Report on Trend and Progress of Banking in India for the year ended June 30, 2005 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949

REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 2004-05

RESERVE BANK OF INDIA

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Chapter I

Overview

Global Economy

1.1 Global economic growth remained strong in 2004 (January to December), aided by expansionary monetary policies and comfortable financial conditions[1]. Global growth, which was robust during the first half of 2004, slowed down somewhat in the latter part of the year, reflecting the impact of a sharp rise in commodity prices and the fear of disorderly movement of currency adjustments. However, the global economy grew by nearly 5 per cent in 2004, the highest rate for nearly three decades. The US and the emerging Asia accounted for more than half of the increase in global output. Growth in the euro area and Japan registered a much lower growth. With moderation in the global growth in the second half of 2004, growth differentials among different regions widened. While the US was able to sustain its growth on account of increased corporate spending and stronger job creation, the euro area and Japan faced renewed weakness. Large and persistent growth differentials in the growth pattern in different regions led to a significant widening of global financial imbalances.

1.2 Global inflation remained at a moderate level during 2004, despite the sharp increase in oil and non-oil commodity prices and accommodative monetary and fiscal policies. The inflationary impact of rising oil prices was felt more by the emerging market economies, which depend heavily on oil than the advanced industrial economies. This, combined with the impact of a rise in food prices, resulted in an increase in headline inflation in Asia from about 3 per cent at the beginning of 2004 to a peak of almost 5 per cent in the third quarter. In the advanced industrial economies, consumer price inflation increased from 1.5 per cent at the beginning of 2004 to about 2.5 per cent towards the end of the year. The inflation situation also deteriorated in the central and eastern Europe following several years of disinflation. Nevertheless, underlying inflationary pressures remained generally contained in most parts of the globe. Core inflation (excluding food and energy components from headline inflation) remained broadly stable in several advanced and emerging market economies.

1.3 Financial markets conditions remained comfortable with ample liquidity, notwithstanding reversal of accommodative monetary policy by the US beginning June 2004. Long-term rates fell in the US, despite rise in short-term interest rates. This was in sharp contrast to previous periods of monetary tightening, when high policy rates were accompanied by high long-term interest rates. The same trend was also observed in the UK, Australia, Canada and Switzerland, where long-term yields fell despite tightening of monetary policy. As a result, the yield curve flattened in several advanced economies. Credit spreads for corporate and sovereign borrowers declined to historical low levels, which helped in keeping borrowing costs down. Equity markets rallied in most of the major international markets, propelled by expectations of strong future corporate earnings on the back of strong economic recovery.

Developments during 2005

1.4 Global economic growth during 2005 is expected to be moderated. Following a temporary slowdown in mid-2004, global GDP growth picked up through the first quarter of 2005, with robust services sector output more than compensating slowing global growth in manufacturing. In the second quarter, however, the growth slackened reflecting, in part, the impact of higher oil prices and weakening of leading indicators and business confidence in most major countries. While global manufacturing and trade are now strengthening and leading indicators have shown improvement, high and volatile oil prices, exacerbated by the recent catastrophic effects of Hurricane Katrina continue to affect the growth prospects. The IMF has estimated the global growth to average 4.3 per cent in 2005 from 5.1 per cent in 2004. Within this overall favorable picture, there remain wide divergences in growth with the US, China and India continuing to lead global growth. While

[1] Global developments in this Chapter relate to the calendar year (January-December), while those on the Indian economy relate to the fiscal year (April-March), unless otherwise specified.

Japan appears to be regaining momentum, the expansion in the euro area continues to be subdued.

1.5 Financial market conditions continue to remain benign. Long-run interest rates, while somewhat volatile, continue to be unusually low around the world. Equity markets have remained resilient globally, supported by strong corporate profits and balance sheets. Credit spreads remain moderate. The current configuration of good growth, low inflation, abundant liquidity, flat yield curves, lowering of credit risk premia and ever-expanding search for yield has benefited many emerging market economies (EMEs). EMEs have strengthened their macro fundamentals in an environment of low inflation, improved fiscal positions and balance of payments and substantial accumulation of foreign exchange reserves.

1.6 The rising global financial imbalances remain a major risk to the economic outlook over the medium-term. Unusually low investment rates in several economies have resulted in an excess supply of saving at the global level, resulting in low real interest rates. While the US continues to finance the current account deficit without difficulty, there is a risk that higher than expected inflation or reduced interest in the US assets may cause sharp currency readjustments with implications for financial markets.

Indian Economy

Macro Environment

1.7 The Indian economy continued to register robust growth during 2004-05 (April to March), notwithstanding some setback arising from a deficient monsoon. Real GDP growth rate at 6.9 per cent in 2004-05, one of the highest in the world, came on the back of a 15-year high real GDP growth rate of 8.5 per cent in 2003-04. Overall real GDP growth for 2004-05 at 6.9 per cent, despite a sharp slowdown in agriculture, propelled the average growth to 6.5 per cent in the first three years of the Tenth Five Year Plan period (2002-03 to 2006-07). Growth of real GDP originating from 'agriculture and allied activities' decelerated sharply to 1.1 per cent during 2004-05 from 9.6 per cent during the previous year. Real GDP growth originating from industry, however, strengthened to 8.3 per cent with the industrial recovery spreading across almost all sectors during 2004-05. The firming up and spread of the upturn in industrial activity was led by manufacturing growth facilitated by positive investment climate, improved business confidence and buoyant external demand. The services sector contributed as much as 70.5 per cent to the real GDP growth in 2004-05.

1.8 The inflation rate in 2004-05 was somewhat higher than that in 2003-04, driven mainly by the rise in oil prices. It was, however, contained by successful policy interventions, both fiscal and monetary measures. Headline inflation, measured by year-on-year changes in the wholesale price index moved in two distinct phases during 2004-05. The first phase covering April-August 2004 witnessed a hardening of domestic prices of coal, petroleum products, iron ore and metals, reflecting lagged adjustments to international prices. Inadequate South-West monsoon also pushed up the prices of food and non-agricultural commodities between July and August 2004. Inflation receded in the second phase beginning September 2004 as the adverse impact of the South-West monsoon turned out to be far more limited than earlier perceived. The year-on-year headline inflation eased to 5.1 per cent by end-March 2005. For the year 2004-05 as a whole, inflation (in terms of WPI), on an average basis, was somewhat higher at 6.4 per cent than 5.4 per cent recorded in 2003-04.

1.9 The conduct of fiscal policy during 2004-05 was shaped by the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and the FRBM Rules, 2004. The revised fiscal deficit of the Centre for 2004-05 at 4.5 per cent of GDP was the same as the threshold level set by the FRBM. Provisional accounts of the Central Government released subsequently placed all the key deficit indicators lower than the revised estimates, reflecting higher non-tax revenues and lower capital expenditure. The gross fiscal deficit was placed lower at 4.1 per cent of GDP. The primary deficit and the revenue deficit also declined further as proportion of GDP.

1.10 Broad money (M_3) growth at 12.2 per cent during 2004-05 was lower than that of 16.7 per cent in 2003-04 and well within the projected trajectory of 14.0 per cent. The deceleration in M_3 reflected, in part, the base effect of higher deposit mobilisation by commercial banks during the last quarter of the previous year. A noteworthy feature during the year was the acceleration in bank credit to the commercial sector. The pick-

up in the commercial banks' non-food credit, which started in July 2004, was sustained by the continued buoyancy in the industrial sector. In addition, the flow of resources from non-banks to the corporates, including issuance of Global and American Depository Receipts (GDRs and ADRs), Foreign Currency Convertible Bonds (FCCBs), and commercial paper (CP) almost doubled during the year.

1.11 Liquidity conditions in the various segments of money market remained broadly stable during 2004-05. The weighted average call money rate firmed up slightly to 4.77 per cent in March 2005 from 4.37 per cent in March 2004. The volatility in call money rates was somewhat higher during 2004-05 than in the preceding year, mainly on account of fluctuations in call rates during November-December 2004. Similarly, the cut-off yields on 91-day and 364-day Treasury Bills increased to 5.32 per cent and 5.66 per cent, respectively, in March 2005 from 4.37 per cent and 4.44 per cent, respectively, in March 2004. The market for CP continued to remain buoyant during 2004-05. The weighted average discount rate on commercial paper of 61-day to 90-day maturity moved up from 5.11 per cent in March 2004 to 5.84 per cent in March 2005. The repo rates ranged between 3.70 per cent and 5.58 per cent during the year, with the exception of occasional spikes in November and December 2004. The yields on Government securities with a 5-year and 10-year maturity hardened to 6.36 per cent and 6.65 per cent, respectively, in March 2005 from 4.78 per cent and 5.15 per cent, respectively, in March 2004.

1.12 Buoyant exports emerged as a driver of demand in a large spectrum of industries. Merchandise export growth exceeded 24 per cent in US dollar terms, extending the phase of high growth that began in 2002-03. The current account surplus, however, slipped into a modest deficit after being in surplus for three consecutive years. Capital inflows continued on account of global liquidity conditions as well as strong macroeconomic fundamentals of the Indian economy. Inflows of foreign direct investment increased substantially with India being one of the major recipients of foreign direct investment in the Asian region. Although portfolio flows declined on account of a slowdown during the first half of the year due to global uncertainties caused by hardening of crude oil prices and the upturn of the interest rate cycle, portfolio flows to India on the whole, accounted for 30.6 per cent of global flows to emerging market economies and developing countries in 2004. All these factors resulted in an accretion of foreign exchange reserves of US $ 26.2 billion during the year. The foreign exchange reserves at US $ 141.5 billion at end-March 2005 was the fifth largest stock of international reserves in the world, sufficient to finance about 14 months of imports. The ratio of short-term debt to foreign exchange reserves at 5.3 per cent comfortably satisfied the adequacy criterion *vis-à-vis* comparable countries.

Scheduled Commercial Banks

1.13 The robust macroeconomic environment continued to underpin the financial performance of Indian banks during 2004-05, with major bank groups successfully weathering the impact of an upturn in interest rate cycle. The demand for credit was broad-based during 2004-05 with agriculture and industry joining the housing and retail sectors to drive up the demand for credit. A sharp increase in net interest income mitigated to a large extent the impact of a sharp decline in non-interest income mainly on account of decline in trading profits. Banks continued to earn sizeable profits *albeit* somewhat lower than last year. Asset quality of scheduled commercial banks improved further during 2004-05 (Table I.1). Capital base of banks kept pace with the sharp increase in risk-weighted assets.

1.14 Aggregate deposits of SCBs increased at a lower rate during 2004-05 as compared with the previous year on account of slowdown in demand deposits and savings deposits. Deceleration in demand deposits was due mainly to the base effect as demand deposits had witnessed an unusually high growth last year. Reversing the decelerating trend of the previous year, bank credit registered a robust growth during the year. Although banks' investments in Government securities during the year 2004-05 slowed down significantly, the banking sector at end-March 2005 held about 38.4 per cent of its net demand and time liabilities in SLR securities, much in excess of the statutory minimum requirement of 25 per cent. The non-SLR investments of SCBs continued to decline during 2004-05, reflecting the portfolio adjustment by banks subsequent to guidelines on non-SLR securities issued by the Reserve Bank in November and December 2003.

Table I.1: Select Financial Sector Indicators: 2003-04 *vis-à-vis* 2004-05

Banks/FIs/NBFCs		Indicator	2003-04	2004-05
1		2	3	4
1. Scheduled Commercial Banks*	a)	Growth in Major Aggregates (per cent)		
		Assets	16.2	15.2
		Deposits	16.4	15.4
		Investments	15.9	4.8
		Advances	16.9	27.9
	b)	Financial Indicators (as percentage of total assets)		
		Operating Profits	2.7	2.2
		Net Profits	1.1	0.9
		Spread	2.9	2.9
	c)	Non-Performing Assets (as percentage of advances)		
		Gross NPAs	7.2	5.2
		Net NPAs	2.9	2.2
2. Urban Co-operative Banks	a)	Growth in Major Aggregates (per cent)		
		Deposits	1.7	0.7
		Credit	3.4	-1.5
		Investments	14.6	-2.5
	b)	Financial Indicators (as percentage of total assets) #		
		Operating Profits	1.4	0.9
		Net Profits	0.4	0.3
		Spread	1.6	1.9
	c)	Non-Performing Assets (as percentage of advances)		
		Gross NPAs	22.7	23.0
		Net NPAs	12.1	12.2
3. All-India Financial Institutions	a)	Growth in Major Aggregates (per cent)[1]		
		Sanctions	81.4	-37.2
		Disbursements	42.2	-29.5
	b)	Financial Indicators (as percentage of total assets)[2]		
		Operating Profits	1.7	2.5
		Net Profits	1.2	2.0
		Spread	1.1	1.7
	c)	Non-Performing Assets (as percentage of advances)[2]		
		Net NPAs	5.6	3.7
4. Non-banking Financial Companies (excluding RNBCs)	a)	Growth in Major Aggregates (per cent)		
		Public Deposits	-14.3	-15.5
	b)	Financial Indicators (as percentage of total assets)		
		Net Profits	1.6	1.7
	c)	Non-Performing Assets (as percentage of advances)		
		Net NPAs	2.4	3.4
5. Residuary Non-banking Companies (RNBCs)	a)	Growth in Major Aggregates (per cent)		
		Public Deposits	1.7	8.3
	b)	Financial Indicators (as percentage of total assets)		
		Net Profits	1.0	0.5

* : For the year 2004-05, data exclude the conversion of a non-banking entity into a banking entity.
\# : Relating to scheduled urban co-operative banks.
1. Relating to IFCI, IIBI, IDFC, SIDBI, IVCF, ICICI Venture, TFCI, LIC, GIC, NIA and UIA.
2. Relating to IFCI, IIBI, TFCI, IDFC, Exim Bank, NABARD, NHB and SIDBI.

Note : Data for 2004-05 are provisional.

1.15 Interest rates offered by the public sector banks on term deposits for maturities up to one year moved from a range of 3.75-5.25 per cent in March 2004 to 2.75-6.00 per cent in March 2005. Interest rates on term deposits with over one year maturity moved from a range of 5.00-6.00 per cent

to 4.75-7.00 per cent during this period. The spread between typical deposit rates of 15-29 days and over 3-year tenor offered by public sector banks widened to 200 basis points in March 2005 from 175 basis points a year ago.

1.16 The benchmark prime lending rates (BPLRs) of public sector banks moved from a range of 10.25-11.50 per cent in March 2004 to 10.25-11.25 per cent in March 2005. BPLRs of foreign and private sector banks moved from a range of 11.00-14.85 per cent and 10.50-13.00 per cent, respectively, to 10.00-14.50 per cent and 11.00-13.50 per cent, respectively, during the same period. During 2004-05, a substantial part of banks' lending was at sub-BPLR rates. The share of sub-BPLR lending in total lending of commercial banks, excluding export credit, increased from about 50 per cent in March 2004 to over 60 per cent in March 2005. As at end-March 2005, public sector banks' median (representative) lending rate for demand and term loans (at which maximum business is contracted) in the range of 9.00-12.50 per cent and 8.35-12.00 per cent, respectively, exhibited moderation as compared with their corresponding levels of 11.00-12.75 per cent each in March 2004.

1.17 The gross and net NPAs of SCBs declined in absolute terms over and above the decline during the previous two years. The decline, however, was more pronounced in respect of net NPAs. The decline in net NPAs was witnessed across all bank groups. Various factors such as improved risk management practices, greater recovery efforts under the SARFAESI Act and Corporate Debt Restructuring mechanism, *inter alia*, contributed to the decline in the NPAs.

1.18 Banks were able to maintain capital to risk-weighted assets ratio (CRAR) more or less at the previous year's level, despite sharp increase in risk-weighted assets. While CRAR of new private sector banks increased, it declined marginally in respect of all other bank groups. Within the public sector banks, while the CRAR of nationalised banks remained more or less at the previous year's level, it declined for the State Bank group.

Co-operative Banks

1.19 Deposits of urban co-operative banks (UCBs) increased marginally, while their advances and investments declined during 2004-05. Business operations of scheduled UCBs expanded on the back of a sharp increase in internal resources, deposits and borrowings. The increase in net interest income of scheduled UCBs was offset by a decline in other income, resulting in reduced operating profit and net profit for the sector. Asset quality of urban co-operative banks did not witness any significant change during the year.

1.20 The rural co-operative banks exhibited divergent trends during 2003-04. Despite expansion of operations at a higher rate, the profitability of State co-operative banks declined. The trend was opposite for central co-operative banks. The grassroot layer of the rural co-operative banking structure, *i.e.*, the primary agricultural co-operative societies (PACS) expanded their membership, even as their borrowing members declined sharply. Overall operations of PACS, however, continued to expand during 2003-04, despite decline in deposits. Although there was some improvement in their asset quality, overdues continued to remain very high. The operations of the longer-term rural co-operatives structure, *i.e.*, the State Co-operative Agricultural and Rural Development Banks (SCARDBs) and Primary Co-operative Agricultural and Rural Development Banks (PCARDBs), witnessed a moderate growth. However, their financial performance remained unsatisfactory. The asset quality of all the layers of the rural co-operative banks, other than PACS, deteriorated.

Financial Institutions

1.21 Financial assistance sanctioned and disbursed by financial institutions (FIs) declined during 2004-05. Resources mobilised by FIs (excluding erstwhile Industrial Development Bank of India Ltd. - IDBI) increased, with National Bank for Agriculture and Rural Development (NABARD) mobilising the largest amount, followed by Export-Import Bank of India (EXIM Bank), National Housing Bank (NHB) and Industrial Development Finance Company (IDFC). Borrowings by way of bonds/debentures continued to be the main source of funds for FIs. Certain FIs such as IFCI Ltd. and Industrial Investment Bank of India (IIBI) Ltd. continued to be barred from mobilising fresh resources on account of their poor financials.

1.22 Loans and advances which represent the main avenue for deployment of funds by FIs registered healthy growth during 2004-05. The spread (net interest income) and the operating profits increased both in absolute terms and as a ratio to total assets. The capital to risk-weighted

assets ratio remained much above the norm of 9 per cent at end-March 2005 for all FIs except IFCI Ltd. and IIBI. The asset quality of all FIs, except Small Industries Development Bank of India (SIDBI) showed a significant improvement during 2004-05 on account of substantial recovery of dues and increased provisioning.

Non-Banking Financial Companies

1.23 The number of Non-Banking Financial Companies (NBFCs) continued to decline largely on account of conversion of large sized deposit taking companies into non-deposit taking activities. Assets of NBFCs (excluding RNBCs), which contracted sharply during 2003-04, increased marginally during 2004-05. Financial performance of NBFCs improved in 2003-04 and 2004-05 mainly on account of containment of expenditure. While gross NPAs declined in 2003-04 and 2004-05, net NPAs increased somewhat during 2004-05. The CRAR of NBFCs continued to be comfortable with most of the NBFCs continuing to hold CRAR significantly above the regulatory minimum prescribed. Assets of RNBCs declined during 2003-04 and 2004-05. Financial performance of RNBCs was lacklustre during 2003-04 and 2004-05.

Developments during 2005-06

1.24 The Annual Policy Statement released in April 2005 projected real GDP growth for 2005-06 at around 7.0 per cent on the assumption of normal monsoon and that the industry and services sectors would maintain their growth momentum, while absorbing the impact of oil prices. Although the onset of the South-West monsoon was delayed this year by a week, it picked up by end-June 2005, as a result of which excess or normal rainfall was observed in 32 of the 36 meteorological sub-divisions. For the country as a whole, rainfall during June-September this year was 99 per cent of its long period average. By current assessment of area coverage under various crops, it is likely that the *kharif* output may register an increase over the previous year's level. In addition, the improvement in water storage levels over the previous year augurs well for the outlook on *rabi* production. Based on the current assessment of a pick-up in agricultural output and in the momentum in industrial and services sectors, the Mid-term Review of the Annual Policy Statement released in October 2005, placed GDP growth in 2005-06 in the range of 7.0-7.5 per cent as against around 7.0 per cent projected earlier in April 2005. According to data released by the Central Statistical Organisation (CSO), real GDP increased by 8.1 per cent during the first quarter of 2005-06 as against 7.6 per cent in the first quarter of the previous year. The elevated level of international crude prices imparts downside risks to overall GDP growth. At the same time, the robust industrial and service sector growth and buoyant exports are likely to have some positive impact on growth. Prospects for sustained growth in industrial output have improved in an environment of rising investment and export demand, strong corporate profitability and buoyant business confidence. The index of industrial production (IIP) increased by 8.8 per cent during April-August 2005 as compared with the increase of 8.0 per cent in the corresponding period of the previous year. There are signs of sustained growth in the production of basic goods, capital goods and consumer goods. Alongwith the sustained growth of industry, there was a surge in non-food credit growth. Exports of manufactured goods and services remain buoyant and the international business environment and investor confidence in India continue to remain positive. Domestic production and imports of capital goods have risen strongly in tandem, indicative of ongoing capacity expansion. With continued business expansion and lower interest costs, corporate profitability is high and there is an expansion in internal resources available for investment. These factors have led to upbeat sentiment and a positive investment climate.

1.25 Monetary conditions remained comfortable during 2005-06 (up to September 30, 2005), despite a sustained pick-up in credit demand from the commercial sector. Banks were able to finance the higher demand for commercial credit by curtailing their incremental investments in Government securities. Strong growth in deposits in the current fiscal year and higher investments by non-bank sources in Government securities also enabled banks to meet credit demand. The year-on-year growth in M_3 at 16.6 per cent up to September 30, 2005 was higher than the indicative trajectory of 14.5 per cent indicated in the Annual Policy Statement for 2005-06.

1.26 Financial markets have remained stable and orderly, although interest rates have firmed up in almost all segments. The average call money rate increased from 4.77 per cent in April 2005

to 5.06 per cent in October 2005 (up to October 21) although it generally remained closely aligned with the LAF reverse repo rate. The 91-day and the 364-day Treasury Bill rates also increased from 5.12 per cent and 5.60 per cent, respectively, in April 2005 to 5.53 per cent and 5.85 per cent, respectively, by October 2005. The 182-day Treasury Bill rate moved up from 5.21 per cent to 5.78 per cent during the same period. The yield on Government security with 1-year residual maturity in the secondary market increased from 5.66 per cent in April 2005 to 5.88 per cent in October 2005. The yield on Government securities with 10-year and 20-year residual maturities increased from 6.68 per cent and 7.08 per cent, respectively, to 7.18 per cent and 7.52 per cent, respectively. With a relatively higher increase in the long-term yields, there was a steepening of the yield curve. The yield spread between 10-year and 1-year Government securities moved up from 102 basis points to 130 basis points, whereas the spread between 20-year and 1-year Government securities increased from 142 basis points to 164 basis points.

1.27 The weighted average discount rate on CP of 61 days to 90 days maturity increased from 5.80 per cent in April to 5.89 per cent by mid-October 2005. The market repo rate increased from 4.63 per cent to 4.85 per cent with an increase in daily volume from Rs.3,958 crore (one leg) to Rs.5,661 crore by September 2005. The average daily volume of CBLO (collateralised borrowing and lending obligation) increased significantly from Rs.5,185 crore to Rs.8,572 crore along with an increase in the CBLO rate from 4.58 per cent to 4.80 per cent. The typical interest rate on 3-month certificates of deposit (CDs) increased from 5.87 per cent in April to 5.90 per cent by mid-September 2005. Public sector banks kept their rates for deposits of over one year maturity unchanged in the range of 5.25-6.50 per cent during April-September, 2005. The benchmark prime lending rates (BPLRs) of public sector banks, private sector banks and foreign banks remained unchanged in the range of 10.25-11.25 per cent, 11.00-13.50 per cent and 10.00-14.50 per cent, respectively.

1.28 Inflation, as measured by variations in the wholesale price index (WPI) on a point-to-point basis, receded to 4.5 per cent as on October 22, 2005 from 7.4 per cent a year ago. On an annual average basis, inflation based on the WPI was 5.2 per cent as on October 22, 2005 as against 6.3 per cent a year ago.

1.29 The Indian foreign exchange market generally witnessed orderly conditions during the current financial year so far (up to October 21, 2005). The exchange rate of the rupee, which was Rs.43.75 per US dollar at end-March, 2005 depreciated by 3.0 per cent to Rs.45.09 per US dollar by October 21, 2005. However, it appreciated by 4.2 per cent against the Euro, by 2.5 per cent against the Pound sterling and by 4.5 per cent against the Japanese yen during the period. Forward premia continued to decline in tandem with narrowing interest rate differential following further hikes in the US interest rates.

1.30 Aggregate deposits of scheduled commercial banks rose by 12.3 per cent up to September 30, 2005 as compared with an increase of 6.8 per cent in the corresponding period of the previous year. On an annual basis, the growth in aggregate deposits at 18.6 per cent, net of conversion, was higher than that of 15.8 per cent a year ago. Scheduled commercial banks' credit increased by 14.2 per cent up to September 30, 2005, which was higher than the increase of 11.7 per cent in the corresponding period of last year. Food credit recorded a decline from its end-March level, reflecting lower procurement of foodgrains during the current financial year. On the other hand, non-food credit posted an increase of 14.8 per cent as compared with an increase of 11.9 per cent in the corresponding period of the previous year. While the outstanding credit-deposit ratio increased to 65.8 per cent from 58.4 per cent a year ago, the incremental non-food credit-deposit ratio declined to 75.2 per cent as compared with 92.9 per cent. Among non-bank sources of funds, corporates raised large resources by way of equity issues during April-September 2005, benefiting from buoyancy in the equity markets. The CP market remained buoyant, reflecting the continued issuances of CP from leasing and finance companies.

1.31 Banks financed the strong demand for credit by the commercial sector by mainly restricting their incremental investments in Government securities. Incremental investments by commercial and co-operative banks in Government papers during the first half of 2005-06 were less than one-third their incremental investments in the corresponding period of the previous year. Consequently, commercial banks'

holding of Government securities fell below 36 per cent of their NDTL from nearly 40 per cent a year ago, but were still in excess of the statutory minimum requirement of 25 per cent.

1.32 India's exports during April-September, 2005 increased by 20.5 per cent in US dollar terms as compared with 30.8 per cent in the corresponding period of the previous year. India's merchandise export growth surpassed that of most Asian countries during this period. Imports rose by 33.1 per cent as against an increase of 37.3 per cent in the corresponding period of last year. While oil import growth moderated to 42.9 per cent from 58.2 per cent a year ago, non-oil import growth of 28.8 per cent was comparable to 29.8 per cent last year. The overall trade deficit during April-September 2005 widened to US $ 20.3 billion from US $ 11.9 billion a year ago, reflecting the hardening of international crude oil prices and more significantly, import demand resulting from a pick-up in domestic industrial activity. Export growth was broad-based at a disaggregated level during April-August, 2005 mainly led by manufactures such as engineering goods, gems and jewellery and chemicals. Within engineering goods, machinery and instruments, transport equipment and manufactures of metals recorded acceleration of growth. Non-oil imports, excluding gold and silver rose by 36.7 per cent during April-August, 2005 led by imports of industrial inputs. Within this category, imports of capital goods increased by 33.5 per cent, while imports of iron and steel surged by 109.9 per cent, reflecting the sustained expansion of domestic demand.

Chapter II

Policy Developments in Commercial Banking

2.1 A safe and sound financial sector is a prerequisite for sustained growth of any economy. Globalisation, deregulation and advances in information technology in recent years have brought about significant changes in the operating environment for banks and other financial institutions. These institutions are faced with increased competitive pressures and changing customer demands. These, in turn, have engendered a rapid increase in product innovations and changes in business strategies. While these developments have enabled improvement in the efficiency of financial institutions, they have also posed some serious risks. The regulatory and supervisory policies are, accordingly, being reshaped and reoriented to meet the challenge of containing systemic risks. In this changing milieu, the main challenge for the supervisors has been to maintain the stability of the financial system and, at the same time, provide sufficient flexibility to financial institutions so that they can respond effectively to the growing competition while taking advantage of business opportunities and technological developments.

2.2 The Reserve Bank has also been suitably reorienting the regulatory and supervisory framework so as to meet the challenges of a new environment. It has been the endeavour of the Reserve Bank to develop a competitive, strong and dynamic banking system so that it plays an effective role in supporting the growth process of the economy. The emphasis has been on safeguarding the financial stability of the overall system through increased emphasis on prudential guidelines and effective monitoring, improving institutional soundness, strengthening the regulatory and supervisory processes by aligning with international best practices and by developing the necessary technological and legal infrastructure. While the approach towards the reforms has essentially been gradual and relevant to the context, consultative processes and appropriate timing and sequencing of measures have succeeded in aiding growth, enhancing efficiency, avoiding crises and imparting resilience to the financial system.

2.3 During 2004-05, the Reserve Bank further strengthened the regulatory and supervisory framework to align it with international best practices with suitable adaptations. The conduct of financial regulation and supervision in 2004-05 continued to be guided by the objective of maintaining confidence in the financial system by enhancing its soundness and efficiency. In order to enhance transparency and to strengthen corporate governance practices, a detailed framework was laid down for diversified ownership. The Reserve Bank also continued to monitor the progress of the banking sector for implementing the Basel II framework. The gradual opening up of the banking sector consistent with the WTO commitments was articulated in the 'roadmap for foreign banks' released in March 2005. Finally, the Reserve Bank stressed financial inclusion by emphasising the facilitation of transactions by the common person and strengthening of the credit delivery systems as a response to the pressing societal needs of the economy.

2.4 Against this backdrop, this Chapter provides an overview of various policy measures undertaken by the Reserve Bank in the Indian commercial banking sector during 2004-05 (July-June) and major policy developments during 2005-06 so far. The measures relating to the monetary and credit policy are presented in Section 2, followed by a review of the measures initiated in the area of credit delivery in Section 3. Prudential regulatory and supervisory measures initiated during this period are set out in Section 4 and Section 5, respectively. Section 6 delineates the evolving consultative approach to policy formulation. This is followed by policy developments relating to the financial markets, *i.e.*, the money market, the Government securities market and the foreign exchange market in Section 7. Initiatives relating to payment and settlement systems and technological developments are outlined in Section 8 and Section 9, respectively, while Section 10 details the measures undertaken to strengthen the legal infrastructure.

2. Monetary and Credit Policy

2.5 The policy Statements of the Reserve Bank provide a framework for the monetary, structural and prudential measures that are initiated from time to time consistent with the overall objectives of growth, price stability and financial stability. In recent years, monetary management had to be constantly fine-tuned to keep pace with the fast evolving changes, accentuated by the growing sophistication of financial markets and integration of domestic economy with the international economy. Against the backdrop of liquidity abundance and occasional spikes in inflation rate during 2003-04, it was indicated in the Annual Policy Statement for 2004-05 that "... barring the emergence of any adverse and unexpected developments in the various sectors of the economy and assuming that the underlying inflationary situation does not turn adverse, the overall stance of monetary policy for 2004-05 will be: (i) provision of adequate liquidity to meet credit growth and support investment and export demand in the economy while keeping a very close watch on the movements in the price level; and (ii) consistent with the *status quo*, while continuing with the above, to pursue an interest rate environment that is conducive to maintaining the momentum of growth and macroeconomic and price stability".

2.6 While monetary management in the first half of 2004-05 was conducted broadly in conformity with the monetary policy stance announced in the Annual Policy Statement for 2004-05, there was a change in the stance in the Mid-term Review in October 2004. Several factors contributed to this change. First, there was a carry forward of excess liquidity of over Rs.81,000 crore. Second, the headline WPI inflation accelerated beyond the anticipated level during the first half of the year. Third, the seasonal decline in food prices did not materialise fully. Fourth, international commodity prices remained high and volatile. Fifth, internationally, monetary policy stance in a number of countries was shifting from highly accommodative to a neutral one. Sixth, the pass-through of international commodity price pressures to domestic inflation had implications for inflationary expectations. Seventh, given the uncertainties, the reaction of financial markets was turning increasingly adverse. Since interest rates were at historically low levels, the upside risk was high. Indeed, a sharp upward movement in interest rates towards the middle of the year ensued a selling pressure in the Government securities market. Eighth, the equity markets touched a low on May 17, 2004 which had an adverse impact on sentiments temporarily. Moreover, these developments occurred at a time when industrial growth was looking up after a prolonged period of sluggishness and non-food credit was picking up. In the event, the Reserve Bank had to balance the considerations of growth while containing inflationary expectations.

2.7 Given the role of supply factors in the inflation process, the policy response was in concert with the Government. In signalling its commitment to price stability, the Reserve Bank switched its stance from a 'very close watch on the movements in the price level' in the Annual Policy Statement to 'equal emphasis on price stability' in the Mid-term Review. Importantly, liquidity management for the purpose was emphasised with a switch from a provision of 'adequate liquidity' to 'appropriate liquidity'. The policy measures were calibrated to evolving circumstances, especially with a view to stabilising inflationary expectations.

2.8 Monetary management during the second half of 2004-05 was conducted broadly in conformity with the stance of the policy set out in the Mid-term Review of the year. During this period, the Reserve Bank had to contend with two dominant alternate views on the conduct of monetary policy. Since inflation at that time was deemed to be supply induced, it was argued that direct monetary policy action may be premature, especially as the industry was coming out of a sluggish phase. On the other hand, the deterioration in inflationery expectations, given the observed acceleration in headline inflation, accompanied by sharp movements in market interest rates, were testing the resolve of the central bank on price stability. Since the deterioration of inflationary expectations occurred under conditions of overhang of excess liquidity, strong credit growth, incomplete pass-through of oil price shock and uncertainties about its second round effects, the other argument was in favour of monetary policy response to contain inflationary expectations.

2.9 Recognising these viewpoints, during 2004-05, a series of initiatives were undertaken in a measured and calibrated manner. First, the Reserve Bank communicated its assessment of the supply-induced nature of inflation to the market on several occasions. Second, the market was sensitised to the differential behaviour of inflation at the producer's and the consumer's level, the former being higher

as observed in a number of other oil-importing countries. Third, the Government responded with fiscal measures, particularly by reducing customs and excise duties on oil. Fourth, corporates also responded positively by moderating the exercise of their pricing power. Fifth, for a more flexible management of liquidity, overnight fixed rate reverse repo under the Liquidity Adjustment Facility (LAF) was introduced. Sixth, the cash reserve ratio (CRR) was raised by one-half of one percentage point to 5.0 per cent. Seventh, the remuneration of CRR was delinked from the Bank Rate and was reduced to 3.5 per cent to enhance its effectiveness as a monetary instrument. Eighth, banks were allowed to transfer their investments into 'held to maturity' (HTM) category up to their statutory minimum statutory liquidity ratio (SLR) requirement after providing for depreciation. While this measure provided an opportunity to banks to interface with interest rate cycles, at a macro level, it also helped in maintaining financial stability. Ninth, the fixed reverse repo rate under the LAF was raised by 25 basis points to 4.75 per cent[1]. However, the repo rate and the Bank Rate were left unchanged at 6.0 per cent each, signalling the short-term nature of upward inflationary pressures. Finally, in order to enable the Reserve Bank to address the overhang of liquidity, the Government raised the ceiling of the Market Stabilisation Scheme (MSS) from Rs.60,000 crore to Rs.80,000 crore.

2.10 The overall stance of monetary policy for the year 2005-06 as announced in Annual Policy Statement in April 2005 followed the same line as set out in Mid-term Review of October 2004, *viz*., (i) provision of appropriate liquidity to meet credit growth and support investment and export demand in the economy while placing equal emphasis on price stability; (ii) consistent with the above, to pursue an interest rate environment conducive to macroeconomic and price stability, and maintaining the momentum of growth; and (iii) to consider measures in a calibrated manner, in response to evolving circumstances with a view to stabilising inflationary expectations. In order to ensure that appropriate liquidity is maintained in the system to meet all legitimate requirements of credit, it was indicated that the Reserve Bank would continue with its policy of active demand management of liquidity through open market operations (OMO), including the MSS, the LAF and the CRR and using the policy instruments at its disposal flexibly, as and when the situation warranted. Furthermore, to enable structured communication with markets on a more frequent basis while retaining the flexibility to take specific measures necessitated by the evolving circumstances, it was decided that, in addition to the Mid-term Review of the Annual Policy Statement, the Reserve Bank would release two more quarterly reviews of monetary policy: a First Quarter Review of Part I of the Statement in July and a Third Quarter Review in January.

2.11 The conduct of monetary policy during the first quarter of 2005-06 was in accordance with the stance announced in the Annual Policy Statement. The macroeconomic developments and conditions in financial markets were broadly in line with anticipations in the Statement. To be sure, there were factors both in favour and against continuation of the stance. Factors such as increased global uncertainties, high and volatile international prices of oil, incomplete pass-through of oil prices domestically, upward trajectory of policy rate in the US, overhang of liquidity, high credit growth, sustained industrial growth and possible capacity pressures, enlargement of trade deficit, infrastructural constraints and delayed monsoon were prompting a change in the stance of policy. However, there were several other factors which favoured the *status quo*. The oil price hike was managed well with a combination of monetary and fiscal measures. Overhang of liquidity declined with the increase in the absorptive capacity of the economy and excess liquidity remained sterilised. Visible liquidity under the LAF also declined, while money supply growth was within the projected trajectory. Other factors that favoured the continuation of the stance included broad-basing of credit flows, revival of industrial growth after a long period of sluggishness, pick-up in investment demand, favourable investment climate, sustained corporate earnings and profits, moderate levels of inflation both at the wholesale and retail levels, continuation of somewhat accommodative monetary policy globally and projection of a moderate inflation during 2005 despite high oil prices. The First Quarter Review released on July 26, 2005 indicated that "the considerations in favour of *status quo* are evenly matched by those for change in stance, but

[1] With effect from October 29, 2004, the international usage for the terms 'repo' and 'reverse repo' under LAF operations has been adopted by the Reserve Bank. Accordingly, absorption of liquidity by the Reserve Bank in the LAF window is termed as 'reverse repo' and injection of liquidity as ' repo'.

the balance of convenience at this juncture, lies in continuing with *status quo* while monitoring the unfolding constellation of uncertainties, especially in the global arena". On the basis of assessment of macroeconomic outlook, the overall stance in the First Quarter Review of the Annual Policy Statement remained broadly unchanged.

2.12 In the Mid-term Review of Annual Policy Statement released on October 25, 2005, it was indicated that barring the emergence of any adverse and unexpected developments in various sectors of the economy, including the outlook for inflation, the overall stance of monetary policy for the remaining part of the year would be: "(i) consistent with emphasis on price stability, provision of appropriate liquidity to meet genuine credit needs and support export and investment demand in the economy; (ii) ensuring an interest rate environment that is conducive to macroeconomic and price stability, and maintaining the growth momentum; and (iii) to consider measures in a calibrated and prompt manner, in response to evolving circumstances with a view to stabilising inflationary expectations." In view of the prevailing macroeconomic and overall monetary conditions, reverse repo rate and repo rate were raised. Several measures were also initiated to improve credit delivery mechanism, strengthen the prudential norms and improve the payment and settlement systems (Box II.1)

2.13 The Annual Policy Statements of the Reserve Bank as well as its Mid-term Reviews have also laid emphasis on structural and regulatory measures for strengthening the financial system. Policy measures have been taken from time to time with a view to increasing operational efficacy of monetary policy, redefining the regulatory role of the Reserve Bank, strengthening prudential norms and development of technological and institutional infrastructure. The Annual Policy Statement for 2005-06 aimed at continuation of the Reserve Bank's resolve to pursue integration of the various segments of the financial system, nurture conducive credit culture and enhance the quality of financial services. The Statement also set out a medium-term framework for: (i) development of the money market, the foreign exchange market and the Government securities market; (ii) enhancing credit flow to agriculture and small industry; (iii) institutional reform in co-operative banking, non-banking financial companies and regional rural banks; (iv) ensuring availability of quality services to all sections of the population with emphasis on availability of banking services to the common person, especially depositors; and (v) action points in technology and payment systems.

Statutory Pre-emptions

2.14 There has been a distinct move away from the use of direct instruments of monetary control to market-based instruments from 1991-92. As a result, the statutory pre-emptions in the form of CRR and SLR have been significantly reduced in phases. The SLR was progressively brought down from the peak rate of 38.5 per cent in February 1992 to the statutory minimum of 25 per cent by October 1997. Commercial banks, however, held Government and other approved securities at a much higher level of 38.5 per cent of net demand and time liabilities (NDTL) at end-March 2005. In terms of volume, such holdings above the SLR amounted to Rs.2,60,582 crore.

2.15 While the Reserve Bank continues to pursue its medium-term objective of reducing the CRR to the statutory minimum level of 3.0 per cent, the CRR of scheduled commercial banks (SCBs) was increased by one-half of one percentage point of NDTL in two stages of 25 basis points each to 4.75 per cent effective September 18, 2004 and further to 5.0 per cent effective October 2, 2004. Furthermore, the remuneration of the eligible cash balances under CRR was de-linked from the Bank Rate and reduced to 3.5 per cent effective September 18, 2004. The increase in CRR was necessitated partly for absorbing liquidity from the system, but more importantly, for signalling the Reserve Bank's concern regarding inflationary expectations.

Interest Rate Structure

2.16 Deregulation of interest rates has been one of the key features of financial sector reforms. The deregulation of interest rates in recent years has improved the competitiveness of financial environment and strengthened the transmission mechanism of monetary policy. Sequencing of interest rate deregulation has also enabled a better price discovery and has imparted greater efficiency in the resource allocation process. The process has been gradual and predicated upon institution of prudential regulation of the banking system, market behaviour, financial opening and, above all, the underlying macroeconomic conditions. Interest rates have been largely

Box II.1: Major Policy Announcements in the Mid-Term Review of Annual Policy for the Year 2005-06

1. Monetary Measures

- Bank Rate left unchanged at 6.0 per cent.
- Reverse repo rate and the fixed repo rate under the Liquidity Adjustment Facility (LAF) increased by 25 basis points each to 5.25 per cent and 6.25 per cent, respectively effective October 26, 2005. Accordingly, the spread between reverse repo rate and the repo rate under the LAF maintained at 100 basis points.
- The cash reserve ratio (CRR) kept unchanged at 5.0 per cent.

2. Interest Rate Policy

- Indian Banks' Association to review the benchmark prime lending rate (BPLR) system and issue transparent guidelines for appropriate pricing of credit.

3. Government Securities Market

- Intra-day short selling in Government securities proposed to be introduced.
- NDS-OM module to be extended to all insurance entities which are mandated to invest in Government securities.

4. Foreign Exchange Market

- Special purpose vehicles (SPVs) or any other entity, notified by the Reserve Bank, which are set up to finance infrastructure companies/projects would be treated as financial institutions and ECBs raised by such entities would be considered under the approval route.
- Banks allowed to issue guarantees or standby letters of credit in respect of ECBs raised by textile companies for modernisation or expansion of textile units.

5. Credit Delivery Mechanisms

- As announced by the Finance Minister, banks were advised to take necessary action with regard to a policy package for stepping up credit to small and medium enterprises.
- The Micro Finance Development Fund (MFDF) set up in the NABARD re-designated as the Microfinance Development and Equity Fund (MFDEF) and its corpus increased from Rs.100 crore to Rs.200 crore. The modalities with regard to the functioning of the MFDEF are being worked out.
- The report of the Internal Working Group set up to examine issues relating to rural credit and micro-finance is under examination.
- An Internal Working Group proposed to be set up in regard to relief measures to be provided in areas affected by natural calamities.

6. Prudential Measures

- Bank's aggregate capital market exposure restricted to 40 per cent of its net worth on a solo and consolidated basis; consolidated direct capital market exposure modified to 20 per cent of the bank's consolidated net worth. Banks having sound internal controls and robust risk management systems can approach the Reserve Bank for higher limits.
- General provisioning requirement for 'standard advances' increased from the present level of 0.25 per cent to 0.40 per cent; banks' direct advances to agricultural and SME sectors exempted from the additional provisioning requirement.
- The Reserve Bank is examining various types of capital instruments that can be permitted under the New Capital Adequacy Framework for the banks.
- Supervisory review process to be initiated with select banks having significant exposure to some sectors such as real estate, highly leveraged NBFCs, venture capital funds and capital markets, in order to ensure that effective risk mitigants and sound internal controls are in place.
- With a view to achieving greater financial inclusion, all banks advised to make available a basic banking 'no frills' account either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. All banks urged to give wide publicity to the facility of such a 'no-frills' account so as to ensure greater financial inclusion.
- General permission to banks to issue debit cards in tie-up with non-bank entities.

7. Payment and Settlement Systems

- By end-March 2006, 15,000 branches are proposed to be covered by Real Time Gross Settlement (RTGS) connectivity, and the number of monthly transactions of the system is expected to expand from one lakh to two lakh.
- The National Electronic Funds Transfer (NEFT) system would be implemented in phases for all networked branches of banks all over the country.
- The pilot project for Cheque Truncation System is expected to be implemented in New Delhi by end-March 2006.
- National Settlement System (NSS) to enable banks to manage liquidity in an efficient and cost effective manner to be introduced in the four metropolitan centres by end-December 2005.
- A new company for retail payment systems proposed to be set up under Section 25 of the Companies Act, 1956 to be owned and operated by banks. The proposed company is likely to get operational from April 1, 2006.
- Banks urged to test their business continuity plans periodically and ensure continuous service.

8. Urban Co-operative Banks

- Currency chest facility and licence to conduct foreign exchange business (authorised person licence) extended to scheduled UCBs registered under the Multi-State Co-operative Societies Act and under the State Acts where the State Governments concerned have assured regulatory coordination by entering into MoU with the Reserve Bank.
- Acquirer UCB permitted to amortise the losses taken over from the acquired UCB over a period of not more than five years, including the year of merger.

9. Computation of Exchange Rate Indices – New Series

- The Reserve Bank has recently updated its nominal effective exchange rates (NEER) and real effective exchange rates (REER) indices. The new 6-currency indices and the revised 36-country indices of NEER and REER would be published in the Reserve Bank of India Bulletin of December 2005.

deregulated except for: (i) savings deposit accounts; (ii) non-resident Indian (NRI) deposits; (iii) small loans up to Rs.2 lakh; and (iv) export credit.

Bank Rate and Repo/Reverse Repo Rate

2.17 With a view to devising an instrument that would signal the stance of monetary policy, the Bank Rate was reactivated in April 1997 and linked to the rates of various standing facilities. In the recent period, however, most of the liquidity injection at the short end of the market is conducted through the repo rate under the LAF. As such, the importance of the Bank Rate as a signalling rate has declined. The Reserve Bank, accordingly, announces the Bank Rate in tune with the prevailing macroeconomic environment. On a review of the macroeconomic developments, the Bank Rate was kept unchanged at 6.0 per cent in the Annual Policy Statement for 2005-06 and its Mid-term Review in October 2005. The Bank Rate was last revised on April 29, 2003, when it was reduced by 25 basis points to the present level of 6.0 per cent.

2.18 Consequent upon the announcement made in the Mid-term Review of Annual Policy of 2004-05, auctions of 7-day and 14-day reverse repo were discontinued with effect from November 1, 2004 and the LAF scheme is now being operated through overnight fixed rate repo and reverse repo. In view of the prevailing macroeconomic and overall monetary conditions, it was announced in the Annual Policy Statement of 2005-06 that the fixed reverse repo rate would be raised by 25 basis points under the LAF to 5.00 per cent effective April 29, 2005. The spread between the reverse repo rate and the repo rate was also reduced by 25 basis points to 100 basis points. The fixed repo rate under the LAF was left unchanged at 6.0 per cent.

Deposit Rates

2.19 At present, on the deposits side, interest rates only on savings deposits and NRI deposits only are being prescribed by the Reserve Bank. The Monetary and Credit Policy Statement of 2002[2] had weighed the option of deregulation of interest rate on savings accounts but it was observed that the time was not opportune considering that bulk of such deposits was held by households in semi-urban and rural areas. It was, however, felt that deregulation would facilitate better asset-liability management for banks and competitive pricing to benefit the holders of savings accounts. In the Mid-term Review of Annual Policy for 2004-05, banks were allowed the discretion to reduce the minimum tenor of retail domestic term deposits (under Rs.15 lakh) from 15 days to 7 days.

2.20 Interest rate ceilings on FCNR(B) deposits are linked to LIBOR rates of corresponding foreign currencies (at present LIBOR minus 25 basis points except in the case of Japanese Yen where the cap is based on the prevailing LIBOR rate), while NRE deposit rates are linked to the US dollar LIBOR/SWAP rates. The ceiling for NRE deposit rates was raised to LIBOR/SWAP rate of corresponding maturity plus 50 basis points in the Mid-term Review of Annual Policy for 2004-05. Banks are allowed to fix the rates on both the FCNR(B) deposits and NRE deposits on a monthly basis.

Lending Rates

2.21 The lending rates presently regulated by the Reserve Bank are the concessional rates (below BPLR of the respective banks) for certain sectors such as exports and small loans up to Rs.2 lakh, and under the differential rate of interest (DRI) scheme. The Annual Policy Statement for 2005-06 flagged the need for continuance of remaining interest rate prescriptions for wider public debate.

2.22 Lending rates were deregulated in October 1994 and banks were required to announce a prime lending rate (PLR), taking into account the cost of funds and transaction cost, among others, with the approval of their Boards. The PLR was made the floor rate for credit limits over Rs.2 lakh. Subsequently, banks were permitted to operate two PLRs – one for short term and the other for long-term loans. The concept of tenor linked PLR, *i.e.,* PLR for different maturities was introduced in April 1999 to give banks more operational flexibility. Lending rates across banks, however, tended to vary widely with banks charging higher spreads over the PLRs for non-prime borrowers. Despite a fall in deposit rates and lowering of cost of funds over the period, the range of PLRs of public sector banks remained sticky downwards. As downward rigidity of PLR emerged as a vital policy issue for the Reserve

[2] Annual Policy Statement prior to 2004-05 was known as Statement on Monetary and Credit Policy.

Bank, particularly in respect of credit delivery to small and medium sized borrowers at a reasonable cost, it was decided in the Monetary and Credit Policy for 2002-03 to place the information on PLRs and maximum and minimum interest rates on bank advances in the public domain for customers' protection and meaningful competition. Furthermore, with continued downward stickiness of PLRs, the Reserve Bank mooted the concept of benchmark prime lending rate (BPLR) on April 29, 2003 to address the need for transparency in banks' lending rates as also to reduce the complexity involved in pricing of loans. Since all other lending rates can be determined with reference to the BPLR arrived at by taking into account term premia and/or risk premia, the system of tenor-linked PLR was discontinued. Following the announcement made in the Mid-term Review in November 2003, the Indian Banks' Association (IBA) advised banks to take into account the following broad parameters while arriving at the BPLR: (i) actual cost of funds; (ii) operating expenses; and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin.

2.23 As regards interest rates on export credit, in the Monetary and Credit Policy Statement of April 2002, it was indicated that "linking domestic interest rates on export credit to PLR has become redundant in the circumstances as effective interest rates on export credit in rupee terms were substantially lower than the PLR". The Mid-term Review of October 2002 had mooted deregulation of interest rate on rupee export credit in phases to encourage greater competition in the interest of exports. Accordingly, ceiling rate of PLR plus 0.5 percentage points on pre-shipment credit beyond 180 days and up to 270 days and post-shipment credit beyond 90 days and up to 180 days was deregulated with effect from May 1, 2003. Further, it was indicated that liberalisation would be considered at a later date and it would be examined whether the ceiling rates on pre-shipment credit up to 180 days and post-shipment credit up to 90 days should also be discontinued to encourage greater competition among banks for export credit. The present ceiling for interest rate on pre-shipment (up to 180 days) and post-shipment (up to 90 days) rupee export credit is valid up to April 30, 2006.

2.24 Interest rate ceiling on small loans up to Rs.2 lakh is linked to BPLR for ensuring availability of credit at reasonable rates as also for the reason that small borrowers have limited ability to manage interest rate risk. There is a contrary view that: (a) given the competitiveness in the credit market, high share of sub-BPLR lending and increasingly broad-based credit structure, availability of credit to all segments of the economy at a price consistent with their risk profiles becomes important; and (b) lending rate regulation has dampened large flow of credit to small borrowers and imparted an element of downward rigidity to BPLR. Interest rate regulation on export credit has been favoured for making available credit to exporters at internationally competitive rate. There is, however, a view that in the light of competitive lending rates in the economy, it is important to ensure that regulated interest rates do not restrict credit flow to all segments of exporters with different risk profiles.

2.25 The Annual Policy Statement for 2005-06 indicated that "while there is merit in moving forward to impart greater competitiveness and depth to the activities of the financial system by further deregulating interest rates in some segments which have hitherto remained regulated for various reasons found relevant at different stages, it is proposed to continue with *status quo* as various issues pertaining to above regulations on interest rates are being debated".

3. Credit Delivery

2.26 The Reserve Bank has taken several measures to create a conducive environment for banks to provide adequate and timely finance to different sectors of the economy at reasonable rates without procedural hassles. It has been the endeavour of the Reserve Bank to ensure adequate credit growth for productive sectors in tandem with the accommodation of borrowing programme of the Central and the State Governments, while closely assessing its implications for demand-management to maintain macro and price stability. Besides imparting constant vigil on the quantum and cost of credit, the quality and other attributes associated with credit deployment have been equally emphasised. Keeping in view the imperative need for removal of bottlenecks to credit delivery, the Reserve Bank undertook a series of measures in 2004-05, particularly relating to the priority sector, agriculture, micro-finance and small scale industries.

Priority Sector Lending[3]

2.27 Domestic scheduled commercial banks and foreign banks are required to extend a minimum of 40 per cent and 32 per cent, respectively, of their net bank credit to the priority sector with sub-targets set for lending to various sub-sectors. Domestic scheduled commercial banks having a shortfall in lending to the priority sector/agriculture are required to make contribution to the Rural Infrastructure Development Fund (RIDF) established in National Bank for Agriculture and Rural Development (NABARD). In the case of foreign banks operating in India, those who fail to achieve the priority sector lending target or sub-targets, an amount equivalent to the shortfall is required to be deposited with Small Industries Development Bank of India (SIDBI). Even though such arrangements regarding the priority sector shortfall are in place, banks are urged to take appropriate steps to increase the flow of credit to the priority sector, agriculture and weaker sections so as to achieve the stipulated targets.

2.28 In order to align bank credit to the changing needs of the society, the scope and definition of priority sector have been fine-tuned over time by including new items as also by enhancing credit limit of the constituent sub-sectors. As part of this process, some more measures were initiated in 2004-05. First, the ceiling on credit limit to farmers against pledge/hypothecation of agricultural produce (including warehouse receipts) was increased from Rs.5 lakh to Rs.10 lakh under the priority sector. Second, the limit on advances under the priority sector for dealers in agricultural machinery, including drip/sprinkler irrigation systems was increased from Rs.20 lakh to Rs.30 lakh and for distribution of inputs for allied activities from Rs.25 lakh to Rs.40 lakh. Third, banks were permitted to extend direct finance to the housing sector up to Rs.15 lakh, irrespective of location, as part of their priority sector lending. Fourth, investments by banks in the mortgage backed securities (MBS) have been classified as direct lending to housing within the priority sector lending subject to certain conditions. Fifth, loans advanced to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security, have been classified as advances to weaker sections within the priority sector. Sixth, investment limit in plant and machinery for seven items belonging to sports goods, which figure in the list of items reserved for manufacture in the small scale industries (SSI) sector, was enhanced from Rs.1 crore to Rs.5 crore for the purpose of classification under priority sector advances. Seventh, banks were urged to make efforts to increase their disbursements to small and marginal farmers to 40 per cent of their direct advances under Special Agricultural Credit Plans (SACP) by March 2007. All private sector banks were also asked to formulate SACP targets from 2005-06 with an annual growth rate of at least 20-25 per cent of credit disbursements to agriculture. Eight, investment by banks in securitised assets representing direct lending to the SSI sector have been classified as their direct lending to the SSI sector under priority sector lending, subject to certain conditions. Ninth, it was decided that investments made by banks on or after April 1, 2005 in the special bonds issued by certain specified institutions would not be eligible for classification under priority sector lending and such investments which have already been made by banks up to March 31, 2005 would cease to be eligible for classification under priority sector lending in a phased manner. Further, it was decided that investments made by banks on or after July 1, 2005 in venture capital would not be eligible for classification under priority sector lending, while such investments already made up to June 30, 2005 would not be eligible for classification under priority sector lending with effect from April 1, 2006. Finally, the recommendations of the Working Group on Flow of Credit to the SSI Sector (Chairman: Dr. A.S. Ganguly) in regard to evaluation of methods of utilisation of deposits made by foreign banks with SIDBI for shortfall in their priority sector obligations have been accepted by the Reserve Bank and, accordingly, the structure of the extant scheme has been revised.

Lending and Deposits Rates under RIDF

2.29 On the basis of representations made by various State Governments and NABARD, it was decided, with the approval of the Central Government, to restructure the lending and deposit rates in respect of the amounts disbursed on or before October 31, 2003 out of RIDF IV to VII with effect from April 16, 2005 (Table II.1).

[3] Priority sector comprises agriculture (both direct and indirect), small scale industries, small roads and water transport operators, small business, retail trade, professional and self-employed persons, State sponsored organisations for Scheduled Castes/Scheduled Tribes, education, housing (both direct and indirect), consumption loans, micro-credit, small loans to the software, and food and agro-processing sector.

Table II.1: Lending and Deposits Rates under RIDF

RIDF	Deposit rates payable to banks (per cent per annum)		Lending rates payable by State Governments (per cent per annum)	
	Existing	Revised	Existing	Revised
1	2	3	4	5
IV	11.5	8.0	12.0	8.5
V	11.5	8.0	12.0	8.5
VI	11.0	8.0	11.5	8.5
VII	Interest rate linked to shortfall in agricultural lending (varying between 10 and 7 per cent)	7.5	10.5	8.0

Interest Rates on Deposits with SIDBI in lieu of Shortfall in Priority Sector Obligations

2.30 Based on the recommendations of the Working Group on Flow of Credit to the SSI Sector, interest rates on deposits placed by foreign banks with SIDBI, in *lieu* of shortfall in priority sector lending targets, were inversely linked to the extent of shortfall in the overall target (32 per cent of net bank credit) or aggregate shortfall in sub-targets SSI (10 per cent) and export credit (12 per cent), whichever is higher (Table II.2). The term of the deposits placed with SIDBI by foreign banks would be for a period of three years.

Credit to Agriculture and Allied Activities

2.31 In line with the announcement made by the Central Government in June 2004 to double the flow of credit to agriculture in three years, the Union Budget, 2005-06 proposed to increase the flow of credit to agriculture by 30 per cent during the year. It has been the endeavour of the Reserve Bank to enhance the credit flow to agriculture by removing bottlenecks in credit delivery. Most of the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. V.S. Vyas) have been implemented by the Reserve Bank and NABARD. Out of 99 recommendations made by the Committee, 33 recommendations were accepted and implemented by October 2005. These related to : (i) procedural modifications and rationalisation of systems and procedures; (ii) tie-ups with related farm machinery manufacturers by banks; (iii) use of a flexible revolving credit limit to small borrowers of production or investment loans for meeting temporary shortfalls in family cash flows; (iv) co-opting joint liability group (JLG) and self-help group (SHG) approaches in addressing issues relating to financing oral lessees; (v) addressing delays/ refusal in opening savings bank accounts of SHGs; (vi) improving staffing in the rural areas to promote retail lending to agriculture, use of individual volunteers, farmers' clubs or NGOs/SHGs as direct selling agents; (vii) building synergy between good working primary agricultural credit societies and commercial banks; (viii) use of IT in rural branches; (ix) working out appropriate incentive structure for prompt repayment; (x) making the rates of interest on small loans reasonable; and (xi) improving the efficiency of credit delivery to small borrowers and association with contract farming. Furthermore, some of the recommendations *viz.*, stepping up credit for marketing and introduction of negotiable warehousing receipt system, support of State Governments for collecting dues reduction of stamp duty on agricultural loans, legal amendments to Agricultural Produce Marketing Committee (APMC) Act by the State Governments, amendment to NABARD Act for operational autonomy, which were referred to the Government of India for examination, have been accepted.

2.32 With a view to further increasing the flow of credit to agriculture, the following measures were proposed in the Annual Policy Statement for 2005-06. First, in order to make an assessment

Table II.2: Interest Rates on Deposits with SIDBI

Sr. No.	Shortfall in overall target (32 per cent of net bank credit) or aggregate shortfall in sub-targets SSI (10 per cent) and export credit (12 per cent), whichever is higher	Rate of interest on the entire deposit to be made with SIDBI (per cent per annum)
1	2	3
1.	Less than 2 percentage points	Bank Rate (6 per cent at present)
2.	2 and above, but less than 5 percentage points	Bank Rate *minus* 1 percentage point
3.	5 and above, but less than 9 percentage points	Bank Rate *minus* 2 percentage points
4.	9 percentage points and above	Bank Rate *minus* 3 percentage points

of customer satisfaction on credit delivery in rural areas by banks, it was proposed to conduct a survey with the help of an outside agency. Second, keeping in view the importance of post-harvest operations, the limit on loans to farmers through the produce marketing scheme was proposed to be increased from Rs.5 lakh to Rs.10 lakh under priority sector lending. There is a growing realisation amongst bankers that there are increasing business opportunities in financing agriculture. Banks were, therefore, urged to continue their efforts to step up credit to agriculture.

2.33 With a view to increasing the flow of credit to agriculture, the Reserve Bank set up an Expert Group on Investment Credit (Chairman: Shri Y.S.P. Thorat) to formulate a strategy for increasing investment credit in agriculture. The Group in its Report submitted in June 2005 identified several factors which constrain growth in investment in agriculture. These include meagre growth in minor irrigation and farm mechanisation; declining public sector investment; limited credit absorptive capacity; lack of effective mechanism for technology transfer and poor extension services; inadequate extension services; limited infrastructure for agro processing, storage, warehousing, value addition and marketing; restrictions on purchases outside the *mandis;* weather aberrations and output price fluctuations; inadequate risk mitigation mechanism; and non-availability of land records. The Group emphasised the need to accelerate investment in agriculture in order to achieve the desired level of growth. It also highlighted the need for investments to be appropriately structured, timed and well implemented in order to attain maximum effectiveness (Box II.2).

Micro-finance

2.34 The programme of linking self-help groups (SHGs) with the banking system has emerged as a major micro-finance programme in the country. Accordingly, the Union Budget for 2005-06 proposed to enhance the annual target of credit linkage to 2.5 lakh SHGs during 2005-06 from 2 lakh SHGs during 2004-05.

2.35 As a follow-up to the announcement in the Union Budget, 2005-06, the Reserve Bank constituted an Internal Group to Examine Issues

Box II.2: Expert Group on Investment Credit

Major Recommendations of the Group are set out below:

- In view of various changes in the Indian rural canvas over the past few years, there is need for a shift in the thrust areas for investment credit to agriculture. Apart from the traditional investments such as land development and irrigation, increased focus needs to be accorded to the entire supply chain management of agriculture products, reform of agriculture markets and public management in agricultural infrastructure.
- State Governments need to lay emphasis on legal provisions/computerisation of land records, legal support for recovery, reforms in agricultural marketing, improving credit absorptive capacity through supporting infrastructure, strengthening infrastructure, improving extension network and developing marketing links.
- NABARD should take special steps to facilitate capacity building of credit institutions in appraisal skill, particularly in North Eastern States, and design appropriate products for financing rural infrastructure projects outside the RIDF by mobilising resources from the market or banks at competitive rates of interest.
- Water management policies and investment in water conservation be designed jointly by the State Governments and banks for improving productivity in agriculture.
- The State Governments and NABARD should make investments in participatory community projects and in soil treatment to make wasteland and fallow land cultivable.
- With a view to strengthening the institutional credit mechanism, short-term credit be integrated with term credit and efforts be made to reach the 'unreached' areas, promote supplementary credit delivery channels, outsource monitoring services, provide loan support for diversified agriculture, review HR policies, share the pool of technical expertise and make use of the model bankable projects prepared by NABARD.
- The Reserve Bank along with banks could adopt agency models for credit delivery,
- Government of India/State Governments and organisations engaged in agricultural research and development (R&D) to reorient R&D activities.
- To mitigate the risk in financing of agriculture, the Group suggested several measures. These included: (i) developing suitable financial products and commodity exchanges; (ii) allowing banks to operate on behalf of farmers and participate in commodity futures; (iii) establishing a risk fund for fragile agriculture; (iv) designing special risk mitigation packages for low asset-based borrowers; (v) using warehousing receipts with price hedging instruments; (vi) adopting technology for dissemination of market intelligence; (vii) sharing borrower information; and (viii) financing value chain by banks/through RIDF.

Relating to Rural Credit and Micro-finance (Chairman: Shri H.R. Khan). The Group in its Report submitted in July 2005 observed that there is an imperative need to work out efficient mechanisms involving external entities to cater to the under-serviced areas and the rural poor (Box II.3). The recommendations of the Group are being examined by the Reserve Bank.

2.36 In the Annual Policy Statement for 2005-06, the Reserve Bank voiced its concern on the exclusion of vast sections of the population from the formal financial system and announced to implement policies to encourage banks which provide extensive services while disincentivising those which are not responsive to the banking needs of the community, including the underprivileged. It was also decided to monitor the nature, scope and cost of services of banks to assess whether there is any denial, implicit or explicit, of basic banking services to the common person. Banks were also urged to review their existing practices to align them with the objective

Box II.3: Recommendations of the Internal Group to Examine Issues Relating to Rural Credit and Micro-finance

The Group felt that extended outreach to the under-serviced areas and the rural poor would facilitate acquisition of a large number of customers, *albeit* small ones with substantial potential for large increase in business volumes and profit as banking with the poor is rather profitable banking. The major recommendations of the Group are set out below:

- For providing comprehensive financial services encompassing savings, credit and remittance, insurance and pension products in rural areas, the Group recommended two models, *viz*., the Business Facilitator Model and the Business Correspondent Model as proactive response.
- Under the Business Facilitator Model, it was envisaged that banks could use a wide array of civil society organisations (CSOs) and others for supporting them by undertaking non-financial services. The Facilitators would provide support services for effective delivery of financial services such as: (i) borrower identification; (ii) collection, processing and submission of applications; (iii) preliminary appraisal; (iv) marketing of the financial products including savings; (v) post-sanction monitoring; (vi) promotion and nurturing SHGs/Joint Liability Groups (JLGs); and (vii) follow-up for recovery.
- NGOs, farmers clubs, functional co-operatives, IT enabled rural outlets of corporates, postal agents, insurance agents, well-functioning panchayats, rural multi-purpose kiosks/village knowledge centres, agri-clinics/business centers financed by banks, Krishi Vigyan Kendras, Khadi and Village Industry Commission (KVIC)/ Khadi and Village Industries Commission Board (KVIB) units may function as the Business Facilitators.
- Under the Business Correspondent Model, institutional agents/other external entities may support the banks for extending financial services. The Business Correspondents would function as "pass through" agencies to provide credit related services such as disbursal of small value credit, recovery of principal/ collection of interest and sale of micro insurance/mutual fund products/pension products besides the other functions of Business Facilitator Model.
- Registered NBFCs with significant rural presence, NGO-micro-finance institutions (MFIs) set up under the Societies/ Trust Act, Mutually Aided Co-operative Societies (MACS) with a charter to undertake financial functions, IT enabled rural outlets of corporates with appropriate contractual agreements with the principal, well running primary agricultural credit societies (PACSs) and post offices may function as the Business Correspondents.
- The micro credit portfolio of the regulated MFIs may be made eligible for direct finance from NABARD; a line of credit may be extended by NABARD to provide liquidity assistance in view of the co-variant nature of credit risk of the MFIs.
- Institutions such as NABARD and SIDBI may provide bulk lending support to start-up MFIs and funds of State/ Central Development/Finance Corporations, if feasible, may be channelised through NABARD to identified MFIs.
- Accounting standards for SHGs and NGOs may be developed, codified, and standardised by NABARD as a promotional initiative in consultation with the Institute of Chartered Accountant of India (ICAI).
- NABARD, in consultation with Ministry of Information and Technology, may draw up a time bound action plan to set up Rural Kiosks/ Village Knowledge Centers, partly funded from RIDF. The remaining cost may be borne by the Central/State Governments on a shared basis.
- The MFIs may be rated to help banks/financial institutions to decide about engaging them as their agents and funding them. The rating agencies need to be accredited with an appropriate authority.
- NABARD, SIDBI and major banks may consider promoting independent rating agencies by way of equity contributions. Financial support may be provided to the accredited rating agencies to cover their operational deficits for a period of three to five years and the expenses in this regard may be met from the Micro Finance Development and Equity Fund (MFDEF).
- Non-deposit taking MFIs may attempt self-regulation by forming State level associations.
- A separate and exclusive regulatory and supervisory framework for MFIs may not be required for the present.
- Considering the high transaction costs and the emphasis on timely availability of credit, it may not be appropriate to fix any ceiling on interest rates and service fees charged by MFIs.

of financial inclusion. In order to give a further fillip to micro-finance movement, the Reserve Bank allowed non-Government organisations (NGOs) engaged in micro-finance activities as an additional channel of resource mobilisation, to access external commercial borrowings (ECBs) up to US $ 5 million during a financial year for permitted end-use under the automatic route.

Service Area Approach

2.37 Consequent upon the announcement made in the Mid-term Review of Annual Policy Statement for the year 2004-05 and on the basis of recommendations made by the Advisory Committee on Flow of the Credit to Agriculture and Related Activities from the Banking System, the Service Area Approach (SAA) scheme was reviewed on December 8, 2004 and it was decided to dispense with the restrictive provisions of the scheme, while retaining the positive features of the SAA such as credit planning and monitoring of the credit purveyance. These relaxations have been introduced with a view to enabling rural borrowers to have easy access to institutional credit from any bank of their choice at a competitive price and to provide banks, public and private, with a level playing field. The SAA was introduced in April 1989 with a view to bringing about an orderly and planned development of rural and semi-urban areas of the country. Under the SAA, all rural and semi-urban branches of banks were allocated specific villages, generally in geographically contiguous areas, the overall development and the credit needs of which were to be taken care of by the respective branches.

Relief Measures for Persons Affected by Natural Calamities

2.38 In view of loss of life and property caused by *Tsunami* in December 2004 in the States of Andhra Pradesh, Tamil Nadu and Kerala and the Union Territories (UTs) of Pondicherry and Andaman and Nicobar Islands, the convenor banks of the State Level Bankers' Committees (SLBCs) in these States/Union Territories were advised to assess the situation and take immediate measures to provide appropriate relief to the affected people in terms of standing guidelines issued by the Reserve Bank. A Task Force (Chairman: Shri V. Leeladhar) was also constituted on December 27, 2004 to monitor the progress of relief and rehabilitation measures through banks and to constantly review the situation to see whether any further measures were required. Special meetings of the SLBCs were convened in the above-referred three States and two UTs. Special measures were initiated by banks to provide financial assistance to persons, particularly those engaged in fisheries in the affected areas. Based on the suggestions received from a few SLBCs, the consumption loan limit was enhanced from the existing Rs.1,000 to Rs.3,000 in the case of persons affected by *Tsunami*. The Regional Directors of the Reserve Bank in the concerned States/UTs were advised to send a small team of officials to take stock of the situation.

2.39 Furthermore, instructions were issued to all scheduled commercial banks to receive donations to the Prime Minister's Relief Fund at all branches and nominate a nodal branch at New Delhi for the purpose of collection. The Central Government exempted, subject to certain conditions, up to March 31, 2005, all associations (other than political parties), having a definite cultural, economic, educational, religious or social programme from the provisions of the Foreign Contributions (Regulation) Act, 1976, enabling them to accept foreign contributions in cash and kind for providing relief to *Tsunami* victims, without obtaining formal approval from the Central Government. All scheduled commercial banks were advised to issue necessary instructions to their branches in this regard.

2.40 The Reserve Bank permitted its staff in the States concerned to undertake relief work in the affected areas. In addition, banks were urged to take the help of good NGOs working in the areas to identify borrowers and sanction consumption loan of Rs.5,000, extendable up to Rs.10,000 at the discretion of the bank managers without any collateral to the affected persons. Banks were also directed to allow opening of savings bank accounts with nominal balance, provide education loans to the affected persons, formulate a scheme for financing of defaulting fishermen and other types of borrowers and identify the victims who are in need of assistance and provide them necessary relief without waiting for any list of victims to be formally made available by the Government. The Union Government also announced the Rajiv Gandhi Rehabilitation Package for *Tsunami* affected areas under which subsidy is provided

by the Government for loans provided to the victims of *Tsunami* for purchase/repair of boats. At the same time, the Indian Banks' Association advised its member banks that while the ceilings on loans indicated under the package were for the limited purpose of extending subsidy, banks should provide loans to the extent of full unit costs after taking into account the eligible subsidy.

Relief Measures in Areas Affected by Unprecedented Rains and Floods in Maharashtra

2.41 Consequent to the unprecedented rains and floods resulting in heavy damage to life and property in the State of Maharashtra, the convenor bank of the State Level Bankers' Committee (SLBC) was advised to assess the situation and take immediate measures to provide appropriate relief to the affected people in terms of Reserve Bank's standing guidelines on relief measures by banks in areas affected by natural calamities. In particular, attention of banks was drawn regarding financial assistance to artisans, self-employed, traders, tiny and small-scale industrial units affected by the unprecedented calamity. As per the existing instructions, banks were advised to extend general consumption loans up to Rs.1000 to eligible persons in the areas affected by natural calamity in the States where the State Governments have constituted risk funds for such lendings by commercial banks. In view of the situation prevailing in the State, banks were also advised to consider increasing the limit of consumption loan to be provided to the affected persons in the State up to Rs.5,000 without any collateral. This limit may be enhanced to Rs.10,000 at the discretion of the branch manager, depending on the repaying capacity of the borrower. Banks were also advised to consider provision of financial assistance for the purpose of repairs/reconstruction of dwelling units and also to small road transport operators, including taxi and auto rickshaw operators affected by the calamity, keeping in view the viability of the proposals. Banks were requested to take necessary action to expeditiously restore banking services in the affected areas.

Relief Measures in the State of Jammu and Kashmir and Other Parts of North India Hit by Severe Earthquake

2.42 Consequent to the earthquake in the State of Jammu and Kashmir and other parts of North India resulting in heavy damage to life and property, the convenor bank of the State Level Bankers' Committee (SLBC) of the State of Jammu and Kashmir was advised to convene a special State Level Bankers' Committee meeting, to which National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI) were also invited, to assess the situation and take immediate measures to provide appropriate relief to the affected people in terms of Reserve Bank's standing guidelines and also to consider and recommend any special measures that might be required in the affected areas. Banks were advised to extend general consumption loans, as per the existing instructions, up to Rs.1,000 to eligible persons in the areas affected by natural calamity in the States where the State Governments have constituted risk funds for such lending by commercial banks. In view of the situation prevailing in the State of Jammu and Kashmir, banks were also advised to consider increasing the limit of consumption loan to be provided to the affected persons in the State up to Rs.5,000 without any collateral. This limit may be enhanced to Rs.10,000 at the discretion of the branch manager, depending on the repaying capacity of the borrower. Banks were further advised to consider provision of financial assistance for the purpose of repairs/reconstruction of dwelling units *etc*. damaged on account of the earthquake. Banks were also advised to take necessary action expeditiously to restore banking services in the affected areas. The Reserve Bank also advised National Housing Bank to consider provision of financial assistance for the purpose of construction/repairs of dwelling units damaged by the earthquake.

Role of Banks in providing Loans against Warehouse Receipts and Commodity Futures

2.43 In pursuance of the announcement made in the Mid-term Review of Annual Policy Statement for the year 2004-05, the Reserve Bank constituted a Working Group on Warehouse Receipts and Commodity Futures (Chairman: Shri Prashant Saran) with a view to examining the role of banks in providing loans against warehouse receipts and evolving a framework for participation of banks in the commodity futures market. The Working Group in its Report submitted in April 2005 recommended that banks may be permitted to offer futures-based products to farmers in order to enable them to hedge against price risk (Box II.4).

Box II.4: Report of the Working Group on Warehouse Receipts and Commodity Futures

The Working Group was entrusted with the task of evolving broad guidelines, criteria, limits, risk management system as also a legal framework for facilitating participation of banks in commodity (derivative) market and use of warehouse receipts in financing of agriculture. The major recommendations of the Group are set out below:

- As banks at present are not allowed to deal in goods, the Central Government may issue a Notification under clause (o) of sub-section (1) of Section 6 of the Banking Regulation Act, 1949 permitting banks to deal in the business of agricultural commodities, including derivatives.
- Considering the experience that banks already have in dealing with agricultural commodities, it would be prudent at the current stage to permit banks to deal with derivatives in agricultural commodities only.
- A system needs to be evolved by which warehouse receipts become freely transferable between holders as it would reduce transaction costs and increase usage.
- An umbrella structure, which may act as a Closed User Group (CUG) for everyone engaged in the agricultural commodities business, be created. The umbrella structure is envisaged as an electronic platform that would offer straight through processing for everyone connected with commodities. There can be more than one CUG which would be subject to regulation and supervision by a regulatory authority such as Forward Markets Commission (FMC).
- Proprietary positions in agricultural commodity derivatives could be used by banks to mitigate their risk in lending to farmers. To achieve this, they will have to buy options on futures.
- The Forward Contracts (Regulation) Act, 1952 be amended and the FMC should evolve a framework for introducing "options" trading in agricultural commodities in India.
- Banks may be permitted to have independent proprietary position in commodity futures linked in a macro way to their credit portfolio. However, suitable risk control measures may have to be adopted by banks.
- At present, purely cash-settled contracts are not available in India. The banks trading or dealing in commodity contracts should, therefore, be prepared to make or accept delivery of physical goods. While no restriction may be placed in this regard, banks may be persuaded to preferably close their positions and cash settle the contracts.
- Banks may be granted general permission to become professional clearing members of commodity exchanges subject to the condition that they do not assume any exposure risk on account of offering clearing services to their trading clients. At least for the present, banks may not be permitted to act as trading members in the commodity exchanges.
- While banks may continue to hold their equity stake in the commodity exchanges in order to provide them financial strength and stability, they may reduce/divest their equity holding to a maximum permitted level of 5 per cent over a period of time so as to avoid any conflict of interest.

Credit Flow to Small Scale and Medium Industries

2.44 Given the importance of small scale industries to the overall economy, especially their employment generating potential, flow of credit to this sector has been given high priority. While large industries have access to various sources of finance, the small scale industries (SSI) sector depends primarily on finance from banks and other financial institutions. Several measures have been initiated with a view to increasing the flow of credit to SSI units. These included refining of definition of small scale and tiny enterprises; broadening the scope for indirect finance to these industries; making investments in several avenues such as securitised assets, lines of credit, bills-discounting, leasing and hire purchase eligible for priority sector advances; and modification of targets for priority sector lending to SSIs. Besides, in pursuance of the recommendations made by several working groups and high powered committees appointed by the Central Government and the Reserve Bank, a set of comprehensive guidelines to be followed for advances to all categories of borrowers in the SSI sector has been evolved.

2.45 The Reserve Bank had set up a Working Group on Flow of Credit to the SSI Sector (Chairman: Dr. A.S. Ganguly) to look into various aspects of credit flow to the SSI sector. The Group submitted its Report on April 30, 2004. The Reserve Bank has so far accepted eight recommendations. These include identification of new clusters and adopting cluster-based approach for financing the small and medium enterprises (SME) sector; sponsoring specific projects as well as widely publicising the successful working models of NGOs; sanctioning higher working capital limits to SSIs in the North Eastern region for maintaining higher levels of inventory; and exploring new instruments for promoting rural industry. As recommended by the Working Group, interest rates on the deposits placed by foreign banks with SIDBI in *lieu* of shortfall in their priority sector lending obligations were restructured and the tenor of deposits was

increased from one year to three years with effect from financial year 2005-06 (see paragraph 2.30). Of the recommendations pertaining to other agencies, *viz*., the Ministry of Small Scale Industries and the Ministry of Finance, Government of India, SIDBI, Credit Guarantee Fund Trust for Small Industries (CGTSI), Credit Information Bureau of India, Ltd. (CIBIL) and IBA, seven have been accepted fully, and three others partially.

2.46 An Internal Group was constituted (Chairman: Shri C. S. Murthy) to review all circulars and guidelines issued by the Reserve Bank in the past regarding financing of SSIs, suggest appropriate terms for restructuring of the borrowal accounts of SSIs/medium enterprises and also examine the guidelines issued by the Reserve Bank for nursing sick SSIs and suggest suitable relaxation and liberalisation of these norms. The Group in its final report submitted in June 2005 suggested several measures to streamline guidelines on credit flows to the SME sector (Box II.5).

2.47 The Reserve Bank initiated a number of measures during 2004-05 to enhance banks' lending to small scale industries. First, in order to facilitate smooth flow of credit to SSIs, the composite loan limit through a single window for SSI entrepreneurs was enhanced from Rs.50 lakh to Rs.1 crore. Second, in order to encourage securitisation of loans to the SSI sector, investments made by banks in securitised assets representing direct lending to the SSI sector were permitted to be treated as their direct lending to the SSI sector under the priority sector, provided the pooled assets represent loans to the SSI sector which are reckoned under the priority sector and the securitised loans are originated by banks/ financial institutions. Third, as recommended by the Ganguly Working Group, interest rates on the deposits placed by foreign banks with SIDBI in *lieu* of shortfall in their priority sector lending obligations were restructured and the tenor of deposits increased from one year to three years from financial year 2005-06. Fourth, investments in special bonds issued by specialised institutions that were to be accorded priority lending status were further rationalised. Fifth, investment limit in plant and machinery for seven items belonging to sports goods, which figure in the list of items reserved for manufacture in the SSI sector, was enhanced from Rs.1 crore to Rs.5 crore for the purpose of classification under priority sector advances. Moreover, as a follow-up to the announcement made in the Annual Policy Statement for 2005-06 regarding formulation of a scheme of strategic alliance between branches of banks and branches of SIDBI located in the clusters, a scheme for "Small Enterprises Financial Centres (SEFCs)" was worked out in consultation with the Ministry of Small Scale Industries and the Ministry of Finance, Government of India, SIDBI, IBA and select banks and circulated to all scheduled commercial banks for implementation. The CIBIL is working out a mechanism for development of a system of proper credit records to enable banks to determine appropriate pricing of loans to small and medium enterprises. A simplified debt restructuring mechanism for units in the SME sector has been formulated and advised to all commercial banks for implementation,

Box II.5: Major Recommendations of the Internal Group to Review Guidelines on Credit Flow to SME Sector

Major recommendations of the Group are set out below:

- Empowered committees be constituted at the Regional Offices of the Reserve Bank to: (a) periodically review the progress in SSI and medium enterprises (ME) financing; (b) to co-ordinate with other banks/financial institutions and the State Governments for removing bottlenecks, if any; and (c) and to ensure smooth flow of credit to the sector.
- Banks may open specialised SME branches in identified clusters/centres with preponderance of SSI and ME units to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop the requisite expertise.
- The boards of banks be empowered to formulate policies relating to restructuring of accounts of SME units subject to certain guidelines. Restructuring of accounts of corporate SSI/ME borrowers having credit limits aggregating Rs.10 crore or more under multiple banking arrangements will be covered under the revised corporate debt restructuring (CDR) mechanism.
- The extant guidelines on definition of a sick SSI unit be continued.
- All instructions relating to viability and parameters for relief and concessions to be provided to sick SSI units, prescribed by the Reserve Bank, be withdrawn and banks be given the freedom to lay down their own guidelines with the approval of their Board of Directors.

2.48 On August 10, 2005, the Union Finance Minister announced certain measures in the Parliament for stepping up credit to SMEs which are required to be implemented by all public sector banks. Accordingly, the Reserve Bank advised all public sector banks on August 19, 2005 to align their flow of credit to small and medium enterprises in line with the package announced by the Finance Minister (Box II.6). These measures, except setting up of specialised SME branches in identified clusters/centres with preponderance of medium enterprises, and one time settlement scheme for SME accounts, have been communicated to all private sector banks, foreign banks, regional rural banks and local area banks.

Export Credit

2.49 In view of the importance of export credit in maintaining the pace of export growth, the Reserve Bank has, over the years, undertaken several measures to ensure timely and hassle free flow of credit to the export sector. Banks extend working capital loans to exporters at pre and post-shipment stages and the credit limits sanctioned to exporters are based upon the financing bank's perception of the creditworthiness and past performance of exporters. Export financing may be denominated either in Indian rupees or in foreign currency. For both types of pre-shipment (up to 180 days) and post-shipment (up to 90 days) financing, the Reserve Bank sets a ceiling on the interest rate that banks may charge to borrowers under the scheme. Since the Reserve Bank fixes only the ceiling rate of interest for export credit, banks are free to fix lower rates of interest for exporters on the basis of their actual cost of funds, operating expenses, the track record and the risk perception of the borrower/exporter.

Box II.6: Policy Package for Stepping up Credit to Small and Medium Enterprises

Major policy measures announced by the Reserve Bank of India are set out below:

- Units with investment in plant and machinery in excess of SSI limit and up to Rs.10 crore may be treated as medium enterprises (ME). Only SSI financing will be included in the priority sector.
- Banks may fix self-targets for financing the SME sector so as to reflect a higher disbursement over the immediately preceding year, while the sub-targets for financing tiny units and smaller units to the extent of 40 per cent and 20 per cent, respectively, may continue. Banks may arrange to compile data on outstanding credit to the SME sector as on March 31, 2005 as per new definition and also show the break-up separately for tiny, small and medium enterprises.
- Banks may initiate necessary steps to rationalise the cost of loans to the SME sector by adopting a transparent rating system with cost of credit being linked to the credit rating of an enterprise.
- Banks may consider taking advantage of the Credit Appraisal and Rating Tool (CART) as well as a Risk Assessment Model (RAM) developed by SIDBI for risk assessment of proposals for SMEs.
- Banks may consider the ratings developed by National Small Industries Corporation as per availability and wherever appropriate structure their rates of interest depending on the ratings assigned to the borrowing SME units.
- In order to increase the outreach of formal credit to the SME sector, all banks, including Regional Rural Banks may make concerted efforts to provide credit cover on an average to at least 5 new small/medium enterprises at each of their semi-urban/urban branches per year.
- Based on the guidelines earlier issued by the Reserve Bank in July 2005, the Boards of banks may formulate comprehensive and more liberal policies than the existing policies in respect of loans to the SME sector. Till such time the banks formulate such a policy, the current instructions of the Reserve Bank will be applicable to advances granted/to be granted by banks to SME units.
- In view of the benefits accruing on account of cluster-based approach for financing the SME sector, banks may treat it as a thrust area and increasingly adopt the same for SME financing.
- A debt restructuring mechanism for nursing of sick units in the SME sector and a One- Time Settlement (OTS) scheme for SME accounts in the books of the banks as on March 31, 2004 were formulated and advised to all commercial banks and public sector banks respectively, for implementation.
- The existing institutional arrangements for review of credit to the SSI sector such as the Standing Advisory Committee in the Reserve Bank and cells at the commercial bank's head office level as also at important regional centres to review periodically the flow of credit to the SME sector, including tiny sector as a whole.
- Banks may ensure specialised SME branches in identified clusters/centres with preponderance of medium enterprises to enable the SME entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise. The existing specialised SSI branches may also be redesignated as SME branches.
- For wider dissemination and easy accessibility, the policy guidelines formulated by Boards of banks as well as instructions/guidelines issued by the Reserve Bank may be displayed on the respective websites of banks as well as website of SIDBI. The banks may also prominently display all the facilities/schemes offered by them to small entrepreneurs at each of their branches.

2.50 In recent years, a number of measures were undertaken by the Reserve Bank with a view to aligning the export credit schemes in tune with the changing environment. These measures, *inter alia*, included rationalisation and liberalisation of export credit interest rates; flexibility in repayment/prepayment of pre-shipment credit; special financial package for large value exporters; export finance for agricultural exports; and freedom to banks to source funds from abroad without any limit exclusively for the purpose of granting export credit in foreign currency.

2.51 Following the proposal of the Ministry of Commerce and Industry in the Exim Policy 2003-04 released in January 2004, a Gold Card Scheme was drawn up by the Reserve Bank in May 2004 in consultation with select banks and exporters with a view to further simplifying access to bank credit by exporters, especially small and medium exporters and making it borrower-friendly in terms of procedure and credit terms. With effect from March 4, 2005, it was decided that the Scheme would not be applicable to those exporters who are blacklisted by the Export Credit Guarantee Corporation (ECGC) or included in the Reserve Bank's defaulter's list/ caution list or making losses for the past three years or having overdue export bills in excess of 10 per cent of the previous year's turnover.

2.52 A Working Group was constituted (Chairman: Shri Anand Sinha) with an overall objective to review: (a) the existing procedures for export credit; (b) action taken on exporters' satisfaction survey; (c) Gold Card Scheme; (d) export credit for non-star exporters; and (e) the current interest rate structure in export credit. The Working Group, on examination of the various aspects relating to its terms of reference, made a host of recommendations in its Report submitted in May 2005 to improve the existing export credit delivery mechanism (Box II.7).

Expert Group on Credit-Deposit Ratio

2.53 As a part of the Common Minimum Programme (CMP), the Union Government had appointed an Expert Group (Chairman: Shri Y.S.P. Thorat) to examine the nature and magnitude of the problem of low credit-deposit ratio across States/regions and to suggest steps to improve the ratio, particularly in States where it is lower than 60 per cent. The Committee in its final report submitted to the Government of India on February 24, 2005 has made several recommendations to improve the credit-deposit ratio (Box II.8). The report of the Group has been accepted by the Government with certain modifications.

Box II.7: Major Recommendations of the Report of the Working Group to Review Export Credit

The major recommendations of the Group are set out below:

- Although existing procedures for export credit in place were adequate to take care of the interest of the exporters, there is a need for attitudinal change in approach of banks' officials. While posting officials, banks may keep in view the attitude of officials to exporters' credit requirements, especially the small and medium exporters.
- Banks should post nodal officers at Regional/Zonal Offices and major branches having substantial export credit for attending to the credit related problems of SME exporters.
- Banks should put in place a control and reporting mechanism to ensure that the applications for export credit, especially from SMEs are disposed off within the prescribed timeframe.
- Banks should raise all queries in one shot and should avoid piecemeal queries in order to avoid delays in sanctioning credit.
- Allocation to collateral securities should be sound and fully made use of.
- There was a need to look into the grievances of the small and medium exporters and a fresh "satisfaction survey" may be undertaken by an external agency regarding the satisfaction of the exporters with the services rendered by banks.
- Since the number of Gold Cards issued by banks is small, banks may be advised to speed up the process and adopt a simplified procedure regarding issue of the Cards.
- The Cards should be extended to all the eligible exporters, especially the SME exporters and the process may be completed within three months.
- The present interest rate prescription by the Reserve Bank may continue for the time being in the interests of the small and medium exporters.
- Interest rates on export credit in foreign currency may be raised by 25 basis points (*i.e.*, LIBOR + 1.00 per cent for the first slab and additional 2 per cent for the second slab), subject to the express condition that the banks will not levy any other charges in any manner under any name *viz*., service charge, management charge, *etc*. except for recovery towards out of pocket expenses incurred.
- Banks should give priority for the foreign currency export credit requirements of exporters over foreign currency loans to non-exporter borrowers.
- In view of the substantial increase in export credit in foreign currency through borrowings from abroad, there is a need to look into whether a regulatory limit could be prescribed, up to which banks may be allowed to borrow from abroad for the purpose.

Box II.8: Expert Group on Credit-Deposit Ratio - Major Recommendations

Major recommendations of the Expert Group are as under:

- While the existing indicator of credit as per sanction should continue to be used to monitor the credit-deposit ratio of banks in a district, it should give way to credit as per utilisation for the purpose of monitoring at the State and the bank level.
- The credit-deposit ratio at the State and the bank levels should also factor in the contribution made by banks towards the RIDF.
- District to be the unit for implementation, overseeing and monitoring. The districts to be organised into groups having credit-deposit ratio below 20 per cent, between 20-40 per cent, 40-60 per cent and more than 60 per cent.
- Sub-Committees styled as Special Sub Committees (SSC) of the District Level Co-ordination Committee (DLCC) to be set up in districts where the credit deposit ratio is below 40 per cent. The recommended framework for implementation in districts with credit deposit ratio less than 20 per cent to be the same as that below 40 per cent, except that the district to be jointly 'adopted' by the district administration and the Lead Bank.
- The State Government may give an upfront commitment regarding its responsibilities for creation of identified rural infrastructure together with support towards creating an enabling environment for banks to lend and recover their dues.

4. Prudential Regulation

2.54 A key element of the ongoing financial sector reforms has been the strengthening of the prudential framework by developing sound risk management systems and encouraging transparency and accountability. With a paradigm shift from micro-regulation to macro-management, prudential norms have assumed an added significance. The focus of prudential regulation in recent years has been on ownership and governance of banks and Basel II.

Ownership and Governance of Banks

2.55 Banks are special for several reasons. They accept and deploy large amount of uncollateralised public funds and leverage such funds through credit creation. Banks also administer the payment mechanism. Accordingly, ownership and governance of banks assume special significance. Legal prescriptions relating to ownership and governance laid down in the Banking Regulation Act, 1949 have, therefore, been supplemented by regulatory prescriptions issued by the Reserve Bank from time to time. The existing legal framework and significant current practices cover the following aspects: (i) composition of Boards of Directors; (ii) guidelines on corporate governance; (iii) guidelines for acknowledgement of transfer/allotment of shares in private sector banks issued as on February 3, 2004; and (iv) foreign investment in the banking sector, which is governed by the Press Note of March 5, 2004 issued by the Ministry of Commerce and Industry, Government of India.

2.56 The Reserve Bank had put a draft comprehensive policy framework for ownership and governance in private sector banks in public domain on July 2, 2004. Based on the feedback received on the draft policy, the Reserve Bank, in consultation with the Government of India, laid down a comprehensive policy framework on February 28, 2005. The broad principles underlying the framework ensure that: (i) ultimate ownership and control is well diversified; (ii) important shareholders are 'fit and proper' (as per the guidelines of February 3, 2004 on acknowledgement for allotment and transfer of shares); (iii) directors and CEO are 'fit and proper' and observe sound corporate governance principles (as indicated in circular of June 25, 2004); (iv) private sector banks maintain minimum capital (initially Rs.200 crore, with a commitment to increase to Rs.300 crore within three years)/net worth (Rs.300 crore at all times) for optimal operations and for systemic stability; and (v) policy and processes are transparent and fair.

2.57 In order to attain a well-diversified ownership structure, it is to be ensured that no single entity or a group of related entities has shareholding or control, directly or indirectly, in excess of 10 per cent of the paid-up capital of a private sector bank. Where any existing shareholding by any individual entity/group of related entities is in excess of 10 per cent, the bank will be required to indicate a time table for reduction of holding to the permissible level. Any bank having shareholding in excess of 5 per cent in any other bank in India will be required to indicate a time bound plan for reduction of such holding to the permissible limit of 5 per cent. The parent of any foreign bank having presence in India having shareholding directly or indirectly through any other entity in the banking group in excess of 5 per cent in any other bank in India will be similarly required to indicate a time bound plan for reduction of such holding to 5 per cent. In the case of restructuring of problem/weak banks or in the interest of consolidation in the banking sector, the Reserve Bank could permit a higher level of shareholding, including by a bank.

Road Map for Presence of Foreign Banks in India

2.58 At present, foreign banks may operate in India through only one of the three channels, *viz.*, (i) branches; (ii) a wholly owned subsidiary (WOS); or (iii) a subsidiary with an aggregate foreign investment up to a maximum of 74 per cent in a private bank. With a view to delineate the direction and pace of reform process in this area and to operationalise the extant guidelines of March 4, 2004 in a phased manner, the Reserve Bank, on February 28, 2005, released the road map for presence of foreign banks in India.

2.59 The roadmap is divided into two phases. During the first phase, between March 2005 and March 2009, foreign banks wishing to establish presence in India for the first time could either choose to operate through branches or set up a 100 per cent WOS, following the one-mode presence criterion. For new and existing foreign banks, it is proposed to go beyond the existing WTO commitment of 12 branches in a year. Foreign banks already operating in India would be permitted to establish presence by way of setting up a WOS or conversion of the existing branches into a WOS. For this purpose, criteria such as ownership pattern, financial soundness, supervisory rating and the international ranking would be considered. The WOS should have a minimum capital of Rs.300 crore and would need to ensure sound corporate governance. The WOS will be treated on par with the existing branches of foreign banks for branch expansion with flexibility to go beyond the existing WTO commitments and preference for branch expansion in under-banked areas. The Reserve Bank may also prescribe market access and national treatment limitation consistent with WTO as also other appropriate limitations to the operations of WOS, consistent with international practices and the country's requirements. During this phase, permission for acquisition of shareholding in Indian private sector banks by eligible foreign banks will be limited to banks identified by the Reserve Bank for restructuring. The Reserve Bank may, if it is satisfied that such investment by the foreign bank concerned will be in the long-term interest of all the stakeholders in the investee bank, permit such acquisition. Where such acquisition is by a foreign bank having presence in India, a maximum period of six months would be given for conforming to the 'one form of presence' concept.

2.60 The second phase will commence in April 2009 after a review of the experience gained and after due consultation with all the stakeholders in the banking sector. In this phase, three inter-connected issues would be taken up. First, the removal of limitations on the operations of the WOS and treating them on par with domestic banks to the extent appropriate would be designed and implemented. Second, the WOS of foreign banks, on completion of a minimum prescribed period of operation, may be allowed to list and dilute their stake so that, consistent with March 5, 2004 guidelines, at least 26 per cent of the paid-up capital of the subsidiary is held by resident Indians at all times. The dilution may be either by way of initial public offer or as an offer for sale. Third, during this phase, foreign banks may be permitted to enter into merger and acquisition transactions with any private sector bank in India subject to the overall investment limit of 74 per cent.

Payment of Dividends

2.61 Another important aspect of corporate governance and ownership of banks is the principles that govern dividend payments to the shareholders and promoters. In an endeavour to further liberalise the norms of such payments, the Reserve Bank granted general permission to banks to declare dividends for the accounting year ended March 31, 2005 onwards, which comply with: (i) CRAR of at least 9 per cent for preceding two completed years and the accounting year for which it proposes to declare dividend; and (ii) net NPA of less than 7 per cent. In case any bank does not meet the above CRAR norm, but has a CRAR of at least 9 per cent for the accounting year for which it proposes to declare dividend, it would be eligible to declare dividend, provided its net NPA ratio is less than 5 per cent. The bank should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949 and the prevailing regulations/ guidelines issued by the Reserve Bank, including creating adequate provisions for impairment of assets and staff retirement benefits, transfer of profits to Statutory Reserves. The proposed dividend should be payable out of the current year's profit and the Reserve Bank should not have placed any explicit restrictions on the bank for declaration of dividends.

2.62 It has also been stipulated that the dividend payout ratio [percentage of 'dividend payable in a year' (excluding dividend tax) to 'net profit during the year'] shall not exceed 40 per cent. In case the profit for the relevant period includes any

extraordinary profits/income, the payout ratio shall be computed after excluding such extraordinary items for reckoning compliance with the prudential payout ratio. The financial statements pertaining to the financial year for which the bank is declaring a dividend should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio. For 2004-05, if the 'investment fluctuation reserve' is less than 4 per cent of securities included in the 'held for trading' (HFT) and 'available for sale' (AFS) categories, the dividend payout ratio shall be computed with respect to the adjusted net profit.

Managerial Autonomy for Public Sector Banks

2.63 The Government of India issued a managerial autonomy package for the public sector banks on February 22, 2005 with a view to providing them a level playing field with the private sector banks in India. Under the new framework, the Boards of public sector banks would enjoy more freedom to carry out their functions efficiently without any impediment. The functions, however, have to be in sync with the extant statutory requirements, government policy prescription and regulatory guidelines issued by the Reserve Bank from time to time. The revised guidelines allow public sector banks to pursue new lines of business, make suitable acquisitions of companies or businesses, close/merge unviable branches, open overseas offices, set up subsidiaries and exit a line of business. Similarly, these banks have been allowed to decide human resource issues, including staffing pattern, recruitment, placement, transfer, training, promotions and pensions as well as visits to foreign countries to interact with investors, depositors and other stakeholders. Besides, the Boards of Directors of stronger banks would have additional autonomy for framing their own human resource (HR) policies. Prescription of standards for categorisation of branches, based on volume of business and other relevant factors, have been left to the banks to decide. Public sector banks have been permitted to lay down policy of accountability and responsibility of bank officials.

Mergers and Amalgamation of Banks

2.64 In pursuance of the recommendations of the Joint Parliamentary Committee (2002), the Reserve Bank had constituted a Working Group to evolve guidelines for voluntary mergers involving banking companies. Subsequently, guidelines for merger/ amalgamation of private sector banks were issued on May 11, 2005 covering details of the process of merger proposal, determination of swap ratios, disclosures, and norms for buying/selling of shares by the promoters before and during the process of merger (Box II.9). While the guidelines deal with the merger proposals between two banking companies or between a banking company and a non-banking financial company, the principles underlying the guidelines would also be applicable as appropriate to public sector banks. Where an NBFC is proposed to be amalgamated with a banking company, the Board should also examine whether: (i) the NBFC has violated/is likely to violate any of the Reserve Bank/Securities and Exchange Board of India (SEBI) norms and if so, ensure that these norms are complied with before the scheme of amalgamation is approved; (ii) the NBFC has complied with the Know Your Customer (KYC) norms for all the

Box II.9: Guidelines on Merger and Amalgamation of Banks

The guidelines on merger and amalgamation, *inter alia*, stipulate the following:

- The draft scheme of amalgamation be approved individually by two-thirds of the total strength of the total members of Board of Directors of each of the two banking companies.
- The members of the Boards of Directors who approve the draft scheme of amalgamation are required to be signatories of the Deed of Covenants as recommended by the Ganguly Working Group on Corporate Governance.
- The draft scheme of amalgamation be approved by shareholders of each banking company by a resolution passed by a majority in number representing two-thirds in value of shareholders, present in person or by proxy at a meeting called for the purpose.
- The swap ratio be determined by independent valuers having required competence and experience; the Board should indicate whether such swap ratio is fair and proper.
- The value to be paid by the respective banking company to the dissenting shareholders in respect of the shares held by them is to be determined by the Reserve Bank.
- The shareholding pattern and composition of the Board of the amalgamating banking company after the amalgamation are to be in conformity with the Reserve Bank's guidelines.
- Where an NBFC is proposed to be amalgamated into a banking company in terms of Sections 391 to 394 of the Companies Act, 1956, the banking company is required to obtain the approval of the Reserve Bank before the scheme of amalgamation is submitted to the High Court for approval.

accounts, which will become accounts of the banking company after amalgamation; and (iii) the NBFC has availed of credit facilities from banks/FIs and if so, whether the loan agreements mandate the NBFC to seek consent of the bank/FI concerned for the proposed merger/amalgamation.

2.65 In the case of regional rural banks (RRBs), sponsor banks are being encouraged to amalgamate the RRBs sponsored by them at the State level. The Government of India (Ministry of Finance), after consultation with NABARD, the concerned State Governments and the Sponsor banks, issued nine notifications on September 12, 2005 under Section 23-A of the Regional Rural Banks Act, 1976 providing for amalgamation of 28 RRBs into nine new RRBs sponsored by nine banks in six States, *viz.*, Bihar, Gujarat, Karnataka, Maharashtra, Punjab and Uttar Pradesh. These amalgamations have become effective from September 12, 2005.

2.66 In order to reposition RRBs as an effective instrument of credit delivery in the Indian financial system, an Internal Working Group on RRBs was set up by the Reserve Bank in February 2005 (Chairman: Shri A.V. Sardesai) to examine various alternatives available within the existing legal framework for strengthening the RRBs and making them viable rural financial institutions. The Group, in its final report submitted in June 2005, made several recommendations for restructuring the RRBs (Box II.10). The main recommendations of the Working Group relating to restructuring options, change of sponsor banks, minimum capital requirements, governance and management, regulation and supervision have been sent to the Government of India for consideration.

Insurance Business

2.67 Entry in insurance business from 2004-05 has been made even more broad-based with the inclusion of other banking entities under its ambit. In October 2004, RRBs have been allowed to undertake, with prior permission of the Reserve Bank, insurance business as corporate agents without risk participation, subject to fulfilling certain terms and conditions such as positive net worth, compliance with prudential norms, NPAs not exceeding 10 per cent, continuous profits in the last 3 years and no accumulated losses. Besides, subject to certain conditions, they have also been allowed to undertake insurance business on a referral basis, without any risk participation, through their network of branches.

2.68 In line with the regulations on registration of Indian insurance companies as issued by the Insurance Regulatory and Development Authority (IRDA) and subsequent Government Notification specifying 'insurance' as a permissible form of business that could be undertaken by banks under Section 6(1)(o) of the Banking Regulation Act, 1949, commercial banks were permitted in August 2000 to set up insurance joint ventures on a risk participation basis and also to undertake insurance business as agents of insurance companies on a fee basis, without any risk participation by banks and

Box II.10: Internal Group on Regional Rural Banks (RRBs)

The major recommendations of the Group are set out below:

- To improve the operational viability of RRBs, the route of merger/amalgamation of RRBs may be considered along two lines: (i) merger between RRBs of the same sponsor bank in the same State; and (ii) merger of RRBs sponsored by different banks in the same State.
- A change in sponsor banks may, in some cases, help improve competitiveness, work culture and efficiency of concerned RRBs for which new banks, both public and private sector, could be considered.
- The merged entities and existing RRBs that have accumulated losses can be capitalised to wipe out the losses and satisfy minimum capital requirement. The CRAR may initially be kept at 5 per cent.
- For those RRBs which may not turn around within a specified time limit, say 3 to 5 years, an exit route may be considered subject to extant legal provisions.
- The process of appointment of Chairmen of RRBs may be re-examined to explore the possibility of appointing them from the open market through a transparent process.
- The Boards of RRBs may be strengthened by making them broad-based through inclusion of professionals such as agricultural experts, bankers, *etc.*
- An appropriate recruitment policy, providing for greater flexibility and freedom, may be required for RRBs.
- An appropriate incentive structure, career planning, relevant training, especially in skill upgradation and information technology, be evolved for employees of RRBs.
- It would be appropriate if both the regulatory and supervisory functions relating to RRBs are exercised by the Reserve Bank.
- RRBs may be encouraged to actively consider distribution of products of mutual fund/insurance companies, rationalisation of branch network, participate in consortium lending within their areas of operations.
- RRBs may be considered for currency chest facility and empowered to collect taxes by the State Governments.

their subsidiaries. Similarly, in June 2000, NBFCs registered with the Reserve Bank were permitted, with prior approval of the Reserve Bank, to set up insurance joint ventures for undertaking insurance business with risk participation and also to undertake insurance business as agents of insurance companies on a fee basis, without any risk participation subject to satisfaction of some eligibility criteria. This facility was later extended to financial institutions in November 2001. With effect from October 2002, commercial banks were allowed to undertake referral business through their network of branches with the prior approval of the IRDA and the Reserve Bank. The requirement of such approval from the Reserve Bank was dispensed with in September 2003. In August 2003, a decision was taken to allow financially strong scheduled primary (urban) co-operative banks having a minimum net worth of Rs.100 crore and complying with certain other norms to undertake insurance business as corporate agents without risk participation. In February 2004, it was decided to allow NBFCs registered with the Reserve Bank to take up insurance agency business on a fee basis and without risk participation, without the approval of the Reserve Bank subject to certain conditions.

Exposure Norms

2.69 The Reserve Bank has prescribed regulatory limits on banks' exposure to individual and group borrowers in India to avoid concentration of credit, and has advised banks to fix limits on their exposure to specific industries or sectors for ensuring better risk management. In addition, banks are also required to observe certain statutory and regulatory exposure limits in respect of advances against investments in shares, debentures and bonds. The exposure ceiling limits is fixed in relation to banks' capital funds. The applicable limit is 15 per cent of capital funds in the case of a single borrower and 40 per cent in the case of a group of borrowers. Credit exposure to borrowers belonging to a group may exceed the 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. Credit exposure to a single borrower may exceed the exposure norm of 15 per cent of 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. Banks, may in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower up to a further 5 per cent of capital funds.

2.70 Investment of banks/FIs in equity shares and preference shares eligible for capital status, subordinated debt instruments, hybrid debt capital instruments and other instruments approved in the nature of capital, which are issued by other banks/ FIs and are eligible for capital status for the investee bank/FI, should not exceed 10 per cent of the investing bank's capital funds (Tier-I plus Tier-II). Banks/FIs should not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's/FI's holding exceeds 5 per cent of the investee bank's equity capital.

2.71 In view of the growing need for putting in place proper risk management system for identification, assessment and containing risks involved in the banking business, and also with a view to sensitising the banks in this regard, the Reserve Bank has been issuing instructions/ guidance notes on various risks for the benefit of banks. However, a recent review revealed that though the advances by banks to the housing sector, particularly to the land developers and builders, are on the rise, a corresponding control mechanism, for managing the risks involved was not adopted by majority of the banks. The position relating to risk management, reporting requirements and balance sheet disclosures in respect of real estate exposure of banks was, therefore, further reviewed and on June 29, 2005, the Reserve Bank issued a set of instructions for the guidance of banks. In terms of these guidelines, banks should have a Board mandated policy in respect of their real estate exposure. The policy may include exposure limits, collaterals to be considered, margins to be kept, sanctioning authority/level and sector to be financed, though the actual limits/ margins may vary from bank to bank depending upon the individual bank's portfolio size, risk appetite and risk containing abilities. The policy should also include risk management system to be put in place for containing risks involved in this sector, including price risk and a monitoring mechanism to ensure that the policy stipulations are being followed by field level functionaries and that the exposure of banks to this sensitive sector is within the stipulated limits. Further, banks may disclose their gross exposure to the real estate sector as well as the details of the break-up as mentioned in direct and indirect exposure in real estate in their annual reports.

2.72 In order to encourage the flow of finance for venture capital, banks were advised that their investment in venture capital (including units of dedicated Venture Capital Funds meant for Information Technology) would be over and above the ceiling of 5 per cent of the banks' total outstanding advances (including Commercial Paper) as on March 31 of the previous year prescribed for the capital market.

2.73 The instruction that banks have to limit their commitment by way of unsecured guarantees was withdrawn to enable banks to formulate their own policies on unsecured exposures. With a view to ensuring uniformity in approach and implementation, 'unsecured exposure' was defined as an exposure where the realisable value of the security was not more than 10 per cent, *ab initio*, of the outstanding exposure. 'Exposure' includes all funded and non-funded exposures (including underwriting and similar commitments). 'Security' means tangible security properly charged to the bank and does not include intangible securities such as guarantees and comfort letters.

Implementation of the New Capital Adequacy Framework (Basel II norms)

2.74 Given the financial innovations and growing complexity of financial transactions, the Basel Committee on Banking Supervision released the New Capital Adequacy Framework (Basel II) on June 26, 2004 which is based on three pillars of minimum capital requirements, supervisory review and market discipline. The revised framework has been designed to provide options to banks and banking systems, for determining the capital requirements for credit risk, market risk and operational risk and enables banks/supervisors to select approaches that are most appropriate for their operations and financial markets. The revised framework is expected to promote adoption of stronger risk management practices in banks. Under Basel II, banks' capital requirements will be more closely aligned with the underlying risks in banks' balance sheets. One of the important features of the revised framework is the emphasis on operational risk (Box II.11).

Box II.11: Measurement of Operational Risk under Various Approaches

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risks. Operational risk differs from other banking risks in that it is typically not directly taken in return for an expected reward but is implicit in the ordinary course of corporate activity and has the potential to affect the risk management process. The Basel Committee identified seven types of operational risk events that have the potential to result in substantial losses. These are: (i) internal fraud; (ii) external fraud; (iii) employment practices and workplace safety; (iv) clients, products and business practices; (v) damage to physical assets; (vi) business disruption and system failures; and (vii) execution, delivery and process management. The potential losses, in turn, vary according to the business line within the bank in which the event occurs.

Management of specific operational risks is not new. It has always been important for banks to try to prevent fraud, maintain the integrity of internal controls, reduce errors in transaction processing and so on. However, what is relatively new is the thrust on operational risk management as a comprehensive practice comparable to the management of credit risk and market risk. To manage operational risk, banks are gradually gearing to develop risk assessment techniques that are appropriate to the size and complexities of portfolios, their resources and data availability.

The New Capital Adequacy Framework has put forward various options for calculating operational risk capital charge in a "continuum" of increasing sophistication and risk sensitivity and increasing complexity. The three options for calculating operational risk capital charge are: (a) Basic Indicator Approach, (b) Standardised Approach, and (c) Advanced Measurement Approach (AMA).

Under the Basic Indicator Approach, which banks in India would have to, at the minimum, adhere to, banks would need to hold capital for operational risk equal to the average over the previous three years of a fixed percentage (denoted by alpha and set at 15 per cent by the BCBS) of a single indicator (currently proposed as positive annual gross income). Figures for any year in which annual gross income is negative or zero need to be excluded from both the numerator and denominator while calculating the average.

Under the Standardised Approach, banks' activities are divided into eight business lines against each of which, a broad indicator is specified to reflect the size or volume of banks' activities in that area. Within each business line, the capital charge is calculated by multiplying the indicator by a factor (beta) assigned to that business line. The total capital charge under the Standardised Approach is calculated as the simple summation of the regulatory capital charges across each of the business lines.

A supervisor can choose to allow a bank to use the Alternative Standardised Approach (ASA). Under the ASA, the operational risk capital charge/methodology is the same as for the Standardised Approach except for two business lines – retail banking and commercial banking. For these business lines, loans and advances multiplied by a fixed factor 'm' replace gross income as the exposure indicator. The betas for retail and commercial banking are the same as in the Standardised Approach.

The Basel Committee has been less prescriptive in respect of the advanced measurement approaches which can be based on an estimate of operational risk derived from a bank's internal risk measurement system, *albeit* subject to qualitative and quantitative standards set by the Committee, and are, therefore, expected to be more risk sensitive than the other two approaches. AMA calculations are generally based on a framework that divides a bank's operational risk exposures into a series of business lines and operational risk event types.

2.75 Under Basel II, increased capital should not be viewed as the only option for addressing increased risks confronting the bank. Other means of addressing risk must also be considered such as strengthening risk management, applying internal limits, strengthening level of provisions and reserves and improving internal controls. The Second Pillar of the Revised Framework on Supervisory Review Process is intended not only to ensure that banks have adequate capital to support all their risks, but also to encourage banks to develop and use better risk management techniques in monitoring and managing the risks (Box II.12).

2.76 With a view to ensuring migration to Basel II in a non-disruptive manner given the complexities involved, a consultative approach is being followed. Accordingly, a Steering Committee was constituted comprising senior officials from 14 banks (public, private and foreign) and representatives of the Reserve Bank and the IBA. On the basis of the recommendations of the Steering Committee, the Reserve Bank released draft guidelines for implementation of Basel II in India on February 15, 2005. In terms of the draft guidelines, banks are required to adopt standardised approach for credit risk and basic indicator approach for operational risk. The standardised duration method would continue to be applied to arrive at the capital charge for market risk. Banks would need the Reserve Bank's approval for migration to advanced approaches of risk measurement.

2.77 All scheduled commercial banks (except regional rural banks), both at the solo level (global position) and the consolidated level, will be required to implement the revised capital adequacy framework with effect from March 31, 2007. With a view to ensuring smooth transition to the revised framework and providing opportunity to banks to streamline their systems and strategies, banks in India are required to commence a parallel run of the revised framework with effect from April 1, 2006.

2.78 Several measures have been undertaken by the Reserve Bank to prepare the banking system to make a smooth migration to Basle II. Following the amendment to the Banking Companies (Acquisition and Transfer of Undertakings) Act in 1994, several public sector banks (PSBs) have raised capital both in India and abroad through Global Depository Receipts (GDRs). Several PSBs have also raised subordinated debt through the private placement route for inclusion under Tier-II capital. There is a proposal to allow banks to raise subordinated debt from the capital market to augment their capital base by making suitable amendment to the

Box II.12: Basel II and Risk Management with Special Emphasis on Pillar II

The Pillar II of Basel II, *i.e.*, Supervisory Review Process recognises the responsibility of bank management in developing an internal capital adequacy assessment process and setting capital targets that are commensurate with bank's risk profile and control environment. Supervisors are expected to evaluate how well banks are assessing their capital needs relative to risk and to intervene where appropriate.

There are three main areas that are relevant under Pillar II. First, risks considered under Pillar I that are not fully captured by the Pillar I process such as credit concentration risk. Second, certain risks that have not been taken into account by Pillar I process such as interest rate risk in the banking book, business and strategic risk. Third, factors external to the bank, such as business risk cycle effects. An important aspect of Pillar II is the assessment of compliance by banks, on an on-going basis, with the minimum standards and disclosure requirements prescribed for the advanced approaches under Pillar I, particularly the Internal Rating Based framework for credit risk and Advanced Measurement Approaches for operational risk.

The Basel Committee on Banking Supervision has identified four key principles of supervisory review. These are:

- Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels. The fundamental elements of this assessment include policies and procedures designed to ensure that the bank identifies, measures, and reports all material risks - a process that relates capital to the level of risk.
- Supervisors should review and evaluate banks' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the result of this process. The supervisors should assess the degree to which internal targets and processes incorporate the full range of material risks faced by the bank.
- Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum. Pillar I capital requirements will include a buffer for uncertainties surrounding the Pillar I regime that affect banks. Bank-specific uncertainties will be treated under Pillar II.
- Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.

Banking Regulation Act, 1949. Concurrently, a series of regulatory initiatives were taken by the Reserve Bank relevant for Basel II. First, concerted efforts were made to ensure that the banks have suitable risk management framework oriented towards their requirements dictated by the size and complexity of business, risk philosophy, market perceptions and the expected level of capital. Second, Risk Based Supervision (RBS) was introduced in 23 banks on a pilot basis. Third, the Reserve Bank has been encouraging banks to formalise their Internal Capital Adequacy Assessment Programme (ICAAP) in alignment with their business plans and performance budgeting system. This, together with the adoption of the RBS would aid in factoring the Pillar II requirements under Basel II. Fourth, there has been a marked improvement in the area of disclosures (Pillar III), so as to have greater transparency in the financial position and risk profile of banks. Similarly, capacity building for ensuring the regulator's ability for identifying and permitting eligible banks to adopt Internal Ratings Based/Advanced Measurement approaches was given due priority.

2.79 The draft Guidance Note on management of operational risk was placed on the Reserve Bank's website on March 11, 2005 for wider access and feedback. After considering the feedback received, final guidance note was issued on October 14, 2005. It is expected that the design and architecture of operational risk management would depend on the size and complexity of capital, and hence, the exact approach would differ from bank to bank. As such, the systems, procedures and tools prescribed in the Guidance note are only indicative.

Income Recognition, Asset Classification and Provisioning

2.80 The asset classification norms whereby assets are classified into four categories, *viz.*, standard assets, sub-standard assets, doubtful assets and loss assets, were prescribed with appropriate provisioning requirements for each category of assets. The concept of 'past due' in the identification of non-performing assets (NPAs) was dispensed with effect from March 2001, and the 90-day delinquency norm was adopted for the classification of NPAs with effect from March 2004.

2.81 As a major step towards tightening of prudential norms, banks were advised in May 2002 that from the year ended March 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months as against the earlier norm of 18 months. Banks were, however, permitted to phase out the additional provisioning consequent upon the reduction in the transition period from sub-standard to doubtful assets from 18 months to 12 months, over a four year period, commencing from the year ended March 2005 with a minimum of 20 per cent each year.

2.82 In June 2004, the Reserve Bank advised banks to adopt graded higher provisioning in respect of: (a) secured portion of NPAs included in 'doubtful' for more than three years category; and (b) NPAs which have remained in 'doubtful' category for more than three years as on March 31, 2004. Provisioning ranging from 60 per cent to 100 per cent over a period of three years in a phased manner, from the year ended March 31, 2005 has been prescribed. However, in respect of all advances classified as 'doubtful for more than three years' on or after April 1, 2004, the provisioning requirement has been stipulated at 100 per cent. The provisioning requirement for unsecured portion of NPAs under the above category was retained at 100 per cent.

2.83 Asset classification and provisioning requirements in respect of State Government guaranteed exposures were delinked from the invocation of State Government guarantee. In terms of the revised norms prescribed in August 2004, loans and advances and investments backed by State Government guarantee would attract asset classification and provisioning norms if interest and/ or principal or any other amount due to the bank remained overdue for more than 180 days for the year ended March 31, 2005 and for more than 90 days from the year ending March 31, 2006.

2.84 Banks were advised that while fixing the repayment schedule in case of rural housing advances granted to agriculturists under *Indira Awas Yojana* and Golden Jubilee Rural Housing Finance Scheme, they may ensure that the interest/instalment payable on such advances is linked to crop cycles.

Investment Norms

2.85 With effect from September 2, 2004, banks were allowed to exceed the limit of 25 per cent of total investments limit under 'held to maturity' (HTM) category provided that the excess comprises

only SLR securities and the total SLR securities held in the 'HTM' category are not more than 25 per cent of their demand and time liabilities (DTL). To facilitate this, banks were allowed to shift SLR securities to the 'HTM' category once more during 2004-05 as a one-time measure. The non-SLR securities held as part of 'HTM' would, however, remain in that category and no fresh non-SLR securities would be permitted to be included in the 'HTM' category.

2.86 Banks are allowed to shift investments to/ from 'HTM' category with the approval of their Boards once a year. Similarly, banks could shift investments from 'available for sale' category to 'held for trading' category. Shifting of investments from 'held for trading' category to 'available for sale' category is allowed only under exceptional circumstances. Transfer of scrips from one category to another, under all circumstances, is to be done at the acquisition cost/book value/ market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfers has to be fully provided for.

Capital Adequacy Norms

2.87 As a follow-up to the announcement made in the Mid-term Review of Annual Policy Statement for the year 2004-05, it was decided to increase the risk weight for capital adequacy purposes on housing loans extended by banks to individuals, which are fully secured by mortgage of residential properties and investments in mortgage backed securities (MBS) of housing finance companies (HFCs), recognised and supervised by National Housing Bank (NHB), from 50 per cent to 75 per cent. In the case of MBS of HFCs to be eligible for 75 per cent risk weight, only assets qualifying for 75 per cent risk weight were to back securities issued by the special purpose vehicle (SPV). The risk weights for commercial real estate exposure were kept unchanged at 100 per cent. Further, it was also decided to increase the risk weight on consumer credit, including personal loans and credit cards receivables from 100 per cent to 125 per cent. Since capital to risk weighted assets ratio (CRAR) is to be maintained on an on-going basis, banks were also advised that risk weights as indicated above would be applicable on all outstanding exposures. Subsequently, with effect from July 26, 2005, the risk weight on banks' exposure to the commercial real estate was increased from 100 per cent to 125 per cent on an on-going basis.

2.88 With a view to encouraging banks to move towards early compliance with the guidelines for maintenance of capital charge for market risks, it was earlier decided that banks, which have maintained capital of at least 9 per cent of the risk weighted assets for both credit risk and market risk for both 'HFT' and 'AFS' categories, may treat the balance in excess of 5 per cent of securities included under 'HFT' and 'AFS' categories in the 'investment fluctuation reserve' (IFR) as Tier-I capital. Banks satisfying the above criteria were allowed to transfer the amount in excess of 5 per cent in the IFR to statutory reserves. This transfer was to be made as a 'below the line' item in the profit and loss appropriation account.

2.89 Subsequently, it was decided in October 2005 that banks which have maintained capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks for both 'HFT' and 'AFS' categories as on March 31, 2006, would be permitted to treat the entire balance in the IFR as Tier-I capital. For this purpose, banks may transfer the balance in the IFR reserve 'below the line' in the profit and loss appropriation account to Statutory Reserve, General Reserve or balance of Profit and Loss account. In the event provisions created on account of depreciation in the 'AFS' or 'HFT' categories are found to be in excess of the required amount in any year, the excess should be credited to the profit and loss account and an equivalent amount (net of taxes, if any and net of transfer to statutory reserves as applicable to such excess provision) should be appropriated to an investment reserve account in Schedule 2 – 'reserves and surplus' under the head 'revenue and other reserves' and would be eligible for inclusion under Tier-II within the overall ceiling of 1.25 per cent of total risk weighted assets prescribed for general provisions/ loss reserves.

Transparency and Disclosures

2.90 The stability of a financial system stands enhanced when institutions and markets function on the basis of informed decisions. Adequate disclosure of information should act as a deterrent to excessive risk-taking and minimise adverse selection and moral hazard problems. Market discipline is believed to increase with interest from outside stakeholders such as depositors, creditors and investors. It is desirable to have greater transparency to ensure that the stakeholders have

adequate information to be able to independently monitor the institutions. Detailed guidelines have been issued from time to time to ensure banks' compliance with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI). The Reserve Bank has issued guidelines to banks to enhance the level of transparency and disclosures with respect to their financial position.

