infrastructure and basic industries, industrial restructuring, foreign trade, environment conservation programs, preservation of natural resources, improvement of environmental quality, health, environmental education, sustainable agriculture, energy, venture financing, and banking services. For example, Industrial Bank of Korea (IBK), a premier term-lending FI established in 1961 under the Industrial Bank of Korea Act, diversified over time into other related activities, such as, credit card services, electronic banking, venture capital, trust account management and treasury operations. The retail banking operations of IBK form an important source of steady and relatively low-cost funds for its SME lending activities. Brazil has also witnessed similar diversification. Some DFIs have transformed themselves into universal banks (*e.g.*, Singapore). The strategies adopted have been mergers and acquisition, changes in the legal framework, enabling legislation, financial restructuring, re-engineering, debt restructuring and corporate governance.

In developing countries, however, DFIs, which were unable to transform themselves with the changing environment, are beset with the problems of high and growing NPAs, poor cost-benefit evaluations of projects, and widespread mismatches in their asset-liabilities requiring large provisions. Furthermore, their inability to mobilise long-term fixed-rate resources led to erosion of profits and in some cases erosion of net worth. Financial sector reforms to foster efficiency, transparency and stability in the financial system and calibrated globalisation have led to the debate on the role of DFIs and the support provided by the Government. Efficiency of government sponsorship can be enhanced with conditionalities as in the case of France. Besides, an appropriate legal framework for effective regulation and supervision needs to be customised to suit the macroeconomic and socio-political conditions, the stage of financial development and the nature of industrial development specific to each country.

References:

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Murinde, V. (1996), *Development Banking and Finance*, Avebury, Ashgate Publishing, Aldershot, U.K.

Richard Wong, Y. C. and M. L. Sonia Wong,(2001) 'Competition In China's Domestic Banking Industry', *Cato Journal*, Vol. 21, No. 1 (Spring/Summer).

5.53 The Bill was referred to the Standing Committee on Finance and the Committee had in turn recommended some more regulatory forbearances, *inter alia*, exemptions from maintenance of CRR for five years and certain tax exemptions for the newly converted banking company. The Cabinet approved the amendments to the Bill on August 11, 2003 to incorporate provision in the Bill so as to ensure that the new banking company also continues to be a development bank which will provide term lending to large, medium and small industries.

Restructuring of IFCI Ltd.

5.54 The Government of India had assured IFCI Ltd. that all small investors of below Rs. one lakh would be serviced by it and borrowings from Asian Development Bank and a leading development bank of Germany, KfW, would also be taken over by it. Further, Government would also bear the difference between the existing coupon rate of the IFCI bonds and the current Government securities rate on SLR bonds held by public sector banks/ FIs till its maturity.

SLR Liabilities

5.55 The principal and interest falling due on or after April 1, 2002 on SLR bonds would be rolled over to a period of 10 years from their respective date of maturities at an interest rate prevailing for Government securities for similar maturities at the time of rollover.

Non-SLR Liabilities

5.56 Fifty per cent of non-SLR liabilities to PSU banks / FIs, would be converted into Zero Coupon Optional Convertible Debentures (OCDs) payable after 20 years, with effect from April 1, 2002. It would, however, have a right of recompense and the remaining 50 per cent, will be reinvested for 10 years at an interest rate of 6 per cent.

5.57 It was agreed upon by the Government to rollover overdue preference share capital as well as the outstanding preference share capital which is yet to fall due for a period of 20 years at a coupon rate of 0.10 per cent.

5.58 Some of the banks and FIs had also agreed for rollover of both secured and unsecured loans, amounting Rs. 604 crore and Rs. 245 crore, respectively, to IFCI for a period of 20 years at 6 per cent rate of interest.

5.59 LIC, SBI and IDBI had, as a special arrangement, advanced Rs. 200 crore, Rs. 200 crore and Rs. 100 crore, respectively, to IFCI for varying tenors in 2001. These institutions agreed to rollover the advances for a further period of 20 years at an interest rate of 6 per cent per annum.

7. Other Developments

Asset Reconstruction Companies

5.60 The balance sheets of term-lending FIs have been affected substantively by NPAs resulting in erosion of their net worth. In pursuance of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002[7] , the Reserve Bank issued detailed guidelines to bank and FIs on the sale of financial assets to securitisation companies (SCs) and reconstruction companies (RCs) in order to facilitate asset reconstruction on smooth and sound lines. Consequently, Asset Reconstruction Companies (ARCs)[8] are now being set up and promoted by FIs and banks.

Progress towards Consolidated Accounting

5.61 With the issue of draft guidelines by the Reserve Bank to all India FIs on consolidated accounting, FIs that have subsidiaries, have initiated the necessary steps towards consolidated accounting. Listed FIs have already commenced preparation / publishing Consolidated Annual Accounts as a part of their Annual Report, as mandated by the Accounting Standard 21 of Institute of Chartered Accountants of India effective from the financial year 2001-02.

Corporate Debt Restructuring (CDR) - Status[9]

5.62 Based on the recommendations made by a High Level Group (Chairman: Shri Vepa Kamesam) and in consultation with Government of India, the Reserve Bank revised the scheme of Corporate Debt Restructuring. The revised guidelines were issued in supercession of the earlier guidelines. Following this, the CDR mechanism has been put in place in all the FIs, in accordance with Reserve Bank's guidelines.

5.63 The CDR mechanism effectively became operational from March 2002 with the execution of Inter-Creditor Agreement (ICA) on February 25, 2002 by 47 FIs / banks. As of date, 61 institutions / banks comprising all-India FIs (12), public sector banks (27) and private sector banks (22) have signed the ICA. UTI (among FIs), seven private sector banks and 41 foreign banks are yet to sign the ICA. During 2002-03, the CDR Standing Forum met twice, the Core Group met five times, and the Empowered Group met 16 times. Of the 60 applications received (four from 2001-02), the CDR Cell has referred all the cases to the Empowered Group within the stipulated time of 30 days. The Empowered Group approved final schemes in respect of 29 cases in which aggregate assistance by financial system amounted to Rs.29,167 crore; 18 cases, involving outstanding assistance of Rs.6,826 crore, were rejected and the remaining 13 cases with aggregate outstanding assistance of Rs 8,376 crore are being processed.

Mutual Funds

Policy Developments relating to Mutual Funds

5.64 Several measures were undertaken during 2002-03 to improve the operations and governance of the mutual funds. Some of these measures include, disclosure of performance of benchmarks, guidelines for valuation of unlisted equity shares, emphasis on the code of conduct and insider trading regulations, guidelines on risk management norms, mandatory registration of mutual funds intermediaries engaged in selling and marketing of mutual funds units.

Resource Mobilisation by Mutual Funds

5.65 Resource mobilisation by mutual funds declined sharply during 2002-03 mainly due to the substantial net outflow of funds from UTI, which was restructured during the year (Table V.16 and Appendix Table V.8). Private sector mutual funds also recorded a decline in mobilisation of funds while public sector funds (other than UTI) recorded a modest increase. However, resource mobilisation by mutual funds witnessed a sharp increase during April-September 2003. While UTI registered net inflows as compared to outflows during 2002-03, the private sector mutual funds also recorded huge mobilisations.

Restructuring of UTI

5.66 During the last few years, several measures have been undertaken to contain the fallout of the events in the UTI, which adversely affected investors' perception. As proposed in the reform package announced by the Cabinet Committee on Economic Affairs (CCEA) on August 31, 2002, the Unit Trust of India Act, 1963 was repealed through an ordinance on October 30, 2002. The ordinance also sought to restructure the UTI by splitting it into two parts, *viz.*, UTI-I comprising US-64 and assured return schemes to be placed under a Government-appointed Administrator, and UTI-II [later renamed as UTI Mutual Fund (UTIMF)] consisting of the NAV-based schemes, professionally managed and brought under the regulatory purview of SEBI. The schemes including the operational aspects of distribution of assets and liabilities between the two bodies were effected in January 2003. At present all the schemes of UTI-I are being managed by Specified Undertaking of UTI run by the Administrator. The Government also signed a Memorandum of Understanding with the four sponsors of UTIMF, *viz.*, State Bank of India, Punjab National Bank, Bank of Baroda and Life Insurance Corporation of India, which marked the transition of UTI from a hybrid institution to a mutual fund.

Table V.16: Resource Mobilisation by Mutual Funds

(Rs. crore)

Mutual Fund		2001-02	2002-03
1		2	3
I.	Public Sector*	1,474.4	1,988.2
II.	Unit Trust of India	-7,284.0	-9,434.0
III.	Private Sector	12,947.9	12,025.9
Total (I+II+III)		**7,138.3**	**4,580.1**

* excludes UTI.

Notes : 1. Data are provisional.

2. For UTI, the figures are net sales (with premium), including re-investment sales, and for other mutual funds, figures represent net sales under all schemes.

Source : Respective mutual funds for 2001-02 and SEBI for 2002-03.

5.67 The Government had committed to small investors to meet all obligations for US-64 Scheme and other assured income schemes. The US-64 units were converted into bonds and started trading in the secondary market in June 2003. The Union Budget 2003-04 exempted UTI-I from dividend distribution tax.

5.68 Several measures have been undertaken by UTIMF to improve its performance including improved transparency and disclosure, well laid down investment guidelines and greater emphasis on risk management, launch of innovative schemes, merging of schemes, conversion of units into bonds, delegation of power, organisational beef up, and other related matters. Reflecting these measures, UTIMF has witnessed a turnaround in its resource mobilisation with a positive inflow of Rs.637 crore during April-September 2003 as compared to a negative resource mobilisation by UTI during the past two years.

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1 Includes all-India development banks, specialised FIs, investment institutions and State level FIs. For the names

of FIs included, reference may be made to Appendix Table V.1.
[2] Box II.2 in Chapter II gives the details of the two exposure methods.
[3] Details are provided in Chapter II.
[4] With a scheduled commercial bank / State Cooperative Bank / Primary Dealer (PD) / FI.
[5] National Securities Depository Ltd. (NSDL) / Central Depository Services (India) Ltd. (CDSL).
[6] Comprising IDBI, IFCI, IIBI, SIDBI, IDFC, IVCF, ICICI Venture, TFCI, LIC, UTI and GIC.
[7] The SARFAESI Act is dealt with in more detail in Chapter II.
[8] ARCs are discussed in Chapter VI.
[9] Details are provided in Chapter II.

Chapter VI
Non-Banking Financial Companies*

6.1 Non-banking financial companies (NBFCs) encompass an extremely heterogeneous group of intermediaries. They differ in various attributes, such as, size, nature of incorporation and regulation, as well as the basic functionality of financial intermediation. Notwithstanding their diversity, NBFCs are characterised by their ability to provide *niche* financial services in the Indian economy. Because of their relative organisational flexibility leading to a better response mechanism, they are often able to provide tailor-made services relatively faster than banks and financial institutions. This enables them to build up a *clientele* that ranges from small borrowers to established corporates. While NBFCs have often been leaders in financial innovations, which are capable of enhancing the functional efficiency of the financial system, instances of unsustainability, often on account of high rates of interest on their deposits and periodic bankruptcies, underscore the need for reinforcing their financial viability. The regulatory challenge is, thus, to design a supervisory framework that is able to ensure financial stability without dampening the very spirit of maneuverability and innovativeness that sustains the sector.

6.2 NBFCs proliferated by the early 1990s. This rapid expansion was driven by the scope created by the process of financial liberalisation in fresh avenues of operations in areas, such as, hire purchase, housing, equipment leasing and investment. The business of asset reconstruction has recently emerged as a greenfield within this sector following the passage of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

6.3 In view of their rapid growth and in response to certain disconcerting developments, the Reserve Bank strengthened the supervisory framework in January 1998, consequent to amendments to the Reserve Bank of India Act, 1934 in March 1997. In supervisory terms, fiscal 2002-03 saw the completion of the process of compulsory registration of NBFCs, existing at the point of the amendment of the Reserve Bank of India Act, 1934 with the Reserve Bank. Besides, a system of asset-liability management has also been put in place. In the interest of greater transparency, the Reserve Bank also instituted a system of balance sheet disclosures, effective March 2003.

6.4 The health of the NBFCs continues to show a distinct improvement in recent years facilitated by prudential nurturing. Most of the reporting NBFCs recorded a capital to risk-weighted assets ratio (CRAR) of at least the stipulated minimum of 12 per cent, with almost three-fourth reporting a CRAR of above 30 per cent. Similarly, the non-performing assets of NBFCs, in both gross and net terms, as a percentage of credit exposure, have been declining in recent years. Nevertheless, the NBFCs, as a sector, recorded losses for the second year in succession during 2001-02.

2. Non-Banking Financial Entities Regulated by the Reserve Bank

6.5 Non-banking financial entities which were either partially or wholly regulated / supervised by the Reserve Bank include the following:

- NBFCs, comprising equipment leasing, hire purchase finance, loan, investment and residuary non-banking companies;
- mutual benefit financial companies**, *i.e.*, *nidhi* companies;
- mutual benefit companies**, *i.e.*, potential *nidhi* companies; and,
- miscellaneous non-banking companies, *i.e.*, *chit* fund companies (to the extent of their deposit-taking activity) (Table VI.1).

6.6 Certain types of financial companies, *viz.*, insurance companies, housing finance companies, stock broking companies, *chit* fund companies, companies notified as '*nidhis*' under Section 620A of the Companies Act, 1956 and companies engaged in merchant banking activities (subject to certain conditions), however, have been exempted from the Reserve Bank's registration as they are regulated by other agencies.

3. Registration

6.7 The Reserve Bank of India (Amendment) Act, 1997 made it obligatory for NBFCs to apply to the Reserve Bank for a certificate of registration (CoR). The minimum net owned fund[1] (NOF) for registration, was stipulated at Rs.25 lakh for the then existing NBFCs and Rs.2 crore for new NBFCs seeking grant of CoR on or after April 21, 1999. The three-year period provided in the Reserve Bank of India (Amendment) Act, 1997 for the NBFCs to attain the minimum NOF necessary for registration expired on January 9, 2000.

Table VI.1: Select Types of Non-Banking Financial Entities

Non-Banking Financial Entity	Principal Business
1	2
I. Non-banking financial company	In terms of the Section 45I(f) [read with Section 45I(c)] of the Reserve Bank of India Act, 1934, as amended in 1997, the principal business is that of receiving deposits or that of a financial institution, such as, lending, investment in securities, hire purchase finance or equipment leasing.
(a) Equipment leasing company (EL)	Equipment leasing or financing of such activity.
(b) Hire purchase finance company (HP)	Hire purchase transactions or financing of such transactions.
(c) Investment company (IC)	Acquisition of securities; includes primary dealers (PDs) which, *inter alia*, deal in underwriting and

		market-making for government securities.
	(d) Loan company (LC)	Providing finance by making loans or advances, or otherwise for any activity other than its own; excludes EL/HP/ Housing Finance Companies (HFCs).
	(e) Residuary non-banking company (RNBC)	Receiving deposits under any scheme or arrangement, by whatever name called, in one lump-sum or in instalments by way of contributions or subscriptions or by sale of units or certificates or other instruments, or in any manner. These companies do not belong to any of the categories as stated above.
II.	Mutual benefit financial company (MBFC), *i.e., nidhi* company	Notified by the Central Government as a *nidhi* company under Section 620A of the Companies Act, 1956.
III.	Mutual benefit company (MBC), *i.e.*, potential *nidhi* company	A company which is working on the lines of a *nidhi* company but has not yet been so declared by the Central Government, has minimum net owned fund (NOF) of Rs.10 lakh, has applied to the Reserve Bank for CoR and also to the Department of Company Affairs (DCA) for being notified as a *nidhi* company and has not contravened directions/ regulations of the Reserve Bank /DCA.
IV.	Miscellaneous non-banking company (MNBC), *i.e.*, *chit* fund company	Managing, conducting or supervising as a promoter, foreman or agent of any transaction or arrangement by which the company enters into an agreement with a specified number of subscribers that every one of them shall subscribe a certain sum in instalments over a definite period and that every one of such subscribers shall in turn, as determined by tender or in such manner as may be provided for in the arrangement, be entitled to the prize amount.

Table VI.2: Certificates of Registration of NBFCs

End-June	All NBFCs	NBFCs accepting Public Deposits
1	2	3
1999	7,855	624
2000	8,451	679
2001	13,815	776
2002	14,077	784
2003	13,849	710

The further three-year period granted by the Reserve Bank, at its discretion, also came to a close on January 9, 2003. The Reserve Bank approved about one-third of the applications received, permitting only 710 NBFCs to accept / hold public deposits[2] as at end-June 2003 (Table VI.2). All NBFCs holding public deposits whose CoRs have been either rejected or cancelled have to continue repaying the deposits on due dates and dispose off their financial assets within three years from the date of application / cancellation of the certificate or convert themselves into non-banking non-financial companies. Thus, there has been a fall in the number of operating NBFCs reflecting mergers, closures and cancellation of licenses. Besides, the number of public deposit-accepting companies also came down because of conversion to non-public deposit-accepting activities.

4. Supervision

6.8 The Reserve Bank has been strengthening the supervisory framework for NBFCs to ensure sound and healthy functioning and to avoid excessive risk taking. The degree of supervisory oversight is based on the following three criteria, *viz.*, a) size of the NBFC, b) the type of activity performed, and c) the acceptance (or otherwise) of public deposits. The NBFC supervisory framework rests on a four-pronged strategy encompassing the following, *viz.*, a) on-site inspection, based on the CAMELS methodology, b) off-site monitoring supported by state-of-the art technology, c) market intelligence, and d) exception reports of statutory auditors of NBFCs.

6.9 The Reserve Bank inspected a total of 918 registered NBFCs, including 255 public deposit-accepting companies during 2002-03 (July-June). The Reserve Bank also conducted 685 snap scrutiny exercises relating to NBFCs.

6.10 Notwithstanding the differences between banks and NBFCs, there are areas of operational convergence due to their engagement in similar types of activities in the broad product space of deposit mobilisation and lending. A critical issue is the desirable degree of regulatory convergence between banks and NBFCs in view of the complex set of similarities and differences in their functions (Box VI.1). It is in this context, that the Reserve Bank's regulatory framework for NBFCs, by and large, follows the regulations for banks but also differs in a number of cases (Table VI.3). The regulations are relatively more stringent in case of public deposit-accepting companies in order to protect depositors' interest. Since NBFCs are not directly part of the process of credit creation, reserve requirements apply exclusively to banks. Finally, as NBFCs have sometimes promised unsustainable returns to investors - often to small depositors - there is a ceiling on rates offered on NBFC deposits to avoid such past experience.

5. Policy Developments

6.11 The Reserve Bank introduced a number of measures to enhance the regulatory and supervisory standards of NBFCs during 2002-03, especially in order to bring them at par with commercial banks, in select operations, over a period of time. Regulatory measures adopted during the year include aligning interest rates in this sector with the rates prevalent in the rest of the economy, tightening prudential norms, standardising operating procedures and harmonising supervisory directions with the requirements of the amended Companies Act, in respect of, *inter alia*, registration, reporting requirements and constitution of audit committees.

Box VI.1: Regulatory Design for Banks and Non-Banking Financial Intermediaries

Banks and NBFCs essentially perform the function of financial intermediation in the economy.

Their regulatory design has serious implications for the efficiency of the financial system, as well as for financial stability. Gaps often create the scope for regulatory arbitrage that impact on the process of price discovery and efficient allocation of resources, or result in regulatory repression of the various segments of the financial sector. Banks and public deposit-accepting NBFCs compete for deposits. Besides, banks and NBFCs are also competing sources of funds in certain sections of the credit markets. These two factors provide the basic case for regulatory convergence in terms of licensing (and entry), capital adequacy, loan loss provisioning and risk management. At the same time, a large number of NBFCs do not mobilise public deposits and therefore, do not fund their activities through deposit money, as in the case of banks. This implies that the case for regulatory convergence based on depositors' protection between banks and NBFCs does not apply uniformly to the latter.

The differences in regulation of banks and NBFCs reflect their unique characteristics and the fundamental differences in their operations. First, while both bank and non-bank deposits reflect investor choice, bank accounts -current and / or savings - are necessary to settle financial transactions since banks exclusively have the power of issuing cheques as constituents of the payments system. Secondly, transactions put through banks and NBFCs carry very different macroeconomic implications. A deposit with a bank sets off a process of credit creation while a deposit with an NBFC typically results in a transfer of ownership of bank deposits without any immediate monetary impact. This implies that certain regulatory measures, such as, the imposition of cash reserve requirements, apply uniquely to banks.

The impact of NBFC activity on bank soundness is also complex. First, a shift of term deposits from banks to NBFCs could ease the interest expenditure in the bank balance sheets, since NBFCs are more likely to place funds in non-interest bearing current accounts. Second, in case of individual banks, there would also be the cost of variability of cash flows as NBFCs transact their business. The net effect on banking soundness would, thus, primarily depend on the relative strength of the two factors. Finally, insofar as banks lend to NBFCs, their performance directly impinges on the health of banks.

Reference:

Carmichael, Jeffrey and Michael Pomerleano (2002), *The Development and Regulation of Non-Bank Financial Institutions*, World Bank, Washington DC.

Interest Rates

6.12 In view of the softening of interest rates in the financial markets, the maximum rate of interest that NBFCs (including *nidhi* companies and *chit* fund companies) could pay on their public deposits was reduced from 12.5 per cent per annum to 11.0 per cent per annum with effect from March 4, 2003. Similarly, the minimum rate of interest payable by RNBCs was reduced from 4.0 per cent to 3.5 per cent per annum on daily deposit schemes, and from 6.0 per cent to 5.0 per cent per annum on other types of deposits. In order to ensure that rates on non-resident Indian (NRI) deposits are uniform in the entire financial system, NBFCs, including RNBCs, have been directed that interest payable on such deposits accepted by them would be the same as that payable by scheduled commercial banks (SCBs), *i.e.*, 25 basis points above the London Inter-

Bank Offer Rate (LIBOR) / SWAP rate for US dollars of corresponding maturity.

Asset Liability Management

6.13 The asset-liability management (ALM) guidelines for NBFCs, issued in June 2001, became fully operational from March 31, 2002. A system of half-yearly reporting has been put in place in this regard beginning September 30, 2002 in respect of NBFCs with public deposits of Rs.20 crore and above, or an asset size of Rs.100 crore and above, within a month of close of the relevant half-year.

Transactions in Government Securities

6.14 All NBFCs were directed to invariably hold their investments in Government securities in either of the following ways: a) the Constituents' Subsidiary General Ledger Account (CSGL) with a SCB, or the Stock Holding Corporation of India Limited (SHCIL), or b) in a dematerialised account with depositories, [*e.g.*, the National Securities Depository Limited (NSDL) and the Central Depository Services Limited (CDSL)] through a depository participant registered with the Securities and Exchange Board of India (SEBI).

Disclosure for Depositor Education

6.15 NBFC deposits are not covered under any insurance scheme. In the interest of transparency and public awareness, NBFCs were instructed to include a clause in any advertisement / statement issued by them for inviting public deposits that the deposits placed with them are not insured.

Table VI.3: Regulatory Norms for Banks and Non-Banking Financial Companies

Particular	Bank	NBFC
1	2	3
Minimum capital/ Net Owned Fund	Minimum capital requirements of Rs.200 crore, to be raised to Rs. 300 crore within three years of operation, in case of new banks. Promoters' minimum contribution is 49 per cent of the paid-up capital.	Net owned fund of not less than Rs. two crore is a pre-requisite for grant of CoR for commencing the business of a non-banking financial institution.
Statutory Liquidity Requirement	Maintain in India, in either, (i) cash, (ii) gold (at up to current market price), (iii) unencumbered approved securities valued at a price specified by the Reserve Bank, or (iv) net balances in current accounts with nationalised banks in India, at close of business on any day, an amount not less than 25 per cent of total of demand and time liabilities in India on fortnightly basis, or such other percentage not exceeding 40 per cent, as the Reserve Bank, by way of notice, specifies from time to time.	To maintain in India in unencumbered approved securities, valued at current market price, an amount at the close of business on any day which shall not be less than 15 per cent of the public deposits outstanding as at the last working day of the second preceding quarter.
Cash Reserve Ratio	Applicable.	No such requirement.

Reserve Fund	Applicable. Transfer out of the profit of each year before dividend is declared, to such reserve fund a sum, not less than 20 per cent of such profit.	Same as in the case of banks.
Prior approval of Reserve Bank for appointment of the managing directors.	Necessary. Applicable in case of amendment to the terms and conditions of the appointment of managing directors, *etc*.	No such requirement.
Prohibition of common directors	Applicable.	No such requirement.
Powers for appointment of additional directors	The Reserve Bank may appoint one or more persons to hold office as additional directors of a banking company.	No such powers in case of NBFCs.
Control over appointment of auditors	Prior approval of the Reserve Bank for appointment, re-appointment or removal of the auditor required.	No such requirement for NBFCs. These companies have freedom to appoint their auditors as per the Companies Act, 1956.
Deposit directions	Acceptance of deposits from the public, repayable on demand, allowed. Interest rate payable on saving accounts prescribed by the Reserve Bank.	Detailed directions on acceptance of public deposits relating to, *inter alia*, minimum eligibility criteria, quantum, minimum and maximum period, rate of interest, and advertisement.
Payment system	Member of payment and settlement system.	Cannot accept deposits withdrawable by cheque.
Deposit insurance	Deposits insured by the Deposit Insurance and Credit Guarantee Corporation of India up to Rs.1 lakh for each depositor in respect of his /her deposit in an insured bank in the same capacity and in the same right.	Deposits are uninsured and no official agency guarantees the payment of principal or the interest on such deposits.
Refinance facility	The Reserve Bank may grant refinance, rediscounting facilities and demand loans.	No such provision in the Reserve Bank of India Act, 1934.
Powers of amalgamation, and scheme of arrangement	The Reserve Bank has powers to sanction schemes of amalgamation, reconstruction, and arrangement approved by the requisite majority of shareholders of the bank.	No such provision.
Winding up proceedings	Special provisions for winding up of a banking company under certain circumstances.	Winding up, subject to the general provisions contained in the Companies Act, 1956.

Exposure of NBFCs to the Capital Market

6.16 The exposure of NBFCs to the capital market has important ramifications for their depositors' interest. The NBFCs, holding public deposits of Rs.50 crore and above and RNBCs having aggregate liabilities to the depositors of Rs.50 crore and above as on March 31, 2002 or thereafter, have been directed to furnish to the Reserve Bank, information relating to their exposure to the capital market, at quarterly intervals, within a month of the close of the relevant quarter.

Exemptions

6.17 The basic philosophy of regulatory guidelines is to protect depositors' interest and not to discourage the basic function of genuine risk taking. Accordingly, venture capital fund companies and the stock broking companies, which do not hold public deposits as defined under the Reserve Bank regulations and possess a certificate of registration from the SEBI, have been exempted from the core provisions of sections of the Reserve Bank of India Act, 1934 relating to CoR requirements, maintenance of liquid assets and creation of reserve fund.

Investments by RNBCs in UTI units

6.18 In order to avoid disproportionately large exposures to any mutual fund, investments of RNBCs in mutual funds are subject to certain restrictions. In view of the bifurcation of the Unit Trust of India (UTI) and the fact that mutual fund activities of UTI presently fall under the purview of the SEBI (Mutual Funds) Regulations, 1996, the dispensation to RNBCs to invest in the units of UTI up to the entire sub-limit of 10 per cent of the aggregate liabilities to the depositors, was withdrawn. The permission to the RNBCs to invest in the mutual funds, including the UTI, would, however, continue within the ceiling of 10 per cent of the aggregate liabilities. The sub-ceiling of 2 per cent of such liabilities for any one mutual fund is now extended to the investments in the units of UTI.

Primary Dealers (PDs)

6.19 The regulatory framework for PDs reflects their unique position in the financial markets. While they are essentially non-bank financial intermediaries operating in the money and government securities markets, PDs also channelise central bank liquidity to banks so that their lendings to banks in the call money market are reckoned as part of inter-bank liabilities. Besides being investors, along with banks in the money and government securities markets, PDs also perform a market-making function, in course of which they are allowed access to the Reserve Bank's liquidity window in the form of the Liquidity Adjustment Facility and assured liquidity support in consonance with their commitments in primary auctions. In consonance with their special role in financial markets, the Reserve Bank has instituted a regulatory framework for primary dealers which reflects their functional similarities as well as differences with banks (Table VI.4). In view of their essential function as dealers in money market instruments and government securities, PDs, unlike banks, are not subject to several regulations in respect of asset classification, income recognition, non-performing assets, provisioning and exposure norms. The scale, scope and regulation of the primary dealer network in the Indian case is, more or less, in consonance with cross-country experiences (Table VI.5).

6.20 PDs have been brought under the purview of the Board for Financial Supervision (BFS) in 2002-03 in view of their growing systemic importance in terms of the following attributes: (a) their large number, (b) highly leveraged portfolios with short-term funds, (c) substantial share in the Government securities market, and (d) a significant position in the money market, comparable with banks. The Reserve Bank also undertakes on-site inspection of each PD besides the off-site supervision through prescribed periodic returns.

6.21 In January 2002, PDs were advised to follow a prudent dividend distribution policy. This is expected to build up sufficient reserves (even in excess of regulatory requirements), which can act as a cushion against any adverse interest rate movements in the future. The financial strength of the PDs is being monitored at regular intervals.

6.22 With a view to enlarging the funding avenues for their operations, PDs were allowed to avail of FCNR(B) loans from banks within an overall limit of 25 per cent of their NOF to supplement their funding sources. The foreign exchange risk on such loans would need to be hedged at all times at least to the extent of 50 per cent of exposure.

Table VI.4: Comparative Position of Banks and Primary Dealers with respect to Select Regulatory Parameters

Norm	Bank	Primary Dealer
1	**2**	**3**
CRAR	9 per cent of total risk-weighted assets (RWA).	15 per cent. Tier-I and Tier-II capital defined as in case of banks for credit risk. Tier-III capital for market risk subject to the constraints as per BIS standards. Capital adequacy for subsidiaries not applicable.
Investments	SLR securities and non-SLR securities (*i.e.*, total investment portfolio) classified into three categories, *viz*., Held to Maturity (HTM) (up to 25.0 per cent of total investments), Available for Sale (AFS) and Held for Trading (HFT) categories, with progressively regular mark-to-market norms .However as per the balance sheet format, investments continue to be disclosed as per six existing classifications.	The government and non-government securities portfolio, to the extent the holding period and defeasance period stipulations can be satisfied, treated as trading and marked to market.
Disclosure Requirements	Number of items[3] .	a) Net borrowings in call (average and peak during the period); b) Basis of valuation at lower of cost and market (LOCOM) / mark to market (MTM); c) Leverage Ratio (average and peak); and, d) CRAR (quarterly figures). Besides, PDs may also furnish more information by way of additional disclosures.

ALM Guidelines	Introduced February 1999. Banks 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. Prudential norms prescribed 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 to NBFCs applicable to PDs with necessary modifications in tune with their nature of operations from January 2002. • The entire government securities portfolio treated as liquid and put in the first time bucket for liquidity risk management. Non-government securities treated as trading portfolio to the extent that holding period and defeasance period stipulations are satisfied. • PDs have been advised to continue with duration gap, present value of a basis point (PVBP), daily earnings at risk (DeaR), value at risk (VaR), *etc*. in relation to interest rate risk management measures rather than simple maturity / repricing gap method.
Resource Raising	Not applicable for banks.	PDs may raise resources by means of Call/term borrowing; Borrowing from the Reserve Bank under normal/ backstop/LAF facility; Repo borrowings from market; Borrowings under credit line from banks/ financial institutions; Borrowings through ICDs/CP/ bonds; and, Borrowing under FCNR(B) loans scheme of banks.

Table VI.5: Primary Dealer Systems - Cross-country Experience

Economy	Start Date	Number of Dealers	Number of Primary Dealers	Access to Central Bank facilities		Supervision
				Liquidity support	Open Market Operations	
1	2	3	4	5	6	7
Brazil	1974	338	22	No	Yes	Central bank.
Canada	1998	44	12	Yes	Yes	Central bank, ministry of finance, Investment Dealer Association.
France	1987	40 *plus*	18	No	No	Ministry of finance.
Mexico	2000	20-25	5	Yes	No	Central bank, ministry of finance.
UK	1986	NA	17	No	No	Financial Services Authority, ministry of finance.
USA	1960	NA	25	Yes	Yes	Central bank, ministry of finance.

NA: Not available.
Source: Arnone, Marco and George Iden (2003), "Primary Dealers in Government Securities: Policy Issues and Selected Countries'
Experience", *IMF Working Paper* , No.WP/03/45.

6.23 Following representations received from some PDs, the Reserve Bank issued operational guidelines enabling them to undertake Portfolio Management Services (PMS) for entities other than those regulated by the Reserve Bank. Besides compliance with the above operational guidelines, the PMS undertaken by PDs, requires prior approval of the Reserve Bank and registration with the SEBI.

Guidelines and Directions to Securitisation and Reconstruction Companies

6.24 Several countries have set up asset reconstruction companies (ARCs) - in both the public and private sectors, specialising in recovery and liquidation of banks' non-performing assets (Table VI.6). This reinforces the earlier experiment of rapid asset disposition attempted in Mexico, Philippines, Spain and the USA. The Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) recommended the transfer of sticky assets to an asset reconstruction company. The recent SARFAESI Act provides for sale of financial assets by banks/FIs to securitisation companies (SCs)/ reconstruction companies (RCs).[4]

6.25 The basic operation of asset reconstruction is easily captured by a simple hypothetical example (Table VI.7). A bank could sell its non-performing assets to an ARC at a commission / discount (say, marked to collateral valuation), which is charged to the profit and loss account in return for bonds issued by the ARC, without loss of generality, to clean up their balance sheet. The ARC, which buys the asset, with bonds issued to the bank (or the public) can make a profit if it is able to reconstruct it or dispose it off at a higher price.

Table VI.6: Restructuring Agencies - International Experience in Select Countries

Country	Agency	Ownership	Asset Transfer criteria	Transfer Price	Share of Assets disposed
1	2	3	4	5	6
China	Four agencies matched with banks (1999-)	Public	Non-performing loans	Book value	
Finland	Arsenal (1993-)	Public	Non-performing loans	Book value	Substantial
Ghana	NPART (1990-97)	Public	Mostly non-performing loans	Book value, excluding accrued interest	Turned into collection agency
Sweden	Securum (1992-97), Retriva (1993-,merged with Securum, 1995)	Public	Size and complexity of loans	Book value	Substantial

Source:
1.Klingebiel, D. (1999), "The Use of Asset Management Companies in the Resolution of Banking Crises", *World Bank Policy Research Working Paper*.
2. Ma, Guonan and Ben S.C. Fung (2002), "China's asset management corporations", *BIS Working Paper*, No.115.

Table VI.7: Transactions in Asset Reconstruction: A Hypothetical Example

Flows in Bank Balance Sheet				Flows in ARC Balance Sheet			
Liabilities		Assets		Liabilities		Assets	
1	2	3	4	5	6	7	8
Deposits		Loan transferred to ARC	-100	Bonds	50	Bank loan valued at transfer price	50
Profit	(-)50	Payment received (ARC Bonds at transfer price)	50	Profit	10	Value addition during reconstruction	10
Total	**-50**		**-50**	**Total**	**60**		**60**

6.26 The Reserve Bank issued guidelines and directions to SCs and RCs seeking registration from it under Section 3 of the SARFAESI Act, 2002 (Box VI.2). The Reserve Bank has so far received 15 applications from SCs / RCs for the issue of CoR. An external Advisory Committee on the registration of SCs / RCs has been constituted to screen applications and advise the Reserve Bank on the registration of these companies. Two applications have been approved so far for grant of CoR to commence the business of SCs / RCs subject to certain conditions. Two asset reconstruction companies, *viz.*, Asset Reconstruction Company (India) Limited and Asset Care Enterprises Limited, have been issued certificates of registration to commence the business of securitisation and asset-reconstruction.

Design of New Balance Sheet Format

6.27 In pursuance of the recommendations of the Expert Group for Designing a Supervisory Framework for Non-Banking Financial Companies (Chairman: Shri P.R. Khanna), the Reserve Bank stipulated that, effective March 31, 2003 onwards, all NBFCs (irrespective of whether they hold public deposits or not) should attach a schedule to the balance sheet containing some additional prescribed particulars (Box VI.3). These requirements are applicable to the NBFCs in the category of equipment leasing, hire purchase finance, loan and investment and RNBCs.

Mutual Benefit Financial Companies (MBFC or Nidhis)

6.28 Mutual Benefit Financial Companies (*nidhis*) have been exempted from the core provisions of the Reserve Bank of India Act, 1934 and directions except those relating to the ceiling on interest rates, maintenance of register of deposits, issue of deposit receipt to depositors, and submission of annual return on deposits. However, as part of the implementation of the recommendations of an Expert Group (Chairman: Shri Sabanayagam), the Central Government has prescribed certain prudential norms for the MBFCs, such as, entry point norms, NOF to deposits ratio, stipulated liquid asset requirement, acceptance of deposits and its methodology (as in the case of NBFCs prescribed by the Reserve Bank), and prudential norms in July 2001. These norms were further amended in April 2002. These measures are expected to strengthen the functioning of these companies. The Central Government notified, on September 29, 2003, that interest rate payable on deposits accepted by these companies would be the same as NBFCs. With the above prescriptions, the entire regulation of these companies has been taken over by the DCA.

Mutual Benefit Companies (MBCs/ Potential Nidhis)

6.29 The NBFCs working on the lines of *nidhi* companies are categorised as Mutual Benefit Companies (MBCs) by the Reserve Bank and as potential *nidhi* companies by the DCA. Such companies are defined as those desirous of *nidhi* status under section 620A of the Companies Act, 1956. It may be pertinent to note that there were 206 companies (as on January 9, 2003) whose applications were awaiting notification as *nidhis* by DCA. However, a large number of MBCs awaiting *nidhi* status, including the companies mentioned above, applied to the Reserve Bank for grant of CoR as NBFCs.

Box VI.2: Asset Reconstruction Companies

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 was enacted by the Government of India on June 21, 2002 for regulation of securitisation and reconstruction of financial assets and enforcement of security interest by secured creditors, including securitisation companies (SCs) and reconstruction companies (RCs). The Act vests the Reserve Bank with the powers to register such companies and frame regulations for their functioning, covering areas, such as, registration, owned fund, prudential norms, capital adequacy, aggregate value and type of assets to be acquired. Based on the recommendations of the two working groups constituted by the Reserve Bank to address the above issues, guidelines and directions have been issued to securitisation or reconstruction companies on April 23, 2003. Following are the main features of the SCs / RCs:

- SCs / RCs seeking registration with the Reserve Bank are required to have a minimum owned fund of Rs.2 crore.
- Such SCs / RCs can undertake both securitisation and asset reconstruction activities. While SCs / RCs not registered with the Reserve Bank can carry out the business of securitisation and asset reconstruction outside the purview of the SARFAESI Act, they would not be able to exercise the powers of enforcement provided for in the SARFAESI Act.
- SCs / RCs registered with the Reserve Bank would confine their activities to the business of securitisation and asset reconstruction and such other activities as permitted under the SARFAESI Act. Carrying out any other business would require Reserve Bank approval. Companies carrying out any other business are to cease to undertake such activities by June 20, 2003.
- SCs / RCs should not accept deposits (as defined under Section 58 A of the Companies Act, 1956).
- While change or take-over of management / sale or lease of business of the borrower is provided for in the SARFAESI Act, SCs/RCs cannot exercise these powers until the Reserve Bank issues necessary guidelines in this regard.
- Every SC / RC shall frame an asset acquisition policy with the approval of their board within 90 days of grant of CoR by the Reserve Bank. This should, *inter alia*, provide norms and procedure for acquisition of financial assets, types and desirable profile of the assets, valuation of assets and delegation of powers.
- SCs / RCs may reschedule and settle the debts payable by the borrower in terms of a policy framed by their boards in regard thereto.
- SCs / RCs should formulate a plan for realisation of assets, which clearly spell out the steps proposed to reconstruct the assets and realise the same within a specified time frame, which shall not in any case exceed five years from the date of acquisition.
- SCs / RCs may raise funds from Qualified Institutional Buyers (QIBs) by way of issue of security receipts, as per policy framed in this regard, through one or more trusts set up for this purpose. The security receipts, to be issued on private placement basis, can be transferred only amongst QIBs.
- SCs / RCs, may, as a sponsor or for the purpose of establishing a joint venture, invest in the equity share capital of another SC / RC for the purpose of asset reconstruction. Surplus funds available may be deployed in government securities and deposits with scheduled commercial banks in terms of a policy framed in this regard by their board. Investments in land and buildings can be made only out of funds borrowed and/ or owned funds in excess of the

minimum prescribed owned fund of Rs.2 crore.

- Prudential norms covering capital adequacy, income recognition, asset classification, valuation of investments and provisioning, shall be applicable to the assets borne on the balance sheet of such companies.
- Every SC / RC should classify the assets on its balance sheet into standard and non-performing assets, and the non-performing assets further into sub-standard assets, doubtful assets and loss assets. Provisioning is to be made at the rate of 10 per cent and 50 per cent (100 per cent to the extent the asset is not covered by the estimated value of the security) in respect of substandard assets and doubtful assets, respectively. Loss assets are to be written off. If loss assets are retained in the books for any reason, provisions are to be made to the full extent.
- All investments made by the SCs / RCs are to be valued at the lower of cost or realisable value.
- SCs / RCs should maintain, on an ongoing basis, a capital adequacy ratio, which shall not be less than 15 per cent of its total risk-weighted assets.
- SCs / RCs are, *inter alia* to make disclosures in the balance sheet and offer document in the form of financial details, interest rate / probable yield, redemption details including servicing arrangements, credit rating, if any, description of assets backing the security receipts.

Keeping in view that the six-year period provided in the Reserve Bank Act to attain the minimum NOF expired on January 9, 2003, the Reserve Bank has to decide all the pending applications of all NBFCs based on their individual merits and fulfillment of eligibility criteria. In view of the fact that the regulation of all *nidhis* and potential *nidhis* has been taken over by DCA and as the Government concurred with the Reserve Bank's proposal to exempt from the Reserve Bank Regulations only those potential *nidhis* which were existing on January 9, 1997 and have applied to DCA for *nidhi* status on or before January 9, 2003, the Reserve Bank is dealing with the pending applications for grant of CoR on the above basis. The companies which have not applied to DCA for *nidhi* status, or which do not comply with DCA regulations and those whose application for *nidhi* status have been rejected by DCA would be dealt with as NBFCs.

Box VI.3: Balance Sheet Disclosures by NBFCs

The Expert Group for Designing a Supervisory Framework for Non-Banking Financial Companies (Chairman: Shri P.R. Khanna) recommended that the Reserve Bank should explore the possibility of redesigning the format of the balance sheet required to be prepared by the NBFCs. The formats of the financial statements prepared by NBFCs as per Schedule VI to the Companies Act, 1956 were designed primarily to capture the business operations of non-financial companies and therefore, did not reflect their particular business characteristics. A committee of officials of the Reserve Bank and the Institute of Chartered Accountants of India (ICAI), set up to examine the issues, recommended in September 1999 that, while the basic structure of the existing formats of balance sheet of NBFCs as prescribed in the Companies Act should be retained, additional disclosure by way of schedules to the balance sheet and profit and loss account may be prescribed to reflect the particular risk profile of non-bank financial intermediaries. These recommendations were discussed with industry associations and others concerned. After taking into account the various suggestions of the industry and other developments, such as, the issuance of new Accounting Standards by the ICAI, and guidelines for corporate governance for listed companies by the SEBI and amendment of the provisions of the Companies Act regarding measures for protection of the depositors, the Reserve Bank has directed NBFCs to append an additional schedule effective March 31, 2003. The additional disclosures cover the following items:

- Secured and unsecured borrowings from various sources and through different instruments and the amount overdue.
- Break up of public deposits in the form of unsecured debentures, partly secured debentures and other public deposits and the amount overdue under each head.
- Break up of secured and unsecured loans and advances as also bills discounted.
- Break up of leased assets into financial leases and operational leases.
- Break up of stock on hire and repossessed assets.
- Break up of hypothecation loans (counted towards lease or hire purchase finance) where assets have been repossessed or other outstanding loans.
- Break up of current quoted and unquoted investments.
- Break up of long-term quoted and unquoted investments.
- Borrower group-wise credit exposure to related parties and other than related parties.
- Group-wise investment exposure to related parties and other than related parties.
- Position of gross non-performing assets recoverable from related parties and other than related parties.
- Net non-performing assets recoverable from related parties and other than related parties.
- Assets acquired in satisfaction of debt.

6. Business Profile of the NBFC Sector

6.30 The business profile of the NBFC sector as at end-March 2002 broadly reflected long-term trends (Chart VI.1 and Table VI.8). Public deposits worked out to about one-third of total assets of the NBFCs; in case of RNBCs, the share was substantially higher at almost two-third, especially as two of the leading RNBCs account for the bulk of the total NBFC public deposits. The share of public deposits in the case of NBFCs (other than RNBCs) declined sharply during 2001-02; there was a marginal decline in the case of RNBCs as well. Net owned funds of NBFCs also continued to decline in line with long-term trends. The net owned funds of RNBCs, however, turned positive for the first time reflecting a turnaround by one of the leading companies in the sector.

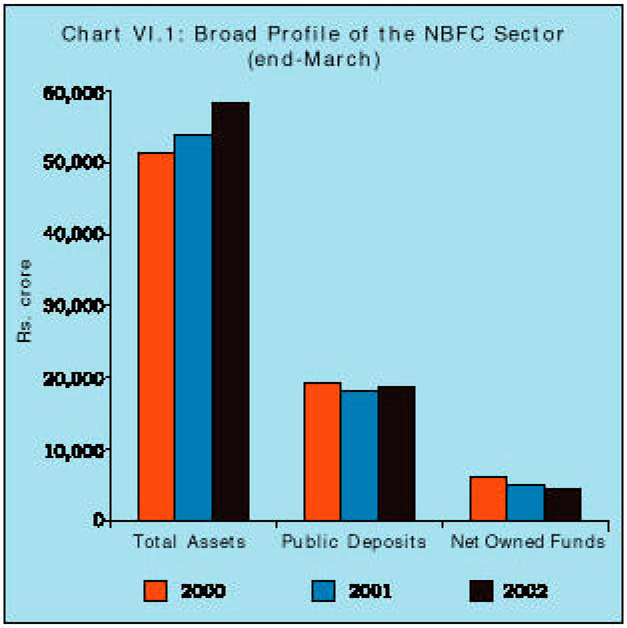


Table VI.8: Business Profile of the NBFC Sector

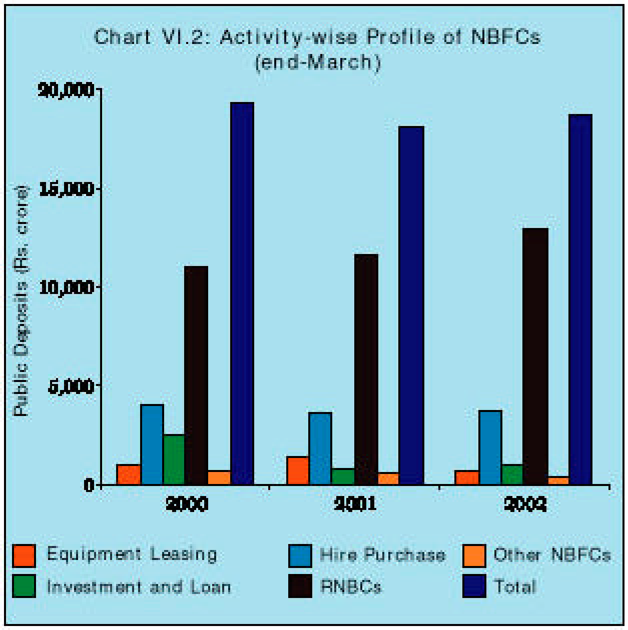
(As on March 31)

(Amount in Rs. crore)

Item	2001		2002	
	NBFCs	*of which* RNBCs	NBFCs	*of which* RNBCs
1	2	3	4	5
Number of reporting Companies	981	7	910	5
Total Assets	53,878	16,244	58,290	18,458
		(30.1)		(31.7)
Public Deposits	18,084	11,625	18,822	12,889
		(64.3)		(68.5)
Net Owned Fund	4,943	- 179	4,383	111

Figures in brackets are percentage shares to total.

6.31 RNBCs continued to hold a substantial part of the NBFC public deposits, with their share continuing to increase in line with long-term trends (Chart VI.2 and Table VI.9). There was a shift in the composition of deposit mobilisation by the other categories of NBFCs during 2001-02. In contrast to the previous year, public deposits with equipment leasing companies declined sharply while those of investment and loan companies increased.



6.32 The Reserve Bank publishes quarterly data on broad liquidity (L_3) encompassing the monetary and liquid liabilities of the banking sector, post office bank, FIs and NBFCs based on the recommendations of the Working Group on Money Supply: Analytics and Methodology of Compilation (Chairman: Dr. Y.V. Reddy). In view of the data lags, the Working Group recommended that estimates of NBFC public deposits could be generated on the basis of returns received from all NBFCs with public deposits of Rs.20 crore and above. The share of public deposits of all NBFCs continued to stagnate at around 1.0 per cent of L_3. Based on such lead data, NBFC public deposits recorded a marginal growth of 0.8 per cent during 2002-03 (Chart VI.3).

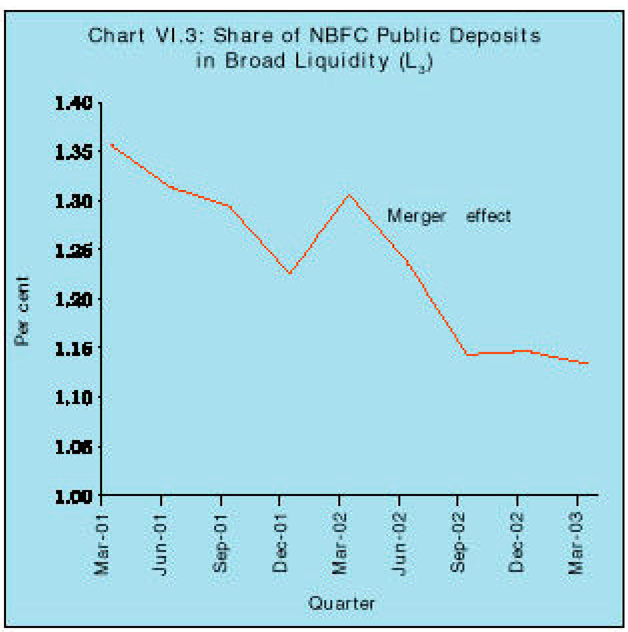


Table VI.9: Profile of Public Deposits of Different Categories of NBFCs

(As on March 31)

(Amount in Rs. crore)

Nature of Business		No. of NBFCs		Public Deposits		Shares in Public Deposits (per cent)	
		2001	2002	2001	2002	2001	2002
1		2	3	4	5	6	7
1.	Equipment Leasing (EL)	58	56	1,450	668	8.0	3.5
2.	Hire Purchase (HP)	470	463	3,659	3,709	20.2	19.7
3.	Investment and Loan (IL)	170	231	785	1,029	4.4	5.5
4.	RNBCs	7	5	11,625	12,889	64.3	68.5
5.	Other NBFCs*	276	155	564	528	3.1	2.8
	Total	**981**	**910**	**18,084**	**18,822**	**100.0**	**100.0**

* Includes Miscellaneous Non-Banking Companies, unregistered NBFCs and unnotified *nidhis*, *etc.*

7. Region-wise Composition of Deposits held by NBFCs

6.33 One of the distinguishing features of the NBFCs is their localised operations. The NBFCs in the Eastern Region continued to dominate the public deposits of registered and unregistered NBFCs as at end-March 2002, essentially because a leading RNBC is based in Kolkata (Table VI.10). The share of the Eastern Region, however, has been declining in recent years while that of the Central Region has been rising, reflecting, *inter alia*, the rapid expansion of a Lucknow-based RNBC. The NBFCs in four metropolitan centres of Mumbai, New Delhi, Kolkata and Chennai continued to account for the bulk of public deposits as at end-March 2002.

8. Interest and Maturity Pattern of Public Deposits with NBFCs

6.34 The interest rate structure of NBFCs (excluding RNBCs) continued to soften during 2001-02, reflecting the recent 350 basis point cut in the ceiling for deposit rates (Chart VI.4 and Table VI.11). This was in consonance with easy liquidity conditions emanating from strong capital flows on the supply side and poor credit off-take on the demand side. The share of deposits in the interest rate range of 10-12 per cent, close to the regulatory cap of 12.5 per cent, jumped sharply during 2001-02. While there has been a gradual repayment of the high-cost deposits accepted by NBFCs, the overhang of deposits, contracted at 14.0 per cent and above[5] - remained substantial at about a fifth of total deposits. This high interest rate, by and large, also reflects the risk premium NBFCs typically pay *vis-à-vis* bank deposits. At the same time, higher deposit rates further affect their commercial viability in a scenario of falling interest rates.

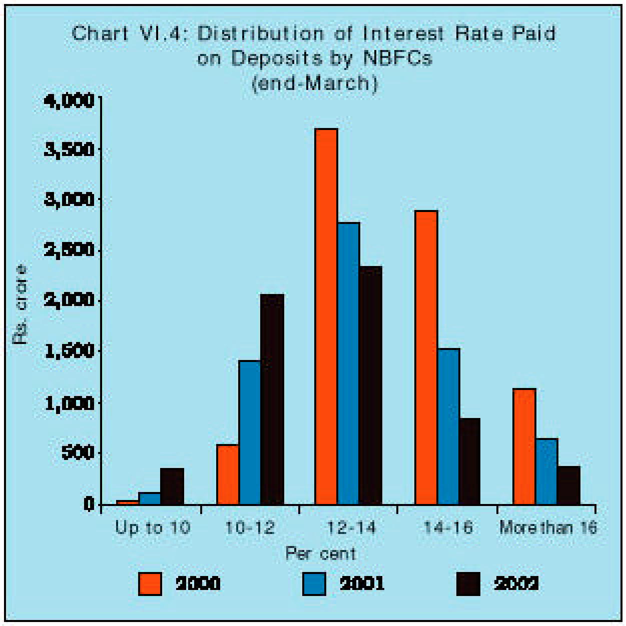


Chart VI.4: Distribution of Interest Rate Paid on Deposits by NBFCs (end-March)

Table VI.10: Region-wise Break-Up of Public Deposits held by Registered and Unregistered NBFCs (As on March 31)

(Amount in Rs. crore)

Region	2001						2002					
	NBFCs			*of which* RNBCs			NBFCs			*of which* RNBCs		
	No.	Amount	Per cent	No.	Amount	Per cent	No.	Amount	Per cent	No.	Amount	Per cent
1	2	3	4	5	6	7	8	9	10	11	12	13
Northern	253	575	3	—	—	—	271	554	3	—	—	—
North-Eastern	—	—	—	—	—	—	3	4	0	—	—	—
Eastern	24	7,932	44	3	7,642	66	21	8,051	43	3	7,812	61
Central	126	4,105	23	3	3,980	34	94	5,207	28	2	5,077	39
Western	81	2,041	11	—	—	—	70	1,467	7	—	—	—
Southern	497	3,432	19	1	4	0.0	451	3,538	19	—	—	—
Total	**981**	**18,084**	**100**	**7**	**11,625**	**100**	**910**	**18,822**	**100**	**5**	**12,889**	**100**
Metropolitan cities												
Mumbai	62	2,011	11	—	—	—	52	1,445	8	—	—	—
Chennai	349	2,918	16	—	—	—	317	3,183	16	—	—	—
Kolkata	23	7,929	44	3	7,642	66	21	8,051	43	3	7,812	61
New Delhi	114	492	3	—	—	—	111	460	2	—	—	—
Total	**548**	**13,350**	**74**	**3**	**7,642**	**66**	**501**	**13,139**	**69**	**3**	**7,812**	**61**

6.35 As a financial sub-sector, NBFCs are a combination of heterogeneous entities. The maturity profile of public deposits held by NBFCs continued to shorten, especially with the repayment of high-cost deposits raised earlier (Table VI.12). The share of public deposits with a maturity of over three years, in particular, declined fairly monotonically, partly reflecting the reluctance of depositors to enter into long-term commitments when interest rates are at historic lows. The increase in public deposits with maturity between 2 to 3 years during 2001-02 was counterbalanced by a decline in most other maturity buckets.