2.91 The Joint Parliamentary Committee (JPC) on Stock Market Scam and Matters Relating Thereto in its report released in December 2002 had recommended that the comments made by the Reserve Bank in the inspection reports should be published in the annual reports of the banks along with the financial results to ensure greater transparency. In view of the sensitive nature of the disclosures and their impact on the interest of depositors, the JPC recommendations were examined by the Reserve Bank in consultation with the Standing Technical Advisory Committee on Financial Regulation (STACFR) and the Board for Financial Supervision (BFS). In this regard, the Reserve Bank also took into account the recommendations of the Committee on Banking Sector Reforms (1998), Advisory Group on Transparency in Monetary and Financial Practices (2000) and Committee on Procedures and Performance Audit on Public Services (2004). It was felt that disclosure of the details of the levy of penalty on a bank in public domain will be in the interests of the investors and depositors. It was also decided in November 2004 that strictures or directions on the basis of inspection reports or other adverse findings be placed in the public domain. While such disclosures would be made by the Reserve Bank through press releases, banks were advised to disclose penalty in the 'Notes on Accounts' to the balance sheet. With regard to strictures or directions by the Reserve Bank, there would be a press release by the Reserve Bank. The above policy came into operation with effect from November 1, 2004.

2.92 Best international practices require meaningful and appropriate disclosures of banks' exposures to risk and their strategy towards managing the risk. With a view to ensuring that the banks make meaningful disclosures of their derivative portfolios, a minimum framework for disclosures by banks on their risk exposures in derivatives was advised to the commercial banks. The guidelines included both qualitative and quantitative aspects to provide a clear picture of the exposure to risks in derivatives, risk management systems, objectives and policies. Banks were advised to make these disclosures as part of the 'Notes on Accounts' to the balance sheet with effect from March 31, 2005.

Securitisation of Standard Assets

2.93 With a view to ensuring healthy development of the securitisation market, the Reserve Bank issued draft guidelines on securitisation of standard assets on April 4, 2005 to banks, financial institutions and non-banking financial companies. The regulatory norms for capital adequacy, valuation, profit/loss on sale of assets, income recognition and provisioning for originators and service providers such as credit enhancers, liquidity support providers as also the accounting treatment for securitisation transactions and disclosure norms were laid down in the draft guidelines.

2.94 Under the proposed guidelines, for a transaction to be treated as securitisation, it must follow a two-stage process. In the first stage, there should be pooling and transferring of assets to a bankruptcy remote special purpose vehicle (SPV). In the second stage, repackaging and selling the security interests, representing claims on incoming cash flows from the pool of assets to the third party investors should be effected. For enabling the transferred assets to be removed from the balance sheet of the seller in a securitisation structure, the isolation of assets or 'true sale' from the seller or originator to the SPV would be an essential prerequisite. Therefore, an arm's length relationship between the originator/ seller and the SPV has to be maintained. In case the transferred assets do not meet the true-sale criteria, the assets would be deemed to be an on-balance sheet asset of the seller who would be required to comply with all applicable accounting and prudential requirements in respect of those assets. The SPV would also be required to meet the criteria to enable originators to avail off-balance sheet treatment for the assets transferred by them to the SPV and also to enable the service providers and investors in the pass-through certificate (PTCs) to avail of the regulatory treatment for their respective exposures in a securitisation structure. Further, in all cases of securitisation, the securities issued by the SPV should be independently rated by an external credit rating agency and such ratings are required to be updated at least semi-annually.

NPA Management by Banks

2.95 The Reserve Bank and the Central Government have initiated several institutional measures to contain the levels of NPAs. These include Debt Recovery Tribunals (DRTs), *Lok Adalats* (people's courts), Asset Reconstruction Companies (ARCs) and Corporate Debt Restructuring (CDR) mechanism. Settlement Advisory Committees have also been formed at regional and head office levels of commercial banks. Furthermore, banks can also issue notices under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 for enforcement of security interest without intervention of courts. Thus, banks have a menu of options to resolve their NPA problem.

2.96 With a view to providing an additional option and developing a healthy secondary market for NPAs, guidelines on sale/purchase of non-performing assets were issued in July 2005 where securitisation companies and reconstruction companies are not involved. The draft guidelines cover the following broad areas: (i) procedure for purchase/sale of non-performing financial assets by banks, including valuation and pricing aspects; and (ii) prudential norms relating to asset classification, provisioning, accounting of recoveries, capital adequacy and exposure norms and disclosure requirements. The guidelines include several specific provisions: (i) a non-performing asset in the books of a bank shall be eligible for sale to other banks only if it has remained a non-performing asset for at least two years in the books of the selling bank and such selling should be only on a cash basis; (ii) a non-performing financial asset should be held by the purchasing bank in its books at least for a period of 15 months before it is sold to other banks; (iii) a bank may purchase/sell non-performing financial assets from/to other banks only on a 'without recourse' basis; (iv) banks should ensure that subsequent to sale of the non-performing financial assets to other banks, they do not have any involvement with reference to assets sold and do not assume operational, legal or any other type of risks relating to the financial assets sold; (v) a non-performing financial asset may be classified as 'standard' in the books of the purchasing bank for a period of 90 days from the date of purchase. Thereafter, the asset classification status of the account shall be determined by the record of recovery in the books of the purchasing bank with reference to cash flows estimated while purchasing the asset. The asset shall attract provisioning requirement appropriate to its asset classification status in the books of the purchasing bank; (vi) any recovery in respect of a non-performing asset purchased from other banks should first be adjusted against its acquisition cost. Recoveries in excess of the acquisition cost can be recognised as profit; (vii) the asset classification status of an existing exposure to the same obligor in the books of the purchasing bank will continue to be governed by the record of recovery of that exposure and hence may be different; (viii) for the purpose of capital adequacy, banks should assign 100 per cent risk weights to the non-performing financial assets purchased from other banks; (ix) in the case the non-performing asset purchased is an investment, then it would attract capital charge for market risks also; and (x) the purchasing bank should ensure compliance with the prudential credit exposure ceilings (both single and group) after reckoning the exposures to the obligors arising on account of the purchase.

Corporate Debt Restructuring Mechanism

2.97 A Special Group (Chairperson: Smt. S. Gopinath) was appointed to undertake a further review of the corporate debt restructuring (CDR) mechanism and suggest certain changes/ improvements in the existing scheme for enhancing its scope and to make it more efficient. In pursuance of the recommendations made by the Special Group, major modifications were proposed in the draft guidelines issued on May 6, 2005 in the existing CDR scheme. These included: (i) extension of scheme to corporate entities where banks and institutions have an outstanding exposure of Rs.10 crore or more from the earlier exposure of Rs.20 crore and above; (ii) requirement of support of 60 per cent of creditors by number in addition to the support of 75 per cent of creditors by value with a view to making the decision-making process more equitable; (iii) linking the restoration of asset classification prevailing on the date of reference to CDR Cell for implementation of package within three months from the date of approval of the package; (iv) restricting the regulatory concession in asset classification and provisioning requirement to the first restructuring where the package also has to meet certain norms relating to turnaround period and minimum sacrifice and funds infusion by promoters; (v) convergence in

the methodology for computation of economic sacrifice among banks and FIs; (vi) regulatory treatment of non-SLR instruments acquired while funding interest or in *lieu* of outstanding principal and valuation of such instruments; (vii) limiting the Reserve Bank's role to providing broad guidelines for the CDR system; (viii) enhancing balance sheet disclosures; (ix) pro-rata sharing of additional finance requirement; (x) including one-time settlement (OTS) as part of the CDR scheme to make the exit option more flexible; and (xi) discretion to the core group in dealing with wilful defaulters in certain cases.

Debt Recovery Tribunals

2.98 Debt Recovery Tribunals (DRTs) were set up under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 for expeditious adjudication and recovery of debts due to banks and financial institutions. On the recommendation of the Reserve Bank, the Government of India set up a Working Group in July 2004 to improve the functioning of DRTs. The Working Group is expected to examine issues and recommend appropriate measures regarding: (a) the need to extend the provisions of the Recovery of Debts Due to Banks And Financial Institutions Act to cases for less than Rs.10 lakh; (b) redistribution of the jurisdiction of the various DRTs; (c) modification in the existing strength of the DRTs/Debt Recovery Appellate Tribunals (DRATs); and (d) legal and institutional provisions.

Lok Adalats

2.99 The Reserve Bank issued guidelines to commercial banks and financial institutions to enable them to make increasing use of the forum of *Lok Adalats*. In terms of the guidelines, banks could settle banking disputes involving an amount up to Rs.5 lakh through the forum of *Lok Adalats*. Further, banks were advised to participate in the *Lok Adalats* convened by various DRTs/DRATs for resolving cases involving Rs.10 lakh and above to reduce the stock of NPAs. The Central Government, in consultation with the Reserve Bank, decided to increase the monetary ceiling of cases to be referred to the *Lok Adalats* organised by Civil Courts. Accordingly, on August 3, 2004, the Reserve Bank enhanced the monetary ceiling of cases to be referred to *Lok Adalats* organised by Civil Courts to Rs.20 lakh as against the earlier ceiling of Rs.5 lakh.

Anti-Money Laundering Guidelines: Status

2.100 In recent years, prevention of money laundering has assumed importance in international financial relationships. In this context, in November 2004, the Reserve Bank revised the guidelines on 'know your customer' (KYC) principles in line with the recommendations made by the Financial Action Task Force (FATF) on anti-money laundering (AML) standards and combating financing of terrorism (CFT). Banks were advised to frame their KYC policies with the approval of their Boards and ensure they are compliant with its provisions by December 31, 2005. The salient features of the policy relate to the procedure prescribed with regard to customer acceptance, customer identification, risk management, monitoring as required under Prevention of Money Laundering Act (PMLA), 2002. The revised guidelines make the verification of the identity of the customer and address through independent source documents mandatory. Banks are also required to classify the accounts according to the risk perceived by the bank. However, in order to ensure that the inability of persons belonging to low income groups to produce documents to establish their identity and address does not lead to their financial exclusion and denial of banking services further, simplified procedure has been provided for opening of accounts for those persons who do not intend to keep balances above Rs.50,000 and whose total credit in one year is not expected to exceed Rs.1,00,000. In addition, the Reserve Bank issued instructions emphasising the obligation on banks to follow the provisions of the Foreign Contribution (Regulation) Act, 1976 in respect of acceptance of foreign donations on behalf of associations/organisations maintaining accounts with them.

Customer Service

Credit Card Facilities

2.101 In order to ensure orderly growth of the card segment of consumer credit and protect the interests of banks/NBFCs and their customers, the Reserve Bank constituted a Working Group on Regulatory Mechanism for Cards (Chairman: Shri R. Gandhi). The report of the Group was placed in public domain in April 2005. Taking into account the feedback received from the media, members of the public and others on the report of the Working Group, draft guidelines on credit cards were framed by the

Reserve Bank in June 2005 for all commercial banks/non-banking financial companies (NBFCs) with regard to their credit card operations.

2.102 The draft guidelines delineated the broad parameters that banks/NBFCs should, at the minimum, take into account with regard to: (a) issue of cards with respect to clear mentioning of Most Important Terms and Conditions (MITCs); (b) interest rates and other charges on customers; (c) corrective mechanism on account of wrongful billing; (d) use of Direct Sale Agents and other agents for outsourcing various credit card operations; (e) protection of customer rights especially in respect of right to privacy, customer confidentiality and fair practices in debt collection; (f) redressal avenues of customer grievances; and (g) internal control and monitoring systems of the banks/NBFCs for such card operations.

2.103 The draft guidelines further stipulate that each bank/NBFC must have a well documented policy and a 'Fair Practices Code' for credit card operations. The 'Fair Practices Code' for credit card operations released by the IBA in March 2005 could also be used by banks/NBFCs. The bank/ NBFCs code should, at the minimum, however, incorporate the relevant guidelines contained in the draft guidelines released by the Reserve Bank.

Customer Service Committee of the Board/ Standing Committee on Customer Service

2.104 The Reserve Bank had constituted a Standing Committee on Procedures and Performance Audit on Public Services (CPPAPS) [Chairman: Shri S. S. Tarapore] in December 2003. The Committee submitted four Reports, *viz*., Reports on Foreign Exchange Transactions, Government Transactions Relating to Individuals, Banking Operations and Currency Management. Keeping in view the recommendations of the CPPAPS, all the public sector/private sector banks and select foreign banks were advised vide Governor's letter dated August 14, 2004 to constitute a Customer Service Committee of the Board with a view to strengthening the corporate governance structure in the banking system and also to bringing about ongoing improvements in the quality of customer service provided by bank. Furthermore, based on the recommendations of the Committee, banks were advised in April 2005 to take necessary action to convert the existing *Ad hoc* Committees into Standing Committees on Customer Service. It was felt that the *Ad hoc* Committee when converted as a permanent Standing Committee cutting across various departments could serve as a micro level executive committee driving the implementation process and providing relevant feedback, while the Customer Service Committee of the Board would oversee and review/modify the initiatives. Thus, the two committees would be mutually reinforcing.

Banking Ombudsman

2.105 With a view to enhancing the effectiveness of the Banking Ombudsman Scheme, banks were advised in April 2005 that Customer Service Committee of the Board should play a more active role with regard to complaints/grievances received by the Banking Ombudsmen of the various States. Furthermore, to ensure that the awards of the Banking Ombudsmen are implemented immediately and with active involvement of top Management, banks were also advised to: (i) place all the awards before the Customer Service Committee to enable it to address issues of systemic deficiencies existing in banks, if any, brought out by the awards; and (ii) place all the awards remaining unimplemented for more than three months with the reasons therefor before the Customer Service Committee to enable it to report to the Board such delays in implementation without valid reasons and for initiating necessary remedial action.

Banking Codes and Standards Board of India

2.106 The Committee on Procedures and Performance Audit of Public Services had recommended that Banking Codes and Standards Board of India (BCSBI) be set up as an independent organisation but strongly supported and fully funded by the Reserve Bank. Accordingly, in the Annual Policy Statement for 2005-06, it was proposed to set up an independent Banking Codes and Standards Board of India on the lines of the Banking Code of the British Bankers' Association of the UK in order to ensure that comprehensive code of conduct for fair treatment of customers is evolved and adhered to. The detailed modalities for setting up of the Board are being worked out.

Collection and Processing of Cheques

2.107 The Reserve Bank has been advising banks from time to time on issues relating to: (i) immediate credit of local/outstation cheques;

(ii) time frame for collection of local/outstation cheques; and (iii) interest payment for delayed collection. On a comprehensive review of the technological progress in payment and settlement systems and the qualitative changes in operational systems and processes undertaken by a number of banks, it was felt that prescription of a single set of rules may not be appropriate. Banks were, therefore, advised in November 2004 to formulate a comprehensive and transparent policy covering all the above three aspects, taking into account their technological capabilities, systems and processes adopted for clearing arrangements and other internal arrangements for collection through correspondents. Banks were also advised that adequate care be taken to ensure that the interests of small depositors are fully protected.

Grievances Redressal Mechanism

2.108 The Central Vigilance Commission (CVC) had expressed concerns regarding lack of redressal machinery in private sector banks. The issue was examined in detail and the Reserve Bank instructed the IBA to advise all the members to ensure, *inter alia*, that a suitable mechanism exists for receiving and addressing complaints from their customers/constituents and that the time frame is fixed for resolving the complaints received at different levels.

Settlement of Claims of Deceased Depositors

2.109 The Committee on Procedures and Performance Audit on Public Services had observed that the tortuous procedures, particularly those applicable to settlement of claim of a deceased depositor, caused considerable distress to family members. Accordingly, the Reserve Bank advised banks in June 2005 that while making payment to the survivor(s)/ nominee(s) of the deceased depositor, they should desist from insisting on production of a succession certificate, letter of administration or probate or obtain any bond of indemnity or surety from the survivor(s)/nominee(s), irrespective of the amount standing to the credit of the deceased account holder. Furthermore, in those cases where the deceased depositor had not made any nomination or for the accounts other than those styled as "either or survivor" (such as single or jointly operated accounts), banks were advised to adopt a simplified procedure for repayment to legal heir(s). In the case of term deposits, banks have been advised to incorporate a clause in the account opening form itself to the effect that in the event of the death of the depositor, premature termination of term deposits would be allowed. Furthermore, banks have been advised to obtain appropriate agreement/authorisation from the survivor(s)/nominee(s) with regard to treatment of pipeline flows. Banks were also advised to settle the claims in respect of deceased depositors and release payments to survivor(s)/nominee(s) within a period not exceeding 15 days from the date of receipt of the claim, subject to the production of proof of death of the depositor and suitable identification of the claim(s) to the bank's satisfaction.

Door-step banking

2.110 In May 1983, banks were advised by the Reserve Bank not to extend any banking facilities at the premises of their customers without obtaining its prior permission. Several requests, however, were received from Government departments such as Railways requesting to make available banking services including collection of cash at their premises. Keeping this and representations from certain banks in view, it was decided in April 2005 that a scheme for providing services at the premises of a customer within the framework of Section 23 of the Banking Regulation Act, 1949 may be formulated by banks with the approval of their Boards and submitted to the Reserve Bank for approval. In order to ensure that Central and State Government departments are not inconvenienced, agency banks in the interregnum may continue to lift cash and collect credit instruments from their premises.

Government Business

2.111 Detailed guidelines were issued to all agency banks in respect of scheme for collection of dues of: (i) Central Board of Direct Taxes, (ii) Central Board of Excise and Customs, and (iii) Departmentalised Ministries Account, for reporting and accounting of March transactions for the financial year 2004-05.

2.112 All agency banks conducting Government business were advised that such business would qualify for payment of turnover commission only for the following items: (i) revenue receipts and payment on behalf of the Central/State Governments; (ii) pension payments in respect of Central Government and State Governments; (iii) payments made by banks to account holders

under the Compulsory Deposit Scheme; (iv) Special Deposit Scheme (SDS), 1975 and Public Provident Fund (PPF); and (v) any other item of work specifically advised by the Reserve Bank as eligible for turnover commission (*viz*., Relief Bonds/Savings Bonds).

2.113 With effect from November 1, 2004, agency banks were required to pay their own tax liabilities (TDS, Corporation Tax, *etc*.) to the Government account through their own branches only. Such payments should be indicated in the scrolls separately so as to distinguish them from other transactions. It was reiterated that the banks are not entitled for 'turnover commission' on transactions of the above type.

2.114 Banks issued comprehensive guidelines to take appropriate steps to mitigate any discrepancy in the *challan* data transmitted to Tax Information Network (TIN) and Physical *challan* sent to Zonal Accounts Office (ZAO) under On Line Tax Accounting System (OLTAS).

Remittance Facility to NRIs/PIOs

2.115 On May 13, 2005, the remittance facility to a non-resident Indian (NRI)/person of Indian origin (PIO) out of balances in the NRO account was further extended by allowing remittances up to US $ 1 million, per calendar year, under legacy/ inheritance acquired out of settlement. However, the existing guidelines regarding remittance of sale proceeds of immovable property to a citizen of Pakistan, Bangladesh, Sri Lanka, China, Afghanistan, Iran, Nepal and Bhutan would continue. In view of the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS) it was decided that with effect from March 15, 2005, in addition to the earlier facility, a resident power of attorney holder would be permitted to remit, through normal banking channels, funds out of the balances in NRE/FCNR(B) account to the non-resident account holder provided specific powers for the purpose have been given.

Shifting of branches/offices – Procedural Rationalisation

2.116 In terms of the existing provisions, the banks cannot, without the prior approval of the Reserve Bank, open a new place of business in India or abroad or change, otherwise than within the same city, town or village, the location of the places of business. While the current policy for authorisation of overseas branches of Indian banks would continue, the branch authorisation policy was liberalised and rationalised in September 2005. With this objective, it was decided to put in place a framework for a branch authorisation policy which would be consistent with the medium-term corporate strategy of banks and public interest.

2.117 From the point of view of the public interest, the following aspects would be kept in view while processing the authorisation requests: (i) the Reserve Bank would, while considering applications for opening branches, give weightage to the nature and scope of banking facilities provided by banks to common persons, particularly in under-banked areas, actual credit flow to the priority sector, pricing of products and overall efforts for promoting financial inclusion, including introduction of appropriate new products and the enhanced use of technology for delivery of banking services; (ii) such an assessment would include policy on minimum balance requirements and whether depositors have access to minimum banking or "no frills" banking services, commitment to the basic banking activity, *viz*., acceptance of deposits and provision of credit and quality of customer service as, *inter alia*, evidenced by the number of complaints received and the redressal mechanism in place in the bank for the purpose; and (iii) the need to induce enhanced competition in the banking sector at various locations. In this regard, the regulatory comfort would also be relevant, which would encompass: (a) compliance with not only the letter of the regulation but also whether the bank's activities are in compliance with the spirit and underlying principles of the regulation; (b) the activities of the banking group and the nature of relationship of the bank with its subsidiaries, affiliates and associates; and (c) quality of corporate governance, proper risk management systems and internal control mechanisms.

2.118 As regards the procedural aspects, the existing system of granting authorisations for opening individual branches from time to time, would be replaced by a system of giving aggregated approvals, on an annual basis, through a consultative and interactive process. Bank's branch expansion strategies and plans over the medium-term would be discussed by the Reserve Bank with individual banks. The medium-term

framework and the specific proposals would, to the extent possible, cover the opening/closing/ shifting of all categories of branches/offices including the ATMs. These policy parameters would be applicable to foreign banks, in addition to the criteria which are specific to foreign banks and India's commitments at the WTO. ATMs would not be included in the number of branches for such computation.

Other Initiatives

2.119 Banks were asked to formulate a transparent and comprehensive Deposit Policy setting out the rights of the depositors in general and small depositors in particular. A Clean Note Policy was formulated and implemented to improve the quality of currency in circulation and ensure sufficient availability of fresh currency and coins. Various prescriptions with regard to arranging proper disclosures by banks relating to aspects such as maintenance of minimum balances in accounts, issue of cheque books, entries in pass books/statement of accounts, and formulation of transparent Cheque Collection Policy by banks have been introduced.

5. Supervision and Supervisory Policy

Board for Financial Supervision

2.120 The Board for Financial Supervision (BFS) was constituted in November 1994 as a committee of the Central Board to exercise 'undivided attention to supervision'. The BFS provides direction on a continuing basis on supervisory policies including governance issues and supervisory practices. It also provides direction on supervisory actions in specific cases. The BFS ensures an integrated approach to supervision of commercial banks, financial institutions, non-banking financial companies, urban co-operatives banks and primary dealers.

2.121 During 2004-2005, the BFS met 18 times as it had to devote more attention to the supervision of urban co-operative banks, considering the financial weaknesses observed in the sector. It also reviewed the monitoring with regard to frauds in banks and financial institutions (FIs) and house-keeping in public sector banks, including reconciliation of entries in inter-branch accounts, inter-bank accounts (also *Nostro* accounts) and balancing of the books of accounts. The Board also reviewed the monitoring of all India financial institutions and non-banking financial companies. Besides, delineating the course of action to be pursued in respect of institution-specific supervisory concerns, the Board provided guidance on several regulatory and supervisory policy matters. The Board also reviewed the financial performance of primary dealers (PDs) system as a whole and provided guidance. It also reviewed the monitoring done with regard to the performance of urban co-operative banks and district central co-operative banks.

2.122 Several policy initiatives were taken at the instance of BFS during the year. The guidelines on ownership and governance for private banks were issued in February 2005 (see paragraph 2.56). The Board suggested broad approaches to be adopted for improving the financial position and management of private sector banks. These included: (a) infusion of capital funds and examining merger options, depending upon the level of CRAR and net owned fund (NOF); (b) special attention to be devoted to banks where there are specific issues/legal cases/other problems constraining infusion of capital; and (c) banks having governance concerns because of dominant shareholding or other reasons to be closely supervised. The Board also clarified that 'fit and proper' criteria of directors in such banks should be complied with in letter and spirit.

2.123 In order to implement directions of the BFS, a detailed analysis of compliance with the guidelines on ownership and governance in private sector banks was undertaken. Discussions with individual banks were held to ascertain their plans for ensuring compliance with the guidelines. The due diligence carried out by the banks themselves in respect of their directors has been reviewed by the Reserve Bank and corrective action is being taken, wherever called for.

2.124 Apart from on-site inspections, the supervisory strategy of the Reserve Bank also involves three other approaches, *viz*., off-site monitoring, the internal control systems in banks and use of external auditors. The on-site Annual Financial Inspection (AFI) system is based on the CAMELS (Capital adequacy, Asset quality, Management, Earnings, Liquidity and Systems and controls) CALCS (Capital adequacy, Asset quality, Liquidity, Compliance and Systems) model for Indian and foreign banks, respectively. A system of supervisory rating of banks based on CAMELS concept is being used to summarise the

performance of individual banks as also to assess the aggregate strength and soundness of the banking system. While inspection of the overseas operations of branches of Indian banks is left largely to the parent bank, a system of evaluation visits covering all branches functioning at different financial centres has been instituted as part of the initiatives taken to strengthen cross-border supervision.

2.125 The macro approach to financial supervision has helped the Reserve Bank to refine its regulatory as well as monetary policy stance so as to achieve the fine balance between growth and financial stability. At the same time, external auditors who are entrusted with the responsibility of statutory audit of annual accounts of banks are being increasingly used as an extended arm of the supervisory system. They are also required to verify and certify certain other aspects such as adherence by banks to statutory liquidity requirements, prudential norms relating to income recognition and classification of assets and provisioning. A system of concurrent 'on line' audit of business transactions of banks intended to cover at least 50 per cent business of the bank, besides 100 per cent audit of risk sensitive portfolios such as foreign exchange and investments, is in place.

Progress in Implementation of Risk Based Supervision

2.126 Several initiatives have been taken for a gradual roll out of the risk based supervision (RBS) process since the announcement made in the Monetary and Credit Policy of April 2000. There were two rounds of pilot run of RBS covering 23 banks in public sector, private sector (old and new) and foreign banks categories during 2003-2005. Evaluation of the findings of first pilot run revealed that the bank level preparedness for RBS/Risk Based Internal Audit (RBIA) process was very slow. There were certain overlaps under both the business and control risks. Several steps were, therefore, taken to streamline the RBS process. First, pending amendment to risk profile templates, changes were made in the structure of inspection report to capture and report business risk and control risk in one place. Second, a work book together with a sample on-site inspection report was designed to help the inspecting officers to undertake the RBS. Third, a resource group with officers from different departments of the Reserve Bank and the Executive Director as Chairperson is in existence to analyse various risk models employed by banks in India. Fourth, an internal group was formed to revisit the Risk Profile Templates (RPTs). The revised RPTs, new methodology for risk assessment and also the guidelines for arriving at the supervisory risk rating of the bank were discussed in the Conference of Regional Offices of the Reserve Bank held on July 22 and 23, 2005. The revised RPTs would be in place in the last quarter of the current inspection cycle (April-March).

2.127 A conference of the Chief Executives of banks was held in July 2004 to discuss the level of preparedness for moving towards implementation of Basel II norms as also RBIA/ RBS. In view of the various constraints faced by banks, the progress towards full-fledged RBS replacing AFI is expected to be slower than anticipated.

2.128 The RBS approach is based on the principle of differentiated supervision. Banks are differentiated on the basis of their risk profiles and the risks posed by them to the stability of the financial system. Banks with high risk, and within the banks, critical areas with high risk, receive more supervisory attention. The RBS thus helps in allocating supervisory resources more efficiently and focusing supervisory attention according to the risk profile of each institution. Evaluation of risk management systems in banks is the essence of the RBS.

Off-site Monitoring and Surveillance

2.129 The Reserve Bank instituted a state-of-the-art Off-site Monitoring and Surveillance (OSMOS) system for banks in 1995 as part of crisis management framework for Early Warning System (EWS) and as a trigger for on-site inspections of vulnerable institutions. The scope and coverage of off-site surveillance has since been widened to capture various facets of efficiency and risk management of banks. They were also advised to increase the level of utilisation of the INFINET for regulatory-cum-supervisory reporting.

2.130 It was decided that financial institutions not accepting public deposits but having asset size of Rs.500 crore and above would be subjected to limited off-site supervision by the Reserve Bank. Therefore, with effect from April 1, 2005, the existing system of off-site supervision was replaced by a simplified information system known as the

'Quarterly Return on Important Financial Parameters in respect of select Financial Institutions'.

2.131 While taking up on-site inspection of banks, data from the OSMOS system are used by the inspecting officers for assessing the performance of banks. On-line connectivity has been provided to all the Regional Offices having head offices of banks under their jurisdictions to enable them to access the data directly and generate standard reports. The system was revised to collect certain additional data on derivatives, interest rate risk in investment portfolio, capital charge for market risk and risk weights on housing loans and consumer credit. To identify areas requiring urgent supervisory action and initiate timely action, the time limit for submission of monthly returns was reduced to 15 days and for quarterly returns to 21 days, across all categories of banks from June 2005. To improve the data quality, several measures were initiated. These included: (a) modification of the 'guidance note on off-site returns' in the light of the latest revision of the system, relevant regulatory changes and common reporting mistakes observed in various returns; and (b) meetings with individual identified banks to highlight the mistakes committed in the returns, removing conceptual ambiguities and sensitising them to the importance of off-site returns.

Initiatives for Supervision of Financial Conglomerates

2.132 The financial sector in India is becoming increasingly complex due to the entry of some of the large banks into non-traditional financial activities such as merchant banking, insurance and mutual funds. A few non-banking financial intermediaries have also become large enough to cause systemic impact. The number of cross-border financial conglomerates operating in and out of India is also growing. From a regulatory perspective, the above developments have led to an appreciation of the limitations of the segmented approach to supervision in addressing the potential risks arising out of operations of financial conglomerates. The Working Group on Financial Conglomerates (Convenor: Smt. Shyamala Gopinath) in its Report submitted in May 2004, *inter alia,* suggested criteria for identifying financial conglomerates, a monitoring system for capturing intra-group transactions and exposures and a mechanism for inter-regulatory exchange of information in respect of financial conglomerates.

2.133 The Working Group has identified 22 financial conglomerates. As part of operationalisation of the monitoring mechanism, a pilot process envisaging submission of data/ information in the prescribed format by the designated entities (DEs) to their principal regulators [Reserve Bank, Securities and Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA)] followed by a dialogue between the DEs and the regulators on issues of concern has been set in motion. The reporting format was revised with effect from quarter ended December 31, 2004 to make the reporting system user-friendly, objective and granular. A system of half-yearly discussion with the Chief Executive Officer of financial conglomerates in association with other principal regulators has been introduced as a follow-up to the announcement in the Annual Policy Statement for 2005-06 to address outstanding issues/ supervisory concerns.

Credit Information Bureau of India Ltd. (CIBIL)

2.134 The compilation and dissemination of credit information covering data on defaults to the financial system has been undertaken by the Credit Information Bureau of India Ltd. (CIBIL) set up in 2001. Banks/FIs were advised to take immediate steps to ensure submission of periodical data to CIBIL and progress reports to the Reserve Bank. Boards of banks/FIs were also advised to oversee furnishing of requisite information of all borrowers to CIBIL and report compliance of the same to the Reserve Bank. The role of CIBIL in dissemination of credit information was clarified. CIBIL should move towards a sufficiently diversified ownership structure with no single entity owning more than 10 per cent of its paid-up capital.

2.135 As announced in the Annual Policy Statement for the year 2004-2005, CIBIL was advised to work out a mechanism in consultation with the Reserve Bank, SIDBI and IBA for development of a system of proper credit records to enable banks to determine appropriate pricing of loans to small and medium enterprises. CIBIL is currently in the process of exploring solutions in association with its technology partner Dun & Bradstreet Information Services India (P) Ltd. (D & B) either by modifying the existing system of CIBIL to segregate Small and Medium Enterprise (SME) data or creating a separate system for

drawing information from database systems of both CIBIL and D&B. It held discussions in this regard with IBA, SIDBI and the Reserve Bank. This proposed SME solution will be in a position to provide consolidated report comprising SME loan related data, SME vendor payment related data and a consolidated SME score. CIBIL is expecting to operationalise the projects within 18-24 months.

2.136 With a view to strengthening the legal mechanism and facilitating credit information bureaus to collect, process and share credit information on borrowers of banks/FIs, a draft Credit Information Companies (Regulation) Bill was introduced in the Parliament. The Bill was passed by the Rajya Sabha and the Lok Sabha in May 2005 and received the assent of the President in June 2005. The Bill empowers CIBIL to collect information relating to all borrowers and confers upon the Reserve Bank the power to determine policy in relation to functioning of credit information companies and also giving directions to credit information companies.

Monitoring of Frauds

2.137 With a view to reducing the incidence of frauds, the Reserve Bank advised banks in October 2002 to look into the existing mechanism for vigilance management in their institutions and remove the loopholes, if any, with regard to fixing of staff accountability and completion of staff side action in all fraud cases within the prescribed time limit, which would act as a deterrent. Banks were also urged to bring to the notice of the Special Committee of the Board constituted to monitor large value frauds and the actions initiated in this regard.

2.138 A Technical Paper on Bank Frauds covering various aspects such as nature of frauds, present arrangement for follow-up of frauds, international legal framework relating to frauds, possible further measures with regard to legal and organisational perspectives was prepared and placed in the BFS meeting held on April 8, 2004. The Technical Paper recommended the constitution of a separate Cell to monitor frauds not only in commercial banks but also in financial institutions, Local Area Banks, urban co-operative banks and non-banking finance companies. As the proposal was accepted by the BFS, a separate Fraud Monitoring Cell (FrMC) was constituted on June 1, 2004 under the overall administrative control of the Department of Banking Supervision. The FrMC is expected to adopt an integrated approach and pay focused attention on the frauds reported by financial entities mentioned above.

2.139 A Master Circular dated October 18, 2002 on "Frauds – Classification and Reporting" was revised on August 7, 2004 and was placed on the Reserve Bank's website. The formats in the Master Circular have been revised according to the requirements of Fraud Reporting and Monitoring System (FRMS) package. With a view to having an integrated approach and ensure uniformity in reporting requirements for all the institutions under the ambit of Fraud Monitoring Cell, the Master Circular was made applicable to FIs and local area banks (LABs) as well.

Modification in Format of Declaration of Indebtedness from Statutory Auditors

2.140 Statutory auditors of banks were required to provide a declaration to banks in which they are undertaking audit to the effect that no credit facility (including guaranteeing any facilities availed of by third party) was availed of by the proprietor/any of the partners of the audit firm/ members of his/their families or by the firm/ company in which he/they are partner/s or Director/s from any other bank/financial institution. Banks were also advised that while appointing their statutory central/branch auditors, they should obtain a declaration from the concerned audit firms duly signed by their main partner/proprietor to the effect that credit facilities, if any, availed of from other banks/FIs by them/their partners/members of family or by the firm/company in which they are partners/ Directors or the credit facilities from such institutions guaranteed by them on behalf of third parties had not turned non-performing in terms of the prudential norms of the Reserve Bank.

2.141 The format of declaration of indebtedness to be obtained from the partners/proprietors of audit firms to be appointed as statutory auditors of banks was modified in January 2005 to include that neither the proprietor/main partner nor any of the partners/members of their families or the firm/company in which they are partners/directors has been declared as a wilful defaulter by any bank/financial institution.

Outsourcing by Banks

2.142 Banks, the world over, are increasingly outsourcing a significant part of their regulated and unregulated activities from specialist providers which they would have traditionally conducted in-house. The opportunities for such outsourcing of activities have increased significantly in recent years with the evolving and improving communication systems and information technology. Although outsourcing can have a positive impact on a bank's cost efficiency and allow it to access specialist expertise that would ordinarily not be available to it internally, it may also expose the bank to certain risks, which if not managed adequately, could be a matter of regulatory and supervisory concern (Box II.13).

Compliance Function

2.143 The compliance function at banks, as noted by the Basel Committee, is now more formalised and more visible. The Committee has noted that regardless of how the compliance function is organised within a bank, it should be independent and sufficiently resourced; its

Box II.13: Outsourcing by Banks

'Outsourcing' may be defined as use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the bank itself. Third party or service provider refers to the entity that is undertaking the outsourced activity on behalf of the bank. There are some key risks in outsourcing such as strategic risk, reputation risk, compliance risk, operational risk, exit strategy risk, counterparty risk, country risk, contractual risk, access risk, concentration risk and systemic risk. It would be imperative for the bank outsourcing its activities to ensure effective management of these risks.

The failure of a service provider in providing a specified service, a breach in security/ confidentiality, or non-compliance with legal and regulatory requirements by either the service provider or the outsourcing bank can lead to financial losses for the bank and could also lead to systemic risks within the entire banking system in the country. Hence, its board of directors and management of bank need to provide direction and guidance to banks to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risks arising out of such outsourcing activities.

Some outsourcing arrangements, if disrupted, have the potential to significantly impact bank's business operations, reputation or profitability. Such arrangements are considered 'material outsourcing'. Banks should use qualitative judgement to assess whether or not an outsourcing arrangement that is in existence or being planned, is to be considered 'material outsourcing' or not.

Before entering into, or significantly changing, an outsourcing arrangement, a bank should: (i) analyse how the arrangement will fit into its organisation and reporting structure; (ii) consider whether the agreement establishing the outsourcing arrangement will allow it to monitor and control its operational risk exposure relating to the service provider; (iii) conduct appropriate due diligence of the service provider's financial position and expertise; (iv) consider how it will ensure a smooth transition of its operations from its current arrangements to a new or changed outsourcing arrangement (including what will happen on the termination of the contract); and (v) consider any concentration risk implications such as the business continuity implications that may arise if a single service provider is used by several banks.

The bank should require its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. Outsourcing often leads to the sharing of facilities operated by the service provider. The bank should ensure that service providers are able to isolate the bank's information, documents and records, and other assets. This is to ensure that in adverse conditions, all documents, records of transactions and information given to the service provider, and assets of the bank can be removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable.

The bank should have in place a management structure to monitor and control its outsourcing activities. A bank that has entered into or is planning material outsourcing, or is planning to vary any such outsourcing arrangements, should adhere to the regulatory and supervisory requirements. It is imperative for the bank, when performing its due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration. The engagement of service providers in a foreign country exposes a bank to country risk - economic, social and political conditions and events in a foreign country that may adversely affect the bank. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with the bank. To manage the country risk involved in such outsourcing activities, the bank should take into account and closely monitor government policies and political, social, economic and legal conditions in countries where the service provider is based.

Reference:

Bank for International Settlements (2005), 'Outsourcing in Financial Services', Basel Committee of Banking Supervision, February.

Box II.14: Compliance and the Compliance Function

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation of a bank or other entity as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable. Compliance risk differs from the litigation risk with a counterparty as it does not deal with credit institutions' responsibility on their contractual obligations but with negative consequences of non-compliances with rules of public order. Banks over the years have seriously under-invested in effective compliance measures. Very few have automated or integrated regulatory compliance processes, and for those institutions that do utilise some kind of information technology, it generally is rudimentary and applied late in the transaction lifecycle.

The compliance function must, by its very nature, be independent of a bank's operational activities and it must report directly to a very senior level, but its activities must be subject to scrutiny by internal audit or inspection teams. To address these issues, compliance function in a bank could be strengthened by several ways as indicated below:

- Perhaps the single most important ingredient of an effective compliance program is the commitment of bank's board of directors and management. This commitment includes communicating to all employees that compliance is taken seriously and giving the compliance personnel the time and resources to perform their compliance duties.
- The second step is to structure the bank's compliance function. Should one person or a committee be responsible for compliance? In almost all cases, a compliance committee is preferable to an individual.
- After establishing the structure and membership of the committee, the program has to be finalised. A written Rule book of the committee's duties is recommended because it creates a formal structure for the compliance function. The Rule book should: (i) outline the committee's specific duties and responsibilities; and (ii) establish the committee's authority in carrying out compliance responsibilities.
- The committee should establish a program to train employees in all areas of compliance.
- The bank needs to test all areas of compliance to some degree at least once each year. More frequent testing is necessary for high-risk areas and for areas in which the bank has experienced problems. To ensure objectivity, the bank should make sure testing is conducted by someone not involved in the day-to-day operations of the department being tested.
- The bank should hold employees accountable for compliance with regulations.

Compliance problems can lead to all types of repercussions for banking institutions such as fines by the regulators, poor ratings by the regulators that harm the bank's reputation, forced changes in practices that could be costly, more frequent regulatory inspections, forced restrictions from certain bank activities and lawsuits. In some cases, the bank's legal entity could be terminated and all officers and directors could be banned from similar roles not only in other banks, but even in other corporations. In certain instances, officers and directors may face criminal charges.

Reference:

1. McCabe, I. Michael (2005), 'How to Align your Organisation's Business Processes with its Compliance Strategy', (IBM).
2. Hyde, Lorraine (2003), 'FDIC Adopts Risk-Based Approach to Compliance Exams', (RSM McGladrey, Inc.).

responsibilities should be clearly specified, and its activities should be subject to periodic and independent review by the internal audit function.

2.144 Regulation of financial institutions, particularly of banks, is carried out by a combination of three approaches. The first involves the imposition of minimum prudential standards and the monitoring of compliance. The second involves the supervisor assessing, on the basis of qualitative and quantitative information supplied by banks and the quality of a bank's internal risk-management procedures. The third approach is to rely on disclosure of information to the public. The task of the supervisors, according to the Basel Committee would become easier if the compliance function in the bank is fully established. The compliance function seeks to pay greater attention to compliance risk by encouraging the spread of a compliance culture (Box II.14). The importance of setting up compliance function in banks has assumed added significance after the Reserve Bank's decision to disclose the penalties imposed on the banks in the public domain with effect from November 2004.

6. Consultative Process in Policy Formulation

2.145 With a view to ensuring timely and effective implementation of the measures as relevant, the Reserve Bank has adopted a consultative approach before introducing policy measures. Suitable mechanisms have been instituted to deliberate upon various issues so that the benefits of financial efficiency and stability percolate to the common person and the services of the Indian financial system can be benchmarked against international best standards in a transparent manner. Over the years, the reports of various working groups and committees have emerged as a major source of two-way communication from the Reserve Bank. On all important issues, working

groups are constituted or technical reports are prepared, generally encompassing a review of the international best practices, options available and the way forward. The memberships of the groups/ committees are either internal or external to the Reserve Bank or mixed. Draft reports are often placed in public domain and final reports take account of inputs, in particular, from industry associations and self-regulatory organisations.

Web-Based Communication

2.146 The Annual Policy Statements and their Mid-term Reviews communicate the stance on monetary policy of the Reserve Bank for the following six months to one year. An important feature of the communication policy of the Reserve Bank is the almost real-time dissemination of information through its website. The auction results under the Liquidity Adjustment Facility of the day are posted on the website by 12.30 p.m. the same day, while by 2.30 p.m. the reference rates of select foreign currencies are also placed on the website. By the next morning, the press release on money market operations is issued. Every Saturday, by 12 noon, the Weekly Statistical Supplement is placed on the website providing fairly detailed information on the financial sector. All the regulatory and administrative circulars of different Departments of the Reserve Bank are placed on the website within half an hour of their finalisation.

2.147 The Reserve Bank has also instituted a mechanism of placing draft versions of important guidelines for comments of the public at large before finalisation. To further this consultative process and with a specific objective of making the regulatory guidelines more user-friendly, a Users' Consultative Panel has been constituted comprising the representatives of select banks and market participants. The panel provides feedback on regulatory instructions at the formulation stage to avoid any subsequent ambiguities and operational glitches.

Resource Management Discussion

2.148 Resource Management Discussions meetings are held by the Reserve Bank with select commercial banks prior to the policy announcements. These meetings not only focus on perception and outlook of the bankers on the economy, liquidity conditions, credit flow, development of different markets and directions of interest rates, but also on issues relating to developmental aspects of banking operations. In line with the practice that has evolved since 1998, these meetings were held with 9 select banks (including two private banks and one foreign bank) during March 2005. Several macro as well as micro issues, covering quantitative projections on assets and liabilities of the banks, cost of funds, returns and spreads besides expectations about inflation and output growth were discussed during these meetings. Suggestions relating to monetary policy measures, regulation and supervision of banks, and reforms and development of the financial sector were received during these discussions, which were taken into consideration while formulating the Annual Policy Statement for 2005-06.

Standing Technical Advisory Committee on Financial Regulation

2.149 A Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets (TAC) reconstituted in March 2004 has emerged as a key consultative mechanism amongst the regulators and various market players including banks. The Committee has been crystallising the synergies of experts across various fields of the financial market and thereby acting as a facilitator for the Reserve Bank in steering reforms in the money market, the Government securities market and the foreign exchange market.

2.150 In order to further strengthen the consultative process in the regulatory domain and to place such a process on a continuing basis, the Reserve Bank constituted a Standing Technical Advisory Committee on Financial Regulation in November 2003 on the lines similar to the TAC. The Committee consists of experts drawn from academia, financial markets, banks, non-bank financial institutions and credit rating agencies. The Committee examines the issues referred to it and advises the Reserve Bank on desirable regulatory framework on an on-going basis for banks, non-bank financial institutions and other market participants.

2.151 Similarly, a Standing Advisory Committee on urban co-operative banks (UCBs) has been activated to advise on structural, regulatory and supervisory issues relating to them and to facilitate the process of formulating future approaches for this sector. Similar mechanism is being worked out for non-banking finance companies.

2.152 For ensuring periodic formal interaction on policy issues concerning various regulators, there is a High Level Co-ordination Committee on Financial and Capital Markets (HLCCFCM) with the

Governor, Reserve Bank of India as the Chairman and the Secretary of the Ministry of Finance, the Chairman of SEBI and the Chairman of IRDA as the members. This Committee has authorised the constitution of several standing committees to ensure co-ordination in regulatory frameworks at an operational level.

2.153 With a view to further strengthening the consultative process in monetary policy, the Reserve Bank of India has set up a Technical Advisory Committee on Monetary Policy in July 2005 with external experts in the areas of monetary economics, central banking, financial markets and public finance. The Committee meets at least once in a quarter to review macroeconomic and monetary developments and advise the Reserve Bank on the stance of monetary policy.

7. Financial Markets

2.154 Financial markets are at the core of the transmission mechanism of monetary policy. In India, financial markets have been developed with a specific emphasis on increasing allocative efficiency of resources and promoting financial stability. The emphasis has been on strengthening the price discovery process, easing restrictions on transactions, reducing transaction costs and enhancing systemic liquidity. Several measures were initiated during 2004-05 to develop the markets further along sound lines.

Developments in the Money Market

2.155 The money market performs two broad functions. One, it enables banks to tide over their short-term liquidity mismatches at an efficient market-clearing price. Two, it serves as the focal point for central bank intervention for influencing liquidity conditions and signalling the outlook for interest rates. In recent years, policy initiatives have endeavoured to facilitate balanced development among different market segments, develop a pure inter-bank money and repo market, reduce uncollateralised exposures in the call money market and facilitate the emergence of a regular term structure.

2.156 To review the recent developments and current status of money market in the context of evolving monetary policy framework, fiscal scenario, regulatory regime and extent of financial integration, domestic as well as external, a Technical Group on Money Market was constituted. The Group in its Report submitted in May 2005 made several recommendations for furthering the development of the money Market (Box II.15).

Box II.15: Report of the Technical Group on Money Market

The Group recommended that the policy thrust should be to encourage collateralised market, develop the rupee yield curve, ensure transparency and better price discovery, provide avenues for better risk management and strengthen monetary operations. Keeping this in view, the Group made recommendations relating to the call/notice money market, repo/CBLO, term money, certificate of deposit (CD), commercial paper (CP), FRAs/IRS, Mumbai Inter-Bank Offer Rate (MIBOR)-linked short-term papers and timing of the LAF. The main recommendations of the Group are set out below:

- The Reserve Bank should migrate from OF (Owned Fund) to capital funds (sum of Tier-I and Tier-II capital) as the benchmark for fixing prudential limits for the call/notice money market for scheduled commercial banks.
- The Reserve Bank may, however, continue with the present norm associated with co-operative banks (*i.e.*, aggregate deposit), PDs (*i.e.*, net owned fund) and non-banks (*i.e.*, 30 per cent of their average daily lending during 2000-01).
- Transactions in the call/notice money market should be conducted on an electronic negotiated quote driven platform.
- Banks and PDs with appropriate risk management systems in place and balance sheet structure may be allowed more flexibility to borrow in the call/notice money market.
- Upon accomplishing the call/notice money market into a pure inter-bank one, larger freedom in lending in the call/notice market should be afforded to banks and PDs.
- Consequent upon coming into effect of the Fiscal Responsibility and Budget Management (FRBM) Act 2003, there would be a need to broad-base the pool of securities to act as collateral for repo and CBLO markets.
- The possibility of conducting repo transactions on an electronic, anonymous order driven trading system be explored.
- Term money market transactions should be compulsorily reported on NDS platform to improve transparency. Term money market transactions on an electronic, negotiated quote driven platform should be introduced.
- The maturity period of CDs be reduced to 7 days in line with that of CPs and fixed deposits.
- Asset-backed CPs be introduced in the Indian market.
- Appropriate amendment to the Reserve Bank of India Act, 1934 be carried out to provide legal clarity to the OTC derivatives.
- Regulatory issues pertaining to new instruments such as MIBOR-linked short-term papers need to be addressed for an orderly development of the market.
- Late hour intra-day LAF as and when warranted in future be explored.

Certain recommendations of the Group were accepted for implementation and several measures were initiated in the Annual Policy Statement announced in April 2005.

2.157 In consonance with the declared policy of phased withdrawal of non-bank participants, barring PDs from the call/notice money market, effective the fortnight beginning June 11, 2005, non-bank participants were allowed to lend, on an average, in a reporting fortnight, up to 10 per cent of their average daily lending in the call/notice money market during 2000-01. Effective August 6, 2005 non-bank participants were completely phased out from the call/notice money market. In order to prevent imprudent leveraging of funds, effective April 30, 2005, the benchmark for fixing prudential limits on exposures to the call/notice money market in the case of scheduled commercial banks was linked to their capital funds (sum of Tier-I and Tier-II capital).

2.158 During the year, further steps were taken to broaden the scope of negotiated dealing system (NDS) platform with a view to enhancing transparency and price discovery as also to foster greater market integrity. From April 30, 2005, all NDS members were required to report their term money deals on NDS platform. Further, a screen-based negotiated quote-driven system for all dealings in call/notice and term money market transactions was proposed in the Annual Policy Statement for 2005-06. An electronic trading platform for conduct of market repo operations in Government securities, in addition to the existing voice based system, was also proposed. Further, it was proposed to facilitate automated value-free transfer of securities between market participants and the Clearing Corporation of India Ltd. (CCIL) for development of the CBLO segment.

2.159 With a view to augmenting the instruments available to banks to manage their liquidity, the minimum maturity period of CDs was reduced from 15 days to 7 days with effect from April 28, 2005. Earlier, in the Mid-term Review of Annual Policy Statement for 2004-05, the minimum maturity period of CP was reduced from 15 days to 7 days with effect from October 26, 2004, in order to provide an option to issuers to raise short-term resources through CP as also an avenue to investors in the form of quality short-term papers. In order to enhance transparency and facilitate wider dissemination, information on CP issuance such as issue date, maturity date, issue amount discount/interest rate, unconditional and irrevocable guarantee and credit rating of the guarantor, as reported by the Issuing and Payment Agents (IPAs) on the NDS platform, has been made available on the website of the Reserve Bank with effect from July 1, 2005.

2.160 A Group formed within the Fixed Income Money Market and Derivates Association of India (FIMMDA) to recommend and standardise various market practices with a view to achieving the settlement of CP at least on a T+1 basis submitted its Report recently. The Group recognised that this would be possible after full operationalisation of the RTGS system. With a view to harmonising the stamp duty applicable on issuance of CP and bringing the Indian CP market closer to international standard, the Union Budget for 2005-06 proposed to rationalise the stamp duty and apply it uniformly regardless of the initial class of investor.

Developments in the Government Securities Market

2.161 As the debt manager to the Government, the development of a deep and liquid market for Government securities is of critical importance to the Reserve Bank for facilitating the process of price discovery and reducing the cost of Government debt. The Reserve Bank has taken several structural and development measures for deepening and widening the Government securities market. In recent years, the approach to the development of Government securities market has focused on greater transparency, risk free settlement, liquidity, and broad-based participation. Significant steps taken by the Reserve Bank in the recent period include elongation of maturity, development of new benchmark Government securities by consolidating new issuances in key maturities, enhancing fungibility and liquidity by re-issuances of the existing loans, promoting retailing of Government securities, introduction of floating rate bonds, announcement of a calendar for conducting auctions and enhanced transparency of the central Government's borrowing programme.

2.162 The Reserve Bank continued its efforts to further deepen and broaden the Government securities market during 2004-05. Additional measures were undertaken to improve functional efficiency through upgraded technological infrastructure. These were accompanied by an assessment of the risk management systems in place under the new institutional arrangements. A

number of initiatives were taken to modernise the operations relating to Government securities. First, it was decided to standardise the settlement system for such transactions on a T+1 basis. Second, the Reserve Bank reiterated its desire to resort to multiple and uniform price methods flexibly in the auction of Government securities. Third, it was proposed to expand the permitted structure of PD business to include banks, which fulfil certain minimum criteria subject to safeguards and in consultation with banks, PDs and the Government. Fourth, in order to enhance liquidity in the Government securities market, sale of Government securities allotted in primary issues with and between constituent's subsidiary general ledger (CSGL) account holders on the same day was permitted. Prior to this relaxation, the sale of Government securities allotted in primary issues could be entered into on the same day only between entities maintaining SGL account with the Reserve Bank. Fifth, non-scheduled urban co-operative banks (UCBs) and listed companies having gilt accounts with scheduled commercial banks were allowed to participate in market repo facility in Government securities subject to eligibility criteria and safeguards.

2.163 The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 ushered in significant changes in the contextual setting and operating framework for the conduct of monetary policy, public debt management and regulatory oversight of the Government securities market by the Reserve Bank. Recognising that the participation of the Reserve Bank in the primary issues of Government securities will stand withdrawn with effect from April 1, 2006 under the FRBM Act, the Mid-term Review of Annual Policy Statement for the year 2004-05 emphasised that "open market operations (OMO) would become a more active instrument, warranting a review of processes and technological infrastructure consistent with market advancements". To address these emerging needs and to equip the Reserve Bank as well as market participants appropriately, an Internal Technical Group on Central Government Securities Market was constituted (Box II.16). Earlier, another Group (Chairman: Dr. R.H. Patil) had examined the role of primary dealers (PDs) in the Government securities market. These reports were discussed in the TAC and based on their recommendations the Annual Policy Statement for 2005-06 proposed to consolidate debt and build up large liquid securities in consultation with the Government while continuing the programme of re-issuances for improving liquidity and pricing in the market. Post-FRBM, the Reserve Bank would reorient Government debt management operations, while simultaneously strengthening monetary operations. This would entail functional separation between debt management and monetary operations within the Reserve Bank. For

Box II.16: Report of the Technical Group on Central Government Securities Market

The major recommendations of the Group are set out below:

- The Reserve Bank may keep the option open to participate in the secondary market as considered appropriate with a view to containing excessive volatility and promote orderly market conditions as well as to improve market liquidity in Government securities.
- PDs may be permitted to underwrite the entire 100 per cent of the notified amount of each auction.
- PDs may be vested with market making obligations, in both the wholesale segment and the retail or mid segment. The selection among PDs, of eligible secondary market counterparties for RBI operations, may be done on the basis of relative secondary market performance in both wholesale and retail segments.
- Measures such as active consolidation of securities, introduction of short selling of Government securities in a phased manner and with appropriate safeguards, introduction of 'when issued' market and a securities borrowing window for PDs would facilitate development and enhance efficiency and liquidity of the secondary markets for Government securities.
- Permitted Structures for PD business be expanded to include banks directly undertaking PD activity as a department with independent subsidiary books of account. Simultaneously, exposure of stand-alone PDs to non-Government securities as well as off-balance sheet business should be limited.
- Certain accounting practices be changed such as permitting banks to charge appreciation as well as depreciation on securities in the 'available for sale' (AFS) category to equity instead of profit and loss account, adoption of fair value accounting so as to recognise both gains and losses in the case of the 'held for trading' portfolio and introduction of comprehensive accounting standards covering all derivative instruments.
- The security settlement system be integrated with the RTGS. Appropriate changes to NDS system be carried out to accommodate the changes proposed in the Report.
- Primary and open market operations (OMO) auctions be routed through CCIL.
- An effective performance monitoring and surveillance module, either on NDS or as a stand-alone be put in place.

this purpose, it was indicated that the Reserve Bank would hold discussions with market players on the modalities and procedures of market operations.

2.164 As indicated in the Annual Policy Statement for 2004-05, a discussion paper for re-introduction of the Capital Indexed Bonds (CIBs) with improvised features was put on the websites of the Reserve Bank and the Central Government for comments. In this regard, market conventions for secondary market trading and settlement of the bonds were finalised in consultation with Fixed Income Money Market and Derivatives Association of India (FIMMDA) and Primary Dealers Association of India (PDAI) during the year. Suitable modifications carried out in the PDO-NDS trading, clearing and settlement system are being tested. As indicated in the Mid-term Review of Annual Policy Statement for 2004-05, it is expected that CIBs could be introduced during 2005-06 in consultation with the Government.

2.165 As the implementation of the recommendation of the Twelfth Finance Commission (TFC) would have major implications for the market borrowing programme, the Annual Policy Statement for 2005-06 indicated that the Reserve Bank would facilitate smooth transition of the process in consultation with the Central and the State Governments. As a first step, consultations were held with State Finance Secretaries on April 8, 2005. Subsequently, a Technical Group on Borrowings by State Governments (Chairperson: Smt. Shyamala Gopinath) was constituted by the Central Government with members drawn from the Ministry of Finance, Government of India, the Reserve Bank and the State Governments. The Group is expected to submit its report shortly,

2.166 It has been the endeavour of the Reserve Bank to improve the facilities for trading and settlement in the Government securities market. The introduction of the Negotiated Dealing System (NDS) in February 2002 was a major step in this direction. In comparison with the pre-NDS period, the entire reporting and settlement process for Government securities has been fully automated leading to substantial benefits in terms of time and efficiency. However, the trading functionality of NDS was hardly used. To further improve the trading capabilities of the NDS system, the Reserve Bank formally launched an electronic order matching trading module for Government securities on its Negotiated Dealing System (RBI-NDS-GILTS-Order Matching Segment or NDS-OM) on August 1, 2005 (Box II.17). The NDS-OM system, in the first phase, would accommodate the trading requirements of all banks, PDs, and financial institutions regulated by the Reserve Bank that hold current NDS membership. Other NDS members would be extended access in the next phase. To start with, the system would support dealing in all Central Government and State Government securities for T+1 settlement which would then be subsequently upgraded in order to facilitate trading in discounted instruments such as Treasury Bills. As on September 30, 2005, 117 members were participating in NDS-OM. The transaction volume on NDS-OM accounts for 60-70 per cent of the total outright transactions of Government dated securities in the secondary market.

Developments in the Foreign Exchange Market

2.167 The Reserve Bank has undertaken a number of measures for the development of the spot as well as forward segments of the foreign exchange market. The roadmap for reforms in the foreign exchange market in India was laid by the Expert Group on Foreign Exchange Markets in India (Chairman: Shri O.P. Sodhani) in 1995. With the objective of providing greater operational flexibility, banks were given freedom to fix their own open exchange position limit. Depending upon the asset liability profile, dealing expertise and

Box II.17: Trading in Government Securities – Order Matching Segment

The NDS-OM system has the following salient features:

- Purely order driven with all orders being matched based on a strict price/time priority.
- An anonymous order matching system wherein identity of counter parties is not revealed. Clearing Corporation of India Ltd. (CCIL) is the central counterparty to each trade executed on the system.
- Allows straight-through processing (STP); trades executed will flow straight to CCIL in a ready-for-settlement stage.
- Provides functionalities for order management (placing, modifying or cancelling orders), trade related queries, activity log, market information and analytics (such as YTM computation).
- Order Matching system is an additional facility available to the participants who continue to have the option of using the current reporting and trading platform of the NDS. The settlements of both the systems are, however, integrated.

Box II.18: Foreign Exchange Exposure Norms of Commercial Banks in India

The foreign exchange exposure norms for banks authorised to deal in foreign exchange, *i.e.*, authorised dealers (ADs) are set out below:

Positions and Gaps:

- The Reserve Bank has stipulated foreign exchange exposure limits in the form of Net Overnight Open Position Limit (including gold) (OPL) and Aggregate Gap Limit (AGL) for banks. The OPL and AGL are required to be approved by the Reserve Bank.
- The Boards of Directors of ADs are required to frame an appropriate policy and fix suitable limits for various treasury functions.

Investments in Overseas Markets:

- ADs can undertake investments in overseas money market instruments (including any debt instrument whose life to maturity does not exceed one year as on the date of purchase) and/or debt instruments issued by a foreign state with a residual maturity of less than one year, up to the limits approved by their Board of Directors. The instruments, however, are to be rated at least as AA (-) by Standard & Poor/FITCH IBCA or Aa3 by Moody's. For the purpose of investments in debt instruments other than the money market instruments of any foreign state, the Boards of banks may lay down country ratings and country-wise limits separately, wherever necessary.
- ADs may also invest the undeployed FCNR(B) funds in overseas markets in long-term fixed income securities provided the maturity of the securities invested in does not exceed the maturity of the underlying FCNR(B) deposits.
- ADs can also invest surplus in *Nostro* accounts through overnight placement and investments with their overseas branches/correspondents subject to adherence to the gap limits approved by the Reserve Bank.

Overseas Foreign Currency Borrowings:

- The aggregate limit for almost all categories of overseas foreign currency borrowings of ADs is placed at 25 per cent of their unimpaired Tier-I capital or USD 10 million (or its equivalent), whichever is higher. Funds so raised may be used for purposes other than lending in foreign currency to constituents in India and repaid without reference to the Reserve Bank. As an exception to this rule, ADs are permitted to use borrowed funds as also foreign currency funds received through swaps for granting foreign currency loans for export credit subject to certain stipulations. Besides this, subordinated debt placed by head offices of foreign banks with their branches in India as Tier-II capital is also treated outside the above limit.

Gold Transactions

- Only banks authorised by the Reserve Bank can deal in gold. Such banks can enter into forward contracts in India for buying and selling gold with those banks which are authorised to import gold and with their constituents (exporters of gold products, jewellery manufacturers and trading houses) in respect of the underlying sale/purchase and loan transactions in gold with them. The tenor of such contracts, however, should not exceed six months.
- Banks may use exchange-traded and over-the-counter hedging products available overseas to manage the price risk. However, while using products involving options, it needs to be ensured that there is no net receipt of premium, either direct or implied.

Vostro Accounts

- The aggregate limit for temporary overdrawals in *vostro* account of overseas branches/correspondents is Rs.5 crore in aggregate for meeting normal business requirements.

other relevant factors, authorised dealers (ADs) in foreign exchange were accorded freedom to fix their own gap limits for more efficient management of their assets and liabilities (Box II.18).

2.168 In order to review comprehensively the initiatives taken by the Reserve Bank from time to time in the foreign exchange market and to identify areas for further improvement, an internal Technical Group was constituted. The Group, which submitted its Report in June 2005, reviewed foreign market liberalisation in select emerging markets and examined the current regulatory regime in the light of liberalisation in related sections to identify areas for further liberalisation. The Group noted that although the external sector is fundamentally stronger and more resilient than ever before, some of the pre-conditions for further liberalisation laid down by the Tarapore Committee on Capital Account Convertibility are yet to be achieved. In order to embark upon further deregulation of the foreign exchange market, including relaxation of the remaining capital controls, an enabling environment is needed for the reforms to proceed on a sustainable basis. In this context, liberalisation of various sectors of the economy has to proceed in tandem to derive synergies of the reform process. The Group also took into account the risks associated with internationalisation of the rupee and concluded that a gradual and need-based approach would be more suited to the prevailing conditions (Box II.19).

2.169 Based on the recommendations of the Technical Group, the Annual Policy Statement for the year 2005-06 initiated several measures. First, cancellation and rebooking of all eligible forward contracts booked by residents, irrespective of tenor,

Box II.19: Report of the Internal Technical Group on Foreign Exchange Market

The Group has proposed a number of measures for implementation in the short-term for resident entities, banks and non-residents. The Group made the following major recommendations:

Resident Entities:

- In order to provide greater flexibility to resident entities for dynamically managing their exposures, to further the development of the forward segment of the market and to bring about uniformity with respect to booking of such contracts, all forward contracts booked by residents, regardless of tenor, may be allowed to be cancelled and rebooked freely.
- Foreign currency-rupee swaps booked to hedge genuine foreign currency exposures may also be permitted to be rebooked/reinstated on cancellation.
- Corporates with derived foreign exchange exposures arising out of rupee-foreign currency swaps may be permitted to hedge the interest rate risk and cross currency exposures (not involving the rupee).
- Corporates may be permitted to sell/write covered call and put options subject to adequate accounting standards and risk management systems being in place.

Banks:

- Banks would be required to put in place a customer suitability and appropriateness policy.
- Banks may be permitted to provide capital on the actual overnight open exchange position maintained by them, rather than on their open position limits.
- Banks may be given the freedom to decide on the period of crystallisation of unpaid export bills; the exchange gain and loss on crystallisation may be passed on to exporters symmetrically.
- Banks having expertise in managing commodity price risk and hence specifically authorised by the Reserve Bank in this regard may be allowed to approve commodity hedging proposals from their corporate customers.
- The closing time for inter-bank foreign exchange market in India may be extended by one hour from 4.00 PM to 5.00 PM.
- Forex data, including traded volumes for derivatives such as foreign currency-rupee options may be made available to the market on a regular basis.

Non-Resident Entities:

- The Group was of the view that as at present apart from US dollar (US$), Pound sterling (GBP), Euro and Japanese yen (JPY), Foreign Currency Non-Resident (FCNR) (B) deposits may also be accepted in Canadian dollar (CAD), Australian dollar (AUD) and New Zealand dollar (NZD).

were permitted. Second, in order to guard against international price fluctuations in tradables, banks were allowed to approve proposals for commodity hedging in international exchanges from their corporate customers. Third, the closing time for inter-bank foreign exchange market in India was extended by one hour up to 5.00 p.m. Fourth, it was proposed to disseminate additional information, including traded volumes for derivatives such as foreign currency-rupee options to the market.

2.170 With a view to further liberalising the norms for raising resources abroad as also ensuring better effective use of foreign exchange reserves, it was decided to raise the ceiling of overseas investment by Indian entities in overseas joint ventures and/or wholly owned subsidiaries from 100 per cent to 200 per cent of their net worth under the automatic route. Concurrently, in order to further liberalise the procedure, the authorised dealers (ADs) were accorded general permission to open foreign currency accounts of the project offices set up in India by foreign companies and operate the accounts flexibly. Earlier, ADs were required to obtain approval of the Reserve Bank.

8. Payment and Settlement Systems

2.171 The payment and settlement systems are at the core of financial system infrastructure in a country. A well-functioning payment and settlement system is crucial for the successful implementation of monetary policy and maintaining the financial stability. Central banks have therefore, always maintained a keen interest in the development of a payment and settlement system as part of their responsibilities for monetary and financial stability (Box II.20). In India, the development of a safe, secure and sound payment and settlement system has been the key policy objective. In this direction, the Reserve Bank, apart from performing the regulatory and supervisory functions, has also been making efforts to promote functionality and modernisation of the payment and settlement systems on an on-going basis.

2.172 In order to provide focused attention to the payment and settlement systems, the Reserve Bank constituted the Board for regulation and supervision of Payment and Settlement Systems (BPSS) as a

Box II.20: Payment and Settlement System and its Oversight: The Role of Central Banks

Central banks are involved in payment and settlement systems in a number of ways. They (i) provide settlement accounts, (ii) oversee core payment arrangements, and (iii) operate, provide and use various payment services. Central banks are also responsible for providing safe settlement of assets for several systems, especially the systemically important large value/retail ones.

A safe and efficient payment system is the prerequisite for smooth functioning of the financial markets. The conduct of monetary policy in an effective manner requires safe and efficient payment and settlement systems to facilitate transfer of funds and securities between the central bank and other participants in the financial system. An efficient and stable payment and settlement system is also a pre-condition for inter-bank money markets and other short-term credit markets through which monetary policy is transmitted. In addition, developments in the payment and settlement systems that affect the speed and realisation/availability of funds for further deployment could influence the overall demand for money in the economy.

By linking financial institutions together for the purpose of transferring monetary claims and settling payment obligations, payment and settlement system becomes a channel through which financial risks are transmitted across financial institutions and markets. Well designed and efficiently managed systems, therefore, help in maintaining financial stability by reducing uncertainty of settlement. Settlement failures which spread to other payment and settlement systems through the contagion effect not only undermine the smooth functioning of the financial markets, but can also adversely affect the public confidence in money and efficacy of the instruments and systems used to transfer money.

Central banks regulate and supervise payment and settlement systems with the objective of promoting safety and efficiency by monitoring the existing and planned systems, assessing them against the stated objectives and, where necessary, inducing change. The concept of central bank oversight of payment and settlement systems has become more distinct and formal in recent years as part of a growing concern with financial stability as also with the increasing role of private participants in providing payment and settlement systems. The increasing attention by the central banks also reflects the large increase in the value of transfers cleared and settled, the increasing centralisation of transactions around a small number of key systems and the growing technological complexity. The systemic risk could increase if the design of key systems does not adequately address various payment and settlement risks.

References:

1. Bank for International Settlements (2005), Central Bank Oversight of Payment and Settlement Systems, May.
2. Bank for International Settlements (2005), Consultative Report on General Guidance for Payment System Development, May.

Committee of its Central Board. The Reserve Bank of India (Board for regulation and supervision of Payment and Settlement Systems) Regulations, 2005 were notified in the Gazette of India on February 18, 2005. The BPSS is headed by the Governor of the Reserve Bank with the Deputy Governor in-charge of Payment and Settlement Systems as the Vice-Chairman and the other Deputy Governors and two members of the Central Board of the Reserve Bank as members. The Executive Directors in-Charge of the Department of Payments and Settlement Systems (DPSS) and Financial Market Committee and Legal Adviser-in-Charge are permanent invitees. The Board also has an external expert as a permanent invitee.

2.173 Functions and powers of the BPSS include formulating policies relating to the regulation and supervision of all types of payment and settlement systems, setting standards for existing and future systems, authorising the payment and settlement systems and determining criteria for membership. The National Payments Council, which was set up in 1999, has been designated as a Technical Advisory Committee of the BPSS. To assist the BPSS in performing its functions, a new department, the Department of Payments and Settlement Systems (DPSS), was set up in the Reserve Bank in March 2005.

2.174 The BPSS has met three times since its constitution in March 2005. The Board at its meetings, *inter alia*, has emphasised that: (i) payment system services in India should be taken to a level comparable with the best in the world; (ii) appropriate legal infrastructure may be created as early as possible; (iii) a plan be drawn up to "leapfrog" from cash to electronic modes of payment, wherever possible; (iv) cheque clearing system would have to be made more efficient through cheque truncation system; and (iv) usage of the Real Time Gross Settlement (RTGS) System be increased both in terms of opening additional branch outlets and more number of transactions being put through.

2.175 For modernising the payment and settlement systems in India, a three-pronged approach has been adopted with due emphasis on consolidation, development and integration. The consolidation of the existing payment systems involves the strengthening of computerised cheque clearing and expanding the reach of Electronic Clearing Services (ECS) and Electronic Funds Transfer (EFT). The retail payment system was

given an impetus with the introduction of a new facility, Special Electronic Funds Transfer (SEFT) System covering about 169 centres of the country. The critical elements of the development strategy involve opening of new clearing houses, inter-connection of clearing houses through the Indian Financial Network (INFINET), development of RTGS system, Centralised Funds Management System (CFMS), Negotiated Dealing System (NDS) and the Structured Financial Messaging System (SFMS). Integration of various payment products with the systems of individual banks has been another thrust area. The focus has been on a high degree of standardisation within a bank and seamless interface across banks.

2.176 With the implementation of RTGS, the paper-based inter-bank clearing has been discontinued in a phased manner beginning with the closure of inter-bank clearing at Mumbai in November 2004. All RTGS member banks have now been settling their inter-bank transactions only through RTGS. Non-RTGS member banks have been asked to make use of the electronic platform as customers of some RTGS participants. At present, there are 109 direct participants (the Reserve Bank, 94 scheduled banks and 14 Primary Dealers) of which 84 banks are offering RTGS based customer services at more than 11,280 branches in 508 towns/cities across the country. The target is to have RTGS based customer services in 15,000 bank branches by March 2006.

2.177 Electronic Clearing Service for bulk and repetitive credit-push payments such as salary, pension, dividend and interest, and credit-pull transactions such as payment of utility bills, insurance premia and instalment repayment of loans is already available at 45 centres across the country. In order to make available ECS at more centres, bank operated cheque processing centres (CPCs) have been advised by the Reserve Bank to commence ECS operations at the earliest. Banks already operating ECS services have also been advised to have a uniform two-day processing cycle at all the centres and also adhere to the return clearing on the same day as the presentation. In order to encourage electronic funds transfer systems, the processing charges for all the electronic funds transfer services have been waived till March 31, 2006. The maximum cap on value per transaction has been removed for ECS, EFT and SEFT.

2.178 With the operationalisation of the cheque processing system at Ranchi, Guwahati, Thiruchirapalli, the number of centres with automated cheque clearing system has gone up to 43. Magnetic Ink Character Recognition (MICR) technology being used at these centres for automatic listing and sorting of cheques and arriving at the settlement position of member banks now covers 86 per cent in volume and 87 per cent in value of the total clearing turnover in the country. During the year, plans for setting up of MICR processing centres at 17 more cities/ towns were approved. This would take the total number of cities with MICR clearing to 60 and coverage of MICR to over 90 per cent in terms of both value and volume. The transition period from moving over to MICR based clearing from a non-MICR based cheque system generally takes two years in a city because member banks continue to issue the available stock of non-MICR cheques. In order to give a lead time, banks have been advised to issue MICR cheques irrespective of whether cheque clearing centres use MICR cheque format or not. The use of MICR cheques would help in capturing cheque data in a standardised manner on computing platform. It would also facilitate introduction of a nation-wide cheque truncation system.

2.179 Although the Reserve Bank has undertaken several measures to minimise settlement risk and enhance the efficiency in retail deferred net settlement (DNS) system, it has potential for credit, liquidity and operational risks thereby leading to settlement failures. A Working Group which examined the operational implications of the risk mitigation mechanism for retail payments recommended the need for setting up of a guarantee fund for large value systems among the retail systems, with a specific focus on the ‘high value clearing system’.

2.180 In the recent period, the Reserve Bank has taken a number of initiatives to strengthen the institutional, technological and procedural framework for the payment and settlement systems. To carry forward these initiatives in an integrated and cohesive manner, a Vision Document for 2005-08 has been prepared after taking into consideration the feedback from the various stakeholders such as banks, technology solution providers, members of public and other experts in the field. The Vision Document sets out the roadmap for implementing the vision for

payment and settlement systems within the next three years. The key themes of the action plans identified in the Vision Document are safety, security, soundness and efficiency (Triple-S and E). While safety in payment and settlement systems relates to risk reduction measures, security implies confidence in the integrity of the payment systems. All payment systems are envisaged to be on a sound footing with adequate legal backing for operational procedures and transparency norms**.** Efficiency enhancements are envisaged by leveraging the benefits of technology for cost effective solutions (Box.II.21).

9. Technological Developments and Other Infrastructural Issues

2.181 Most of the initiatives regarding technology during 2004-05 were aimed at providing better and more efficient customer service by offering multiple options to the customer. The death of distance, which is a by-product of technology, has become a reality in the banking sector. Technology is also playing a key role in banks' strategy for gaining a competitive edge.

2.182 Many banks have commenced the process of setting up core banking solutions, which are at various stages of implementation. While such systems are already in place in respect of new private sector banks, foreign banks and a few old private sector banks, public sector banks are also quickly moving to set up such processes. This would benefit the customer in the banking sector. Computerisation of the business of banks has been receiving high importance. The public sector banks have already crossed the 70 per cent level of computerisation of their business. The directive from the Central Vigilance Commission (CVC) to achieve 100 per cent computerisation has resulted in renewed vigour towards computerisation of branches.

2.183 Networking has been receiving focused attention by banks. This activity is also being monitored by the Reserve Bank. Most banks have their own corporate networks to facilitate inter-branch and branch-controlling office communication in an electronic mode. Inter-bank and inter-city communication takes place through the Indian Financial Network (INFINET). As part of the INFINET, the terrestrial lines have been augmented to provide for increased data transfer capabilities. All these have resulted in the dependence of banks on network-based computing which has benefited the customer.

Box II.21: Vision Document for Payment Systems – 2005-08

The main action points for payment and settlement systems, 2005-08 as set out in the Vision Document are indicated below:

During the first year, *i.e.*, 2005-06, focus would be on: (i) pursuing with Indian Banks' Association and major banks for setting up of a national level entity which will operate all retail payment systems in the country; (ii) operationalising National Settlement System for all clearings at four metro centres by December 2005; (iii) finalising the proposed Electronic Funds Transfer (EFT) regulations; (iv) implementing Stage-2 of RTGS System, *i.e.*, Integrated Accounting System (IAS)-RTGS rollout during which all inter-bank transactions at all major centres would be settled on RTGS platform and paper-based inter-bank clearing will be closed; (v) pursuing with RTGS participants to cover all their networked branches under RTGS framework paving way for RTGS-based customer related transactions at about ten thousand branches in the country; (vi) implementing image-based Cheque Truncation System (CTS) at the National Capital Region (NCR) on a pilot basis; (vii) preparing minimum standard of operational efficiency at MICR Cheque Processing Centre (CPC); (viii) making available EFT facility at 500 capital market intensive centres as identified by BSE and NSE; (ix) setting up Customer Facilitation Centre (CFC) at the Reserve Bank for various segments of national payment systems; (x) public disclosure from each payment service provider of its standards, terms and conditions under which the payment will be effected and also compensation policy and procedure for any deficiency in services including the setting up of CFC; (xi) drafting the Red Book on Payment Systems in India; and (xii) drafting a comprehensive legislation on payment system.

During the second year, *i.e.*, 2006-07, it is envisaged to: (i) complete the tasks initiated during 2005-06; (ii) extend MICR clearing to 20 additional identified centres; (iii) ensure that every cheque issued follows MICR format and standards; (iv) implement EFT systems at a national level through the new retail payment institution; (v) make all payment systems in India compliant with the Core Principles for Systemically Important Payment Systems (SIPS); (vi) increase the reach of payment services by means of tie-up and collaboration with other large coverage entities such as the post offices; and (vii) facilitate government payments and receipts through electronic mode.

The third year, *i.e.*, 2007-08 would harness on: (i) creating off-city back-up arrangements for large value national payment systems such as RTGS and G-Sec Clearing; (ii) making fully functional the new organisation for retail payment systems with all such payment under its umbrella; (iii) regulating various payment systems; (iii) ensuring cheque truncation based clearing at Mumbai, Chennai and Kolkata; and (iv) covering National Settlement System at all major clearing houses/ clearing organisations in the country.

INFINET also provides for safe and secure transmission of electronic messages with the use of Public Key Infrastructure (PKI) which has the legal backing of Information Technology Act, 2000. It also provides for messages to flow in a structured environment, using the SFMS, which provides for inter-operability of messages so that straight through processing (STP) is achieved.

2.184 Another major development witnessed during the year was the growth in multiple delivery channels to customers such as internet-based banking, mobile banking and anywhere banking. This has benefited the customers and the banks alike. While customers have now a wide variety of options to choose from, banks have been able to reduce costs which have had a positive impact on their profitability.

2.185 These developments have, however, also posed certain challenges. In a world where geographical barriers are losing significance, it is essential that security is given prime importance in a trans-national scenario where large sums of money are at stake. While the challenges relating to physical security could be confronted with relative ease, the position is much more complicated in respect of IT security. It is widely accepted that security is as effective as the weakest link in a chain. The Reserve Bank, has therefore, provided guidelines on information system (IS) security as also IS audit which banks can use for their benefit. These are generic in nature and do not have any prescriptive tones.

2.186 There are at present a number of security standards available for different financial applications; most of them are internationally accepted and part of the ISO standards. These international standards such as the BS7799 have been accepted by the Reserve Bank (Box II.22). Banks, however, could also put in place measures which conform to their own policies and ensure regular and periodical audit.

Service Branch

2.187 Banks were earlier permitted to open service branches/regional collection centres for facilitating clearing and allied works. Taking into account the changes brought in as a result of introduction of technology and the need to cut down operational costs while enhancing customer service, it was decided by the Reserve Bank in September 2004 to allow banks to open branches that would attend exclusively to data processing, verification and processing of documents, issuance of cheque books, demand drafts on requests received from other branches and other functions incidental to banking business having no interface with customers. It was further decided to issue licences for such branches under the 'service branch' category. Accordingly, a 'service branch' could attend to clearing and allied banking activity which may include processing

Box II.22: BS7799 Standards

BS 7799 is comprehensive in its coverage of security issues, containing a significant number of control requirements. Compliance with it is, thus, a major task for most organisations. By following this standard, financial institutions including banks can ensure compliance to most of the information security requirements. The objectives of these standards are:

- To provide management direction and support for information security, which is a base prerequisite for BS7799.
- To manage information security within the organisation, maintain the security of organisational information processing facilities and information assets accessed by third parties, and to maintain the security of information when the responsibility for information processing has been outsourced to another organisation.
- To maintain appropriate protection of corporate assets and ensure that information assets receive an appropriate level of protection.
- To reduce risks of human error, theft, fraud or misuse of facilities and minimise the damage from security incidents and malfunctions and learn from such incidents.
- To ensure the correct and secure operation of information processing facilities, minimise the risk of systems failures, to protect the integrity of software and information and maintain the integrity and availability of information processing and communication.
- To control access to information, prevent unauthorised access, detect unauthorised activities and ensure information security when using mobile computing and tele-networking facilities.
- To ensure security is built into operational systems, to prevent loss, modification or misuse of user data in application systems.
- To counteract interruptions to business activities and critical business processes from the effects of major failures or disasters.
- To prevent breaches of any criminal or civil law, statutory, regulatory or contractual obligations and of any security requirements, ensure compliance of systems with organisational security policies and standards and minimise interference to/from the system audit process.

Box II.23: Financial Sector Technology Vision Document

The Vision document focuses on four major areas, *viz*., IT for regulation and supervision, IT and Institute for Development and Research in Banking Technology (IDRBT), IT for the Financial Sector and IT for Government related functions.

The Vision Document envisages emerging challenges in the form of implementation of standardisation across a variety of hybrid systems at different financial entities, need for decision support systems and the technology to facilitate risk based off-site supervision. It envisions common inter-operable web-based structures for transmission of data relating to regulatory functions and the use of a single centralised database for all information, apart from hiving off the operation of non-critical functions by the Reserve Bank.

The Vision Document visualises the IDRBT to be a premier research institute, concentrating on research and development for the banking and financial sector, providing educational/training facilities and hiving off business related activities.

Recognising the requirements of IT for the financial sector, the Vision Document elucidates the thrust areas of the Reserve Bank by providing generic information on various standards and approaches, IS Audit and requisite focus on business continuity plans. The Vision Document proposes that specific attention would be devoted to percolation of technology efforts to all types of banks and all sections of the customers in the banks with specific reference to the rural areas and the use of affordable technology products which can be easily used by the target clientele with inter-shareable resources.

The document also details the use of IT in the Government sector transactions (which has the largest potential to grow significantly in the years to come), with specific attention on the need for business process re-engineering, changes in rules and procedures for aligning them with e-governance in a manner so as to achieve implementable objectives.

centres, back office functions and those incidental to banking business. It was further clarified that 'service branch' shall not include a call centre or a phone banking facility or any other facility that involves customer interface. Banks were also permitted to shift their rural branches within the block/service area without obtaining prior approval of the Reserve Bank, subject to complying with: (i) both the existing and proposed centres should be within the same block and service area of the branch; and (ii) the relocated branch would be able to cater adequately to the banking needs of the villages allocated under the Service Area Approach.

2.188 The Reserve Bank released the draft Financial Sector Technology Vision document on May 6, 2005. It provides a broad overview of the thrust areas of the direction provided by the Reserve Bank in respect of IT for the financial sector for more than two decades and sets out a roadmap for 2005-08 (Box II.23).

10. Legal Reforms in the Banking Sector

2.189 An efficient financial system requires a regulatory framework with well-defined objectives, adequate and clear legal framework and transparent supervisory procedure. This, in turn, requires comprehensive legislations to enable the regulatory authorities to discharge their responsibilities effectively. The Reserve Bank has, therefore, been making constant efforts to upgrade and strengthen the legal framework in tune with the changing environment.

Recent Acts Enacted by the Parliament

2.190 The Enforcement of Security Interest and Recovery Debts Laws (Amendment) Act, 2004 (Act No.30 of 2004) has amended the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI), the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 and the Companies Act, 1956. By this amendment Act, the SARFAESI Act has been amended, *inter alia*, to: (i) enable the borrower to make an application before the Debt Recovery Tribunal against the measures taken by the secured creditor without depositing any portion of the money due; (ii) provide that the Debt Recovery Tribunal shall dispose of the application as expeditiously as possible within a period of 60 days from the date of application; and (iii) enable any person aggrieved by any order made by the Debt Recovery Tribunal to file an appeal before the Debt Recovery Appellate Tribunal after depositing with the Appellate Tribunal fifty per cent of the amount of debt due from him as claimed by the secured creditor or as determined by the Debt Recovery Tribunal, whichever is less.

2.191 The Credit Information Companies (Regulation) Act, 2005 is aimed at providing for regulation of credit information companies and to facilitate efficient distribution of credit. The Act will come into force after it is notified by the Government in the official Gazette. After the Act comes into force, no company can commence or carry on the business of credit information

without obtaining a certificate of registration from the Reserve Bank. The Act sets out procedures for obtaining certificate of registration, the requirements of minimum capital and management of credit information companies. The Act also empowers the Reserve Bank to determine policy in relation to functioning of credit information companies and to give directions to such companies, credit institutions and specified users. The Act also lays down the functions of credit information companies, powers and duties of auditors, obtaining of membership by credit institutions in credit information companies, information privacy principles, alterations of credit information files and credit reports, regulation of unauthorised access to credit information, offences and penalties, obligations as to fidelity and secrecy. Other salient features of the Act include settlement of disputes between credit institutions and credit information companies or between credit institutions and their borrowers. The Act also provides for amendment of certain enactments so as to permit disclosure of credit information.

Bills introduced in the Parliament

2.192 The Government Securities Bill, 2004 introduced in the Lok Sabha on December 21, 2004, proposes to consolidate and amend the law relating to Government securities and its management by the Reserve Bank. The Bill provides for: (i) empowering the Reserve Bank to prescribe the form for transferring Government securities; (ii) holding of Government promissory notes by Trusts; (iii) simple procedure for recognising title to Government securities up to rupees one lakh with an enabling power to the Central Government to enhance the said limit up to rupees one crore; (iv) micro films, facsimile copies of documents, magnetic tapes and computer printouts to be admissible as evidence; and (v) suspension of the holders of subsidiary general ledger account from trading with the facility of that account in the event of misuse of the said facility. Other salient features of the Bill include enabling creation of pledge, hypothecation or lien in respect of Government securities; empowering the Reserve Bank to call for information, cause inspection and issue directions as well as make regulations with the previous approval of the Central Government for carrying out the purposes of the Bill.

2.193 The Reserve Bank of India (Amendment) Bill 2005 and the Banking Regulation (Amendment) Bill 2005 tabled in the Parliament in May 2005, were subsequently referred to the Standing Committee on Finance. The Reserve Bank of India (Amendment) Bill, 2005 seeks to amend the Reserve Bank of India Act, 1934. The Bill includes provisions for: (i) defining the expressions 'derivative', 'repo' and 'reverse repo'; (ii) empowering the Reserve Bank to deal in derivatives, to lend or borrow securities and to undertake repo or reverse repo; (iii) removing the lower floor and upper ceiling of CRR and to provide flexibility to the Reserve Bank to specify CRR; (iv) empowering the Reserve Bank to specify derivatives which may be traded outside stock exchange (OTC Derivatives) between bank and other institutions to be specified by the Reserve Bank for removing the ambiguity regarding their legal validity; and (v) empowering the Reserve Bank to lay down policy and issue directions to any agency dealing in various kinds of contracts in respect of Government securities, money market instruments, derivatives and to inspect such agencies.

2.194 The Banking Regulation (Amendment) Bill, 2005 mainly contains amendments to the Banking Regulation Act, 1949. The proposed amendments, *inter alia*, include: (i) redefining the term 'approved securities' as the securities issued by the Central Government or State Government and the securities specified by the Reserve Bank; (ii) enabling banking companies to issue preference shares as per the guidelines framed by the Reserve Bank; (iii) inserting new section requiring prior approval of the Reserve Bank for acquisition of five per cent or more of shares and voting rights of a banking company by any person and empowering it to stipulate the terms and conditions for grant of such approvals and concurrently removing the restriction on voting rights; (iv) removing the restriction on voting rights; (v) empowering the Reserve Bank to grant exemption to any banking company from the provisions of Section 20 in respect of the restriction on entering into any commitment for granting any loan or advance to any company in which a director of the banking company is interested; (vi) doing away with the lower floor of 25 per cent in respect of SLR and empowering the Reserve Bank to specify SLR without any floor subject to the existing ceiling of 40 per cent; (vii) empowering the Reserve Bank to direct banking companies to disclose financial

statements or to furnish the same to the Reserve Bank along with such other statements and information relating to the business or affairs of their associate enterprises and also to cause their inspection to be made; (viii) empowering the Reserve Bank to supercede the Board of a banking company; and (ix) empowering the Reserve Bank to order special audit of the accounts of a co-operative bank in public interest.

Bills under consideration of the Government

2.195 Payment and Settlement Systems Bill seeks to designate the Reserve Bank as the authority to regulate payment and settlement systems. The Bill *inter alia*, contains: (i) provisions for compulsory requirement of an authorisation by the Reserve Bank to operate payment system; (ii) empowering the Reserve Bank to regulate and supervise the payment systems by determining standards, calling for information, returns and documents; (iii) audit and inspection by entering the premises where payment systems are being operated; (iv) issue directions; and (v) providing for settlement and netting to be final and irrevocable at the determination of the amount of money, securities or foreign exchange payable by participants by overriding other laws.

Chapter III

Operations and Performance of Commercial Banks

3.1 Robust macroeconomic performance continued to underpin the business and financial performance of scheduled commercial banks (SCBs)[1] during 2004-05. Operations of SCBs were marked by a shift in the behaviour of the credit aggregates. Reversing the decelerating trend of the previous year, bank credit exhibited a robust growth during the year. The credit offtake was also broad-based with agriculture and industry joining the housing and retail segments in driving up the demand for credit. On the liability side, growth of deposits slowed down, *albeit* marginally. In order to meet the increased demand for credit, banks increased recourse to non-deposit resources and restricted fresh investment in Government securities. Profitability of public sector and new private sector banks improved, despite hardening of sovereign yields. Reflecting the strong growth in credit volumes, net-interest income increased sharply, alleviating to a large extent the impact of sharp decline in non-interest income. Thus, banks, in general, were successful in weathering the impact of an upturn in the interest rate cycle. Asset quality of SCBs improved further during 2004-05 as reflected in the decline in gross non-performing assets in absolute terms for a third year in succession, despite the switch over to the 90-day delinquency norm with effect from March 2004. Banks' capital base kept pace with the sharp increase in risk-weighted assets. Improved business and financial performance was reflected in a sharp rise in prices of most of the bank stocks.

3.2 In the above backdrop, this Chapter profiles the operations and financial performance of scheduled commercial banks at the aggregate and bank group levels. The chapter is organised into eleven sections. Section 2 analyses the balance sheets of SCBs from a macro perspective, while off-balance sheet operations of SCBs are presented in Section 3. Section 4 discusses their financial performance. Section 5 profiles the performance of soundness indicators. Operations of SCBs in the capital market are detailed in Section 6, followed by a discussion of technological progress in banks in Section 7. Regional spread of banking is analysed in Section 8. This is followed by a discussion on customer service in banks in Section 9. The operations of regional rural banks (RRBs) and local area banks (LABs) are briefly analysed in Section 10 and Section 11, respectively.

2. Liabilities and Assets of Scheduled Commercial Banks

3.3 The aggregated balance sheet of SCBs expanded at a higher rate of 19.3 per cent (15.2 per cent excluding the impact of conversion of a non-banking entity into a banking entity since October 1, 2004) during 2004-05 as compared with 16.2 per cent in 2003-04 (Table III.1). The ratio of assets of SCBs to GDP at factor cost at current prices increased significantly to 80.4 per cent from 78.3 per cent in 2003-04, reflecting further deepening of the banking sector. The degree of leverage enjoyed by the banking system as reflected in the equity multiplier (measured as total assets divided by total equity) declined to 15.8 from 16.9 in the previous year.

3.4 The behaviour of major balance sheet indicators showed a divergent trend during 2004-05. On the back of robust economic growth and industrial recovery, loans and advances witnessed strong growth, while investments, in a rising interest rate scenario, slowed down significantly. Deposits showed a lacklustre performance in the wake of increased competition from other saving instruments. Borrowings and net-owned funds (capital and reserves and surplus), however, increased sharply underscoring the growing importance of non-deposit resources of SCBs.

3.5 Bank group-wise, assets of new private sector banks grew at the highest rate (19.4 per cent), followed by public sector banks (15.1 per cent, excluding the conversion impact), foreign banks (13.6 per cent) and old private sector banks

[1] Scheduled commercial banks (SCBs) consist of 28 public sector banks (State Bank of India and its seven associates, nationalised banks and other public sector bank (one)), 9 new private sector banks, 20 old private sector banks and 31 foreign banks.

Table III.1: Consolidated Balance Sheet of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	As at end-March					
	2004		2005		2005 #	
	Amount	per cent to total	Amount	per cent to total	Amount	per cent to total
1	2	3	4	5	6	7
Liabilities						
1. Capital	22,348	1.1	25,183	1.1	25,905	1.1
2. Reserves and Surplus	94,254	4.8	1,18,326	5.2	1,23,530	5.2
3. Deposits	15,78,450	80.0	18,21,884	80.1	18,36,987	78.0
3.1 Demand Deposits	2,03,237	10.3	2,30,709	10.1	2,34,595	10.0
3.2 Savings Bank Deposits	3,73,677	18.9	4,43,052	19.5	4,44,944	18.9
3.3 Term Deposits	10,01,536	50.7	11,48,123	50.5	11,57,447	49.1
4. Borrowings	95,562	4.8	1,18,311	5.2	1,68,316	7.1
5. Other Liabilities and Provisions	1,83,402	9.3	1,90,918	8.4	2,01,244	8.5
Total Liabilities/Assets	**19,74,017**	**100.0**	**22,74,622**	**100.0**	**23,55,983**	**100.0**
Assets						
1. Cash and Balances with RBI	1,13,246	5.7	1,15,711	5.1	1,18,087	5.0
2. Balances with Banks and Money at Call and Short Notice	82,033	4.2	92,927	4.1	96,204	4.1
3. Investments	8,04,199	40.7	8,43,081	37.1	8,68,135	36.8
3.1 In Government Securities (a+b)	6,39,143	32.4	6,84,005	30.1	6,98,903	29.7
a. In India	6,36,266	32.2	6,80,641	29.9	6,95,540	29.5
b. Outside India	2,877	0.1	3,363	0.1	3,363	0.1
3.2 In Other Approved Securities	18,100	0.9	16,291	0.7	16,291	0.7
3.3 In Non-approved Securities	1,46,956	7.4	1,42,785	6.3	1,52,941	6.5
4. Loans and Advances	8,64,271	43.8	11,05,725	48.6	11,51,138	48.9
4.1 Bills Purchased and Discounted	66,968	3.4	87,188	3.8	89,544	3.8
4.2 Cash Credit, Overdrafts, *etc.*	3,72,207	18.9	4,35,777	19.2	4,37,060	18.6
4.3 Term Loans	4,25,096	21.5	5,82,760	25.6	6,24,534	26.5
5. Fixed Assets	21,409	1.1	22,161	1.0	23,051	1.0
6. Other Assets	88,860	4.5	95,018	4.2	99,367	4.2

: Including the impact of conversion of a non-banking entity into a banking entity.

Source : Balance sheets of respective banks.

(10.6 per cent) (Table III.2). PSBs continued to account for the major share in total assets, deposits, advances and investments of SCBs at end-March 2005, followed distantly by new private sector banks. The share of foreign banks in total assets and advances was higher than that of old private sector banks [Table III.3 and Appendix Tables III.1(A) to III.1(C)].

Deposits

3.6 Deposits of SCBs grew at a lower rate of 15.4 per cent (excluding the conversion impact) during 2004-05 as compared with 16.4 per cent in the previous year on account of slowdown in demand deposits and savings deposits. Deceleration in demand deposits was due mainly to the base effect as demand deposits had witnessed

Table III.2: Growth of Balance Sheet of Scheduled Commercial Banks : Bank Group-wise

(Per cent)

Item	As at end-March									
	2004					2005				
	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs	Public Sector Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All SCBs
1	2	3	4	5	6	7	8	9	10	11
1. Capital	3.5	-2.5	5.4	3.3	3.5	5.8 (0.9)	27.8	6.7	51.0	15.9 (12.7)
2. Reserves and Surplus	25.6	17.9	24.2	14.5	23.6	30.6 (22.6)	7.0	56.6	17.3	31.1 (25.5)
3. Deposits	13.9	15.5	41.0	15.7	16.4	16.8 (15.6)	10.8	21.1	7.9	16.4 (15.4)
3.1 Demand Deposits	11.6	15.0	105.6	50.8	23.6	15.6 (12.8)	19.2	10.6	19.7	15.4 (13.5)
3.2 Savings Bank Deposits	20.2	24.2	85.1	40.1	23.6	18.0 (17.4)	17.8	32.7	23.4	19.1 (18.6)
3.3 Term Deposits	11.9	13.8	24.0	-0.1	12.7	16.5 (15.3)	8.2	21.6	-2.0	15.6 (14.6)
4. Borrowings	34.9	-10.7	-3.8	8.9	9.3	207.0 (41.7)	0.9	10.6	24.3	76.1 (23.8)
5. Other Liabilities and Provisions	11.7	18.5	24.2	41.8	15.9	10.0 (2.2)	12.9	6.3	12.8	9.7 (4.1)
Total Liabilities/Assets	**14.4**	**15.0**	**28.3**	**16.3**	**16.2**	**20.6 (15.1)**	**10.6**	**19.4**	**13.6**	**19.3 (15.2)**
1. Cash and Balances with RBI	29.3	19.5	38.6	59.7	31.5	6.8 (4.0)	13.0	-7.9	-7.0	4.3 (2.2)
2. Balances with Banks and Money at Call and Short Notice	0.1	18.5	48.6	48.5	9.2	13.0 (7.3)	31.8	33.3	19.5	17.3 (13.3)
3. Investments	14.8	19.0	31.9	1.9	15.9	9.5 (5.5)	-6.2	7.2	2.2	8.0 (4.8)
3.1 In Government Securities	18.0	23.9	36.4	6.1	19.2	11.2 (8.3)	-1.3	2.3	4.4	9.3 (7.0)
3.2 In Other Approved Securities	-5.7	-21.7	27.3	11.0	-6.1	-9.8 (-9.8)	-24.4	-8.8	25.0	-10.0 (-10.0)
3.3 In Non-approved Securities	3.8	9.4	23.1	-11.2	6.3	3.9 (-6.4)	-19.7	17.9	-6.3	4.1 (-2.8)
4. Loans and Advances	15.4	12.4	28.6	16.0	16.9	35.0 (27.8)	22.7	32.8	24.5	33.2 (27.9)
of which: Term Loans	32.5	21.4	27.6	26.9	30.4	54.5 (39.8)	30.8	30.9	34.1	46.9 (37.1)
5. Fixed Assets	8.9	-1.0	7.4	-10.6	5.6	16.6 (8.8)	4.6	-4.2	-3.6	7.7 (3.5)
6. Other Assets	0.8	1.0	-2.4	40.4	5.3	11.2 (3.7)	6.9	18.6	10.0	11.8 (6.9)

Note : Figures in brackets exclude the impact of conversion a non-banking entity into a banking entity.
Source : Balance sheets of respective banks.

an unusually high growth last year. The growth in demand deposits, however, was in line with the long-term average. Savings deposits, which reflect the strength of the retail liability franchise and are at the core of the banks' customer acquisition efforts, grew at a healthy rate, although the growth was somewhat lower than the high growth of last year. The higher growth of term deposits was mainly on account of NRI deposits and certificates of deposit (CDs). Excluding these deposits, the growth rate of term deposits showed a deceleration, which was on account of a possible substitution in favour of postal deposits and other investment products, which continued to grow at a high rate benefiting from tax incentives and their attractive rate of return in comparison with time deposits.

Table III.3: Major Components of Balance Sheets of Scheduled Commercial Banks: Bank Group-wise

(As at end-March)

(Per cent)

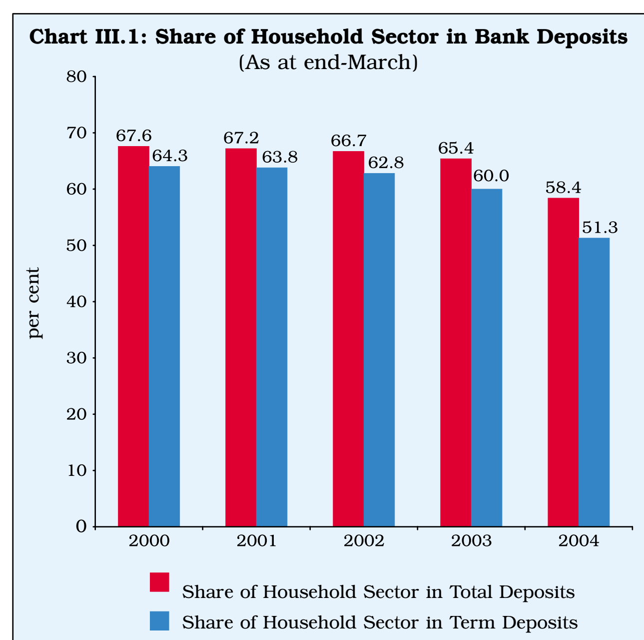
Bank Group	Assets			Deposits			Advances			Investment		
	2004	2005	2005#	2004	2005	2005#	2004	2005	2005#	2004	2005	2005#
1	2	3	4	5	6	7	8	9	10	11	12	13
Scheduled Commercial Banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public Sector Banks	74.5	74.4	75.3	77.9	78.0	78.2	73.2	73.2	74.2	77.9	78.4	79.0
Nationalised Banks	46.7	46.8	45.2	50.3	50.2	49.8	47.7	47.4	45.6	47.1	47.4	46.1
State Bank Group	27.8	27.6	26.6	27.6	27.8	27.5	25.5	25.8	24.7	30.8	30.9	30.0
Other Public Sector Bank	–	–	3.5	–	–	0.8	–	–	3.9	–	–	2.9
Private Sector Banks	18.6	18.8	18.2	17.0	17.3	17.1	19.8	20.0	19.2	17.0	16.6	16.1
Old Private Sector Banks	6.1	5.9	5.7	6.7	6.4	6.4	6.4	6.2	5.9	5.9	5.3	5.1
New Private Sector Banks	12.5	12.9	12.5	10.3	10.9	10.8	13.3	13.8	13.3	11.0	11.3	11.0
Foreign Banks	6.9	6.8	6.5	5.1	4.7	4.7	7.0	6.8	6.5	5.2	5.0	4.9

– : Nil/Negligible.
: Including the impact of conversion of a non-banking entity into a banking entity.
Source : Balance sheets of respective banks.

3.7 The findings of the Banking Statistical Returns (BSR) survey on 'Composition and Ownership Pattern of Deposits with Scheduled Commercial Banks' for March 2004[2] reveal that the share of the household sector, which has the largest share in deposits held with the SCBs, declined sharply from 65.4 per cent at end-March 2003 to 58.4 per cent at end-March 2004. The decline was more pronounced in respect of term deposits held by the household sector in total term deposits of SCBs (Chart III.1). The latest data reveal that household savings declined during 2004-05. The competition for deposits among banks is intensifying and some banks have launched special campaign to raise deposits, especially from rural areas.

Chart III.1: Share of Household Sector in Bank Deposits

(As at end-March)



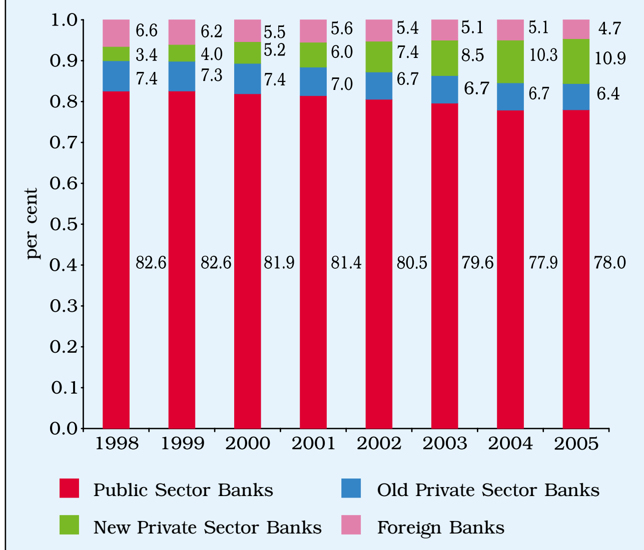
3.8 Non-resident foreign currency deposits, which had declined sharply in the previous year on account of redemptions of Resurgent India Bonds (RIBs), registered a moderate increase during 2004-05. SCBs resorted to increased issuances of CDs during the year, which is somewhat unusual in an environment of easy liquidity conditions. The outstanding amount of CDs rose sharply from Rs.4,626 crore in April 2004 to Rs.12,078 crore in March 2005 (Appendix Table III.2).

3.9 A number of factors appeared to have resulted in increased demand for CDs. Mutual funds have turned to CDs after the Securities and Exchange Board of India (SEBI) put restrictions on their placing funds in bank deposits. Reduction in stamp duty on CDs effective March 1, 2004, withdrawal of tax deduction at source, withdrawal of restriction on premature closure of deposits under CDs *vis-à-vis* alternative competing instruments such as fixed deposits and greater opportunity for secondary market trading are some of the other factors that led to the increased demand for CDs. The issuance of CDs was also driven by bank-specific factors. Banks with limited branch network and retail customer base increasingly resorted to issuance of CDs. Some of the top rated banks have been getting their CDs rated for better access to the market even though such rating is not mandatory under the extant guidelines.

3.10 Across bank groups, the rate of expansion of deposits was highest in respect of new private sector banks (21.1 per cent), followed by PSBs (15.6 per cent), old private sector banks (10.8 per cent) and foreign banks (7.9 per cent). The share of new private sector banks in total deposits has gradually increased over the years (Chart III.2).

[2] RBI Bulletin, September 2005.

Chart III.2: Share in Aggregate Deposits - Bank Group-wise
(As at end-March)



Non-Deposit Resources

3.11 A significant development during 2004-05 was the high growth of non-deposit resources, *viz.*, net owned funds (capital and reserves) and borrowings. In order to strengthen the capital base and meet increased demand for funds, several banks accessed both domestic and international capital markets with the equity issues. Banks raised Rs.7,444 crore from domestic equity market and Rs.1,473 crore by way of Global Depository Receipts (GDRs) in the international market during 2004-05 (see Section 6). The increase in reserves reflected the impact of premium charged on equity issues and increase in retained earnings. Increase in borrowings was on account of increase in debt issues in the domestic capital market and more so due to increase in foreign currency borrowings (Box III.1). Of the total increase in borrowings of Rs.22,749 crore, 52.5 per cent (Rs.11,941 crore) was in foreign currency (see also paragraph 3.13).

Box III.1: Growing Significance of Non-Deposit Resources

Banks have traditionally funded their lending operations mainly with deposits. However, in recent years, some changes have taken place on the liability side of the banks' balance sheet. While deposits continue to be the main source of funding, the relative significance of non-deposit resources has increased. Within non-deposit resources, the shares of borrowings and reserves in total liabilities have increased gradually (Chart 1). Although the share of capital has declined over the years, the share of net-owned funds has gone up marginally. In order to meet the capital adequacy requirements, banks have relied mainly on retained earnings. Banks' profitability in recent years has improved significantly as a result of which they are able to plough back their profits.

Two significant sources of borrowings in recent years have been subordinated debt, issued to augment their Tier II capital in the domestic capital market and increase in foreign currency borrowings. The sharp expansion in foreign currency borrowing has been on account of various liberalisation measures relating to the capital account for facilitating residents' foreign currency requirement for productive purposes. Flexibility given to banks to tap the source of foreign borrowings, especially for granting pre-shipment credit in foreign currency (PCFC)/export bills rediscounting (EBR) to exporters has been another factor contributing to higher foreign currency borrowings. Banks have also been allowed to use funds generated through buy-sell swaps in domestic forex markets for granting such loans subject to Aggregate Gap Limit approved by the Reserve Bank.

To the extent banks rely on borrowings to fund their lending operations, they are exposed to uncertainties as players in the securities market are more sensitive to interest rates and market conditions. Borrowings from the market generally also tend to be expensive than deposits and large reliance on market borrowings could erode the interest margin. However, long-term nature of such borrowings reduces liquidity risk and enables banks to finance long-term projects.

A sharp growth of non-deposit resources has also monetary implications as conventional broad monetary aggregate does not adequately reflect the growth of assets in the balance sheet. This is evident from the ratio of net non-monetary liabilities (NNML), which after declining steadily between 1990-91 and 1998-99, rose sharply in 2004-05 (Chart 2).

Chart 1: Non-Deposit Resources of SCBs - Changing Pattern
(As at end-March)

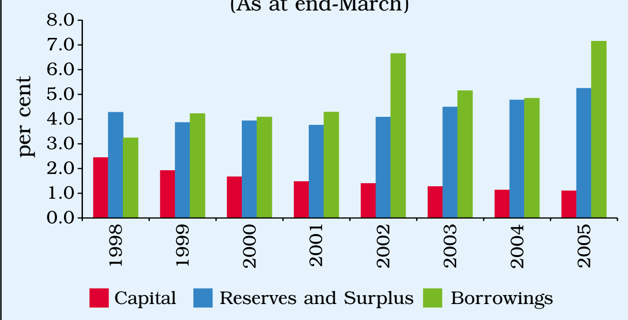
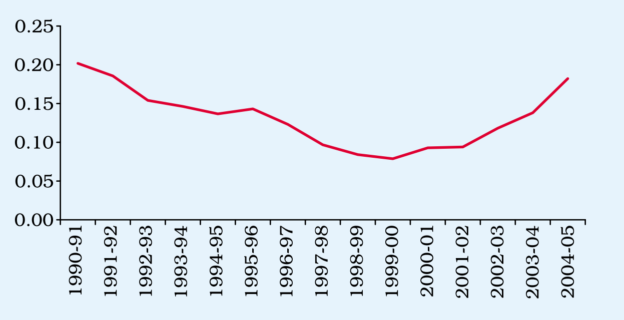


Chart 2: Ratio of Non-Monetary Liabilities to M_3



International Liabilities of Banks

3.12 International liabilities of banks increased by 15.5 per cent during 2004-05 compared with 10.1 per cent in 2003-04. The increase was contributed largely by foreign currency borrowings and other liabilities consisting mainly of proceeds raised by way of ADRs/GDRs and equities of banks held by non-residents. Foreign currency borrowings increased by 35.5 per cent during 2004-05 on top of the increase of 82.5 per cent in the previous year. Non-resident external rupee (NRE) deposits grew at a lower rate of 13.0 per cent during 2004-05 as compared with the sharp increase of 42.9 per cent in the previous year. Resources raised by way of ADRs/GDRs grew by 92.8 per cent during 2004-05 over and above the increase of 66.9 per cent in the previous year (Table III.4).

3.13 Although foreign currency deposits continue to dominate the international liabilities of SCBs, their relative significance *vis-à-vis* foreign currency borrowings has undergone a significant shift in last few years (Chart III.3).

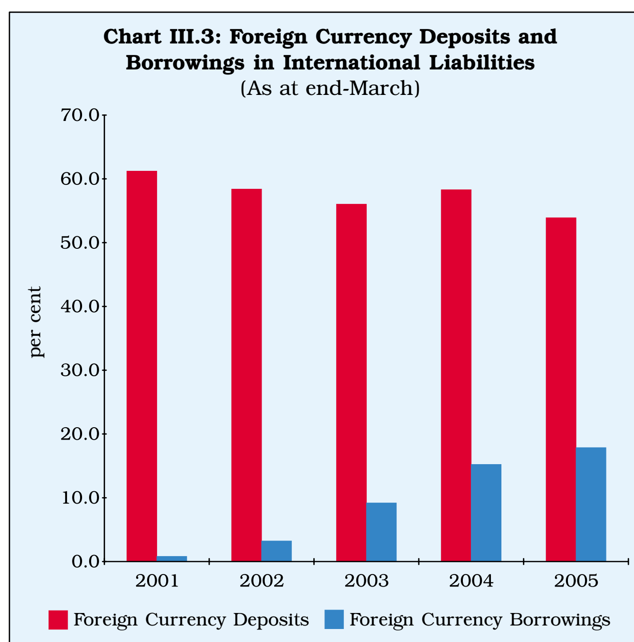
Table III.4: Major Components of International Liabilities of Scheduled Commercial Banks

(Amount in Rs. crore)

Liability type	As at end-March		
	2003	2004	2005
1	2	3	4
1. Deposits and Loans	1,45,930 (72.8)	1,78,994 (81.1)	2,03,154 (79.7)
of which:			
a) Foreign Currency Non Resident Bank [FCNR (B)] Deposits	43,989	45,386	50,796
b) Foreign Currency Borrowings*	18,411	33,598	45,539
c) Non-Resident External Rupee (NRE) Deposits	53,124	75,938	85,811
d) Non-Resident Non Repatriable (NRNR) Rupee Deposits	15,207	7,335	824
2. Own Issues of Securities Bonds (including IMD/RIBs)	44,087 (22.0)	27,720 (12.6)	26,805 (10.5)
3. Other Liabilities	10,475 (5.2)	14,017 (6.4)	25,039 (9.8)
of which:			
a) ADRs/GDRs	3,833	6,396	12,331
b) Equities of Banks held by Non-Residents	556	1,379	3,239
c) Capital/Remittable Profits of Foreign Banks in India and Other Unclassified International Liabilities	6,086	6,242	9,469
Total International Liabilities	**2,00,493**	**2,20,730**	**2,54,999**

* : Inter-bank borrowings in India and from abroad, external commercial borrowings of banks.

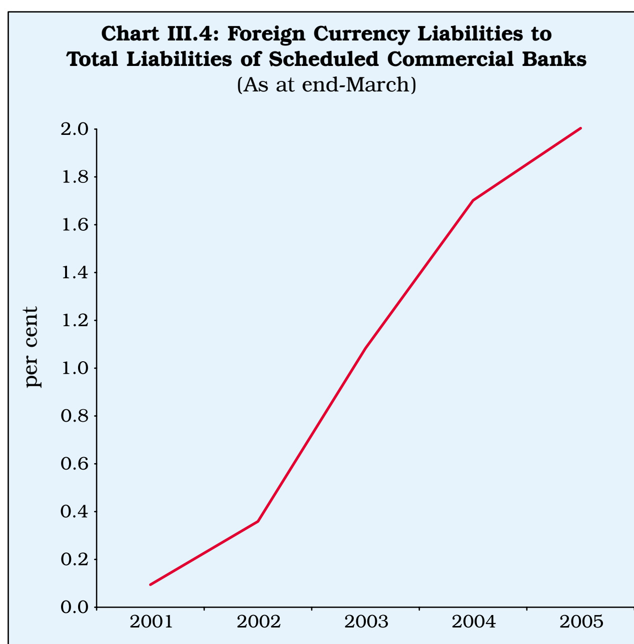
Note : 1. Based on Locational Banking Statistics.
2. Figures in brackets are percentages to total.



3.14 The relative significance of international liabilities of SCBs in total liabilities also increased in recent years (Chart III.4).

Bank Credit

3.15 Credit extended by SCBs registered a robust growth of 26.0 per cent (excluding the conversion impact) during 2004-05 as compared with 15.3 per cent in the previous year. Food credit increased by

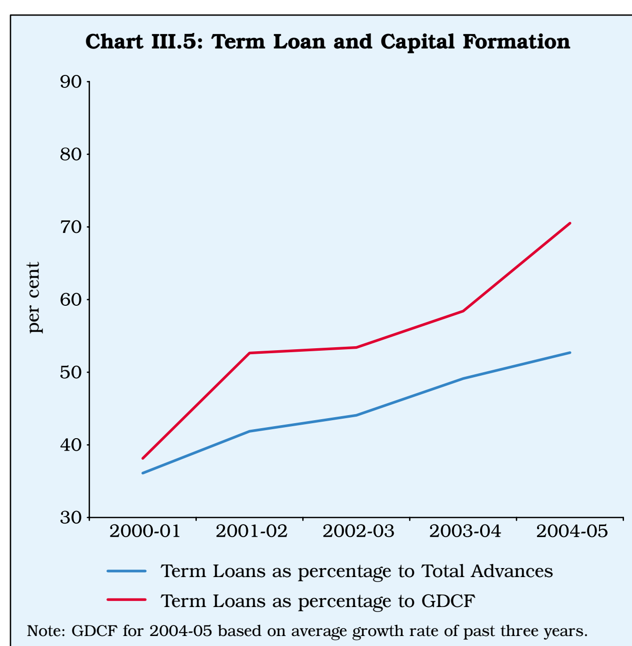


Rs.5,159 crore as against a decline of Rs.13,518 crore in the previous year. Non-food credit, on the other hand, increased by 26.5 per cent (net of conversion) as compared with 18.4 per cent in the previous year. All the three components of credit, *viz.*, bills purchased and discounted, cash credit and overdrafts, and term loans registered a higher growth as compared with the previous year. Term loan, which constitutes the largest component with its share of over 50.0 per cent in total credit, registered the highest growth of 46.2 per cent. As a result, its share, both in total advances and gross domestic capital formation, increased in recent years (Chart III.5).

Sectoral Deployment of Gross Bank Credit

3.16 The flow of credit turned broad-based during 2004-05. While credit growth to housing, small road transport operators and retail loans continued to be strong, credit flows to agriculture and industry picked up significantly during 2004-05. On the back of strong industrial recovery, credit to industry (medium and large) registered healthy growth of 17.4 per cent during 2004-05 as against a modest growth of 5.1 per cent in the previous year (Table III.5 and Appendix Table III.3). Credit to the infrastructure sector, in particular, grew sharply. Reversing the decline in previous two years, food credit also increased during the year due to higher procurement operations. Credit growth in respect of wholesale trade and priority sector was also robust. Broad-basing of credit is a healthy development as large concentration of credit to a few economic sectors increases the vulnerability to the sector-specific problems and exposes the lending institutions to heightened credit risk (Box III.2).

Chart III.5: Term Loan and Capital Formation



Note: GDCF for 2004-05 based on average growth rate of past three years.

Priority Sector Advances

3.17 Credit to the priority sector increased sharply by 31.0 per cent on top of the rise of 24.7 per cent in the previous year. On an incremental basis, the flow of credit to the priority sector was Rs.81,793 crore (accounting for 39.3 per cent of net bank credit) as against Rs.52,225 crore (accounting for 54.8 per cent) in the previous year. The credit to the priority sector during the year was driven mainly by agriculture and 'other priority sectors'. Credit to agriculture almost doubled in the last three years, *i.e.*, from end-March 2002 to end-March 2005. The growth in credit to small scale industries was modest (Table III.6).

Table III.5: Sectoral Deployment of Non-food Credit: Flows

(Variations over the year)

(Amount in Rs. crore)

Sector	2003-04		2004-05	
	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
1. Priority sector	52,225	24.7	81,793	31.0
2. Industry (Medium and Large)	12,042	5.1	42,976	17.4
3. Wholesale Trade (other than food procurement)	2,289	10.1	8,947	36.0
4. Other Sectors	41,811	27.7	69,328	36.0
of which: Housing	15,394	42.1	23,192	44.6
Non-Banking Financial Companies	2,675	18.9	1,808	10.8
Real Estate Loans	-317	-5.4	5,035	90.3
Total (1 to 4)	**1,08,367**	**17.5**	**2,03,044**	**27.9**
of which: Export Credit	8,485	17.2	8,227	14.3

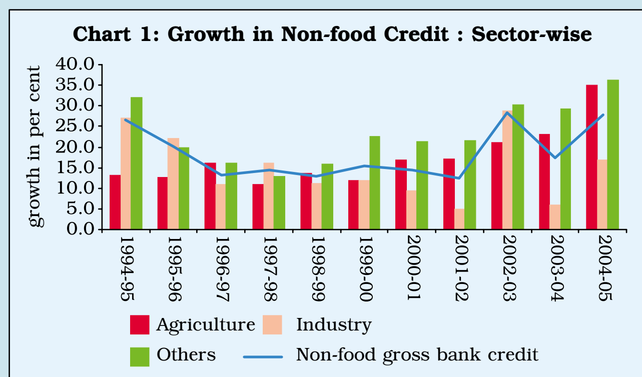
Note : Data are provisional and relate to select scheduled commercial banks which account for 85-90 per cent of bank credit of all scheduled commercial banks.

Box III.2: High Credit Growth – Is It a Cause of Concern?

Credit growth gained a sharp momentum during 2004-05 and the trend continues in the current financial year. A period of credit boom presents both opportunities and challenges to policymakers. While the surge in financial intermediation is generally associated with increased growth and efficiency, excessive credit growth often leads to some erosion in credit quality. Policymakers, therefore, face the dilemma as to how to minimise the risks that may arise from such a decline in credit quality, while still allowing bank lending to contribute to higher growth and efficiency.

The sectoral deployment of credit serves as a useful first-hand indicator of the riskiness of banks' credit portfolio, which is crucial to any asset-liability management exercise. A major thrust to non-food credit growth has, in recent years, emanated from sectors other than agriculture and industry, particularly, housing, small road transport operators and retail loans. During 2004-05, however, credit to agriculture and industry also joined the other sectors in driving the demand for non-food credit to a higher trajectory. As a result, deployment of credit during 2004-05 was more broad-based in comparison with the preceding years. A pick up in agricultural and industrial activity led to increased demand for credit from these sectors. Credit to agriculture after displaying some swings till 2001-02, grew at a high rate (20 per cent and above) thereafter, reflecting largely the renewed policy thrust on credit to agriculture (Chart 1).

Chart 1: Growth in Non-food Credit : Sector-wise



Credit to industry has broadly followed the trend in industrial production (Chart 2). Although the flow of credit to industry increased by 17.4 per cent during 2004-05 as compared with 5.1 per cent in the corresponding period of the previous year, it remained lower than the overall credit growth. Consequently, the share of industry in gross bank credit declined during 2004-05 (Table). This could be explained by reduced dependence of corporates on bank finance and a greater reliance on internal resources and funds from the capital market, both overseas and domestic.

Credit to other sectors has remained higher than the overall non-food credit growth, barring 1997-98, highlighting the growing importance of services sector in the Indian economy. Although retail credit has been growing sharply, the overall share of such sectors remained quite small, unlike several other countries, such as the US, the UK, China and Japan, where retail lending constitutes a sizeable share of banks' lending portfolios.

The credit to GDP ratio has grown steadily from about 10 per cent at end-December 1969 to slightly above 40 per cent by end-March 2005 (Chart 3). However, despite the steady increase over the years, the credit to GDP ratio in India is much lower than several advanced and emerging market economies (Chart 4). This suggests that financial deepening is

Chart 2: Industrial Credit and Industrial Production

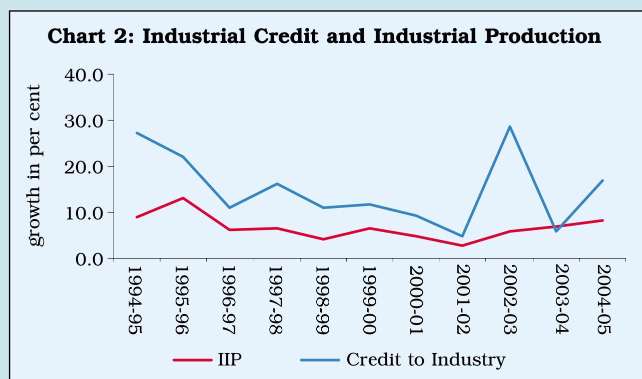


Table: Deployment of Gross Non-Food Bank Credit by Major Sectors

(Per cent)

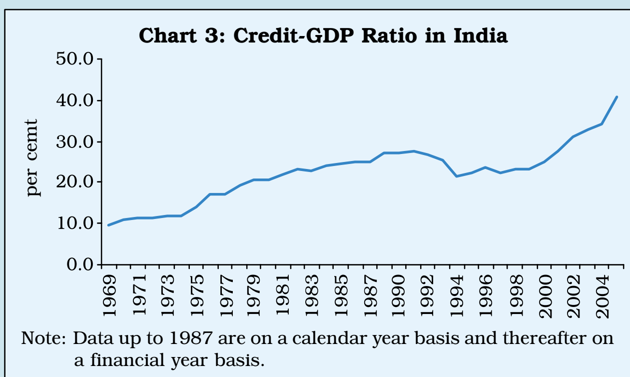
Sector	Growth Rate		Share in Total	
	2003-04	2004-05	2003-04	2004-05
Agriculture	23.2	35.2	12.4	13.1
Industry	5.9	17.0	43.0	39.3
Others	29.4	36.3	44.6	47.5
of which:				
Wholesale Trade*	10.1	36.0	3.3	3.5
Housing	42.1	44.6	6.8	7.7
Real Estate Loans	-5.4	90.3	0.7	1.1
Other Non-priority Sector Personal Loans	26.0	67.2	4.6	6.0

* : Other than food procurement.
Note: Industry includes SSI, medium and large industries.

still low in India and is expected to improve further with the development of the financial sector.

Nevertheless, in recognition of the inherent risks in high growth of retail credit, particularly the housing and personal loan segment, the Reserve Bank cautioned banks about the need to sharpen their risk assessment techniques so as to guard against any adverse impact on credit quality. As a counter cyclical measure, risk containment measures were prescribed on housing and consumer loans, and the risk weights in the case of housing loans and consumer credit, including personal loans and credit

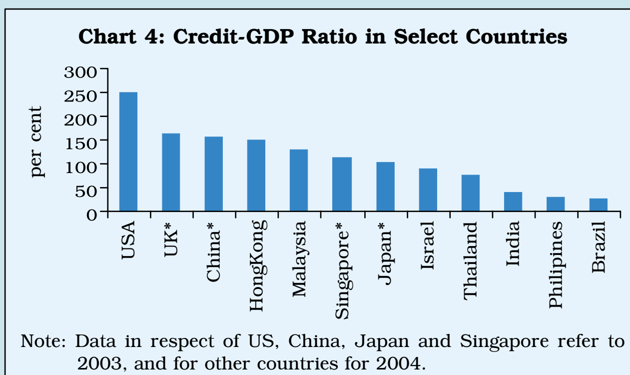
Chart 3: Credit-GDP Ratio in India



Note: Data up to 1987 are on a calendar year basis and thereafter on a financial year basis.

cards were increased from 50 per cent to 75 per cent and from 100 per cent to 125 per cent, respectively, in the Mid-term Review of Annual Policy for the year 2004-05. Furthermore, keeping in view the sharp increase in credit to real estate, banks were advised in July 2005 to put in place a Board approved policy with regard to exposure to the real estate sector and to submit disclosures to the Reserve Bank in separate returns.

Chart 4: Credit-GDP Ratio in Select Countries



Note: Data in respect of US, China, Japan and Singapore refer to 2003, and for other countries for 2004.

NPAs in the retail loan segment are currently at a low level of around 2.0 per cent. Retail loans, unlike corporate sector loans, do not involve any large losses on any single commitment. Therefore, if banks put adequate risk monitoring and management systems in place, there should not be much cause of concern for the future, although past performance may not always be a good guide.

Table III.6: Credit to the Priority Sector

(Amount in Rs. crore)

Category	Outstanding as on			
	March 22, 2002	March 21, 2003	March 19, 2004	March 18, 2005
1	2	3	4	5
Priority Sector (a+b+c)	**1,75,259**	**2,11,609 (20.7)**	**2,63,834 (24.7)**	**3,45,627 (31.0)**
a) Agriculture	60,761	73,518 (21.0)	90,541 (23.2)	1,22,370 (35.2)
b) Small Scale Industries	57,199	60,394 (5.6)	65,855 (9.0)	76,114 (15.6)
c) Other Priority Sectors	57,299	77,697 (35.6)	1,07,438 (38.3)	1,47,143 (37.0)

Note : Figures in brackets indicate growth rates over the previous year.

3.18 Credit to agriculture has been the major thrust area in recent years. Several initiatives have been taken as a follow-up to the announcement made by the Government in June 2004 to double the flow of credit to agriculture over the next three years (Box III.3). The next thrust area of policy is

Box III.3: Credit Flow to Agriculture

Agriculture credit, by promoting agricultural and related business, plays an important role in poverty alleviation and creation of employment. Keeping this in view, the Tenth Five Year Plan envisaged a substantial increase in credit flow to agriculture to Rs.7,36,570 crore as compared with that of Rs.2,29,956 crore achieved during the Ninth Plan period. On June 18, 2004, the Government announced a comprehensive policy envisaging the doubling of credit to agriculture in the next three years through commercial banks, co-operative banks and RRBs. During 2004-05, with an aggregate disbursement of Rs.1,15,243 crore, the targetted credit was exceeded by 10 per cent (Table). Continuing on the same path, the Union Budget 2005-06 proposed to increase the flow of credit by another 30 per cent by commercial banks, RRBs and co-operative banks. Further, the public sector banks were advised to increase the number of borrowers by another 50 lakh.

Major developments relating to agricultural credit in the recent years included, *inter alia*, (a) periodic review and enhancement of credit delivery to agriculture; (b) exclusive focus on the development of rural infrastructure in view of its implications for long-term sustainable agricultural growth; and (c) innovative ways of providing access to institutional finance to the rural poor by promoting micro-finance and other initiatives.

The Reserve Bank has advised public sector banks to prepare Special Agricultural Credit Plans (SACPs) on an annual basis. For the financial year 2004-05, disbursements to agriculture under the plan aggregated Rs.65,218 crore as against the projection of Rs.55,616 crore. As recommended by the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. V.S. Vyas) and announced in the Mid-Term Review of Annual Policy Statement for 2004-05, the SACP mechanism has been made applicable to private sector banks from 2005-06. Banks were advised to fix the SACP target for 2005-06 indicating a growth rate of 30 per cent over disbursements during 2004-05. Public sector banks were also advised to make efforts to increase their disbursements to small and marginal farmers to 40 per cent of their direct advances under SACP by March 2007. Banks were allowed to waive margin/ security requirements for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs.5 lakh. Interest rates on the Rural Infrastructure Development Fund (RIDF) were revised downwards in alignment with the softening of the interest rate structure over the years. It was decided to continue with the National Agricultural Insurance Scheme (NAIS), introduced in *rabi* season 1999-2000, in its present form for *kharif* and *rabi* seasons 2005-06.

Table: Flow of Institutional Credit to Agriculture

(Rs. crore)

Agency\Years (Estimated)	1997-98	1999-2000	2002-03	2003-04	2004-05
Co-operative Banks	14,085	18,363	24,296	26,959	30,638
RRBs	2,040	3,172	5,467	7,581	11,718
Commercial Banks	15,831	24,733	41,047	52,441	72,886
Total	**31,956**	**46,268**	**70,810**	**86,981**	**1,15,243**

Source: NABARD.

Two innovations, *viz*., Micro-finance and the *Kisan* Credit Card (KCC) Scheme have emerged as the major policy tools in addressing the problems associated with the distributional aspects of rural credit in recent years. The growing popularity of the KCC scheme reflects its effectiveness in ensuring the timeliness, hassle-free operations as also availability of credit with minimum transaction cost and documentation. During 2004-05, public sector banks issued 43,95,564 KCCs. Cumulatively, the number of KCCs issued by public sector banks increased to 1,83,55,173 till June 2005.

With a view to further increasing the flow of credit to agriculture, several measures were announced by the Reserve Bank in its Annual Policy Statement for 2005-06. These include: (i) setting up of an Expert Group (Chairman: Shri Y.S.P. Thorat) to formulate strategy for increasing investment in agriculture (see Box II.1); (ii) conducting a survey with the help of an outside agency to make an assessment of customer satisfaction on credit delivery in rural areas by banks; and (iii) to increase the limit on loans to farmers through the produce marketing scheme from Rs.5 lakh to Rs.10 lakh under priority sector lending.

Table III.7: Priority Sector Lending by Public and Private Sector Banks
(As at end-March)

(Amount in Rs. crore)

Item	Public Sector Banks		Private Sector Banks	
	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5
Priority Sector	**2,44,456**	**3,10,093**	**48,920**	**69,384**
	(43.6)	**(43.2)**	**(47.3)**	**(43.3)**
of which:				
Agriculture	84,435	1,12,475	14,730	21,475
	(15.1)	(15.7)	(14.2)	(12.1)
Small-scale Industries	58,311	67,634	7,590	8,668
	(10.4)	(9.4)	(7.3)	(5.4)
Other Priority Sector	1,01,710	1,29,984	26,600	39,241
	(18.1)	(18.1)	(25.7)	(24.5)

Note : Figures in brackets represent percentages to net bank credit for the respective groups.

credit to the SME sector and several banks have initiated measures to increase their credit flows to this sector. For instance, some banks have tied-up with credit rating agencies with a view to assigning rating to SSI borrowers. This would help ensure the quality of lending as also enable banks to determine interest rates, margin and collateral requirements for SSI borrowers.

3.19 While public sector banks, as a group, achieved the overall priority sector targets of 40 per cent, they failed to achieve the various sub-targets under the priority sector, *viz.*, sub-targets for agriculture, tiny sector within the SSI sector, advances to weaker sections and targets for Differential Rate of Interest (DRI) Scheme[3]. Significant variation was also observed in the performance of different banks within the public sector with regard to the achievement of sub-targets. Two PSBs (out of 27) failed to meet the overall priority sector lending targets (Appendix Tables III.4 and III.5).

3.20 The performance of private sector banks in the area of priority sector lending remained less satisfactory with 12 out of 30 private sector banks failing to achieve the overall priority sector targets. Only one private sector bank could achieve the sub-targets within the priority sector. Advances to weaker sections for the private sector banks at 1.2 per cent of net bank credit was much lower than the stipulated target of 10 per cent for the sector (Table III.7 and Appendix Tables III.6 and III.7).

3.21 Foreign banks, as a group, achieved the overall priority sector target and the sub-targets for export credit and nearly achieved the sub-target with respect to SSI as well[4] (Table III.8).

3.22 Aggregate credit to women by public sector banks constituted 5.4 per cent of their net bank credit at end-March 2005 with 23 banks achieving the target of 5 per cent of their net bank credit. A consortium of select public sector banks was

Table III.8: Priority Sector Lending by Foreign Banks
(As on the last reporting Friday of March)

(Amount in Rs. crore)

Sector	2003		2004P		2005P	
	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 #	**14,555**	**33.1**	**17,960**	**34.1**	**23,886**	**35.4**
of which:						
Export credit	8,276	18.8	9,760	18.5	11,942	17.7
Small-scale industries	4,010	9.1	5,307	10.1	6,914	10.3

P : 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.

3 For public and private sector banks, sub-targets of 18 per cent and 10 per cent of net bank credit have been specified for lending to agriculture and weaker sections, respectively.

4 For foreign banks, sub-targets for lending to the SSI sector and export sector have been specified at 10 per cent and 12 per cent, respectively.

formed, with the State Bank of India (SBI) as the leader, to provide credit to the *Khadi* and Village Industries Commission (KVIC). These loans are provided at 1.5 per cent below the average prime lending rates of five major banks in the consortium. An amount of Rs.342 crore was outstanding out of Rs.738 crore disbursed by the consortium under the scheme at end-March 2005. The outstanding advances of public sector banks under the DRI Scheme at end-March 2005 were of the order of Rs.385 crore under 3.3 lakh borrowal accounts, constituting 0.1 per cent of the aggregate advances outstanding at the end of the previous year, which was much lower than the target of 1.0 per cent.

Micro-finance

3.23 SCBs have come to play a crucial role in advancing micro credit through the SHG-Bank Linkage Programme (SBLP). The year 2004-05 witnessed a surge in bank loans to SHGs at Rs.2,994 crore, reflecting a growth of 61.0 per cent. The share of commercial banks in financing of SHGs increased to 60.0 per cent *vis-à-vis* that of the RRBs (30.0 per cent) and co-operative banks (10.0 per cent) (For details, see Chapter IV).

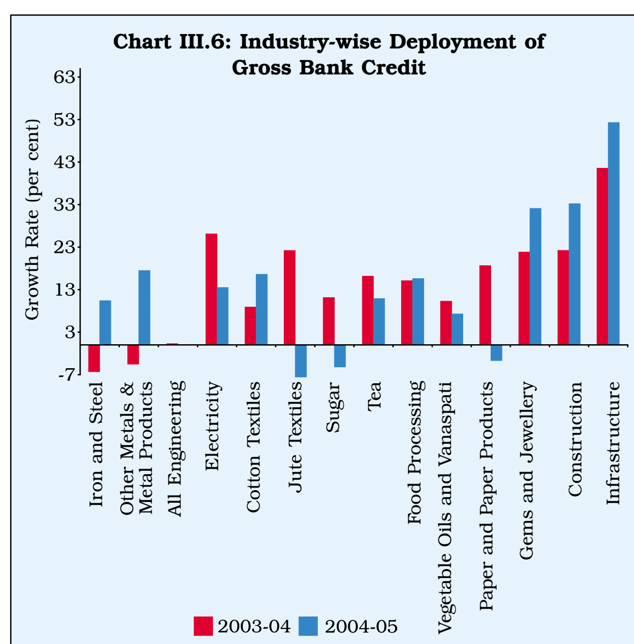
Credit to Industry

3.24 The credit flow to industry increased sharply during 2004-05. The increase in industrial credit was spread across various sectors such as roads and ports, power, telecommunications, gems and jewellery, cotton textiles, iron and steel, petroleum, drugs and pharmaceuticals, construction, electricity, other textiles and residual industries. Increase in the credit to infrastructure industries accounted for 36.6 per cent of increase in industrial credit on top of 62.4 per cent increase in the previous year (Appendix Table III.8). Bank credit to 'all engineering', 'jute textiles', 'sugar' and 'paper and paper products' declined during the year (Chart III.6).

Retail Credit

3.25 Continuing the strong growth in recent years, retail advances increased by 41.2 per cent (Rs.77,947 crore) in 2004-05 as compared with the growth of 27.9 per cent in the overall loans and advances of SCBs. As a result, their share in total loans and advances increased significantly during the year ended March 2005. Housing

Chart III.6: Industry-wise Deployment of Gross Bank Credit



finance registered the highest growth, followed by 'other personal loans' (comprising auto loans, loans to professionals and educational loans) and credit card receivables. Loans for consumer durables, however, declined (Table III.9).

Export Credit

3.26 Export credit grew by 14.3 per cent during 2004-05 as against an increase of 17.2 per cent in 2003-04. The share of export credit in net bank credit has been declining over the years, even though exports have been growing at a rapid pace (Chart III.7). The export credit refinance limit varied significantly during 2004-05 (Appendix

Table III.9: Retail Portfolio of Banks

(Amount in Rs. crore)

Item	Outstanding as at end-March		Percentage Variation
	2004	2005	
1	2	3	4
1. Housing Loan	89,449	1,34,653	50.5
2. Consumer Durables	6,256	3,810	-39.1
3. Credit Card Receivables	6,167	8,405	36.3
4. Other Personal Loans	87,170	1,20,120	37.8
Total Retail Loans (1+2+3+4)	**1,89,041 (21.9)**	**2,66,988 (24.1)**	**41.2**
Total Loans and Advances of SCBs	**8,64,271**	**11,05,725**	**27.9**

Note : Figures within brackets represent percentage share in total loans and advances.
Source : Off-site Returns (Domestic).

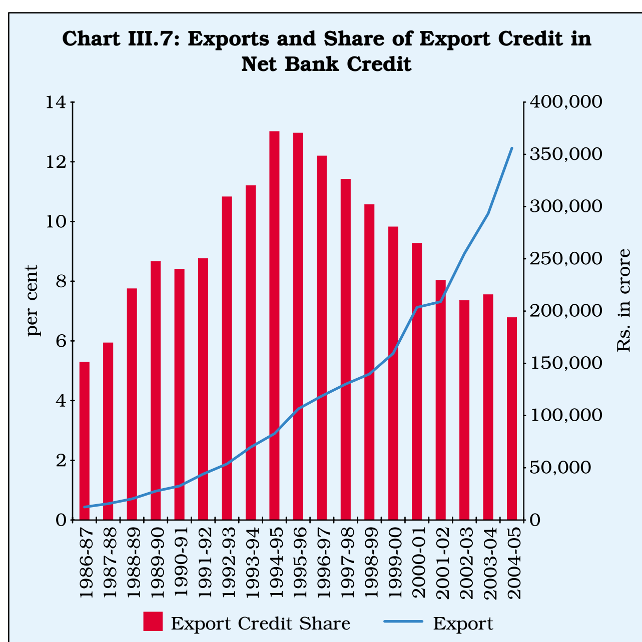


Table III.9). The outstanding export credit refinance availed remained negligible during 2004-05. However, there was a sudden pick-up in export credit refinance in the months of December 2004 and May 2005, reflecting foreign exchange market developments.

Lending to Sensitive Sectors

3.27 Lending by SCBs to the sensitive sectors continued to increase mainly on account of an increase in credit to the real estate (55.8 per cent) (Table III.10). Total exposure of SCBs to the sensitive sectors accounted for 3.5 per cent of aggregate bank loans and advances (comprising 2.2 per cent to real sector, 1.0 per cent to commodities sector and 0.3 per cent to the capital market).

Table III.10: Lending to Sensitive Sector by Scheduled Commercial Banks
(As at end-March)

(Amount in Rs. crore)

Sector	2004	Per cent to Total	2005	Per cent to Total
1	2	3	4	5
1. Capital Market	3,711 (49.4)	12.8	3,767 (1.5)	9.6
2. Real Estate Market	15,848 (27.1)	54.6	24,691 (55.8)	62.9
3. Commodities	9,459 (8.3)	32.6	10,783 (14.0)	27.5
Total (1+2+3)	**29,018 (22.5)**	**100.0**	**39,241 (35.2)**	**100.0**

Note : Figures in brackets are percentage variations over the previous year.

3.28 Among bank groups, old private sector banks had the highest exposure to the sensitive sectors (measured as percentage to total loans and advances of banks), followed by new private sector banks, foreign banks and public sector banks (Table III.11 and Appendix Table III.10).

Investments

3.29 Investments by banks comprise two broad categories, *viz.*, Government and other approved securities (SLR investments), and commercial paper, shares, bonds and debentures issued by the corporate sector and public sector undertakings (non-SLR investments). Almost 89 per cent of the investments of banks are in the SLR securities. During 2004-05, investment of SCBs increased by 4.7 per cent (excluding the conversion impact) as against the increase of 15.9 per cent in the previous year.

Table III.11: Lending to Sensitive Sector – Bank Group-wise

(Per cent)

Sector	Public Sector Banks		New Private Sector Banks		Old Private Sector Banks		Foreign Banks	
	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5	6	7	8	9
	As percentage to total loans and advances*							
Capital Market	0.2	0.2	1.0	0.7	0.5	0.5	1.8	1.1
Real Estate Market	1.6	1.9	2.9	3.4	2.2	3.4	2.3	2.7
Commodities	1.0	0.8	1.4	1.6	2.7	2.4	0.5	0.7
Total Advances to Sensitive Sectors	**2.7**	**2.8**	**5.3**	**5.7**	**5.4**	**6.3**	**4.6**	**4.6**

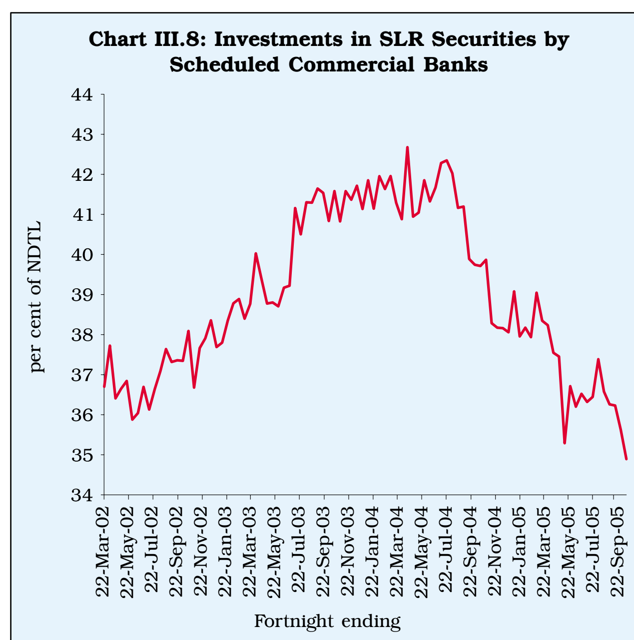
* : Figures relate to advances as percentage to total loans and advances of the concerned bank group.

Investment in Government and Other Approved Securities

3.30 Banks are required to maintain statutory liquidity ratio (SLR) of 25 per cent of net demand and time liabilities (NDTL) in Government and other approved securities. In recent years, however, SCBs held Government and other approved securities much in excess of the statutory stipulation. During 2004-05, the growth in investment in Government and other approved securities was of a much lower order of Rs.42,081 crore (6.4 per cent) as compared with Rs.1,01,871 crore (18.3 per cent) in the previous year. As a result, investments in SLR securities as a percentage of NDTL of banks declined to 38.4 per cent at end-March 2005 from 41.3 per cent at end-March 2004 and the peak of 42.7 per cent on April 16, 2004, before rising marginally to 35.6 per cent on September 30, 2005 (Chart III.8).

3.31 Bank-group wise, investments in Government securities by PSBs grew by 21.2 per cent in 2004-05, lower by about 4 percentage points than in 2003-04. Private sector banks' investments in Government securities increased sharply by 31.5 per cent in 2004-05 compared with an increase of 16.5 per cent in 2003-04, reflecting their efforts to improve capital to risk weighted assets ratio. Investments by foreign banks in Government securities increased by 6.0 per cent in 2004-05 compared with 27.6 per cent in 2003-04.

Chart III.8: Investments in SLR Securities by Scheduled Commercial Banks



Non-SLR investments

3.32 Non-SLR investments of SCBs declined by 3.9 per cent (net of conversion) in 2004-05 compared with a decline of 4.3 per cent in 2003-04, reflecting the portfolio adjustment by banks subsequent to the Reserve Bank guidelines on non-SLR securities issued in November and December 2003. Banks' investments in the securities of the private corporate sector increased marginally, while those in bonds/debentures of PSUs declined during the year (Table III.12).

Table III.12: Non-SLR Investments of Scheduled Commercial Banks

(Amount in Rs. crore)

Sector	Outstanding as on					
	March 19, 2004	Per cent to Total	March 18, 2005	Per cent to Total	March 18, 2005*	Per cent to Total
1	2	3	4	5	6	7
Non-SLR Investments (1+2+3)	**1,20,718**	**100.0**	**1,24,379**	**100.0**	**1,15,962**	**100.0**
1. Commercial Paper	3,770	3.1	3,891	3.1	3,621	3.1
2. Investment in shares issued by *of which:*	9,696	8.0	13,427	10.8	9,918	8.6
a) Public sector undertakings	1,272	1.1	1,613	1.3	1,565	1.3
b) Private corporate sector	7,395	6.1	10,288	8.3	7,374	6.4
3. Investments in bonds/debentures issued by *of which:*	1,07,252	88.8	1,07,061	86.1	1,02,423	88.3
a) Public sector undertakings	48,646	40.3	45,937	36.9	45,290	39.1
b) Private corporate sector	27,903	23.1	31,934	25.7	28,620	24.7
4. Units of UTI and other Mutual Funds	11,808		12,623		11,575	

* : Net of conversion.
Note : Data excludes RRBs. Data are based on statutory Section 42 (2) returns submitted by banks.

Table III.13: International Assets of Banks – By Type

(Amount in Rs. crore)

Asset	Outstanding as at end-March		
	2003	2004	2005
1	2	3	4
International Assets (1+2+3)	**1,04,574**	**1,15,765**	**1,33,237**
1. Loans and Deposits	97,657	1,08,527	1,24,582
of which :			
a) Loans to Non-Residents*	4,634	4,281	4,103
b) Foreign Currency Loans to Residents **	36,859	44,079	58,092
c) Outstanding Export Bills drawn on Non-Residents by Residents	19,242	20,609	26,171
d) *Nostro* Balances@	36,708	39,282	35,673
2. Holdings of Debt Securities	1,027	858	979
3. Other Assets @@	5,890	6,380	7,676

* : Including Rupee loans and foreign currency (FC) loans out of non-residents deposits.
** : Including pre-shipment credit in foreign currency (PCFCs), FC lending to and FC deposits with banks in India.
@ : Including balances in term deposit with non-resident banks (including FCNR funds held abroad).
@@ : Capital supplied to and profits receivable from foreign branches/subsidiaries of Indian banks and other unclassified international assets.
Note : Based on Locational Banking Statistics.

International Assets of Banks

3.33 Strong demand for credit by the resident corporates was reflected in considerable increase in foreign currency loans to residents and also in drawing down of balances in *nostro* accounts. While outstanding export bills drawn on non-residents increased, loans to non-residents declined during 2004-05 (Table III.13).

3.34 Sector-wise classification of the consolidated international claims of banks indicates that the reporting banks preferred to invest in/lend to 'non-bank private' sector. As a result, the share of non-bank private sector increased during 2004-05 to emerge as the largest constituent and the claims on 'bank' sector declined significantly (Table III.14).

3.35 The consolidated international claims of banks, based on immediate country risk, at end-March 2005 were mainly concentrated in the US, Hong Kong and the UK, which together accounted for about 50.3 per cent of total consolidated international claims (Table III.15).

Quarterly Trends - Commercial Banking Survey[5]

3.36 Liquidity in the banking system remained comfortable throughout 2004-05 (Appendix Table III.11). The first quarter began with a large

Table III.14: Sectoral Classification of Consolidated International Claims of Banks

(Amount in Rs. crore)

Sector	Amount outstanding as at end-March		
	2003	2004	2005
1	2	3	4
International Claims of Banks (1+2+3)	**91,061**	**78,124**	**74,238**
1. Bank	51,551 (56.6)	43,057 (55.1)	33,589 (45.2)
2. Non-bank Public	2,331 (2.6)	1,520 (1.9)	1,857 (2.5)
3. Non-bank Private	37,179 (40.8)	33,547 (42.9)	38,792 (52.3)

Note: 1. Figures in brackets are percentages to total.
2. Bank sector includes official monetary institutions (IFC and ECB) and central banks.
3. Prior to the quarter ended March 2005, Non-bank public sector comprised companies/institutions other than banks in which shareholding of State/ Central Governments was at least 51 per cent, including State/Central Government and its departments. From March 2005 quarter, 'Non-bank public' sector comprises only State/Central Government and its Departments and, accordingly, all other entities excluding banks are being classified under ' Non-bank private' sector.
4. Based on CBS (Consolidated Banking Statistics) – immediate country risk basis.

[5] Based on information received under Section 42 (2) Returns of the Banking Regulation Act, 1949.

Table III.15: Consolidated International Claims of Banks on Countries other than India

(Amount in Rs. crore)

Indicator	Amount outstanding as at end-March					
	2003	Per cent to Total	2004	Per cent to Total	2005	Per cent to Total
1	2	3	4	5	6	7
Consolidated International Claims	**91,061**	**100.0**	**78,124**	**100.0**	**74,238**	**100.0**
of which:						
a) United States of America	20,446	22.5	19,915	25.5	22,348	30.1
b) Hong Kong	13,416	14.7	12,353	15.8	7,389	10.0
c) United Kingdom@	12,779	14.0	9,879	12.6	7,608	10.2
d) Germany	3,281	3.6	4,593	5.9	3,607	4.9
e) Singapore	5,776	6.3	3,729	4.8	3,510	4.7
f) Italy	2,832	3.1	1,735	2.2	1,424	1.9
g) France	2,461	2.7	1,684	2.2	1,299	1.7

@ : Excluding Guernsey, Isle of Man and Jersey.

Note : Based on CBS (Consolidated Banking Statistics) – immediate country risk basis.

liquidity overhang in the system, reinforced by strong term deposit mobilisation by commercial banks, even adjusted for the year-end bulge of March 2004. Banks' mobilisation of non-deposit funds was also significant. The commencement of the Government's market borrowing programme and the introduction of the MSS got reflected in the usual beginning-of-the-year surge in commercial banks' investments in Government securities. Commercial credit growth was high against the seasonal trend of slow growth at the beginning of the year. Food credit picked up, reflecting the high *rabi* procurement (Table III.16).

3.37 During the second quarter, time deposits went through a seasonal downturn. Investments in Government securities also recorded a seasonal downturn, despite a surge in MSS operations funded primarily by unwinding of LAF balances. Bank credit started picking up despite repayments of food credit, reflecting the strong appetite for commercial credit. This was funded, in part, by a rebalancing of the gilt portfolio with hardening of interest rates.

3.38 Deposit growth picked up in the third quarter, although much lower than the comparable quarter of the previous year. Credit to commercial sector remained robust. The increase in food credit reflected higher procurement during the *kharif* season. Banks' investments in non-SLR securities expanded. With subdued capital flows since mid-May 2004, commercial banks' *nostro* balances declined by around Rs.3,500 crore. Banks' investments in Government securities declined in an environment of occasional tightness in market liquidity due to a hike in CRR, a temporary slack in capital inflows, advance tax payments, continued growth in non-food credit and festival season currency demand.

3.39 Both demand and time deposits recorded a seasonal spurt during the fourth quarter. Strong FII inflows added further liquidity to the banking system. The spurt in conventional non-food credit was supplemented by large investments in non-SLR securities. Sterilisation operations by the Reserve Bank were reflected in an accrual to commercial banks' investments in Government securities.

3.40 Demand deposits increased in the first two quarters of 2005-06, reflecting the sharp pick-up in non-food credit and a buoyant primary capital market, with funds getting temporarily parked in demand deposits. Time deposits also increased sharply, reflecting the impact of a modest increase in deposit rates and the base effect. Bank credit continued to increase in tandem with broad-based industrial growth. Banks financed the strong demand for credit by the commercial sector by restricting their incremental investments in Government securities.

Credit-Deposit Ratio

3.41 Non-food credit grew at a high rate during 2004-05. Normally, the rate of growth of credit is higher than the rate of growth of deposits due to the base effect – the outstanding deposits is much

Table III.16: Scheduled Commercial Banks – Business in India : Quarterly Trends

(Amount in Rs. crore)

Items	Outstanding as on March 18, 2004	2003-04				2004-05				2005-06	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11	12
Components											
Aggregate Deposits of Residents	16,23,793	65,483	32,455	60,326	82,201	57,050	21,232	38,447	78,251	92,336	1,16,577
Demand Deposits	2,48,028	11,366	-5,950	18,496	30,822	-12,155	2,277	15,280	17,604	15,741	32,226
Time Deposits of Residents	13,75,766	54,117	38,405	41,830	51,380	69,206	18,955	23,167	60,647	76,595	84,351
Call/Term Funding from Financial Institutions	69,523	2,526	2,253	4,822	2,431	5,409	530	35,464	3,451	1,395	6,426
Sources											
Credit to the Government	7,18,982	35,534	45,333	18,342	32,133	40,056	-9,546	-5,918	39,632	-182	10,317
Credit to the Commercial Sector	12,68,425	9,610	5,083	42,823	58,139	32,884	40,538	1,08,835	79,929	65,615	87,779
Food Credit	41,120	587	-12,601	-1,113	-391	7,100	-4,872	5,590	-2,659	3,683	-5,254
Non-food Credit	10,59,308	3,091	15,186	48,992	57,819	30,985	46,477	1,01,812	75,210	57,092	1,00,192
Net Credit to Primary Dealers	1,447	4,485	-779	-4,649	-2,276	-678	977	-923	125	7,466	-3,228
Investments in Other Approved Securities	20,172	-13	-407	50	-928	-184	-561	-1,232	-680	-697	4,845
Other Investments (in non-SLR Securities)	1,46,377	1,460	3,685	-458	3,915	-4,339	-1,482	3,587	7,933	-1,929	-8,775
Net Foreign Currency Assets of Commercial Banks	-75,980	1,564	2,745	5,515	541	-6,706	904	-3,172	-8,652	-1,334	-5,928
Foreign Currency Assets	26,091	199	4,108	-5,311	4,250	-2,741	56	2,441	-8,051	1,164	-368
Non-resident Foreign Currency Repatriable Fixed Deposits	76,405	-1,861	-1,273	-14,087	319	953	-189	-654	692	550	-447
Overseas Foreign Currency Borrowings	25,666	496	2,636	3,261	3,391	3,012	-658	6,267	-90	1,948	6,008
Net Bank Reserves	96,527	20,149	-14,272	6,394	-1,199	10,392	-3,644	14,151	-1,267	9,570	9,316
Capital Account	1,33,688	15,555	-2,088	-4,023	7,280	14,884	1,393	9,435	3,423	24,077	-973
Other items (net)	1,80,949	-16,708	6,269	11,951	-2,299	-717	5,098	30,550	24,517	-44,139	-20,546
Memo:											
Foreign Currency Loans to Residents	46,543	807	-2,168	6,255	2,812	2,089	-1,796	3,028	-486	-1,053	5,492
Release of Resources through change in CRR	–	3,500	–	–	–	–	–	-9,000	–	–	–
Net Open Market Sales to Commercial Banks	–	4,266 *	8,250	9,334	445	–	–	–	–	–	–

– : Nil/Negligible.

* : Valuation over March 31st.

Note :
1. Data relate to last reporting Friday of each quarter.
2. Data include the impact of mergers since May 3, 2002 in the banking system and conversion of a non-banking entity into a banking entity since October 1, 2004.
3. Data are provisional.

higher than the outstanding credit. For instance, while the outstanding deposits at end-March 2005 were Rs.18,19,900 crore, the outstanding credit was Rs.11,04,913 crore. Also, in any given year, the accretion to credit has generally remained lower than the accretion to deposits. During 2004-05, however, incremental credit and deposits were more or less of the same magnitude, while incremental investments in relation to deposits during the year were much lower than in the previous year (Chart III.9). This resulted in some unusual behaviour of the credit-deposit (C-D) ratio and investment-deposit (I-D) ratio.

3.42 The incremental credit-deposit (C-D) ratio was placed lower than the incremental investment-deposit (I-D) ratio up to August 6, 2004. Between August 6 and December 24, 2004, the incremental C-D ratio rose sharply, while the incremental I-D ratio witnessed a downward trend. Beginning January 2005, incremental C-D ratio and the incremental I-D ratio stabilised at around 100 per cent and 20 per cent, respectively. The sharp decline in incremental I-D ratio could be explained in view of high credit demand which prompted banks to restrict fresh investments in Government securities. The incremental C-D ratio even touched

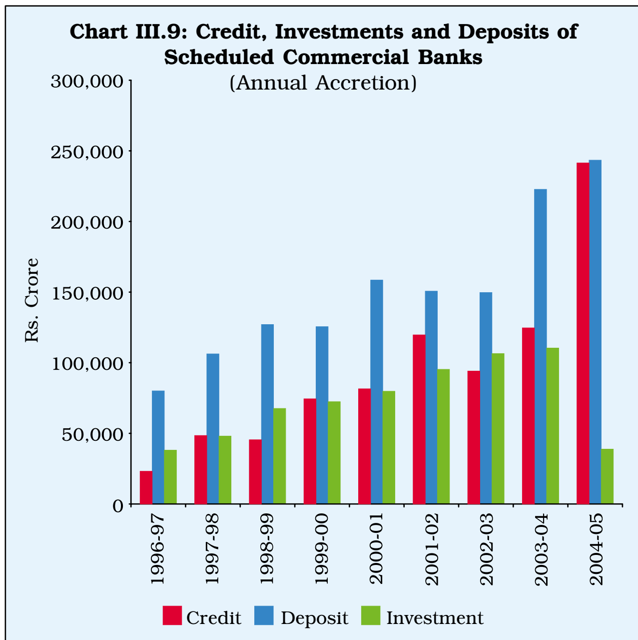


Chart III.9: Credit, Investments and Deposits of Scheduled Commercial Banks
(Annual Accretion)

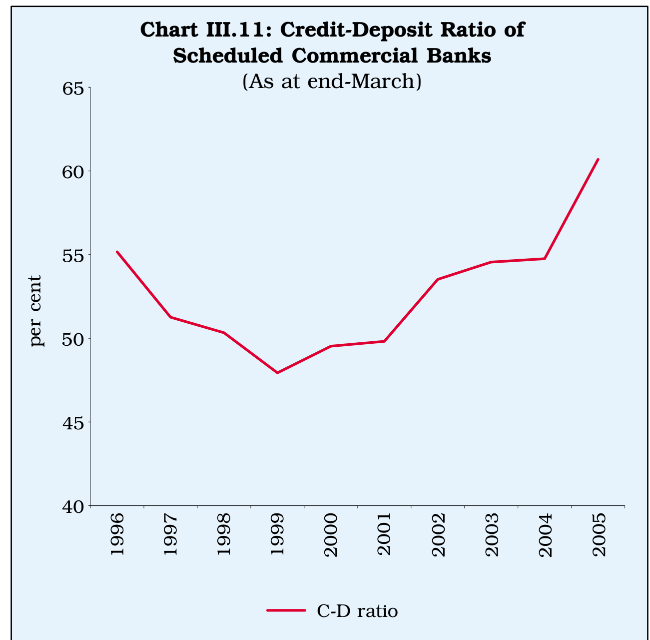


Chart III.11: Credit-Deposit Ratio of Scheduled Commercial Banks
(As at end-March)

a high of over 130 per cent on two occasions (Chart III.10).

3.43 The C-D ratio (in terms of outstandings) of SCBs which declined from 55 per cent in 1995-96 to 48 per cent by 1998-99, increased sharply to touch a high level of 60 per cent at end-March 2005 due to sharp increase in credit during the year (Chart III.11).

3.44 Among bank-groups, the new private sector banks had the highest C-D ratio, followed by foreign banks, old private sector and public sector banks (Chart III.12).

3.45 The C-D ratio, which implies greater credit orientation of banks, is used as a credit efficiency indicator for analysing the role of banks in promoting productive sectors and contributing to economic growth. In a bank-based financial system, the C-D ratio is regarded as an aggregative measure for gauging the effectiveness of credit delivery system. Although the deployment of credit and the time path of C-D ratio, in general, are influenced by the structural transformation of the economy, the role of credit culture and banks' lending policy have an inherent impact on the size of the ratio.

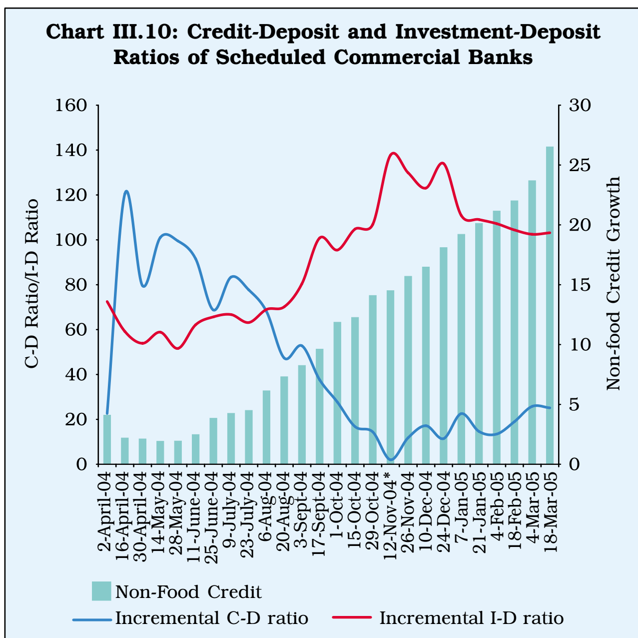


Chart III.10: Credit-Deposit and Investment-Deposit Ratios of Scheduled Commercial Banks

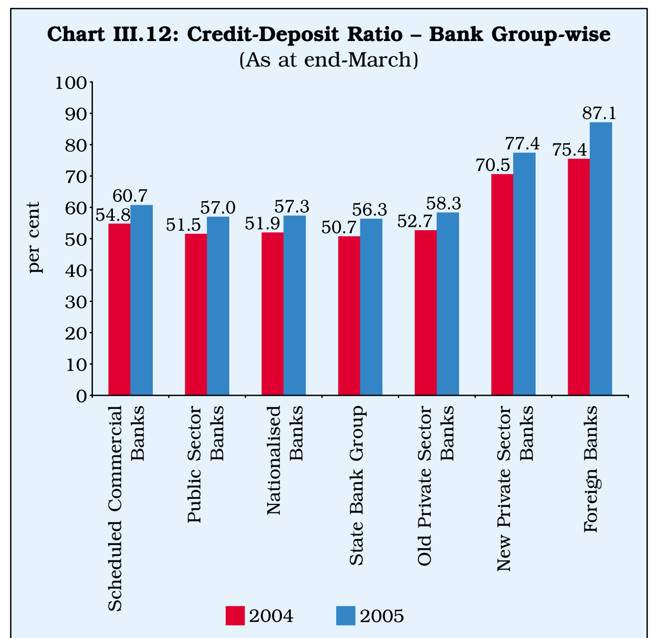


Chart III.12: Credit-Deposit Ratio – Bank Group-wise
(As at end-March)

Table III.17: Bank Group-wise Maturity Profile of Select Liabilities/Assets
(As at end-March)

(Per cent)

Assets/Liabilities	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		Foreign Banks	
	2004	2005	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9
I. Deposits								
a) Up to 1 year	34.4	36.3	51.2	53.3	50.7	54.3	46.2	54.1
b) Over 1 year and up to 3 years	37.8	35.1	37.1	37.6	42.9	42.4	45.6	39.3
c) Over 3 years and up to 5 years	11.7	12.0	4.4	3.4	4.0	2.3	0.7	0.9
d) Over 5 years	16.1	16.6	7.3	5.7	2.4	0.9	7.5	5.7
II. Borrowings								
a) Up to 1 year	82.4	83.2	89.7	80.7	46.4	50.4	85.3	84.5
b) Over 1 year and up to 3 years	14.0	9.6	5.3	4.1	36.4	27.9	11.9	12.3
c) Over 3 years and up to 5 years	2.6	5.3	2.8	7.1	8.3	13.3	2.5	3.3
d) Over 5 years	1.0	2.0	2.2	8.2	8.9	8.4	0.3	–
III. Loans and Advances								
a) Up to 1 year	40.0	37.3	40.5	42.3	35.4	40.2	57.3	55.9
b) Over 1 year and up to 3 years	33.0	35.3	36.1	33.7	31.0	31.4	16.3	18.0
c) Over 3 years and up to 5 years	12.1	11.8	10.3	9.0	12.5	9.5	7.7	6.5
d) Over 5 years	14.9	15.5	13.1	15.0	21.1	18.9	18.7	19.7
IV. Investment								
a) Up to 1 year	10.4	13.2	18.0	21.9	45.0	47.4	45.8	53.2
b) Over 1 year and up to 3 years	11.8	12.5	10.2	11.1	27.3	27.3	30.7	27.1
c) Over 3 years and up to 5 years	14.5	17.2	10.4	12.6	6.6	6.8	8.5	6.1
d) Over 5 years	63.3	57.1	61.4	54.4	21.1	18.6	15.0	13.6

– : Nil/Negligible.
Source : Balance sheets of respective banks.

Maturity Profile of Assets and Liabilities of Banks

3.46 The maturity structure of commercial banks' assets and liabilities reflects various concerns of banks pertaining to business expansion, liquidity management, cost of funds, return on assets, asset quality and also risk appetite during an industrial upturn. In general, major components of balance sheet, including deposits, borrowings, loans and advances and investments, for all bank groups encompassed a non-linear portfolio structure across the spectrum of maturity during 2004-05. Furthermore, for all banks groups, the maturity structure of loans and advances depicted a synchronous behaviour with that of deposits. The maturity structure of deposits and that of investments differed across bank groups. PSBs and old private banks held a larger share of their investment in higher maturity bucket, particularly more than five-year maturity bucket, while private sector and foreign banks held more than 50 per cent of their investments in up to one-year maturity bucket (Table III.17).

3.47 The residual maturity classification of consolidated international claims reveals that banks continued to prefer to invest in/lend for short-term purposes, particularly 'up to 6 months' period whose share in total claims increased by 3.4 percentage points to 73.6 per cent during 2004-05 (Table III.18).

Table III.18: Maturity (Residual) Classification of Consolidated International Claims of Banks

(Amount in Rs. crore)

Residual Maturity	Amount outstanding as at end-March		
	2003	2004	2005
1	2	3	4
Up to 6 months	59,831 (65.7)	54,879 (70.2)	54,665 (73.6)
Over 6 months and up to 1 year	6,412 (7.0)	3,798 (4.9)	6,448 (8.7)
Over 1 year and up to 2 years	4,247 (4.7)	2,872 (3.7)	3,165 (4.3)
Over 2 years	18,861 (20.7)	14,948 (19.1)	8,785 (11.8)
Unallocated	1,710 (1.9)	1,627 (2.1)	1,174 (1.6)
Total	**91,061**	**78,124**	**74,238**

Note : 1. Unallocated residual maturity comprises maturity not applicable (e.g., for equity) and maturity information not available from reporting bank/-branches.
2. Figures in brackets are percentages to total.
3. Based on CBS (Consolidated Banking Statistics)-immediate country risk basis.

3. Off-Balance Sheet Operations of Scheduled Commercial Banks

3.48 Off-balance sheet (OBS) operations of SCBs rose sharply by 60.2 per cent in 2004-05 over and above the increase of 55.3 per cent in 2003-04 and 41.3 per cent in 2002-03. Accordingly, the share of off-balance sheet liabilities in total liabilities increased to 119.7 per cent in 2004-05 from 90.8 per cent in 2003-04. Banks' off-balance sheet exposures have been growing on account of several factors (Box III.4).

Box III.4: Off-Balance Sheet Exposures of Banks

Banks enter into OBS transactions for extending non-fund based facilities to their clients, balance sheet risk management and generating profits through leveraged positions. OBS exposures of banks have witnessed a phenomenal spurt in recent years, reflecting the impact of deregulation, need for risk management, need for diversified income base due to pressure on margin on conventional on-balance sheet items and new opportunities thrown up by technological progress.

OBS exposures essentially take the form of contingent liabilities and derivatives. Contingent liabilities are traditional off-balance sheet exposures, while derivatives, except for traditional forward exchange contracts, have gained prominence in recent years. Like any on-balance sheet exposure, an OBS exposure also exposes a bank to several risks such as credit risk, liquidity risk, market risk and operational risk. Thus, the nature of risks faced by banks in OBS activities is not different from on-balance sheet items. Contingent liabilities such as guarantees and commitments essentially carry credit risk, besides liquidity and operational risk. On the other hand, derivatives transactions expose banks to market risk, liquidity risk and operational risk, although credit risk cannot be entirely ignored.

Schedule 12 of bank's balance sheet on contingent liabilities, designed in1991, does not cover data on new instruments such as derivatives, and needs to be revised in light of the growing use of such OBS exposures. The off-site returns submitted by scheduled commercial banks to the Reserve Bank provide a better picture of the OBS exposures of banks. An analysis of OBS exposures of the banks based on these returns was carried out by the Reserve Bank in December 2004. The main points emerging from the analysis are detailed below:

- Total OBS exposures of the banking system witnessed a significant growth in recent years. Total notional principal amount of OBS exposures of the banking system more than doubled from Rs.8,41,884 crore at end-March 2002 to Rs.18,48,341 crore at end-March 2004 and further to Rs.29,07,457 crore at end-December 2004.

- Letters of credits (LCs) along with guarantees accounted for 80 per cent of total contingent liabilities. The share of LCs in total contingent liabilities steadily increased from around 27 per cent at end-March 2002 to 36 per cent at end-December 2004, while that of guarantees declined from around 58 per cent to 44 per cent during the same period. Banks are exposed to lower risk in LCs which are backed by documents, compared with guarantees. As such, the increasing importance of LCs in total contingent liability portfolio of banks reflects lower contingent risk.

- The spurt in OBS exposures has been fuelled mainly by the sharp increase in the derivatives segment. The share of derivatives in total OBS exposures of the banking system increased from 82.5 per cent in March 2002 to 90.7 per cent in December 2004. In relation to total assets, total OBS exposures of the banking system more than doubled from 57.1 per cent in March 2002 to 137.2 per cent in December 2004.

- The composition of derivatives portfolio of the banking system has undergone a significant transformation since March 2003. Forward foreign exchange contracts, which accounted for 79.6 per cent of total derivatives in March 2002, declined steadily to 49.3 per cent in December 2004. During the same period, the share of single currency interest rate swaps increased from 14.6 per cent to 46.6 per cent. The shift in the composition of contracts and derivatives from the traditional forward foreign exchange contracts to interest rate related contracts has affected the maturity profile of derivatives in recent years. Total contracts and derivatives maturing within one-year horizon, which constituted 84.6 per cent in March 2002, declined sharply to 51.3 per cent in December 2004. The corresponding increase in maturity occurred in '2 to 3 years' segment essentially due to concentration of single currency interest rate swaps in that time band. Recent spurt in derivatives in longer maturity horizon has exposed banks to greater market risk.

- As at end-December 2004, public sector banks accounted for the largest share (64.3 per cent) in total contingent liabilities at the system level, followed by new private banks (19.9 per cent) and foreign banks (12 per cent). The OBS exposures of the banking system are mostly concentrated among 15 banks consisting mainly of foreign banks. The combined share of these 15 banks constituted 78 per cent of total OBS exposures of the banking system. Foreign banks accounted for the largest share (63.7 per cent) in the derivative segment, followed distantly by new private banks (18.1 per cent) and public sector banks (16.3 per cent), respectively.

The risks arising on account of OBS activities of banks are sought to be controlled through a combination of both banks' internal control policies and risk mitigation mechanism imposed by the regulator. The board approved internal control policies covering various aspects of management of risks arising both on- and off-balance sheet exposures is the first line of defence. Holding of minimum defined regulatory capital for all OBS exposures, collection of periodic supervisory data and adequate disclosures in bank balance sheet are some of the major regulatory initiatives undertaken to control and monitor OBS exposures of the banking system.

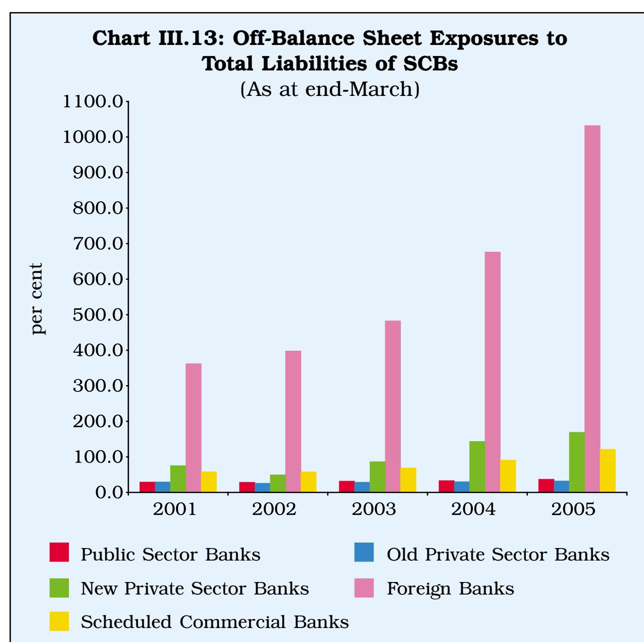


Chart III.13: Off-Balance Sheet Exposures to Total Liabilities of SCBs
(As at end-March)

3.49 Among bank groups, foreign banks had the highest off-balance sheet exposures, followed by new private sector banks. Public sector banks had a relatively small amount of off-balance sheet exposure (Chart III.13 and Appendix Table III.12).

4. Financial Performance of Scheduled Commercial Banks

3.50 The overall financial performance of the banking sector during 2004-05 remained satisfactory, when viewed in the context of upturn in the interest rate cycle. Banks' continued to earn substantial operating and net profits, *albeit,* lower than the preceding year. However, reduced profits reflected mainly the lower treasury profits due mainly to hardening of sovereign yields. A sharp increase in net interest income driven by increased credit volumes mitigated to a considerable extent the impact of a sharp decline in non-interest income. On the whole, banks were able to weather the impact of rise in interest rates.

Interest Rate Scenario

3.51 Banks' balance sheets comprise largely interest-bearing liabilities and assets and consequently net interest income is the most important driver of profitability of banks. Behaviour of interest rate, therefore, has a direct impact on banks' profitability.

3.52 During 2004-05, while interest rates on term deposits offered by public sector banks for maturities up to one year declined slightly, interest rate on deposits exceeding one year maturity after declining marginally up to December 2004, increased in the last quarter of the year. As a result, the spread between typical deposit rates of 15-29 days and over 3-year tenor offered by public sector banks widened to 200 basis points in March 2005 from 175 basis points a year ago (Table III.19).

3.53 The benchmark prime lending rates (BPLRs) of public sector banks and foreign banks softened somewhat during the year. The spread between the

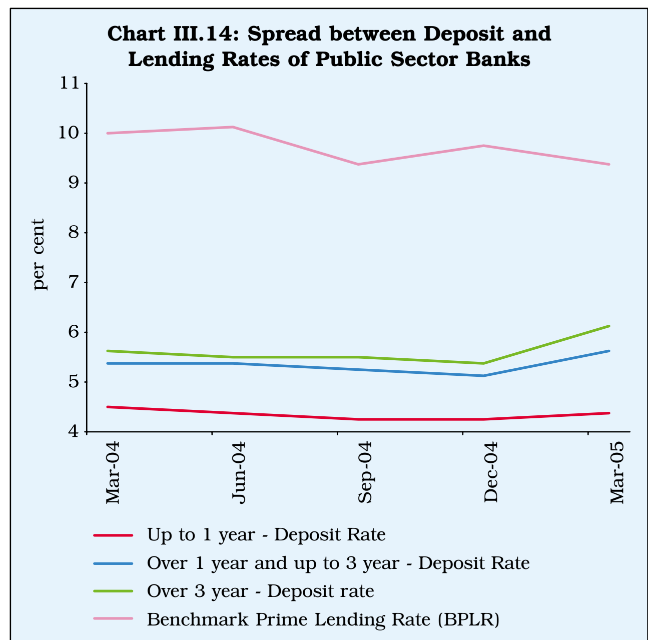
Table III.19: Movements in Deposits and Lending Rates

(Per cent)

Item	March 2003	March 2004	March 2005	September 2005
1	2	3	4	5
I. Domestic Deposit Rates				
Public Sector Banks				
a) Up to 1 year	4.00 - 6.00	3.75 - 5.25	2.75 - 6.00	2.00 - 6.00
b) Over 1 year and up to 3 years	5.25 - 6.75	5.00 - 5.75	4.75 - 6.50	5.25 - 6.25
c) Over 3 years	5.50 - 7.00	5.25 - 6.00	5.25 - 7.00	5.50 - 6.50
Private Sector Banks				
a) Up to 1 year	3.50 - 7.50	3.00 - 6.00	3.00 - 6.25	3.00 - 6.25
b) Over 1 year and up to 3 years	6.00 - 8.00	5.00 - 6.50	5.25 - 7.25	5.00 - 7.00
c) Over 3 years	6.00 - 8.00	5.25 - 7.00	5.75 - 7.00	5.75 - 7.25
Foreign Banks				
a) Up to 1 year	3.00 - 7.75	2.75 - 7.75	3.00 - 6.25	3.00 - 5.75
b) Over 1 year and up to 3 years	4.15 - 8.00	2.25 - 8.00	3.50 - 6.50	3.50 - 6.50
c) Over 3 years	5.00 - 9.00	3.25 - 8.00	3.50 - 7.00	4.00 - 7.00
II. Prime Lending Rates				
Public Sector Banks	9.00 - 12.25	10.25 - 11.50	10.25 - 11.25	10.25 - 11.25
Private Sector Banks	7.00 - 15.50	10.50 - 13.00	11.00 - 13.50	11.00 - 13.50
Foreign Banks	6.75 - 17.50	11.00 - 14.85	10.00 - 14.50	10.00 - 14.50

deposits and the lending rate of PSBs narrowed down slightly, especially in the last quarter of the year, while that of private sector banks firmed up slightly (Chart III.14). However, given the competitive conditions, most of the banks resorted to sub-PLR lending, whose share in total lending of commercial banks, excluding export credit, increased from about 50 per cent in March 2004 to over 60 per cent by March 2005. As at end-March 2005, public sector banks' median (representative) lending rate for the demand and term loans (at which maximum business is contracted) in the range of 9.00-12.50 per cent and 8.35-12.00 per cent, respectively, showed moderation as compared with their corresponding levels of 11.00-12.75 per cent each, in March 2004. The movement in lending rates was in the desired direction keeping in view the concern expressed about downward rigidity in the movement of lending rates in the Mid-term Review of the Monetary and Credit Policy for 2003-04 (Box III.5).

Chart III.14: Spread between Deposit and Lending Rates of Public Sector Banks



Box III.5: Asymmetry in Lending Rate Movement

It is generally believed that banks adjust their lending rates more slowly when interest rates are falling than when they are rising. In other words, banks are apparently sluggish in adjusting the prime lending rate (PLR) to declining market rates. Despite the widespread belief that the PLR adjusts more slowly when interest rates are falling, evidence of asymmetry in the PLR has been mixed. In the case of United States, Arak, Englander and Tang (1984) and Levine and Loeb (1983) find evidence of asymmetric price-setting behavior, while Goldberger (1984) and Forbes and Mayne (1989) find no such evidence. The premise that changes in the discount rate may be important in explaining the behavior of the prime rate is supported by Hendry (1992), who found changes in the Bank of Canada's Bank Rate to be the most important variable in explaining changes in the Canadian prime rate.

With the initiation of financial sector reforms, the lending rates of commercial banks have been gradually deregulated. Keeping in view the international practice on lending rates as also for providing further operational flexibility to commercial banks in deciding their lending rates, a system of benchmark PLR has been adopted by Indian banks since 2004 wherein banks enjoy the flexibility in pricing loans and advances based on market benchmarks. All other lending rates can be determined with reference to the BPLR based on (i) actual cost of funds; (ii) operating expenses; and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin. BPLR continues to be the ceiling rate for credit limit up to Rs.2 lakh.

While the deposit rates of banks have declined from 13 per cent in 1995-96 to about 5 per cent in 2004-05, the average lending rates declined from about 17 per cent to about 10 per cent during the same period. As a result, the spread between the deposit and lending rates has widened by almost one percentage point. The fall in the nominal interest rates have also not kept pace with the declining inflation rate with the result that the real effective lending rates have not declined commensurately. Downward inflexibility of PLR emerged in the recent past as a significant policy issue for the Reserve Bank, especially in respect of credit delivery to small and medium sized borrowers at a reasonable cost. While the introduction of benchmark prime lending rates has, to an extent, addressed the problem of downward rigidity of lending rates, the introduction of sub-PLR lending has resulted in a widening of the spread between the maximum and the minimum lending rates. Widening of interest spread suggests that further efforts are needed to tackle the problem of downward rigidity of lending rates. The continuing reduction in the non-performing asset levels and interest expenditure should enable banks to set the lending rates on a more realistic basis.

Asymmetry of the prime rate is often viewed as an indicator of the market power of banks. At times, this is also explained in terms of financial hierarchy, where firms turn to external finance only after adjusting their internal funds. If bank lending rates rise rapidly when market interest rates are rising, but decline sluggishly when market interest rates are falling, firms may prefer internal finance because the opportunity cost of internal funds moves in tandem with market rates.

Asymmetry in the prime rate might also have implications for the efficacy of monetary policy. In particular, it could help explain why easy monetary policy is less expansionary than restrictive monetary policy is contractionary [Cover (1992) and Rotemberg (1993)]. During periods of falling interest rates, downwardly sluggish bank lending rates would dampen the stimulus that monetary policy could provide to investment spending, whereas in periods of rising interest rates, bank lending rates would generally increase in tandem with market rates.

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Rotemberg, Julio J. (1993) "Monetary Aggregates, Monetary Policy and Economic Activity: Commentary," Federal Reserve Bank of St. Louis Review, March/April, 36-41.

3.54 The yield on Government securities with 5-year and 10-year residual maturity hardened by 158 basis points and 150 basis points, respectively, between end-March 2004 and end-March 2005 (Table III.20). Similarly, the yield on securities with 20-year residual maturity increased by 114 basis points from 5.85 per cent to 6.99 per cent during the same period. As the longer-term yields exhibited sharper movements, the tenor spread in the Government securities revealed intra-year variations. The spread between securities with residual maturities of 1-year and 10-year widened from 61 basis points in March 2004 to 114 basis points in March 2005. Similarly, the spread between Government securities with residual maturities of 1-year and 20-year widened from 131 basis points in March 2004 to 148 basis points in March 2005.

3.55 Interest rates in various segment of money market firmed up marginally. At the shorter end of the market, the weighted average call money rate increased by 63 basis points from 4.37 per cent in March 2004 to 5.00 per cent by March 2005. The weighted average discount rate on commercial paper (CP) of 61-90 days maturity increased by 70 basis points from 5.19 per cent to 5.89 per cent.

Cost of Deposits and Return on Advances

3.56 Cost of deposits declined significantly during 2004-05, reflecting largely the impact of significant decline in deposit rates in the last year. In the recent period, the decline in cost of funds has emerged as a notable feature of operations of the banking sector, a trend which continued during 2004-05. Significantly, the cost of borrowings was much lower than the cost of deposits across all bank groups, barring foreign banks. The cost of funds across bank groups declined in the range of 60-70 basis points in 2004-05. The decline in cost of funds was accompanied by a larger decline in return on advances, reflecting mainly the increased lending at sub-PLR rates on account of competitive pressures. As a result, interest spread came under pressure, suggesting that the benefits of low interest rates have begun to percolate to banks' borrowers (Table III.21).

Table III.20: Structure of Interest Rates

(Per cent)

Item	March 2003	March 2004	March 2005	September 2005
1	2	3	4	5
I. Debt market				
1. Government Securities Market				
5 –Year	5.92	4.78	6.36	6.71
10–Year	6.13	5.15	6.65	7.11
II. Money Markets				
2. Call Borrowings (Average)	5.86	4.37	5.00	5.05
3. Commercial papers				
WADR 61 - 90 days	6.53	5.19	5.89	5.89 *
WADR 91-180 days	6.45	4.73	5.87	5.97 *
Range	6.00-7.75	4.70-6.50	5.45-6.51	5.69-7.50
4. Certificates of Deposit				
Range	5.00-7.10	3.87 - 5.16	4.21-6.34	4.66-7.00 @
Typical Rate				
3 Months	–	4.96	5.90	5.90 @
12 Months	5.25	5.16	6.26	5.97 @
6. Treasury Bills				
91 days	5.89	4.37	5.32	5.49
182 days	–	–	–	5.40
364 days	5.89	4.44	5.66	5.79

– : Nil/Negligible.
WADR- Weighted Average Discount Rate.
* : Data pertain to period-ended October 1-15, 2005.
@ : Data pertain to period-ended September 15, 2005.

Table III.21: Cost of Funds and Returns on Funds – Bank Group-wise

(Per cent)

Variable/ Bank Group	Public Sector Banks			Old Private Sector Banks		New Private Sector Banks		Foreign Banks		Scheduled Commercial Banks		
	2003-04	2004-05	2004-05#	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2004-05#
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Cost of Deposits	5.1	4.4	4.4	5.4	4.6	4.2	3.4	3.6	3.1	4.9	4.2	4.2
2. Cost of Borrowings	2.3	2.6	1.3	2.8	2.7	1.5	1.4	4.3	3.5	2.5	2.4	1.7
3. Cost of Funds	5.0	4.3	5.7	5.3	4.6	3.7	3.0	3.8	3.2	4.8	4.1	5.2
4. Return on Advances	7.9	7.0	7.2	8.8	8.0	8.8	7.3	8.3	7.3	8.1	7.2	7.3
5. Return on Investments	8.5	8.2	8.0	8.1	7.7	6.2	5.2	8.5	6.9	8.2	7.8	7.6
6. Return on Funds	8.2	7.6	7.5	8.5	7.9	7.7	6.5	8.4	7.2	8.2	7.4	7.4
7. Spread (6-3)	3.2	3.2	1.8	3.1	3.3	4.0	3.5	4.6	4.0	3.4	3.3	2.2

: Includes the impact of conversion of a non-banking entity into a banking entity.

Note :
1. Cost of Deposits = Interest Paid on Deposits/Deposits.
2. Cost of Borrowings = Interest Paid on Borrowings/Borrowings.
3. Cost of Funds = (Interest Paid on Deposits+Interest Paid on borrowings)/(Deposits+Borrowings).
4. Return on Advances = Interest Earned on Advances / Advances.
5. Return on Investments = Interest Earned on Investments / Investments.
6. Return on Funds = (Return on Advances+Return on Investments)/(Advances+Investments).

Income

3.57 In a rising interest rate scenario, two key financial performance parameters, *viz.*, interest income and non-interest or 'other' income respond differently. As interest rates rise, interest income goes up. However, since banks normally hold a large portfolio of fixed income investments, rise in interest rates depresses bond prices, resulting in decline in banks' trading profits, a major component of 'other income'. Interest income, which is the major source of income, rose sharply by 6.1 per cent (excluding the conversion impact) during 2004-05 as against 2.6 per cent last year mainly due to increased volumes (Table III.22).

3.58 With the diversification of banks' portfolio, 'other income', comprising trading income and fee-based income has evolved as an important source of income for banks over the last few years (Appendix Table III.13). However, during 2004-05, 'other' income, declined sharply by 15.1 per cent (excluding the conversion impact) as against an increase of 25.1 per cent last year mainly due to decline in trading income and marked-to-market (MTM) losses (Table III.23).

Table III.22: Important Financial Indicators of Scheduled Commercial Banks

(Amount in Rs. crore)

Item	2002-03		2003-04		2004-05		2004-05 #	
	Amount	Per cent to Assets	Amount	Per cent to Assets	Amount	Per cent to Assets	Amount	Per cent to Assets
1	2	3	4	5	6	7	8	9
1. Income	1,72,345	10.1	1,83,872	9.3	1,86,703	8.2	1,93,269	8.2
a) Interest Income	1,40,742	8.3	1,44,347	7.3	1,53,127	6.7	1,58,438	6.7
b) Other Income	31,603	1.9	39,525	2.0	33,576	1.5	34,831	1.5
2. Expenditure	1,55,268	9.1	1,61,601	8.2	1,65,998	7.3	1,71,949	7.3
a) Interest Expended	93,596	5.5	87,563	4.4	86,601	3.8	91,537	3.9
b) Operating Expenses	38,067	2.2	43,709	2.2	49,140	2.2	50,048	2.1
of which: wage bill	23,610	1.4	26,360	1.3	28,734	1.3	29,032	1.2
c) Provisions and Contingencies	23,605	1.4	30,329	1.5	30,256	1.3	30,364	1.3
3. Operating Profit	40,682	2.4	52,600	2.7	50,962	2.2	51,684	2.2
4. Net Profit	17,077	1.0	22,271	1.1	20,706	0.9	21,320	0.9
5. Net Interest Income/Margin (1a-2a)	47,146	2.8	56,784	2.9	66,526	2.9	66,901	2.8

Note : The number of scheduled commercial banks in 2002-03, 2003-04 and 2004-05 were 93, 90 and 88, respectively.
: Including the impact of conversion of a non-banking entity into a banking entity.

Table III.23: Changes in Income-Expenditure Profile of Scheduled Commercial Banks

(Amount in Rs. crore)

Indicator	2003-04	Per cent	2004-05	Per cent	2004-05 #	Per cent
1	2	3	4	5	6	7
1. Income (a+b)	**11,527**	**6.7**	**2,831**	**1.5**	**9,397**	**5.1**
a) Interest Income	3,604	2.6	8,780	6.1	14,091	9.8
b) Other Income	7,923	25.1	-5,949	-15.1	-4,695	-11.9
2. Expenses (a+b+c)	**6,333**	**4.1**	**4,396**	**2.7**	**10,348**	**6.4**
a) Interest Expenses	-6,034	-6.4	-961	-1.1	3,974	4.5
b) Other Expenses	5,642	14.8	5,431	12.4	6,339	14.5
c) Provisioning	6,725	28.5	-73	-0.2	35	0.1
3. Operating Profits	**11,918**	**29.3**	**-1,638**	**-3.1**	**-916**	**-1.7**
4. Net Profits	**5,194**	**30.4**	**-1,565**	**-7.0**	**-951**	**-4.3**

: Including the impact of conversion of a non-banking entity into a banking entity.

3.59 The composition of 'other income' of SCBs underwent a significant change during 2004-05 due to decline in the share of trading income on investments and increase in the share of fee income and income from foreign exchange operations and miscellaneous income (Chart III.15).

3.60 The share of non-interest income in banks' total income, after showing a continuous increase from 10.7 per cent in 1993 to 21.5 per cent in 2003-04, declined sharply to 18.0 per cent in 2004-05 (Chart III.16).

3.61 Banks' overall income grew by 1.5 per cent in 2004-05 (excluding the conversion impact) as compared with 6.7 per cent in the previous year. On an incremental basis, the contribution of interest income to total income during 2004-05 was 310.0 per cent compared with 31.3 per cent in 2003-04; contribution of 'other income' was negative (Chart III.17).

3.62 Among bank groups, income of PSBs grew at the highest rate, followed by new private sector banks (Appendix Table III.14). Income of foreign banks grew at a nominal rate, while that of old private sector banks declined on account of a small rise in interest income, which was more than offset by a sharp fall in 'other' income. The income of certain PSBs also improved as the Reserve Bank allowed banks to recognise income on an accrual basis in respect of some categories of projects under implementation with time overruns [Appendix Table III.15(A) to (I)].

Chart III.15: Composition of Non-Interest Income of Scheduled Commercial Banks

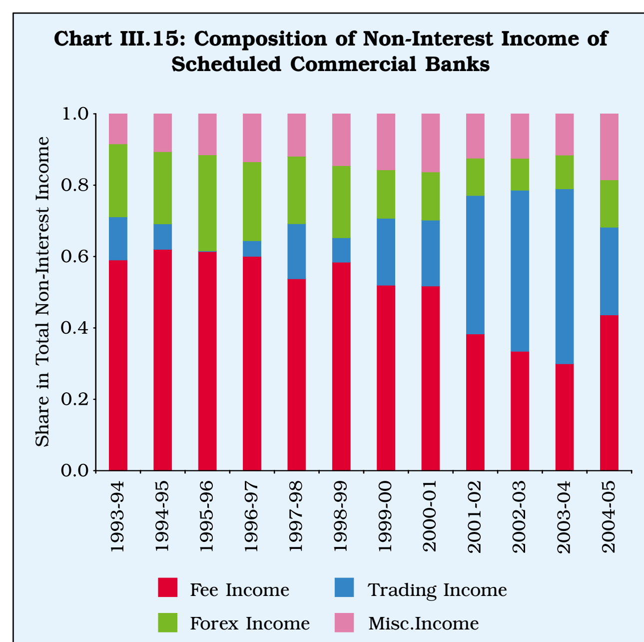
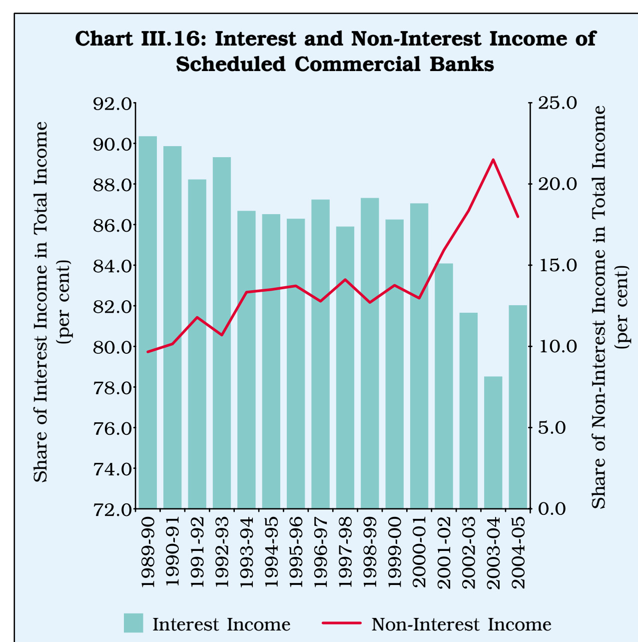
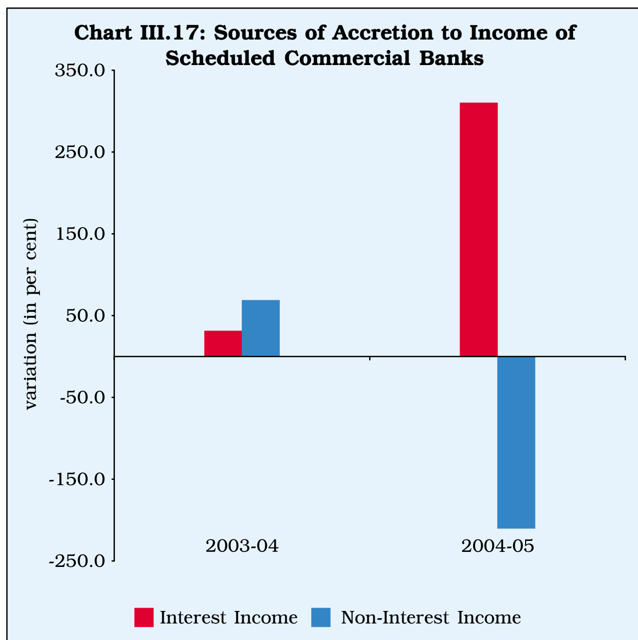


Chart III.16: Interest and Non-Interest Income of Scheduled Commercial Banks





Expenditure

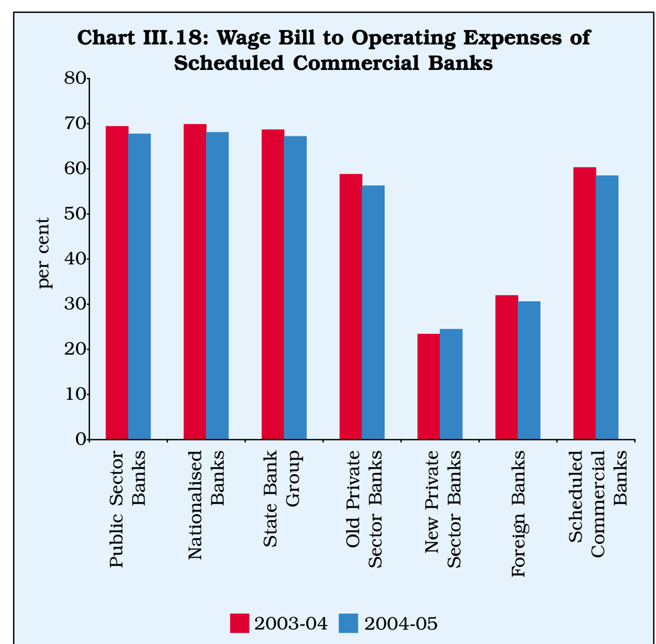
3.63 The expenditure of SCBs moved up by 2.7 per cent (excluding the conversion impact) in 2004-05 compared with 4.1 per cent in 2003-04. While interest expended declined by 1.1 per cent (as compared with a decline of 6.4 per cent in the previous year), operating or non-interest expenses increased by 13.7 per cent (as compared with the increase of 12.6 per cent in 2003-04). However, operating expenses as percentage of total assets declined marginally to 2.1 per cent from the previous year's level (2.2 per cent). Banks have been able to contain operating expenditure despite a significant increase in retail loans which, being small, carry higher transaction costs. From the overall profitability viewpoint, operating expenses need to be seen in conjunction with non-interest income. Operating expenditure normally exceeds non-interest income and this has been the case in India as well. However, the gap between the two widened during 2004-05 due to decline in non-interest income (which was entirely due to decline in trading profits). This resulted in sharp increase in what is known as banks' burden (excess of non-interest expenditure over non-interest income) to 0.7 per cent of assets in 2004-05 from 0.2 per cent in 2003-04 and deterioration in the efficiency ratio to 49.2 per cent from 45.4 per cent in the previous year[6].

3.64 Wage bill for the banking sector, on the whole, declined as percentage of operating expenses (58.0 per cent in 2004-05 compared with 60.3 per cent in 2003-04). Wage bill as percentage to total assets also declined marginally to 1.2 per cent. Although wage bill of public sector banks declined both in relation to operating expenses and total assets during 2004-05, it continues to be high. The more technology-intensive new private sector and foreign banks had a significantly lower proportion of wage bill in operating expenses as compared with old private sector banks and public sector banks (Chart III.18).

3.65 In the post-VRS period, public sector banks have tended to rationalise staff cost to contain non-interest expenses. However, in recent years, per employee cost of the PSBs has risen due to the changing composition of the staff and increased provisioning towards superannuation liabilities (Box III.6).

Net Interest Income

3.66 Net interest income, defined as the difference between interest income and interest expenses, constitutes an important efficiency indicator of banks. The spread of SCBs remained unchanged at the previous year's level and continues to be high in comparison with international standards. While net interest margin of SBI group, new private sector and



[6] Efficiency ratio is defined as operating expenses as percentage of net interest income plus non-interest income.

Box III.6: Post-VRS Trends in Staff Expenses of Public Sector Banks

Wage costs account for a major share in operating cost of the banking industry, especially public sector banks (PSBs). During 2000-01, a voluntary retirement scheme (VRS) for staff was introduced in PSBs with a view to downsizing the staff strength and bringing down the operating cost. The VRS was implemented in 26 out of 27 PSBs and more than one lakh staff members were relieved entailing an expenditure of Rs.11,885 crore. As a special case, banks were allowed to amortise the expenditure over a period of 5 years beginning from the financial year 2000-01. Total VRS related expenses amortised from 2000-01 through 2003-04 amounted to Rs.9,456 crore and the balance amount of Rs.2,429 crore was to be amortised during 2004-05.

Total staff expenses of PSBs increased at a compound annual growth rate (CAGR) of 11.8 per cent during the period from 1996-97 through 1999-00 (pre-VRS period), but only at 2.2 per cent during the next four years from 2000-01 through 2003-04 (post- VRS period), reflecting the positive impact of staff reduction. If VRS expenses amortised are netted out, the CAGR in staff costs during the post-VRS period worked out to 4 per cent. The real positive impact of VRS was discernible during 2001-02 when total staff costs of PSBs declined by 9.4 per cent even without adjusting for VRS expenses. However, during the next two financial years (2002-03 and 2003-04), staff costs, net of VRS expenses amortised, increased by 8 per cent and 12 per cent, respectively. The staff expenses increased even as total staff strength declined from 7,95,092 at end-March 2001 to 7,49,575 at end- March 2004. Consequently, the cost per employee (net of VRS expenses amortised), which dropped down from Rs.2.24 lakh in 2000-01 to Rs.2.18 lakh in 2001-02, increased to Rs.2.37 lakh and further to Rs.2.67 lakh in the next two financial years. A detailed analysis of staff expenses of 13 select PSBs, accounting for 68 per cent of total staff expenses of PSBs, reveals the following:

- The proportion of officers in relation in total staff strength of the PSBs has increased. While total staff strength of the select banks declined from 5,06,241 at end-March 2003 to 5,03,935 at end-March 2004, strength of officers increased from 1,45,793 (28.8 per cent) to 1,53,652 (30.4 per cent) during the same period. With the growing proportion of officers in the overall staff strength, gross emoluments (basic pay along DA and other allowances) also went up across all the banks during the last couple of years.
- Outgo on account of provisions for provident fund and pension liability of the select banks increased significantly in the post-VRS period, especially during the 2002-03 and 2003-04, accounting for the increase in staff expenses. The share of pension and provident fund liabilities increased from 11.5 per cent of total staff expenses of the select banks in March 2002 to 12.3 per cent in March 2003 and further to 14.9 per cent during year ended March 2004. Between 2001-02 and 2003-04, pension and provident fund liabilities accounted for 54.2 per cent of the incremental staff expenses of 12 (out of 13) banks.
- Profitability of the banking sector, including PSBs, improved in recent years. Consequently several PSBs made substantial provisions to cover the shortfall in past years' staff liabilities that also accounted for the rise in total staff expenses in recent years.
- Majority of the banks have in recent years adopted the actuarial method for valuing and providing superannuation liabilities to comply with the relevant Accounting Standard. This might have also led to the spurt in provisions for superannuation liabilities in recent years.

old private sector banks increased, that of nationalised banks and foreign banks declined.

Operating Profits

3.67 Operating profits of SCBs during 2004-05 declined by 3.1 per cent in 2004-05 as against an increase of 29.3 per cent in the previous year, reflecting largely the impact of decline in non-interest income. Among bank groups, operating profits of nationalised banks, old private sector banks and foreign banks declined during 2004-05, while those of SBI group and new private sector banks increased.

Provisions and Contingencies

3.68 The provisions and contingencies of SCBs showed a marginal decline during 2004-05. At the aggregate level, while provisions for loan losses declined sharply by 59 per cent, those for depreciation in value of investments increased by 7.7 per cent during 2004-05 (see also paragraphs 3.77 and 3.83). While provisions and contingencies by PSBs and old private sector banks increased, those by new private sector banks and foreign banks declined. The provisions for loan losses declined across bank groups, barring PSBs. Provisions for depreciation in value of investments increased for all bank groups, except foreign banks.

Net Profit

3.69 Net profits declined by 7.0 per cent (excluding the conversion impact) during 2004-05 as against an increase of 30.4 per cent in the last year. While net profits of nationalised banks, old private sector banks and foreign banks declined, those of SBI group and new private sector banks increased. Sharp increase in the net profits of new private sector banks was on account of a sharp decline in provision and contingencies (Table III.24).

Return on Assets

3.70 Return on assets (RoA) reflects the efficiency with which banks deploy their assets. Net profits to assets ratio of SCBs declined

Table III.24: Operating Profit and Net Profit – Bank Group-wise

(Amount in Rs. crore)

Bank Group	Operating Profit				Net Profit			
	2003-04	Percentage variation	2004-05	Percentage variation	2003-04	Percentage variation	2004-05	Percentage variation
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	**52,600**	**29.3**	**50,962**	**-3.1**	**22,271**	**30.4**	**20,706**	**-7.0**
	–	**–**	**(51,684)**	**(-1.7)**	**–**	**–**	**(21,320)**	**(-4.3)**
Public Sector Banks	39,290	32.2	39,413	0.3	16,546	34.6	15,784	-4.6
Nationalised Banks	24,927	34.8	23,431	-6.0	10,928	40.4	9,494	-13.1
State Bank Group	14,364	27.9	15,260	6.2	5,619	24.5	5,676	1.0
Other Public Sector Bank	–	–	722	–	–	–	615	–
Old Private Sector Banks	3,192	13.8	2,239	-29.9	1,446	17.4	436	-69.9
New Private Sector Banks	5,133	15.8	5,435	5.9	2,035	17.9	3,098	52.2
Foreign Banks	4,986	33.7	4,597	-7.8	2,243	23.0	2,002	-10.7

– : Nil/Negligible.
Note : Figures within parentheses include the impact of conversion of a non-banking entity into a banking entity.

marginally in 2004-05. However, except for the new private sector banks, the ratio declined across bank groups, the decline being the highest in case of old private sector banks, followed by foreign banks and public sector banks (Chart III.19).

Return on Equity

3.71 Return on equity (RoE) reflects the efficiency of banking institutions in using capital. It is thus an indicator of banks' conduct of business in the interests of shareholders. Reflecting the combined impact of lower net profits and higher capital base, RoE for scheduled commercial banks, on the whole, declined significantly to 13.8 per cent in 2004-05 from 19.8 per cent in the previous year (Chart III.20).

3.72 Financial parameters of individual banks across bank groups of public sector, private sector and foreign banks are set out in Appendix Tables III.16 to III.24.

Chart III.19: Net Profitability of Bank Groups

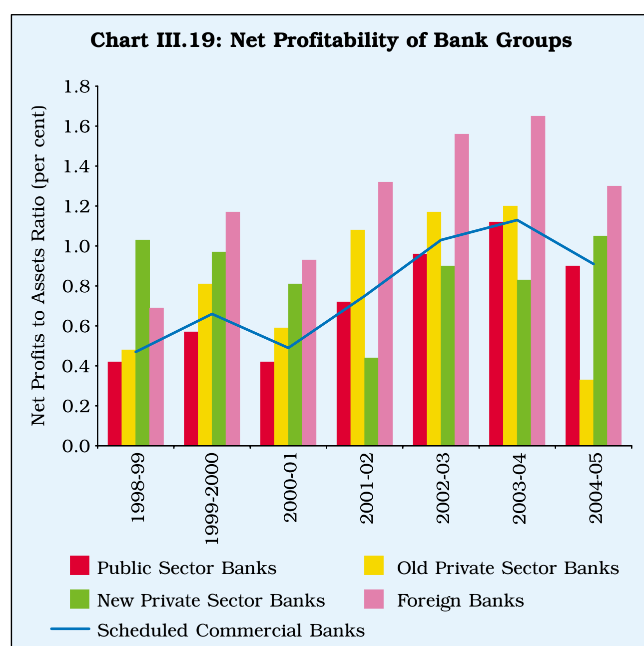
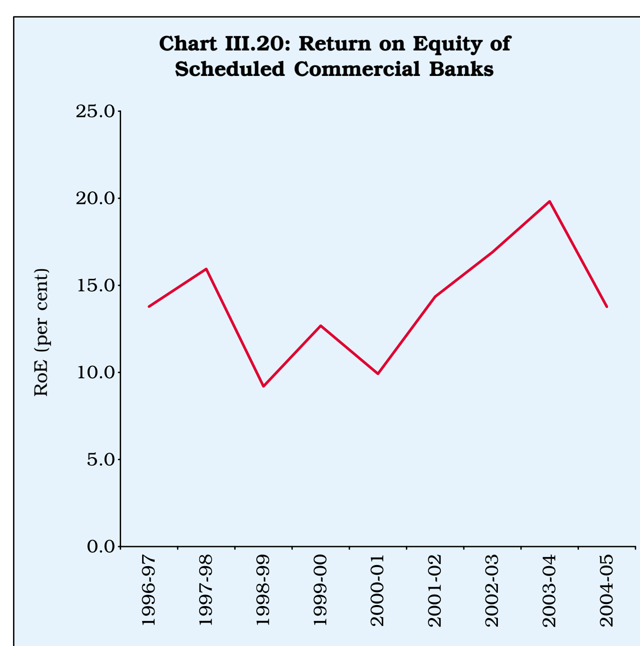
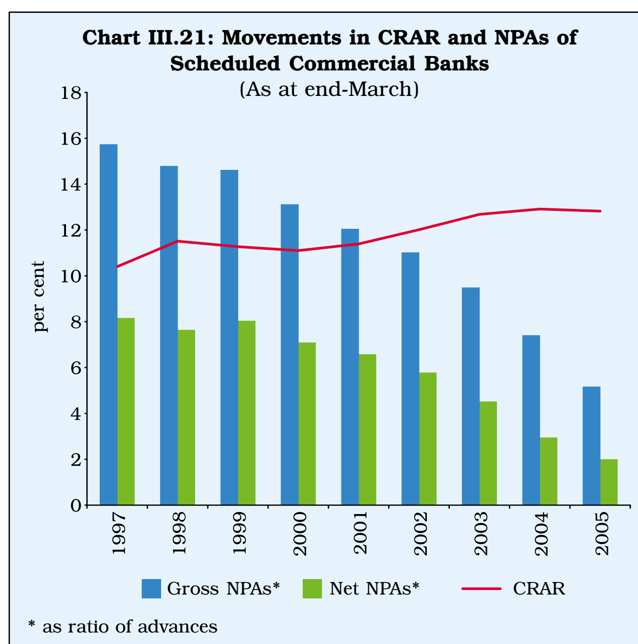


Chart III.20: Return on Equity of Scheduled Commercial Banks



5. Soundness Indicators

3.73 Capital adequacy and asset quality are two crucial parameters which reflect the soundness of a financial institution. In the Indian context, both these parameters have shown a significant improvement over the years. While the level of non-performing assets (NPAs), both in gross and net terms, has declined, the capital adequacy ratio has improved steadily (Chart III.21). Reflecting the combined impact of increase in the capital position and improvement in asset quality, net NPLs to capital ratio, which is a worst-case scenario measure, declined steadily from a high level of 71.3 per cent at end-March 1999 to 22.8 per cent at end-March 2004 and further to 15.5 per cent by end-March 2005.



Asset Quality

3.74 The sharp rise in credit growth was underpinned by a steady improvement in asset quality. Following the trend of the previous year, reductions in NPAs for SCBs outpaced additions to NPAs during 2004-05 (Table III.25). This trend was observed across all bank groups, barring new private sector banks. Gross NPAs of SCBs (excluding the conversion impact) declined by Rs.6,485 crore between end-March 2004 and end-March 2005.

Table III.25: Movements in Non-performing Assets – Bank Group-wise

(Amount in Rs. crore)

Particulars	Scheduled Commercial Banks (87)	Scheduled Commercial Banks (88)#	Nationalised Banks (19)	State Bank Group (8)	Public Sector Banks (27)	Public Sector Banks (28)#	Old Private Sector Banks (20)	New Private Sector Banks (9)	Foreign Banks (31)
1	2	3	4	5	6	7	8	9	10
Gross NPAs									
As at end-March 2004*	63,096	64,439	35,549	15,989	51,538	52,880	4,393	4,517	2,649
Addition during the year	20,210	20,396	10,221	5,603	15,824	16,011	1,154	2,199	1,032
Recovered during the year	23,488	23,801	13,247	5,833	19,080	19,394	1,270	2,004	1,134
Written-off during the year	1,519	1,519	814	143	956	956	71	136	356
As on 31st March 2005	58,300	59,516	31,709	15,616	47,325	48,541	4,206	4,576	2,192
Net NPAs									
As at end-March 2004*	24,615	24,615	12,893	5,967	18,859	18,859	2,140	2,717	898
As at end-March 2005	21,441	22,289	10,280	6,363	16,642	17,490	1,859	2,292	648
Memo:									
Gross Advances	11,10,986	11,52,682	5,42,768	2,93,360	8,36,128	8,77,825	70,412	1,27,420	77,026
Net Advances	10,74,044	11,15,663	5,23,253	2,84,040	8,07,293	8,48,912	67,742	1,23,655	75,354
Ratio:									
Gross NPAs/Gross Advances	5.2	5.2	5.8	5.3	5.7	5.5	6.0	3.6	2.8
Net NPAs/Net Advances	2.0	2.0	2.0	2.2	2.1	2.1	2.7	1.9	0.9

: Including the impact of conversion of a non-banking entity into a banking entity.
* : Data do not include NPAs of banks which were closed during the year.
Note : Figures in brackets indicates the number of banks in that group for the year 2004-05.
Sources : 1. Balance sheets of respective banks.
2. Returns submitted by banks.

Table III.26: NPAs Recovered by Scheduled Commercial Banks through Various Channels

(Amount in Rs. crore)

Item	2003-04			2004-05		
	No. of cases referred *	Amount involved	Amount Recovered	No. of cases referred *	Amount involved	Amount Recovered
1	2	3	4	5	6	7
i) One-time settlement/ compromise schemes*	1,39,562	1,510	617	1,32,781	1,332	880
ii) *Lok Adalats*	1,86,100	1,063	149	1,85,395	801	113
iii) DRTs	7,544	12,305	2,117	4,744	14,317	2,688
iv) SARFAESI Act	2,661 #	7,847	1,156	39,288 #	13,224	2,391
v) Asset Reconstruction Companies (ARCs)	–	–	–	368	–	14,506

– : Nil/Negligible.
: Number of notices issued under Section 13(2) of the SARFAESI Act.
* : The scheme was operational up to July 31, 2004 and the last date for processing of application was October 31, 2004.

3.75 In view of several options available to banks for dealing with NPAs, banks have been able to recover a significant amount of NPAs (Table III.26). An improved industrial climate contributed to a better recovery position. The recourse to aggressive restructuring by banks in 2004-05 also helped in reducing the level of NPAs.

3.76 The setting up of the Asset Reconstruction Corporation of India (ARCIL) has provided a major boost to banks' efforts to recover their NPAs. During 2004-05, several banks and certain FIs sold their NPAs to the ARCIL to the extent of Rs.15,343 crore (Table III.27)

Movements in Provisions for Non-performing Assets

3.77 Write-offs and write back of excess provisions by SCBs exceeded the provisions made during the year leading to a decline in the cumulative provisions made for NPAs. The cumulative provisions at end-March 2005 were lower than their respective levels at end-March 2004 in respect of all bank groups, barring old private sector banks. However, in view of decline in gross NPAs, the cumulative provisions made to cushion the NPAs increased to 59.7 per cent at end-March 2005 from 56.6 per cent at end-March 2004. The cushion of provisions against NPAs improved despite the improvement in recovery climate and credit risk environment as reflected in the robust macroeconomic environment. The cumulative provisions as percentage of gross NPAs was the highest for foreign banks at end-March 2005, followed by public sector banks, old private banks and new private banks (Table III.28).

Table III.27: Details of Financial Assets Acquired by ARCIL
(As on March 31, 2005)

(Amount in Rs. crore)

Bank/FIs	No. of cases	Principal debt acquired	Interest and other charges	Total Dues pur-chased
1	2	3	4	5
Public Sector Banks	314	2,584	2,920	5,504
Old Private Sector Banks	11	153	84	237
New Private Sector Banks	132	4,436	4,329	8,765
Financial Institutions	12	386	450	837
Total	**368**	**7,559**	**7,783**	**15,343**

Note : Figures in brackets are percentage variations over the previous year.

3.78 A significant improvement in recovering the NPAs combined with a sharp increase in gross loans and advances for SCBs led to a sharp decline in gross NPAs to gross advances ratio to 5.2 per cent at end-March 2005 from 7.2 per cent at end-March 2004. The decline in gross and net NPAs was evident across all bank groups (Table III.29 and Appendix Tables III.25 and III.26).

3.79 Net NPAs ratio was the highest in respect of old private sector banks at end-March 2005 (2.7 per cent), followed by public sector banks, new private banks and foreign banks. At end-March 2005, 51 banks (as against 38 last year) out of 88 had net NPAs to net advances ratio less than 2 per cent. The number of banks with net NPAs to net advances ratio more than 10 per cent declined to four at end-March 2005 as compared

Table III.28: Movements in Provisions for Non-performing Loans – Bank Group-wise

(Amount in Rs. crore)

Particulars	Scheduled Commercial Banks (87)	Scheduled Commercial Banks (88)#	Nationa-lised Banks (19)	State Bank Group (8)	Public Sector Banks (27)	Public Sector Banks (28)#	Old Private Sector Banks (20)	New Private Sector Banks (9)	Foreign Banks (31)
1	2	3	4	5	6	7	8	9	10
Provision for NPAs									
As at end-March 2004	35,735	36,199	20,619	9,030	29,649	30,113	2,069	2,431	1,585
Add : Provision made during the year	11,498	11,630	5,946	1,977	7,923	8,055	568	2,364	642
Less : Write-off, write back of excess during the year	12,070	12,297	5,380	2,797	8,177	8,404	441	2,601	852
As at end-March 2005	35,162	35,531	21,185	8,210	29,395	29,764	2,197	2,195	1,376
Memo:									
Gross NPAs	58,300	59,516	31,709	15,616	47,325	48,541	4,206	4,576	2,192
Ratio:									
Cumulative Provision to Gross NPAs (per cent)	60.3	59.7	66.8	52.6	62.1	61.3	52.2	48.0	62.8

: Including the impact of conversion of a non-banking entity into a banking entity.
Note : Figures in brackets indicate the number of banks in that group for the year 2004-05.
Source : Balance sheets respective banks.

with nine in the previous year. All four banks belong to the foreign banks group (Table III.30).

3.80 With provisioning for NPAs being somewhat lower during 2004-05, the decline in

Table III.29: Gross and Net NPAs of Scheduled Commercial Banks – Bank Group-wise
(As at end-March)

(Amount in Rs. crore)

Bank Group/Year	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Per cent to Gross Advances	Per cent to total Assets		Amount	Per cent to Net Advances	Per cent to total Assets
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
2002	6,80,958	70,861	10.4	4.6	6,45,859	35,554	5.5	2.3
2003	7,78,043	68,717	8.8	4.0	7,40,473	32,671	4.4	1.9
2004	9,02,026	64,785	7.2	3.3	8,62,643	24,615	2.9	1.2
2005	11,10,986	58,300	5.2	2.6	10,74,044	21,441	2.0	0.9
2005 #	11,52,682	59,516	5.2	2.5	11,15,663	22,289	2.0	0.9
Public Sector Banks								
2002	5,09,368	56,473	11.1	4.9	4,80,681	27,958	5.8	2.4
2003	5,77,813	54,090	9.4	4.2	5,49,351	24,867	4.5	1.9
2004	6,61,975	51,538	7.8	3.5	6,31,383	18,860	3.0	1.3
2005	8,36,128	47,325	5.7	2.8	8,07,293	16,642	2.1	1.0
2005 #	8,77,825	48,541	5.5	2.7	8,48,912	17,490	2.1	1.0
Old Private Sector Banks								
2002	44,057	4,851	11.0	5.2	42,286	3,013	7.1	3.2
2003	51,329	4,550	8.9	4.3	49,436	2,740	5.5	2.6
2004	57,908	4,393	7.6	3.6	55,648	2,140	3.8	1.8
2005	70,412	4,206	6.0	3.2	67,742	1,859	2.7	1.4
New Private Sector Banks								
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
2004	1,19,511	5,961	5.0	2.4	1,15,106	2,717	2.4	1.1
2005	1,27,420	4,576	3.6	1.6	1,23,655	2,292	1.9	0.8
Foreign Banks in India								
2002	50,631	2,726	5.4	2.4	48,705	920	1.9	0.8
2003	54,184	2,845	5.3	2.4	52,171	921	1.8	0.8
2004	62,632	2,894	4.6	2.1	60,506	898	1.5	0.7
2005	77,026	2,192	2.8	1.4	75,354	648	0.9	0.4

: Including the impact of conversion of a non-banking entity into a banking entity.
Note : Constituent items may not add up to the totals due to rounding- off.
Sources : 1. Balance sheets of respective banks.
2. Returns submitted by respective banks.

Table III.30: Distribution of Scheduled Commercial Banks by Ratio of Net NPAs to Net Advances

(Number of banks)

Bank Group	As at end-March				
	2001	2002	2003	2004	2005
1	2	3	4	5	6
Public Sector Banks	**27**	**27**	**27**	**27**	**28**
Up to 2 per cent	1	–	4	11	19
Above 2 and up to 5 per cent	5	9	14	13	7
Above 5 and up to 10 per cent	16	15	7	3	2
Above 10 per cent	5	3	2	–	–
Old Private Sector Banks	**23**	**22**	**21**	**20**	**20**
Up to 2 per cent	1	2	2	2	4
Above 2 and up to 5 per cent	4	2	4	9	12
Above 5 and up to 10 per cent	11	13	13	7	4
Above 10 per cent	7	5	2	2	–
New Private Sector Banks	**8**	**8**	**9**	**10**	**9**
Up to 2 per cent	1	1	3	4	5
Above 2 and up to 5 per cent	5	3	2	5	3
Above 5 and up to 10 per cent	2	4	3	–	1
Above 10 per cent	–	–	1	1	–
Foreign Banks	**42**	**40**	**36**	**33**	**31**
Up to 2 per cent	21	21	20	21	23
Above 2 and up to 5 per cent	6	4	2	3	2
Above 5 and up to 10 per cent	4	1	6	3	2
Above 10 per cent	11	14	8	6	4

– : Nil/Negligible.

the NPA ratio was attributable to both increased recovery of NPAs and overall reduction in asset slippages. In absolute terms, non-performing assets in 'doubtful' category increased, while those in sub-standard category declined sharply, reflecting the change in asset classification norm from the year ended March 2005, whereby an asset was treated as doubtful if it remained as NPA for 12 months as against the earlier norm of 18 months. However, NPAs in doubtful category as percentage of net advances declined significantly (Table III.31).

Sector-wise NPAs

3.81 NPAs of public and private sector banks are classified in three broad sectors, *viz.*, priority sector, public sector and non-priority sector. The share of NPAs in the priority sector to total NPAs of public sector banks increased marginally to 48.9 per cent at end-March 2005 from 47.5 per cent at end-March 2004. However, the share of NPAs of small scale industries in respect of PSBs declined. While the share of NPAs of non-priority sector increased during 2004-05, the share of NPAs of public sector undertakings declined (Table III.32).

3.82 As regards private sector banks, the share of NPAs on account of all the three components of priority sector, *viz.*, agriculture, small scale industries and other priority sector increased during 2004-05 as compared with 2003-04. The absolute amount of NPAs in each of these sectors, however, registered a decline during the year. The share of non-priority sector NPAs in total NPAs of private sector banks remained steady at 75.0 per cent during 2004-05. Bank-wise details of advances to agriculture and weaker sections and NPAs arising out of weaker sections are furnished in Appendix Tables III.27 (A) and III.27 (B) and Appendix Tables III.28(A) and III.28(B), respectively.

Movements in Provisions for Depreciation on Investments

3.83 The provisions for depreciation on investments increased significantly by 81.4 per cent during 2004-05. Provisions made during the year were much in excess of the write-offs and write back of excess provisions. As a result, cushion of total provisions for investment portfolio 'held for trading' and 'available for sale' categories improved to 1.7 per cent at end-March 2005 from 0.7 per cent at end-March 2004. With higher provisioning for

Table III.31: Classification of Loan Assets – Bank Group-wise
(As at end-March)

(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											
2002	6,09,972	89.6	21,382	3.1	41,201	6.1	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
2004	8,37,130	92.8	21,026	2.3	36,247	4.0	7,625	0.8	64,898	7.2	9,02,027
2005	10,93,523	94.9	14,016	1.2	37,763	3.3	7,382	0.6	59,161	5.1	11,52,684
Public Sector Banks											
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
2004	6,10,435	92.2	16,909	2.6	28,756	4.3	5,876	0.9	51,541	7.8	6,61,975
2005	8,30,029	94.6	11,068	1.3	30,799	3.5	5,929	0.7	47,796	5.4	8,77,825
Old Private Sector Banks											
2002	39,262	89.0	1,834	4.2	2,668	6.0	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
2004	53,516	92.4	1,161	2.0	2,727	4.7	504	0.9	4,392	7.6	57,908
2005	66,212	94.0	784	1.1	2,868	4.1	549	0.8	4,201	6.0	70,413
New Private Sector Banks											
2002	70,010	91.1	2,904	3.8	3,871	5.0	41	0.1	6,816	8.9	76,826
2003	87,487	92.4	2,700	2.9	3,675	3.9	856	0.9	7,231	7.6	94,718
2004	1,13,560	95.0	1,966	1.6	3,665	3.1	321	0.3	5,952	5.0	1,19,512
2005	1,22,577	96.2	1,449	1.1	3,061	2.4	334	0.3	4,844	3.8	1,27,421
Foreign Banks											
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
2004	59,619	95.2	990	1.6	1,099	1.8	924	1.5	3,013	4.8	62,632
2005	74,705	97.0	715	0.9	1,035	1.3	570	0.7	2,320	3.0	77,025

Note: Constituent items may not add up to the totals due to rounding off.
Source : DSB Returns(BSA) submitted by respective banks.

depreciation on investment, banks have made significant progress towards appropriate management of risks in their investment portfolio in a rising interest rate scenario. New private sector banks, on the other hand, wrote-back their provisions, reflecting the higher proportion of investments with lower tenor of investments in the 'AFS' category (Table III.33).

Table III.32: Sector-wise NPAs – Bank Group-wise
(As at end-March)

(Amount in Rs. crore)

Country	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		All SCBs*	
	2004	2005	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9
A. Priority Sector	23,840	23,397	1,802	1,782	681	407	26,323	25,586
i) Agriculture	7,240	7,254	288	304	171	161	7,699	7,719
ii) Small Scale Industries	8,838	7,835	859	792	404	172	10,101	8,799
iii) Others	7,762	8,308	655	686	106	73	8,523	9,067
B. Public Sector	610	450	8	8	66	34	684	493
C. Non-Priority Sector	25,698	23,849	2,591	2,444	5,205	4,125	33,494	30,417
Total (A+B+C)	**50,148**	**47,696**	**4,401**	**4,234**	**5,952**	**4,566**	**60,501**	**56,496**

* : Excluding Foreign Banks.
Source: Based on off-site returns submitted by banks.

Table III.33: Movements in Provisions for Depreciation on Investment – Bank Group-wise

(Amount in Rs. crore)

Particulars	Scheduled Commercial Banks (87)	Scheduled Commercial Banks (88)#	Nationalised Banks (19)	State Bank Group (8)	Public Sector Banks (27)	Public Sector Banks (28)#	Old Private Sector Banks (20)	New Private Sector Banks (9)	Foreign Banks (31)
1	2	3	4	5	6	7	8	9	10
Provision for Depreciation on Investment As at end-March 2004	4,620	4,684	1,043	1,853	2,897	2,960	152	1,134	437
Add : Provision made during the year	7,504	7,504	1,998	4,308	6,306	6,306	660	107	431
Less : Write-off, write back of excess during the year	3,742	3,763	1,070	1,587	2,657	2,677	443	563	80
As at end-March 2005	8,381	8,425	1,972	4,574	6,546	6,590	369	678	788
Memo : Investment Portfolio (AFT+HFT)	4,97,163	5,03,720	2,23,963	1,71,181	3,95,144	4,01,701	20,943	42,495	38,581
Cumulative Provision to Investment Portfolio	1.7	1.7	0.9	2.7	1.7	1.6	1.8	1.6	2.0

: Including the impact of conversion of a non-banking entity into a banking entity.

Note : Figures in brackets indicate the number of banks in that group for the year 2004-05.

Source : Balance sheets of respective banks.

Investment Fluctuation Reserve (IFR)

3.84 As treasury profits are sensitive to fluctuations in interest rates, banks have been advised to set aside a part of this income as investment fluctuation reserve (IFR). The IFR, created as a revaluation reserve, is a below-the-line item and is a charge on net profit. Banks which maintained CRAR of at least 9 per cent of the risk-weighted assets for both credit and market risks for both 'available for sale' (AFS) and 'held for trade' (HFT) categories were allowed to treat the IFR in excess of the 5 per cent of the investment portfolio as Tier-I capital. In terms of recent guidelines, banks fulfilling the above conditions would be allowed effective March 31, 2006 to treat the entire balance under the IFR as Tier-I capital and transfer the balance in the IFR from 'below the line' in the Profit and Loss Appropriation Account to Statutory Reserve, General Reserve or balance of Profit and Loss Account (also see Chapter 2).

3.85 At end-March 2005, the IFR ratio (IFR defined as a percentage of investments under AFS and HFT categories) for SCBs increased sharply to 4.4 per cent from 3.0 cent at end-March 2004. However, the increase in IFR ratio was not as much due to increase in the absolute amount of IFR as due to transfer of an additional amount of securities from the trading book to the 'held to maturity' category in excess of 25 per cent of total investments. The increase was evident across all bank groups. However, the IFR stood highest for old private sector banks and PSBs, followed by new private banks and foreign banks. While banks are required to build up an IFR portfolio of a minimum of five per cent of their investments in the trading book by 2007, 16 banks within the PSB group have already achieved the target (Table III.34, and Appendix Table III.29).

Capital Adequacy

3.86 The overall CRAR of SCBs at 12.8 per cent at end-March 2005 was more or less at the previous year's level (12.9 per cent). The ratio continued to be significantly above the stipulated minimum even after satisfying the new requirements pertaining to the capital charge for market risk (Table III.35). Tier-I component showed some improvement during the year despite the fact that there was a portfolio shift away from the SLR securities to the credit during the current year. The sharp increase in the credit portfolio coupled with the higher risk weight made applicable for housing and consumer loans led to a significant rise in the risk weighted assets by 33.4 per cent. However, banks' capital base kept pace with the sharp rise in risk-weighted assets. This, to an extent, was achieved by increased access to the domestic and international capital markets (see also Section 6).

3.87 The CRAR has increased steadily over the years. While most of the increase between end-March 1998 and end-March 2002 resulted from increase

Table III.34: Investment Fluctuation Reserves – Bank Group-wise
(As at end-March 2005)

(Amount in Rs. crore)

Bank Group	Investment		Investment Fluctuation Reserve (IFR)	IFR as percentage to (AFS+HFT)
	Available for sale (AFS)	Held for Trading (HFT)		
1	2	3	4	5
Scheduled Commercial Banks	**4,80,055** **(4,86,105)**	**14,032** **(14,539)**	**21,732** **(22,124)**	**4.4** **(4.4)**
Public Sector Banks	3,99,853	1,819	18,124	4.5
Nationalised Banks	2,23,261	672	10,449	4.7
State Bank Group	1,70,541	639	7,284	4.3
Other Public Sector Bank	6,050	507	392	6.0
Old Private Sector Banks	20,642	301	966	4.6
New Private Sector Banks	31,536	7,913	1,469	3.7
Foreign Banks	34,075	4,507	1,565	4.1

Note : Figures within parentheses include the impact of conversion of a non-banking entity into a banking entity.
Sources : 1. DSB Returns (Domestic and Provisional)
2. Balance sheets of respective banks.

in Tier-II component, the mix of Tier-I and Tier-II capital has remained broadly stable thereafter with Tier-I component being roughly two-thirds of total CRAR (Chart III.22). To maintain the CRAR, banks have relied mainly on retained earnings, although some banks have tended to supplement their retained earnings with capital issues.

Table III.35: Scheduled Commercial Banks – Component-wise CRAR
(As at end-March)

(Amount in Rs. crore)

Item / Year	2003	2004	2005
1	2	3	4
A) Capital Funds (i + ii)	1,07,058	1,25,249	1,65,928
i) Tier-I Capital	71,416	78,550	1,08,949
of which:			
Paid up Capital	21,594	22,348	25,905
Reserves	57,648	65,948	91,320
Unallocated/Remittable Surplus	4,194	4,983	6,937
Deductions for Tier-I Capital	11,646	14,403	15,031
ii) Tier-II Capital	35,643	46,699	56,979
of which:			
Discounted Subordinated Debt	18,482	20,011	26,291
Investment Fluctuation Reserve	9,635	18,920	21,732
B) Risk-weighted Assets	8,44,402	9,69,886	12,96,223
of which:			
Risk-weighted Loans and Advances	5,65,799	6,59,921	9,19,544
C) CRAR (A as per cent of B)	12.7	12.9	12.8
of which: Tier-I	8.5	8.1	8.4
Tier-II	4.2	4.8	4.4

Source: Off-site returns submitted by banks.

3.88 Among bank groups, the CRAR of new private sector banks improved significantly which brought them closer to other bank groups. Within the public sector banks, the CRAR of nationalised banks registered a marginal improvement during the year. The CRAR of the State Bank group, old private sector banks and foreign banks declined (Table III.36).

Chart III.22: CRAR of Scheduled Commercial Banks
(As at end-March)

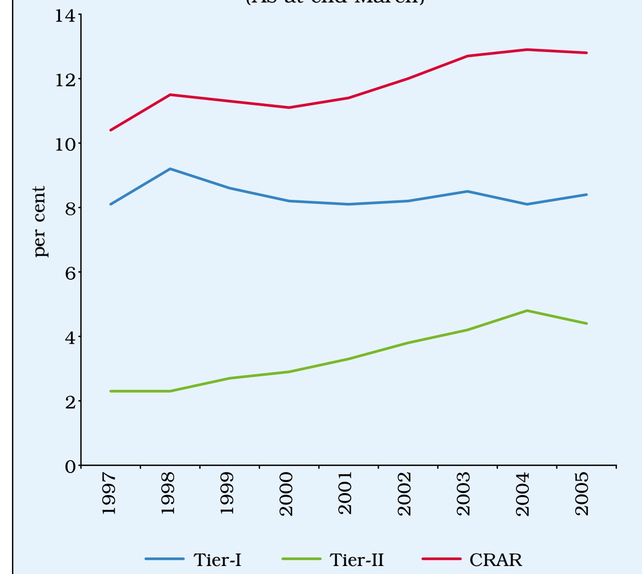


Table III.36: Captial Adequacy Ratio – Bank Group-wise
(As at end-March)

(Per cent)

Bank Group	1998	1999	2000	2001	2002	2003	2004	2005
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks	11.5	11.3	11.1	11.4	12.0	12.7	12.9	12.8
Public Sector Banks	11.6	11.3	10.7	11.2	11.8	12.6	13.2	12.9
Nationalised Banks	10.3	10.6	10.1	10.2	10.9	12.2	13.1	13.2
State Bank Group	14.0	12.3	11.6	12.7	13.3	13.4	13.4	12.4
Old Private Sector Banks	12.3	12.1	12.4	11.9	12.5	12.8	13.7	12.5
New Private Sector Banks	13.2	11.8	13.4	11.5	12.3	11.3	10.2	12.1
Foreign Banks	10.3	10.8	11.9	12.6	12.9	15.2	15.0	14.0

Source : Off-site returns submitted by banks.

3.89 The CRAR of five largest banks, which accounted for 39.6 per cent of total assets of SCBs behaved in a divergent manner. While CRAR of three SCBs witnessed a moderate to sharp increase, that of two other banks registered a significant decline (Chart III.23).

3.90 At the individual bank level, barring two banks in the old private sector group, accounting for a negligible 0.3 per cent of the total assets of the SCBs, the CRAR of all other banks was above the minimum capital requirement of nine per cent (Table III.37 and Appendix Table III.30).

6. Banks' Operations in the Capital Market

3.91 In an increasingly market oriented environment, banks need to continuously raise capital to sustain the growth in their operations. Several banks, therefore, accessed the capital

Chart III.23: CRAR of Five Largest Banks
(As at end-March)

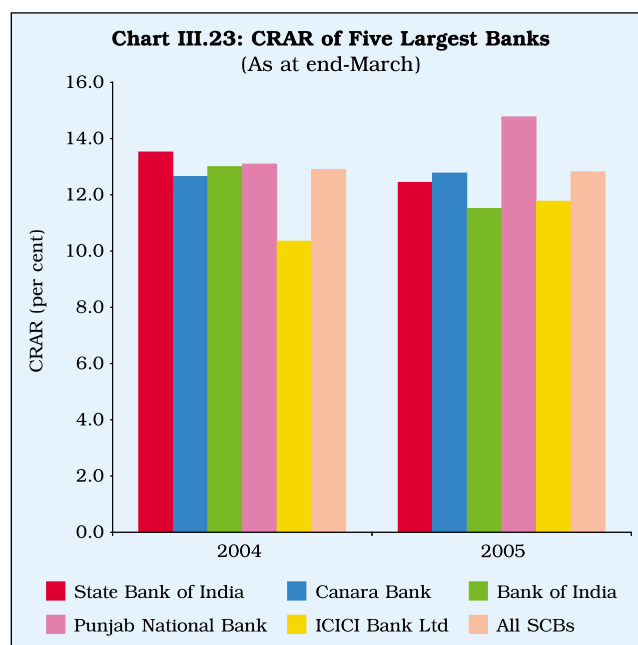


Table III.37: Distribution of Scheduled Commercial Banks by Capital Adequacy Ratio
(As at end-March)

(Number of banks)

Bank Group	2004				2005			
	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
Nationalised Banks	–	–	1	18	–	–	2	17
State Bank Group	–	–	–	8	–	–	–	8
Other Public Sector Bank	–	–	–	–	–	–	–	1
Old Private Sector Banks	–	–	–	20	1	1	3	15
New Private Sector Banks	1	1	–	8	–	–	2	7
Foreign Banks	–	–	–	33	–	–	1	30
Total	**1**	**1**	**1**	**87**	**1**	**1**	**8**	**78**

– : Nil/Negligible.

Table III.38: Public Issues by the Banking Sector

(Amount in Rs. crore)

Year	Public Sector Banks		Private Sector Banks		Total		Grand Total
	Equity	Debt	Equity	Debt	Equity	Debt	
1	2	3	4	5	6	7	8
2003-04	1,104	–	–	1,352	1,104	1,352	2,456
2004-05	3,336	–	4,108	1,478	7,444	1,478	8,922

– : Nil/Negligible.

market during 2004-05 to strengthen their capital base.

Resources raised by Banks from the Primary Capital Market

3.92 Scheduled commercial banks, both in public and private sectors, raised large resources from the domestic and international capital markets. Total resource mobilisation by banks through public issues (excluding offer for sale) in the domestic capital market increased sharply by 263.3 per cent during 2004-05. Encouraged by a firm trend in the prices of the banking sector scrips in the secondary market and satisfactory financial results, seven banks raised Rs.7,444 crore from the equity market during 2004-05. This included two equity issues aggregating Rs.3,336 crore (including premium) by public sector banks and five equity issues aggregating Rs.4,108 crore by private sector banks (Table III.38).

3.93 Two public sector banks accessing the capital market were Punjab National Bank and Dena Bank (Table III.39). Five private sector banks which floated equity issues during the year were ICICI Bank (Rs.3500 crore), ING Vysya Bank (Rs.307 crore), Karnataka Bank Ltd. (Rs.162 crore), Centurion Bank (Rs.91 crore) and South Indian Bank Ltd. (Rs.48 crore). Besides, two private sector banks (UTI Bank and Centurion Bank) also raised Rs.1,472 crore by way of GDR issues in the international market during the year.

Table III.39: Resources Raised by Public Sector Banks through Public Issues – 2004-05

(Amount in Rs. crore)

Name of the Bank	Face Value (Rs.)	Issue Price (Rs.)	Size of issue (Rs. crore)		
			Amount	Premium	Total
1	2	3	4	5	6
Dena Bank	10	27	80	136	216
Punjab National Bank	10	390	80	3,040	3,120
Total					**3,336**

3.94 Some banks also raised resources from the private corporate debt market. IDBI Bank and ICICI Bank together raised Rs.2,456 crore by way of debt issues during the year. This consisted of two issues by IDBI (for Rs.2,390 crore) and three issues by ICICI (for Rs.1,478 crore). During the year, State Bank of India for the first time entered the international capital market with its Medium Term Note (MTN) on December 1, 2004, issuing bonds for US $ 400 million with a tenor of five years.

3.95 Resources raised by banks through debt issues in the private placement market also increased sharply by 59.3 per cent during the year (Table III.40).

Performance of Banking Stocks in the Secondary Market

3.96 The stock markets in India witnessed buoyant conditions in the last two years on the back of strong FII inflows, driven mainly by robust macroeconomic fundamentals and improvement in corporate profitability. Recovering from the sharp decline witnessed on May 17, 2004, the BSE Sensex touched a peak of 6,915 on March 8, 2005, before closing 6,493 at end-March 2005. The rally in stock markets continued in the current year with the BSE Sensex closing at an all-time high level of 8999.96 on October 4, 2005. However, subsequently the BSE Sensex declined by about 10 per cent to 7920.80 by October 24, 2005 due

Table III.40: Resources Raised by Banks through Private Placements

(Amount in Rs. crore)

Category	2003-04		2004-05	
	No. of Issues	Amount Raised	No. of Issues	Amount Raised
1	2	3	4	5
Private Sector Banks	63	2,895	34	5,604
Public Sector Banks	16	3,728	21	4,948
Total	**79**	**6,623**	**55**	**10,552**

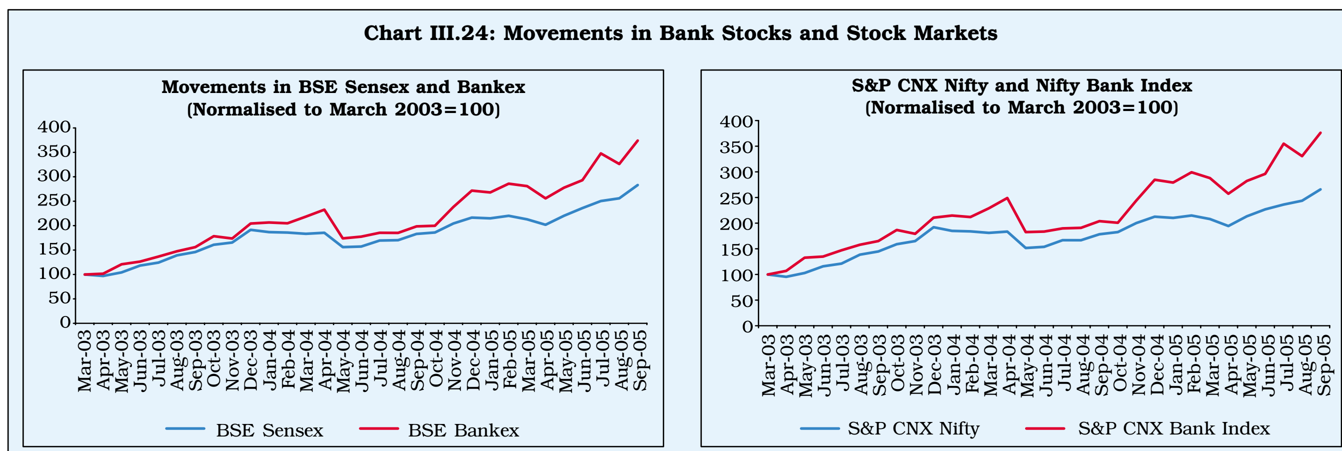


Chart III.24: Movements in Bank Stocks and Stock Markets

to profit-taking at higher levels, slowdown in FII investments and downward movements in major international markets.

3.97 In line with the general uptrend, banking sector stocks also remained firm. Apart from favourable macroeconomic fundamentals, bank stocks were driven up by some sector-specific developments. The progress of the banking sector reforms along with improvement in bank's balance sheets resulted in increased interest in bank stocks. These also benefited from several other positive factors such as the implementation of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, permission to foreign banks to acquire up to 75 per cent in the weaker private sector banks and the news about the Union Cabinet's approval to amend the Banking Regulation Act, 1949 to lift the 10 per cent voting rights cap in private sector banks and to amend the law to enable banking companies to issue preference shares. Satisfactory financial performance by public sector and new private sector banks despite rise in interest rates was another factor that led to increased interest in bank stocks. Some bank stocks attracted buying interest in anticipation of a takeover or merger.

Table III.41: Return on Banking Stocks*

Year	BSE Sensex	BSE 500	BSE Bankex
1	2	3	4
2002-03	-12.1	-8.0	16.2
2003-04	83.4	109.4	118.6
2004-05	16.1	21.9	28.6
2005-06 (April-September 2005)	33.0	28.8	33.2

* : Percentage variations in indices measured on a point-to-point basis.

3.98 Market participants, in general, revised upward their expectations of future earnings by banks. Reflecting this, the banking sector stocks outperformed the market during 2004-05 and during the current financial year up to September 30, 2005) (Table III.41).

3.99 The rise in the bank stocks was more pronounced in the latter half of the year [Chart III.24].

3.100 While the banking sector outperformed FMCG and PSU sectors, it underperformed the IT, consumer durables and capital good sectors (Table III.42).

Table III.42: Return on Bank Stocks *vis-à-vis* Other Sectoral Stocks *

(Per cent)

Year	Sensex	BSE 500	Sectoral Indices					
			Bankex	FMCG	IT	PSU	Capital Goods	Consumer Durables
1	2	3	4	5	6	7	8	9
2002-03	-12.1	-8.0	16.2	-23.5	-20.4	10.1	26.4	15.1
2003-04	83.4	109.4	118.6	31.3	29.2	148.1	147.3	68.4
2004-05	16.1	21.9	28.6	11.6	59.5	8.1	39.9	50.5

* : Percentage variations in indices measured on a point-to-point basis.

Table III.43: Performance of Bank Stocks – Risk and Return

Indices	Returns*		Volatility@	
	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5
Bankex	118.6	28.6	24.0	17.1
BSE Sensex	83.4	16.1	23.0	11.2

* : Percentage variations in indices on a point-to-point basis.
@ : Defined as coefficient of variation.
Note : Data pertain to CNX Bank Index, which is being calculated on a weekly basis.

3.101 The volatility (measured by co-efficient of variation) of bank stocks declined during the year, although banking stocks were somewhat more volatile than the market in general (Table III.43).

3.102 At a disaggregated level, the scrips of all private sector banks and a majority of public sector banks witnessed gains. Among the public sector banks, the major gainers during 2004-05 were: Allahabad Bank (139.7 per cent), Union Bank of India (92.3 per cent), Indian Overseas Bank (87.4 per cent), Punjab National Bank (69.7 per cent), Vijaya Bank (62.2 per cent) and Andhra Bank (52.8 per cent). Among the private sector banks, the major gainers during 2004-05 included Federal Bank (94.0 per cent), UTI Bank (81.1 per cent), IndusInd Bank (69.9 per cent) and Bank of Rajasthan (56.8 per cent). The price/earnings (P/E) ratio of both public and private sector banks ranges widely. At end-March 2005, while the P/E ratio of public sector banks ranged between 6.17 and 15.0, that of private sector banks ranged widely with some banks having negative P/E multiple (Table III.44).