Table VI.11: Distribution of Public Deposits of NBFCs (excluding RNBCs) according to Rate of Interest

(As on March 31)

(Amount in Rs. crore)

Interest Range (per cent)	Amount of deposits		Percentage to total deposits	
	2001	2002	2001	2002
1	2	3	4	5
Up to10	118	358	1.8	6.0
10-12	1,404	2,055	21.8	34.6
12-14	2,759	2,326	42.7	39.2
14-16	1,533	833	23.7	14.0
More than16	646	361	10.0	6.1
Total	**6,460**	**5,933**	**100.0**	**100.0**

Table VI.12: Maturity Pattern of Public Deposits held by NBFCs

(excluding RNBCs)

(Amount in Rs.crore)

Maturity Period	Amount of Public Deposits As on March 31		Percentage to total	
	2001	2002	2001	2002
1	2	3	4	5
Less than 1 year	1,721	1,483	26.7	25.0
1- 2 years	1,741	1,419	27.0	23.9
2- 3 years	2,038	2,198	31.5	37.0
3- 5 years	842	779	13.0	13.1
5 years and above	118	54	1.8	0.9
Total	**6,460**	**5,933**	**100.0**	**100.0**

6.36 The ceiling rate offered on public deposits by NBFCs has come down by 500 basis points since March 2000. As a result, the spread between bank and NBFC deposits has narrowed in recent years (Table VI.13). This is in line with the regulatory guidelines and trends in risk premium.

9. Asset Profile of NBFCs

6.37 Notwithstanding their large number, the NBFC sector continues to be dominated by a few large companies. Twenty NBFCs in the asset range of Rs.500 crore and above continued to account for the bulk of the total assets, with their share increasing further during 2001-02 (Table VI.14). Most of the NBFCs possessed an asset size of below Rs.10 crore. While smaller NBFCs often specialise in addressing local credit needs, their large number continues to pose a regulatory challenge for the Reserve Bank.

Table VI.13: Maximum/Ceiling Interest Rates on Bank and NBFC Deposits

(End-March)

(Per cent)

	Interest Rate / March	2000	2001	2002	2003
	1	2	3	4	5
1.	Maximum interest rate on public sector bank deposits of 1-3 year maturity	10.5	9.5	8.5	6.75

2.	Ceiling interest rate for NBFCs	16.0	14.0	12.5	11.0
3.	Spread (2-1)	5.5	4.5	4.0	4.25

Note:Spread is calculated as difference between the upper end of the interest rate range in case of public sector bank deposits of 1-3 year maturity and the ceiling rate on NBFC deposits.

Table VI.14: Asset Profile of NBFCs (excluding RNBCs*)

(As on March 31)

(Amount in Rs. crore)

Range of Assets	No. of Reporting Companies		Assets		Percentage to Total Assets	
	2001	2002	2001	2002	2001	2002
1	2	3	4	5	6	7
1. Less than 0.25	62	51	7	5	0.0	0.0
2. 0.25 - 0.50	91	88	35	33	0.1	0.1
3. 0.50 - 2	389	383	421	416	1.1	1.0
4. 2 - 10	280	247	1,193	1,076	3.2	2.7
5. 10 - 50	89	74	1,981	1,594	5.3	4.0
6. 50 - 100	15	19	1,019	1,341	2.7	3.4
7. 100 - 500	28	23	7,130	5,962	18.9	15.0
8. Above 500	20	20	25,848	29,406	68.7	73.8
Total	**974**	**905**	**37,634**	**39,833**	**100.0**	**100.0**

* The reporting NBFCs (excluding RNBCs) have been regulated on the basis of their asset size as on March 31, 2001 and 2002.

10. Distribution of Assets of NBFCs according to Activity

6.38 The major portion of the assets of NBFCs (excluding RNBCs) continued to be in the form of their specialised areas of hire purchase and equipment leasing. During 2001-02, there was a shift in the portfolio allocation in favour of loans and inter-corporate deposits from equipment leasing, partly reflecting, *inter alia*, the slowdown in economic activity and changes in taxation (Table VI.15).

11. Borrowings by NBFCs

6.39 The source-wise profile of borrowings by NBFCs (excluding RNBCs), more or less, remained the same as at end-March 2001 and 2002 (Table VI.16). Banks have emerged as a major source of credit for NBFCs, accounting for almost a third of their borrowings - commercial bank funding jumped by 20.8 per cent during 2001-02 on top of a 16.2 per cent rise during 2000-01 - partly driven by easy liquidity conditions. The decline in inter-corporate borrowing was compensated by an increase in other sources, such as, securitised paper and bank loans.

Table VI.15: Activity-wise Distribution of Assets of NBFCs (excluding RNBCs)

(As on March 31)

Activity	Amount in Rs.crore		Percentage to total	
	2001	2002	2001	2002
1	2	3	4	5

Loans & Inter-corporate deposits	10,271	13,710	27.3	34.4
Investments	4,344	4,334	11.5	10.9
Hire Purchase	12,887	13,202	34.2	33.1
Equipment Leasing	4,681	3,112	12.4	7.8
Bills	788	673	2.1	1.7
Other assets	4,663	4,802	12.4	12.1
Total	**37,634**	**39,833**	**100.0**	**100.0**

Table VI.16 Classification of Borrowings by NBFCs (excluding RNBCs)

(As on March 31)

(Amount in Rs. crore)

Source	Outstanding		Percentage to total	
	2001	2002	2001	2002
1	2	3	4	5
Money borrowed from Central/State Governments @	3,041	3,353	13.5	14.0
Money borrowed from foreign sources*	670	670	3.0	2.8
Inter-corporate borrowings	2,866	1,996	12.6	8.3
Money raised by issue of convertible or secured debentures including those subscribed by banks	3,758	4,180	16.7	17.4
Borrowings from banks	6,545	7,918	29.0	33.0
Borrowings from Financial Institutions	1,694	1,546	7.5	6.4
Commercial Paper	627	781	2.8	3.3
Others #	3,358	3,555	14.9	14.8
Total	**22,559**	**24,000**	**100.0**	**100.0**

@ Mainly by State Government-owned companies.

* The amount received from foreign collaborators, as well as, from institutional investors (Asian Development Bank, International Finance Corporation, *etc.*). The major amount is in infrastructure and leasing companies.

Includes security deposits from employees and caution money, allotment money, borrowings from mutual funds, directors, *etc.*

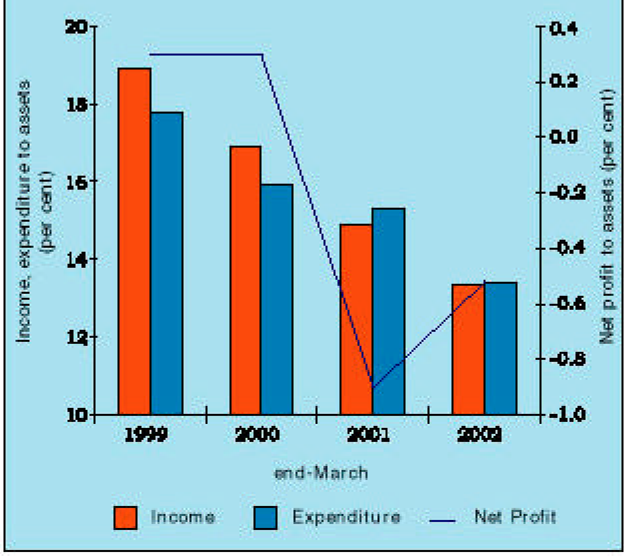
12. Liabilities and Assets of Major NBFCs

6.40 Lead data on the performance of major NBFCs (other than RNBCs) holding public deposits of Rs. 20 crore and above (accounting for three-fourth of sectoral assets) are now available for 2002-03, based on returns instituted on the basis of the Working Group on Money Supply (Chairman: Dr. Y. V. Reddy). The structure of assets and liabilities of major NBFCs during 2001-02 and 2002-03 reveals a decline in public deposits (Table VI.17). This was compensated by a larger recourse to bank loans, partly driven by the softening of bank lending rates. In terms of deployment of funds, investments in corporate paper and other assets recorded an increase in contrast to a decline in the equipment leasing business, in line with sectoral trends. Partly in response to the pickup in industrial activity, loans and advances rebounded in 2002-03.

13. Income - Expenditure Statement of NBFCs

6.41 The NBFCs, as a sector, recorded losses for the second year in succession during 2001-02, as the decline in expenditure could not keep pace with the drop in both fund-based and fee-based income (Chart VI.5 and Table VI.18). The decline in fund income was particularly steep in recent years. Total expenditure fell less sharply as operating expenditure and tax provisions have tended to be sticky. Operating costs of NBFCs, however, continue to be higher than those of banks and financial institutions.

Chart VI.5: Performance of NBFCs (excluding RNBCs)



14. Net Owned Funds (NOF) of NBFCs

6.42 With a view to reinforcing financial stability, the Reserve Bank's supervisory framework lays special emphasis on the sufficiency of NOF of NBFCs to restrict excessive leveraging. The ratio of public deposits to the NOF, a measure of the ability to meet its commitments out of its own resources, did not experience any significant change during 2001-02 (Table VI.19). A major concern continues to be that the NOF for a large number of the reporting NBFCs (excluding RNBCs) - holding almost a fifth of public deposits as at end-March 2002 - was negative.

15. Capital Adequacy Ratio

6.43 Beside the adequacy of net owned funds, capital adequacy norms[6], made mandatory for NBFCs in 1998, are a second line of defence to strengthen financial stability. Of the reporting companies, about three-fourths possess a CRAR of above 30.0 per cent, far in excess of minimum statutory stipulations as at end-March 2002 and 2001 (Table VI.20).

Table No. VI.17: Asset and Liabilities of Companies holding Public Deposits of Rs.20 crore and above

(Amount in Rs.Crore)

Item	March 31, 2002		March 31, 2003	
	Amount	Share to total (per cent)	Amount	Share to total (per cent)
1	2	3	4	5
Liabilities				
Paid-Up Capital	1,632	5.5	1,693	6.4
Free Reserve (adj. for loss)	3,133	10.5	1,325	5.0
Public Deposits	4,503	15.1	3,686	14.0
(i) Public Deposits less than 1 year maturity	1,860	6.2	1,542	5.9
(ii) Public Deposits more than 1 year maturity	2,643	8.8	2,144	8.1
Convertible debentures	3,948	13.2	3,755	14.2
Other Borrowings	9,575	32.0	8,675	32.9

(i) From Banks	7,108	23.8	6,785	25.7
(ii) Inter-Corporate Deposits	1,985	6.6	1,428	5.4
(iii) Foreign Government	483	1.6	462	1.8
Other Liabilities	7,103	23.8	7,222	27.4
Total Liabilities	29,895	100.0	26,355	100.0
Assets				
Investment	3,302	11.0	2,696	10.2
(i) Government Securities	610	2.0	492	1.9
(ii) Corporate sector-shares, bonds, debentures	2,584	8.6	2,025	7.7
(iii) Others	108	0.4	179	0.7
Loans and Advances	8,592	28.7	8,576	32.5
Other Financial Assets	12,081	40.4	10,255	38.9
(i) Hire Purchase	9,556	32.0	8,571	32.5
(ii) Equipment Leasing	2,077	6.9	1,546	5.9
(iii) Bills Discounting	448	1.5	139	0.5
Other Assets	5,920	19.8	4,828	18.3
Total Assets / Liabilities	**29,895**	**100.0**	**26,355**	**100.0**

16. Non-Performing Assets

6.44 The gross and net non-performing assets of reporting NBFCs has experienced a steady decline in recent years (TableVI.21).

17. Primary Dealers

6.45 The primary dealer (PD) system has now been in operation for the last eight years. During 2002-03, PDs continued to strengthen their performance in the government securities market (Table VI.22). All PDs recorded a profit during 2002-03 (Appendix Table VI.1). The share of government securities in total assets experienced a sharp rise during the last two years, reflecting an increased interest in building up the government securities portfolio in the wake of the sustained rally in gilt prices for the preceding two years.

Table VI.18: Financial Performance of NBFCs (excluding RNBCs)

(Amount in Rs. Crore)

	Indicator	2000-01	2001-02	Variation during 2001-02	
				Absolute	per cent
	1	2	3	4	5
A.	**Income (i+ii)**	**5,619**	**5,357**	**-262**	**-4.7**
	i)Fund based	5,247	5,005	-242	-4.6
	ii)Fee based	372	352	-20	-5.4
B.	**Expenditure (i+ii+iii)**	**5,741**	**5,321**	**-420**	**-7.3**
	i)Financial	3,400	3,297	-103	-3.0
	ii)Operating	1,164	1,225	61	5.2
	iii)Other	1,177	799	-378	-32.1
C.	**Tax Provisions**	**203**	**248**	**45**	**22.2**
D.	**Net Profit**	**-325**	**-212**	**113**	
E.	**Total Assets**	**37,634**	**39,833**	**2,199**	**5.8**
F.	**Financial Ratios (as per cent of total assets)**				
	Income	14.9	13.4	-1.6	
	Fund Income	13.9	12.6	-1.3	
	Fee Income	1.0	0.9	-0.1	
	Expenditure	15.3	13.4	-1.9	

Financial Expenditure	9.0	8.3	-0.7
Operating Expenditure	3.1	3.1	- 0.0
Other Expenditure	3.1	2.0	-1.1
Tax Provisions	0.5	0.6	0.1
Net Profit	-0.9	-0.5	0.4

The absorption of primary issues of government paper was, however, marginally lower, reflecting a more aggressive bidding by other investors. While call money borrowings remained a steady source of finance, the average daily utilisation of liquidity support by the PDs was well below the utilisation limit during 2001-02, especially as call rates typically ruled below the Bank Rate.

Table VI.19: Net Owned Fund *vis-à-vis* Public Deposits of NBFCs (excluding RNBCs)

(As at end-March)

(Amount in Rs. crore)

Range of NOF	2001				2002			
	No. of Reporting Companies	Net Owned Fund	Public Deposits	Public Deposits as multiple of NOF	No. of Reporting Companies	Net Owned Fund	Public Deposits	Public Deposits as Multiple of NOF
1	2	3	4	5	6	7	8	9
Up to 0.25	225	-859	807	—	214	-1,351	1,120	—
0.25 – 0.50	346	116	188	1.6	300	103	128	1.2
0.50 – 5.0	305	498	692	1.4	298	477	361	0.8
5 – 10	34	224	94	0.4	30	204	80	0.4
10 – 50	37	775	777	1.0	38	798	718	0.9
50 – 100	12	804	924	1.1	11	798	846	1.1
100 – 500	14	3,063	2,299	0.8	14	3,243	2,680	0.8
Above 500	1	501	679	1.4	—	—	—	—
Total	**974**	**5,122**	**6,460**	**1.3**	**905**	**4,272**	**5,933**	**1.4**

Table VI.20: CRAR of Reporting NBFCs

(As on March 31)

(Amount in Rs. crore)

NBFC Category/ CRAR Range (in per cent)	Less than 10	10-12	12-15	15-20	20-30	Above 30
1	2	3	4	5	6	7
March 2001						
Equipment & Leasing	9	1	1	4	8	30
Hire Purchase	22	1	5	29	58	313
Loan/Investment	23	2	2	5	15	180
RNBCs	2	1	0	0	1	2
Total	**56**	**5**	**8**	**38**	**82**	**525**
March 2002						
Equipment & Leasing	10	0	1	4	9	32
Hire Purchase	17	0	8	32	54	334
Loan/Investment	15	0	1	9	11	121
RNBCs	1	0	0	1	1	2
Total	**43**	**0**	**10**	**46**	**75**	**489**

6.46 PDs' performance, in terms of both return on average net worth and return on average assets, has been lower during 2002-03 as compared with the performance of 2001-02. This was driven by two factors:

- Although the yields continued to soften, during the year, there was a slowdown in the trend giving lower mark-to-market values and trading margins. The 10-year and 20-year yields fell by about 115 and 123 basis points, respectively, during 2002-03 as compared to 287 and 311 basis points, respectively, in the previous year.
- While exiting the position on triggering of stop-loss limits when the yields saw reversals on military action in the Middle East and border tensions, PDs lost a part of their accruals during the year.

6.47 PDs continued to maintain capital to risk weighted assets ratios far in excess of the minimum capital of 15 per cent of aggregate risk-weighted assets, including credit risk and market risk (Appendix Table VI.2). The market risk capital is maintained at the higher end of that estimated under standardised model and the value-at-risk (VaR) method.

Table VI.21: Non-performing Assets of NBFCs

(per cent of credit exposure)

As at end of period	Gross NPAs	Net NPAs
1	2	3
March 1998	11.4	6.7
September 1998	6.4	4.1
March 1999	10.2	7.0
September 1999	7.7	4.4
March 2000	9.9	9.5
September 2000	10.0	6.3
March 2001	11.5	5.6
September 2001	12.0	5.8
March 2002	10.6	3.9
September 2002	9.7	4.3

6.48 Aggregate CRAR for the PDs fell from 38.4 per cent as at end-March, 2002 to 29.7 per cent as at end-March 2003. This was largely due to higher market risk factoring in the volatilies in VaR measure, in the wake of the Iraq war threat (early 2003) and tension at the Indian borders (May 2002). However, the consistent rise in the share of Government securities in the total assets indicate the reduction in the risk profile of the balance sheet.

Table VI.22: Select Indicators of the Primary Dealers (end-March)

(Amount in Rs. crore)

Variable	2001	2002	2003
1	2	3	4
Number of PDs	15	18	18
Total Capital Funds	3,184	4,371	5,055
CRAR (per cent)	40.9	38.4	29.7
Total assets (net of current liabilities and provisions)	14,772	15,305	17,378
Of which: Government Securities	10,401	12,217	14,573
Government securities as percentage of total assets	70	80	84
Return on Average Assets	—	8.4	6.6
Return on Average Net Worth	—	38.7	24.2
Liquidity Support limits	6,000	4,000	3000

	(Normal)	[Normal)
	2,000	1500
	(Backstop)	(Backstop)

18. Other Developments

Information on directors, change of address, etc., in respect of NBFCs

6.49 Every NBFCs (including government companies, irrespective of whether they hold / accept deposits or not) have to inform any change in the address of its registered office, names of its directors, principal officers, authorised signatories and auditors within 30 days of the occurrence of the event.

Developments pertaining to Informal Advisory Group on NBFCs

6.50 An institutionalised decision-making mechanism in the form of an Informal Advisory Group, set up by the Reserve Bank in 1998, has been found to be extremely useful in the formulation of several policy decisions, regulatory measures and amendments to the directions, accounting procedures and policy. The Group deliberates on various issues emanating from the difficulties in compliance with the regulatory framework and serves as a forum for consulting professional bodies, experts and NBFCs themselves. The terms of the Group and its constitution is reviewed every year. The Group comprised a representative each of the ICAI, one regional-level and two apex-level associations of NBFCs, chief executives of one small- and three large-sized NBFCs, besides the functionaries of the Reserve Bank. The Group held two meetings during 2002-03.

Depositor Protection

6.51 The Reserve Bank has initiated several measures for the benefit of depositors, especially given the large number and varying size of various NBFCs. These measures include:

- upgrading legal recourse, by pursuing the enactment of legislation for protection of interest of depositors in financial establishments;
- greater transparency, through an extensive publicity campaign using the print and electronic media to educate the depositors;
- enhancing the effectiveness of supervision, by conducting i) training programmes for personnel / executives of NBFCs in order to familiarise them with the objectives, genesis and focus of the Reserve Bank regulations, ii) seminars for the civil and police personnel of the State Governments, and iii) training programmes/seminars for auditors in association with the ICAI, to familiarise them with the directions and regulations of the Reserve Bank as applicable to the NBFCs as also the directions applicable to statutory auditors of the NBFCs; and
- reinforcing inter-regulator co-ordination by holding meetings with other regulators like the Registrars of Companies, Department of Company Affairs of the Central Government as well as the civil and police officials of the State Governments.

Web Project

6.52 The Reserve Bank initiated a web project for creating an environment wherein all deposit-taking NBFCs would be able to submit their regulatory returns in electronic form. The rationale behind the project is to eliminate the time-consuming process of data entry at the Reserve Bank's Regional Offices. The scheme envisages that the NBFCs would log on to the Reserve Bank's web site through the internet, access the formats prescribed for reporting, fill in the formats off-line or on-line as per their convenience and submit the returns to the web server. In order to execute the project, a web-enabled COSMOS package was developed and loaded on the web server located at the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad and the server has been mapped to the internet with a link as http:\\dnbsco.infinet.org.in. After the successful testing of the package in an internet environment locally and in collaboration with the Regional Offices of the Reserve Bank, the package is now free from bugs and security threats. The Reserve Bank has been encouraging NBFCs to join the project.

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* As in earlier years, while policy developments in this chapter cover fiscal 2002-03, the analysis of performance of NBFCs is primarily restricted to 2001-02 because of lags in the availability of data.

** The Department of Company Affairs (DCA), Government of India has taken over the entire regulation of mutual benefit financial companies and mutual benefit companies from September 29, 2003.

[1] Net owned fund (NOF) of NBFCs is the aggregate of paid-up capital and free reserves, netted by: (i) the amount of accumulated balance of loss, (ii) deferred revenue expenditure and other intangible assets, if any, (iii) investments in shares of (a) subsidiaries, (b) companies in the same group and (c) other NBFCs, and (iv) loans and advances to (a) subsidiaries and (b) companies in the same group in excess of 10 per cent of owned fund.

[2] Public deposits include any receipt of money by way of deposit or loan or in any other form excluding amounts received as share capital, borrowings from the Central and State Governments, foreign governments, banks, institutions, registered money lenders, *chit* subscription, money received as advance against sale of assets, dealership deposits, security deposits, the money received from other companies and mutual funds, money raised by issue of optionally convertible debentures, secured debentures, hybrid debts/subordinated debts and commercial papers, deposits received from the directors and their relatives and deposits accepted by a private company from its shareholders.

[3] Notes on Account in the balance sheet by public sector banks include: percentage shareholding of the Government of India; percentage of net NPA to net advances; amount of provisions made towards NPAs; depreciation in the value of investment and income tax, separately; capital adequacy ratio (Tier-I and Tier-II capital), separately; sub-ordinated debt raised as Tier-II capital; gross value of investments in and outside India; aggregate of provisions for depreciation and net value of investments; interest income as percentage to average working funds; non-interest income as percentage to average working fund; operating profit as percentage to average working fund; return on assets; business per employee; profit per employee; maturity pattern of loans and advances; maturity pattern of investments in securities; foreign currency assets and liabilities; movements in NPAs; maturity pattern of deposits and borrowings; lending to sensitive sectors; treatment of restructured accounts; investments in shares; investments in convertible debentures; units of equity-oriented mutual funds held; movement of provisions held towards NPAs and movement of provisions held towards depreciation on investments.

[4] Chapter II provides details in this regard.

[5] The ceiling on the interest rate offered on public deposits by NBFCs was 16 per cent till March 31, 2001.

[6] NBFCs are required to maintain Tier-I and Tier-II capital which should not be less than (a) 10 per cent on or before March 31, 1998; and (b) 12 per cent on or before March 31, 1999, of its aggregate risk-weighted assets and of

risk-adjusted value of off-balance sheet items. The total of Tier-II capital, at any point of time, shall not exceed 100 per cent of Tier-I capital.

Chapter VII
Perspectives

7.1 The Indian financial landscape has undergone significant transformation during the ten years of financial liberalisation. Banking sector reforms, introduced a decade ago in 1992-93, have been based on five fundamentals: strengthening of prudential norms and market discipline, appropriate adoption of international benchmarks, management of organisational change and consolidation, technological upgradation, and human resource development. A hallmark of the entire financial sector reform process has been the element of 'gradualism', with due consideration of the timing, pacing and sequencing, following extensive consultations with the stakeholders at each stage.

7.2 It is widely recognised that as a result of these reforms, the Indian banking system is becoming increasingly mature in terms of the transformation of business processes and the appetite for risk management. Deregulation, technological upgradation and increased market integration have been the key factors driving change in the financial sector.

7.3 In line with this general strategy of reforms in the financial sector, the banking sector saw several notable developments during 2002-03. Salient among these are the passage of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, institution of risk-based supervision and operationalisation of the Prompt Corrective Action (PCA) framework. Furthermore, the revised guidelines on infrastructure financing, guidelines on lenders' liability laws, the guidance note on management of credit and market risks, guidelines on country risk management, consolidated supervision and the revised Corporate Debt Restructuring mechanism, have all been brought together to provide for a more resilient, vibrant and healthy banking sector.

7.4 Against this backdrop, the present chapter outlines the opportunities and challenges facing the Indian financial sector over the medium term in the context of the recent measures initiated by the Reserve Bank. These policy challenges are broadly categorised under three heads: (a) strengthening prudential norms, (b) effecting structural changes in the system, and (c) redefining the regulatory role of the Reserve Bank.

Strengthening Prudential Norms

7.5 The process of licensing, regulation and prudential supervision of banks focuses on achieving a stable and viable banking system by setting several norms and indicators, and monitoring their observance. The prudential supervision of banks has been aimed at preventing systemic risk with due consideration to the autonomy of each bank in organising and carrying out activities in a competitive environment. The approach has been to benchmark Indian norms against international best practices and gradually align them with international standards over a period of time.

Basel Accord

7.6 Internationally, the move towards convergence in capital adequacy standards has gained credence with the gradual operationalisation of the new Capital Accord, popularly known as Basel II, by 2006. The Reserve Bank has been actively participating in international discussions on the proposals and has also been in the forefront of initiatives with other non-G-10 supervisors to promote a feasible approach that could be adopted by less complex banks without imposing significant costs. It has transmitted its comments on the recently released Third Consultative Document of the Basel Committee on Banking Supervision in July 2003.

7.7 A basic international concern regarding the proposed framework has been the relative merits of the standardised *vis-à-vis* internal rating-based (IRB) approaches. Most banks in the world are expected to apply the standardised approach. Considering the fact that it is based on the ratings by external agencies, there is a limitation of low penetration of such ratings in emerging market economies. There is also an important issue of the cost that this rating process would impose upon the system. In view of the above constraints, it is perceived that such an approach might not significantly enhance risk sensitivity in developing economies. On the other hand, the IRB approach is viewed as being more risk-sensitive and is expected to lead to better risk management practices. However, only banks that have the necessary wherewithal in terms of adequate data, a sophisticated management information system and a high degree of technical skills are likely to be in a position to adopt this approach in the contemplated timeframe. For banks that are less active internationally, the standardised approach seems to have an edge over its IRB counterpart. In the ultimate analysis, however, adoption of one over the other would have to be viewed in both the country- and bank-specific contexts.

7.8 The Reserve Bank has already taken steps to implement two major components of the second pillar of Basel II, *viz*., Risk-Based Supervision (RBS) and Prompt Corrective Action (PCA). The PCA framework has already been put into operation, on an experimental basis, by the Reserve Bank. Further, a pilot-run of risk-based supervision has been introduced in October 2003.

Loan Classification Norms

7.9 In the Indian context, the regulatory environment of the prudential norms for loan impairment has been made stricter with the abolition of the concept of 'past due' (grace period of 30 days), effective March 31, 2001. With a view to moving closer to the international practices, it has been decided to phase in the 90-day norm for loan impairment from the year ending March 31, 2004. Furthermore, the periodicity of classification of an asset as 'doubtful' is also sought to be reduced from 18 months to 12 months, effective March 31, 2005. The gradual stringency in the loan classification norms has been accompanied by improved risk management practices as well as greater recovery efforts, backed by enabling legislative changes.

7.10 It needs to be recognised that prudential norms in respect of loan classification vary widely across countries. Countries follow varied approaches, from the subjective to the prescriptive. Illustratively, in the United Kingdom, supervisors do not require banks to adopt any particular form of loan classification and neither is there any recommendation on the number of classification categories that banks should employ. Other countries, such as, the United States follow a more prescriptive approach, wherein loans are classified into several categories based on a set of criteria ranging from payment experience to the environment in which the debtor evolves. The adoption of such a system points to the usefulness of a structured approach that facilitates the supervisor's ability to analyse and compare banks' loan portfolios.

7.11 Loan classification criteria generally appear to rely on both objective and subjective signals of loan quality, although the balance between the two is often difficult to ascertain. Objective criteria include the number of days a loan is past due and more broadly, the current condition of the debtor. On the other hand, subjective criteria include features like insufficient working capital, absence of adequate financial information and the like. While the number of days of past due payments represents a minimum condition for loan classification purposes, other criteria, which exhibit forward-looking features, such as, an accurate assessment of the expected probability of default, might provide useful leads towards appropriate loan classification and prevention of erosion in net worth of the bank. The recent prescription of 'special mention accounts' by the Reserve Bank for voluntary adoption by banks is a case to the point.

Provisioning

7.12 It is now recognised that generalised financial instability has its roots in macroeconomic factors. Crises typically occur because banks are jointly exposed to a common macroeconomic shock. This is often related to the business and financial cycle. In response to this challenge, supervisors have been searching for techniques that would make banking systems more resilient to the vicissitudes of the financial cycle. In particular, banks need to be encouraged to build up capital cushion in good times so as to protect their lending when the cycle turns down.

7.13 A central feature of provisioning systems is typically to refer to losses that have already been incurred or are anticipated with a high degree of confidence. However, even in cases where there is no explicit reference to general loan loss provisions, bankers can follow a forward-looking approach, depending on the fiscal and accounting incentives for adopting such a practice. The Union Budget has provided several such incentives in recent times. The Union Budget 2002-03 announced improved tax incentives for provisioning. Subsequently, the Union Budget 2003-04 proposed a scheme wherein the gains arising out of the voluntary buyback of high-coupon, thinly-traded Government securities would be tax exempt, provided they are utilised for NPA provisioning.

Non-performing Assets

7.14 The principal challenge of banking soundness emanates from the persistence of the significant amount of non-performing assets (NPAs) on bank balance sheets. A mix of upgradation, recoveries and write-offs has steadily reduced gross NPAs of scheduled commercial banks to 8.8 per cent as at end-March 2003 from 15.7 per cent per cent as at end-March 1997.

7.15 A major factor contributing to the high level of NPAs in India has been the inadequate legal framework for collecting overdue loans. Although loans are largely collateralised, in practice, the value of the collateral may not be commensurate with the loans. More importantly, timely execution of collateral often remains difficult. The large difference between banks' gross and net

NPAs, typically equal to nearly one-half of gross NPAs, reflects both obligatory provisions against NPAs and the limited write-offs of NPAs by the public sector banks. As a consequence, NPAs tend to be carried on the books and provisions against them gradually built up. In this context, in line with the announcement in the Union Budget 2002-03, Asset Reconstruction Companies (ARCs) have been established with the participation of public and private sector banks, financial institutions and multilateral agencies. Such a move is expected not only to add an extra avenue to banks to tackle their NPAs, but also to provide them with an opportunity to take the NPAs out of their balance sheets. At the same time, it is expected that the ARCs would be able to recover more bad loans (perhaps at a faster pace) because they would be exclusively dedicated towards loan recovery.

7.16 The passage of the SARFAESI Act in 2002 has increased the scope for the recovery of NPAs. The Act envisages relatively stricter legislations to provide comfort to banks in taking possession of the securities. Public sector banks have identified (as per latest estimates) NPAs worth over Rs.12,000 crore to be sold to the ARCs; however, the process of valuation of the loans prior to sale is yet to be completed.

7.17 The Reserve Bank has recently issued guidelines on preventing slippage of NPA accounts. Under this process, banks have been advised to introduce a new asset category: ‘special mention accounts’, in between ‘standard’ and ‘sub-standard’ categories for their internal monitoring and follow up. This is expected to enable banks to look at accounts with potential problems in a focused manner right from the onset of the problem so as to impart efficacy to monitoring and remedial actions.

Risk Management

7.18 The Reserve Bank has initiated several steps in the recent past to strengthen risk management practices in banks including asset-liability management (ALM). More recently, the Reserve Bank has issued guidelines on country risk management. The guidance notes on credit and market risks have also been issued in 2002. Banks have been advised to use these guidance notes for upgrading their risk management systems, keeping in view their own requirements, based on the size and complexity of business, risk philosophy, market perception and the expected level of capital.

Interest Rate Risk

7.19 An important facet of risk, particularly in the Government securities market relates to interest rate risk. This is especially relevant in the recent Indian context with banks holding gilts well above the statutory requirements. In particular, banks are exposed to repricing risk, arising from timing differences in the maturity and repricing of banks’ assets and liabilities, and yield curve risk, arising from changes in the slope and shape of the yield curve. This highlights the importance of monitoring and reporting requirements on the maturity structure of interest-sensitive assets and liabilities and conducting sensitivity analyses of balance sheets to changes in interest rates. The Basel Committee has come out with several guiding principles for the interest rate risk management process; this includes development of a business strategy, as well as a system of internal controls.

7.20 An analysis of the sources of profitability for the scheduled commercial banks in India shows that much of the recent increase in profits emanates from trading incomes, reflecting the sustained softening of interest rates. Bank balance sheets are, thus, getting linked to the interest rate environment. To the extent bank stock valuations are being driven by the expectations of trading profits, a new linkage is being forged between debt and equity markets. It is in this context that the Reserve Bank has been emphasising that high profitability emerging from gilt trading should not lull banks into a state of complacency. There is a need to recognise the potential interest rate risks and accordingly, put in place appropriate risk management systems, provisioning and building up of reservess in line with the best international practices. To safeguard the banks against such eventualities, the Reserve Bank has advised them to build up an Investment Fluctuation Reserve, since end-March 2002, as a proportion of their traded securities portfolio, to serve as a cushion against adverse interest rate movements. For scheduled commercial banks, the investment fluctuation reserves amounted to 1.8 per cent of their investments in the ‘Available for Sale’ and ‘Held for Trading’ categories of the investment portfolio taken together as at end-March 2003. Banks have been advised to achieve a minimum IFR of 5 per cent of their tradable paper by end-March 2006.

Effecting Structural Changes in the System

7.21 Policy-driven structural changes are necessary for ensuring the viability and sustainability of the financial system in the long run. Keeping this objective in view, the financial sector reform process in India has focused on a number of specific issues of a structural *genre*.

7.22 A major structural rigidity in Indian context relates to the cost of credit. The cost of credit is gradually emerging as a key determinant in investment decisions. The Reserve Bank has followed a soft interest rate policy stance in recent years - the Bank Rate, at 6.0 per cent, is now at a 30-year low. While interest rates in the money markets and the yields in the Government securities markets have been coming down in response to the monetary policy initiatives, the passthrough to the credit markets is still not very strong.

7.23 The Reserve Bank has, time and again, emphasised the need to combat the structural rigidities that impede flexibility in lending rates. Of the original set of factors identified as constraining such flexibility in interest rates, at least two, *viz*., high reserve requirements and sticky interest rates on small savings, are no longer operative. Of the others, non-performing assets can be reduced further but operating expenses tend to be sticky, highlighting the need for initiatives to enhance productivity.

7.24 The rigidities, thus, largely emanate from low productivity apart from the overhang of NPAs of the past. To move to a more efficient, productive and competitive set up, the banking system would need to grapple with the challenges of transformation in a number of areas, such as, corporate governance, economic value added, and technology upgradation.

7.25 Large-scale investments in Government paper by banks in the face of easy liquidity conditions have yielded some benefits. The large trading profits emanating from the sustained rally in Government securities markets has helped to boost banks’ bottom lines, and provide resources for provisioning of non-performing assets. Finally, excessive lending in times of poor industrial growth could have generated problems of adverse selection which could be avoided. At the same time, it needs to be emphasised that the primary business of banking is the creation of credit. While this kind of narrow banking could be appropriate at times of easy liquidity, the macroeconomic performance of the banking system in the long-term would hinge on their ability to fund industrial and other enterprises.

Technology in Banking

7.26 Issues relating to technology in banking are of paramount importance in view of their relationship with productivity, efficiency, and customer satisfaction. Technology has brought about manifold changes in a number of major areas of bank functioning, such as, management of risks, collation of returns across the bank branches and providing value-added services to customers.

7.27 The Reserve Bank has been playing a pivotal role in the upgradation of technology in the banking sector with the objective of putting in place a safe, robust, efficient and integrated payment and settlement system. This includes measures aimed at integration of financial entities through the INFINET, encouraging retail electronic mode of payment including implementation of an electronic funds transfer (EFT) system, establishing the negotiated dealing system (NDS), development of a centralised fund management system (CFMS) and national settlement system (NSS) and finally, introduction of the real-time gross settlement (RTGS) system. The Reserve Bank has commenced the implementation of the RTGS system in a phased manner.

Transparency

7.28 Banks are becoming increasingly complex organisations. Investors are finding it harder to understand the quality of financial performance and risk exposures of banks. The traditional set of information as contained in banks' balance sheet often fails to convey information to readers of financial statements that can enable them to ascertain the quality of earnings. Accordingly, supervisors world-wide are making conscious efforts towards increasing the quality and quantity of disclosures in banks' balance sheets. Transparency challenges are met where market participants not only provide information, but also place the information in a context that makes it meaningful to accurately reflect risks. The quest for transparency has, therefore, to be continuous and persistent.

7.29 The Reserve Bank has been adopting a gradual approach to enhanced transparency in banking organisations. Illustratively, with effect from the year ending March 1998, banks were directed to disclose information on, among others, capital adequacy ratios, several financial ratios pertaining to income and non-interest income as percentages to average working funds as well as return on assets and the percentage shareholding of the Government of India as 'Notes on Accounts' in their balance sheets. Over a period of time, the set of disclosures has gradually been expanded to encompass areas like maturity pattern on select items on the asset and liability sides of their balance sheets, movements in provisions held towards NPAs and those held towards depreciation of investments as well as lending to sensitive sectors (*viz*., capital market, real estate and commodities). In view of the increased focus on empowering supervisors for undertaking consolidated supervision of bank groups, effective from March 31, 2003, preparation of consolidated financial statements (CFS), which include consolidated balance sheets, consolidated statements on profit and loss, principal accounting policies and notes on accounts have been mandated for all groups where the controlling entity is a bank. Within the consolidated supervision framework, a prudential reporting system encompassing information on accounts of related entities has been put in place under which a half-yearly report (consolidated prudential report) is required to be submitted to the Reserve Bank. Additional data relating to results of different business segments are being disclosed by banks effective March 31, 2003. The gradual expansion of the range of disclosures has been bringing the disclosure standards in India at par with those prevalent internationally.

Financing at the Longer End

7.30 The Reserve Bank has initiated several policy incentives to the banking sector in the recent past to boost the flow of credit to infrastructure, which generally tends to require long-term finance. For example, the Monetary and Credit Policy of April 2003 provided several regulatory and prudential relaxations, *viz.*, a) relaxing the prudential single borrower exposure limit, b) assigning concessional risk weights on investment in securitised paper (satisfying certain conditions pertaining to an infrastructure facility) and c) permitting lending to Special Purpose Vehicles (SPVs) in the private sector, registered under the Companies Act for directly undertaking viable infrastructure projects subject to certain safeguards. The net effect of these measures is reflected in the fact that outstanding gross bank credit to infrastructure has risen from Rs.5,945 crore as at end-March 1999 to over Rs.20,000 crore as at end-March 2003.

7.31 The demand for housing in India is strong, as is the case with most economies, which are now industrialising and urbanising rapidly. Besides, construction has significant forward and backward linkages with a number of other industries. There has been a significant increase in housing finance during 2002-03 at soft interest rates. It must be recognised that the bank lending to potential home-owners in the Indian case is fundamentally different from the speculation in the property prices by banks in many countries. Importantly, the housing sector provides a relatively safe destination for bank credit on account of the lower than average rates of default. Besides, there is, an overall cap on the bank lending to sensitive sectors, including real estate.

Redefining the Regulatory Role of the Reserve Bank

7.32 Recent years have witnessed a gradual move on the part of the Reserve Bank away from micro-regulation towards macro-governance. The supervisory mechanism has incorporated intensive reporting requirements, with a focus on technology-driven off-site returns, inspections and audits, ratings (based on annual on-site inspections) and strengthening of prudential norms. The annual inspection reports are reviewed by the Board for Financial Supervision and recommendations on issues arising therefrom are discussed with the respective institutions for implementation in a time-bound manner.

Corporate Governance

7.33 Corporate governance has gained increasing importance in the Indian financial sector, especially when ownership is being diversified and competition is increasing. The issues have become all the more important in view of the recent accounting irregularities in the US. When banks are compelled to take decisions and formulate policies at board levels, questions of autonomy and efficiency have come to the forefront. Accordingly, the Reserve Bank has initiated a number of consultative processes, such as, the Reports of the Advisory Groups on Corporate Governance and that on Banking Supervision, both of which contain far-reaching proposals to improve corporate governance practices in banks. The Reserve Bank had also set up a Consultative Group to review the supervisory role of boards of banks and financial institutions and obtain feedback on the functioning of the boards *vis-à-vis* compliance, transparency, disclosures, audit committees, and make recommendations for making the role of board of directors more effective with a view to minimising risks and over exposure. In this context, the explicit mention of corporate governance in the annual reports of several banks during 2002-03 is a welcome development.

7.34 A feature unique to the Indian financial system relates to the dominance of Government ownership in the public sector banking system in India. To the extent there is public ownership in banks, there are possibilities of multiple objectives of the Government as owner and the complex principal-agent relationships.

Governance Issues in Co-operative Banking

7.35 The supervision of co-operative banks continues to pose a challenge, not only because their numbers are large, but also because of the multiplicity of supervisory authorities. Cooperative banks are regulated by the State Government as well as the Reserve Bank (in case of urban cooperative banks) and NABARD (in case of state co-operative banks and district central co-operative banks). There is an urgent need to rationalise the supervisory authority of various control institutions. The Reserve Bank has repeatedly drawn attention of the Government of India to the fact that the present system of multiple regulatory and supervisory control limits the efficient functioning of the cooperative banks in the interest of their depositors. The Government has since tabled before the Parliament, a Bill entitled ‘The Banking Regulation (Amendment) and Miscellaneous Provisions Bill, 2003’, which has been referred to the Standing Committee on Finance. In the meanwhile, the Reserve Bank has initiated several measures aimed at good corporate governance, sound investment policy, appropriate internal control systems, better credit risk management, focus on newly-emerging business areas like micro finance, commitment to better customer service, adequate mechanisation and pro-active policies on house-keeping to improve the performance of urban co-operative banks.

Concluding Remarks

7.36 Increasing competition among banks, emanating not only from peers, but also from new entrants and other intermediaries, has been exerting pressure on bank spreads. The technology-intensive new private and foreign banks are positioning themselves as ‘one-stop-shop’ financial services and providing customers greater convenience and high quality services backed by appropriate investments in technology and other infrastructure. Therefore, the future profitability of public sector banks would depend on their ability to generate greater non-interest income and control operating expenses. Blue-chip clients continue to have the option to raise low-cost funds directly from domestic and international markets. The reforms-supported new environment is offering depositors and borrowers a wider range of opportunities to transact their business. Apart from the applicability of capital adequacy standards being in force, new methods of measuring market risk such as value-at-risk and pre-commitment approaches are expected to provide a more standardised but tighter framework for the banking sector. Simultaneously, the banking industry is undergoing a change driven by technological advancements. Since retail customers are fast becoming more demanding, in the competitive environment, banks have to offer the value-added services. Harnessing technology to improve productivity so as to produce highly competitive types of banking and generating greater non-interest income by diversifying into non-fund based activities will be important features of the Indian banking of tomorrow.

Annex: Chronology of Major Policy Developments

Announcement Date		Measures
		A) Scheduled Commercial Banks (SCBs)
2002		
April	11	• The banks were allowed to issue smart cards (both online and offline) to select customers with good financial standing even if they have maintained accounts with the bank for less than 6 months subject to their ensuring the implementation of 'Know Your Customer' concept.
	18	• While reckoning the quantum of unsecured advances and guarantees for applying the norms relating to unsecured advances and guarantees, outstanding credit card dues are to be excluded from the total of unsecured advances.
	26	• The Reserve Bank approved the merger of ICICI Ltd. with ICICI Bank Ltd., subject to certain conditions.
	29	• With effect from June 30, 2002, banks and Financial Institutions (FIs) were advised that they should issue Certificates of Deposits (CDs) only in the dematerialised form and the existing outstandings of CDs should be converted into same form by October 31, 2002.
		• The Non-Resident (Non-Repatriable) Rupee Account Scheme and Non-Resident (Special) Rupee Account Scheme was discontinued effective April 1, 2002.
May	3	• Banks were advised to compute Investment Fluctuation Reserve (IFR) with reference to investments in two categories, *viz.*, "held for trading" and "available for sale" and not include investments under "held to maturity" for this purpose.
	7	• All scheduled commercial banks excluding Regional Rural Banks (RRBs) were advised to maintain with Reserve Bank a Cash Reserve Ratio (CRR) of 5 per cent of Net Demand and Time Liabilities (NDTL) (excluding liabilities subject to zero CRR prescriptions) under Section 42 of the Reserve Bank of India Act, 1934 with effect from fortnight beginning June 1, 2002.
	9	• Banks were advised that, effective March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months. Banks were permitted to phase the additional provisioning consequent upon the reduction in the transition period from sub-standard to doubtful asset from 18 months to 12 months over a four year period, commencing from the year ending March 31, 2005, with a minimum of 20 per cent each year.

24 • Banks were advised that loans and advances secured by mortgage of residential property may be assigned a risk weight of 50 per cent instead of the existing 100 per cent for the purpose of capital adequacy. Loans against mortgage of commercial real estate would continue to attract 100 per cent risk weight as hitherto. Bank's investment in mortgage backed securities (MBS) of residential assets of Housing Finance Companies (HFCs) which are supervised by the National Housing Bank (NHB) would be eligible for risk weight of 50 per cent for the purpose of capital adequacy.

28 • In order to ensure that the loan assets relating to projects under implementation were appropriately classified and asset quality correctly reflected, the norms on income recognition, asset classification and provisioning with respect to industrial projects under implementation, which involve time overrun, earlier applicable to FIs only, were made applicable to banks also.

29 • Keeping in view the nature of operations of banks and the need to ensure uniformity in regulatory requirements, it was decided that compliance with the following accounting standards (AS) be made optional for banks only for the financial year ended March 31, 2002: AS 17 on segment reporting, AS 18 on related party disclosure, AS 21 on consolidated financial statements and AS 22 on taxes on income. Banks would be required to conform to the above AS by March 31, 2003 in accordance with the detailed guidelines to be issued on the basis of the recommendations of a Working Group on the issue.

30 • Based on the recommendations of the Working Group on Wilful Defaulters, the term 'wilful default' was redefined and widened so as to cover the aspects of diversion/siphoning of funds therein. The banks and FIs are required to initiate penal measures against wilful defaulters as advised.

2002

June 4 • The banks, all India notified FIs and State Financial Corporations (SFCs) were advised to submit the list of suit-filed accounts of Rs.1 crore and above as on March 31, 2002 and quarterly updates thereof till December 2002 and suit-filed accounts of wilful defaulters of Rs.25 lakh and above as at end-March, June, September and December 2002 to the Reserve Bank as well as to Credit Information Bureau (India) Ltd. (CIBIL) and thereafter to CIBIL only.

• In the process of extending the guidelines of Securities and Exchange Board of India (SEBI) Committee on Corporate Governance, the public and private sector banks were advised to form committees on the same lines as listed companies to look into redressal of shareholders' complaints. Listed banks are to provide unaudited financial results on half-yearly basis to their shareholders.

15 • In order to increase the investor base, the minimum size of CDs to single investor was reduced from the existing level of Rs. 5 lakh to Rs.1 lakh and in multiples of Rs. 1 lakh thereafter. The amount relates to face value (*i.e*. maturity value) of CDs issued.

20 • The Benares State Bank Ltd. was merged with Bank of Baroda effective June 20, 2002.

• The Consultative Group of Directors of Banks and Financial Institutions (Chairman: Dr. A. S. Ganguly), constituted to look into role of Board of Directors of banks / Financial Institutions and make recommendations, for consideration of the Government / Reserve Bank, for making the Boards more effective with a view to minimising risks and over-exposure, submitted its Report to the Reserve Bank. Its implementable recommendations were communicated to the public and private sector banks for adoption and certain recommendations requiring the Central Government approval or legislative amendments were referred to Central Government for consideration.

July 26 • In supersession of the earlier instructions on system of charging interest on advances at monthly rests, banks were given the option to compound interest at monthly rests effective either from April 1, 2002 or July 1, 2002 or April 1, 2003. However, instructions on charging interest at monthly rests would not be applicable to agricultural advances.

August	6	• In terms of existing instructions, profit-making banks were permitted to make donations during a financial year aggregating up to one per cent of their published profit for the pervious year. On a review, donations made by the banks to the Prime Minister's Relief Fund were exempted from the above ceiling.
	16	• Banks were issued consolidated guidelines, as part of 'Know Your Customer' concept, to facilitate identification of depositors and to control financial frauds, identify money laundering and for monitoring of large value cash transactions.
October	9	• The banks were advised to use the revised Guidance Notes on Management of Credit Risk and Market Risk, which were placed on RBI website, for updating their risk management systems.
November	6	• Unsecured advances given by banks to Self Help Groups (SHGs*)* against group guarantee were excluded for the purpose of computation of the prudential norms on unsecured guarantees and advances until further notice. It was decided that the matter would be reviewed after a year in the light of growth in aggregate unsecured advances, and the recovery performance of the advance to SHGs.
December	9	• Regarding issue of International Credit Cards to permit settlement of credit card charges out of funds held in the card holders' Non-Resident (Ordinary) Rupee Accounts (NRO) was permitted. Accordingly, authorised dealers were allowed debits to NRO accounts of their Non-Resident Indian / Persons of Indian Origin constituents to the extent of the card limit for use of credit cards issued by banks in India. The debits would also be subject to the conditions for use of the International Credit Cards by residents.
	13	• Unsecured advances granted by the branches of foreign banks in India which are backed by the guarantees of their overseas branches may not be taken into account for the purpose of computing the limit on unsecured guarantees and advances.
2002		
December	14	• Banks were allowed to open savings bank accounts in the names of State Government departments / bodies / agencies in respect of grants / subsidies released for implementation of various programmes / schemes sponsored by State Governments on production of an authorisation to the bank from the respective Government departments certifying that the concerned Government department or body has been permitted to open savings bank account.
2003		
January	16	• It was decided to introduce trading in Government Securities through a nation wide anonymous, order driven, screen based trading system of the stock exchanges, in the same manner in which trading takes place in equities. This facility of trading of government securities on the stock exchanges would be available to banks in addition to the present Negotiated Dealing System (NDS) of the Reserve Bank, which will continue to remain in place. Accordingly, with effect from January 16, 2003, trading of dated Government of India (GOI) securities in dematerialised form was permitted on automated order-driven system of the National Stock Exchange (NSE), The Stock Exchange, Mumbai (BSE) and Over-the-Counter Exchange of India (OTCEI).It was decided that the scheme will subsequently be extended to GOI treasury bills and State Government securities.
	24	• While purchasing / discounting / negotiating / rediscounting of genuine commercial / trade bills, banks were given the freedom to decide their own guidelines for assessing / sanctioning working capital limits of borrowers and they may sanction working capital limit as also bills limit to borrowers after proper appraisal of their credit needs and in accordance with the loan policy as approved by their Board of Directors. Guidelines regarding the precautions to be taken by banks were also spelt out.

29 • It was decided to give one more opportunity to the borrowers to come forward for settlement of their outstanding dues. Accordingly fresh guidelines were issued, which provide a simplified, non-discretionary and non-discriminatory mechanism for compromise settlement of chronic NPAs below the prescribed value ceiling. All public sector banks were directed to uniformly implement these guidelines, so that maximum realisation of dues is achieved from the stock of NPAs within the stipulated time. The revised guidelines will cover NPAs (below the prescribed ceiling) relating to all sectors including the small sector. The guidelines will not, however, cover cases of wilful default, fraud and malfeasance.

February 04 • Revised guidelines were issued for financing of infrastructure projects, which defines infrastructure lending and specifies criteria for financing, types of financing by banks, methodology of project appraisal and administrative management. Prudential credit exposure limits, assignment of risk weight for capital adequacy purposes and asset liability management were also provided.

05 • As announced in the Union Budget 2002-03, revised guidelines on Corporate Debt Restructuring (CDR) were issued to make operation of CDR mechanism more efficient. One of the main features of the revised guidelines is the provision of two categories of debt restructuring under the CDR system. The accounts, which are classified as 'standard' and 'sub-standard' in the books of the lenders, will be restructured under the first category (Category 1). The accounts which are classified as 'doubtful' in the books of the lenders would be restructured under the second category (Category 2).

19 • Detailed guidelines were issued on country risk management and provisioning. These guidelines are applicable only in respect of countries where a bank has exposure of two per cent or more of its assets. It was decided that these guidelines shall be reviewed after one year, taking into account the experience of banks in implementing the guidelines.

25 • It was decided to implement the guidelines for consolidated accounting and other quantitative methods to facilitate consolidated supervision. These are based on recommendation of the Working Group (Chairman: Shri Vipin Malik), with suitable changes, wherever considered necessary.

26 • The time period allowed to banks for making provision against the net debit balance in the inter-branch account further reduced from one year to six months from the year ending March 31, 2004.

2003

February 27 • It was decided that banks may recognise income on accrual basis in respect of the three categories of projects under implementation which are classified as 'standard' in terms of the guidelines issued in May 2002.

28 • The rate of interest on domestic and ordinary non-resident savings deposits as well as saving deposits under NRE accounts scheme were revised to 3.5 per cent per annum effective March 1, 2003.

March 19 • The rate of interest on Account 'A' category of Capital Gains Account Scheme – 1988, was revised to 3.5 per cent per annum effective March 01, 2003.

• The eligible banks were permitted to set up more than one OBU, but not in the same Special Economic Zones (SEZ), and allowed to invest their surplus funds outside India under the investment policy framed for this purpose by the Board of Directors of the bank concerned as well as accept deposits from individuals subject to observance of "Know Your Customer" guidelines issued by the Reserve Bank.

21 • Banks, while deciding to extend finance to the borrowers who participate in the PSU disinvestment programme, were to advise such borrowers to execute an agreement whereby they undertake to produce the letter of waiver by the Government for disposal of shares acquired under PSU disinvestment programme during the lock-in period, or include a specific provision in the documentation with the Government permitting the pledgee to liquidate the shares during the lock-in period, in case of shortfall in margin requirement or default by the borrower. Banks are permitted to extend finance to the successful bidders even though the shares of the disinvested company acquired / to be acquired by the successful bidder are subjected to a lock-in period / other such restrictions which affect their liquidity, subject to fulfillment of certain conditions.

April	08	•	The ceiling for banks to offer credit / non-credit facilities to Indian Joint Ventures / Wholly Owned Subsidiaries abroad was increased from 5 per cent of the unimpaired Tier I capital to 10 per cent of banks' unimpaired capital funds (Tier I and Tier II capital).
	23	•	The final guidelines on Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 was issued. The guidelines and directions provide for different aspects of asset reconstruction and securitisation relating to registration, owned fund, permissible business, operational structure for giving effect to the business of securitisation and asset reconstruction, deployment of surplus funds, internal control system, prudential norms, disclosure requirements, *etc*., so as to facilitate the smooth formation and functioning of Securitisation Companies and Reconstruction Companies. In addition to the guidelines and directions, which are mandatory, the Reserve Bank also issued guidance notes of recommendatory nature covering aspects relating to acquisition of assets, issue of security receipts, *etc*. A set of standard guidelines in the matter of takeover of the management, sale or lease of whole or part of the business of the borrower is being formulated.
	24	•	It was decided that the concessions / credit relaxations to borrowers / customers in the State of Jammu & Kashmir will continue to be operative for a further period of one year *i.e*. upto March 31, 2004.
	29	•	All Scheduled Commercial Banks, excluding Regional Rural Banks (RRBs), were advised to maintain with the Reserve Bank. a Cash Reserve Ratio(CRR) of 4.5 per cent of Net Demand and Time Liabiliities (NDTL) (excluding liabilities subject to zero CRR prescriptions) under Section 42 of the Reserve Bank of India, Act, 1934 with effect from fortnight beginning June 14, 2003.
		•	Banks were advised that the maturity period of fresh NRE deposits, with immediate effect, would be 1 to 3 years. Further, the above instructions would apply to NRE deposits renewed after their present maturity.
May	05	•	Banks / all-India Financial Institutions were advised to adopt the broad guidelines and put in place Fair Practices Code regarding applications for loans and their processing, loan appraisal and terms/ conditions, disbursement of loans including changes in terms and conditions, and post disbursement supervision, duly approved by their Board of Directors, not later than August 1, 2003.
2003			
May	07	•	To give further relaxation in building IFR it was decided that effective from March 31, 2003 onwards, while IFR would continue to be treated as Tier II capital, it would not be subject to the ceiling of 1.25 per cent of the total risk weighted assets. However, for the purpose of compliance with the capital adequacy norms, Tier II capital including IFR would be considered up to a maximum of 100 per cent of total Tier I capital.
	23	•	The time period for receipt of applications under the One Time Settlement (OTS) Scheme was extended from April 30, 2003 to September 30, 2003 and date of processing applications from October 31, 2003 to December 31, 2003.