3.103 Bank stocks now constitute a significant portion of market capitalisation of the Indian equity market, even though there was some slide in their share at end-March 2005 in comparison with end-March 2004 (Table III.45).

Shareholding Pattern in Public Sector Banks

3.104 Ownership in public sector banks is now well diversified. As at end-March 2005, the holding by general public in six banks ranged between 40 and 49 per cent and in 12 banks between 30 and 49 per cent. Only in four banks, the Government holding was more than 90 per cent (Table III.46 and Appendix Table III.31).

3.105 In recent years, general public has shown a keen interest in bank stocks. Foreign Institutions (Non-resident) [FI(NR)], in particular, have been buying heavily in some private sector bank stocks. As at end-March 2005, there were fifteen banks (nine public sector banks, four new private sector banks and two old private sector banks) in which

Table III.44: Share Prices and Price/Earnings Ratios of Bank Stocks at BSE

Name of the Bank	Average Daily Closing Prices (Rs.)		P/E Ratios	
			End-March	
	2003-04	2004-05	2004	2005
1	2	3	4	5
Public Sector Banks				
Allahabad Bank	21.5	51.5	2.4	6.2
Andhra Bank	41.1	62.8	4.4	8.3
Bank of Baroda	162.1	191.1	7.4	9.5
Bank of India	55.2	67.7	4.5	14.8
Canara Bank	119.2	163.6	4.4	7.4
Corporation Bank	206.8	297.6	8.0	12.4
Dena Bank	22.3	28.9	2.9	15.0
Indian Overseas Bank	30.4	57.0	6.0	6.4
Oriental Bank of Commerce	197.8	276.9	8.5	8.2
Punjab National Bank	190.3	322.9	8.0	8.8
Syndicate Bank	29.8	44.2	4.3	6.3
Union Bank of India	42.6	81.9	3.4	7.2
Vijaya Bank	34.0	55.2	6.5	7.3
State Bank of India	455.9	542.5	8.7	8.0
Private Sector Banks				
Bank of Rajasthan Ltd.	29.0	45.5	5.8	17.3
City Union Bank Ltd.	56.3	75.9	2.9	4.4
Federal Bank Ltd.	62.9	122.0	6.1	11.2
Jammu and Kashmir Bank Ltd.	281.0	329.8	5.9	15.3
Karnataka Bank Ltd.	36.1	52.9	4.0	5.8
Karur Vysya Bank Ltd.	276.1	360.6	4.0	7.0
Laxmi Vilas Bank Ltd.	98.4	136.9	–	–
South Indian Bank Ltd.	56.9	56.9	3.1	35.1
United Western Bank	28.2	34.8	3.2	-1.4
Vysya Bank Ltd.	131.7	129.3	18.3	-36.7
Bank of Punjab Ltd.	23.9	25.5	6.7	-5.4
Centurion Bank Ltd.	13.7	11.5	-4.9	62.2
Global Trust Bank Ltd.	22.0	17.2	–	–
HDFC Bank Ltd.	302.0	437.4	21.2	25.3
ICICI Bank Ltd.	212.0	309.7	11.1	14.4
IDBI Bank Ltd.	35.9	52.3	8.1	8.3
IndusInd Bank Ltd.	28.8	48.9	3.4	7.1
UTI Bank Ltd.	88.5	160.3	12.2	19.8

– : Not Available/Not Applicable.
Source: Money Line Telerate and Prowess Database.

Table III.45: Relative Share of Bank Stocks – Turnover and Market Capitalisation

(Per cent)

Year	Share of turnover of bank stocks in total turnover	Share of capitalisation of bank stocks in total market capitalisation
1	2	3
2003-04	4.96	9.09
2004-05	7.35	8.64

Note: Data for turnover and market capitalisation of banks relate to CNX banks.

Table III.46: Private Shareholding in Public Sector Banks*
(As on March 31, 2005)

Category	Number of Banks
1	2
Up to 10 per cent	4
More than 10 and up to 20 per cent	–
More than 20 and up to 30 per cent	5
More than 30 and up to 40 per cent	6
More than 40 and up to 49 per cent	6

– : Nil/Negligible.
* : Including 19 nationalised banks, State Bank of India and IDBI Ltd.

FI (NR) holding was more than 10 per cent. In one bank, FI (NR) holding was more than 70 per cent (Table III.47).

Table III.47: Foreign Financial Institutions (Non-resident) Shareholding in Indian Banks
(As on March 31, 2005)

Category	Number of Banks		
	Public Sector Banks	New Private Sector Banks	Old Private Sector Banks
1	2	3	4
Nil	14	3	15
Up to 10 per cent	5	2	3
More than 10 and up to 20 per cent	9	–	1
More than 20 and up to 30 per cent	–	1	1
More than 30 and up to 40 per cent	–	–	–
More than 40 and up to 50 per cent	–	2	–
More than 50 and up to 60 per cent	–	–	–
More than 60 and up to 70 per cent	–	–	–
More than 70 and up to 80 per cent	–	1	–

– : Nil/Negligible.

7. Technological Progress in Banks

3.106 Several banks have been positioning themselves as a one-stop shop financial service provider with a fairly exhaustive range of products, including deposit products, loans, credit cards, debit cards, depository (custody services), investment advice, bill payments and various transactional services. These apart, banks have also been entering into the business of selling third-party products such as mutual funds and insurance to the retail customers. To provide their customers greater flexibility and convenience as well as to reduce servicing costs, banks have been investing to computerise their branches and in new delivery channels such as ATMs, phone banking, internet banking and mobile banking.

Table III.48: Computerisation in Public Sector Banks
(As on March 31, 2005)

(Per cent)

	1	2
i)	Branches already Fully Computerised#	60.0
ii)	Branches Under Core Banking Solution	11.0
iii)	Fully Computerised Branches (i + ii)	71.0
iv)	Partially Computerised Branches	21.8

: Other than branches under Core Banking Solution.

3.107 As on March 31, 2005, public sector banks had incurred an expenditure of Rs.9,487 crore on computerisation and development of communication networks (Appendix Table III.32). Computerisation of banking business has received high importance in recent years. While new private sector banks, foreign banks and a few older private sector banks have already put in place "core banking solutions", public sector banks are adopting similar systems. The directive by the Central Vigilance Commission (CVC) to achieve 100 per cent computerisation has resulted in renewed vigour in these banks towards fulfilment of this requirement which could go a long way to improve customer service. All PSBs, except eight, had achieved 100 per cent fully/partially computerisation of their branches. As at end-March 2005, more than 90 per cent branches of public sector banks were fully or partially computerised (Table III.48 and Appendix Table III.33).

3.108 Out of 27 public sector banks, as many as nine public sector banks had 100 per cent computerised branches. Nineteen banks had more than 50 per cent computerised branches (Table III.49).

Table III.49: Computerisation of Branches – Public Sector Banks*
(As on March 31, 2005)

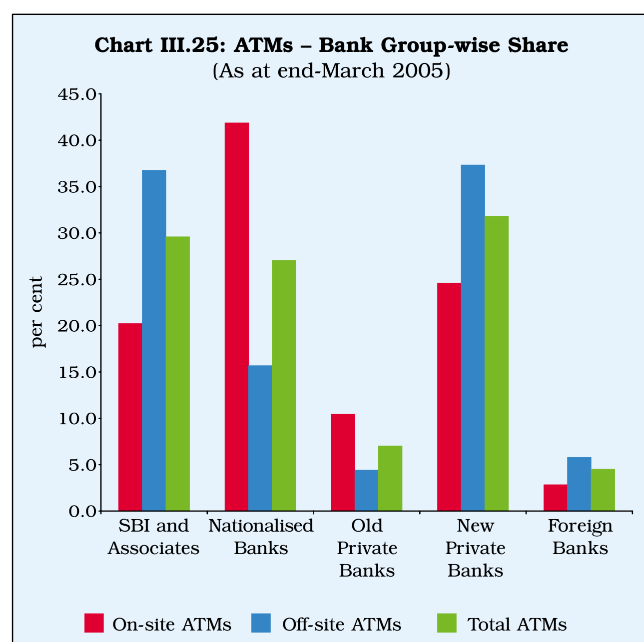
Extent of Computerisation	Number of Banks
1	2
Nil	–
Up to 10 per cent	1
More than 10 and up to 20 per cent	1
More than 20 and up to 30 per cent	3
More than 30 and up to 40 per cent	–
More than 40 and up to 50 per cent	3
More than 50 and up to 60 per cent	3
More than 60 and up to 70 per cent	1
More than 70 and up to 80 per cent	2
More than 80 and up to 90 per cent	2
More than 90 and less than 100 per cent	2
Fully Computerised	9
Total	**27**

– : Nil/Negligible.
* : Excluding other public sector bank.

Table III.50: Branches and ATMs of Scheduled Commercial Banks
(As at end-March 2005)

Bank Group	Number of Branches					Number of ATMs			Per cent of Off-site ATMs to total branches
	Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total	
1	2	3	4	5	6	7	8	9	10
Total (i to v)	**20,170**	**13,218**	**11,046**	**9,292**	**53,726**	**7,654**	**9,988**	**17,642**	**18.6**
i) Nationalised Banks	13,588	7,291	6,935	5,813	33,627	3,205	1,567	4,772	4.7
ii) State Bank Group	5,480	4,080	2,334	1,767	13,661	1,548	3,672	5,220	26.9
iii) Old Private Sector Banks	994	1,499	1,150	868	4,511	800	441	1,241	9.8
iv) New Private Sector Banks	108	348	589	640	1,685	1,883	3,729	5,612	221.3
v) Foreign Banks	–	–	38	204	242	218	579	797	239.3

– : Nil/Negligible.



3.109 Total number of ATMs installed in the country was 17,642 at end-March 2005. New private sector banks constituted the largest share of ATMs, followed by the SBI group, nationalised banks, old private sector banks and foreign banks. While nationalised banks and old private sector banks had more on-site ATMs than off-site ATMs, SBI group, new private sector banks and foreign banks had more off-site ATMs than on-site ATMs (Chart III.25).

3.110 Off-site ATMs as percentage to total branches was the highest in the case of foreign banks, followed by new private sector banks, SBI group, old private sector banks and nationalised banks (Table III.50 and Appendix Table III.34).

3.111 Although cash continues to be used heavily in retail transactions in India, the use of cheques and several other payment instruments such as credit cards, debit cards and smart cards, on the whole, has been increasing in recent years. The use of payment cards, both in volume and value terms, more than doubled in 2004-05. The use of electronic payments in the form of ECS, EFT and SEFT is also on increase (Table III.51).

Table III.51: Retail Electronic and Card-based Payments

(Value in Rs. crore)

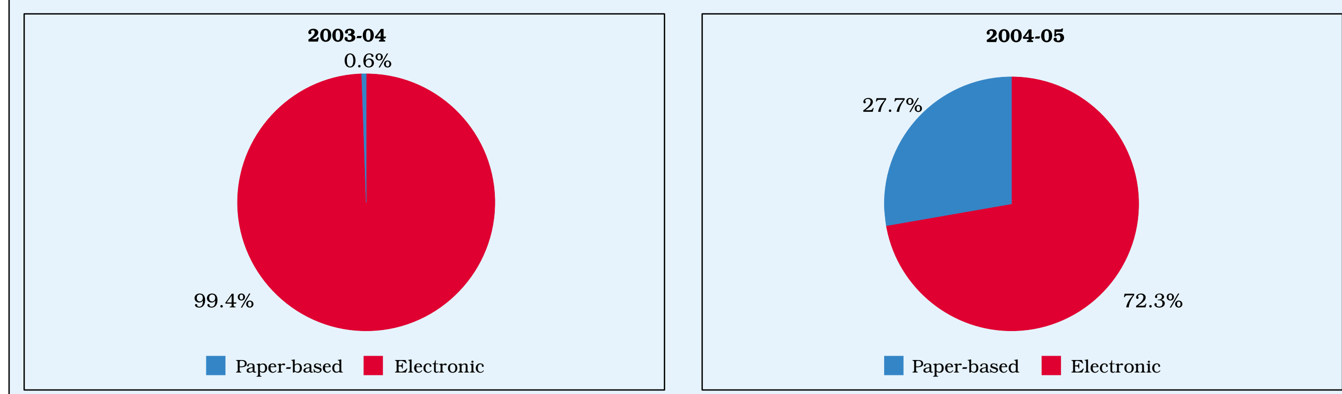
Year	Retail Electronic@		Card-based #		Total	
	Volume	Value	Volume	Value	Volume	Value
1	2	3	4	5	6	7
2000-01	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2001-02	17,770	6,123	N.A.	N.A.	17,770	6,123
2002-03	23,660	10,222	N.A.	N.A.	23,660	10,222
2003-04	29,046	29,933	1,85,501	35,870	2,14,547	65,803
2004-05	57,071	79,479	3,62,040	77,120	4,19,111	2,30,500

N.A. : Not Available.
@ : ECS (Debit and Credit), EFT and SEFT.
# : Credit cards, debit cards and smart cards.
Note : Volume represents number of transactions.

Table III.52: Paper-based *versus* Electronic Transactions

Year	Volume (in million)			Value (Rs. crore)		
	Paper-based	Electronic	Total	Paper-based	Electronic	Total
1	2	3	4	5	6	7
2002-03	1,014	173	1,187	1,34,24,313	37,536	1,34,61,849
2003-04	1,023	224	1,247	1,15,94,976	67,352	1,16,62,328
2004-05	1,125	432	1,557	1,10,47,052	42,24,746	1,52,71,798

Chart III.26: Paper-based *versus* Electronic Transactions-Relative Flows (Value)



3.112 As a result of sharp increase in RTGS and other electronic transactions, the proportion of electronic transactions both in volume and value terms has increased sharply (Table III.52 and Chart III.26). Electronic payments are cheaper as they have lower production cost than paper-based instruments. They can also be carried out faster in comparison with paper-based transactions. The increased use of electronic payments has thus increased the efficiency of the payment system.

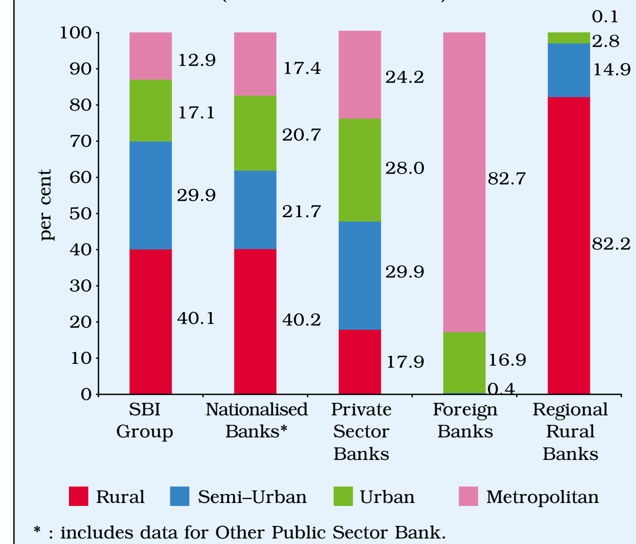
8. Regional Spread of Banking

3.113 The total number of branches of SCBs at end-June 2005 was 68,316 comprising 32,091 rural branches, 15,387 semi-urban branches and 20,838 urban and metropolitan branches. The share of rural branches declined further to 47.0 per cent during 2004-05 from 47.7 per cent of the previous year. In recent years, a number of new branches have been opened in urban and metropolitan area, while the share of semi-urban branches has remained more or less unchanged. As a result, the share of urban and metropolitan branches in total branches has increased, while that of rural branches declined (Chart III.27 and Appendix Table III.35).

3.114 The share of top hundred centres in aggregate deposits and gross bank credit increased during 2004-05, reflecting the increase in share of offices and branches. The share of top hundred centers in credit was higher than their shares in deposits, implying that deposits raised in other centres were deployed to meet the high credit demand at these centers (Table III.53).

3.115 The Southern region continued to account for the highest percentage of existing bank

Chart III.27: Bank Group-wise Distribution of Branches of Scheduled Commercial Banks
(As at end-June 2005)



* : includes data for Other Public Sector Bank.

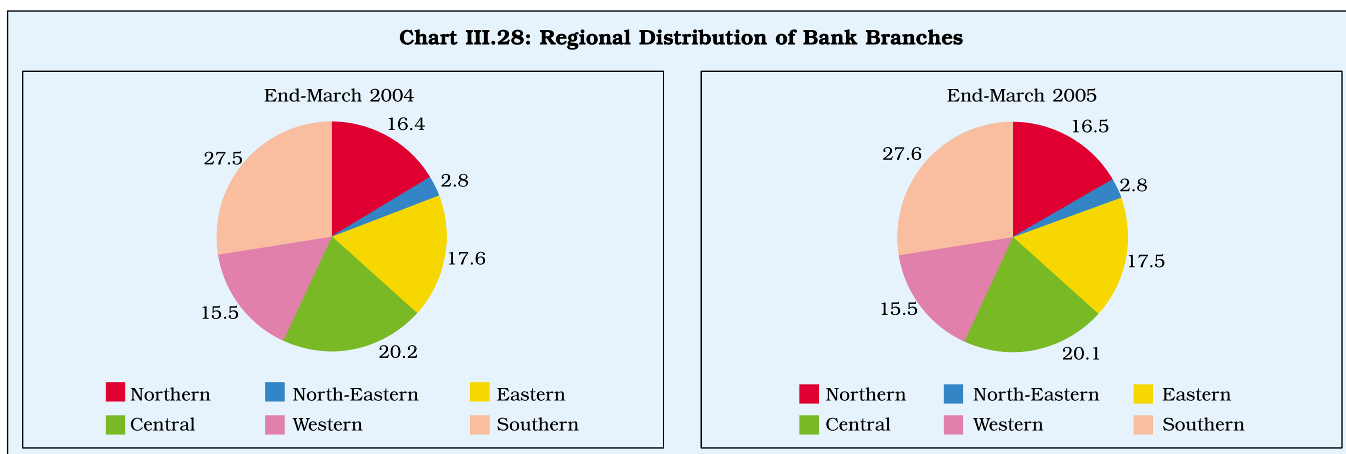


Table III.53: Share of Top Hundred Centres in Aggregate Deposits and Gross Bank Credit

(Per cent)

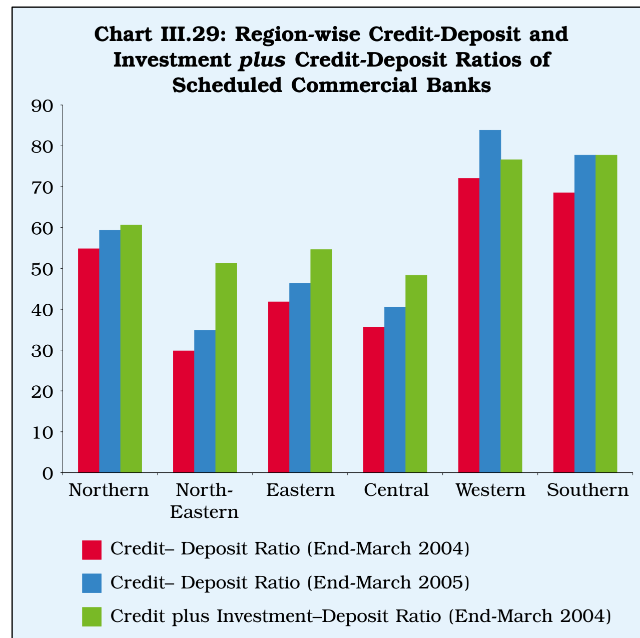
As at end-March	Deposits		Credit	
	Offices	Amount	Offices	Amount
1	2	3	4	5
1999	21.5	59.1	21.1	73.5
2000	21.9	59.0	21.5	74.7
2001	22.3	58.9	21.9	75.3
2002	22.5	59.1	22.1	77.0
2003	22.7	61.0	22.4	75.9
2004	23.1	63.6	22.9	75.5
2005	23.8	65.3	23.7	76.0

branches. Also, most of the new branches during 2004-05 were opened in the Southern region. In terms of existing bank branches, Southern region was followed by the Central region, the Eastern region, the Northern region and the Western region. No significant change was observed in the average population served per bank branch in various regions during 2004-05 (Chart III.28 and Appendix Table III.36).

3.116 The all-India C-D ratio (in terms of credit limit sanctioned) increased sharply during 2004-05 as against a marginal decline in the previous year. In line with the all-India trend, the C-D ratio increased in several States such as Maharashtra, Rajasthan, Karnataka, Kerala, Andhra Pradesh, Orissa and Madhya Pradesh. Among the major States, the C-D ratios of Tamilnadu, Maharashtra, Andhra Pradesh, Karnataka, and Rajasthan were above the all-India level (Appendix Table III.37). The C-D ratios (in terms of utilisation) for States were generally higher at end-March 2004 than their respective levels in terms of sanctions. The shortfall in C-D ratio in terms of utilisation *vis-à-vis* limit sanctioned was the highest in the case of Maharashtra. Among the major regions, the C-D ratio as well as the investment plus credit-deposit ratio of Western and Southern regions at end-March 2004 were well above the all-India level (Chart III.29).

Foreign Banks' Operations in India

3.117 The total number of foreign banks operating in India stood at 31 with 245 branches as on September 30, 2005. These banks originated from 19 countries. While four banks have 10 or more branches, 12 banks were operating only with one branch each. The branches of foreign banks are spread over 35 centres in 17 States/Union territories. Approval was conveyed to the existing foreign banks to open



12 additional branches in India out of which one branch has been opened so far.

3.118 Foreign banks have also set up representative offices in India. As on September 30, 2005, 27 banks from 13 countries operated representative offices in India. Banco de Sabadell SA opened its office in August 2004. At present, 58 banks have presence in India either through branches or representative offices.

3.119 Under Section 44 A of the Banking Regulation Act, 1949, the Indian branches of Sumitomo Mitsui Banking Corporation (SMBC) merged with Indian branches of Standard Chartered Bank. As a result, Sumitomo Mitsui Banking Corporation was excluded from the Second Schedule of the Reserve Bank of India Act,1934 on March 1, 2005 in terms of Section 42(6) (b) of the Reserve Bank of India Act,1934.

Indian banks' operations abroad

3.120 As on October 20, 2005, fourteen Indian banks - nine from the public sector and five from the private sector - had operations overseas spread across 42 countries with a network of 101 branches (including 6 offshore units), 6 joint ventures, 17 subsidiaries and 30 representative offices. Bank of Baroda had the highest overseas presence, followed by State Bank of India and Bank of India (Table III.54).

Table III.54: Overseas Operations of Indian Banks
(As on October 20, 2005)

(Number of banks)

Name of the Bank	Branch	Subsidiary	Representative Office	Joint Venture Bank	Total
1	2	3	4	5	6
Bank of Baroda	39	7	3	1	50
State Bank of India	24	5	8	3	40
Bank of India	20	1	3	1	25
Punjab National Bank	1	–	4	1	6
Indian Bank	3	–	–	–	3
Indian Overseas Bank	5	1	–	–	6
UCO Bank	4	–	–	–	4
Canara Bank	1	1	2	–	4
Syndicate Bank	1	–	–	–	1
Bharat Overseas Bank	1	–	–	–	1
ICICI Bank Ltd.	2	2	6	–	10
IndusInd Bank Ltd.	–	–	2	–	2
Bank of Punjab Ltd.	–	–	1	–	1
HDFC Bank Ltd.	–	–	1	–	1
Total	**101**	**17**	**30**	**6**	**154**

– : Nil/Negligible.

3.121 Approval was given to State Bank of India to acquire majority equity stake and management control in Indian Ocean International Bank Ltd. (IOIB), Mauritius. The bank acquired 51 per cent stake in IOIB on April 19, 2005. The bank is in the process of taking management control of IOIB.

9. Customer Service in Banks

3.122 Although deregulation and liberalisation in the banking sector have resulted in enhanced efficiency and systemic resilience, they have also raised legitimate concerns with regard to the quality of customer service provided by banks. The Reserve Bank has been initiating measures from time to time to ensure improvement in the standards of customer service and grievance redressal in banks. The constitution of the Standing Committee on Procedures and Performance Audit on Public Services (Chairman: Shri S.S.Tarapore) and *Ad hoc* Committees on Customer Services set up by banks are aimed at providing a mechanism to bring improvement in customer service with an emphasis on transparency and simplification of procedures. On the basis of the recommendations of the Committee on banking operations as also taking cognisance of the representations received against commercial banks, several measures have been implemented by the Reserve Bank in recent times. These include introduction of drop box facility for cheques and facility for acknowledgement of cheques through regular collection counters; delivery of cheque books over the counters on request; issue of statement of accounts at monthly intervals with details of various transactions; informing the existing account holders at least one month in advance of any change in the minimum balance in savings accounts and charges for non-maintenance thereof; and agreeing to the request for opening of non-resident ordinary (NRO) accounts jointly with residents.

3.123 A study in the Reserve Bank on complaints received against commercial banks located in the jurisdiction of the concerned Regional Offices of the Reserve Bank was carried out for the period January 1, 2003 to June 25, 2005. The complaints have been categorised into seven broad heads, *viz.*, deposit account related, remittance/ collection facility, loans/advances (general and housing loan) credit cards related, activities of direct selling agents (DSAs), harassment in recovery of loans, and general/others. Although

Table III.55: Complaints Received against Scheduled Commercial Banks
(January 1, 2003 to June 25, 2005)

Bank group	Total No. of complaints received	Category-wise break up of complaints							
		Deposits Account related	Remittance/ collection facilities	Loans/Advances		Credit Cards related	Activities of Direct Selling Agents	Harassment in recovery of loan	General/ Others
				General	Housing Loan				
1	2	3	4	5	6	7	8	9	10
Scheduled Commercial Banks	**13,503 (100.0)**	**2,459 (18.2)**	**1,621 (12.0)**	**2,480 (18.4)**	**254 (1.9)**	**1,195 (8.8)**	**55 (0.4)**	**623 (4.6)**	**4,816 (35.7)**
Public Sector Banks	9,006 (66.7)	1,801 (20.0)	1,255 (13.9)	1,779 (19.8)	146 (1.6)	239 (2.7)	3 (0.0)	413 (4.6)	3,370 (37.4)
Nationalised Banks	5,675 (42.0)	1,085 (19.1)	724 (12.8)	1,142 (20.1)	102 (1.8)	62 (1.1)	1 (0.0)	262 (4.6)	2,297 (40.5)
State Bank Group	3,331 (24.7)	716 (21.5)	531 (15.9)	637 (19.1)	44 (1.3)	177 (5.3)	2 (0.1)	151 (4.5)	1,073 (32.2)
Old Private Sector Banks	694 (5.1)	111 (16.0)	70 (10.1)	160 (23.1)	18 (2.6)	1 (0.1)	– (0.0)	13 (1.9)	321 (46.3)
New Private Sector Banks	2,216 (16.4)	398 (18.0)	217 (9.8)	342 (15.4)	63 (2.8)	321 (14.5)	36 (1.6)	99 (4.5)	740 (33.4)
Foreign Banks in India	1,587 (11.8)	149 (9.4)	79 (5.0)	199 (12.5)	27 (1.7)	634 (39.9)	16 (1.0)	98 (6.2)	385 (24.3)

– : Nil/Negligible.

Note : 1. Figures within brackets in Col.2 represent percentage share of the concerned bank group to total.
2. Figures within brackets in Col. 3 to Col. 10 represent percentage share of the nature of complaints against the total complaints of concerned bank group.

in absolute terms, number of complaints received against public sector banks were the largest, average complaints per branch for public sector banks was much lower ranging from 0.08 to 0.28, as against 0.00 to 2.68 for private sector banks and 0.10 to 16.06 in the case of foreign banks (Table III.55 and Appendix Table III.38). Majority of complaints were in the category of loans and advances (general) (18.4 per cent), followed by deposit accounts related (18.2 per cent). This trend was observed across all bank groups, except foreign banks against which most of the complaints related to credit cards.

10. Regional Rural Banks

3.124 Regional Rural Banks (RRBs) form an integral part of the Indian banking system with focus on serving the rural sector. There are 196 RRBs operating in 26 States across 518 districts with a network of 14,446 branches as on March 31, 2004. Majority of the branches of RRBs are located in rural areas. RRBs combine the local feel and familiarity with rural problems, which the co-operatives possess, and the degree of business organisation as well as the ability to mobilise deposits, which the commercial banks possess. RRBs are specialised rural financial institutions for catering to the credit requirements of the rural sector. In the context of recent focus of the Government of India on doubling the flow of credit to the agricultural sector, it is felt that the RRBs could be used as an effective vehicle for credit delivery in view of their rural orientation. As indicated in the Mid-Term Review of Annual Policy Statement for 2004-05, RRBs have to adhere to good governance practices and comply with prudential regulations. In view of their importance as purveyors of rural credit, the Union Budget, 2004-05, emphasised that the sponsor banks would be accountable for the performance of their RRBs. Sponsor banks have been advised by the Reserve Bank to provide support to their sponsored RRBs in matters relating to efficient management, training of staff, computerisation and networking of their activities.

Mobilisation and Deployment of Funds

3.125 Aggregate deposits of RRBs increased by 9.0 per cent during 2004-05 as compared with

Table III.56: Regional Rural Banks – Important Indicators

(Amount in Rs. crore)

Item	As on			Variations	
	March 28, 2003	March 26, 2004	March 31, 2005	2003-04	2004-05
1	2	3	4	5	6
1. Liabilities to the Banking System	179	205	538	26 (14.5)	333 (162.4)
2. Liabilities to Others	54,858	63,391	69,749	8,533 (15.6)	6,358 (10.0)
2.1 Aggregate Deposits (a+b)	48,346	57,010	62,143	8,664 (17.9)	5,133 (9.0)
a) Demand Deposits	8,802	11,019	17,330	2,217 (25.2)	6,311 (57.3)
b) Time Deposits	39,544	45,991	44,813	6,447 (16.3)	-1,178 (-2.6)
2.2 Borrowings	4,799	4,595	5,524	-204 (-4.3)	929 (20.2)
2.3 Other Demand and Time Liabilities*	1,713	1,785	2,082	72 (4.2)	297 (16.6)
3. Assets with the Banking System	15,091	12,993	21,897	-2,098 (-13.9)	8,904 (68.5)
4. Bank Credit	21,773	25,481	31,803	3,708 (17.0)	6,322 (24.8)
5. Investments (a+b)	12,524	17,444	23,200	4,920 (39.3)	5,756 (33.0)
a) Government Securities	8,311	13,349	16,911	5,038 (60.6)	3,562 (26.7)
b) Other Approved Securities	4,213	4,095	6,289	-118 (-2.8)	2,194 (53.6)
6. Cash Balances	515	571	966	56 (10.9)	395 (69.2)
Memo:					
a) Cash Balance-Deposit Ratio	1.1	1.0	1.6		
b) Credit-Deposit Ratio	45.0	44.7	51.2		
c) Investment/Deposit Ratio	25.9	30.6	37.3		
d) Investment+Credit/Deposit Ratio	70.9	75.3	88.5		

* : including Participation Certificates issued to others.

Note : Figures in brackets are percentage variations.

17.9 per cent in 2003-04. While demand deposits recorded a very strong growth, time deposits declined sharply. Credit growth, however, accelerated to 24.8 per cent in 2004-05 from 17.0 per cent in the previous year. The outstanding deposits (Rs.62,143 crore) were almost twice the outstanding credit (Rs.31,803 crore) at end-March 2005. Reflecting the impact of high growth in credit coupled with low growth in deposits, liabilities of RRBs to the banking sector registered a sharp increase. Investment of RRBs in SLR securities continued to grow at a high rate of 33.1 per cent over and above the increase of 39.0 per cent in the previous year mainly due to the growth of investment in other approved securities. This was in contrast to the preceding year when increase in investment was mainly on account of investments in Government securities (Table III.56). The total assets of RRBs increased by 10.8 per cent during 2004-05.

Financial Performance of RRBs

3.126 Data in respect of 196 RRBs indicate that the number of loss-making RRBs declined in 2004-05. During 2004-05, 167 RRBs earned net profits amounting to Rs.904 crore, while 29 RRBs incurred losses to the tune of Rs.154 crore (Table III.57). Despite higher net interest income ratio, operating profit as well as net profit of RRBs as a percentage of their total assets declined marginally during 2004-05 on account

Table III.57: Financial Performance of Regional Rural Banks

(Amount in Rs. crore)

Particulars	2003-04			2004-05			Variation Col. (7) over Col. (4)
	Loss Making [33]	Profit Making [163]	RRBs [196]	Loss Making [29]	Profit Making [167]	RRBs [196]	
1	2	3	4	5	6	7	8
A. Income (i+ii)	**609**	**5,635**	**6,244**	**628**	**5,509**	**6,137**	**-107 (-1.7)**
i) Interest income	553	4,985	5,538	587	5,089	5,676	138 (2.5)
ii) Other income	56	650	706	41	420	461	-245.0 (-34.7)
B. Expenditure (i+ii+iii)	**793**	**4,682**	**5,475**	**782**	**4,605**	**5,387**	**-88 (-1.6)**
i) Interest expended	421	2,939	3,360	424	2,737	3,161	-199 (-5.9)
ii) Provisions and contingencies	90	196	286	51	208	259	-27 (-9.4)
iii) Operating expenses	282	1,547	1,829	307	1,660	1,967	138 (7.6)
of which :							
Wage Bill	248	1,260	1,508	246	1,280	1,526	18 (1.2)
C. Profit							
i) Operating Profit/Loss	**-94**	**1,149**	**1,055**	**-103**	**1,112**	**1,009**	**-46 (-4.4)**
ii) Net Profit/Loss	**-184**	**953**	**769**	**-154**	**904**	**750**	**-19 (-2.5)**
D. Total Assets	**8,892**	**61,386**	**70,278**	**9,780**	**68,086**	**77,866**	**7,588 (10.8)**
E. Financial Ratios #							
i) Operating Profit	-1.1	1.9	1.5	-1.1	1.6	1.3	
ii) Net Profit	-2.1	1.6	1.1	-1.6	1.3	1.0	
iii) Income	6.8	9.2	8.9	6.4	8.1	7.9	
iv) Interest income	6.2	8.1	7.9	6.0	7.5	7.3	
v) Other Income	0.6	1.1	1.0	0.4	0.6	0.6	
vi) Expenditure	8.9	7.6	7.8	8.0	6.8	6.9	
vii) Interest expended	4.7	4.8	4.8	4.3	4.0	4.1	
viii) Operating expenses	3.2	2.5	2.6	3.1	2.4	2.5	
ix) Wage Bill	2.8	2.1	2.1	2.5	1.9	2.0	
x) Provisions and Contingencies	1.0	0.3	0.4	0.5	0.3	0.3	
xi) Spread (Net Interest Income)	1.5	3.3	3.1	1.7	3.5	3.2	

: Ratios to Total Assets.
Note : 1. Figures within ( ) brackets represent number of RRBs.
2. Figures within parenthesis in col. 8 represent percentage variation over the year.
Source : NABARD.

of a sharp decline of 34.7 per cent in other income during the year.

Purpose-wise Outstanding Loans and Advances

3.127 The composition of credit extended by RRBs underwent a major shift during 2004-05 in favour of agricultural loans. The shares of agricultural and non-agricultural loans are now broadly equal, unlike in the past when there was a marginal bias in favour of the non-agricultural loans (Table III.58). Within agricultural loans, short-term loans (crop loans) witnessed a higher increase during 2004-05, as a result of which their share in total agricultural loans increased to 66.3 per cent from 65.4 per cent in the previous year.

Table III.58: Outstanding Advances – Purpose-wise Classification
(As at end-March)

(Amount in Rs. crore)

Purpose	2003	2004	2005
I Agriculture (1 to 3)	**10,261 (46.3)**	**11,722 (44.9)**	**16,710 (50.8)**
1. Short-term loans (crop loans)	6,495	7,664	10,980
2. Term loans (for agriculture and allied activities)	3,766	4,058	5,730
3. Indirect Advances	–	–	–
II Non-agriculture (4 to 7)	**11,897 (53.7)**	**14,393 (55.1)**	**16,161 (49.2)**
4. Rural Artisans etc.	695	715	713
5. Other Industries	330	433	580
6. Retail Trade etc.	3,264	3,607	4364
7. Other purposes	7,608	9,638	10,504
Total (I+II)	**22,158**	**26,115**	**32,871**

– : Nil/Negligible.

Table III.59: Profile of Local Area Banks
(As at end-March 2005)

(Amount in Rs. crore)

Bank	Assets		Deposits		Advances	
	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7
1. Capital Local Area Bank Ltd.	129	179	110	151	66	90
2. Coastal Local Area Bank Ltd.	41	45	32	36	19	20
3. Krishna Bhima Samruddhi Local Bank Ltd.	10	17	5	8	6	12
4. Subhadra Local Area Bank Ltd.	7	12	1	5	3	8

Note: South Gujarat Local Area Bank was merged with Bank of Baroda on June 25, 2004

11. Local Area Banks

3.128 Four local area banks (LABs) were functional at end-March 2005. They were Coastal Local Area Bank Ltd, Vijayawada; Capital Local Area Bank Ltd., Phagwara, Navsari; Krishna Bhima Samruddhi Local Area Bank Ltd., Mehboobnagar; and the Subhadra Local Area Bank Ltd., Kolhapur. South Gujarat Local Area Bank which had suffered net losses in consecutive years and witnessed a significant decline in its capital and reserves, was merged with Bank of Baroda on June 25, 2004. These banks have a very small base of assets, deposits and advances (Table III.59).

3.129 The smaller LABs continued to exhibit a very high credit-deposit (C-D) ratio of over 100 per cent. Although the C-D ratio Coastal Local Area Bank Ltd. and Capital Local Area Bank Ltd. declined, it remained high at 54.8 per cent and 59.5 per cent, respectively.

3.130 The income and expenditure of the LABs registered a moderate growth. However, higher growth of income, especially interest income coupled with near stagnant interest expenditure led to a significant increase in the operating profit and net profit (Table III.60).

Table III.60: Financial Performance of Local Area Banks

(Amount in Rs. crore)

Indicator	2003-04	2004-05	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**19.6**	**21.3**	**1.7**	**8.7**
i) Interest income	15.4	17.3	1.9	12.3
ii) Other income	4.2	4.0	-0.2	-4.8
B. Expenditure (i+ii+iii)	**19.5**	**20.4**	**0.9**	**4.6**
i) Interest expended	8.6	8.7	0.1	1.2
ii) Provisions and contingencies	2.8	2.5	-0.3	-10.7
iii) Operating expenses	8.1	9.2	1.1	13.6
of which : Wage Bill	2.7	3.1	0.4	14.8
C. Profit				
i) Operating Profit/Loss	**2.9**	**3.4**	**0.5**	**17.2**
ii) Net Profit/Loss	**0.1**	**0.9**	**0.8**	**800.0**
D. Spread (Net Interest Income)	**6.8**	**8.6**	**1.8**	**26.5**

Source : Based on Off-site returns.

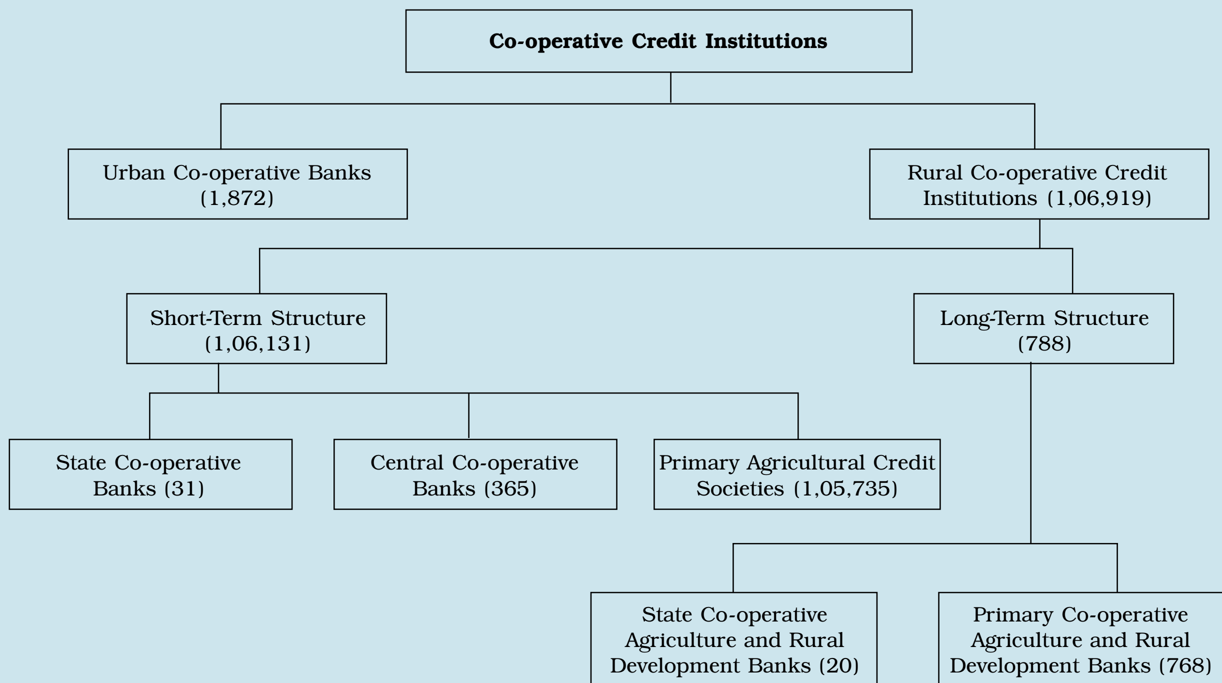
Chapter IV

Developments in Co-operative Banking

4.1 Co-operative banks in India have come a long way since the enactment of the Agricultural Credit Co-operative Societies Act in 1904. The century old co-operative banking structure is viewed as an important instrument of banking access to the rural masses and thus a vehicle for democratisation of the Indian financial system. Co-operative banks mobilise deposits and purvey agricultural and rural credit with a wider outreach. They have also been an important instrument for various development schemes, particularly subsidy-based programmes for the poor.

4.2 The co-operative banking structure in India comprises urban co-operative banks and rural co-operative credit institutions. Urban co-operative banks consist of a single tier, *viz.*, primary co-operative banks, commonly referred to as urban co-operative banks (UCBs). The rural co-operative credit structure has traditionally been bifurcated into two parallel wings, *viz.*, short-term and long-term. Short-term co-operative credit institutions have a federal three-tier structure consisting of a large number of primary agricultural credit societies (PACS) at the grass-root level, central co-operative banks (CCBs) at the district level and State co-operative banks (StCBs) at the State/apex level. The smaller States and Union Territories (UTs) have a two-tier structure with StCBs directly meeting the credit requirements of PACS. The long-term rural co-operative structure has two tiers, *viz.*, State co-operative agriculture and rural development banks (SCARDBs) at the State level and primary co-operative agriculture and rural development banks (PCARDBs) at the *taluka/tehsil* level. However, some States have a unitary structure with the State level banks operating through their own branches; three States have a mixed structure incorporating both unitary and federal systems (Chart IV.1).

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



Note: Figures in parentheses indicate the number of institutions at end-March 2005 for urban co-operative banks and at end-March 2004 for rural co-operative credit institutions.

4.3 Several measures were initiated during 2004-05 to strengthen the co-operative credit structure in the country. Importantly, a vision document was prepared to rationalise the existing supervisory structure for UCBs. Prudential norms applicable to UCBs and rural co-operatives were strengthened. The recommendations of the Task Force (Chairman: Prof. A. Vaidyanathan) to strengthen the rural co-operative credit structure are being considered by the Government of India for implementation. Efforts are afoot to work out a targeted approach to revive the co-operative banks.

4.4 Business operations and financial performance of co-operative credit institutions during the year showed divergent trends. Assets of scheduled UCBs expanded during 2004-05, reversing the trend of the previous year. This reflected the impact of increased deposits, borrowings and net owned funds. Despite an improvement in net interest income, profitability of scheduled UCBs declined, due mainly to a sharp decline in non-interest income. Asset quality of UCBs did not exhibit any noticeable change.

4.5 Assets/liabilities of State co-operative banks expanded at a higher rate during 2003-04. Despite this, however, their profitability declined. The opposite was the case in respect of CCBs. The membership of PACS expanded, even as borrowing members declined sharply. The overall business of PACS continued to expand, despite decline in deposits. Although the asset quality of PACS improved during the year, overdues continued to remain high. Assets of long-term rural co-operatives, *i.e.*, the SCARDBs and PCARDBs, witnessed a moderate growth. However, their financial performance worsened as they continued to incur significant overall losses during the year. The asset quality of all the layers of rural co-operative banks, other than PACS, deteriorated (Appendix Table IV.1).

4.6 A significant development during the year was a sharp increase in the SHG-Bank linkage programme and financial assistance extended to micro-finance institutions (MFIs) by both commercial and co-operative banks. NABARD continued to play an important role in financing and monitoring the rural co-operative banking sector, besides administering various development schemes in the agricultural and rural sector. NABARD also stepped up its efforts towards capacity building of various institutions under its purview.

4.7 The Chapter proceeds as follows. Section 2 and Section 3 detail the policy developments, business operations and performance of urban co-operative banks and rural co-operative institutions, respectively. Section 4 reviews the developments in the area of micro credit in the country. Section 5 delineates the role of NABARD in the rural co-operative sector and the initiatives undertaken during the year to improve the performance of the co-operative banking sector.

2. Urban Co-operative Banks

4.8 Primary (urban) co-operative banks play an important role in meeting the growing credit needs of urban and semi-urban areas. UCBs mobilise savings from the middle and lower income groups and purvey credit to small borrowers, including weaker sections of the society. The number of UCBs stood at 1,872 at end-March 2005, including 79 salary earners' banks and 119 *Mahila* banks. Total number of scheduled UCBs were 55 at end-March 2005. Scheduled UCBs are under closer regulatory and supervisory framework of the Reserve Bank.

4.9 Various entities in the urban co-operative banking sector display a high degree of heterogeneity in terms of deposits/asset base, areas of operation and nature of business. In view of its importance, it is imperative that the sector emerges as a sound and healthy network of jointly owned, democratically controlled and professionally managed institutions. In order to achieve these objectives, the Reserve Bank took a series of policy initiatives in 2004-05. The most significant initiative in this regard was the Vision Document and Medium-Term Framework (MTF) for UCBs. With a view to protecting depositors' interests and avoid contagion on the one hand, and enabling UCBs to provide useful service to local communities and public at large on the other, a draft Vision Document was prepared and placed in public domain for eliciting comments. Based on the feedback received from different quarters, the necessary modifications were carried out in the vision document to evolve as the medium-term framework for the sector (Box IV.1).

Regulatory Initiatives for UCBs

4.10 UCBs have grown rapidly since the early 1990s. During the phase of rapid expansion, however, the sector showed certain weaknesses arising out of lack of sound corporate governance, unethical lending, comparatively high level of loan defaults, inability to operate in a liberalised and

Box IV.1: Medium-Term Framework for Urban Co-operative Banks

The Medium-Term Framework (MTF), which is being finalised based on responses to the draft Vision Document, seeks to achieve the following objectives:

- To rationalise the existing regulatory and supervisory approach keeping in view the heterogeneous character of the entities in the sector.
- To facilitate a focused and continuous system of supervision through enhancement of technology.
- To enhance professionalism and improve the quality of governance in UCBs by providing training for skill upgradation and also by including large depositors in the decision making process/management of banks.
- To put in place a mechanism that addresses the problems of dual control, given the present legal framework and the time-consuming process in bringing requisite legislative changes.
- To put in place a consultative arrangement for identifying weak but potentially viable entities in the sector and provide a framework for nursing them back to health including, if necessary, through a process of consolidation.
- To identify the unviable entities in the sector and provide an exit route for such entities.

The above framework is proposed to be implemented through:

- A differentiated regulatory regime as opposed to a "one-size-fits-all" approach.
- A two-tier regulatory regime: (a) simplified regulatory regime for unit banks and single district banks with deposits less than Rs.100 crore; and (b) regulation for all other banks on the lines of commercial banks.
- As the strategy to deal with UCBs may need to be State-specific, a State Level Task Force for Urban Co-operative Banks (TAFCUB) is to be constituted comprising senior officials from the Reserve Bank, State Governments and local/central co-operative Federations.
- The TAFCUB would be responsible for (i) identifying weak but viable UCBs and devise a time-bound programme for revival; and (ii) recommending (a) the nature and extent of financial support, (b) future set up of unlicensed banks, and (c) the manner and timeframe for exit of unviable banks.
- To address issues/difficulties relating to dual control within the existing legal framework, it has been proposed to evolve a working arrangement in the form of Memorandum of Understanding (MoU) between the Reserve Bank and the State Government.

competitive environment. The Reserve Bank, therefore, has been striving to harness the growth of UCBs with appropriate application of prudential regulation and supervision to safeguard the interests of depositors. The Reserve Bank initiated several regulatory measures during 2004-05 to ensure the growth of UCBs along sound lines.

Regulation and Supervision of UCBs

4.11 The Reserve Bank is entrusted with the responsibility of regulation and supervision of the banking related activities of primary co-operative banks under the Banking Regulation (B.R.) Act, 1949 As Applicable to Co-operative Societies (AACS). Other aspects such as incorporation, registration, administration, management and winding-up of UCBs are supervised and regulated by the respective State Governments through Registrars of Co-operative Societies (RCS) under the Co-operative Societies Acts of the respective States. UCBs with a multi state presence are registered under the Multi State Co-operative Societies Act, 2002 and are regulated and supervised jointly by the Central Government through Central Registrar of Co-operative Societies and the Reserve Bank.

4.12 The current legislative framework provides for dual control over UCBs. For resolving problems arising out of dual control regime, a draft legislative bill proposing certain amendments to the Banking Regulation Act, 1949 (AACS), based on the recommendations of the High Powered Committee on UCBs, was forwarded to the Government. Pending the amendment to the Act, the Reserve Bank is entering into a regulatory arrangement with the State Governments through Memorandum of Understanding (MoU) to facilitate proper and co-ordinated regulation and supervision of UCBs. MoUs have already been signed between the Reserve Bank and three States that have a large network of UCBs, *viz*., Andhra Pradesh, Gujarat and Karnataka. As a follow-up to the signing of MoUs, the Reserve Bank has constituted TAFCUBs in these States (Box IV.2). Efforts are being made to enter into MoUs with other States having a large number of UCBs.

Licensing of New Banks/Branches

4.13 Consequent upon the easing of licensing norms in May 1993, more than 800 licences were issued (up to June 2001) for setting up urban co-operative banks. However, close to one-third of these newly licensed UCBs became financially weak within a short period (Appendix Table IV.2 and Appendix Table IV.3). There was, thus, a need to moderate the pace of growth of this sector, particularly given the vexatious issue of dual

Box IV.2: Memorandum of Understanding (MoU) with the State Governments

The MoUs contain the following commitments by the State Government and the Reserve Bank.

The State Governments, through the MoU, agree to:

- Introduce long form audit report for statutory audit and modify their audit rating models to bring them in alignment with the gradation system adopted by the Reserve Bank for UCBs.
- Provide for statutory audit by Chartered Accountants (CAs) for UCBs with deposits over Rs.25 crore and special audit by CAs, if required by the Reserve Bank, for any UCB.
- Put in place 'fit and proper' criteria for Chief Executive Officers (CEOs), based on guidelines of the Reserve Bank.

The Reserve Bank, as a signatory to the MoU, is committed:

- To constitute a State Level Task Force for Urban Co-operative Banks (TAFCUB), comprising Regional Director of the Reserve Bank, Registrar of Co-operative Societies (RCS) of the State, a representative of Central Office of Urban Banks Department of the Reserve Bank, a representative of the State Government and a representative each from the State and National Federation of UCBs. TAFCUBs would identify and draw up time bound action plans for the revival of potentially viable UCBs and recommend non-disruptive exit for non-viable ones.
- To facilitate human resources development and IT initiatives in UCBs.

MoUs signed between the Reserve Bank and the respective State Governments also envisage the signing of another MoU between the Registrars of Co-operative Societies of the States and respective Regional Directors of the Reserve Bank. This MoU stipulates the broad measures to be taken by the signatories for implementing the recommendations of the TAFCUB for each of the potentially viable/non-viable UCBs that are placed for consideration of TAFCUB.

The MoU, *inter alia,* also provides that the Reserve Bank would consult RCS before cancelling or refusing licence under the BR Act, 1949, of a UCB covered by the MoU, *i.e.*, in States with which MoUs have been signed. The RCS would comply without delay any requisition by the Reserve Bank for supersession of the Board or for winding up of any UCB.

control over UCBs. The Reserve Bank proposed certain amendments to the Banking Regulation Act, 1949 (AACS) to overcome the difficulties arising out of dual control. Pending enactment of these amendments, it was announced in the Annual Policy Statement for 2004-05 that issuance of fresh licences would be considered only after a comprehensive policy on UCBs, including an appropriate legal and regulatory framework for the sector, is put in place and a policy for improving the financial health of the urban co-operative banking sector is formulated. Accordingly, at present, applications for banking licence, including licence for opening of new branches, are not considered.

Income Recognition, Asset Classification and Provisioning Norms

4.14 In line with the international best practice and extant practices in commercial banks in India, it was decided to reduce the time period for reckoning an advance as non-performing from the existing 180 days to 90 days with effect from March 31, 2004. However, subsequently keeping in view the representations received from co-operative federations/banks, small loans up to Rs.1 lakh, including gold loans, were exempted from the purview of the 90 days norm and continue to be governed by 180 days norm. This exemption has been granted only up to March 31, 2006. It was also decided to grant additional time of two years, in comparison with commercial banks, to meet the 100 per cent provisioning required for advances identified as doubtful for more than three years. Further, taking into consideration representations received from UCBs, it was decided to permit certain categories of UCBs to classify loan accounts as NPAs based on 180 days delinquency norm instead of 90 days norm. These included unit banks, *i.e.*, banks having a single branch/HO and banks having multiple branches within a single district with deposits up to Rs.100 crore. The relaxation has been given up to the financial year ending March 2007 and banks should build up adequate provisions to comply with the 90 days delinquency norm after the stipulated date.

4.15 It was decided to delink the asset classification and provisioning requirements in respect of State Government guaranteed advances and investments from the invocation of the State Government guarantee. Accordingly, asset classification and provisioning norms on State Government guaranteed advances would be applicable in the same manner as exposures not guaranteed by the State Governments from the year ending March 31, 2006.

Exposure Norms

4.16 With a view to avoiding concentration of credit risk, UCBs were advised to fix the

prudential exposure limits at 15 per cent and 40 per cent of the 'capital funds' in the case of a single borrower and a group of borrowers, respectively. Banks were also advised that 'capital funds' for the purpose of prudential exposure norms would be in relation to bank's total capital funds (both Tier-I and Tier-II capital) and the exposure for the purpose includes both credit and investment exposure (non-SLR).

Know Your Customer (KYC) Guidelines

4.17 Know Your Customer (KYC) guidelines were revisited in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti-Money Laundering (AML) standards and Combating Financing of Terrorism (CFT). Detailed guidelines based on the recommendations of the FATF and the paper on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision, with indicative suggestions wherever considered necessary, were issued to UCBs. They were advised to ensure that a proper policy framework on KYC and also AML measures is formulated and put in place with the approval of their Boards. Banks were also advised to ensure full compliance with the provisions of these guidelines before December 31, 2005.

Investment Portfolios of UCBs - Relaxations

4.18 UCBs were given some relaxation in the prudential norms for their investment portfolio in September 2004. They were allowed to exceed the limit of 25 per cent of total investment under 'HTM' category provided (a) the excess comprises only SLR securities, and (b) total SLR securities held in 'HTM' category are not more than 25 per cent of their NDTL as on the last Friday of the second preceding fortnight.

4.19 Taking into account the difficulties faced by UCBs in meeting the provisioning requirements, it was further decided, as a special case, to consider relaxing the provisioning requirements both for scheduled UCBs and non-scheduled UCBs. Accordingly, scheduled UCBs were advised that they may crystallise the provisioning requirement arising on account of shifting of securities from 'HFT'/'AFS' categories to 'HTM' category consequent to the issue of guidelines dated September 2, 2004 and amortise the same over a maximum period of five years commencing from the accounting year ended March 31, 2005, with a minimum of 20 per cent of such amount each year.

4.20 As regards non-scheduled UCBs, they were allowed to shift securities from 'HFT'/'AFS' categories to 'HTM' category at book value, subject to the following conditions. First, in case the book value is higher than the face value, the difference between the book value and the face value, *i.e.*, the premium may be amortised in equal instalment over the remaining period to maturity. If the security was obtained at a discount to face value, the difference should be booked as profit only at the time of maturity of the security. Second, the securities transferred under this special dispensation should be kept separately under 'HTM' category and should not be transferred back to the 'HFT'/'AFS' category in future in terms of the existing instruction of transfer of securities from 'HTM' category. Third, in normal course, such securities under 'HTM' category should not be sold in the market and redeemed on maturity only. However, in exceptional circumstances, if such securities are to be sold, profit on sale of investments in this category should be first taken to the 'profit and loss account' and thereafter be appropriated to the 'capital reserve'. Loss on sale will be recognised in the 'profit and loss' account in the year of sale.

Disclosure Norms

4.21 In consonance with the best practices and in the interest of the members and depositors, it was decided that disclosure of the details of the levy of penalty on a bank would be put in public domain though a Press Release by the Reserve Bank. The UCBs were also advised that the penalty should be disclosed in the 'Notes on Accounts' to their balance sheets in their next Annual Reports.

4.22 With a view to indicating the exact status of co-operative banks as also to avoid confusion among members of public, all UCBs were advised to display their full name on stationery item, publicity material and name board in the form in which it appears in the Certificate of Registration issued by the Registrar of Co-operative Societies and the licence granted by the Reserve Bank.

Housing Loans under the Priority Sector

4.23 In order to improve flow of credit to the housing sector, it was decided that UCBs with the approval of their Boards may extend direct finance

to the housing sector up to Rs.15 lakh per beneficiary of a dwelling unit, irrespective of location, against the earlier limit of Rs.10 lakh, as part of their priority sector lending.

Consolidation of Urban Co-operative Banks

4.24 The Reserve Bank issued guidelines paving the way for consolidation of the urban co-operative banking sector through mergers (Box IV.3).

Supervision of UCBs

Inspections

4.25 The on-site financial inspection carried out by the Reserve Bank continues to be one of the main instruments of supervision over UCBs. The Reserve Bank carried out statutory inspections of 812 UCBs during 2004-05 as against inspections of 848 UCBs conducted during the previous year.

Off-site Surveillance

4.26 The off-site surveillance system (OSS) for supervision was made applicable to all scheduled UCBs from March 2001. The returns for OSS were reviewed and a revised set of 8 returns was prescribed from March 2004. The OSS returns of UCBs are designed to monitor compliance and obtain information from them on areas of prudential regulation. The main objective of the OSS returns is to obtain relevant information on areas of prudential interest, address the management information needs, strengthen the management information system (MIS) capabilities within the reporting institutions and to sensitise bank managements about concerns of the supervisory authority. Compliance monitored through these returns covers assets and liabilities, earnings, asset quality, sector/ segment-wise analysis of advances, concentration of exposures, connected or related lending and capital adequacy. These concerns earlier were being addressed through periodical on-site inspections of banks undertaken at intervals ranging from one to two years. The OSS system was extended to non-scheduled banks with deposit base of over Rs.100 crore from June 2004.

Banks with Weak Financials

4.27 UCBs are classified in various grades depending on their financial strength. The number of UCBs classified as Grade III and IV were 725 at end-March 2005 (Table IV.1). More than half of the UCBs in the States of Kerala, Assam, Karnataka, Madhya Pradesh and Orissa were in Grade III and Grade IV categories. For ensuring a viable reconstruction path for Grade III and IV banks, it was announced in the Annual Policy Statement, 2004-05 that only such schemes of reconstruction would be considered, which envisage recapitalisation by the stakeholders, *i.e.*, the shareholders/co-operative institutions/Government, to the extent of achieving the prescribed capital adequacy norms (without infusion of liquidity through settlement of insurance claims by Deposit Insurance and Credit Guarantee Corporation) and lay a clear roadmap for reducing the NPA level to a tolerable limit within a stipulated time frame. RCSs were also requested to examine the reconstruction scheme and satisfy that UCBs comply with the above-referred requirements before formally recommending any scheme to the Reserve Bank.

4.28 A policy regarding restructuring of scheduled UCBs with negative net worth has also been formulated by the Reserve Bank (Box IV.4).

Box IV.3: Mergers/Amalgamations for Urban Co-operative Banks

With a view to encouraging and facilitating consolidation and emergence of strong entities and as well as for providing an avenue for non-disruptive exit of weak/unviable entities in the co-operative banking sector, guidelines were issued to facilitate merger/amalgamation in the sector. The Reserve Bank, while considering proposals for merger/amalgamation, will confine its approval to the financial aspects of the merger taking into consideration the interests of depositors and financial stability. The Reserve Bank would consider proposals subject to the post-merger entity meeting the prescribed following prudential norms:

- When the net worth of the acquired bank is positive and the acquirer bank assures to protect entire deposits of all the depositors of the acquired bank.
- When the net worth of acquired bank is negative but the acquirer bank, on its own, assures to protect deposits of all the depositors of the acquired bank.
- When the net worth of the acquired bank is negative and the acquirer bank assures to protect the deposits of all the depositors with financial support from the State Government extended upfront as part of the process of merger.

The Reserve Bank had conveyed its no objection to five merger proposals up to August 27, 2005.

Table IV.1: Gradation of Urban Co-operative Banks – Centre-wise
(As at end-March 2005)

Centre	Number of Banks				Total
	Grade I	Grade II	Grade III	Grade IV	
1	2	3	4	5	6
Ahmedabad	122	53	87	46	**308**
Bangalore	80	58	118	40	**296**
Bhopal	20	17	27	13	**77**
Bhubaneswar	1	5	4	2	**12**
Chandigarh	11	–	2	4	**17**
Chennai	44	25	54	10	**133**
Guwahati	6	2	5	5	**18**
Hyderabad	44	35	31	17	**127**
Jaipur	23	11	4	1	**39**
Jammu	2	–	2	–	**4**
Kolkata	29	12	4	6	**51**
Lucknow	54	8	7	8	**77**
Mumbai	276	64	76	43	**459**
Nagpur	69	38	48	19	**174**
New Delhi	12	1	1	1	**15**
Patna	2	2	1	–	**5**
Thiruvananthapuram	12	9	26	13	**60**
Total	**807**	**340**	**497**	**228**	**1,872**

– : Nil/Negligible.

Operations and Financial Performance of Urban Co-operative Banks

4.29 Operations of UCBs (both scheduled and non-scheduled) have expanded rapidly since 1966, when they were brought under the purview of the Banking Regulation Act, 1949 (AACS). Deposits and advances of UCBs increased sharply from Rs.153 crore and Rs.167 crore, respectively, in 1966 to Rs.1,02,089 crore and Rs.65,951 crore, respectively, at end-March 2003, registering an annual compound growth rate of 19.2 per cent and 17.5 per cent, respectively. The annual compound growth rate of deposits and advances, however, slowed down to 1.4 per cent and 0.7 per cent, respectively, during last two years, *i.e.*, 2003-04 and 2004-05.

4.30 SLR investments of all UCBs declined to Rs.42,498 crore at end-March 2005 from Rs.45,299 crore at end-March 2004, registering a decline of 6.2 per cent. However, data for the year ended March 2005 do not include deposits placed by scheduled UCBs in StCBs/CCBs. The non-SLR investments in bonds of PSUs/AIFIs, shares of AIFIs and units of UTI and term deposits of scheduled UCBs in StCBs/CCBs increased from Rs.2,921 crore at end-March 2004 to Rs.4,520 crore at end-March 2005 (Chart IV.2).

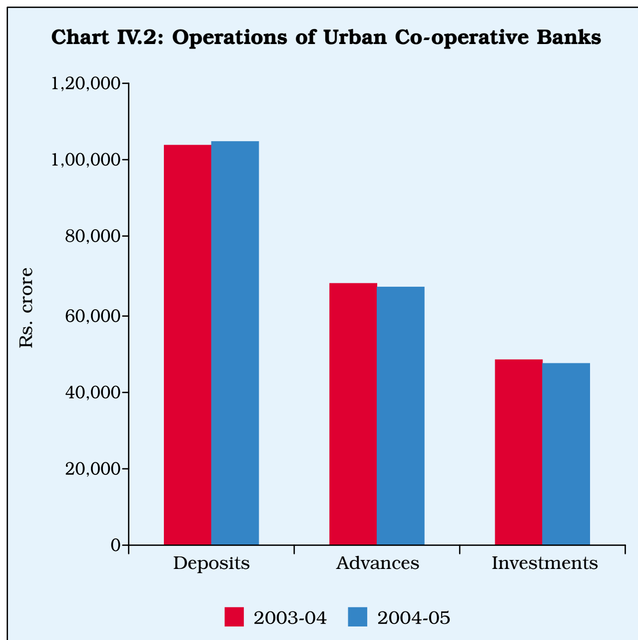
Priority Sector Lending

4.31 Urban Co-operative Banks are required to lend 60 per cent of their total loans and advances

Box IV.4: Restructuring of Scheduled Urban Co-operative Banks with Negative Net Worth

The Reserve Bank has begun a consultative process with a few scheduled UCBs with negative net worth by involving officials of the concerned State Governments and banks with a view to revitalising and rehabilitating them. The emphasis is on a time bound programme by identifying the contours of their rehabilitation plan and setting up monitorable milestones. The Reserve Bank will be closely monitoring the achievements of the banks *vis-à-vis* the targets set at regular intervals and initiate appropriate action with a view to protecting depositors' interest and avoiding systemic problems. Issues relating to large depositors, part conversion of deposits into equity, reduction of non-performing assets, human resources and technological development and the support from the State Governments would be examined. The option of merger/amalgamation could also be explored, wherever necessary. The Reserve Bank would limit its examinations and approvals to the banking and regulatory issues to satisfy itself that the restructuring package is in the interests of the depositors and public at large. The Reserve Bank would also take into account various other parameters such as infusion of funds, sacrifice by stake holders, restructuring of liabilities, recovery of NPAs, regulatory support and forbearance, governance, business plan, and filing of applications and documents.

Discussions have been held with eight scheduled UCBs for their restructuring and a set of action plans has been drawn up.



to the priority sector of which 25 per cent should go towards weaker sections. Based on data

Table IV.2: Priority Sector and Weaker Sections Advances by Urban Co-operative Banks

(Amount in Rs. crore)

Segments	As at end-March 2004	
	Priority Sector Advances	Weaker Sections Advances
1	2	3
Agriculture and Allied Activities to Agriculture	1,486 (6.0)	629 (10.0)
Cottage and Small Scale Industries	6,231 (25.2)	559 (8.9)
Road and Water Transport Operators	1,365 (5.5)	301 (4.8)
Private Retail Trade (Essential Commodities)	951 (3.8)	341 (5.4)
Private Retail Trade (Others)	2,570 (10.4)	714 (11.4)
Small Business Enterprises	4,000 (16.2)	1,065 (17.0)
Professional and Self-employed	1,643 (6.6)	612 (9.8)
Educational Loans	328 (1.3)	117 (1.9)
Housing Loans	5,674 (22.9)	1,786 (28.5)
Consumption Loans	468 (1.9)	140 (2.2)
Software Industry	38 (0.2)	5 (0.1)
Total	**24,754 (100.0)**	**6,269 (100.0)**

Note : Figures in parentheses are percentages to total.

received from 1,017 banks at end-March 2004, UCBs had extended Rs.24,754 crore to the priority sector, constituting 64.2 per cent of total loans and advances (Table IV.2).

Operations of Scheduled Urban Co-operative Banks

4.32 Reversing the trend of the previous year, assets of scheduled UCBs expanded during 2004-05. This reflected largely the impact of increased resource mobilisation by way of deposits, borrowings and internal generation, which grew sharply during 2004-05. Scheduled UCBs accounted for 39.0 per cent of total deposits of all UCBs. On the asset side, loans and advances increased at a healthy rate in contrast to the decline in the last year. Investments by scheduled UCBs also increased (Table IV.3).

Table IV.3: Liabilities and Assets of Scheduled Urban Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2004	2005	2003-04	2004-05
1	2	3	4	5
Liabilities				
1. Capital	671 (1.3)	772 (1.4)	7.0	15.1
2. Reserves	2,456 (4.8)	4,894 (8.7)	-67.0	99.3
3. Deposits	38,003 (73.8)	40,946 (72.6)	3.6	7.7
4. Borrowings	590 (1.1)	902 (1.6)	3.3	52.9
5. Other Liabilities	9,748 (18.9)	8,882 (15.7)	40.3	-8.9
Total Liabilities/Assets	**51,468 (100.0)**	**56,396 (100.0)**	**-1.6**	**9.6**
Assets				
1. Cash	319 (0.6)	344 (0.6)	-88.7	7.8
2. Balances with Banks	5,427 (10.5)	5,846 (10.4)	148.3	7.7
3. Money at call and short notice	428 (0.8)	496 (0.9)	39.9	15.9
4. Investments	14,976 (29.1)	17,049 (30.2)	8.4	13.8
5. Loans and Advances	23,161 (45.0)	25,092 (44.5)	-2.9	8.3
6. Other Assets	7,157 (13.9)	7,569 (13.4)	-22.9	5.8

Note : 1. Figures in parentheses are percentages to total liabilities/assets.

Financial Performance of Scheduled Urban Co-operative Banks

4.33 Net interest income of scheduled UCBs increased to Rs.1,065 crore during 2004-05 from Rs.826 crore in the previous year. However, a sharp decline in 'other' income on account of decline in trading income, on the one hand, and increase in operating expenses on the other, resulted in decline in the operating profits. Lower amount of provisions and contingencies in comparison with the previous year resulted in net profits during the year, although lower than the previous year (Table IV.4). Six out of 55 scheduled UCBs suffered net losses during the year (Appendix Table IV.4 and Appendix Table IV.5).

Asset Quality of UCBs (Scheduled and non-scheduled)

4.34 Gross non-performing assets of UCBs (scheduled and non-scheduled) increased marginally during 2004-05, both in absolute and percentage terms. Net NPAs declined by 0.8 per cent to Rs.8,174 crore at end-March 2005 (Table IV.5).

Table IV.4: Financial Performance of Scheduled Urban Co-operative Banks

(Amount in Rs. crore)

Item			Percentage Variations	
	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5
A. Income (i+ii)	**3,975 (100.0)**	**3,734 (100.0)**	**-24.9**	**-6.1**
i) Interest Income	3,178 (79.9)	3,344 (89.6)	-28.1	5.2
ii) Other Income	797 (20.1)	390 (10.4)	-8.6	-51.1
B. Expenditure (i+ii+iii)	**3,765 (100.0)**	**3,556 (100.0)**	**-35.6**	**-5.6**
i) Interest Expended	2,352 (62.5)	2,279 (64.1)	-30.4	-3.1
ii) Provisions and Contingencies	531 (14.1)	336 (9.4)	-60.6	-36.7
iii) Operating Expenses	882 (23.4)	941 (26.5)	-21.1	6.7
of which : Wage Bill	497	508	-11.7	2.2
C. Profit				
i) Operating Profit	741	514	-6.6	-30.6
ii) Net Profit	210	178	-137.8	-15.2
D. Total Assets	**51,468**	**56,396**	**-1.6**	**9.6**
(as at end-March)				

Note : Figures in brackets are percentage shares in respective totals.

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

(Amount in Rs. crore)

End-March	No. of Reporting UCBs	Gross NPAs	Gross NPAs as percentage of total Advances	Net NPAs	Net NPAs as percentage of total advances
1	2	3	4	5	6
2001	1,942	9,245	16.1	–	–
2002	1,937	13,706	21.9	–	–
2003	1,941	12,509	19.0	6,428	13.0
2004*	1,926	15,406	22.7	8,242	12.1
2005P	1,872	15,409	23.0	8,174	12.2

– : Nil/Negligible.
* : Revised.
P : Provisional.

Urban Co-operative Banks - Regional Operations

4.35 The spatial distribution of UCBs is highly skewed as they are concentrated mainly in 5 States, *viz.*, Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu (Table IV.6). Deposit size of majority of UCBs, barring a few, is small as quite a few of them has only a single branch. It is noteworthy that 1,636 out of 1,844 UCBs (88.7 per cent) had a deposit base of less than Rs.100 crore (Chart IV.3).

4.36 As at end-March 2005, nearly two-thirds of total UCBs operated in three States, *viz.*, Maharashtra, Karnataka and Gujarat. These three States also constituted about 80 per cent of total branches of UCBs with Maharashtra alone accounting for 60.5 per cent of total branches of UCBs (Table IV.6).

4.37 Of the 6,990 branches of UCBs, 923 were unit banks, *i.e.,* banks which function as head office-cum-branches. Gujarat, Karnataka and Maharashtra had the highest number of unit banks (Table IV.7).

4.38 Non-Scheduled UCBs in five centres, *viz.*, Mumbai, Ahmedabad, Bangalore, Chennai and Nagpur constituted more than 74 per cent of capital and reserves and about 80 per cent of deposits, advances and demand and time liabilities of all non-scheduled UCBs. Wide variations were also observed in the credit-deposit (C-D) ratio.

Table IV.6: State-wise Distribution of Urban Co-operative Banks
(As at end-March 2005)

Sr. No.	State	No. of banks	No. of branches*	Extension Counters
1	2	3	4	5
1.	Andhra Pradesh	127	317	10
2.	Assam/Manipur/Meghalaya/ Sikkim/Nagaland/Tripura/ Arunachal Pradesh	18	29	–
3.	Bihar/Jharkhand	5	7	1
4.	Gujarat	308	580	3
5.	Jammu and Kashmir	4	16	4
6.	Karnataka	296	729	21
7.	Kerala	60	325	–
8.	Madhya Pradesh/Chattisgarh	77	45	4
9.	Maharashtra and Goa	633	4,243	23
10.	New Delhi	15	60	2
11.	Orissa	12	46	4
12.	Punjab/Haryana/ Himachal Pradesh	17	26	3
13.	Rajasthan	39	142	7
14.	Tamil Nadu and Pondicherry	133	180	2
15.	Uttar Pradesh and Uttaranchal	77	190	14
16.	West Bengal	51	55	–
	TOTAL	**1,872**	**6,990**	**98**

– : Nil/Negligible.
* : Including Head Office-cum-branch.

Hyderabad had the highest C-D ratio (78.7 per cent), while New Delhi the lowest (36.0 per cent). New Delhi was the only centre where C-D ratio was

Chart IV.3: Size-wise Distribution of Urban Co-operative Banks – End-March 2005

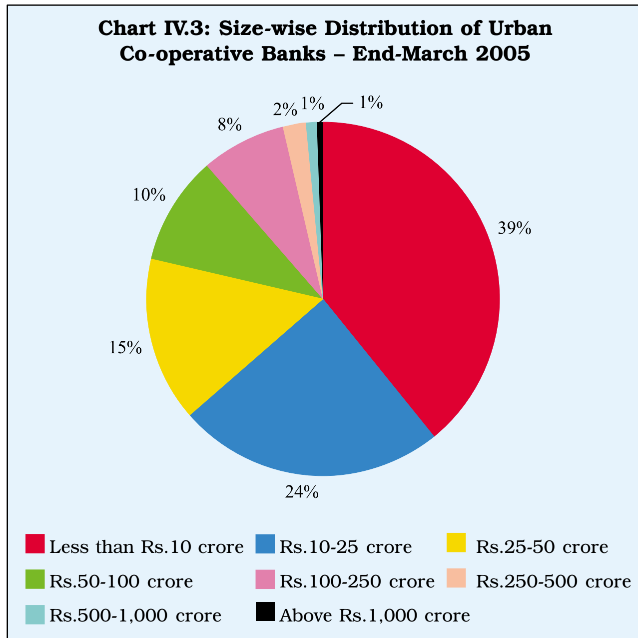


Table IV.7: Distribution of Unit Banks – Centre-wise
(As at end-March 2005)

Sr.No.	Centre	Unit Banks
1	2	3
1.	Ahmedabad	157
2.	Bangalore	153
3.	Bhopal	58
4.	Bhubaneswar	4
5.	Chandigarh	10
6.	Chennai	63
7.	Guwahati	15
8.	Hyderabad	99
9.	Jaipur	19
10.	Jammu	1
11.	Kolkata	31
12.	Lucknow	53
13.	Mumbai	142
14.	Nagpur	98
15.	New Delhi	–
16.	Patna	3
17.	Thiruvananthapuram	17
	Total	**923**

– : Nil/Negligible.

lower than 50 per cent. C-D ratio for other centres ranged between 51.1 per cent and 73.8 per cent (Table IV.8).

4.39 Of 55 scheduled UCBs at end-March 2005, 39 were located in Maharashtra, nine in Gujarat, three in Andhra Pradesh, two in Goa and one each in Karnataka and Uttar Pradesh.

3. Rural Co-operatives

4.40 The rural credit co-operative system has served as an important instrument of credit delivery in rural and agricultural areas. The separate structure of rural co-operative sector for long-term and short-term loans has enabled these institutions to develop as specialised institutions for rural credit delivery. At the same time, their federal structure has helped in providing support structure for the guidance and critical financing for the lower structure. These institutions have wide outreach with as many as 1,05,735 primary agricultural co-operative societies (PACS), the grass root organisation of the rural co-operative banking structure, operating in the country at end-March 2004.

4.41 The rural co-operative credit institutions, however, are beset with many problems ranging from low resource base, high dependence on refinancing

Table IV.8: Select Indicators of Non-Scheduled Urban Co-operative Banks – Centre-wise
(As at end-March 2005)

(Amount in Rs. crore)

Centre	Share Capital	Free Reserves	Deposits	Advances	Demand and Time Liabilities	C-D Ratio
1	2	3	4	5	6	7
Ahmedabad	325	1,021	9,503	5,468	10,495	57.5
Bangalore	333	691	7,555	4,792	7,997	63.4
Bhopal	46	55	1,022	581	1,084	56.8
Bhubaneswar	23	29	609	390	628	64.1
Chandigarh	26	45	594	346	575	58.3
Chennai	151	109	3,022	2,101	3,259	69.5
Guwahati	10	11	307	157	320	51.1
Hyderabad	126	208	2,131	1,677	2,646	78.7
Jaipur	66	80	1,243	705	1,296	56.8
Jammu	4	6	183	108	186	59.0
Kolkata	107	119	1,741	981	1,892	56.3
Lucknow	111	124	1,697	1,132	2,060	66.7
Mumbai	794	597	25,583	17,473	28,891	68.3
Nagpur	201	157	5,376	3,969	6,130	73.8
New Delhi	37	94	847	305	874	36.0
Patna	3	6	32	17	26	53.1
Thiruvananthapuram	76	104	2,626	1,611	2,633	61.3
Total	**2,439**	**3,456**	**64,071**	**41,813**	**70,992**	**65.3**
Memo Item:						
Share of Ahmedabad, Bangalore, Chennai, Mumbai and Nagpur in total	74.0	74.5	79.7	80.8	80.0	

agencies, lack of diversification, huge accumulated losses, persistent NPAs, low recovery levels and various other types of organisational weaknesses. Many institutions continued to make losses during 2003-04. Total accumulated losses aggregated Rs.8,746 crore as on March 31, 2004. Further, as on March 31, 2005 six out of 31 StCBs and 136 out of 365 CCBs did not comply with the provision of Section 11(1) relating to minimum capital requirement of the B.R. Act, 1949 (AACS). One StCB and 32 CCBs have not been complying with minimum capital requirement for a period of over ten years, four StCBs and 77 CCBs for five to ten years and one StCB and 17 CCBs for three to five years. A sizable number of rural co-operative banks failed to comply with various other provisions of the B.R. Act, 1949 (AACS) relating to 'capacity to pay their depositors in full' and 'affairs not being conducted in a manner not detrimental to the interest of their depositors'. NABARD and the Reserve Bank, therefore, have been taking several supervisory and developmental measures in consultation with the Government of India for the revival of weak institutions and orderly growth of this important segment of the financial sector.

Regulation of Rural Co-operative Banks

Licensing of State Co-operative Banks / Central Co-operative Banks

4.42 No new licence was granted during 2004-05. Total number of licensed State co-operative banks (StCBs) and Central co-operative banks (CCBs) were 13 and 73, respectively, at end-March 2005. Show cause notices were issued to six CCBs in 2004-05 for rejection of their licence applications. As at end-March 2005, nine CCBs were placed under the Reserve Bank's directions prohibiting them from granting loans and advances to certain areas and/or accepting fresh deposits. No scheduled status was granted to any StCB during the year for inclusion in the Second Schedule under Section 42 of the RBI Act, 1934. Total number of scheduled StCBs remained at 16 at end-March 2005.

Prudential Guidelines on Agricultural Advances

4.43 As mentioned in the Annual Policy Statement for the year 2004-05, prudential norms on income recognition, asset classification and provisioning with respect to agricultural advances were modified

on July 12, 2004 with a view to aligning the repayment dates with harvesting of crops. Accordingly, effective September 30, 2004 a loan granted for short duration crops is required to be treated as NPA if the instalment of the principal or interest thereon remains unpaid for two crop seasons beyond the due date. A loan granted for long duration (with crop season longer than one year) crops is required to be treated as NPA, if the instalment of principal or interest thereon remains unpaid for one crop season beyond the due date.

Asset Classification–State Government Guaranteed Advances

4.44 Revised guidelines on asset classification norms for State Government guaranteed exposures (*i.e.*, advances and investments), as applicable to commercial banks, were issued to StCBs and CCBs on January 20, 2005 which are to be implemented in a phased manner. Accordingly, it was decided to delink the asset classification and provisioning requirements in respect of State Government guaranteed loans and advances from invocation of State Government guarantee and treat such exposures for asset classification purpose in the same manner as applicable to exposures not guaranteed by the State Governments. However, with a view to enabling banks to have a smooth transition in the matter, the revised prudential norms in respect of State Government guaranteed exposures (*i.e.*, both advances and investments) will be implemented in a phased manner in two stages. With effect from the year ending March 31, 2006, State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms, if interest and/or instalment of principal or any other amount due to the bank remains overdue for more than 180 days. In the second stage, which would begin from the year ending March 31, 2007, State Government guaranteed advance and investment in State Government guaranteed securities would attract asset classification and provisioning norms, if interest and/or instalment of principal or any other amount due to the bank remains overdue for more than 90 days.

Additional Provisioning Requirement for NPAs

4.45 For the sake of convergence in policies governing all banks, guidelines for additional provisioning for all advances classified as 'doubtful for more than three years' were issued on March 01, 2005, to be implemented in a phased manner from April 01, 2007. In terms of the guidelines, for the unsecured portion of the advance, which is not covered by the realisable value of tangible security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis, provision will be to the extent of 100 per cent, as hitherto. The secured portion, on the other hand, would be divided into two categories. Outstanding stock of NPAs classified as 'doubtful for more than three years' as on March 31, 2007 would need to be provided for in a phased manner up to 100 per cent till March 31, 2010. Also, 100 per cent provisioning would need to be made for the advances classified as 'doubtful for more than three years' on or after April 1, 2007.

Task Force on Revival of Rural Co-operative Credit Institutions

4.46 The Government of India had constituted a Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof. A. Vaidyanathan) to propose an action plan for reviving the rural co-operative banking institutions and suggest an appropriate regulatory framework for these institutions. The Task Force in its Report submitted to the Central Government on February 15, 2005 made several recommendations to strengthen the rural co-operative credit structure in the country (Box IV.5). The Government has accepted the recommendations of the Task Force in principle and held consultative meetings with the State Governments.

4.47 In the context of an urgent need for strengthening the long-term co-operative credit structure, the Government of India entrusted the Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof A. Vaidyanathan), which submitted its report earlier on short-term structure, also to study the long-term co-operative credit structure for agriculture and rural development.

Supervision of the Rural Co-operative Structure

4.48 NABARD undertakes inspection of RRBs, StCBs and CCBs in accordance with the powers vested under Section 35(6) of the Banking Regulation Act, 1949 (AACS). Besides, NABARD conducts voluntary inspection of SCARDBs, Apex Weavers' Co-operative Societies and State Co-operative Marketing Federations. The frequency

Box IV.5: Task Force on Revival of Rural Co-operative Credit Institutions

The major recommendations of the Task Force are as under:

- The Co-operative Credit Structure (CCS) is impaired in governance, managerial and financial fronts and hence needs to be revived and restructured.
- The financial restructuring shall be contingent on commitment to and implementation of legal and institutional reforms by the State Governments.
- Financial assistance be made available for (i) wiping out accumulated losses; (ii) covering invoked but unpaid guarantees given by the State Governments; (iii) increasing the capital to a specified minimum level; (iv) retiring Government share capital; and (v) technical assistance.
- Availability of financial assistance from the Government of India shall be strictly subject to legal and institutional reforms in the co-operative sector to ensure that the co-operatives become truly democratic and member driven. These reforms shall include: (i) ensuring full voting membership rights on all users of financial services including depositors; (ii) removing state intervention in administrative and financial matters in co-operatives; (iii) removing provision for Government equity and participation in the Boards of co-operatives; (iv) withdrawing restrictive orders on financial matters; (v) permitting co-operatives the freedom to take loans from any financial institution and not necessarily from only the upper tier and similarly place their deposits with any financial institution of their choice; (vi) permitting co-operatives under the parallel Acts to be members of upper tiers under the existing co-operative societies Acts and *vice versa;* (vii) limiting powers of the State Governments to supersede Boards; (viii) ensuring timely elections before the expiry of the term of the existing Boards; (ix) facilitating full regulatory powers for the Reserve Bank in case of co-operative banks; and (x) introducing prudential norms including CRAR for all financial co-operatives including PACS.
- The Task Force has also recommended certain major amendments to the provisions of the B.R. Act, 1949 enabling removal of dual control and bringing the co-operatives under the regulatory control of the Reserve Bank. These include: (i) all co-operative banks would be on par with the commercial banks as far as regulatory norms are concerned; (ii) the Reserve Bank will prescribe 'fit and proper' criteria for election to the Boards of co-operative banks; (iii) the Reserve Bank will prescribe certain criteria for professionals to be on the Boards of co-operative banks; (iv) the CEOs of the co-operative banks would be appointed by the respective banks themselves; and (v) co-operatives, other than co-operative banks as approved by the Reserve Bank, would not accept non-voting member deposits. Such co-operatives would also not use words such as 'bank', 'banking', 'banker' or any other derivative of the word 'bank' in their registered name.
- Total financial assistance has been estimated tentatively at Rs.14,839 crore. The Task Force, however, has recommended a special audit to ascertain the exact requirement of assistance. The financial assistance be shared by the Government of India, State Governments and the CCS based on the origin of losses within a flexible matrix.
- NABARD be designated as the Nodal Implementing and Pass Through Agency to coordinate and monitor the progress of the programme representing the Government of India. NABARD will prepare model MoUs, model balance sheet proforma for PACS and CCBs.
- The Scheme be kept open for a period of two years for the State Governments to decide on their participation.
- The Scheme be operationalised through National Guidance and Monitoring Committee, State Level Implementation and Monitoring Committees and District Level Planning and Implementation Committees at national, State and district levels, respectively.

of statutory/voluntary inspections by NABARD is being increased from 2005-06. Accordingly, statutory inspections of all StCBs as well as of those CCBs and RRBs which are not complying with minimum capital requirements as required under the B.R. Act, 1949 (AACS), and the Reserve Bank of India Act, 1934, respectively, and voluntary inspections of all SCARDBs will be conducted on an annual basis. The statutory inspections of CCBs and RRBs with positive net worth as also the voluntary inspections of Apex Co-operative Societies/Federations would continue to be conducted once in two years. With the introduction of annual inspections, the system of conducting quick inspections has been dispensed with. Inspections of 326 banks (12 StCBs, 181 CCBs and 133 RRBs) and voluntary inspections of 11 SCARDBs and four Apex institutions were carried out during the year.

4.49 The Board of Supervision (BoS) constituted by NABARD in 1999 to provide guidance and direction on matters relating to supervision of StCBs, CCBs and RRBs, met four times during 2004-05. The issues deliberated by the Board included: (i) review of insolvent StCBs and CCBs; (ii) State-wise review of the functioning of co-operative credit institutions; (iii) review of off-site supervisory system (OSS); (iv) review of frauds, misappropriation, embezzlements, defalcations; (v) review of progress in implementation of the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities (Chairman: Prof. V.S. Vyas); (vi) review of functioning of StCBs and SCARDBs based on inspection findings; (vii) procedure for receipt and follow-up of compliance reports on inspection findings; (viii) risk management systems in co-operative banks and RRBs; (ix) review of

Table IV.9: Elected Boards of Rural Co-operative Banks under Supersession
(As on March 31, 2004)

Particular	StCBs	CCBs*	SCARDBs	PCARDBs	Total
1	2	3	4	5	6
(i) Total no. of Institutions	31	365	20	768	**1,184**
(ii) No. of Institutions where Boards are under supersession	12	186	11	416	**625**
Percentage of Boards under supersession [(ii) as percentage of (i)]	**38.7**	**51.0**	**55.0**	**54.2**	**52.8**

* : In respect of reporting banks only.
Source: NABARD.

financial position of RRBs with deposit erosion of 25 per cent or more; and (x) making applicable the revised prudential norms to SCARDBs and PCARDBs.

4.50 The Board expressed concern over: (i) deterioration in the financial position of many co-operative banks; (ii) non-compliance by several banks with the provisions of Section 11(1) of the B.R. Act, 1949 (AACS), relating to minimum capital requirement; and (iii) absence of penal provision against the banks not adhering to the Reserve Bank's guidelines for asset classification and provisioning norms. A set of 'trigger points', based on certain quantifiable parameters, for initiating supervisory and regulatory actions against StCBs and CCBs, approved by the BoS were placed before the Board of Directors of NABARD and conveyed to all StCBs and CCBs.

Management of Co-operatives

4.51 Although NABARD continued to profess the need for co-operative banks to be managed by duly elected Boards of Management, the phenomenon of supersession of elected Boards of Management continued. Boards of most of institutions in nearly all categories of co-operative banks were under supersession as on March 31, 2004 (Table IV.9).

State Co-operative Banks

Operations of State Co-operative Banks

4.52 Assets/liabilities of StCBs grew at a higher rate during 2003-04 as compared with the preceding year. Deposits of StCBs grew significantly during the year. Most of such deposits were deployed in investments, a trend which was observed in respect of other financial institutions as well. Many financial institutions increased their exposure to investments for making capital gains in a declining interest rate scenario. Loans and advances extended by StCBs, however, decelerated further from the low growth witnessed in the previous year (Table IV.10).

Table IV.10: Liabilities and Assets of State Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2003	2004	2002-03	2003-04
1	2	3	4	5
Liabilities				
1. Capital	897 (1.4)	951 (1.4)	0.8	6.0
2. Reserves	7,081 (11.3)	7,569 (11.2)	16.4	6.9
3. Deposits	39,386 (63.1)	43,486 (64.1)	6.0	10.4
4. Borrowings	12,209 (19.6)	12,457 (18.4)	1.4	2.0
5. Other Liabilities	2,853 (4.6)	3,375 (4.9)	6.2	18.3
Total Liabilities/Assets	**62,426 (100.0)**	**67,838 (100.0)**	**4.9**	**8.7**
Assets				
1. Cash and Bank Balances	3,485 (5.6)	5,066 (7.5)	3.6	45.4
2. Investments	19,627 (31.4)	23,111 (34.1)	10.2	17.8
3. Loans and Advances	34,761 (55.7)	35,105 (51.8)	2.9	1.0
4. Other Assets	4,553 (7.3)	4,556 (6.6)	0.2	0.1

Note : 1. Figures in parenthesis are percentages to total liabilities/assets.
2. 'Reserves' include credit balance in profit and loss account shown separately by some of the banks.

Source : NABARD.

Financial Performance of State Co-operative Banks

4.53 Interest income of StCBs declined by Rs.267 crore during 2003-04. This, however, was more than compensated by a sharp increase in other income, on the one hand, and decline in interest expended and operating expenses, on the other. As a result, operating profits of StCBs improved marginally during the year. However, a sharp increase in provisions and contingencies resulted in decline in net profits by 20.6 per cent to Rs.373 crore (Table IV.11). A part of these profits was appropriated to set off losses incurred in previous years, which brought down the accumulated losses to Rs.260 crore at end-March 2004 from Rs.343 crore at end of the previous year. Twenty seven out of 31 StCBs earned profits, while four incurred losses during the year. Twenty StCBs earned higher profits during 2003-04, while seven earned lower profits. Losses incurred by three loss making StCBs declined while it increased for one (Appendix Table IV.6).

Table IV.11: Financial Performance of State Co-operative Banks

(Amount in Rs. crore)

Item	2002-03	2003-04	Percentage Variations	
			2002-03	2003-04
1	2	3	4	5
A. Income (i+ii)	**6,197**	**6,046**	**3.9**	**-2.4**
	(100.0)	**(100.0)**		
i) Interest Income	5,581	5,314	-1.5	-4.8
	(90.1)	(87.9)		
ii) Other Income	616	732	104.3	18.8
	(9.9)	(12.1)		
B. Expenditure (i+ii+iii)	**5,727**	**5,673**	**-0.9**	**-0.9**
	(100.0)	**(100.0)**		
i) Interest Expended	4,233	3,998	-1.7	-5.6
	(73.9)	(70.5)		
ii) Provisions and Contingencies	1,003	1,204	-4.2	20.0
	(17.5)	(21.2)		
iii) Operating Expenses	491	471	16.1	-4.1
	(8.6)	(8.3)		
of which :				
Wage Bill	311	317	0.7	1.9
C. Profit				
i) Operating Profit	1,473	1,577	19.4	7.1
ii) Net Profit	470	373	156.5	-20.6
D. Total Assets	**62,426**	**67,838**	**4.9**	**8.7**

Note : 1. Figures in brackets are percentage shares in the respective total.

Source : NABARD.

Central Co-operative Banks

Operations of Central Co-operative Banks

4.54 Total assets/liabilities of central co-operative banks (CCBs) expanded at a lower rate during 2003-04 as compared with the previous year mainly due to slowdown of deposits, borrowings and internal generation. The impact of this slowdown was felt mainly on loans and advances, which grew at a much lower rate as compared with the previous year. Investments, however, increased sharply, a trend which was observed in respect of other financial intermediaries as well. The structure of liabilities and assets of CCBs remained broadly unchanged (Table IV.12).

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

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2003	2004	2002-03	2003-04
1	2	3	4	5
Liabilities				
1. Capital	3,655	3,897	6.7	6.6
	(3.1)	(3.1)		
2. Reserves	13,181	15,234	22.0	15.6
	(11.2)	(12.1)		
3. Deposits	73,919	79,153	8.4	7.1
	(62.9)	(63.0)		
4. Borrowings	19,639	20,256	4.4	3.1
	(16.7)	(16.1)		
5. Other Liabilities	7,112	7,145	10.2	0.5
	(6.1)	(5.7)		
Total Liabilities/Assets	**1,17,506**	**1,25,685**	**9.1**	**7.0**
	(100.0)	**(100.0)**		
Assets				
1. Cash and Bank Balances	7,311	7,689	8.5	5.2
	(6.2)	(6.1)		
2. Investments	31,114	35,180	5.7	13.1
	(26.5)	(28.0)		
3. Loans and Advances	64,214	67,152	8.3	4.6
	(54.7)	(53.4)		
6. Other Assets	14,867	15,664	21.8	5.4
	(12.6)	(12.5)		

Note : 1. Figures in brackets are percentage shares in total liabilities/assets.
2. ‘Reserves’ include credit balance in profit and loss account shown separately by some of the banks.

Source : NABARD.

Financial Performance of CCBs

4.55 Interest income of CCBs declined marginally during 2003-04 as compared with the previous year on account of decline both in volumes and interest rates. However, net interest income was higher by Rs.226 crore than the preceding year. Increase in operating expenses was more or less offset by the increase in 'other' income. Provisions and contingencies also declined. As a result, CCBs registered net profits at the aggregate level in 2003-04 in contrast with net losses in the previous year (Table IV.13). During 2003-04, 261 out of 365 CCBs earned profits amounting to Rs.864 crore, while 102 CCBs incurred losses to the tune of Rs.756 crore.

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

(Amount in Rs. crore)

Item	2002-03	2003-04	Percentage Variations	
			2002-03	2003-04
1	2	3	4	5
A. Income (i+ii)	**12,086**	**11,912**	**5.3**	**-1.4**
	(100.0)	**(100.0)**		
i) Interest Income	11,291	11,024	3.7	-2.4
	(93.4)	(92.5)		
ii) Other Income	795	888	31.8	11.7
	(6.6)	(7.5)		
B. Expenditure (i+ii+iii)	**12,354**	**11,804**	**7.0**	**-4.5**
	(100.0)	**(100.0)**		
i) Interest Expended	7,812	7,319	1.8	-6.3
	(63.2)	(62.0)		
ii) Provisions and Contingencies	2,571	2,414	24.4	-6.1
	(20.8)	(20.5)		
iii) Operating Expenses	1,971	2,071	9.1	5.1
	(16.0)	(17.5)		
of which :				
Wage Bill	1,467	1,526	4.6	4.0
C. Profit				
i) Operating Profit	2,303	2,522	15.0	9.5
ii) Net Profit	-268	108	588.2	-140.3
D. Total Assets	**1,17,506**	**1,25,685**	**9.1**	**7.0**

Note : 1. Figures in brackets are percentage shares in the respective totals.

Source : NABARD.

Number of profit-earning CCBs and profits earned by them increased during 2003-04 in all States, except Maharashtra, Tamil Nadu and Uttar Pradesh. The number of loss making CCBs and the losses incurred by them declined in all States, except Jharkhand, Karnataka, Tamil Nadu and Uttar Pradesh (Appendix Table IV.7). On the whole, CCBs, as a group, accumulated net losses aggregating Rs.5,126 crore at end-March 2004.

Primary Agricultural Credit Societies (PACS)

4.56 Primary agricultural credit societies (PACS) is the foundation of the co-operative credit system on which the superstructure of the short-term co-operative credit system rests. It is the PACS which directly interface with individual farmers, provide short-term and medium-term credit, supply agricultural inputs, distribute consumer articles and arrange for marketing of produce of its members through a co-operative marketing society.

4.57 Total number of PACS declined to 1,05,735 at end-March 2004 from 1,12,309 in the previous year. However, the membership of PACS increased by 9.6 per cent to 135 million. Borrowing members at 51 million constituted 37.9 per cent of the total membership as compared with 51.7 per cent in the previous year (Table IV.14).

Table IV.14: Primary Agricultural Credit Societies (PACS) – Membership

(No. in million)

Item	As at end-March		
	2002	2003	2004
1	2	3	4
1. No. of Societies	0.098	0.112	0.106
2. Total Membership	102.14	123.55	135.41
of which:			
a) Scheduled Caste	13.73	33.18	30.61
b) Scheduled Tribe	10.06	12.02	11.89
3. Total No. of Borrowers	55.55	63.88	51.27
of which:			
a) Scheduled Caste	7.36	11.50	6.49
b) Scheduled Tribe	4.10	8.07	3.44
4. Total No. of Employees	0.206	0.261	0.347

Source: NAFSCOB.

Operations of PACS

4.58 Resource mobilisation continued to be a major area of weakness of the PACS. At present, most of the PACS are totally dependent on the finance provided by CCBs. PACS affiliated with weak CCBs are starved of finance, limiting their credit and non-credit business. During 2003-04, while borrowings by PACS increased sharply, their deposits declined significantly. Decline in reserves of PACS was more than made up by increase in paid-up capital. On the whole, resources of PACS expanded at a lower rate during 2003-04 as compared with the previous year. On the asset side, increase in the short-term loans was partly offset by decline in the long-term loans. As a result, overall loan portfolio, in percentage terms, grew at a lower rate than the previous year.

Financial Performance of PACS

4.59 During 2002-03, 83,349 PACS earned profit amounting to Rs.404 crore, while 53,626 PACS incurred losses of Rs.1,862 crore. Thus, PACS, as a group, incurred net losses of Rs.1,458 crore. PACS have accumulated a large amount of outstanding overdues. Although overdues as percentage of total demand declined during 2003-04, these remained very high at 36.8 per cent at end-March 2004 (Table IV.15).

PACS-Regional Operations

4.60 The States of Maharashtra and Gujarat accounted for 28 per cent of total PACS in the country with Maharashtra alone accounting for about 20 per cent. The North-Eastern States, on the other hand, accounted for only three per cent of the PACS in the country. The Central Region (Uttar Pradesh, Uttaranchal, Chattisgarh and Madhya Pradesh) with one-fourth of the population, predominantly rural, accounted for only 15 per cent of total PACS. Notwithstanding the concentration of PACS in some regions, nearly 97 per cent of the villages in the country are

Table IV.15: Primary Agricultural Credit Societies – Select Indicators

(Amount in Rs. crore)

Item	As at end-March			Percentage Variation	
	2002	2003	2004	2002-03	2003-04
1	2	3	4	5	6
A. Liabilities					
1. Total Resources (2+3+4)	51,176	57,596	60,797	12.5	5.6
2. Owned Funds (a+b)	6,855	8,198	8,397	19.6	2.4
a. Paid Up Capital	4,390	4,953	5,166	12.8	4.3
of which: Government Contribution	504	619	630	22.8	1.8
b. Total Reserves	2,466	3,245	3,231	31.6	-0.4
3. Deposits	14,846	19,120	18,143	28.8	-5.1
4. Borrowings	29,475	30,278	34,257	2.7	13.1
5. Working Capital	51,905	61,142	62,047	17.8	1.5
B. Assets					
1. Total Loans Issued (a+b)*	30,770	33,996	35,119	10.5	3.3
a) Short-Term	25,051	27,200	29,326	8.6	7.8
b) Medium-Term	5,719	6,796	5,793	18.8	-14.8
2. Total Loans Outstanding (a+b)	40,779	42,411	43,873	4.0	3.4
a) Short-Term	27,666	29,107	30,808	5.2	5.8
b) Medium-Term	13,113	13,305	13,065	1.5	-1.8
C. Overdues					
1. Total Demand	34,077	40,341	44,237	18.4	9.7
2. Total Collection	23,010	25,051	27,942	8.9	11.5
3. Total Balance (Overdues) (a+b)	11,067	15,289	16,295	38.1	6.6
a) Short-Term	8,172	11,570	12,279	41.6	6.1
b) Medium-Term	2,895	3,720	3,918	28.5	5.3
4. Percentages of Overdues to Demand	32.5	38.2	36.8		

* : During the year.
Source: NAFSCOB.

covered by PACS. On an average, a PACS served eight villages for the country as a whole at end-March 2004. Within States, the average number of villages served by a PACS ranged from as low as one village in Kerala and Nagaland to 118 villages in Arunachal Pradesh. In Kerala and Nagaland, the number of PACS at 1,953 and 1,719, respectively, were more than the villages at 1,639 and 969, respectively, at end-March 2004 (Table IV.16).

4.61 Deposit mobilisation by most of the PACS has been very small, barring those operating in the States of Kerala, Tamil Nadu, Andhra Pradesh, Himachal Pradesh and Karnataka. PACS in Kerala and Tamil Nadu mobilised deposits amounting to Rs.8,352 crore and Rs.2,761 crore, respectively, as on March 31, 2004, constituting 61 per cent of the total deposits mobilised by all the PACS in the country. PACS in the States of Orissa, Karnataka, Maharashtra, Himachal Pradesh and Punjab also mobilised sizeable deposits. The average size of deposits per PACS was the highest in Kerala, followed by Tamil Nadu, Orissa and Karnataka (Table IV.17).

Table IV.16: Coverage of Villages by Primary Agricultural Credit Societies (PACS)
(As at end-March 2004)

Sr. No.	State	No. of Villages	No. of PACS	Ratio of Villages to PACS
1	2	3	4	5
1.	Andaman and Nicobar	204	45	5
2.	Andhra Pradesh	27,647	4,103	7
3.	Arunachal Pradesh	3,649	31	118
4.	Assam	24,590	809	30
5.	Bihar	77,694	5,936	13
6.	Chattisgarh	30,640	1,464	21
7.	Gujarat	24,483	8,482	3
8.	Haryana	7,077	2,423	3
9.	Himachal Pradesh	20,118	2,091	10
10	Jammu and Kashmir	3,891	425	9
11.	Jharkhand	3,611	208	17
12.	Karnataka	25,079	3,863	6
13.	Kerala	1,639	1,953	1
14.	Madhya Pradesh	57,546	4,568	13
15.	Maharashtra	60,409	20,866	3
16.	Meghalaya	5,629	179	31
17.	Mizoram	710	165	4
18.	Nagaland	969	1,719	1
19.	Orissa	45,811	3,845	12
20.	Pondicherry	264	52	5
21.	Punjab	12,428	3,996	3
22.	Rajasthan	41,786	5,236	8
23.	Tamil Nadu	20,189	4,533	4
24.	Tripura	962	270	4
25	Uttar Pradesh	1,12,804	8,929	13
26.	Uttaranchal	5,900	446	13
27.	West Bengal	1,84,335	18788	10
	All India	**8,00,473**	**1,05,735**	**8**

Source: NAFSCOB.

Table IV.17: Average Deposits per Primary Agricultural Credit Society in Major States

(Rs. Lakh)

Sr. No.	State	End-March 2002	2003	2004
1	2	3	4	5
1.	Andhra Pradesh	6	17	18
2.	Gujarat	1	1	1
3.	Haryana	6	8	9
4.	Karnataka	14	26	20
5.	Kerala	324	365	428
6.	Madhya Pradesh	5	8	8
7.	Maharashtra	1	5	1
8.	Orissa	55	56	59
9.	Punjab	9	11	13
10.	Rajasthan	2	2	2
11.	Tamil Nadu	73	72	61
12.	Tripura	–	–	–
13.	Uttaranchal	7	7	7
	All India	**15**	**17**	**17**

– : Nil/Negligible.
Source: NAFSCOB.

4.62 The credit penetration level of PACS varies across States. The borrowing members of PACS as percentage of total members has been low in most of the States, implying that many of these institutions are focussing primarily on mobilising deposits from the members or a small number of members are availing of large loans (Table IV.18). Recovery performance of PACS continued to deteriorate. High level of overdues in some States

Table IV.18: Percentage of Borrowing Members to Total Members of PACS

(Per cent)

Sr. No.	State	2001-02	2002-03	2003-04
1	2	3	4	5
1.	Andhra Pradesh	24	22	11
2.	Assam	4	3	3
3.	Bihar	1	1	2
4.	Himachal Pradesh	11	11	11
6.	Jammu and Kashmir	4	4	1
7.	Karnataka	34	17	21
8.	Maharashtra	31	32	31
9.	Meghalaya	1	17	19
10.	Rajasthan	35	34	33
11.	Tripura	1	1	–
12.	West Bengal	26	29	29

– : Nil/Negligible.
Source: NAFSCOB.

drastically reduced the eligibility of a large number of members for fresh borrowings and thus hampering the growth in the borrowing membership.

Challenges faced by the PACS

4.63 The vital link in the short-term co-operative credit structure has developed some weaknesses. Most of them are too small in size to be economical and viable. Besides, several of them are also dormant. Out of 1,12,309 PACS as on March 31, 2003, 69,725 (62 per cent) were viable, 33,375 (29.7 per cent) potentially viable, 3,979 (3.5 per cent) dormant and 1,882 (1.7 per cent) defunct.

4.64 PACS continue to rely heavily on external support and have not yet been able to become self-reliant in respect of resources through deposit mobilisation and internal accruals, affecting their growth and expansion of business activities.

4.65 PACS need to function as viable units responsive to the needs, aspirations and convenience of its members, particularly, those belonging to the more vulnerable sections of the society. They must function effectively as well-managed and multi-purpose institutions mobilising the savings of the rural people and providing a package of services including credit, supply of agricultural inputs and implements, consumer goods, marketing services and technical guidance with focus on weaker sections.

4.66 Some of the critical challenges facing primary level co-operative credit institutions, apart from improving resource mobilisation, are: (i) increasing diversification in business portfolio; (ii) improving volume of business; (iii) arresting decline in membership by the borrowers; (iv) reducing cost of management; (v) correcting imbalances in loans outstanding; (vi) improving skills of the staff and imparting professionalisation; (vii) strengthening management information system (MIS); (viii) reducing involvement in non/less profitable business; and (ix) improving interest margins.

Long-Term Rural Co-operatives

Operations of Long Term Rural Co-operatives

4.67 Assets/liabilities of SCARDBs and PCARDBs increased moderately during 2003-04, the latest period for which data are available. SCARDBs and PCARDBs expanded their liabilities during 2003-04 mainly through substantial internal generation of funds and borrowings. Decline in deposits witnessed in 2002-03 was reversed in 2003-04. However, the share of deposits in total resources continued to be small. Their loans and advances portfolio expanded moderately during the year (Table IV.19).

Financial Performance of Long-Term Rural Co-operative Banks

4.68 SCARDBs and PCARDBs continued to incur losses during 2003-04. Although number of profit-making SCARDBs and PCARDBs and profits earned by them improved, losses incurred by loss making SCARDBs and PCARDBs continued to outweigh the profits earned resulting in overall losses for these institutions (Table IV.20).

4.69 While SCARDBs in ten States earned profits, in nine States they incurred losses (information in respect of SCARDBs in one State was not available). Profits earned by SCARDBs in seven States (Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Punjab, Uttar Pradesh and West Bengal) improved during the year. SCARDBs in Gujarat turned around and earned profits during 2003-04. Profits of SCARDBs declined in two States (Chattisgarh and Rajasthan). Losses incurred by loss making SCARDBs declined in six States (Assam, Bihar, Jammu and Kashmir, Maharashtra, Orissa and Tripura), while they increased in three States (Karnataka, Pondicherry and Tamil Nadu) (Appendix Table IV.8). Of the 711 reporting

Table IV.19: Operations of Long-term Co-operative Credit Institutions

(Amount in Rs. crore)

Indicator	As at end-March			
	2003	2004	2003	2004
	SCARDBs		PCARDBs	
1	2	3	4	5
Number	20	20	768	768
Share Capital	732	762	891	916
Of which:				
From State Government	90	89	128	140
Reserves	2,174	2,742	1,831	2,055
Deposits	501	605	214	252
Borrowings	15,892	16,882	11,214	11,880
Loans and Advances outstanding	15,354	16,212	10,809	11,209

Note: 1. Data for 2004 are provisional.
2. Data for SCARDB in Manipur and PCARDBs in Kerala and Orissa for 2003-04 were repeated from the previous year.

Table IV.20: Financial Performance of State Co-operative Agriculture and Rural Development Banks (SCARDBs) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)

(Amount in Rs. crore)

Agency/Year	Total Number	Profit-making		Loss-making		Overall Profit/Loss(-)
		Number	Amount	Number	Amount	
1	2	3	4	5	6	7
SCARDBs						
2001-02	20	9	85	11	182	-97
2002-03	20	8	62	11	164	-102
2003-04*	20	10	97	9	210	-113
PCARDBs						
2001-02	768	196	47	572	323	-276
2002-03	768	208	52	560	369	-317
2003-04*	768	281	76	430	326	-250

* : Data in respect of Manipur SCARDB, 4 PCARDBs in Kerala and 53 PCARDBs in Orissa were not available.
Note : Data are provisional.
Source: NABARD.

PCARDBs in 12 States, for which information was available, only 281 PCARDBs made profits during 2003-04. PCARDBs operating only in three States (Himachal Pradesh, Punjab and West Bengal) earned net profits. PCARDBs in others States (Chattisgarh, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan and Tamil Nadu) incurred losses (Appendix Table IV.9).

NPAs and Recovery Performance of the Rural Co-operative Sector

4.70 The asset quality of rural co-operative banks, especially the long-term credit institutions, continued to be poor. NPA levels of all co-operative banking institutions increased further during 2003-04, both in absolute terms and in relation to outstanding loans. NPAs ranged from 18.5 per cent (in the case of StCBs) to 35.5 per cent (in the case PCARDBs). The asset quality of short-term rural co-operatives was somewhat better than that of long-term co-operatives. The recovery performance of co-operative institutions, except SCARDBs, however, improved marginally (Table IV.21).

Composition of NPAs and Provisioning

4.71 In respect of all the financial institutions in the rural sector (StCBs, CCBs, SCARDBs and PCARDBs), percentages of NPAs in the sub-standard category declined, while those in the doubtful category increased during 2003-04, suggesting deterioration in asset quality. However, all the institutions were able to meet the necessary provisioning requirements for NPAs (Table IV.22).

Table IV.21: Non-Performing Assets and Recovery Ratios of Rural Co-operative Banks

(Per cent)

At end-March	StCBs		CCBs		SCARDBs		PCARDBs	
	NPAs	Recovery to Demand	NPAs	Recovery to Demand	NPAs	Recovery to Demand	NPAs	Recovery to Demand
1	2	3	4	5	6	7	8	9
2002	13.4	82.0	19.9	66.0	18.5	55.0	30.2	48.0
2003	18.1	80.0	21.6	61.0	21.0	49.0	33.0	44.0
2004*	18.5	84.0	23.2	62.0	26.7	44.0	35.5	44.0

* : Data are provisional.
Note : 1. Data for NPAs relate to end-March period, while that for recovery to demand relate to end-June of the corresponding year.
2. In the absence of non-availability of the relevant data, NPA figures as on March 31, 2004 in respect of PCARDBs in Orissa, West Bengal and Manipur SCARDBs were repeated from the previous year.

Source : NABARD.

Table IV.22: Composition of NPAs and Provisioning by Co-operative Banks

(Amount in Rs. crore)

Asset Classification	As at end-March							
	2003	2004	2003	2004	2003	2004	2003	2004
	StCBs		CCBs		SCARDBs		PCARDBs	
1	2	3	4	5	6	7	8	9
Sub-Standard	3,544 (56.3)	3,213 (50.2)	7,595 (54.7)	8,137 (52.6)	2,107 (65.5)	2,630 (60.6)	1,975 (55.3)	2,051 (51.6)
Doubtful	2,540 (40.4)	2,966 (46.3)	5,073 (36.5)	6,024 (38.9)	1,089 (33.8)	1,687 (38.9)	1,565 (43.8)	1,879 (47.3)
Loss Assets	210 (3.3)	226 (3.5)	1,213 (8.8)	1,318 (8.5)	22 (0.7)	20 (0.5)	29 (0.9)	45 (1.1)
Total NPAs	**6,294**	**6,405**	**13,881**	**15,479**	**3,218**	**4,337**	**3,569**	**3,975**
Memo Item:								
Provisions Required	3,085	3,435	5,950	6,297	609	833	807	944
Provisions Made	3,178	3,670	6,384	6,900	610	833	823	943

Note : 1. Data repeated from previous year for 37 CCBs in Kerala and Tamil Nadu and 4 StCBs, *viz.*, Kerala, Manipur, Tamil Nadu and Pondicherry and for Manipur SCARDBs and PCARDBs in West Bengal and Orissa.
2. Figures in parentheses indicate percentage to total.

State-wise NPAs/Recovery of Rural Co-operatives

State Co-operative Banks (StCBs)

4.72 NPAs of StCBs varied widely across the States at end-March 2004. In some States such as Haryana, Punjab and Rajasthan, NPA ratio (NPAs as percentage to loans outstanding) was less than 3 per cent, while in some other States (Arunachal Pradesh, Assam, Bihar, Manipur and Nagaland), NPAs were more than 50 per cent. Only in seven out of 31 States/UTs, the NPA ratio, was less than 10 per cent.

4.73 The recovery rate of StCBs also varied significantly across the States. Haryana, Kerala, Madhya Pradesh, Punjab and Tamil Nadu, StCBs achieved more than 90 per cent recovery during 2003-04. However, in several States such as Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya and Tripura, the recovery rate was less than 50 per cent (Appendix Table IV.6).

Central Co-operative Banks (CCBs)

4.74 NPAs ratio in respect of CCBs also varied significantly across the States from 5 per cent to 68 per cent at end-March 2004. Only in four States (Haryana, Himachal Pradesh, Punjab and Uttaranchal), the NPAs ratio was less than 10 per cent. In two States (Bihar and Jharkhand), the NPAs ratio was more than 60 per cent. At the all-India level, the recovery performance of CCBs increased marginally from 61 per cent to 62 per cent during 2003-04. While the recovery by CCBs in some States such as Andhra Pradesh, Bihar, Gujarat, Himachal Pradesh, Jammu and Kashmir, Kerala, Madhya Pradesh, Orissa, Rajasthan and Uttaranchal improved, it declined in some other States such as Chattisgarh, Haryana, Karnataka and West Bengal. In some States such as Himachal Pradesh, Kerala, Punjab and Uttaranchal, the recovery rate was more than 80 per cent during 2003-04 (Appendix Table IV.7).

SCARDBs

4.75 NPAs of SCARDBs across States varied between zero per cent (Haryana and Punjab) to 100 per cent (Manipur) at end-March 2004. NPAs in five States (Chattisgarh, Haryana, Kerala, Madhya Pradesh and Punjab) were less than 10 per cent. In as many as eight States (Assam, Bihar, Gujarat, Maharashtra, Manipur, Orissa, Tamil Nadu and Tripura), NPAs ratio was more than 50 per cent. The recovery ratio also varied widely between 2 per cent (Manipur) to 100 per cent (Punjab). The recovery rate in all the States was less than 80 per cent, except three States (Punjab, Haryana and Kerala). In as many as 12 States, the recovery rate was less than 50 per cent (Appendix Table IV.8).

PCARDBs

4.76 PCARDBs in all the States had NPAs ratio of more than 15 per cent at end-March 2004. PCARDBs operating in Chattisgarh had the lowest

NPA ratio (15.5 per cent) and those in Maharashtra the highest (83.8 per cent). NPAs of PCARDBs operating in Haryana, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Orissa, Rajasthan, Tamil Nadu and West Bengal were above 22 per cent.

4.77 Only 82 PCARDBs out of 768 had a recovery rate of above 80 per cent; the recovery rate of 152 PCARDBs ranged between 40 per cent and 60 per cent. Most of the PCARDBs (399) had recovery rates below 40 per cent. Significantly, all PCARDBs in Maharashtra (with lowest recovery rate) had recovery levels below 40 per cent (Appendix Table IV.9).

Measures taken by NABARD to reduce NPAs

4.78 High level of NPAs of co-operative banks has been a major cause of concern. With a view to reducing NPAs, co-operative banks were advised to make a detailed assessment of NPAs and to draw up strategies to bring them down to reasonable levels. Various measures suggested to co-operative banks in this regard included one-time settlement scheme (OTS), *Lok Adalats* and referring high value advances to the Debt Recovery Tribunals (DRTs). Besides, the refinance policy of NABARD was revised and linked to the level of NPAs so as to restrict refinance flow to banks with high level of NPAs. The State Governments were requested to help co-operative banks in reducing the NPAs by taking up special recovery drive with the support from the State Government departments. Co-operative banks are being encouraged to promote Farmers' Clubs and SHGs for their lending operations to reduce NPAs. Regional offices of NABARD were advised to provide necessary guidance to co-operative banks in this regard.

4. Micro Credit

4.79 The micro credit programme, which was formally heralded in 1992 with a modest pilot project of linking around 500 SHGs, has made rapid strides in India exhibiting considerable democratic functioning and group dynamism. The micro credit programme in India is now the largest in the world. Since independence, the Government of India and the Reserve Bank have made concerted efforts to provide the poor with access to credit. Despite the phenomenal increase in the physical outreach of formal credit institutions in the past several decades, the rural poor continue to depend on informal sources of credit. Institutions have also faced difficulties in dealing effectively with a large number of small borrowers, whose credit needs are small and frequent and their ability to offer collaterals is limited. Besides, cumbersome procedures and risk perceptions of the banks left a gap in serving the credit needs of the rural poor.

4.80 This led to a search for alternative policies, systems and procedures, saving and loan products, other complementary services and new delivery mechanisms that would fulfil the requirements of the poor. It is in this context that micro credit has emerged as the most suitable and practical alternative to the conventional banking in reaching the hitherto unreached poor population. Micro credit enables the poor people to be thrifty and helps them in availing the credit and other financial services for improving their income and living standards. Many research studies and some action research projects funded out of Research and Development Fund of NABARD led to the linkages of self-help groups (SHGs) with banks. The SHG-Bank Linkage Programme was formally launched in the year 1992 as a flagship programme by NABARD and aptly supported by the Reserve Bank through its policy support. The Programme envisages organisation of the rural poor into SHGs for building their capacities to manage their own finances and then negotiate bank credit on commercial terms. The poor are encouraged to voluntarily come together to save small amounts regularly and extend micro loans among themselves. Once the group attains required maturity of handling larger resources, the bank credit follows.

4.81 India has adopted a multi-agency approach for the development of its micro-finance programme. All the major credit institutions, *viz.*, commercial banks, co-operative banks, RRBs along with non-Governmental agencies (NGOs) have been associated with the micro-finance programme. The role of the delivering agents and their interface has led to alternative models of micro-finance (Box IV.6).

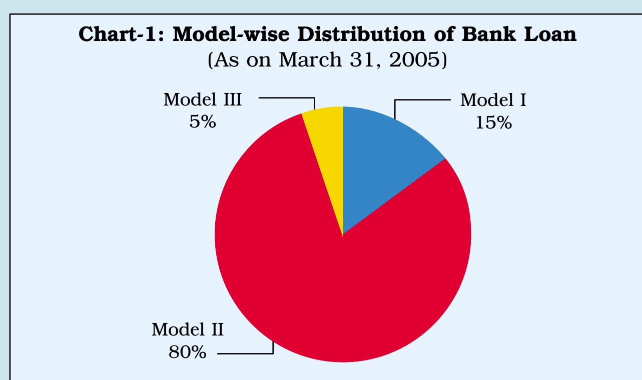
4.82 The micro-finance initiative of NABARD, *i.e.*, SHG-Bank linkage programme has passed through various phases over the last one and half decades, *viz.*, (i) pilot testing during 1992 to 1995, (ii) mainstreaming during 1996 to 1998 and

Box IV.6: Agency Model and Micro-finance

Three distinct linkage models of micro credit are currently being followed in India. Under *Model-I*, banks themselves take up the work of forming and nurturing the groups, opening their saving accounts and providing them bank loans. Up to March 2005, 15 per cent of the total number of SHGs financed were in this category. Under *Model-II*, SHGs are formed by NGOs and formal agencies but are directly financed by banks. This model continues to have a lion's share, with 80 per cent of SHGs financed up to March 2005, falling under this category. Under Model-III, SHGs are financed by banks using NGOs and other agencies as financial intermediaries. In areas where formal banking system faces constraints, the NGOs are encouraged to approach suitable bank for bulk loan assistance. The share of cumulative number of SHGs linked under this model up to end-March 2005 continued to be relatively small (Chart-1).

Chart-1: Model-wise Distribution of Bank Loan

(As on March 31, 2005)



Recognising their importance, both the Reserve Bank and NABARD have been spearheading the promotion and linkage of SHGs to the banking system through initiating proactive policies and systems. NABARD has been extending refinance support to the banking system and promotional grant support to NGOs and developing capacity building outreach of various partners.

Agency Model adopted in countries such as Brazil and South Africa has attracted wider attention in recent years. Under this model, banks are permitted to appoint wide range of entities as correspondent/agents, which are in close proximity to the people such as post offices, super markets, small stores, petrol pumps and drug stores. Such agents use kiosks or automated teller machines to accept payment, open accounts, take small deposits, provide micro credits, sell saving bonds and insurance. ACCION International, a micro-finance institution has developed "Service Company Model" to expand micro-finance operations. A Micro-finance Service Company is a non-financial company that provides loan origination and credit administration services to a bank by way of sponsoring, evaluating, approving, tracking and collecting loans for a certain fee. The deployment of such external entities and civil society organisations by banks help in reducing the transaction costs and enlarging the outreach to hitherto unbanked population. These successful experiments in other parts of the world underscore the need for exploring the feasibility of similar possibilities in the Indian context.

Following the announcement made in the Union Budget, 2005-06, an Internal Group (Chairman: Shri H.R. Khan) was set up in the Reserve Bank, *inter-alia,* to examine the issue of allowing banks to adopt the agency model by using the infrastructure of civil society organisations (CSOs), rural kiosks, and village knowledge centers to provide credit support to rural and farm sectors and examine the feasibility and modalities for appointment of "banking correspondents" to function as intermediaries between lending banks and beneficiaries. After examining these issues, the Group felt that linkages could be established under two broad models. One, the "Business Facilitator Model", wherein banks may use wide array of CSOs and others for supporting them by undertaking non-financial services. Under the second model, *i.e.*, "Business Correspondent Model", institutional agents/other entities could be used to support the banks for extending financial services (See also Box II.3).

(iii) expansion from 1998 onwards. The programme has now assumed the form of a micro-finance movement in many parts of the country and has started making inroads in the resource poor regions of the country as well. The target of covering one third of the rural poor through linkage of 1 million SHGs to be achieved by 2007 was realised much ahead by end-March 2004.