June 26 • As regards dishonour of cheques, it was suggested that in addition to the existing instruction in respect of dishonoured instruments for want of funds, banks may follow the additional instructions *viz.*, procedure for return / despatch of dishonoured cheques, information on dishonoured cheques, and dealing with incidence of frequent dishonour. Banks were also advised to adopt, with the approval of their respective Boards, appropriate procedure for dealing with dishonoured cheques with inherent preventive measures and for preventing any scope for collusion of the staff of the bank or any other person, with the drawer of the cheque for causing delay in or withholding the communication of the fact of dishonour of the cheque to the payee / holder or the return of such dishonoured cheque to him.

July 17 • Banks were exempt from the requirement of appropriating the profit on sale of securities from Held to Maturity (HTM) category to 'Capital Reserve Account', as a one time measure. This exemption will be applicable only in respect of the identified securities which are sold to the Government of India under the scheme of Government of India's Debt Buyback Programme.

• In order to provide consistency in the interest rates offered to non-resident Indians, the interest rate on fresh repatriable non-resident external (NRE) deposits for one to three years was reduced. Effective July 17, 2003 such interest rate should not exceed 250 basis points above the LIBOR/ SWAP rates for US dollar of corresponding maturity until further notice.

29 • Revised guidelines were issued to banks to take the measures in identifying and reporting instances of wilful default. Banks were also advised to create a grievance redresssal mechanism for giving a hearing to borrowers who represent that they were wrongly classified as willful defaulter.

August 1 • A quick review of the progress in adoption of the recommendations of the Consultative Group of Directors of Bank and Financial Institutions by the banks showed mixed response with some of the banks accepting and implementing them in entirely, while most others were still in the process of implementation.

18 • Detailed operational guidelines, to be followed by the banks for the process of take over of bank branches in rural and semi-urban centres, were issued.

21 • Regarding computation of NDTL for the purpose of maintenance of CRR / SLR banks were advised to reckon the liability in respect of arrangement with correspondent banks in the following manner:

(a) The balance amount in respect of the drafts issued by the accepting bank on its correspondent bank under the remittance facility scheme and remaining unpaid should be reflected in the accepting bank's books as an outside liability and the same should also be taken into account for computation of NDTL for CRR / SLR purpose.

(b) The amount received by correspondent banks has to be shown as 'Liabilities to the Banking System' by them and not as 'Liabilities to Others' and this liability could be netted off by the correspondent banks against their inter-bank assets. Likewise sums placed by banks issuing drafts / interest / dividend warrants are to be treated as 'Assets with Banking System' in their books and can be netted off from their inter-bank liabilities.

September 11 • Banks, which are registered with SEBI as Depository Participants, were allowed to provide the facility of Depository Services to its customers at Extension Counters.

2003

September	13	•	In consultation with Institute of Chartered Accountants of India, banks were directed to adopt the following guidelines, effective from March 31, 2004, for accounting legal expenses in suit- filed accounts: (a) Legal expenses incurred by banks in respect of suit-filed accounts should be debited to the profit and loss account at the time of incurrence. For the purpose of monitoring the recovery of such expenses from the borrowers, the banks may keep a memorandum control account. (b) At the time of recovery of the legal expenses from the borrower, the amount recovered should be recognised in the profit and loss account of the year in which the recovery is made.
	15	•	Banks were directed that, the interest rates on fresh repatriable NRE deposits for one to three years contracted effective close of business in India on September 15, 2003 should not exceed 100 basis points (instead of 250 basis points announced on July 17, 2003) above the LIBOR/ SWAP rates for US dollar of corresponding maturity, till further notice.
	16	•	It was decided, in consultation with the Government, to derecognise Overseas Corporate Bodies (OCBs) in India as an eligible 'class of investor' under various routes / schemes available under extant Foreign Exchange Management Regulations.
	26	•	A new credit facility "*Swarojgar Credit Card* (SCC) Scheme", was introduced for fishermen, rickshaw owners, self employed persons, *etc*, to provide adequate and timely credit. *i.e,.* working capital / or block capital or both, from the banking system in a flexible, hassle free and cost effective manner.
October	10	•	It was decided that a bank should not borrow from its Off-shore Banking Units (OBUs) and the exposures of an OBU in the domestic tariff area (DTA) will be restricted to the amount a corporate in the DTA can borrow from an OBU only under the scheme of External Commercial Borrowings (ECBs), subject to FEMA regulations.The aggregate of such exposures should not exceed 25 per cent of its total liabilities as at the close of business of the previous working day, at any point of time.
	15	•	Banks were directed that only those Special Purpose Vehicles (SPVs) would not be treated as investment companies and, therefore, would not be considered as NBFCs for the limited purpose of being eligible for bank finance for PSU disinvestments of Government of India, subject to compliance with the other guidelines and which comply with the following conditions, *viz.*, (a) they function as holding companies, special purpose vehicles, *etc.* with not less than 90 per cent of their total assets as investment in shares held for the purpose of holding ownership stake, (b) they do not trade in these shares except for block sale, (c) they do not undertake any other financial activities, and (d) they do not hold / accept public deposits.
	18	•	Authorised Dealers operating in Special Economic Zones (SEZs) were allowed to raise the Extermal Commercial Borrowings (ECBs) in compliance with the Government of India guidelines, subject to the following conditions: (a) Units in SEZ shall raise ECBs for its own requirement. (b) It shall not transfer or on-lend any borrowed funds to its sister concern or any other unit in Domestic Tariff Area (DTA).
		•	It was decided, until further notice, that the interest rates on fresh repatriable Non Resident (External) Rupee (NRE) Deposits for one to three years contracted effective close of business in India on October 18, 2003 should not exceed 25 basis points (as against 250 basis points announced on July 17, 2003 and 100 basis points on September 15, 2003) above the LIBOR / SWAP rates for US dollar of corresponding maturity. The changes in interest rates will also apply to repatriable NRE deposits renewed after their present maturity period.
	21	•	Banks were permitted to determine rates of interest on advances without reference to PLR and regardless of the size of loan.

B) Urban Co-operative Banks (UCBs)

2002

April 1 • UCBs were advised that accretion to or reduction in the share capital after the balance sheet date may be taken into account for determining the exposure ceiling at half-yearly intervals, with the approval of the Board of Directors.

June 7 • In light of the fraudulent transactions in Government securities in physical form by a few co-operative banks with the help of some broker entities, it was decided that all SGL holders / stock certificate holders with the Public Debt Office of the Reserve Bank (PDs / RRBs / UCBs / SCBs) should necessarily hold their investments in Government securities portfolio in either SGL (with the Reserve Bank) or Constituent SGL (with State co-operative bank / PD /FIs/ sponsor banks – in case of RRBs) and Stock Holding Corporation of India or in a dematerialised account with depositories, National Security Depository Limited (NSDL) / Central Security Depository Limited (CSDL), depending on the concerned institution. Secondly, only one CSGL or dematerialised account can be opened by any such entity. Thirdly, in case the CSGL accounts are opened with a SCB or state co-operative bank, the account holder has to open a designated funds such (for all CSGL related transactions) with the same bank. Finally, a Reserve Bank regulated entity should not, with immediate effect, undertake Government securities transaction in physical form with any broker.

August 26 • In respect of charging interest at monthly rests, the following consolidated instructions are effective:

(a) Banks have the option to compound interest at monthly rests effective either from April 1, 2002 or July 1, 2002 or April 1, 2003.

(b) With effect from the quarter beginning July 1, 2002, banks should ensure that the effective rate does not go up merely on account of the switchover to the system of charging / compounding interest at monthly rests and increase the burden on the borrowers.

(c) Application of interest on monthly rests may be implemented for all running accounts (*e.g*., cash credit, overdraft, export packing credit accounts, *etc*). At the time of changing over to monthly rests, banks may obtain consent letter / supplemental agreement from the borrowers for the purpose of documentation.

(d) Interest at monthly rests shall be applied in case of all new and existing loans and other loans of longer / fixed tenor.

(e) The proviso "provided that the interest payable by the borrower shall be charged in conformity with the instructions issued in this regard by the Reserve Bank from time to time" may invariably be incorporated in the case of loan agreements.

December 4 • It was decided that the overall ceiling for loans and advances to directors, their relatives and concerns in which they are interested should be brought down to 5 per cent of the time and demand liabilities (DTL) from the earlier ceiling of 10 per cent of the DTL. Those banks whose outstandings of such loans on September 30, 2002 or thereafter, were more than 5 per cent of their DTL were directed not to sanction any fresh loans / renew the existing facilities to their directors, their relatives and concerns in which they are interested so as to reduce the outstandings of such loans and bring these within the prescribed limit of 5 per cent at the earliest but not later than March 31, 2003.

2003

March 13 • Primary (urban) co-operative banks were allowed to undertake transactions in dated Government of India (GOI) securities in dematerialised form on automated order driven system of the NSE, BSE and Over-the-Counter Exchange of India (OTCEI) in addition to the existing mode of dealing through SGL accounts with the Reserve Bank or Constituent SGL accounts with the designated entities such as Scheduled Commercial Bank.

April 29 • All UCBs were advised to introduce mandatory concurrent audit with immediate effect.

2003

May	14	•	It was decided that advances up to Rs.20 lakh per dealer, granted by UCBs to dealers in drip irrigation / sprinkler irrigation systems and agricultural machinery, may be classified under 'Indirect Finance to Agriculture' as a part of priority sector lending. As part of priority sector lending, banks are free to extend direct housing loans up to Rs.10 lakh in rural and semi- urban areas also.
	17	•	It was decided to permit non-scheduled UCBs to place deposits with strong scheduled UCBs. Only strong scheduled UCBs complying with certain norms were permitted to deposits from other non-scheduled UCBs.
	22	•	In line with announcement made in Monetary and Credit Policy for the year 2003-04, both gold loans and small loans upto Rs.1 lakh were exempted from the 90 days norm for recognition of loan impairment. These loans would therefore continue to be governed by the 180 days norm for classification as Non Performing Assets (NPAs) even after March 31, 2004.
June	13	•	In order to have a proper reporting system under priority sector advances, all the Primary (Urban) Co-operative Banks were advised to submit half yearly statements (for the half year ending March 31 / September 30) commencing from March 31, 2003, showing the progress made by them in deployment of credit to minority communities to the concerned Regional Office of Urban Banks Department under whose jurisdiction the banks are located. The half yearly statement as indicated above should be submitted within 15 days from the close of the relevant period. The first such report would be for the half-year ended March 31, 2003.
July	08	•	Primary (Urban) co-operative banks which are not a member of NDS–CCIL system, were directed to undertake their transactions in Government securities through gilt account / demat account maintained with NDS member.
September	05	•	Under off-site surveillance (OSS) returns, the number of required statements to be submitted by UCBs, was reduced from 10 to 8. Out of the eight returns, the periodicity of one return is annual and the rest seven would have to be submitted at quarterly intervals.
	19	•	It was decided that, UCBs which have not been classified by the Reserve Bank as Grade II, III or IV may declare dividend, provided, however, that the dividend pay-out does not impair the bank's liquidity position. Banks classified as Grade II should obtain the prior permission from the concerned Regional Office of the Reserve Bank to declare dividend. The consideration on their application will be subject to their compliance with certain parameters.
		•	Banks may net off all entries representing clearing differences 'receivable' against entries representing clearing differences 'payable', of amounts less than Rs. 500 each which are outstanding in the Clearing Adjustment Accounts for more than three years as on March 31, 2003, *i.e.*, all outstanding entries of less than Rs. 500 each in the Clearing Adjustment Account (receivables against payables) originated on or before March 31, 2000 and outstanding as on March 31, 2003.
October	18	•	It was decided, until further notice, that the interest rates on fresh repatriable Non Resident (External) Rupee (NRE) Deposits for one to three years contracted effective close of business in India on October 18, 2003 should not exceed 25 basis points (as against 250 basis points announced on July 17, 2003 and 100 basis points on September 15, 2003) above the LIBOR / SWAP rates for US dollar of corresponding maturity. The changes in interest rates will also apply to repatriable NRE deposits renewed after their present maturity period.

C) Financial Institutions (FIs)

2002

April	29	•	FIs were advised that with effect from June 30, 2002 they should issue CDs only in the dematerialised form and their holdings of CDs should also be converted into dematerialized form by October 2002.

May	14	•	The terms and conditions subject to which the ready forward contracts (including the reverse ready forward contracts) may be entered into among the participants were modified to provide for settlement through the SGL account (with the Reserve Bank) of CCIL also, in addition to the SGL account of the participants with the Reserve Bank.
June	4	•	The notified all-India FIs were advised to submit the list of suit-filed accounts of Rs.1 crore and above as on March 31, 2002 and quarterly updates thereof till December 2002 and suit-filed accounts of wilful defaulters of Rs.25 lakh and above as at end-March, June, September, and December 2002 to the Reserve Bank as well as to CIBIL for a period of one year till March 31, 2003. Thereafter, such information should be submitted to CIBIL only.
	7	•	In the context of guidelines on asset classification of certain categories of projects under implementation, "financial closure" for a project was defined as follows: for greenfield projects, financial closure is defined as a legally binding commitment of equity holders and debt financiers to provide or mobilise funding for the project. Such funding must account for a significant part of the project cost which should not be less than 90 per cent of the total project cost securing the construction of the facility.
	20	•	With a view to expand the investor base for the CDs, both the minimum and the multiple requirements were reduced from the existing levels of Rs. 10 lakh and Rs. 5 lakh to Rs. 1 lakh only. The amount relates to the face value (maturity value) of the CDs.
July	18	•	All-India term lending and refinancing institutions were advised to ensure full compliance with the instructions issued on transactions in Government securities at the earliest, but not later than July 31, 2002.
	22	•	Pursuant to certain suggestions and queries received from some of the FIs in respect of the guidelines for classification and valuation of investments, detailed clarifications were issued regarding the definition of joint ventures, treatment and valuation of preference shares in the light of the changes in the Income Tax Act, valuation of equity in the nature of advance, *etc*.
August	8	•	The following guidelines were issued to FIs regarding the applicable risk weight for the loan extended by an FI against the guarantee of a bank in the CRAR computation of the FI and the treatment of the loan for the purpose of exposure norms. a) The loan extended by an FI against the guarantee of a bank would attract a risk weight of 20 per cent in computation of CRAR of the lending FI. The risk weight of 20 per cent would apply to only that part of the loan which is covered by the bank's guarantee and the remaining amount of loan, if any, would normally attract 100 per cent risk weight. b) For the purpose of exposure norms, however, the entire loan transaction should be reckoned as an exposure on the borrowing entity and not on the bank guaranteeing the loan, so as to correctly reflect the degree of credit concentration. In case the funded facility is by way of a term loan, the level of exposure should be reckoned, as per the Reserve Bank's extant guidelines.
	31	•	In order to liberalise the prudential norms for FIs in keeping with the international practice, it was decided, with immediate effect, that: a) housing loans extended by FIs to individuals against the mortgage of residential housing properties would attract a risk weight of 50 per cent (as against the 100 per cent risk weight at present); and b) investments by FIs in the mortgage backed securities (MBS) would attract a risk weight of 50 per cent (in addition to the 2.5 per cent risk weight for market risk) provided that the assets underlying the MBS are the residential loan assets of the Housing Finance Companies which are recognised and supervised by the National Housing Bank; and that the MBS satisfy certain terms and conditions.

September 2 • Pursuant to the report of the 'Working Group on Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision', the draft Guidelines for Consolidated Accounting and Consolidated Supervision were issued to the FIs for comments, with the objective of introducing consolidated supervision for the FIs. The proposed consolidated supervisory framework envisages the following three components: (a) consolidated financial statements (CFS), (b) consolidated prudential returns (CPR), and (c) application of prudential regulations like capital adequacy, large exposures and liquidity gaps on group-wide basis.

14 • Under the asset classification norms for the projects under implementation which fall in category II, their asset classification is to be decided with reference to the 'deemed date of completion' of such projects as determined by the independent group constituted for the purpose. In this context, it was clarified that the FIs should not reverse the provisions held in respect of those accounts which might become eligible for upgradation to the 'standard' category as per the deemed date of completion.

2003

January 20 • With effect from April 1, 2003, FIs have been suggested with two methods for measuring the credit risk exposure inherent in derivatives, *viz.* the Original Exposure Method and the Current Exposure Method, for determining individual / group borrower exposures. FIs are encouraged to follow the Current Exposure Method.

May 30 • A revised guideline was issued for compromise settlement of chronic NPAs. The last date for receipt of the applications under the revised One Time Settlement (OTS) Scheme was extended from April 30, 2003 to September 30, 2003 and the date of completion of processing of the applications from October 31, 2003 to December 31, 2003.

June 20 • The submission of the monthly concurrent audit report to the Reserve Bank was discontinued with immediate effect. With effect from the half-year ended March 31, 2003, major irregularities observed in the concurrent audit report of the treasury transactions should be incorporated in the half-yearly reviews of the investment portfolio and submitted to the Regional Offices of the Department of Banking Supervision (DBS) of the Reserve Bank.

July 1 • GOI dated securities could be traded on the automated system of the National Stock Exchange, BSE and OTCEI. In order to regulate such trading, FIs have been extended with more facilities by the Reserve Bank, SEBI and Exchanges.

17 • FIs were advised to place the Reserve Bank Guidelines on preventing slippage of NPAs before their Board of Directors to initiate appropriate action for implementing the recommended measures, to the extent considered necessary, in keeping with the spirit of the Guidelines.

29 • Revised guidelines were issued to FIs to take the measures in identifying and reporting instances of wilful default**.** Banks were also advised to create a grievance redresssal mechanism for giving a hearing to borrowers who represent that they were wrongly classified as wilful defaulter.

August 1 • Final guidelines on Consolidated Accounting and Consolidated Supervision of the FIs were issued.

6 • In order to provide flexibility to both the issue and investor in the Commercial Paper (CP) market, non- bank entities, including corporates, were allowed to provide unconditional and irrevocable guarantee for credit enhancement for issue of CPs subject to certain conditions.

D) Non-Banking Financial Companies (NBFCs)

2002

April 22 • The Reserve Bank announced that all NBFCs granting / intending to grant demand / call loans should lay down a policy duly approved by their board of directors. The policy should cover the following aspects:

2002

(a) Stipulation of a cut-off date within which the repayment of the loan will be demanded / called up. If the cut-off date is beyond one year, the sanctioning authority should record specific reasons.

(b) Stipulation of the rate of interest and the periodic rests for payment of interest, which should be at quarterly / monthly intervals. Where no interest is levied or a moratorium is granted, the sanctioning authority should record specific reasons.

(c) Stipulation of a cut off date not exceeding six months from the date of sanction of loan for

- The Reserve Bank announced that the past due period of 30 days for identification of NPAs by NBFCs would be done away with, effective March 31, 2003. As such, a loan asset would become a NPA if the instalment or interest remains overdue for six months or more.

June 06

- The Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998, were amended. The primary amendments related to (i) removal of the concept of "past due", (ii) definition of NPAs, (iii) maintenance of capital adequacy, *etc*.

October 1

- NBFCs should necessarily hold their investments in Government securities either in Constituent's Subsidiary General Ledger Account (CSGL) with Scheduled Commercial Banks (SCB) / Stock Holding Corporation of India Ltd. (SHCIL), or in a dematerialised account with depositories National Securities Depository Ltd. (NSDL) / Central Depository Services (India) Ltd. (CDSL) through a depository participant registered with SEBI. The facility of holding Government securities in physical form, therefore, stands withdrawn. Government guaranteed bonds, which have not been dematerialized may be kept in physical form till such time, these are dematerialised. Only one CSGL or a dematerialised account can be opened by any NBFC. All further transactions of purchase and sale of Government securities have to be compulsorily through CSGL / demat account. Government securities held in physical form should be dematerialised on or before October 31, 2002. The NBFCs need not seek prior approval of the Reserve Bank for opening a demat / SGL account with any of the organisations mentioned above, but must inform the concerned Regional Office of the Reserve Bank, of the details of the account within one week of doing so.

- As a depositor protection measure, NBFCs were advised to include in their advertisements or statements *in lieu* of advertisement the fact that the deposits collected by them are not insured.

- With a view to capturing the information relating to exposure of the NBFCs to the capital market, it was decided to call for information and data from NBFCs holding public deposits of Rs. 50 crore and above and the RNBCs having aggregate liabilities to the depositors of Rs. 50 crore and above as on March 31, 2002 or thereafter regarding their exposure to the capital market. Accordingly, all NBFCs and RNBCs covered by the above criteria were advised to furnish the information in a quarterly return within one month of the close of the relative quarter and the first such return is to be submitted as on December 31, 2002. Every NBFC including a Government company which is not holding / accepting public deposits was directed to inform the Reserve Bank any change in the address of its registered office and names of its directors/ principal officers / authorised signatories / auditors, within 30 days of occurrence of the event.

2003

March 03

- Keeping in view the prevailing interest rates in the entire financial system, the maximum interest rate payable on public deposits of NBFCs was revised to 11 per cent per annum on and from March 4, 2003. It is clarified that this is the maximum permissible rate an NBFC can pay on its public deposits and they are free to offer lower rates. The new rate of interest is applicable to fresh public deposits and renewals of matured public deposits.

July	31	• Regulatory framework of NBFCs was amended to permit ready forward contracts in dated securities and Treasury bills (TBs) issued by the Government of India and dated securities issued by the State Governments.
2003		
August	01	• In order to align the prudential norms with those applicable to the banks and FIs, particularly in relation to infrastructure projects, it was decided to amend the prudential norms for NBFCs relating to *inter alia* the following-: 1) Period of non-performing assets; 2) Infrastructure loans; 3) Restructuring or reschedulement or renegotiation; 4) Treatment of restructured standard and sub-standard accounts; 5) Funded interest; 6) Income recognition norms; 7) Provisioning; 8) Eligibility for upgradation of restructured sub-standard infrastructure loans; 9) Conversion of debt into equity or debentures; and 10) Applicability of restructuring and other norms to loans other than infrastructure loans.
	28	• A NBFCs, which is a securitisation company or reconstruction company, registered with the Reserve Bank under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, is exempted from provisions of Sections (45- IA), (45-IB) and (45-IC) of the Reserve Bank of India Act, 1934. Section 45-IA defines requirement of registration and net owned fund, section 45-IB deals with maintenance of percentage of assets in unencumbered approved securities, and section 45-IC deals with reserve funds of NBFCs.
October	28	• The rate of interest on the deposits payable by Non-Banking Financial Companies (NBFCs), Miscellaneous Non-Banking Companies (MNBCs) and Residuary Non-Banking Companies (RNBCs**)** was capped at 25 basis points above the LIBOR / SWAP rates for US dollar of the corresponding maturity on fresh rapatriable NRE deposits.

Primary Dealers (PDs)

2002		
May	08	• PDs were advised to review their call money lending / borrowing positions and fix prudent limits in terms of their net own funds (NOFs), as part of the overall risk management policy.
		• PDs were advised that the provisions of the scheme for bidding, underwriting and liquidity support for the year 2001-02 will continue to apply for the year 2002-03 also, except that for computation of success ratio of 40 per cent in the case of dated securities will be based on actual bids tendered and not the bidding commitment.
	17	• The penalty period for reduction in liquidity support, in case a PD fails to submit the required minimum bid or submits a bid lower than its commitment in any auction of treasury bills, was reduced from existing 6 months to 3 months.
	20	• PDs were instructed: (i) not to undertake transactions in physical form with any broker entity with immediate effect and (ii) to necessarily hold all their investments in government securities portfolio in either SGL (with the Reserve Bank) or CSGL (with bank / PD / FI) or in dematerialized account with depositories.
	31	• Satellite dealers scheme was discontinued effective May 31, 2002.
June	05	• PDs, as a category, were brought under the purview of Board for Financial Supervision (BFS).
	10	• PDs were advised to confirm that all debt securities and Government securities in their portfolio are held by them in dematerialised form. It was also stipulated that future transactions in Government securities should be compulsorily through SGL / CSGL / demat accounts. PDs were advised to ensure that brokers approved by them for transacting Government securities business are specifically registered with the debt market segment of NSE / OTCEI / BSE.

July 26 • PDs were advised to publish their audited annual financial results in leading financial dailies and on their website.

31 • PDs were advised that with effect from October 5, 2002, they will be permitted to lend in call / notice money market only up to 25 per cent of their NOFs. It was also advised that their access to borrow in call / notice money market would be up to 200 per cent of their NOF (as at end- March of the previous financial year) in Stage I and to 100 per cent of their NOF in Stage II on fulfilment of certain specific conditions.

2002

October 10 • It was clarified that the limit of 25 per cent of NOF for lending in call / notice money market by PDs will be determined on an "average" basis and not on a daily basis during a reporting fortnight.

2003

Jan 16 • Buying and selling of Government securities through the stock exchanges commenced in NSE, BSE and OTCEI.

20 • Collateralised borrowing and lending obligation (CBLO) was operationalised as a money market in- strument through the CCIL.

Feb 21 • Guidelines were issued to extend eligibility for ready forward (repo) contracts to select categories of gilt account holders, with adequate safeguards to ensure DvP and transparency. The guidelines came into effect from March 3, 2003.

March 24 • PDs were allowed to avail of FCNR(B) loans for funding their operations, subject to the foreign exchange risk of such loans being hedged at all times at least to the extent of 50 per cent of the exposure.

April 03 • Operational guidelines were issued to CCIL for operationalisation of Government securities lending scheme. The CCIL was permitted to enter into an arrangement with any of its members for borrowing Government securities for the purpose of handling securities shortage in the settlement of transac- tions.

10 • Operational guidelines were issued to PDs for Portfolio Management Services (PMS). PDs, with prior approval of the Reserve Bank and registration with SEBI, were permitted to offer PMS services only to entities not regulated by the Reserve Bank.

June 03 • With a view to enabling PDs to manage their exposure to interest rate risks, PDs were allowed to deal in Interest Rate Derivatives (IRDs) in a phased manner. In the first phase, such entities were allowed only in interest rate futures on notional bonds and T-Bills for the limited purpose of hedging the risk in their underlying investment portfolio. Allowing transactions in a wider range of products, as also market making would be considered in the next stage on the basis of the experience gained.

11 • Based on the feedback, PDs were allowed to hold trading positions in Interest Rate Futures subject to the certain prudential regulations *viz.*, construction of trading portfolio, interest rate sensitivity of trading portfolio, and accounting for trading positions.

Appendix Table III.1(A): Consolidated Balance Sheet of Public Sector Banks

(As at end-March)

Item	Public Sector Banks				Nationalised Banks				
	2002		2003		2002		2003		2002
	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total	Amount
1	2	3	4	5	6	7	8	9	10
1. Capital	15,177.66	1.31	14,175.39	1.10	14,141.86	2.00	13,139.59	1.66	1,035.80
2. Reserves & Surplus	42,276.10	3.66	51,407.16	4.00	23,253.09	3.29	29,310.14	3.70	19,023.01

3. Deposits	9,68,623.57	83.83	10,79,393.81	83.98	6,17,550.78	87.46	6,88,361.12	86.99	3,51,072.79
3.1 Demand Deposits	1,19,048.47	10.30	1,26,874.06	9.87	65,783.23	9.32	70,248.39	8.88	53,265.24
3.2 Savings Bank Deposits	2,28,138.16	19.75	2,67,173.81	20.79	1,53,245.61	21.70	1,79,250.82	22.65	74,892.55
3.3 Term Deposits	6,21,436.94	53.79	6,85,345.94	53.32	3,98,521.94	56.44	4,38,861.91	55.46	2,22,915.00
4. Borrowings	19,363.03	1.68	22,431.04	1.75	9,311.23	1.32	10,838.48	1.37	10,051.80
5. Other Liabilities and Provisions	1,09,957.32	9.52	1,17,828.30	9.17	41,852.06	5.93	49,632.10	6.27	68,105.26
Total Liabilities	**11,55,397.68**	**100.00**	**12,85,235.70**	**100.00**	**7,06,109.02**	**100.00**	**7,91,281.43**	**100.00**	**4,49,288.66**
1. Cash and balances with RBI	71,407.46	6.18	65,166.62	5.07	44,120.06	6.25	46,054.48	5.82	27,287.40
2. Balances with banks and money at call and short notice	79,460.86	6.88	57,156.91	4.45	31,891.35	4.52	21,888.90	2.77	47,569.51
3. Investments	4,54,509.00	39.34	5,45,668.10	42.46	2,68,890.48	38.08	3,22,301.60	40.73	1,85,618.52
3.1 In Govt. Securities (a+b)	3,44,691.30	29.83	4,32,243.28	33.63	1,93,179.88	27.36	2,44,174.79	30.86	1,51,511.42
a. In India	3,41,397.65	29.55	4,29,089.65	33.39	1,90,180.35	26.93	2,41,402.54	30.51	1,51,217.30
b. Outside India	3,293.65	0.29	3,153.63	0.25	2,999.53	0.42	2,772.25	0.35	294.12
3.2 In other approved Securities	20,460.80	1.77	18,164.82	1.41	13,815.13	1.96	12,367.80	1.56	6,645.67
3.3 In non-approved Securities	89,356.90	7.73	95,260.00	7.41	61,895.47	8.77	65,759.01	8.31	27,461.43
4. Loans and Advances	4,80,117.96	41.55	5,49,351.18	42.74	3,15,580.70	44.69	3,60,147.29	45.51	1,64,537.26
4.1 Bills purchased & discounted	36,579.34	3.17	41,897.95	3.26	20,833.59	2.95	24,273.05	3.07	15,745.75
4.2 Cash Credit, Overdrafts, *etc*.	2,67,855.32	23.18	2,91,680.92	22.69	1,77,169.90	25.09	1,94,231.10	24.55	90,685.42
4.3 Term Loans	1,75,683.30	15.21	2,15,772.31	16.79	1,17,577.21	16.65	1,41,643.14	17.90	58,106.09
5. Fixed Assets	10,440.08	0.90	10,592.98	0.82	7,551.19	1.07	7,667.66	0.97	2,888.89
6. Other Assets	59,462.32	5.15	57,299.91	4.46	38,075.24	5.39	33,221.50	4.20	21,387.08
Total Assets	**11,55,397.68**	**100.00**	**12,85,235.70**	**100.00**	**7,06,109.02**	**100.00**	**7,91,281.43**	**100.00**	**4,49,288.66**

Source : Balance Sheets of respective Banks.

Appendix Table III.1(B): Consolidated Balance Sheet of Private Sector Banks

(As at end-March)

Item	**Private Sector Banks**				**Old Private Sector Banks**				**New I**	
	2002		**2003**		**2002**		**2003**		**2002**	
	Amount	**per cent to total**	**Amount**	**per cent to total**	**Amount**	**per cent to total**	**Amount**	**per cent to total**	**Amount**	**p**
1	2	3	4	5	6	7	8	9	10	
1. Capital	2,718.39	1.02	2,921.06	0.98	604.80	0.65	648.77	0.62	2,113.59	
2. Reserves & Surplus	13,468.95	5.03	15,974.40	5.37	4,806.25	5.16	5,646.38	5.37	8,662.70	
3. Deposits	1,69,432.92	63.29	2,07,173.57	69.69	80,440.54	86.28	91,431.26	86.99	88,992.38	
3.1 Demand Deposits	20,397.76	7.62	23,274.15	7.83	8,107.59	8.70	8,515.54	8.10	12,290.17	
3.2 Savings Bank Deposits	20,120.17	7.52	26,160.42	8.80	11,828.99	12.69	13,673.98	13.01	8,291.18	
3.3 Term Deposits	1,28,914.99	48.16	1,57,739.00	53.06	60,503.96	64.90	69,241.74	65.88	68,411.03	
4. Borrowings	56,591.84	21.14	42,139.95	14.18	2,725.11	2.92	2,385.75	2.27	53,866.73	
5. Other Liabilities and Provisions	25,493.77	9.52	29,070.33	9.78	4,652.59	4.99	4,997.34	4.75	20,841.18	
Total Liabilities	**2,67,705.87**	**100.00**	**2,97,279.31**	**100.00**	**93,229.29**	**100.00**	**1,05,109.50**	**100.00**	**1,74,476.58**	
1. Cash and balances with RBI	11,306.23	4.22	16,393.68	5.51	5,296.35	5.68	5,243.58	4.99	6,009.88	
2. Balances with banks and money at call and short notice	23,386.30	8.74	11,052.34	3.72	6,489.89	6.96	5,222.04	4.97	16,896.41	
3. Investments	97,650.61	36.48	1,07,327.94	36.10	34,021.77	36.49	40,001.03	38.06	63,628.84	
3.1 In Govt. Securities (a+b)	62,943.45	23.51	73,303.41	24.66	23,840.20	25.57	28,479.37	27.09	39,103.25	
a. In India	62,859.08	23.48	73,219.26	24.63	23,755.83	25.48	28,395.22	27.01	39,103.25	
b. Outside India	84.37	0.03	84.15	0.03	84.37	0.09	84.15	0.08	—	
3.2 In other approved Securities	1,126.64	0.42	960.93	0.32	1,012.24	1.09	882.58	0.84	114.40	
3.3 In non-approved Securities	33,580.52	12.54	33,063.60	11.12	9,169.33	9.84	10,639.08	10.12	24,411.19	
4. Loans and Advances	1,16,840.79	43.65	1,38,951.10	46.74	42,285.68	45.36	49,436.34	47.03	74,555.11	
4.1 Bills purchased & discounted	10,405.19	3.89	11,084.39	3.73	4,204.38	4.51	5,321.15	5.06	6,200.81	
4.2 Cash Credit, Overdrafts, *etc*.	35,527.03	13.27	38,437.75	12.93	22,412.43	24.04	23,663.92	22.51	13,114.60	
4.3 Term Loans	70,908.57	26.49	89,428.96	30.08	15,668.87	16.81	20,451.27	19.46	55,239.70	
5. Fixed Assets	7,400.97	2.76	7,499.41	2.52	1,459.53	1.57	1,528.16	1.45	5,941.44	
6. Other Assets	11,120.97	4.15	16,054.84	5.40	3,676.07	3.94	3,678.35	3.50	7,444.90	
Total Assets	**2,67,705.87**	**100.00**	**2,97,279.31**	**100.00**	**93,229.29**	**100.00**	**1,05,109.50**	**100.00**	**1,74,476.58**	

Source: Balance sheets of respective banks.

Appendix Table III.1(C): Consolidated Balance Sheet of Foreign Banks

(As at end-March)

(Amount in Rs.crore)

Item	2002		2003	
	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5
1. Capital	3,576.15	3.16	4,497.79	3.86
2. Reserves & Surplus	6,938.73	6.12	8,906.28	7.65
3. Deposits	67,873.46	59.89	69,312.82	59.55
3.1 Demand Deposits	13,483.05	11.90	14,441.43	12.41
3.2 Savings Bank Deposits	7,339.47	6.48	8,969.17	7.71
3.3 Term Deposits	47,050.94	41.52	45,902.22	39.43
4. Borrowings	26,270.81	23.18	22,904.42	19.68
5. Other Liabilities and Provisions	8,661.77	7.64	10,779.77	9.26
Total Liabilities	**1,13,320.92**	**100.00**	**1,16,401.08**	**100.00**
1. Cash and balances with RBI	4,046.81	3.57	4,557.40	3.92
2. Balances with banks and money at call and short notice	15,729.26	13.88	6,344.91	5.45
3. Investments	35,093.56	30.97	40,795.49	35.05
3.1 In Govt. Securities (a+b)	24,161.28	21.32	30,834.10	26.49
a. In India	24,161.28	21.32	30,834.10	26.49
b. Outside India	—	—	—	—
3.2 In other approved Securities	165.26	0.15	150.76	0.13
3.3 In non-approved Securities	10,767.02	9.50	9,810.63	8.43
4. Loans and Advances	48,478.40	42.78	52,170.87	44.82
4.1 Bills purchased & discounted	6,109.02	5.39	5,800.97	4.98
4.2 Cash Credit, Overdrafts, *etc*.	18,816.26	16.60	21,399.90	18.38
4.3 Term Loans	23,553.12	20.78	24,970.00	21.45
5. Fixed Assets	2,249.88	1.99	2,185.53	1.88
6. Other Assets	7,723.01	6.82	10,346.88	8.89
Total Assets	**1,13,320.92**	**100.00**	**1,16,401.08**	**100.00**

Source: Balance sheets of respective banks.

Appendix Table III.2: Important Banking Indicators - Scheduled Commercial Banks

(Amount in Rs. crore)

Item	Outstanding as on March 21, 2003	Variations							
		Financial Year				April-September			
		2002-03		2001-02		2003-04 P		2002-03	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
1. Gross Demand and Time Liabilites (2+3+4+6)	**14,85,643**	**2,13,470**	**16.8**	**1,38,694**	**12.2**	**1,01,626**	**4.1**	**1,42,573**	**8.2**
2. Aggregate Deposits (a+b)	**12,80,853**	**1,77,493**	**16.1**	**1,40,742**	**14.6**	**96,480**	**7.5**	**1,24,331**	**11.3**
		(1,47,822)	(13.4)					(87,199)	(7.9)
a. Demand deposits	1,70,289	17,241	11.3	10,496	7.4	4,984	2.9	182	0.1
b. Time deposits	11,10,564	1,60,252	16.9	1,30,246	15.9	91,496	8.2	1,24,149	13.6
		(1,30,581)	(13.7)					(87,017)	(9.2)
3. Other Borrowings #	**12,638**	**9,609**	**317.3**	**462**	**18.0**	**4,622**	**36.6**	**7,240**	**239.1**
4. Other Demand and Time Liabilities	**1,29,806**	**17,923**	**16.0**	**20,676**	**22.7**	**2,901**	**2.2**	**3,875**	**3.5**
5. Borrowings from the RBI	**79**	**-3,537**	**-97.8**	**-280**	**-7.2**	**-78**	**-98.7**	**-3,605**	**-99.7**
6. Inter-bank Liabilities	**62,346**	**8,444**	**15.7**	**-23,186**	**-30.1**	**-2,377**	**-3.8**	**7,127**	**13.2**
7. Bank Credit (a+b)	**7,29,215**	**1,39,493**	**23.7**	**78,289**	**15.3**	**6,331**	**0.9**	**71,396**	**12.1**
a. Food Credit	49,479	-4,499	-8.3	13,987	35.0	-12,014	-24.3	-616	-1.1
b. Non-food Credit	6,79,736	1,43,992	26.9	64,302	13.6	18,345	2.7	72,011	13.4
8. Investments (a+b)	**5,47,546**	**1,09,276**	**24.9**	**68,110**	**18.4**	**82,526**	**15.1**	**64,070**	**14.6**
a. Government securities	5,23,417	1,12,241	27.3	71,142	20.9	79,505	15.2	65,762	16.0
b. Other approved securities	24,129	-2,964	-10.9	-3,032	-10.1	3,020	12.5	-1,692	-6.3

9. Cash in hand	**7,567**	**1,322**	**21.2**	**587**	**10.4**	**741**	**9.8**	**181**	**2.9**
10. Balances with the RBI	**58,335**	**-4,068**	**-6.5**	**2,858**	**4.8**	**4,995**	**8.6**	**4,325**	**6.9**
11. Inter-Bank Assets	**59,019**	**6,156**	**11.6**	**-9,491**	**-15.2**	**1,493**	**2.5**	**11,671**	**22.1**
A. Credit-Deposit Ratio (%)	56.9	—	78.6	—	55.6	—	6.6	—	57.4
B. Non-food Credit-Deposit Ratio (%)	53.1	—	81.1	—	45.7	—	19.0	—	57.9
C. Investment-Deposit Ratio (%)	42.7	—	61.6	—	48.4	—	85.5	—	51.5

P Provisional.
— Not applicable.
Other than from RBI/IDBI/NABARD/EXIM Bank.
Notes :
1.Figures in brackets exclude the impact of mergers since May 3, 2002.
2. Revised in line with the new accounting standards and consistent with the methodology suggested by the Working Group on Money Supply : Analytics and Methodology of Compilation (June 1998). The revision is in respect of pension and provident funds with commercial banks which are classified as other demand and time liabilities and includes those banks which have reported such changes so far.

Appendix Table III.3: Issue of Certificates of Deposit by Scheduled Commercial Banks

Fortnight ended	Total Outstanding (Rs. crore)	Rate of Interest (Per cent) @	Fortnight ended	Total Outstanding (Rs. crore)	Rate of Interest (Per cent) @
1	2	3	4	5	6
2002			**2003**		
January 11	775	6.20 - 9.50	January 10	1,199	4.37 - 6.61
25	1,008	5.99 - 9.60	24	1,226	4.60 - 7.00
February 8	1,196	6.00 - 9.50	February 7	1,214	4.75 - 6.50
22	1,292	5.95 - 10.15	21	1,125	3.00 - 7.50
March 8	1,503	5.98 - 10.00	March 7	928	5.25 - 7.10
22	1,583	5.00 - 10.03	21	908	5.00 - 7.10
April 5	1,474	5.00 - 10.88	April 4	1,188	5.25 - 7.40
19	1,393	5.00 - 10.28	18	1,485	5.25 - 7.00
May 3	1,247	5.00 - 10.28	May 2	1,660	5.00 - 6.26
17	1,362	5.00 - 9.50	16	1,947	5.25 - 6.25
31	1,360	6.00 - 8.90	30	1,996	3.94 - 7.00
June 14	1,357	5.00 - 9.25	June 13	2,227	3.99 - 7.00
28	1,361	5.40 - 9.20	27	2,183	3.74 - 6.50
July 12	1,312	5.21 - 9.10	July 11	2,242	4.45 - 6.25
26	1,303	5.10 - 8.50	25	2,466	5.25 - 6.75
August 9	1,161	4.99 - 8.50	August 8	2,741	4.25 - 6.75
23	1,007	5.03 - 8.50	22	2,961	4.75 - 5.68
September 6	1,250	5.00 - 8.50	September 5	3,024	4.50 - 5.61
20	1,236	5.50 - 8.75			
October 4	1,270	5.20 - 8.25			
18	1,394	4.94 - 8.00			
November 1	1,310	6.00 - 7.50			
15	1,309	4.69 - 8.50			
29	1,213	4.46 - 7.05			
December 13	1,204	4.69 - 8.50			
27	1,163	4.71 - 6.50			

@ Effective interest rate range per annum.

Appendix Table III.4: RBI Accommodation to Scheduled Commercial Banks

(Amount in Rs.crore)

As on the last reporting Friday of	Total Export Credit Refinance		Others @		Total Refinance	
	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding

1	2	3	4	5	6	7
					(2+4)	(3+5)
2001						
March	7,192.11	3,252.24	1,056.68	639.58	8,248.79	3,891.82
2002						
March	9,085.89	3,193.94	1,056.27	422.35	10,142.16	3,616.29
April	5,820.32	3,024.76	1,056.27	497.86	6,876.59	3,522.62
May	5,776.05	426.30	1,056.27	399.30	6,832.32	825.60
June	5,800.30	336.12	1,056.27	—	6,856.57	336.12
July	5,702.02	21.64	1,056.27	—	6,758.29	21.64
August	5,501.84	15.09	727.97	—	6,229.81	15.09
September	5,197.75	11.78	727.97	—	5,925.72	11.78
October	5,063.81	7.68	399.66	—	5,463.47	7.68
November	5,162.56	30.42	399.66	—	5,562.22	30.42
December	5,072.48	33.77	399.66	—	5,472.14	33.77
2003						
January	5,010.90	7.97	399.66	—	5,410.56	7.97
February	5,037.34	9.41	399.66	—	5,437.00	9.41
March	5,048.26	84.51	399.66	—	5,447.92	84.51
April	5,137.70	7.20	399.66	—	5,537.36	7.20
May	4,827.80	2.98	399.66	—	5,227.46	2.98
June	4,866.00	2.91	399.66	—	5,265.66	2.91
July	4,827.02	2.97	399.66	—	5,226.68	2.97
August	4,726.66	2.73	399.66	—	5,126.32	2.73
September	4,632.52	2.25	399.66	—	5,032.18	2.25
October*	4,617.28	1.05	399.66	—	5,016.94	1.05

@ Others include Collateralised Lending Facility (withdrawn effective October 5, 2002).
* As on fortnight ended October 3, 2003.
Notes:
1.Effective May 5, 2001, Export Credit Refinance and CLF facilities were split up into 2/3rd (normal) and 1/3rd (back-stop).
2.Apportionment of normal and back-stop facilities of Export Credit Refinance charged to one-half (*i.e.*, 50:50)

each, effective from November 16, 2002.

Appendix Table III.5: Sectoral Deployment of Gross Bank Credit

(Amount in Rs. crore)

	Sector	Outstanding as on				Variation	
		August 22, 2003@	March 21, 2003 *	March 22, 2002	March 23, 2001	2002-03 (3-4)	2001-02 (4-5)
	1	2	3	4	5	6	7
I.	**Gross Bank Credit (1+2)**	**6,63,122**	**6,16,906**	**5,36,727**	**4,69,153**	**80,179**	**67,574**
	1. Public Food Procurement Credit	41,283	49,479	53,978	39,991	-4,499	13,987
	2. Non-food Gross Bank Credit	6,21,839	5,67,427	4,82,749	4,29,162	84,678	53,587
						(100.0)	(100.0)
	A. Priority Sectors ##	2,19,302	2,03,799	1,75,259	1,54,414	28,540	20,845
						(33.7)	(38.9)
	a) Agriculture	74,371	71,609	60,761	51,922	10,848	8,839
						(12.8)	(16.5)
	b) Small Scale Industries	58,627	60,486	57,199	56,002	3,287	1,197
						(3.9)	(2.2)
	c) Other Priority Sectors	86,304	71,704	57,299	46,490	14,405	10,809
						(17.0)	(20.2)
	B. Industry (Medium and Large)	2,19,781	2,00,335	1,72,324	1,62,837	28,011	9,487
						(33.1)	(17.7)
	C. Wholesale Trade (other than food procurement)	22,035	22,398	20,459	17,845	1,939	2,614
						(2.3)	(4.9)
	D.Other Sectors	1,60,721	1,40,895	1,14,707	94,066	26,188	20,641
						(30.9)	(38.5)
	of which :						
	a) Housing	40,409	34,654	22,346	16,143	12,308	6,203
	b) Consumer Durables	7,891	6,904	7,015	5,566	-111	1,449
	c) Non-Banking Financial Companies	15,158	14,052	9,653	7,810	4,399	1,843
	d) Loans to Individuals against Shares and debentures/bonds	1,826	1,762	1,520	1,697	242	-177
	e) Real Estate Loans	5,107	3,098	2,596	1,766	502	830
	f) Other non-priority sector Personal loans	29,926	26,089	23,402	18,064	2,687	5,338
	g) Advances against fixed deposits	21,448	22,701	21,243	19,942	1,458	1,301
	h) Tourism and tourism-related hotels	2,740	1,806	1,540	996	266	544
II.	**Export Credit** [included under item I(2)]	**48,913**	**49,402**	**42,978**	**43,321**	**6,424**	**-343**
						(7.6)	(-0.6)
III.	**Net Bank Credit** (including inter-bank participations)	**6,62,375**	**6,16,085**	**5,35,063**	**4,67,206**	**81,022**	**67,857**

The data in this statement may not agree with those quoted elsewhere in the report as the data bases are different.

* Excluding the impact of the merger of ICICI with ICICI Bank.

@ Including the impact of the merger of ICICI with ICICI Bank (not comparable with other figures).

Notes:

1.Data are provisional and relate to 49 selected scheduled commercial banks (48 banks in March 2003) which account for 85-90 per cent of bank credit of all scheduled commercial banks. Gross bank credit data include bills rediscounted with RBI, IDBI, EXIM Bank, other approved financial institutions and inter-bank participations. Net bank credit data are exclusive of bills rediscounted with RBI, IDBI, EXIM Bank and other approved financial institutions.

2.Figures in brackets are proportions to variation in non-food gross bank credit.

Appendix Table III.6: Industry-wise Deployment of Gross Bank Credit

(Amount in Rs. crore)

	Industry	Outstanding as on		Variation	
		August 22, 2003 @	March 21, 2003*	2002-03	2001-02
1		2	3	4	5
Industry		**2,78,408**	**2,60,821**	**31,298**	**10,684**
(Total of Small, Medium and Large)					
1.	Coal	1,048	1,325	-84	375
2.	Mining	1,644	1,776	183	290
3.	Iron and Steel	26,014	21,425	1,383	636
4.	Other Metals and Metal Products	7,783	7,513	1,017	145
5.	All Engineering	26,530	23,414	-785	802
	of which : Electronics	7,310	6,237	296	650
6.	Electricity	10,261	11,300	1,957	753
7.	Cotton Textiles	14,882	13,863	2,119	-1,500
8.	Jute Textiles	1,069	786	49	-107
9.	Other Textiles	14,210	14,058	603	1,443
10.	Sugar	6,081	5,024	-4	346
11.	Tea	1,192	1,053	67	-72
12.	Food Processing	8,115	8,360	1,075	931
13.	Vegetable Oils and *vanaspati*	2,823	2,853	124	-147
14.	Tobacco and Tobacco Products	757	756	-105	-102
15.	Paper and Paper Products	5,173	4,326	585	273
16.	Rubber and Rubber Products	2,511	2,498	252	51
17.	Chemicals, Dyes, Paints, *etc.*	30,138	27,831	1,843	1,923
	of which :				
	a) Fertilisers	6,480	6,293	830	230
	b) Petro-Chemicals	7,578	7,007	344	548
	c) Drugs and Pharmaceuticals	7,942	7,492	1,099	1,004
18.	Cement	5,979	5,180	956	382
19.	Leather and Leather Products	2,891	2,927	75	88
20.	Gems and Jewellery	8,284	7,542	1,086	-125
21.	Construction	5,376	4,551	551	825
22.	Petroleum	9,614	12,021	701	-252
23.	Automobiles including trucks	5,275	4,707	253	45
24.	Computer Software	2,806	2,531	866	442
25.	Infrastructure	26,880	20,033	5,224	3,460
	a) Power	14,264	10,752	3,379	2,127
	b) Telecommunications	6,292	4,110	138	328
	c) Roads and Ports	6,324	5,171	1,707	1,005
26.	Other Industries	51,072	53,168	11,307	-221

* Excluding the impact of the merger of ICICI with ICICI Bank.
@ Including the impact of the merger of ICICI with ICICI Bank (not comparable with other figures).
Notes :
1. Data are provisional and relate to selected scheduled commercial banks which account for 85-90 per cent of bank credit of all scheduled commercial banks.
2. No sign is indicated for positive variations.

Appendix Table III.7: Viability Position of Sick/Weak Industrial Units

(Amount in Rs. crore)

Type of	SSI Sick Units	Non–SSI Sick Units

Industrial Unit	Number		Amount Outstanding		Number		Amount Outstanding	
	March 2001	March 2002	March 2001	March 2002	March 2001	March 2002	March 2001	March 2002
1	2	3	4	5	6	7	8	9
1. Potentially viable units	13,076 (5.2)	4,493 (2.5)	399.17 (8.9)	416.41 (8.6)	339 (11.6)	269 (9.4)	2,945.11 (15.9)	2,491.33 (14.2)
2. Non-viable units	2,25,488 (90.4)	1,67,574 (94.5)	3,943.20 (87.5)	4,146.74 (86.1)	1,661 (56.7)	1,605 (55.7)	6,635.96 (35.9)	6,976.47 (39.7)
3. Viability not decided	11,066 (4.4)	5,269 (3.0)	163.17 (3.6)	255.80 (5.3)	928 (31.7)	1,006 (34.9)	8,897.10 (48.2)	8,123.32 (46.1)
4. Total	2,49,630	1,77,336	4,505.54	4,818.95	2,928	2,880	18,478.17	17,591.12
5. Units under nursing Programme	753	621	120.30	88.98	194	156	1,754.00	1,321.44
5 as percentage of 1	5.8	13.8	30.1	21.4	57.2	58.0	59.6	53.0

Note : Figures in brackets are percentages to total.

(Amount in Rs. crore)

Type of Industrial Unit	Non-SSI Weak Units				Total			
	Number		Amount Outstanding		Number		Amount Outstanding	
	March 2001	March 2002	March 2001	March 2002	March 2001	March 2002	March 2001	March 2002
1	10	11	12	13	14	15	16	17
1. Potentially viable units	74 (19.0)	74 (19.4)	995.55 (35.7)	1,216.60 (33.3)	13,489 (5.3)	4,836 (2.7)	4,339.83 (16.8)	4,124.34 (15.8)
2. Non-viable units	193 (49.6)	172 (45.1)	479.45 (17.2)	556.55 (15.2)	2,27,342 (89.9)	1,69,351 (93.8)	11,058.61 (42.9)	11,679.76 (44.8)
3. Viability not decided	122 (31.4)	135 (35.5)	1,317.09 (47.1)	1,881.37 (51.5)	12,116 (4.8)	6,410 (3.5)	10,377.36 (40.3)	10,260.49 (39.4)
4. Total	389	381	2,792.09	3,654.52	2,52,947	1,80,597	25,775.80	26,064.59
5. Units under nursing Programme	17	16	390.98	439.75	964	793	2,265.28	1,850.17
5 as percentage of 1	23.0	21.6	39.3	36.1	7.1	16.4	52.2	44.9

Note : Figures in brackets are percentages to total.

Appendix Table III.8: Bank group-wise Lending to Sensitive Sectors

(Amount in Rs. crore, Variation in per cent)

Advances to	Nationalised Banks			State Bank Group			Public Sector Banks		
	2001-02	2002-03	Variation	2001-02	2002-03	Variation	2001-02	2002-03	Variation
1	2	3	4	5	6	7	8	9	10

1. Capital Market	1,132.34 (0.36)	959.08 (0.27)	-15.30	166.72 (0.10)	73.18 (0.04)	-56.11	1,299.06 (0.27)	1,032.26 (0.19)	-20.54
2. Real Estate	5,423.45 (1.72)	7,231.26 (2.01)	33.33	620.26 (0.38)	756.61 (0.40)	21.98	6,043.71 (1.26)	7,987.87 (1.45)	32.17
3. Commodities	4,823.42 (1.53)	5,096.17 (1.42)	5.65	1,411.03 (0.86)	1,258.36 (0.67)	-10.82	6,234.45 (1.3)	6,354.53 (1.16)	1.93
Total Advances to Sensitive Sectors	**11,379.21 (3.61)**	**13,286.51 (3.69)**	**16.76**	**2,198.01 (1.34)**	**2,088.15 (1.10)**	**-5.00**	**13,577.22 (2.83)**	**15,374.66 (2.80)**	**13.24**

(Amount in Rs. crore, Variation in per cent)

	Advances to	New Private Sector Banks			Old Private Sector Banks		
		2001-02	2002-03	Variation	2001-02	2002-03	Variation
	1	11	12	13	14	15	16
1.	Capital Market	1,026.13 (1.38)	689.42 (0.77)	-32.81	258.25 (0.61)	197.72 (0.40)	-23.44
2.	Real Estate	1,208.34 (1.62)	2,701.66 (3.02)	123.58	1,122.35 (2.65)	1,066.84 (2.16)	-4.95
3.	Commodities	899.65 (1.21)	1,062.08 (1.19)	18.05	1,327.56 (3.14)	1,326.93 (2.68)	-0.05
	Total Advances to Sensitive Sectors	**3,134.12 (4.2)**	**4,453.16 (4.97)**	**42.09**	**2,708.16 (6.4)**	**2,591.49 (5.24)**	**-4.31**

(Amount in Rs. crore, Variation in per cent)

	Advances to	Foreign Banks			Scheduled Commercial Banks		
		2001-02	2002-03	Variation	2001-02	2002-03	Variation
	1	17	18	19	20	21	22
1.	Capital Market	498.78 (1.03)	584.51 (1.12)	17.19	3,082.22 (0.48)	2,503.91 (0.34)	-18.76
2.	Real Estate	637.46 (1.31)	707.81 (1.36)	11.04	9,011.86 (1.40)	12,464.18 (1.68)	38.31
3.	Commodities	265.04 (0.55)	235.18 (0.45)	-11.27	8,726.70 (1.35)	8,978.72 (1.21)	2.89
	Total Advances to Sensitive Sectors	**1,401.28 (2.89)**	**1,527.50 (2.93)**	**9.01**	**20,820.78 (3.23)**	**23,946.81 (3.23)**	**15.01**

Note : Figures in brackets are percentage to total loans and advances of the concerned bank group.
Source : Balance sheets of respective banks.