4.83 There was a massive expansion of the programme during 2004-05 with the banking system establishing credit linkage with 539 thousands new SHGs, taking the cumulative number of such SHGs to 1.61 million at end-March 2005. Banks extended loans aggregating Rs.6,898 crore at end-March 2005, registering a growth of 76.7 per cent over end-March 2004. The Bank loans per SHG increased from an average of Rs.36,179 to Rs.42,620, suggesting deepening of the credit access among the SHGs. The programme continued to enlist massive mobilisation of the rural poor women into the micro-finance movement. The number of poor families thus benefiting through SHGs increased from 16.7 million as on March 31, 2004 to over 24.2 million as on March 31, 2005, registering a growth of 45 per cent.

4.84 NGOs have clearly emerged as facilitator and promoter of SHG concept amongst the rural poor in the country (Box IV.7).

Agency-wise Trends

4.85 Commercial banks have the highest share in linkage with SHGs and financing them, followed by regional rural banks and co-operative banks.

Box IV.7: Micro-finance – Role of NGOs

The SHG-Bank Linkage Programme has been continuously supported by a large number of NGOs and similar partner agencies. It was, otherwise, a difficult task to organise rural poor into smaller homogeneous groups called self-help groups (SHGs), build their capacities to manage their own finances and then negotiate bank credit on commercial terms. The poor are encouraged and supported to voluntarily come together to save small amount of savings, called thrift regularly and extend micro loans among themselves to meet their emergent needs. Once the group attains required maturity of handling larger resources, the NGOs support the SHGs in getting bank loans. During all these stages of transformation, NGOs and other self-help promoting institutions (SHPIs) have been supporting and hand-holding the SHGs/members of the SHGs.

Out of the three models emerged under the SHG-Bank Linkage Programme over the years, about 85 per cent of the SHGs were formed through NGO interventions (Table).

Table: Model-Wise Linkage Position

(Amount in Rs. crore)

Model Type	As on March 31, 2004		As on March 31, 2005	
	No (in '000) of SHGs	Bank loans	No (in '000) of SHGs	Bank loans
1	2	3	4	5
I. SHGs promoted, guided and financed by banks	217.62 (20)	550 (14)	343.37 (21)	1,013 (15)
II. SHGs promoted by NGOs/ Government agencies and financed by banks	777.32 (72)	3,165 (81)	1,158.27 (72)	5,529 (80)
III. SHGs promoted by NGOs and financed by banks using NGOs/ formal agencies as financial intermediaries	84.14 (8)	189 (5)	116.84 (7)	356 (5)
Total	**1,079.09**	**3,904**	**1,618.48**	**6,898**

Note: Figures in parentheses are percentages to total.

Number of SHGs financed by commercial banks and the amount of loans advanced by them increased sharply during the year (Table IV.23).

4.86 The SHG-Bank linkage programme is now considered by the banking system as a commercial proposition, with advantages of lower transaction cost, near zero NPA and coverage of maximum number of the rural clientele by the bank branches. It has also led to other quantifiable benefits in business expansion. Forty seven commercial banks, 196 RRBs and 306 CCBs were participating in the programme at end-March 2005 (Table IV.24).

Table IV.23: Agency-wise Linkage Position

(As at end-March)

(Amount in Rs. crore)

Agency	Number (in '000) of SHGs				Bank loan			
	2004	2005	Percentage variation		2004	2005	Percentage variation	
			2003-04	2004-05			2003-04	2004-05
1	2	3	4	5	6	7	8	9
Commercial Banks	538.42 (49.9)	843.49 (52.1)	49.1	56.7	2,255 (57.8)	4,159 (60.3)	96.1	84.4
Regional Rural Banks	406.00 (37.6)	563.85 (34.8)	46.4	38.9	1,278 (32.7)	2,099 (30.4)	75.8	64.3
Credit Co-operative Banks	134.67 (12.5)	211.14 (13.0)	70.6	56.8	371 (9.5)	640 (9.3)	115.7	72.5
Total	**1,079.09 (100.0)**	**1,618.48 (100.0)**	**50.4**	**50.0**	**3,904 (100.0)**	**6,898 (100.0)**	**90.5**	**76.7**

Note : Figures in parentheses are percentage shares in total.

Table IV.24: SHG-Bank Linkage Programme

(Amount in Rs. crore)

Year	Total SHGs financed by banks (Numbers in '000)		Bank Loans		Refinance	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1	2	3	4	5	6	7
1999-00	81.78	114.78	136	193	98	150
	(147.9)	(247.9)	(138.6)	(238.6)	(88.5)	(188.5)
2000-01	149.05	263.83	288	481	251	401
	(82.3)	(129.9)	(111.8)	(149.2)	(156.1)	(167.3)
2001-02	197.65	461.48	546	1,026	396	797
	(32.6)	(74.9)	(89.6)	(113.3)	(57.8)	(98.8)
2002-03	255.88	717.36	1,022	2,049	622	1,419
	(29.5)	(55.4)	(87.2)	(99.7)	(57.1)	(78.0)
2003-04	361.73	1,079.09	1,856	3,904	705	2,124
	(41.4)	(50.4)	(81.6)	(90.5)	(13.3)	(49.7)
2004-05	539.39	1,618.48	2,994	6,899	968	3,092
	(49.1)	(50.0)	(61.3)	(76.7)	(37.3)	(45.6)

Note: Figures in parentheses indicate percentage variations over the previous year.

Regional Spread

4.87 Historically, there has been a concentration of SHGs in the Southern States. On account of the head start of the programme and also due to some major initiatives taken by the State Governments, the programme has gained the form of a movement in the Southern States. However, the programme expanded rapidly in other States also during last two years. During 2004-05, 2,74,800 SHGs were credit-linked with banks in non-Southern States, as compared with 1,51,087 SHGs during 2003-04, an increase of 82 per cent. The expansion of the programme was quite significant in some States such as Assam (184 per cent), Gujarat (316 per cent), Maharashtra (210 per cent), Chattisgarh (190 per cent), Rajasthan (135 per cent), West Bengal (115 per cent), Jharkhand (82 per cent), Uttar Pradesh (58 per cent), Bihar (45 per cent), Orissa (29 per cent) and Madhya Pradesh (52 per cent). The share of cumulative SHGs credit linked with banks in the Southern States remained at about 60 per cent of the total SHG-credit linkages in the country at end-March 2005.

4.88 To spread the outreach of micro credit in other States, NABARD has taken up intensification of SHG-Bank Linkage Programme in 13 identified priority States which account for 70 per cent of the rural poor population, *viz.*, Uttar Pradesh, Maharashtra, Orissa, West Bengal, Madhya Pradesh, Gujarat, Rajasthan, Chattisgarh, Jharkhand, Bihar, Uttaranchal, Assam and Himachal Pradesh. NABARD has adopted a multi-pronged strategy to spread the outreach of micro-finance in the country (Box IV.8).

4.89 NABARD conducted/supported various training/sensitisation and exposure programmes during 2004-05, covering 2.1 lakh members of SHGs, 42,812 bank officials, 4,246 NGO staff, about 1,198 members of elected members of the *Panchayati Raj* institutions, 8,204 officials of the Block Level Bankers' Committees and 161 trainers.

Graduation of Mature SHGs into Micro-enterprises

4.90 Of over 16 lakh SHGs credit linked with banks, over 4 lakh SHGs are now over three years old. The core needs of savings and credit for consumption and production of these SHGs are being met by the banking system. These SHGs have not only availed loans, but have also availed loans more than once. It is being emphasised that a member of the older SHGs would now be in a position to graduate into micro-enterprises by taking up income generating activities. It is a difficult task to find viable micro-enterprises for millions of poor households in rural areas. Though micro-enterprises is not a panacea for the complex problem of chronic unemployment and poverty, yet their promotion is a viable and effective strategy for achieving significant gains in incomes and assets of poor and marginalised

Box IV.8: SHG-Bank Linkage Programme – Strategy Adopted by NABARD

NABARD is adopting the following strategy to spread the outreach of SHG-Bank Linkage Programme:

- Widening spatial distribution and intensity of the outreach of the Programme with district oriented planning and strategy.
- Evolving district-wise plan of action/strategy in consultation with existing stakeholders aiming at promotion and linkage of a minimum of 500 SHGs per district every year.
- Training and exposure programmes for the staff of the stakeholders.
- Providing promotional assistance to partners for promoting and nurturing the SHGs generally on a 'add-on' basis.
- Widening the range of SHG promoting agencies.
- Involving banks at their corporate level, organising training programmes for the regional/zonal managers of commercial banks in association with their Central Offices.
- Establishing the financing of SHGs as a business proposition for banks.
- Increasing the participation of the co-operative banks by encouraging them to finance SHGs as "financing co-operatives within the co-operatives".
- Associating village communities, people's institutions, rural volunteers and individuals to participate in the programme as SHG promoters.
- Increasing the quality of the existing SHGs by propagating "self-rating" tools.
- Large-scale dissemination of the concept and approach among the rural masses.
- Encouraging the NGOs to play an important role in correcting the regional imbalances in spread of SHG-Bank Linkage Programme.

people. However, in the absence of any specific hand-holding strategy to provide financial and non-financial services in an integrated manner, graduation of SHG members from micro-finance to micro-enterprises has not been smooth due to several obstacles. NABARD is, therefore, undertaking a pilot project in select districts, particularly for members of matured SHGs for promotion to the stage of micro-enterprises. NGOs have been selected in each district for implementing the pilot projects.

Micro-finance and the Government

4.91 It was announced in the Union Budget for 2005-06 that the Government of India intends to promote micro-finance institutions (MFIs) in a big way. For this purpose, the Micro-Finance Development Fund (MFDF) was redesignated as Micro-Finance Development and Equity Fund (MFDEF) and the corpus of the fund was increased from Rs.100 crore to Rs.200 crore. MFDEF is expected to play a vital role in capitalising the MFIs and thereby improving their access to commercial loans.

4.92 The Central Government is considering the need to identify and classify the MFIs and rate such institutions to empower them to intermediate between the lending banks and the clients. To facilitate the process of rating of MFIs, NABARD has decided to extend financial assistance to commercial banks and RRBs by way of grant to enable them to avail the services of credit rating agencies for rating of MFIs.

Micro-finance and the Reserve Bank

4.93 In view of the new paradigm shift in micro-finance, the Reserve Bank decided to revisit the issue of micro-finance in a comprehensive manner. Accordingly, several initiatives were taken in the recent period. First, consultations were arranged with several representatives of micro-finance institutions in select centres to obtain their views. Second, based on such consultations, a Technical Paper on Policy relating to Development, Regulation and Supervision of Micro-finance Services was prepared and was discussed with the representatives of MFIs on July 18, 2005. The recommendations of the Paper are being considered in consultation with the Government. Third, an Internal Group of the Reserve Bank on Rural Credit and Micro-Finance (Chairman: Shri H.R. Khan) was set up to examine the issues relating to micro-finance. The final version of the Report was placed on the website of the Reserve Bank in July 2005 (see also Box II.3).

5. NABARD and the Co-operative Sector

4.94 National Bank for Agriculture and Rural Development (NABARD) is an apex institution accredited with all matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India. NABARD serves as an apex refinancing agency for the institutions providing investment and production credit in rural areas.

Other main activities of NABARD include: (i) initiating measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions and training of personnel; (ii) co-ordinating the rural financing activities of all institutions engaged in developmental work at the field level; (iii) maintaining liaison with the Government of India, the State Governments, the Reserve Bank and other national level institutions concerned with policy formulation; and (iv) undertaking monitoring and evaluation of projects refinanced by it.

4.95 NABARD provides refinance to state co-operative agriculture and rural development banks (SCARDBs), state co-operative banks (StCBs), regional rural banks (RRBs) and other financial institutions approved by the Reserve Bank. The ultimate beneficiaries of refinance from NABARD could be individuals, partnership concerns, companies, State-owned corporations or co-operative societies.

4.96 In the Union Budget for the year 2005-06, it was announced that sugar factories that were operational in 2002-03 sugar season will be assisted to restructure. Accordingly, a Committee was constituted by NABARD to work out a scheme in this regard with representation from the Reserve Bank. The Vyas Committee had also suggested to strengthen the Service Area Credit Monitoring and Information System (SAMIS) under the Service Area Approach (SAA). In this regard, NABARD constituted another Working Group to review the SAMIS reporting system and to initiate necessary modifications/changes required therein.

Resources of NABARD

4.97 The Reserve Bank has been providing General Lines of Credit (GLC) to NABARD under Section 17(4E) of the Reserve Bank of India Act, 1934, to enable it to extend the short-term refinance to state co-operative banks and RRBs. For 2004-2005 (July-June), the Reserve Bank sanctioned an aggregate credit limit of Rs.5,200 crore comprising Rs.5,000 crore under GLC-I and Rs.200 crore under GLC-II, at rate of interest of 6 per cent and 6.25 per cent, respectively. For the year 2005-06 (July-June), a GLC of Rs.3,000 crore has been sanctioned at a rate of interest of 6 per cent per annum for providing refinance to state co-operative banks and RRBs for seasonal agricultural operations (SAO).

4.98 Net accretion to the (outstanding) resources of NABARD, including RIDF deposits at Rs.4,890 crore, during 2004-05 declined by 16.0 per cent over 2003-04. Resources raised through issuance of bonds, which has emerged as the primary source of funds in recent years, continued to increase significantly during 2004-05. However, increased resource mobilisation by NABARD was more than offset by the outflow on account of repayment of RIDF deposits (Table IV.25).

Rural Infrastructure Development Fund (RIDF)

4.99 RIDF was set up with NABARD by the Central Government in 1995-96 to provide loans to the State Governments for financing rural infrastructure projects. Eleven tranches of allocations have been made towards the Fund since then. Commercial banks make contributions to the Fund in accordance with the shortfall in their priority/agriculture sector lending. The scope of the RIDF has been widened since 1999-2000 to enable utilisation of loan by *panchayati raj* institutions (PRIs), self-help groups (SHGs) and projects in social sector covering primary education, health and drinking water. The eleventh tranche of RIDF, operationalised during the year 2005-06, has a corpus of Rs.8,000 crore.

Table IV.25: Net Accretion in the Resources of NABARD

(Amount in Rs. crore)

Type of Resource	As at end-March	
	2004	2005
1	2	3
Capital	–	–
Reserves and Surplus	971	908
NRC (LTO) Fund	125	82
NRC (Stabilisation) Fund	26	11
Deposits	-27	-6
Bonds and Debentures	3,181	5,321
Borrowings from Central Government	-26	-159
Borrowings from RBI	-1,598	-267
Foreign Currency Loans	-5	–
Corporate Borrowings	2,500	1,800
RIDF Deposits	-70	-2,920
Other Liabilities	673	-25
Other Funds	68	145
Total	**5,818**	**4,890**

– : Nil/Negligible.
Source: NABARD.

Table IV.26: Deposits Mobilised under Rural Infrastructure Development Fund

(Amount in Rs. crore)

Year	RIDF I	RIDF II	RIDF III	RIDF IV	RIDF V	RIDF VI	RIDF VII	RIDF VIII	RIDF IX	RIDF X	Total
1	2	3	4	5	6	7	8	9	10	11	12
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
1999-00	67	539	796	605	300	–	–	–	–	–	2,307
2000-01	–	161	413	440	850	790	–	–	–	–	2,654
2001-02	–	155	264	–	689	988	1,495	–	–	–	3,591
2002-03	–	–	188	168	541	816	731	1,413	–	–	3,857
2003-04	–	–	–	–	261	503	257	681	457	–	2,159
2004-05	–	–	–	–	125	488	752	1,213	1,354	422	4,354
Total	**1,587**	**2,225**	**2,308**	**1,413**	**2,766**	**3,585**	**3,235**	**3,307**	**1,811**	**422**	**22,658**

– : Nil/Negligible.
Source: NABARD.

4.100 With the receipt of Rs.4,353 crore as deposits from commercial banks during the year, the cumulative deposits received under RIDF aggregated Rs.22,658 crore up to March 31, 2005 (Table IV.26).

4.101 The total corpus of the RIDF (tranches I to X) aggregated Rs.42,000 crore at end-March 2005. Financial assistance sanctioned and disbursed under RIDF I to X stood at Rs.42,950 crore and Rs.25,384 crore, respectively, as on March 31, 2005 (Table IV.27). Disbursements under RIDF tranches I, II and III were closed at the end of March 2004. The implementation period for the projects sanctioned under RIDF IV was extended up to May 31, 2005 to enable the State Governments to complete ongoing projects and avail reimbursement of expenditure incurred. The implementation period for RIDF V, VI and VII was extended up to March 31, 2005 (Appendix Table IV.10).

4.102 Nine States (Andhra Pradesh, Uttar Pradesh, Maharashtra, Tamil Nadu, Gujarat, Madhya Pradesh, West Bengal, Rajasthan and Karnataka) accounted for 73 per cent of total disbursements and 70 per cent of total sanctions under all the RIDF tranches combined together. Of the total amount sanctioned under RIDF I to RIDF X, rural roads and bridges accounted for 45 per cent, irrigation projects 34 per cent and others 21 per cent (social sector nine per cent and power sector three per cent).

Table IV.27: Loans Sanctioned and Disbursed under Rural Infrastructure Development Fund
(As at end-March 2005)

(Amount in Rs. crore)

RIDF	Year	Corpus	Loans Sanctioned	Loans Disbursed	Loans disbursed as percentage of loans sanctioned
1	2	3	4	5	6
I	1995	2,000	1,911	1,761	92.2
II	1996	2,500	2,659	2,398	90.2
III	1997	2,500	2,718	2,454	90.3
IV	1998	3,000	2,904	2,367	81.5
V	1999	3,500	3,504	2,875	82.0
VI	2000	4,500	4,539	3,638	80.1
VII	2001	5,000	4,793	3,371	70.3
VIII	2002	5,500	6,040	3,686	61.0
IX	2003	5,500	5,599	2,148	38.4
X	2004	8,000	8,283	686	8.3
Total		**42,000**	**42,950**	**25,384**	**59.1**

Source: NABARD.

4.103 As advised by the Central Government, loans under RIDF X were sanctioned for the projects under broad sectors, *viz*., rural roads and bridges, micro/minor/medium/major irrigation, community irrigation wells, mini-hydel projects, drinking water, soil conservation, watershed development/ reclamation of waterlogged areas, drainage, flood protection, forest development, market yards/ godowns, *apna* mandi, rural *haats* and other marketing infrastructure, cold storages (public or joint sector) at various exit points, seed/agriculture/ horticulture farms, plantation and horticulture, grading and certifying mechanisms such as testing and certifying laboratories, fishing harbour/jetties, riverine fisheries, animal husbandry, modern abattoirs, construction of school buildings and public health institutions, construction of toilet blocks in existing schools and installation of 'pay and use' toilets in rural areas.

4.104 The terms and conditions applicable for sanction of loans for rural infrastructure projects under RIDF XI were the same as under RIDF X. The lending rate for the State Governments under RIDF XI continued to be linked to the Bank Rate, *i.e.*, at 0.5 per cent above the Bank Rate prevailing at the time of sanction of loan.

4.105 Under RIDF X, 60,015 projects were sanctioned involving a loan amount of Rs.8,283 crore, taking the cumulative number of projects sanctioned to 2,16,099 and amount sanctioned to Rs.42,950 crore. Out of this amount, loans aggregating Rs.54 crore were sanctioned to Kerala for rural roads and bridge projects to be implemented by block panchayats (*panchayati raj* institutions). The amounts sanctioned and disbursed to the States in the North-Eastern region and Sikkim aggregated Rs.78 crore and Rs.76 crore, respectively, during 2004-05. The total amount disbursed during the year was Rs.4,317 crore as against the target of Rs.4,500 crore.

Credit extended by NABARD

4.106 NABARD provides short-term credit facilities to StCBs in respect of eligible CCBs for financing seasonal agricultural operations (SAO), marketing of crops, pisciculture activities, production and marketing activities of primary weavers/other industrial co-operative societies, labour contract/forest labour co-operative societies, individual rural artisans through PCS, procurement, stocking and distribution of chemical fertilisers and approved agricultural, allied and other marketing activities. Besides short-term credit limits are also sanctioned to StCBs on behalf of apex/regional weavers/other industrial societies for financing procurement and marketing and trading-in-yarn. Short-term limits are also provided to RRBs for financing seasonal agricultural operations, other than SAO (OSAO), marketing of crops and pisciculture activities. Medium-term facilities are also provided to StCBs and RRBs for converting short-term (SAO) into medium-term (conversion) loans and for approved agricultural investments. Long-term loans are provided to the State Governments for contributing to the share capital of co-operative credit institutions.

4.107 During 2004-05, NABARD sanctioned total credit aggregating Rs.10,811 crore to StCBs, which was 23 per cent higher than the sanctioned amount in 2004-05. The outstanding credit extended by NABARD to StCBs and State Governments at Rs.8,597 crore was also higher than that in 2003-04 (Table IV.28). A major part (95 per cent) of the outstanding refinance was for short-term purposes. SAO amounted for bulk (95 per cent) of outstanding refinance to StCBs.

4.108 In pursuance of the announcement made by the Hon'ble Finance Minister in June 2004 for enhancing the credit flow to the agriculture sector, NABARD advised StCBs, CCBs and RRBs on the measures to be taken under various schemes to give relief to farmers. It was apprehended that the implementation of these measures coupled with providing conversion/rescheduled loans to farmers may result in a liquidity problem for co-operative banks and RRBs, impairing their ability to provide fresh loans and achieve the desired growth rate during the year. In order to mitigate this, NABARD introduced a liquidity support scheme during 2004-05 for these institutions. StCBs were sanctioned a liquidity support of Rs.1,770 crore during 2004-05. NABARD also sanctioned long-term loans to nine State Governments amounting to Rs.39 crore as contribution to the share capital of co-operative credit institutions (Table IV.28).

Interest Rates charged by NABARD

4.109 Interest rate on refinance by NABARD is determined by the quantum of the loan and the type of activity/region for which the loan is sanctioned. Considering the softening of interest rates in the economy, co-operative banks were given the option of repayment of entire refinance outstanding above seven per cent without any

Table IV.28: NABARD's Credit to State Co-operative Banks, State Governments and Regional Rural Banks

(Amount in Rs. crore)

Category	2003-04				2004-05			
	Limits	Drawals	Repay-ments	Outstan-ding	Limits	Drawals	Repay-ments	Outstan-ding
1	2	3	4	5	6	7	8	9
1. State Co-operative Banks (a+b)	**8,812**	**9,294**	**9,220**	**5,615**	**10,811**	**12,278**	**9,703**	**8,191**
a. Short-term	8,524	8,719	8,918	4,985	9,041	11,488	9,436	7,037
b. Medium-term	288	576	302	630	1,770	790	267	1,154
2. State Governments								
Long-term	40	85	67	460	39	11	65	406
3. Regional Rural Banks (a+b)	**1,433**	**989**	**1,260**	**621**	**2,380**	**1,868**	**1,196**	**1,293**
a. Short-term	1,433	989	1,245	613	2,221	1,849	1,191	1,271
b. Medium-term	–	–	15	8	159	18	5	22
Grand Total (1+2+3)	**10,284**	**10,369**	**10,547**	**6,696**	**13,230**	**14,157**	**10,963**	**9,890**

– : Nil/Negligible.
Source : NABARD.

prepayment charges to NABARD. Weak StCBs were given the option of resetting interest rate on the high cost of outstanding refinance at a uniform rate of eight per cent, provided that they enter into a Memorandum of Understanding (MoU) with NABARD for implementation of Development Action Plans (DAPs). Interest rate charged by NABARD for term loans effective March 16, 2005 ranged from 6.0 to 6.75 per cent (Table IV.29).

Kisan Credit Card Scheme

4.110 The *Kisan* Credit Card (KCC) Scheme, introduced in August 1998 for short-term loans for seasonal agricultural operations, has made significant progress in outreach and making available timely and cost effective credit to the agricultural sector. The co-operative banking sector has made the most significant progress

Table IV.29: Rate of Interest on refinance from NABARD on Investment Credit under Farm/Non-Farm sectors*

(Per cent)

Sr. No.	Name of the activity/region	Slabs/ loan size		
		I Up to Rs.50,000	II From Rs. 50,000 to Rs.2,00,000	III Above Rs.2,00,000
1	2	3	4	5
1.	All activities in North Eastern Region, including Sikkim and Andaman and Nicobar Islands.	6.00	6.00	6.00
2.	Agriclinics and Agri-business Centres in all regions.	6.00	6.00	6.00
3.	MI, DLF, LD, WLD, SGSY, SHG, SC/ST Action Plan, Contract Farming under AEZ, A&M, RH and FM in regions other than those mentioned at (1) above.	6.00	6.25	6.25
4.	NFS in regions other than those mentioned (1) above.	6.00	6.25	6.50
5.	Cold Storage/Rural Godowns and other activities in regions other than those mentioned at (1) above.	6.00	6.25	6.75

* : Effective March 16, 2005 and applicable to all types of institutions including commercial banks, PCBs, RRBs, StCBs, SCARDBs and ADFCs.

Note : MI-Minor Irrigation; DLF-Dryland Farming; LD-Land Development; WLD-Wasteland Development; SGSY-*Swarnajayanti Gram Swarozgar Yojana*; SHG-Self-Help Group; OF-Organic Farming; AEZ-Agri Export Zone; A&M-Aromatic and Medicinal Plants; RH-Rural Housing; NFS-Non-farm Sector; FM-Farm Mechanisation.

in expanding the KCCs outreach. In order to fulfil the investment credit needs of farmers, NABARD enlarged the scope of the scheme to cover term loans for agriculture and allied activities. NABARD has also advised banks to (i) make all possible efforts to identify and lend to farmers including oral lessees and ensure that KCCs are renewed; (ii) launch a time bound programme to motivate defaulters to clear their dues to enable them to avail the benefits from the scheme; and (iii) issue suitable guidelines to their branches to route crop loans only through KCC.

4.111 Of the 51.08 million KCC issued till end-March 2005, co-operative banks constituted 54.4 per cent, followed by commercial banks (34.5 per cent) and RRBs (11.0 per cent) (Table IV.30).

Table IV.30: Number of Kisan Credit Cards – Agency-wise, Year-Wise

(Number in Million)

Year	Co-operative Banks	RRBs	Commercial Banks	Total
1	2	3	4	5
1998-99	0.16	0.01	0.62	**0.78**
1999-00	3.60	0.17	1.37	**5.13**
2000-01	5.61	0.65	2.39	**8.65**
2001-02	5.44	0.83	3.07	**9.34**
2002-03	4.58	0.96	2.70	**8.24**
2003-04	4.88	1.27	3.09	**9.25**
2004-05	3.56	1.73	4.40	**9.68**
Total (up to end-March 2005)	**27.81**	**5.63**	**17.64**	**51.08**
Per cent share in Total	**54.4**	**11.0**	**34.5**	**100.0**

Co-operative Development Fund (CDF)

4.112 A sum of Rs.3 crore was sanctioned and Rs.4 crore disbursed to co-operative credit institutions during 2003-04, under the Co-operative Development Fund (CDF) scheme for undertaking various development initiatives such as human resource development (HRD), building up better MIS, infrastructure creation and setting up of Business Development Department with technical personnel. Cumulative sanctions and disbursements under CDF aggregated Rs.65 crore and Rs.55 crore, respectively as on March 31, 2005. A scheme for providing grants from CDF to co-operative banks was introduced in order to enable co-operative banks to publicise various relief measures, loan facilities and schemes among their existing and potential clients to enable them to achieve the objective of doubling agricultural credit during the period 2004-07. An amount of Rs.5 crore was earmarked out of CDF for the purpose of granting assistance ranging from Rs.1 lakh to Rs.5 lakh per institution (StCBs, CCBs, SCARDBs), depending upon their size and nature of business operations.

Development Action Plan/Memorandum of Understanding

4.113 The second phase of preparation of institution specific Development Action Plans (DAPs) and execution of Memorandum of Understanding (MoU) was completed in 2003-04. In view of the persisting weakness in the co-operative banks, the DAP/MoU process was extended for three more years up to 2007. Under the revised approach, PACS have been brought under the DAP/MoU process. During the year, 22 StCBs, 337 CCBs, 12 SCARDBs and 704 PCARDBs executed the MoUs.

Chapter V

Non-Banking Financial Institutions

5.1 Core financial services provided by financial intermediaries include payments and liquidity, maturity transformation, store of value, information processing and pooling of risks. Banks have traditionally provided most of these services and are increasingly diversifying into other areas. However, banks typically have an edge in providing payment and liquidity related services and they usually select a portfolio mix with an overriding objective of providing a certain return. Non-banking financial institutions (NBFIs), on the other hand, tend to offer enhanced equity and risk-based products. NBFIs play a crucial role in broadening access to financial services, enhancing competition and diversification of the financial sector. They are increasingly being recognised as complementary to the banking system capable of absorbing shocks and spreading risks at times of financial distress.

5.2 Mobilisation of financial resources outside the traditional banking system has witnessed tremendous growth all over the world in recent years. The boundaries separating commercial banks and NBFIs are also getting increasingly blurred. Rapid financial diversification has thus posed new challenges for regulators, especially in the area of devising appropriate regulatory safeguards for the highly complex NBFI sector. Owing to their diversified nature, NBFIs may require specific regulatory prescriptions particular to their nature of business, in addition to the general guidelines applicable for the financial sector.

5.3 The NBFI sector in India comprises various types of financial institutions with each one of them having its roots at a particular stage of development of the financial sector. All-India financial institutions (AIFIs), largely an offshoot of development planning in India, were created for long-term financing with some of them having sectoral/regional focus. Non-banking financial companies (NBFCs), on the other hand, are mostly private sector institutions, which have carved their niche in the Indian financial system. Primary dealers (PDs), which have come into existence recently, play an important role in both the primary and secondary Government securities market. Although commonly grouped as 'NBFIs', the nature of operations of FIs, NBFCs and PDs is quite different from one another. The regulatory focus in respect of these three types of NBFIs is also different. Business operations and financial performance of different types of NBFIs are driven mainly by sector-specific factors.

5.4 The focus of regulatory initiatives in respect of financial institutions (FIs) during 2004-05 was to strengthen the prudential guidelines relating to asset classification, provisioning, exposure to a single/group borrower and governance norms. Business operations of FIs expanded during 2004-05. Their financial performance also improved, resulting from an increase in net interest income. Significant improvement was also observed in the asset quality of FIs, in general. The capital adequacy ratio of FIs continued to remain at a high level, notwithstanding some decline during the year.

5.5 Regulatory initiatives in respect of NBFCs during the year related to issuance of guidelines on credit/debit cards, reporting arrangements for large sized NBFCs not accepting/holding public deposits, norms for premature withdrawal of deposits, cover for public deposits and know your customer (KYC) guidelines. Business operations of NBFCs, which contracted sharply during 2003-04[1], reflecting mainly the impact of decline in resource mobilisation, expanded marginally during 2004-05. Profitability of NBFCs improved in 2003-04 and 2004-05 mainly on account of containment of expenditure. While gross NPAs of NBFCs, as a group, declined during 2003-04 and 2004-05, net NPAs after declining marginally during 2003-04, increased significantly during 2004-05. Although capital adequacy of NBFCs continued to be comfortable, on the whole, there was increase in

[1] Data on NBFCs in the previous Report related to the period 2002-03. In this Report apart from data for 2003-04, provisional data in respect of 570 reporting companies for 2004-05 have also been collected and analysed.

the number of NBFCs with CRAR less than 12 per cent and decline in NBFCs with CRAR above 30 per cent. The business of large NBFCs not accepting public deposits, but with asset size of Rs.500 crore and above, continued to expand. These NBFCs earned substantial profits and improved their asset quality during the year.

5.6 A number of measures were initiated during 2004-05 to further strengthen the role of PDs in the Government securities market. Major initiatives undertaken during the year included strengthening of dividend distribution policy with focus on pay-out ratio and capital adequacy ratio, issuance of guidelines for raising subordinated debt for Tier-II and Tier-III capital, adoption of standardised settlement on a T+1 basis for all outright secondary market transactions in the Government securities market and permitting sale of Government securities allotted to successful bidders in primary issues on the day of allotment. Sources of funds of PDs declined during the year. The hardening of interest rates prompted PDs to substantially reduce their Government securities holding. PDs, as a group, incurred net losses during the year, mainly due to large trading losses as against trading profits in the previous year. Notwithstanding the losses, PDs continued to maintain high capital adequacy ratios.

5.7 Against the above backdrop, this Chapter details the policy developments, business operations and financial performance of financial institutions, non-banking financial companies and primary dealers in Sections 2, 3 and 4, respectively.

2. FINANCIAL INSTITUTIONS

5.8 Financial institutions have traditionally been the major source of long-term funds for the economy in line with the development objective of the state. A wide variety of financial institutions (FIs) emerged over the years. While most of them extend direct finance, some also extend indirect finance and still some others extend largely refinance. FIs can be broadly categorised as all-India or state level institutions depending on the geographical coverage of their operation. Based on their major activity, all-India financial institutions (AIFIs) can be classified as (i) term-lending institutions [IFCI Ltd., Industrial Investment Bank of India (IIBI) Ltd., Infrastructure Development Finance Company (IDFC) Ltd., Export-Import Bank of India (EXIM Bank) and Tourism Finance Corporation of India (TFCI) Ltd.] which extend long-term finance to different industrial sectors; (ii) refinance institutions [National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB)] which extend refinance to banking as well as non-banking financial intermediaries for on-lending to agriculture, small scale industries (SSIs) and housing sectors, respectively; and (iii) investment institutions [Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) and its erstwhile subsidiaries), which deploy their assets largely in marketable securities. State/ regional level institutions are a distinct group and comprise various State Financial Corporations (SFCs), State Industrial and Development Corporations (SIDCs) and North Eastern Development Finance Corporation (NEDFi) Ltd. Some of these FIs have been notified as Public Financial Institutions (PFIs) by the Government of India under Section 4A of the Companies Act, 1956.

5.9 With the conversion of two term-lending institutions, *viz*., ICICI and IDBI into banks, only four FIs, *viz*., NABARD, SIDBI, NHB and EXIM Bank are subjected to full-fledged regulation and supervision by the Reserve Bank. NABARD, SIDBI and NHB also shoulder responsibilities of regulating and/or supervising financial intermediaries, in varying degree, falling under their respective domains - housing finance companies in the case of NHB, SFCs and SIDCs in the case of SIDBI, and rural co-operative banks and regional rural banks in the case of NABARD. Taking into account the developmental and supervisory functions exercised by NABARD, SIDBI and NHB, a modified approach for supervisory assessment of FIs has been introduced based on the recommendations of the Working Group (Chairman: Shri Y.H. Malegham). FIs not accepting public deposits, but having asset size of Rs.500 crore and above, are subjected to only limited off-site supervision by the Reserve Bank. The focus of the analysis in this Section is, therefore, limited to the eight institutions currently being regulated by the Reserve Bank. These institutions include IFCI, IIBI, IDFC, EXIM Bank, TFCI, SIDBI, NABARD and NHB.

Regulatory Initiatives for Financial Institutions

5.10 Several prudential and other regulatory measures were initiated during 2004-05 to bring the regulatory framework for FIs in line with that of banks.

Asset Classification, Provisioning and Capital Adequacy Norms

5.11 With a view to moving closer to international best practices and ensuring convergence of the norms applicable to FIs with those of banks, with effect from March 31, 2005, an asset is required to be classified as doubtful, if it remains in the sub-standard category for 12 months. FIs, however, are permitted to phase out the consequent additional provisioning over a four-year period, commencing from the year ended March 31, 2005, with a minimum of 20 per cent each year.

5.12 At present, FIs are required to make provisions for non-performing assets (NPAs) on a graded scale based on the age of the NPA. However, in respect of NPAs included in 'doubtful for more than three years' category, the provisioning requirement on the secured portion is stipulated at 50 per cent, irrespective of its age, until it is identified as a loss asset. As the chances of recovery of an asset diminish over a period of time, it is imperative that FIs expedite recovery of NPAs. Accordingly, a graded higher provisioning, according to the age of NPAs in 'doubtful for more than three years' category, was introduced for FIs with effect from March 31, 2005 (with effect from June 30, 2005 in the case of NHB). Consequently, the increase in provisioning requirement on the secured portion is required to be applied in a phased manner over a three-year period in respect of the existing stock of NPAs classified as 'doubtful for more than three years' as on March 31, 2004 (with effect from June 30, 2004 in the case of NHB). On the unsecured portion, which is not covered by the realisable value of tangible security to which the FI has a valid recourse and the realisable value is estimated on a realistic basis, provision will continue to be to the extent of 100 per cent. However, in respect of all advances classified as 'doubtful for more than three years' on or after April 1, 2004 (July 1, 2004 in the case of NHB), the provisioning requirement would be 100 per cent.

5.13 Exposures on all PFIs for capital adequacy purposes attract a risk weight of 100 per cent with effect from April 1, 2005 as against the earlier stipulation of 20 per cent.

Prudential Credit Exposure Limits for FIs

5.14 In the light of the liberalised access of borrowers to external commercial borrowings (ECBs) and their ability to raise resources through the capital market, the practice of giving case-by-case approval to FIs, that had difficulty in complying with the prudential credit exposure limits, was discontinued. Accordingly, the single/group borrower prudential exposure ceilings, *i.e.*, 15 per cent (additional 5 per cent for infrastructure projects) and 40 per cent (additional 10 per cent for infrastructure projects), respectively, have to be strictly adhered to by FIs. In exceptional circumstances, FIs with the approval of their respective Boards, can enhance their exposure to a borrower up to a further 5 per cent of capital funds (*i.e.*, 20 per cent of capital funds for a single borrower and 45 per cent of capital funds for a group of borrowers), subject to the borrower consenting that FIs may make appropriate disclosures in their Annual Reports. In respect of exposure to infrastructure, FIs could consider additional sanctions up to 5 per cent and 10 per cent over and above the limits of 20 per cent and 45 per cent, respectively. Exposures, where principal and interest are fully guaranteed by the Government of India, may be excluded. FIs should make appropriate disclosures in the 'Notes on Accounts' to the annual financial statements, where the exposure exceeded the prudential limits. FIs were advised to phase out exposures in excess of single/group borrower limits not in conformity with above by March 31, 2005, either by increasing capital funds or reducing exposures.

Holding of Instruments in Dematerialised Form

5.15 With a view to extending the dematerialised form of holding to equity instruments, FIs were advised to hold their fresh investments in equity instruments effective August 30, 2004 in dematerialised form. All the outstanding equity investments in physical form were required to be converted into dematerialised form by end-December 2004.

Certificates of Authentication from Statutory Central Auditors of FIs

5.16 FIs were advised in February 2005 to obtain from their Statutory Central Auditors (i) the certificate relating to their treasury operations; (ii) reconciliation of investment; (iii) custody of unused BR (bankers' receipt) forms and their utilisation as recommended by the Janakiraman

Committee; (iv) compliance in the key areas such as investment portfolio, income recognition, asset classification and provisioning; and (v) authentication of calculation of CRAR and assessment of capital adequacy ratio in the 'Notes on Accounts' attached to the balance sheet.

Disclosures on Risk Exposures in Derivatives

5.17 With a view to making meaningful and appropriate disclosures of FIs' exposures to risk and their strategy to manage the risk, a minimum framework for disclosures on their risk exposures in derivatives was put in place in April 2005. The framework, apart from the quantitative aspects, also includes qualitative aspects relating to derivatives with a particular reference to the extent to which derivatives are used, the associated risks and business purposes served.

Other Policy Developments

5.18 As a follow up to the announcement made in the Annual Policy Statement for the year 2004-2005, a Technical Group on Refinancing Institutions (RFIs) (Chairman: Shri G.P. Muniappan) was constituted on September 3, 2004 to evaluate the efficacy of regulatory and supervisory systems of RFIs over their regulated entities. The Group, which submitted its Report in February 2005, made several recommendations to rationalise the regulatory system in respect of RFIs. It recommended a differentiated approach to regulation based on the acceptance of public deposits, size and the dependence on RFIs for refinance. The Committee held that entities regulated/supervised by RFIs should be classified into those accepting public deposits and those not accepting public deposits. Entities accepting public deposits should be subjected to direct regulation by the Reserve Bank till such time they cease to accept public deposits. Entities not accepting public deposits should be segregated into the following categories: (a) entities with an asset size of more than Rs.100 crore and which either do not avail of refinance from RFIs at all or whose dominant source of funds is not refinance from RFIs; (b) entities with an asset size of more than Rs.100 crore but whose sole/dominant source of funds is refinance from RFIs; and (c) entities with an asset size equal to or less than Rs.100 crore. The Group recommended that the Reserve Bank should provide to RFIs a broad framework for regulation of entities under category (a). The regulation of entities falling under categories (b) and (c), including prescription of prudential norms, may be left entirely to the RFIs themselves. Furthermore, SFCs may be discouraged from accepting public deposits and the Reserve Bank may withdraw permission granted to them for accessing public deposits. Acceptance of public deposits by non-bank financial intermediaries should be phased out. Eventually, regulation of entities accepting public deposits should converge with the prudential norms prescribed for commercial banks.

5.19 Supervision of the entities under the oversight of RFIs may be carried out on the basis of Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and Control (CAMELS) approach and the capabilities should preferably be developed in-house. However, in respect of RRBs, if necessary, auditors may be employed on a contract basis. Furthermore, for this purpose, if necessary, the Banking Regulation Act, 1949 may be amended. Also, SIDBI and NHB may consider setting up a Board of Supervision (BoS) on the lines of the Board already constituted by NABARD. The supervisory functions of SIDBI need to be well defined with no intervention by the State Governments. Adequate powers may be vested in SIDBI to impose penalty. NHB may consider introducing the system of awarding ratings to housing finance companies (HFCs) in a phased manner.

5.20 For co-ordination between the Reserve Bank and RFIs, the Group recommended setting up of a Standing Committee comprising representatives of the Reserve Bank, SIDBI, NABARD and NHB. Further, the arrangements existing between the Reserve Bank and NABARD may be replicated for two other RFIs, *i.e.,* SIDBI and NHB. As in the case of NHB and NABARD, the Reserve Bank may have a top management level nominee on the Board of SIDBI. While the existing arrangements of 'annual financial inspection' and special scrutinies are necessary and useful, a formal system to measure supervisory effectiveness may be developed by RFIs and implemented after approval from the Reserve Bank.

5.21 The Group recommended that the aggregate refinance by an RFI to an apex lending institute may be viewed as if it were a bundle of back to back facilities granted to various primary lending institutions or to various categories of

borrowers. It may be permissible to classify the contaminated portion and non-contaminated portion of the facility separately so that the entire refinance assistance to an apex lending institution does not get classified as NPA in the books of the RFI merely as a result of part contamination. Further, the revised prudential norms recently prescribed by the Reserve Bank for banks relating to State Government guaranteed exposures, whereby the requirement of invocation of State Government guarantee was delinked for deciding the asset classification and provisioning requirements, be applied to RFIs as well.

Operations of Financial Institutions

5.22 FIs extend financial assistance both by way of project finance and non-project finance. Loans, underwriting and direct subscription and deferred payment guarantees constitute major forms of project finance, while non-project finance comprises equipment finance, equipment leasing, among others (Appendix Table 1). FIs have been broad-basing their operations in an attempt to widen their clientele base (Box V.1). They have also been taking several measures to augment their non-fund based income by providing customised advisory services, undertaking assignments relating to investment appraisals and business restructuring and playing the role of lead arrangers.

5.23 Financial assistance sanctioned and disbursed by all-India financial institutions (excluding IDBI which was converted into a bank with effect from October 1, 2004) declined during 2004-05 mainly due to a sharp decline in the sanctions and disbursements by LIC. Among FI groups, while financial assistance sanctioned by all-India term-lending institutions declined, disbursements increased, *albeit* marginally, during the year, reversing the trend of the previous year (Table V.1 and Appendix Table V.1).

5.24 Financial assistance sanctioned and disbursed by AIFIs has declined in recent years (Chart V.1).

Box V.1: Business Initiatives and New Product Development – Financial Institutions

EXIM Bank has been focusing on small and medium enterprise (SME) exporters as a significant target group of clients. An SME Group has been set up in the EXIM Bank to handle proposals from companies/firms with annual turnover of up to Rs.75 crore. The primary objective of the Group is to develop a portfolio of externally oriented SME clients and ensure smooth credit delivery to these clients. The EXIM Bank's support to the SME sector includes term loans for setting up of new projects, modernisation, expansion as also equipment finance and export credit. Total credit facilities amounting to Rs.134 crore were sanctioned to export oriented SMEs during 2004-05. Similarly, agriculture-exports have also been identified as a focus area. An Agriculture Business Group has also been set up in the EXIM Bank to cater to the requirements of agriculture exports. Term loans were also sanctioned to food processing, floriculture, fruits and vegetables and contract farming. Total sanctions to the agriculture-export sector amounted to Rs.582 crore during 2004-05. Further, service sector financing by EXIM Bank now includes entertainment, healthcare, hospitality and shipping. Loans were extended to 3 companies in the entertainment industry engaged in film production during 2004-05. The approach with regard to film financing has been to focus on forex earning projects and select borrowers with proven record.

SIDBI has been taking a series of measures in the direction of aligning the concept of SSIs with the SMEs. SIDBI has operationalised the SME Fund of Rs.10,000 crore announced earlier by the Government of India. Under the Fund, direct assistance is being provided to SMEs at an interest rate of 2 per cent below the PLR of SIDBI. During 2004-05, an assistance of Rs.2,825 crore was sanctioned which benefited around 3,900 units. Further, in association with the select public sector banks, SIDBI has set up the SME Growth Fund with a view to meeting the needs of the risk capital for SMEs.

IDFC has expanded its business from core infrastructure financing to urban, agricultural and social infrastructure in recent years. It has also strived to expand its non-interest sources of income such as financial and advisory services. Sanctions and disbursements of IDFC continued to register high growth on the back of improved infrastructure outlook for the country. Although sanctions recorded a moderate growth of 12.1 per cent as compared with 149.3 per cent witnessed during the previous year, disbursements at Rs.3,739 crore constituted 58.3 per cent of sanctions as compared with 47.2 per cent in the previous year. IDFC's annual disbursements in 2004-05 accounted for about a third of all infrastructure related project financing in the country during the year. On a cumulative basis, IDFC approved assistance of around Rs.25,000 crore to 198 projects as on March 31, 2005. During 2004-05, energy, telecom and transportation constituted bulk (83.7 per cent) of the disbursements made. Significant growth in disbursements was also observed in the energy and commercial and industrial sectors (Appendix Table V.2).

In view of restrictions on the lending activity and resource mobilisation, IIBI focussed on recovery of dues through settlements, speeding up of legal processes and restructuring.

Table V.1: Financial Assistance Sanctioned and Disbursed by Financial Institutions

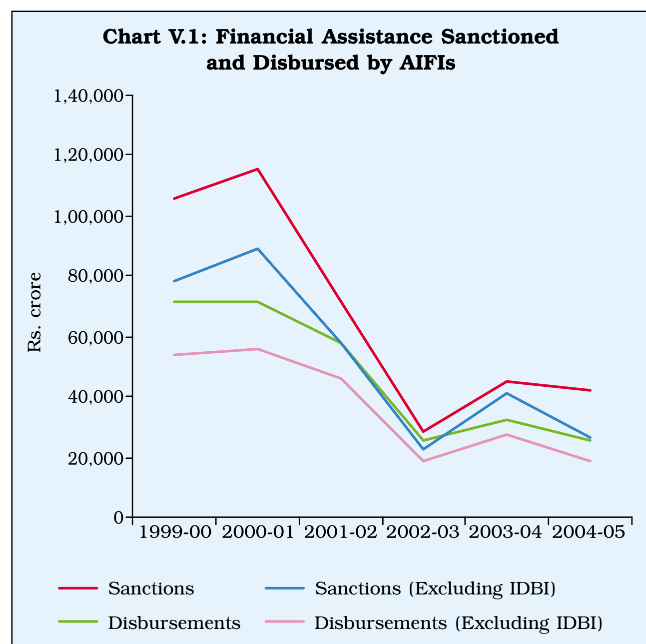
(Amount in Rs. crore)

Item	As at end-March				Percentage Variation			
	2004		2005		2003-04		2004-05	
	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9
i) All-India Term-lending Institutions*	17,770	9,647	15,605	10,025	8.5	-9.1	-12.2	3.9
ii) Specialised Financial Institutions **	440	396	98	64	-7.6	-19.4	-77.7	-83.8
iii) Investment Institutions #	23,197	16,989	10,293	8,972	288.9	115.0	-55.6	-47.2
Total Assistance by FIs (i+ii+iii)	**41,407**	**27,032**	**25,996**	**19,061**	**81.5**	**42.2**	**-37.2**	**-29.5**

S: Sanctions. D: Disbursements.
* : Relating to IFCI, SIDBI, IIBI and IDFC.
** : Relating to IVCF, ICICI Venture and TFCI.
# : Relating to LIC and GIC.
Note : All data are provisional.
Source : Respective financial institutions.

Assets and Liabilities of FIs

5.25 Liabilities/assets of FIs (excluding IDBI) expanded at a high rate during 2004-05 as compared with the previous year. Bonds/debentures continued to be the main source of funds for FIs, followed by borrowings from banks in rupees and foreign currency. While resources mobilised by way of bonds and debentures and borrowings increased sharply, those by way of deposits declined sharply. Loans and advances and investments constitute the bulk of assets of FIs. Loans and advances by FIs grew at a significantly higher rate during the year, reflecting the impact of robust investment climate in the country. Investments by FIs, however, increased marginally as against the sharp increase in the previous year (Table V.2).



Resources Mobilised by FIs

5.26 Total resources mobilised (outstanding) by FIs (long-term and short-term rupee and foreign currency borrowings, bonds and debentures and deposits) grew by 19.4 per cent to Rs.83,889 crore at end-March 2005.

5.27 While long-term and short-term rupee resources raised by FIs increased, resources raised by way of foreign currency borrowings declined. NABARD mobilised the largest amount of resources, followed by EXIM Bank, NHB and IDFC (Table V.3 and Appendix Table V.3). IFCI and IIBI continued to be barred from mobilising fresh resources on account of their poor financials.

5.28 Average amount of resources mobilised by FIs through money market instruments declined significantly during 2004-05 mainly on account of decline in resources raised by way of term deposits. Resources raised by way of commercial paper increased sharply (Table V.4).

5.29 The practice of advancing loans by the Reserve Bank to industrial and agricultural financial institutions from the Long Term Operations (LTO) Funds, before transferring the surplus profit to the Government of India, was discontinued subsequent to an announcement to this effect made in the Union Budget for 1992-93. Accordingly, the Reserve Bank has been making only token contribution to these funds from 1992-93. There was no outstanding borrowing

Table V.2: Composition of Liabilities and Assets of Financial Institutions

(Amount in Rs. crore)

Item	As at end-March		Percentage Variation	
	2004	2005	2003-04	2004-05
1	2	3	4	5
Liabilities				
1. Capital	6,131 (4.7)	6,331 (4.4)	–	3.3
2. Reserves	13,499 (10.4)	14,963 (10.5)	13.5	10.8
3. Bonds and Debentures	50,545 (38.8)	60,801 (42.6)	5.6	20.3
4. Deposits	17,946 (13.8)	13,643 (9.5)	13.5	-24.0
5. Borrowings	18,360 (14.1)	23,028 (16.1)	11.3	25.4
6. Other Liabilities	23,661 (18.2)	24,104 (16.9)	5.6	1.9
Total Liabilities/Assets	**1,30,142**	**1,42,870**	**7.9**	**9.8**
Assets				
1. Cash	12,146 (9.3)	16,989 (11.9)	77.0	39.9
2. Investments	14,298 (11.0)	14,386 (10.1)	23.8	0.6
3. Loans and Advances	91,613 (70.4)	98,924 (69.2)	0.4	8.0
4. Bills Discounted/ Rediscounted	1,218 (0.9)	1,048 (0.7)	22.8	-14.0
5. Fixed Assets	1,217 (0.9)	1,195 (0.8)	-28.0	-1.8
6. Other Assets	9,650 (7.4)	10,328 (7.2)	16.9	7.0

– : Nil/Negligible.

Note : 1. Data relate to IFCI, TFCI, IDFC, IIBI, EXIM Bank, NABARD, NHB and SIDBI.
2. Figures in parentheses are percentages to total liabilities/assets.

Source : Balance sheets of respective FIs.

by any institution under the National Industrial Credit (NIC) Long-Term Operations (LTO) Fund at end-June 2005. The outstanding credit to NHB under the National Housing Credit (NHC) Long-Term Operations (LTO) Fund stood at Rs.50 crore at end-June 2005.

Table V.3: Resources Mobilised by Financial Institutions
(As at end-March)

(Amount in Rs. crore)

Institution	Total Resources Raised								Total Outstanding	
	Long-term		Short-term		Foreign Currency		Total			
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9	10	11
IFCI	–	–	–	–	–	–	–	–	17,564	13,385
IIBI	176	–	–	–	–	–	176	–	2,420	2,229
TFCI	102	23	70	–	–	–	172	23	546	421
IDFC	1,550	3,378	2,025	875	–	–	3,575	4,253	3,975	6,533
EXIM Bank	2,025	955	1,074	1,632	3,782	2,843	6,881	5,430	12,752	14,704
NABARD	5,334	8,843	–	–	–	–	5,334	8,843	11,883	23,805
NHB	2,990	2,419	300	2,753	–	–	3,290	5,172	10,569	14,385
SIDBI	1,429	1,607	1,536	736	7	21	2,972	2,364	10,535	8,427
Total	**13,607**	**17,225**	**5,005**	**5,996**	**3,789**	**2,864**	**22,401**	**26,085**	**70,245**	**83,889**

– : Nil/Negligible.

Note: 1. Long-term resources comprise borrowings by way of bonds/debentures; short-term resources comprise borrowings by way of commercial papers, term deposits, inter-corporate deposits, certificates of deposit and term money. Foreign currency resources comprise largely bonds.
2. Figures in columns 10 and 11 may not match with total borrowings (including bonds and debentures) and deposits in Table V.2 due to differences in the coverage as some loans raised by FIs are not included in the Table.

Table V.4: Resources Raised by Financial Institutions from the Money Market

(Amount in Rs. crore)

Instrument	2003-04	2004-05
1	2	3
i) Term Deposits	2,206	1,155
ii) Term Money	245	175
iii) Inter-corporate Deposits	1,329	477
iv) Certificates of Deposit	408	233
v) Commercial Paper	1,847	2,370
Total	**6,035**	**4,410**
Percentage of limits	25.6	30.0

All-India Financial Institutions versus Scheduled Commercial Banks

5.30 Financial assets of FIs grew by 7.9 per cent during 2004-05 as against 20.9 per cent of scheduled commercial banks. As a result, the share of financial assets of AIFIs in the combined financial assets of banks and AIFIs declined (Table V.5). Assets of FIs registered a rise in spite of continuing losses suffered by IFCI and IIBI, which resulted in the erosion of their assets. FIs, which have historically played an important role, have been finding it difficult to sustain their operations in the changed operating environment. Financial assets of NHB grew at the highest rate, followed by EXIM Bank and NABARD [Appendix Table V.4(A) and Appendix Table V.4(B)].

Table V.5: Financial Assets of All-India Financial Institutions and Banks*

(Amount in Rs. crore)

Item	As at end-March		Percentage Variation	
	2004	2005	2003-04	2004-05
1	2	3	4	5
i) All-India Financial Institutions	1,28,925 @	1,39,153	8.4	7.9
ii) Scheduled Commercial Banks#	16,43,447	19,87,456	17.2	20.9
Total (i+ii)	**17,72,372**	**21,26,609**	16.6	20.0
Memo:				
FIs assets as percentage of total assets	7.3	6.5		
SCBs assets as percentage of total assets	92.7	93.5		

* : Including investments, loans and advances, money market assets, deposits, cash in hand and balances with banks and other assets, excluding fixed assets.

@ : Excluding IDBI. Including IDBI, the amount stands at Rs.1,95,247 crore.

\# : 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. It does not include non-SLR investments, foreign currency assets and bank reserves.

Sources and Uses of Funds

5.31 Total sources/deployment of funds of FIs increased from Rs.86,990 crore to Rs.94,810 crore during 2004-05, registering a rise of 9.0 per cent. In the case of deployment, while fresh deployment and repayment of past borrowing registered a rise, other deployments, including interest payment declined during 2004-05 as compared with the previous year (Table V.6 and Appendix Table V.5).

Cost and Maturity of Borrowings

5.32 While the weighted average maturity of the instruments issued by FIs shortened, weighted average cost of funds increased across all FIs during 2004-05 (Table V.7 and Appendix Table V.6).

Table V.6: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Sources / Deployment of Funds	2003-04	2004-05	Percentage Variation	
			2003-04	2004-05
1	2	3	4	5
A) Sources of Funds (i+ii+iii)	**86,990 (100.0)**	**94,810 (100.0)**	**-9.0**	**9.0**
(i) Internal	58,263 (67.0)	59,371 (62.6)	18.8	1.9
(ii) External	26,317 (30.3)	32,670 (34.5)	-18.5	24.1
(iii) Others	2,410 (2.8)	2,769 (2.9)	-83.1	14.9
B) Deployment of Funds (i+ii+iii)	**86,990 (100.0)**	**94,810 (100.0)**	**-9.0**	**9.0**
(i) Fresh deployments	56,555 (65.0)	61,635 (65.0)	8.7	9.0
(ii) Repayment of past borrowings	17,590 (20.2)	21,069 (22.2)	0.6	19.8
(iii) Other deployments	12,845 (14.8)	12,106 (12.8)	-50.7	-5.8
of which: Interest Payments	5,611	4,597	-47.7	-18.1

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

Note : Figures in parentheses are percentages to the total.

Source : Respective FIs.

Table V.7: Weighted Average Cost and Maturity of Long-term Rupee Resources

Institution	Weighted Average cost (per cent)		Weighted Average Maturity in years	
	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5
IFCI	8.2	–	3.2	–
IIBI	8.7	–	18.0	–
TFCI	8.6	10.4	10.0	4.9
IDFC	5.6	6.0	5.9	3.7
EXIM Bank	5.9	6.6	6.7	4.2
NABARD	5.4	5.5	5.4	5.0
NHB	5.4	6.3	3.2	2.6
SIDBI	4.9	5.9	2.8	1.9

– : Nil/Negligible.
Data are provisional.
Source : Respective FIs.

Lending Interest Rates

5.33 NHB increased its lending rate during the year, while SIDBI maintained its lending interest rates at the previous year's level. Prime lending rate (PLR) of IFCI remained unchanged at the previous year's level (Table V.8).

Financial Performance of Financial Institutions

5.34 All-India FIs, as a group, showed significant improvement in their financial performance during the year ended March 2005. Net interest income increased significantly on account of increase in interest income on the one hand and decline in interest expenditure on the other. The increase in net interest income, however, was offset, to an extent, by a sharp decline in non-interest income and increase in non-interest expenditure. On the whole, operating profits of FIs improved as also the net profits, despite net losses incurred by IFCI and IIBI (Table V.9).

Table V.8: Lending Rate Structure of Select Financial Institutions

(Per cent Per annum)

Effective	PLR	IFCI	SIDBI	NHB@
1	2	3	4	5
July 2003	Long-term PLR	12.5	–	7.5-7.0
	Medium-term PLR	–	11.5	6.9
	Short-term PLR	12.5	10.0	6.9
March 2004	Long-term PLR	12.5	–	6.7-6.5
	Medium-term PLR	–	11.5	6.5
	Short-term PLR	12.5	10.0	6.4
July 2004	Long-term PLR	12.5	–	6.5-6.7
	Medium-term PLR	–	11.5	6.3
	Short-term PLR	12.5	10.0	6.0
March 2005	Long-term PLR	12.5	–	7.3
	Medium-term PLR	–	11.5	6.8
	Short-term PLR	12.5	10.0	6.5

– : Nil/Negligible.
@ : Relating to the fixed rate.

Table V.9: Financial Performance of Select All-India Financial Institutions*

(Amount in Rs. crore)

Item	2003-04	2004-05	Variation	
			Amount	Percent-age
1	2	3	4	5
A) Income (a+b)	**9,346**	**9,451**	**105**	**1.1**
a) Interest Income	7,694 (82.3)	8,122 (85.9)	428	5.6
b) Non-interest Income	1,652 (17.7)	1,329 (14.1)	-322	-19.5
B) Expenditure (a+b)	**7,135**	**6,689**	**-446**	**-6.3**
a) Interest Expenditure	6,203 (86.9)	5,660 (84.6)	-543	-8.8
b) Other Expenses	932 (13.1)	1,029 (15.3)	97	10.4
Of which : Wage Bill	389	344	-45	-11.6
Provisions for Taxation	666	726	60	9.0
C) Profit				
Operating Profit (PBT)	2,211	2,762	551	24.9
Net Profit (PAT)	1,545	2,036	491	31.8
D) Financial Ratios@				
Operating Profit (PBT)	1.7	1.9		
Net Profit (PAT)	1.2	1.4		
Income	7.2	6.6		
Interest Income	5.9	5.7		
Other Income	1.3	0.9		
Expenditure	5.5	4.7		
Interest Expenditure	4.8	4.0		
Other Operating Expenses	0.7	0.7		
Wage Bill	0.3	0.2		
Provisions	0.5	0.5		
Spread (Net Interest Income)	1.1	1.7		

@ : As percentage of total assets.
* : Relating to IFCI, TFCI, IDFC, IIBI, EXIM Bank, NABARD, NHB and SIDBI.
Note : 1. Operating Profit refers to Profit before Provisions for Taxation/ Tax (PBT).
2. Net Profit refers to profits after Tax Provisions (PAT).
3. Figures in parentheses are percentage shares to the respective total.
Source : Annual Accounts of respective FIs.

Table V.10: Select Financial Parameters of Financial Institutions

(Per cent)

Institution	Interest Income/ Average Working Funds		Non-interest Income/ Average Working Funds		Operating Profits/ Average Working Funds		Return on Average Assets		Net Profit per Employee (Rs. crore)	
	As at end-March									
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9	10	11
IFCI	4.3	7.4	1.3	1.5	-1.9	1.8	-16.9	-2.2	-5.34	-0.63
IIBI	10.0	11.1	0.3	7.5	-4.9	-7.6	NA	NA	-0.49	-0.80
TFCI	11.8	11.4	0.9	0.2	3.1	3.6	1.6	2.0	0.39	4.40
IDFC	8.4	7.9	4.4	2.5	5.4	4.6	5.2	4.3	2.06	2.92
EXIM Bank	6.4	6.1	0.8	0.5	2.4	2.0	1.7	1.5	1.20	1.34
NABARD	8.0	6.9	0.1	0.0	3.6	3.2	2.8	1.8	0.28	0.20
NHB	8.1	6.7	0.4	0.4	2.2	0.5	2.2	0.3	2.35	0.47
SIDBI	7.3	5.9	0.5	0.6	3.5	3.0	2.0	1.7	0.27	0.26

Source : Balance sheets of respective FIs.

5.35 Interest income as percentage of average working funds of all FIs, barring IFCI and IIBI, declined during the year. Non-interest income constitutes a very small percentage of average working funds for most of the FIs. IDFC earned the highest return on assets, followed by TFCI, NABARD, SIDBI and EXIM Bank. Operating profits ratio of all FIs, except IFCI and TFCI, declined during the year. IFCI earned operating profits during the year as against operating losses last year. IIBI, however, continued to incur operating losses. Of all the FIs, IDFC earned highest operating profits, followed by TFCI. Return on assets in respect of IFCI continued to be negative. Net profit per employee was highest in the case of TFCI, followed by IDFC (Table V.10).

Soundness Indicators

Assets Quality

5.36 The asset quality of all FIs, except SIDBI improved significantly during 2004-05, reflecting the combined impact of recovery of dues and increased provisioning (Table V.11).

5.37 Sub-standard assets across all FIs declined as at end-March 2005 in comparison with the previous year. While doubtful assets of IFCI and IIBI declined, those of SIDBI and EXIM bank increased (Table V.12).

Capital Adequacy

5.38 Capital adequacy ratio (CRAR) of all FIs, barring TFCI, declined marginally at end-March 2005 as compared with end-March 2004. Notwithstanding the decline, the CRAR of FIs remained substantially higher than the minimum prescribed ratio of 9 per cent (Table V.13). CRAR of IFCI and IIBI eroded further during the year on account of high level of NPAs and accumulated financial losses.

Reserve Bank's Assistance to State Financial Corporations

5.39 State financial corporations (SFCs) were sanctioned *ad hoc* borrowing limits for a period of 12 months (July to June) and extendable by a maximum period of 6 months by the Reserve Bank every year. These short-term financial

Table V.11: Net Non-Performing Assets
(At end-March)

(Amount in Rs. crore)

Institution	Net NPAs		Net NPAs/ Net Loans (per cent)	
	2004	2005	2004	2005
1	2	3	4	5
IFCI	3,865	2,688	32.3	28.0
IIBI	800	405	38.0	27.3
TFCI	144	68	21.1	11.0
IDFC	–	–	–	–
EXIM Bank	129	109	1.3	0.9
NABARD	1	1	–	–
NHB	–	–	–	–
SIDBI	226	407	2.4	3.9

– : Nil/Negligible.
Source : Balance sheets of respective FIs.

Table V.12: Asset Classification of Financial Institutions

Institution	As at end - March							
	Standard		Sub-Standard		Doubtful Assets		Loss Assets	
	2004	2005	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9
IFCI	8,116	6,909	899	205	2,966	2,483	–	–
IIBI	1,304	1,079	274	23	526	382	–	–
TFCI	539	531	30	4	115	64	–	–
IDFC	4,419	7,050	–	–	–	–	–	–
EXIM Bank	10,046	12,714	76	47	53	62	–	–
NABARD	48,789	48,354	1	–	–	1	–	–
NHB	6,580	10,812	–	–	–	–	–	–
SIDBI	9,249	9,845	29	8	197	399	62	51

– : Nil/Negligible.
Source : Balance sheets of respective FIs.

accommodations were backed by the pledge of *ad hoc* bonds issued by the individual SFCs and guaranteed by the concerned State Government/ Union Territory to enable the SFCs to tide over their temporary liquidity problems. In May 2004, the Reserve Bank decided to discontinue the *ad hoc* borrowing facility to all SFCs from 2004-05.

3. NON-BANKING FINANCIAL COMPANIES

5.40 Non-banking financial companies represent a heterogenous group of institutions separated by their type of activity, organisational structure and portfolio mix. Four types of institutions, categorised in terms of their primary business activity and under the regulatory purview of the Reserve Bank, are equipment leasing companies, hire purchase companies, loan companies and investment companies. The residuary non-banking companies (RNBCs) have been classified as a separate category as their business does not conform to any of the other defined classes of NBFC businesses. Besides, there are other NBFCs, *viz*., miscellaneous non-banking companies (Chit Fund), mutual benefit finance companies (*Nidhis* and Potential *Nidhis*) and housing finance companies, which are either partially regulated by the Reserve Bank or are outside the purview of the Reserve Bank. This section broadly focuses on the policy developments and operations of NBFCs under the regulatory purview of the Reserve Bank. However, in view of their diverse nature, operations of NBFCs and RNBCs have been discussed separately. Besides, operations of NBFCs not accepting public deposits but having asset size of Rs.500 crore and above have also been discussed separately in view of their implications for systemic risk.

Table V.13: Capital Adequacy Ratio of Select Financial Institutions*

(Per cent)

Institution	As at end-March						
	1999	2000	2001	2002	2003	2004	2005
1	2	3	4	5	6	7	8
IFCI	8.4	8.8	6.2	3.1	0.95	-17.0	-23.4
IIBI	11.7	9.7	13.9	9.2	-11.0	-20.1	-41.1
TFCI	15.4	16.2	18.6	18.5	19.8	22.8	27.4
IDFC	235.5	119.7	85.5	56.7	51.3	36.9	28.6
EXIM Bank	23.6	24.4	23.8	33.1	26.9	23.5	21.6
NABARD	53.3	44.4	38.5	36.9	39.1	39.4	38.8
NHB	17.3	16.5	16.8	22.1	27.9	30.5	22.5
SIDBI	26.9	27.8	28.1	45.0	44.0	51.6	50.7

* : Net of provisioning and write-offs.
Source : Balance sheets of respective FIs.

Regulatory and Supervisory Initiatives

5.41 The focus of regulatory initiatives in respect of NBFCs during 2004-05 was on deposit acceptance norms and improved disclosures.

Issuance of Guidelines on Credit Cards by NBFCs

5.42 NBFCs were allowed to enter into credit card business on their own or in association with another NBFC or a scheduled commercial bank. The permission to this effect was granted on a selective basis keeping in view the financial position of the company and its record of compliance. NBFCs are not allowed to issue any debit card as it tantamounts to opening and operating a demand deposit account, which is the exclusive privilege of banks. Emergency cash withdrawal facility through ATMs of associate bank may only be allowed to credit card holders as a short-term advance with a reasonable limit and necessary built-in safeguards. NBFCs have been advised to be selective while issuing credit cards with adequate appraisal on the standing of the applicant. It was clarified that any NBFC, including a non-deposit taking company, intending to engage in the activity of issue of credit card would have to obtain a Certificate of Registration, apart from specific permission to enter into this business from the Reserve Bank. The NBFC would have to satisfy the requirement of a minimum net owned fund of Rs.100 crore and such other terms and conditions as the Reserve Bank may specify to this effect from time to time.

Acceptance of Public Deposits by NBFCs Registered in Non-public Deposit Taking Category

5.43 NBFCs which were granted Certificate of Registration (CoR) in the non-public deposit taking category should meet the minimum capital requirement of Rs.2 crore for being eligible to apply to the Reserve Bank for accepting deposits. Accordingly, NBFCs were advised to ensure compliance with this requirement before applying to the Reserve Bank for approval to accept public deposits.

Preparation of Balance Sheet as on March 31 of Every Year

5.44 In terms of the extant directions, every NBFC is required to prepare its balance sheet and profit and loss account as on March 31 every year. However, a few companies obtained permission directly from the Registrar of Companies (RoC) for extension of the financial year as required under the provisions of the Companies Act, 1956. In order to ensure that there is no eventual violation of the directions of the Reserve Bank, NBFCs were advised that whenever an NBFC intends to extend the date of its balance sheet as per provisions of the Companies Act, it should take prior approval of the Reserve Bank before approaching the RoC for this purpose. It was also clarified that even in the cases where the Reserve Bank and the RoC grant extension of time, the company is required to furnish to the Reserve Bank a *proforma* balance sheet (unaudited) as on March 31 of the year and the statutory returns due on the above date.

Premature Withdrawal of Deposits by NBFCs, RNBCs and MNBCs

5.45 NBFCs which have defaulted in repayment of deposits, are prohibited from making premature repayment of any public deposits (in the case of NBFCs) or deposits (in the case of MNBCs/RNBCs) or granting any loan against such deposits (in the case of NBFCs/MNBCs), except in the case of death of a depositor or for repaying tiny deposit, *i.e.*, deposits up to Rs.10,000. The remaining amount and the interest thereon may be paid only after maturity. In the case of normally run companies, the premature repayment, after the lock-in period, will be at the sole discretion of the company and cannot be claimed as a matter of right by the depositor. However, in the event of death of the depositor, public deposit/deposits may be repaid prematurely, even within lock-in period to the surviving depositor or legal heir/s of the deceased depositor. The rate of interest to be paid on premature repayment of deposits has also been rationalised by the Reserve Bank.

Reporting System for NBFCs not Accepting/ Holding Public Deposits and Having Asset Size of Rs.500 Crore and Above

5.46 NBFCs not accepting/holding public deposits and having an asset size of Rs.500 crore and above were advised to submit a quarterly return in the prescribed format beginning from the quarter ended September 2004 within a period of 30 days of the month following the close of the quarter. It was also advised that a provisional return for the quarter ended March of every year may be submitted, within 30 days of the close of the quarter and a final return duly certified by the statutory auditors should be

submitted, with a copy of the audited balance sheet, as soon as the same is finalised but not later than September 30 of the year. Non-submission of return would be viewed seriously and penal action would be taken for such non-compliance. With effect from September 2005, periodicity of return has been reduced to monthly and cut off point for submission of return has been reduced to asset size of Rs.100 crore and above.

Cover for 'Public Deposits'

5.47 In order to protect depositors' interest, all NBFCs accepting/holding public deposits were advised to ensure that there is full cover available at all times for public deposits accepted by them. While calculating this cover, the value of all debentures (secured and unsecured) and outside liabilities other than the aggregate liabilities to depositors may be deducted from total assets. For this purpose, they were advised that the assets should be evaluated at their book value or realisable/market value, whichever is lower. NBFCs are required to report to the Reserve Bank in case the asset cover calculated, as advised, falls short of the liability on account of public deposits. They were further directed to create a floating charge on the statutory liquid assets invested as required under Section 45-IB of the RBI Act, 1934 in favour of their depositors and that the charge should be duly registered in accordance with the requirements of the Companies Act, 1956.

'Know Your Customer' (KYC) Guidelines – Anti-Money Laundering Standards

5.48 NBFCs/RNBCs were advised in January 2004 to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to the appropriate authority. The 'know your customer' (KYC) guidelines were revisited in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti-Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT). Subsequently, the Reserve Bank issued detailed guidelines to banks based on the recommendations of the Financial Action Task Force and the paper issued on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision. NBFCs were advised on February 21, 2005 to adopt the same guidelines with suitable modifications depending on the activity undertaken by them and ensure that a proper policy framework on KYC and AML measures is formulated and put in place with the approval of the Board within three months. NBFCs are required to ensure full compliance with the provisions of the guidelines before December 31, 2005.

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

5.49 Certain sections of the SARFAESI Act, 2002 were amended by passing the Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Act, 2004. The amendment to the Act was necessitated in view of the Supreme Court judgment and suggestions received from various sources including Indian Banks' Association (IBA), NHB and the Government. The constitutional validity of the SARFAESI Act was challenged in the Supreme Court in the case of Mardia Chemicals Ltd. *vs.* ICICI Bank Ltd. and others. The Supreme Court while upholding the Act declared sub-section (2) of Section 17 of the Act, requiring the defaulting borrower to pre-deposit 75 per cent of the liability in case the borrower wants to appeal against the order of the attachment of an asset, as *ultra vires* of Article 14 of the Constitution of India.

Supervision of NBFCs

5.50 Supervisory oversight by the Reserve Bank over NBFCs encompasses a four-pronged strategy; (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. During the period April 2004 to March 2005, a total of 573 (318 deposit taking companies and 255 non-deposit taking companies) registered NBFCs were inspected. In addition to the inspections, the Bank also conducted 236 snap scrutinies.

Registration

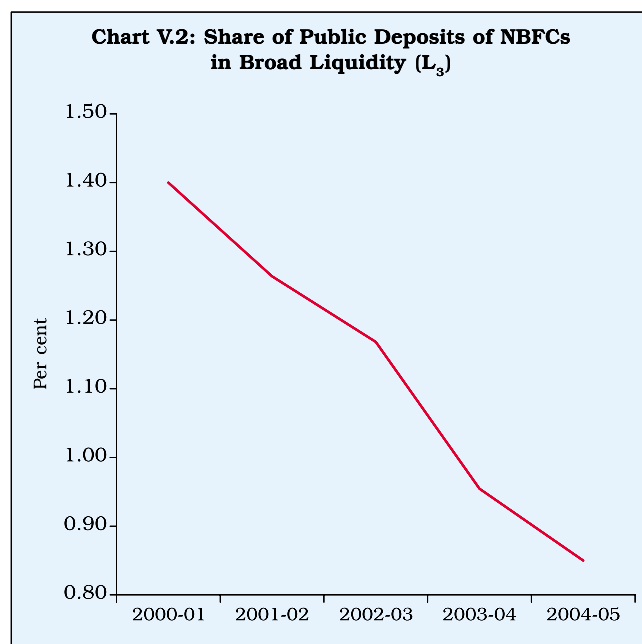
5.51 By the end of March 2005, the Reserve Bank had received 38,096 applications for grant of Certificate of Registration (CoR). Of these, the Reserve Bank has approved 13,187 applications (net of cancellation), including 474 applications (net of cancellation) of companies authorised to accept/hold public deposits. The total number of NBFCs increased to 13,261 (net of cancellation) by end-June 2005, of which 507 were public deposit accepting companies (Table V.14).

Table V.14: Number of Non-Banking Financial Companies

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
2004	13,764	604
2005*	13,261	507

* : net of cancellation.

Chart V.2: Share of Public Deposits of NBFCs in Broad Liquidity (L_3)



Profile of NBFCs (including RNBCs)

5.52 The number of reporting NBFCs (registered and unregistered) declined from 875 at end-March 2003 to 777 at end-March 2004 and further to 573 at end-March 2005. The decline was mainly due to the exit of many NBFCs from deposit taking activity. The number of RNBCs, which were five at the end-March 2003, declined to three at end-March 2004 and remained unchanged at that level at end-March 2005. Assets and public deposits accepted by reporting NBFCs, which declined during the year ended March 2004, increased marginally during the year ended March 2005 even as the number of reporting NBFCs declined sharply. The net owned funds of NBFCs increased in 2004 as well as 2005 (Table V.15). Deposits of reporting NBFCs constituted 1.1 per cent of aggregate deposits of scheduled commercial banks at end-March 2005 as against 1.2 per cent at end-March 2004 and 1.5 per cent at end-March 2003.

5.53 Reflecting the decline in public deposits held by NBFCs, the share of NBFC deposits in broad liquidity (L_3) has declined sharply over the years (Chart V.2).

Operations of NBFCs (Excluding RNBCs)

5.54 Total assets/liabilities of NBFCs (excluding RNBCs), which had declined sharply by 13.1 per cent during 2003-04, increased marginally during 2004-05. Borrowings represent the major source of funds for NBFCs, followed by owned funds (capital and reserves) and public deposits. All these sources of funds declined during 2003-04 as well as 2004-05, except borrowings, which increased marginally during 2004-05 after a sharp decline in

Table V.15: Profile of Non-Banking Financial Companies

(Amount in Rs. crore)

Item	As at End-March					
	2003		2004		2005	
	NBFCs	*of which:* RNBCs	NBFCs	*of which:* RNBCs	NBFCs	*of which:* RNBCs
1	2	3	4	5	6	7
Number of reporting companies	875	5	777	3	573	3
Total Assets	58,071	20,362 (35.1)	50,709	17,955 (35.4)	52,900	19,056 (36.0)
Public Deposits	20,100	15,065 (75.0)	19,644	15,327 (78.1)	20,246	16,600 (82.0)
Net Owned Funds	4,950	809	5,098	1,002	5,510	1,065

Note: Figures in parentheses indicate percentages to total outstanding deposits of NBFCs.

2003-04. On the asset side, loans and advances, hire purchase and equipment leasing assets constitute the major assets of NBFCs. Reflecting the impact of slowdown in borrowing and deposits, growth of all major assets such as loans and advances and equipment leasing assets, except SLR investments, declined during 2003-04. The decline in assets continued during 2004-05, except hire purchase assets, bill business and SLR investments which increased sharply (Table V.16).

5.55 Among NBFC groups, assets/liabilities of hire purchase finance companies and equipment leasing companies, which declined during the year ended March 2004, increased marginally during the year ended March 2005. Assets/liabilities of investment and loan companies which expanded during the year ended March 2004, declined in the following year. This broadly reflected the impact of resources raised. Hire purchase finance companies, the largest NBFC group, constituted 59.2 per cent of total assets/liabilities of all NBFCs at end-March 2005, followed distantly by loan companies (15.7 per cent), equipment leasing companies (14.0 per cent) and investment companies (5.6 per cent) (Table V.17).

Table V.16: Consolidated Balance Sheet of NBFCs

(Amount in Rs. crore)

Item	As at end-March			Variation			
	2003	2004	2005	2003-04		2004-05	
				Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8
Liabilities							
1. Paid-up capital	2,860 (7.6)	2,327 (7.1)	2,106 (6.2)	-533	-18.6	-221	-9.5
2. Reserves and Surplus	4,745 (12.6)	4,414 (13.5)	3,855 (11.4)	-331	-7.0	-559	-12.7
3. Public Deposits	5,035 (13.4)	4,317 (13.2)	3,646 (10.8)	-718	-14.3	-671	-15.5
4. Borrowings	24,480 (64.9)	20,852 (63.7)	21,842 (64.5)	-3,628	-14.8	990	4.7
5. Other Liabilities	589 (1.6)	844 (2.6)	2,394 (7.1)	255	43.3	1,550	183.6
Total Liabilities/Assets	**37,709**	**32,754**	**33,843**	**-4,955**	**-13.1**	**1,089**	**3.3**
Assets							
1. Investments							
i) SLR Investments	1,453 (3.9)	1,707 (5.2)	1,772 (5.2)	254	17.5	65	3.8
ii) Non-SLR Investments	2,885 (7.7)	2,110 (6.4)	1,736 (5.1)	-775	-26.9	-374	-17.7
2. Loans and Advances	13,398 (35.5)	12,363 (37.7)	11,301 (33.4)	-1,035	-7.7	-1,062	-8.6
3. Hire Purchase Assets	13,031 (34.6)	11,649 (35.6)	14,200 (42.0)	-1,382	-10.6	2,551	21.9
4. Equipment Leasing Assets	5,816 (15.4)	3,036 (9.3)	1,971 (5.8)	-2,780	-47.8	-1,065	-35.1
5. Bill Business	450 (1.2)	436 (1.3)	464 (1.4)	-14	-3.1	28	6.4
6. Other Assets	676 (1.8)	1,453 (4.4)	2,398 (7.1)	777	114.9	945	65.0

Note : 1. Number of reporting companies declined to 777 companies in 2004 from 875 during 2003.
2. Figures in parentheses are percentages to total liabilities/assets.

Table V.17: Major Components of Liabilities of NBFCs – Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March								
	Liabilities			Deposits			Borrowings		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
1	2	3	4	5	6	7	8	9	10
Equipment Leasing	7,996 (21.2)	3,744 (11.4)	4,721 (14.0)	511 (10.1)	344 (8.0)	343 (9.4)	6,472 (26.4)	2,811 (13.5)	3,112 (14.2)
Hire Purchase	22,163 (58.8)	19,929 (60.8)	20,039 (59.2)	3,539 (70.3)	2,963 (68.6)	2,315 (63.5)	13,650 (55.8)	12,141 (58.2)	13,008 (59.6)
Investment	2,208 (5.9)	2,422 (7.4)	1,890 (5.6)	125 (2.5)	106 (2.5)	93 (2.6)	1,613 (6.6)	1,718 (8.2)	1,092 (5.0)
Loan	4,109 (10.9)	5,485 (16.7)	5,319 (15.7)	177 (3.5)	178 (4.1)	157 (4.3)	2,600 (10.6)	3,775 (18.1)	3,679 (16.9)
Others	1,233 (3.3)	1,173 (3.6)	1,874 (5.5)	683 (13.6)	727 (16.8)	738 (20.2)	145 (0.6)	407 (2.0)	950 (4.3)
Total	**37,709** **(100.0)**	**32,754** **(100.0)**	**33,843** **(100.0)**	**5,035** **(100.0)**	**4,317** **(100.0)**	**3,646** **(100.0)**	**24,480** **(100.0)**	**20,852** **(100.0)**	**21,842** **(100.0)**

Note: Figures in parentheses represent percentage share in total.

Deposits

Profile of Public Deposits of Different Categories of NBFCs

5.56 Public deposits held by all NBFCs declined significantly during the year ended March 2004 (14.2 per cent) as well as March 2005 (15.6 per cent). Significantly, public deposits by all NBFC groups declined in both the years, except loan companies, which increased marginally during 2003-04 and 'other' companies, which increased during 2003-04 and 2004-05. Hire purchase companies held the largest share of public deposits (63.5 per cent), followed remotely by equipment leasing companies, loan companies and investment companies (Table V.18).

Deposit Size-wise Classification of NBFCs

5.57 The number of NBFCs and deposits held by them in all categories of deposit size declined during the year ended March 2004 as well as March 2005, barring NBFCs in the deposit size of 'Rs.10 crore to Rs.20 crore', deposit in respect of which increased marginally during 2004-05 and

Table V.18: Public Deposits held by NBFCs – Group-wise

(Amount in Rs. crore)

Nature of Business	As at end-March						Percentage Variation	
	Number of NBFCs			Public Deposits				
	2003	2004	2005	2003	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9
1. Equipment Leasing	58	46	38	511 (10.1)	344 (8.0)	343 (9.4)	-32.7	-0.3
2. Hire Purchase	439	396	316	3,539 (70.3)	2,963 (68.6)	2,315 (63.5)	-16.3	-21.9
3. Investment	19	11	5	125 (2.5)	106 (2.5)	93 (2.6)	-15.2	-12.3
4. Loan	122	87	54	177 (3.5)	178 (4.1)	157 (4.3)	0.6	-11.8
5. Others*	232	234	157	683 (13.6)	727 (16.8)	738 (20.2)	6.4	1.5
Total	**870**	**774**	**570**	**5,035** **(100.0)**	**4,318** **(100.0)**	**3,646** **(100.0)**	**-14.2**	**-15.6**

* : Including Miscellaneous Non-Banking Companies, unregistered and unnotified *Nidhis*.
Note: Figures in parentheses indicate percentages to total.

Table V.19: Range of Deposits held by Non-Banking Financial Companies

(Amount in Rs. crore)

Deposit range	As at end-March					
	No. of NBFCs			Amount of deposits		
	2003	2004	2005	2003	2004	2005
1	2	3	4	5	6	7
1. Less than Rs.0.5 crore	491	428	287	65 (1.3)	53 (1.2)	37 (1.0)
2. More than Rs.0.5 crore and up to Rs.2 crore	233	210	168	225 (4.5)	206 (4.8)	164 (4.5)
3. More than Rs.2 crore and up to Rs.10 crore	90	82	70	360 (7.1)	352 (8.2)	320 (8.8)
4. More than Rs.10 crore and up to Rs.20 crore	21	18	16	284 (5.6)	242 (5.6)	250 (6.9)
5. More than Rs.20 crore and up to Rs.50 crore	12	17	14	364 (7.2)	569 (13.2)	507 (13.9)
6. Rs.50 crore and above	23	19	15	3,737 (74.3)	2,895 (67.0)	2,368 (64.9)
Total	**870**	**774**	**570**	**5,035 (100.0)**	**4,317 (100.0)**	**3,646 (100.0)**

Note: Figures in parentheses are percentages to total deposit.

'more than Rs.20 crore and up to Rs.50 crore', which increased sharply during 2003-04. Fifteen companies in the deposit size of 'Rs.50 crore and above' held 64.9 per cent of total public deposits held by all NBFCs at end-March 2005. Twenty nine NBFCs with deposit size of 'Rs.20 crore and above', held more than 78.8 per cent of total deposits, while remaining 541 companies held little more than 21.2 per cent of total public deposits (Table V.19).

Region-wise Composition of Deposits held by NBFCs

5.58 Deposits held by NBFCs across all the regions declined during 2003-04 and 2004-05. The Southern region accounted for the largest share of deposits (75.9 per cent) held by NBFCs at end-March 2005, followed distantly by other regions. This was on account of largest share of deposits (71.1 per cent) held by Chennai (Table V.20).

Table V.20: Public Deposits held by Registered and Unregistered NBFCs - Region-wise

(Amount in Rs. crore)

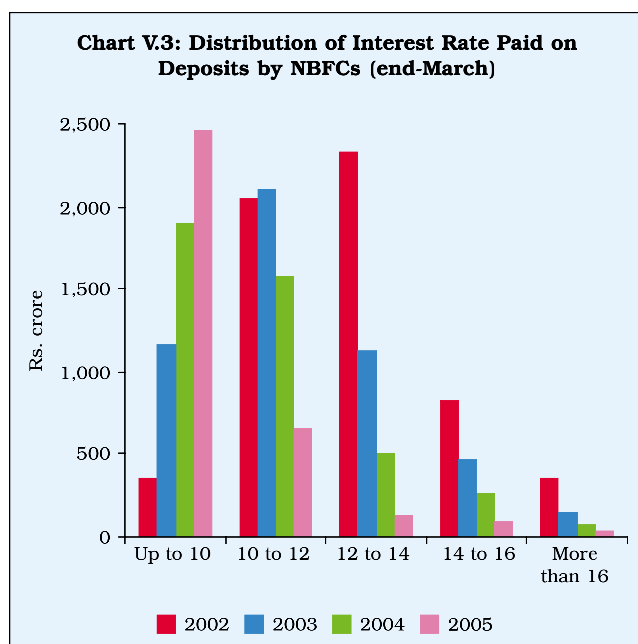
Region	2002-03		2003-04		2004-05	
	No. of NBFCs	Amount	No. of NBFCs	Amount	No. of NBFCs	Amount
1	2	3	4	5	6	7
Northern	271	543 (10.8)	248	442 (10.2)	195	351 (9.6)
North-Eastern	1	2 (0.0)	1	1 (0.0)	–	–
Eastern	18	212 (4.2)	17	204 (4.7)	13	158 (4.3)
Central	82	112 (2.2)	75	101 (2.3)	66	92 (2.5)
Western	63	687 (13.6)	41	365 (8.5)	27	280 (7.7)
Southern	435	3,479 (69.1)	392	3,205 (74.2)	269	2,765 (75.9)
Total	**870**	**5,035**	**774**	**4,318**	**570**	**3,646**
Metropolitan cities:						
Mumbai	45	672	23	351	14	268
Chennai	318	3,162	304	2,879	217	2,591
Kolkata	15	203	14	187	11	158
New Delhi	108	443	98	345	71	266
Total	**486**	**4,480**	**439**	**3,762**	**313**	**3,283**

– : Nil/Negligible.
Note: Figures in parentheses are percentages to total.

Interest Rate and Maturity Pattern of Public Deposits with NBFCs

5.59 Deposits contracted by NBFCs at interest rates up to 10 per cent increased sharply during the year ended March 2004 as well as March 2005, while deposits contracted at all other interest rates declined significantly. However, some portion of the deposits accepted by NBFCs was at interest rate of above 14 per cent or even 16 per cent. About 71 per cent of the deposits contracted at end-March 2005 were at interest rate up to 10 per cent (Table V.21).

5.60 In line with the general decline in the interest rate over the years, interest rates paid by NBFCs on deposits have also declined steadily over the years, which was reflected in the increase in the share of deposits contracted at interest rate of up to 10 per cent and decline in the share of deposits accepted at 12 to 14 per cent (Chart V.3).



The Maturity Pattern of Public Deposits

5.61 Deposits contracted by NBFCs in all maturity ranges declined significantly during 2003-04 and 2004-05. Deposits in the maturity range of 'more than 2 and up to 3 years' accounted for the largest share (35.5 per cent) at end-March 2005 (Table V.22).

5.62 The spread between the maximum interest rate on public sector bank deposits of 'one to three year' maturity and the interest rate offered by NBFCs on deposits with the same maturity narrowed down over the years (Table V.23).

Borrowings

5.63 The outstanding borrowings by NBFCs, which declined by 14.8 per cent during the year ended March 2004 on account of decline in the borrowings by equipment leasing companies and

Table V.21: Distribution of Public Deposits of NBFCs According to Rate of Interest

(Amount in Rs. crore)

Interest Range	As at end-March		
	2003	2004	2005
1	2	3	4
Up to 10 per cent	1,174 (23.3)	1,896 (43.9)	2,604 (71.4)
More than 10 per cent and up to 12 per cent	2,101 (41.7)	1,586 (36.7)	726 (19.9)
More than 12 per cent and up to 14 per cent	1,137 (22.6)	505 (11.7)	164 (4.5)
More than 14 per cent and up to 16 per cent	475 (9.4)	254 (5.9)	109 (3.0)
16 per cent and above	148 (3.0)	76 (1.8)	43 (1.2)
Total	**5,035 (100.0)**	**4,317 (100.0)**	**3,646 (100.0)**

Note: Figures in parentheses are percentages to total deposits.

Table V.22: Maturity Pattern of Public Deposits held by NBFCs

(Amount in Rs. crore)

Maturity Period @	As at end-March		
	2003	2004	2005
1	2	3	4
Less than 1 year	1,203 (23.9)	1,176 (27.3)	1,145 (31.4)
More than 1 and up to 2 years	1,241 (24.6)	1,046 (24.2)	862 (23.6)
More than 2 and up to 3 years	1,927 (38.3)	1,573 (36.4)	1,295 (35.5)
More than 3 and up to 5 years	619 (12.3)	492 (11.4)	330 (9.0)
5 years and above	45 (0.9)	30 (0.7)	14 (0.4)
Total	**5,035 (100.0)**	**4,317 (100.0)**	**3,646 (100.0)**

@ : On the basis of residual maturity of outstanding deposits.
Note: Figures in parentheses are percentages to total deposits.

Table V.23: Maximum/Ceiling Interest Rates on Banks and NBFC Deposits

(Per cent)

Interest Rate	As at end-March					
	2000	2001	2002	2003	2004	2005
1	2	3	4	5	6	7
1. Maximum interest rate on public sector bank deposits of 1-3 year maturity	10.5	9.5	8.5	6.75	6.75	7.00
2. Ceiling interest rate for NBFCs	16.0	14.0	12.5	11.0	11.0	11.0
3. Spread (2-1)	5.5	4.5	4.0	4.25	4.25	4.00

hire purchase companies, increased marginally during the year ended March 2005. Hire purchase companies continued to account for the largest share (59.6 per cent) of total borrowings by all NBFCs (Table V.24).

5.64 Borrowings by NBFCs from banks and FIs and external sources declined, while those by way of debentures increased during 2003-04 and 2004-05. Borrowings from the Government, which had increased marginally during the year ended March 2004, declined sharply in the following year. Borrowings from the Government relate mostly to one State-owned NBFC operating in the Southern region. Hire purchase companies have been the most active in raising resources from banks/FIs and the debt market. Borrowings from banks and financial institutions by equipment leasing and hire purchase companies, which declined sharply during 2003-04, increased marginally in 2004-05. On the other hand, borrowings by loan companies from banks and FIs after increasing sharply in 2003-04, declined in 2004-05 (Table V.25). Debentures emerged as the most important source of funds for NBFCs during the year ended March 2005, relegating the borrowings from banks and FIs to the second position. Between end-March 2003 and end-March 2005, while the share of borrowings by way of debentures increased from 21.9 per cent to 30.6 per cent, that of borrowings from banks and FIs declined from 36.6 per cent to 27.1 per cent.

Assets of NBFCs

5.65 Advances constitute the main assets of NBFCs. Reflecting the decline in deposits and borrowings, advances extended by all NBFCs declined during the year, barring those by loan companies during the year ended March 2004. While advances by equipment leasing companies and hire

Table V.24: Borrowings by NBFCs –Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March						Percentage Variation	
	No. of NBFCs			Total Borrowings				
	2003	2004	2005	2003	2004	2005	2003-04	2004-05
1	2	3	4	5	6	7	8	9
Equipment Leasing	58	46	38	6,472 (26.4)	2,811 (13.5)	3,112 (14.2)	-56.6	10.7
Hire Purchase	439	396	316	13,650 (55.8)	12,141 (58.2)	13,008 (59.6)	-11.1	7.1
Investment	19	11	5	1,613 (6.6)	1,718 (8.2)	1,092 (5.0)	6.5	-36.4
Loan	122	87	54	2,600 (10.6)	3,775 (18.1)	3,679 (16.8)	45.2	-2.5
Others	232	234	157	145 (0.6)	407 (2.0)	950 (4.4)	180.7	133.4
Total	**870**	**774**	**570**	**24,480 (100.0)**	**20,852 (100.0)**	**21,841 (100.0)**	**-14.8**	**4.7**

Note: Figures in parentheses are percentages to total borrowings.

Table V.25: Sources of Borrowings of NBFCs

(Amount in Rs. crore)

NBFC Group	As at end-March														
	Government			External			Banks and Financial Institutions			Debentures			Others		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Equipment Leasing	61	21	–	571	291	190	3,080	1,141	1,252	1,639	893	1219	1,121	465	452
		(-65.6)	(-100.0)		(-49.0)	(-34.7)		(-63.0)	(9.7)		(-45.5)	(36.5)		(-58.5)	(-2.8)
Hire Purchase	85	91	–	124	332	327	5,613	4,114	4,223	2,721	3,919	4,425	5,107	3,684	4,033
		(7.1)	(-100.0)		(167.7)	(-1.5)		(-26.7)	(2.6)		(44.0)	(12.9)		(-27.9)	(9.5)
Investment	1,423	1,467	885	–	–	–	14	14	10	–	42	12	176	196	185
		(3.1)	(-39.7)						(-28.6)		(-)	(-71.4)		(11.4)	(-5.6)
Loan	–	–	86	–	–	–	245	1,132	413	992	1,065	1,037	1,363	1,579	2,142
								(362.0)	(-63.5)		(7.4)	(-2.6)		(15.8)	(35.7)
Others	–	–	–	–	–	–	7	13	31	–	–	–	138	394	920
								(85.7)	(138.5)					(185.5)	(133.5)
Total	**1,570**	**1,579**	**971**	**695**	**623**	**517**	**8,959**	**6,413**	**5,929**	**5,352**	**5,919**	**6,693**	**7,905**	**6,318**	**7,732**
		(0.6)	**(-38.5)**		**(-10.2)**	**(-17.0)**		**(-28.4)**	**(-7.5)**		**(10.6)**	**(13.1)**		**(-20.1)**	**(22.4)**

– : Nil/Negligible.
Note: Figures in parentheses are percentage change over the previous year.

purchase companies increased during the year ended March 2005, those by investment and loan companies declined. Investment by NBFCs also declined during the years ended March 2004 and March 2005, reflecting mainly the impact of decline in investment by two major groups, *i.e.*, equipment leasing and hire purchase companies (Table V.26).

Distribution of NBFCs According to Asset Size

5.66 The asset size of NBFCs varies significantly from less than Rs.25 lakh to above Rs.500 crore. Most of the companies were in the asset range of more than Rs.50 lakh and up to Rs.10 crore. However, bulk of the assets were held by NBFCs in the large asset size. Sixteen companies with asset size of above Rs.500 crore held 79.4 per cent of total assets of all NBFCs as at end-March 2005 (Table V.27).

Distribution of Assets of NBFCs – Type of Activity

5.67 Assets held by NBFCs in loans and inter-corporate deposits, investments, and equipment and

Table V.26: Major Components of Assets of NBFCs – Group-wise

(Amount in Rs. crore)

NBFC Group	As at end-March								
	Assets			Advances			Investment		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
1	2	3	4	5	6	7	8	9	10
Equipment Leasing	7,996	3,744	4,721	7,087	3,020	3,875	1,028	348	331
	(21.2)	(11.4)	(13.9)	(22.8)	(11.3)	(13.9)	(23.7)	(9.1)	(9.4)
Hire Purchase	22,163	19,929	20,039	18,849	17,114	18,312	1,909	1,805	1,202
	(58.8)	(60.8)	(59.2)	(60.7)	(64.1)	(65.8)	(44.0)	(47.3)	(34.3)
Investment	2,208	2,422	1,890	1,520	1,617	1,061	629	750	788
	(5.9)	(7.4)	(5.6)	(4.9)	(6.1)	(3.8)	(14.5)	(19.6)	(22.5)
Loan	4,109	5,485	5,319	2,763	4,208	3,456	527	604	657
	(10.9)	(16.7)	(15.7)	(8.9)	(15.8)	(12.4)	(12.1)	(15.8)	(18.7)
Others	1,233	1,173	1,874	818	745	1,129	245	311	530
	(3.3)	(3.6)	(5.5)	(2.6)	(2.8)	(4.1)	(5.6)	(8.1)	(15.1)
Total	**37,709**	**32,753**	**33,843**	**31,037**	**26,704**	**27,833**	**4,338**	**3,818**	**3,508**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

Note: Figures in parentheses represent percentage share in total.

Table V.27: Non-Banking Financial Companies According to Asset Size

(Amount in Rs. crore)

Asset size	As at end-March					
	2003	2004	2005	2003	2004	2005
	No. of reporting companies			Assets		
1	2	3	4	5	6	7
1. Less than 0.25	62	59	34	6 (0.0)	6 (0.0)	4 (0.0)
2. More than 0.25 and up to 0.50	77	73	41	28 (0.1)	27 (0.1)	15 (0.1)
3. More than 0.50 and 2	354	317	209	388 (1.0)	352 (1.0)	232 (0.7)
4. More than 2 and up to 10	245	209	164	1,131 (3.0)	964 (2.9)	724 (2.1)
5. More than 10 and up to 50	68	69	71	1,399 (3.7)	1,593 (4.9)	1,765 (5.2)
6. More than 50 and up to 100	19	13	18	1,315 (3.5)	850 (2.6)	1,216 (3.6)
7. More than 100 and up to 500	28	17	17	6,492 (17.2)	3,819 (11.7)	3,007 (8.9)
8. Above 500	17	17	16	26,950 (71.5)	25,143 (76.8)	26,880 (79.4)
Total	**870**	**774**	**570**	**37,709 (100.0)**	**32,754 (100.0)**	**33,843 (100.0)**

Note: Figures in parentheses are percentages to total.

leasing declined during 2003-04 and 2004-05. However, assets in hire purchase, which declined during 2003-04, increased sharply in the following year. As a result, assets held in hire purchase activity accounted for the largest share (42.0 per cent) of total assets of NBFCs, followed by loans, including inter-corporate deposits (33.4 per cent) (Table V.28).

Table V.28: Distribution of Assets of NBFCs - Activity-wise

(Amount in Rs. crore)

Activity	As at end-March			Percentage Variation		
	2003	2004	2005	2002-03	2003-04	2004-05
1	2	3	4	5	6	7
1. Loans and Inter-corporate deposits	13,398 (35.4)	12,363 (37.7)	11,301 (33.4)	-2.3	-7.7	-8.6
2. Investments	4,338 (11.5)	3,818 (11.7)	3,508 (10.4)	0.1	-12.0	-8.1
3. Hire Purchase	13,031 (34.5)	11,649 (35.6)	14,200 (42.0)	-1.3	-10.6	21.9
4. Equipment and Leasing	2,011 (5.3)	1,115 (3.4)	778 (2.3)	-35.4	-44.6	-30.2
5. Bills	450 (1.2)	436 (1.3)	464 (1.4)	-33.1	-3.2	6.4
6. Other assets	4,581 (12.1)	3,375 (10.3)	3,592 (10.6)	-4.6	-26.3	6.4
Total	**37,809 (100.0)**	**32,756 (100.0)**	**33,843 (100.0)**	**-5.3**	**-13.4**	**3.3**

Note: Figures in parentheses are percentages to total.

Financial Performance of NBFCs

5.68 Financial performance of NBFCs improved during 2003-04 and 2004-05 due mainly to containment of expenditure. Both fund-based and fee-based income of NBFCs declined during the year ended March 2004. During 2004-05, fund-based income and fee-based income improved marginally. Financial and operating expenditure declined during 2003-04 and 2004-05, resulting in improvement in the operating profit and net profit. Increase in net profit for the year ended March 2004, to an extent, was also due to decline in tax provisions. Improvement in net profit combined with decline in total assets led to an improvement in the net profit to asset ratio in 2003-04 and further in 2004-05 (Table V.29 and Chart V.4).

Interest Cost to Total Income

5.69 Interest cost as per cent to total income which increased marginally during 2003-04, declined sharply in the following year. Non-interest costs relative to total income declined in both the years. As a result, cost to income ratio declined significantly from 88.3 per cent in 2002-03 to 83.8 per cent in 2003-04 and further to 78.8 per cent during 2004-05 (Table V.30).

Chart V.4: Financial Performance of NBFCs

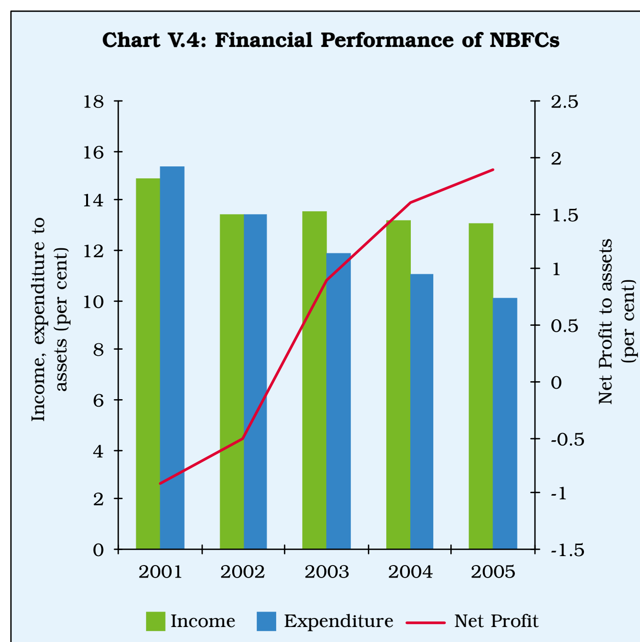


Table V.29: Financial Performance of NBFCs

(Amount in Rs. crore)

Item		2002-03	2003-04	2004-05	Percentage Variation 2002-03	Percentage Variation 2003-04	Percentage Variation 2004-05
1		2	3	4	5	6	7
A.	**Income (i+ii)**	**5,084 (100.0)**	**4,332 (100.0)**	**4,435 (100.0)**	**-5.1**	**-14.8**	**2.4**
	(i) Fund-based	4,709 (92.6)	4,005 (92.5)	4,062 (91.6)	-5.9	-15.0	1.4
	(ii) Fee-based	375 (7.4)	327 (7.5)	373 (8.4)	6.5	-12.8	14.1
B.	**Expenditure (i+ii)**	**4,491 (100.0)**	**3,621 (100.0)**	**3,495 (100.0)**	**-15.6**	**-19.4**	**-3.5**
	(i) Financial	2,757 (61.4)	2,099 (58.0)	2,054 (58.8)	-16.4	-23.9	-2.1
	(ii) Operating	1,734 (38.6)	1,522 (42.0)	1,441 (41.2)	-14.3	-12.2	-5.3
C.	**Tax Provisions**	**254**	**180**	**349**	**2.4**	**-29.1**	**93.9**
D.	**Operating Profit (PBT)**	**593**	**711**	**940**	**1,547.2**	**19.9**	**32.2**
E.	**Net Profit (PAT)**	**339**	**531**	**591**	**-259.9**	**56.6**	**11.3**
F.	**Total Assets**	**37,709**	**32,754**	**33,843**	**-5.3**	**-13.1**	**3.3**
G.	**Financial Ratios***						
	(i) Income	13.5	13.2	13.1			
	(ii) Fund Income	12.5	12.2	12.0			
	(iii) Fee Income	1.0	1.0	1.1			
	(iv) Expenditure	11.9	11.0	10.3			
	(v) Financial Expenditure	7.3	6.4	6.1			
	(vi) Operating Expenditure	2.9	3.1	4.2			
	(vii) Tax Provisions	0.7	0.5	1.0			
	(viii) Net Profit	0.9	1.6	1.7			

* : As percentage to total assets.
Note: Figures in parentheses are percentages share to the respective total.

Table V.30: Interest Cost to Total Income

(Amount in Rs. crore)

Year	Total Income	Total Cost	Interest Cost	Non-Interest Cost
1	2	3	4	5
2002-03	5,084	4,491 (88.3)	974 (19.2)	3,517 (69.2)
2003-04	4,322	3,621 (83.8)	888 (20.5)	2,733 (63.2)
2004-05	4,435	3,495 (78.8)	760 (17.1)	2,735 (61.7)

Note: Figures in parentheses indicate percentage to total income.

Soundness Indicators

Asset Quality of NBFCs

5.70 Gross and net non-performing assets of the reporting NBFCs, as a group, registered a steady decline between end-March 2001 and end-March 2004. While gross NPAs continued to decline during the year ended March 2005, net NPAs increased significantly (Table V.31).

Table V.31: Non-Performing Assets of NBFCs*

(per cent of credit exposure)

End-March	Gross NPAs	Net NPAs
1	2	3
2001	11.5	5.6
2002	10.6	3.9
2003	8.8	2.7
2004	8.2	2.4
2005	7.0	3.4

* : Excluding MBFCs, MBCs and MNBCs.

5.71 Asset quality of different NBFC groups showed a divergent trend. Gross NPAs as a percentage to total assets of equipment leasing companies, hire purchase companies and investment companies increased during 2003-04, but declined during 2004-05. Gross NPAs of loan companies, however, declined in both the years. More or less the same trend was discernable in respect of net NPAs. Investment companies had the lowest gross NPA ratio at end-March 2005 (1.8 per cent), followed by loan companies (3.7 per cent), hire purchase companies (4.6 per cent) and equipment leasing companies (12.3 per cent) (Table V.32).

Table V.32: NPAs of NBFCs - Group-wise

(Amount in Rs. crore)

NBFC Group/ End-March	Gross Advances	Gross NPAs			Net Advances	Net NPAs		
		Amount	Per cent to Gross Advances	Per cent to Assets		Amount	Per cent to Net Advances	Per cent to Assets
1	2	3	4	5	6	7	8	9
Equipment Leasing								
2001	4,118	304	7.4	6.1	3,826	12	0.3	0.2
2002	1,625	646	39.7	28.0	1,330	351	26.3	15.2
2003	5,969	932	15.6	11.1	5,506	469	8.5	5.6
2004	3,306	582	17.6	13.3	3,067	344	11.2	7.8
2005	5,611	718	12.8	12.3	5,310	418	7.9	7.1
Hire Purchase								
2001	8,296	1,324	16.0	12.3	7,604	631	8.3	5.9
2002	6,825	1,167	17.1	14.8	6,068	410	6.8	5.2
2003	16,489	1,288	7.8	6.8	15,305	104	0.7	0.5
2004	10,437	942	9.0	7.3	9,748	253	2.6	2.0
2005	12,812	619	4.8	4.6	12,498	306	2.4	2.3
Investment								
2001	232	53	22.9	5.1	223	45	20.0	4.3
2002	149	2	1.6	0.1	147	1	0.4	0.0
2003	93	11	11.9	2.1	90	8	8.9	1.5
2004	63	15	24.2	2.6	55	7	12.7	1.2
2005	58	10	17.2	1.8	58	10	17.2	1.8
Loan								
2001	7,414	595	8.0	5.9	7,118	299	4.2	3.0
2002	3,986	549	13.8	10.1	3,615	177	4.9	3.3
2003	2,707	144	5.3	4.8	2,503	–	–	–
2004	2,038	142	7.0	4.1	1,833	–	–	–
2005	1,906	83	4.4	3.7	1,780	–	–	–
Others								
2001	1,394	493	35.4	24.2	1,308	407	31.1	20.0
2002	175	9	5.1	3.0	165	–	–	–
2003	294	2	0.6	0.5	294	1	0.5	0.4
2004	–	–	–	–	–	–	–	–
2005	–	–	–	–	–	–	–	–

– : Nil/Negligible.

Table V.33: Classification of Assets of NBFCs – Group-wise

(Amount in Rs. crore)

Item/End of the Period	Standard Asset		Sub-Standard Asset		Doubtful Asset		Loss Asset		Gross NPAs		Total Assets
	Amount	per cent	Amount	per cent	Amount	per cent	Amount	per cent	Amount	per cent	
1	2	3	4	5	6	7	8	9	10	11	12
Equipment Leasing											
Mar-03	5,037	84.4	520	8.7	205	3.4	207	3.5	932	15.6	5,969
Sep-03	2,986	77.9	502	13.1	194	5.1	154	4.0	850	22.1	3,836
Mar-04	2,724	82.4	396	12.0	84	2.5	102	3.1	582	17.6	3,306
Sep-04	3,389	87.2	365	9.4	19	0.5	114	2.9	498	12.8	3,887
Mar-05	4,893	87.2	393	7.0	98	1.7	227	4.1	718	12.8	5,611
Hire Purchase											
Mar-03	15,201	92.2	746	4.5	273	1.7	269	1.6	1,288	7.8	16,489
Sep-03	15,621	92.4	758	4.5	245	1.5	283	1.7	1,286	7.6	16,907
Mar-04	9,495	91.0	613	5.9	103	1.0	226	2.2	942	9.0	10,437
Sep-04	11,420	91.5	730	5.9	118	0.9	213	1.7	1,061	8.5	12,481
Mar-05	12,193	95.2	401	3.1	128	1.0	90	0.7	619	4.8	12,812
Investment											
Mar-03	82	88.1	9	9.3	2	2.4	–	0.2	11	11.9	93
Sep-03	43	80.6	9	16.9	1	2.4	–	0.1	10	19.4	54
Mar-04	48	75.8	–	–	10	15.3	6	8.9	15	24.2	63
Sep-04	71	86.4	1	1.4	10	12.1	–	–	11	13.6	82
Mar-05	48	82.0	1	1.1	10	16.7	–	0.2	10	18.0	58
Loan											
Mar-03	2,563	94.7	37	1.3	20	0.7	88	3.2	145	5.3	2,708
Sep-03	5,693	95.8	81	1.4	59	1.0	112	1.9	252	4.2	5,945
Mar-04	1,896	93.0	40	2.0	20	1.0	82	4.0	142	7.0	2,038
Sep-04	1,697	93.9	28	1.6	9	0.5	73	4.0	110	6.1	1,807
Mar-05	1,823	95.6	14	0.7	41	2.1	28	1.5	83	4.4	1,906
Others											
Mar-03	293	99.4	1	0.4	1	0.2	–	–	2	0.6	295
Sep-03	1	55.0	–	25.9	–	19.0	–	–	1	45.0	2
Mar-04	–	–	–	–	–	–	–	–	–	–	–
Sep-04	–	–	–	–	–	–	–	–	–	–	–
Mar-05	–	–	–	–	–	–	–	–	–	–	–

– : Nil/Negligible.

5.72 Composition of NPAs of NBFC groups also showed divergent trends during 2003-04 and 2004-05. Composition of NPAs of equipment leasing companies, after showing improvement during the year ended March 2004, deteriorated in the following year. Composition of NPAs of hire purchase companies, investment companies and loan companies deteriorated during 2003-04, but improved in the following year (Table V.33).

Capital Adequacy Ratio

5.73 Capital to risk-weighted assets ratio (CRAR) norms were made applicable to NBFCs in 1998, in terms of which every deposit-taking NBFC is required to maintain a minimum capital consisting of Tier-I and Tier-II capital of not less than 12 per cent (15 per cent in the case of unrated deposit-taking loan/investment companies) of its aggregate risk-weighted assets and of risk-adjusted value of off-balance sheet items. Total of Tier-II capital, at any point of time, is required not to exceed 100 per cent of Tier-I capital. The number of NBFCs with CRAR less than 12 per cent, which constituted 6.4 per cent of all NBFCs at end-March 2003, declined to 5.2 per cent at end-March 2004, but increased to 19.8 per cent at end-March 2005. On the other hand, number of NBFCs with more than 20 per cent CRAR increased from 85.3 per cent at end-March 2003 to 89.7 per cent at end-March 2004, but declined sharply to 73.5 per cent at end-March 2005 (Table V.34).

Table V.34: Capital Adequacy Ratio of NBFCs *

Range	As at end-March											
	2003				2004				2005			
	EL	HP	LC/IC	Total	EL	HP	LC/IC	Total	EL	HP	LC/IC	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
Less than 12 per cent	10	17	15	42	5	12	8	25	4	55	5	64
More than 12 and up to 15 per cent	1	8	1	10	1	4	1	6	–	–	1	1
More than 15 and up to 20 per cent	4	32	9	45	2	15	2	19	2	15	4	21
More than 20 and up to 30 per cent	9	54	11	74	6	38	7	51	5	26	1	32
Above 30 per cent	32	334	121	487	28	300	55	383	25	153	28	206
Total	**56**	**445**	**157**	**658**	**42**	**369**	**73**	**484**	**36**	**249**	**39**	**324**

– : Nil/Negligible.
* : Excluding MBFCs, MBCs and MNBCs.
Note : 1. EL - Equipment Leasing.
2. HP - Hire Purchase.
3. LC/IC - Loan Companies /Investment Companies.

Net Owned Fund vis-à-vis Public Deposits of NBFCs

5.74 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, and adjusted by investments in shares and loans and advances to (a) subsidiaries, (b) companies in the same group and (c) other NBFCs (in excess of 10 per cent of owned fund). Information of NOFs can complement the information on CRAR. The ratio of public deposits to NOF in respect of almost all NBFC groups except loan companies, after increasing marginally during the year ended March 2004, declined during the year ended March 2005 (Table V.35).

5.75 Net owned funds of NBFCs range from less than Rs.25 lakh to over Rs.500 crore. The number of companies in nearly all NOF ranges declined during 2003-04 and 2004-05. NOF of NBFCs, which declined marginally during 2003-04, increased during 2004-05. NBFCs in the NOF range of 'up to Rs.25 lakh' continued to have negative NOF. One NBFC had NOF above Rs.500 crore at end-March 2005 as against two at end-March 2004. The ratio of public deposits to NOF maintained by NBFCs declined from 1.2 at end-March 2003 to 1.1 at end-March 2004 and further to 0.8 per cent at end-March 2005. NBFCs in the NOF range of Rs.100 crore to Rs.500 crore held the largest share (29.3 per cent) of public deposits (Table V.36).

Residuary Non-Banking Companies (RNBCs)

5.76 Three RNBCs were operating in the country at end-March 2004 and end-March 2005 as against five at end-March 2003. Assets of RNBCs

Table V.35: Net Owned Fund *vis-à-vis* Public deposits of NBFCs* – Group-wise

(Amount in Rs. crore)

NBFC Group	Net Owned Fund			Public Deposits			Public Deposits to Net Owned Fund		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
1	2	3	4	5	6	7	8	9	10
Equipment Leasing	154	96	427	511	344	343	3.3	3.6	0.8
Hire Purchase	2,979	2,235	2,597	3,539	2,963	2,315	1.2	1.3	0.9
Investment	553	607	662	125	106	93	0.2	0.2	0.1
Loan	367	893	428	177	178	157	0.5	0.2	0.4
Others	88	265	331	683	727	738	7.8	2.7	2.2
Total	**4,141**	**4,096**	**4,445**	**5,035**	**4,317**	**3,646**	**1.2**	**1.1**	**0.8**

* : Including MBFCs, MBCs and MNBCs.

Table V.36: Range of Net Owned Funds *vis-à-vis* Public Deposits of NBFCs*

(Amount in Rs. crore)

Range of NOF	As at end-March											
	2003				2004				2005			
	No. of reporting companies	Net Owned Funds	Public Deposits	Public Deposits as multiple of NOFs	No. of reporting companies	Net Owned Funds	Public Deposits	Public Deposits as multiple of NOFs	No. of reporting companies	Net Owned Funds	Public Deposits	Public Deposits as multiple of NOFs
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Up to 0.25	208	-1,356	843	–	175	-881	667	–	93	-591	456	–
2. More than 0.25 and up to 2	497	309	369	1.2	451	289	430	1.5	332	228	372	1.6
3. More than 2 and up to 10	110	461	467	1	92	394	384	1	97	428	392	0.9
4. More than 10 and up to 50	30	677	447	0.7	35	683	577	0.8	29	661	470	0.7
5. More than 50 and up to 100	10	639	255	0.4	7	478	204	0.4	6	456	158	0.3
6. More than 100 and up to 500	15	3,411	2,654	0.8	12	2,039	1,342	0.7	12	2,595	1,067	0.4
7. Above 500	–	–	–	–	2	1,094	713	0.7	1	669	731	1.1
Total	**870**	**4,141**	**5,035**	**1.2**	**774**	**4,096**	**4,317**	**1.1**	**570**	**4,446**	**3,646**	**0.8**

– : Nil/Negligible.
* : Including MBFCs, MBCs and MNBCs

declined by 3.5 per cent during the year ended March 2004 and 6.4 per cent during the year ended March 2005. Fixed deposits with banks, bonds/debentures and other fixed income investments, however, increased sharply during 2004-05. Net owned funds of RNBCs increased during 2003-04 and 2004-05.

5.77 Financial performance of RNBCs was lacklustre during 2003-04 and 2004-05. Despite increase in income, their operating profit and net profit declined during 2003-04 due mainly to increase in expenditure. A sharp decline in income of RNBCs during 2004-05 resulted in a further decline in their net profit (Table V.37).

Table V.37: Profile of Residuary Non-Banking Companies (RNBCs)

(Amount in Rs. crore)

Item	As at end-March			Percentage Variation	
	2003	2004	2005	2003-04	2004-05
1	2	3	4	5	6
A. Assets (i to v)	**21,104**	**20,362**	**19,057**	**-3.5**	**-6.4**
(i) Unencumbered approved securities	6,129	5,824	2,037	-5.0	-65.0
(ii) Fixed deposits with banks	1,470	2,033	4,859	38.3	139.0
(iii) Bonds or debentures or commercial papers of Govt. companies/ public sector banks/ public financial institutions/ corporations	6,553	6,048	9,225	-7.7	52.5
(iv) Other investments	912	2,059	1,639	125.8	-20.4
(v) Other Assets	6,040	4,398	1,297	-27.2	-70.5
B. Net Owned Funds	**809**	**1,002**	**1,065**	**23.9**	**6.3**
C. Total Income (i+ii)	**1,801**	**2,055**	**1,532**	**14.1**	**-25.5**
(i) Fund Income	1,801	2,055	1,530	14.1	-25.5
(ii) Fee Income	–	–	2	–	–
D. Total Expenses (i+ii+iii)	**1,435**	**1,813**	**1,396**	**26.3**	**-23.0**
(i) Financial Cost	1,212	1,368	1,196	12.9	-12.6
(ii) Operating Cost	105	129	146	22.9	13.2
(iii) Other cost	118	316	74	167.8	-76.6
E. Taxation	**134**	**32**	**48**	**-76.1**	**50.0**
F. Operating Profit (PBT)	**366**	**242**	**136**	**-33.9**	**-43.8**
G. Net profit (PAT)	**232**	**210**	**88**	**-9.5**	**-58.1**

– : Nil/Negligible.
* : Comprising only fund-based income.
Note : 1. PBT - Profit before tax
2. PAT - Profit after tax

Regional Pattern of Deposits of RNBCs

5.78 Of the three RNBCs, two are based in the Eastern region and one in the Central region. While deposits held by RNBCs in the Eastern region declined during the year ended March 2004 and March 2005, those held by RNBCs in the Central region increased in both the years. The RNBCs together held a sizeable portion (82.0 per cent) of total deposits held by all NBFCs at end-March 2005 (Table V.38).

Investment Pattern of RNBCs

5.79 Directions for investments by RNBCs were rationalised in June 2004 with a view to reducing the overall systemic risk in the financial sector and safeguarding the interests of depositors. In this regard, the following road map was prescribed: (a) from the quarter ended June 2005 and onwards, RNBCs were permitted to invest only to the extent of 10 per cent of the aggregated liabilities to the depositors (ALDs) at the second preceding quarter or one time of their net owned fund, whichever is lower, in the manner which in the opinion of the company is safe as per the approval of its Board of Directors; (b) from the quarter ended June 2006 and onwards, this limit would stand abolished and RNBCs would not be permitted to invest any amount out of the ALDs at the second preceding quarter as per their discretion. Thus, from the quarter ended June 2006 and onwards, RNBCs would be required to invest the entire amount of ALDs at the second preceding quarter in the directed investments.

5.80 Further, the requirement of AA+ rating and listing on the stock exchanges was introduced for bonds/debentures which qualify towards directed investments. These measures are expected to impart greater liquidity and safety to the investments of RNBCs and thus enhance protection available to depositors.

5.81 Aggregated liabilities to depositors (ALDs) increased during the year ended March 2004 and March 2005. Investments in unencumbered approved securities declined sharply, while fixed deposits with banks as also investments in bonds/ debentures increased. As a result, unencumbered approved securities as a percentage of ALDs declined significantly at end-March 2005 from end-March 2003 (Table V.39).

Table V.38: Public Deposits held by Registered and Unregistered RNBCs - Region-wise

(Amount in Rs. crore)

Region	2003		2004		2005	
	No.	Amount	No.	Amount	No.	Amount
1	2	3	4	5	4	5
Northern	–	–	–	–	–	–
North-Eastern	–	–	–	–	–	–
Eastern	3	7,422 (49.3)	2	6,523 (42.6)	2	5,070 (30.5)
Central	1	7,640 (50.7)	1	8,804 (57.4)	1	11,530 (69.5)
Western	–	–	–	–	–	–
Southern	1	3 (0.0)	–	–	–	–
Total	**5**	**15,065**	**3**	**15,327**	**3**	**16,600**
Metropolitan cities						
Mumbai	–	–	–	–	–	–
Chennai	–	–	–	–	–	–
Kolkata	3	7,422	2	6,523	2	5,070
New Delhi	–	–	–	–	–	–
Total	**3**	**7,422**	**2**	**6,523**	**2**	**5,070**

– Nil/Negligible.
Note : Figures are as at end-March.