Appendix Table III.9: Region/State-wise Credit-Deposit Ratio and Investment plus Credit-Deposit Ratio of Scheduled Commercial Banks

(Per cent)

Sr. No.	Region/State/ Union Territory	Credit-Deposit Ratio							Investment *plus* Credit-Deposit Ratio @			
		2000		2001		2002		2003	2001		2002	
		As per	As per	As per	As per	As per	As per	As per	As per	As per	As per	As per

		Sanc-tion	Utili-sation	Sanc-tion	Utili-sation	Sanc-tion	Utili-sation	Sanc-tion	Sanc-tion	Utili-sation	Sanc-tion	Utili-sation
1	2	3	4	5	6	7	8	9	10	11	12	13
1	**NORTHERN REGION**	**51.1**	**49.6**	**54.7**	**52.5**	**56.2**	**55.0**	**57.1**	**59.9**	**57.7**	**61.2**	**60.0**
	Haryana	42.4	53.4	41.0	54.0	43.7	55.0	43.6	49.8	62.8	51.9	63.1
	Himachal Pradesh	23.8	26.8	21.3	25.7	23.4	32.5	24.7	35.5	39.9	36.3	45.4
	Jammu & Kashmir	33.5	30.9	34.5	33.5	36.8	40.9	37.9	42.7	41.8	46.0	50.1
	Punjab	39.4	40.9	41.1	42.3	41.8	43.9	41.6	47.0	48.2	47.0	49.2
	Rajasthan	46.7	50.1	46.6	49.6	48.4	55.4	51.1	65.4	68.4	67.3	74.3
	Chandigarh	82.0	79.5	99.4	99.3	102.8	102.3	110.4	99.4	99.3	102.8	102.3
	Delhi	60.5	53.7	66.1	57.6	67.6	59.1	67.8	66.3	57.8	67.7	59.2
2	**NORTH-EASTERN REGION**	**28.1**	**30.6**	**27.6**	**32.0**	**27.2**	**53.2**	**26.8**	**44.9**	**49.3**	**45.2**	**71.2**
	Arunachal Pradesh	15.7	22.3	14.5	22.1	15.8	27.4	17.0	24.3	31.8	22.7	34.3
	Assam	32.0	35.5	32.1	38.1	31.7	70.3	28.6	48.9	55.0	49.3	87.9
	Manipur	37.4	37.9	40.1	40.7	26.4	27.3	28.0	72.2	72.8	58.9	59.8
	Meghalaya	16.3	16.3	17.1	17.3	18.3	24.3	28.8	33.0	33.3	34.0	40.0
	Mizoram	23.3	26.0	24.1	29.0	26.4	36.2	26.4	43.8	48.7	48.5	58.4
	Nagaland	15.3	15.6	12.4	13.6	12.8	18.1	13.1	42.1	43.3	48.1	53.3
	Tripura	25.7	25.7	21.7	21.7	21.5	21.6	25.6	34.2	34.2	33.6	33.7
3	**EASTERN REGION**	**37.0**	**37.2**	**36.7**	**36.6**	**37.6**	**41.4**	**40.2**	**47.7**	**47.6**	**48.6**	**52.4**
	Bihar	22.5	23.2	20.7	20.7	21.3	21.9	23.4	37.6	37.6	38.3	38.9
	Jharkhand	—	—	28.0	30.6	25.1	31.0	27.3	28.7	31.2	27.1	33.0
	Orissa	41.5	42.8	40.2	41.6	44.5	51.4	46.2	65.8	67.1	68.2	75.1
	Sikkim	15.1	15.2	14.4	14.5	16.0	22.5	17.2	31.7	31.7	29.9	36.4
	West Bengal	45.5	44.9	44.5	43.4	45.8	49.2	48.2	52.4	51.2	53.7	57.2
	Andaman & Nicobar Islands	16.8	27.6	16.3	27.5	18.5	57.2	21.0	16.3	27.5	18.5	57.2
4	**CENTRAL REGION**	**33.9**	**36.8**	**32.7**	**36.9**	**33.9**	**38.4**	**33.5**	**43.9**	**48.1**	**44.8**	**49.3**
	Chhatishgarh	—	—	38.5	49.9	44.0	54.2	39.1	39.4	50.8	46.6	56.8
	Madhya Pradesh	49.1	52.5	47.6	52.5	46.6	50.3	46.6	62.7	67.5	60.5	64.3
	Uttar Pradesh	28.2	30.9	28.3	31.9	29.9	34.3	30.4	40.3	43.9	41.7	46.1
	Uttaranchal	—	—	21.7	23.9	23.7	26.0	19.1	21.8	24.0	25.3	27.6
5	**WESTERN REGION**	**75.4**	**74.6**	**75.5**	**74.8**	**79.7**	**71.3**	**80.8**	**79.9**	**79.2**	**83.5**	**75.1**
	Goa	23.8	25.4	26.1	27.3	25.3	28.2	23.2	29.5	30.7	29.2	32.1
	Gujarat	49.0	53.5	48.5	53.6	44.1	54.7	45.2	55.1	60.2	50.9	61.5
	Maharashtra	86.4	83.4	86.4	83.5	92.3	77.5	93.2	90.1	87.2	95.3	80.5
	Dadra & Nagar Haveli	18.8	135.6	14.3	135.2	20.9	189.0	23.5	14.3	135.2	20.9	189.0
	Daman & Diu	15.7	87.6	13.3	75.3	9.9	79.4	9.0	13.3	75.3	9.9	79.4
6	**SOUTHERN REGION**	**66.2**	**66.8**	**66.6**	**66.8**	**64.6**	**68.9**	**65.0**	**75.2**	**75.3**	**72.9**	**77.1**
	Andhra Pradesh	64.2	65.5	64.5	64.9	61.9	67.7	62.6	77.2	77.6	74.0	79.7
	Karnataka	63.3	65.5	61.0	61.8	61.6	68.9	60.9	67.6	68.5	68.4	75.7
	Kerala	41.5	41.7	43.3	42.3	43.3	43.7	43.3	51.7	50.8	51.3	51.7
	Tamil Nadu	88.6	87.5	90.6	90.6	85.4	88.5	86.5	97.6	97.5	91.9	95.1
	Lakshadweep	7.4	9.1	10.4	11.8	7.9	9.6	5.1	10.4	11.8	7.9	9.6
	Pondicherry	33.6	38.7	33.5	35.8	32.3	39.2	32.2	33.5	35.8	32.3	39.2
	ALL INDIA	**56.0**	**56.0**	**56.7**	**56.7**	**58.4**	**58.4**	**59.4**	**64.3**	**64.3**	**65.6**	**65.6**

@ Banks' State-wise investment represent their holdings of state-level securities, such as, State Government loans and shares, bonds, debentures, *etc*. of Regional Rural Banks, Co-operative institutions, State Electricity Boards, Municipal Corporations, Municipalities and Port Trusts, State Financial Corporations, Housing Boards, State Industrial Development Corporations, Road Transport Corporations and other Government and *quasi*-Government bodies.

All-India investment *plus* credit-deposit ratio is worked out by excluding investments in Central Government and other securities not mentioned above.

— Not applicable.

Notes:

1. Deposits and credit (as per place of sanction and utilisation) data for 2000, 2001 and 2002 are based on BSR-1 and 2 surveys as on March 31.
2. The investment figures are based on BSR-5 survey as on March 31.
3. CD-ratio for 2003 are based on BSR-7 survey as on March 31, 2003.

Appendix Table III.10: Commercial Bank Survey

(Amount in Rs. crore)

Variable	Outstanding as on	Variations	
		Financial year	April-August

	March 21, 2003	2002-03 Absolute	2002-03 Per cent	2001-02 Absolute	2001-02 Per cent	2003-04 Absolute	2003-04 Per cent	2002-03 Absolute	2002-03 Per cent
1	2	3	4	5	6	7	8	9	10
Components									
C.I Aggregate Deposits of Residents (C.I.1+C.I.2)	**11,88,613**	**1,76,103**	**17.4**	**1,35,989**	**15.5**	**84,499**	**7.1**	**1,12,035**	**11.1**
	(11,58,942)	**(1,46,432)**	**(14.5)**					**(73,829)**	**(7.3)**
C.I.1 Demand Deposits	1,70,289	17,241	11.3	10,496	7.4	4,219	2.5	-2,137	-1.4
C.I.2 Time Deposits of Residents (C.I.2.1+C.I.2.2)	10,18,324	1,58,862	18.5	1,25,493	17.1	80,279	7.9	1,14,172	13.3
	(9,88,653)	(1,29,191)	(15.0)					(75,966)	(8.8)
C.I.2.1 Short-term Time Deposits	4,58,246	71,488	18.5	56,472	17.1	36,125	7.9	51,377	13.3
C.I.2.1.1 Certificates of Deposits (CDs)	722	-1,511	-67.7	1,221	120.7	573	79.4	-839	-37.6
C.I.2.2 Long-term Time Deposits	5,60,078	87,374	18.5	69,021	17.1	44,154	7.9	62,795	13.3
C.II Call/Term Funding from Financial Institutions	**12,638**	**9,609**	**317.2**	**463**	**18.0**	**4,462**	**35.3**	**6,667**	**220.1**
Sources									
S.I Domestic Credit (S.I.1+S.I.2)	**14,14,455**	**2,67,294**	**23.3**	**1,56,703**	**15.8**	**75,941**	**5.4**	**1,39,888**	**12.2**
S.I.1 Credit to the Government	5,23,417	1,12,241	27.3	71,141	20.9	67,678	12.9	64,245	15.6
S.I.2 Credit to the Commercial Sector (S.I.2.1+S.I.2.2+S.I.2.3+S.I.2.4)	8,91,038	1,55,053	21.1	85,561	13.2	8,263	0.9	75,643	10.3
S.I.2.1 Bank Credit	7,29,215	1,39,492	23.7	78,289	15.3	-1,971	-0.3	63,658	10.8
S.I.2.1.1 Non-food Credit	6,79,736	1,43,991	26.9	64,302	13.6	6,226	0.9	61,236	11.4
S.I.2.2 Net Credit to Primary Dealers	4,093	3,765	1,148.9	461	-346.6	3,022	73.8	5,295	1,614.3
S.I.2.3 Investments in Other Approved Securities	24,129	-2,964	-10.9	-3,032	-10.1	3,302	13.7	-1,348	-5.0
S.I.2.4 Other Investments (in non-SLR Securities)	1,33,601	14,759	12.4	9,844	9.0	3,910	2.9	8,037	6.8
S.II Net Foreign Currency Assets of Commercial Banks (S.II.1-S.II.2-S.II.3)	**-68,366**	**-30,235**	**79.3**	**-2,202**	**6.1**	**-2,234**	**3.3**	**-34**	**0.1**
S.II.1 Foreign Currency Assets	31,082	-22,994	-42.5	2,430	4.7	-1,993	-6.4	2,247	4.2
S.II.2 Non-resident Foreign Currency Repatriable Fixed Deposits	92,240	1,390	1.5	4,753	5.5	-3,070	-3.3	2,141	2.4
S.II.3 Overseas Foreign Currency Borrowings	7,208	5,851	431.2	-121	-8.2	3,311	45.9	139	10.2
S.III Net Bank Reserves (S.III.1+S.III.2-S.III.3)	**65,823**	**792**	**1.2**	**3,725**	**6.1**	**12,213**	**18.6**	**8,752**	**13.5**
S.III.1 Balances with the RBI	58,335	-4,067	-6.5	2,858	4.8	11,330	19.4	4,715	7.6
S.III.2 Cash in Hand	7,567	1,322	21.2	587	10.4	805	10.6	436	7.0
S.III.3 Loans and Advances from the RBI	79	-3,537	-97.8	-280	-7.2	-78	-98.7	-3,601	-99.6
S.IV Capital Account	**86,541**	**14,221**	**19.7**	**8,807**	**13.9**	**13,436**	**15.5**	**17,067**	**23.6**
S.V. Other items (net) (S.I+S.II+S.III-S.IV-C.I-C.II)	**1,24,120**	**37,918**	**44.0**	**12,967**	**17.7**	**-16,476**	**-13.3**	**12,836**	**14.9**
S.V.1 Other Demand & Time Liabilities (net of S.II.3)	1,22,598	12,072	10.9	20,796	23.2	-4,069	-3.3	12	0.0
S.V.2 Net Inter-Bank Liabilities (other than to PDs)	7,420	6,054	443.2	-13,235	-90.6	1,588	21.4	9,620	704.2

Notes :
1.Data are provisional.
2.Figures in brackets exclude the impact of mergers since May 3, 2002.

Appendix Table III.11: Bank Group-wise Important Financial Indicators

(Amount in Rs. crore)

Year	Operating Profit (3+11)	Net Profit (4-7)	Income (5+6)	Interest Income	Other Income	Expenditure (8+9+11)	Interest Expended	Operating Expenses Total	Operating Expenses *Of which* Wage Bill	Provisions & Contin-gencies	Spread (NII)
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
2000-01	19,756.78	6,403.48	1,32,075.67	1,15,091.13	16,984.54	1,25,672.19	78,140.76	34,178.13	23,218.33	13,353.30	36,950.37
	(1.53)	(0.49)	(10.20)	(8.88)	(1.31)	(9.70)	(6.03)	(2.64)	(1.79)	(1.03)	(2.85)
2001-02	29,836.59	11,576.06	1,51,031.88	1,26,957.71	24,074.17	1,39,455.82	87,516.25	33,679.04	21,785.42	18,260.53	39,441.46
	(1.94)	(0.75)	(9.83)	(8.26)	(1.57)	(9.08)	(5.70)	(2.19)	(1.42)	(1.19)	(2.57)

2002-03	40,681.78	17,077.07	1,72,373.94	1,40,717.65	31,656.29	1,55,296.87	93,606.70	38,085.46	23,613.25	23,604.71	47,110.95
	(2.39)	(1.01)	(10.15)	(8.28)	(1.86)	(9.14)	(5.51)	(2.24)	(1.39)	(1.39)	(2.77)
Public Sector Banks											
2000-01	13,801.68	4,316.94	1,03,499.36	91,129.44	12,369.92	99,182.42	61,693.19	28,004.49	20,929.17	9,484.74	29,436.25
	(1.34)	(0.42)	(10.05)	(8.85)	(1.20)	(9.63)	(5.99)	(2.72)	(2.03)	(0.92)	(2.86)
2001-02	21,676.54	8,304.85	1,17,252.36	1,00,710.96	16,541.40	1,08,947.51	69,153.77	26,422.05	19,045.38	13,371.69	31,557.19
	(1.88)	(0.72)	(10.15)	(8.72)	(1.43)	(9.43)	(5.99)	(2.29)	(1.65)	(1.16)	(2.73)
2002-03	29,715.24	12,295.46	1,28,464.37	1,07,192.81	21,271.56	1,16,168.91	69,852.59	28,896.54	20,446.88	17,419.78	37,340.22
	(2.31)	(0.96)	(10.00)	(8.34)	(1.66)	(9.04)	(5.44)	(2.25)	(1.59)	(1.36)	(2.91)
Nationalised Banks											
2000-01	8,062.06	2,095.09	64,126.52	56,977.36	7,149.16	62,031.43	38,789.64	17,274.82	13,142.78	5,966.97	18,187.72
	(1.29)	(0.33)	(10.23)	(9.09)	(1.14)	(9.89)	(6.19)	(2.76)	(2.10)	(0.95)	(2.90)
2001-02	12,956.86	4,855.36	72,489.56	61,964.93	10,524.63	67,634.20	42,597.86	16,934.84	12,316.55	8,101.50	19,367.07
	(1.83)	(0.69)	(10.27)	(8.78)	(1.49)	(9.58)	(6.03)	(2.40)	(1.74)	(1.15)	(2.74)
2002-03	18,486.13	7,783.94	79,597.73	66,324.28	13,273.45	71,813.79	42,645.95	18,465.65	13,062.10	10,702.19	23,678.33
	(2.34)	(0.98)	(10.06)	(8.38)	(1.68)	(9.08)	(5.39)	(2.33)	(1.65)	(1.35)	(2.99)
State Bank Group											
2000-01	5,739.62	2,221.85	39,372.84	34,152.08	5,220.76	37,150.99	22,903.55	10,729.67	7,786.39	3,517.77	11,248.53
	(1.42)	(0.55)	(9.77)	(8.47)	(1.30)	(9.22)	(5.68)	(2.66)	(1.93)	(0.87)	(2.79)
2001-02	8,719.68	3,449.49	44,762.80	38,746.03	6,016.77	41,313.31	26,555.91	9,487.21	6,728.83	5,270.19	12,190.12
	(1.94)	(0.77)	(9.96)	(8.62)	(1.34)	(9.20)	(5.91)	(2.11)	(1.50)	(1.17)	(2.71)
2002-03	11,229.11	4,511.52	48,866.64	40,868.53	7,998.11	44,355.12	27,206.64	10,430.89	7,384.78	6,717.59	13,661.89
	(2.27)	(0.91)	(9.89)	(8.27)	(1.62)	(8.98)	(5.51)	(2.11)	(1.50)	(1.36)	(2.77)

(Amount in Rs. crore)

Year	Operating Profit (3+11)	Net Profit (4-7)	Income (5+6)	Interest Income	Other Income	Expenditure (8+9+11)	Interest Expended	Operating Expenses Total	Operating Expenses *Of which* Wage Bill	Provisions & Contin-gencies	Spread (NII)
1	2	3	4	5	6	7	8	9	10	11	12
Old Private Sector Banks											
2000-01	1,475.75	502.15	9,091.20	8,054.57	1,036.63	8,589.05	5,931.92	1,683.53	1,049.57	973.60	2,122.65
	(1.75)	(0.59)	(10.76)	(9.53)	(1.23)	(10.16)	(7.02)	(1.99)	(1.24)	(1.15)	(2.51)
2001-02	2,515.78	1,004.48	10,945.65	8,725.23	2,220.42	9,941.17	6,496.57	1,933.30	1,179.28	1,511.30	2,228.66
	(2.70)	(1.08)	(11.74)	(9.36)	(2.38)	(10.66)	(6.97)	(2.07)	(1.26)	(1.62)	(2.39)
2002-03	2,804.43	1,231.59	11,278.83	8,917.82	2,361.01	10,047.24	6,327.22	2,147.18	1,297.45	1,572.84	2,590.60
	(2.67)	(1.17)	(10.73)	(8.48)	(2.25)	(9.56)	(6.02)	(2.04)	(1.23)	(1.50)	(2.46)
New Private Sector Banks											
2000-01	1,368.96	639.41	7,498.23	6,437.61	1,060.62	6,858.82	4,752.76	1,376.51	249.55	729.55	1,684.85
	(1.74)	(0.81)	(9.52)	(8.17)	(1.35)	(8.70)	(6.03)	(1.75)	(0.32)	(0.93)	(2.14)
2001-02	2,130.66	774.62	9,869.86	7,821.87	2,047.99	9,095.24	5,812.69	1,926.51	436.45	1,356.04	2,009.18
	(1.22)	(0.44)	(5.66)	(4.48)	(1.17)	(5.21)	(3.33)	(1.10)	(0.25)	(0.78)	(1.15)
2002-03	4,434.26	1,725.98	20,587.15	15,634.83	4,952.32	18,861.17	12,361.45	3,791.44	828.76	2,708.28	3,273.38
	(2.31)	(0.90)	(10.71)	(8.14)	(2.58)	(9.81)	(6.43)	(1.97)	(0.43)	(1.41)	(1.70)
Foreign Banks											
2000-01	3,110.39	944.98	11,986.88	9,469.51	2,517.37	11,041.90	5,762.89	3,113.60	990.04	2,165.41	3,706.62

	(3.05)	(0.93)	(11.74)	(9.27)	(2.47)	(10.81)	(5.64)	(3.05)	(0.97)	(2.12)	(3.63)
2001-02	3,513.61 (3.10)	1,492.11 (1.32)	12,964.01 (11.44)	9,699.65 (8.56)	3,264.36 (2.88)	11,471.90 (10.12)	6,053.22 (5.34)	3,397.18 (3.00)	1,124.31 (0.99)	2,021.50 (1.78)	3,646.43 (3.22)
2002-03	3,727.85 (3.20)	1,824.04 (1.57)	12,043.59 (10.35)	8,972.19 (7.71)	3,071.40 (2.64)	10,219.55 (8.78)	5,065.44 (4.35)	3,250.30 (2.79)	1,040.16 (0.89)	1,903.81 (1.64)	3,906.75 (3.36)

Notes:
1. The number of scheduled commercial banks in 2000-01, 2001-02 and 2002-03 were 100, 97 and 93, respectively.
2. The number of Foreign Banks in 2000-01, 2001-02 and 2002-03 were 42, 40 and 36, respectively.
3. The number of Old Private Banks in 2000-01, 2001-02 and 2002-03 were 23, 22 and 21, respectively.
4. The number of New Private Banks for the years 2000-01, 2001-02 and 2002-03 were 8, 8 and 9, respectively.
5. Figures in brackets are percentages to Total Assets.
6. NII - Net Interest Income.
Source: Balance sheets of respective banks.

Appendix Table III.12(A): Financial Performance of Scheduled Commercial Banks

(Amount in Rs.crore)

	Item	**2001-02**	**2002-03**	**Variation of Col. (3) over Col.(2)**	
				Absolute	**Percentage**
	1	2	3	4	5
A.	**Income (i+ii)**	**1,51,031.88 (100.00)**	**1,72,373.94 (100.00)**	**21,342.06**	**14.13**
	i) Interest Income	1,26,957.71 (84.06)	1,40,717.65 (81.64)	13,759.94	10.84
	of which: Interest on Advances	59,409.53	68,635.94	9,226.41	15.53
	Income on Investments	57,286.43	62,358.59	5,072.16	8.85
	ii) Other Income	24,074.17 (15.94)	31,656.29* (18.36)	7,582.12	31.49
	of which: Commission & Brokerage	9,213.07	10,570.18	1,357.11	14.73
B.	**Expenditure (i+ii+iii)**	**1,39,455.82 (100.00)**	**1,55,296.87 (100.00)**	**15,841.05**	**11.36**
	i) Interest Expended	87,516.25 (62.76)	93,606.70 (60.28)	6,090.45	6.96
	of which: Interest on Deposits	80,924.74	82,642.54	1,717.80	2.12
	ii) Provisions and Contingencies	18,260.53 (13.09)	23,604.71 (15.20)	5,344.18	29.27
	of which: Provisions for NPAs	10,456.65	12,677.47	2,220.82	21.24
	iii) Operating Expenses	33,679.04 (24.15)	38,085.46 (24.52)	4,406.42	13.08
	of which : Wage Bill	21,785.42	23,613.25	1,827.83	8.39
C.	**Profit**				
	i) Operating Profit	**29,836.59**	**40,681.78**	**10,845.19**	**36.35**
	ii) Net Profit	**11,576.06**	**17,077.07 @**	**5,501.01**	**47.52**
D.	**Spread (Net Interest Income)**	**39,441.46**	**47,110.95**	**7,669.49**	**19.45**

	(Interest Income - Interest Expended)				
E.	**Total Assets**	**15,36,424.47**	**16,98,916.09**	**1,62,491.62**	**10.58**

* Includes profit on sale of shares of ICICI Bank held by erstwhile ICICI.
@ Before Extra Ordinary Item of Standard Chartered Bank for Rs.6.5 crore, for the year 2002-03.
Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.12(B): Financial Performance of Public Sector Banks

(Amount in Rs.crore)

	Item	2001-02	2002-03	Variation of Col. (3) over Col.(2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**1,17,252.36 (100.00)**	**1,28,464.37 (100.00)**	**11,212.01**	**9.56**
	i) Interest Income	1,00,710.96 (85.89)	1,07,192.81 (83.44)	6,481.85	6.44
	of which: Interest on Advances	45,967.42	49,197.70	3,230.28	7.03
	Income on Investments	46,344.87	49,999.26	3,654.39	7.89
	ii) Other Income	16,541.40 (14.11)	21,271.56 (16.56)	4,730.16	28.60
	of which: Commission & Brokerage	6,811.04	7,293.65	482.61	7.09
B.	**Expenditure (i+ii+iii)**	**1,08,947.51 (100.00)**	**1,16,168.91 (100.00)**	**7,221.40**	**6.63**
	i) Interest Expended	69,153.77 (63.47)	69,852.59 (60.13)	698.82	1.01
	of which: Interest on Deposits	65,578.56	66,620.99	1,042.43	1.59
	ii) Provisions and Contingencies	13,371.69 (12.27)	17,419.78 (15.00)	4,048.09	30.27
	of which: Provisions for NPAs	8,209.55	9,275.07	1,065.52	12.98
	iii) Operating Expenses	26,422.05 (24.25)	28,896.54 (24.87)	2,474.49	9.37
	of which : Wage Bill	19,045.38	20,446.88	1,401.50	7.36
C.	**Profit**				
	i) Operating Profit	**21,676.54**	**29,715.24**	**8,038.70**	**37.08**
	ii) Net Profit	**8,304.85**	**12,295.46**	**3,990.61**	**48.05**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**31,557.19**	**37,340.22**	**5,783.03**	**18.33**
E.	**Total Assets**	**11,55,397.68**	**12,85,235.70**	**1,29,838.02**	**11.24**

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.12 (C): Financial Performance of Nationalised Banks

(Amount in Rs.crore)

	Item	2001-02	2002-03	Variation of Col. (3) over Col.(2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**72,489.56 (100.00)**	**79,597.73 (100.00)**	**7,108.17**	**9.81**
	i) Interest Income	61,964.93 (85.48)	66,324.28 (83.32)	4,359.35	7.04
	of which: Interest on Advances	30,658.30	33,199.97	2,541.67	8.29
	Income on Investments	27,877.25	30,081.29	2,204.04	7.91
	(ia) Interest on Recapitalisation Bonds	1,793.08	1,855.72		
	ii) Other Income	10,524.63 (14.52)	13,273.45 (16.68)	2,748.82	26.12
	of which: Commission & Brokerage	3,095.82	3,336.17	240.35	7.76
B.	**Expenditure (i+ii+iii)**	**67,634.20 (100.00)**	**71,813.79 (100.00)**	**4,179.59**	**6.18**
	i) Interest Expended	42,597.86 (62.98)	42,645.95 (59.38)	48.09	0.11
	of which: Interest on Deposits	40,464.32	40,556.73	92.41	0.23
	ii) Provisions and Contingencies	8,101.50 (11.98)	10,702.19 (14.90)	2,600.69	32.10
	of which: Provisions for NPAs	5,173.10	5,688.62	515.52	9.97
	iii) Operating Expenses	16,934.84 (25.04)	18,465.65 (25.71)	1,530.81	9.04
	of which : Wage Bill	12,316.55	13,062.10	745.55	6.05
C.	**Profit**				
	i) Operating Profit	**12,956.86**	**18,486.13**	**5,529.27**	**42.67**
	(ia) Operating Profit *(exclusive of income from recapitalisation bonds)*	**11,163.78**	**16,630.41**	**5,466.63**	**48.97**
	ii) Net Profit	**4,855.36**	**7,783.94**	**2,928.58**	**60.32**
	(iia) Net Profit *(exclusive of income from recapitalisation bonds)*	**3,062.28**	**5,928.22**	**2,865.94**	**93.59**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**19,367.07**	**23,678.33**	**4,311.26**	**22.26**
E.	**Total Assets**	**7,06,109.02**	**7,91,281.43**	**85,172.41**	**12.06**

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.12(D): Financial Performance of State Bank Group

(Amount in Rs.crore)

Item	2001-02	2002-03	Variation of Col. (3) over Col.(2)	
			Absolute	Percentage
1	2	3	4	5

A.	**Income (i+ii)**	**44,762.80 (100.00)**	**48,866.64 (100.00)**	**4,103.84**	**9.17**
	i) Interest Income	38,746.03 (86.56)	40,868.53 (83.63)	2,122.50	5.48
	of which : Interest on Advances	15,309.12	15,997.73	688.61	4.50
	Income on Investments	18,467.62	19,917.97	1,450.35	7.85
	ii) Other Income	6,016.77 (13.44)	7,998.11 (16.37)	1,981.34	32.93
	of which : Commission & Brokerage	3,715.22	3,957.48	242.26	6.52
B.	**Expenditure (i+ii+iii)**	**41,313.31 (100.00)**	**44,355.12 (100.00)**	**3,041.81**	**7.36**
	i) Interest Expended	26,555.91 (64.28)	27,206.64 (61.34)	650.73	2.45
	of which : Interest on Deposits	25,114.24	26,064.26	950.02	3.78
	ii) Provisions and Contingencies	5,270.19 (12.76)	6,717.59 (15.15)	1,447.40	27.46
	of which: Provisions for NPAs	3,036.45	3,586.45	550.00	18.11
	iii) Operating Expenses	9,487.21 (22.96)	10,430.89 (23.52)	943.68	9.95
	of which : Wage Bill	6,728.83	7,384.78	655.95	9.75
C.	**Profit**				
	i) Operating Profit	**8,719.68**	**11,229.11**	**2,509.43**	**28.78**
	ii) Net Profit	**3,449.49**	**4,511.52**	**1,062.03**	**30.79**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**12,190.12**	**13,661.89**	**1,471.77**	**12.07**
E.	**Total Assets**	**4,49,288.66**	**4,93,954.27**	**44,665.61**	**9.94**

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.12(E): Financial Performance of Old Private Sector Banks

(Amount in Rs.crore)

	Item	2001-02	2002-03	Variation of Col. (3) over Col.(2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**10,945.65 (100.00)**	**11,278.83 (100.00)**	**333.18**	**3.04**
	i) Interest Income	8,725.23 (79.71)	8,917.82 (79.07)	192.59	2.21
	of which: Interest on Advances	4,620.73	4,800.69	179.96	3.89
	Income on Investments	3,582.73	3,692.65	109.92	3.07
	ii) Other Income	2,220.42 (20.29)	2,361.01 (20.93)	140.59	6.33

	of which: Commission & Brokerage	485.61	511.08	25.47	5.24
B.	**Expenditure (i+ii+iii)**	**9,941.17 (100.00)**	**10,047.24 (100.00)**	**106.07**	**1.07**
	i) Interest Expended	6,496.57 (65.35)	6,327.22 (62.97)	-169.35	-2.61
	of which: Interest on Deposits	6,189.57	6,076.74	-112.83	-1.82
	ii) Provisions and Contingencies	1,511.30 (15.20)	1,572.84 (15.65)	61.54	4.07
	of which: Provisions for NPAs	745.61	769.73	24.12	3.23
	iii) Operating Expenses	1,933.30 (19.45)	2,147.18 (21.37)	213.88	11.06
	of which : Wage Bill	1,179.28	1,297.45	118.17	10.02
C.	**Profit**				
	i) Operating Profit	**2,515.78**	**2,804.43**	**288.65**	**11.47**
	ii) Net Profit	**1,004.48**	**1,231.59**	**227.11**	**22.61**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**2,228.66**	**2,590.60**	**361.94**	**16.24**
E.	**Total Assets**	**93,229.29**	**1,05,109.50**	**11,880.21**	**12.74**

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.12(F): Financial Performance of New Private Sector Banks

(Amount in Rs.crore)

	Item	2001-02	2002-03	Variation of Col. (3) over Col.(2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income (i+ii)**	**9,869.86 (100.00)**	**20,587.15 (100.00)**	**10,717.29**	**108.59**
	i) Interest Income	7,821.87 (79.25)	15,634.83 (75.94)	7,812.96	99.89
	of which: Interest on Advances	3,504.08	9,246.01	5,741.93	163.86
	Income on Investments	3,689.02	5,525.59	1,836.57	49.78
	ii) Other Income	2,047.99 (20.75)	4,952.32* (24.06)	2,904.33	141.81
	of which: Commission & Brokerage	647.19	1,382.99	735.80	113.69
B.	**Expenditure (i+ii+iii)**	**9,095.24 (100.00)**	**18,861.17 (100.00)**	**9,765.93**	**107.37**
	i) Interest Expended	5,812.69 (63.91)	12,361.45 (65.54)	6,548.76	112.66
	of which: Interest on Deposits	5,040.05	6,394.35	1,354.30	26.87

	ii) Provisions and Contingencies	1,356.04 (14.91)	2,708.28 (14.36)	1,352.24	99.72
	of which: Provisions for NPAs	914.31	1,908.58	994.27	108.75
	iii) Operating Expenses	1,926.51 (21.18)	3,791.44 (20.10)	1,864.93	96.80
	of which : Wage Bill	436.45	828.76	392.31	89.89
C.	**Profit**				
	i) Operating Profit	**2,130.66**	**4,434.26**	**2,303.60**	**108.12**
	ii) Net Profit	**774.62**	**1,725.98**	**951.36**	**122.82**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**2,009.18**	**3,273.38**	**1,264.20**	**62.92**
E.	**Total Assets**	**1,74,476.58**	**1,92,169.81**	**17,693.23**	**10.14**

* Includes, profit on sale of shares of ICICI Bank Ltd. held by erstwhile ICICI Limited.
Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.12(G): Financial Performance of Foreign Banks

(Amount in Rs.crore)

	Item	2001-02	2002-03	Variation of Col. (3) over Col.(2)	
				Absolute	Percentage
	1	2	3	4	5
A.	**Income** **(i+ii)**	**12,964.01** **(100.00)**	**12,043.59** **(100.00)**	**-920.42**	**-7.10**
	i) Interest Income	9,699.65 (74.82)	8,972.19 (74.50)	-727.46	-7.50
	of which: Interest on Advances	5,317.30	5,391.54	74.24	1.40
	Income on Investments	3,669.81	3,141.09	-528.72	-14.41
	ii) Other Income	3,264.36 (25.18)	3,071.40 (25.50)	-192.96	-5.91
	of which: Commission & Brokerage	1,269.23	1,382.46	113.23	8.92
B.	**Expenditure** **(i+ii+iii)**	**11,471.90** **(100.00)**	**10,219.55** **(100.00)**	**-1,252.35**	**-10.92**
	i) Interest Expended	6,053.22 (52.77)	5,065.44 (49.57)	-987.78	-16.32
	of which: Interest on Deposits	4,116.56	3,550.46	-566.10	-13.75
	ii) Provisions and Contingencies	2,021.50 (17.62)	1,903.81 (18.63)	-117.69	-5.82
	of which: Provisions for NPAs	587.18	724.09	136.91	23.32
	iii) Operating Expenses	3,397.18 (29.61)	3,250.30 (31.80)	-146.88	-4.32
	of which : Wage Bill	1,124.31	1,040.16	-84.15	-7.48

C.	**Profit**				
	i) Operating Profit	**3,513.61**	**3,727.85**	**214.24**	**6.10**
	ii) Net Profit	**1,492.11**	**1,824.04 ***	**331.93**	**22.25**
D.	**Spread (Net Interest Income)** *(Interest Income - Interest Expended)*	**3,646.43**	**3,906.75**	**260.32**	**7.14**
E.	**Total Assets**	**1,13,320.92**	**1,16,401.08**	**3,080.16**	**2.72**

* Before Extra Ordinary Item of Standard Chartered Bank for Rs.6.5 crore, for the year 2002-03.
Note: Figures in brackets are percentage shares to the respective total.

Appendix Table III.13: Break-up of Income of Public Sector Banks

(Rs. crore)

Sr. No.	Name of the Bank	Trading Income		Forex Income		Operating Profit	
		2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
1	2	3	4	5	6	7	8
1	Allahabad Bank	193	337	29	26	408	516
2	Andhra Bank	136	395	16	19	425	755
3	Bank of Baroda	415	632	117	138	1,309	1,717
4	Bank of India	427	858	124	142	1,412	2,030
5	Bank of Maharashtra	167	216	12	24	415	521
6	Canara Bank	663	674	129	133	1,656	1,997
7	Central Bank of India	318	242	29	34	704	924
8	Corporation Bank	135	266	53	40	623	853
9	Dena Bank	201	240	16	19	335	494
10	Indian Bank	226	273	55	55	307	590
11	Indian Overseas Bank	257	244	52	55	616	794
12	Oriental Bank of Commerce	311	372	39	47	917	1,163
13	Punjab & Sind Bank	126	190	25	28	164	281
14	Punjab National Bank	438	672	92	95	1,474	2,317
15	Syndicate Bank	74	278	29	31	355	619
16	UCO Bank	346	355	25	23	476	624
17	Union Bank of India	160	475	114	100	869	1,304
18	United Bank of India	281	306	3	4	237	556

19	Vijaya Bank	90	225	37	22	253	432
	Nationalised Banks	**4,965**	**7,249**	**998**	**1,035**	**12,957**	**18,486**
20	State Bank of India	352	1,695	408	464	6,045	7,775
21	State Bank of Bikaner & Jaipur	77	107	21	24	391	441
22	State Bank of Hyderabad	105	207	35	41	600	758
23	State Bank of Indore	174	183	9	20	342	421
24	State Bank of Mysore	76	99	21	23	235	353
25	State Bank of Patiala	95	143	20	28	565	740
26	State Bank of Saurashtra	80	112	10	12	221	287
27	State Bank of Travancore	75	130	25	26	321	455
	State Bank Group	**1,034**	**2,675**	**549**	**638**	**8,720**	**11,229**
	Public Sector Banks	**5,999**	**9,924**	**1,547**	**1,672**	**21,677**	**29,715**

Trading Income – Net Profit on Sale of Investment.
Forex Income – Net Profit on Exchange Transaction.

Appendix Table III.14: Off-Balance Sheet Exposure of Scheduled Commercial Banks

(Amount in Rs. crore, Variation in per cent)

Item	State Bank Group			Nationalised Banks			Public Sector Banks		
	2001-02	2002-03	Variation	2001-02	2002-03	Variation	2001-02	2002-03	Variation
1	2	3	4	5	6	7	8	9	10
1. Forward exchange contract	70,280.40 (15.64)	79,193.34 (16.03)	12.68	1,38,960.22 (19.68)	1,84,993.26 (23.38)	33.13	2,09,240.62 (18.11)	2,64,186.60 (20.56)	26.26
2. Guarantees given	17,727.41 (3.95)	17,977.70 (3.64)	1.41	30,423.26 (4.31)	35,578.04 (4.5)	16.94	48,150.67 (4.17)	53,555.74 (4.17)	11.23
3. Acceptances, endorsements, *etc.*	38,571.09 (8.58)	44,791.49 (9.07)	16.13	33,291.50 (4.71)	43,766.33 (5.53)	31.46	71,862.59 (6.22)	88,557.82 (6.89)	23.23
Total Contingent Liabilities	**1,26,578.90 (28.17)**	**1,41,962.53 (28.74)**	**12.15**	**2,02,674.98 (28.7)**	**2,64,337.63 (33.41)**	**30.42**	**3,29,253.88 (28.5)**	**4,06,300.16 (31.61)**	**23.40**

Item	New Private Sector Banks			Old Private Sector Banks		
	2001-02	2002-03	Variation	2001-02	2002-03	Variation
1	11	12	13	14	15	16
1. Forward exchange contract	48,577.38 (27.84)	72,662.83 (37.81)	49.58	17,390.78 (18.65)	21,656.62 (20.6)	24.53
2. Guarantees given	14,503.54 (8.31)	15,638.70 (8.14)	7.83	3,304.17 (3.54)	3,798.94 (3.61)	14.97
3. Acceptances, endorsements, *etc.*	23,948.35 (13.73)	77,659.12 (40.41)	224.28	3,558.31 (3.82)	4,605.08 (4.38)	29.42
Total Contingent	**87,029.27**	**1,65,960.65**	**90.70**	**24,253.26**	**30,060.64**	**23.94**

	Liabilities	**(49.88)**	**(86.36)**		**(26.01)**	**(28.6)**	

	Item	Foreign Banks			Scheduled Commercial Banks		
		2001-02	**2002-03**	**Variation**	**2001-02**	**2002-03**	**Variation**
	1	17	18	19	20	21	22
1.	Forward exchange contract	3,57,914.73 (315.84)	4,22,242.30 (362.75)	17.97	6,33,123.51 (41.21)	7,80,748.35 (45.96)	23.32
2.	Guarantees given	18,296.51 (16.15)	17,347.90 (14.9)	-5.18	84,254.89 (5.48)	90,341.28 (5.32)	7.22
3.	Acceptances, endorsements, *etc.*	69,770.39 (61.57)	1,22,257.39 (105.03)	75.23	1,69,139.64 (11.01)	2,93,079.41 (17.25)	73.28
	Total Contingent Liabilities	**4,45,981.63 (393.56)**	**5,61,847.59 (482.68)**	**25.98**	**8,86,518.04 (57.7)**	**11,64,169.04 (68.52)**	**31.32**

Notes :
1. Figures in brackets are percentages to total liabilities of the concerned bank-group.
2. The variation indicates the percentage change in 2002-03 over 2001-02 of the concerned item.
Source: Balance sheets of respective banks.

Appendix Table III.15(A): Select Financial Parameters of Public Sector Banks

(As at end-March 2003)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Fund	Non-Interest Income/ Working Fund	Operating Profit/ Working Fund	Return on Assets	Business per employee (Amount in Rs. lakh)	Profit per employee
		Tier I	**Tier II**	**Total**							
1	2	3	4	5	6	7	8	9	10	11	12
	Nationalised Banks										
1	Allahabad Bank	6.35	4.80	11.15	7.08	9.34	1.90	1.87	0.59	183.00	0.87
2	Andhra Bank	8.19	5.43	13.62	1.79	9.72	2.67	3.06	1.63	226.71	3.10
3	Bank of Baroda	8.10	4.55	12.65	3.72	7.98	1.65	2.25	1.05	237.67	1.92
4	Bank of India	7.56	4.46	12.02	5.59	8.10	2.24	2.77	1.16	242.97	1.97
5	Bank of Maharashtra	5.88	5.88	11.76	4.82	9.26	1.60	2.32	0.89	221.96	1.58
6	Canara Bank	7.85	4.65	12.50	3.59	8.79	1.99	2.63	1.24	250.11	2.26
7	Central Bank of India	5.66	4.85	10.51	6.74	9.67	1.06	1.76	0.54	167.85	0.77
8	Corporation Bank	17.30	1.20	18.50	1.65	9.50	2.40	3.85	1.88	328.59	4.06
9	Dena Bank	5.31	4.02	9.33	11.83	9.23	2.28	2.57	0.57	242.00	1.08
10	Indian Bank	7.51	3.34	10.85	6.15	8.34	1.72	1.93	0.65	174.00	0.85
11	Indian Overseas Bank	5.83	5.47	11.30	5.23	8.74	1.30	1.99	1.01	204.36	1.70
12	Oriental Bank of Commerce	10.72	3.32	14.04	1.40	10.00	1.60	3.50	1.30	343.00	3.40
13	Punjab & Sind Bank	6.11	4.32	10.43	10.89	8.82	2.11	1.93	0.03	196.45	0.05
14	Punjab National Bank	7.11	4.91	12.02	3.86	9.27	1.55	2.87	0.98	195.65	1.43
15	Syndicate Bank	7.69	3.34	11.03	4.29	8.27	1.42	1.77	1.31	179.95	1.30
16	UCO Bank	5.19	4.85	10.04	4.36	8.84	1.93	1.97	0.66	197.00	0.85
17	Union Bank of India	6.86	5.55	12.41	4.91	9.20	1.76	2.78	1.08	249.70	2.15
18	United Bank of India	12.63	2.54	15.17	5.52	9.50	1.92	2.49	1.37	162.00	1.77
19	Vijaya Bank	7.42	5.24	12.66	2.61	9.63	1.98	2.50	1.13	193.62	1.76
	State Bank Group										
20	State Bank of India	8.81	4.69	13.50	4.50	9.10	1.68	2.27	0.86	190.77	1.48
21	State Bank of Bikaner &	10.52	2.56	13.08	4.13	9.07	2.14	2.78	1.13	145.64	1.63

	Jaipur										
22	State Bank of Hyderabad	9.84	5.07	14.91	3.25	8.75	1.95	3.21	1.15	226.20	2.25
23	State Bank of Indore	9.40	3.69	13.09	2.66	9.31	2.85	3.97	1.76	220.52	3.06
24	State Bank of Mysore	7.23	4.39	11.62	5.19	9.56	2.71	3.25	1.02	146.49	1.19
25	State Bank of Patiala	10.39	3.18	13.57	1.49	9.34	1.83	3.92	1.51	246.37	2.76
26	State Bank of Saurashtra	11.66	2.02	13.68	3.53	9.72	2.31	3.08	0.85	167.87	1.25
27	State Bank of Travancore	6.80	4.50	11.30	3.06	8.95	1.70	2.57	0.90	217.68	1.51

Note: Figures reported in this Table may not exactly tally with the data reported in Appendix Tables III.15 (B) to III.15 (I) due to conceptual differences.
Source : Balance sheets of respective banks.

Appendix Table III.15(B): Gross Profit/Loss as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	Allahabad Bank	1.56	1.34	1.28	1.21	1.65	1.84
2	Andhra Bank	1.68	1.35	1.83	1.22	2.03	3.06
3	Bank of Baroda	1.76	1.81	1.79	1.64	1.85	2.25
4	Bank of India	1.50	1.31	1.23	1.30	2.02	2.65
5	Bank of Maharashtra	1.16	1.11	1.52	1.26	1.93	2.09
6	Canara Bank	1.56	1.99	1.70	1.70	2.30	2.43
7	Central Bank of India	1.18	0.85	1.02	1.00	1.34	1.62
8	Corporation Bank	2.70	2.05	2.54	2.70	2.64	3.24
9	Dena Bank	2.23	1.46	1.36	0.43	1.78	2.45
10	Indian Bank	-1.08	-0.76	0.10	0.23	1.01	1.67
11	Indian Overseas Bank	0.72	0.58	0.68	1.01	1.74	1.93
12	Oriental Bank of Commerce	2.28	2.06	2.06	1.97	2.84	3.42
13	Punjab & Sind Bank	1.11	0.86	0.83	0.77	1.19	1.94
14	Punjab National Bank	2.01	1.77	1.52	1.49	2.02	2.69
15	Syndicate Bank	0.70	0.77	1.03	1.05	1.12	1.80
16	UCO Bank	0.08	0.18	0.75	0.78	1.52	1.79
17	Union Bank of India	1.36	0.99	1.12	1.31	1.96	2.55
18	United Bank of India	1.13	0.27	0.43	0.64	1.04	2.29

19	Vijaya Bank	0.68	1.05	0.98	1.25	1.56	2.27
	Nationalised Banks	**1.33**	**1.22**	**1.30**	**1.29**	**1.83**	**2.34**
20	State Bank of India	1.95	1.55	1.61	1.26	1.74	2.07
21	State Bank of Bikaner & Jaipur	2.30	1.58	1.91	1.93	2.52	2.44
22	State Bank of Hyderabad	2.70	2.07	2.65	2.43	2.71	2.90
23	State Bank of Indore	2.22	2.31	2.06	2.10	3.48	3.70
24	State Bank of Mysore	2.16	1.75	1.96	1.47	2.27	3.11
25	State Bank of Patiala	2.14	2.34	2.83	2.79	3.25	3.47
26	State Bank of Saurashtra	2.30	1.92	2.15	1.36	2.36	2.64
27	State Bank of Travancore	2.19	1.39	1.47	1.59	1.95	2.39
	State Bank Group	**2.03**	**1.63**	**1.74**	**1.42**	**1.94**	**2.27**
	Public Sector Banks	**1.58**	**1.37**	**1.46**	**1.34**	**1.88**	**2.31**

Appendix Table III.15(C): Net Profit/Loss as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	**Name of the Bank**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
1	2	3	4	5	6	7	8
1	Allahabad Bank	0.85	0.77	0.35	0.18	0.32	0.59
2	Andhra Bank	0.82	0.78	0.76	0.59	0.97	1.63
3	Bank of Baroda	1.01	0.81	0.86	0.43	0.77	1.01
4	Bank of India	0.79	0.37	0.31	0.42	0.73	1.11
5	Bank of Maharashtra	0.53	0.43	0.59	0.24	0.68	0.89
6	Canara Bank	0.47	0.47	0.43	0.43	1.03	1.24
7	Central Bank of India	0.57	0.41	0.36	0.10	0.31	0.54
8	Corporation Bank	1.49	1.29	1.39	1.33	1.31	1.58
9	Dena Bank	0.86	0.74	0.37	-1.49	0.06	0.57
10	Indian Bank	-1.55	-3.64	-1.81	-1.03	0.11	0.53
11	Indian Overseas Bank	0.53	0.23	0.15	0.38	0.65	1.01
12	Oriental Bank of Commerce	1.42	1.23	1.14	0.75	0.99	1.34
13	Punjab & Sind Bank	0.72	0.53	0.52	0.10	0.17	0.03

14	Punjab National Bank	1.20	0.80	0.75	0.73	0.77	0.98
15	Syndicate Bank	0.42	0.65	0.79	0.83	0.79	1.00
16	UCO Bank	-0.52	-0.33	0.16	0.12	0.52	0.59
17	Union Bank of India	0.97	0.51	0.29	0.40	0.71	1.08
18	United Bank of India	0.07	0.09	0.16	0.09	0.52	1.26
19	Vijaya Bank	0.25	0.27	0.41	0.50	0.81	1.03
	Nationalised Banks	**0.62**	**0.37**	**0.44**	**0.33**	**0.69**	**0.98**
20	State Bank of India	1.04	0.46	0.78	0.51	0.70	0.83
21	State Bank of Bikaner & Jaipur	1.06	0.90	0.97	0.76	1.06	1.13
22	State Bank of Hyderabad	0.91	0.85	0.82	0.82	1.02	1.15
23	State Bank of Indore	0.68	0.63	0.72	0.78	1.27	1.76
24	State Bank of Mysore	0.86	0.49	0.58	0.27	0.64	1.02
25	State Bank of Patiala	1.47	0.93	1.06	1.12	1.34	1.51
26	State Bank of Saurashtra	2.43	0.40	1.18	0.16	0.88	0.85
27	State Bank of Travancore	0.69	0.40	0.53	0.67	0.73	0.90
	State Bank Group	**1.06**	**0.51**	**0.80**	**0.55**	**0.77**	**0.91**
	Public Sector Banks	**0.77**	**0.42**	**0.57**	**0.42**	**0.72**	**0.96**

Appendix Table III.15(D): Operating and Net Profit before and after Adjustment of Interest of Recapitalisation Bonds - Nationalised Banks

(Rs. crore)

Sr. No.	**Name of the Bank**	**Operating Profit**		**Net Profit**		**After adjustment***			
						Operating Profit		**Net Profit**	
		2001-02	**2002-03**	**2001-02**	**2002-03**	**2001-02**	**2002-03**	**2001-02**	**2002-03**
1	2	3	4	5	6	7	8	9	10
1	Allahabad Bank	407.98	515.83	80.21	165.99	334.08	441.93	6.31	92.09
2	Andhra Bank	425.38	754.83	202.27	402.99	373.35	702.80	150.24	350.96
3	Bank of Baroda	1,309.26	1,716.62	545.93	772.78	1,294.73	1,702.09	531.40	758.25
4	Bank of India	1,412.06	2,030.00	508.83	851.00	1,237.81	1,870.80	334.58	691.80
5	Bank of Maharashtra	415.04	520.58	145.41	222.02	344.51	450.05	74.88	151.49
6	Canara Bank	1,656.24	1,997.37	741.40	1,018.89	1,551.02	1,919.95	636.18	941.47
7	Central Bank of India	704.36	923.85	163.30	305.52	528.49	747.98	-12.57	129.65

8	Corporation Bank	622.93	852.52	308.10	415.99	616.36	845.95	301.53	409.42
9	Dena Bank	335.39	493.82	11.36	114.19	310.49	468.92	-13.54	89.29
10	Indian Bank	307.15	590.25	33.22	188.83	62.01	234.62	-211.92	-166.80
11	Indian Overseas Bank	616.36	794.14	230.21	416.10	492.33	670.11	106.18	292.07
12	Oriental Bank of Commerce	917.09	1,163.06	320.55	456.95	906.13	1,152.10	309.59	445.99
13	Punjab & Sind Bank	163.70	280.84	23.04	4.43	97.97	215.11	-42.69	-61.30
14	Punjab National Bank	1,473.80	2,317.30	562.39	842.20	1,419.13	2,262.63	507.72	787.53
15	Syndicate Bank	355.24	618.78	250.55	344.13	230.67	494.21	125.98	219.56
16	UCO Bank	475.98	624.04	164.52	207.49	261.40	409.46	-50.06	-7.09
17	Union Bank of India	869.24	1,303.92	314.13	552.69	839.01	1,276.11	283.90	524.88
18	United Bank of India	237.16	556.02	119.04	305.19	64.46	383.32	-53.66	132.49
19	Vijaya Bank	252.50	432.36	130.90	196.56	199.83	382.27	78.23	146.47
	Total	**12,956.86**	**18,486.13**	**4,855.36**	**7,783.94**	**11,163.78**	**16,630.41**	**3,062.28**	**5,928.22**

* Adjusted for interest on recapitalisation bonds.

Appendix Table III.15(E): Interest Income as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	Allahabad Bank	9.30	9.15	9.36	9.39	9.18	9.16
2	Andhra Bank	9.92	9.11	9.16	9.20	9.69	8.89
3	Bank of Baroda	9.10	9.23	8.83	9.09	8.40	7.98
4	Bank of India	8.49	8.51	8.51	8.93	8.01	7.74
5	Bank of Maharashtra	9.30	9.31	9.64	8.96	9.31	8.35
6	Canara Bank	8.87	9.68	8.91	8.45	8.83	8.11
7	Central Bank of India	9.31	9.29	9.06	9.03	8.85	8.88
8	Corporation Bank	9.16	9.04	9.57	9.16	8.24	8.00
9	Dena Bank	9.92	10.05	9.40	9.58	9.07	8.79
10	Indian Bank	7.53	7.60	8.07	7.91	7.58	7.16

11	Indian Overseas Bank	9.26	9.40	9.07	9.22	8.95	8.47
12	Oriental Bank of Commerce	9.86	9.97	10.02	10.19	9.43	9.69
13	Punjab & Sind Bank	9.35	9.30	9.50	9.23	9.20	8.86
14	Punjab National Bank	10.03	9.60	9.52	9.23	9.12	8.68
15	Syndicate Bank	8.69	9.45	8.97	9.89	9.08	8.35
16	UCO Bank	7.78	8.16	8.39	8.32	8.10	8.00
17	Union Bank of India	9.72	9.19	9.47	9.58	9.05	8.43
18	United Bank of India	9.19	8.44	8.70	8.99	8.93	8.73
19	Vijaya Bank	8.58	9.01	9.36	9.51	9.53	8.76
	Nationalised Banks	**9.09**	**9.15**	**9.06**	**9.09**	**8.78**	**8.38**
20	State Bank of India	8.84	8.59	8.49	8.28	8.56	8.27
21	State Bank of Bikaner & Jaipur	9.98	9.42	8.95	9.12	8.76	7.97
22	State Bank of Hyderabad	9.74	9.30	9.56	9.19	8.67	7.91
23	State Bank of Indore	9.95	9.98	8.92	8.63	9.02	8.67
24	State Bank of Mysore	10.45	10.14	9.66	9.72	9.38	9.15
25	State Bank of Patiala	9.66	9.38	9.40	9.38	8.66	8.28
26	State Bank of Saurashtra	9.66	9.41	9.25	8.95	8.99	8.32
27	State Bank of Travancore	10.75	9.40	9.32	9.08	8.82	8.32
	State Bank Group	**9.11**	**8.79**	**8.67**	**8.47**	**8.62**	**8.27**
	Public Sector Banks	**9.10**	**9.01**	**8.92**	**8.85**	**8.72**	**8.34**

Appendix Table III.15(F): Interest Expended as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	**Name of the Bank**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
1	2	3	4	5	6	7	8
1	Allahabad Bank	6.42	6.34	6.50	6.29	6.23	5.92
2	Andhra Bank	6.56	6.20	6.49	6.74	6.95	5.84
3	Bank of Baroda	6.19	6.22	5.98	6.03	5.75	5.23
4	Bank of India	5.72	5.90	6.19	6.15	5.40	5.08
5	Bank of Maharashtra	5.80	6.02	6.57	6.03	6.57	5.64

6	Canara Bank	6.37	6.51	6.27	5.62	6.31	5.39
7	Central Bank of India	6.20	6.32	6.09	5.96	5.93	5.56
8	Corporation Bank	5.70	6.55	6.84	6.21	5.59	4.99
9	Dena Bank	6.44	7.09	6.94	7.08	6.72	5.97
10	Indian Bank	6.95	6.68	6.45	6.05	5.83	4.84
11	Indian Overseas Bank	6.95	7.09	6.61	6.31	6.21	5.50
12	Oriental Bank of Commerce	6.48	6.87	7.11	7.27	6.42	6.15
13	Punjab & Sind Bank	6.72	6.91	7.15	6.72	6.90	6.20
14	Punjab National Bank	6.78	6.03	6.54	6.02	5.97	5.06
15	Syndicate Bank	5.84	6.51	5.94	6.01	5.59	4.84
16	UCO Bank	5.88	6.01	6.05	5.90	5.77	5.47
17	Union Bank of India	6.55	6.52	6.73	6.45	6.04	5.50
18	United Bank of India	6.45	6.44	6.59	6.60	6.29	5.77
19	Vijaya Bank	5.82	6.15	6.33	6.28	6.52	5.38
	Nationalised Banks	**6.30**	**6.37**	**6.40**	**6.19**	**6.03**	**5.39**
20	State Bank of India	5.83	5.86	5.84	5.63	5.95	5.62
21	State Bank of Bikaner & Jaipur	6.30	6.19	5.95	5.84	5.59	4.92
22	State Bank of Hyderabad	6.13	5.77	6.21	5.88	5.74	5.05
23	State Bank of Indore	6.09	6.05	5.93	5.79	6.05	5.44
24	State Bank of Mysore	6.50	6.56	6.26	6.39	6.33	5.74
25	State Bank of Patiala	6.01	5.85	5.62	5.16	4.88	4.58
26	State Bank of Saurashtra	6.03	5.92	6.05	6.02	6.01	5.38
27	State Bank of Travancore	7.81	7.20	7.06	6.35	6.24	5.58
	State Bank Group	**5.97**	**5.94**	**5.91**	**5.68**	**5.91**	**5.51**
	Public Sector Banks	**6.19**	**6.21**	**6.22**	**5.99**	**5.99**	**5.44**

Appendix Table III.15(G): Net Interest Income (Spread) as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03

1	2	3	4	5	6	7	8
1	Allahabad Bank	2.88	2.82	2.86	3.10	2.95	3.24
2	Andhra Bank	3.37	2.91	2.68	2.45	2.75	3.05
3	Bank of Baroda	2.91	3.01	2.85	3.06	2.65	2.75
4	Bank of India	2.77	2.61	2.33	2.78	2.62	2.66
5	Bank of Maharashtra	3.50	3.29	3.07	2.93	2.73	2.71
6	Canara Bank	2.49	3.17	2.64	2.83	2.52	2.72
7	Central Bank of India	3.11	2.97	2.96	3.07	2.92	3.32
8	Corporation Bank	3.46	2.49	2.73	2.95	2.65	3.02
9	Dena Bank	3.48	2.97	2.46	2.51	2.35	2.82
10	Indian Bank	0.57	0.92	1.61	1.86	1.75	2.32
11	Indian Overseas Bank	2.31	2.31	2.46	2.91	2.74	2.97
12	Oriental Bank of Commerce	3.38	3.10	2.90	2.92	3.02	3.54
13	Punjab & Sind Bank	2.63	2.38	2.35	2.51	2.30	2.67
14	Punjab National Bank	3.25	3.57	2.99	3.21	3.15	3.62
15	Syndicate Bank	2.85	2.94	3.04	3.87	3.49	3.51
16	UCO Bank	1.89	2.15	2.35	2.42	2.33	2.53
17	Union Bank of India	3.17	2.66	2.73	3.13	3.01	2.93
18	United Bank of India	2.74	2.00	2.10	2.39	2.64	2.97
19	Vijaya Bank	2.76	2.86	3.03	3.23	3.01	3.37
	Nationalised Banks	**2.78**	**2.77**	**2.66**	**2.90**	**2.74**	**2.99**
20	State Bank of India	3.01	2.72	2.65	2.66	2.61	2.65
21	State Bank of Bikaner & Jaipur	3.68	3.23	3.00	3.28	3.16	3.06
22	State Bank of Hyderabad	3.61	3.53	3.35	3.32	2.94	2.86
23	State Bank of Indore	3.86	3.92	2.99	2.84	2.97	3.23
24	State Bank of Mysore	3.94	3.58	3.39	3.33	3.04	3.41
25	State Bank of Patiala	3.64	3.53	3.78	4.22	3.78	3.71
26	State Bank of Saurashtra	3.63	3.49	3.20	2.93	2.99	2.94
27	State Bank of Travancore	2.94	2.20	2.27	2.73	2.57	2.75

	State Bank Group	**3.14**	**2.85**	**2.76**	**2.79**	**2.71**	**2.77**
	Public Sector Banks	**2.91**	**2.80**	**2.70**	**2.86**	**2.73**	**2.91**

Appendix Table III.15(H): Provisions & Contingencies as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	Allahabad Bank	0.71	0.57	0.93	1.03	1.32	1.25
2	Andhra Bank	0.87	0.58	1.07	0.63	1.07	1.43
3	Bank of Baroda	0.75	1.00	0.94	1.20	1.08	1.24
4	Bank of India	0.72	0.93	0.92	0.87	1.29	1.54
5	Bank of Maharashtra	0.64	0.68	0.93	1.02	1.26	1.20
6	Canara Bank	1.09	1.52	1.26	1.27	1.27	1.19
7	Central Bank of India	0.61	0.43	0.65	0.90	1.03	1.08
8	Corporation Bank	1.21	0.76	1.15	1.37	1.33	1.66
9	Dena Bank	1.37	0.71	0.99	1.92	1.72	1.88
10	Indian Bank	0.47	2.88	1.92	1.26	0.91	1.13
11	Indian Overseas Bank	0.19	0.36	0.54	0.63	1.09	0.92
12	Oriental Bank of Commerce	0.86	0.83	0.93	1.22	1.85	2.08
13	Punjab & Sind Bank	0.39	0.33	0.31	0.67	1.02	1.91
14	Punjab National Bank	0.81	0.97	0.76	0.76	1.25	1.71
15	Syndicate Bank	0.27	0.12	0.24	0.22	0.33	0.80
16	UCO Bank	0.60	0.51	0.60	0.66	0.99	1.19
17	Union Bank of India	0.39	0.48	0.83	0.91	1.25	1.47
18	United Bank of India	1.07	0.18	0.27	0.55	0.52	1.03
19	Vijaya Bank	0.43	0.77	0.57	0.76	0.75	1.24
	Nationalised Banks	**0.71**	**0.85**	**0.86**	**0.95**	**1.15**	**1.35**
20	State Bank of India	0.91	1.09	0.82	0.75	1.04	1.24
21	State Bank of Bikaner & Jaipur	1.24	0.69	0.94	1.17	1.46	1.32
22	State Bank of Hyderabad	1.78	1.22	1.83	1.62	1.69	1.75

23	State Bank of Indore	1.55	1.68	1.34	1.32	2.21	1.94
24	State Bank of Mysore	1.30	1.26	1.38	1.19	1.63	2.09
25	State Bank of Patiala	0.67	1.41	1.78	1.66	1.91	1.96
26	State Bank of Saurashtra	-0.13	1.52	0.98	1.20	1.49	1.78
27	State Bank of Travancore	1.50	0.99	0.93	0.92	1.21	1.49
	State Bank Group	**0.98**	**1.11**	**0.94**	**0.87**	**1.17**	**1.36**
	Public Sector Banks	**0.81**	**0.95**	**0.89**	**0.92**	**1.16**	**1.36**

Appendix Table III.15(I): Operating Expenses as Percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	Allahabad Bank	2.70	2.67	2.89	2.98	2.86	3.27
2	Andhra Bank	2.95	2.83	2.27	2.24	2.17	2.44
3	Bank of Baroda	2.34	2.31	2.22	2.54	2.20	2.16
4	Bank of India	2.52	2.37	2.51	2.93	2.19	2.15
5	Bank of Maharashtra	3.21	3.06	2.76	2.84	2.23	2.07
6	Canara Bank	2.34	2.56	2.48	2.51	2.21	2.13
7	Central Bank of India	3.05	3.11	3.00	3.06	2.72	2.67
8	Corporation Bank	2.05	1.81	1.81	1.73	1.63	1.79
9	Dena Bank	2.75	2.54	2.44	3.19	2.44	2.54
10	Indian Bank	2.67	2.61	2.68	2.79	2.40	2.13
11	Indian Overseas Bank	2.55	2.75	2.74	2.89	2.50	2.30
12	Oriental Bank of Commerce	2.03	1.97	1.74	1.94	1.64	1.71
13	Punjab & Sind Bank	2.80	2.57	2.82	2.98	2.77	2.85
14	Punjab National Bank	2.84	2.97	2.82	2.95	2.47	2.39
15	Syndicate Bank	3.29	3.41	3.13	3.81	3.24	3.15
16	UCO Bank	2.89	2.87	2.65	2.73	2.67	2.48
17	Union Bank of India	2.62	2.51	2.47	2.62	2.18	1.99
18	United Bank of India	2.58	2.40	2.39	2.52	3.33	2.44

19	Vijaya Bank	2.95	2.80	2.97	3.07	2.61	2.92
	Nationalised Banks	**2.65**	**2.63**	**2.57**	**2.76**	**2.40**	**2.33**
20	State Bank of India	2.63	2.65	2.41	2.63	2.07	2.11
21	State Bank of Bikaner & Jaipur	3.29	3.24	2.85	3.07	2.58	2.50
22	State Bank of Hyderabad	2.52	2.90	2.42	2.45	1.88	1.73
23	State Bank of Indore	3.41	3.40	3.07	2.72	2.28	2.18
24	State Bank of Mysore	3.43	3.57	3.41	3.68	3.03	2.89
25	State Bank of Patiala	2.51	2.41	2.34	2.62	2.05	1.86
26	State Bank of Saurashtra	3.13	3.00	2.56	2.88	2.48	2.28
27	State Bank of Travancore	2.38	2.22	2.37	2.48	2.02	1.93
	State Bank Group	**2.68**	**2.70**	**2.46**	**2.66**	**2.11**	**2.11**
	Public Sector Banks	**2.66**	**2.66**	**2.53**	**2.72**	**2.29**	**2.25**

Appendix Table III.16(A): Select Financial Parameters of Private Sector Banks

(As at end-March 31, 2003)

(Per cent)

Sr. No.	Name of the Bank	CRAR Tier I	CRAR Tier II	CRAR Total	Net NPAs/ Net Advances	Interest Income/ Working Fund
1	2	3	4	5	6	7
	Old Private Sector Banks					
1	Bank of Rajasthan Ltd.	8.92	2.37	11.29	6.80	9.18
2	Bharat Overseas Bank Ltd.	10.55	3.32	13.87	3.31	8.57
3	Catholic Syrian Bank Ltd.	6.32	3.34	9.66	7.90	9.05
4	City Union Bank Ltd.	11.87	2.08	13.95	8.21	9.28
5	Development Credit Bank Ltd.	6.63	3.45	10.08	7.76	8.85
6	Dhanalakshmi Bank Ltd.	8.63	1.82	10.45	9.25	9.23
7	Federal Bank Ltd.	6.65	4.58	11.23	4.95	10.37
8	Ganesh Bank of Kurundwad Ltd.	6.43	4.01	10.44	12.89	9.26
9	ING Vysya Bank Ltd.	6.63	3.18	9.81	3.55	8.65
10	Jammu & Kashmir Bank Ltd.	12.48	4.00	16.48	1.58	9.92
11	Karnataka Bank Ltd.	11.23	2.21	13.44	7.36	9.23
12	Karur Vysya Bank Ltd.	14.89	2.12	17.01	4.20	9.27
13	Lakshmi Vilas Bank Ltd.	8.39	2.96	11.35	7.15	9.01
14	Lord Krishna Bank Ltd.	10.03	2.79	12.82	6.33	8.66
15	Nainital Bank Ltd.	19.31	1.62	20.93	0.00	10.10
16	Ratnakar Bank Ltd.	11.76	2.29	14.05	7.42	9.63
17	Sangli Bank Ltd.	12.11	2.83	14.94	6.89	9.04
18	SBI Commercial & International Bank Ltd.	20.18	1.01	21.19	20.88	9.57
19	South Indian Bank Ltd.	7.28	3.47	10.75	6.89	9.24
20	Tamilnad Mercantile Bank Ltd.	16.83	1.71	18.54	8.70	10.35
21	United Western Bank Ltd.	6.40	3.77	10.17	9.50	8.80

	New Private Sector Banks					
22	Bank of Punjab Ltd.	8.47	5.12	13.59	7.17	8.75
23	Centurion Bank Ltd.	1.07	0.88	1.95	7.51	10.49
24	Global Trust Bank Ltd.	0.00	0.00	0.00	19.77	7.42
25	HDFC Bank Ltd.	9.49	1.63	11.12	0.37	7.93
26	ICICI Bank Ltd.	7.05	4.05	11.10	5.21	9.07
27	IDBI Bank Ltd.	5.96	3.60	9.56	1.18	8.35
28	IndusInd Bank Ltd.	10.06	2.07	12.13	4.25	9.17
29	Kotak Mahindra Bank Ltd.	25.70	0.27	25.97	0.11	10.60
30	UTI Bank Ltd.	6.44	4.46	10.90	2.39	8.92

(Per cent)

Sr. No.	Name of the Bank	Non-Interest Income/ Working Fund	Operating Profit/ Working Fund	Return on Assets	Business per employee	Profit per employee
					(Amount in Rs. lakh)	
1	2	8	9	10	11	12
	Old Private Sector Banks					
1	Bank of Rajasthan Ltd.	2.46	2.89	1.12	164.64	1.63
2	Bharat Overseas Bank Ltd.	1.75	2.40	1.17	317.00	2.77
3	Catholic Syrian Bank Ltd.	3.27	2.92	1.17	164.94	1.57
4	City Union Bank Ltd.	2.14	3.19	1.33	230.05	2.37
5	Development Credit Bank Ltd.	2.13	1.47	0.85	463.00	2.60
6	Dhanalakshmi Bank Ltd.	3.42	3.10	0.71	222.06	1.15
7	Federal Bank Ltd.	2.19	3.28	0.86	270.00	1.69
8	Ganesh Bank of Kurundwad Ltd.	2.36	1.62	1.65	126.52	1.39
9	ING Vysya Bank Ltd.	3.43	2.31	0.74	242.42	1.69
10	Jammu & Kashmir Bank Ltd.	2.00	3.85	2.01	287.00	5.00
11	Karnataka Bank Ltd.	2.72	2.88	1.29	275.32	2.55
12	Karur Vysya Bank Ltd.	2.38	3.55	2.25	288.00	4.41
13	Lakshmi Vilas Bank Ltd.	2.80	2.66	1.07	228.00	1.72
14	Lord Krishna Bank Ltd.	3.75	2.86	1.28	264.17	2.36
15	Nainital Bank Ltd.	0.71	1.74	1.14	115.38	1.17
16	Ratnakar Bank Ltd.	2.87	2.99	1.42	179.73	1.81
17	Sangli Bank Ltd.	2.06	1.29	0.66	91.31	0.59
18	SBI Commercial & International Bank Ltd.	2.46	3.20	-1.45	621.78	-7.71
19	South Indian Bank Ltd.	2.57	3.05	1.25	265.00	2.04
20	Tamilnad Mercantile Bank Ltd.	1.30	2.98	1.35	270.83	2.88
21	United Western Bank Ltd.	2.67	2.54	0.46	242.00	0.83
	New Private Sector Banks					
22	Bank of Punjab Ltd.	3.34	2.69	0.79	465.18	2.75
23	Centurion Bank Ltd.	2.26	0.61	-0.70	403.28	-2.68
24	Global Trust Bank Ltd.	2.63	0.50	-3.56	655.10	-19.93
25	HDFC Bank Ltd.	1.85	2.58	1.52	865.00	10.09
26	ICICI Bank Ltd.	1.91	2.49	1.13	1120.00	11.00
27	IDBI Bank Ltd.	2.30	2.23	0.90	712.84	4.89
28	IndusInd Bank Ltd.	3.18	4.00	0.91	1284.06	9.50
29	Kotak Mahindra Bank Ltd.	4.74	5.24	2.49	230.13	10.99
30	UTI Bank Ltd.	2.50	2.50	1.17	926.00	8.22

Note : Figures reported in this Table may not exactly tally with the data reported in Appendix Tables III.16 (B) to III.16 (H) due to conceptual differences.
Source : Balance sheets of respective banks.

Appendix Table III.16(B): Gross Profit/Loss as Percentage of Total Assets – Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	0.84	-0.30	0.46	1.33	1.69	2.42
2	Bharat Overseas Bank Ltd.	1.56	1.11	1.26	1.98	2.53	2.02
3	Catholic Syrian Bank Ltd.	0.97	0.22	0.95	1.63	2.60	2.89
4	City Union Bank Ltd.	1.86	1.76	3.18	2.70	2.92	3.05
5	Development Credit Bank Ltd.	2.81	1.27	1.89	1.62	2.47	1.35
6	Dhanalakshmi Bank Ltd.	1.60	0.96	1.89	1.46	2.68	3.02
7	Federal Bank Ltd.	1.27	0.61	1.78	2.12	3.01	2.88
8	Ganesh Bank of Kurundwad Ltd.	0.80	0.54	0.81	0.42	1.14	1.65
9	ING Vysya Bank Ltd.	1.74	0.81	1.35	1.13	1.91	2.09
10	Jammu & Kashmir Bank Ltd.	2.89	2.29	2.20	2.14	3.14	3.30
11	Karnataka Bank Ltd.	2.65	1.48	1.41	2.04	3.23	2.73
12	Karur Vysya Bank Ltd.	3.29	1.98	2.91	2.61	3.17	3.20
13	Lakshmi Vilas Bank Ltd.	1.70	1.29	2.40	2.30	2.72	2.50
14	Lord Krishna Bank Ltd.	1.59	1.06	1.41	1.08	2.93	2.76
15	Nainital Bank Ltd.	1.50	1.90	1.69	1.58	1.77	1.51
16	Ratnakar Bank Ltd.	1.40	1.10	1.46	1.75	3.69	2.73
17	Sangli Bank Ltd.	2.46	0.99	1.14	1.08	1.51	1.11
18	SBI Commercial & International Bank Ltd.	2.27	2.33	3.19	1.34	1.86	2.78
19	South Indian Bank Ltd.	0.98	0.98	1.80	2.05	2.64	2.84
20	Tamilnad Mercantile Bank Ltd.	3.32	2.42	2.36	2.78	2.82	2.87
21	United Western Bank Ltd.	2.67	1.63	2.96	0.88	2.99	2.31
	Old Private Sector Banks	**1.97**	**1.21**	**1.82**	**1.75**	**2.70**	**2.67**
22	Bank of Punjab Ltd.	2.78	1.97	1.69	1.73	2.46	2.53
23	Centurion Bank Ltd.	2.43	1.01	1.25	0.98	0.35	0.64
24	Global Trust Bank Ltd.	3.49	2.01	3.29	2.12	2.03	0.48

25	HDFC Bank Ltd.	3.62	2.90	2.21	2.44	2.29	2.34
26	ICICI Bank Ltd.	3.06	1.78	1.88	1.47	0.52	2.41
27	IDBI Bank Ltd.	1.30	1.13	1.85	1.39	1.85	2.02
28	IndusInd Bank Ltd.	4.00	1.79	2.39	2.00	2.47	3.28
29	Kotak Mahindra Bank Ltd.	—	—	—	—	—	4.16
30	UTI Bank Ltd.	1.72	1.74	1.74	1.23	2.83	2.09
	New Private Sector Banks	**2.86**	**1.78**	**2.11**	**1.74**	**1.22**	**2.31**
	Private Sector Banks	**2.25**	**1.42**	**1.95**	**1.74**	**1.74**	**2.43**

Appendix Table III.16(C): Net Profit/Loss as Percentage of Total Assets – Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	-2.58	-1.84	0.30	0.74	0.84	1.12
2	Bharat Overseas Bank Ltd.	0.87	0.74	0.06	0.95	1.08	1.17
3	Catholic Syrian Bank Ltd.	0.36	0.02	0.25	0.38	1.07	1.17
4	City Union Bank Ltd.	1.00	0.87	1.30	1.16	1.28	1.27
5	Development Credit Bank Ltd.	1.67	0.90	0.87	0.76	0.81	0.78
6	Dhanalakshmi Bank Ltd.	0.71	0.28	0.71	0.40	0.53	0.71
7	Federal Bank Ltd.	0.69	0.03	0.61	0.69	0.81	0.86
8	Ganesh Bank of Kurundwad Ltd.	0.08	0.08	0.14	0.22	0.50	0.59
9	ING Vysya Bank Ltd.	1.14	0.40	0.50	0.38	0.64	0.74
10	Jammu & Kashmir Bank Ltd.	0.91	1.14	1.14	1.32	1.77	2.01
11	Karnataka Bank Ltd.	1.51	0.87	0.71	0.68	1.17	1.19
12	Karur Vysya Bank Ltd.	1.73	1.19	1.90	1.70	2.12	2.02
13	Lakshmi Vilas Bank Ltd.	1.31	0.79	1.14	1.02	1.06	1.07
14	Lord Krishna Bank Ltd.	0.51	0.16	0.61	0.36	1.14	1.24
15	Nainital Bank Ltd.	0.45	0.75	0.86	0.53	0.87	0.99
16	Ratnakar Bank Ltd.	0.91	0.78	0.70	0.67	1.00	1.30
17	Sangli Bank Ltd.	0.35	0.34	0.34	0.38	0.58	0.65

18	SBI Commercial & International Bank Ltd.	2.22	1.64	1.70	-6.65	0.46	-1.45
19	South Indian Bank Ltd.	0.68	0.17	0.58	0.80	0.95	0.95
20	Tamilnad Mercantile Bank Ltd.	1.98	1.43	1.32	1.37	1.29	1.35
21	United Western Bank Ltd.	1.13	0.95	1.16	-0.27	0.50	0.46
	Old Private Sector Banks	**0.81**	**0.48**	**0.81**	**0.59**	**1.08**	**1.17**
22	Bank of Punjab Ltd.	2.09	1.53	1.04	0.93	0.92	0.74
23	Centurion Bank Ltd.	1.27	0.69	0.66	0.12	-2.26	-0.75
24	Global Trust Bank Ltd.	2.12	1.36	1.44	0.85	0.55	-3.56
25	HDFC Bank Ltd.	2.23	1.89	1.02	1.35	1.25	1.27
26	ICICI Bank Ltd.	1.53	0.91	0.87	0.82	0.25	1.13
27	IDBI Bank Ltd.	0.91	0.90	1.35	0.39	0.79	0.90
28	IndusInd Bank Ltd.	1.81	0.60	0.70	0.47	0.50	0.91
29	Kotak Mahindra Bank Ltd.	—	—	—	—	—	2.09
30	UTI Bank Ltd.	0.56	0.79	0.76	0.80	0.93	0.98
	New Private Sector Banks	**1.55**	**1.03**	**0.97**	**0.81**	**0.44**	**0.90**
	Private Sector Banks	**1.04**	**0.68**	**0.88**	**0.70**	**0.66**	**0.99**

Appendix Table III.16(D): Interest Income as Percentage of Total Assets – Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	10.27	9.54	10.04	10.20	9.41	7.71
2	Bharat Overseas Bank Ltd.	9.86	9.45	8.63	8.54	7.94	7.21
3	Catholic Syrian Bank Ltd.	11.97	10.98	10.53	10.48	9.68	8.98
4	City Union Bank Ltd.	10.58	10.59	11.40	10.08	9.51	8.88
5	Development Credit Bank Ltd.	8.36	9.14	8.02	9.84	9.01	8.14
6	Dhanalakshmi Bank Ltd.	11.28	10.31	10.24	10.45	9.59	8.98
7	Federal Bank Ltd.	9.60	10.64	11.60	10.42	10.28	9.11
8	Ganesh Bank of Kurundwad Ltd.	10.80	11.01	10.95	10.61	10.04	9.39

9	ING Vysya Bank Ltd.	9.75	9.55	8.88	8.76	8.61	7.80
10	Jammu & Kashmir Bank Ltd.	9.48	9.23	8.38	8.46	9.21	8.50
11	Karnataka Bank Ltd.	11.14	10.09	10.07	9.79	9.57	8.76
12	Karur Vysya Bank Ltd.	10.57	10.82	11.16	10.88	9.44	8.34
13	Lakshmi Vilas Bank Ltd.	9.41	9.95	9.62	9.61	9.53	8.48
14	Lord Krishna Bank Ltd.	12.59	12.38	9.37	8.75	8.36	8.37
15	Nainital Bank Ltd.	10.34	10.31	9.54	9.72	9.55	8.77
16	Ratnakar Bank Ltd.	10.05	10.26	9.91	10.18	9.39	8.77
17	Sangli Bank Ltd.	9.54	9.01	8.36	9.11	8.00	7.65
18	SBI Commercial & International Bank Ltd.	8.37	11.44	9.40	10.17	8.07	8.30
19	South Indian Bank Ltd.	11.05	11.18	10.55	10.36	9.39	8.59
20	Tamilnad Mercantile Bank Ltd.	10.80	10.05	10.14	10.24	10.12	9.99
21	United Western Bank Ltd.	8.73	8.55	8.70	8.29	9.59	7.99
	Old Private Sector Banks	**10.00**	**9.92**	**9.66**	**9.53**	**9.36**	**8.48**
22	Bank of Punjab Ltd.	9.59	8.80	8.23	9.11	9.35	8.24
23	Centurion Bank Ltd.	11.34	12.71	8.50	9.29	11.57	10.97
24	Global Trust Bank Ltd.	10.55	9.45	9.22	9.48	9.91	7.04
25	HDFC Bank Ltd.	8.51	8.65	5.80	8.06	7.16	6.65
26	ICICI Bank Ltd.	7.88	7.79	7.06	6.29	2.07	8.77
27	IDBI Bank Ltd.	6.78	8.63	9.38	10.80	7.66	7.54
28	IndusInd Bank Ltd.	10.96	9.62	7.97	8.42	6.96	7.50
29	Kotak Mahindra Bank Ltd.	—	—	—	—	—	8.07
30	UTI Bank Ltd.	8.06	9.53	7.25	8.26	8.20	7.47
	New Private Sector Banks	**9.27**	**9.19**	**7.60**	**8.17**	**4.48**	**8.14**
	Private Sector Banks	**9.77**	**9.65**	**8.74**	**8.87**	**6.18**	**8.26**

Appendix Table III.16(E): Interest Expended as Percentage of Total Assets - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	7.89	7.78	7.69	7.13	6.73	4.76
2	Bharat Overseas Bank Ltd.	7.30	7.41	6.48	5.74	5.59	4.73
3	Catholic Syrian Bank Ltd.	9.51	9.01	8.18	7.75	7.36	6.67
4	City Union Bank Ltd.	8.49	8.72	8.38	7.17	7.06	6.36
5	Development Credit Bank Ltd.	6.37	7.09	6.21	7.64	6.87	6.52
6	Dhanalakshmi Bank Ltd.	8.55	8.15	7.74	8.10	7.34	6.46
7	Federal Bank Ltd.	7.71	9.56	9.23	7.73	7.55	6.33
8	Ganesh Bank of Kurundwad Ltd.	8.20	8.95	8.55	8.52	8.28	7.91
9	ING Vysya Bank Ltd.	8.18	8.30	7.65	7.05	6.91	5.93
10	Jammu & Kashmir Bank Ltd.	5.88	5.73	5.66	5.66	6.23	5.36
11	Karnataka Bank Ltd.	7.56	7.71	8.08	7.52	7.76	7.09
12	Karur Vysya Bank Ltd.	7.29	7.91	7.50	7.21	6.22	5.61
13	Lakshmi Vilas Bank Ltd.	6.88	7.64	7.03	7.07	7.36	6.34
14	Lord Krishna Bank Ltd.	10.45	10.72	7.97	7.31	7.59	6.95
15	Nainital Bank Ltd.	6.44	6.20	5.71	5.91	5.68	5.07
16	Ratnakar Bank Ltd.	6.84	7.14	7.09	7.11	6.50	6.08
17	Sangli Bank Ltd.	6.17	6.26	5.79	5.96	5.58	5.46
18	SBI Commercial & International Bank Ltd.	7.22	10.06	7.42	8.95	7.30	6.16
19	South Indian Bank Ltd.	8.53	8.71	7.88	7.49	7.02	6.28
20	Tamilnad Mercantile Bank Ltd.	7.12	7.10	7.26	6.95	6.77	6.40
21	United Western Bank Ltd.	6.35	6.25	6.32	6.33	7.62	6.00
	Old Private Sector Banks	**7.43**	**7.77**	**7.33**	**7.02**	**6.97**	**6.02**
22	Bank of Punjab Ltd.	7.01	6.86	5.92	6.09	7.03	5.94
23	Centurion Bank Ltd.	8.40	9.54	6.96	7.56	9.09	7.95
24	Global Trust Bank Ltd.	8.54	8.43	6.72	7.36	8.70	6.75
25	HDFC Bank Ltd.	4.86	5.27	3.19	4.83	4.51	3.92

26	ICICI Bank Ltd.	5.66	6.09	5.52	4.24	1.50	7.44
27	IDBI Bank Ltd.	4.75	6.75	7.37	8.74	5.50	5.00
28	IndusInd Bank Ltd.	8.54	7.76	6.27	6.58	5.36	5.64
29	Kotak Mahindra Bank Ltd.	—	—	—	—	—	4.03
30	UTI Bank Ltd.	7.00	7.68	5.89	7.35	6.81	5.82
	New Private Sector Banks	**7.04**	**7.21**	**5.64**	**6.03**	**3.33**	**6.43**
	Private Sector Banks	**7.31**	**7.56**	**6.58**	**6.54**	**4.60**	**6.29**

Appendix Table III.16(F): Net Interest Income (Spread) as Percentage of Total Assets - Private Sector Banks

(Per cent)

Sr. No.	**Name of the Bank**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	2.38	1.76	2.35	3.07	2.69	2.95
2	Bharat Overseas Bank Ltd.	2.56	2.05	2.15	2.80	2.34	2.48
3	Catholic Syrian Bank Ltd.	2.47	1.97	2.34	2.72	2.32	2.32
4	City Union Bank Ltd.	2.09	1.87	3.03	2.91	2.45	2.53
5	Development Credit Bank Ltd.	1.99	2.05	1.81	2.20	2.14	1.62
6	Dhanalakshmi Bank Ltd.	2.72	2.16	2.49	2.34	2.25	2.53
7	Federal Bank Ltd.	1.89	1.09	2.37	2.69	2.72	2.78
8	Ganesh Bank of Kurundwad Ltd.	2.60	2.06	2.40	2.09	1.77	1.48
9	ING Vysya Bank Ltd.	1.57	1.25	1.24	1.71	1.70	1.87
10	Jammu & Kashmir Bank Ltd.	3.60	3.49	2.71	2.81	2.98	3.13
11	Karnataka Bank Ltd.	3.58	2.38	1.99	2.28	1.81	1.67
12	Karur Vysya Bank Ltd.	3.28	2.91	3.66	3.67	3.22	2.74
13	Lakshmi Vilas Bank Ltd.	2.53	2.31	2.59	2.55	2.17	2.13
14	Lord Krishna Bank Ltd.	2.14	1.66	1.41	1.44	0.77	1.42
15	Nainital Bank Ltd.	3.90	4.11	3.83	3.81	3.87	3.70
16	Ratnakar Bank Ltd.	3.21	3.12	2.82	3.07	2.89	2.69
17	Sangli Bank Ltd.	3.37	2.75	2.57	3.14	2.42	2.19
18	SBI Commercial & International	1.15	1.38	1.98	1.22	0.78	2.15

	Bank Ltd.						
19	South Indian Bank Ltd.	2.52	2.46	2.66	2.87	2.37	2.31
20	Tamilnad Mercantile Bank Ltd.	3.68	2.96	2.88	3.29	3.35	3.58
21	United Western Bank Ltd.	2.38	2.30	2.38	1.96	1.97	1.99
	Old Private Sector Banks	**2.57**	**2.15**	**2.33**	**2.51**	**2.39**	**2.46**
22	Bank of Punjab Ltd.	2.58	1.95	2.31	3.03	2.32	2.30
23	Centurion Bank Ltd.	2.93	3.17	1.54	1.73	2.48	3.01
24	Global Trust Bank Ltd.	2.02	1.02	2.50	2.11	1.21	0.29
25	HDFC Bank Ltd.	3.65	3.38	2.60	3.24	2.65	2.73
26	ICICI Bank Ltd.	2.23	1.70	1.54	2.05	0.57	1.33
27	IDBI Bank Ltd.	2.03	1.87	2.02	2.06	2.16	2.54
28	IndusInd Bank Ltd.	2.43	1.86	1.70	1.84	1.60	1.86
29	Kotak Mahindra Bank Ltd.	—	—	—	—	—	4.03
30	UTI Bank Ltd.	1.05	1.86	1.36	0.91	1.38	1.64
	New Private Sector Banks	**2.23**	**1.98**	**1.95**	**2.14**	**1.15**	**1.70**
	Private Sector Banks	**2.46**	**2.09**	**2.16**	**2.33**	**1.58**	**1.97**

Appendix Table III.16(G): Provisions & Contingencies as Percentage of Total Assets - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	3.42	1.53	0.16	0.59	0.86	1.31
2	Bharat Overseas Bank Ltd.	0.69	0.37	1.20	1.02	1.45	0.85
3	Catholic Syrian Bank Ltd.	0.61	0.20	0.70	1.25	1.53	1.72
4	City Union Bank Ltd.	0.86	0.89	1.88	1.54	1.64	1.79
5	Development Credit Bank Ltd.	1.15	0.37	1.02	0.86	1.66	0.57
6	Dhanalakshmi Bank Ltd.	0.89	0.68	1.18	1.06	2.15	2.30
7	Federal Bank Ltd.	0.58	0.58	1.17	1.43	2.20	2.02
8	Ganesh Bank of Kurundwad Ltd.	0.72	0.46	0.67	0.20	0.64	1.06
9	ING Vysya Bank Ltd.	0.60	0.41	0.85	0.75	1.27	1.34

10	Jammu & Kashmir Bank Ltd.	1.98	1.15	1.06	0.83	1.37	1.29
11	Karnataka Bank Ltd.	1.14	0.61	0.70	1.36	2.06	1.55
12	Karur Vysya Bank Ltd.	1.57	0.79	1.01	0.91	1.04	1.17
13	Lakshmi Vilas Bank Ltd.	0.38	0.50	1.26	1.28	1.65	1.44
14	Lord Krishna Bank Ltd.	1.08	0.90	0.79	0.72	1.79	1.52
15	Nainital Bank Ltd.	1.05	1.15	0.83	1.04	0.91	0.52
16	Ratnakar Bank Ltd.	0.49	0.33	0.76	1.07	2.69	1.43
17	Sangli Bank Ltd.	2.11	0.66	0.81	0.70	0.93	0.46
18	SBI Commercial & International Bank Ltd.	0.04	0.69	1.48	7.99	1.40	4.23
19	South Indian Bank Ltd.	0.30	0.81	1.23	1.26	1.69	1.89
20	Tamilnad Mercantile Bank Ltd.	1.34	0.99	1.04	1.41	1.52	1.52
21	United Western Bank Ltd.	1.54	0.68	1.80	1.16	2.49	1.85
	Old Private Sector Banks	**1.16**	**0.73**	**1.01**	**1.15**	**1.62**	**1.50**
22	Bank of Punjab Ltd.	0.69	0.44	0.65	0.80	1.54	1.79
23	Centurion Bank Ltd.	1.16	0.32	0.59	0.86	2.60	1.39
24	Global Trust Bank Ltd.	1.37	0.65	1.85	1.27	1.47	4.03
25	HDFC Bank Ltd.	1.39	1.01	1.19	1.10	1.04	1.07
26	ICICI Bank Ltd.	1.53	0.88	1.01	0.65	0.28	1.28
27	IDBI Bank Ltd.	0.39	0.23	0.50	1.00	1.06	1.12
28	IndusInd Bank Ltd.	2.19	1.19	1.69	1.53	1.98	2.36
29	Kotak Mahindra Bank Ltd.	—	—	—	—	—	2.07
30	UTI Bank Ltd.	1.16	0.95	0.98	0.43	1.90	1.11
	New Private Sector Banks	**1.32**	**0.75**	**1.14**	**0.93**	**0.78**	**1.41**
	Private Sector Banks	**1.21**	**0.74**	**1.07**	**1.04**	**1.07**	**1.44**

Appendix Table III.16(H): Operating Expenses as Percentage of Total Assets - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8

1	Bank of Rajasthan Ltd.	2.87	3.25	3.23	3.04	3.02	2.59
2	Bharat Overseas Bank Ltd.	2.09	2.14	2.12	2.21	2.16	1.93
3	Catholic Syrian Bank Ltd.	3.03	2.80	2.96	2.71	2.56	2.66
4	City Union Bank Ltd.	2.07	2.06	1.99	1.80	1.68	1.52
5	Development Credit Bank Ltd.	2.42	2.36	1.82	1.82	1.95	2.23
6	Dhanalakshmi Bank Ltd.	2.36	2.17	2.15	2.42	2.68	2.84
7	Federal Bank Ltd.	1.88	1.88	2.33	1.98	1.89	1.82
8	Ganesh Bank of Kurundwad Ltd.	2.69	2.41	2.19	2.14	2.07	2.24
9	ING Vysya Bank Ltd.	1.93	1.90	1.98	1.80	2.42	2.87
10	Jammu & Kashmir Bank Ltd.	1.75	1.78	1.51	1.30	1.59	1.55
11	Karnataka Bank Ltd.	2.18	1.89	1.84	1.58	1.68	1.52
12	Karur Vysya Bank Ltd.	2.59	2.24	2.29	2.33	2.10	1.68
13	Lakshmi Vilas Bank Ltd.	2.95	3.08	2.78	2.50	2.47	2.26
14	Lord Krishna Bank Ltd.	2.22	2.33	1.82	1.85	2.21	2.28
15	Nainital Bank Ltd.	2.86	2.69	2.67	2.65	2.55	2.81
16	Ratnakar Bank Ltd.	2.90	2.90	3.23	2.84	3.12	2.57
17	Sangli Bank Ltd.	3.08	3.03	2.80	2.92	2.87	2.82
18	SBI Commercial & International Bank Ltd.	0.95	1.25	1.14	1.45	1.20	1.50
19	South Indian Bank Ltd.	2.39	2.51	2.53	2.21	1.84	1.86
20	Tamilnad Mercantile Bank Ltd.	2.38	2.25	2.14	1.90	1.99	1.97
21	United Western Bank Ltd.	2.24	2.02	1.94	1.83	1.96	2.10
	Old Private Sector Banks	**2.31**	**2.26**	**2.17**	**1.99**	**2.07**	**2.04**
22	Bank of Punjab Ltd.	2.47	1.99	2.07	2.45	2.88	2.92
23	Centurion Bank Ltd.	2.12	3.60	2.00	2.42	3.84	4.73
24	Global Trust Bank Ltd.	1.88	1.82	1.64	1.73	2.32	2.31
25	HDFC Bank Ltd.	2.22	2.04	1.46	1.98	1.76	1.95
26	ICICI Bank Ltd.	1.76	1.19	1.27	1.70	0.60	1.88

27	IDBI Bank Ltd.	1.52	1.59	1.39	2.08	2.15	2.61
28	IndusInd Bank Ltd.	1.51	1.41	1.13	1.19	0.93	1.19
29	Kotak Mahindra Bank Ltd.	—	—	—	—	—	3.64
30	UTI Bank Ltd.	1.25	1.30	0.98	1.20	1.44	1.65
	New Private Sector Banks	**1.76**	**1.74**	**1.42**	**1.75**	**1.10**	**1.97**
	Private Sector Banks	**2.14**	**2.07**	**1.83**	**1.87**	**1.44**	**2.00**

Appendix Table III.17(A): Select Financial Parameters of Foreign Banks

(As at end-March 31, 2003)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Fund
		Tier I	Tier II	Total		
1	2	3	4	5	6	7
	Foreign Banks					
1	ABN-AMRO Bank N.V.	10.67	1.90	12.57	1.54	7.18
2	Abu Dhabi Commercial Bank Ltd.	9.04	1.10	10.14	9.68	9.64
3	American Express Bank Ltd.	10.53	0.40	10.93	8.69	10.13
4	Antwerp Diamond Bank N.V.	62.65	30.04	92.69	0.00	5.09
5	Arab Bangladesh Bank Ltd.	104.63	1.01	105.64	1.55	4.75
6	Bank Internasional Indonesia	103.78	0.21	103.99	15.20	6.75
7	Bank Muscat S.A.O.G.	19.86	0.24	20.10	6.95	10.42
8	Bank of America NA	13.65	7.43	21.08	0.05	7.83
9	Bank of Bahrain & Kuwait B.S.C.	16.02	1.17	17.19	11.26	8.73
10	Bank of Ceylon	31.92	0.37	32.29	25.98	7.48
11	Bank of Nova Scotia	12.84	0.54	13.38	8.64	8.18
12	Bank of Tokyo-Mitsubishi Ltd.	20.28	10.12	30.40	0.09	8.99
13	Barclays Bank PLC	43.55	2.13	45.68	0.00	4.47
14	BNP Paribas	6.46	4.28	10.74	3.77	8.26
15	Chinatrust Commercial Bank	35.05	1.91	36.96	0.00	11.22
16	Chohung Bank	36.41	0.76	37.17	0.48	8.56
17	Citibank N.A.	8.39	2.91	11.30	1.17	8.58
18	Credit Agricole Indosuez	18.94	1.10	20.04	0.51	7.30
19	Credit Lyonnais	13.00	7.90	20.90	3.60	10.10
20	Deutsche Bank AG	15.16	2.19	17.35	0.00	7.48
21	Development Bank of Singapore Ltd.	15.03	0.95	15.98	10.37	9.72
22	HSBC Ltd.	14.50	3.60	18.10	1.03	7.85
23	ING Bank N.V.	20.54	0.18	20.72	0.00	6.39
24	JPMorgan Chase Bank	69.97	2.98	72.95	Nil	8.15
25	Krung Thai Bank Public Co. Ltd.	118.43	1.45	119.88	0.00	7.09
26	Mashreqbank psc	37.42	1.96	39.38	0.00	10.05
27	Mizuho Corporate Bank Ltd.	18.19	0.31	18.50	0.76	8.31
28	Oman International Bank S.A.O.G.	14.18	0.44	14.62	42.15	4.93
29	Oversea-Chinese Banking Corporation Ltd.	384.84	0.65	385.49	100.00	5.57
30	Societe Generale	31.19	1.44	32.63	0.00	5.68
31	Sonali Bank	46.42	0.44	46.86	6.77	4.60
32	Standard Chartered Bank	6.81	3.75	10.56	0.31	10.10
33	State Bank of Mauritius Ltd.	31.13	0.61	31.74	14.20	6.32
34	Sumitomo Mitsui Banking Corporation	27.73	7.76	35.49	20.21	10.23

35	Toronto-Dominion Bank Ltd.	323.44	1.18	324.62	0.00	8.52
36	UFJ Bank Ltd.	67.07	0.61	67.68	8.58	6.11

(Per cent)

Sr. No.	Name of the Bank	Non-Interest Income/ Working Fund	Operating Profit/ Working Fund	Return on Assets	Business per employee	Profit per employee
					(Amount in Rs. lakh)	
1	2	8	9	10	11	12
	Foreign Banks					
1	ABN-AMRO Bank N.V.	2.45	2.76	1.56	784.27	12.35
2	Abu Dhabi Commercial Bank Ltd.	0.61	0.69	0.17	2,618.40	4.06
3	American Express Bank Ltd.	6.32	3.40	-0.90	214.91	-2.08
4	Antwerp Diamond Bank N.V.	0.36	1.20	0.36	1,252.55	5.25
5	Arab Bangladesh Bank Ltd.	3.68	5.26	2.78	265.05	10.50
6	Bank Internasional Indonesia	1.39	-4.30	3.75	228.53	11.98
7	Bank Muscat S.A.O.G.	1.46	1.50	0.15	393.00	0.65
8	Bank of America NA	1.74	2.77	1.73	1,862.74	32.76
9	Bank of Bahrain & Kuwait B.S.C.	2.37	2.38	1.06	787.00	8.00
10	Bank of Ceylon	0.80	2.81	0.27	644.67	1.80
11	Bank of Nova Scotia	1.44	2.70	0.66	1,691.41	9.75
12	Bank of Tokyo-Mitsubishi Ltd.	2.44	2.96	3.27	560.87	15.91
13	Barclays Bank PLC	15.06	13.29	3.95	323.68	85.82
14	BNP Paribas	1.12	0.06	-0.53	978.62	-4.03
15	Chinatrust Commercial Bank	0.98	4.25	2.12	658.05	12.90
16	Chohung Bank	2.24	6.13	7.19	936.10	78.56
17	Citibank N.A.	3.27	3.76	2.88	1,660.19	24.26
18	Credit Agricole Indosuez	0.79	1.09	0.36	1,336.56	7.00
19	Credit Lyonnais	3.20	1.70	0.60	1,620.01	8.39
20	Deutsche Bank AG	8.01	8.02	2.92	894.19	43.31
21	Development Bank of Singapore Ltd.	1.23	4.08	2.01	1,315.75	28.10
22	HSBC Ltd.	2.56	2.49	0.80	622.78	4.50
23	ING Bank N.V.	2.39	3.17	-8.41	299.09	-50.62
24	JPMorgan Chase Bank	7.47	8.85	3.10	364.08	37.37
25	Krung Thai Bank Public Co. Ltd.	0.44	2.83	-0.73	251.72	-3.66
26	Mashreqbank psc	2.10	3.24	3.24	820.53	65.82
27	Mizuho Corporate Bank Ltd.	1.20	1.21	0.31	486.66	22.16
28	Oman International Bank S.A.O.G.	2.08	-1.61	2.91	1,355.31	-26.81
29	Oversea-Chinese Banking Corporation Ltd.	0.15	0.00	0.00	99.63	0.00
30	Societe Generale	1.60	0.58	-1.44	351.50	-13.60
31	Sonali Bank	8.12	2.54	1.23	76.62	1.05
32	Standard Chartered Bank	2.48	4.93	2.92 *	840.54	25.15
33	State Bank of Mauritius Ltd.	2.93	4.26	1.18	1,124.00	12.00
34	Sumitomo Mitsui Banking Corporation	1.27	4.33	-7.05	447.18	42.59
35	Toronto-Dominion Bank Ltd.	-0.25	4.22	1.45	256.61	15.53
36	UFJ Bank Ltd.	0.80	2.51	0.31	892.40	3.06

* Ratio calculated before Extra Ordinary Item.

Note : Figures reported in this Table may not exactly tally with the data reported in Appendix Tables III.17(B) to III.17(H) due to conceptual differences

Source: Balance sheets of respective banks.

Appendix Table III.17(B): Gross Profit/Loss as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	4.13	3.68	3.05	3.51	3.68	3.13
2	Abu Dhabi Commercial Bank Ltd.	2.57	2.43	2.50	1.35	0.90	0.69
3	American Express Bank Ltd.	3.49	1.79	2.74	1.81	3.80	3.37
4	Antwerp Diamond Bank N.V.	—	—	—	—	—	1.09
5	Arab Bangladesh Bank Ltd.	3.35	6.15	6.08	7.09	6.40	5.26
6	Bank Internasional Indonesia	0.91	-6.39	-9.75	-6.89	0.22	-2.93
7	Bank Muscat S.A.O.G.	—	-1.44	0.63	1.27	1.92	1.41
8	Bank of America NA	4.41	3.95	5.02	3.36	3.56	2.70
9	Bank of Bahrain & Kuwait B.S.C.	0.16	0.67	1.74	1.49	2.72	2.23
10	Bank of Ceylon	6.35	7.51	6.34	4.91	5.49	2.58
11	Bank of Nova Scotia	3.65	4.44	3.11	2.19	2.70	3.19
12	Bank of Tokyo-Mitsubishi Ltd.	2.64	-27.32	-2.92	9.22	3.04	3.19
13	Barclays Bank PLC	3.87	2.00	-0.55	-0.09	4.51	11.59
14	BNP Paribas	2.75	2.24	2.27	1.36	-0.60	0.06
15	Chinatrust Commercial Bank	1.36	0.35	1.11	2.03	4.20	4.23
16	Chohung Bank	9.24	6.65	7.23	8.38	6.45	7.44
17	Citibank N.A.	4.45	4.00	3.41	3.55	3.97	3.44
18	Credit Agricole Indosuez	0.16	0.64	-0.14	0.01	0.50	1.24
19	Credit Lyonnais	4.08	4.63	4.10	3.49	2.26	1.42
20	Deutsche Bank AG	8.17	4.48	5.19	5.72	4.39	5.93
21	Development Bank of Singapore Ltd.	2.92	2.85	3.01	2.93	3.49	4.45
22	HSBC Ltd.	3.40	1.96	2.41	2.84	2.50	2.25
23	ING Bank N.V.	3.11	1.17	6.44	-2.44	0.06	-4.86
24	JPMorgan Chase Bank	5.35	4.14	5.83	10.32	8.29	5.19
25	Krung Thai Bank Public Co. Ltd.	8.78	6.22	3.57	4.94	4.38	2.75
26	Mashreqbank psc	0.24	0.05	0.41	0.41	3.26	3.92
27	Mizuho Corporate Bank Ltd.	2.77	1.42	-0.25	1.62	1.10	1.23
28	Oman International Bank S.A.O.G.	1.82	0.04	-0.20	-0.64	-2.05	-1.34
29	Oversea-Chinese Banking Corporation Ltd.	1.03	5.05	4.24	4.22	-7.17	-0.47
30	Societe Generale	2.49	2.63	0.73	0.60	-0.05	0.58
31	Sonali Bank	10.48	12.89	4.11	5.87	3.66	2.15
32	Standard Chartered Bank	2.63	1.09	3.45	3.15	3.84	3.80
33	State Bank of Mauritius Ltd.	7.10	3.21	3.79	3.80	4.56	4.12
34	Sumitomo Mitsui Banking Corporation	1.85	3.15	2.74	2.49	3.30	4.33
35	Toronto-Dominion Bank Ltd.	7.08	7.69	6.15	9.95	6.29	4.24
36	UFJ Bank Ltd.	5.56	5.24	3.02	1.95	3.34	2.51
	Foreign Banks	**3.91**	**2.32**	**3.24**	**3.05**	**3.10**	**3.20**
	Scheduled Commercial Banks	**1.84**	**1.45**	**1.66**	**1.53**	**1.94**	**2.39**

Appendix Table III.17(C): Net Profit/Loss as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	2.33	2.20	1.58	0.40	1.72	1.56
2	Abu Dhabi Commercial Bank Ltd.	0.42	0.32	0.52	0.44	0.47	0.17
3	American Express Bank Ltd.	2.11	0.25	1.02	-0.62	0.27	-0.90

4	Antwerp Diamond Bank N.V.	—	—	—	—	—	0.36
5	Arab Bangladesh Bank Ltd.	1.70	3.15	2.80	3.50	2.82	2.73
6	Bank Internasional Indonesia	-3.58	-14.41	-8.10	-2.95	0.24	2.11
7	Bank Muscat S.A.O.G.	—	-1.44	0.45	1.05	0.31	0.15
8	Bank of America NA	2.58	1.99	2.70	1.25	1.72	1.73
9	Bank of Bahrain & Kuwait B.S.C.	-3.66	0.71	0.90	0.81	1.25	1.06
10	Bank of Ceylon	2.55	2.33	2.62	0.95	0.02	0.27
11	Bank of Nova Scotia	0.84	2.20	1.46	1.06	1.00	0.78
12	Bank of Tokyo-Mitsubishi Ltd.	-25.85	-4.29	4.87	7.57	4.08	3.27
13	Barclays Bank PLC	1.71	0.33	-2.10	1.35	1.78	3.95
14	BNP Paribas	0.98	1.06	0.94	0.33	-0.94	-0.53
15	Chinatrust Commercial Bank	0.00	-0.26	0.25	0.63	1.00	2.12
16	Chohung Bank	5.01	3.68	0.50	3.15	3.42	2.47
17	Citibank N.A.	1.10	0.92	1.44	1.46	1.51	1.55
18	Credit Agricole Indosuez	-1.70	-0.64	-9.83	-1.62	0.99	0.36
19	Credit Lyonnais	-0.59	1.74	1.58	0.19	0.31	0.59
20	Deutsche Bank AG	3.58	1.11	1.10	1.71	2.24	2.92
21	Development Bank of Singapore Ltd.	0.97	1.31	1.44	1.58	2.02	2.01
22	HSBC Ltd.	0.98	0.58	0.96	1.26	0.87	0.72
23	ING Bank N.V.	2.04	0.03	-4.00	-3.97	-0.44	-12.92
24	JPMorgan Chase Bank	2.73	1.87	2.87	5.06	3.18	3.10
25	Krung Thai Bank Public Co. Ltd.	5.90	4.31	0.26	2.22	0.02	-0.72
26	Mashreqbank psc	-2.84	-2.73	-3.60	-3.10	1.59	3.24
27	Mizuho Corporate Bank Ltd.	2.38	0.16	-2.85	-3.30	-1.45	0.31
28	Oman International Bank S.A.O.G.	-0.89	-2.85	-8.98	-4.41	-4.47	-1.83
29	Oversea-Chinese Banking Corporation Ltd.	0.87	4.39	-0.26	0.79	-3.90	-0.24
30	Societe Generale	1.09	-3.17	0.02	0.04	-2.29	-1.58
31	Sonali Bank	5.44	6.69	2.14	3.05	1.41	1.23
32	Standard Chartered Bank	1.04	0.04	1.81	1.51	2.02 *	2.92 *
33	State Bank of Mauritius Ltd.	4.47	1.81	1.48	1.05	0.85	1.05
34	Sumitomo Mitsui Banking Corporation	1.02	1.56	0.25	-1.95	-3.13	-7.05
35	Toronto-Dominion Bank Ltd.	3.07	3.48	2.90	4.84	2.99	1.45
36	UFJ Bank Ltd.	1.16	1.02	0.14	0.25	0.05	0.31
	Foreign Banks	**0.97**	**0.69**	**1.17**	**0.93**	**1.32**	**1.57**
	Scheduled Commercial Banks	**0.82**	**0.47**	**0.66**	**0.49**	**0.75**	**1.01**

* Ratio calculated before Extra Ordinary Item.