Table V.39: Investment Pattern of Residuary Non-Banking Companies

(Amount in Rs. crore)

Item	End-March			Per cent to ALDs		
	2003	2004	2005	2003	2004	2005
1	2	3	4	5	6	7
Aggregated Liabilities to the Depositors (ALDs):	**15,065**	**15,327**	**16,600**	**100**	**100**	**100**
a) Unencumbered approved securities	6,129	3,702	2,036	40.7	24.2	12.3
b) Fixed deposits with banks	1,470	2,431	4,859	9.8	15.9	29.3
c) Bonds or debentures or commercial papers of Government companies/ public sector banks/ public financial institutions/ corporations	6,553	8,319	9,225	43.5	54.3	55.6
d) Other investments	913	2,059	1,639	6.1	13.4	9.9

NBFCs not Accepting Public Deposits and With Assets Size of Rs.500 crore and Above

5.82 In terms of Section 45IA of the RBI Act, 1934 as amended on January 8, 1997, the companies carrying on NBFI activities are required to obtain a Certificate of Registration (CoR) from the Reserve Bank. Further, companies accepting public deposits are required to submit regulatory returns such as Annual Return on public deposits (NBS-1), Half-yearly Return on Prudential Norms (NBS-2) and Quarterly Return on Statutory Liquidity Ratio (NBS-3) as per the NBFC Directions issued on January 31, 1998.

5.83 The Reserve Bank issued CoR to 13,261 NBFCs as on June 30, 2005, out of which only 507 NBFCs are accepting public deposits and submitting the regulatory returns prescribed under the Directions. In order to assess the operations of large non-deposit taking companies, a quarterly return was introduced with effect from September 2004. To begin with, NBFCs with asset size of Rs.500 crore and above were advised to submit quarterly return covering information on their sources and applications of funds as also on their exposures to the capital market, NPAs and profitability.

5.84 Information based on the returns received from nearly 50 NBFCs with asset size of Rs.500 crore and above for the quarters ended March and June 2005 suggests a marginal increase in their assets/liabilities. Unsecured loans constituted the single largest source of funds for NBFCs, followed by secured loans (Table V.40).

Borrowings

5.85 Borrowings constitute the single most important source of funds (74.2 per cent) for large sized NBFCs. Total borrowing (secured and unsecured) by NBFCs for the quarter ended March and June 2005 were placed at Rs.1,26,823 crore

Table V.40: Liabilities of Large Sized NBFCs*

(Amount in Rs. crore)

Item	Quarter Ended			
	March 2005		June 2005	
	Amount	Per cent to total Assets	Amount	Per cent to total Assets
1	2	3	4	5
Total Liabilities	**1,70,957**	**100.0**	**1,79,311**	**100.0**
of which :				
a) Paid up Capital	11,233	6.6	11,294	6.3
b) Preference Shares	689	0.4	689	0.4
c) Reserve & Surplus	22,827	13.4	22,976	12.8
d) Secured Loans	52,774	30.9	56,233	31.4
e) Unsecured Loans	74,049	43.3	76,758	42.8

* : NBFCs not accepting public deposits with asset size of Rs.500 crore and above.

Table V.41: Borrowings by Large Sized NBFCs*

(Amount in Rs. crore)

Item	Quarter Ended			
	March 2005		June 2005	
	Amount	Per cent to total Borrowings	Amount	Per cent to total Borrowings
1	2	3	4	5
A) Secured Borrowings (i to vi)	**52,774**	**41.6**	**56,233**	**42.3**
i) Debentures	30,777	24.3	31,914	24.0
ii) Deferred Credit	–	–	–	–
iii) Term Loans from Banks	11,043	8.7	11,893	8.9
iv) Term Loans from FIs	4,411	3.5	6,574	4.9
v) Others	5,433	4.3	5,169	3.9
vi) Interest accrued	1,110	0.8	683	0.6
B) Unsecured Borrowings (i to viii)	**74,049**	**58.4**	**76,758**	**57.7**
i) Loans from Relatives	1,310	1.0	1,221	0.9
ii) ICDs	7,993	6.3	7,866	5.9
iii) Loans from Banks	19,717	15.5	21,661	16.3
iv) Loans from FIs	2,326	1.8	2,723	2.0
v) Commercial Papers	12,487	9.8	13,382	10.1
vi) Debentures	13,769	10.9	14,256	10.7
vii) Others	15,419	12.3	14,512	10.9
viii) Loans Interest accrued	1,028	0.8	1,137	0.9
Total Borrowings	**1,26,823**	**100.0**	**1,32,991**	**100.0**

– : Nil/Negligible.

* : NBFCs not accepting public deposits with asset size of Rs.500 crore and above.

and Rs.1,32,991 crore, respectively. Secured borrowings by way of debentures and term loans from banks/FIs increased significantly during the quarter ended June 2005. Unsecured borrowings in the form of loans from banks, debentures and commercial papers also increased during the quarter. Increased borrowings enabled large NBFCs to expand their operations on the asset side (Table V.41).

Application of Funds

5.86 Loans (both secured and unsecured) by NBFCs, which is the single largest item on the asset side, increased by 4.6 per cent during the quarter ended June 2005. A sharp increase (23.7 per cent) was also noticed in their current investment. Long-term investments and hire purchase financing declined marginally. Capital market exposure of large NBFCs also declined marginally (Table V.42).

Table V.42: Select Indicators on Application of Funds by Large Sized NBFCs*

(Amount in Rs. crore)

Item	Quarter Ended			
	March 2005		June 2005	
	Amount	Per cent to total application of funds	Amount	Per cent to total application of funds
1	2	3	4	5
1. Secured Loan	42,552	28.4	44,502	28.5
2. Unsecured Loan	60,855	40.6	63,669	40.7
3. Hire Purchase	20,763	13.9	19,982	12.8
4. Long-term Investment	14,847	9.9	14,689	9.4
5. Current Investment	10,883	7.2	13,466	8.6
Total	**1,49,900**	**100.0**	**1,56,308**	**100.0**
Memo Item:				
Capital Market Exposure	17,874	11.9	17,132	11.0
of which: in Equity	12,242	8.2	11,817	7.6

* : NBFCs not accepting public deposits with asset size of Rs.500 crore and above.

Table V.43: Financial Performance of Large Sized NBFCs*

(Amount in Rs. crore)

Item	Quarter Ended			
	March 2005		June 2005	
	Amount	Per cent to total Assets	Amount	Per cent to total Assets
1	2	3	4	5
Total Income	12,954	7.6	4,225	2.4
Total Expenses	9,612	5.6	2,753	1.5
Net Profit	2,255	1.3	1,059	0.6
Total Assets	1,70,957	100.0	1,79,311	100.0

* : NBFCs not accepting public deposits with asset size of Rs.500 crore and above.

Financial Performance

5.87 Total income and expenditure of large NBFCs worked out to 7.6 per cent and 5.6 per cent of total assets, respectively, for the year ended March 2005. Net profit to asset ratio was 1.3 per cent during the year ended March 2005. Large NBFCs earned a sizeable profit of Rs.1,059 crore during the quarter ended June 2005, which was little less than 50 per cent of the total profit earned during the year ended March 2005 (Table V.43).

Asset Quality

5.88 While gross NPAs/total assets ratio remained unchanged, gross NPAs/credit exposure ratio increased significantly during the quarter ended June 2005. Net NPAs relative to both total assets and credit exposure declined during the quarter ended June 2005 (Table V.44).

Table V.44: Gross and Net NPAs of Large Sized NBFCs*

(Per cent)

Item	End-March 2005	End-June 2005
1	2	3
1. Gross NPAs to Total Assets	2.3	2.3
2. Gross NPAs to Total Credit Exposure	6.3	7.9
3. Net NPAs to Total Assets	1.2	1.1
4. Net NPAs to Total Credit Exposure	3.4	2.5

* : NBFCs not accepting public deposits with asset size of Rs.500 crore and above.

4. PRIMARY DEALERS

5.89 The primary dealer (PD) system, created in 1996 continues to be important from the perspective of successful completion of the Government borrowing programme, the size of which is substantial, and the need to further develop the debt markets in India. PDs (at present 17 in number) deal largely in Government securities and other interest rate products and support the borrowing programme of the Central and the State Governments. A number of measures were initiated during 2004-05 to further strengthen the role of PDs in the Government securities market.

Policy Developments

5.90 Prudential guidelines were issued to PDs in June 2004 on dividend distribution policy with focus on pay-out ratio and capital adequacy ratio. Dividend pay-out ratio for PDs, having capital to risk-weighted assets ratio (CRAR) at 20.0 per cent or above in all the four quarters of the previous year, was capped at 50.0 per cent and at 33.3 per cent for PDs not fulfilling the above conditions. A primary dealer cannot declare dividend if the CRAR in any of the four quarters is below the minimum prescribed CRAR of 15 per cent.

5.91 PDs were advised to hold all their equity investments only in dematerialised form by the end of December 2004 and make all fresh investments only in dematerialised form thereafter.

5.92 Guidelines allowing PDs to issue subordinated debt instruments for Tier-II capital and Tier-III capital were issued in October 2004. The guidelines provided for the amount of subordinated debt to be decided by the Board of Directors, ceiling on interest rate spread, restrictions on the type of instrument, mandatory credit rating, compliance with SEBI guidelines, obtaining permission from the Reserve Bank for issuing instruments to NRIs/FIIs, assignment of 100 per cent risk weight for investments in other PDs/ banks and disclosure requirements.

5.93 Since the Reserve Bank would no longer play the role of an underwriter of the last resort from 2006-07, PDs would need to be adequately prepared to ensure success of the market borrowing programme.

5.94 An Internal Technical Group in the Reserve Bank, which examined primary issuance process under the FRBM period, recommended that PDs

must underwrite the entire issuance amount of each auction. Given this significantly higher responsibility for PDs, the Group proposed adoption of risk mitigating measures such as short-selling, introduction of 'when-issued' market and exclusivity in primary auctions. In consonance with the proposed incentives, the Group recommended certain market-making obligations for PDs, particularly in the mid-segment. Earlier, another Group (Chairman: Dr. R.H. Patil) had examined the role of PDs in the Government securities market. Both the Reports were discussed in the Technical Advisory Committee (TAC) and certain recommendations were accepted by the Reserve Bank for implementation. Accordingly, several measures were proposed in the Annual Policy Statement for 2005-06. These included: (i) permitted structures of PD business to be expanded to include banks which fulfill certain minimum criteria subject to safeguards and in consultation with banks, PDs and the Government; (ii) to consider the recommendations of the Technical Group on restructuring the underwriting obligations of PDs, allowing exclusivity to PDs in primary auctions, introduction of 'when issued' market and limited short-selling in Government securities in consultation with the Government.

5.95 The operationalisation of these proposed measures is being examined by the TAC and the Reserve Bank/Government of India. The role of PDs in the Government securities market in the post-implementation of FRBM Act, 2003 is envisaged to be more important not only from the debt management perspective, but also from the viewpoint of market development (Box V.2). The risk mitigation tools that are being contemplated by the Reserve Bank and the proposal to expand permitted structures of PD business to include banks might require changes in the regulatory guidelines.

Box V.2: Role of Primary Dealers (PDs) under the FRBM Environment

The primary dealer system, with its current underwriting and bidding commitments, ensured to a great extent the smooth execution of Government borrowing programmes. However, there have been a few instances when some auctions of Government securities remained undersubscribed and devolved on the Reserve Bank. The Reserve Bank's participation in the primary auction process so far, *albeit* at the margin, has ensured that (i) the Government borrows as and when it requires funds; and (ii) irrational bidding behavior is avoided.

Under the FRBM Act, 2003, the Reserve Bank with effect from April 1, 2006, will not be allowed to participate in primary auctions. As such the current institutional mechanism requires a relook to ensure that debt management objectives are met and the Government is able to borrow under all market conditions without exacerbating market volatility.

The Internal Technical Group on Central Government Securities Market, which deliberated on various issues concerning Government securities market, suggested that the Reserve Bank's role in the primary market be replaced by a more active and dynamic participation by PDs. This has necessitated some restructuring of current institutional processes.

Since the current system of annual bidding commitments does not guarantee the success of notified amount being sold at each auction, the Group felt that a system of bidding commitments for each auction is preferable, whereby all PDs put together must commit to bid 100 per cent of each auction, ensuring that the notified amount is sold at each auction. However, since 100 per cent bidding commitments by PDs *per se* do not ensure that the cost of issuance is minimised or is in line with price discovery, the Group felt that instead of bidding commitments, PDs could be required to underwrite the entire notified amount of an auction. The methodology for such arrangement was also broadly suggested by the Group.

Recognising that the envisaged system casts a much larger responsibility on the PDs than under the current arrangements, it was suggested by the Group to compensate PDs with appropriate incentives over and above those already available such as access to the call market, cash and securities account with the Reserve Bank, refinance facility and access to the Liquidity Adjustment Facility (LAF). The Group also suggested that the possibility of providing PDs with a facility to repo their auctioned stock with the Reserve Bank for a limited period after the auction allotment, be examined to help them tide over temporary funding risk.

The Group suggested that the participation in the PD system be expanded to include banks to undertake PD activity departmentally. In almost all countries, the concept of primary dealers is limited to an activity and not an entity. That is, institutions such as commercial banks and investment banks, financial institutions and broker-dealers are designated as primary dealers, and no separate entity is required to be formed for this purpose. The Group, therefore, recommended that in addition to current eligibility norms, permitted structures for PD business be expanded to include banks directly undertaking PD activity as a department with independent subsidiary books of account. The operations of the bank may be kept scrupulously distinct from the PD activities. The Group, therefore, recommended that appropriate restructuring of the PD system be encouraged, with smaller PDs either raising the capital base or merging with parent banks, where there are bank subsidiaries.

The Group further suggested that the primary dealers be granted exclusivity in primary auctions and such exclusivity be granted in phases commencing with Treasury Bills and a few auctions of dated securities.

Operations and Performance of the PDs

5.96 PDs continued to be important players in the Government securities market during 2004-05. The liquidity support limits for PDs for 2004-05 were fixed at Rs.3,000 crore as against Rs.4,500 crore for the previous year. The liquidity support was made available at the Reserve Bank's Repo Rate.

5.97 Bidding commitments in Treasury Bill auctions for all PDs taken together for 2004-05 were fixed at 123 per cent of the issue amount. Total bids received at Rs.1,10,112 crore amounted to 205.8 per cent of the total Treasury Bill issues of Rs.53,500 crore and 74.1 per cent of the total Treasury Bill issues of Rs.1,48,500 crore (inclusive of Market Stabilisation Scheme). For dated securities auctions, the bidding commitments for all PDs taken together were originally fixed at Rs.1,20,300 crore. Subsequently, the bidding commitments were reduced to Rs.77,900 crore on account of reduction in the market-borrowing programme of the Government. The actual bids tendered by the PDs were for Rs.85,474 crore. PDs offered to underwrite the primary issues to the tune of Rs.58,335 crore during the year, out of which bids for Rs.34,720 crore were accepted by the Reserve Bank. The shares of total primary purchases by PDs for Treasury Bills and dated securities at 63 per cent and 47 per cent, respectively, during the year were marginally lower than those of 67 per cent and 50 per cent, respectively, in the preceding year.

5.98 The turnover of transactions by PDs (both outright and repo) in the secondary market for Treasury Bills and Government dated securities at Rs.4,66,242 crore and Rs.12,69,454 crore, respectively, constituted 28.0 per cent and 18.6 per cent, respectively, of the total market turnover of Rs.16,66,020 crore and Rs.68,23,054 crore, respectively.

Sources and Application of Funds

5.99 The investments by PDs in Government securities and corporate bonds declined sharply. Among sources of funds unsecured loans declined sharply (Table V.45).

Table V.45: Sources and Application of Funds of Primary Dealers

(Amount in Rs. crore)

Item	2003-04	2004-05#	Percentage Variation	
			2003-04	2004-05
1	2	3	4	5
Sources of Funds	**17,135**	**11,911**	**2.2**	**-30.5**
1. Capital	2,354	2,332	17.5	-0.9
2. Reserves and Surplus	3,675	3,334	32.3	-9.3
3. Loans (a+b)	11,106	6,245	-7.4	-43.8
a) Secured	1,654	2,445	-70.2	47.8
b) Unsecured	9,452	3,800	47.0	-59.8
Application of Funds	**17,135**	**11,911**	**2.2**	**-30.5**
1. Fixed Assets	71	75	6.0	5.6
2. Investments (a to d)	16,436	10,224	3.6	-37.8
a) Government Securities	14,094	8,255	-2.2	-41.4
b) Commercial papers	123	443	16.0	260.2
c) Corporate Bonds	2,055	1,176	75.9	-42.8
d) Others	164	350	–	113.4
3. Loans and Advances	2,567	2,322	41.8	-9.5
4. Non Current Assets	–	–	–	–
5. Others*	-1,939	-710	100.8	-63.4

– : Nil/Negligible.
: Figures are unaudited.
* : Including cash bank balance, accrued interest, deferred tax, less current liabilities and provisions.

5.100 The share of Government securities in total assets of PDs declined sharply from 82.3 per cent at end-March 2004 to 69.3 per cent at end-March 2005. Capital funds of the PDs declined to Rs.5,603 crore at end-March 2005 from Rs.6,015 crore at end-March 2004 (Table V.46). Despite this decline, however, PDs were able to maintain capital to risk weighted assets ratios far in excess of the minimum requirement of 15 per cent (Table V.46 and Appendix Table V.7).

Table V.46: Select Indicators of Primary Dealers

(Amount in Rs. crore)

Item	End-March	
	2004	2005 #
1	2	3
Total Assets*	17,135	11,911
Of which: Government securities	14,094	8,255
Government securities as percentage of total assets	82.3	69.3
Total Capital Funds	6,015	5,603
CRAR	42.7	54.3
Liquidity Support Limit	2,250 (normal) 2,250 (backstop)	3,000 (normal)

* : Net of current liabilities and provisions.
# : Unaudited.
Note : Figures for 2004 and 2005 do not include SBI Gilts.

Table V.47: Financial Performance of Primary Dealers

(Amount in Rs. crore)

Item	2003-04	2004-05#	Percentage Variation	
			2003-04	2004-05
1	2	3	4	5
A. Income (i to iv)	2,845	574	5.4	-79.8
i) Interest	1,132	778	1.8	-31.3
ii) Discount	174	44	-4.4	-74.7
iii) Trading Profit	1,131	-700	-1.4	-161.9
iv) Others	408	452	57.5	10.8
B. Expenses (i+ii)	977	769	-2.6	-21.3
i) Interest	655	459	-9.3	-29.9
ii) Administrative Costs	322	310	14.6	-3.7
C. Profit Before Tax	**1,868**	**-195**	10.1	-110.4
D. Net Profit	**1,229**	**-250**	14.8	-120.3

: Unaudited.

Financial Performance of PDs

5.101 Net interest income of PDs declined during 2004-05. This combined with trading losses incurred during the year due to hardening of interest rates resulted in net losses before and after taxes (Table V.47). Ten PDs out of 17 posted net profits during the year (Appendix Table V.8).

Table V.48: Financial Indicators of Primary Dealers

(Amount in Rs. crore)

	Indicator	2003-04	2004-05
	1	2	3
i)	Net Profit	1,229	-250
ii)	Average Assets	18,860	15,228
iii)	Return on Average Assets (per cent)	6.5	-1.6
iv)	Net Worth	5,998	5,592

Note : 1. Average net worth is the average of opening and closing net worth of the financial year.
2. Average assets are average of the month-end balances.

5.102 The return on average assets of PDs was negative during the year, reflecting the impact of net losses. The losses suffered by PDs eroded their net worth which declined to Rs.5,592 crore at end-March 2005 from 5,998 crore in the previous year (Table V.48).

Chapter VI

Financial Stability

6.1 Periodic bouts of financial turmoil, especially in the latter half of the 1990s and the enormous costs associated with such crises have brought the issue of financial stability to the centre-stage. As financial crises have invariably contributed to macroeconomic instability, most central banks are focusing on achieving and maintaining financial stability as one of their core functions.

6.2 The increased importance of financial stability is related to four major trends in the financial system. First, the financial system has expanded at a significantly faster pace than the real economy. Second, this process of financial deepening has been accompanied by a changing composition of the financial system, with an increasing share of non-monetary assets. Third, as a result of increasing cross-industry and cross-border integration, financial systems have become interwoven, both nationally and internationally. Fourth, the financial system has become much more complex in terms of the intricacies of financial instruments and diversity of activities. As a result, the sources of crises have also become manifold, necessitating the co-ordination of a number of authorities, both within and outside the country.

6.3 Although difficult to define, financial stability should not be seen only from the perspective of avoiding financial crises. It is a condition where the financial system is capable, for the foreseeable future, of performing the various tasks of facilitating a smooth and efficient allocation of financial resources from savers to investors, while at the same time managing financial risks so as to avoid adverse disturbances. Financial stability is thus crucial for attaining sustained economic growth and cannot be achieved without a strong financial system (Box VI.1).

6.4 With the process of globalisation gathering momentum, it has become increasingly necessary for central banks to assess financial stability continuously and take a forward-looking view. This is evident from the fact that several central banks presently assess the stability of the financial system through financial stability reports (FSRs). The Bank of England and the Sveriges Riksbank, Sweden were among the earliest central banks to introduce FSR in 1997. Currently, leading central banks regularly publish FSR either as part of regular publications or on an independent basis. At the global level, international financial organisation such as the IMF also publish reports on global financial stability (Table VI.1).

6.5 There have been two important reasons behind the move by central banks in conveying information on financial stability. One, it is perceived as important to generate public understanding and awareness of what financial stability is and the role the central bank can play in the process. Two, such reports also serve as a means of sharing knowledge and information across various departments of the central bank and the public at large that have a bearing on the financial stability function.

6.6 The purpose of financial stability reports, in general, is to identify at an early stage any trends of vulnerability that could lead to a crisis in the financial system. The FSRs being brought are very much contextual with contents of the reports varying quite significantly from one central bank to another. This perhaps underscores the underlying differences in the structure of the financial system and the nature of financial risks faced by different countries. Nevertheless, most of the financial stability reports cover macroeconomic developments, financial regulations and financial markets. Some FSRs also cover payments systems. Some of the other aspects covered in some FSRs are operational risks (Bank of England), profitability of deposit institutions (Banco de Espana, Spain) and prudential regulation (Banco Central do Brasil, Brazil). Some FSRs also contain special theme-based research articles.

6.7 Until the onset of reforms, India being a relatively closed economy, was largely insulated from the vicissitudes of global markets. With the gradual opening up of the economy since the early 1990s, developments in the international financial markets have come to exert an important

Box VI.1: A Practical Approach to Financial Stability

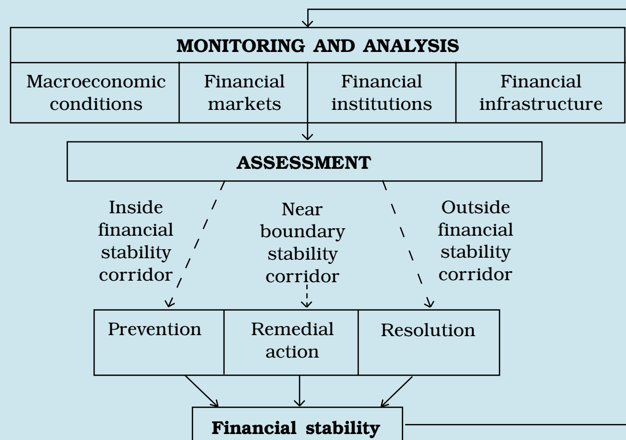
Policy makers and academics have proposed several definitions of financial stability. Some define it in terms of what it is not: a situation in which financial instability impairs the real economy. Others take a macro-prudential viewpoint and specify financial stability in terms of limiting risks of significant real output losses associated with episodes of system-wide financial distress. Several complexities arise when financial stability policy is put in practice. First, developments in financial stability cannot be summarised into a single quantifiable measure. In contrast to many other economic policy objectives (price stability, budgetary equilibrium, *etc.*), there is no unequivocal unit of measurement for financial stability. This reflects its multi-faceted nature. Second, developments in financial stability are inherently difficult to forecast. Assessing the state of financial stability not only seeks to take stock of disturbances as they emerge, but also identify the build-up of vulnerabilities that could lead to future disturbances. The difficulty here is that financial crises are hard to predict because of contagion effects and that they often reflect the far-reaching consequences of unlikely ('tail') events. Third, policies aimed at financial stability typically involve a trade-off between resilience and efficiency. Often, the pursuit of an efficient allocation of financial resources needs to be weighed against the ability to exclude or absorb shock to the financial system. Finally, policy requirements for financial stability might be time inconsistent. In particular, a short-term stability gain may come at the cost of a longer-term stability loss. For example, the provision of lender-of-last-resort finance or deposit guarantee may undermine market discipline and create a problem of moral hazard or adverse selection.

The challenge, therefore, is to develop a practical policy framework (Chart).

This comprises several stages. The first stage is to know what is happening in the financial system. Monitoring and analysis involves comprehensive and ongoing examination of relevant factors, aimed at early identification of vulnerabilities. Subsequently, an assessment is made to identify whether these vulnerabilities pose a threat to financial stability and what policy responses may be appropriate.

Accordingly, in the first case, appropriate policies are mainly preventive, aimed at maintaining stability. In the second case, when imbalances are developing, safeguarding the stability of the system will call for remedial action. Obviously, owing to its multi-faceted nature, the distinction between the policy categories is seldom clear-cut. Many instruments can be employed to maintain financial stability (Table). In the prevention mode, existing policies are maintained and updated for structural changes in order to prevent future imbalances. Surveillance of financial markets, institutions and infrastructure constitutes an important element of preventive policy. The situation changes if the financial system is close to, or at the boundary of, the range of stability.

Chart: A Framework for Maintaining Financial System Stability



Looking forward, the shift to a larger, more integrated, leveraged, complex and market-based financial system will continue to change the nature of financial risks. In this respect, the financial stability framework needs to be viewed as a flexible tool that can be used to interpret changes and translate these into policy implications. A major challenge, therefore, remains in developing a deeper understanding of how the different dimensions of financial stability interact with each other and with the real economy, and how these interactions are influenced by policy actions.

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Table: Policy Instruments for Financial Stability

	Prevention	Remedial Action	Resolution
	Implementing existing policies to safeguard financial stability	Implementing pre-emptive measures to reduce emerging risks to financial stability	Reactive policy interventions aimed at restoring financial stability
Market disciplining mechanisms	Maintain, Update	Strengthen	Discretionary measures
Self-regulation	Maintain, Update	Strengthen	Discretionary measures
Financial safety nets	Maintain, Update	Strengthen	LOLR, deposit insurance
Surveillance	Maintain, Update	Intensify	Further intensify
Supervision/regulation	Maintain, Update	Intensify	Discretionary measures
Official communication	Existing policies	Moral suasion	Restore confidence
Macroeconomic policies	Maintain, Update	Reduce imbalances	Discretionary measures
Legal system	Maintain, Update	Strengthen	Discretionary measures

LOLR – Lender of last resort.

Table VI.1: Financial Stability Reports Published by Select Central Banks

Central Bank	Name of Document
1	2
Developed Countries	
Australia	Financial Stability Review
European Central Bank	Financial Stability Review
Finland	Financial Stability
France	Financial Stability Review
Germany	Report on the Stability of the German Financial System (section in monthly report)
Netherlands	Financial Stability (regular section of quarterly bulletin)
New Zealand	Recent Developments in New Zealand's Financial Stability (September issue of quarterly bulletin)
Norway	Financial Stability Report
Sweden	Financial Stability Report
United Kingdom	Financial Stability Review
Emerging Markets	
Argentina	Financial Stability Bulletin
Brazil	Financial Stability Review
Hungary	Report on Financial Stability
Korea	Financial Stability Report
South Africa	Financial Stability Review

Source : Central bank websites.

influence on the domestic conditions. The large capital inflows, despite the cautious approach to liberalisation, at times impinged on the stability in the foreign exchange and equity markets. Furthermore, with interest rate emerging as a key channel of monetary policy signals, the efficacy of monetary transmission is predicated on the health of the financial sector. Also, the gradual liberalisation of the financial sector has led to the emergence of financial conglomerates with its attendant systemic implications.

6.8 The Indian economy has also been subject to several exogenous shocks since the early 1990s in the form of sanctions resulting from India's nuclear actions, border tensions in the late 1990s, the contagion resulting from the crises in East Asia in 1997, failure of monsoon in 2003 and high and volatile oil prices. Unlike in the past when similar shocks invariably led to crisis, the economy in the 1990s was able to absorb all such shocks without any significant impact on the real economy and the financial sector.

6.9 In view of increasing integration of the economy and the various risks to which the financial system is exposed, financial stability has emerged as a key consideration in the conduct of financial policy. The Reserve Bank has adopted a multi-pronged strategy based on international best practices with suitable adaptations to promote stability of institutions, markets and the financial infrastructure. Monetary policy of the Reserve Bank by lowering of inflation and stabilising inflation expectation has also helped in fostering financial stability. The build-up of foreign exchange reserves over the years has provided a cushion against external shocks and enhanced the confidence of foreign investors in the Indian economy.

6.10 In India, the pursuit of financial stability has emerged as the central plank of financial sector reforms. In the Annual Policy Statement, 2004-05 of the Reserve Bank, it was stated that, "as the financial sector matures and becomes more complex, the process of deregulation must continue, but in such a manner that all types of financial institutions are strengthened and financial stability of the overall system is safeguarded". In the Indian context, the role of financial stability has been recognised, *inter alia,* from three principal perspectives. First, stability of the financial system has critical influence on price stability and sustained growth, which constitute the principal objectives of policy. Second, a stable financial system facilitates efficient transmission of monetary policy actions and the smooth operation of payment systems. And third, from the perspective of regulation and supervision, safeguarding depositors' interest and ensuring stability of the financial system, in particular that of the banking sector, is the mandate of the Reserve Bank.

6.11 Before the onset of reforms, the Indian financial sector was a government-dominated system with limited efficiency and too much stability through rigidity. Therefore, financial stability in India needs to be viewed contextually, more so when the sector is graduating towards a market-oriented one, with focus on efficiency and avoiding instability. Accordingly, financial stability in the Indian context comprises the following inter-related activities: (a) ensuring uninterrupted financial transactions; (b) maintenance of a level of confidence in the financial system amongst all the participants and stakeholders; and (c) absence of excess volatility

that unduly and adversely affects real economic activity. Such financial stability has to be particularly ensured when the financial system is undergoing structural changes to promote efficiency.

6.12 This Chapter reviews the stability of the financial system in India in terms of financial institutions, financial markets and financial infrastructure. The following section reviews key policy measures initiated to strengthen the financial institutions (commercial and co-operative banks), financial institutions (FIs) and non-banking financial companies (NBFCs). Section 3 assesses the stability of financial institutions in terms of soundness and profitability parameters *vis-à-vis* those prevailing in other countries. Section 4 reviews the key developments in financial markets in recent years with a special focus on 2004-05, from the perspective of financial stability. Major developments in the payment and settlement systems from the viewpoint of financial stability are set out in Section 5. The last section presents an overall assessment in terms of credit risk and market risk facing the Indian banking system over short to medium-term.

2. Strengthening of Financial Institutions

6.13 The Indian financial system is characterised by a multitude of institutions governed by different regulators. There are commercial and co-operative banks, development finance institutions, non-banking financial companies, insurance companies and mutual funds. Commercial banks occupy a predominant place in the financial system. The Reserve Bank is entrusted with the supervision of India's banking system under the Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934. Consequent upon amendments to the Reserve Bank of India (Amendment) Act in 1997, a comprehensive regulatory framework in respect of NBFCs was introduced. The Reserve Bank also regulates select all-India financial institutions under the Reserve Bank of India Act, 1934. Insurance companies are regulated by the Insurance Regulatory and Development Authority (IRDA) and mutual funds by the Securities and Exchange Board of India (SEBI).

6.14 The Reserve Bank endeavors to maintain stability of the financial system by promoting sound business and financial practices. To achieve this, the Reserve Bank has made persistent efforts to adopt international best practices with suitable country-specific adaptations. The key policy initiatives so far have brought the Indian financial system closer to global standards. From the standpoint of financial stability, several initiatives have been taken by the Reserve Bank to strengthen financial institutions under its purview.

Scheduled Commercial Banks

Macro-level Measures

6.15 The statutory pre-emption of banks' funds has been eased with the lowering of the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR). However, the CRR was raised by one-half of a percentage points to 5.0 per cent in September 2004. The Reserve Bank chose to increase the CRR, partly for absorbing liquidity in the system, but more importantly for signalling its concern at the unacceptable levels of inflation, while reiterating the importance of stability in financial market conditions. While the Reserve Bank continues to pursue its medium-term objective of reducing the CRR to its statutory minimum level of 3.0 per cent, on a review of the current liquidity situation, it was felt desirable to keep the present level of CRR unchanged at 5.0 per cent in the Mid-term Review of October 2005. The SLR was reduced to its statutory minimum level of 25.0 per cent in 1997. The legislative changes proposed by the Government in the Union Budget, 2005-06 seek to remove the lower and upper bounds to the SLR to provide flexibility to the Resever Bank.

6.16 A major issue before the Indian financial system in the early 1990s was the administered structure of interest rate, which did not allow the pricing of funds to be determined by the forces of demand and supply. Accordingly, at the initial stage of reforms, interest rates on both the lending and deposit sides were gradually deregulated. In order to foster greater transparency in lending rate determination, a system of benchmark prime lending rates (BPLRs) has been adopted by commercial banks, which has provided them the flexibility to price their loan products either on a fixed or floating rate basis. Since the deregulation of interest rates exposed market participants to interest rate risk, banks and FIs were allowed to adopt risk management tools such as forward rate

agreements (FRAs) and interest rate swaps (IRS) for their balance sheet management and hedging of interest rate risk.

6.17 With a view to further enhancing the efficiency and stability of the banking sector and to bring it closer to the best global standards, a two-track and gradualist approach has been adopted that is consistent with India's commitment to the WTO. Under this approach, consolidation of the domestic banking system in both public and private sectors is being combined with gradual enhancement of the presence of foreign banks in a calibrated manner. Internationally, mergers and amalgamations are a common strategy adopted to restructure/strengthen banks. Consolidation has been a dominant feature of the banking sector, particularly in emerging market economies (EMEs) in the past decade (Box VI.2).

6.18 Mergers and acquisitions have not been a new phenomenon in the Indian banking industry. Consolidation process through mergers and acquisitions has been going on for several years. However, the process has gained momentum since 1999 (Table VI.2). With increased liberalisation, globalisation and technological improvements, the consolidation process in Indian banking is likely to intensify in the future.

6.19 The Reserve Bank has to ensure that after a merger, acquisition, reconstruction or takeover, the bank or banking group has adequate financial strength and management has sufficient expertise

Box VI.2: Public Policies and Experience in Consolidation in EMEs

The banking industry in several EMEs, which was already undergoing a process of transformation under the influence of technological innovation, deregulation of financial sector, opening up of financial services to international competition, and changes in corporate behaviour, faced increased pressures for transformation in the wake of banking crises of 1997-98 in Asia and Latin America. The response of banking structure in different parts of the EME to the above pressures was privatisation of state-owned commercial banks, domestic mergers and consolidation and entry of foreign banks. This resulted in a tendency towards a reduced number of banks.

Recent experience with bank consolidation in the key emerging economies brings forward several issues such as the regulatory role for encouraging bank mergers; the role of governance structure and market discipline (family-owned or foreign-owned banks); the trade-off between reaping the benefits of economies of scale and maintaining competition; and the role for large, regionally (or internationally) competitive banks ('national champions'). In emerging economies, bank consolidation often involves foreign banks and government intervention.

Market-driven consolidation is a relatively new phenomenon in emerging economies and has mainly been observed in the Central Europe. Most mergers have instead resulted from government efforts to restructure inefficient banking systems (as in many Latin American countries), or from intervention following banking crises (as in Korea and South East Asia).

In the crisis-hit Asian economies, bank mergers have generally been a government-led process, motivated by the need to strengthen capital adequacy and the financial viability of many smaller, often family-owned banks affected by the 1997-98 crisis. The major example of the government-led approach is Malaysia's Danamodal, a special purpose institution with the twin objectives of recapitalising the banks and facilitating consolidation and rationalisation in the banking system. In Korea, recent mergers were for the most part initiated by the government in order to resolve unsound banks. Mergers usually involved banks with overlapping operations and were supported by large injections of public funds. In the Philippines, several incentives are being offered to the merging banks, including better access to rediscount facilities and temporary relief from certain prudential requirements. In Thailand, the government has been involved in only one merger so far, but is supportive of private merger initiatives, especially among non-bank finance companies. In Indonesia, four of the seven state banks existing before the crisis were consolidated into a new state bank (Bank Mandiri), which now controls about a quarter of total commercial bank deposits. In addition, eight private banks that had been taken over by the Indonesian Bank Restructuring Agency (IBRA) were merged during 2000 into a new institution (Danamon). When and how to promote mergers, therefore, requires a delicate balancing act on the part of the authorities.

However, as competition in a large number of market segments has intensified through deregulation, privatisation and entry of foreign banks, consolidation is becoming more market-driven. In addition, some economies with mature financial markets (Singapore, Hong Kong) are increasingly looking at consolidation as a broader competitiveness issue in regional or even global context.

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Table VI.2: Banks Amalgamated Since Nationalisation of Banks in India

Sr. No.	Name of transferor bank	Name of transferee bank	Date of amalgamation
1.	Bank of Bihar Ltd.	State Bank of India	November 8, 1969
2.	National Bank of Lahore Ltd.	State Bank of India	February 20, 1970
3.	Miraj State Bank Ltd.	Union Bank of India	July 29, 1985
4.	Lakshmi Commercial Bank Ltd.	Canara Bank	August 24, 1985
5.	Bank of Cochin Ltd.	State Bank of India	August 26, 1985
6.	Hindustan Commercial Bank Ltd.	Punjab National Bank	December 19, 1986
7.	Traders Bank Ltd.	Bank of Baroda	May 13, 1988
8.	United Industrial Bank Ltd.	Allahabad Bank	October 31, 1989
9.	Bank of Tamilnadu Ltd.	Indian Overseas Bank	February 20, 1990
10.	Bank of Thanjavur Ltd.	Indian Bank	February 20, 1990
11.	Parur Central Bank Ltd.	Bank of India	February 20, 1990
12.	Purbanchal Bank Ltd.	Central Bank of India	August 29, 1990
13.	New Bank of India	Punjab National Bank	September 4, 1993
14.	Kashi Nath Seth Bank Ltd.	State Bank of India	January 1, 1996
15.	Bari Doab Bank Ltd.	Oriential Bank of Commerce	April 8, 1997
16.	Punjab Co-operative Bank Ltd.	Oriental Bank of Commerce	April 8, 1997
17.	Bareilly Corporation Bank Ltd.	Bank of Baroda	June 3, 1999
18.	Sikkim Bank Ltd.	Union Bank of India	December 22, 1999
19.	Times Bank Ltd.	HDFC Bank Ltd.	February 26, 2000
20.	Bank of Madura Ltd.	ICICI Bank Ltd.	March 10, 2001
21.	Benares State Bank Ltd.	Bank of Baroda	June 20, 2002
22.	Nedungadi Bank Ltd.	Punjab National Bank	February 1, 2003
23.	South Gujrat Local Area Bank Ltd.	Bank of Baroda	June 25, 2004
24.	Global Trust Bank Ltd.	Oriental Bank of Commerce	August 14, 2004
25.	IDBI Bank Ltd.	IDBI Ltd.	April 2, 2005
26.	Bank of Punjab Ltd.	Centurion Bank Ltd.	October 1, 2005

and integrity. While the Reserve Bank has power to approve voluntary mergers and amalgamations taking into consideration the paramount need to maintain the safety and integrity of the banking system, powers to merge banking entities compulsorily rest with the Government of India. The primary objective of the Reserve Bank/ Government is to ensure that a merger is not detrimental to the public interest and also not contrary to the interests of the banks concerned, their depositors or their controlling companies. The major concern that the Reserve Bank/ Government has to address is that such mergers do not impinge on the stability of the financial system as a whole. While it may be relatively easier to resolve the issues involving the merger of a small bank with a large public sector bank, the problem is accentuated if the merger involves two large banks. On the recommendations of the Joint Parliamentary Committee (2002), a Working Group was constituted to evolve guidelines for voluntary measures involving banking companies. Based on the recommendations of the Group, the Reserve Bank issued guidelines on May 11, 2005 which, *inter alia*, lay down the process of merger and determinations of the swap ratio. The principles underlying the guidelines are also applicable, as appropriate, to public sector banks.

6.20 A well-diversified ownership structure has been emphasised to overcome the risk of concentration of ownership and the potential problems of moral hazard and linkages of owners with businesses. The shareholding of the Government in public sector banks (PSBs) has been substantially reduced over time. Efforts have been underway to increase the efficiency of the multi-institutional structure of the Indian financial sector with emphasis on increased competition by granting greater functional autonomy to PSBs and allowing greater competition from private sector and foreign banks. The managerial autonomy package for PSBs released on February 22, 2005 marks a step forward towards ensuring a level-playing field among the major players in the banking sector.

6.21 The foreign investment limit from all the sources in private banks was raised from a maximum of 49 per cent to 74 per cent in March 2004. Foreign banks were permitted to operate

in India through one of the three channels *viz*., (i) branch/es; (ii) a wholly owned subsidiary; or (iii) a subsidiary with aggregate foreign investment up to a maximum of 74 per cent in a private bank. In consultation with the Government of India, the Reserve Bank released the roadmap for the presence of foreign banks in India on February 28, 2005. The roadmap lays down the gradual liberalisation of norms governing foreign banks which will become effective in two phases.

6.22 Corporate governance has assumed crucial significance for ensuring the stability and soundness of the financial system in recent years. In order to protect the interest of depositors and integrity of the financial system, it is necessary that owners and managers of banks are persons of sound integrity. Keeping these considerations in view, the Reserve Bank initiated several measures to enhance transparency and strengthen corporate governance practices in the financial sector in India. Guidelines on ownership and governance for private sector banks were issued by the Reserve Bank on February 28, 2005 (see Chapter II for details). These are based on certain principles such as a well diversified ownership and control; important shareholders, directors and CEO being 'fit and proper'; observance of sound corporate governance principles; maintenance of minimum capital/net worth for optimal operations and systemic stability; and transparency and fairness in policy and processes. The draft policy is in consonance with treating banks as 'special' and setting upfront a roadmap in a transparent manner for existing and potential investors. The intention of the policy is to ensure adequate capital and consolidation in the banking industry with the regulator being aware of the intention of existing and potential shareholders.

Prudential Measures

6.23 One of the most important policy initiatives taken to strengthen the financial institutions (banks, DFIs and NBFCs) was the introduction of prudential regulations in the areas of capital adequacy, income recognition, asset classification and provisioning, exposure norms, disclosures, classification/valuation of investment and risk management as well as asset-liability management. Prudential norms are being continuously reviewed and refined keeping in view the development of financial institutions, international practices and the experience gained.

6.24 Various liberalisation measures introduced as part of financial sector reforms have exposed financial intermediaries to new risks. To mitigate the impact of such risks, an adequate cushion of capital is required. The capital to risk-weighted assets ratio (CRAR) system based on Basel norms for banks (including foreign banks) introduced in April 1992 and capital charge for market risk introduced from the year ended March 31, 2005, have been the major initiatives taken by the Reserve Bank to strengthen the capital base of financial institutions. The CRAR, which was initially stipulated at 8 per cent, was later raised to 9 per cent with at least 50 per cent of Tier-I capital.

6.25 The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969 and the State Bank of India Act, 1955 were amended to allow banks to raise capital not exceeding 49 per cent of their equity. Consequently, several PSBs have raised capital both in India and abroad. Equity sales in the market aggregating over Rs.11,500 crore have been made by the PSBs, with several PSBs having accessed the market more than once. Between 1993 and 2005, as many as 17 PSBs accessed the capital market; the private shareholding in as many as 12 PSBs at present ranges from 30 per cent to 49 per cent.

6.26 Over the period 1993-2004, the Government injected around Rs.22,516 crore for strengthening the capital base of nationalised banks. Several banks, which were recapitalised, have since returned substantial amount of capital to the Government. The total amount returned till end-March 2004 aggregated Rs.1,303 crore. No recapitalisation or return of capital was effected during 2004-05.

6.27 The surge in retail lending is a relatively recent phenomenon in India. Evidence, however, suggests that high growth in retail credit can often be the precursor to mutually reinforcing imbalances in the real estate market and the financial sector, with implications for financial stability. In view of the above, as a prudent measure, the risk weight on housing loans was increased from 50 per cent to 75 per cent and from 100 per cent to 125 per cent in the case of consumer credit, including personal loans and credit cards.

6.28 A sound and stable financial system requires that banks' assets are appropriately

classified based on an objective delinquency criteria. Accordingly, income recognition, asset classification and provisioning norms instituted in April 1992, have been gradually strengthened in the light of growing maturity of the financial system. In keeping with the international best practice, the 90-day delinquency norm for the identification of NPLs was adopted from March 2004. As a major step towards tightening of prudential norms, banks are required to classify an asset as doubtful from March 2005 if it remains in the sub-standard category for 12 months as against the earlier norm of 18 months.

6.29 Banks are required to make a general provision of a minimum of 0.40 per cent for standard assets (for direct advances to agricultural and SME sectors, provisioning requirements remain at 0.25 per cent for standard assets). Provisioning for sub-standard assets will continue at 10 per cent for secured exposures and 20 per cent for unsecured exposures. The provisioning requirements for doubtful assets are graded depending on the period for which an asset has remained doubtful. The provisioning, at present, varies in the range of 20 per cent and 100 per cent on the secured portion, whereas it would be 100 per cent on the unsecured portion. In another initiative towards tightening of provisioning norms, banks were advised to make 100 per cent provision for the net debit position in their inter-branch accounts in respect of unreconciled entries outstanding for more than six months, with effect from March 31, 2004, as against the earlier period of one year.

6.30 Management of NPLs has been very important from the financial stability perspective. The strengthening of prudential measures was, therefore, followed by concerted efforts on the part of the Central Government and the Reserve Bank to resolve the NPL problem by initiating several institutional measures. These included establishment of Debt Recovery Tribunals, *Lok Adalats* (people's courts), Asset reconstruction companies (ARCs) and Corporate Debt Restructuring (CDR) mechanism. Settlement Advisory Committees were also constituted at regional and head office level of commercial banks to expedite the recovery of NPLs. Enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 has helped in improving the recovery climate in the country. Total recoveries under various schemes during 2004-05 aggregated over Rs.20,000 crore.

6.31 Excessive exposure can derail financial stability by making banks' operations vulnerable to the vicissitudes of a particular sector. Keeping this in view, the Reserve Bank has prescribed regulatory limits on banks' exposure to individual and group borrowers and the capital market to avoid concentration of credit. However, a close watch is maintained on exposures to other sensitive sectors such as housing and realty loans.

6.32 The stability of a financial system stands enhanced when institutions and markets function on the basis of informed decisions. Adequate disclosures act as a deterrent to excessive risk-taking and minimise adverse selection and moral hazard problems. Market discipline is known to increase with interest from outside stakeholders, *viz*., depositors, creditors and investors. It is, therefore, desirable that stakeholders have adequate information to be able to independently monitor the institutions. Transparency in operations can go a long way in strengthening market discipline. It is now widely perceived that greater market discipline is an important ingredient in the pursuit of financial stability (Box VI.3).

6.33 The Reserve Bank has issued guidelines to banks to enhance the level of transparency and disclosures with respect to their financial position. The disclosures made as part of 'Notes on Accounts' to bank balance sheets provide greater information to market participants. These disclosures presently encompass capital adequacy (Tier-I and Tier-II separately) ratio and financial ratios, movements in NPLs and movements in provisions for NPLs and depreciation on investment. Taking the process further, a minimum framework for disclosure by banks on their risk exposures in derivatives as part of 'Notes on Accounts' was advised to banks.

6.34 Detailed guidelines have been issued from time to time to ensure banks' compliance with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI). In pursuance of the recommendations made by the Working Group to recommend steps to eliminate/ reduce gaps in compliance by banks with accounting standards (Chairman: Shri N.D. Gupta), detailed guidelines were issued in March 2003 on certain accounting standards. Subsequently, detailed guidelines were issued to ensure banks' compliance with these standards in April 2004. Banks have been advised to ensure

Box VI.3: Market Discipline and Financial Stability

The interest in market information and market discipline is based on the inherent ability of markets to process information and aggregate this information rapidly into market prices. It is important to distinguish between two variants of market discipline. First, the increased cost of raising new debt or equity in the primary capital markets could exert *direct* market discipline on banks. This could occur through higher financing costs, constraints on the availability of new finance or through direct influence on the bank's operations (for instance, discussion at the shareholders meetings). Second, the prices of banks' listed securities could provide an indication of banks' financial condition to supervisors, rating agencies and central banks. The monitoring and potential corrective actions in response to adverse signals, especially by supervisors, are referred to as *indirect* market discipline. In particular, supervisors may use signals from the secondary markets as screening devices or inputs into early warning models geared towards identifying those banks that need closer scrutiny.

For market discipline to be effective in ensuring financial stability, four pre-requisites have to be met. First, market participants need to have timely, appropriate and accurate information. Second, participants must have the ability to process the information correctly. Third, they need to have the right incentives. Fourth, they need to have the right mechanisms to exercise discipline.

In reality, however, these conditions might not be satisfied. The costs of producing information may be concentrated, leading to a tendency to under-supply information relative to what is necessary for effective discipline. Likewise, the ability to process information might be limited. Collective misjudgements resulting from interactions of individual behaviour might lead to 'herding,' leading typically to a boom-bust cycle. Additionally, mechanisms through which discipline is exercised, may not always operate with sufficient timeliness, inducing generalised defensive action *a la* bank runs.

These limitations of market discipline can by themselves be sufficient to result in an excessive degree of financial instability. Ill-designed safety nets, by keeping benefits private while socialising costs, without putting in place adequate safeguards, can exacerbate the problems. They do so by numbing incentives to gather and act on information in a responsible and prudent fashion.

Notwithstanding its limitations, there is merit in supervisors incorporating market prices into early warning models. Market indicators have three important advantages over accounting data: (i) they represent the views of a large number of market participants condensed into one convenient measure; (ii) they are inherently forward-looking; and (iii) they are generally available with a relatively high frequency. This underlines the need to rely on multiple indicators and sources of information while attempting an assessment of the stability of financial institutions.

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that there are no qualifications by the auditors in their financial statements for non-compliance with any accounting standards.

Risk Containment Measures

6.35 In view of the rapid growth of financial innovations and increasing complexity of financial transactions, in consonance with international best practices, the Reserve Bank has decided to adopt the Basel II approach to implementation of capital adequacy standards with suitable adaptations with effect from March 2007. Banks have been advised that increased capital should not be viewed as the only option for addressing increased risks confronting them. Other means of addressing risk such as strengthening of risk management systems, applying prudent internal limits, strengthening of level of provisions and reserves and improving internal controls should also be actively followed by banks.

6.36 In order to prepare banks for this process, several measures have been initiated by the Reserve Bank (see Chapter II for details). The thrust of these measures has been three-fold. First, measures have been initiated which permit banks to augment their capital base. This has been supported by a series of regulatory initiatives to develop and strengthen the risk management framework in banks. Second, the market discipline process in banks is being gradually enhanced through increased disclosures, so as to have greater transparency in their financial position. Finally, measures have been initiated to develop capacity building so as to reinforce the regulator's ability for identifying and permitting eligible banks to adopt Internal Ratings Based (IRB)/Advanced Measurement approaches.

6.37 Corporate governance for banks is crucial for promoting effective risk management and financial stability. The governance in banks is an outcome of a combination of legal, regulatory and supervisory policies. Factors that enhance corporate governance within the bank are sound business strategies, strict internal control procedures and a competent and responsible senior management. Detailed guidelines on corporate governance for implementation by

banks, both public sector and private sector, were issued in June 2002. The guidelines on ownership and governance for private sector banks were released on February 28, 2005. These guidelines underscored the role of the Board of Directors in corporate governance on the lines suggested by the Ganguly Committee. The Board of Directors should ensure that the responsibilities of directors are well defined. Banks should arrange need-based training for the directors in this regard. Private sector banks were advised: (i) to undertake a process of due diligence to determine the suitability of the person for appointment/ continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria; (ii) to obtain necessary declaration and undertaking from the proposed/existing directors in the prescribed format; and (iii) to constitute Nomination Committees to scrutinise such declarations.

6.38 A second important development has been the improvement in the governance framework in banks. Most banks now explicitly state their governance philosophy in their Annual Reports as part of 'Notes on Accounts' to their balance sheets and also provide information on the number of Board meetings, the functions and workings of the sub-committees of the Board, price performance of bank shares (if listed) along with auditors' certification on the procedures and implementation for ensuring compliance. The governance standards are even more stringent for listed banks. They are required to disclose quarterly financial results to the stock exchanges as part of the listing requirements. Besides, with effect from November 1, 2004, banks are also required to disclose the penalty in the 'Notes on Accounts' to the balance sheets in their next Annual Reports.

6.39 A Master Circular on risk management and inter-bank dealings was released on July 1, 2004 whereby banks were advised to put in place necessary risk management systems. The analysis of market risks reflects the interest rate risk, foreign exchange risk and the risk arising from the exposure of banks and financial institutions to the commodities and the capital market.

6.40 To take into account the risks faced by banks out of foreign exchange exposure of their clients, foreign currency loans above US $ 10 million (or such lower limits as may be deemed appropriate *vis-à-vis* the banks' portfolios of such exposures), can be extended only on the basis of a well laid out policy with regard to hedging of such foreign currency loans. The draft Guidance Note on management of operational risk was placed on the website on March 11, 2005 for wider access and feedback.

6.41 An efficient credit information system enhances the quality of credit decisions and improves the asset quality of banks, apart from facilitating faster credit delivery. The compilation and dissemination of credit information covering data on defaults to the financial system was undertaken by Credit Information Bureau of India Ltd. (CIBIL) set up in 2001. With a view to giving an impetus to data reporting to CIBIL, banks/FIs were advised in June 2004 that their Boards should review the measures for furnishing credit information in respect of borrowers to CIBIL and for reporting compliance to the Reserve Bank. The progress of banks/FIs in obtaining consent from all the borrowers was, however, unsatisfactory. They were, therefore, again advised to take immediate steps in this regard. They were also advised that the Reserve Bank would be constrained to examine other penal measures, if the compliance in this regard remained unsatisfactory. The Credit Information Companies (Regulation) Bill, which was passed by the Parliament in May 2005, received the assent of the President in June 2005. The Bill empowers CIBIL to collect information relating to all borrowers and confers upon the Reserve Bank the power to determine policy in relation to functioning of credit information companies and also giving directions to credit information companies. The Credit Information Companies Act, 2005 is expected to contain informational asymmetries and curb the incidence of NPLs.

6.42 The events in the last few years have underlined a sense of urgency in defining, developing and universally accepting standards on integrity. Integrity of the financial system enables firms to access the external finance. It also allows firms to make credible commitments to creditors, employees and others. Achieving economies of scale, undertaking risky ventures, engaging in projects with more distant payoffs and employing innovative work and organisational structure require the institutional certainty and trust that high standards of integrity provide. The relevance of the integrity of the financial system has thus assumed an added significance in the changed environment (Box VI.4).

Box VI.4: Integrity of the Financial System

The integrity of the financial system needs to be understood in the context of certain preconditions and principles that are found in key financial standards. The pre-conditions include: (i) a sound legal and accounting system; (ii) a body of professional accountants and auditors; (iii) ethical and professional lawyers and judges; (iv) a reasonably efficient court system whose decisions are enforceable; (v) financial transparency; and (vi) effective corporate governance. The principles of integrity, on the other hand, comprise the following components: (i) independence of supervisor; (ii) legal protection for supervisor; (iii) internal controls; (iv) internal audit; (v) risk management; (vi) board and senior management oversight; (vii) accounting standards; (viii) external audit; (ix) corporate governance; (x) disclosure and transparency; (xi) fit-and-proper vetting/due diligence/individual integrity; (xii) customer due diligence; (xiii) connected lending/related party transactions;(xiv) fraud prevention; and (xv) channel to report suspicious activity.

There are two major strands to ensure integrity of the financial system. While integrity elements of the Anti-Money Laundering (AML) standard comprise a comprehensive regime for preventing abuse of the financial system by outsiders, the evolving standards of supervision of financial institutions and those for corporate governance deter abuse of financial firms and public companies by insiders.

The FATF-40 Recommendations on Anti-Money Laundering and the Nine Special Recommendations on Terrorist Financing are recognised as the international standard for AML/combating financing of terrorism (CFT). The key components of the AML/CFT standards are:

- Criminalisation of money laundering and terrorist financing.
- Establishment of a regime of preventive measures to be adopted by financial institutions and others.
- Adoption of a regime for reporting suspicious transactions, including operations of a financial intelligence unit.
- Standards for prosecution and punishment of money laundering offenses and the freezing and confiscation of criminal proceeds.
- International cooperation, including exchange of information among supervisors and law enforcement agencies.

A noteworthy feature of AML/CFT regime is that the measures are expected to be implemented not just by the prudentially regulated financial sector, but also by a range of non-financial businesses and professions such as casinos, money service providers, lawyers, accountants, dealers in high-valued goods, *etc*. The U.K. Proceeds of Crime Act (2002) has gone beyond the FATF Recommendations and has defined the money laundering offense to include the laundering of proceeds of all crimes.

Prevention of misuse of the financial system by insiders requires more intricate and delicate measures. The operational risk measures required under Basel II are, in essence, measures to protect and enforce the internal integrity of banking organisations. This means that assessments will need to incorporate integrity risk concepts, including more emphasis on internal controls and corporate governance. Similarly, the revised insurance International Association of Insurance Supervisors (IAIS) Core Principles include a general review of integrity elements. The International Organisation of Securities Commissions (IOSCO) Core Principles in respect of securities include review of more or less same elements. However, the emphasis is on rights and equitable treatment of shareholders, information disclosure and accounting framework.

As a by-product of corporate scandals, the integrity requirements for public companies are becoming substantially more demanding. While some countries have enacted legislations such as Sarbanes-Oxley Act in the United States, there has also been an attempt at codification of corporate governance principles at the international level such as the OECD Principles of Corporate Governance.

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6.43 The Reserve Bank has always been at the forefront of international initiatives towards anti-money laundering and combating financing of terrorism. With the operationalisation of Prevention of Money Laundering Act, 2002 on July 1, 2005, establishment of Financial Intelligence Unit (FIU-IND) and issuance of comprehensive 'Know Your Customer' (KYC) norms for banks by the Reserve Bank on November 29, 2004, the Government and the Reserve Bank have taken necessary steps towards the establishment of anti-money laundering regime in India.

6.44 It may be recalled that in terms of the guidelines on KYC norms issued in August 2002, banks were advised to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to the appropriate authority. These KYC guidelines were revisited in the context of the recommendations made by the Financial Action Task Force (FATF) on anti-money laundering (AML) standards and on combating financing of terrorism (CFT). These standards have become the international benchmark for framing anti-money laundering

and combating financing of terrorism policies by the regulatory authorities. Compliance with these standards by banks/financial institutions and the country, in general, has become necessary for international financial relationships. Accordingly, detailed guidelines based on the recommendations of the FATF and the paper issued on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision, with indicative suggestions wherever considered necessary, were issued to banks in November 2004. Banks were advised to ensure that a proper policy framework on KYC and anti-money laundering measures were formulated and put in place with the approval of their respective Boards within three months. They were also advised to ensure that the provisions of the revised guidelines were fully complied with before December 31, 2005.

6.45 While framing operational guidelines, banks were also advised to keep in view the instructions issued in terms of the guidelines issued in May 2004, whereby banks were advised to treat the information collected from the customer for the purpose of opening of account as confidential. Banks should continue to ensure that any remittance of funds by way of demand draft, mail/ telegraphic transfer or any other mode and issue of travellers' cheques for value of rupees fifty thousand and above is effected by debit to the customer's account or against cheques and not against cash payment. In order to ensure that the inability of persons belonging to low income groups to produce documents to establish their identity and address does not lead to their financial exclusion and denial of banking services further, simplified procedure has been provided for opening of accounts for those persons who do not intend to keep balances above Rs.50,000 and whose total credit in one year is not expected to exceed Rs.1 lakh.

Supervisory Measures

6.46 The supervisory strategy of the Reserve Bank, apart from on-site inspections, involves three complementary approaches: off-site surveillance, ensuring adequate internal controls in banks and use of external auditors.

6.47 The on-site financial inspection system for domestic and foreign banks is based on a well-defined methodology covering the major parameters of banks' operations (see Chapter II for details). In view of the envisaged introduction of Basel II with its focus on market discipline, higher levels of transparency have been emphasised. Accordingly, banks were advised that all cases of penalty imposed by the Reserve Bank as also strictures/directions on specific matters including those arising out of inspection would be placed in the public domain.

6.48 Off-site Monitoring and Surveillance (OSMOS) framework for banks instituted by the Reserve Bank in 1995 has served well and is being used as a part of crisis management framework for Early Warning System (EWS) and as a trigger for on-site inspections of vulnerable institutions.

6.49 Based on the recommendations of the Working Group (Chairman: Shri Rashid Jilani), detailed instructions were issued to banks for updating their internal control systems for implementation which, *inter alia*, included: (i) co-ordination between inspection and operation wings to bring about synergic efforts to improve overall functioning of the bank; (ii) programming and performance monitoring; (iii) ensuring security of data/inputs; and (iv) fixing accountability of inspectors/auditors for their failure to detect and report serious irregularities.

6.50 External auditors, who are entrusted with the responsibility of statutory audit of annual accounts of banks, are being increasingly used as an extended arm of the supervisory system. They are also required to verify and certify certain other aspects such as adherence by banks to statutory liquidity requirements and adherence to prudential norms. A system of concurrent 'on line' audit of business transactions of banks, intended to cover at least 50 per cent of the business of the bank and 100 per cent audit of risk sensitive portfolios such as foreign exchange and investments, is in place.

6.51 Draft guidelines on a scheme of Prompt Corrective Action (PCA) were issued to banks in 2003 as a structured early intervention system. A schedule of corrective actions was suggested based on three parameters, *i.e.,* capital adequacy (CRAR), asset quality (Net NPLs to net advances) and profitability (return on assets). The scheme was reviewed by the Board for Financial Supervision (BFS) in 2004, and it was decided to continue the PCA framework.

6.52 Owing to growing complexity of banking business, traditional monitoring tools are becoming increasingly less relevant. Drawing upon international best practices, the Reserve Bank has been gradually switching towards a risk-based supervision (RBS) approach which entails monitoring of banks, by allocating supervisory

resources and focusing supervisory attention according to the institution-specific risk profile. Currently, 23 commercial banks are covered under this approach.

6.53 Guidelines on consolidated accounting and supervision were issued to banks advising them to ensure strict compliance commencing from the year ended March 31, 2003. Furthermore, banks were advised to prepare and submit consolidated prudential reports (CPR) to enable supervisory assessment of risks and adherence to certain prudential regulations on a group basis. These reports are being reviewed by the Reserve Bank on a half-yearly basis.

Inter-Regulatory Co-ordination

6.54 The issue of inter-regulatory co-ordination has assumed critical importance in the wake of emergence of financial conglomerates and the integration of financial services and markets. In response to this development, a Joint Forum was constituted in June 2004 based on the recommendations of an inter-agency Working Group of three supervisory bodies, *i.e.*, the Reserve Bank, the Securities and Exchange Board of India (SEBI) and the Insurance Regulatory and Development Authority (IRDA). A monitoring system was instituted by the Joint Forum for capturing intra-group transactions and exposures amongst such conglomerates and developing an enabling mechanism for inter-regulatory exchange of information in respect of financial conglomerates. As part of operationalisation of the monitoring mechanism, a pilot process was initiated: (i) envisaging the principal regulators corresponding with the respective designated entities; and (ii) obtaining information in the prescribed format in respect of financial conglomerates (Box VI.5).

6.55 A High Level Co-ordination Committee on Financial and Capital Markets (HLCCFCM)

Box VI.5: Supervision of Financial Conglomerates

The emergence of financial conglomerates offering a range of financial services – banking, insurance, securities - on a global basis presents significant challenges to the supervisors for effective discharge of their responsibilities. Financial conglomerates have emerged in India as well. Several important players in the country's financial system have presence in more than one market segment. The Working Group on Financial Conglomerates (Convenor: Smt. Shyamala Gopinath), in its Report submitted in May 2004, *inter alia,* suggested criteria for identifying financial conglomerates, a monitoring system for capturing intra-group transactions and exposures and a mechanism for inter-regulatory exchange of information in respect of financial conglomerates. The Working Group identified certain groups as financial conglomerates on the basis of set criteria.

As a follow-up measure, the Reserve Bank constituted the Financial Conglomerate Cell (FCC) within the Department of Banking Supervision. The FCC is the nodal agency, which co-ordinates with the two other domestic regulators (SEBI and IRDA) on matters of supervision of financial conglomerates. The Reserve Bank has put in place an oversight framework, which envisages periodic sharing of information amongst regulators on: (i) concerns arising out of analysis of data received from the conglomerates; and (ii) sharing of any other materially significant information in the possession of principal regulator, which might have a bearing on the group as a whole. The Reserve Bank's recent initiative to hold half-yearly discussion meeting with the Chief Executive Officer of the conglomerate in association with other principal regulators to address outstanding issues/supervisory concerns would further strengthen the system of sharing information among the domestic supervisors.

There is regular consultation and exchange of information on important regulatory/supervisory matters concerning capital, liquidity management, build-up of disproportionate exposure of an entity to other group entities/other financial market segments and group-wide risk management systems.

Operations of financial conglomerates with overseas presence also raise concerns. The cross-border supervision in order to be effective requires that the supervisors be posted with significant material information pertaining to unregulated entities of the conglomerate and joint action is initiated in concert with the Ministry of Finance in concerned countries to avert potential systemic crisis. This will not only facilitate early detection of financial sector vulnerabilities, but also discourage regulatory arbitrage.

There is no legislation in India which provides for collaborative arrangements among the supervisors or authorises/obliges for sharing of information among the supervisors. Till such time a legal framework for cross-border supervision is enacted, supervisory co-ordination could be initiated by executing general/specific MoUs to address risks associated with financial conglomerates and promote systemic stability.

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consisting of Governor of the Reserve Bank, Chairman, SEBI and Chairman, IRDA along with the Secretary, Department of Economic Affairs, Government of India, serves as a forum for ironing out differences on policy matters. In order to provide a focused inter-agency forum for sharing of information and intelligence, the HLCCFCM has constituted three standing technical committees in respect of entities regulated by the Reserve Bank, SEBI and IRDA, respectively, with cross representations from all the three regulators. All the three standing Committees have been meeting at regular intervals. The concerns emanating out of deliberations are being addressed by the concerned regulators.

6.56 The primary responsibilities of the Technical Committee on RBI Regulated Entities include: (i) to review exposure of the Reserve Bank's regulated entities in the capital market with a view to identifying any unusual movements in the exposure of any individual entity or a group; (ii) to decide on the information to be shared with investigative agencies in case of suspected market misconduct; (iii) to develop benchmarks that serve as 'early warning indicators' for emerging irregularities relating to banks' exposure to the capital market; and (iv) to co-ordinate with other regulators based on signals thrown up by the early warning indicators. In case a policy issue of wider interest requires inter-agency co-ordination, the Committee may refer the matter to the RBI-SEBI Technical Committee or the HLCCFCM.

6.57 The conflict of interest in the financial sector might have a negative impact on investor confidence, efficacy of the regulatory framework and, above all, the credibility of the financial service providers. Keeping these in view, the Reserve Bank proposed to constitute a Working Group in consultation with SEBI and IRDA to identify the sources and nature of potential conflicts of interest and make recommendations to avoid such conflicts.

6.58 Various measures initiated by the Reserve Bank have brought about refinement in regulatory norms and supervisory process, while providing increased operational flexibility to financial institutions. It has been the endeavour of the Reserve Bank to put in place best prudential risk management practices and global standards through a transparent and consultative process. The move towards a mechanism for inter-regulatory coordination would provide a further support to the financial system.

Other Financial Institutions

6.59 Apart from the scheduled commercial banks, other financial institutions in India include regional rural banks (RRBs), cooperative banks, financial institutions (FIs) and non-banking finance companies (NBFCs).

Regional Rural Banks and Rural Co-operatives

6.60 The RRBs play an important role in extending credit to the poorer sections of the rural society even as they constitute a small segment with their assets being just about three per cent of total assets of the financial system. Several policy initiatives have been taken over the last few years to strengthen the RRBs and impart greater flexibility to their operations. These include recapitalisation of weak RRBs, deregulation of deposits and lending rates and relaxation in lending norms to non-target groups. With a view to strengthening the RRBs, sponsor banks are being encouraged to amalgamate the RRBs sponsored by them State-wise (see Chapter II for details). The thrust of the measures has been to strengthen RRBs in order to contain any incipient vulnerabilities arising from this sector.

6.61 The rural co-operatives are very important for the rural economy. The Task Force (Chairman: Prof. A. Vaidyanathan) in its Report has made several recommendations to strengthen the short-term rural co-operative credit structure in the country, which have been accepted by the Government of India in principle. The Committee is now looking into the long-term co-operative credit structure for agriculture and rural development (see Chapter IV for details).

Urban Co-operative Banks

6.62 The co-operative banking institutions face the challenge of reconciling their democratic character with financial discipline and modernising systems and procedures. Failure of a few co-operative banks in the recent past has had an adverse impact on the entire segment. The Deposit Insurance and Credit Guarantee Corporation (DICGC) had to settle claims for large magnitude over the last few years due to the failure of banks in this sector. The performance of this sector has been a cause for concern with high levels of delinquent loans (see Chapter IV for details). In view of these concerns, a structured approach for the restructuring of this segment has been adopted by the Reserve Bank. As regards scheduled

UCBs, it was decided to draw up a programme for their restructuring in a time-bound manner. Discussions are underway among the various constituencies to institute a package that can ensure their turnaround within a reasonable time frame. At the same time, a cautious approach is being adopted for granting licenses for new banks and branches of urban co-operative banks (UCBs), while focussing on consolidation within the sector through mergers and amalgamations. In addition, initiatives have been undertaken to gradually tighten the prudential regulatory norms and supervision of UCBs. This is being buttressed with improvements in their governance structure through the institution of at least two directors with suitable professional qualifications or adequate banking experience on their boards. In the interest of financial stability, it has been the endeavour of the Reserve Bank that the co-operative banking segment emerges as a sound and healthy network of democratically-controlled and ethically-managed banking institutions, providing need-based quality banking services to the poor and weaker sections of the society. To address the problem of UCBs, MoUs have already been signed with three State Governments, *viz*., Andhra Pradesh, Gujarat and Karnataka. MoUs would facilitate proper and co-ordinated regulation and supervision of UCBs.

6.63 As a prelude to revamping the sector, a Draft Vision Document for UCBs released by the Reserve Bank underscored the importance of a differentiated regulatory regime for the sector. As a follow up to the Draft Vision Document, a medium-term framework has been evolved and MoUs are being signed between the Reserve Bank and the State Governments having a large network of UCBs. As a follow-up measure, the Reserve Bank has constituted a State Level Task Force for Urban Co-operative Banks with representatives from the Registrar of Co-operative Societies of the State, concerned State Governments, the State and National Federation of UCBs as well as from the Reserve Bank to identify and draw up a time bound action plan for the revival of potentially viable UCBs and recommend non-disruptive exit for non-viable ones.

6.64 The Task Force on Revival of Rural Co-operative Credit Institutions was constituted by the Government in December 2004 to propose a suitable revival plan for this sector. The Government has accepted the recommendations of the Task Force 'in principle' and would consult the State Governments before implementing them in the States that show willingness to accept them.

Financial Institutions

6.65 Financial Institutions (FIs) are going through a phase of restructuring marked by conversion of two major FIs into banking entities. With a view to strengthening FIs, the Reserve Bank has been focusing on imparting greater operational flexibility, while strengthening the regulatory and supervisory framework. Prudential norms for FIs have been broadly brought on par with commercial banks. Recently, a modified approach for supervisory assessment of these institutions has been introduced, wherein only four FIs, *viz*., NABARD, SIDBI, NHB and EXIM Bank are subjected to full-fledged regulation and supervision by the Reserve Bank. FIs not accepting public deposits, but having asset size of Rs.500 crore and above, are subjected to only limited off-site supervision by the Reserve Bank. At present, the major AIFIs are in the nature of refinance institutions, which do not have significant exposure to direct finance. To that extent, they pose less of a supervisory concern in comparison with FIs undertaking direct finance.

Non-Banking Financial Companies

6.66 Non-Banking Financial Companies (NBFCs) encompass an extremely heterogeneous group of intermediaries. The Reserve Bank's supervisory thrust has been on deposit taking companies with focus on protection of depositors' interest. One of the main area of concern has been the substantial growth in deposits of the Residuary Non-Banking Companies (RNBCs), with just two companies accounting for more than 80 per cent of total public deposits held by NBFCs. With a view of enhancing protection available to depositors, the Reserve Bank announced a number of measures to improve the quality of the assets held by RNBCs (See Chapter V for details). The focus of these measures has been to rationalise the norms for investments by RNBCs and lay out a roadmap to phase out discretionary investments by these companies by April 1, 2006. Concurrently, their corporate governance mechanisms has also sought to be strengthened by prescribing 'fit and proper' criteria for evaluating the suitability of directors appointed to their boards. A stricter 'know your customer' (KYC) regime has been introduced which makes RNBCs responsible for their agents also. A new monitoring arrangement for large non-deposit taking companies has also been introduced with a view to strengthening the supervisory focus from the systemic point of view. Reporting mechanism for frauds perpetrated in NBFCs/RNBCs have also been introduced on the

lines of one already in existence for banks. The measures initiated by the Reserve Bank have contributed to further consolidation in this sector.

6.67 Various measures initiated by the Reserve Bank over the last decade-and-a half have significantly strengthened the commercial banking sector in terms of profitability, asset quality and capital position. The focus of various measures during 2004-05 was on further strengthening prudential norms, improving disclosures and governance practices and strengthening of risk management practices. While there has been a significant improvement in the financial position and soundness of commercial banks, the need is felt to streamline the rural and co-operative banking segment and make it efficient conduit of credit delivery. The thrust of policy initiatives by the Reserve Bank/Government of India during the year was on strengthening the rural banking segment.

3. Benchmarking of the Indian Banking Sector

6.68 In an increasingly integrated world, disruptions anywhere may have repercussions for the banking system. Weak and unsound financial system may also find it difficult to compete in the global marketplace. It is, therefore, important from the financial stability perspective that banks are sound by international standards. In this section, therefore, an attempt is made to place the Indian banking system in international perspective by comparing various financial and soundness indicators with banks in other countries. The focus of analysis in this Section is on scheduled commercial banks, which constitute more than 75 per cent of total assets of the Indian financial system, and hence, most important from the systemic point of view.

6.69 Significant strengthening of prudential supervision coupled with wide-ranging measures undertaken by the Government and the Reserve Bank has significantly improved the health of the banking sector. After initiation of reforms in the early 1990s, financial performance, especially of PSBs, has improved markedly. Several balance sheet and profitability indicators suggest that the Indian banking sector now compares well with the global benchmarks.[1]

Funding Volatility Ratio

6.70 The funding volatility ratio (FVR), an important aspect of banks' balance sheet, measures the extent to which banks rely on volatile liabilities to finance their assets.[2] The smaller the ratio, the better the bank's liquidity profile. Accordingly, it is preferable to have FVR≤0 (whereby volatile liabilities are either exactly or more than fully covered by liquid assets).

6.71 Globally, the FVR has hovered in the range of -0.71 and 0.11, the ratio being primarily negative for most countries (Table VI.3). In the Indian case, the dependence of the banking sector on volatile liabilities to finance their assets is quite limited. The ratio for various bank groups was in the range of -0.11 to -0.23 at end-March 2005, which compares favourably with the global range.

Return on Assets

6.72 The return on total assets (RoA) of banks, defined as the ratio of net profit to total assets, is one of the most widely employed measure of profitability. A bank performing on sound

Table VI.3: Funding Volatility Ratio – Indian Banks *vis-à-vis* Global Range

(per cent)

Bank Group	2002-03	2003-04	2004-05
1	2	3	4
Public sector banks	-0.25	-0.26	-0.19 *
Private banks	-0.27	-0.23	-0.15
Old private banks	-0.27	-0.30	-0.23
New private banks	-0.26	-0.20	-0.12
Foreign banks	-0.25	-0.18	-0.11
Scheduled Commercial Banks	-0.25	-0.25	-0.17 *
Memo :			
Global range for 1998: [-0.71 to 0.11]			

*: Excluding the impact of conversion of a non-banking entity into a banking entity.
Source : IMF Working Paper (2000)[3].

[1] Globally, the financial year for banks typically pertains to the calendar year (January-December), while in India, the financial year spans from the first day of April of a particular year to the last day of March of subsequent year. Hence, cross-country data are not strictly comparable.

[2] The FVR is calculated as FVR=[(VL-LA)/(TA-LA)]: where VL=volatile liabilities (savings and demand deposits), TA=on-balance sheet asset and LA=liquid asset (cash in hand and balances with RBI plus balances with banks and money at call and short notice plus investments in Government and other approved securities).

[3] C. Dziobek, J. Hobbs and D. Martson (2000), Towards a Framework for Systemic Liquidity Policy, IMF Working Paper No.34.

commercial lines is expected to exhibit a healthy RoA. Globally, the RoA of the banking sector for 2004 ranged between -1.2 per cent and 6.2 per cent (Table VI.4). The RoA of SCBs in India for 2004-05 was 0.9 per cent. The ratio was highest for foreign banks, followed by new private sector banks. The RoA of public sector banks was close to the industry level within the country and the international benchmark.

Net Interest Margin

6.73 The net interest margin (NIM) of a bank reflects the efficiency of its intermediation process, a lower margin being indicative of higher efficiency. Most countries in developed and even several emerging economies have NIM of around 2 per cent of total assets. Globally, net interest margin for the banking sector generally varies markedly (Table VI.5). In the Indian context, NIM for scheduled commercial banks was 2.9 per cent in 2004-05. Among bank-groups, NIM of new private sector banks was the lowest in 2004-05, while it was slightly higher for old private sector banks. The ratio in the case of public sector banks was close to 3 per cent. Foreign banks had the highest NIM.

Table VI.4: Return on Assets – Indian Banks *vis-à-vis* Banks in Select Countries

(per cent)

Bank Group	As at end-March**	
	2004	2005
1	2	3
Public sector banks	1.1	0.9 *
Private banks	0.9	0.8
Old private banks	1.2	0.4
New private banks	0.8	1.1
Foreign banks	1.7	1.3
Scheduled Commercial Banks	1.1	0.9 *
Memo:		
Emerging Markets		
Argentina	-0.3	1.0
Brazil	1.8	..
Mexico	1.5	2.0
Korea	0.9	..
South Africa	1.2	1.3
Developed Countries		
US	1.4	..
UK	0.6	0.8
Japan	0.1	0.3
Canada	0.8	0.8
Australia	1.1	1.2
Global range for 2004: [-1.2 to 6.2]		

* : Excluding the impact of conversion of a non-banking entity into a banking entity.
** : Data relating to developed countries relate to the 2003 and 2004, respectively
Source : Global Financial Stability Report (GFSR), various issues.

Table VI.5: Net Interest Margin – Indian Banks *vis-à-vis* Global Range

(per cent)

Bank Group	2002-03	2003-04	2004-05
1	2	3	4
Public sector banks	2.9	2.9	3.0 *
Private banks	1.9	2.2	2.3
Old private banks	2.5	2.6	2.7
New private banks	1.7	2.0	2.2
Foreign banks	3.4	3.6	3.3
Scheduled Commercial Banks	2.8	2.9	2.9 *
Memo:			
Global range: [1.2 to 11.6]**			

* : Excluding the impact of conversion of a non-banking entity into a banking entity.
**: Average over the period 1995-99.
Source : World Bank Working Paper (2003)[4].

Cost-Income Ratio

6.74 The cost-income ratio (CIR) is commonly employed as an indicator of bank efficiency. It is calculated as the ratio of operating expense to net total income (total income less interest expense); a lower ratio being indicative of a more efficiently managed bank. Globally, the cost-income ratio for 2004 varied between 0.46 per cent and 0.68 per cent (Table VI.6). According to data reported in *The*

Table VI.6: Cost-Income Ratio – Indian Banks *vis-à-vis* Global Range

(per cent)

Bank Group	2002-03	2003-04	2004-05
1	2	3	4
Public sector banks	0.5	0.5	0.5 *
Private banks	0.5	0.5	0.5
Old private banks	0.4	0.4	0.5
New private banks	0.5	0.5	0.5
Foreign banks	0.5	0.5	0.5
Scheduled Commercial Banks	0.5	0.5	0.5 *
Memo :			
Global range for 2004: [0.46 to 0.68]			

*: Excluding the impact of conversion of a non-banking entity into a banking entity.
Source : The Banker, 2004.

[4] A. Demirguc, L. Laeven and R. Levine (2003), The Impact of Bank Regulations, Concentration and Institutions on Bank Margins, World Bank Working Paper No.3030.

Banker 2004, the CIR of the world's largest banks varied markedly from a low of 0.48 to a high of 1.16. However, normally a CIR of around 0.60 is an indicative benchmark. In the case of Indian banks, the CIR in 2004-05 was comparable internationally.

Non-Performing Loans (NPLs) Ratio

6.75 A common measure of banks' asset quality is the ratio of gross non-performing advances to gross advances. Banks with adequate credit risk management practices are expected to have lower non-performing loans. Globally, non-performing loan ratio varies widely from a low of 0.3 per cent to 3.0 per cent in developed economies to over 10.0 per cent in several Latin American economies. Consequent upon several measures undertaken, as part of financial sector reforms, non-performing loans ratio of Indian banks declined steadily over the years. The ratio of NPLs to total loans of SCBs, which was at a high of 15.7 per cent at end-March 1997, declined steadily to 5.2 per cent by end-March 2005 (Table VI.7).

Table VI.7: Non-Performing Loans Ratio – Indian Banks *vis-à-vis* Banks in Select Countries

(per cent)

Bank Group	As at end-March**	
	2004	2005
1	2	3
Public sector banks	7.8	5.7 *
Private banks		
Old private banks	7.6	6.0
New private banks	5.0	3.6
Foreign banks	4.6	2.8
Scheduled Commercial Banks	7.2	5.2 *
Memo:		
Emerging Markets		
Argentina	18.6	17.1
Brazil	3.9	..
Mexico	2.5	2.4
Korea	1.7	..
South Africa	1.8	1.8
Developed Countries		
US	1.1	0.8
UK	2.5	2.2
Japan	5.2	2.9
Canada	1.2	0.7
Australia	0.4	0.3
Global range for 2004: [0.3 to 30.0]		

* : Excluding the impact of conversion of a non-banking entity into a banking entity.

**: Data relating to developed countries relate to the 2003 and 2004, respectively.

Source : Global Financial Stability Report (GFSR), various issues.

Provisioning to NPLs Ratio

6.76 The ratio of provisioning to NPLs reflects the ability of a bank to withstand losses in asset value. The vulnerability of a bank's balance sheet is mitigated to the extent non-performing loans are fully covered by loan loss provisions. Globally, banks exhibit wide variations in the provisioning to NPLs ratio from less than 10 per cent to over 200 per cent (Table VI.8). However, emerging markets with a high quantum of NPL tend to have higher provisions. The provisioning to NPLs ratio by Indian banks was around 60 per cent at end-March 2005, which was within the global range.

Capital Adequacy Ratio

6.77 The capital to risk weighted assets ratio (CRAR) is the most widely employed measure of soundness of a bank. The CRAR of the bank reflects its ability to withstand shocks in the event of adverse developments. The global range for capital

Table VI.8: Provisions to Non-performing Loans Ratio – Indian Banks *vis-à-vis* Banks in Select Countries

(per cent)

Bank Group	As at end-March**	
	2004	2005
1	2	3
Public sector banks	57.5	62.1 *
Private banks		
Old private banks	47.1	52.2
New private banks	53.4	48.0
Foreign banks	61.9	62.8
Scheduled Commercial Banks	56.6	60.3 *
Memo:		
Emerging Markets		
Argentina	102.9	104.9
Brazil	161.7	..
Mexico	201.8	199.6
Korea	..	..
South Africa	82.0	..
Developed Countries		
US	140.4	167.8
UK	..	..
Japan	43.6	43.9
Canada	47.7	47.6
Australia	131.8	175.7
Global range for 2004: [7.8 to 266.2]		

* : Excluding the impact of conversion of a non-banking entity into a banking entity.

** : Data relating to developed countries (except Canada) relate to the 2003 and 2004, respectively.

Source : Global Financial Stability Report (GFSR), various issues.

Table VI.9: Capital Adequacy Ratio – Indian Banks *vis-à-vis* Banks in Select Countries

(per cent)

Bank Group	As at end-March**	
	2004	2005
1	2	3
Public sector banks	13.2	12.9 *
Private banks		
Old private banks	13.7	12.5
New private banks	10.2	11.8
Foreign banks	15.0	14.1
Scheduled Commercial Banks	12.9	12.8 *
Memo:		
Emerging Markets		
Argentina	11.2	11.6
Brazil	18.2	..
Mexico	14.1	13.7
Korea	11.3	..
South Africa	13.3	12.9
Developed Countries		
US	13.0	13.2
UK	12.4	12.3
Japan	11.1	11.6
Canada	13.4	13.3
Australia	10.1	10.5
Global range for 2004: [8.8 to 37.1]		

* : Excluding the impact of conversion of a non-banking entity into a banking entity.

** : Data relating to developed countries relate to the 2003 and 2004, respectively.

Source : Global Financial Stability Report (GFSR), various issues.

Table VI.10: Capital to Asset Ratio – Indian Banks *vis-à-vis* Banks in Select Countries

(per cent)

Bank Group	As at end-March**	
	2004	2005
1	2	3
Public sector banks	5.8	5.6 *
Private banks		
Old private banks	6.6	6.0
New private banks	6.8	7.7
Foreign banks	10.6	12.3
Scheduled Commercial Banks	6.3	6.3 *
Memo:		
Emerging Markets		
Argentina	..	..
Brazil	16.0	15.9
Mexico	11.5	..
Korea	4.8	4.9
South Africa	7.0	7.4
Developed countries		
US	9.2	10.3
UK	6.8	..
Japan	3.9	3.9
Canada	4.4	4.7
Australia	5.9	6.0
Global range for 2004: [2.7 to 20.2]		

* : Excluding the impact of conversion of a non-banking entity into a banking entity.

**: Data relating to developed countries (except Canada and Australia) relate to the 2003 and 2004, respectively.

Source : Global Financial Stability Report (GFSR), various issues.

adequacy ratio lies between 8.8 per cent and 37.1 per cent (Table VI.9). In the Indian context, banks have improved their capital adequacy ratio. The overall capital adequacy ratio of SCBs at end-March 2005 was 12.8 per cent as against the regulatory requirement of 9 per cent, which itself is higher than the Basel norm of 8 per cent. The capital adequacy ratio was broadly comparable with the global range. Most banks, including the systematically important, satisfy the regulatory capital adequacy requirements. The CRAR of 78 banks out of 88 was above 10 per cent. Only two banks had capital adequacy ratio below the regulatory minimum. However, their share in total banking sector assets was less than 0.5 per cent.

Capital to Asset Ratio

6.78 The simple capital to asset ratio of banks indicates the extent of leverage enjoyed by the banking sector. The lower the ratio, the higher the leverage and the more vulnerable is the bank. Globally, the ratio varies between 2.7 per cent and 20.2 per cent. The leverage of the Indian banking sector compares favourably with the global range. Bank-group wise, public sector banks had the lowest leverage, while foreign banks had the highest (Table VI.10).

4. Financial Markets

6.79 Financial markets play an important role in allocating resources among competing uses and diversifying risk. Financial markets have a direct impact on the health of financial institutions through portfolio holdings. Stability in the financial markets is thus an important condition for the stability of the financial system. The money market, apart from being vital for effective execution of monetary policy, is important for banks to tide over their day-to-day liquidity mismatches. In an open economy, the foreign exchange market assumes critical importance. Heightened volatility in the foreign exchange market can impair the balance sheets of corporates and banks with serious implications for financial stability. As banks hold

large portfolio of Government securities, deep and liquid Government securities market is extremely important for generating liquidity during times of stress. A well-developed Government securities market is also necessary to develop a yield curve, which could provide a credible benchmark for pricing of securities in other markets. Capital markets (equity and private corporate debt) provide additional financing options for companies and investment avenues for savers. They could, therefore, help in reducing the excessive reliance on the banking system. The capital market, by enabling evaluation of companies on a continuous basis through a transparent process, plays an important role in the governance of the corporate sector. In several countries, banks also hold large exposure in the capital market. Conditions in the capital market, therefore, have a direct bearing on the health of the banking institutions in those countries. A sharp decline in share prices could also have implications for the value of collaterals held by banks (Box VI.6). In view of increasing integration of domestic capital markets with international capital markets, unstable conditions in the capital market could also result in disorderly conditions in the foreign exchange market. Developed and efficient capital market would thus reduce the risk of financial instability.

6.80 As disturbances and wide fluctuations in financial markets could have adverse effects on confidence and pose a major threat to financial stability, developments in financial markets need to be continuously appraised with a view to identifying potential risks to financial stability. Financial market data also contain forward-looking information about potential sources of vulnerabilities in the financial system. Market indicators, therefore, could be used to complement traditional analysis based on balance sheet indicators.

6.81 The Reserve Bank continuously monitors developments in the financial markets. Recognising the importance of financial markets in ensuring the stability in the financial system, the Reserve Bank has initiated a wide range of

Box VI.6: Asset Prices and Financial Stability

The increased incidence and macroeconomic costs of financial instability since the late 1970s in industrial and emerging markets have led to focussed attention on the behaviour of asset prices. The sharp fluctuations in the prices of real and financial assets led to severe losses to the banking sector during the late 1980s. The role of asset markets in influencing financial behaviour has, therefore, gained far greater prominence in recent times.

Crashes in asset markets, and more specifically in property markets, have had more severe impact on financial stability than the equity market. This is mainly because real estate serves as collateral in many economies. Large movements in asset prices could also pose a threat to price stability. Therefore, the role of monetary policy on financial stability *via* its impact on asset prices assumes significance.

The cross-country empirical evidence on asset price cycles and financial stability is limited to housing and equity prices. From a practical standpoint, the issue of various imbalances interacting with each other may have a joint impact on financial stability. A single factor of asset prices by itself may pose only a little risk to financial stability but a combination of events occurring simultaneously (such as rapid credit growth, over-investment and rapid increase in asset prices) may increase the likelihood of financial instability. In general, financial systems encounter crisis when many institutions operate as a 'herd', and collectively fail to foresee a common macroeconomic threat.

Financial intermediaries as well as regulators of the financial system at times fail to take adequate account of emerging imbalances, and remain unprepared due to a false sense of security by the apparent strength of asset prices, as illustrated by the evidence of the East Asian economies in 1997. It, nonetheless, remains true that although high inflation might act as a driver for high asset prices and consequently, financial instability, the converse may not necessarily be true. There are numerous examples of periods when price stability provided fertile ground for excessive optimism.

Another important feature is that one asset price may have an impact on other asset price. For instance, bond price may impact equity and real estate prices. Changes in asset prices may directly impact aggregate demand, feeding through, for instance, *via* investments, corporate balance sheets, liquidity or even through household wealth.

The challenge, therefore, remains for policymakers to enhance risk management practices at private institutions, adopt rigorous supervisory practices and raise the level of transparency in the financial sector.

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measures to develop the money market, the Government securities market and the foreign exchange market along sound lines, while the Securities and Exchange Board of India (SEBI) has been engaged in the development of the capital market. The thrust of reforms in the financial markets has been on removal of restrictions on pricing of assets, building institutional and technological infrastructure, strengthening the risk management practices and fine-tuning of the market microstructure. In order to provide greater focus to market surveillance, a separate Financial Markets Department (FMD) has been constituted in the Reserve Bank which will concentrate exclusively on monitoring of markets. The market development efforts have been supported by appropriate changes in the legal framework to remove structural rigidities and bring improvements in the regulatory design to ensure smooth functioning of markets. With a view to widening and deepening the financial markets, new players and instruments have also been introduced.

6.82 Various reform measures introduced since the early 1990s have changed the character of the financial markets in India. Liquidity and depth in various segments have increased significantly which are important from a financial stability viewpoint. It may, therefore, be useful to assess key financial market developments during 2004-05 from the standpoint of financial stability in a historical perspective.

Money Market

6.83 The call/notice money market, which deals in overnight funds and up to 14 days, is a key segment of the money market in India. The full-fledged Liquidity Adjustment Facility (LAF), which was introduced on June 5, 2000, with a view to modulating short-term liquidity under diverse market conditions, has emerged as an effective instrument to provide a corridor for the overnight call rate movement. This has resulted in stable and orderly market conditions through clear signalling. The LAF combined with strategic open market operations (OMOs) has mitigated shortfalls and excesses of liquidity in the system so as to keep the short-term interest rates reasonably stable.

6.84 Recognising that the large exposure in the call/notice money market by some participants relative to the balance-sheet size had the potential to cause systemic instability and impede the orderly development of other segments of the money market, prudential limits were placed on the borrowing and lending by banks and PDs in the call/notice money market. This was also aimed at reducing the default risk and making the money market safer. With the phasing out of non-bank participants, except PDs, the call/notice money market has evolved as a pure inter-bank market with asset-liability management (ALM) discipline for participants and prudential limits for borrowing and lending. With the proper development of other segments of the money market, non-banks have been able to switch over smoothly from the call/notice money market to the other segments.

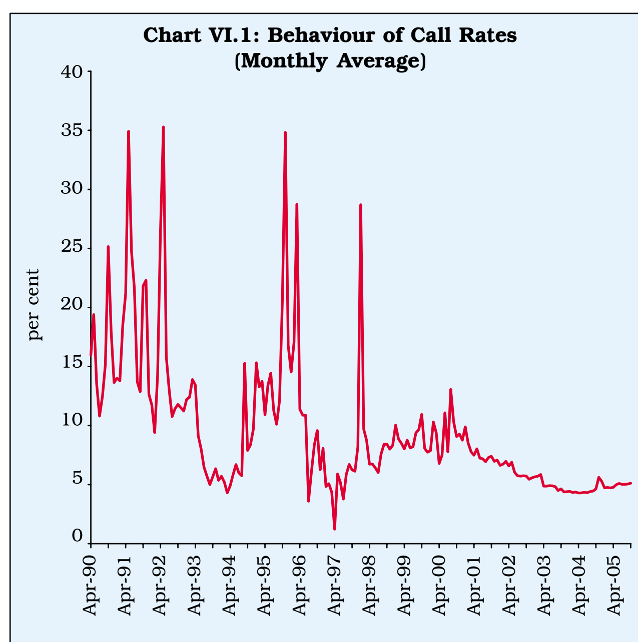
6.85 Interest rate deregulation and the consequent flexibility in the market-determined rates exposed the market participants to interest rate risk. This necessitated the development of derivative products for hedging risks by participants. Accordingly, banks and financial institutions were allowed in July 1999 to adopt risk management tools such as forward rate agreements (FRAs) and interest rate swaps (IRS) for their balance sheet management and hedging of interest rate risks as alluded to in Section 2.

6.86 The Reserve Bank has been emphasising expansion and diversification of the repo market under regulated conditions so that repos become very active in enabling smooth adjustment of liquidity in the system. The essential reason to promote repos as against the call/notice money market was its collateralised nature. It is mandatory to actually hold the securities in the portfolio before undertaking repo operations. To further develop and widen the repo market, the Reserve Bank introduced regulatory safeguards such as delivery *versus* payments (D*v*P) system. The operationalisation of the Negotiated Dealing System (NDS) and the Clearing Corporation of India Ltd. (CCIL) also contributed to the stability of the market. The emergence of deep collateralised market in the form of market repo and collateralised borrowing and lending obligations (CBLOs) *vis-à-vis* uncollateralised call/notice market has helped in reducing the systemic risk in the market. The CBLO market has also added depth to the market. In view of increase in depth and liquidity in the money market, market participants were advised in May 2005 to use only domestic rupee benchmarks for interest rate derivatives. Market participants were, however, given a transition period of six months for using MIFOR as a benchmark, subject to review.

6.87 Various reform measures initiated since the early 1990s have resulted in more orderly conditions and increased liquidity in the money market, which are important from financial stability perspective. The call/notice money markets witnessed orderly conditions during the 1990s, barring a few episodes of volatility (May 1992, November 1995 and January 1998) (Chart VI.1).

6.88 Depth and liquidity in various money market segments has also improved over the years. During the first half of the 1990s, volumes in the call money market remained more or less steady. The turnover increased sharply between 2001-02 and 2002-03, but declined steadily thereafter. The average daily turnover rose from Rs.23,221 crore in 1999-2000 to Rs.30,423 crore in 2000-01 and further to Rs.35,144 crore in 2001-02, before declining to Rs.14,170 crore by 2004-05. Banks' share of borrowing from the call market has declined gradually over the years till 2003-04 because of the overall reduction in the need to borrow in the wake of excess liquidity in the economy, substantial scaling down of CRR and generally higher Reserve Bank reverse repo rate *vis-à-vis* those in other money market segments, viz., call market, repo and CBLO. An obvious consequence of this situation has been higher placement of funds in reverse repo window of the Reserve Bank. Thus, in a scenario of shrinking turnover in the call money market, PDs, whose demand was guided by the volume of market borrowing programme, emerged as the largest borrower as a class in this market till 2003-04. The situation changed after 2004-05 when banks emerged as the largest borrower as a class following pick-up in credit in the economy, increase in CRR maintenance and reduction in market borrowing programme of the Government following which

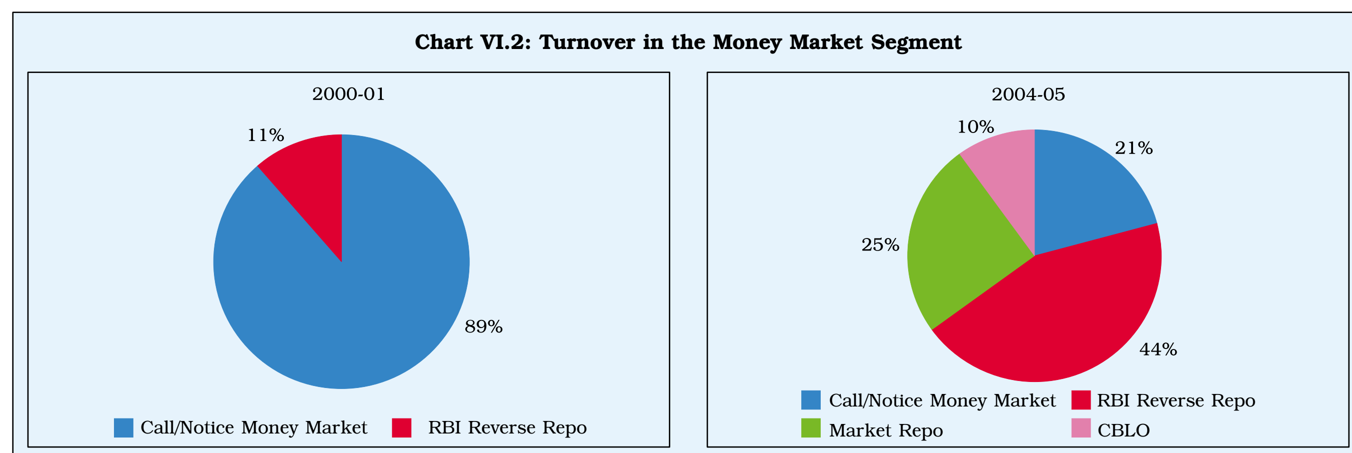
Chart VI.1: Behaviour of Call Rates (Monthly Average)



borrowing by PDs declined. On the lending side, the share of non-bank entities declined during 2001-02 and 2002-03, following the commencement of the process of their phasing out from call/notice market. Thereafter, their share increased during 2003-04 in relative terms essentially because of market shrinkage in the aggregate turnover of call market. The share of the banking sector has been rising particularly from September 2004 till date, on account of gradual phasing out of non-banks from the call/notice money market. On the whole, while the relative share of uncollateralised call/notice money market has declined, that of repo, market repo and CBLO has improved significantly over the years (Chart VI.2).

6.89 A sharp increase was also observed in volumes in the FRAs/IRS market. The notional

Chart VI.2: Turnover in the Money Market Segment



principal amount under FRA/IRS contract moved up from Rs.2,065 crore during the fortnight ended January 14, 2000 to Rs.13,15,306 crore in September 2005.

6.90 Money market conditions remained broadly stable during 2004-05, reflecting comfortable liquidity conditions. The average daily call money borrowing rates remained below the reverse repo rate, barring the period from mid-September 2004 to December 2004, when the call rates ruled above the reverse repo rate. The call rate firmed up to rule above the repo rate on some occasions in November 2004 due mainly to tightening of liquidity conditions. The injection of liquidity by the Reserve Bank under the LAF assuaged the market sentiment (Chart VI.3). The difference between the uncollateralised call money rate and the collateralised repo rate is an indication about counterparty credit risk, which is important from the standpoint of orderly conditions in the market. The uncollateralised call rate ruled below or close to the collateralised reverse repo rate, other than on a few occasions, suggesting that perception of money market participants about counterparty credit risk remained stable. However, volatility in the call money market (measured by co-efficient of variation) was somewhat higher at 0.10 per cent during 2004-05 than 0.06 per cent in the preceding year mainly on account of fluctuations in call rates during November-December 2004.

6.91 In the face of large capital flows, a new facility in the form of Market Stabilisation Scheme (MSS) was instituted in April 2004. The MSS, by absorbing liquidity of a more enduring nature by way of sterilisation, provided greater flexibility to the Reserve Bank in managing market liquidity and imparted stability to the financial markets.

Foreign Exchange Market

6.92 With the gradual opening of current and capital account transactions in the 1990s, capital flows have had a direct bearing on the stability of the exchange rate. There have been intermittent periods of excessive capital inflows, followed by episodes of ebbing of capital inflows and subsequent recovery in capital inflows. On the whole, however, the foreign exchange market witnessed fairly stable conditions during the 1990s and from 2000-01 to 2004-05, barring some occasions, when the market came under pressure. Effective policy responses, however, were able to quickly restore the orderly conditions in the market. The coefficient of variation of the Indian Rupee against the US dollar, which is a measure of volatility, moved in a narrow range, except on a few occasions, *i.e.*, between September 1995-February 1996 and again in mid-October 1997 to April 1998 (Chart VI.4).

6.93 As a result of various liberalisation measures, the foreign exchange market in India grew rapidly during the 1990s. The turnover, both in merchant and inter-bank segments, increased manifold between 1990-91 and 2004-05. The ratio of inter-bank to merchant turnover ratio declined from 8.5

Chart VI.3:Call Rate, Repo Rate and Reverse Repo Rate

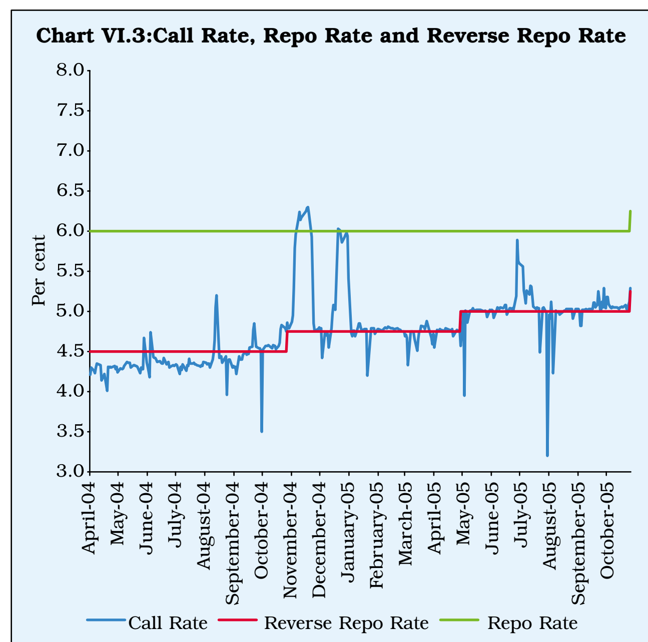


Chart VI.4: Volatility in the Foreign Exchange Market

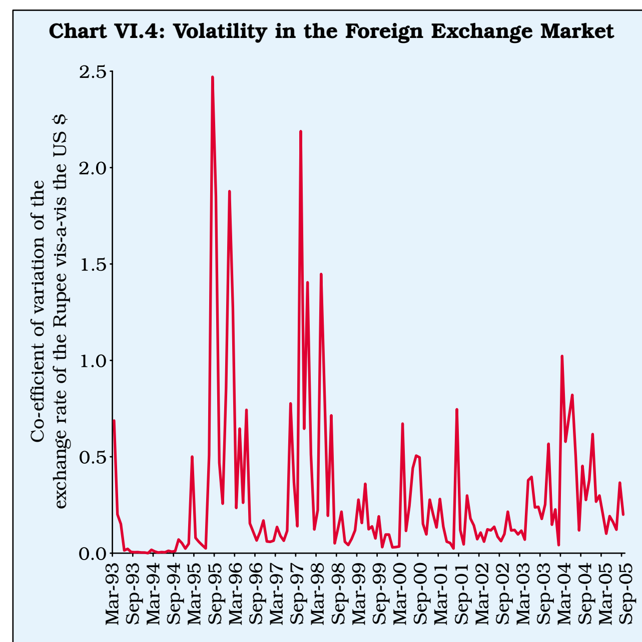


Chart VI.5: Inter-bank and Merchant Turnover

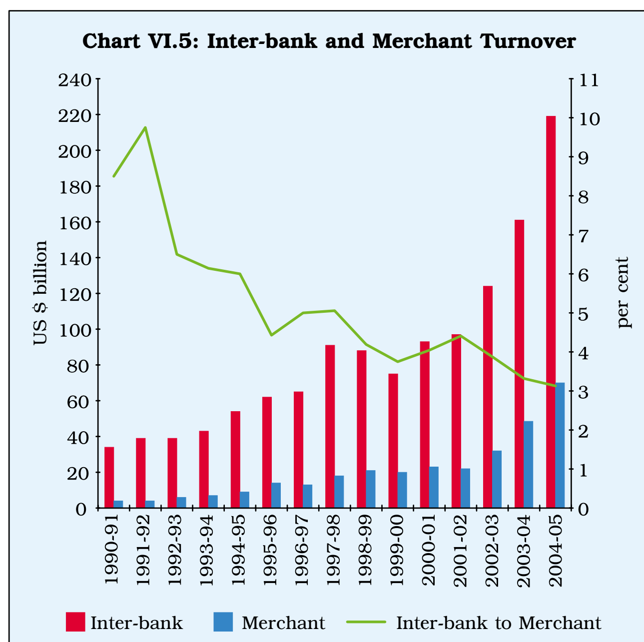
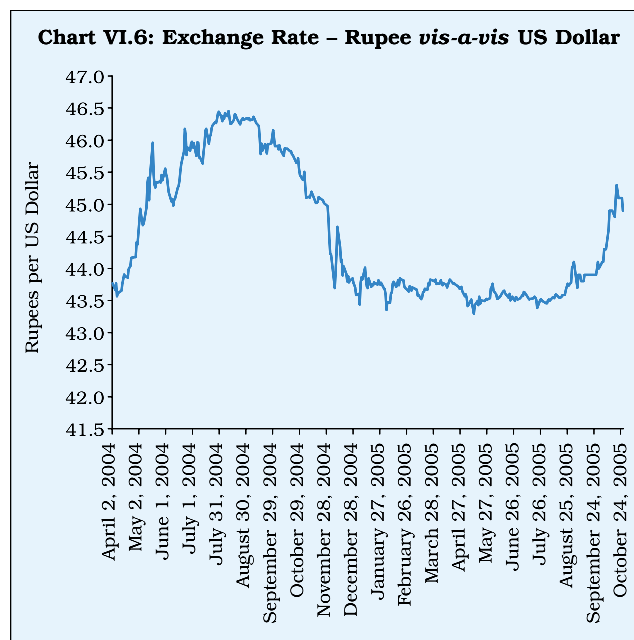


Chart VI.6: Exchange Rate – Rupee *vis-a-vis* US Dollar



in 1990-91 to 3.1 in 2004-05 (Chart VI.5). A Bank for International Settlements survey of the foreign exchange and derivatives market activity (2004) reveals that India's share in global foreign exchange turnover increased from 0.1 per cent in 1998 to 0.2 per cent in 2001 and further to 0.3 per cent in 2004.

6.94 The conditions in the foreign exchange market remained broadly stable during 2004-05. The foreign exchange market witnessed excess supply conditions in April 2004, driving the forwards into discounts. However, turbulence in the equity market in mid-May leading to outflows by FIIs and rising global oil prices exerted some pressure on the Rupee. The two-way movement in the Rupee encouraged corporates to hedge foreign currency exposures and moved forwards into premia in June 2004. The pressure on the Rupee started easing from September 2004 reflecting increased FII flows, step-up in trade credit, higher recourse to ECBs and surge in export receipts. Despite outflow of FII investment in January 2005, the Rupee remained strong due to weakening of the US dollar in the international market.

6.95 The Rupee remained firm against the US dollar between end-March 2005 and mid-May 2005, despite outflows by FIIs and higher merchandise trade deficit. Subsequently, however, the Rupee depreciated due to strengthening of the US dollar in the international markets. With the revaluation of Chinese Yuan on July 21, 2005, there were appreciation pressures that continued till the third week of August. Reflecting the impact of soaring oil prices, which touched a peak of US $ 70.80 per barrel in the international market with the hurricane Katrina disrupting oil and gas production in the Gulf of Mexico, the Rupee depreciated to Rs. 44.12 per US dollar on September 1, 2005. The Rupee again came under pressure from the first week of October 2005 in the face of sharp increase in current account deficit, FII outflows and strengthening of the US dollar in the international markets (Chart VI.6). Forward premia in general declined in tandem with narrowing of interest differential following the further hikes in the US interest rate.

6.96 The turnover in the foreign exchange market (both merchant and inter-bank), which had dropped sharply to US $ 223.6 billion in April 2005 (from US $ 305.7 billion in March 2005), recovered in the subsequent months to reach US $ 349.3 billion in August 2005. It fell again to US $ 292.8 billion in September 2005. The ratio of inter-bank to merchant turnover hovered within a range of 2.32 to 2.60 during the first half of the current financial year, reflecting orderly market conditions. The Clearing Corporation of India (CCIL) has started forex segment operations with settlement of spot and forward inter-bank US dollar-Rupee deals from November 2002. Subsequently, from February 2004, CCIL commenced settlement of Cash and Tom deals.

Government Securities Market

6.97 Various reform measures have imparted liquidity and depth to the Government securities market. With the aligning of coupons on

Government securities with market interest rate, the Government securities market has gradually widened with the participation of several non-bank players. Presently, apart from banks and insurance companies, investor base includes private corporate sector, mutual funds, finance companies as also individuals. The recent decision to allow trading at negotiated dealing system (NDS) through order-driven system is expected to give a further impetus to the development of the Government securities market.

6.98 A policy of reissuance/reopenings through price-based auctions (as opposed to earlier yield-based auctions) was introduced in 1999 to improve market liquidity and enable the emergence of benchmark securities in the market. However, the ability to 'reissue' or 'reopen' loans is limited by the maximum outstanding amount that is perceived as 'manageable' from the viewpoint of redemption.

6.99 There is now a wide range of securities available to market participants for investment and hedging of financial risk. These include 364-day, 182-day, 91-day and 14-day Treasury Bills. In the long-term segment, the *vanilla* or the fixed coupon bonds are the most commonly used instruments. Floating Rate Bonds (FRBs) were introduced in September 1995. Two FRB issues were made in November and December 2001, with tenors of 5 years (Rs.2,000 crore) and 8 years (Rs.3,000 crore), benchmarked to the 364-day Treasury Bill yield. FRBs were also issued during 2002, 2003 and 2004. At present, the outstanding amount of FRBs stands at Rs.46,000 crore. In July 2002, the Government issued a 10-year loan with embedded call and put options exercisable on or after 5 years from the date of issue. The Reserve Bank is also actively pursuing the creation and development of the Separate Trading of Registered Interest and Principal of Securities (STRIPS) market. The enabling legal provisions for STRIPS will come into effect with the passage of the Government Securities Bill. In the interregnum, the Reserve Bank has been undertaking issuance of securities to realign the coupon payment dates with four identified dates to create a critical mass for issue of coupon STRIPS. A large number of securities, by facilitating better risk-return trade-off, have enhanced the stability of the market.

6.100 Major institutional developments include the establishment of a system of well-capitalised primary dealers (PDs) committed to participate in primary auctions and operationalisation of the Clearing Corporation of India Limited (for clearing and settlement of transactions in Government securities). The delivery versus payment system (DvP) introduced in 1995 for the settlement of transactions in Government securities has mitigated the settlement risk and facilitated the growth in volume of transactions in the secondary market for Government securities. The technological developments include screen-based trade reporting system with the use of VSAT communication network complemented by a centralised Subsidiary General Ledger (SGL) accounting system. The NDS, operationalised from February 2002, provides on-line electronic bidding facility in the primary auctions of Central/State Government securities, Open Market Operations (OMO)/LAF auctions, screen-based electronic dealing and reporting of transactions in money market instruments, including repo. It facilitates information on trades with minimal time lag. A screen-based trading system was operationalised in the NDS from August 1, 2005.

6.101 As a result of a series of structural and institutional reforms, a deep, wide and vibrant gilt market has emerged. The character of the Government securities market has changed from a captive to a broad-based market. The Reserve Bank's absorption of primary issues has come down drastically. The increased depth and liquidity of the Government securities has enabled the Reserve Bank to pursue its monetary policy through marked-based instruments. The secondary market turnover of Government securities in India has been rising steadily, reflecting increased liquidity in the market and increased trading activity by market participants. However, the reversal in the declining trend of interest rates has had an impact on the trading activity in respect of outright transactions (Table VI.11).

Table VI.11: Secondary Market Transactions in Central Government Securities

(Amount in Rs. crore)

Year	Outright	Repo	Total
1	2	3	4
1999-2000	4,56,493	82,739	5,39,232
2000-01	5,72,145	1,25,976	6,98,121
2001-02	12,11,941	3,61,932	15,73,873
2002-03	13,78,160	5,63,515	19,41,675
2003-04	16,83,711	9,55,533	26,39,244
2004-05	11,60,632	15,62,990	27,23,622
2005-06 (Apr.-Sep.)	5,51,162	7,73,211	13,24,373

Chart VI.7: Yield Curves for Central Government Dated Securities

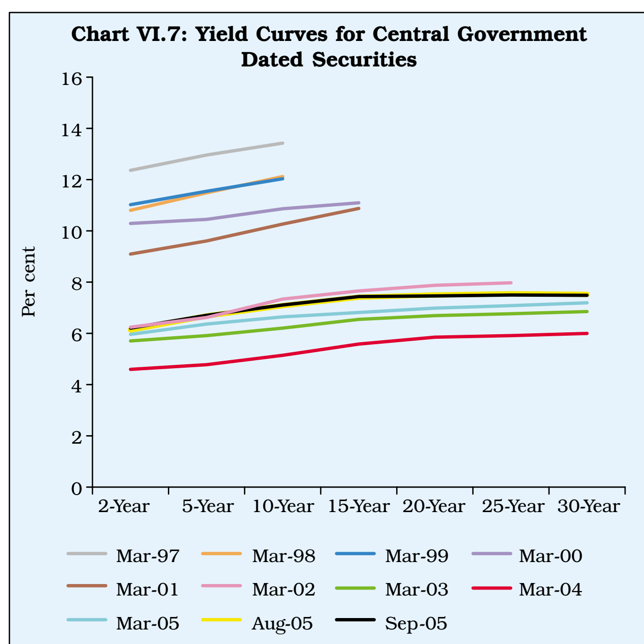
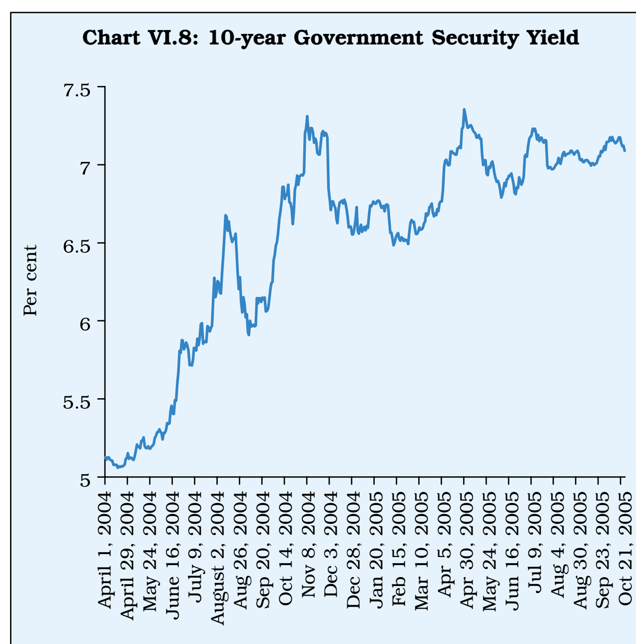


Chart VI.8: 10-year Government Security Yield



6.102 The yield curve has also emerged over the years. Up to 1997-98, the curve was limited up to 10 years. Gradually, with the elongation of maturity of Government bond issuance, the yield curve has got extended up to 30 years (Chart VI.7). Government securities are now emerging as a benchmark for pricing private debt instruments.

6.103 The Government securities market during 2004-05 displayed firm conditions. The yield on 10-year benchmark security hardened steadily from 5.15 per cent at end-March 2004 to 6.68 per cent by August 12, 2004. Hardening of the yield during this period reflected the upturn in the international interest rate cycle, rise in international crude oil prices and increase in inflation rate. After sliding to 5.91 per cent on September 4, 2004, the yield edged up to peak at 7.31 per cent on November 8, 2004 due to tightening of liquidity conditions and increase in CRR in September 2004. Although the yield softened thereafter to 6.65 per cent on March 31, 2005, it was still higher by 150 basis points from the end-March 2004 level. The yield moved up sharply to touch 7.35 per cent on April 30, 2005 and remained range-bound. Yields, however, have since stabilised, *albeit* at higher levels (Chart VI.8).

6.104 The hardening of sovereign yield during 2004-05 significantly impacted the trading profits of financial institutions, especially scheduled commercial banks (see Chapter III for details). The hardening of yield combined with increased credit demand from industry and other sectors led to significant portfolio adjustments by banks (see Chapter III for details). Banks have been able to weather the upturn in interest rate cycle so far, although the hardening of yield resulted in decline in profits from securities trading and higher marked to market depreciation. The increase in yield induced banks to take various steps to immunize the interest rate risk inherent in their investment portfolio. Many banks have made a significant proportion of investments immune to future interest rate risk by shifting SLR securities to 'HTM' category, by incurring a one-time cost upfront. There has also been a conscious effort by some banks to reduce the residual maturity of their investments portfolio.

Capital Market

6.105 From a financial stability perspective, it is necessary to have a balanced financial system whereby both financial markets and financial institutions play an important role. Notwithstanding a long history, the capital market in India remained on the periphery of the financial system. However, a series of reforms introduced since the early 1990s has brought about a structural transformation of the capital market.

6.106 Free pricing in the primary capital market has allowed corporates to price their issues based on their fundamentals and conditions in the market. In the secondary market, the move to an electronic trading system has resulted in transparency in trades, better price discovery and lower transaction costs. The efficiency of the market has improved through faster execution of

trades. The operational efficiency of the stock market has also been strengthened through improvements in the clearing and settlement practices and the risk management process. Almost the entire delivery of securities now takes place in dematerialised form. During the last ten years or so, there has been no instance of postponement or clubbing of settlements at two major stock exchanges (BSE and NSE), despite defaults by brokers. The cases of bad deliveries have become almost nil. The setting up of trade/ settlement guarantee funds has considerably reduced the settlement risk. The integrity and transparency of the market has improved with the wider availability of information regarding the corporates' performance at quarterly intervals, which has improved the price discovery process. The trading and settlement framework in the Indian stock exchanges now compares favourably with the international best frameworks.

6.107 The resources raised by the private sector companies from the public issues equity market rose sharply in the first half of the 1990s to touch a peak of Rs.26,417 crore in 1994-95 (Chart VI.9). The resource mobilisation from the public issues market, however, tapered off in the second half of the 1990s due to a variety of reasons such as high premium charged by some companies not justified by their fundamentals, disappearance of some companies after raising resources, tightening of disclosure norms, slowdown of the industrial sector and subdued secondary market.

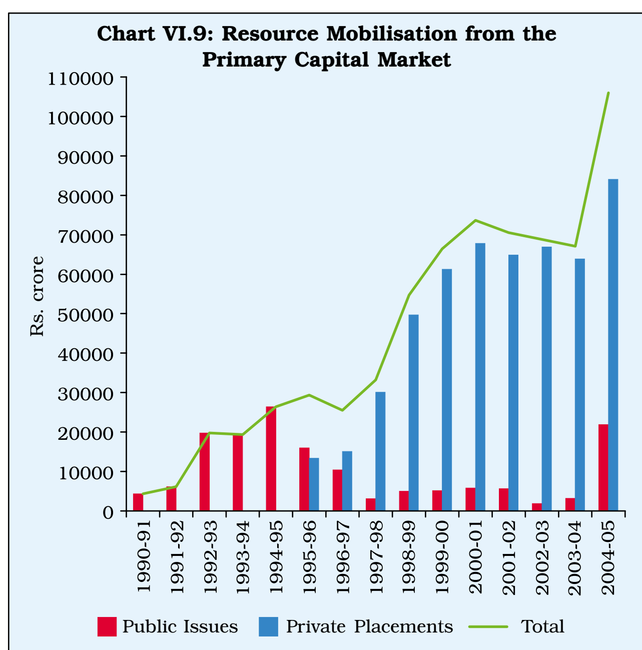


Table VI.12: Mobilisation of Resources from the Primary Capital Market

(Amount in Rs. crore)

Item	2003-04	2004-05
1	2	3
Prospectus and Rights Issues	7,851	21,892
Private Placements	63,901	84,052
Total	**71,752**	**1,05,944**

During this period, however, the private placement segment started gaining prominence. Although this segment lacked transparency, it provided an alternative mechanism for raising resources by the corporates in a cost effective and time saving manner. As the unbridled growth of the private placement segment, to which several banks also had significant exposure, posed some systemic risk, the SEBI brought this segment under its regulatory purview to ensure its orderly growth.

6.108 The financing conditions, however, improved significantly during 2004-05 with the revival of the public issue segment. Resource mobilisation from the primary market by way of public issues increased by three times during 2004-05. All the equity issues generated a good response. Resources raised by way of equity issues constituted 82.3 per cent of total resource mobilisation through public issues during 2004-05 as compared with 43.7 per cent in the previous year. Resource mobilisation from the private placement market also increased (Table VI.12).

6.109 Although the share of capital market related instruments in total funds raised by non-financial public limited companies has remained more or less unchanged in the post-reform period *vis-à-vis* pre-reform period, the share of financial intermediaries has declined significantly. This is a significant development from the financial stability perspective as this reflects the reduced reliance of the corporates on the banking sector. Another important development has been the deleveraging of balance sheets by the corporate sector through issuance of equity and internal generation of funds, as reflected in the decline in the debt-equity ratio. The ratio, which was above 90 per cent in the early 1990s, steadily declined to 57.0 per cent by end-March 2004. This is reflected in the sharp decline in the average debt-equity ratio in the post-reform period (Table VI.13).

Table VI.13: Sources of Funds for Non-Government Non-Financial Public Limited Companies

(per cent)

Item	1984-85 to 1992-93	1993-94 to 2003-04
1	2	3
Share of Internal Sources in Financing	32.5	44.5
Share of External Sources in Financing	67.5	55.5
of which :		
Capital Market Related Instruments (Debentures and Equity Capital)	18.8	17.6
Shares of Financial Intermediaries	21.7	18.1
Debt-Equity Ratio (including debentures and long-term borrowings)	90.7	65.2

Source : Finances of Public Limited Companies, Reserve Bank of India Bulletin (various issues).

6.110 The reduced leverage has reduced the vulnerability of the corporate sector to shocks (Box VI.7).

6.111 Mutual funds are an important vehicle for investment by retail investors and thus play an important role in the development of the capital market. Growing investor interest in the equity market could also be gauged from the resource mobilisation by mutual funds. Although net resource mobilisation by mutual funds was of a much lower order during 2004-05 as compared with the previous year, it was entirely on account of net outflows from income/debt-oriented schemes. Net inflows in the growth/equity-oriented schemes were more or less of the same order as that of the previous year (Table VI.14). Increased mobilisation from the primary capital market and continuing interest by investors in the growth-

Box VI.7: Corporate Leverage and Financial Stability

It is widely acknowledged that the quality of loan portfolios of financial institutions is directly dependent upon the financial health and profitability of their borrowers, particularly the non-financial enterprise sector. The key role played by the corporate sector in exacerbating financial distress in Korea during the Asian crisis is well documented. Following from this episode, there has been a renewed interest as to whether and how the corporate sector can engender financial stability.