Appendix Table III.17(D): Interest Income as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	9.65	9.24	8.05	10.18	10.16	7.91
2	Abu Dhabi Commercial Bank Ltd.	9.74	8.59	10.98	6.54	10.03	9.65
3	American Express Bank Ltd.	10.13	10.55	11.11	8.39	8.60	10.05
4	Antwerp Diamond Bank N.V.	—	—	—	—	—	4.61
5	Arab Bangladesh Bank Ltd.	5.03	6.81	7.23	7.77	6.19	4.65
6	Bank Internasional Indonesia	17.85	12.84	9.87	5.16	4.27	4.48
7	Bank Muscat S.A.O.G.	-	3.72	5.90	10.40	10.99	9.80
8	Bank of America NA	10.57	12.63	11.76	10.31	9.13	7.25

9	Bank of Bahrain & Kuwait B.S.C.	11.09	10.29	10.15	9.96	8.55	8.19
10	Bank of Ceylon	8.49	11.21	8.60	8.45	8.32	6.86
11	Bank of Nova Scotia	9.68	11.40	8.07	8.79	8.73	9.67
12	Bank of Tokyo-Mitsubishi Ltd.	12.32	10.23	13.02	10.53	8.62	9.70
13	Barclays Bank PLC	16.23	12.15	11.20	7.31	4.60	3.89
14	BNP Paribas	8.13	8.81	9.60	9.68	7.54	9.11
15	Chinatrust Commercial Bank	11.25	7.60	12.44	10.70	13.35	11.17
16	Chohung Bank	13.87	8.81	8.80	9.86	7.11	10.38
17	Citibank N.A.	11.00	12.52	10.53	9.00	8.89	7.84
18	Credit Agricole Indosuez	10.46	12.00	11.46	7.02	5.95	8.28
19	Credit Lyonnais	12.43	13.82	13.22	12.32	10.44	8.44
20	Deutsche Bank AG	12.36	9.72	10.13	9.77	8.17	5.68
21	Development Bank of Singapore Ltd.	8.89	11.69	8.34	8.92	7.92	10.58
22	HSBC Ltd.	8.50	8.30	7.84	8.29	7.83	7.08
23	ING Bank N.V.	8.54	10.48	16.88	4.84	4.65	9.82
24	JPMorgan Chase Bank	4.62	8.56	5.17	8.43	6.32	4.78
25	Krung Thai Bank Public Co. Ltd.	12.75	7.92	9.20	9.46	8.71	6.90
26	Mashreqbank psc	13.13	10.78	9.90	8.36	11.18	12.16
27	Mizuho Corporate Bank Ltd.	6.92	10.75	7.75	10.64	8.39	8.40
28	Oman International Bank S.A.O.G.	11.69	8.53	8.39	6.36	4.42	4.11
29	Oversea-Chinese Banking Corporation Ltd.	6.72	9.09	9.56	10.00	8.21	5.56
30	Societe Generale	11.97	14.51	9.94	7.38	7.57	5.64
31	Sonali Bank	3.23	5.66	1.84	3.71	3.54	4.00
32	Standard Chartered Bank	10.84	10.74	10.51	9.12	8.12	7.80
33	State Bank of Mauritius Ltd.	8.37	7.50	8.08	9.03	9.27	6.10
34	Sumitomo Mitsui Banking Corporation	3.99	10.19	12.42	10.88	12.97	10.23
35	Toronto-Dominion Bank Ltd.	5.42	11.51	8.72	16.96	11.60	8.54
36	UFJ Bank Ltd.	12.10	11.35	9.05	8.38	9.62	6.11
	Foreign Banks	**10.42**	**10.27**	**9.93**	**9.27**	**8.56**	**7.71**
	Scheduled Commercial Banks	**9.27**	**9.18**	**8.97**	**8.88**	**8.26**	**8.28**

Appendix Table III.17(E): Interest Expended as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	6.42	5.94	4.83	6.24	5.49	4.01
2	Abu Dhabi Commercial Bank Ltd.	7.51	6.67	8.88	5.56	9.11	8.78
3	American Express Bank Ltd.	6.84	7.78	7.20	5.77	5.78	6.62
4	Antwerp Diamond Bank N.V.	—	—	—	—	—	1.24
5	Arab Bangladesh Bank Ltd.	1.41	1.32	1.41	1.16	0.69	0.77
6	Bank Internasional Indonesia	12.42	10.09	7.10	2.35	1.70	1.06
7	Bank Muscat S.A.O.G.	—	0.94	3.76	7.85	6.64	5.45
8	Bank of America NA	6.58	8.22	7.11	7.03	6.20	4.66
9	Bank of Bahrain & Kuwait B.S.C.	10.17	9.18	8.60	8.32	7.37	6.46
10	Bank of Ceylon	3.79	4.67	3.61	4.58	3.90	3.80
11	Bank of Nova Scotia	6.83	8.16	5.48	6.57	6.32	6.83
12	Bank of Tokyo-Mitsubishi Ltd.	8.28	6.59	6.68	4.30	3.92	4.45
13	Barclays Bank PLC	13.45	8.57	8.83	5.77	3.67	2.76
14	BNP Paribas	4.89	5.67	6.90	7.07	5.66	6.26

15	Chinatrust Commercial Bank	3.74	4.33	8.50	6.48	7.14	4.20
16	Chohung Bank	2.53	1.62	0.92	1.65	0.97	3.24
17	Citibank N.A.	6.60	7.08	5.97	5.02	5.13	4.08
18	Credit Agricole Indosuez	11.09	9.17	8.99	5.56	4.96	5.98
19	Credit Lyonnais	8.54	10.20	9.70	9.22	8.90	7.16
20	Deutsche Bank AG	5.66	4.79	5.12	4.63	4.41	3.03
21	Development Bank of Singapore Ltd.	6.94	8.68	5.02	6.06	4.83	5.11
22	HSBC Ltd.	5.12	5.61	5.09	5.33	5.21	4.20
23	ING Bank N.V.	6.74	6.91	10.66	3.34	3.71	7.81
24	JPMorgan Chase Bank	4.23	9.49	4.40	5.48	3.01	1.25
25	Krung Thai Bank Public Co. Ltd.	5.54	0.44	1.41	1.18	0.68	0.34
26	Mashreqbank psc	7.95	8.43	7.67	7.26	8.96	8.74
27	Mizuho Corporate Bank Ltd.	1.98	5.99	6.00	7.65	6.18	5.74
28	Oman International Bank S.A.O.G.	10.34	9.09	8.85	6.87	6.38	5.83
29	Oversea-Chinese Banking Corporation Ltd.	0.67	1.86	2.38	1.40	0.54	0.00
30	Societe Generale	9.50	11.73	8.85	6.09	6.38	3.66
31	Sonali Bank	1.63	2.48	0.90	1.42	2.00	2.90
32	Standard Chartered Bank	7.27	7.17	6.27	5.38	4.61	3.93
33	State Bank of Mauritius Ltd.	1.91	4.72	4.96	5.95	6.57	3.61
34	Sumitomo Mitsui Banking Corporation	1.80	5.84	8.46	7.16	8.03	4.89
35	Toronto-Dominion Bank Ltd.	0.05	0.02	1.12	5.44	0.27	0.02
36	UFJ Bank Ltd.	5.73	5.72	4.81	4.49	5.36	2.73
	Foreign Banks	**6.49**	**6.79**	**6.01**	**5.64**	**5.34**	**4.35**
	Scheduled Commercial Banks	**6.32**	**6.41**	**6.25**	**6.03**	**5.70**	**5.51**

Appendix Table III.17(F): Net Interest Income (Spread) as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	**Name of the Bank**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	3.23	3.30	3.22	3.94	4.67	3.90
2	Abu Dhabi Commercial Bank Ltd.	2.23	1.93	2.09	0.98	0.92	0.87
3	American Express Bank Ltd.	3.29	2.78	3.91	2.61	2.82	3.43
4	Antwerp Diamond Bank N.V.	—	—	—	—	—	3.36
5	Arab Bangladesh Bank Ltd.	3.62	5.49	5.82	6.61	5.50	3.89
6	Bank Internasional Indonesia	5.43	2.75	2.77	2.81	2.57	3.42
7	Bank Muscat S.A.O.G.	—	2.78	2.13	2.55	4.35	4.35
8	Bank of America NA	3.98	4.41	4.65	3.28	2.93	2.59
9	Bank of Bahrain & Kuwait B.S.C.	0.92	1.11	1.55	1.64	1.18	1.72
10	Bank of Ceylon	4.70	6.54	4.98	3.87	4.43	3.06
11	Bank of Nova Scotia	2.85	3.24	2.60	2.21	2.41	2.84
12	Bank of Tokyo-Mitsubishi Ltd.	4.05	3.64	6.34	6.23	4.70	5.25
13	Barclays Bank PLC	2.78	3.58	2.37	1.55	0.94	1.14
14	BNP Paribas	3.24	3.14	2.70	2.61	1.88	2.85
15	Chinatrust Commercial Bank	7.50	3.27	3.93	4.22	6.21	6.97
16	Chohung Bank	11.34	7.19	7.87	8.21	6.14	7.15
17	Citibank N.A.	4.39	3.44	4.55	3.98	3.76	3.76
18	Credit Agricole Indosuez	-0.63	2.83	2.48	1.46	0.99	2.30
19	Credit Lyonnais	3.89	3.63	3.52	3.10	1.54	1.28
20	Deutsche Bank AG	6.70	4.93	5.00	5.14	3.76	2.65

21	Development Bank of Singapore Ltd.	1.95	3.01	3.33	2.85	3.10	5.47
22	HSBC Ltd.	3.38	2.69	2.75	2.96	2.63	2.88
23	ING Bank N.V.	1.81	3.56	6.22	1.50	0.94	2.01
24	JPMorgan Chase Bank	0.39	-0.92	0.77	2.95	3.30	3.53
25	Krung Thai Bank Public Co. Ltd.	7.21	7.48	7.79	8.28	8.03	6.56
26	Mashreqbank psc	5.18	2.35	2.23	1.11	2.22	3.42
27	Mizuho Corporate Bank Ltd.	4.94	4.75	1.76	2.98	2.21	2.66
28	Oman International Bank S.A.O.G.	1.35	-0.57	-0.47	-0.51	-1.96	-1.72
29	Oversea-Chinese Banking Corporation Ltd.	6.06	7.23	7.17	8.60	7.68	5.56
30	Societe Generale	2.47	2.78	1.09	1.29	1.19	1.97
31	Sonali Bank	1.60	3.18	0.94	2.29	1.55	1.10
32	Standard Chartered Bank	3.57	3.57	4.24	3.74	3.51	3.87
33	State Bank of Mauritius Ltd.	6.46	2.78	3.12	3.08	2.70	2.50
34	Sumitomo Mitsui Banking Corporation	2.20	4.35	3.96	3.72	4.94	5.35
35	Toronto-Dominion Bank Ltd.	5.37	11.49	7.60	11.52	10.80	8.52
36	UFJ Bank Ltd.	6.37	5.63	4.24	3.89	4.27	3.37
	Foreign Banks	**3.93**	**3.47**	**3.92**	**3.63**	**3.22**	**3.36**
	Scheduled Commercial Banks	**2.95**	**2.78**	**2.73**	**2.85**	**2.57**	**2.77**

Appendix Table III.17(G): Provisions & Contingencies as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	1.79	1.47	1.47	3.11	1.96	1.57
2	Abu Dhabi Commercial Bank Ltd.	2.15	2.11	1.98	0.91	0.43	0.52
3	American Express Bank Ltd.	1.38	1.54	1.73	2.42	3.53	4.26
4	Antwerp Diamond Bank N.V.	—	—	—	—	—	0.73
5	Arab Bangladesh Bank Ltd.	1.66	3.00	3.28	3.58	3.58	2.53
6	Bank Internasional Indonesia	4.49	8.02	-1.65	-3.93	-0.01	-5.03
7	Bank Muscat S.A.O.G.	—	0.00	0.17	0.22	1.62	1.26
8	Bank of America NA	1.83	1.96	2.32	2.12	1.84	0.97
9	Bank of Bahrain & Kuwait B.S.C.	3.82	-0.04	0.84	0.68	1.48	1.17
10	Bank of Ceylon	3.80	5.17	3.73	3.95	5.48	2.30
11	Bank of Nova Scotia	2.81	2.24	1.65	1.13	1.71	2.41
12	Bank of Tokyo-Mitsubishi Ltd.	28.49	-23.03	-7.78	1.64	-1.03	-0.08
13	Barclays Bank PLC	2.16	1.68	1.55	-1.43	2.73	7.63
14	BNP Paribas	1.78	1.18	1.32	1.02	0.35	0.59
15	Chinatrust Commercial Bank	1.36	0.62	0.86	1.40	3.21	2.11
16	Chohung Bank	4.23	2.97	6.73	5.23	3.02	4.97
17	Citibank N.A.	3.35	3.08	1.98	2.09	2.45	1.89
18	Credit Agricole Indosuez	1.86	1.27	9.69	1.64	-0.49	0.87
19	Credit Lyonnais	4.67	2.90	2.51	3.30	1.95	0.83
20	Deutsche Bank AG	4.58	3.37	4.09	4.02	2.15	3.01
21	Development Bank of Singapore Ltd.	1.96	1.54	1.58	1.35	1.47	2.44
22	HSBC Ltd.	2.42	1.38	1.45	1.58	1.63	1.53
23	ING Bank N.V.	1.07	1.14	10.43	1.53	0.50	8.05
24	JPMorgan Chase Bank	2.62	2.26	2.96	5.25	5.11	2.09
25	Krung Thai Bank Public Co. Ltd.	2.87	1.90	3.31	2.73	4.35	3.47

26	Mashreqbank psc	3.09	2.78	4.02	3.52	1.67	0.68
27	Mizuho Corporate Bank Ltd.	0.39	1.26	2.59	4.92	2.55	0.92
28	Oman International Bank S.A.O.G.	2.71	2.89	8.78	3.76	2.41	0.48
29	Oversea-Chinese Banking Corporation Ltd.	0.16	0.67	4.51	3.43	-3.27	-0.24
30	Societe Generale	1.40	5.80	0.71	0.57	2.24	2.16
31	Sonali Bank	5.05	6.20	1.97	2.82	2.25	0.91
32	Standard Chartered Bank	1.59	1.05	1.64	1.64	1.82	0.89
33	State Bank of Mauritius Ltd.	2.63	1.40	2.31	2.75	3.72	3.07
34	Sumitomo Mitsui Banking Corporation	0.83	1.59	2.49	4.44	6.43	11.37
35	Toronto-Dominion Bank Ltd.	4.01	4.21	3.26	5.10	3.30	2.79
36	UFJ Bank Ltd.	4.40	4.22	2.88	1.70	3.29	2.20
	Foreign Banks	**2.94**	**1.63**	**2.08**	**2.12**	**1.78**	**1.64**
	Scheduled Commercial Banks	**1.02**	**0.98**	**1.00**	**1.03**	**1.19**	**1.39**

Appendix Table III.17(H): Operating Expenses as Percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1	ABN-AMRO Bank N.V.	2.85	2.08	1.83	2.58	3.62	3.47
2	Abu Dhabi Commercial Bank Ltd.	1.41	0.97	1.10	0.44	0.49	0.79
3	American Express Bank Ltd.	3.70	4.52	6.38	6.58	5.49	6.33
4	Antwerp Diamond Bank N.V.	—	—	—	—	—	2.60
5	Arab Bangladesh Bank Ltd.	2.53	1.95	2.08	2.40	1.89	2.23
6	Bank Internasional Indonesia	6.81	12.25	15.03	11.49	3.85	7.27
7	Bank Muscat S.A.O.G.	—	4.85	2.80	3.49	4.07	4.31
8	Bank of America NA	1.83	1.94	3.26	1.60	1.76	1.50
9	Bank of Bahrain & Kuwait B.S.C.	1.54	1.82	1.75	1.75	1.39	1.71
10	Bank of Ceylon	1.51	1.99	1.54	1.58	1.29	1.55
11	Bank of Nova Scotia	1.46	1.55	1.43	0.96	1.07	1.36
12	Bank of Tokyo-Mitsubishi Ltd.	2.21	33.47	14.70	4.45	4.88	4.70
13	Barclays Bank PLC	6.52	3.60	3.67	2.81	1.87	2.67
14	BNP Paribas	1.96	2.19	2.32	2.82	3.59	4.01
15	Chinatrust Commercial Bank	7.67	3.01	3.30	2.79	3.34	3.72
16	Chohung Bank	4.73	2.80	2.43	2.30	1.75	2.43
17	Citibank N.A.	3.83	3.53	3.88	3.15	3.52	3.32
18	Credit Agricole Indosuez	2.38	2.99	3.78	2.27	1.62	1.96
19	Credit Lyonnais	2.32	1.80	2.07	1.73	2.06	2.55
20	Deutsche Bank AG	3.38	3.42	3.89	3.90	3.43	2.80
21	Development Bank of Singapore Ltd.	2.78	2.18	1.70	1.58	1.53	2.36
22	HSBC Ltd.	2.71	2.80	2.35	2.61	2.63	2.94
23	ING Bank N.V.	3.13	4.41	6.82	6.52	3.40	10.55
24	JPMorgan Chase Bank	7.50	11.11	5.60	5.36	7.24	2.72
25	Krung Thai Bank Public Co. Ltd.	6.08	5.00	4.65	4.41	4.33	4.25
26	Mashreqbank psc	4.30	3.53	3.39	2.05	1.88	2.04
27	Mizuho Corporate Bank Ltd.	3.08	3.98	2.63	2.58	2.14	2.65
28	Oman International Bank S.A.O.G.	1.92	1.54	1.25	1.25	1.18	1.36
29	Oversea-Chinese Banking Corporation Ltd.	7.21	5.80	5.33	5.96	15.84	6.19
30	Societe Generale	1.86	2.56	2.83	2.81	2.83	2.98

31	Sonali Bank	4.98	5.77	3.28	5.13	6.66	6.06
32	Standard Chartered Bank	4.11	5.11	3.29	3.04	2.22	1.98
33	State Bank of Mauritius Ltd.	1.26	1.23	0.92	0.84	1.19	1.21
34	Sumitomo Mitsui Banking Corporation	2.20	2.44	2.38	2.09	3.02	2.29
35	Toronto-Dominion Bank Ltd.	7.97	4.34	2.59	3.78	4.38	4.04
36	UFJ Bank Ltd.	1.68	2.00	2.41	3.27	1.85	1.66
	Foreign Banks	**2.97**	**3.59**	**3.22**	**3.05**	**3.00**	**2.79**
	Scheduled Commercial Banks	**2.63**	**2.67**	**2.50**	**2.64**	**2.19**	**2.24**

Appendix Table III.18: Investment Fluctuation Reserves (IFR) of Public Sector Banks

(As at end-March)

(Amount in Rs. crore)

		2002			
Sr. No.	**Name of the Bank**	**Investment**			**IFR as percentage to**
		AFS	**HFT**	**IFR**	**(AFS+HFT)**
1	2	3	4	5	6
1	Allahabad Bank	7,845.97	26.76	41.47	0.53
2	Andhra Bank	5,846.75	132.42	59.79	1.00
3	Bank of Baroda	20,384.43	0.72	256.84	1.26
4	Bank of India	11,169.56	20.99	241.76	2.16
5	Bank of Maharashtra	7,214.84	0.00	72.66	1.01
6	Canara Bank	15,200.13	717.75	169.15	1.06
7	Central Bank of India	14,025.94	605.59	115.39	0.79
8	Corporation Bank	5,996.79	429.28	89.76	1.40
9	Dena Bank	5,243.80	94.10	—	—
10	Indian Bank	6,647.00	499.08	—	—
11	Indian Overseas Bank	12,539.26	0.00	53.95	0.43
12	Oriental Bank of Commerce	9,986.95	29.85	120.50	1.20
13	Punjab & Sind Bank	3,820.88	0.00	39.02	1.02
14	Punjab National Bank	22,022.39	106.30	310.12	1.40
15	Syndicate Bank	9,202.59	225.86	120.00	1.27
16	UCO Bank	8,532.46	89.63	96.61	1.12
17	Union Bank of India	12,631.20	298.68	149.98	1.16
18	United Bank of India	8,087.68	561.38	—	—
19	Vijaya Bank	5,613.77	121.52	57.76	1.01
	Nationalised Banks	**1,92,012.39**	**3,959.91**	**1,994.76**	**1.02**
20	State Bank of India	1,12,666.17	1,886.89	671.16	0.59
21	State Bank of Bikaner & Jaipur	5,813.39	23.79	63.46	1.09
22	State Bank of Hyderabad	8,774.46	18.74	100.00	1.14
23	State Bank of Indore	2,656.59	885.93	59.60	1.68
24	State Bank of Mysore	3,796.96	0.00	38.76	1.02
25	State Bank of Patiala	4,615.92	206.67	205.58	4.26
26	State Bank of Saurashtra	2,862.95	0.00	37.90	1.32
27	State Bank of Travancore	4,943.53	0.00	52.15	1.05
	State Bank Group	**1,46,129.97**	**3,022.02**	**1,228.61**	**0.82**
	Public Sector Banks	**3,38,142.36**	**6,981.93**	**3,223.37**	**0.93**

(Amount in Rs. crore)

		2003			
Sr. No.	**Name of the Bank**	**Investment**			**IFR as percentage to**

		AFS	HFT	IFR	(AFS+HFT)
1	2	7	8	9	10
1	Allahabad Bank	8,854.60	91.46	123.81	1.38
2	Andhra Bank	7,801.39	275.76	201.94	2.50
3	Bank of Baroda	27,049.53	3.40	567.54	2.10
4	Bank of India	12,728.43	64.62	341.76	2.67
5	Bank of Maharashtra	9,183.70	24.11	183.75	2.00
6	Canara Bank	23,295.86	415.11	468.15	1.97
7	Central Bank of India	17,927.71	0.00	250.39	1.40
8	Corporation Bank	8,662.18	273.41	231.44	2.59
9	Dena Bank	5,904.31	133.86	—	—
10	Indian Bank	8,226.05	0.00	140.00	1.70
11	Indian Overseas Bank	15,267.41	62.65	256.15	1.67
12	Oriental Bank of Commerce	11,212.95	0.00	240.50	2.14
13	Punjab & Sind Bank	4,265.67	0.04	44.02	1.03
14	Punjab National Bank	24,292.77	379.23	500.13	2.03
15	Syndicate Bank	10,115.33	485.99	213.23	2.01
16	UCO Bank	9,260.08	179.73	126.61	1.34
17	Union Bank of India	15,363.90	344.72	314.00	2.00
18	United Bank of India	9,087.75	476.28	—	—
19	Vijaya Bank	6,503.23	0.00	130.48	2.01
	Nationalised Banks	**2,35,002.85**	**3,210.37**	**4,333.90**	**1.82**
20	State Bank of India	1,31,525.24	9,655.59	2,271.15	1.61
21	State Bank of Bikaner & Jaipur	7,206.93	53.51	145.63	2.01
22	State Bank of Hyderabad	10,446.41	92.07	240.00	2.28
23	State Bank of Indore	3,578.42	596.47	110.47	2.65
24	State Bank of Mysore	3,783.81	16.17	80.00	2.11
25	State Bank of Patiala	7,251.32	151.47	297.58	4.02
26	State Bank of Saurashtra	4,100.63	6.65	82.90	2.02
27	State Bank of Travancore	6,372.61	0.00	135.04	2.12
	State Bank Group	**1,74,265.38**	**10,571.93**	**3,362.77**	**1.82**
	Public Sector Banks	**4,09,268.23**	**13,782.30**	**7,696.67**	**1.82**

Note: AFS - Available for sale , HFT - Held for trading.
Source
1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(A): Non-Performing Assets as percentage of Total Assets - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets				Net NPAs/Total Assets			
		1999-2000	2000-01	2001-02	2002-03	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8	9	10
	Nationalised Banks	**6.00**	**5.44**	**5.21**	**4.66**	**3.15**	**2.95**	**2.69**	**2.17**
1	Allahabad Bank	8.59	8.26	8.08	6.56	5.09	4.87	4.68	3.16
2	Andhra Bank	2.89	2.31	2.50	2.35	1.23	1.07	1.13	0.84
3	Bank of Baroda	6.65	6.61	6.33	5.45	2.88	2.92	2.70	2.22
4	Bank of India	6.23	5.76	5.33	4.96	3.96	3.59	3.30	3.11
5	Bank of Maharashtra	4.71	4.60	4.22	3.84	2.43	2.61	2.23	1.84
6	Canara Bank	4.29	3.23	2.93	3.02	2.28	2.02	1.79	1.77

7	Central Bank of India	6.87	6.88	6.42	5.68	3.76	3.87	3.23	2.74
8	Corporation Bank	2.58	2.46	2.49	2.50	0.89	0.87	1.07	0.76
9	Dena Bank	8.31	10.77	10.59	8.02	5.83	7.15	6.51	4.95
10	Indian Bank	14.26	8.86	7.19	4.61	5.64	3.57	2.99	2.13
11	Indian Overseas Bank	5.88	5.39	5.13	4.61	3.21	3.03	2.70	2.22
12	Oriental Bank of Commerce	2.15	2.16	2.95	3.37	1.37	1.47	1.41	0.66
13	Punjab & Sind Bank	6.53	7.66	7.94	8.60	3.76	4.73	4.73	4.41
14	Punjab National Bank	5.78	5.45	5.68	5.78	3.54	2.95	2.48	1.77
15	Syndicate Bank	3.65	3.80	4.08	4.11	1.42	1.89	2.12	2.03
16	UCO Bank	7.01	4.67	4.25	3.91	2.90	2.38	2.31	2.00
17	Union Bank of India	5.37	5.28	5.46	4.68	3.32	3.08	3.02	2.45
18	United Bank of India	7.79	6.57	5.34	3.95	3.01	2.80	2.38	1.67
19	Vijaya Bank	4.43	4.17	3.73	2.65	2.42	2.50	2.31	1.08
	State Bank Group	**5.88**	**5.11**	**4.39**	**3.48**	**2.60**	**2.35**	**2.00**	**1.58**
20	State Bank of India	5.83	5.03	4.45	3.59	2.40	2.17	1.96	1.64
21	State Bank of Bikaner & Jaipur	6.20	5.15	3.77	3.22	3.64	2.95	2.21	1.56
22	State Bank of Hyderabad	6.03	5.84	4.06	2.83	2.86	3.01	1.89	1.21
23	State Bank of Indore	5.06	3.95	3.25	2.60	3.42	2.46	1.56	1.21
24	State Bank of Mysore	6.64	6.17	6.03	4.96	3.64	3.58	3.49	2.41
25	State Bank of Patiala	5.41	4.85	3.62	2.51	2.84	2.35	1.47	0.75
26	State Bank of Saurashtra	6.23	6.62	4.73	3.26	3.34	3.06	2.17	1.51
27	State Bank of Travancore	6.52	5.23	4.41	3.34	3.63	3.42	2.58	1.47
	Public Sector Banks	**5.95**	**5.31**	**4.89**	**4.21**	**2.94**	**2.72**	**2.42**	**1.94**

Source :
1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(B): Non-Performing Assets as percentage of Advances - Public Sector Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances				Net NPAs/Net Advances			
		1999-2000	2000-01	2001-02	2002-03	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8	9	10
	Nationalised Banks	**13.91**	**12.16**	**11.01**	**9.72**	**7.80**	**7.01**	**6.01**	**4.77**
1	Allahabad Bank	19.07	17.66	16.94	13.65	12.17	11.21	10.55	7.07
2	Andhra Bank	7.85	6.13	5.26	4.89	3.47	2.95	2.45	1.79
3	Bank of Baroda	14.73	14.11	12.39	11.02	6.95	6.77	5.68	4.81
4	Bank of India	12.89	10.25	9.37	8.55	8.61	6.72	6.01	5.59
5	Bank of Maharashtra	12.65	12.35	10.44	9.55	6.97	7.41	5.81	4.83
6	Canara Bank	9.60	7.48	6.22	5.96	5.28	4.84	3.89	3.59
7	Central Bank of India	16.63	16.06	14.70	13.06	9.84	9.72	7.98	6.74
8	Corporation Bank	5.39	5.40	5.19	5.27	1.91	1.98	2.31	1.65
9	Dena Bank	18.17	25.31	24.11	17.86	13.81	18.29	16.31	11.82
10	Indian Bank	32.77	21.76	17.86	12.39	16.18	10.07	8.28	6.15
11	Indian Overseas Bank	13.18	11.81	11.35	10.29	7.65	7.01	6.32	5.23
12	Oriental Bank of Commerce	5.54	5.21	6.57	6.94	3.61	3.59	3.21	1.44
13	Punjab & Sind Bank	15.27	18.45	18.19	19.25	9.40	12.27	11.68	10.85
14	Punjab National Bank	13.19	11.71	11.38	11.58	8.52	6.69	5.27	3.80
15	Syndicate Bank	7.74	7.87	8.35	8.32	3.17	4.07	4.53	4.29

16	UCO Bank	18.79	11.64	9.59	8.24	8.75	6.30	5.65	4.38
17	Union Bank of India	12.27	11.20	10.77	8.96	7.97	6.86	6.26	4.91
18	United Bank of India	27.63	21.51	16.16	12.15	12.85	10.47	7.94	5.52
19	Vijaya Bank	11.52	10.00	9.39	6.18	6.62	6.22	6.02	2.61
	State Bank Group	**14.08**	**12.73**	**11.23**	**8.68**	**6.77**	**6.27**	**5.45**	**4.12**
20	State Bank of India	14.25	12.93	11.95	9.34	6.41	6.03	5.64	4.49
21	State Bank of Bikaner & Jaipur	16.18	12.91	9.36	8.15	10.14	7.83	5.77	4.16
22	State Bank of Hyderabad	14.18	14.08	10.08	7.28	7.30	7.83	4.96	3.26
23	State Bank of Indore	10.80	9.16	7.18	5.53	7.55	5.91	3.58	2.66
24	State Bank of Mysore	13.89	12.83	12.07	10.14	8.12	7.88	7.36	5.19
25	State Bank of Patiala	10.99	9.66	6.94	4.80	6.09	4.92	2.94	1.49
26	State Bank of Saurashtra	13.71	14.57	10.18	7.32	7.86	6.87	4.95	3.53
27	State Bank of Travancore	14.43	11.38	9.41	6.67	8.80	7.75	5.72	3.05
	Public Sector Banks	**13.98**	**12.37**	**11.09**	**9.36**	**7.42**	**6.74**	**5.82**	**4.54**

Source :
1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(C): Non-Performing Assets as percentage of Total Assets - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets				Net NPAs/Total Assets			
		1999-2000	2000-01	2001-02	2002-03	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8	9	10
	Old Private Sector Banks	**5.22**	**5.14**	**5.20**	**4.35**	**3.27**	**3.28**	**3.23**	**2.61**
1	Bank of Rajasthan Ltd.	9.13	8.22	6.92	4.34	4.28	3.28	3.61	2.46
2	Bharat Overseas Bank Ltd.	5.07	3.33	3.91	3.30	2.72	1.76	1.87	1.56
3	Catholic Syrian Bank Ltd.	7.05	6.31	5.47	5.24	4.88	4.22	3.45	3.03
4	City Union Bank Ltd.	6.54	6.96	6.31	6.56	3.62	3.91	3.72	3.77
5	Development Credit Bank Ltd.	3.70	4.18	5.14	5.89	2.88	3.20	3.57	4.37
6	Dhanalakshmi Bank Ltd.	7.38	7.96	7.73	7.03	5.38	6.00	5.80	4.98
7	Federal Bank Ltd.	6.45	7.28	6.29	4.33	4.54	5.55	4.39	2.52
8	Ganesh Bank of Kurundwad Ltd.	6.94	6.77	8.80	9.56	5.19	4.84	6.53	6.27
9	ING Vysya Bank Ltd.	6.70	2.12	1.91	1.75	4.02	2.03	1.89	1.72
10	Jammu & Kashmir Bank Ltd.	2.25	1.91	1.61	1.51	1.07	0.92	0.82	0.76
11	Karnataka Bank Ltd.	3.89	4.81	4.81	5.81	2.44	2.93	2.59	3.09
12	Karur Vysya Bank Ltd.	3.06	3.88	4.42	4.13	1.81	2.52	3.03	2.25
13	Lakshmi Vilas Bank Ltd.	4.18	5.62	7.71	6.60	2.67	3.66	5.00	3.93
14	Lord Krishna Bank Ltd.	8.36	7.27	6.07	4.54	6.52	5.36	4.72	3.12
15	Nainital Bank Ltd.	2.05	1.71	1.81	1.43	0.17	0.00	0.00	0.00
16	Ratnakar Bank Ltd.	4.85	4.72	5.34	5.30	3.27	3.12	3.40	3.12
17	Sangli Bank Ltd.	5.18	4.70	4.07	4.13	2.41	2.20	1.93	2.15
18	SBI Commercial & International Bank Ltd.	10.76	15.52	12.94	14.76	7.27	10.23	8.14	6.23
19	South Indian Bank Ltd.	5.90	4.93	5.12	4.53	3.92	3.36	3.38	2.83
20	Tamilnad Mercantile Bank Ltd.	4.63	6.66	7.59	7.21	2.34	2.58	2.75	3.59
21	United Western Bank Ltd.	3.20	5.92	7.58	7.50	2.36	4.41	5.55	5.01

	New Private Sector Banks	**1.60**	**2.05**	**3.90**	**3.76**	**1.08**	**1.18**	**2.10**	**2.16**
22	Bank of Punjab Ltd.	1.42	1.59	2.36	3.96	0.94	0.93	1.22	3.01
23	Centurion Bank Ltd.	2.67	2.63	5.56	6.75	1.37	1.21	2.44	3.07
24	Global Trust Bank Ltd.	0.65	2.52	5.89	11.95	0.37	1.62	3.83	8.45
25	HDFC Bank Ltd.	1.04	0.94	0.94	0.87	0.32	0.13	0.14	0.14
26	ICICI Bank Ltd.	0.78	2.07	4.82	4.71	0.46	0.78	2.48	2.60
27	IDBI Bank Ltd.	0.81	2.44	1.85	1.45	0.69	1.83	1.03	0.65
28	IndusInd Bank Ltd.	3.32	3.03	4.09	2.69	2.75	2.57	3.60	2.30
29	Kotak Mahindra Bank Ltd.	—	—	—	0.70	—	—	—	0.06
30	UTI Bank Ltd.	2.90	2.10	1.96	1.17	2.48	1.68	1.29	0.83
	Private Sector Banks	**3.61**	**3.65**	**4.36**	**3.97**	**2.30**	**2.27**	**2.49**	**2.32**

Source :
1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(D): Non-Performing Assets as percentage of Advances - Private Sector Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances				Net NPAs/Net Advances			
		1999-2000	2000-01	2001-02	2002-03	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8	9	10
	Old Private Sector Banks	**10.78**	**10.94**	**11.01**	**8.90**	**7.06**	**7.30**	**7.13**	**5.54**
1	Bank of Rajasthan Ltd.	18.55	17.20	15.73	11.39	9.86	7.62	8.86	6.80
2	Bharat Overseas Bank Ltd.	11.29	7.58	8.77	6.75	6.39	4.14	4.38	3.30
3	Catholic Syrian Bank Ltd.	16.99	14.24	14.88	13.01	12.41	9.99	9.91	7.95
4	City Union Bank Ltd.	12.40	13.69	13.20	13.47	7.25	8.18	8.20	8.16
5	Development Credit Bank Ltd.	7.40	7.84	9.29	9.56	5.86	6.13	6.61	7.76
6	Dhanalakshmi Bank Ltd.	14.58	14.77	15.29	13.18	11.08	11.55	11.94	9.71
7	Federal Bank Ltd.	11.75	12.84	11.88	8.21	8.56	10.09	8.59	4.95
8	Ganesh Bank of Kurundwad Ltd.	12.49	13.63	18.08	18.42	9.94	10.12	14.08	12.90
9	ING Vysya Bank Ltd.	14.33	4.70	4.64	3.61	9.13	4.77	4.59	3.55
10	Jammu & Kashmir Bank Ltd.	6.53	4.97	3.62	3.11	3.21	2.46	1.88	1.59
11	Karnataka Bank Ltd.	8.82	10.58	10.43	12.99	5.73	6.93	5.88	7.34
12	Karur Vysya Bank Ltd.	6.20	7.14	8.97	7.46	3.76	4.73	6.30	4.16
13	Lakshmi Vilas Bank Ltd.	8.18	9.61	13.42	11.47	5.37	6.46	9.10	7.11
14	Lord Krishna Bank Ltd.	17.19	16.74	12.32	8.96	13.94	12.92	9.85	6.33
15	Nainital Bank Ltd.	9.33	7.92	8.68	6.11	0.80	0.00	0.00	0.00
16	Ratnakar Bank Ltd.	12.37	11.03	12.88	11.96	8.71	7.58	8.60	7.42
17	Sangli Bank Ltd.	14.95	13.21	11.80	12.45	7.56	6.61	5.95	6.87
18	SBI Commercial & International Bank Ltd.	19.38	30.38	32.72	38.48	13.97	22.56	23.38	20.85
19	South Indian Bank Ltd.	12.50	10.12	10.05	9.27	8.67	7.10	6.87	5.96
20	Tamilnad Mercantile Bank Ltd.	10.80	14.69	16.47	16.06	5.77	5.99	6.63	8.66
21	United Western Bank Ltd.	6.45	12.00	14.08	13.58	4.82	9.22	10.72	9.50
	New Private Sector Banks	**4.14**	**5.13**	**8.86**	**7.64**	**2.88**	**3.09**	**4.94**	**4.63**
22	Bank of Punjab Ltd.	3.44	3.88	5.49	9.23	2.32	2.31	2.93	7.17

23	Centurion Bank Ltd.	7.28	7.34	12.66	15.88	3.87	3.52	6.09	7.92
24	Global Trust Bank Ltd.	1.52	5.70	13.52	25.84	0.87	3.75	9.23	19.77
25	HDFC Bank Ltd.	3.32	2.81	3.18	2.22	1.10	0.45	0.50	0.37
26	ICICI Bank Ltd.	2.54	5.42	10.23	8.72	1.53	2.19	5.48	5.21
27	IDBI Bank Ltd.	2.26	6.84	3.89	2.62	1.96	5.24	2.21	1.20
28	IndusInd Bank Ltd.	6.97	6.13	7.41	4.94	5.98	5.25	6.59	4.25
29	Kotak Mahindra Bank Ltd.	—	—	—	1.20	—	—	—	0.11
30	UTI Bank Ltd.	5.47	4.64	5.18	3.16	4.71	3.76	3.46	2.26
	Private Sector Banks	**8.17**	**8.37**	**9.64**	**8.08**	**5.41**	**5.44**	**5.73**	**4.95**

Source :
1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(E): Non-Performing Assets as percentage of Total Assets - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets				Net NPAs/Total Assets			
		1999-2000	**2000-01**	**2001-02**	**2002-03**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
1	2	3	4	5	6	7	8	9	10
1	ABN-AMRO Bank N.V.	0.53	1.45	2.11	1.86	0.16	0.62	0.81	0.89
2	Abu Dhabi Commercial Bank Ltd.	2.99	1.17	3.28	2.75	0.75	0.27	2.18	1.39
3	American Express Bank Ltd.	2.41	4.59	6.98	8.19	1.41	2.24	3.35	3.26
4	Antwerp Diamond Bank N.V.	-	-	-	0.00	-	-	-	0.00
5	Arab Bangladesh Bank Ltd.	1.01	0.96	1.01	0.84	0.58	0.49	0.35	0.28
6	Bank Internasional Indonesia	24.94	33.75	40.44	33.19	7.63	6.42	6.19	3.25
7	Bank Muscat S.A.O.G.	0.42	0.54	1.39	6.26	0.35	0.34	0.59	4.09
8	Bank of America NA	1.51	1.33	1.63	0.70	1.21	0.45	0.46	0.04
9	Bank of Bahrain and Kuwait B.S.C.	7.90	7.44	5.80	7.28	3.52	5.91	4.79	5.75
10	Bank of Ceylon	16.93	26.79	19.98	19.76	14.51	20.01	13.40	12.29
11	Bank of Nova Scotia	1.87	1.72	2.34	7.08	0.79	1.34	1.76	5.41
12	Bank of Tokyo-Mitsubishi Ltd.	4.78	2.94	0.00	0.12	1.10	0.00	0.00	0.03
13	Barclays Bank PLC	4.52	0.00	0.42	0.55	0.00	0.00	0.31	0.00
14	BNP Paribas	0.75	1.30	1.59	3.31	0.02	0.25	0.67	1.97
15	Chinatrust Commercial Bank	2.55	2.79	1.25	0.38	2.19	2.13	0.00	0.00
16	Chohung Bank	0.48	0.54	0.46	0.48	0.33	0.38	0.26	0.24
17	Citibank N.A.	0.85	0.65	0.50	0.98	0.49	0.34	0.21	0.58
18	Credit Agricole Indosuez	22.64	15.19	10.51	12.55	1.59	0.46	0.11	0.12
19	Credit Lyonnais	3.03	3.64	4.12	3.20	1.61	1.76	2.14	1.64
20	Deutsche Bank AG	4.90	2.74	1.26	0.70	2.02	0.47	0.13	0.00
21	Development Bank of Singapore Ltd.	0.00	0.00	0.07	7.48	0.00	0.00	0.00	5.92
22	HSBC Ltd.	3.48	2.76	2.33	2.08	0.35	0.38	0.93	0.40
23	ING Bank N.V.	11.58	9.12	4.82	11.80	4.50	0.86	3.62	0.00
24	JPMorgan Chase Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	Krung Thai Bank Public Co. Ltd.	0.00	0.00	8.62	0.00	0.00	0.00	7.76	0.00
26	Mashreqbank psc	18.68	12.67	3.81	4.59	7.17	2.92	0.00	0.00
27	Mizuho Corporate Bank Ltd.	8.97	9.29	9.44	8.12	6.23	2.00	3.08	0.46
28	Oman International Bank								

	S.A.O.G.	38.94	45.09	25.14	30.34	11.14	7.17	3.04	2.05
29	Oversea-Chinese Banking Corporation Ltd.	7.07	7.70	8.26	8.89	4.79	3.75	7.29	7.84
30	Societe Generale	5.67	4.23	1.92	2.50	3.01	2.07	0.14	0.00
31	Sonali Bank	0.23	0.33	0.79	1.13	0.23	0.33	0.00	0.38
32	Standard Chartered Bank	3.98	3.42	1.59	1.46	0.96	0.64	0.18	0.14
33	State Bank of Mauritius Ltd.	5.65	9.52	9.19	11.41	5.09	8.24	7.06	8.80
34	Sumitomo Mitsui Banking Corporation	12.17	12.35	24.89	37.55	11.10	4.04	9.38	9.74
35	Toronto-Domonion Bank Ltd.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
36	UFJ Bank Ltd.	16.04	10.91	13.51	5.39	12.24	5.83	6.88	4.15
	Foreign Banks	**3.16**	**3.04**	**2.41**	**2.43**	**1.03**	**0.77**	**0.81**	**0.79**

Source :
1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.19(F): Non-Performing Assets as percentage of Advances - Foreign Banks

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances				Net NPAs/Net Advances			
		1999-2000	2000-01	2001-02	2002-03	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8	9	10
1	ABN-AMRO Bank N.V.	1.00	2.84	3.43	3.15	0.31	1.22	1.34	1.53
2	Abu Dhabi Commercial Bank Ltd.	7.92	7.80	18.89	17.53	2.12	1.92	13.43	9.67
3	American Express Bank Ltd.	7.14	11.92	14.56	19.29	4.32	6.05	7.56	8.69
4	Antwerp Diamond Bank N.V.	—	—	—	0.00	—	—	—	0.00
5	Arab Bangladesh Bank Ltd.	10.08	7.72	3.91	4.49	5.78	4.09	1.35	1.50
6	Bank Internasional Indonesia	75.70	100.00	91.23	64.62	48.85	50.75	61.40	15.18
7	Bank Muscat S.A.O.G.	—	1.26	2.56	10.51	—	0.80	1.10	7.12
8	Bank of America NA	2.33	2.03	2.68	1.03	1.88	0.68	0.80	0.05
9	Bank of Bahrain and Kuwait B.S.C.	15.76	13.26	13.23	13.77	7.72	11.51	11.40	11.26
10	Bank of Ceylon	27.92	39.09	31.87	36.08	25.86	34.15	23.88	25.98
11	Bank of Nova Scotia	2.69	2.61	3.58	11.02	1.16	2.04	2.72	8.64
12	Bank of Tokyo-Mitsubishi Ltd.	9.88	5.15	0.00	0.30	2.46	0.01	0.00	0.09
13	Barclays Bank PLC	23.40	0.00	43.58	64.01	Nil	0.00	36.06	0.00
14	BNP Paribas	2.47	3.21	3.60	6.17	0.08	0.64	1.54	3.77
15	Chinatrust Commercial Bank	5.58	4.86	2.60	0.65	4.83	3.75	0.00	0.00
16	Chohung Bank	2.08	1.31	0.84	0.98	1.45	0.91	0.47	0.48
17	Citibank N.A.	1.81	1.35	0.93	1.94	1.05	0.71	0.40	1.17
18	Credit Agricole Indosuez	48.12	28.68	25.21	34.89	6.13	1.21	0.36	0.51
19	Credit Lyonnais	7.38	6.89	7.09	6.70	4.07	3.47	3.84	3.59
20	Deutsche Bank AG	12.02	6.71	3.52	2.49	5.33	1.23	0.38	0.00
21	Development Bank of Singapore Ltd.	Nil	0.00	0.16	12.65	Nil	0.00	0.00	10.37
22	HSBC Ltd.	9.39	6.64	5.51	5.09	1.04	0.96	2.27	1.03
23	ING Bank N.V.	28.24	40.02	32.79	44.13	13.26	5.94	26.82	0.00
24	JPMorgan Chase Bank	Nil	0.00	0.00	0.00	Nil	0.00	0.00	0.00
25	Krung Thai Bank Public Co. Ltd.	Nil	0.00	37.82	0.00	Nil	0.00	35.43	0.00

26	Mashreqbank psc	40.17	40.18	17.87	31.32	20.48	13.40	0.00	0.00
27	Mizuho Corporate Bank Ltd.	14.17	13.47	13.26	11.99	10.28	3.24	4.75	0.76
28	Oman International Bank S.A.O.G.	64.03	78.79	85.46	91.50	33.79	37.12	41.53	42.13
29	Oversea-Chinese Banking Corporation Ltd.	18.81	31.71	87.37	73.70	12.74	18.45	100.00	100.00
30	Societe Generale	15.14	13.80	6.71	13.89	8.66	7.27	0.52	0.00
31	Sonali Bank	3.43	4.17	2.95	6.49	3.55	4.35	0.00	2.26
32	Standard Chartered Bank	7.94	7.59	3.44	3.17	2.04	1.53	0.40	0.31
33	State Bank of Mauritius Ltd.	8.63	18.39	17.46	17.67	8.06	16.18	14.02	14.20
34	Sumitomo Mitsui Banking Corporation	17.60	55.79	37.63	49.40	16.34	19.12	18.52	20.21
35	Toronto-Domonion Bank Ltd.	0.00	0.00	0.00	0.00	Nil	0.00	0.00	0.00
36	UFJ Bank Ltd.	21.75	16.60	22.20	10.87	17.67	9.61	12.69	8.60
	Foreign Banks	**6.99**	**6.84**	**5.38**	**5.22**	**2.41**	**1.82**	**1.89**	**1.76**

Source :
1. Balance sheets of respective banks.
2. Returns received from respective banks.

Appendix Table III.20(A): Sector-wise Non-performing Assets of Public Sector Banks

(As at end-March 2003)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Agriculture		Small Scale Industries		Others	
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8
	Nationalised Bank	**4,733.83**	**13.20**	**7,096.73**	**19.80**	**5,054.96**	**14.10**
1	Allahabad Bank	229.42	12.46	268.72	14.59	274.83	14.92
2	Andhra Bank	93.93	16.18	127.94	22.03	90.89	15.65
3	Bank of Baroda	591.64	15.13	736.36	18.83	345.73	8.84
4	Bank of India	492.20	14.08	639.19	18.29	366.81	10.50
5	Bank of Maharashtra	200.12	20.90	208.23	21.75	165.93	17.33
6	Canara Bank	372.20	15.55	579.23	24.20	348.91	14.58
7	Central Bank of India	441.10	13.60	746.75	23.02	533.19	16.44
8	Corporation Bank	84.37	12.84	81.44	12.39	105.56	16.06
9	Dena Bank	141.30	8.74	317.72	19.65	275.01	17.01
10	Indian Bank	183.38	11.87	368.16	23.83	203.94	13.20
11	Indian Overseas Bank	188.72	10.72	354.73	20.16	145.93	8.29
12	Oriental Bank of Commerce	123.52	10.78	277.03	24.17	99.82	8.71
13	Punjab & Sind Bank	123.73	9.92	182.76	14.65	268.65	21.53
14	Punjab National Bank	512.23	10.29	929.91	18.67	597.77	12.00
15	Syndicate Bank	220.22	15.55	278.64	19.67	207.13	14.63
16	UCO Bank	172.86	14.33	196.26	16.27	227.14	18.83
17	Union Bank of India	294.97	12.35	538.11	22.54	360.00	15.08
18	United Bank of India	184.00	19.19	188.00	19.60	258.00	26.90
19	Vijaya Bank	83.92	16.60	77.55	15.34	179.72	35.55
	State Bank Group	**2,973.52**	**17.53**	**3,064.80**	**18.07**	**2,014.52**	**11.88**
22	State Bank of Bikaner & Jaipur	93.33	16.08	136.96	23.60	98.27	16.93
20	State Bank of Hyderabad	123.89	16.75	144.81	19.57	109.26	14.77
21	State Bank of India	2,369.39	17.87	2,302.57	17.37	1,499.27	11.31
23	State Bank of Indore	68.53	23.21	52.03	17.62	56.66	19.19

24	State Bank of Mysore	98.19	17.47	101.95	18.14	70.64	12.57
25	State Bank of Patiala	66.59	12.47	100.91	18.90	53.72	10.06
26	State Bank of Saurashtra	72.32	20.41	113.93	32.15	38.07	10.74
27	State Bank of Travancore	81.28	12.79	111.64	17.57	88.63	13.95
	Public Sector Banks	**7,707.35**	**14.60**	**10,161.53**	**19.24**	**7,069.48**	**13.39**

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	
1	2	9 (3+5+7)	10	11	12	13	14	15 (9+11+13)
	Nationalised Bank	**16,885.52**	**47.10**	**561.33**	**1.57**	**18,401.97**	**51.33**	**35,848.82**
1	Allahabad Bank	772.97	41.98	7.60	0.41	1,060.93	57.61	1,841.50
2	Andhra Bank	312.76	53.86	—	—	267.94	46.14	580.70
3	Bank of Baroda	1,673.73	42.81	0.05	0.00	2,236.18	57.19	3,909.96
4	Bank of India	1,498.20	42.87	23.51	0.67	1,973.22	56.46	3,494.93
5	Bank of Maharashtra	574.28	59.97	—	—	383.26	40.03	957.54
6	Canara Bank	1,300.34	54.33	11.12	0.46	1,081.89	45.20	2,393.35
7	Central Bank of India	1,721.04	53.06	123.00	3.79	1,399.41	43.15	3,243.45
8	Corporation Bank	271.37	41.28	20.79	3.16	365.18	55.55	657.34
9	Dena Bank	734.03	45.41	3.02	0.19	879.54	54.41	1,616.59
10	Indian Bank	755.48	48.90	3.21	0.21	786.26	50.89	1,544.95
11	Indian Overseas Bank	689.38	39.18	104.26	5.92	966.05	54.90	1,759.69
12	Oriental Bank of Commerce	500.37	43.65	5.11	0.45	640.78	55.90	1,146.26
13	Punjab & Sind Bank	575.14	46.09	20.49	1.64	652.26	52.27	1,247.89
14	Punjab National Bank	2,039.91	40.96	35.72	0.72	2,904.43	58.32	4,980.06
15	Syndicate Bank	705.99	49.85	136.79	9.66	573.44	40.49	1,416.22
16	UCO Bank	596.26	49.43	17.12	1.42	592.78	49.15	1,206.16
17	Union Bank of India	1,193.08	49.97	1.19	0.05	1,193.34	49.98	2,387.61
18	United Bank of India	630.00	65.69	48.19	5.02	280.89	29.29	959.08
19	Vijaya Bank	341.19	67.49	0.16	0.03	164.19	32.48	505.54
	State Bank Group	**8,052.84**	**47.49**	**525.82**	**3.10**	**8,379.44**	**49.41**	**16,958.10**
22	State Bank of Bikaner & Jaipur	328.56	56.62	26.68	4.60	225.05	38.78	580.29
20	State Bank of Hyderabad	377.96	51.09	43.95	5.94	317.93	42.97	739.84
21	State Bank of India	6,171.23	46.55	381.20	2.88	6,704.84	50.57	13,257.27
23	State Bank of Indore	177.22	60.02	—	—	118.03	39.98	295.25
24	State Bank of Mysore	270.78	48.18	12.65	2.25	278.57	49.57	562.00
25	State Bank of Patiala	221.22	41.44	22.12	4.14	290.51	54.42	533.85
26	State Bank of Saurashtra	224.32	63.31	20.15	5.69	109.87	31.01	354.34
27	State Bank of Travancore	281.55	44.32	19.07	3.00	334.64	52.68	635.26
	Public Sector Banks	**24,938.36**	**47.23**	**1,087.15**	**2.06**	**26,781.41**	**50.72**	**52,806.92**

Note : Data is based on domestic operations of respective banks.
Source: Based on off-site returns.

Appendix Table III.20(B): Sector-wise Non-Performing Assets of Private Sector Banks

(As at end-March 2003)

(Amount in Rs. crore)

Sr.	Name of the Bank	Agriculture	Small Scale Industries	Others

No.		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8
	Old Private Sector Banks	**299.97**	**6.47**	**846.87**	**18.27**	**615.06**	**13.27**
1	Bank of Rajasthan Ltd.	17.75	6.67	19.28	7.25	29.80	11.20
2	Bharat Overseas Bank Ltd.	6.22	7.77	17.12	21.39	4.06	5.07
3	Catholic Syrian Bank Ltd.	5.23	2.59	44.35	21.92	47.40	23.43
4	City Union Bank Ltd.	4.95	2.87	47.43	27.51	12.61	7.31
5	Development Credit Bank Ltd	2.60	1.00	85.93	33.09	24.54	9.45
6	Dhanalakshmi Bank Ltd.	1.63	1.10	13.62	9.19	27.68	18.68
7	Federal Bank Ltd.	51.18	9.69	82.47	15.62	98.86	18.72
8	Ganesh Bank of Kurundwad Ltd.	1.72	8.90	2.60	13.45	2.65	13.71
9	ING Vysya Bank Ltd.	60.71	29.93	22.79	11.23	68.37	33.70
10	Jammu & Kashmir Bank Ltd.	14.73	5.82	54.42	21.49	51.35	20.28
11	Karnataka Bank Ltd.	30.53	5.67	94.15	17.50	30.49	5.67
12	Karur Vysya Bank Ltd.	5.66	2.22	63.79	24.97	13.72	5.37
13	Lakshmi Vilas Bank Ltd.	11.32	5.36	56.83	26.92	22.97	10.88
14	Lord Krishna Bank Ltd.	1.87	2.22	7.51	8.90	2.08	2.47
15	Nainital Bank Ltd.	1.64	14.96	2.10	19.16	4.32	39.42
16	Ratnakar Bank Ltd.	2.65	6.76	8.53	21.74	8.08	20.60
17	SBI Commercial & International Bank Ltd	—	—	3.61	4.15	—	—
18	Sangli Bank Ltd.	18.15	24.20	14.53	19.37	6.40	8.53
19	South Indian Bank Ltd.	18.05	4.35	66.58	16.06	37.18	8.97
20	Tamilnad Mercantile Bank Ltd.	14.62	4.29	87.59	25.72	76.44	22.45
21	United Western Bank Ltd.	28.76	6.42	51.64	11.53	46.06	10.29
	New Private Sector Banks	**236.81**	**3.28**	**414.99**	**5.74**	**31.70**	**0.44**
22	Bank of Punjab Ltd.	1.16	0.68	13.67	8.06	2.10	1.24
23	Centurion Bank Ltd.	—	—	—	—	9.69	—
24	Global Trust Bank Ltd.	8.41	0.92	196.51	21.46	—	—
25	HDFC Bank Ltd.	1.66	0.63	29.65	11.30	—	—
26	ICICI Bank Ltd.	219.14	4.36	124.81	2.48	0.51	0.01
27	IDBI Bank Ltd.	—	—	3.96	3.44	8.13	7.06
28	IndusInd Bank Ltd.	1.04	0.39	37.15	13.95	4.95	1.86
29	Kotak Mahindra Bank Ltd.	—	—	—	—	5.89	35.74
30	UTI Bank Ltd.	5.40	2.36	9.24	4.04	0.43	0.19
	Private Sector Banks	**536.78**	**4.52**	**1,261.86**	**10.63**	**646.76**	**5.45**

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	
1	2	9 (3+5+7)	10	11	12	13	14	15 (9+11+13)
	Old Private Sector Banks	**1,761.90**	**38.00**	**8.40**	**0.18**	**2,865.75**	**61.81**	**4,636.05**
1	Bank of Rajasthan Ltd.	66.83	25.12	—	—	199.25	74.88	266.08
2	Bharat Overseas Bank Ltd.	27.40	34.23	—	—	52.65	65.77	80.05
3	Catholic Syrian Bank Ltd.	96.98	47.94	—	—	105.32	52.06	202.30
4	City Union Bank Ltd.	64.99	37.70	—	—	107.42	62.30	172.41
5	Development Credit Bank Ltd	113.07	43.54	—	—	146.64	56.46	259.71
6	Dhanalakshmi Bank Ltd.	42.93	28.98	—	—	105.23	71.02	148.16
7	Federal Bank Ltd.	232.51	44.04	8.27	1.57	287.21	54.40	527.99
8	Ganesh Bank of Kurundwad Ltd.	6.97	36.06	—	—	12.36	63.94	19.33

9	ING Vysya Bank Ltd.	151.87	74.86	0.13	0.06	50.87	25.08	202.87
10	Jammu & Kashmir Bank Ltd.	120.50	47.59	—	—	132.72	52.41	253.22
11	Karnataka Bank Ltd.	155.17	28.84	—	—	382.84	71.16	538.01
12	Karur Vysya Bank Ltd.	83.17	32.56	—	—	172.30	67.44	255.47
13	Lakshmi Vilas Bank Ltd.	91.12	43.16	—	—	120.00	56.84	211.12
14	Lord Krishna Bank Ltd.	11.46	13.58	—	—	72.90	86.42	84.36
15	Nainital Bank Ltd.	8.06	73.54	—	—	2.90	26.46	10.96
16	Ratnakar Bank Ltd.	19.26	49.10	—	—	19.97	50.90	39.23
17	SBI Commercial & International Bank Ltd	3.61	4.15	—	—	83.31	95.85	86.92
18	Sangli Bank Ltd.	39.08	52.10	—	—	35.93	47.90	75.01
19	South Indian Bank Ltd.	121.81	29.38	—	—	292.76	70.62	414.57
20	Tamilnad Mercantile Bank Ltd.	178.65	52.46	—	—	161.91	47.54	340.56
21	United Western Bank Ltd.	126.46	28.25	—	—	321.26	71.75	447.72
	New Private Sector Banks	**683.50**	**9.45**	**86.11**	**1.19**	**6,460.77**	**89.36**	**7,230.38**
22	Bank of Punjab Ltd.	16.93	9.98	—	—	152.68	90.02	169.61
23	Centurion Bank Ltd.	9.69	4.24	—	—	218.74	95.76	228.43
24	Global Trust Bank Ltd.	204.92	22.38	—	—	710.90	77.62	915.82
25	HDFC Bank Ltd.	31.31	11.94	—	—	230.97	88.06	262.28
26	ICICI Bank Ltd.	344.46	6.85	86.11	1.71	4,596.81	91.44	5,027.38
27	IDBI Bank Ltd.	12.09	10.50	—	—	103.08	89.50	115.17
28	IndusInd Bank Ltd.	43.14	16.20	—	—	223.14	83.80	266.28
29	Kotak Mahindra Bank Ltd.	5.89	35.74	—	—	10.59	64.26	16.48
30	UTI Bank Ltd.	15.07	6.58	—	—	213.86	93.42	228.93
	Private Sector Banks	**2,445.40**	**20.61**	**94.51**	**0.80**	**9,326.52**	**78.60**	**11,866.43**

Note: Data is based on domestic operations of respective banks.
Source: Based on off-site returns.

Appendix Table III.21(A): Capital Adequacy Ratio - Public Sector Banks

(Per cent)

Sr.No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
	Nationalised Banks					
1	Allahabad Bank	10.38	11.51	10.50	10.62	11.15
2	Andhra Bank	11.02	13.36	13.40	12.59	13.62
3	Bank of Baroda	13.30	12.10	12.80	11.32	12.65
4	Bank of India	10.55	10.57	12.23	10.68	12.02
5	Bank of Maharashtra	9.76	11.66	10.64	11.16	11.76
6	Canara Bank	10.96	9.64	9.84	11.88	12.50
7	Central Bank of India	11.88	11.18	10.02	9.58	10.51
8	Corporation Bank	13.20	12.80	13.30	17.90	18.50
9	Dena Bank	11.14	11.63	7.73	7.64	9.33

10	Indian Bank	Negative	Negative	Negative	1.70	10.85
11	Indian Overseas Bank	10.15	9.15	10.24	10.82	11.30
12	Oriental Bank of Commerce	14.10	12.72	11.81	10.99	14.04
13	Punjab & Sind Bank	10.94	11.57	11.42	10.70	10.43
14	Punjab National Bank	10.79	10.31	10.24	10.70	12.02
15	Syndicate Bank	9.57	11.45	11.72	12.12	11.03
16	UCO Bank	9.63	9.15	9.05	9.64	10.04
17	Union Bank of India	10.09	11.42	10.86	11.07	12.41
18	United Bank of India	9.60	9.60	10.40	12.02	15.17
19	Vijaya Bank	10.00	10.61	11.50	12.25	12.66
	State Bank Group					
20	State Bank of India	12.51	11.49	12.79	13.35	13.50
21	State Bank of Bikaner & Jaipur	12.26	12.35	12.39	13.42	13.08
22	State Bank of Hyderabad	10.65	10.86	12.28	14.03	14.91
23	State Bank of Indore	12.35	11.26	12.73	12.78	13.09
24	State Bank of Mysore	10.23	11.50	11.16	11.81	11.62
25	State Bank of Patiala	12.47	12.60	12.37	12.55	13.57
26	State Bank of Saurashtra	14.35	14.48	13.89	13.20	13.68
27	State Bank of Travancore	10.27	11.09	11.79	12.54	11.30

Source : Balance sheets of respective banks.

Appendix Table III.21(B): Capital Adequacy Ratio - Private Sector Banks

(Per cent)

Sr.No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
	Old Private Sector Banks					
1	Bank of Rajasthan Ltd.	0.83	5.73	10.57	12.07	11.29
2	Bharat Overseas Bank Ltd.	13.70	12.68	14.43	15.09	13.87
3	Catholic Syrian Bank Ltd.	6.06	5.94	6.08	9.57	9.66
4	City Union Bank Ltd.	14.30	13.33	13.59	13.97	13.95

5	Development Credit Bank Ltd.	16.90	11.34	11.28	11.49	10.08
6	Dhanalakshmi Bank Ltd.	10.06	10.02	9.69	11.23	10.45
7	Federal Bank Ltd.	10.32	11.33	10.29	10.63	11.23
8	Ganesh Bank of Kurundwad Ltd.	8.26	9.14	9.11	10.08	10.44
9	ING Vysya Bank Ltd.	10.63	12.24	12.05	11.57	9.81
10	Jammu & Kashmir Bank Ltd.	24.48	18.82	17.44	15.46	16.48
11	Karnataka Bank Ltd.	10.85	11.04	11.37	12.96	13.44
12	Karur Vysya Bank Ltd.	14.53	15.16	15.56	16.90	17.01
13	Lakshmi Vilas Bank Ltd.	9.64	10.45	10.21	11.54	11.35
14	Lord Krishna Bank Ltd.	11.85	11.25	12.90	16.50	12.82
15	Nainital Bank Ltd.	13.81	15.11	15.81	14.88	20.93
16	Ratnakar Bank Ltd.	9.72	11.56	10.00	13.60	14.05
17	Sangli Bank Ltd.	11.58	12.13	11.47	11.64	14.94
18	SBI Commercial & International Bank Ltd.	28.90	24.32	19.85	22.10	21.19
19	South Indian Bank Ltd.	10.40	10.41	11.17	11.20	10.75
20	Tamilnad Mercantile Bank Ltd.	18.40	18.02	17.59	18.02	18.54
21	United Western Bank Ltd.	11.64	11.94	9.59	9.79	10.17
	New Private Sector Banks					
22	Bank of Punjab Ltd.	14.64	9.81	11.02	12.82	13.59
23	Centurion Bank Ltd.	8.45	9.31	9.61	4.16	1.95
24	Global Trust Bank Ltd.	11.97	13.68	12.71	11.21	0.00
25	HDFC Bank Ltd.	11.86	12.19	11.09	13.93	11.12
26	ICICI Bank Ltd.	11.06	19.64	11.57	11.44	11.10
27	IDBI Bank Ltd.	11.26	11.80	11.72	9.59	9.56
28	IndusInd Bank Ltd.	15.16	13.24	15.00	12.51	12.13
29	Kotak Mahindra Bank Ltd.	—	—	—	—	25.97
30	UTI Bank Ltd.	11.64	11.37	9.00	10.65	10.90

Source : Balance sheets of respective banks.

Appendix Table III.21(C): Capital Adequacy Ratio - Foreign Banks

(Per cent)

Sr.No.	Name of the Bank	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
	Foreign Banks					
1	ABN-AMRO Bank N.V.	9.27	10.09	11.42	13.17	12.57
2	Abu Dhabi Commercial Bank Ltd.	10.01	10.61	10.05	10.42	10.14
3	American Express Bank Ltd.	9.25	10.09	9.59	10.71	10.93
4	Antwerp Diamond Bank N.V.	—	—	—	—	92.69
5	Arab Bangladesh Bank Ltd.	124.00	123.00	96.34	138.51	105.64
6	Bank Internasional Indonesia	57.26	59.92	103.78	123.07	103.99
7	Bank Muscat S.A.O.G.	212.45	70.06	34.55	28.33	20.10
8	Bank of America NA	9.26	12.93	13.03	21.07	21.08
9	Bank of Bahrain and Kuwait B.S.C.	13.38	12.30	11.83	17.03	17.19
10	Bank of Ceylon	37.05	29.07	36.49	30.94	32.29
11	Bank of Nova Scotia	9.06	9.67	9.97	10.12	13.38
12	Bank of Tokyo-Mitsubishi Ltd.	9.92	17.62	15.51	15.36	30.40
13	Barclays Bank PLC	12.90	17.75	26.97	63.56	45.68
14	BNP Paribas	9.09	9.55	9.92	9.66	10.74
15	Chinatrust Commercial Bank	28.25	25.56	28.27	40.11	36.96
16	Chohung Bank	42.00	38.00	35.00	27.65	37.17
17	Citibank N.A.	10.00	10.62	11.24	11.04	11.30
18	Credit Agricole Indosuez	8.56	11.82	11.60	11.23	20.04
19	Credit Lyonnais	9.90	9.70	10.60	10.30	20.90
20	Deutsche Bank AG	9.50	10.68	12.67	14.55	17.35
21	Development Bank of Singapore Ltd.	23.26	18.14	15.93	13.31	15.98
22	HSBC Ltd.	9.31	10.30	12.37	10.92	18.10
23	ING Bank N.V.	12.79	21.15	15.00	12.47	20.72
24	JPMorgan Chase Bank	12.53	45.86	43.79	85.88	72.95
25	Krung Thai Bank Public Co. Ltd.	235.93	197.74	148.99	167.65	119.88
26	Mashreqbank psc	12.13	9.04	10.54	20.54	39.38
27	Mizuho Corporate Bank Ltd.	23.62	25.29	18.38	11.14	18.50
28	Oman International Bank S.A.O.G.	9.07	11.08	14.21	18.86	14.62
29	Oversea-Chinese Banking Corporation Ltd.	94.00	98.34	168.11	192.12	385.49
30	Societe Generale	12.50	13.95	13.93	12.85	32.63
31	Sonali Bank	38.39	24.91	88.14	113.64	46.86
32	Standard Chartered Bank	8.30	9.50	9.60	9.28	10.56
33	State Bank of Mauritius Ltd.	46.78	35.23	30.78	46.78	31.74
34	Sumitomo Mitsui Banking Corporation	16.58	18.54	19.40	20.96	35.49
35	Toronto-Domonion Bank Ltd.	74.23	51.98	57.87	173.28	324.62
36	UFJ Bank Ltd.	31.97	36.17	34.91	29.44	67.68

Source : Balance sheets of respective banks.

Appendix Table III.22: Bank Group and Population Group-wise Distribution of Commercial Bank Branches in India

Bank Group	No. of Banks#	Number of Branches									
		As on June 30, 2002 @					As on June 30, 2003 @				
		Rural	Semi-urban	Urban	Metro-politan	Total	Rural	Semi-urban	Urban	Metro-politan	Total
1	2	3	4	5	6	7	8	9	10	11	12

1.State Bank of India	1	4,100	2,440	1,428	1,010	8,978	4,098	2,440	1,430	1,011	8,979
		(45.7)	(27.2)	(15.9)	(11.2)	(100.0)	(45.6)	(27.2)	(15.9)	(11.3)	(100.0)
2.Associates of SBI	7	1,410	1,561	823	692	4,486	1,412	1,575	829	704	4,520
		(31.4)	(34.8)	(18.3)	(15.4)	(100.0)	(31.2)	(34.8)	(18.3)	(15.6)	(100.0)
3.Nationalised Banks	19	13,733	6,906	6,489	5,485	32,613	13,683	6,920	6,533	5,507	32,643
		(42.1)	(21.2)	(19.9)	(16.8)	(100.0)	(41.9)	(21.2)	(20.0)	(16.9)	(100.0)
4.Indian Private Sector Banks +	32	1,139	1,773	1,354	1,168	5,434	1,138	1,810	1,452	1,224	5,624
		(21.0)	(32.6)	(24.9)	(21.5)	(100.0)	(20.2)	(32.2)	(25.8)	(21.8)	(100.0)
5.Foreign Banks in India	36	—	2	27	217	246	—	—	24	180	204
		(—)	(0.8)	(11.0)	(88.2)	(100.0)	(—)	(—)	(11.8)	(88.2)	(100.0)
6. Regional Rural Banks	196	12,049	2,053	366	18	14,486	12,050	2,078	376	18	14,522
		(83.2)	(14.2)	(2.5)	(0.1)	(100.0)	(83.0)	(14.3)	(2.6)	(0.1)	(100.0)
7.Non-Scheduled Commercial Banks (Local Area Banks)	4	3	7	6	—	16	5	7	6	4	22
		(18.8)	(43.8)	(37.5)	(—)	(100.0)	(22.7)	(31.8)	(27.3)	(18.2)	(100.0)
Total	**295**	**32,434**	**14,742**	**10,493**	**8,590**	**66,259**	**32,386**	**14,830**	**10,650**	**8,648**	**66,514**
		(49.0)	**(22.2)**	**(15.8)**	**(13.0)**	**(100.0)**	**(48.7)**	**(22.3)**	**(16.0)**	**(13.0)**	**(100.0)**

As on June 30, 2003.
@ Population group-wise classification of branches is based on 1991 Census.
— Negligible.
+ Though Benaras State Bank merged with Bank of Baroda and Nendugadi Bank Ltd. with Punjab National Bank w.e.f. June 20, 2002 and January 31, 2003 respectively, the same could not be effected in the system for want of details of the merged branches from the transferee banks. Further, Kotak Mahindra Bank Ltd. which was a Non-scheduled bank earlier, has been treated as a scheduled bank w.e.f. April 12, 2003.
Notes:
1.Figures in bracket indicate percentage to total in each group.
2.Number of branches exclude administrative offices.
3.Data for June 2002 are revised.

Appendix Table III.23: Region/State/Union Territory-wise Distribution of Commercial Bank Branches @

Sr. No.	Region/State/ Union Territory	Number of Branches as on June 30,		Number of branches opened during				Average population (in '000) per bank branch as at the end of June	
		2002	2003	July 2001 to June 2002	*of which:* at un-banked centres	July 2002 to June 2003	*of which:* at un-banked centres	2002	2003
1	2	3	4	5	6	7	8	9	10
1.	**NORTHERN REGION**	**10,709**	**10,809**	**148**	**1**	**120**	**6**	**12**	**13**
	Chandigarh	175	182	6	0	7	0	5	5
	Delhi	1,478	1,489	39	0	26	0	10	11

	Haryana	1,557	1,580	25	0	23	0	13	13
	Himachal Pradesh	782	784	3	0	3	0	9	9
	Jammu & Kashmir	828	835	10	0	8	0	13	13
	Punjab	2,573	2,603	42	0	31	6	9	9
	Rajasthan	3,316	3,336	23	1	22	0	17	17
2.	**NORTH-EASTERN REGION**	**1,862**	**1,863**	**2**	**0**	**7**	**0**	**22**	**22**
	Arunachal Pradesh	68	68	0	0	0	0	19	19
	Assam	1,212	1,212	1	0	6	0	22	22
	Manipur	77	77	0	0	0	0	35	36
	Meghalaya	180	180	1	0	0	0	14	15
	Mizoram	78	78	0	0	0	0	13	13
	Nagaland	70	70	0	0	0	0	26	26
	Tripura	177	178	0	0	1	0	23	23
3.	**EASTERN REGION**	**11,736**	**11,748**	**42**	**1**	**29**	**0**	**19**	**19**
	Andaman & Nicobar Islands	31	31	0	0	0	0	13	14
	Bihar	3,546	3,553	4	0	7	0	21	21
	Jharkhand	1,459	1,460	16	1	4	0	0 **	0 **
	Orissa	2,225	2,228	6	0	6	0	16	17
	Sikkim	48	48	1	0	0	0	12	13
	West Bengal	4,427	4,428	15	0	12	0	18	19
4.	**CENTRAL REGION**	**13,471**	**13,508**	**66**	**1**	**51**	**0**	**20**	**20**
	Chhattisgarh	1,035	1,037	5	0	4	0	0 **	0 **
	Madhya Pradesh	3,442	3,449	16	0	15	0	19	19
	Uttar Pradesh	8,148	8,169	37	1	24	0	20	20
	Uttaranchal	846	853	8	0	8	0	0 **	0 **
5.	**WESTERN REGION**	**10,323**	**10,347**	**89**	**1**	**70**	**0**	**14**	**14**
	Dadra & Nagar Haveli	11	12	0	0	1	0	18	17
	Daman & Diu	16	16	1	0	0	0	9	10
	Goa	328	329	5	0	1	0	5	5
	Gujarat	3,654	3,672	27	0	25	0	14	14
	Maharashtra	6,314	6,318	56	1	43	0	15	15
6.	**SOUTHERN REGION**	**18,158**	**18,239**	**201**	**8**	**141**	**3**	**13**	**13**
	Andhra Pradesh	5,213	5,248	57	2	44	3	15	15
	Karnataka	4,770	4,797	49	2	44	0	11	11
	Kerala	3,346	3,374	54	4	32	0	10	10
	Lakshadweep	9	9	0	0	0	0	8	9
	Pondicherry	82	84	1	0	2	0	14	14
	Tamil Nadu	4,738	4,727	40	0	19	0	13	13
	ALL INDIA	**66,259**	**66,514**	**548**	**12**	**418**	**9**	**16**	**16**

@ Including the branches of non-scheduled commercial banks (Local Area Banks).
** As the population data of Jharkhand, Chhattisgarh and Uttaranchal are not separately available and included in Bihar, Madhya Pradesh and Uttar Pradesh States respectively, average population per bank branch for Bihar, Madhya Pradesh and Uttar Pradesh include the number of bank branches in Jharkhand, Chhattisgarh and Uttaranchal respectively.
Notes:
1. Average population per bank branch is based on estimated mid-year population of respective years received from the office of Registrar General and Census Commissioner, Government of India.
2. Bank branches exclude administrative offices.
3. Data for June 2002 are revised.

Appendix Table III.24: Advances to the Priority Sectors by Public Sector Banks
(As on the last reporting Friday)

	Sector	No. of Accounts (in lakh)				
		June 1969	March 2000	March 2001	March 2002@	March 2003@
	1	2	3	4	5	6
I.	Agriculture	1.7	160	188	161	168
	i) Direct	1.6	157	185	157	164
	ii) Indirect	0.1	3	3	4	4
II.	Small-scale industries	0.5	22	20	22	17
III.	Other priority sector advances	0.4	81	80	83	79
IV.	Total priority sector advances #	2.6	265	288	269	268
V.	Net Bank Credit	—	—	—	—	—

	Sector	Amount Outstanding (Rs. crore)				
		June 1969	March 2000	March 2001	March 2002@	March 2003@
	1	7	8	9	10	11
I.	Agriculture	162	45,296	53,571	63,082	73,507
		(5.4)	(14.3)	(15.7)	(15.9)	(15.3)
	i) Direct	40	34,247	38,137	44,908	51,799
		(1.3)	(10.8)	(11.2)	(11.3)	(10.8)
	ii) Indirect	122	11,049	15,434	18,174	21,708
		(4.0)	(3.5)	(4.5)	(4.6)	(4.5)
II.	Small-scale industries	257	46,045	48,400	49,743	52,988
		(8.5)	(14.6)	(14.2)	(12.5)	(11.1)
III.	Other priority sector advances	22	30,816	40,791	53,712	71,448
		(0.7)	(9.7)	(12.0)	(13.5)	(15.0)
IV.	Total priority sector advances #	441	1,27,478	1,49,116	1,71,185	2,03,095
		(14.6)	(40.3)	(43.7)	(43.1)	(42.5)
V.	Net Bank Credit	3,016	3,16,427	3,41,291	3,96,954	4,77,899

@ Data are provisional.
# Inclusive of advances to setting up industrial estates, funds provided to RRBs by sponsor banks, loan to software industries, food and agro processing sector, self-help group and venture capital.
Note : Figures in brackets represent percentages to net bank credit.

Appendix Table III.25(A): Advances of Public Sector Banks to Agriculture and Weaker Section

(As on the last reporting Friday of March 2003)

(Amount in Rs crore)

Sr. No.	Name of the bank	Direct agricultural advances		Indirect agricultural advances		Total agricultural advances		Weaker Section		Total Priority Sector advances	
		Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent

			to NBC		to NBC		to NBC		to NBC		to NBC
1	2	3	4	5	6	7	8	9	10	11	12
1	Allahabad Bank	1,497.51	11.82	640.15	5.05	2,137.66	16.32	740.15	5.84	5,297.62	41.82
2	Andhra Bank	1,448.19	13.23	180.00	1.64	1,628.19	14.87	1,108.50	10.13	4,322.40	39.49
3	Bank of Baroda	2,955.11	12.12	1,114.22	4.58	4,069.33	16.62	1,923.60	7.89	11,274.58	46.24
4	Bank of India	3,296.72	11.38	875.00	3.02	4,171.72	14.41	1,700.00	5.87	12,546.00	43.32
5	Bank of Maharashtra	961.69	10.28	325.72	3.48	1,287.41	13.76	494.61	5.29	3,907.55	41.75
6	Canara Bank	3,922.00	11.18	1,486.00	4.24	5,408.00	15.42	2,145.00	6.12	14,604.00	41.64
7	Central Bank of India	1,958.03	8.62	1,839.23	8.10	3,797.26	13.12	1,689.40	7.44	10,368.96	45.67
8	Corporation Bank	499.46	5.27	425.23	4.49	924.69	9.75	187.07	1.97	4,045.97	42.68
9	Dena Bank	616.10	7.41	859.11	10.34	1,475.21	11.91	293.90	3.54	3,837.60	46.18
10	Indian Bank	1,475.26	14.37	375.04	3.65	1,850.30	18.03	1,028.79	10.02	4,910.28	47.84
11	Indian Overseas Bank	1,781.47	12.18	585.97	4.01	2,367.44	16.18	1,582.85	10.82	6,184.34	42.27
12	Oriental Bank of Commerce	1,162.59	7.30	1,069.75	6.71	2,232.34	11.80	518.35	3.25	6,821.99	42.82
13	Punjab National Bank	4,730.18	11.83	2,329.34	5.83	7,059.52	16.33	4,059.67	10.16	18,482.42	46.24
14	Punjab & Sind Bank	696.21	11.65	440.91	7.38	1,137.12	16.15	317.50	5.31	2,886.96	48.30
15	Syndicate Bank	1,928.47	14.72	247.08	1.89	2,175.55	16.61	1,314.76	10.04	5,651.86	43.15
16	Union Bank of India	2,444.03	10.51	1,244.07	5.35	3,688.10	15.01	1,315.74	5.66	11,193.62	48.14
17	United Bank of India	650.00	8.31	476.00	6.09	1,126.00	12.80	462.00	5.91	2,794.00	35.73
18	UCO Bank	1,224.00	8.24	818.00	5.51	2,042.00	12.74	684.00	4.61	6,332.00	42.64
19	Vijaya Bank	702.79	9.94	444.24	6.28	1,147.03	14.44	393.90	5.57	3,085.66	43.65
	Nationalised Banks	**33,949.81**	**10.79**	**15,775.06**	**5.01**	**49,724.87**	**15.29**	**21,959.79**	**6.98**	**1,38,547.81**	**44.02**
20	State Bank of India	11,354.28	9.87	4,516.48	3.93	15,870.76	13.80	6,644.02	5.78	43,709.23	38.01
21	State Bank of Bikaner & Jaipur	985.14	14.65	195.93	2.91	1,181.07	17.57	531.96	7.91	2,913.02	43.33
22	State Bank of Hyderabad	1,372.63	14.09	148.77	1.53	1,521.40	15.62	616.41	6.33	3,941.68	40.46
23	State Bank of Indore	781.92	15.09	170.57	3.29	952.49	18.38	391.19	7.55	2,459.18	47.45
24	State Bank of Mysore	657.35	14.07	125.56	2.69	782.91	16.76	506.87	10.85	2,017.57	43.19
25	State Bank of Patiala	1,337.00	13.53	448.00	4.53	1,785.00	18.03	929.00	9.40	4,127.00	41.76
26	State Bank of Saurashtra	751.68	16.55	98.78	2.17	850.46	18.72	258.78	5.70	1,991.67	43.85
27	State Bank of Travancore	609.39	8.23	228.71	3.09	838.10	11.32	465.73	6.29	3,387.76	45.74
	State Bank Group	**17,849.39**	**10.94**	**5,932.80**	**3.64**	**23,782.19**	**14.58**	**10,343.96**	**6.34**	**64,547.11**	**39.56**
	Public Sector Banks	**51,799.20**	**10.84**	**21,707.86**	**4.54**	**73,507.06**	**15.34**	**32,303.75**	**6.76**	**2,03,094.92**	**42.50**

Notes:
1. Data are provisional.
2. NBC - net bank credit.
3. Indirect Agricultural advance taken to the extent of 4.5 per cent.
Source : Data furnished by respective banks.

Appendix Table: III.25(B): Non-Performing Assets in Advances to Weaker Section under Priority Sector - Public Sector Banks

(As at end-March 2003)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Section		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
1	Allahabad Bank	1,026.47	269.31	26.24
2	Andhra Bank	1,109.26	57.59	5.19
3	Bank of Baroda	1,822.20	374.82	20.57
4	Bank of India	1,287.11	318.87	24.77
5	Bank of Maharashtra	481.45	149.20	30.99
6	Canara Bank	2,145.00	413.10	19.26
7	Central Bank of India	1,200.28	336.07	28.00
8	Corporation Bank	187.07	35.12	18.77
9	Dena Bank	290.90	101.82	35.00
10	Indian Bank	739.34	183.01	24.75
11	Indian Overseas Bank	1,582.85	70.15	4.43
12	Oriental Bank of Commerce	307.34	41.38	13.46
13	Punjab & Sind Bank	316.10	37.93	12.00

14	Punjab National Bank	3,939.02	517.58	13.14
15	Syndicate Bank	1,314.75	244.23	18.58
16	UCO Bank	684.17	187.61	27.42
17	Union Bank of India	973.86	217.25	22.31
18	United Bank of India	462.00	105.00	22.73
19	Vijaya Bank	323.70	59.34	18.33
20	State Bank of Bikaner & Jaipur	529.21	154.51	29.20
21	State Bank of Hyderabad	775.58	104.53	13.48
22	State Bank of India	5,668.30	1,394.81	24.61
23	State Bank of Indore	391.19	41.83	10.69
24	State Bank of Mysore	510.26	69.22	13.57
25	State Bank of Patiala	997.31	185.31	18.58
26	State Bank of Saurashtra	374.10	53.80	14.38
27	State Bank of Travancore	215.87	25.84	11.97
	Total	**29,654.69**	**5,749.23**	**19.39**

Source: Data furnished by respective banks.

Appendix Table III.26 : Advances to the Priority Sectors by Private Sector Banks

(As on the last reporting Friday)

(Amount in Rs. crore)

Sector	**March 2001**		**March 2002@**		**March 2003@**	
	Amount	**Percentage to Net bank credit**	**Amount**	**Percentage to Net bank credit**	**Amount**	**Percentage to Net bank credit**
1	2	3	4	5	6	7
Priority Sector Advances #	**21,567**	**36.7**	**25,709**	**40.9**	**36,705**	**44.4**
Of which :						
I. Agriculture	5,634	9.6	8,022	8.5	11,873	10.8
II. Small-scale industries	8,096	13.8	8,613	13.7	6,857	8.3
III. Other priority sectors	7,219	12.3	9,074	14.4	17,602	21.3

@ Data are provisional.

Inclusive of advances to setting up industrial estates, funds provided to RRBs by sponsor banks, loan to software industries, food and agro-processing sector, self-help groups and venture capital.

Note: Indirect agriculture is reckoned up to 4.5 per cent of Net Bank Credit for calculation of percentage of Agriculture.

Appendix Table III.27(A): Advances of Private Sector Banks to Agriculture and Weaker Section

(As on the last reporting Friday of March 2003)

(Amount in Rs crore)

Sr. No.	**Name of the bank**	**Direct agricultural advances**		**Indirect agricultural advances**		**Total agricultural advances**		**Weaker Section**		**Total Priority Sector advances**	
		Amount	**Per cent to NBC**	**Amount**	**Per cent to NBC**	**Amount**	**Per cent to NBC**	**Amount**	**Per cent to NBC**	**Amount**	**Per cent to NBC**
1	2	3	4	5	6	7	8	9	10	11	12
1	Bank of Rajasthan Ltd.	81.80	3.90	179.97	8.58	261.77	8.40	51.50	2.46	772.94	36.87
2	Bharat Overseas Bank Ltd.	20.88	3.24	44.71	6.94	65.59	7.74	8.86	1.37	262.17	40.67
3	Catholic Syrian Bank Ltd.	25.00	2.13	17.53	1.49	42.53	3.62	10.95	0.93	385.60	32.84
4	City Union Bank Ltd.	33.36	2.74	66.75	5.47	100.11	7.24	10.00	0.82	501.52	41.13
5	Development Credit Bank Ltd.	67.24	2.67	169.82	6.73	237.06	7.17	1.18	0.05	1,010.68	40.06
6	Dhanalakshmi Bank Ltd.	35.52	3.79	43.05	4.59	78.57	8.29	19.64	2.09	379.66	40.49
7	Federal Bank Ltd.	336.21	7.45	9.48	0.21	345.69	7.66	196.61	4.36	1,962.19	43.48
8	Ganesh Bank of Kurundwad Ltd.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
9	ING Vysya Bank Ltd.	414.02	7.98	233.37	4.50	647.39	12.48	186.04	3.59	1,974.83	38.08
10	Jammu & Kashmir Bank Ltd.	124.89	2.09	346.52	5.81	471.41	6.59	215.85	3.62	2,052.58	34.40

11	Karnataka Bank Ltd.	328.08	8.91	138.81	3.77	466.89	12.68	74.91	2.04	1,493.90	40.59
12	Karur Vysya Bank Ltd.	180.38	5.92	244.03	8.00	424.41	10.42	131.22	4.30	1,224.09	40.15
13	Lakshmi Vilas Bank Ltd.	128.63	8.46	62.68	4.12	191.31	12.58	57.13	3.76	682.19	44.85
14	Lord Krishna Bank Ltd.	7.09	0.95	58.26	7.81	65.35	5.45	5.49	0.74	169.85	22.78
15	Nainital Bank Ltd.	18.94	10.57	8.06	4.50	27.00	15.06	9.15	5.10	100.51	56.07
16	Ratnakar Bank Ltd.	14.08	4.45	31.32	9.89	45.40	8.95	4.79	1.51	113.92	35.98
17	Sangli Bank Ltd.	63.07	11.94	52.42	9.92	115.49	16.44	26.84	5.08	214.18	40.55
18	SBI Commercial & International Bank Ltd.	10.92	8.94	61.71	50.54	72.63	13.44	0.00	0.00	81.36	66.63
19	South Indian Bank Ltd.	111.02	4.27	45.35	1.75	156.37	6.02	50.45	1.94	1,077.50	41.48
20	Tamilnad Mercantile Bank Ltd.	148.89	7.55	52.41	2.66	201.30	10.21	0.00	0.00	850.10	43.13
21	United Western Bank Ltd.	188.36	6.31	97.87	3.28	286.23	9.58	159.81	5.35	1,220.19	40.85
22	Bank of Punjab Ltd.	30.71	1.74	22.10	1.25	52.81	3.00	0.00	0.00	643.78	36.54
23	Centurion Bank Ltd.	5.94	0.49	249.96	20.48	255.90	4.99	0.05	0.00	578.03	47.36
24	Global Trust Bank Ltd.	23.50	0.82	232.96	8.11	256.46	5.32	2.93	0.10	835.89	29.09
25	HDFC Bank Ltd.	704.53	7.51	1,333.05	14.22	2,037.58	12.01	0.00	0.00	3,863.64	41.21
26	ICICI Bank Ltd.	1,561.47	14.18	705.42	6.41	2,266.89	18.68	0.00	0.00	8,016.94	72.80
27	IDBI Bank Ltd.	45.16	1.17	396.48	10.31	441.64	5.67	0.00	0.00	1,646.29	42.80
28	IndusInd Bank Ltd.	219.85	5.99	433.52	11.81	653.37	10.49	0.00	0.00	1,515.95	41.30
29	Kotak Mahindra Bank Ltd.	—	—	—	—	—	—	—	—	—	—
30	UTI Bank Ltd.	271.20	3.86	1,334.25	18.97	1,605.45	8.36	0.00	0.00	3,074.45	43.70
	Total	**5,200.74**	**6.28**	**6,671.86**	**8.06**	**11,872.60**	**10.78**	**1,223.40**	**1.48**	**36,704.93**	**44.35**

N.A. : Not available.
Notes :
1. Data are provisional
2. NBC - net bank credit.
3. Indirect Agricultural advance taken to the extent of 4.5 per cent.
Source: Data furnished by respective banks.

Appendix Table: III.27(B): Non-Performing Assets in Advances to Weaker Section under Priority Sector - Private Sector Banks (As at end-March 2003)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Section		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
1	Bank of Rajasthan Ltd.	38.52	15.30	39.72
2	Bharat Overseas Bank Ltd.	8.86	0.80	9.03
3	Catholic Syrian Bank Ltd.	7.87	3.47	44.09
4	City Union Bank Ltd.	11.00	1.53	13.91
5	Development Credit Bank Ltd.	0.37	0.10	27.03
6	Dhanalakshmi Bank Ltd.	19.64	7.82	39.82
7	Federal Bank Ltd.	228.91	26.83	11.72
8	Ganesh Bank of Kurundwad Ltd.	—	—	—
9	ING Vysya Bank Ltd.	45.75	6.76	14.78
10	Jammu & Kashmir Bank Ltd.	174.34	40.61	23.29
11	Karnataka Bank Ltd.	71.96	5.97	8.30
12	Karur Vysya Bank Ltd.	137.53	7.98	5.80
13	Lakshmi Vilas Bank Ltd.	28.48	2.59	9.09
14	Lord Krishna Bank Ltd.	5.49	1.08	19.67
15	Nainital Bank Ltd.	10.75	0.89	8.28
16	Ratnakar Bank Ltd.	19.81	2.65	13.38
17	SBI Commercial and International Bank Ltd.	—	—	—
18	Sangli Bank Ltd.	26.53	5.35	20.17
19	South Indian Bank Ltd.	48.28	13.12	27.17
20	Tamilnad Mercantile Bank Ltd.	8.51	0.15	1.76
21	United Western Bank Ltd.	89.43	21.75	24.32
	Total	**982.03**	**164.75**	**16.78**

— Nil
Note : Data pertain only to old Private Sector Banks.
Source: Data furnished by respective banks.

Appendix Table III.28: Advances to the Priority Sectors by Foreign Banks

(As on the last reporting Friday)

(Amount in Rs. crore)

Sector	March 2001		March 2002@		March 2003@	
	Amount	Percentage to Net bank credit	Amount	Percentage to Net bank credit	Amount	Percentage to Net bank credit
1	2	3	4	5	6	7
Priority Sector Advances #	**11,572**	**33.5**	**13,414**	**34.0**	**14,848**	**33.9**
Of which :						
I. Export Credit	6,961	20.2	6,948	18.0	8,195	18.7
II. Small-scale industries	3,646	10.6	4,561	12.0	3,809	8.7

@ Provisional.
# Inclusive of advances to setting up industrial estates, funds provided to RRBs by sponsor banks, loan to software industries, food and agro-processing sector, self-help group and venture capital.

Appendix Table IV.1: Progress of Co-operative Credit Movement in India

(Amount in Rs. crore, ratio in per cent)

Sr. No.	Type of Institution	Item	1999-2000	2000-01	2001-02 P	2002-03 P
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Urban Co-operative Banks (UCBs)	Number	1,784	1,618	1,854	1,941
		Owned Funds	9,314	10,826	13,797	9,830 *
		Deposits	71,189	80,840	93,069	1,01,546
		Borrowings	1,475	2,069	N.A.	1,590
		Working Capital	90,301	1,03,042	1,15,596	1,11,746
		Loans Outstanding	45,995	54,389	62,060	64,880
		C-D Ratio	65	67	67	64
2	State Co-operative Banks (StCBs)	Number	29	30	30	29
		Owned Funds	4,911	5,837	6,323	N.A.
		Deposits	29,557	32,626	35,500	37,439
		Borrowings	10,859	11,693	11,550	12,079
		Working Capital	44,035	49,490	51,899	N.A.
		Loans Issued	37,368	34,307	34,287	38,318
		Loans Outstanding	25,709	29,861	32,111	34,864
		Recovery Performance (as per cent to demand)	83	84	81	N.A.
		C-D Ratio	87	92	90	93
3	District Central Co-operative Banks (DCCBs)	Number	367	367	368	343
		Owned Funds	10,116	12,180	14,148	N.A.
		Deposits	54,248	61,745	68,090	72,983
		Borrowings	14,658	16,935	18,818	18,157
		Working Capital	77,679	87,821	1,00,851	N.A.
		Loans Issued	46,619	45,016	55,998	50,482
		Loans Outstanding	44,538	52,478	59,269	59,338

		Recovery Performance (as per cent to demand)	69	67	66	N.A.
		C-D Ratio	82	85	87	N.A.
4	State Co-operative Agriculture and Rural Development Banks (SCARDBs)	Number	19	20	20	20
		Owned Funds	2,702	3,034	2,753	N.A.
		Deposits	422	536	587	689
		Borrowings	12,390	13,413	14,875	13,861
		Working Capital	15,074	16,896	18,947	N.A.
		Loans Issued	2,532	2,586	2,746	2,631
		Loans Outstanding	11,565	12,553	14,172	13,870
		Recovery Performance (as per cent to demand)	62	58	55	N.A.
5	Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)	Number	755	732	768	768
		Owned Funds	1,379	1,628	2,502	N.A.
		Deposits	218	210	354	202
		Borrowings	7,647	8,294	10,292	7,857
		Working Capital	9,982	10,838	13,708	N.A.
		Loans Issued	1,819	1,865	2,045	1,696
		Loans Outstanding	7,611	8,295	10,010	8,960
		Recovery Performance (as per cent to demand)	58	53	46	N.A.

P Provisional.
N.A. Not Available.
* Includes share capital & statutory reserves and other free reserves & provisions not in the nature of outside liabilities.
Source : NABARD for Sr. No. 2 to 5.

Appendix Table IV.2: Bank-wise Major Indicators of Financial Performance as Proportion to Assets of Scheduled Urban Co-operative Banks

(Per cent)

Sr. No.	Name of the Bank	Operating Profit 2001-02	Operating Profit 2002-03	Net Profit 2001-02	Net Profit 2002-03	Interest Income 2001-02	Interest Income 2002-03
1	2	3	4	5	6	7	8
1	Abhyudaya Co-op Bank Ltd.	1.80	3.07	0.69	0.67	9.89	9.84
2	Ahmedabad Mercantile Co-op Bank Ltd.	3.38	3.54	0.64	0.73	11.89	11.62
3	Akola Janata Commercial Co-op Bank Ltd.	1.79	1.97	0.42	0.51	10.54	10.60
4	Akola Urban Co-op Bank Ltd.	1.81	1.57	0.53	0.66	13.96	13.89
5	Amanath Co-op Bank Ltd. #	1.18	0.44	0.72	0.44	10.33	8.90
6	AP Mahesh Co-op Urban Bank Ltd.	2.83	7.73	1.53	2.56	12.46	13.57
7	Bassein Catholic Co-op Bank Ltd.	2.13	2.21	1.28	1.28	9.99	9.64
8	Bharat Co-op Bank (Mumbai) Ltd.	2.11	2.57	0.99	0.97	10.89	10.50
9	Bharati Sahakari Bank Ltd.	—	1.08	—	0.32	—	8.95
10	Bombay Mercantile Co-op Bank Ltd.	-0.07	1.28	-3.20	1.28	6.95	5.73
11	Charminar Co-op Urban Bank Ltd.	-7.50	-2.30	-20.22	-3.03	3.89	3.54
12	Charotar Nagarik Sahakari Bank Ltd.#	-0.09	0.62	-0.87	-19.62	13.26	7.58
13	Citizencredit Co-op Bank Ltd.	1.74	1.58	0.88	1.01	9.15	8.03
14	Co-operative Bank of Ahmedabad	-2.17	-2.97	-2.17	-6.92	8.63	6.81
15	Cosmos Co-op Bank Ltd.	2.49	3.17	1.13	1.07	11.11	11.49
16	Dombivli Nagari Sahakari Bank Ltd.	2.22	2.19	0.88	0.87	10.16	9.81
17	Goa Urban Co-op Bank Ltd. #	2.45	2.87	0.43	0.46	11.08	9.23

18	Greater Bombay Co-op Bank Ltd.	4.49	2.38	2.02	1.41	9.35	9.53
19	Ichalkaranji Janata Sahakari Bank Ltd.	2.18	1.70	0.97	0.85	10.58	9.61
20	Indian Mercantile Co-op Bank Ltd.	0.86	1.71	0.86	1.71	11.85	9.47
21	Jalgaon Janata Sahakari Bank Ltd.	2.17	1.76	0.64	0.58	8.45	8.27
22	Janalaxmi Co-op Bank Ltd.	2.56	2.31	0.29	0.43	16.93	16.48
23	Janata Sahakari Bank Ltd.	0.64	0.18	-2.27	-1.33	7.76	6.90
24	Janakalyan Sahakari Bank Ltd.	2.32	1.83	0.58	0.46	11.58	10.90
25	Kalupur Commercial Co-op Bank Ltd.	4.16	4.16	1.73	1.75	12.31	10.86
26	Kalyan Janata Sahakari Bank Ltd.	2.32	2.55	0.82	0.50	7.46	7.98
27	Kapol Co-op Bank Ltd.	1.91	1.51	0.55	0.89	9.09	7.82
28	Karad Urban Co-op Bank Ltd.	2.91	1.75	1.43	0.83	10.20	9.09
29	Khamgaon Urban Co-op Bank Ltd.	2.12	1.25	0.60	0.41	14.30	14.09
30	Madhavpura Mercantile Co-op Bank Ltd. #	-1.85	-1.91	-7.51	-1.91	1.42	1.03
31	Mahanagar Co-op Bank Ltd.	2.44	1.30	0.13	0.31	11.65	9.91
32	Mandvi Co-op Bank Ltd.	1.61	1.00	0.58	0.54	10.09	9.10
33	Mapusa Urban Co-op Bank of Goa Ltd. #	-3.81	-1.95	-7.07	-4.19	5.55	5.17
34	Mehsana Urban Co-op Bank Ltd.	1.91	3.46	1.33	0.87	12.59	14.13
35	Nagar Urban Co-op Bank Ltd.#	1.19	2.05	0.85	1.07	13.97	13.80
36	Nagpur Nagrik Sahakari Bank Ltd.	4.34	2.34	0.46	0.54	10.92	9.22
37	Nasik Merchant’s Co-op Bank Ltd.	2.66	2.08	2.11	0.60	11.10	10.56
38	New India Co-op Bank Ltd.	2.09	2.76	1.73	1.95	10.11	9.87
39	North Kanara G.S.B. Co-op Bank Ltd.	1.47	1.71	0.90	0.98	10.08	9.62
40	Nutan Nagarik Sahakari Bank Ltd.	1.74	3.11	1.46	1.97	10.37	10.10
41	Parsik Janata Sahakari Bank Ltd.	3.45	3.01	1.83	1.68	9.63	9.12
42	Pravara Sahakari Bank Ltd.#	—	3.27	—	0.44	—	11.80
43	Punjab & Maharashtra Co-op Bank Ltd.	2.06	1.70	1.31	1.29	10.77	10.20
44	Rajkot Nagrik Sahakari Bank Ltd.	6.67	2.22	0.83	1.12	8.06	7.84
45	Rupee Co-op Bank Ltd.	0.85	-1.54	-5.70	-7.47	9.33	6.43
46	Sangli Urban Co-op Bank Ltd.	1.91	1.85	0.52	0.33	10.36	9.23
47	Saraswat Co-op Bank Ltd.	2.19	2.10	0.55	0.57	8.15	7.95
48	Sardar Bhiladwala Pardi People’s Co-op Bank Ltd.	0.49	1.03	0.46	0.04	9.30	9.15
49	Shamrao Vithal Co-op Bank Ltd.	1.77	2.13	1.06	0.96	10.52	10.08
50	Shikshak Sahakari Bank Ltd.	1.99	0.69	-0.09	-1.92	7.20	6.46
51	Solapur Janata Sahakari Bank Ltd.	—	1.70	—	0.52	—	11.77
52	Surat People’s Co-op Bank Ltd.	2.90	3.42	0.79	1.08	10.35	10.72
53	Thane Bharat Sahakari Bank Ltd.	—	1.77	—	0.97	—	9.39
54	Thane Janata Sahakari Bank Ltd.	1.95	2.20	1.60	1.57	10.02	10.17
55	Vasavi Co-operative Urban Bank Ltd. #	0.39	0.26	-7.31	0.26	16.53	14.13
56	Visnagar Nagrik Sahakari Bank Ltd.	0.42	-4.63	0.39	-41.12	25.38	8.50
57	Zoroastrian Co-op Bank Ltd.	—	1.93	—	0.48	—	9.70
	TOTAL	**1.52**	**1.37**	**-0.88**	**-1.14**	**9.40**	**8.58**

(Per cent)

Sr. No.	Name of the Bank	Interest Expended 2001-02	Interest Expended 2002-03	Provision & Contingencies 2001-02	Provision & Contingencies 2002-03
1	2	9	10	11	12
1	Abhyudaya Co-op Bank Ltd.	5.45	5.32	1.11	2.40
2	Ahmedabad Mercantile Co-op Bank Ltd.	7.21	6.57	2.74	2.82
3	Akola Janata Commercial Co-op Bank Ltd.	8.12	8.14	1.36	1.46
4	Akola Urban Co-op Bank Ltd.	11.93	12.42	1.28	0.91
5	Amanath Co-op Bank Ltd. #	7.50	7.15	0.46	0.00
6	AP Mahesh Co-op Urban Bank Ltd.	8.60	9.16	1.30	5.17

7	Bassein Catholic Co-op Bank Ltd.	6.82	6.55	0.86	0.93
8	Bharat Co-op Bank (Mumbai) Ltd.	6.43	6.00	1.12	1.60
9	Bharati Sahakari Bank Ltd.	—	7.64	—	0.76
10	Bombay Mercantile Co-op Bank Ltd.	5.97	4.52	3.14	0.00
11	Charminar Co-op Urban Bank Ltd.	10.62	4.62	12.72	0.72
12	Charotar Nagarik Sahakari Bank Ltd.#	12.64	6.19	0.78	20.24
13	Citizencredit Co-op Bank Ltd.	5.90	5.85	0.86	0.57
14	Co-operative Bank of Ahmedabad	8.47	7.62	0.00	3.95
15	Cosmos Co-op Bank Ltd.	7.23	6.98	1.36	2.11
16	Dombivli Nagari Sahakari Bank Ltd.	6.17	6.11	1.34	1.33
17	Goa Urban Co-op Bank Ltd. #	8.00	6.57	2.01	2.41
18	Greater Bombay Co-op Bank Ltd.	7.44	7.45	2.47	0.97
19	Ichalkaranji Janata Sahakari Bank Ltd.	8.26	7.87	1.20	0.84
20	Indian Mercantile Co-op Bank Ltd.	9.93	7.01	0.00	0.00
21	Jalgaon Janata Sahakari Bank Ltd.	6.81	7.02	1.53	1.18
22	Janalaxmi Co-op Bank Ltd.	13.43	13.24	2.26	1.88
23	Janata Sahakari Bank Ltd.	6.82	6.47	2.92	1.52
24	Janakalyan Sahakari Bank Ltd.	7.75	7.71	1.74	1.37
25	Kalupur Commercial Co-op Bank Ltd.	7.67	6.00	2.44	2.41
26	Kalyan Janata Sahakari Bank Ltd.	6.17	5.48	1.51	2.05
27	Kapol Co-op Bank Ltd.	7.07	6.43	1.36	0.62
28	Karad Urban Co-op Bank Ltd.	7.50	7.65	1.49	0.92
29	Khamgaon Urban Co-op Bank Ltd.	12.43	12.15	1.52	0.84
30	Madhavpura Mercantile Co-op Bank Ltd. #	3.04	2.76	5.65	0.00
31	Mahanagar Co-op Bank Ltd.	7.05	6.53	2.30	0.99
32	Mandvi Co-op Bank Ltd.	7.61	7.18	1.03	0.46
33	Mapusa Urban Co-op Bank of Goa Ltd. #	6.60	5.82	3.25	2.25
34	Mehsana Urban Co-op Bank Ltd.	9.97	9.84	0.57	2.59
35	Nagar Urban Co-op Bank Ltd.#	11.85	11.09	0.33	0.97
36	Nagpur Nagrik Sahakari Bank Ltd.	7.88	7.02	3.88	1.80
37	Nasik Merchant’s Co-op Bank Ltd.	6.73	6.78	0.55	1.49
38	New India Co-op Bank Ltd.	5.46	5.01	0.36	0.81
39	North Kanara G.S.B. Co-op Bank Ltd.	6.81	6.69	0.58	0.73
40	Nutan Nagarik Sahakari Bank Ltd.	7.01	6.65	0.28	1.14
41	Parsik Janata Sahakari Bank Ltd.	5.93	5.52	1.63	1.33
42	Pravara Sahakari Bank Ltd.#	—	8.10	—	2.83
43	Punjab & Maharashtra Co-op Bank Ltd.	7.47	7.08	0.75	0.41
44	Rajkot Nagrik Sahakari Bank Ltd.	5.76	5.43	5.84	1.10
45	Rupee Co-op Bank Ltd.	8.70	6.79	6.54	5.92
46	Sangli Urban Co-op Bank Ltd.	6.93	6.68	1.39	1.52
47	Saraswat Co-op Bank Ltd.	5.65	5.39	1.64	1.53
48	Sardar Bhiladwala Pardi People’s Co-op Bank Ltd.	6.96	6.44	0.03	1.00
49	Shamrao Vithal Co-op Bank Ltd.	7.03	6.66	0.71	1.17
50	Shikshak Sahakari Bank Ltd.	8.63	8.82	2.08	2.61
51	Solapur Janata Sahakari Bank Ltd.	—	7.96	—	1.18
52	Surat People’s Co-op Bank Ltd.	6.46	6.20	2.11	2.34
53	Thane Bharat Sahakari Bank Ltd.	—	7.39	—	0.80
54	Thane Janata Sahakari Bank Ltd.	6.50	6.55	0.34	0.63
55	Vasavi Co-operative Urban Bank Ltd. #	12.77	10.44	7.71	0.00
56	Visnagar Nagrik Sahakari Bank Ltd.	24.25	12.66	0.04	36.49
57	Zoroastrian Co-op Bank Ltd.	—	6.25	—	1.45
	TOTAL	**7.19**	**6.51**	**2.40**	**2.51**

(Per cent)

Sr.		**Operating Expenses**		**Spread**	
No.	**Name of the Bank**	**2001-02**	**2002-03**	**2001-02**	**2002-03**

1	2	13	14	15	16
1	Abhyudaya Co-op Bank Ltd.	2.95	2.38	4.44	4.53
2	Ahmedabad Mercantile Co-op Bank Ltd.	1.49	1.66	4.68	5.05
3	Akola Janata Commercial Co-op Bank Ltd.	5.59	5.67	2.42	2.46
4	Akola Urban Co-op Bank Ltd.	1.62	1.64	2.03	1.48
5	Amanath Co-op Bank Ltd. #	1.94	2.06	2.83	1.75
6	AP Mahesh Co-op Urban Bank Ltd.	2.44	3.24	3.86	4.40
7	Bassein Catholic Co-op Bank Ltd.	1.66	1.49	3.17	3.09
8	Bharat Co-op Bank (Mumbai) Ltd.	2.73	2.68	4.46	4.49
9	Bharati Sahakari Bank Ltd.	—	1.90	—	1.31
10	Bombay Mercantile Co-op Bank Ltd.	2.37	2.53	0.98	1.21
11	Charminar Co-op Urban Bank Ltd.	1.75	1.23	-6.73	-1.08
12	Charotar Nagarik Sahakari Bank Ltd.#	1.45	0.78	0.62	1.39
13	Citizencredit Co-op Bank Ltd.	1.70	1.74	3.25	2.19
14	Co-operative Bank of Ahmedabad	3.25	3.35	0.16	-0.81
15	Cosmos Co-op Bank Ltd.	1.68	1.65	3.88	4.51
16	Dombivli Nagari Sahakari Bank Ltd.	1.93	1.73	3.98	3.70
17	Goa Urban Co-op Bank Ltd. #	2.38	2.50	3.09	2.66
18	Greater Bombay Co-op Bank Ltd.	2.52	2.65	1.91	2.08
19	Ichalkaranji Janata Sahakari Bank Ltd.	2.12	1.96	2.32	1.74
20	Indian Mercantile Co-op Bank Ltd.	1.69	1.76	1.92	2.45
21	Jalgaon Janata Sahakari Bank Ltd.	2.21	2.44	1.64	1.24
22	Janalaxmi Co-op Bank Ltd.	1.28	1.16	3.50	3.24
23	Janata Sahakari Bank Ltd.	1.71	1.60	0.94	0.43
24	Janakalyan Sahakari Bank Ltd.	1.92	1.72	3.82	3.19
25	Kalupur Commercial Co-op Bank Ltd.	1.16	1.22	4.65	4.86
26	Kalyan Janata Sahakari Bank Ltd.	1.85	1.78	1.29	2.50
27	Kapol Co-op Bank Ltd.	3.82	4.03	2.03	1.39
28	Karad Urban Co-op Bank Ltd.	3.09	3.22	2.70	1.44
29	Khamgaon Urban Co-op Bank Ltd.	1.87	1.67	1.87	1.93
30	Madhavpura Mercantile Co-op Bank Ltd. #	0.24	0.21	-1.62	-1.73
31	Mahanagar Co-op Bank Ltd.	3.12	2.92	4.61	3.38
32	Mandvi Co-op Bank Ltd.	3.20	2.20	2.48	1.92
33	Mapusa Urban Co-op Bank of Goa Ltd. #	2.81	2.38	-1.05	-0.65
34	Mehsana Urban Co-op Bank Ltd.	0.90	1.11	2.62	4.30
35	Nagar Urban Co-op Bank Ltd.#	2.16	2.13	2.12	2.70
36	Nagpur Nagrik Sahakari Bank Ltd.	2.11	4.74	3.04	2.19
37	Nasik Merchant’s Co-op Bank Ltd.	2.04	2.04	4.37	3.79
38	New India Co-op Bank Ltd.	3.39	3.04	4.65	4.86
39	North Kanara G.S.B. Co-op Bank Ltd.	2.08	1.93	3.26	2.94
40	Nutan Nagarik Sahakari Bank Ltd.	2.77	2.91	3.36	3.45
41	Parsik Janata Sahakari Bank Ltd.	1.95	1.69	3.70	3.60
42	Pravara Sahakari Bank Ltd.#	—	1.88	—	3.70
43	Punjab & Maharashtra Co-op Bank Ltd.	2.33	2.29	3.30	3.12
44	Rajkot Nagrik Sahakari Bank Ltd.	1.09	1.11	2.30	2.41
45	Rupee Co-op Bank Ltd.	1.73	1.42	0.63	-0.36
46	Sangli Urban Co-op Bank Ltd.	3.06	2.68	3.43	2.55
47	Saraswat Co-op Bank Ltd.	2.34	2.20	2.50	2.57
48	Sardar Bhiladwala Pardi People’s Co-op Bank Ltd.	2.54	1.95	2.34	2.71
49	Shamrao Vithal Co-op Bank Ltd.	2.40	2.42	3.49	3.42
50	Shikshak Sahakari Bank Ltd.	1.49	1.53	-1.43	-2.35
51	Solapur Janata Sahakari Bank Ltd.	—	2.38	—	3.81
52	Surat People’s Co-op Bank Ltd.	2.05	2.21	3.89	4.51
53	Thane Bharat Sahakari Bank Ltd.	—	2.11	—	2.00
54	Thane Janata Sahakari Bank Ltd.	2.22	2.21	3.52	3.62
55	Vasavi Co-operative Urban Bank Ltd. #	3.56	3.58	3.76	3.68

56	Visnagar Nagrik Sahakari Bank Ltd.	0.88	0.49	1.12	-4.17
57	Zoroastrian Co-op Bank Ltd.	—	1.74	—	3.45
	TOTAL	**2.00**	**1.91**	**2.21**	**2.06**

Unaudited for 2002-03.