Recent theoretical and empirical work on the corporate sector and financial distress has examined how firms respond to macro-economic shocks and whether this response, in turn, impacts the financing and investment decisions of the corporate sector and through these decisions, the macro economy. A major part of this literature has focused on two aspects that are key to ensuring the repayment of corporate obligations: corporate net worth and cash flows, and marketable collateral. The first approach, the "financial accelerator" approach emphasises the role of micro-economic rigidities that occur due to informational asymmetries, where corporate net worth plays the role of collateral and helps to overcome incentive problems in lending. In these studies, macro-economic shocks affect the real sector through corporate balance sheet effects. The alternate approach, known as the "collateral" approach, stresses macro-economic rigidities in the form of underdeveloped domestic financial markets and paucity of internationally acceptable collateral. In these studies, crisis susceptibility is driven by shortfall in collateral need to obtain domestic and foreign financing.

Through these two channels of corporate balance sheets and collateral, the corporate sector becomes susceptible to shocks. Levels of corporate leverage influence the ability of firms to withstand these shocks. The more leveraged and less liquid the corporate sector, the greater the vulnerability to shocks.

Prolonged distress in the corporate sector negatively affects firms' repayment capacity and credit-worthiness and results in a worsening of bank asset quality, and ultimately, results in higher non-performing loans (NPLs). A macro-economic shock reduces corporate equity and increases non-performing loans, with the size of the increase depending on the composition of corporate debt *(i.e.*, importance of non-bank financed debt).

Available research in this area points to a strong link between macro-economic developments and corporate leverage and between the corporate leverage and the probability of financial crises. Stone and Weeks (2001), for example, analyse the financial crises of the 1990s by dividing them into two stages: pre- and post-crisis equilibria. In the first stage, poor corporate governance, accelerated capital inflows and in many cases, overheating of the economy results in a build up of corporate balance sheet stress, making the economy susceptible to financial shocks. A shock, when it occurs, triggers a sudden crisis, or a shift into a new contractionary equilibrium. Cross-country research at the IMF (IMF, 2003) comprising 47 countries and ten years of annual data finds a lagged, but significant effect of leverage on NPL. The point estimate indicates that a 10 percentage point increase in corporate leverage, raises banks' non-performing loans by 1.6 percentage points, on average, with a one-year lag. Empirical results suggest that both corporate leverage and aggressive bank lending can be significant indicators of the probability of a crisis. The econometric research indicates that financial crises have a greater and more consistent negative impact on corporate sectors in emerging as compared with advanced economies.

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Table VI.14: Funds Mobilised by Mutual Funds – By Type of Scheme

(Rs. crore)

Scheme	2003-04		2004-05	
	Gross Mobilisation	Net Mobilisation@	Gross Mobilisation	Net Mobilisation@
1	2	3	4	5
A. Income/Debt Oriented Schemes	5,60,972	39,603	7,98,674	-5,244
B. Growth/Equity Oriented Schemes	26,695	7,219	37,280	7,100
C. Balanced Schemes	2,523	-13	3,755	345
D. Fund of Funds Scheme	1,189	777	1,827	59
Total	**5,91,379**	**47,586**	**8,41,536**	**2,260**

@ : Net of redemptions.

oriented equity schemes is indicative of growing investor confidence in the equity market, suggesting that the investor is becoming increasingly willing to provide risk capital, which would enable corporates to keep the leverage within the reasonable limit.

6.112 In line with the general hardening of yield on Government securities and firming up of other interest rates, the cost of funding increased with the yield on 5-year triple 'A' rated corporate bond increasing from 5.61 per cent at the beginning of the year to 7.14 per cent by end-March 2005 and further to 7.17 per cent by end-August 2005. However, the yield spread between 5-year triple-A rated corporate bond and 5-year Government security narrowed (Chart VI.10). More or less, the same trend was observed in respect of 10-year triple A rated corporate bond and 10-year Government security (Chart VI.11). This is indicative of decline in uncertainty and stable outlook about counterparty credit risk, which is important from the financial stability perspective.

Chart VI.10: 5-year Government Security and Corporate Bond Yields

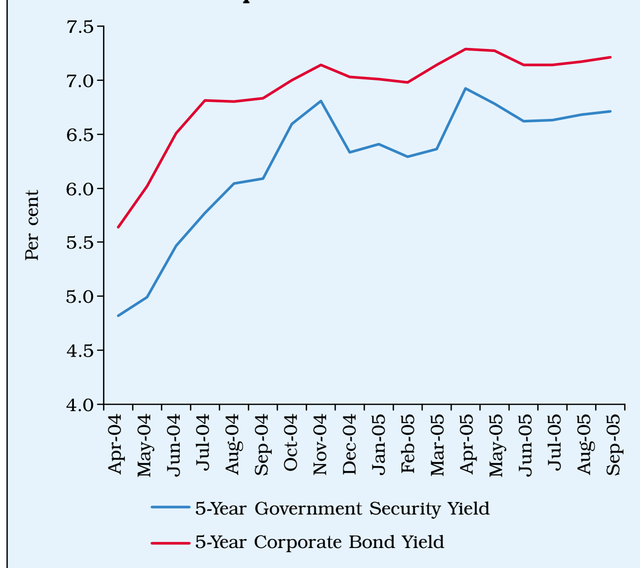
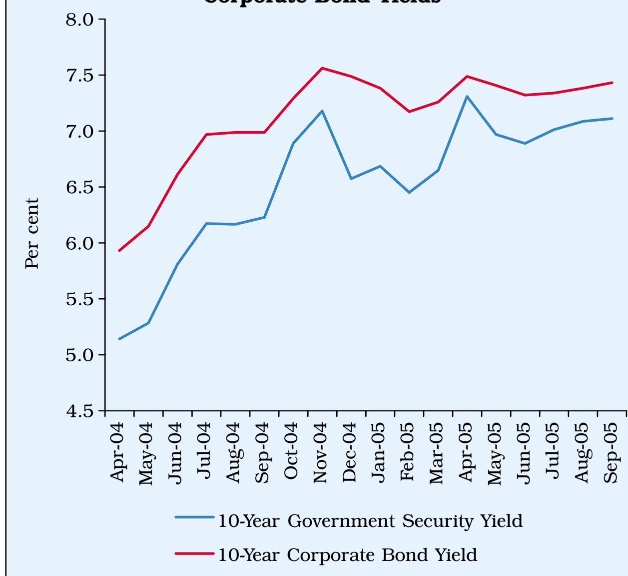


Chart VI.11: 10-year Government Security and Corporate Bond Yields



6.113 Conditions in the secondary market remained extremely buoyant during 2004-05 and first half of 2005-06 with the stock indices reaching new highs. The rally in the secondary market was widespread encompassing mid-cap and small-cap companies from all sectors. The hardening of interest rates did not possibly impact the equity valuations as investors focussed on improved growth prospects and expected increase in corporate earnings. Recently, the domestic stock market has witnessed some correction due mainly to profit booking at higher levels, slowdown in FII inflows, downtrends in the major industrial markets and declaration of lower than expected second quarter

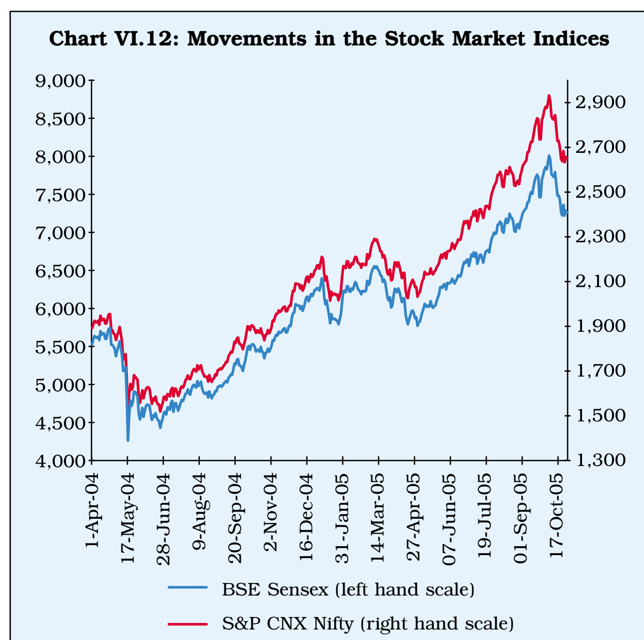


Chart VI.12: Movements in the Stock Market Indices

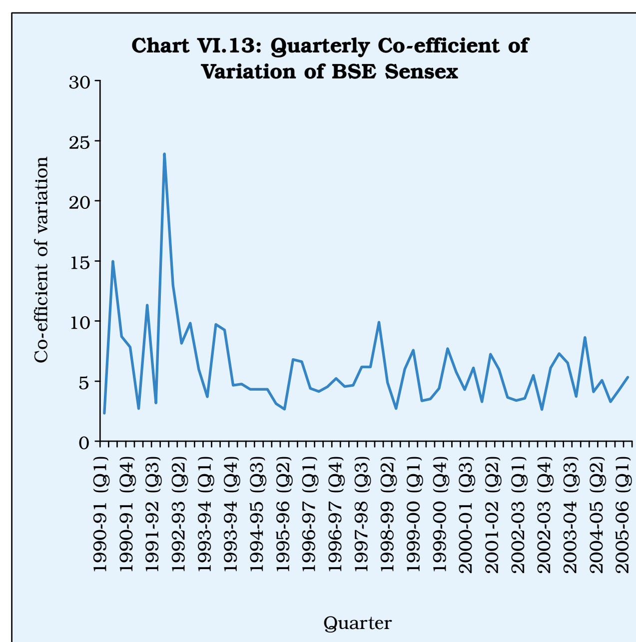


Chart VI.13: Quarterly Co-efficient of Variation of BSE Sensex

results by some companies which dampened the market sentiment. (Chart VI.12).

6.114 As a result of various measures, the liquidity in the stock market has improved over the years as reflected in the traded value and turnover ratios (Table VI.15).

6.115 The volatility in the Indian stock markets has declined in recent years (Chart VI.13). Although volatility in the stock markets increased during 2004-05 and first half of 2005-06, it was mainly due to a sharp decline in share prices in mid-May 2004. The steady decline in volatility over the years would suggest that investors are becoming less concerned about the uncertainty of stock prices in the future, which is important from the point of view of stability of the market.

6.116 With the progressive integration of various segments of financial markets, the Reserve Bank keeps a close watch on the activity in the equity market to guard against any possible spillover of disturbances to other financial markets. Accordingly, when the stock market turned volatile on May 17, 2004, the Reserve Bank closely monitored major settlement banks and stock exchanges concerned to ensure that the payment obligations in the exchanges were met. The Reserve Bank also announced publicly its readiness to provide sufficient liquidity to banks for meeting their payment obligations and intra-day requirements so that the payments system was carried out smoothly. A Task Force was constituted under the Executive Director, Financial Markets Committee for providing clarifications and liquidity assistance. The Financial Market Committee decided that as soon as there is a circuit breaker in the stock markets, there should be a trigger within the Reserve Bank to monitor different market segments and ensure adequate liquidity.

Table VI.15: Indicators of Stock Market Liquidity

Year	Traded Value Ratio	Turnover Ratio
1	2	3
1995-96	19.14	39.7
2000-01	13.83	50.6 #
2004-05	53.68	98.1 #

#: Market capitalisation is estimated assuming that the BSE accounts for 95 per cent of all-India market capitalisation.

Note : Ratios are worked out on the basis of all-India turnover.

Traded value ratio: ratio of turnover to GDP.

Turnover ratio: ratio of turnover to market capitalisation.

5. Payment and Settlement Systems

6.117 A secure and efficient payment and settlement systems is a major pre-condition for the stability of the financial system. An assessment of financial stability, therefore, needs also to focus on the functioning of the payment and settlement systems. The area of large-value payments which involve systemic risk is particularly important. It is the large-value payment systems that link various financial institutions through intra-locking of claims. A disturbance in large-value systems in any form could

Box VI.8: Sources of Systemic Risk

An important facet of the concept of financial stability has been the issue of systemic risk. A systemic risk is the risk that affects several institutions or markets at the same time. The process of systemic risk comprises two elements: shocks and the propagation mechanism. Systematic shocks such as a general business cycle fluctuation can have a large and significant effect on financial systems. The other key aspect of the process is the propagation mechanism that includes interactions between real and financial sectors. For instance, a cyclical downturn may trigger a wave of failures by corporate firms, not only rendering many loans by banks as non-performing, but also inducing them to cut back lending. This, in turn, can deepen the cyclical downturn.

Systemic risk can impinge on institutions, financial markets and the payment system. The most common systemic risk occurs in banking, wherein due to their high leveraging, banks become susceptible to 'runs'. On occasions, such runs can spill over to other parts of the sector, potentially leading to a full-scale panic. There are two distinct channels through which contagion in banking markets work: the 'real' channel and the 'informational' channel. The former relates to the potential for 'domino effects' through real exposures in the inter-bank market and/or in payment systems. The information channel, on the other hand, relates to contagious withdrawals when depositors are imperfectly informed about the shocks affecting banks.

The second source of systemic risk occurs through financial and commodities markets. The two markets in which risk can have serious repercussion are the foreign exchange and equity markets. These apart, instability in the real estate market has been an important factor for the transmission of distress in the financial system, as was evident from the East-Asian crisis. A sudden and sharp decline in asset values could lead to defaults. It could have a serious impact on consumer and business confidence and, thus, on aggregate demand with serious implications for the economy as a whole.

Systemic risk in forex markets is typically of two main types. The first type, usually described as a currency crisis, takes place when market participants lose confidence in the sustainability of the currency's current exchange rate and seek to reduce their exposure denominated in that currency. The second type of exchange market instability occurs in a floating exchange rate situation, when the amplitude of fluctuations in the market exchange rate exceeds that which can be explained on the basis of underlying fundamentals. Systemic risk in equity markets is often traced to speculative excesses.

Another significant source of instability lies in fluctuations in commodity prices. The most striking example of this has been the two rounds of oil price increases in the 1970s. More recently, continually increasing global demand and lags in exploiting new supply sources have kept oil prices high and at elevated levels. In addition, speculative positions, which often react disproportionately to minor supply shocks, have imparted a great deal of volatility in oil prices. Continuing rise in oil prices poses a significant threat, since a permanent increase of US $5 per barrel in crude oil prices is estimated to increase inflation by 60-70 basis points in major developing countries (IMF, 2004).

The third source of systemic risk is the cascades, which occur due to inter-linkages among banks in the payment system. Given the inter-locking of claims of various participants, the payment network has become one of the most likely channels of transmission of a generalised shock throughout the financial system. As a result, central banks in most countries take a keen interest in regulating the payment and settlement system. Most countries have switched over to Real Time Gross Settlement system in the face of vulnerabilities in order to contain the potential for systemic risk. At the same time, the phenomenal growth in banks' off-balance sheet activities, through the use of derivative instruments, has meant that credit exposures in settlement systems have increased at a much faster pace than the real economic activity. These exposures, which often amount to a multiple of a bank's capital, have become an important concern in the quest for containing systemic risk.

References:

De Bandt, O. and P. Hartmann (2000), 'Systemic Risk: A Survey', ECB Working Paper No. 35, Frankfurt.

International Monetary Fund, *Global Financial Stability Report*, April 2004.

generate a serious systemic risk and threaten the stability of the financial system (Box VI.8).

6.118 It has been the endeavour of the Reserve Bank to reduce the risks associated with payment and settlement systems. A wide range of measures have been initiated to improve the payment and settlement systems in recent years (see also Chapter II). As a part of the initiative, the Board for supervision and regulation of Payment and Settlement Systems (BPSS) has been constituted. The BPSS is expected to provide an impetus to closer monitoring of all types of payment and settlement systems, especially the systemically important ones, which would act as an early warning system for the financial sector as a whole. As a follow-up to the process, a new department – Department of Payment and Settlement Systems – has been constituted to provide an exclusive focus on the smooth functioning of the payment and settlement system as well as provide secretarial support to the BPSS.

6.119 A major development from the perspective of financial stability was the introduction of the RTGS in large-value funds transfer systems. As final settlement of individual inter-bank funds transfers is effected on a gross real time basis during the processing day, a major source of systemic risk in the financial system has been reduced substantially. RTGS transactions, both in terms of volume and value, have increased sharply in a short span of its operation (Table VI.16). The value of transactions

Table VI.16: Paper-based *versus* RTGS Transactions

(Amount in Rs. crore)

Quarter Ended	Instrument-based Inter-bank transactions		RTGS Inter-bank transactions		RTGS Customer transactions		Total RTGS transactions	
	Volume	Value (Rs. crore)	Volume	Value (Rs. crore)	Volume	Value (Rs. crore)	Volume	Value (Rs. crore)
1	2	3	4	5	6	7	8	9
June 2004	2,61,796	4,74,268	23,996	2,05,806	955	3,370	24,951	2,09,175
September 2004	2,14,921	2,41,786	86,744	7,13,990	6,258	29,148	93,002	7,43,138
December 2004	1,69,298	1,83,600	1,30,223	13,46,674	20,455	67,334	1,50,678	14,14,008
March 2005	1,63,397	1,50,482	1,50,968	15,50,051	40,824	1,49,811	1,91,792	16,99,862
June 2005	#	#	2,04,290	18,39,311	67,504	2,06,796	2,71,794	20,46,107
September 2005*	—	—	2,54,498	21,18,816	1,29,678	5,46,397	3,84,176	26,65,213

: Since discontinued.

* : Instrument-based inter-bank clearing was discontinued at all the centres by June 30, 2005.

being settled in the RTGS system is more than total amount of cheques, which were being settled earlier by the individual inter-bank clearings held in different centres.

6.120 Apart from containing the systemic risk, the RTGS system has benefited the Indian financial system in several other ways such as (i) enhanced customer service by facilitating instantaneous and irrevocable funds transfer as against a day's lag in the case of instrument based inter-bank clearing; (ii) straight-through processing of payment transactions which include customer transactions; and (iii) mitigation of payment system risks inherent in deferred net settlement systems such as high value clearing and MICR clearing (Box VI.9).

6.121 The RTGS system has been build on a secure and fail-safe technology platform with a robust business continuity planning. The RTGS has worked smoothly so far and there has not been any interruption. Even during the record rainfall in Mumbai on July 26 and 27, 2005 and its aftermath, the central system of RTGS was totally unaffected. The RTGS remained fully operational and banks were able to transfer funds to one another through the accounting system of the Reserve Bank. Several banks shifted their RTGS interface to their disaster recovery sites when the main site could not function on account

Box VI.9: RTGS Operations - Impact on the Financial Sector

The RTGS system has brought about some significant benefits to the Indian financial system. Apart from enhancing the stability of the financial system, it has improved the efficiency of the system in terms of efficient cash management by banks, immediate transfer to the customer's account and reduction in transactions cost. In the pre-RTGS regime, banks settled their inter-bank obligations by issue of paper-based instruments which used to be cleared in a net clearing system called 'inter-bank clearing'. Efficiency of the inter-bank clearing was highly dependent on efficient transportation of paper instrument and use of a good number of staff either to collect or to handover the instruments. Fragmented inter-bank clearing settlement taking place at different centres in the country also interfered with efficient cash management systems in banks and placed an additional burden of pooling of funds at a centralised account. The RTGS system ensures settlement finality in the books of the Reserve Bank on a real time basis, thereby providing a confidence to the sending bank as well as the receiving bank that the payment transaction has been completed and the receiving bank can make use of the funds so received immediately. The RTGS also altered the scenario by providing a platform of settling all inter-bank transactions at Mumbai. The time window for settling inter-bank transactions has also been widened from the earlier position of 'within the banking hours' to the RTGS operating hours of '9.00 a.m. to 5.00 p.m. on week days and 9.00 am to 2.30 p.m. on Saturday'.

The RTGS system is also used for customer transactions. No minimum or maximum limit has been fixed on such transactions so far. Technically, time critical transactions of smaller value can also be routed through the RTGS. In terms of RTGS Operating Guidelines, the receiving banks are required to apply credit to the customers account as quickly as possible or return the transaction within two hours, if the credit cannot be applied for some reason. Thus, banks are supposed to credit the beneficiary's account within two hours. Utilising this RTGS infrastructure, a good number of banks have developed payment products for their customers. Customers of internet enabled banks making requests for funds transfer through internet within the RTGS hours can find the beneficiary's account credited within a few minutes if the receiving banks have also built straight-through-processing engines at their end. One bank has developed a product which facilitates remittance of funds from Gulf countries in a straight-through-processing mode from end to end facilitating credit to customers' accounts within two hours.

of water seepage caused by heavy rains. Banks could provide uninterrupted RTGS service to their customers all over the country. It is thus reassuring that the RTGS has stood the test of business continuity planning.

6.122 In addition, the Government securities clearing effected through the NDS, the foreign exchange clearing and the CBLO of the Clearing Corporation of India Ltd., are all fully guaranteed systems, which have reduced the settlement risks in such systems. Notwithstanding the increasing recourse to RTGS, all retail payment systems, paper-based as well as electronic-based, are settled on a deferred net settlement (DNS) basis. In order to minimise settlement risks and to provide for enhanced efficiency in retail DNS, the Reserve Bank has taken steps to ensure that 'same-day' accounting is achieved in respect of the settlement relating to the presentation as well as the return clearings. This has been implemented in most of the clearing houses of the country. DNS settlement involves credit, liquidity and operational risks that could lead to settlement failures. In order to put in place an appropriate risk mitigation mechanism for the retail payment systems as also to examine the operational implications of such a mechanism, a Working Group was constituted by the Reserve Bank with representatives from the Reserve Bank, Indian Banks' Association (IBA) and banks. The Group has recommended the need for setting up of a Guarantee Fund for large-value systems among the retail systems, with a specific focus on the high-value clearing system.

6.123 In India, which depends heavily on cash transactions, the use of e-money can be beneficial in terms of reduced miscellaneous costs such as cost of printing and minting of smaller denomination notes and coins and transportation and storage costs. However, the setting up of network infrastructure to operate nationwide electronic payment systems entails heavy cost. On the flip side, the use of e-finance also poses several challenges from the financial stability point of view (Box VI.10).

Box VI.10: E-finance - Challenges

Rapid advances in communication technology in recent years have led to several innovations in the delivery of financial services through the internet and other electronic media (collectively known as e-finance).

Table: E-finance: Select Indicators

Country	Internet users as percentage of inhabitants	Mobile phones per 1000 inhabitants	Per cent bank customers using on-line banking
	2000	2000	1999
1	2	3	4
Developed Countries			
Australia	34	45	4
Germany	29	59	12
Italy	23	74	n.a.
UK	30	73	6
US	35	40	6
Emerging Markets			
Brazil	3	14	4
Malaysia	16	21	Less than 1
South Africa	5	19	n.a.
South Korea	40	57	n.a.
Indonesia	1	2	n.a.
India	Less than 1	Less than 1	n.a.
Thailand	4	5	n.a.

n.a.: not available

In developing economies, the use of e-finance is low in comparison with the advanced industrial economies (Table). However, in some respects, developing countries have an advantage. They can learn from the experience of advanced economies. It may even be possible for them to 'leapfrog' straight to the most advanced technologies.

The growth of e-finance raises several important challenges. First, security concerns are important factors which often discourage many internet users from using e-banking. Supervisors will need to be assured that banks have conducted adequate assessments of the vulnerability of their operating systems, back-up facilities, firewalls and emergency procedures. The complexity of internet-related activity encourages outsourcing, which often raises the problem of concentration risk when several banks depend on the same service provider. Another challenge for both providers of financial services and those who supervise them is the sheer uncertainty. It is difficult to predict which technologies will work best and what would be the response of customers and competitors. In an attempt to maintain profitability, banks might adapt poorly to e-banking (which could involve either under or over-spending on new technology), prompting them to move into riskier business to maintain returns.

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6. Overall Assessment

6.124 The multi-pronged approach followed for the development of financial institutions, financial markets and financial instruments has resulted in well-functioning financial system in India. Banks' balance sheets have strengthened considerably, financial markets have deepened and widened and, with the introduction of the RTGS, the payment system has also become robust.

6.125 The banking sector, which is most important from a systemic viewpoint, has made a significant progress in improving its financial and soundness indicators such as profitability, asset quality and capital position. Profitability of the banking sector has improved in recent years, with return on asset trending at around 1 per cent, which is comparable with international levels. Loan classification norms in India are now on par with international best practices. The difference between gross and net NPL has gradually narrowed, reflecting improved recovery management by the banking sector. The CRAR of the banking sector has been improving steadily and is now significantly above the international norm of 8.0 per cent. Notwithstanding the poor health of some of the co-operative banks and FIs, the financial system, on the whole, has become resilient.

6.126 There are, however, some short to medium-term risks to which banks are exposed. The major risks facing the banks are credit risk and market risk. As loans and advances constitute the bulk of the assets of the banking system, credit risk is the primary source of risk for banks. There has been a significant improvement in the credit risk environment in India in recent years as reflected in the sharp decline in NPLs of the banking sector.

6.127 It is expected that the credit risk environment would continue to be favourable in the near-term. Macroeconomic fundamentals of the economy continue to be robust. The economy is expected to grow at a robust rate of 7-7.5 per cent during 2005-06. The industrial sector, in particular, is performing very well and is expected to maintain the momentum in the near future. Inflation rate continues to be low, despite rise in oil prices. India's external sector has been a source of major strength. Financing conditions for the corporates have improved significantly with the capital market exhibiting buoyant conditions. Corporates are also able to raise resources from the international capital market at competitive rates. Profitability of the corporate sector has improved. The corporate sector has been deleveraging its balance sheet through issuance of equity and internal generation of funds. This has reduced both the outstanding debt and debt-servicing burden. The corporate sector is expected to take further advantage of favourable financing conditions and reduce its leverage further.

6.128 Although the credit has increased sharply in the last one and half years, broad-basing of bank's credit portfolio has reduced the concentration risk. The growing share of retail and mortgage loans in the portfolio of banks may also have a positive impact on credit risk in the books of banks. These loans, being small, do not involve large exposures to a single borrower. Also, in the case of mortgage loans, it is easier to determine the realistic sale value of housing collaterals, unlike commercial property in the case of corporate loans. As a result, the average risk associated with retail lending is lower. On the whole, banks are now operating in a much better credit risk environment than in the past. It is expected that credit risk environment would continue to be benign in the near future. However, credit risk could turn adverse through a deterioration in the market risk as explained below.

6.129 Banks are exposed to market risk by way of interest rate and exchange rate changes. Exposure to interest rate risk is directly through trading and investment positions and indirectly through the possible impact on credit risk of any unforeseen interest rate hikes. Absolute exposure to the market risk by banks has increased as reflected in their increased investments in Government securities, even as the share of such investments in total assets has declined. Market risk facing the banks could increase due to two major global risks in the form of financial imbalances and high and volatile oil prices.

6.130 Global financial imbalances continue to grow with the US current account deficit now ruling above 6.0 per cent of its GDP. There is a risk of currency readjustments which could cause heightened volatility in the financial markets through changes in exchange rate and interest rate. Abrupt and sharp readjustment of currencies and consequent rise in interest rates increases the risk of the economy to reversal of capital flows with its attendant implications for the exchange rate and asset prices and the banks' balance sheets.

6.131 In the event of a sharp rise in interest rate, banks may suffer significant marked to market losses on their investment portfolio. Banks may also face increased risks on account of their exposure to the asset market. Banks have been extending credit for investment in the asset market. There is a risk that rise in interest rates, in general, could impact the housing prices and expose the balance sheets of the households to interest rate risk. This, in turn, could impact banks' balance sheets through increase in loan losses. Likewise, the equity market has also seen a sustained uptrend. Reversal of capital flows could impact the equity market and some of the advances extended for investments in the equity market might turn non-performing. Some banks' also have a direct exposure to the equity market. Although decline in asset prices could cause loan losses and capital losses, they may not make any significant impact to the banks' balance sheets, given their limited exposures to the asset markets.

6.132 International oil prices continue to remain high and volatile. Rise in oil prices could affect the Indian economy directly as India is dependent heavily on oil imports. Although the impact has been moderate so far, further sharp rise in prices could affect inflationary expectations and interest rates with its attendant implications. Also, industries with high intensity of oil use are exposed to high oil prices which could generate some credit losses for banks.

6.133 Although disruptions in global financial and commodity markets might have some impact, main risk to the corporate sector and banks' balance sheets emanate from their domestic operations. In this context, the near-term outlook continues to be positive. Business confidence is high, suggesting that corporates are optimistic about near-term prospects. Rising share prices of banking stocks is also an indication of growing confidence in the Indian commercial banking system. Strong growth prospects in the current year, improved corporate sector's profitability and other indicators suggest that credit risk environment is expected to remain favourable. Notwithstanding some uncertainties about market risk, given the increased resilience, the banking system should be able to cope with the evolving situation.

Chapter VII

Perspectives

7.1 The financial system in India is undergoing structural transformation under the influence of globalisation, deregulation, technological advances, and institutional and legal reforms. While the liberalised environment has opened new avenues of business for financial institutions, it has led to intensified competition. To survive in a competitive environment, financial institutions have been diversifying into non-traditional activities, altering their pricing strategies and looking for non-fund based sources of income. As a result, operations of financial institutions are becoming increasingly complex and, correspondingly, exposed to greater risks. In order to ensure that financial institutions grow along sound lines, a robust prudential regulatory framework has been put in place. Financial regulation and supervision has been progressively aligned with international best practices with suitable adaptations. The corporate governance framework in banks has also been strengthened. At the same time, the Reserve Bank has been making consistent efforts to strengthen credit delivery, improve customer service and encourage banks to provide banking services to all segments of the population. Despite considerable expansion of the banking system in India, large segments of the country's population are not adequately served, some as savers and others as borrowers. The expansion of banking services that are designed to serve all potential customers efficiently is, therefore, emerging as a major concern that is engaging the attention of the Reserve Bank.

Credit Delivery and Pricing

7.2 One of the critical issues facing the banking sector is the flow of credit to all the productive sectors of the economy. Retail financial services, particularly housing and personal loans, continued to traverse a high growth trajectory, fuelled mainly by demographic shifts and rising household incomes. With a view to addressing potential vulnerabilities, several regulatory measures in the form of higher risk weights, appropriate disclosures and fair practices code, were instituted during the year.

7.3 Credit demand by the corporate sector has also turned robust on the back of strong industrial performance. Furthermore, banks are expected to have greater financing opportunities in the area of project finance, especially in the infrastructure sector, given the conversion of two major financial institutions (FIs) into banks. Banks have been focusing mainly on syndication of debt to ensure wider participation in project finance and wholesale lending segment. The guidelines issued by the Reserve Bank on infrastructure financing by banks offered banks various regulatory concessions. Besides, banks were permitted to raise long-term bonds to finance infrastructure investments as also to reduce asset liability mismatches. The ongoing effort to develop the private corporate debt market would help banks meet the long-term funding requirements of the industrial and infrastructure sectors on a sustainable basis.

7.4 Rural credit has emerged as an important growth opportunity. Several new areas such as agri-clinics, contract farming and rural housing are fast becoming viable revenue propositions for banks. Although rural credit witnessed higher growth during the year, there is still need to further enhance credit to the new emerging areas of economic activity in rural areas. In order to enhance the flow of credit to these emerging areas, the Reserve Bank has been undertaking measures to remove the impediments on timely availability of credit through various means. First, the coverage of rural credit has been extended to include facilities such as storage as well as credit through NBFCs. Second, procedural and transactional bottlenecks are sought to be removed by reducing margins, redefining overdues to coincide with crop-cycles, new debt restructuring policies, one-time settlement and relief measures for farmers indebted to non-institutional lenders. Third, public and private sector banks are being encouraged to enhance credit-delivery in rural areas. Finally, banks are urged to price the credit to farmers based on actual assessment of individual risk rather than on a flat rate, depending on the category of borrower or end-use while ensuring that interest rates charged are justifiable as well

as reasonable. As productivity and incomes increase in rural areas, banks will need to serve the credit needs of the full supply chain activities as they emerge, along with those of other service and manufacturing activities. Banks will also need to devise appropriate risk assessment and management strategies and develop technical capabilities to serve the emerging needs.

7.5 The higher returns in agriculture have begun to drive the supply of credit to the priority sector. The scope and extent of priority sector have undergone several changes with several new areas and sectors being brought within its purview.

7.6 While credit to agriculture has tended to move upwards, lending to SMEs has stagnated. This could possibly be due to the perception of higher levels of risk in the sector. Financing the growth of a healthy SME sector is essential for the future sustained growth of the economy. Several measures, therefore, have been initiated by the Reserve Bank to streamline credit flow and address structural bottlenecks in credit delivery to this sector. All scheduled commercial banks, including RRBs and local area banks (LABs), have been advised to undertake pro-active measures to increase the credit flow to the SME sector. Salient among these include fixing of self-set targets for financing, rationalisation of cost of loans, expanding the outreach of formal credit, formulation of comprehensive and more liberal policies for granting of loans, adoption of cluster-based approach for SME financing, and displaying instructions/guidelines formulated by banks as well as the Reserve Bank on their respective websites. The Reserve Bank has also advised public sector banks to institute specialised SME branches in identified clusters/centres with preponderance of medium enterprises. Further, a simplified, non-discretionary and non-discriminatory mechanism has been formulated for one-time settlement of chronic NPAs below Rs.10 crore in the SME sector. A debt restructuring mechanism for units in the SME sector has also been formulated for implementation by all scheduled commercial banks. On its part, the Reserve Bank has constituted empowered committees at its Regional Offices to review the progress in SME financing and rehabilitation of sick SSI and SME units so as to ensure smooth flow of credit to these sectors. In order to increase the flow of credit to the SME sector, appropriate risk management is essential. With the operationalisation of Credit Information Bureau of India Ltd. (CIBIL), the quality of credit analysis is expected to improve. This should help in reducing the transaction cost and improving the credit flow to the SME sector.

7.7 Micro-finance institutions (MFIs) now provide several non-credit services such as capacity building, training, marketing of the products of the SHGs and micro insurance. The focus of discussion is expanding beyond the narrow domain of micro-credit to encompass micro-finance. This underscores the need for a clearer policy framework to cover the non-credit financial services by MFIs as well as the need to evolve a differentiated legal framework as per the organisational form. Micro-finance process would also need to iron out several operational issues as well as putting in place co-ordinating mechanisms amongst the various regulatory agencies. The policy environment has been fine-tuned such that the micro credit extended by banks is presently reckoned as part of their priority sector lending. Banks have been provided the freedom to devise appropriate loan and savings products in this regard. Use of intermediaries or franchise agents could emerge as a mechanism to reduce transaction costs. The thrust is on enhancing credit delivery within the existing legal and institutional framework. The Reserve Bank is currently engaged in exploring a forum where these issues could be addressed on a continuing basis through a participative and consultative process amongst all the stakeholders.

7.8 The approach of the Reserve Bank has been to emphasise the informality of micro-finance and focus on the developmental aspects. The micro-finance movement in the country has benefited immensely from simplicity and flexibility in organisation, structure and methods of working and involvement of common people. Therefore, any regulation of the MFIs would be inconsistent with the core spirit of the movement. However, NABARD and banks would need to evolve appropriate indigenous/local safeguards in their relationship with the MFIs, taking into account different organisational forms of such entities.

7.9 The benchmark prime lending rate (BPLR) system was introduced to increase the transparency in pricing of credit by banks. In the recent past, however, with the introduction of sub-PLR lending, spreads between minimum and

maximum lending rates have increased significantly. Furthermore, the sub-BPLR lending of the banking system (excluding exports, the bulk of which is at sub-BPLR) has also increased substantially - to the extent of over 60 per cent of total outstanding advances above Rs.2 lakh. Though sub-PLR lending has enabled corporates to raise funds at competitive rates from banks without incurring any additional cost towards stamp duty, dematerialisation costs or fees for issuing and paying agents (IPAs), it is distorting the role of BPLR itself. Many banks have their average lending rate below their BPLR, which is also putting pressure on their spreads. Furthermore, there is a growing perception that there is under-pricing of credit risk for large private sector corporates, whereas there could be over-pricing of risk in lending to agriculture as well as small and medium enterprises. There is, therefore, merit in reviewing the current procedures and processes of pricing of credit, perhaps through a well structured segment-wise analysis of costs at various stages of intermediation in the whole credit cycle, and bringing improvement in risk assessment and risk management systems in banks.

Customer Service and Financial Inclusion

7.10 Liberalisation of financial services and competition have improved customer service. However, experience shows that consumer's interests at times are not necessarily accorded full protection and their grievances are not properly attended to. There have been complaints relating to charges for balance enquiry, cheque status verification, signature verification, address confirmation, photograph verification, punitive service charges for non-maintenance of minimum balance in saving accounts, transaction charges for reorder of cheque book and for cash transactions at the branch beyond a stipulated number. The Reserve Bank has been issuing guidelines from time to time to facilitate banks' focus on service to the common man. With the Reserve Bank's initiative, the Indian Banks' Association (IBA) has prepared a model 'Fair Practices Code' which is a public document enlisting things that a customer can expect from the concerned bank. The purpose of the policy is that banks should deliver to depositors what they had promised at the time of accepting deposits. The scope of the Banking Ombudsman is also being expanded to cover all individual cases/grievances relating to non-adherence to the 'Fair Practices Code' evolved by the IBA and adopted by individual banks. In addition, the Reserve Bank decided to institute an independent Banking Codes and Standards Board of India in order to ensure that comprehensive code of conduct for fair treatment of customers is evolved and adhered to.

7.11 The expansion of banking services and diversification of ownership has led to both enhanced efficiency and systemic resilience in the banking sector. However, there are legitimate concerns with regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in the unorganised sector. Banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis. It is, therefore, imperative that they provide banking services to all segments of the population on an equitable basis. In this context, the Reserve Bank has announced its intention to implement policies to incentivise banks to provide extensive services responsive to the needs of the community, including the underprivileged.

Basel II and Risk Management

7.12 It has been the endeavour of the Reserve Bank to facilitate gradual convergence of prudential norms for the banking sector with international best practices with suitable country specific adaptations. In India, the capital adequacy norms were adopted in 1992 following the Basel Accord, 1988. With the increasing sophistication in banking operations and the growing cross-border activities of banks, the earlier Accord, which focused exclusively on credit risk, did not adequately address the emerging realities of banking. After due consultative process which began in 1999, the New Capital Accord, popularly known as Basel II, was enunciated in 2004 for adoption by banks. The revised Accord takes into account both market and operational risks, reinforced by a three-pillar strategy. Basel II, under which banks' capital requirements will be more closely aligned with the underlying risks in their balance sheets, is expected to promote stronger risk management practices in banks.

7.13 In India, commercial banks will start implementing Basel II with effect from March 31, 2007. In particular, they will adopt the Standardised Approach for credit risk and the

Basic Indicator Approach for operational risk. After adequate skills are developed both at the bank and the supervisory levels, some banks may be allowed to migrate to the Internal Ratings Based Approach. The Reserve Bank had advised banks in May 2004 to examine in depth the options available under Basel II and draw a road map by end-December 2004 for migration to Basel II and review the progress made at quarterly intervals. Subsequently, all banks were advised to undertake a self-assessment of the various risk management systems in place, with specific reference to the major risks covered under Basel II and initiate necessary remedial measures to update the systems to match up to the prescribed minimum standards. Banks were also advised to formulate and operationalise the Internal Capital Adequacy Assessment Process (ICAAP) as required under Pillar II of the new Accord. The adoption of risk based supervision (RBS) would facilitate in factoring the Pillar II requirements under Basel II. In the interim, banks were also advised to create an investment fluctuation reserve of 5 per cent of the investment portfolio, both in the AFS and HFT categories plus a 2.5 per cent risk weight on the entire investment portfolio to address the market risk.

7.14 In the course of implementation of Basel II, banks are expected to face several challenges. First, there is low level of rating penetration in India and ratings are being restricted to issues and not issuers. While Basel II gives some scope to extend the rating of issues to issuers, this would only be an approximation and it would be necessary for the system to move to ratings of issuers. The non-availability of acceptable and qualitative historical data relevant to ratings, along with related costs in building up and maintaining the requisite database, is likely to influence the pace of migration to advanced approaches of risk measurement under Basel II. Second, Basel II provides scope for the supervisor to prescribe higher than the minimum capital levels for banks for interest rate risk in the banking book and concentration of risks/risk exposures, among others. Third, the existence of large and complex financial conglomerates could potentially pose a systemic risk. It would, therefore, be essential to institute appropriate supervisory policies in order to address the challenges posed by the presence of such conglomerates. Capacity building, both in banks and the regulatory bodies, is a serious challenge for implementation of Basel II, especially with regard to adaptation of advanced approaches.

7.15 As implementation of Basel II gathers force and banks capture operational risk appropriately and provide for capital charge for market risk, several banks may need additional capital. With the expected high growth of the economy, banks' lending operations are also expected to expand requiring more capital. The Reserve Bank has, therefore, initiated supervisory measures to identify the gaps, and assess as well as quantify the extent to which additional capital will be required by banks. In the past, banks have tended to rely mainly on retained earnings to strengthen their capital position. However, with the buoyant capital market, it should not be difficult for banks to raise capital from the market, especially when the banking sector is performing well. The Reserve Bank has suggested certain amendments in the Banking Regulation Act, 1949, which are expected to enable banks to augment their capital base while maintaining Government shareholdings at the prescribed levels in public sector banks.

7.16 Modern day banking is all about management of risks. Banks with proper risk management systems would tend to have a competitive advantage by way of lower regulatory capital charge. Such banks would also be able to properly price their services and make adequate provisioning. Risk management has assumed added significance in the context of Basel II. In the changed environment various risks are not independent. Banks, therefore, need to adopt integrated risk management systems, whereby they effectively address all relevant risks in an ongoing and comprehensive manner. The introduction of 'core banking' solutions have enabled banks to segregate the credit sourcing (front office) and appraisal (back office) functions, which can, over time, build up expertise and monitor credit migrations on a bank-wide basis. The use of dynamic credit scoring models and the full-fledged operationalisation of the credit bureau would enable banks to switch from traditional proprietary models to newer methods of credit evaluation to reflect the repayment and recovery experience across asset classes, geographical boundaries and demographics.

Management of NPAs

7.17 The most important facet of risk in India remains credit risk. Banks have been successful

in containing their non-performing assets (NPAs), despite adoption of 90-day delinquency norm and the overhang problem. Net NPAs have now fallen to about just two per cent of net advances. Banks have been able to achieve this by using treasury profits during last few years. Various measures initiated by the Government, the Reserve Bank and the banks themselves have also facilitated the recovery and management of NPAs. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 has significantly strengthened the lender's ability to enforce its right to collateral. The Act has also created enabling conditions for asset reconstruction companies. The corporate debt restructuring (CDR) system has also emerged as a time-bound and transparent mechanism for arriving at a consensual financial arrangement between the creditor and the borrower. The enactment of the Credit Information Companies Act, 2005 will also enable sharing of credit information and progressive formation of credit information bureaus, which should help in reducing transaction costs of banks in extending credit to small and medium borrowers. This should also enable banks to keep the NPA levels low *ex ante*, which, in turn, would improve credit delivery and promote appropriate credit pricing. Banks, however, need to further strengthen the risk management systems and enhance further capacity building.

Governance

7.18 Corporate governance lies at the heart of building sound financial institutions. Corporate governance has assumed added significance in the current liberalised environment when the banking sector is expected to function on commercial lines. The governance structure specifies the rights and responsibilities of the Board, the management, the shareholders and other stakeholders. It is only through a proper interaction among these constituents that governance of banks can improve. Since institutions have different business philosophies, each institution would need to develop its own governance system based on the guiding principles as it evolves and develops over time. The system of governance needs to be flexible and adaptable so as to keep pace with changes in the operating environment. Since banks are 'special' and play a fiduciary role, ineffective governance can jeopardize the credibility of banks and impair their functioning. Therefore, a flexible approach to governance which subsumes ongoing evaluation and upgradation, need hardly be overemphasised. The quality of corporate governance in banks becomes critical as competition intensifies and banks strive to retain their client base.

7.19 The regulatory framework, in addition to prescribing prudential guidelines, is increasingly focussing on ensuring good governance through 'fit and proper' owners, directors and senior managers of banks. Shareholding of five per cent and above requires acknowledgement from the Reserve Bank and such significant shareholders are put through a 'fit and proper' test. Banks have also been asked to ensure that the nominated and elected directors are screened by a nomination committee to satisfy 'fit and proper' criteria. The Reserve Bank has recently issued detailed guidelines on ownership and governance in private sector banks emphasising diversified ownership. The listed banks are also required to comply with the governance principles laid down by the securities market regulator.

7.20 Transparency and disclosure standards, which are important constituents of a sound corporate governance mechanism, have been enhanced to align with international best practices. The Reserve Bank has issued detailed guidelines relating to several accounting standards. Banks are currently also required to make several disclosures about their operations in their balance sheets. However, there are some gaps in the disclosures in India *vis-à-vis* the international standards, particularly in the area of risk management strategies and risk parameters, risk concentrations, performance measures, components of capital structure. Hence, the standards need to be further broad-based in consonance with improvements in the capabilities of market players to analyse the information objectively.

Changing Institutional Focus

7.21 In the initial phase of reforms, the focus of reforms was on the scheduled commercial banks, given their systemic importance. In the last few years, however, the reform process has become increasingly broad-based encompassing other institutions such as RRBs, urban co-operative banks, rural co-operatives, FIs and NBFCs.

7.22 In view of importance of RRBs as purveyors of rural credit, the Union Budget, 2004-05, emphasised that the sponsor banks would be 'squarely accountable' for the performance of RRBs under their control. In line with the suggested roadmap for restructuring of RRBs, sponsor banks are being encouraged to amalgamate the RRBs sponsored by them State-wise. In order to reposition RRBs as an effective instrument of credit delivery in the Indian financial system, the Reserve Bank is in the process of reviewing their performance, exploring restructuring through amalgamation/consolidation, changing of sponsor banks, reviewing minimum capital requirement and suggesting suitable measures for their regulation, supervision and governance.

7.23 The strategy for the revival of urban co-operative banks is premised on three major planks, *viz*., consolidation, infusion of capital and weeding out of weak banks. In this regard, the Reserve Bank issued guidelines on merger and amalgamation of UCBs in February 2005. A Medium-Term Framework (MTF) for this segment is being finalised which envisages harmonisation of the regulatory and supervisory domain of the State Governments and the Reserve Bank to mitigate the conflicts in a regime of dual control. Concurrently, Memoranda of Understanding (MoUs) have been signed between the Reserve Bank and the State Governments with sizeable presence of UCBs to work out a time bound action plan for revival of weak banks. The MoUs also provide for a process of professionalising audit of UCBs and a structured arrangement for coordination and consultations.

7.24 The rural co-operatives which can play an important role in credit delivery in the rural area are beset with several problems. A Task Force (Chairman: Shri A. Vaidyanathan) for the revival of rural co-operatives submitted its Report, which is being examined by the Government for implementation. The envisaged restructuring of this segment broadly comprises the five inter-related areas. First, there is a need for legal and institutional changes relating to governance, regulation and functioning of the rural co-operative structure. Second, there is a need to rationalise this segment through early restructuring and recapitalisation. Third, the credit culture needs to evolve in a fashion to ensure enhanced rural credit a lasting phenomenon. Fourth, there is merit in exploring the possibility of insurance for facilitating credit flow to riskier ventures. Finally, a comprehensive public policy on risk management in agriculture would serve as a means of relief for distressed farmers and also promote a more commercialised agriculture sector.

7.25 There has been substantial consolidation of the NBFC sector after introduction of the new regulatory regime in 1997. The Reserve Bank's supervisory thrust so far has been on deposit taking companies with focus on protection of depositors' interest. Those NBFCs which find the regulatory cost outweighing the benefits, are, however, allowed to opt out from deposit taking activity on a purely voluntary basis. This stance is expected to lead further consolidation in the sector. More recently, a new monitoring arrangement for large non-deposit taking companies (with asset size of Rs.100 crore and above) has been devised with a view to enhancing supervisory focus from the systemic point of view.

7.26 The Reserve Bank is also examining various issues involved in financing of NBFCs by banks so that the bankers are able to use the core competencies of NBFCs to extend their outreach. The revised policy relating to access of external commercial borrowings (ECBs) by NBFCs with prior approval of the Reserve Bank (under approval route) to finance import of infrastructure equipment for leasing to infrastructure projects, is expected to invite increased participation of NBFCs in infrastructure financing by easing the resource constraint.

7.27 In the emerging scenario, the role of PDs will undergo a significant change. Following the enactment of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, the Reserve Bank will cease to participate in the primary issues of Central Government securities with effect from April 1, 2006. This would have implications both for the ability and cost of Government borrowings and for the financial sector, as the cushion for containment of market volatility through the Reserve Bank's balance sheet would not be available. Both the Government and market participants would, therefore, need to be better geared to manage market risks.

7.28 Since the Reserve Bank would no longer play the role of an underwriter of the last resort from 2006-07, PDs would need to be adequately prepared to ensure the success of Government's

market borrowing programme. The role of the PDs in the Government securities market in the post-FRBM scenario is envisaged to be more important not only from debt management perspective, but also from market development point of view. Certain risk mitigation tools are under consideration of the Reserve Bank which, together with the proposal that permitted structures of PD business would be expanded to include banks, might necessitate changes in the regulatory guidelines.

Competition and Consolidation

7.29 One of the major objectives of banking sector reforms has been to enhance efficiency and productivity through competition. This involved three elements. First, private shareholding in public sector banks has been injected by permitting reduction in the Government shareholding in public sector banks up to 51 per cent. Second, entry of new private sector banks has been allowed. Third, foreign banks have been permitted additional branches. The roadmap for banking sector reforms, which put forth guidelines on ownership and governance in private sector banks and a two-phase roadmap for presence of foreign banks in India, has also been announced by the Reserve Bank in February 2005.

7.30 Various indicators suggest that competition in the banking industry has intensified. The share of private and foreign banks in total assets, which was less than 10 per cent at the inception of reforms, has steadily risen to about 25 per cent at end-March 2005. The rise in market share of the new private sector banks is particularly evident. New private sector banks and foreign banks with comparative advantage in technology, have ushered in highly competitive banking. This has encouraged other banks to devise imaginative ways to maintain their market share.

7.31 Although the financial system in India has developed considerably over the years, the ratio of bank assets to GDP in India is still low in comparison with that prevailing in several other emerging market economies. This, combined with the fact that India's economy is growing at a robust rate, would suggest that there is enormous potential for future growth of banking, especially in rural and semi-urban areas.

7.32 Subsequent to the issuance of the guidelines for mergers between non-banking financial companies and banks, the Reserve Bank also issued guidelines for mergers between private banks in May 2005. The principles underlying these guidelines would be applicable, as appropriate, to public sector banks also, subject to the provisions of the relevant legislation. It is expected that consolidation of the domestic banking system in both public and private sectors would be combined with gradual and calibrated enhancement of the presence of foreign banks. The move towards consolidation also encompassed the financial institutions (FIs), which have been providers of long-term finance. Two large term-lending institutions have already converted into banks. The Government of India has notified on September 12, 2005, under Section 23A of the RRB Act, 1976, State level amalgamation of 28 RRBs into 9 new RRBs in six states, *viz.*, Bihar, Gujarat, Karnataka, Maharashtra, Punjab and Uttar Pradesh. The amalgamations have become effective from September 12, 2005.

7.33 The growing complexity of the financial sector with banks, insurance companies and NBFCs making foray into non-traditional activities, has led to the emergence of financial conglomerates which pose a significant risk to the financial sector. Accordingly, it was felt desirable to move away from the segmented approach to supervision to a comprehensive process involving inter-regulatory exchange of information. Based on a consultative approach, a mechanism has been evolved, which seeks to capture intra-group transactions/exposures of identified financial conglomerates and exchange of relevant information among the principal regulatory authorities on a quarterly basis. Since different financial conglomerates have different lead area of operations, the oversight framework envisages that the principal regulators obtain data/ information in the prescribed format in respect of their conglomerates and address the issues of concerns arising out of the analysis of the data. As part of the process for closer and continuous interaction with the identified conglomerates, a system of half-yearly discussion with the Chief Executive Officer of these conglomerates in association with other principal regulators has been introduced to address outstanding issues and supervisory concerns.

Banks Managing the Upturn in Interest Rate Cycle

7.34 The change in interest rate trends has raised concerns about the interest rate risk in banks' portfolio in view of their large holdings of Government securities. The Reserve Bank had sensitised banks of a possible reversal in interest rates through its various communication channels and had prepared them for 'soft landing' through the 'investment fluctuation reserve' (IFR) and other prudential measures.

7.35 As the interest rates inched upwards during 2004-05, the share of floating rate bonds (FRBs) in Government securities was raised to assure the investors of a rate of return in line with future interest rate movements and also to address their asset liability management (ALM) requirements, even while enabling the Government to lock-in funds for a longer maturity period. However, pricing difficulties and the resulting secondary market illiquidity continue to beset FRBs. Consideration is being given to re-introduction of capital indexed bonds, issued only once in 1997, with modified features to enable market participants to hedge both principal and coupon payments from inflation risk. Such bonds also help in reducing the cost of borrowings as they eliminate the inflation risk premium. Further, it could provide an idea of inflationary expectations and support the conduct of monetary policy. Such bonds could also provide a preferable investment avenue for retail investors with high net worth and small savers, including the senior citizens. The introduction of Separate Trading for Registered Interest and Principal of Securities (STRIPS), would also be enabled if the Government Securities Bill, 2004 gets enacted. It would enable better ALM and, therefore, help reduce interest rate risk.

7.36 In view of the significant quantum of Government securities on the books, banks were permitted, as a one-time measure, to shift SLR securities to the 'HTM' category during 2004-05. Although this entailed a one-time cost, it enabled banks to shield the 'mark to market' portion of their investment portfolio from interest rate risk. Additionally, banks have been making conscious efforts to reduce the residual maturity of their investments portfolio. As a result of these measures, the estimated modified duration of the total investment portfolio has come down significantly, making the system much more resilient to withstand any adverse movement in interest rates.

Banking and Technology

7.37 In an environment of large scale use of technology, an effective security policy covering physical and other aspects has assumed high importance. There is a need for surveillance, monitoring and auditing to detect unusual usage patterns and deficiencies. Banks need to institute an appropriate security policy to ensure adequate and effective safety. Regular IT related functions also need to be undertaken to ensure that there are no lapses or deviation from the approved information security policy. Information systems and information technology have an impact on the reputational risk of a bank. While outsourcing of IT related and other services does have certain advantages, it also has its own challenges. This calls for putting in place appropriate and adequate safeguards in place. The Reserve Bank has constituted an internal group on outsourcing and based on its recommendations, regulatory guidelines are expected to be issued shortly.

7.38 Calibrated deregulation, prudential regulation and supervision, and a responsive policy environment have resulted in significant improvement in the efficiency, stability and resilience of financial institutions. This is reflected in their profitability, improved asset quality and higher capital levels. As the economy grows and becomes more sophisticated, the banking sector has to develop in a manner that supports and stimulates such growth. There are, however, several challenges in future which may require new technologies, better processes of credit and risk appraisal, product diversification, robust internal controls and corporate governance, and efficient human resource management. Banks are also facing increased market risk uncertainties on account of rising interest rates as a result of growing global financial imbalances. The banking sector, therefore, needs to equip itself to meet these challenges as well as those arising out of introduction of Basel II norms and international accounting standards. Competition, consolidation and convergence are emerging as the key drivers of the banking sector in the years to come.

Annex: Chronology of Major Policy Developments

Announcement Date		Measures
A) Commercial Banks		
2004		
April	10	• Revised norms issued with regard to cheque Drop Box facility, delivery of cheque books over the counter and statement of accounts/pass book.
	19	• All Scheduled Commercial Banks (SCBs) advised of the State/Union Territory-wise physical targets for sanctioning and disbursing of loans under the Prime Minister Rozgar Yojana (PMRY) for the purpose of their quarterly targets to be achieved by end-March 2005.
	22	• Banks advised to inform their account holders, at least one month in advance of any change in the prescribed minimum balance and the charges that may be levied if the minimum balance is not maintained.
	23	• Guidelines relating to the eligibility criteria (inclusive of minimum CRAR, non-performing asset and regulatory compliance) for declaration of dividend by commercial banks without prior approval of the Reserve Bank as well as the quantum of dividend payable (with a ceiling placed at 33 1/3 per cent dividend payout ratio and methods of compilation of the ratio prescribed) modified.
	30	• Banks (excluding RRBs and LABs) advised to review at regular intervals policies and practices relating to information system (IS) audit and place the audit reports before the top management. Banks to adopt an IS Audit Policy appropriate to their level of computerisation, review the same at regular intervals in tune with industry best practices and guidelines issued by the Reserve Bank. • Banks (excluding RRBs) advised to ensure strict compliance with the three accounting standards (No. 24, 26 and 28) relating to discounting operations, intangible assets and impairment of assets, respectively.
May	8	• All SCBs advised that the subsidy under Swarna Jayanti Shahari Rozgar Yojana (SJSRY) would be back-ended, with a lock-in period of 2 years.
	12	• SCBs advised to strictly maintain the confidentiality of information provided by the customer for 'Know Your Customer' (KYC) compliance.
	15	• Banks directed to scrupulously ensure that their branches do not open current accounts of entities which enjoy credit facilities (fund based or non-fund based) without specifically obtaining a no-objection certificate from the lending banks.
	18	• The requirement of margin/security for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs.5 lakh waived.
	20	• The exemption granted to RRBs from 'mark to market' norms in respect of the SLR securities extended for one more year, *i.e.*, up to 2004-05.
June	11	• To give boost to infrastructure lending, banks allowed to raise long-term bonds with a minimum maturity of five years.
	15	• The risk weight in respect of exposure by banks to public financial institutions (PFIs) raised to 100 per cent for credit risk and 2.5 per cent for market risk effective April 1, 2005.
	17	• The extant limits on unsecured exposures by banks withdrawn, allowing banks to set their own limits for unsecured exposures. Unsecured exposures were redefined and it was clarified that unsecured sub-standard assets would attract 20 per cent provisioning. • The currency of the *ad hoc* Committees on Procedures and Performance Audit on Customer Services in Banks was extended by six months and they were advised to complete the work within one year from the date of their constitution and also to associate non-officials in the Committees. • The extant guidelines on country risk management extended to cover countries where a bank has net funded exposure of one per cent or more of its assets with effect from the year ended March 31, 2005.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
June	18	• Banks advised to draw a roadmap for migration to Basel II norms by the end of 2004 and prepare a quarterly review of the progress made.
	21	• Boards of banks to oversee furnishing of requisite information of all borrowers to CIBIL and report compliance of the same to the Reserve Bank. The role of CIBIL in dissemination of credit information was clarified. CIBIL to move towards a sufficiently diversified ownership structure with no single entity owning more than 10 per cent of its paid-up capital. • Graded higher provisioning requirement according to the age of NPAs in 'doubtful for more than three years' category introduced for SCBs, with effect from March 31, 2005. Similar norms made applicable to RRBs on August 6, 2004. • It was clarified that the process of identifying wilful defaulters and the mechanism related to redressal of grievances are two distinct processes. The borrower should be suitably advised before being classified as a wilful defaulter. • Banks to fully adhere to the 'Know Your Customer' (KYC) policy adopted by their Boards: (i) for opening new accounts; (ii) for the existing accounts, where any wrong-doing is suspected or where the summation of the credit/debit transactions is more than Rs.10 lakh; and (iii) in respect of all accounts belonging to trusts, intermediaries or those operated through a mandate or power of attorney. • The vigilance procedure in public sector banks modified. Only such vigilance cases in which an officer of the level of Scale V and above is involved are required to be referred to the Central Vigilance Commission (CVC) for advice. • Boards of banks, under exceptional circumstances, allowed to raise single or group exposure limit by 5 per cent of capital funds.
	24	• Banks to provide for capital charge for market risk in respect of trading book exposures (including derivatives), effective March 31, 2005. Capital charge would be introduced for securities under 'Available for Sale' (AFS) category with effect from March 31, 2006. • Prudential norms on income recognition, asset classification and provisioning with respect to agricultural advances modified with a view to aligning the repayment dates with harvesting of crops. Effective September 30, 2004 a loan granted for short duration crops were required to be treated as NPA if the instalment of the principal or interest thereon remains unpaid for two crop seasons beyond the due date. A loan granted for long duration crops (with crop season longer than one year) is to be treated as NPA, if the instalment of principal or interest thereon remains unpaid for one crop season beyond the due date. • All commercial banks advised to implement the measures, announced by the Union Finance Minister, for doubling the flow of credit to agriculture.
July	6	• The types of instruments to be included in the prudential limit of bank's aggregate investment in Tier-II bonds widened.
	20	• Banks debarred from prescribing any minimum annual turnover for issuance of Gold Card since the objective of the scheme was to cover all credit worthy exporters, including the SME segment. • Investment by banks in the mortgage backed securities (MBS) to be classified as direct lending to housing within the priority sector lending, subject to certain conditions.
	23	• Additional measures relating to wilful defaulters introduced. These included: prohibition on additional facilities, debarment from institutional finance for floating new ventures for a period of five years, initiation of legal proceedings and foreclosure and also criminal proceedings, wherever necessary, adoption of a proactive approach for a change of management of the wilfully defaulting borrower unit, incorporation of a covenant in the loan agreement barring borrowing companies to induct a person who is a director on the Board of a company which has been identified as a wilful defaulter.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
July	26	• On the application of the Reserve Bank under Sub-Section (1) of Section 45 of the Banking Regulation Act, 1949, the Government of India made an Order of Moratorium in respect of the Global Trust Bank Ltd. under Sub-Section (2) of the said Section for the period from the close of business on the July 24, 2004 and inclusive of October 23, 2004. The Government of India also issued directions to the said banking company under paragraph (2) thereof authorising payment of certain liabilities and obligations. In order to effect an amalgamation of the Global Trust Bank Ltd. with Oriental Bank of Commerce, the Reserve Bank, in exercise of the powers conferred on it by Sub-Section (4) of the said Section, prepared a scheme and forwarded it, in draft, to each of the aforesaid banking companies for suggestions and objections, if any, in terms of clause (a) of Sub-Section (6) of Section 45 *ibid* by August 7, 2004.
	29	• Banks to insist on a declaration from the account holder for opening of current accounts, stating that he/she is not enjoying any credit facility with any other commercial bank or insist on a declaration giving particulars of credit facilities enjoyed by him/her with any other commercial bank(s). Banks also to ascertain whether he/she is a member of any other co-operative society/bank, if so, the full details thereof.
	30	• Norms for inclusion of Self Help Groups (SHGs) for assistance under Prime Minister Rozgar Yojana (PMRY) modified.
August	3	• The monetary ceiling of the cases to be referred to the *Lok Adalats*, organised by Civil Courts, enhanced from Rs.5 lakh to Rs.20 lakh.
	17	• Banks to convert all their equity holding into dematerialised form by the end of December 2004.
	26	• Banks to ensure that the schedule of interest/instalment payable on advances on rural housing granted to agriculturists under 'Indira Awas Yojana and Golden Jubilee Rural Housing Finance Scheme' is linked to crop cycles.
	28	• Banks to initiate action at their level to get the Master Policy under Personal Accident Insurance Scheme (PAIS) for KCC holders renewed for a period of one year, on the existing terms and conditions.
September	1	• Banks to take remedial measures suggested by the Group on Frauds in the area of housing finance.
	2	• Banks permitted to exceed the 25 per cent limit under Held to Maturity (HTM) category provided that the excess comprises only SLR securities and the total SLR securities held in the HTM category are not more than 25 per cent of their NDTLs. To enable the above, banks were allowed to shift SLR securities to the HTM category. However, no fresh non-SLR securities are permitted to be included in the HTM category once more during the year 2004-05. • 'Yes Bank Limited' included in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from August 21, 2004.
	4	• Some recommendations of the Ganguly Working Group on Flow of Credit to SSI Sector were accepted and advised to banks for implementation. These include: (i) identification of new clusters and adoption of cluster based approach for financing the SME sector; (ii) sponsoring specific projects as well as widely publicising the successful working models of NGOs; (iii) sanctioning higher working capital limits to SSI in the North East region for maintaining higher levels of inventory; and (iv) exploring new instruments for promoting rural industry.
	10	• Banks to open branches having no interface with customers, and which will attend exclusively to data processing, verification and processing of documents, issuance of cheque books, demand drafts etc. on requests received from other branches and other functions incidental to banking business. The licence for such branches to be issued under the 'Service Branch' category.
	11	• The CRR applicable in respect of SCBs increased by one-half of one percentage point of their Net Demand and Time Liabilities (NDTL) in two stages - 4.75 per cent effective September 18, 2004 and 5.0 per cent effective October 2, 2004.
October	4	• Guidelines issued for implementing the revised Model KCC Scheme of NABARD to take care of the investment credit as also working capital for agriculture and allied activities and a reasonable component for consumption needs.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
October	7	• The Senior Citizens Saving Scheme (SCSS), 2004 being implemented through post offices also to be operated through all the branches of public sector banks (PSBs) which are operating 'PPF Scheme, 1968'.
	14	• Industrial Development Bank of India (IDBI) Ltd. included in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from October 11, 2004.
	15	• Banks to implement a few more recommendations of the Vyas Committee. These included: (i) financing development of wasteland and fallow land; (ii) improving staffing in the rural areas to promote retail lending to agriculture; (iii) relying on village functionaries for credit disbursal; (iv) using individual volunteers, farmers' clubs or NGOs/SHGs as direct selling agents; (v) building synergy between good working primary agricultural credit societies and commercial banks; (vi) using Information Technology (IT) in rural branches; (vii) working out appropriate incentive structure for prompt repayment; (viii) making the rates of interest on small loans reasonable; and (ix) improving the efficiency of credit delivery to small borrowers and association with contract farming. • Guidelines relating to the process of issue of Subordinated Debt Instruments under Tier-II and Tier-III Capital issued.
	19	• Details of the levy of penalty on a bank to be put in the public domain in the interests of the investors and depositors. The strictures or directions on the basis of inspection reports or other adverse findings also to be placed in the public domain.
	27	• RRBs permitted to undertake insurance business as corporate agent without risk participation subject to their fulfilling certain terms and conditions related to net worth, gross NPAs, profitability, compliance with IRDA regulations and prudential norms and directions of the Reserve Bank.
November	1	• Banks advised to formulate a comprehensive and transparent policy covering; (i) immediate credit of local/outstation cheques; (ii) time frame for collection of local/outstation cheques; and (iii) interest payment for delayed collection. • Banks allowed to reduce the minimum tenor of domestic/ NRO term deposits at their discretion, even below Rs.15 lakh from 15 days to 7 days.
	6	• Banks advised to take immediate steps to ensure submission of periodical data to CIBIL and progress reports to the Reserve Bank.
	24	• Banks advised to restructure crop loans and agricultural term loans only in respect of the overdue instalments including interest thereon as on March 31, 2004. The farmers whose loans have been restructured as above would be eligible for fresh loans. The rescheduled/restructured loans as also the fresh loans to be issued to the farmers may be treated as current due and need not be classified as NPA.
	29	• Comprehensive guidelines on 'Know Your Customer' norms and Anti-Money Laundering Measures issued. Banks advised to frame their KYC policies incorporating the following four key elements: (i) Customer Acceptance Policy; (ii) Customer Identification Procedures; (iii) Monitoring of Transactions; and (iv) Risk Management. Similar guidelines were issued to RRBs on February 18, 2005.
December	8	• The Service Area Approach (SAA) introduced in April 1989 was reviewed and it was decided to dispense with the restrictive provisions of the scheme, while retaining the positive features such as credit planning and monitoring of the credit purveyance. • The recommendations of the Ganguly Working Group with regard to evaluation of methods of utilisation of deposits made by foreign banks with SIDBI for shortfall in their priority sector obligation accepted. Accordingly, the amount of shortfall in priority sector obligation to be placed with SIDBI for a tenor of three years and the funds so placed to have a graded interest rate structure.
	15	• Banks advised to align their priority sector lendings/ investments suitably so as to comply with the extant guidelines.
	16	• Banks advised that the due diligence in respect of members of the Nomination Committee be carried out by the Board itself.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
December	21	• Comprehensive guidelines issued to banks to play a proactive role in achieving the targets set under the Swarnjayanti Gram Swarozgar Yojana (SGSY) scheme.
	23	• Risk weight on housing loans extended by SCBs increased from 50 per cent to 75 per cent and in the case of consumer credit including personal loans and credit cards increased from 100 per cent to 125 per cent.
	24	• Banks advised that the finance extended to employees for purchasing shares of their own companies under ESOP would continue to be treated as banks' exposure to capital market within the overall ceiling of 5 per cent, as hitherto.
	27	• Banks maintaining currency chests advised to direct all their branches to accept coins of all denominations tendered at their counters either for exchange or for deposit in accounts.
	30	• Banks advised to enhance the amount of consumption loan for general purposes to Rs.3,000 for people affected by *Tsunami*.
2005		
January	4	• Guidelines on receipt of foreign contributions by Associations/ Organisations in India under Foreign Contribution (Regulation) Act, 1976 for *Tsunami* Relief issued to banks.
	18	• Banks advised to formulate suitable loan policies to finance second hand assets, both directly and through NBFCs. • Banks advised to ensure acceptance of coins of all denominations without any restriction from the members of the public by their branches.
February	15	• Detailed prudential guidelines issued to banks on capital adequacy for implementation of the New Capital Adequacy framework under Basel II. In order to maintain consistency and harmony with international standards, banks were advised to adopt Standardised Approach for credit risk and Basic Indicator Approach for operational risk with effect from March 31, 2007. The Reserve Bank may consider allowing some banks to migrate to Internal Rating Based (IRB) approach after developing adequate skills both in banks and at supervisory levels. Under the new framework, banks adopting Standardised Approach would use the ratings assigned only by those credit rating agencies which are identified by the Reserve Bank. Banks were also required to focus on formalising and operationalising their internal capital adequacy assessment process (CAAP) which would serve as a useful benchmark while undertaking the parallel run with effect from April 1, 2006.
	28	• Comprehensive guidelines issued on ownership and governance in private sector banks encompassing the minimum capital requirement, diversified ownership, procedures for acquisition and transfer of shares, 'fit and proper' criteria for the directors and important shareholders. • Roadmap for presence of foreign banks in India laid out in two phases. In the first phase (March 2005 to March 2009) foreign banks wishing to establish presence in India for the first time could either choose to operate through branch presence or set up a 100 per cent wholly owned subsidiary (WOS), following the one-mode presence criterion. For new and existing foreign banks, it was proposed to go beyond the existing WTO commitment of 12 branches in a year. Initially entry of foreign banks would be permitted only in private sector banks that are identified by the Reserve Bank for restructuring, wherein foreign banks would be allowed to acquire a controlling stake in a phased manner. In the second phase beginning April 2009, the experience with Phase I would be reviewed and after due consultations with all stakeholders in the banking sector issues concerning extension of national treatment to WOS, dilution of stake and permitting mergers and acquisitions of any private sector banks in India by a foreign bank would be examined.
March	1	• Master circular issued to SCBs (including RRBs/LABs) in regard to matters relating to lending to the small scale industries sector.
	3	• SCBs to report to NABARD and the Reserve Bank the progress under micro credit on a half-yearly basis as at the end of March and September of every year. • Effective March 31, 2005, SCBs to disclose a minimum framework on their risk exposure in derivatives.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
March	11	• Parameters on pilot implementation of Cheque Truncation Image Standards issued to banks. • Draft guidelines on implementation of the New Capital Adequacy Framework issued for comments on management of operational risk.
	29	• Banks advised to exercise caution in outsourcing of their systems and ensure that risks in this regard are minimised.
	30	• Banks advised to implement some recommendations of the Vyas Committee. These included: (i) constitution of local advisory committee for all rural branches/group of branches; (ii) setting up of micro-finance cells at banks, central offices; and (iii) encouraging SHGs to use local book writers in association with concerned agencies promoting these SHGs for maintaining the quality of books of accounts.
April	4	• Comprehensive draft guidelines issued on securitisation of standard assets.
	7	• The lending and deposit rates of interest restructured in the case of amounts disbursed on or before October 31, 2003 out of RIDF IV to VII, effective April 16, 2005.
	11	• Detailed guidelines issued to banks on rural lending under Annual Credit Plans on the basis of Potential Linked Plans (PLPs) prepared by NABARD. • Banks to pay compensation for delayed credit under ECS/EFT/SEFT *suo moto.*
	12	• Comprehensive draft guidelines issued on purchase / sale of non-performing assets.
	13	• The rate of interest to be charged on group loans under SGSY linked to per capita size of the loans.
	15	• Banks advised to put in place a Business Continuity Plan including a robust information risk management system within a fixed time frame.
	16	• Banks advised to take necessary action to convert the existing *ad hoc* Committees on Procedures and Performance Audit of Public Services (CPPAPS) into a Standing Committee on Customer Service.
	19	• Banks advised on the role of Customer Service Committee of the Board for monitoring the implementation of awards under the Banking Ombudsman Scheme.
	27	• Banks permitted to shift their rural branches within the block/service area without obtaining prior approval of the Reserve Bank, subject to their complying with certain conditions.
	30	• Banks allowed to formulate schemes for providing services at the premises of a customer within the framework of Section 23 of the Banking Regulation Act, 1949 and submit to the Reserve Bank for approval. • Banks with capital of at least 9 per cent of the risk weighted assets for both credit risk and market risk for both HFT and AFS category of investments may treat the balance in excess of 5 per cent of securities included under HFT and AFS categories, in the IFR as Tier-I capital.
May	4	• General permission granted to banks to declare dividends, subject to the fulfilment of certain conditions, including observance of minimum CRAR and NPA ratio, subject to a ceiling of dividend payout ratio of 40 per cent. • Effective quarter ended June 2005, the time limit for filing the monthly and quarterly off-site returns changed to 15 days and 21 days, respectively, from the close of the relevant period for all categories of banks.
	6	• Draft Guidelines on Corporate Debt Restructuring (CDR) proposed.
	11	• Detailed guidelines for merger/amalgamation of private sector banks issued laying down the process of merger proposal, determination of swap ratios, disclosures, the stages at which Boards will get involved in the merger process and norms of buying/selling of shares by the promoters before and during the process of merger.
	12	• Comprehensive guidelines issued allowing all Regional Rural Banks (RRBs) to undertake insurance business on a referral basis, subject to certain conditions.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
May	13	• The Vision Document on Payment and Settlement System 2005-08 released.
	20	• Banks advised to initiate early action with regard to scheme for "Small Enterprises Financial Centres" (SEFCs) envisaged for forming a strategic alliance between branches of banks and SIDBI located in the clusters for improving credit flow to the SSIs sector.
	26	• SCBs advised to put in all efforts to achieve the credit mobilisation targets under SGSY during 2005-06, including the minimum subsidy credit ratio fixed and maintain per family investment of Rs.25,000.
June	7	• Banks allowed to extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures/wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment in terms of a Board approved policy, duly incorporated in the loan policy of the bank.
	9	• Instructions issued to banks, in supersession of all earlier instructions on settlement of claims in respect of deceased depositors, covering aspects relating to (i) access to balance in deposit account; (ii) premature termination of term deposit accounts; (iii) treatment of flows in the name of the deceased depositor; (iv) access to the safe-deposit lockers/ safe custody articles; and (v) time limit for settlement of claims. • Banks (both in private and public sectors) need not obtain approval of the Reserve Bank for permitting any of their whole-time officers or employees (other than Chairmen/CEOs) to become Director or a part-time employee of any other company.
	14	• Processing charges waived for all electronic products for transactions under EFT, SEFT and ECS facility involving Rs.2 crore and above with effect from June 14, 2005 up to the period ending March 31, 2006. This was in addition to the existing waiver on transactions involving less than Rs.2 crore.
	20	• Banks advised that while furnishing data/information to the Government or other investigating agencies they should satisfy themselves that the information is not of such a nature as will violate the provisions of the laws relating to secrecy in banking transactions.
	24	• For the purpose of Section 20 of the Banking Regulation Act, 1949 the term "loans and advances" shall not include line of credit/ overdraft facility extended by settlement bankers to National Security Clearing Corporation Limited (NSCCL) to facilitate smooth settlement.
	25	• The banks going for rights issues should henceforth make complete disclosure of the regulatory requirements in their offer documents.
	29	• Banks advised to have a Board mandated policy in respect of their real estate exposure covering exposure limits, collaterals to be considered, margins to be kept, sanctioning authority/level, sector to be financed. Banks also directed to report their real estate exposure under certain heads and disclose their gross exposure to real estate sector as well as the details of the break-up in their Annual Reports.
July	13	• Banks advised to furnish information on pricing of services for products based on RTGS / SEFT/ EFT/ECS infrastructure. • Guidelines on sale/purchase of NPAs, including valuation and pricing aspects, and prudential and disclosure norms.
	20	• Prior approval of the Reserve Bank not required for offering Internet Banking services, subject to fulfilment of certain conditions.
	23	• The authority to grant permission to companies listed on a recognised stock exchange to hedge the price risk in respect of any commodity (except gold, silver, petroleum and petroleum products) in the international commodity exchanges/markets delegated to select commercial banks.
	26	• The risk weight for credit risk on capital market and commercial real estate exposures increased from 100 per cent to 125 per cent.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
July	29	• Guidelines issued for relief measures by banks in areas affected by unprecedented rains and floods in Maharashtra. Accordingly, banks were advised to consider granting consumption loans to the affected persons up to Rs.5,000 without any collateral and Rs.10,000 at the discretion of the branch manager, depending on the repaying capacity of the borrower.
August	2	• Banks advised to issue necessary instructions to the Controlling Offices of currency chest branches for ensuring verification of balances as per the minimum periodicity stipulated in this regard and the essential safeguards in the internal control system (such as surprise verification/joint custody, *etc*.) are adhered to. • In view of the natural calamity and the need to provide immediate succour, banks instructed to observe minimum formalities for enabling such persons to open bank account quickly.
	3	• Banks advised to formulate a detailed mid-term corporate plan for branch expansion for a three-year period with the approval of the Board. The plan should cover all categories of branches/offices having customer contact, including specialised branches, Extension Counters and number of ATMs *etc.* The plan should be formulated on district-wise basis giving number of branches proposed to be opened in metropolitan/urban/semi-urban/rural areas. The proposal for branch expansion with the above mentioned details should be submitted on an annual basis by December every year.
	19	• In pursuance to the announcement made by the Union Finance Minister for stepping up credit to small and medium enterprises, public sector banks were advised to take measures to improve the flow of credit to the sector. A reporting and monitoring system for the same was also prescribed. Similar guidelines issued to private sector banks, foreign banks, RRBs and LABs on August 25, 2005.
	23	• Banks advised to make all out efforts in achieving the targets set for increasing the credit flow to SCs/STs under priority sector advances as well as under the Government Sponsored Schemes such as SGSY, SJSRY, SLRS and PMRY. Banks also instructed to ensure that sufficient publicity is given on the facilities extended to SCs/STs and all the instructions contained in the Master Circular on Credit facilities to SC/STs are strictly followed. • The KYC procedure for opening accounts simplified further for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs.50,000) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs.1,00,000) in a year. Banks may open accounts with introduction from another account holder (holding account for at least six months) who has been subjected to full KYC procedure or any other evidence as to identify and address of the customer to the satisfaction of the bank. Similar guidelines were also issued to RRBs.
	31	• Local Area Banks were advised to submit returns and statements to the departments / offices of RBI as indicated in Annexure 'A' and 'B' enclosed to the circular issued to them on August 31, 2005. • Banks were advised that for the purpose of Section 20 of the Banking Regulation Act, 1949, the term "Loans and advances" shall not include line of credit / overdraft facilities extended by settlement bankers to Clearing Corporation of India Ltd. (CCIL) to facilitate smooth settlement.
September	1	• Banks participating in the Pilot Cheque Truncation Project at New Delhi advised to address issues requiring urgent action including finalisation the "point of truncation" for their outward presentations and the point of processing for inward payments of the instrument, amendment of their existing internal banking and clearing manuals, use of new processing tools, deciding upon the systems for storage of inward and outward images, *etc*. • Guidelines on one time settlement scheme for SME accounts issued for recovery of NPAs below Rs. 10 crore. • Banks were advised that with respect to transactions matched on the NDS-OM module, since CCIL is the central counterparty to all deals, exposure of any counterparty for a trade is only to CCIL and not to the entity with whom a deal matches. However, all government securities transactions, other than those matched on NDS-OM will continue to be physically confirmed by the back offices of the counterparties, as hitherto.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
September	5	• Banks, which are nominated to import gold, were allowed to extend Gold (Metal) Loans to domestic jewellery manufacturers, who are not exporters of jewellery, subject to certain conditions.
	8	• The policy for authorisation of the branches of banks in India liberalised and rationalised with a framework for a branch authorisation policy which would be consistent with the medium-term corporate strategy of banks and public interest. While considering applications for opening branches weightage would be given to the nature and scope of banking facilities provided by banks to common persons, particularly in underbanked areas, actual credit flow to the priority sector, pricing of products and overall efforts for promoting financial inclusion, including introduction of appropriate new products and the enhanced use of technology for delivery of banking services. • Banks advised to implement a debt restructuring mechanism for units in the SME sector. Detailed guidelines were laid down relating to eligibility criteria for SMEs and accounts, viability criteria, prudential norms for restructured accounts, treatment of additional finance, asset classification, repeated restructuring.
	9	• IDBI Bank Limited excluded from the Second Schedule to the Reserve Bank of India Act, 1934 with effect from April 2, 2005.
	24	• Bank of Punjab merged with Centurion Bank with effect from October 1, 2005.
October	1	• Conversion/rescheduling of loans in the case of natural calamities, when there is delay in declaration of *Annewari* by the State Government, may be proceeded following such declaration from the District Consultative Committee (DCC) which has representatives from banks as well as the State Government and is headed by the District Collector.
	9	• The limit of consumption loan to be provided to the affected persons in the state of Jammu and Kashmir and other parts of north India in the wake of the earthquake increased up to Rs.5,000 without any collateral. This limit may be enhanced to Rs.10,000 at the discretion of the branch manager, depending on the repaying capacity of the borrower. Banks may also consider provision of financial assistance for the purpose of repairs/reconstruction of dwelling units, *etc*. damaged on account of earthquake.
	10	• Banks which have maintained capital of at least nine per cent of the risk weighted assets for both credit risks and market risks for both HFT and AFS categories as on March 31, 2006 would be permitted to treat the entire balance in the IFR as Tier-I capital. For this purpose, banks may transfer the entire balance in the IFR 'below the line' in the Profit and Loss Appropriation Account to Statutory Reserve, General Reserve or balance of Profit and Loss Account.
	15	• Revised guidance note on management of operational risk issued to banks. The design of risk management framework should be oriented towards banks' own requirements dictated by the size and complexity of business, risk philosophy, market perception and the expected level of capital. The risk management systems in the bank should, however, be adaptable to changes in business, size, the market dynamics and introduction of innovative products by banks in future.
	17	• Banks advised to provide details to the customers in their Pass Book/Account Statement regarding the credits effected through ECS. Similar approach may be adopted for capturing the sender/ remittance details for other electronic payment products such as EFT, SEFT, RTGS, *etc.*, as well.
	18	• Banks advised to take appropriate action to ensure successful implementation of Swarnjayanti Gram Swarozgar Yojana (SGSY) as per the recommendations of the Central Level Coordination Committee (CLCC). The recommendations include; (i) delegation of powers to branch managers to sanction SGSY applications; (ii) ensuring disposal of all the pending applications at the end of the year in the first quarter of the succeeding year; (iii) utilising micro-finance institutions for bridging the credit gap; (iv) achieving the desired credit to subsidy ratio of 1:3; (v) furnishing of status report to Ministry of Rural Development on the under-performance of their branches; and (vi) maintaining separate record for recovery of data in respect of SGSY distinct from IRDP.
	25	• Reverse repo rate and the repo rate under the liquidity adjustment facility (LAF) of the Reserve Bank increased by 25 basis points each with effect from October 26, 2005 to 5.25 per cent and 6.25, respectively.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
November	2	• Banks advised that while considering granting advances against jewellery may keep in view the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon.
	4	• The general provisioning requirement for 'standard advances', with the exception of banks' direct advances to agricultural and SME sectors, increased from the present level of 0.5 per cent to 0.40 per cent.
		B) Co-operative Banks
2004		
April	15	• Comprehensive guidelines issued for investment in non-SLR securities by Urban Co-operative Banks.
	12	• All State Co-operative Banks and Central Co-operative Banks advised that the interest rates on NRE Deposits for one to three years maturity, contracted effective close of business in India on April 17, 2004, shall not exceed the LIBOR/SWAP rates for US dollar of corresponding maturity. Further, the interest rate on NRE savings deposits has also been linked to LIBOR/SWAP rates with effect from close of business in India on April 17, 2004. The interest rates on NRE savings deposits should not exceed the LIBOR/SWAP rate for six months maturity on US dollar deposits and may be fixed quarterly on the basis of the LIBOR/SWAP rate of US dollar on the last working day of the preceding quarter.
May	24	• The UCBs advised to exercise due caution with regard to valuation while sanctioning loans and advances against mortgage of house property.
	26	• The off-site surveillance system for UCBs already in place for the scheduled UCBs extended to all non-scheduled UCBs having deposit size of Rs.100 crore and above.
	29	• UCBs advised to strictly maintain the confidentiality of information provided by the customer for 'Know Your Customer' (KYC) compliance.
July	12	• All StCBs and CCBs advised that with effect from September 30, 2004, a loan granted for short duration crops will be treated as NPA if the instalment of the principal or interest thereon remains unpaid for two crop seasons beyond the due date. A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains unpaid for one crop season beyond the due date.
	13	• No application for inclusion in the Second Schedule of the Reserve Bank of India Act, 1934 to be considered till a proper legislative framework is put in place for the UCBs.
August	7	• UCBs were advised that for the loans and advances (both secured and unsecured) sanctioned by them, the directors and relatives are not eligible to stand as surety/guarantor.
	19	• UCBs were advised that Gilt Account holders are not entitled to undertake any sale transaction unless the security sold is actually held in the Gilt Account of the constituent.
September	2	• UCBs permitted to exceed the 25 per cent limit under HTM category provided the excess comprises only SLR securities and the total SLR securities held in the HTM category do not exceed 25 per cent of their NDTLs. In order to enable this, banks allowed to shift SLR securities to the HTM category. However, no fresh non-SLR securities were permitted to be included in the HTM category once more during the year 2004-05.
	27	• For advances identified as 'doubtful for more than three years', additional provisioning by UCBs allowed to be phased over a five-year period commencing from the year ending March 31, 2005 instead of four years.
October	20	• UCBs advised to follow similar practices as the illustrative best practices followed by well-managed banks in the urban co-operative banking sector provided by the Reserve Bank as examples. UCBs, however, are free to put in place any other practices, which would result in better customer service and business development.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
November	1	• The requirement for UCBs invocation of State Government guarantee for deciding the asset classification and provisioning of State Government guaranteed exposure was withdrawn and such loans were subjected to the same norms as applicable to exposures not guaranteed by the State Governments. • All StCBs and CCBs advised that the interest rates on NRE Deposits for one to three years maturity, contracted with effect from November 1, 2004, shall not exceed the LIBOR/SWAP rates, as on the last working day of the previous month, for US dollar of corresponding maturity plus 50 basis points. • StCBs and CCBs advised to reduce, at their discretion, the minimum tenor of domestic/ NRO term deposits even below Rs.15 lakh from 15 days to 7 days. However, the banks would continue to have the freedom to offer differential rates of interest on term deposits of Rs.15 lakh and above, as hitherto. The revised instructions would come into effect from November 1, 2004.
	18	• Scheduled or licensed StCBs and licensed CCBs permitted to undertake insurance business as corporate agent without risk participation subject to their fulfilling certain terms and conditions.
December	14	• UCBs permitted to grant housing loan up to Rs.15 lakh as against the existing limit of Rs.10 lakh.
	15	• Comprehensive guidelines on 'Know Your Customer' norms and Anti-Money Laundering Measures issued. UCBs advised to frame their KYC policies incorporating the following four key elements: (i) Customer Acceptance Policy; (ii) Customer Identification Procedures; (iii) Monitoring of Transactions; and (iv) Risk Management.
2005		
January	4	• Guidelines on receipt of foreign contributions by Associations/ Organisations in India under Foreign Contribution (Regulation) Act, 1976 for *Tsunami* Relief issued to UCBs.
	5	• Risk weight on housing loans increased from 50 per cent to 75 per cent and from 100 per cent to 125 per cent in the case of consumer credit including personal loans and credit cards increased.
	7	• Guidelines on receipt of foreign contributions by Associations/Organisations in India under Foreign Contribution (Regulation) Act, 1976 for *Tsunami* Relief issued to StCBs and CCBs.
	20	• Guidelines issued to StCBs and CCBs to delink the requirement of invocation of State Government Guarantee for asset classification and provisioning.
	24	• Comprehensive guidelines issued allowing all UCBs to undertake insurance business on a referral basis, subject to certain conditions.
February	2	• Guidelines on merger/amalgamation for UCBs issued with the following pre-conditions: (i) net worth of the acquiree bank is positive and the acquirer bank assures to protect entire deposits of all the depositors of the acquired bank; (ii) when the net worth of acquiree bank is negative, the acquirer bank on its own assures to protect deposits of all the depositors of the acquired bank; and (iii) when the net worth of the acquiree bank is negative and the acquirer bank assures to protect the deposits of all the depositors with financial support from the State Government extended upfront as part of the process of merger.
	17	• The minimum net worth for undertaking insurance business by scheduled or licensed StCBs and licensed CCBs reduced to Rs.50 crore from Rs.100 crore.
	18	• Comprehensive guidelines on 'Know Your Customer' norms and 'Anti-Money Laundering' measures issued to StCBs and CCBs and advised to frame their KYC policies incorporating the following four key elements: (i) Customer Acceptance Policy; (ii) Customer identification procedures; (iii) Monitoring of transactions; and (iv) Risk Management.
	26	• Guidelines issued to UCBs regarding reporting system on their investment portfolio.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
March	1	• Guidelines issued to StCBs and CCBs in respect of additional provisioning requirement for NPAs. • Guidelines issued to UCBs regarding enhancement of transparency of their operations by having comprehensive requirements for disclosure.
	28	• Detailed guidelines issued to UCBs regarding classification and valuation of investment portfolio for provisioning requirements.
	30	• Prudential norms in respect of income recognition, assets classification, provisioning and other related matters for the UCBs revised.
April	11	• Ceilings on donations/contributions for public/charitable purposes out of profits of UCBs announced.
	15	• UCBs to reduce the prudential exposure limits on advances to 15 per cent and 40 per cent of the 'capital funds' in the case of a single borrower and a group of borrowers, respectively. The definitions of capital funds and exposure were also modified for this purpose. UCBs advised to bring down the outstanding or the sanctioned exposure limit exceeding the revised limit within a maximum period of 2 years, *i.e.*, by March 31, 2007.
	28	• UCBs advised to explore the option of merger/ amalgamation, wherever necessary for revitalising and rehabilitating the weak scheduled UCBs.
May	4	• UCBs advised to forward a quarterly statement on 'consolidated position of frauds outstanding' with a footnote detailing the position of frauds outstanding in the Housing Loan segment, beginning from the quarter ended March 2005.
	6	• StCBs and district CCBs allowed to undertake insurance business on a referral basis, without any risk participation through their network of branches, subject to certain conditions.
	11	• The eligibility to participate in repo market extended to non-scheduled urban co-operative banks and listed companies, having a gilt account with a scheduled commercial bank subject certain conditions.
July	4	• UCBs having a single branch/HO with deposits up to Rs.100 crore and those having multiple branches within a single district with deposits up to Rs.100 crore permitted to classify loan NPAs based on 180 days delinquency norm instead of the extant 90 days norm till March 31, 2007.
	12	• In the light of the recommendations of the Committee on Procedure and Performance Audit on Public Services (CPPAPS) and to facilitate expeditious and hassle-free settlement of claims on the death of a depositors, settlement of claims in respect of the deceased depositors simplified and advised to StCBs and CCBs.
	13	• The norms relating to classification and valuation of investment portfolio of StCBsand CCBs were modified allowing them to amortise their additional provisioning requirement.
August	3	• In view of the natural calamity and the need to provide immediate succour, UCBs advised to observe minimum formalities for enabling such persons to open a bank account quickly. Similar guidelines issued to StCBs and CCBs on August 16, 2005.
	4	• StCBs and CCBs advised to invest their genuine surplus funds in non-SLR securities without taking prior approval from the Reserve Bank on a case-to case basis, subject to certain conditions.
	9	• The risk weight for UCBs raised for the following categories: (i) 125 per cent from100 per cent in the case of loans extended by UCBs against primary/collateral security of shares/debentures; (ii) 127.5 per cent from 102.5 per cent in respect of investment in equities of AIFIs/units of UTI; and (iii) 125 per cent from 100 per cent in the case of commercial real estate.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
August	23	• The KYC procedure for opening accounts simplified further for UCBs for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs.50,000) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed one lakh (Rs.1,00,000) in a year. Banks may open accounts with introduction from another account holder (holding account for at least six months) who has been subjected to full KYC procedure or any other evidence as to identify and address of the customer to the satisfaction of the bank. Similar guidelines were issued to StCBs and CCBs.
September	17	• Licensed and/or scheduled StCBs permitted to undertake, without risk participation, co-branded domestic credit card business with tie-up arrangement with one of the scheduled commercial banks, already having arrangement for issue of credit cards, subject to their fulfilling certain conditions. These conditions include, minimum positive net worth of Rs.50 crore, earning net profit for the last three years and not having accumulated losses, gross NPAs not exceeding 10 per cent, compliance of prudential and other norms of the Reserve Bank/NABARD and prior permission of the Reserve Bank.
October	10	• The StCBs/CCBs to furnish the information as 'Notes on Accounts' to their Balance Sheets from the year ending March 31, 2006.
	20	• UCBs carrying accumulated losses in their balance sheet would not be eligible to make donations.
		C) Financial Institutions (FIs)
2004		
June	15	• The risk weight in respect of exposure by FIs to public financial institutions (PFIs) raised to 100 per cent for credit risk and 2.5 per cent for market risk from April 1, 2005.
	21	• FIs advised that their boards should oversee furnishing of requisite information of all borrowers to CIBIL and report compliance of the same to the Reserve Bank.
	26	• FIs advised to strictly adhere to the single/group borrower prudential exposure ceilings *i.e.*, 15 per cent and 40 per cent, respectively and the additional limits of 5 per cent and 10 per cent, respectively for exposure to infrastructure. FIs could, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower up to a further 5 per cent of capital funds, subject to the borrower consenting to the FIs making appropriate disclosures in their Annual Reports.
August	3	• Graded higher provisioning requirement according to the age of NPAs in 'doubtful for more than three years' category introduced.
	30	• FIs permitted to make fresh investments in equity instruments and hold them in demat form with immediate effect. All outstanding investments in equity in paper-based form to be converted into demat form by the end of December 2004.
November	1	• With effect from March 31, 2005, an asset in the books of FIs is required to be classified as doubtful asset, if it remains in the sub-standard category for 12 months. FIs permitted to phase out the consequent additional provisioning over a four-year period, commencing from the year ended March 31, 2005, with a minimum of 20 per cent each year.
	6	• FIs advised to take immediate steps to ensure submission of periodical data to CIBIL and submit progress reports to the Reserve Bank.
2005		
February	11	• FIs to obtain from their Statutory Central Auditors, the certificate relating, *inter alia*, to their treasury operations; reconciliation of their investments; compliance in key areas; income recognition; asset classification and provisioning and authentication of their calculation on CRAR.
April	26	• A minimum framework for disclosures by FIs on their risk exposures in derivatives laid out to provide a clear picture of their exposure to risks in derivatives, risk management systems, objectives and policies.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2005		
April	27	• FIs not accepting public deposits but having asset size of Rs.500 crore and above would be subjected to limited off-site supervision by the Reserve Bank. Therefore, with effect from the period ended March 31, 2005, the existing system of off-site supervision would stand replaced by a simplified information system known as the "Quarterly Return on Important Financial Parameters in respect of Select Financial Institutions".
		D) Non-Banking Financial Companies (NBFCs)
2004		
April	24	• NBFCs prohibited from accepting fresh NRI deposits with effect from April 24, 2004, but could renew the deposits already accepted.
May	18	• On the basis of the recommendations of the Vyas Committee's Interim Report, it was decided that micro-finance institutions would not be permitted to accept public deposits unless they comply with the extant regulatory framework of the Reserve Bank.
June	15	• The scope of definition of infrastructure lending by NBFCs expanded to include the following projects/ sectors: (i) construction relating to projects involving agro-processing and supply of inputs to agriculture; (ii) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers, including testing facilities for quality; and (iii) construction of educational institutions and hospitals.
	22	• The investment pattern prescribed for RNBCs rationalised for imparting liquidity and safety to their investments for enhancing depositors' protection. These measures included: (i) phasing out of discretionary investments by RNBCs by April 1, 2006; (ii) investment in specified financial institutions restricted to CDs only; (iii) investment only in CDs of SCBs and specified financial institutions rated AA+ or its equivalent; (iv) additional investment of 15 per cent of the aggregate deposit liability in securities issued by the Central and State Governments in the course of their market borrowing programme; (v) investment in debt securities confined to those having minimum AA+ or equivalent grade rating and listed on one of the stock exchanges; (vi) investments in units of only debt oriented mutual funds not exceeding 10 per cent with a sub-limit of two per cent in any one fund; and (vii) exposure to a single SCB limited to one per cent of the aggregate deposit liability of the SCB and one per cent of the aggregate deposit liability of the RNBC in case of financial institution.
July	7	• NBFCs advised that the issue of debit cards, stored value cards, smart cards, value added cards, *etc*. have a characteristic akin to demand deposits as they are payable at the convenience of the card holders. The issue of such cards is, therefore, violative of the extant NBFC Directions.
	24	• NBFCs having certificate of registration (CoR) in the non-public deposit taking category were required to meet the minimum NOFs requirement of Rs.2 crore for being eligible to apply to the Reserve Bank for accepting public deposits.
August	10	• NBFCs advised that whenever they intend to extend the date of their Balance Sheet as per provisions of the Companies Act, they should take prior approval of the Reserve Bank before approaching the Registrar of Companies (RoC) for this purpose. Even in the cases where permission is granted for extension of time, the company would be required to furnish to the Reserve Bank a *Proforma* Balance Sheet (unaudited) as on March 31 of the year and the statutory returns due on the above date.
October	5	• The minimum lock-in-period of three months from the date of acceptance of deposits for NBFCs and Miscellaneous Non-Banking Companies (MNBCs) and twelve months for RNBCs within which they cannot repay a public deposit (in case of NBFC) or deposit (in case of RNBC and MNBC) or grant any loan against such deposits was retained. It was also decided to stratify the NBFCs, MNBCs and RNBCs for the purpose of permission to prepay the deposits (after the lock-in period) into two categories, *viz.*, 'problem NBFCs, MNBCs, and RNBCs' and 'normally run companies'. Accordingly, different set of norms were issued for the two groups with respect to the prepayment norms and the interest rates to be paid on the deposits.

Annex: Chronology of Major Policy Developments *(Continued)*

Announcement Date		Measures
2004		
November	13	• A quarterly reporting arrangement introduced for NBFCs not accepting/holding public deposits and having assets size of Rs.500 crore and above as on March 31, 2004.
December	30	• In order to ensure that the depositors are served appropriately and systemic risks are avoided, Reserve Bank issued comprehensive guidelines to RNBCs with a view to focus on improvements in the their functioning including transparency of operations, corporate governance including professionalisation of the Boards and ensuring 'fit and proper' criteria, avoiding untenable rates of commission to agents, adherence to KYC rules and customer service. With a view to smoothen the process of transition of RNBCs to compliance with the revised Directions issued on June 22, 2004, following modifications were made: (i) reckoning as eligible, the investments in CDs of specified FIs which had a minimum rating of AA+ at the time of investment, if subsequently downgraded, as long as they had the minimum investment grade rating; (ii) treating balances held in current accounts with SCBs as eligible investments; (iii) treating as eligible, the investments in bonds and debentures of companies which had minimum rating of AA+ or equivalent grade rating and listed on stock exchange till the rating continued to be not below the minimum investment grade.
2005		
February	7	• NBFCs accepting/holding public deposits were advised to ensure that at all times there should be full cover available for public deposits accepted by them.
	21	• Comprehensive guidelines on ‘Know Your Customer’ norms and Anti-Money Laundering Measures issued. NBFCs advised to frame their KYC policies incorporating the following four key elements: (i) Customer Acceptance Policy; (ii) Customer Identification Procedures; (iii) Monitoring of Transactions; and (iv) Risk Management.
April	28	• Guidelines on merger and amalgamation between private sector banks and NBFCs issued. The guidelines cover the process of merger proposal, determination of swap ratios, disclosures, norms for buying/selling of shares by promoters before and during the process of merger and the Board’s involvement in the merger process. The principles underlying these guidelines would be applicable as appropriate to public sector banks, subject to relevant legislation.
September	6	• NBFCs not accepting/holding public deposits and having assets size of ‘Rs. 100 crore and above to submit a monthly return that was applicable so far to NBFCs not accepting/holding public deposits and having assets size of Rs.500 crore and above.
October	11	• NBFCs to ensure full compliance with KYC guidelines with regard to deposits collected by persons authorised by the NBFCs, including brokers/agents *etc.* inasmuch as such persons are collecting the deposits on behalf of NBFCs.
	26	• Guidelines issued to NBFCs (including RNBCs) on classification of frauds, approach towards monitoring of frauds and reporting requirements. The individual cases of frauds involving amount less that Rs.25 lakh to be reported to the respective Regional Offices of Department of Non-Banking Supervision in whose jurisdiction registered office of the company is located, whereas individual cases of frauds involving amount of Rs.25 lakh and above to be reported to Frauds Monitoring Cell, Department of Banking Supervision, Reserve Bank of India, Central Office, Mumbai.
		E) Primary Dealers (PDs)
2004		
June	3	• Guidelines issued on dividend distribution by primary dealers (PDs) based on payout ratio linked to their CRAR.
August	24	• PDs to hold all their equity investments only in dematerialised form by the end of December 2004 (including conversion of their equity holdings in scrip form into dematerialised form) and make all fresh investments only in dematerialised form from December 31, 2004.
October	15	• Guidelines on PDs issuing subordinated debt instruments for raising Tier-II and Tier-III capital issued.

Annex: Chronology of Major Policy Developments *(Concluded)*

Announcement Date		Measures
2004		
November	13	• All PDs advised to ensure that whenever defaults (in maintaining sufficient balances in the current and/ or SGL accounts to meet their commitments arising out of transactions) take place, they should immediately report the details of such defaults to the Reserve Bank.
2005		
March	29	• Guidelines issued to all NDS members regarding conduct of dated Government securities auction under Primary Market Operations module of PDO-NDS.
May	11	• PDs to adopt standardised settlement on a T+1 basis of all outright secondary market transactions in Government securities.
		• Sale of Government securities allotted to successful bidders in primary issues on the day of allotment permitted, with and between CSGL constituent account holders.
July	20	• Guidelines on transaction in Government securities further relaxed by permitting a buyer from an allottee in primary auction to re-sell the security.

Appendix Table III.1(A): Consolidated Balance Sheet of Public Sector Banks

(As at end-March)

(Amount in Rs. crore)

Item	Public Sector Banks						Nationalised Banks				State Bank Group			
	2004		2005		2005 #		2004		2005		2004		2005	
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Liabilities														
1. Capital	14,675.56	1.00	14,805.57	0.87	15,527.34	0.88	13,639.76	1.48	13,769.77	1.29	1,035.80	0.19	1,035.80	0.17
2. Reserves and Surplus	64,566.94	4.39	79,139.46	4.68	84,343.96	4.75	37,853.46	4.11	47,411.18	4.45	26,713.48	4.86	31,728.28	5.06
3. Deposits	12,29,462.52	83.58	14,20,749.92	83.94	14,35,852.56	80.94	7,94,426.26	86.17	9,15,100.51	85.88	4,35,036.26	79.22	5,05,649.41	80.64
3.1 Demand Deposits	1,41,318.27	9.61	1,59,419.06	9.42	1,63,305.72	9.21	77,727.56	8.43	88,158.24	8.27	63,590.71	11.58	71,260.82	11.36
3.2 Savings Bank Deposits	3,21,016.66	21.82	3,76,883.99	22.27	3,78,775.88	21.35	2,14,311.31	23.25	2,50,666.64	23.53	1,06,705.35	19.43	1,26,217.35	20.13
3.3 Term Deposits	7,67,127.59	52.15	8,84,446.87	52.25	8,93,770.96	50.38	5,02,387.39	54.49	5,76,275.63	54.08	2,64,740.20	48.21	3,08,171.24	49.14
4. Borrowings	30,256.50	2.06	42,874.14	2.53	92,879.68	5.24	13,441.07	1.46	19,398.71	1.82	16,815.43	3.06	23,475.43	3.74
5. Other Liabilities and Provisions	1,32,115.86	8.98	1,35,009.46	7.98	1,45,335.26	8.19	62,593.11	6.79	69,823.68	6.55	69,522.75	12.66	65,185.78	10.40
Total Liabilities	**14,71,077.38**	**100.00**	**16,92,578.55**	**100.00**	**17,73,938.80**	**100.00**	**9,21,953.66**	**100.00**	**10,65,503.85**	**100.00**	**5,49,123.72**	**100.00**	**6,27,074.70**	**100.00**
Assets														
1. Cash and balances with RBI	84,241.76	5.73	87,616.41	5.18	89,992.31	5.07	58,079.66	6.30	62,396.21	5.86	26,162.10	4.76	25,220.20	4.02
2. Balances with banks and money at call and short notice	57,784.74	3.93	61,994.34	3.66	65,271.60	3.68	29,966.23	3.25	33,925.20	3.18	27,818.51	5.07	28,069.14	4.48
3. Investments	6,26,175.69	42.57	6,60,674.36	39.03	6,85,729.05	38.66	3,78,874.04	41.09	3,99,970.11	37.54	2,47,301.65	45.04	2,60,704.25	41.57
3.1 In Government Securities (a+b)	5,10,231.77	34.68	5,52,696.74	32.65	5,67,594.99	32.00	2,96,022.58	32.11	3,21,518.41	30.18	2,14,209.19	39.01	2,31,178.33	36.87
a) In India	5,07,451.67	34.50	5,49,447.26	32.46	5,64,345.51	31.81	2,93,445.42	31.83	3,18,786.75	29.92	2,14,006.25	38.97	2,30,660.51	36.78
b) Outside India	2,780.10	0.19	3,249.48	0.19	3,249.48	0.18	2,577.16	0.28	2,731.66	0.26	202.94	0.04	517.82	0.08
3.2 In other approved Securities	17,137.45	1.16	15,463.25	0.91	15,463.25	0.87	11,784.71	1.28	10,817.33	1.02	5,352.74	0.97	4,645.92	0.74
3.3 In non-approved Securities	98,806.47	6.72	92,514.37	5.47	1,02,670.81	5.79	71,066.75	7.71	67,634.37	6.35	27,739.72	5.05	24,880.00	3.97
4. Loans and Advances	6,33,035.49	43.03	8,09,257.72	47.81	8,54,671.29	48.18	4,12,519.69	44.74	5,24,530.86	49.23	2,20,515.80	40.16	2,84,726.86	45.41
4.1 Bills purchased and discounted	47,926.01	3.26	62,642.41	3.70	64,998.69	3.66	26,938.87	2.92	35,188.86	3.30	20,987.14	3.82	27,453.55	4.38
4.2 Cash Credit, Overdrafts, etc.	3,00,412.46	20.42	3,48,556.25	20.59	3,49,839.94	19.72	2,00,523.35	21.75	2,39,425.43	22.47	99,889.11	18.19	1,09,130.82	17.40
4.3 Term Loans	2,84,697.02	19.35	3,98,059.06	23.52	4,39,832.66	24.79	1,85,057.47	20.07	2,49,916.57	23.46	99,639.55	18.15	1,48,142.49	23.62
5. Fixed Assets	11,531.49	0.78	12,552.02	0.74	13,441.44	0.76	8,181.99	0.89	9,088.12	0.85	3,349.50	0.61	3,463.90	0.55
6. Other Assets	58,308.21	3.96	60,483.70	3.57	64,833.11	3.65	34,332.05	3.72	35,593.35	3.34	23,976.16	4.37	24,890.35	3.97
Total Assets	**14,71,077.38**	**100.00**	**16,92,578.55**	**100.00**	**17,73,938.80**	**100.00**	**9,21,953.66**	**100.00**	**10,65,503.85**	**100.00**	**5,49,123.72**	**100.00**	**6,27,074.70**	**100.00**

: Including the impact of conversion of a non-banking entity into a banking entity.

Source : Balance sheets of respective banks.

Appendix Table III.1(B): Consolidated Balance Sheet of Private Sector Banks

(As at end-March)

(Amount in Rs. crore)

Item	Private Sector Banks				Old Private Sector Banks				New Private Sector Banks			
	2004		2005		2004		2005		2004		2005	
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13
Liabilities												
1. Capital	3,028.14	0.82	3,364.50	0.79	632.71	0.52	808.40	0.61	2,395.43	0.97	2,556.10	0.87
2. Reserves and Surplus	19,486.78	5.31	27,217.93	6.36	6,654.95	5.51	7,118.35	5.33	12,831.83	5.20	20,099.58	6.83
3. Deposits	2,68,782.34	73.18	3,14,629.72	73.53	1,05,564.36	87.44	1,16,936.08	87.60	1,63,217.98	66.19	1,97,693.64	67.15
3.1 Demand Deposits	40,134.73	10.93	45,221.19	10.57	9,793.11	8.11	11,672.64	8.74	30,341.62	12.31	33,548.55	11.39
3.2 Savings Bank Deposits	40,093.07	10.92	50,662.98	11.84	16,983.84	14.07	20,004.24	14.99	23,109.23	9.37	30,658.74	10.41
3.3 Term Deposits	1,88,554.54	51.34	2,18,745.55	51.12	78,787.41	65.26	85,259.20	63.87	1,09,767.13	44.52	1,33,486.35	45.34
4. Borrowings	40,365.62	10.99	44,443.41	10.39	2,129.85	1.76	2,149.69	1.61	38,235.77	15.51	42,293.72	14.37
5. Other Liabilities and Provisions	35,636.62	9.70	38,259.95	8.94	5,741.88	4.76	6,481.54	4.86	29,894.74	12.12	31,778.41	10.79
Total Liabilities	**3,67,299.50**	**100.00**	**4,27,915.51**	**100.00**	**1,20,723.75**	**100.00**	**1,33,494.06**	**100.00**	**2,46,575.75**	**100.00**	**2,94,421.45**	**100.00**
Assets												
1. Cash and balances with RBI	21,725.57	5.91	21,324.19	4.98	6,268.68	5.19	7,085.37	5.31	15,456.89	6.27	14,238.82	4.84
2. Balances with banks and money at call and short notice	14,828.93	4.04	19,671.45	4.60	6,172.94	5.11	8,135.39	6.09	8,655.99	3.51	11,536.06	3.92
3. Investments	1,36,436.51	37.15	1,39,887.99	32.69	47,608.65	39.44	44,679.32	33.47	88,827.86	36.02	95,208.67	32.34
3.1 In Government Securities (a+b)	96,239.44	26.20	97,191.07	22.71	35,286.32	29.23	34,819.19	26.08	60,953.12	24.72	62,371.88	21.18
a) In India	96,142.61	26.18	97,077.49	22.69	35,202.78	29.16	34,743.40	26.03	60,939.83	24.71	62,334.09	21.17
b) Outside India	96.83	0.03	113.58	0.03	83.54	0.07	75.79	0.06	13.29	0.01	37.79	0.01
3.2 In other approved Securities	790.67	0.22	613.00	0.14	690.93	0.57	522.01	0.39	99.74	0.04	90.99	0.03
3.3 In non-approved Securities	39,406.40	10.73	42,083.92	9.83	11,631.40	9.63	9,338.12	7.00	27,775.00	11.26	32,745.80	11.12
4. Loans and Advances	1,70,727.76	46.48	2,21,148.62	51.68	55,580.69	46.04	68,184.04	51.08	1,15,147.07	46.70	1,52,964.58	51.95
4.1 Bills purchased and discounted	12,868.58	3.50	17,029.98	3.98	5,192.51	4.30	5,645.17	4.23	7,676.07	3.11	11,384.81	3.87
4.2 Cash Credit, Overdrafts, etc.	45,064.82	12.27	56,448.69	13.19	25,564.62	21.18	30,063.05	22.52	19,500.20	7.91	26,385.64	8.96
4.3 Term Loans	1,12,794.36	30.71	1,47,669.95	34.51	24,823.56	20.56	32,475.82	24.33	87,970.80	35.68	1,15,194.13	39.13
5. Fixed Assets	7,924.10	2.16	7,726.76	1.81	1,512.33	1.25	1,581.53	1.18	6,411.77	2.60	6,145.23	2.09
6. Other Assets	15,656.63	4.26	18,156.50	4.24	3,580.46	2.97	3,828.41	2.87	12,076.17	4.90	14,328.09	4.87
Total Assets	**3,67,299.50**	**100.00**	**4,27,915.51**	**100.00**	**1,20,723.75**	**100.00**	**1,33,494.06**	**100.00**	**2,46,575.75**	**100.00**	**2,94,421.45**	**100.00**

Source : Balance sheets of respective banks.

Appendix Table III.1(C): Consolidated Balance Sheet of Foreign Banks in India
(As at end-March)

(Amount in Rs. crore)

Item	2004		2005	
	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5
Liabilities				
1. Capital	4,644.53	3.42	7,012.90	4.55
2. Reserves and Surplus	10,200.61	7.52	11,968.42	7.77
3. Deposits	80,205.49	59.13	86,504.76	56.13
3.1 Demand Deposits	21,784.27	16.06	26,068.49	16.91
3.2 Savings Bank Deposits	12,567.56	9.27	15,505.33	10.06
3.3 Term Deposits	45,853.66	33.81	44,930.94	29.15
4. Borrowings	24,939.75	18.39	30,993.21	20.11
5. Other Liabilities and Provisions	15,649.74	11.54	17,649.07	11.45
Total Liabilities	**1,35,640.12**	**100.00**	**1,54,128.36**	**100.00**
Assets				
1. Cash and balances with RBI	7,278.23	5.37	6,770.41	4.39
2. Balances with banks and money at call and short notice	9,419.38	6.94	11,260.75	7.31
3. Investments	41,586.86	30.66	42,518.36	27.59
3.1 In Government Securities (a+b)	32,671.94	24.09	34,116.70	22.14
a) In India	32,671.94	24.09	34,116.70	22.14
b) Outside India	–	–	–	–
3.2 In other approved Securities	172.22	0.13	215.22	0.14
3.3 In non-approved Securities	8,742.70	6.45	8,186.44	5.31
4. Loans and Advances	60,507.40	44.61	75,318.25	48.87
4.1 Bills purchased and discounted	6,172.92	4.55	7,515.55	4.88
4.2 Cash Credit, Overdrafts, etc.	26,729.84	19.71	30,771.73	19.97
4.3 Term Loans	27,604.64	20.35	37,030.97	24.03
5. Fixed Assets	1,953.46	1.44	1,882.71	1.22
6. Other Assets	14,894.79	10.98	16,377.88	10.63
Total Assets	**1,35,640.12**	**100.00**	**1,54,128.36**	**100.00**

– : Nil/Negligible.
Source : Balance sheets of respective banks.

Appendix Table III.2: Certificates of Deposit Issued by Scheduled Commercial Banks

(Amount in Rs. crore)

Fortnight ended	Total Outstanding	Rate of Interest (Per cent) @	Fortnight ended	Total Outstanding	Rate of Interest (Per cent) @
1	2	3	4	5	6
2004			**2005**		
January 9	4,457	3.87 – 5.31	January 7	7,033	3.91 – 6.26
23	4,419	3.57 – 6.11	21	4,236	4.01 – 6.25
February 6	4,826	3.92 – 5.06	February 4	8,202	4.50 – 6.32
20	4,856	3.75 – 6.00	18	9,214	4.25 – 6.12
March 5	4,831	3.59 – 5.75	March 4	10,310	5.25 – 6.31
19	4,461	3.87 – 5.16	18	12,078	4.21 – 6.34
April 2	4,626	3.75 – 5.16	April 1	14,975	4.75 – 6.60
16	4,813	4.64 – 6.00	15	14,106	4.10 – 6.60
30	4,725	3.50 – 4.45	29	16,602	4.24 – 6.50
May 14	4,703	4.08 – 4.61	May 13	17,420	4.29 – 6.75
28	4,860	1.09 – 4.73	27	17,689	4.29 – 6.75
June 11	5,065	4.70 – 5.00	June 10	18,503	5.47 – 7.00
25	5,438	3.96 – 6.75	24	19,270	5.58 – 7.50
July 9	5,529	4.14 – 6.75	July 8	20,509	4.50 – 7.00
23	5,478	4.02 – 6.75	22	20,768	4.25 – 7.00
August 6	4,605	4.30 – 6.75	August 5	21,062	4.75 – 7.00
20	4,480	4.50 – 5.00	19	23,568	4.66 – 7.00
September 3	4,842	4.50 – 5.75	September 2	23,646	4.66 – 7.00
17	5,112	4.09 – 5.09	16	25,604	4.66 – 7.00
			30	27,641	4.39 – 7.00
October 1	5,164	3.50 – 5.50			
15	4,837	4.00 – 5.75			
29	4,785	4.50 – 6.26			
November 12	5,425	3.90 – 7.00			
26	6,118	4.45 – 6.00			
December 10	7,121	4.19 – 6.00			
24	6,103	3.96 – 6.75			

@ : Effective interest rate range per annum.

Appendix Table III.3: Sectoral Deployment of Gross Bank Credit

(Amount in Rs. crore)

Sector	Outstanding as on			Variation	
	March 21, 2003	March 19, 2004	March 18, 2005	2003-04	2004-05
1	2	3	4	5	6
I. Gross Bank Credit (1+2)	**6,69,534**	**7,64,383**	**9,72,587**	**94,849**	**2,08,204**
1. Public Food Procurement Credit	49,479	35,961	41,121	-13,518	5,160
2. Non-food Gross Bank Credit (A+B+C+D)	6,20,055	7,28,422	9,31,466	1,08,367 (100.0)	2,03,044 (100.0)
A. Priority Sector ## (a+b+c)	2,11,609	2,63,834	3,45,627	52,225 (48.2)	81,793 (40.3)
a) Agriculture	73,518	90,541	1,22,370	17,023 (15.7)	31,829 (15.7)
b) Small Scale Industries	60,394	65,855	76,114	5,461 (5.0)	10,259 (5.1)
c) Other Priority Sectors	77,697	1,07,438	1,47,143	29,741 (27.4)	39,705 (19.6)
B. Industry (Medium and Large)	2,35,168	2,47,210	2,90,186	12,042 (11.1)	42,976 (21.2)
C. Wholesale Trade (other than food procurement)	22,578	24,867	33,814	2,289 (2.1)	8,947 (4.4)
D. Other Sectors	1,50,700	1,92,511	2,61,839	41,811 (38.6)	69,328 (34.1)
of which :					
a) Housing	36,587	51,981	75,173	15,394	23,192
b) Consumer Durables	7,219	8,274	8,655	1,055	381
c) Non-Banking Financial Companies	14,127	16,802	18,610	2,675	1,808
d) Loans to Individuals against Shares and Debentures/Bonds	2,001	2,020	2,390	19	370
e) Real Estate Loans	5,894	5,577	10,612	-317	5,035
f) Other Non-Priority Sector Personal Loans	27,905	35,165	58,812	7,260	23,647
g) Advances against Fixed Deposits	22,708	26,346	29,310	3,638	2,964
h) Tourism and Tourism related Hotels	2,428	3,269	3,455	841	186
II. Export Credit [included under item I(2)]	**49,202**	**57,687**	**65,914**	**8,485** (7.8)	**8,227** (4.1)
III. Net Bank Credit (including inter-bank participations)	**6,68,576**	**7,63,855**	**9,71,809**	**95,279**	**2,07,954**

: Data in this statement may not agree with those quoted elsewhere in the report as the data base are different.

Note: 1. Data are provisional and relate to select scheduled commercial banks which account for about 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 incremental non-food gross bank credit.

Appendix Table III.4: Advances to the Priority Sector by Public Sector Banks

(As on the last reporting Friday)

Sector	No. of Accounts (in lakh)					Amount Outstanding (Rs. crore)				
	June 1969	March 2002	March 2003	March 2004	March 2005@	June 1969	March 2002	March 2003	March 2004	March 2005@
1	2	3	4	5	6	7	8	9	10	11
I. Agriculture	1.7	158	168	190	208	162 (5.4)	58,142 (14.8)	70,501 (14.5)	84,435 (15.1)	1,12,475 (15.7)
i) Direct	1.6	153	165	188	191	40 (1.3)	44,019 (11.2)	51,484 (10.6)	62,170 (11.1)	82,613 (11.5)
ii) Indirect	0.1	5	3	2	17	122 (4.0)	14,123 (3.6)	19,017 (3.9)	22,265 (4.0)	29,862 (4.2)
II. Small scale industries	0.5	19	17	17	18	257 (8.5)	54,268 (13.8)	52,646 (10.8)	58,311 (10.4)	67,634 (9.4)
III. Other priority sector advances	0.4	81	88	94	85	22 (0.7)	59,074 (15.0)	76,638 (15.8)	1,01,710 (18.1)	1,29,984 (18.1)
IV. Total priority sector advances	2.6	258	273	301	319	441 (14.6)	1,71,484 (43.5)	1,99,786 (41.2)	2,44,456 (43.6)	3,10,093 (43.2)
V. Net Bank Credit	–	–	–	–	–	3,016	3,94,064	4,85,271	5,60,819	7,17,304

– : Nil/Negligible.
@ : Data are provisional.
Note : Figures in brackets represent percentages to net bank credit.

Appendix Table III.5: Advances of Public Sector Banks to Agriculture and Weaker Sections

(As on the last reporting Friday of March 2005)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Direct Agricultural Advances		Indirect Agricultural Advances		Total Agricultural Advances		Weaker Sections		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
	Public Sector Banks	**82,612.93**	**11.52**	**29,862.02**	**4.16**	**1,12,474.95**	**15.68**	**63,492.11**	**8.85**	**3,10,093.30**	**43.23**
	Nationalised Banks	**55,635.19**	**11.91**	**23,543.52**	**5.04**	**79,178.71**	**16.41**	**38,293.19**	**5.20**	**2,13,602.70**	**45.72**
1.	Allahabad Bank	2,973.60	14.24	939.50	4.50	3,913.10	18.74	2,210.35	10.59	9,592.34	45.94
2.	Andhra Bank	2,603.82	15.58	473.74	2.84	3,077.56	18.42	1,768.99	10.59	7,070.29	42.31
3.	Bank of Baroda	3,246.96	10.96	1,327.77	4.48	4,574.73	15.45	2,278.88	7.69	13,524.11	45.67
4.	Bank of India	4,883.00	14.18	2,161.00	6.27	7,044.00	18.68	4,086.00	11.86	17,682.00	51.33
5.	Bank of Maharashtra	1,101.42	8.86	725.22	5.83	1,826.64	13.36	575.00	4.62	5,306.41	42.67
6.	Canara Bank	6,227.00	10.83	2,555.00	4.45	8,782.00	15.28	3,350.00	5.83	24,777.00	43.11
7.	Central Bank of India	3,899.05	13.74	1,860.69	6.56	5,759.74	18.24	2,927.65	10.32	14,272.18	50.31
8.	Corporation Bank	749.43	4.75	420.28	2.66	1,169.71	7.41	505.46	3.20	6,579.24	41.66
9.	Dena Bank	801.52	7.16	947.19	8.46	1,748.71	11.66	376.25	3.36	4,754.73	42.46
10.	Indian Bank	2,537.45	15.17	654.25	3.91	3,191.70	19.08	1,809.83	10.82	8,105.41	48.46
11.	Indian Overseas Bank	3,129.72	13.55	1,049.25	4.54	4,178.97	18.05	2,598.67	11.25	10,449.64	45.26
12.	Oriental Bank of Commerce	1,712.10	7.20	1,806.32	7.60	3,518.42	11.70	1,093.59	4.60	11,081.44	46.61
13.	Punjab National Bank	8,269.07	14.48	3,391.81	5.94	11,660.88	18.98	6,464.58	11.32	26,468.93	46.34
14.	Punjab and Sind Bank	912.85	13.69	351.03	5.26	1,263.88	18.19	465.12	6.98	3,096.41	46.44
15.	Syndicate Bank	3,346.42	14.64	791.73	3.46	4,138.15	18.10	2,313.62	10.12	10,588.52	46.32
16.	Union Bank of India	4,392.18	11.60	1,769.03	4.67	6,161.21	16.10	2,755.16	7.27	18,588.67	49.08
17.	United Bank of India	959.00	8.32	590.00	5.12	1,549.00	12.82	668.00	5.80	4,509.00	39.14
18.	UCO Bank	2,670.59	9.99	1,112.41	4.16	3,783.00	14.15	1,201.82	4.50	10,980.00	41.07
19.	Vijaya Bank	1,220.01	8.75	617.30	4.43	1,837.31	13.18	844.22	6.05	6,176.38	44.29
	State Bank Group	**26,977.74**	**10.79**	**6,318.50**	**2.53**	**33,296.24**	**13.32**	**25,198.92**	**10.08**	**96,490.60**	**38.59**
20.	State Bank of India	16,489.31	9.63	4,037.00	2.36	20,526.31	11.99	19,732.28	11.53	62,672.83	36.61
21.	State Bank of Bikaner and Jaipur	1,869.54	15.81	277.32	2.35	2,146.86	18.16	1,087.75	9.20	5,327.07	45.06
22.	State Bank of Hyderabad	1,846.87	12.71	49.60	0.34	1,896.47	13.05	777.47	5.35	6,134.20	42.21
23.	State Bank of Indore	1,393.18	15.28	273.25	3.00	1,666.43	18.27	496.51	5.44	4,083.04	44.77
24.	State Bank of Mysore	1,010.75	12.25	217.05	2.63	1,227.80	14.88	843.16	10.22	3,323.47	40.28
25.	State Bank of Patiala	2,146.00	14.45	745.00	5.02	2,891.00	18.95	1,489.00	10.03	6,104.00	41.11
26.	State Bank of Saurashtra	971.63	15.23	238.19	3.73	1,209.82	18.96	247.59	3.88	2,912.20	45.64
27.	State Bank of Travancore	1,250.46	9.00	481.09	3.46	1,731.55	12.46	525.16	3.78	5,933.79	42.69

Note : 1. Data are provisional.
2. NBC – net bank credit.
3. Indirect Agircultural advance taken to the extent of 4.5 per cent of NBC for calculation of percentage of Agriculture.