Source: Balance sheet of respective banks.

Appendix Table IV.3: Recovery Performance of Rural Co-operative Banks

(As per cent of demand)

Sr. No.	State / Union Territory	StCBs 2000-01	StCBs 2001-02	CCBs 2000-01	CCBs 2001-02	SCARDBs 2000-01	SCARDBs 2001-02	PCARDBs 2000-01	PCARDBs 2001-02
1	2	3	4	5	6	7	8	9	10
1	Andaman & Nicobar	65	72	—	—	—	—	—	—
2	Andhra Pradesh	72	65	62	64	—	—	—	—
3	Arunachal Pradesh	27	20	—	—	—	—	—	—
4	Assam	22	5	10	9	1	10	—	—
5	Bihar	22	12	23	30	13	16	—	—
6	Chandigarh	50	62	—	—	—	—	—	—
7	Chattisgarh	—	96	66	73	—	53	67	70
8	Delhi	42	36	—	—	—	—	—	—
9	Goa	66	60	—	—	—	—	—	—
10	Gujarat	92	91	67	62	47	42	—	—
11	Haryana	99	99	79	78	88	88	62	62
12	Himachal Pradesh	70	71	74	77	62	56	73	66
13	Jammu & Kashmir	20	34	27	42	36	37	—	—
14	Jharkhand	—	—	19	21	—	—	—	—
15	Karnataka	84	90	69	65	31	26	35	12
16	Kerala	94	93	79	76	92	85	66	56
17	Madhya Pradesh	98	91	49	61	41	46	57	61
18	Maharashtra	76	70	66	54	36	13	—	30
19	Manipur	4	4	—	—	2	7	—	—
20	Meghalaya	45	36	—	—	—	—	—	—
21	Mizoram	29	33	—	—	—	—	—	—
22	Nagaland	28	34	—	—	—	—	—	—
23	Orissa	78	79	51	57	4	8	14	21
24	Pondicherry	95	69	—	—	28	57	—	—
25	Punjab	96	96	82	88	97	90	75	66
26	Rajasthan	90	88	77	77	66	64	45	44
27	Sikkim	95	43	—	—	—	—	—	—
28	Tamil Nadu	98	99	77	80	42	46	43	43
29	Tripura	24	28	—	—	53	51	—	—
30	Uttar Pradesh	76	75	48	49	86	86	—	—
31	Uttaranchal	—	—	80	82	—	—	—	—
32	West Bengal	78	85	71	79	56	61	54	60
	All India	**84**	**81**	**67**	**66**	**56**	**55**	**53**	**46**

Data are provisional.

Source : NABARD.

Appendix Table IV.4: State-wise Sanctions and Disbursements under Rural Infrastructure Development Fund (RIDF)

(As on March 31, 2003)

(Rs. crore)

Sr. No.	State	RIDF-I Loan Sanc-tions	RIDF-I Disb-urse ments	RIDF-II Loan Sanc-tions	RIDF-II Disb-urse ments	RIDF-III Loan Sanc-tions	RIDF-III Disb-urse ments
1	2	3	4	5	6	7	8
1	Andhra Pradesh	227.09	215.13	337.59	307.70	290.88	251.60
2	Arunachal Pradesh	—	—	—	—	—	—
3	Assam	—	—	63.29	61.44	16.07	15.75
4	Bihar	22.17	12.63	—	—	57.96	26.93
5	Chattisgarh	79.12	77.91	8.98	4.82	57.07	55.11
6	Goa	6.85	6.85	—	—	—	—
7	Gujarat	150.90	145.47	133.79	114.34	163.00	134.86
8	Haryana	26.70	19.33	61.06	59.10	74.98	60.42
9	Himachal Pradesh	14.23	14.23	52.96	52.83	51.12	49.02
10	Jammu & Kashmir	6.14	6.04	8.06	0.57	35.95	19.29
11	Jharkhand	—	—	—	—	4.35	2.48
12	Karnataka	172.63	158.79	195.21	180.08	170.84	160.27
13	Kerala	95.93	86.26	87.60	72.59	89.88	68.35
14	Madhya Pradesh	161.32	137.12	210.30	216.13	192.28	169.44
15	Maharashtra	186.81	169.87	231.66	204.27	254.31	240.23
16	Manipur	1.75	0.96	—	—	—	—
17	Meghalaya	3.39	3.39	—	—	7.06	6.70
18	Mizoram	2.38	2.37	—	—	—	—
19	Nagaland	1.38	1.38	—	—	—	—
20	Orissa	169.50	162.05	130.06	138.29	180.36	162.54
21	Punjab	60.50	60.50	62.50	62.05	88.85	84.73
22	Rajasthan	123.51	116.86	151.50	128.67	158.48	136.35
23	Tamil Nadu	—	—	245.79	218.86	209.40	182.40
24	Tripura	—	—	—	—	—	—
25	Uttar Pradesh	295.72	281.89	491.65	407.12	411.30	387.80
26	Uttaranchal	—	—	—	—	21.68	2.43
27	West Bengal	102.52	81.84	155.82	144.82	171.97	160.33
28	Sikkim	—	—	—	—	—	—
	All India	**1,910.54**	**1,760.87**	**2,627.82**	**2,373.68**	**2,707.79**	**2,377.03**

(Rs. crore)

Sr. No.	State	RIDF-IV Loan Sanc-tions	RIDF-IV Disb-urse ments	RIDF-V Loan Sanc-tions	RIDF-V Disb-urse ments	RIDF-VI Loan Sanc-tions	RIDF-VI Disb-urse ments
1	2	9	10	11	12	13	14
1	Andhra Pradesh	304.59	242.30	383.09	283.73	570.80	396.84
2	Arunachal Pradesh	—	—	25.10	19.96	88.50	61.41
3	Assam	64.72	42.61	185.77	108.65	49.57	36.62
4	Bihar	—	—	—	—	—	—
5	Chattisgarh	65.32	55.80	34.09	24.74	50.86	31.85
6	Goa	8.93	8.70	—	—	19.09	7.64
7	Gujarat	136.36	81.78	254.06	153.86	554.75	301.62
8	Haryana	56.25	45.04	99.07	62.38	67.43	42.01
9	Himachal Pradesh	88.58	75.28	112.01	96.65	135.03	94.46
10	Jammu & Kashmir	105.87	82.57	110.88	83.75	161.52	95.97
11	Jharkhand	118.50	—	91.42	—	—	—
12	Karnataka	172.34	154.50	173.18	147.14	302.95	186.81

13	Kerala	64.27	47.33	127.06	98.29	186.33	101.66
14	Madhya Pradesh	177.00	125.64	228.87	131.94	292.79	148.00
15	Maharashtra	301.98	250.68	350.28	308.15	439.17	263.35
16	Manipur	—	—	—	—	8.33	—
17	Meghalaya	9.33	8.30	35.10	22.02	30.49	13.23
18	Mizoram	—	—	54.17	41.67	3.76	3.76
19	Nagaland	0.72	—	16.52	14.15	61.49	17.59
20	Orissa	162.56	98.22	134.62	65.79	107.43	47.85
21	Punjab	110.69	72.06	102.79	89.12	236.65	169.52
22	Rajasthan	67.34	37.84	132.00	104.68	253.75	240.07
23	Tamil Nadu	178.68	142.06	253.04	208.43	257.67	206.44
24	Tripura	21.70	13.93	44.47	13.78	35.40	7.88
25	Uttar Pradesh	474.97	361.18	348.94	253.00	247.72	108.08
26	Uttaranchal	50.80	6.47	4.98	—	—	—
27	West Bengal	213.74	189.11	222.29	161.59	413.23	202.09
28	Sikkim	21.29	19.37	8.72	8.72	4.55	3.63
	All India	**2,976.53**	**2,160.77**	**3,532.52**	**2,502.19**	**4,579.26**	**2,788.38**

(Rs. crore)

Sr. No.	**State**	**RIDF-VII**		**RIDF-VIII**		**Total**	
		Loan Sanc-tions	**Disb-urse ments**	**Loan Sanc-tions**	**Disb-urse ments**	**Loan Sanc-tions**	**Disb-urse ments**
1	2	15	16	17	18	19	20
1	Andhra Pradesh	627.28	347.14	909.56	124.56	3,650.88	2,169.00
2	Arunachal Pradesh	69.41	18.11	—	—	183.01	99.48
3	Assam	—	—	76.23	—	455.65	265.07
4	Bihar	129.69	16.28	218.93	—	428.75	55.84
5	Chattisgarh	84.42	31.24	281.30	7.70	661.16	289.17
6	Goa	15.79	6.53	16.10	—	66.76	29.72
7	Gujarat	40.90	12.27	283.82	128.46	1,717.58	1,072.66
8	Haryana	227.95	75.66	270.87	60.99	884.31	424.93
9	Himachal Pradesh	174.51	82.39	196.85	39.09	825.29	503.95
10	Jammu & Kashmir	216.80	90.30	175.64	53.28	820.88	431.77
11	Jharkhand	—	—	—	—	214.27	2.48
12	Karnataka	342.34	46.95	246.49	6.84	1,775.98	1,041.38
13	Kerala	191.76	54.86	196.55	37.52	1,039.38	566.86
14	Madhya Pradesh	311.89	137.51	575.23	110.05	2,149.68	1,175.83
15	Maharashtra	529.73	150.27	443.09	30.30	2,737.03	1,617.12
16	Manipur	—	—	—	—	10.08	0.96
17	Meghalaya	18.30	5.41	18.39	0.77	122.06	59.82
18	Mizoram	7.33	7.33	2.00	—	69.64	55.13
19	Nagaland	0.95	0.85	6.68	1.16	87.74	35.13
20	Orissa	153.25	63.12	246.83	53.33	1,284.61	791.19
21	Punjab	240.26	170.18	210.17	58.80	1,112.41	766.96
22	Rajasthan	435.12	256.66	346.75	117.62	1,668.45	1,138.75
23	Tamil Nadu	359.95	223.63	388.70	118.62	1,893.23	1,300.44
24	Tripura	6.79	—	50.13	8.29	158.49	43.88
25	Uttar Pradesh	338.50	95.81	322.71	17.62	2,931.51	1,912.50
26	Uttaranchal	53.96	16.19	75.43	38.79	206.85	63.88
27	West Bengal	474.41	142.59	520.73	112.64	2,274.71	1,195.01
28	Sikkim	5.48	4.45	4.89	—	44.93	36.17
	All India	**5,056.77**	**2,055.73**	**6,084.07**	**1,126.43**	**29,475.30**	**17,145.08**

Source: NABARD.

Appendix Table V.1: Financial Assistance - Sanctioned and Disbursed by All Financial Institutions

(Amount in Rs. crore)

Institution		Loans*				Underwriting and Direct Subscription	
		2001-02		2002-03		2001-02	
		S	D	S	D	S	D
1		2	3	4	5	6	7
A.	**All India Development Bank (1 to 6)**	**54,132.4**	**38,783.4**	**17,012.9**	**12,731.3**	**9,489.8**	**7,540.7**
		{22,695.8}	**{16,300.1}**	**{17,012.9}**	**{12,731.3}**	**{4,697.2}**	**{4,193.0}**
1.	IDBI	9,986.2	8,027.1	2,540.3	3,667.5	3,292.7	2,892.0
		(284.6)	(302.1)	—	—	—	—
2.	IFCI	612.5	880.4	1,637.7	1,307.9	147.3	198.3
3.	ICICI	31,436.6	22,483.3	—	—	4,792.6	3,347.7
4.	SIDBI	9,025.5	5,919.3	10,903.6	6,789.4	—	—
		(176.7)	(148.8)	(73.5)	(57.6)	—	—
5.	IIBI	559.8	283.9	163.1	51.5	760.9	786.1
6.	IDFC	2,511.8	1,189.4	1,768.2	915.0	496.3	316.6
B.	**Specialised Financial Institution (7 to 9)**	**96.1**	**89.3**	**92.1**	**99.9**	**773.3**	**776.1**
7.	IVCF	—	0.5	—	—	—	0.1
8.	ICICI Venture	2.7	2.3	14.2	13.4	771.3	776.0
9.	TFCI	93.4	86.5	77.9	86.5	2.0	—
C.	**Investment Institution (10 to 12)**	**1,004.5**	**415.4**	**696.9**	**333.8**	**7,936.9**	**10,842.9**
10.	LIC	900.6	374.3	524.4	265.0	5,840.9	8,539.9
11.	UTI	—	—	—	—	991.0	1,269.6
12.	GIC @	103.9	41.1	172.5	68.8	1,105.0	1,033.4
D.	**Total Assistance by All-India Financial Institution (A+B+C)**	**55,233.0**	**39,288.1**	**17,801.9**	**13,165.0**	**18,200.0**	**19,159.7**
		{23,796.4}	**{16,804.8}**	**{17,801.9}**	**{13,165.0}**	**{13,407.4}**	**{15,812.0}**
E.	**State level Institution (13 to14)**	**3,703.5**	**3,409.4**	..	..	**62.3**	**20.0**
13.	SFCs	2,210.2	1,749.6	..	..	—	—
14.	SIDCs	1,493.3	1,659.8	..	..	62.3	20.0
F.	**Total Assistance by All Financial Institution (D+E)**	**58,936.5**	**42,697.5**	..	..	**18,262.3**	**19,179.7**
		{27,499.9}	**{20,214.2}**				

(Amount in Rs. crore)

Institution		Underwriting and Direct Subscription		Others			
		2002-03		2001-02		2002-03	
		S	D	S	D	S	D
1		8	9	10	11	12	13
A.	**All India Development Bank (1 to 6)**	**2,208.2**	**1,652.2**	**226.3**	**231.9**	**113.6**	**117.1**
		{2,208.2}	**{1,652.2}**	**{226.3}**	**{231.9}**	**{113.6}**	**{117.1}**
1.	IDBI	235.2	139.7	226.3	231.9	113.6	117.1
		—	—	—	—	—	—
2.	IFCI	393.7	484.9	—	—	—	—

3. ICICI	—	—	—	—	—	—
4. SIDBI	—	—	—	—	—	—
	—	—	—	—	—	—
5. IIBI	1,043.4	993.4	—	—	—	—
6. IDFC	535.9	34.2	—	—	—	—
B. Specialised Financial Institution (7 to 9)	**303.3**	**319.1**	**3.3**	**3.5**	**79.7**	**71.2**
7. IVCF	—	—	3.3	3.5	1.5	1.5
8. ICICI Venture	303.3	317.1	—	—	72.0	63.5
9. TFCI	—	2.0	—	—	6.2	6.2
C. Investment Institution (10 to 12)	**4,914.0**	**7,229.4**	**421.8**	**409.2**	**589.0**	**548.3**
10. LIC	3,808.3	5,940.8	—	—	—	—
11. UTI	307.4	414.7	—	—	—	—
12. GIC @	798.3	873.9	421.8	409.2	589.0	548.3
D. Total Assistance by All-India Financial Institution (A+B+C)	**7,425.5 {7,425.5}**	**9,200.7 {9,200.7}**	**651.4 {651.4}**	**644.6 {644.6}**	**782.3 {782.3}**	**736.6 {736.6}**
E. State level Institution (13 to14)	..	..	**37.9**	**37.9**	..	..
13. SFCs	..	..	—	—	..	..
14. SIDCs	..	..	37.9	37.9	..	..
F. Total Assistance by All Financial Institution (D+E)	..	..	**689.3**	**682.5**	..	..

(Amount in Rs. crore)

Institution	Total				Percentage variation over 2001-02	
	2001-02		2002-03			
	S	D	S	D	S	D
1	14	15	16	17	18	19
A. All India Development Bank (1 to 6)	**63,848.5**	**46,556.0**	**19,334.7**	**14,500.6**	**-69.7**	**-68.9**
	{27,619.3}	**{20,725.0}**	**{19,334.7}**	**{14,500.6}**	**{-30.0}**	**{-30.0}**
1. IDBI	13,505.2	11,151.0	2,889.1	3,924.3	-78.6	-64.8
	(284.6)	(302.1)	—	—		
2. IFCI	759.8	1,078.7	2,031.4	1,792.8	167.4	66.2
3. ICICI	36,229.2	25,831.0	—	—		
4. SIDBI	9,025.5	5,919.3	10,903.6	6,789.4	20.8	14.7
	(176.7)	(148.8)	(73.5)	(57.6)		
5. IIBI	1,320.7	1,070.0	1,206.5	1,044.9	-8.6	-2.3
6. IDFC	3,008.1	1,506.0	2,304.1	949.2	-23.4	-37.0
B. Specialised Financial Institution (7 to 9)	**872.7**	**868.9**	**475.1**	**490.2**	**-45.6**	**-43.6**
7. IVCF	3.3	4.1	1.5	1.5	-54.5	-63.4
8. ICICI Venture	774.0	778.3	389.5	394.0	-49.7	-49.4
9. TFCI	95.4	86.5	84.1	94.7	-11.8	9.5
C. Investment Institution (10 to 12)	**9,363.2**	**11,667.5**	**6,199.9**	**8,111.5**	**-33.8**	**-30.5**
10. LIC	6,741.5	8,914.2	4,332.7	6,205.8	-35.7	-30.4
11. UTI	991.0	1,269.6	307.4	414.7	-69.0	-67.3
12. GIC @	1,630.7	1,483.7	1,559.8	1,491.0	-4.3	0.5
D. Total Assistance by All-India	**74,084.4**	**59,092.4**	**26,009.7**	**23,102.3**	**-64.9**	**-60.9**

Financial Institution (A+B+C)	**{37,855.2}**	**{33,261.4}**	**{26,009.7}**	**{23,102.3}**	**{-31.3}**	**{-30.5}**
E. State level Institution (13 to14)	**3,803.7**	**3,467.3**	**..**	**..**	**..**	**..**
13. SFCs	**2,210.2**	**1,749.6**	..	..	..	..
14. SIDCs	**1,593.5**	**1,717.7**	..	..	..	..
F. Total Assistance by All Financial Institution (D+E)	**77,888.1** **{41,658.9}**	**62,559.7** **{36,728.7}**	**..**	**..**	**..**	**..**

S : Sanctions
D : Disbursements
— : Nil
.. : Not available
* : Loans include rupee loans, foreign currency loans and guarantees.
@ : Data include GIC and its former subsidiaries.
Notes :
1. All data are provisional.
2. Figures in parentheses represent inter-institutional flows. This involves adjustment in regard to IDBI/SIDBI's refinance to SFCs' and SIDCs' seed capital as also loans to and subscriptions to shares and bonds of financial institutions.
3. Others (Cols.10 to 13) include short-term/bridge loans in case of IVCF and UTI.
4. Figures in brackets { } excluding ICICI.
Source: IDBI, SIDBI and respective financial institutions.

Appendix Table V.2: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Sources/ Deployment of Funds	2001-02									
	Quarter ended								Total	
	June-01		September-01		December-01		March-2002		(April-March)	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
1	2	3	4	5	6	7	8	9	10	11
Sources of Funds										
(i) Internal	18,870	50.5	23,332	56.1	18,504	54.9	17,914	53.9	**78,620**	**53.9**
	(10,680)	(49.4)	(13,448)	(57.2)	(9,199)	(47.8)	(17,914)	(53.9)	**(51,241)**	**(52.5)**
(ii) External	11,779	31.5	10,373	24.9	8,982	26.6	11,011	33.1	**42,145**	**28.9**
	(6,688)	(30.9)	(4,569)	(19.4)	(6,170)	(32.0)	(11,011)	(33.1)	**(28,438)**	**(29.1)**
(iii) Other sources	6,698	17.9	7,896	19.0	6,218	18.4	4,308	13.0	**25,120**	**17.2**
	(4,248)	(19.7)	(5,492)	(23.4)	(3,886)	(20.2)	(4,308)	(13.0)	**(17,934)**	**(18.4)**
Total Sources of Funds (i+ii+iii)	37,347	100.0	41,601	100.0	33,704	100.0	33,233	100.0	**145,885**	**100.0**
	(21,616)	(100.0)	(23,509)	(100.0)	(19,255)	(100.0)	(33,233)	(100.0)	**(97,613)**	**(100.0)**
Deployment of Funds										
(i) Fresh Deployments	18,939	50.7	20,498	49.3	16,791	49.8	17,316	52.1	**73,544**	**50.4**
	(10,754)	(49.8)	(10,820)	(46.0)	(9,399)	(48.8)	(17,316)	(52.1)	**(48,289)**	**(49.5)**
(ii) Repayment of past borrowings	10,172	27.2	10,824	26.0	7,945	23.6	8,066	24.3	**37,007**	**25.4**
	(5,259)	(24.3)	(4,356)	(18.5)	(3,134)	(16.3)	(8,066)	(24.3)	**(20,815)**	**(21.3)**
(iii) Other Deployments	8,236	22.1	10,279	24.7	8,968	26.6	7,851	23.6	**35,334**	**24.2**
	(5,603)	(25.9)	(8,333)	(35.4)	(6,722)	(34.9)	(7,851)	(23.6)	**(28,509)**	**(29.2)**
of which : Interest Payments	4,929	13.2	6,387	15.4	4,723	14.0	3,069	9.2	**19,108**	**13.1**

	(3,256)	(15.1)	(4,748)	(20.2)	(3,149)	(16.4)	(3,069)	(9.2)	**(14,222)**	**(14.6)**
Total Deployment of Funds (i+ii+iii)	37,347 (21,616)	100.0 (100.0)	41,601 (23,509)	100.0 (100.0)	33,704 (19,255)	100.0 (100.0)	33,233 (33,233)	100.0 (100.0)	**145,885** **(97,613)**	**100.0** **(100.0)**

(Amount in Rs. crore)

Sources/ Deployment of Funds	**2002-03**									
	Quarter ended								**Total**	
	June-02		**September-02**		**December-02**		**March-2003**		**(April-March)**	
	Amount	**Share**	**Amount**	**Share**	**Amount**	**Share**	**Amount**	**Share**	**Amount**	**Share**
1	12	13	14	15	16	17	18	19	20	21
Sources of Funds										
(i) Internal	10,285	56.1	12,000	53.7	6,573	35.9	20,190	55.1	**49,048**	**51.3**
(ii) External	4,465	24.4	6,586	29.5	8,101	44.3	13,128	35.9	**32,280**	**33.8**
(iii) Other sources	3,577	19.5	3,744	16.8	3,620	19.8	3,293	9.0	**14,234**	**14.9**
Total Sources of Funds (i+ii+iii)	18,327	100.0	22,330	100.0	18,294	100.0	36,611	100.0	**95,562**	**100.0**
Deployment of Funds										
(i) Fresh Deployments	6,145	33.5	12,145	54.4	9,283	50.7	24,455	66.8	**52,028**	**54.4**
(ii) Repayment of past borrowings	3,836	20.9	5,649	25.3	3,009	16.4	4,984	13.6	**17,478**	**18.3**
(iii) Other Deployments	8,346	45.5	4,536	20.3	6,002	32.8	7,172	19.6	**26,056**	**27.3**
of which : Interest Payments	3,020	16.5	2,759	12.4	2,784	15.2	2,170	5.9	**10,733**	**11.2**
Total Deployment of Funds (i+ii+iii)	18,327	100.0	22,330	100.0	18,294	100.0	36,611	100.0	**95,562**	**100.0**

* Financial Institutions comprise of IDBI, ICICI (only for 2001-02), IFCI, IIBI, EXIM Bank, TFCI, NABARD, SIDBI, IDFC and NHB.
Notes:
1) Figures in brackets excluding ICICI.
2) Share - As per cent of total of that category.

Appendix Table V.3(A): Financial Assets of Financial Institution: Institution-Wise

(Amount in Rs. Crore)

Institution	**As at the end of March**						
	1990-91	**1997-98**	**1998-99**	**1999-2000**	**2000-01P**	**2001-02P**	**2002-03P**
1	2	3	4	5	6	7	8
A. All-India Financial Institution							
1. IDBI	22,701	58,614	66,136 (12.8)	69,018 (4.4)	70,059 (1.5)	65,444 (-6.6)	62,361 (-4.7)
2. NABARD	12,664	25,027	28,803 (15.1)	32,999 (14.6)	38,491 (16.6)	44,351 (15.2)	49,554 (11.7)
3. ICICI	7,084	45,340	56,515 (24.6)	62,828 (11.2)	72,033 (14.7)	@	@

4. IFCI	5,835	19,924	22,034	21,927	21,292	20,338	22,481
			(10.6)	(-0.5)	(-2.9)	(-4.5)	(10.5)
5. EXIM Bank	1,984	5,186	5,641	6,863	7,245	8,051	12,011
			(8.8)	(21.7)	(5.6)	(11.1)	(49.2)
6. IIBI	818	2,508	3,764	4,089	4,675	4,526	4,526#
			(50.1)	(8.6)	(14.3)	(-3.2)	(0.0)
7. NHB	969	4,617	5,143	6,239	6,972	6,827	10,018
			(11.4)	(21.3)	(11.7)	(-2.1)	(46.8)
8. IDFC	—	—	2,302	2,439	2,854	3,252	3,845
				(6.0)	(17.0)	(13.9)	(18.2)
9. SIDBI	5,317	13,764	15,479	16,388	16,909	17,458	17,427
			(12.5)	(5.9)	(3.2)	(3.2)	(-0.2)
Total of A (1 to 9)	**57,372**	**1,74,980**	**2,05,817**	**2,22,790**	**2,40,530**	**1,70,247**	**1,82,223**
			(17.6)	**(8.2)**	**(8.0)**	**(-29.2)**	**(7.0)**
B. State Level Institution							
10.SFCs	6,412	12,555	10,437	12,218	12,692	12,712##	12,712#
			(-16.9)	(17.1)	(3.9)	(0.2)	(0.0)
11. SIDCs	3,637	8,648	11,192	12,300	12,300#	12,300#	12,300#
			(29.4)	(9.9)	(0.0)	(0.0)	(0.0)
Total of B (10 to 11)	**10,049**	**21,203**	**21,629**	**24,518**	**24,992**	**25,012**	**25,012#**
			(2.0)	**(13.4)**	**(1.9)**	**(0.1)**	**(0.0)**
C. Investment Institution							
12. LIC	29,040	1,08,847	1,31,780	1,59,949	1,92,482	2,44,448	2,44,448#
			(21.1)	(21.4)	(20.3)	(27.0)	(0.0)
13. GIC and its subsidiaries	6,362	20,788	23,717	26,834	29,824	41,867	41,867#
			(14.1)	(13.1)	(11.1)	(40.4)	(0.0)
14. UTI	23,164	67,686	71,526	81,034	79,564	64,223	64,223#
			(5.7)	(13.3)	(-1.8)	(-19.3)	(0.0)
Total of C (12 to 14)	**58,566**	**1,97,321**	**2,27,023**	**2,67,817**	**3,01,870**	**3,50,538**	**3,50,538#**
			(15.1)	**(18.0)**	**(12.7)**	**(16.1)**	**(0.0)**
D. Other Institution							
15. DICGC	1,744	6,138	5,251	5,607	6,311	6,933	7,786
			(-14.5)	(6.8)	(12.6)	(9.9)	(12.3)
16. ECGC	244	776	1,038	1,347	1,643	1,663	1,737
			(33.8)	(29.8)	(22.0)	(1.2)	(4.4)
Total of D (15+16)	**1,988**	**6,914**	**6,289**	**6,954**	**7,954**	**8,596**	**9,523**
			(-9.0)	**(10.6)**	**(14.4)**	**(8.1)**	**(10.8)**
Grand Total (A+B+C+D)	**1,27,975**	**4,00,418**	**4,60,758**	**5,22,079**	**5,75,346**	**5,54,393**	**5,67,296**
			(15.1)	**(13.3)**	**(10.2)**	**(-3.6)**	**(2.3)**

P Provisional
Figures repeated.
@ Merged with the ICICI Bank.
Figures of SFCs in respect of two states were repeated for the year 2001-02.
Notes:
1. Data pertain to the accounting year of the respective financial institutions. As far as IFCI is concerned, the stock of financial assets for the years upto 1992-93 are as at end-June while for 1993-94 onwards the figures are as at end March due to change in the accounting year. Figures pertaining to NHB and UTI are as at end-June. All other figures are as at end-March.
2. Figures in brackets indicate percentage change over the previous year.

Appendix Table V.3(B) : Financial Assets of Banks and Financial Institutions

(Amount in Rs. crore)

Institution	As at the end of March						
	1990-91	**1997-98**	**1998-99**	**1999-00**	**2000-01P**	**2001-02P**	**2002-03P**
1	2	3	4	5	6	7	8
I. Banks (3+4)*	**2,32,786**	**6,54,406**	**7,61,326**	**8,88,781**	**10,50,276**	**12,69,034**	**14,44,993**
			(16.3)	(16.7)	(18.2)	(20.8)	(13.9)
1. Scheduled Commercial Banks**	2,22,613	6,28,332	7,26,129	8,51,100	10,09,150	12,23,008	13,98,967
2. Non-Scheduled Commercial Banks***	77	—	—	—	—	—	—
3. Total Commercial Banks (1+2)	2,22,690	6,28,332	7,26,129	8,51,100	10,09,150	12,23,008	13,98,967
4. State Co-operative Banks +	10,096	26,074	35,197	37,681	41,126	46,026	46,026 @*
II. Financial Institutions (5 to 8)++	**1,27,975**	**4,00,418**	**4,60,758**	**5,22,079**	**5,75,346**	**5,54,393**	**5,67,296**
			(15.1)	(13.3)	(10.2)	(-3.6)	(2.3)
5. Term-lending Institutions # (All-India)	57,372	1,74,980	2,05,817	2,22,790	2,40,530	1,70,247	1,82,223
6. State-level Institutions @	10,049	21,203	21,629	24,518	24,992	25,012	25,012 @*
7. Investment Institutions @@	58,566	1,97,321	2,27,023	2,67,817	3,01,870	3,50,538	3,50,538 @*
8. Other Institutions @#	1,988	6,914	6,289	6,954	7,954	8,596	9,523
III. Aggregate (I+II)	**3,60,761**	**10,54,824**	**12,22,084**	**14,10,860**	**16,25,622**	**18,23,427**	**20,12,289**
			(15.9)	(15.4)	(15.2)	(12.2)	(10.4)
IV. Percentage Share:							
a) I to III	64.5	62.0	62.3	63.0	64.6	69.6	71.8
b) II to III	35.5	38.0	37.7	37.0	35.4	30.4	28.2

P Provisional.
@* Figures repeated.
* Include the following items: (i) Cash in hand and balances with the Reserve Bank, (ii) Asset with the Banking System, (iii) Investments, (iv) Bank Credit (Total loans, cash credits, overdrafts and bills purchased and discounted), and (v) dues from banks.
** As per returns under Section 42 of the Reserve Bank of India Act, 1934 and since 1991 relate to the last reporting Friday of March. Data in respect of ICICI Bank Ltd. shown, pertains to March 31, 2002 as reported in published balance sheet.
*** As per returns under Section 27 of the Banking Regulation Act,1949. Data relate to last Friday of March.
+ The data since 1990 are in respect of last Reporting Friday of March.
++ Figures pertain to the accounting year of the respective financial institution.
# Term-lending institutions include IDBI, NABARD, ICICI, IFCI, EXIM Bank, IIBI, NHB, IDFC, and SIDBI. From end-March 2002 onwards, the data do not include ICICI as it was merged with the ICICI Bank.
@ Include SFCs and SIDCs.
@@ Include UTI, LIC, and GIC and its former subsidiaries.
@# Include DICGC and ECGC.
Note: Figures in brackets indicate percentage change over the previous year.

Appendix Table V.4: Select Financial Parameters of Financial Institutions

(As at end-March 2003)

(Per cent)

Sr. No.	Financial Institution	Interest Income/ average Working Funds	Non-Interest Income/ average Working Funds	Operating Profit/ average Working Funds	Return on average assets	Net Profit per employee (Rs. crore)
1	2	3	4	5	6	7
1	EXIM Bank	7.07	1.09	3.39	2.11	1.24
2	IDBI	9.44	2.09	2.41	0.62	0.14
3	IDFC	9.72	2.87	5.50	4.94	1.36
4	IFCI	6.00	0.54	-1.12	-1.20	-0.30
5	IIBI	N.A.	N.A.	N.A.	N.A.	N.A.
6	NABARD	8.45	0.10	3.96	3.22	0.29
7	NHB*	8.48	0.65	1.51	0.82	1.63
8	SIDBI	8.84	0.48	3.13	1.79	0.22
9	TFCI	12.85	1.40	3.41	1.12	0.29

N.A. Not Available
* Audited data of NHB is as on June 30, 2003.
Source : Balance sheet of respective FIs.

Appendix Table V.5: Net Non-Performing Assets

(As at the end of March)

(Amount in Rs. crore)

Sr. No.	Institution	Standard	Sub-standard	Doubtful Assets	Net NPAs	Ratio of Net NPAs/

										Net Loans	
		2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
	1	2	3	4	5	6	7	8	9	10	11
	Term Lending Institutions	**64,270**	**61,712**	**3,776**	**3,989**	**7,596**	**10,308**	**11,372**	**14,298**	**15.0**	**18.8**
1.	IDBI	40,947	38,043	2,490	2,840	3,865	4,317	6,355	7,157	13.4	15.8
2.	IFCI	13,373	11,222	877	519	2,996	5,464	3,873	5,983	22.5	34.8
3.	IIBI	1,700	1,211	115	394	424	425	539	819	24.1	40.3
4.	EXIM BANK	5,624	7,990	247	184	201	0	448	184	7.4	2.2
5.	TFCI	619	589	47	49	110	102	157	152	20.2	20.5
6.	IDFC	2,007	2,657	0	3	0	0	0	3	0	0.1
	Refinancing Financial Institutions	**57,935**	**62,827**	**270**	**90**	**112**	**383**	**382**	**474**	**0.7**	**0.7**
7.	SIDBI	12,345	11,806	270	89	112	383	382	473	3.0	3.8
8.	NABARD	40,960	45,250	0	1	0	0	0	1	0	0
9.	NHB	4,630	5,771	0	0	0	0	0	0	0	0
	Total	**1,22,205**	**1,24,539**	**4,046**	**4,079**	**7,708**	**10,691**	**11,754**	**14,772**	**8.8**	**10.6**

Source : Returns received from respective FIs.

Appendix Table V.6: Resources raised by way of Rupee Bonds/ Debentures* by select all-India Financial Institutions

(Amount in Rs. Crore)

Institution/Year	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8	9	10
IDBI									
Resources raised	5,030	5,959	9,834	13,171	15,819	8,495	7,727	8,405	10,207
Outstandings	23,912	26,033	29,503	35,286	41,748	46,443	46,929	45,464	45,280
IIBI									
Resources raised	—	—	365	797	1,223	689	458	551	150
Outstandings	—	—	1,241	1,856	1,799	2,084	2,140	1,807	1,468
IFCI									
Resources raised	—	1,637	4,051	3,366	3,544	1,783	1,634	651	267
Outstandings	—	11,270	14,640	18,018	20,173	20,092	19,966	19,788	20,046
TFCI									
Resources raised	75	122	232	234	158	104	109	48	93
Outstandings	230	402	554	685	767	815	676	689	632
EXIM Bank									

Resources raised	60	173	—	—	500	800	300	625	2,505
Outstandings	644	817	817	817	1,275	2,050	2,026	3,067	5,424
IDFC									
Resources raised	—	—	—	—	500	—	250	250	400
Outstandings	—	—	—	—	500	500	750	1,000	1,400
SIDBI									
Resources raised	500	150	350	50	50	357	822	1,224	961
Outstandings	1,307	1,457	1,807	1,651	1,701	2,058	2,863	3,020	2,498
NABARD									
Resources raised	—	84	266	164	354	569	1,472	2,549	2,988
Outstandings	—	7,501	7,922	7,937	8,903	9,787	18,966	23,496	27,675
NHB									
Resources raised	147	23	525	325	475	667	500	238	1,877
Outstandings	1,750	1,724	3,005	3,464	4,069	4,795	5,232	4,678	6,384
Total Resources raised	**5,812**	**8,147**	**15,623**	**18,106**	**22,623**	**13,464**	**13,271**	**14,541**	**19,447**
Total Outstandings	**27,843**	**49,205**	**59,489**	**69,715**	**80,935**	**88,624**	**99,549**	**1,03,009**	**1,10,808**

* Resources raised includes instruments such as CDs,CPs,ICDs, Term Deposits, and Term Money Borrowing in respect of some FIs. Therefore, contents of this Table will not tally with Table Nos. V.11, V.12, and V.13.
Source : Returns received from respective FIs.

Appendix Table V.7: Weighted Average Cost/Maturity of Resources Raised by way of Rupee Bonds/Debentures* by select all-India Financial Institutions

[Weighted Average Cost (in per cent); Weighted Average Maturity (in years)]

Institution/Year	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-00**	**2000-01**	**2001-02**	**2002-03**
1	2	3	4	5	6	7	8	9
IDBI								
Weighted Average Cost	15.8	15.7	12.3	13.5	12.1	11.2	9.8	8.4
Weighted Average Maturity	2.4	2.7	3.0	4.9	5.1	3.9	2.6	2.8
IIBI								
Weighted Average Cost	—	—	—	—	—	13.2	12.9	12.8
Weighted Average Maturity	—	—	—	—	—	5.6	6.4	7.0
IFCI								
Weighted Average Cost	15.9	16.1	13.0	13.9	12.9	12.5	11.1	8.7
Weighted Average Maturity	4.5	8.3	5.3	5.7	7.0	6.5	6.8	5.1
TFCI								
Weighted Average Cost	15.7	16.8	14.1	14.1	12.5	11.8	10.5	10.1
Weighted Average Maturity	3.7	4.9	4.6	5.7	5.2	9.0	7.0	8.5
EXIM Bank								
Weighted Average Cost	12.5	12.5	12.5	12.9	12.5	12.2	10.8	8.9
Weighted Average Maturity	8.4	7.4	6.4	5.6	4.2	3.6	6.4	6.1
IDFC								
Weighted Average Cost	—	—	—	12.5	..	10.9	9.0	7.6

Weighted Average Maturity	—	—	—	5.0	..	5.0	5.0	5.6
SIDBI								
Weighted Average Cost	14.0	15.3	12.3	12.4	9.7	9.8	7.5	6.6
Weighted Average Maturity	10.0	5.7	10.0	10.0	2.6	1.3	1.0	2.3
NABARD								
Weighted Average Cost	14.0	11.1	9.8	11.2	10.6	9.5	7.9	6.1
Weighted Average Maturity	10.0	8.3	8.2	8.0	4.4	3.0	2.6	3.2
NHB								
Weighted Average Cost	14.0	13.4	10.5	11.2	11.1	10.2	8.7	6.4
Weighted Average Maturity	10.0	6.7	8.9	9.0	9.5	5.8	7.4	4.0

Data are provisional.
.. Resources not raised.
* Includes only rupee resources and does not include foreign currency borrowings. Instruments mentioned in footnote of Appendix Table V.5 are included. Therefore, contents of this Table will not tally with Table Nos. V.11, V.12, and V.13.
Source : Returns received from respective FIs.

Appendix Table V.8 : Resource Mobilisation by Mutual Funds

(Amount in Rs. crore)

Year (April-March)	**Public Sector Mutual Funds**				**Private Sector Mutual**	**Grand Total (5+6)**
	Bank-sponsored	**FI-Sponsored**	**Unit Trust of India**	**Total (2+3+4)**		
1	2	3	4	5	6	7
1995-96	113.3	234.8	-6,314.0	-5,965.9	133.0	-5,832.9
	(4)	(3)	(1)	(8)	(11)	(19)
1996-97	5.9	136.9	-3,043.0 @	-2,900.2	863.6	-2,036.6
	(3)	(2)	(1)	(6)	(17)	(23)
1997-98	236.9	203.4	2,875.0	3,315.3	748.6	4,063.9
	(2)	(3)	(1)	(6)	(15)	(21)
1998-99	-88.3	546.8	170.0	628.5	2,066.9	2,695.4
	(2)	(3)	(1)	(6)	(16)	(22)
1999-2000	335.9	295.5	4,548.0	5,179.4	16,937.4	22,116.8
	(6)	(3)	(1)	(10)	(27)	(37)
2000-01	517.8	1,272.8	322.0	2,112.6	9,869.1	11,981.7
	(6)	(3)	(1)	(10)	(27)	(37)
2001-02 P	861.6	612.8	-7,284.0	-5,809.6	12,947.9	7,138.3
	(6)	(3)	(1)	(10)	(27)	(37)
2002-03 P	1,074.5	913.7	-9,434.0	-7,445.8	12,025.9	4,580.1
	(4)	(3)	(1)	(8)	(29)	(37)

P Provisional.
@ Exclude re-investment sales.
Notes :
1. For UTI, the figures are net sales (with premium) under all domestic schemes and for other mutual funds, figures represent net sales under all ongoing schemes.
2. Data exclude amount mobilised by off-shore funds and through roll-over schemes.
3. Data within parentheses relate to the number of mutual funds which mobilised resources during the year.
Source : UTI and respective Mutual Funds.

Appendix Table VI.1: Performance of Primary Dealers
(As at end-March 2003)

(Amount in Rs. crore)

Sr. No.	Name of Primary Dealer	Income				Expenditure			Profit Before Tax	Profit After Tax	Return on Net worth
		Interest Income	Trading Profit	Other Income	Total Income	Interest Ex-penses	Other Ex-penses	Total Expen-diture			
1	2	3	4	5	6	7	8	9	10	11	12
1	Securities Trading Corporation of India	278.85	202.82	4.21	485.88	145.94	8.94	154.88	331.00	208.13	24.14
2	Discount & Finance House of India Ltd.	185.61	112.94	1.58	300.13	89.00	5.67	94.67	205.46	129.89	19.72
3	Gilt Securities Trading Corporation Ltd.	92.63	55.93	0.26	148.82	57.03	3.77	60.80	88.02	55.26	19.69
4	ICICI Securities Ltd.	129.89	123.18	52.26	305.33	87.12	68.84	155.96	149.36	102.95	30.70
5	SBI Gilts Ltd.	85.19	76.06	0.27	161.52	49.92	3.60	53.52	108.00	67.90	26.72
6	PNB Gilts Ltd.	126.51	101.79	1.80	230.10	70.69	9.40	80.09	150.01	92.51	20.86
7	JP Morgan Securities (India) Pvt. Ltd.	28.59	23.77	0.79	53.15	12.14	5.01	17.15	36.00	22.69	13.00
8	ABN AMRO Securities (India) Pvt. Ltd.	32.76	-2.42	8.95	39.29	16.30	22.78	39.08	0.21	0.86	0.67
9	Kotak Mahindra Capital Company Ltd.	32.64	31.88	24.61	89.13	16.74	24.52	41.26	47.88	30.99	16.93
10	DSP Merrill Lynch Ltd.	37.63	58.21	162.31	258.15	21.75	99.97	121.72	136.42	84.56	27.85
11	Deutsche Securities (India) Pvt. Ltd.	25.53	43.71	0.17	69.41	12.27	4.27	16.54	52.86	33.10	21.00
12	IDBI Capital Market Services Ltd.	201.24	294.16	8.55	503.95	122.87	13.69	136.56	367.39	228.15	51.00
13	Corpbank Securities Ltd.	72.29	36.48	0.44	109.21	41.96	1.66	43.62	65.59	41.48	23.41
14	HSBC Primary Dealership (India) Pvt. Ltd.	13.50	18.67	0.78	32.95	5.70	2.89	8.59	24.36	15.34	22.00
15	Bank of America Securities (India) Pvt Ltd.	8.93	10.77	0.15	19.85	3.94	2.65	6.59	13.26	8.25	13.00

16	Standard Chartered UTI Securities (India) Pvt. Ltd.	19.10	7.07	0.21	26.38	10.85	2.02	12.87	13.52	7.20	12.64
17	BoB Capital Markets Ltd.	14.10	12.65	1.12	27.87	7.55	4.50	12.05	15.82	9.30	9.42
18	Citicorp Capital Markets Ltd.	1.17	0.03	0.00	1.20	0.04	0.45	0.49	0.71	0.43	0.80
	TOTAL	**1,386.16**	**1,207.70**	**268.46**	**2,862.32**	**771.81**	**284.63**	**1,056.44**	**1,805.87**	**1,138.99**	**—**

Appendix Table VI.2: Select Assets and Liabilities of Primary Dealers

(Amount in Rs. crore)

Sr. No.	Name of Primary Dealer	Capital Funds (Paid up Capital plus Reserves and Surplus)		CRAR (per cent)		Stock of Government Securities & Treasury bills		Total Assets (Net of current Liabilities & Provisions)	
		2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
1	2	3	4	5	6	7	8	9	10
1	Securities Trading Corporation of India	801.38	923.21	29.13	21.74	1,917.78	2,602.40	2,450.45	3,235.32
2	Discount & Finance House of India Ltd.	614.76	702.77	51.40	40.05	1,819.28	1,389.79	2,777.87	1,600.38
3	Gilt Securities Trading Corporation Ltd.	237.37	280.65	67.01	42.33	1,145.59	1,029.35	1,159.74	1,062.21
4	ICICI Securities Ltd.	319.19	351.08	26.02	27.96	1,414.83	1,497.35	2,052.74	2,190.94
5	SBI Gilts Ltd.	234.32	273.95	31.00	36.05	765.94	610.34	789.00	603.73
6	PNB Gilts Ltd.	416.28	472.45	41.80	18.89	578.03	839.05	779.95	1,171.11
7	JP Morgan Securities (India) Pvt. Ltd.	169.11	192.02	33.80	39.00	431.29	313.15	533.73	419.98
8	ABN AMRO Securities (India) Pvt. Ltd.	164.83	127.58	24.58	35.94	208.53	231.38	320.68	301.23
9	Kotak Mahindra Capital Company Ltd.	170.05	196.09	38.00	33.00	212.20	260.98	328.25	403.06
10	DSP Merrill Lynch Ltd.	289.31	317.84	46.21	49.70	422.66	706.25	622.47	1,003.07
11	Deutsche Securities (India) Pvt. Ltd.	139.98	174.90	106.00	42.00	180.90	340.93	205.78	433.90
12	IDBI Capital Market Services Ltd.	388.20	515.37	54.58	40.36	1,734.60	2,592.82	1,808.45	2,736.55
13	Corpbank Securities Ltd.	152.64	177.19	43.41	15.49	748.89	1,030.17	742.15	1,043.37
14	HSBC Primary Dealership (India) Pvt. Ltd.	67.09	71.56	48.60	52.00	182.76	469.70	187.09	450.96
15	Bank of America Securities (India) Pvt Ltd.	57.69	65.95	74.86	191.41	77.73	54.55	129.00	92.09
16	Standard Chartered UTI Securities (India) Pvt. Ltd.	56.46	56.93	35.80	40.32	218.57	441.40	223.23	472.18
17	BoB Capital Markets Ltd.@	0.00	102.02	0.00	144.60	0.00	108.94	0.00	102.02
18	Citicorp Capital Markets Ltd.	—	53.43	—	1,033.30	—	54.24	—	56.38
19	TATA TD Waterhouse @@	91.87	—	53.36	—	157.74	—	193.99	—
	Total	**4,370.53**	**5,054.99**	**38.40**	**29.71**	**12,217.32**	**14,572.79**	**15,304.57**	**17,378.48**

@ PD was authorised on March 16, 2002 but started its operation in 2002-03.

@@ Ceased PD operations during the year 2002-03.

List of Abbreviations

ACE	Asset Care Enterprise
AD	Authorised Dealer
AFS	Available for Sale
ALM	Asset-Liability Management
AMC	Asset Management Company
ARC	Asset Reconstruction Company
ARCIL	Asset Reconstruction Company (India) Limited
AS	Accounting Standards
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BFS	Board for Financial Supervision
BIFR	Board for Industrial and Financial Reconstruction
BIS	Bank for International Settlements
BSE	The Stock Exchange, Mumbai
BSR	Basic Statistical Return
CALCS	Capital Adequacy, Asset Quality, Liquidity, Compliance and System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Systems
CAR	Capital Adequacy Ratio
CBLO	Collateralised Borrowing and Lending Obligation
CBS	Consolidated Banking Statistics
CCB	Central Co-operative Bank
CCEA	Cabinet Committee on Economic Affairs
CCIL	Clearing Corporation of India Limited
CD	Compact Diskette
CDs	Certificate of Deposit
CDR	Corporate Debt Restructuring
CDSL	Central Depository Services Limited
CEO	Chief Executive Officer
CFS	Consolidated Financial Statements
CIBIL	Credit Information Bureau of India Limited
CISA	Certified Information Systems Auditor
CLF	Collateralised Lending Facility
CoR	Certificate of Registration
CP	Commercial Paper
CP3	Third Consultative Paper
CPR	Consolidated Prudential Report
CPSS	Committee on Payment and Settlement Systems
CRAR	Capital to Risk-Weighted Assets Ratio
CRISIL	Credit Rating and Investment Services (India) Limited
CRM	Country Risk Management
CRR	Cash Reserve Ratio
CSGL	Constituent Subsidiary General Ledger
CVC	Central Vigilance Commission
DAP	Development Action Plan
DCA	Department of Company Affairs
DCA	Debtor-Creditor Agreement
DCCB	District Central Co-operative Bank
DeaR	Daily Earnings at Risk
DFHI	Discount and Finance House of India
DFI	Development Financial Institution
DICGC	Deposit Insurance and Credit Guarantee Corporation
DNS	Deferred Net Settlement
DRAT	Debt Recovery Appellate Tribunal
DRI	Differential Rate of Interest
DRT	Debt Recovery Tribunal

DTL	Demand and Time Liabilities
ECA	Export Credit Agencies
ECR	Export Credit Refinance
ECS	Electronic Clearing Service
EDP	Electronic Data Processing
EEFC	Exchange Earners' Foreign Currency
EFT	Electronic Funds Transfer
EXIM Bank	Export Import Bank of India
FC	Farmers Club
FCNR	Foreign Currency Non-Resident
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FFMC	Full-Fledged Money Changer
FI	Financial Institution
FIMMDA	Fixed Money Market and Derivatives Association of India
FRA	Forward Rate Agreement
GDP	Gross Domestic Product
GLC	General Line of Credit
HFC	Housing Finance Company
HFT	Held for Trading
HLCC	High Level Co-ordination Committee on Financial and Capital Markets
HTM	Held to Maturity
IBA	Indian Banks' Association
IBJ	Industrial Bank of Japan
IBK	Industrial Bank of Korea
IBS	International Banking Statistics
ICA	Inter-Creditor Agreement
ICAI	Institute of Chartered Accountants of India
IC-D	Investment *plus* Credit to Deposit
IDBI	Industrial Development Bank of India
IDFC	Infrastructure Development Finance Company
IDRBT	Institute for Development and Research in Banking Technology
IFMS	Integrated Foreign Exchange Management System
IFR	Investment Fluctuation Reserve
IIBI	Industrial Investment Bank of India Limited
INFINET	Indian Financial Network
IPO	Initial Public Offering
IRAC	Income Recognition and Asset Classification
IRB	Internal Rating Based
IRD	Interest Rate Derivative
IRS	Interest Rate Swap
IT	Information Technology
JPC	Joint Parliamentary Committee
KCC	Kisan Credit Card
KYC	Know Your Customer
L_3	Broad Liquidity
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LBS	Locational Banking Statistics
LC	Letter of Credit
LGD	Loss Given Default
LIBOR	London Inter-Bank Offered Rate
LOCOM	Lower of Cost and Market
MBC	Mutual Benefit Company
MBFC	Mutual Benefit Financial Company
MBS	Mortgage Backed Securities

MF	Mutual Fund
MF	Microfinance
MIBOR	Mumbai Inter-Bank Offer Rate
MIDL	Modernisation and Institutional Development Loan
MIFOR	Mumbai Inter-Bank Forward Rate
MIS	Management Information System
MLR	Minimum Lending Rate
MNBC	Miscellaneous Non-Banking Company
MoU	Memorandam of Understanding
MTM	Mark to Market
NABARD	National Bank for Agriculture and Rural Development
NAV	Net Asset Value
NBC	Net Bank Credit
NBFC	Non-Banking Financial Company
NCAER	National Council of Applied Economic Research
NDS	Negotiated Dealing System
NDTL	Net Demand and Time Liabilities
NGO	Non-Government Organisation
NHB	National Housing Bank
NIAS	National Impact Assessment Survey
NIBM	National Institute of Bank Management
NII	Net Interest Income
NMCE	National Multi Commodity Exchange of India
NOF	Net Owned Fund
NPA	Non-Performing Asset
NPL	Non-Performing Loan
NRE	Non-Resident External
NRO	Non-Resident Ordinary
NSDL	National Securities Depository Limited
NSE	National Stock Exchange
OBS	Off-Balance Sheet
OBU	Off-Shore Banking Unit
OCD	Optional Convertible Debenture
OIS	Overnight Index Swap
OLIC	Official Language Implementation Committee
OS	Operating System
OSMOS	Off-Site Monitoring and Surveillance System
OSS	Off-site Surveillance Division
OTCEI	Over the Counter Exchange of India
OTS	One Time Settlement
PAC	Public Accounts Committee
PACS	Primary Agricultural Credit Society
PB	Participating Bank
PCA	Prompt Corrective Action
PCARDB	Primary Co-operative Agricultural and Rural Development Bank
PCFC	Pre-shipment Credit in Foreign Currency
PD	Primary Dealer
PDAI	Primary Dealers Association of India
PKI	Public Key Infrastructure
PLR	Prime Lending Rate
PMLA	Prevention of Money Laundering Act
PMRY	Prime Minister's Rozgar Yojana
PMS	Portfolio Management Services
PSB	Public Sector Bank
PSRS	Prudential Supervisory Reporting System
PSU	Public Sector Undertaking

PVBP	Present Value of Basis Points
QIB	Qualified Institutional Buyer
QIS	Quantitative Impact Study
RBS	Risk Based Supervision
RC	Reconstruction Company
RFC	Resident Foreign Currency
RIDF	Rural Infrastructural Development Fund
RMC	Restricted Money Changer
RMD	Resource Management Discussion
RNBC	Residuary Non-Banking Company
RoA	Return on Asset
RRB	Regional Rural Bank
SAC	Settlement Advisory Committee
SACP	Special Agricultural Credit Plan
SAO	Seasonal Agricultural Operation
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SC	Securitisation Company
SCARDB	State Co-operative Agricultural and Rural Development Bank
SCB	Scheduled Commercial Bank
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
SFC	State Financial Corporation
SGL	Subsidiary General Ledger
SGSY	Swarnajayanti Gram Swarozgar Yojana
SHCIL	Stock Holding Corporation of India Limited
SHG	Self-Help Group
SHPI	Self-Help Promoting Institution
SIDBI	Small Industries Development Bank of India
SKS	Swayam Krishi Sangam
SLR	Statutory Liquidity Ratio
SLRS	Scheme of Liberation and Rehabilitation of Scavengers
SME	Small and Medium Enterprise
SSI	Small Scale Industry
StCB	State Co-operative Bank
STCI	Securities Trading Corporation of India
STPLR	Short-Term Prime Lending Rate
STRIPS	Separate Trading for Interest and Principal of Securities
SVP	Special Purpose Vehicles
TAP	Technical Assistance Programme
TFCI	Tourism Finance Corporation of India
UBD	Urban Banks Department
UCB	Urban Co-operative Bank
URR	Uniform Rules and Regulation
UTI	Unit Trust of India
UTIMF	UTI Mutual Fund
VaR	Value at Risk
VRS	Voluntary Retirement Scheme
VSAT	Very Small Aperture Terminal
VVV	Vikas Volunteer Vahini
WADR	Weighted Average Discount Rate
YTM	Yield to Maturity