Source : Data furnished by respective banks.

Appendix Table III.6: Advances to Priority Sector by Private Sector Banks

(As on the last reporting Friday of March)

(Amount in Rs. crore)

Sector	March 2003		March 2004		March 2005@	
	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 *of which :*	**36,648**	**44.1**	**48,920**	**47.3**	**69,384**	**43.3**
I. Agriculture	9,924	12.0	14,730	14.2	21,475	12.1
II. Small-scale industries	8,051	9.7	7,590	7.3	8,668	5.4
III. Other priority sectors	18,673	22.5	26,600	25.7	39,241	24.5

@ : Data are provisional.

Note: Indirect agriculture is reckoned up to 4.5 per cent of Net Bank Credit for calculation of percentage of agriculture.

Appendix Table III.7: Advances of Private Sector Banks to Agriculture and Weaker Sections

(As on the last reporting Friday of March 2005)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Direct Agricultural Advances		Indirect Agricultural Advances		Total Agricultural Advances		Weaker Sections Advances		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
	Private Sector Banks	**12,157.12**	**7.59**	**9,315.51**	**5.82**	**21,472.63**	**12.09**	**1,913.86**	**1.20**	**69,383.68**	**43.33**
1.	Bank of Rajasthan Ltd.	62.30	2.33	281.24	10.51	343.54	6.83	0.05	–	1,047.79	39.14
2.	Bharat Overseas Bank Ltd.	28.49	2.61	58.48	5.36	86.97	7.11	11.88	1.09	469.55	43.05
3.	Catholic Syrian Bank Ltd.	70.00	2.99	57.00	2.44	127.00	5.43	34.00	1.45	840.00	35.93
4.	City Union Bank Ltd.	72.05	3.50	67.65	3.29	139.70	6.78	28.01	1.36	824.16	40.02
5.	Development Credit Bank Ltd.	12.43	0.57	141.31	6.51	153.74	5.07	14.50	0.67	788.76	36.32
6.	Dhanalakshmi Bank Ltd.	125.73	8.82	21.79	1.53	147.52	10.35	38.77	2.72	455.76	31.97
7.	Federal Bank Ltd.	499.08	6.78	105.78	1.44	604.86	8.22	232.48	3.16	2,965.98	40.28
8.	Ganesh Bank of Kurundwad Ltd.	31.47	26.95	–	–	31.47	26.95	11.82	10.12	63.40	54.29
9.	ING Vysya Bank Ltd.	495.49	5.90	377.17	4.49	872.66	10.40	264.92	3.16	3,380.19	40.28
10.	Jammu and Kashmir Bank Ltd.	240.48	2.79	514.24	5.96	754.72	7.29	262.02	3.04	3,467.40	40.16
11.	Karnataka Bank Ltd.	369.65	6.07	255.35	4.20	625.00	10.27	125.82	2.07	2,279.53	37.45
12.	Karur Vysya Bank Ltd.	402.01	9.09	229.03	5.18	631.04	13.59	182.18	4.12	1,782.31	40.30
13.	Lakshmi Vilas Bank Ltd.	277.31	12.90	27.70	1.29	305.01	14.19	114.51	5.33	894.54	41.62
14.	Lord Krishna Bank Ltd.	45.90	3.43	150.31	11.24	196.21	7.93	3.85	0.29	590.93	44.18
15.	Nainital Bank Ltd.	34.63	9.53	5.47	1.51	40.10	11.04	11.20	3.08	205.91	56.69
16.	Ratnakar Bank Ltd.	25.12	5.95	21.20	5.02	46.32	10.45	5.92	0.98	160.19	37.95
17.	Sangli Bank Ltd.	46.65	6.08	32.54	4.24	79.19	10.33	17.46	2.28	173.75	22.66
18.	SBI Commercial and International Bank Ltd.	15.14	9.38	32.50	20.14	47.64	13.88	–	–	49.81	30.87
19.	South Indian Bank Ltd.	474.18	9.42	65.54	1.30	539.72	10.72	172.03	3.42	2,262.69	44.96
20.	Tamilnad Mercantile Bank Ltd.	267.08	10.01	141.33	5.29	408.41	14.51	63.74	2.39	1,316.48	49.32
21.	United Western Bank Ltd.	227.36	5.91	168.20	4.37	395.56	10.28	186.05	4.84	1,606.07	41.74
22.	Bank of Punjab Ltd.	161.24	6.82	254.01	10.74	415.25	11.32	0.42	0.02	848.74	35.90
23.	Centurion Bank Ltd.	146.06	7.23	97.07	4.80	243.13	11.73	68.49	3.39	623.14	30.82
24.	HDFC Bank Ltd.	2,001.46	9.65	2,201.06	10.61	4,202.52	14.15	20.48	0.10	8,560.43	41.26
25.	ICICI Bank Ltd.	4,470.76	12.75	2,175.39	6.20	6,646.15	17.25	24.36	0.07	19,106.59	54.49
26.	IDBI Bank Ltd.	171.38	1.78	652.66	6.78	824.04	6.28	–	–	4,286.42	44.55
27.	IndusInd Bank Ltd.	249.32	3.12	323.36	4.05	572.68	7.16	–	–	2,793.01	34.94
28.	Kotak Mahindra Bank Ltd.	197.01	5.43	190.25	5.24	387.26	9.93	–	–	1,521.57	41.91
29.	UTI Bank Ltd.	937.34	6.45	667.88	4.60	1,605.22	10.95	18.90	0.13	5,953.58	40.99
30.	Yes Bank Ltd.	–	–	–	–	–	–	–	–	65.00	10.17

– : Nil/Negligible.

Note : 1. Data are provisional.
2. NBC – net bank credit.
3. Indirect agircultural advances taken to the extent of 4.5 per cent.

Source : Data furnished by respective banks.

Appendix Table III.8: Industry-wise Deployment of Gross Bank Credit

(Amount in Rs. crore)

Industry	Outstanding as on			Variation	
	March 21, 2003	March 19, 2004	March 18, 2005	2003-04	2004-05
1	2	3	4	5	6
Industry (Small, Medium and Large)	**2,95,562**	**3,13,065**	**3,66,300**	**17,503**	**53,235**
1. Coal	1,334	1,165	987	-169	-178
2. Mining	1,769	1,635	1,791	-134	156
3. Iron and Steel	28,065	26,295	29,025	-1,770	2,730
4. Other Metals and Metal Products	8,556	8,168	9,596	-388	1,428
5. All Engineering	26,272	26,348	26,370	76	22
of which : Electronics	7,831	8,421	8,769	590	348
6. Electricity	11,173	14,090	15,991	2,917	1,901
7. Cotton Textiles	15,762	17,166	20,011	1,404	2,845
8. Jute Textiles	860	1,051	850	191	-201
9. Other Textiles	15,075	15,941	17,695	866	1,754
10. Sugar	5,726	6,363	6,030	637	-333
11. Tea	1,052	1,222	1,355	170	133
12. Food Processing	8,577	9,872	11,413	1,295	1,541
13. Vegetable Oils (including *vanaspati)*	2,919	3,219	3,455	300	236
14. Tobacco and Tobacco Products	756	891	802	135	-89
15. Paper and Paper Products	5,049	5,990	5,767	941	-223
16. Rubber and Rubber Products	2,662	2,593	3,161	-69	568
17. Chemicals, Dyes, Paints *etc.*	31,805	30,629	31,889	-1,176	1,260
of which :					
a) Fertilisers	6,923	6,249	6,188	-674	-61
b) Petro-Chemicals	7,735	7,221	6,048	-514	-1,173
c) Drugs and Pharmaceuticals	7,892	8,667	10,674	775	2,007
18. Cement	6,431	5,689	6,112	-742	423
19. Leather and Leather Products	2,940	3,167	3,099	227	-68
20. Gems and Jewellery	7,533	9,178	12,123	1,645	2,945
21. Construction	4,891	5,978	7,963	1,087	1,985
22. Petroleum	14,743	12,266	14,618	-2,477	2,352
23. Automobiles including trucks	5,629	5,302	6,363	-327	1,061
24. Computer Software	2,611	3,029	2,367	418	-662
25. Infrastructure	26,297	37,224	56,709	10,927	19,485
a) Power	15,042	19,655	26,973	4,613	7,318
b) Telecommunications	5,779	8,408	12,956	2,629	4,548
c) Roads and Ports	5,476	9,161	16,780	3,685	7,619
26. Other Industries	57,075	58,594	70,758	1,519	12,164

Note : Data are provisional and relate to select scheduled commercial banks.

Appendix Table III.9: Accommodation by the Reserve Bank 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 (2+4)	7 (3+5)
2003						
March	5,048.26	84.51	399.66	–	5,447.92	84.51
2004						
January	4,822.60	–	399.66	–	5,222.26	–
February	4,761.57	–	399.66	–	5,161.23	–
March	4,664.42	–	399.66	–	5,064.08	–
April	4,893.62	–	399.66	–	5,293.28	–
May	5,051.83	420.00	399.66	399.00	5,451.49	819.00
June	4,464.44	–	399.66	–	4,864.10	–
July	4,321.96	–	399.66	–	4,721.62	–
August	4,305.84	2.50	399.66	–	4,705.50	2.50
September	4,375.61	2.70	399.66	–	4,775.27	2.70
October	4,437.55	–	399.66	–	4,837.21	–
November	4,600.52	7.50	399.66	–	5,000.18	7.50
December	4,613.82	601.29	399.66	–	5,013.48	601.29
2005						
January	4,800.05	–	399.66	–	5,199.71	–
February	4,864.82	–	399.66	–	5,264.48	–
March	4,912.13	50.00	399.66	–	5,311.79	50.00
April	5,169.37	–	399.66	–	5,569.03	–
May	4,914.86	774.00	399.66	–	5,314.52	774.00
June	4,884.20	–	399.66	–	5,283.86	–
July	4,920.95	–	399.66	–	5,320.61	–
August	4,744.02	473.13	–	–	4,744.02	473.13
September *	4,813.52	6.00	–	–	4,813.52	6.00

– : Nil/Negligible.
* : Up to September 02, 2005.
Note: Total limits under normal and back-stop facility merged into a single facility with effect from March 29, 2004.

Appendix Table III.10: Bank Group-wise Lending to the Sensitive Sectors

(Amount in Rs. crore)

Advances to	Nationalised Banks			State Bank Group			Other Public Sector Bank			Public Sector Banks				
	2003-04	2004-05	Percentage Variation	2003-04	2004-05	Percentage Variation	2003-04	2004-05	Percentage Variation	2003-04	2004-05	2004-05#	Percentage Variation	Percentage Variation#
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Capital Market	1,104.05 (0.27)	1,333.95 (0.25)	20.82	81.32 (0.04)	178.30 (0.06)	119.26	–	209.87 (0.46)	–	1,185.37 (0.19)	1,722.12 (0.20)	1,512.25 (0.19)	45.28	27.58
2. Real Estates	9,083.33 (2.20)	12,437.99 (2.37)	36.93	853.29 (0.39)	2,687.37 (0.94)	214.94	–	115.11 (0.25)	–	9,936.62 (1.57)	15,240.47 (1.78)	15,125.36 (1.87)	53.38	52.22
3. Commodities	5,004.46 (1.21)	5,224.61 (1.00)	4.40	1,049.05 (0.48)	1,000.32 (0.35)	-4.65	–	277.17 (0.61)	–	6,053.51 (0.96)	6,502.10 (0.76)	6,224.93 (0.77)	7.41	2.83
Total Advances to Sensitive Sectors	**15,191.84 (3.68)**	**18,996.55 (3.62)**	**25.04**	**1,983.66 (0.90)**	**3,865.99 (1.36)**	**94.89**	**–**	**602.15 (1.33)**	**–**	**17,175.50 (2.71)**	**23,464.69 (2.75)**	**22,862.54 (2.83)**	**36.62**	**33.11**

Advances to	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks				
	2003-04	2004-05	Percentage Variation	2003-04	2004-05	Percentage Variation	2003-04	2004-05	Percentage Variation	2003-04	2004-05	2004-05#	Percentage Variation	Percentage Variation#
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Capital Market	1,167.17 (1.01)	1,048.47 (0.69)	-10.17	279.84 (0.50)	342.46 (0.50)	22.38	1,078.99 (1.78)	863.65 (1.15)	-19.96	3,711.37 (0.43)	3,976.70 (0.35)	3,766.83 (0.34)	7.15	1.49
2. Real Estate	3,300.53 (2.87)	5,211.43 (3.41)	57.90	1,230.98 (2.21)	2,311.30 (3.39)	87.76	1,379.73 (2.28)	2,042.47 (2.71)	48.03	15,847.86 (1.83)	24,805.67 (2.15)	24,690.56 (2.23)	56.52	55.80
3. Commodities	1,592.89 (1.38)	2,383.93 (1.56)	49.66	1,490.12 (2.68)	1,637.85 (2.40)	9.91	322.19 (0.53)	536.12 (0.71)	66.40	9,458.71 (1.09)	11,060.00 (0.96)	10,782.83 (0.98)	16.93	14.00
Total Advances to Sensitive Sectors	**6,060.59 (5.26)**	**8,643.83 (5.65)**	**42.62**	**3,000.94 (5.40)**	**4,291.61 (6.29)**	**43.01**	**2,780.91 (4.60)**	**3,442.24 (4.57)**	**23.78**	**29,017.94 (3.36)**	**39,842.37 (3.46)**	**39,240.22 (3.55)**	**37.30**	**35.23**

– : Nil/Negligible.
: Excluding the impact of conversion of a non-banking entity into a banking entity.
Note : Figures in brackets are percentages to total loans and advances of the concerned bank group.
Source : Balance sheets of respective banks.

Appendix Table III.11: Commercial Bank Survey

(Amount in Rs. crore)

Variable	Outstanding as on March 18, 2005	Variations							
		Financial year				April-June			
		2003-04		2004-05		2004-05		2005-06	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	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)	**16,43,814**	**2,40,732**	**20.3**	**2,14,734**	**15.0**	**44,545**	**3.1**	**59,226**	**3.6**
C.I.1 Demand Deposits	263,817	54,733	32.1	38,795	17.2	-12,491	-5.6	-10,891	-4.1
C.I.2 Time Deposits of Residents (C.I.2.1+C.I.2.2)	13,79,997	1,86,000	18.3	1,75,939	14.6	57,036	4.7	70,117	5.1
C.I.2.1 Short-term Time Deposits	6,20,999	83,700	18.3	79,173	14.6	25,666	4.7	31,553	5.1
C.I.2.1.1 Certificates of Deposits (CDs)	17,598	6,177	–	10,686	–	-1,615	-23.4	205	1.2
C.I.2.2 Long-term Time Deposits	7,58,998	1,02,300	18.3	96,767	14.6	31,370	4.7	38,564	5.1
C.II Call/Term-Funding from Financial Institutions	**69,304**	**12,032**	**95.2**	**44,634**	**180.9**	**4,966**	**20.1**	**1,017**	**1.5**
Sources									
S.I Domestic Credit (S.I.1+S.I.2)	**19,80,221**	**2,42,782**	**17.2**	**3,22,984**	**19.5**	**65,867**	**4.0**	**57,878**	**2.9**
S.I.1 Credit to the Government	7,17,791	1,31,341	25.1	63,034	9.6	44,952	6.9	7,542	1.1
S.I.2 Credit to the Commercial Sector (S.I.2.1+S.I.2.2+S.I.2.3+S.I.2.4)	12,62,430	1,11,441	12.5	2,59,951	25.9	20,916	2.1	50,336	4.0
S.I.2.1 Bank Credit	10,92,091	1,11,570	15.3	2,51,306	29.9	23,211	2.8	51,960	4.8
S.I.2.1.1 Non-food Credit	10,50,970	1,25,088	18.4	2,46,146	30.6	15,660	1.9	47,354	4.5
S.I.2.2 Net Credit to Primary Dealers	1,447	-2,147	-52.5	-499	-25.6	-359	-18.5	2,162	149.4
S.I.2.3 Investments in Other Approved Securities	25,272	-1,299	-5.4	2,442	10.7	-215	-0.9	-461	-1.8
S.I.2.4 Other Investments (in non-SLR Securities)	1,43,621	3,317	2.5	6,703	4.9	-1,721	-1.3	-3,324	-2.3
S.II Net Foreign Currency Assets of Commercial Banks (S.II.1-S.II.2-S.II.3)	**-74,733**	**10,101**	**-14.7**	**-16,202**	**27.7**	**-9,425**	**16.1**	**-1,829**	**2.4**
S.II.1 Foreign Currency Assets	27,381	2,752	8.9	-6,452	-19.1	-6,108	-18.1	-1,189	-4.3
S.II.2 Non-resident Foreign Currency Repatriable Fixed Deposits	76,133	-17,170	-18.6	797	1.1	426	0.6	-815	-1.1
S.II.3 Overseas Foreign Currency Borrowings	25,981	9,820	136.2	8,953	52.6	2,891	17.0	1,455	5.6
S.III Net Bank Reserves (S.III.1+S.III.2-S.III.3)	**96,478**	**11,072**	**16.8**	**19,583**	**25.5**	**4,656**	**6.1**	**1,780**	**1.8**
S.III.1 Balances with the RBI	88,105	10,662	18.3	19,108	27.7	4,338	6.3	1,497	1.7
S.III.2 Cash in Hand	8,422	331	4.4	524	6.6	1,136	14.4	1,007	12.0
S.III.3 Loans and Advances from the RBI	50	-79	–	50	–	819	–	724	0.0
S.IV Capital Account	**1,31,836**	**16,568**	**19.1**	**28,728**	**27.9**	**12,155**	**11.8**	**22,610**	**17.2**
S.V Other items (net) (S.I+S.II+S.III-S.IV-C.I-C.II)	**1,57,011**	**-5,377**	**-4.3**	**38,269**	**32.2**	**-567**	**-0.5**	**-25,023**	**-15.9**
S.V.1 Other Demand and Time Liabilities (net of S.II.3)	1,48,344	8,458	6.9	17,289	13.2	-9,472	-7.2	-22,539	-15.2
S.V.2 Net Inter-Bank Liabilities (other than to PDs)	19,974	834	11.2	11,721	142.0	-1,172	-14.2	8,091	40.5

– : Nil/Negligible.

Note: 1. Data are provisional.

2. Time deposits and broad money include India Millennium Deposits (IMDs) worth Rs.25,662 crore since November 17, 2000 and the impact of redemption of Resurgent India Bonds (RIBs) of Rs. 22,693 crore since October 1, 2003.

Appendix Table III.12: Off-Balance Sheet Exposure of Scheduled Commercial Banks in India

(Amount in Rs. crore)

Item	State Bank Group			Nationalised Banks			Other Public Sector Banks			Public Sector Banks				
	2003-04	2004-05	Percentage Variation	2003-04	2004-05	Percentage Variation	2003-04	2004-05	Percentage Variation	2003-04	2004-05	2004-05#	Percentage Variation	Percentage Variation#
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Forward exchange contract	93,167.56 (16.97)	1,25,351.05 (19.99)	34.54	2,20,017.43 (23.86)	2,72,251.90 (25.55)	23.74	–	18,419.46 (22.64)	–	3,13,184.99 (21.29)	4,16,022.41 (23.45)	3,97,602.95 (23.49)	32.84	26.95
2. Guarantees given	19,619.33 (3.57)	23,177.85 (3.7)	18.14	43,225.99 (4.69)	53,130.66 (4.99)	22.91	–	3,188.60 (3.92)	–	62,845.32 (4.27)	79,497.11 (4.48)	76,308.51 (4.51)	26.50	21.42
3. Acceptances, endorsements, *etc.*	43,976.88 (8.01)	56,728.18 (9.05)	29.00	66,389.75 (7.20)	95,193.65 (8.93)	43.39	–	38,441.67 (47.25)	–	1,10,366.63 (7.50)	1,90,363.50 (10.73)	1,51,921.83 (8.98)	72.48	37.65
Contingent Liabilities	**1,56,763.77 (28.55)**	**2,05,257.08 (32.73)**	**30.93**	**3,29,633.17 (35.75)**	**4,20,576.21 (39.47)**	**27.59**	**–**	**60,049.73 (73.81)**	**–**	**4,86,396.94 (33.06)**	**6,85,883.02 (38.66)**	**6,25,833.29 (36.98)**	**41.01**	**28.67**

Item	New Private Sector Banks			Old Private Sector Banks			Foreign Banks			Scheduled Commercial Banks				
	2003-04	2004-05	Percentage Variation	2003-04	2004-05	Percentage Variation	2003-04	2004-05	Percentage Variation	2003-04	2004-05	2004-05#	Percentage Variation	Percentage Variation#
1	16	17	18	19	20	21	22	23	24	25	26	27	28	29
1. Forward exchange contract	1,53,266.20 (62.16)	1,92,510.81 (65.39)	25.61	23,885.38 (19.79)	24,558.55 (18.69)	2.82	6,92,529.14 (510.56)	11,41,358.53 (740.52)	64.81	11,82,865.71 (59.92)	17,74,450.30 (75.38)	17,56,030.84 (77.27)	50.01	48.46
2. Guarantees given	17,397.12 (7.06)	20,385.56 (6.92)	17.18	4,031.26 (3.34)	4,645.14 (3.54)	15.23	17,574.63 (12.96)	19,195.06 (12.45)	9.22	1,01,848.33 (5.16)	1,23,722.87 (5.26)	1,20,534.27 (5.30)	21.48	18.35
3. Acceptances, endorsements, *etc.*	1,82,970.87 (74.20)	2,84,890.12 (96.76)	55.70	8,257.43 (6.84)	13,514.56 (10.29)	63.67	2,06,979.09 (152.59)	4,30,082.43 (279.04)	107.79	5,08,574.02 (25.76)	9,18,850.61 (39.04)	8,80,408.94 (38.74)	80.67	73.11
Contingent Liabilities	**3,53,634.19 (143.42)**	**4,97,786.49 (169.07)**	**40.76**	**36,174.07 (29.96)**	**42,718.25 (32.51)**	**18.09**	**9,17,082.86 (676.11)**	**15,90,636.02 (1,032.02)**	**73.45**	**17,93,288.06 (90.84)**	**28,17,023.78 (119.68)**	**27,56,974.05 (121.32)**	**57.09**	**53.74**

– : Nil/Negligible.

\# : Excluding the impact of conversion of a non-banking entity into a banking entity.

Note: Figures in brackets are percentages to total liabilities of the concerned bank-group.

Source : Balance sheets of respective banks.

Appendix Table III.13: Income of Public Sector Banks – Component-wise

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Trading Income		Forex Income	
		2003-04	2004-05	2003-04	2004-05
1	2	3	4	5	6
	Public Sector Banks	**15,353.80**	**8,806.47**	**1,870.97**	**2,218.82**
	Nationalised Banks	**10,425.81**	**5,679.43**	**1,191.81**	**1,441.01**
1.	Allahabad Bank	504.71	347.43	43.11	43.76
2.	Andhra Bank	401.75	385.51	20.06	28.45
3.	Bank of Baroda	1,017.53	535.15	169.56	193.27
4.	Bank of India	946.08	180.23	212.73	223.41
5.	Bank of Maharashtra	311.98	215.02	20.34	22.12
6.	Canara Bank	1,150.24	499.78	151.75	188.59
7.	Central Bank of India	618.05	587.85	22.91	28.35
8.	Corporation Bank	223.84	200.05	26.97	41.03
9.	Dena Bank	441.31	117.80	24.19	23.99
10.	Indian Bank	465.47	209.77	58.32	68.66
11.	Indian Overseas Bank	481.23	373.05	55.97	71.91
12.	Oriental Bank of Commerce	504.22	237.10	59.05	77.60
13.	Punjab and Sind Bank	144.22	144.34	21.52	21.28
14.	Punjab National Bank	1,236.37	531.63	106.02	141.76
15.	Syndicate Bank	500.87	245.80	35.56	34.44
16.	UCO Bank	351.30	195.79	14.23	27.23
17.	Union Bank of India	435.37	260.32	118.48	166.59
18.	United Bank of India	347.63	263.91	5.73	9.06
19.	Vijaya Bank	343.64	148.90	25.31	29.51
	State Bank Group	**4,927.99**	**2,442.50**	**679.16**	**721.23**
20.	State Bank of India	3,073.45	1,775.30	503.04	528.20
21.	State Bank of Bikaner and Jaipur	227.34	168.86	12.52	17.37
22.	State Bank of Hyderabad	411.51	79.96	45.12	46.75
23.	State Bank of Indore	226.22	17.37	11.55	22.20
24.	State Bank of Mysore	155.03	151.20	18.18	21.61
25.	State Bank of Patiala	365.67	74.94	36.18	38.40
26.	State Bank of Saurashtra	200.09	-5.25	15.15	12.41
27.	State Bank of Travancore	268.68	180.12	37.42	34.29
	Other Public Sector Bank				
28.	IDBI Ltd.	–	684.54	–	56.58

Note : 1. Trading Income: Net profit on sale of investment.
2. Forex Income: Net profit on foreign exchange transaction.

Source : Balance sheets of respective banks.

Appendix Table III.14: Important Financial Indicators – Bank Group-wise *(Continued)*

(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		Provisions and Contin-gencies	Spread (NII)
								Total	*Of which:* Wage Bill		
1	2	3	4	5	6	7	8	9	10	11	12
Scheduled Commercial Banks											
2002-03	40,681.94	17,077.22	1,72,345.02	1,40,742.48	31,602.54	1,55,267.80	93,596.27	38,066.81	23,610.14	23,604.72	47,146.21
	(2.39)	(1.01)	(10.14)	(8.28)	(1.86)	(9.14)	(5.51)	(2.24)	(1.39)	(1.39)	(2.77)
2003-04	52,600.22	22,270.94	1,83,872.12	1,44,346.81	39,525.31	1,61,601.18	87,562.75	43,709.15	26,359.53	30,329.28	56,784.06
	(2.66)	(1.13)	(9.31)	(7.31)	(2.00)	(8.19)	(4.44)	(2.21)	(1.34)	(1.54)	(2.88)
2004-05	51,684.02	21,320.16	1,93,268.88	1,58,438.26	34,830.62	1,71,948.72	91,537.00	50,047.86	29,032.26	30,363.86	66,901.26
	(2.20)	(0.91)	(8.21)	(6.73)	(1.48)	(7.30)	(3.89)	(2.13)	(1.23)	(1.29)	(2.84)
2004-05#	50,962.00	20,705.66	1,86,703.20	1,53,126.82	33,576.38	1,65,997.54	86,601.26	49,139.94	28,733.58	30,256.34	66,525.56
	(2.24)	(0.91)	(8.22)	(6.74)	(1.48)	(7.30)	(3.81)	(2.16)	(1.26)	(1.33)	(2.93)
Public Sector Banks											
2002-03	29,717.24	12,295.46	1,28,464.38	1,07,232.05	21,232.33	1,16,168.92	69,852.59	28,894.55	20,444.88	17,421.78	37,379.46
	(2.31)	(0.96)	(9.99)	(8.34)	(1.65)	(9.04)	(5.43)	(2.25)	(1.59)	(1.36)	(2.91)
2003-04	39,290.10	16,546.38	1,37,587.31	1,09,547.35	28,039.96	1,21,040.93	65,764.53	32,532.68	22,581.23	22,743.72	43,782.82
	(2.67)	(1.12)	(9.35)	(7.45)	(1.91)	(8.23)	(4.47)	(2.21)	(1.54)	(1.55)	(2.98)
2004-05	39,413.18	15,784.40	1,47,626.25	1,23,001.99	24,624.26	1,31,841.85	71,223.85	36,989.22	24,742.61	23,628.78	51,778.14
	(2.22)	(0.89)	(8.32)	(6.93)	(1.39)	(7.43)	(4.02)	(2.09)	(1.39)	(1.33)	(2.92)
2004-05 #	38,691.16	15,169.90	1,41,060.57	1,17,690.55	23,370.02	1,25,890.67	66,288.11	36,081.30	24,443.93	23,521.26	51,402.44
	(2.29)	(0.90)	(8.33)	(6.95)	(1.38)	(7.44)	(3.92)	(2.13)	(1.44)	(1.39)	(3.04)
Nationalised Banks											
2002-03	18,486.13	7,783.94	79,597.73	66,368.04	13,229.69	71,813.79	42,645.95	18,465.65	13,062.10	10,702.19	23,722.09
	(2.34)	(0.98)	(10.06)	(8.39)	(1.67)	(9.08)	(5.39)	(2.33)	(1.65)	(1.35)	(3.00)
2003-04	24,926.58	10,927.66	85,712.04	68,590.96	17,121.08	74,784.38	40,369.38	20,416.08	14,262.25	13,998.92	28,221.58
	(2.70)	(1.19)	(9.30)	(7.44)	(1.86)	(8.11)	(4.38)	(2.21)	(1.55)	(1.52)	(3.06)
2004-05	23,431.01	9,494.04	87,548.03	73,645.20	13,902.83	78,053.99	41,446.03	22,670.99	15,434.50	13,936.97	32,199.17
	(2.20)	(0.89)	(8.22)	(6.91)	(1.30)	(7.33)	(3.89)	(2.13)	(1.45)	(1.31)	(3.02)
State Bank Group											
2002-03	11,231.11	4,511.52	48,866.65	40,864.01	8,002.64	44,355.13	27,206.64	10,428.90	7,382.78	6,719.59	13,657.37
	(2.27)	(0.91)	(9.88)	(8.26)	(1.62)	(8.97)	(5.50)	(2.11)	(1.49)	(1.36)	(2.76)
2003-04	14,363.52	5,618.72	51,875.27	40,956.39	10,918.88	46,256.55	25,395.15	12,116.60	8,318.98	8,744.80	15,561.24
	(2.62)	(1.02)	(9.45)	(7.46)	(1.99)	(8.42)	(4.62)	(2.21)	(1.51)	(1.59)	(2.83)
2004-05	15,260.15	5,675.86	53,512.54	44,045.35	9,467.19	47,836.68	24,842.08	13,410.31	9,009.43	9,584.29	19,203.27
	(2.43)	(0.91)	(8.53)	(7.02)	(1.51)	(7.63)	(3.96)	(2.14)	(1.44)	(1.53)	(3.06)

Appendix Table III.14: Important Financial Indicators – Bank Group-wise *(Concluded)*

(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		Provisions and Contingencies	Spread (NII)
								Total	*Of which:* Wage Bill		
1	2	3	4	5	6	7	8	9	10	11	12
Other Public Sector Bank											
2004-05	722.02 (0.89)	614.50 (0.76)	6,565.68 (8.07)	5,311.44 (6.53)	1,254.24 (1.54)	5,951.18 (7.31)	4,935.74 (6.07)	907.92 (1.12)	298.68 (0.37)	107.52 (0.13)	375.70 (0.46)
Old Private Sector Banks											
2002-03	2,804.43 (2.67)	1,231.74 (1.17)	11,278.83 (10.75)	8,919.79 (8.50)	2,359.04 (2.25)	10,047.09 (9.57)	6,327.22 (6.03)	2,147.18 (2.05)	1,297.85 (1.24)	1,572.69 (1.50)	2,592.57 (2.47)
2003-04	3,191.66 (2.64)	1,446.48 (1.20)	11,555.03 (9.57)	9,120.90 (7.56)	2,434.13 (2.02)	10,108.55 (8.37)	5,981.88 (4.96)	2,381.49 (1.97)	1,400.22 (1.16)	1,745.18 (1.45)	3,139.02 (2.60)
2004-05	2,238.94 (1.70)	435.81 (0.33)	10,508.96 (8.00)	9,275.29 (7.06)	1,233.67 (0.94)	10,073.15 (7.67)	5,672.84 (4.32)	2,597.18 (1.98)	1,460.96 (1.11)	1,803.13 (1.37)	3,602.45 (2.74)
New Private Sector Banks											
2002-03	4,432.13 (2.31)	1,725.98 (0.90)	20,567.23 (10.70)	15,633.01 (8.13)	4,934.22 (2.57)	18,841.25 (9.80)	12,361.45 (6.43)	3,773.65 (1.96)	828.76 (0.43)	2,706.15 (1.41)	3,271.56 (1.70)
2003-04	5,132.93 (2.08)	2,035.01 (0.83)	21,721.43 (8.81)	16,541.52 (6.71)	5,179.91 (2.10)	19,686.42 (7.98)	11,547.82 (4.68)	5,040.68 (2.04)	1,178.41 (0.48)	3,097.92 (1.26)	4,993.70 (2.03)
2004-05	5,434.64 (1.85)	3,097.56 (1.05)	22,099.23 (7.51)	16,990.13 (5.77)	5,109.10 (1.74)	19,001.67 (6.45)	10,600.40 (3.60)	6,064.19 (2.06)	1,483.39 (0.50)	2,337.08 (0.79)	6,389.73 (2.17)
Foreign Banks											
2002-03	3,728.14 (3.20)	1,824.04 (1.56)	12,034.58 (10.32)	8,957.63 (7.68)	3,076.95 (2.64)	10,210.54 (8.75)	5,055.01 (4.33)	3,251.43 (2.79)	1,038.65 (0.89)	1,904.10 (1.63)	3,902.62 (3.35)
2003-04	4,985.53 (3.68)	2,243.07 (1.65)	13,008.35 (9.59)	9,137.04 (6.74)	3,871.31 (2.85)	10,765.28 (7.94)	4,268.52 (3.15)	3,754.30 (2.77)	1,199.67 (0.88)	2,742.46 (2.02)	4,868.52 (3.59)
2004-05	4,597.26 (2.98)	2,002.39 (1.30)	13,034.44 (8.46)	9,170.85 (5.95)	3,863.59 (2.51)	11,032.05 (7.16)	4,039.91 (2.62)	4,397.27 (2.85)	1,345.30 (0.87)	2,594.87 (1.68)	5,130.94 (3.33)

: Excluding the impact of conversion of a non-banking entity into a banking entity.

Note : 1. The number of scheduled commercial banks in 2002-03, 2003-04 and 2004-05 were 93, 90 and 88, respectively.

2. The number of old private banks in 2002-03, 2003-04 and 2004-05 were 21, 20 and 20, respectively.
3. The number of new private banks in 2002-03, 2003-04 and 2004-05 were 9, 10 and 9, respectively.
4. The number of foreign banks in 2002-03, 2003-04 and 2004-05 were 36, 33 and 31, respectively.
5. Figures in brackets are percentages to total assets.
6. NII – Net Interest Income.
7. Scheduled commercial banks data for 2003-04 are as reported in the balance sheets for 2004-05 and hence may not tally with those reported in the *Report on Trend and Progress of Banking in India, 2003 04*, to the extent the figures for 2003-04 were revised by some banks.

Source: Balance sheets of respective banks.

Appendix Table III.15(A): Financial Performance of Scheduled Commercial Banks

(Amount in Rs. crore)

Item			2003-04	2004-05	Variation	
					Absolute	Percentage
1			2	3	4	5
A.	**Income (i+ii)**		**1,83,872.12 (100.00)**	**1,93,268.88 (100.00)**	**9,396.76**	**5.11**
	i)	Interest Income	1,44,346.81 (78.50)	1,58,438.26 (81.98)	14,091.45	9.76
		of which: Interest on Advances	70,049.85	83,573.94	13,524.09	19.31
		Income on Investments	66,104.78	66,171.79	67.01	0.10
	ii)	Other Income	39,525.31 (21.50)	34,830.62 (18.02)	-4,694.69	-11.88
		of which: Commission and Brokerage	11,837.60	14,913.49	3,075.89	25.98
B.	**Expenditure (i+ii+iii)**		**1,61,601.18 (100.00)**	**1,71,948.72 (100.00)**	**10,347.54**	**6.40**
	i)	Interest Expended	87,562.75 (54.18)	91,537.00 (53.24)	3,974.25	4.54
		of which: Interest on Deposits	77,667.58	77,611.84	-55.74	-0.07
	ii)	Provisions and Contingencies	30,329.28 (18.77)	30,363.86 (17.66)	34.58	0.11
		of which: Provision for NPAs	17,441.31	7,105.92	-10,335.39	-59.26
	iii)	Operating Expenses	43,709.15 (27.05)	50,047.86 (29.11)	6,338.71	14.50
		of which: Wage Bill	26,359.53	29,032.26	2,672.73	10.14
C.	**Profit**					
	i)	**Operating Profit**	**52,600.22**	**51,684.02**	**-916.20**	**-1.74**
	ii)	**Net Profit**	**22,270.94**	**21,320.16**	**-950.78**	**-4.27**
D.	**Net Interest Income/Margin**		**56,784.06**	**66,901.26**	**10,117.20**	**17.82**
E.	**Total Assets**		**19,74,017.00**	**23,55,982.67**	**3,81,965.67**	**19.35**

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

Appendix Table III.15(B): Financial Performance of Scheduled Commercial Banks

(Excluding the Conversion Impact)#

(Amount in Rs. crore)

Item			2003-04	2004-05	Variation	
					Absolute	Percentage
1			2	3	4	5
A.	**Income (i+ii)**		**1,83,872.12 (100.00)**	**1,86,703.20 (100.00)**	**2,831.08**	**1.54**
	i)	Interest Income	1,44,346.81 (78.50)	1,53,126.82 (82.02)	8,780.01	6.08
		of which: Interest on Advances	70,049.85	79,202.64	9,152.79	13.07
		Income on Investments	66,104.78	65,380.89	-723.89	-1.10
	ii)	Other Income	39,525.31 (21.50)	33,576.38 (17.98)	-5,948.93	-15.05
		of which: Commission and Brokerage	11,837.60	14,652.15	2,814.55	23.78
B.	**Expenditure (i+ii+iii)**		**1,61,601.18 (100.00)**	**1,65,997.54 (100.00)**	**4,396.36**	**2.72**
	i)	Interest Expended	87,562.75 (54.18)	86,601.26 (52.17)	-961.49	-1.10
		of which: Interest on Deposits	77,667.58	76,903.26	-764.32	-0.98
	ii)	Provisions and Contingencies	30,329.28 (18.77)	30,256.34 (18.23)	-72.94	-0.24
		of which: Provision for NPAs	17,441.31	7,181.78	-10,259.53	-58.82
	iii)	Operating Expenses	43,709.15 (27.05)	49,139.94 (29.60)	5,430.79	12.42
		of which: Wage Bill	26,359.53	28,733.58	2,374.05	9.01
C.	**Profit**					
	i)	**Operating Profit**	**52,600.22**	**50,962.00**	**-1,638.22**	**-3.11**
	ii)	**Net Profit**	**22,270.94**	**20,705.66**	**-1,565.28**	**-7.03**
D.	**Net Interest Income/Margin**		**56,784.06**	**66,525.56**	**9,741.50**	**17.16**
E.	**Total Assets**		**19,74,017.00**	**22,74,622.42**	**3,00,605.42**	**15.23**

: Excluding the impact of conversion of a non-banking entity into a banking entity.
Note : Figures in brackets are percentage shares to the respective total.

Appendix Table III.15(C): Financial Performance of Public Sector Banks

(Amount in Rs. crore)

Item			2003-04	2004-05	Variation	
					Absolute	Percentage
1			2	3	4	5
A.	**Income (i+ii)**		**1,37,587.31 (100.00)**	**1,47,626.25 (100.00)**	**10,038.94**	**7.30**
	i)	Interest Income	1,09,547.35 (79.62)	1,23,001.99 (83.32)	13,454.64	12.28
		of which: Interest on Advances	49,934.15	61,408.56	11,474.41	22.98
		Income on Investments	53,207.89	54,777.76	1,569.87	2.95
	ii)	Other Income	28,039.96 (20.38)	24,624.26 (16.68)	-3,415.70	-12.18
		of which: Commission and Brokerage	7,822.13	9,144.30	1,322.17	16.90
B.	**Expenditure (i+ii+iii)**		**1,21,040.93 (100.00)**	**1,31,841.85 (100.00)**	**10,800.92**	**8.92**
	i)	Interest Expended	65,764.53 (54.33)	71,223.85 (54.02)	5,459.32	8.30
		of which: Interest on Deposits	62,272.57	62,936.35	663.78	1.07
	ii)	Provisions and Contingencies	22,743.72 (18.79)	23,628.78 (17.92)	885.06	3.89
		of which: Provision for NPAs	14189.10	5777.77	-8,411.33	-59.28
	iii)	Operating Expenses	32,532.68 (26.88)	36,989.22 (28.06)	4,456.54	13.70
		of which: Wage Bill	22,581.23	24,742.61	2,161.38	9.57
C.	**Profit**					
	i)	**Operating Profit**	**39,290.10**	**39,413.18**	**123.08**	**0.31**
	ii)	**Net Profit**	**16,546.38**	**15,784.40**	**-761.98**	**-4.61**
D.	**Net Interest Income/Margin**		**43,782.82**	**51,778.14**	**7,995.32**	**18.26**
E.	**Total Assets**		**14,71,077.38**	**17,73,938.80**	**3,02,861.42**	**20.59**

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

Appendix Table III.15(D): Financial Performance of Public Sector Banks
(Excluding the Conversion Impact)#

(Amount in Rs. crore)

Item	2003-04	2004-05	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**1,37,587.31 (100.00)**	**1,41,060.57 (100.00)**	**3,473.26**	**2.52**
i) Interest Income	1,09,547.35 (79.62)	1,17,690.55 (83.43)	8,143.20	7.43
of which: Interest on Advances	49,934.15	57,037.26	7,103.11	14.22
Income on Investments	53,207.89	53,986.86	778.97	1.46
ii) Other Income	28,039.96 (20.38)	23,370.02 (16.57)	-4,669.94	-16.65
of which: Commission and Brokerage	7,822.13	8,882.96	1,060.83	13.56
B. Expenditure (i+ii+iii)	**1,21,040.93 (100.00)**	**1,25,890.67 (100.00)**	**4,849.74**	**4.01**
i) Interest Expended	65,764.53 (54.33)	66,288.11 (52.66)	523.58	0.80
of which: Interest on Deposits	62,272.57	62,227.77	-44.80	-0.07
ii) Provisions and Contingencies	22,743.72 (18.79)	23,521.26 (18.68)	777.54	3.42
of which: Provision for NPAs	14189.10	5,853.63	-8,335.47	-58.75
iii) Operating Expenses	32,532.68 (26.88)	36,081.30 (28.66)	3,548.62	10.91
of which : Wage Bill	22,581.23	24,443.93	1,862.70	8.25
C. Profit				
i) Operating Profit	**39,290.10**	**38,691.16**	**-598.94**	**-1.52**
ii) Net Profit	**16,546.38**	**15,169.90**	**-1,376.48**	**-8.32**
D. Net Interest Income/Margin	**43,782.82**	**51,402.44**	**7,619.62**	**17.40**
E. Total Assets	**14,71,077.38**	**16,92,578.55**	**2,21,501.17**	**15.06**

: Excluding the impact of conversion of a non-banking entity into a banking entity.
Note : Figures in brackets are percentage shares to the respective total.

Appendix Table III.15(E): Financial Performance of Nationalised Banks

(Amount in Rs. crore)

Item	2003-04	2004-05	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**85,712.04 (100.00)**	**87,548.03 (100.00)**	**1,835.99**	**2.14**
i) Interest Income	68,590.96 (80.02)	73,645.20 (84.12)	5,054.24	7.37
of which: Interest on Advances	33,684.10	38,117.70	4,433.60	13.16
Income on Investments	32,343.73	32,660.38	316.65	0.98
Interest on Recapitalisation Bonds	1855.72	1420.15		
ii) Other Income	17,121.08 (19.98)	13,902.83 (15.88)	-3,218.25	-18.80
of which: Commission and Brokerage	3,604.77	4,089.97	485.20	13.46
B. Expenditure (i+ii+iii)	**74,784.38 (100.00)**	**78,053.99 (100.00)**	**3,269.61**	**4.37**
i) Interest Expended	40,369.38 (53.98)	41,446.03 (53.10)	1,076.65	2.67
of which: Interest on Deposits	38,244.78	38,952.10	707.32	1.85
ii) Provisions and Contingencies	13,998.92 (18.72)	13,936.97 (17.86)	-61.95	-0.44
of which: Provision for NPAs	8,989.18	4,446.80	-4,542.38	-50.53
iii) Operating Expenses	20,416.08 (27.30)	22,670.99 (29.05)	2,254.91	11.04
of which: Wage Bill	14,262.25	15,434.50	1,172.25	8.22
C. Profit				
i) Operating Profit	**24,926.58**	**23,431.01**	**-1,495.57**	**-6.00**
Operating Profit exclusive of income from recapitalisation bonds	23,070.86	22,010.86	-1,060.00	-4.59
ii) Net Profit	**10,927.66**	**9,494.04**	**-1,433.62**	**-13.12**
Net Profit exclusive of income from recapitalisation bonds	9,071.94	8,073.89	-998.05	-11.00
D. Net Interest Income/Margin	**28,221.58**	**32,199.17**	**3,977.59**	**14.09**
E. Total Assets	**9,21,953.66**	**10,65,503.85**	**1,43,550.19**	**15.57**

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

Appendix Table III.15(F): Financial Performance of State Bank Group

(Amount in Rs. crore)

Item	2003-04	2004-05	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**51,875.27 (100.00)**	**53,512.54 (100.00)**	**1,637.27**	**3.16**
i) Interest Income	40,956.39 (78.95)	44,045.35 (82.31)	3,088.96	7.54
of which: Interest on Advances	16,250.05	18,919.56	2,669.51	16.43
Income on Investments	20,864.16	21,326.48	462.32	2.22
ii) Other Income	10,918.88 (21.05)	9,467.19 (17.69)	-1,451.69	-13.30
of which: Commission and Brokerage	4,217.36	4,792.99	575.63	13.65
B. Expenditure (i+ii+iii)	**46,256.55 (100.00)**	**47,836.68 (100.00)**	**1,580.13**	**3.42**
i) Interest Expended	25,395.15 (54.90)	24,842.08 (51.93)	-553.07	-2.18
of which: Interest on Deposits	24,027.79	23,275.67	-752.12	-3.13
ii) Provisions and Contingencies	8,744.80 (18.90)	9,584.29 (20.04)	839.49	9.60
of which: Provision for NPAs	5,199.92	1,406.83	-3,793.09	-72.95
iii) Operating Expenses	12,116.60 (26.19)	13,410.31 (28.03)	1,293.71	10.68
of which: Wage Bill	8,318.98	9,009.43	690.45	8.30
C. Profit				
i) Operating Profit	**14,363.52**	**15,260.15**	**896.63**	**6.24**
ii) Net Profit	**5,618.72**	**5,675.86**	**57.14**	**1.02**
D. Net Interest Income/Margin	**15,561.24**	**19,203.27**	**3,642.03**	**23.40**
E. Total Assets	**5,49,123.72**	**6,27,074.70**	**77,950.98**	**14.20**

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

Appendix Table III.15(G): Financial Performance of Old Private Sector Banks

(Amount in Rs. crore)

Item	2003-04	2004-05	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**11,555.03 (100.00)**	**10,508.96 (100.00)**	**-1,046.07**	**-9.05**
i) Interest Income	9,120.90 (78.93)	9,275.29 (88.26)	154.39	1.69
of which: Interest on Advances	4,890.85	5,435.78	544.93	11.14
Income on Investments	3,833.78	3,457.55	-376.23	-9.81
ii) Other Income	2,434.13 (21.07)	1,233.67 (11.74)	-1,200.46	-49.32
of which: Commission and Brokerage	518.22	555.94	37.72	7.28
B. Expenditure (i+ii+iii)	**10,108.55 (100.00)**	**10,073.15 (100.00)**	**-35.40**	**-0.35**
i) Interest Expended	5,981.88 (59.18)	5,672.84 (56.32)	-309.04	-5.17
of which: Interest on Deposits	5,668.46	5,382.51	-285.95	-5.04
ii) Provisions and Contingencies	1,745.18 (17.26)	1,803.13 (17.90)	57.95	3.32
of which: Provision for NPAs	821.66	465.62	-356.04	-43.33
iii) Operating Expenses	2,381.49 (23.56)	2,597.18 (25.78)	215.69	9.06
of which: Wage Bill	1,400.22	1,460.96	60.74	4.34
C. Profit				
i) Operating Profit	**3,191.66**	**2,238.94**	**-952.72**	**-29.85**
ii) Net Profit	**1,446.48**	**435.81**	**-1,010.67**	**-69.87**
D. Net Interest Income/Margin	**3,139.02**	**3,602.45**	**463.43**	**14.76**
E. Total Assets	**1,20,723.75**	**1,33,494.06**	**12,770.31**	**10.58**

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

Appendix Table III.15(H): Financial Performance of New Private Sector Banks

(Amount in Rs. crore)

Item	2003-04	2004-05	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**21,721.43 (100.00)**	**22,099.23 (100.00)**	**377.80**	**1.74**
i) Interest Income	16,541.52 (76.15)	16,990.13 (76.88)	448.61	2.71
of which: Interest on Advances	10,180.56	11,194.38	1,013.82	9.96
Income on Investments	5,511.87	4,989.65	-522.22	-9.47
ii) Other Income	5,179.91 (23.85)	5,109.10 (23.12)	-70.81	-1.37
of which: Commission and Brokerage	1,865.04	3,072.52	1,207.48	64.74
B. Expenditure (i+ii+iii)	**19,686.42 (100.00)**	**19,001.67 (100.00)**	**-684.75**	**-3.48**
i) Interest Expended	11,547.82 (58.66)	10,600.40 (55.79)	-947.42	-8.20
of which: Interest on Deposits	6,824.74	6,698.51	-126.23	-1.85
ii) Provisions and Contingencies	3,097.92 (15.74)	2,337.08 (12.30)	-760.84	-24.56
of which: Provision for NPAs	1,532.80	279.80	-1,253.00	-81.75
iii) Operating Expenses	5,040.68 (25.60)	6,064.19 (31.91)	1,023.51	20.30
of which: Wage Bill	1,178.41	1,483.39	304.98	25.88
C. Profit				
i) Operating Profit	**5,132.93**	**5,434.64**	**301.71**	**5.88**
ii) Net Profit	**2,035.01**	**3,097.56**	**1,062.55**	**52.21**
D. Net Interest Income/Margin	**4,993.70**	**6,389.73**	**1,396.03**	**27.96**
E. Total Assets	**2,46,575.75**	**2,94,421.45**	**47,845.70**	**19.40**

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

Appendix Table III.15(I): Financial Performance of Foreign Banks in India

(Amount in Rs. crore)

Item	2003-04	2004-05	Variation	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**13,008.35 (100.00)**	**13,034.44 (100.00)**	**26.09**	**0.20**
i) Interest Income	9,137.04 (70.24)	9,170.85 (70.36)	33.81	0.37
of which: Interest on Advances	5,044.29	5,535.22	490.93	9.73
Income on Investments	3,551.24	2,946.83	-604.41	-17.02
ii) Other Income	3,871.31 (29.76)	3,863.59 (29.64)	-7.72	-0.20
of which: Commission and Brokerage	1,632.21	2,140.73	508.52	31.16
B. Expenditure (i+ii+iii)	**10,765.28 (100.00)**	**11,032.05 (100.00)**	**266.77**	**2.48**
i) Interest Expended	4,268.52 (39.65)	4,039.91 (36.62)	-228.61	-5.36
of which: Interest on Deposits	2,901.81	2,594.47	-307.34	-10.59
ii) Provisions and Contingencies	2,742.46 (25.48)	2,594.87 (23.52)	-147.59	-5.38
of which: Provision for NPAs	897.75	582.73	-315.02	-35.09
iii) Operating Expenses	3,754.30 (34.87)	4,397.27 (39.86)	642.97	17.13
of which: Wage Bill	1,199.67	1,345.30	145.63	12.14
C. Profit				
i) Operating Profit	**4,985.53**	**4,597.26**	**-388.27**	**-7.79**
ii) Net Profit	**2,243.07**	**2,002.39**	**-240.68**	**-10.73**
D. Net Interest Income/Margin	**4,868.52**	**5,130.94**	**262.42**	**5.39**
E. Total Assets	**1,35,640.12**	**1,54,128.36**	**18,488.24**	**13.63**

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

Appendix Table III.16: Select Financial Parameters of Scheduled Commercial Banks *(Continued)*

(As at end-March 2005)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Funds	Non-Interest Income/ Working Funds	Operating Profit/ Working Funds	Return on Assets	Business per employee	Profit per employee
		Tier I	Tier II	Total						(Amount in Rs. lakh)	
1	2	3	4	5	6	7	8	9	10	11	12
	Nationalised Banks										
1.	Allahabad Bank	6.46	6.07	12.53	1.28	7.83	1.57	2.64	1.20	282.00	2.86
2.	Andhra Bank	8.03	4.08	12.11	0.28	8.06	2.67	3.52	1.59	346.25	3.97
3.	Bank of Baroda	8.21	4.40	12.61	1.45	6.86	1.39	2.45	0.75	310.37	1.71
4.	Bank of India	7.05	4.47	11.52	2.77	6.71	1.29	1.62	0.38	320.00	0.80
5.	Bank of Maharashtra	7.10	5.58	12.68	2.15	7.40	1.20	1.71	0.54	294.65	1.25
6.	Canara Bank	7.29	5.49	12.78	1.88	7.28	1.48	2.48	1.01	351.12	2.48
7.	Central Bank of India	6.08	6.07	12.15	2.98	8.28	1.46	2.56	0.53	206.89	0.93
8.	Corporation Bank	13.55	2.68	16.23	1.12	7.84	1.97	3.68	1.40	438.00	3.95
9.	Dena Bank	6.63	5.28	11.91	5.23	7.48	1.35	1.94	0.26	313.00	0.60
10.	Indian Bank	7.60	6.54	14.14	1.35	7.34	1.45	2.45	1.08	246.00	1.87
11.	Indian Overseas Bank	7.10	7.10	14.20	1.27	7.77	1.26	2.63	1.28	269.48	2.66
12.	Oriental Bank of Commerce	5.42	3.79	9.21	1.29	7.40	1.00	2.50	1.40	515.00	5.20
13.	Punjab and Sind Bank	5.26	4.20	9.46	8.11	7.89	1.62	1.63	-0.45	217.57	-0.74
14.	Punjab National Bank	8.87	5.91	14.78	0.20	7.04	1.39	2.25	1.12	276.87	2.42
15.	Syndicate Bank	6.10	4.60	10.70	1.59	7.11	1.07	1.88	0.82	280.22	1.53
16.	UCO Bank	5.75	5.51	11.26	2.93	7.50	1.09	1.73	0.73	321.00	1.43
17.	Union Bank of India	6.07	6.02	12.09	2.64	7.96	1.23	2.52	1.10	346.72	2.81
18.	United Bank of India	14.15	4.01	18.16	2.43	7.93	1.78	2.56	1.04	208.00	1.72
19.	Vijaya Bank	7.59	5.33	12.92	0.59	8.00	1.35	3.01	1.43	312.89	3.48
	State Bank Group										
20.	State Bank of India	8.04	4.41	12.45	2.65	7.70	1.69	2.61	0.99	243.08	2.07
21.	State Bank of Bikaner and Jaipur	7.95	4.65	12.60	1.61	7.75	2.15	3.25	0.88	220.29	1.69
22.	State Bank of Hyderabad	7.58	4.16	11.74	0.61	7.33	1.33	2.25	0.72	339.74	1.91
23.	State Bank of Indore	6.67	4.94	11.61	1.00	7.67	1.23	2.43	0.79	293.88	2.07
24.	State Bank of Mysore	7.12	4.96	12.08	0.92	8.15	2.69	3.15	1.25	203.54	2.16
25.	State Bank of Patiala	11.05	3.16	14.21	1.23	7.34	1.23	2.94	0.91	361.15	2.48
26.	State Bank of Saurashtra	8.68	2.77	11.45	1.40	8.49	0.85	2.76	0.27	249.60	0.56
27.	State Bank of Travancore	6.17	4.88	11.05	1.81	7.77	1.58	3.10	0.86	346.25	2.21
	Other Public Sector Bank										
28.	IDBI Ltd.	–	–	15.51	1.74	3.35	0.79	0.46	0.78	1,349.60	6.85

Appendix Table III.16: Select Financial Parameters of Scheduled Commercial Banks *(Continued)*

(As at end-March 2005)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Funds	Non-Interest Income/ Working Funds	Operating Profit/ Working Funds	Return on Assets	Business per employee	Profit per employee
		Tier I	Tier II	Total						(Amount in Rs. lakh)	
1	2	3	4	5	6	7	8	9	10	11	12
	Old Private Sector Banks										
1.	Bank of Rajasthan Ltd.	7.84	4.91	12.75	2.50	7.24	0.88	1.14	0.38	231.18	0.86
2.	Bharat Overseas Bank Ltd.	9.28	5.67	14.95	1.56	7.05	0.62	1.75	0.62	422.00	1.86
3.	Catholic Syrian Bank Ltd.	7.49	3.86	11.35	3.80	8.14	1.02	1.74	0.24	215.97	0.37
4.	City Union Bank Ltd.	10.05	2.13	12.18	3.37	8.36	0.96	2.35	1.33	325.80	3.23
5.	Dhanalakshmi Bank Ltd.	6.12	4.04	10.16	3.92	7.58	0.58	0.73	-0.83	292.70	-1.65
6.	Federal Bank Ltd.	6.42	4.85	11.27	2.21	8.14	1.45	2.74	0.54	366.00	1.39
7.	Ganesh Bank of Kurundwad Ltd.	-0.25	4.24	3.99	8.32	7.86	-0.30	-2.58	-2.58	124.28	–
8.	ING Vysya Bank Ltd.	5.20	3.89	9.09	2.13	7.54	0.92	0.76	-0.25	394.92	-0.73
9.	Jammu and Kashmir Bank Ltd.	12.48	2.67	15.15	1.41	7.64	0.41	1.75	0.47	435.00	2.00
10.	Karnataka Bank Ltd.	12.15	2.01	14.16	2.29	7.79	2.05	3.16	1.27	380.90	3.35
11.	Karur Vysya Bank Ltd.	14.36	1.71	16.07	1.66	8.13	1.56	2.74	1.45	387.00	3.75
12.	Lakshmi Vilas Bank Ltd.	5.67	5.65	11.32	4.98	7.66	0.98	1.40	0.08	296.00	0.17
13.	Lord Krishna Bank Ltd.	7.57	4.17	11.74	4.22	8.24	0.05	–	–	306.35	–
14.	Nainital Bank Ltd.	11.30	3.55	14.85	–	8.15	1.04	2.34	1.25	162.32	1.74
15.	Ratnakar Bank Ltd.	10.44	1.97	12.41	5.54	8.12	0.62	1.18	-1.17	220.75	-1.73
16.	Sangli Bank Ltd.	6.44	2.86	9.30	4.30	8.05	0.52	0.35	-1.52	105.35	-1.66
17.	SBI Commercial and International Bank Ltd.	23.01	0.55	23.56	7.65	6.30	2.26	2.66	-2.10	527.06	-9.73
18.	South Indian Bank Ltd.	5.68	4.21	9.89	3.81	7.47	1.08	1.82	0.09	352.00	0.24
19.	Tamilnad Mercantile Bank Ltd.	16.22	3.52	19.74	2.95	9.49	1.26	3.23	1.47	316.97	3.60
20.	United Western Bank Ltd.	2.43	2.43	4.86	5.97	6.99	0.94	1.20	-1.40	309.00	-3.12
	New Private Sector Banks										
21.	Bank of Punjab Ltd.	3.83	5.40	9.23	4.64	6.93	0.15	0.41	-1.29	355.93	-3.24
22.	Centurion Bank Ltd.	17.80	21.42	39.22	2.51	9.74	1.81	0.65	0.64	383.49	1.69
23.	Development Credit Bank Ltd.	5.85	4.03	9.88	6.83	6.29	1.89	-0.09	-3.38	392.29	-10.84
24.	HDFC Bank Ltd.	9.60	2.56	12.16	0.24	6.85	1.44	2.56	1.47	806.00	8.80
25.	ICICI Bank Ltd.	7.59	4.19	11.78	1.65	6.94	2.52	2.18	1.59	880.00	11.00
26.	IndusInd Bank Ltd.	7.24	4.38	11.62	2.71	8.11	1.79	2.87	1.35	925.78	10.12
27.	Kotak Mahindra Bank Ltd.	10.12	2.68	12.80	0.37	7.71	2.42	2.44	1.56	387.27	5.37
28.	UTI Bank Ltd.	8.87	3.79	12.66	1.39	6.94	1.50	2.04	1.21	895.00	7.03
29.	Yes Bank Ltd.	18.64	0.17	18.81	–	4.49	2.72	-0.83	-0.29	687.93	-1.82

Appendix Table III.16: Select Financial Parameters of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2005)

(Per cent)

Sr. No.	Name of the Bank	CRAR			Net NPAs/ Net Advances	Interest Income/ Working Funds	Non-Interest Income/ Working Funds	Operating Profit/ Working Funds	Return on Assets	Business per employee	Profit per employee
		Tier I	Tier II	Total						(Amount in Rs. lakh)	
1	2	3	4	5	6	7	8	9	10	11	12
	Foreign Banks in India										
1.	ABN-AMRO Bank N.V.	7.89	2.66	10.55	0.35	7.28	3.49	3.55	1.27	823.70	10.24
2.	Abu Dhabi Commercial Bank Ltd.	12.03	2.35	14.38	12.73	7.68	2.07	0.26	-2.57	1,061.10	-77.24
3.	American Express Bank Ltd.	10.23	0.64	10.87	0.99	9.29	8.64	2.66	0.55	237.53	1.05
4.	Antwerp Diamond Bank	26.81	13.18	39.99	–	4.61	0.76	2.31	1.00	2,267.01	33.40
5.	Arab Bangladesh Bank Ltd.	108.00	1.39	109.39	0.18	4.38	5.38	6.23	3.43	183.07	10.29
6.	Bank Internasional Indonesia	92.06	0.20	92.26	10.49	4.49	-0.44	-1.44	-0.98	274.51	-4.15
7.	Bank of America NA	23.39	6.68	30.07	–	4.75	2.19	2.60	1.46	1,707.72	29.47
8.	Bank of Bahrain and Kuwait B.S.C.	9.84	1.82	11.66	5.53	5.94	0.43	0.31	-3.77	820.00	-28.00
9.	Bank of Ceylon	48.30	1.10	49.40	13.76	4.26	2.92	3.30	1.19	628.76	7.95
10.	Bank of Nova Scotia	14.36	0.91	15.27	3.08	4.33	1.41	1.87	-0.35	2,085.17	-6.30
11.	Bank of Tokyo-Mitsubishi Ltd.	21.65	10.45	32.10	0.01	4.75	4.77	5.51	0.93	663.58	6.45
12.	Barclays Bank PLC	19.88	0.97	20.85	–	1.65	6.66	6.20	4.53	188.49	160.21
13.	BNP Paribas	6.10	3.31	9.41	0.58	6.21	2.38	1.99	0.50	980.52	4.70
14.	Chinatrust Commercial Bank	58.46	1.48	59.94	6.02	6.60	1.04	1.96	-7.68	628.66	-52.51
15.	Chohung Bank	53.00	2.31	55.31	–	6.44	2.51	5.24	2.49	1,109.39	40.94
16.	Citibank N.A.	8.60	2.18	10.78	1.00	7.17	3.07	3.81	2.84	1,359.51	21.75
17.	Calyon Bank	10.00	4.40	14.40	0.30	7.40	1.40	-0.70	-0.80	1,885.82	-15.04
18.	Deutsche Bank AG	12.62	3.60	16.22	–	4.37	4.57	2.40	0.72	1,608.93	20.31
19.	DBS Bank Ltd.	34.45	0.61	35.06	–	5.46	0.56	1.76	0.89	1,110.99	14.52
20.	HSBC Ltd.	11.38	2.65	14.03	0.50	6.39	2.60	3.79	1.21	779.45	8.90
21.	ING Bank N.V.	74.97	–	74.97	–	0.02	1.23	3.15	-4.38	–	–
22.	JPMorgan Chase Bank	9.44	0.75	10.19	–	5.20	12.05	11.63	3.58	593.74	69.96
23.	Krung Thai Bank Public Co. Ltd.	99.59	1.42	101.01	–	4.92	0.35	1.32	0.03	460.75	0.19
24.	Mashreqbank psc	58.03	2.11	60.14	–	8.11	1.04	1.19	1.10	521.26	36.99
25.	Mizuho Corporate Bank Ltd.	28.82	1.52	30.34	–	5.19	1.87	2.86	2.20	608.21	19.25
26.	Oman International Bank S.A.O.G.	13.20	0.32	13.52	55.05	5.99	0.57	-0.15	-2.86	1,132.28	-40.79
27.	Societe Generale	61.53	3.28	64.81	–	3.96	1.09	1.20	1.61	1,057.90	25.40
28.	Sonali Bank	103.73	2.08	105.81	1.90	7.00	24.00	12.00	4.00	92.29	3.35
29.	Standard Chartered Bank	7.10	3.36	10.46	1.12	8.16	1.72	3.50	1.61	786.36	11.50
30.	State Bank of Mauritius Ltd.	29.76	1.30	31.06	4.08	7.10	0.41	2.16	1.20	1,191.00	18.00
31.	UFJ Bank Ltd.	120.07	1.53	121.60	–	5.02	1.58	4.16	2.13	494.64	21.99

– : Nil/Negligible.

Note : Data reported in this table may not exactly tally with those reported in Appendix Table III.17 to Appendix Table III.23 on account of conceptual differences.

Source : Balance sheets of respective banks.

Appendix Table III.17: Gross Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**1.66**	**1.53**	**1.94**	**2.39**	**2.66**	**2.20**
	Public Sector Banks	**1.46**	**1.34**	**1.88**	**2.31**	**2.67**	**2.22**
	Nationalised Banks	**1.30**	**1.29**	**1.83**	**2.34**	**2.70**	**2.20**
1.	Allahabad Bank	1.28	1.21	1.65	1.84	2.52	2.38
2.	Andhra Bank	1.83	1.22	2.03	3.06	3.44	3.03
3.	Bank of Baroda	1.79	1.64	1.85	2.25	2.92	2.43
4.	Bank of India	1.23	1.30	2.02	2.66	2.64	1.54
5.	Bank of Maharashtra	1.52	1.26	1.93	2.09	2.10	1.66
6.	Canara Bank	1.70	1.70	2.30	2.43	2.88	2.34
7.	Central Bank of India	1.02	1.00	1.34	1.62	2.41	2.35
8.	Corporation Bank	2.54	2.70	2.64	3.24	3.11	3.12
9.	Dena Bank	1.36	0.43	1.78	2.45	3.21	1.86
10.	Indian Bank	0.10	0.23	1.01	1.67	2.05	2.18
11.	Indian Overseas Bank	0.68	1.01	1.74	1.93	2.80	2.63
12.	Oriental Bank of Commerce	2.06	1.97	2.84	3.42	3.74	2.28
13.	Punjab and Sind Bank	0.83	0.77	1.19	1.94	1.00	1.64
14.	Punjab National Bank	1.52	1.49	2.02	2.69	3.05	2.14
15.	Syndicate Bank	1.03	1.05	1.12	1.80	2.16	1.91
16.	UCO Bank	0.75	0.78	1.52	1.79	1.82	1.50
17.	Union Bank of India	1.12	1.31	1.96	2.55	2.54	2.17
18.	United Bank of India	0.43	0.64	1.04	2.29	2.37	2.37
19.	Vijaya Bank	0.98	1.25	1.56	2.27	3.60	2.69
	State Bank Group	**1.74**	**1.42**	**1.94**	**2.27**	**2.62**	**2.43**
20.	State Bank of India	1.61	1.26	1.74	2.07	2.34	2.39
21.	State Bank of Bikaner and Jaipur	1.91	1.93	2.52	2.45	3.39	3.12
22.	State Bank of Hyderabad	2.65	2.43	2.71	2.90	3.31	2.04
23.	State Bank of Indore	2.06	2.10	3.48	3.70	4.08	2.08
24.	State Bank of Mysore	1.96	1.47	2.27	3.11	3.09	2.73
25.	State Bank of Patiala	2.83	2.79	3.25	3.47	3.73	2.71
26.	State Bank of Saurashtra	2.15	1.36	2.36	2.52	3.53	2.45
27.	State Bank of Travancore	1.47	1.59	1.95	2.39	2.92	2.78
	Other Public Sector Bank						
28.	IDBI Ltd.	–	–	–	–	–	0.89

Appendix Table III.17: Gross Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Private Sector Banks	**1.95**	**1.74**	**1.74**	**2.44**	**2.27**	**1.79**
	Old Private Sector Banks	**1.82**	**1.75**	**2.70**	**2.67**	**2.64**	**1.68**
1.	Bank of Rajasthan Ltd.	0.46	1.33	1.69	2.42	2.19	0.90
2.	Bharat Overseas Bank Ltd.	1.26	1.98	2.53	2.02	2.02	1.69
3.	Catholic Syrian Bank Ltd.	0.95	1.63	2.60	2.89	2.86	1.77
4.	City Union Bank Ltd.	3.18	2.70	2.92	3.06	3.69	2.34
5.	Dhanalakshmi Bank Ltd.	1.89	1.46	2.68	3.02	2.74	0.70
6.	Federal Bank Ltd.	1.78	2.12	3.01	2.88	2.89	2.38
7.	Ganesh Bank of Kurundwad Ltd.	0.81	0.42	1.14	1.65	0.89	-1.16
8.	ING Vysya Bank Ltd.	1.35	1.13	1.91	2.11	1.98	0.65
9.	Jammu and Kashmir Bank Ltd.	2.20	2.14	3.14	3.30	2.96	1.45
10.	Karnataka Bank Ltd.	1.41	2.04	3.23	2.73	3.12	2.72
11.	Karur Vysya Bank Ltd.	2.91	2.61	3.17	3.20	3.02	2.53
12.	Lakshmi Vilas Bank Ltd.	2.40	2.30	2.72	2.50	2.27	1.35
13.	Lord Krishna Bank Ltd.	1.41	1.08	2.93	2.76	1.85	-0.04
14.	Nainital Bank Ltd.	1.69	1.58	1.77	1.51	2.41	2.01
15.	Ratnakar Bank Ltd.	1.46	1.75	3.69	2.74	1.70	1.10
16.	Sangli Bank Ltd.	1.14	1.08	1.51	1.11	1.41	0.28
17.	SBI Commercial and International Bank Ltd.	3.19	1.34	1.86	2.78	5.31	2.29
18.	South Indian Bank Ltd.	1.80	2.05	2.64	2.84	2.61	1.82
19.	Tamilnad Mercantile Bank Ltd.	2.36	2.78	2.82	2.87	3.34	3.10
20.	United Western Bank Ltd.	2.96	0.88	2.99	2.31	1.86	1.18
	New Private Sector Banks	**2.11**	**1.74**	**1.22**	**2.31**	**2.08**	**1.85**
21.	Bank of Punjab Ltd.	1.69	1.73	2.46	2.53	2.13	0.40
22.	Centurion Bank Ltd.	1.25	0.98	0.35	0.64	0.34	0.50
23.	Development Credit Bank Ltd.	1.89	1.62	2.47	1.35	1.00	-0.09
24.	HDFC Bank Ltd.	2.21	2.44	2.29	2.33	2.38	2.61
25.	ICICI Bank Ltd.	1.88	1.47	0.52	2.41	1.98	1.76
26.	IndusInd Bank Ltd.	2.39	2.00	2.47	3.28	2.95	2.57
27.	Kotak Mahindra Bank Ltd.	–	–	–	4.16	2.18	2.04
28.	UTI Bank Ltd.	1.74	1.23	2.83	2.09	2.89	1.50
29.	Yes Bank Ltd.	–	–	–	–	–	-0.29

Appendix Table III.17: Gross Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Foreign Banks in India	**3.24**	**3.05**	**3.10**	**3.20**	**3.68**	**2.98**
1.	ABN-AMRO Bank N.V.	3.05	3.51	3.68	3.13	3.38	2.87
2.	Abu Dhabi Commercial Bank Ltd.	2.50	1.35	0.90	0.69	0.70	0.26
3.	American Express Bank Ltd.	2.74	1.81	3.80	3.37	2.95	2.56
4.	Antwerp Diamond Bank	–	–	–	1.09	2.29	1.98
5.	Arab Bangladesh Bank Ltd.	6.08	7.09	6.40	5.26	6.93	6.23
6.	Bank Internasional Indonesia	-9.75	-6.89	0.22	-2.93	0.04	-0.26
7.	Bank of America NA	5.02	3.36	3.56	2.71	2.34	2.86
8.	Bank of Bahrain and Kuwait B.S.C.	1.74	1.49	2.72	2.23	1.23	0.30
9.	Bank of Ceylon	6.34	4.91	5.49	2.58	2.98	3.63
10.	Bank of Nova Scotia	3.11	2.19	2.70	3.19	1.95	2.05
11.	Bank of Tokyo-Mitsubishi Ltd.	-2.92	9.22	3.04	3.19	8.05	5.70
12.	Barclays Bank PLC	-0.55	-0.09	4.51	8.42	15.15	8.54
13.	BNP Paribas	2.27	1.36	-0.60	0.06	1.18	1.92
14.	Chinatrust Commercial Bank	1.11	2.03	4.20	4.23	4.58	2.33
15.	Chohung Bank	7.23	8.38	6.45	7.44	4.67	4.18
16.	Citibank N.A.	3.41	3.55	3.97	3.44	4.17	3.47
17.	Calyon Bank	-0.14	0.01	0.50	1.24	-0.27	-0.61
18.	Deutsche Bank AG	5.19	5.72	4.39	5.93	5.88	2.04
19.	DBS Bank Ltd.	3.01	2.93	3.49	4.45	1.95	0.79
20.	HSBC Ltd.	2.41	2.84	2.50	2.25	3.04	3.46
21.	ING Bank N.V.	6.44	-2.44	0.06	-4.86	0.67	3.15
22.	JPMorgan Chase Bank	5.83	10.32	8.29	5.19	3.75	6.84
23.	Krung Thai Bank Public Co. Ltd.	3.57	4.94	4.38	2.75	1.66	1.32
24.	Mashreqbank psc	0.41	0.41	3.26	4.01	1.84	1.26
25.	Mizuho Corporate Bank Ltd.	-0.25	1.62	1.10	1.23	2.96	2.09
26.	Oman International Bank S.A.O.G.	-0.20	-0.64	-2.05	-1.34	-0.17	-0.10
27.	Societe Generale	0.73	0.60	-0.05	0.58	2.61	1.27
28.	Sonali Bank	4.11	5.87	3.66	2.15	6.35	7.62
29.	Standard Chartered Bank	3.45	3.15	3.84	3.80	4.01	2.87
30.	State Bank of Mauritius Ltd.	3.79	3.80	4.56	4.12	5.22	2.41
31.	UFJ Bank Ltd.	3.02	1.95	3.34	2.51	3.86	4.16

Appendix Table III.18: Net Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**0.66**	**0.49**	**0.75**	**1.01**	**1.13**	**0.91**
	Public Sector Banks	**0.57**	**0.42**	**0.72**	**0.96**	**1.12**	**0.89**
	Nationalised Banks	**0.44**	**0.33**	**0.69**	**0.98**	**1.19**	**0.89**
1.	Allahabad Bank	0.35	0.18	0.32	0.59	1.34	1.20
2.	Andhra Bank	0.76	0.59	0.97	1.63	1.72	1.59
3.	Bank of Baroda	0.86	0.43	0.77	1.01	1.14	0.71
4.	Bank of India	0.31	0.42	0.73	1.12	1.19	0.36
5.	Bank of Maharashtra	0.59	0.24	0.68	0.89	0.95	0.54
6.	Canara Bank	0.43	0.43	1.03	1.24	1.35	1.01
7.	Central Bank of India	0.36	0.10	0.31	0.54	0.98	0.52
8.	Corporation Bank	1.39	1.33	1.31	1.58	1.73	1.19
9.	Dena Bank	0.37	-1.49	0.06	0.57	1.04	0.25
10.	Indian Bank	-1.81	-1.03	0.11	0.53	1.04	0.93
11.	Indian Overseas Bank	0.15	0.38	0.65	1.01	1.08	1.28
12.	Oriental Bank of Commerce	1.14	0.75	0.99	1.34	1.67	1.41
13.	Punjab and Sind Bank	0.52	0.10	0.17	0.03	0.06	-0.45
14.	Punjab National Bank	0.75	0.73	0.77	0.98	1.08	1.12
15.	Syndicate Bank	0.79	0.83	0.79	1.00	0.92	0.77
16.	UCO Bank	0.16	0.12	0.52	0.59	0.99	0.63
17.	Union Bank of India	0.29	0.40	0.71	1.08	1.22	0.99
18.	United Bank of India	0.16	0.09	0.52	1.26	1.22	1.03
19.	Vijaya Bank	0.41	0.50	0.81	1.03	1.71	1.30
	State Bank Group	**0.80**	**0.55**	**0.77**	**0.91**	**1.02**	**0.91**
20.	State Bank of India	0.78	0.51	0.70	0.83	0.90	0.94
21.	State Bank of Bikaner and Jaipur	0.97	0.76	1.06	1.13	1.50	0.88
22.	State Bank of Hyderabad	0.82	0.82	1.02	1.15	1.24	0.72
23.	State Bank of Indore	0.72	0.78	1.27	1.76	1.73	0.79
24.	State Bank of Mysore	0.58	0.27	0.64	1.02	1.28	1.25
25.	State Bank of Patiala	1.06	1.12	1.34	1.51	1.60	0.91
26.	State Bank of Saurashtra	1.18	0.16	0.88	0.81	1.38	0.27
27.	State Bank of Travancore	0.53	0.67	0.73	0.90	1.02	0.86
	Other Public Sector Bank						
28.	IDBI Ltd.	–	–	–	–	–	0.76

Appendix Table III.18: Net Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Private Sector Banks	**0.88**	**0.70**	**0.66**	**1.00**	**0.95**	**0.83**
	Old Private Sector Banks	**0.81**	**0.59**	**1.08**	**1.17**	**1.20**	**0.33**
1.	Bank of Rajasthan Ltd.	0.30	0.74	0.84	1.12	0.82	0.38
2.	Bharat Overseas Bank Ltd.	0.06	0.95	1.08	1.17	1.25	0.62
3.	Catholic Syrian Bank Ltd.	0.25	0.38	1.07	1.17	1.31	0.24
4.	City Union Bank Ltd.	1.30	1.16	1.28	1.27	1.79	1.33
5.	Dhanalakshmi Bank Ltd.	0.71	0.40	0.53	0.71	0.71	-0.82
6.	Federal Bank Ltd.	0.61	0.69	0.81	0.86	0.90	0.54
7.	Ganesh Bank of Kurundwad Ltd.	0.14	0.22	0.50	0.66	0.61	-2.56
8.	ING Vysya Bank Ltd.	0.50	0.38	0.64	0.75	0.45	-0.25
9.	Jammu and Kashmir Bank Ltd.	1.14	1.32	1.77	2.01	1.92	0.47
10.	Karnataka Bank Ltd.	0.71	0.68	1.17	1.19	1.26	1.17
11.	Karur Vysya Bank Ltd.	1.90	1.70	2.12	2.02	2.27	1.34
12.	Lakshmi Vilas Bank Ltd.	1.14	1.02	1.06	1.07	1.07	0.08
13.	Lord Krishna Bank Ltd.	0.61	0.36	1.14	1.24	1.01	-0.97
14.	Nainital Bank Ltd.	0.86	0.53	0.87	0.99	1.43	1.08
15.	Ratnakar Bank Ltd.	0.70	0.67	1.00	1.30	1.04	-1.09
16.	Sangli Bank Ltd.	0.34	0.38	0.58	0.65	0.61	-1.48
17.	SBI Commercial and International Bank Ltd.	1.70	-6.65	0.46	-1.45	3.67	-2.10
18.	South Indian Bank Ltd.	0.58	0.80	0.95	0.95	0.91	0.09
19.	Tamilnad Mercantile Bank Ltd.	1.32	1.37	1.29	1.35	1.59	1.47
20.	United Western Bank Ltd.	1.16	-0.27	0.50	0.46	0.43	-1.39
	New Private Sector Banks	**0.97**	**0.81**	**0.44**	**0.90**	**0.83**	**1.05**
21.	Bank of Punjab Ltd.	1.04	0.93	0.92	0.74	0.76	-1.25
22.	Centurion Bank Ltd.	0.66	0.12	-2.26	-0.75	-2.96	0.54
23.	Development Credit Bank Ltd.	0.87	0.76	0.81	0.78	0.32	-3.50
24.	HDFC Bank Ltd.	1.02	1.35	1.25	1.27	1.20	1.29
25.	ICICI Bank Ltd.	0.87	0.82	0.25	1.13	1.31	1.20
26.	IndusInd Bank Ltd.	0.70	0.47	0.50	0.91	1.74	1.35
27.	Kotak Mahindra Bank Ltd.	–	–	–	2.09	1.35	1.30
28.	UTI Bank Ltd.	0.76	0.80	0.93	0.98	1.15	0.89
29.	Yes Bank Ltd.	–	–	–	–	–	-0.29

Appendix Table III.18: Net Profit/Loss as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Foreign Banks in India	**1.17**	**0.93**	**1.32**	**1.56**	**1.65**	**1.30**
1.	ABN-AMRO Bank N.V.	1.58	0.40	1.72	1.56	1.84	1.27
2.	Abu Dhabi Commercial Bank Ltd.	0.52	0.44	0.47	0.17	0.49	-2.57
3.	American Express Bank Ltd.	1.02	-0.62	0.27	-0.90	-0.69	0.55
4.	Antwerp Diamond Bank	–	–	–	0.36	1.18	1.00
5.	Arab Bangladesh Bank Ltd.	2.80	3.50	2.82	2.73	4.08	3.61
6.	Bank Internasional Indonesia	-8.10	-2.95	0.24	2.11	-0.22	-0.67
7.	Bank of America NA	2.70	1.25	1.72	1.74	1.26	1.46
8.	Bank of Bahrain and Kuwait B.S.C.	0.90	0.81	1.25	1.06	0.12	-3.77
9.	Bank of Ceylon	2.62	0.95	0.02	0.27	0.36	1.19
10.	Bank of Nova Scotia	1.46	1.06	1.00	0.78	0.57	-0.35
11.	Bank of Tokyo-Mitsubishi Ltd.	4.87	7.57	4.08	3.27	6.96	0.93
12.	Barclays Bank PLC	-2.10	1.35	1.78	2.87	9.37	4.53
13.	BNP Paribas	0.94	0.33	-0.94	-0.53	-0.44	0.50
14.	Chinatrust Commercial Bank	0.25	0.63	1.00	2.12	1.15	-7.67
15.	Chohung Bank	0.50	3.15	3.42	2.47	2.21	2.35
16.	Citibank N.A.	1.44	1.46	1.51	1.55	1.93	1.77
17.	Calyon Bank	-9.83	-1.62	0.99	0.36	0.51	-0.84
18.	Deutsche Bank AG	1.10	1.71	2.24	2.92	3.17	0.72
19.	DBS Bank Ltd.	1.44	1.58	2.02	2.01	-1.31	0.64
20.	HSBC Ltd.	0.96	1.26	0.87	0.72	1.55	1.28
21.	ING Bank N.V.	-4.00	-3.97	-0.44	-12.92	-0.05	-4.39
22.	JPMorgan Chase Bank	2.87	5.06	3.18	3.10	2.34	3.58
23.	Krung Thai Bank Public Co. Ltd.	0.26	2.22	0.02	-0.72	1.38	0.03
24.	Mashreqbank psc	-3.60	-3.10	1.59	3.25	1.76	1.10
25.	Mizuho Corporate Bank Ltd.	-2.85	-3.30	-1.45	0.31	2.41	2.13
26.	Oman International Bank S.A.O.G.	-8.98	-4.41	-4.47	-1.83	-0.39	-3.14
27.	Societe Generale	0.02	0.04	-2.29	-1.58	2.04	1.71
28.	Sonali Bank	2.14	3.05	1.41	1.23	3.36	4.33
29.	Standard Chartered Bank	1.81	1.51	2.02	2.92	1.74	1.61
30.	State Bank of Mauritius Ltd.	1.48	1.05	0.85	1.05	1.33	1.20
31.	UFJ Bank Ltd.	0.14	0.25	0.05	0.31	1.88	2.10

Appendix Table III.19: Interest Income as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**8.97**	**8.88**	**8.26**	**8.28**	**7.31**	**6.73**
	Public Sector Banks	**8.92**	**8.85**	**8.72**	**8.34**	**7.45**	**6.93**
	Nationalised Banks	**9.06**	**9.09**	**8.78**	**8.39**	**7.44**	**6.91**
1.	Allahabad Bank	9.36	9.39	9.18	9.16	7.69	7.06
2.	Andhra Bank	9.16	9.20	9.69	8.89	8.25	6.95
3.	Bank of Baroda	8.83	9.09	8.40	7.98	7.22	6.79
4.	Bank of India	8.51	8.93	8.01	7.77	6.83	6.35
5.	Bank of Maharashtra	9.64	8.96	9.31	8.36	6.83	7.20
6.	Canara Bank	8.91	8.45	8.83	8.16	7.11	6.86
7.	Central Bank of India	9.06	9.03	8.85	8.88	7.99	7.59
8.	Corporation Bank	9.57	9.16	8.24	8.00	7.55	6.63
9.	Dena Bank	9.40	9.58	9.07	8.79	7.83	7.18
10.	Indian Bank	8.07	7.91	7.58	7.16	6.81	6.54
11.	Indian Overseas Bank	9.07	9.22	8.95	8.47	7.93	7.78
12.	Oriental Bank of Commerce	10.02	10.19	9.43	9.72	8.05	6.61
13.	Punjab and Sind Bank	9.50	9.23	9.20	8.86	8.52	7.94
14.	Punjab National Bank	9.52	9.23	9.12	8.68	7.60	6.70
15.	Syndicate Bank	8.97	9.89	9.08	8.35	6.53	7.21
16.	UCO Bank	8.39	8.32	8.10	8.00	7.07	6.50
17.	Union Bank of India	9.47	9.58	9.05	8.43	7.74	6.86
18.	United Bank of India	8.70	8.99	8.93	8.73	8.02	7.33
19.	Vijaya Bank	9.36	9.51	9.53	8.76	8.06	7.14
	State Bank Group	**8.67**	**8.47**	**8.62**	**8.26**	**7.46**	**7.02**
20.	State Bank of India	8.49	8.28	8.56	8.27	7.47	7.05
21.	State Bank of Bikaner and Jaipur	8.95	9.12	8.76	8.00	7.82	7.44
22.	State Bank of Hyderabad	9.56	9.19	8.67	7.91	7.22	6.66
23.	State Bank of Indore	8.92	8.63	9.02	8.68	8.02	6.57
24.	State Bank of Mysore	9.66	9.72	9.38	9.15	7.68	7.05
25.	State Bank of Patiala	9.40	9.38	8.66	8.26	7.02	6.77
26.	State Bank of Saurashtra	9.25	8.95	8.99	7.90	7.62	7.53
27.	State Bank of Travancore	9.32	9.08	8.82	8.32	7.25	6.96
	Other Public Sector Bank						
28.	IDBI Ltd.	–	–	–	–	–	6.53

Appendix Table III.19: Interest Income as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Private Sector Banks	**8.74**	**8.87**	**6.18**	**8.26**	**6.99**	**6.14**
	Old Private Sector Banks	**9.66**	**9.53**	**9.36**	**8.50**	**7.56**	**6.95**
1.	Bank of Rajasthan Ltd.	10.04	10.20	9.41	7.71	5.95	5.71
2.	Bharat Overseas Bank Ltd.	8.63	8.54	7.94	7.21	7.05	6.80
3.	Catholic Syrian Bank Ltd.	10.53	10.48	9.68	8.98	8.29	8.30
4.	City Union Bank Ltd.	11.40	10.08	9.51	8.91	8.65	8.32
5.	Dhanalakshmi Bank Ltd.	10.24	10.45	9.59	8.98	7.82	7.27
6.	Federal Bank Ltd.	11.60	10.42	10.28	9.11	7.89	7.08
7.	Ganesh Bank of Kurundwad Ltd.	10.95	10.61	10.04	9.39	8.29	7.77
8.	ING Vysya Bank Ltd.	8.88	8.76	8.61	7.89	6.99	6.45
9.	Jammu and Kashmir Bank Ltd.	8.38	8.46	9.21	8.50	7.17	6.33
10.	Karnataka Bank Ltd.	10.07	9.79	9.57	8.76	8.02	6.71
11.	Karur Vysya Bank Ltd.	11.16	10.88	9.44	8.35	9.11	7.49
12.	Lakshmi Vilas Bank Ltd.	9.62	9.61	9.53	8.48	7.48	7.36
13.	Lord Krishna Bank Ltd.	9.37	8.75	8.36	8.37	6.39	7.79
14.	Nainital Bank Ltd.	9.54	9.72	9.55	8.78	8.20	7.00
15.	Ratnakar Bank Ltd.	9.91	10.18	9.39	8.79	7.99	7.54
16.	Sangli Bank Ltd.	8.36	9.11	8.00	7.65	6.77	6.48
17.	SBI Commercial and International Bank Ltd.	9.40	10.17	8.07	8.30	8.08	5.42
18.	South Indian Bank Ltd.	10.55	10.36	9.39	8.62	7.36	7.48
19.	Tamilnad Mercantile Bank Ltd.	10.14	10.24	10.12	9.99	10.56	9.13
20.	United Western Bank Ltd.	8.70	8.29	9.59	7.99	6.48	6.87
	New Private Sector Banks	**7.60**	**8.17**	**4.48**	**8.13**	**6.71**	**5.77**
21.	Bank of Punjab Ltd.	8.23	9.11	9.35	8.24	7.02	6.70
22.	Centurion Bank Ltd.	8.50	9.29	11.57	10.97	9.41	7.50
23.	Development Credit Bank Ltd.	8.02	9.84	9.01	8.14	6.54	6.51
24.	HDFC Bank Ltd.	5.80	8.06	7.16	6.62	6.02	6.02
25.	ICICI Bank Ltd.	7.06	6.29	2.07	8.77	7.19	5.61
26.	IndusInd Bank Ltd.	7.97	8.42	6.96	7.50	6.54	7.26
27.	Kotak Mahindra Bank Ltd.	–	–	–	8.42	4.96	6.45
28.	UTI Bank Ltd.	7.25	8.26	8.20	7.47	6.62	5.10
29.	Yes Bank Ltd.	–	–	–	–	–	2.35

Appendix Table III.19: Interest Income as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Foreign Banks in India	**9.93**	**9.27**	**8.56**	**7.68**	**6.74**	**5.95**
1.	ABN-AMRO Bank N.V.	8.05	10.18	10.16	7.92	7.18	5.89
2.	Abu Dhabi Commercial Bank Ltd.	10.98	6.54	10.03	9.65	8.47	7.68
3.	American Express Bank Ltd.	11.11	8.39	8.60	10.05	8.99	8.93
4.	Antwerp Diamond Bank	–	–	–	4.61	4.06	3.96
5.	Arab Bangladesh Bank Ltd.	7.23	7.77	6.19	4.65	4.78	4.37
6.	Bank Internasional Indonesia	9.87	5.16	4.27	4.48	3.61	2.87
7.	Bank of America NA	11.76	10.31	9.13	6.99	5.48	4.68
8.	Bank of Bahrain and Kuwait B.S.C.	10.15	9.96	8.55	8.12	5.77	5.71
9.	Bank of Ceylon	8.60	8.45	8.32	6.86	5.14	4.68
10.	Bank of Nova Scotia	8.07	8.79	8.73	9.67	4.52	4.75
11.	Bank of Tokyo-Mitsubishi Ltd.	13.02	10.53	8.62	9.70	6.55	5.02
12.	Barclays Bank PLC	11.20	7.31	4.60	2.83	3.95	2.27
13.	BNP Paribas	9.60	9.68	7.54	9.11	5.93	5.99
14.	Chinatrust Commercial Bank	12.44	10.70	13.35	11.17	10.01	7.82
15.	Chohung Bank	8.80	9.86	7.11	10.38	5.44	5.14
16.	Citibank N.A.	10.53	9.00	8.89	7.84	7.70	6.52
17.	Calyon Bank	11.46	7.02	5.95	8.28	8.42	6.22
18.	Deutsche Bank AG	10.13	9.77	8.17	5.67	3.50	3.63
19.	DBS Bank Ltd.	8.34	8.92	7.92	10.58	4.86	2.45
20.	HSBC Ltd.	7.84	8.29	7.83	7.08	6.15	5.83
21.	ING Bank N.V.	16.88	4.84	4.65	9.82	1.77	2.41
22.	JPMorgan Chase Bank	5.17	8.43	6.32	4.78	5.43	3.06
23.	Krung Thai Bank Public Co. Ltd.	9.20	9.46	8.71	6.90	5.77	4.91
24.	Mashreqbank psc	9.90	8.36	11.18	12.19	10.02	8.57
25.	Mizuho Corporate Bank Ltd.	7.75	10.64	8.39	8.40	6.84	3.79
26.	Oman International Bank S.A.O.G.	8.39	6.36	4.42	4.11	4.00	4.05
27.	Societe Generale	9.94	7.38	7.57	5.62	4.03	4.20
28.	Sonali Bank	1.84	3.71	3.54	4.00	3.92	4.39
29.	Standard Chartered Bank	10.51	9.12	8.12	7.80	7.35	6.69
30.	State Bank of Mauritius Ltd.	8.08	9.03	9.27	6.10	6.78	7.94
31.	UFJ Bank Ltd.	9.05	8.38	9.62	6.11	5.25	5.02

Appendix Table III.20: Interest Expended as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**6.25**	**6.03**	**5.70**	**5.51**	**4.44**	**3.81**
	Public Sector Banks	**6.22**	**5.99**	**5.99**	**5.43**	**4.47**	**4.02**
	Nationalised Banks	**6.40**	**6.19**	**6.03**	**5.39**	**4.38**	**3.89**
1.	Allahabad Bank	6.50	6.29	6.23	5.92	4.56	4.03
2.	Andhra Bank	6.49	6.74	6.95	5.84	4.87	3.68
3.	Bank of Baroda	5.98	6.03	5.75	5.23	4.20	3.65
4.	Bank of India	6.19	6.15	5.40	5.10	4.24	4.00
5.	Bank of Maharashtra	6.57	6.03	6.57	5.64	4.44	4.52
6.	Canara Bank	6.27	5.62	6.31	5.39	4.35	4.01
7.	Central Bank of India	6.09	5.96	5.93	5.56	4.64	4.13
8.	Corporation Bank	6.84	6.21	5.59	4.99	4.24	3.30
9.	Dena Bank	6.94	7.08	6.72	5.97	5.16	4.32
10.	Indian Bank	6.45	6.05	5.83	4.84	3.96	3.57
11.	Indian Overseas Bank	6.61	6.31	6.21	5.50	4.55	4.12
12.	Oriental Bank of Commerce	7.11	7.27	6.42	6.15	4.50	3.79
13.	Punjab and Sind Bank	7.15	6.72	6.90	6.20	5.23	4.30
14.	Punjab National Bank	6.54	6.02	5.97	5.06	4.06	3.53
15.	Syndicate Bank	5.94	6.01	5.59	4.84	3.51	3.96
16.	UCO Bank	6.05	5.90	5.77	5.47	4.34	3.92
17.	Union Bank of India	6.73	6.45	6.04	5.50	4.77	4.01
18.	United Bank of India	6.59	6.60	6.29	5.77	5.00	4.18
19.	Vijaya Bank	6.33	6.28	6.52	5.39	4.58	3.78
	State Bank Group	**5.91**	**5.68**	**5.91**	**5.50**	**4.62**	**3.96**
20.	State Bank of India	5.84	5.63	5.95	5.62	4.73	4.02
21.	State Bank of Bikaner and Jaipur	5.95	5.84	5.59	4.93	4.26	3.73
22.	State Bank of Hyderabad	6.21	5.88	5.74	5.05	4.48	3.90
23.	State Bank of Indore	5.93	5.79	6.05	5.45	4.54	3.60
24.	State Bank of Mysore	6.26	6.39	6.33	5.74	4.38	3.76
25.	State Bank of Patiala	5.62	5.16	4.88	4.58	3.96	3.67
26.	State Bank of Saurashtra	6.05	6.02	6.01	5.11	4.47	4.15
27.	State Bank of Travancore	7.06	6.35	6.24	5.58	4.40	3.85
	Other Public Sector Bank						
28.	IDBI Ltd.	–	–	–	–	–	6.07

Appendix Table III.20: Interest Expended as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Private Sector Banks	**6.58**	**6.54**	**4.60**	**6.29**	**4.77**	**3.80**
	Old Private Sector Banks	**7.33**	**7.02**	**6.97**	**6.03**	**4.96**	**4.25**
1.	Bank of Rajasthan Ltd.	7.69	7.13	6.73	4.76	3.70	3.37
2.	Bharat Overseas Bank Ltd.	6.48	5.74	5.59	4.73	4.02	3.54
3.	Catholic Syrian Bank Ltd.	8.18	7.75	7.36	6.67	5.45	5.01
4.	City Union Bank Ltd.	8.38	7.17	7.06	6.37	5.64	5.15
5.	Dhanalakshmi Bank Ltd.	7.74	8.10	7.34	6.46	4.98	4.50
6.	Federal Bank Ltd.	9.23	7.73	7.55	6.33	5.10	4.09
7.	Ganesh Bank of Kurundwad Ltd.	8.55	8.52	8.28	7.91	7.16	6.40
8.	ING Vysya Bank Ltd.	7.65	7.05	6.91	6.00	5.14	4.13
9.	Jammu and Kashmir Bank Ltd.	5.66	5.66	6.23	5.36	4.25	3.89
10.	Karnataka Bank Ltd.	8.08	7.52	7.76	7.09	6.00	4.18
11.	Karur Vysya Bank Ltd.	7.50	7.21	6.22	5.61	4.93	4.24
12.	Lakshmi Vilas Bank Ltd.	7.03	7.07	7.36	6.34	5.30	4.73
13.	Lord Krishna Bank Ltd.	7.97	7.31	7.59	6.95	5.09	5.52
14.	Nainital Bank Ltd.	5.71	5.91	5.68	5.08	4.33	3.47
15.	Ratnakar Bank Ltd.	7.09	7.11	6.50	6.10	5.26	4.46
16.	Sangli Bank Ltd.	5.79	5.96	5.58	5.46	4.14	4.09
17.	SBI Commercial and International Bank Ltd.	7.42	8.95	7.30	6.16	5.33	3.46
18.	South Indian Bank Ltd.	7.88	7.49	7.02	6.28	5.19	4.77
19.	Tamilnad Mercantile Bank Ltd.	7.26	6.95	6.77	6.40	6.33	5.01
20.	United Western Bank Ltd.	6.32	6.33	7.62	6.00	4.77	4.80
	New Private Sector Banks	**5.64**	**6.03**	**3.33**	**6.43**	**4.68**	**3.60**
21.	Bank of Punjab Ltd.	5.92	6.09	7.03	5.94	4.38	3.95
22.	Centurion Bank Ltd.	6.96	7.56	9.09	7.95	5.74	3.65
23.	Development Credit Bank Ltd.	6.21	7.64	6.87	6.52	4.76	5.01
24.	HDFC Bank Ltd.	3.19	4.83	4.51	3.92	2.86	2.56
25.	ICICI Bank Ltd.	5.52	4.24	1.50	7.44	5.60	3.92
26.	IndusInd Bank Ltd.	6.27	6.58	5.36	5.64	4.44	4.60
27.	Kotak Mahindra Bank Ltd.	–	–	–	4.03	2.02	2.99
28.	UTI Bank Ltd.	5.89	7.35	6.81	5.82	4.23	3.16
29.	Yes Bank Ltd.	–	–	–	–	–	0.93

Appendix Table III.20: Interest Expended as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Foreign Banks in India	**6.01**	**5.64**	**5.34**	**4.33**	**3.15**	**2.62**
1.	ABN-AMRO Bank N.V.	4.83	6.24	5.49	4.01	2.94	2.17
2.	Abu Dhabi Commercial Bank Ltd.	8.88	5.56	9.11	8.78	7.51	7.07
3.	American Express Bank Ltd.	7.20	5.77	5.78	6.62	5.25	5.00
4.	Antwerp Diamond Bank	–	–	–	1.24	1.06	1.48
5.	Arab Bangladesh Bank Ltd.	1.41	1.16	0.69	0.77	0.77	0.76
6.	Bank Internasional Indonesia	7.10	2.35	1.70	1.06	0.72	0.55
7.	Bank of America NA	7.11	7.03	6.20	4.47	3.18	2.32
8.	Bank of Bahrain and Kuwait B.S.C.	8.60	8.32	7.37	6.40	4.71	3.63
9.	Bank of Ceylon	3.61	4.58	3.90	3.80	3.11	2.93
10.	Bank of Nova Scotia	5.48	6.57	6.32	6.83	3.11	3.21
11.	Bank of Tokyo-Mitsubishi Ltd.	6.68	4.30	3.92	4.45	1.73	1.39
12.	Barclays Bank PLC	8.83	5.77	3.67	2.00	0.95	0.62
13.	BNP Paribas	6.90	7.07	5.66	6.26	3.32	3.08
14.	Chinatrust Commercial Bank	8.50	6.48	7.14	4.20	3.16	2.85
15.	Chohung Bank	0.92	1.65	0.97	3.24	1.14	1.17
16.	Citibank N.A.	5.97	5.02	5.13	4.08	3.12	2.22
17.	Calyon Bank	8.99	5.56	4.96	5.98	5.55	5.20
18.	Deutsche Bank AG	5.12	4.63	4.41	3.03	2.66	2.84
19.	DBS Bank Ltd.	5.02	6.06	4.83	5.11	2.23	0.60
20.	HSBC Ltd.	5.09	5.33	5.21	4.20	2.85	2.31
21.	ING Bank N.V.	10.66	3.34	3.71	7.81	1.31	0.00
22.	JPMorgan Chase Bank	4.40	5.48	3.01	1.25	1.32	1.24
23.	Krung Thai Bank Public Co. Ltd.	1.41	1.18	0.68	0.34	0.49	0.75
24.	Mashreqbank psc	7.67	7.26	8.96	8.76	7.61	7.32
25.	Mizuho Corporate Bank Ltd.	6.00	7.65	6.18	5.74	2.32	1.28
26.	Oman International Bank S.A.O.G.	8.85	6.87	6.38	5.83	4.36	3.36
27.	Societe Generale	8.85	6.09	6.38	3.66	2.15	2.23
28.	Sonali Bank	0.90	1.42	2.00	2.90	2.48	2.46
29.	Standard Chartered Bank	6.27	5.38	4.61	3.93	3.12	2.97
30.	State Bank of Mauritius Ltd.	4.96	5.95	6.57	3.61	3.80	4.98
31.	UFJ Bank Ltd.	4.81	4.49	5.36	2.73	0.71	0.61

Appendix Table III.21: Net Interest Income/Margin as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**2.73**	**2.85**	**2.57**	**2.77**	**2.88**	**2.93**
	Public Sector Banks	**2.70**	**2.86**	**2.73**	**2.91**	**2.98**	**2.92**
	Nationalised Banks	**2.66**	**2.90**	**2.74**	**3.00**	**3.06**	**3.02**
1.	Allahabad Bank	2.86	3.10	2.95	3.24	3.13	3.02
2.	Andhra Bank	2.68	2.45	2.75	3.05	3.37	3.27
3.	Bank of Baroda	2.85	3.06	2.65	2.75	3.02	3.15
4.	Bank of India	2.33	2.78	2.62	2.67	2.59	2.36
5.	Bank of Maharashtra	3.07	2.93	2.73	2.72	2.38	2.68
6.	Canara Bank	2.64	2.83	2.52	2.76	2.76	2.86
7.	Central Bank of India	2.96	3.07	2.92	3.32	3.35	3.46
8.	Corporation Bank	2.73	2.95	2.65	3.02	3.31	3.33
9.	Dena Bank	2.46	2.51	2.35	2.82	2.67	2.86
10.	Indian Bank	1.61	1.86	1.75	2.32	2.85	2.97
11.	Indian Overseas Bank	2.46	2.91	2.74	2.97	3.38	3.65
12.	Oriental Bank of Commerce	2.90	2.92	3.02	3.57	3.55	2.82
13.	Punjab and Sind Bank	2.35	2.51	2.30	2.67	3.29	3.64
14.	Punjab National Bank	2.99	3.21	3.15	3.62	3.54	3.17
15.	Syndicate Bank	3.04	3.87	3.49	3.51	3.03	3.25
16.	UCO Bank	2.35	2.42	2.33	2.53	2.73	2.58
17.	Union Bank of India	2.73	3.13	3.01	2.93	2.98	2.85
18.	United Bank of India	2.10	2.39	2.64	2.97	3.02	3.15
19.	Vijaya Bank	3.03	3.23	3.01	3.37	3.48	3.36
	State Bank Group	**2.76**	**2.79**	**2.71**	**2.76**	**2.83**	**3.06**
20.	State Bank of India	2.65	2.66	2.61	2.65	2.74	3.03
21.	State Bank of Bikaner and Jaipur	3.00	3.28	3.16	3.07	3.56	3.71
22.	State Bank of Hyderabad	3.35	3.32	2.94	2.86	2.75	2.76
23.	State Bank of Indore	2.99	2.84	2.97	3.23	3.48	2.97
24.	State Bank of Mysore	3.39	3.33	3.04	3.41	3.30	3.29
25.	State Bank of Patiala	3.78	4.22	3.78	3.69	3.06	3.10
26.	State Bank of Saurashtra	3.20	2.93	2.99	2.79	3.15	3.38
27.	State Bank of Travancore	2.27	2.73	2.57	2.75	2.85	3.10
	Other Public Sector Bank						
28.	IDBI Ltd.	–	–	–	–	–	0.46

Appendix Table III.21: Net Interest Income/Margin as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Private Sector Banks	**2.16**	**2.33**	**1.58**	**1.97**	**2.21**	**2.34**
	Old Private Sector Banks	**2.33**	**2.51**	**2.39**	**2.47**	**2.60**	**2.70**
1.	Bank of Rajasthan Ltd.	2.35	3.07	2.69	2.95	2.25	2.33
2.	Bharat Overseas Bank Ltd.	2.15	2.80	2.34	2.48	3.03	3.27
3.	Catholic Syrian Bank Ltd.	2.34	2.72	2.32	2.32	2.84	3.30
4.	City Union Bank Ltd.	3.03	2.91	2.45	2.53	3.02	3.17
5.	Dhanalakshmi Bank Ltd.	2.49	2.34	2.25	2.53	2.84	2.76
6.	Federal Bank Ltd.	2.37	2.69	2.72	2.78	2.79	2.99
7.	Ganesh Bank of Kurundwad Ltd.	2.40	2.09	1.77	1.48	1.13	1.36
8.	ING Vysya Bank Ltd.	1.24	1.71	1.70	1.89	1.85	2.32
9.	Jammu and Kashmir Bank Ltd.	2.71	2.81	2.98	3.13	2.92	2.44
10.	Karnataka Bank Ltd.	1.99	2.28	1.81	1.67	2.02	2.53
11.	Karur Vysya Bank Ltd.	3.66	3.67	3.22	2.74	4.18	3.26
12.	Lakshmi Vilas Bank Ltd.	2.59	2.55	2.17	2.13	2.18	2.63
13.	Lord Krishna Bank Ltd.	1.41	1.44	0.77	1.42	1.30	2.26
14.	Nainital Bank Ltd.	3.83	3.81	3.87	3.70	3.87	3.53
15.	Ratnakar Bank Ltd.	2.82	3.07	2.89	2.70	2.73	3.08
16.	Sangli Bank Ltd.	2.57	3.14	2.42	2.19	2.63	2.40
17.	SBI Commercial and International Bank Ltd.	1.98	1.22	0.78	2.15	2.76	1.95
18.	South Indian Bank Ltd.	2.66	2.87	2.37	2.33	2.17	2.71
19.	Tamilnad Mercantile Bank Ltd.	2.88	3.29	3.35	3.58	4.24	4.11
20.	United Western Bank Ltd.	2.38	1.96	1.97	1.99	1.71	2.07
	New Private Sector Banks	**1.95**	**2.14**	**1.15**	**1.70**	**2.03**	**2.17**
21.	Bank of Punjab Ltd.	2.31	3.03	2.32	2.30	2.65	2.75
22.	Centurion Bank Ltd.	1.54	1.73	2.48	3.01	3.66	3.86
23.	Development Credit Bank Ltd.	1.81	2.20	2.14	1.62	1.77	1.50
24.	HDFC Bank Ltd.	2.60	3.24	2.65	2.70	3.16	3.46
25.	ICICI Bank Ltd.	1.54	2.05	0.57	1.33	1.59	1.69
26.	IndusInd Bank Ltd.	1.70	1.84	1.60	1.86	2.10	2.66
27.	Kotak Mahindra Bank Ltd.	–	–	–	4.38	2.94	3.46
28.	UTI Bank Ltd.	1.36	0.91	1.38	1.64	2.39	1.94
29.	Yes Bank Ltd.	–	–	–	–	–	1.42

Appendix Table III.21: Net Interest Income/Margin as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Foreign Banks in India	**3.92**	**3.63**	**3.22**	**3.35**	**3.59**	**3.33**
1.	ABN-AMRO Bank N.V.	3.22	3.94	4.67	3.90	4.23	3.73
2.	Abu Dhabi Commercial Bank Ltd.	2.09	0.98	0.92	0.87	0.96	0.61
3.	American Express Bank Ltd.	3.91	2.61	2.82	3.43	3.74	3.92
4.	Antwerp Diamond Bank	–	–	–	3.36	2.99	2.47
5.	Arab Bangladesh Bank Ltd.	5.82	6.61	5.50	3.89	4.01	3.61
6.	Bank Internasional Indonesia	2.77	2.81	2.57	3.42	2.88	2.32
7.	Bank of America NA	4.65	3.28	2.93	2.52	2.30	2.36
8.	Bank of Bahrain and Kuwait B.S.C.	1.55	1.64	1.18	1.72	1.06	2.09
9.	Bank of Ceylon	4.98	3.87	4.43	3.06	2.03	1.75
10.	Bank of Nova Scotia	2.60	2.21	2.41	2.84	1.41	1.54
11.	Bank of Tokyo-Mitsubishi Ltd.	6.34	6.23	4.70	5.25	4.82	3.63
12.	Barclays Bank PLC	2.37	1.55	0.94	0.83	3.00	1.65
13.	BNP Paribas	2.70	2.61	1.88	2.85	2.61	2.91
14.	Chinatrust Commercial Bank	3.93	4.22	6.21	6.97	6.85	4.97
15.	Chohung Bank	7.87	8.21	6.14	7.15	4.30	3.97
16.	Citibank N.A.	4.55	3.98	3.76	3.76	4.58	4.29
17.	Calyon Bank	2.48	1.46	0.99	2.30	2.87	1.02
18.	Deutsche Bank AG	5.00	5.14	3.76	2.65	0.84	0.80
19.	DBS Bank Ltd.	3.33	2.85	3.10	5.47	2.64	1.85
20.	HSBC Ltd.	2.75	2.96	2.63	2.88	3.29	3.52
21.	ING Bank N.V.	6.22	1.50	0.94	2.01	0.46	2.41
22.	JPMorgan Chase Bank	0.77	2.95	3.30	3.53	4.12	1.81
23.	Krung Thai Bank Public Co. Ltd.	7.79	8.28	8.03	6.56	5.28	4.16
24.	Mashreqbank psc	2.23	1.11	2.22	3.43	2.41	1.26
25.	Mizuho Corporate Bank Ltd.	1.76	2.98	2.21	2.66	4.52	2.51
26.	Oman International Bank S.A.O.G.	-0.47	-0.51	-1.96	-1.72	-0.36	0.69
27.	Societe Generale	1.09	1.29	1.19	1.96	1.88	1.98
28.	Sonali Bank	0.94	2.29	1.55	1.10	1.44	1.94
29.	Standard Chartered Bank	4.24	3.74	3.51	3.87	4.23	3.72
30.	State Bank of Mauritius Ltd.	3.12	3.08	2.70	2.50	2.98	2.97
31.	UFJ Bank Ltd.	4.24	3.89	4.27	3.37	4.55	4.41

Appendix Table III.22: Provisions and Contingencies as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**1.00**	**1.03**	**1.19**	**1.39**	**1.54**	**1.33**
	Public Sector Banks	**0.89**	**0.92**	**1.16**	**1.36**	**1.55**	**1.33**
	Nationalised Banks	**0.86**	**0.95**	**1.15**	**1.35**	**1.52**	**1.31**
1.	Allahabad Bank	0.93	1.03	1.32	1.25	1.19	1.18
2.	Andhra Bank	1.07	0.63	1.07	1.43	1.73	1.44
3.	Bank of Baroda	0.94	1.20	1.08	1.23	1.78	1.72
4.	Bank of India	0.92	0.87	1.29	1.55	1.45	1.18
5.	Bank of Maharashtra	0.93	1.02	1.26	1.20	1.15	1.12
6.	Canara Bank	1.26	1.27	1.27	1.19	1.53	1.34
7.	Central Bank of India	0.65	0.90	1.03	1.08	1.44	1.82
8.	Corporation Bank	1.15	1.37	1.33	1.66	1.38	1.93
9.	Dena Bank	0.99	1.92	1.72	1.88	2.17	1.61
10.	Indian Bank	1.92	1.26	0.91	1.13	1.01	1.25
11.	Indian Overseas Bank	0.54	0.63	1.09	0.92	1.72	1.35
12.	Oriental Bank of Commerce	0.93	1.22	1.85	2.08	2.07	0.87
13.	Punjab and Sind Bank	0.31	0.67	1.02	1.91	0.94	2.09
14.	Punjab National Bank	0.76	0.76	1.25	1.71	1.97	1.03
15.	Syndicate Bank	0.24	0.22	0.33	0.80	1.24	1.13
16.	UCO Bank	0.60	0.66	0.99	1.19	0.83	0.87
17.	Union Bank of India	0.83	0.91	1.25	1.47	1.32	1.18
18.	United Bank of India	0.27	0.55	0.52	1.03	1.15	1.34
19.	Vijaya Bank	0.57	0.76	0.75	1.24	1.89	1.39
	State Bank Group	**0.94**	**0.87**	**1.17**	**1.36**	**1.59**	**1.53**
20.	State Bank of India	0.82	0.75	1.04	1.24	1.44	1.45
21.	State Bank of Bikaner and Jaipur	0.94	1.17	1.46	1.32	1.89	2.24
22.	State Bank of Hyderabad	1.83	1.62	1.69	1.75	2.07	1.32
23.	State Bank of Indore	1.34	1.32	2.21	1.94	2.35	1.30
24.	State Bank of Mysore	1.38	1.19	1.63	2.09	1.81	1.48
25.	State Bank of Patiala	1.78	1.66	1.91	1.96	2.13	1.80
26.	State Bank of Saurashtra	0.98	1.20	1.49	1.71	2.15	2.17
27.	State Bank of Travancore	0.93	0.92	1.21	1.49	1.90	1.92
	Other Public Sector Bank						
28.	IDBI Ltd.	–	–	–	–	–	0.13

Appendix Table III.22: Provisions and Contingencies as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Private Sector Banks	**1.07**	**1.04**	**1.07**	**1.44**	**1.32**	**0.97**
	Old Private Sector Banks	**1.01**	**1.15**	**1.62**	**1.50**	**1.45**	**1.35**
1.	Bank of Rajasthan Ltd.	0.16	0.59	0.86	1.31	1.38	0.52
2.	Bharat Overseas Bank Ltd.	1.20	1.02	1.45	0.85	0.77	1.07
3.	Catholic Syrian Bank Ltd.	0.70	1.25	1.53	1.72	1.55	1.53
4.	City Union Bank Ltd.	1.88	1.54	1.64	1.79	1.90	1.01
5.	Dhanalakshmi Bank Ltd.	1.18	1.06	2.15	2.30	2.02	1.51
6.	Federal Bank Ltd.	1.17	1.43	2.20	2.02	1.99	1.84
7.	Ganesh Bank of Kurundwad Ltd.	0.67	0.20	0.64	0.99	0.28	1.39
8.	ING Vysya Bank Ltd.	0.85	0.75	1.27	1.36	1.53	0.90
9.	Jammu and Kashmir Bank Ltd.	1.06	0.83	1.37	1.29	1.05	0.98
10.	Karnataka Bank Ltd.	0.70	1.36	2.06	1.55	1.86	1.55
11.	Karur Vysya Bank Ltd.	1.01	0.91	1.04	1.17	0.75	1.19
12.	Lakshmi Vilas Bank Ltd.	1.26	1.28	1.65	1.44	1.20	1.27
13.	Lord Krishna Bank Ltd.	0.79	0.72	1.79	1.52	0.84	0.93
14.	Nainital Bank Ltd.	0.83	1.04	0.91	0.52	0.98	0.93
15.	Ratnakar Bank Ltd.	0.76	1.07	2.69	1.43	0.67	2.18
16.	Sangli Bank Ltd.	0.81	0.70	0.93	0.46	0.80	1.77
17.	SBI Commercial and International Bank Ltd.	1.48	7.99	1.40	4.23	1.64	4.39
18.	South Indian Bank Ltd.	1.23	1.26	1.69	1.89	1.70	1.73
19.	Tamilnad Mercantile Bank Ltd.	1.04	1.41	1.52	1.52	1.75	1.64
20.	United Western Bank Ltd.	1.80	1.16	2.49	1.85	1.43	2.57
	New Private Sector Banks	**1.14**	**0.93**	**0.78**	**1.41**	**1.26**	**0.79**
21.	Bank of Punjab Ltd.	0.65	0.80	1.54	1.79	1.36	1.65
22.	Centurion Bank Ltd.	0.59	0.86	2.60	1.39	3.30	-0.04
23.	Development Credit Bank Ltd.	1.02	0.86	1.66	0.57	0.68	3.41
24.	HDFC Bank Ltd.	1.19	1.10	1.04	1.06	1.18	1.32
25.	ICICI Bank Ltd.	1.01	0.65	0.28	1.28	0.67	0.57
26.	IndusInd Bank Ltd.	1.69	1.53	1.98	2.36	1.21	1.22
27.	Kotak Mahindra Bank Ltd.	–	–	–	2.07	0.82	0.74
28.	UTI Bank Ltd.	0.98	0.43	1.90	1.11	1.74	0.61
29.	Yes Bank Ltd.	–	–	–	–	–	0.01

Appendix Table III.22: Provisions and Contingencies as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Foreign Banks in India	**2.08**	**2.12**	**1.78**	**1.63**	**2.02**	**1.68**
1.	ABN-AMRO Bank N.V.	1.47	3.11	1.96	1.57	1.54	1.60
2.	Abu Dhabi Commercial Bank Ltd.	1.98	0.91	0.43	0.52	0.21	2.83
3.	American Express Bank Ltd.	1.73	2.42	3.53	4.26	3.64	2.01
4.	Antwerp Diamond Bank	–	–	–	0.73	1.11	0.98
5.	Arab Bangladesh Bank Ltd.	3.28	3.58	3.58	2.53	2.85	2.62
6.	Bank Internasional Indonesia	-1.65	-3.93	-0.01	-5.03	0.26	0.41
7.	Bank of America NA	2.32	2.12	1.84	0.97	1.08	1.40
8.	Bank of Bahrain and Kuwait B.S.C.	0.84	0.68	1.48	1.17	1.11	4.08
9.	Bank of Ceylon	3.73	3.95	5.48	2.30	2.62	2.44
10.	Bank of Nova Scotia	1.65	1.13	1.71	2.41	1.38	2.41
11.	Bank of Tokyo-Mitsubishi Ltd.	-7.78	1.64	-1.03	-0.08	1.09	4.76
12.	Barclays Bank PLC	1.55	-1.43	2.73	5.55	5.79	4.01
13.	BNP Paribas	1.32	1.02	0.35	0.59	1.61	1.42
14.	Chinatrust Commercial Bank	0.86	1.40	3.21	2.11	3.43	10.00
15.	Chohung Bank	6.73	5.23	3.02	4.97	2.45	1.83
16.	Citibank N.A.	1.98	2.09	2.45	1.89	2.24	1.69
17.	Calyon Bank	9.69	1.64	-0.49	0.87	-0.78	0.23
18.	Deutsche Bank AG	4.09	4.02	2.15	3.01	2.71	1.32
19.	DBS Bank Ltd.	1.58	1.35	1.47	2.44	3.27	0.15
20.	HSBC Ltd.	1.45	1.58	1.63	1.53	1.49	2.18
21.	ING Bank N.V.	10.43	1.53	0.50	8.05	0.72	7.54
22.	JPMorgan Chase Bank	2.96	5.25	5.11	2.09	1.41	3.26
23.	Krung Thai Bank Public Co. Ltd.	3.31	2.73	4.35	3.47	0.28	1.29
24.	Mashreqbank psc	4.02	3.52	1.67	0.76	0.08	0.16
25.	Mizuho Corporate Bank Ltd.	2.59	4.92	2.55	0.92	0.55	-0.04
26.	Oman International Bank S.A.O.G.	8.78	3.76	2.41	0.48	0.23	3.04
27.	Societe Generale	0.71	0.57	2.24	2.16	0.57	-0.44
28.	Sonali Bank	1.97	2.82	2.25	0.91	2.99	3.29
29.	Standard Chartered Bank	1.64	1.64	1.82	0.89	2.27	1.25
30.	State Bank of Mauritius Ltd.	2.31	2.75	3.72	3.07	3.89	1.21
31.	UFJ Bank Ltd.	2.88	1.70	3.29	2.20	1.99	2.05

Appendix Table III.23: Operating Expenses as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Scheduled Commercial Banks	**2.50**	**2.64**	**2.19**	**2.24**	**2.21**	**2.16**
	Public Sector Banks	**2.53**	**2.72**	**2.29**	**2.25**	**2.21**	**2.09**
	Nationalised Banks	**2.57**	**2.76**	**2.40**	**2.33**	**2.21**	**2.13**
1.	Allahabad Bank	2.89	2.98	2.86	3.27	2.76	2.06
2.	Andhra Bank	2.27	2.24	2.17	2.44	2.44	2.53
3.	Bank of Baroda	2.22	2.54	2.20	2.16	2.12	2.09
4.	Bank of India	2.51	2.93	2.19	2.16	2.06	2.03
5.	Bank of Maharashtra	2.76	2.84	2.23	2.07	1.74	2.19
6.	Canara Bank	2.48	2.51	2.21	2.13	1.91	1.91
7.	Central Bank of India	3.00	3.06	2.72	2.67	2.46	2.46
8.	Corporation Bank	1.81	1.73	1.63	1.79	1.97	1.88
9.	Dena Bank	2.44	3.19	2.44	2.54	2.25	2.29
10.	Indian Bank	2.68	2.79	2.40	2.13	2.71	2.08
11.	Indian Overseas Bank	2.74	2.89	2.50	2.30	2.14	2.28
12.	Oriental Bank of Commerce	1.74	1.94	1.64	1.71	1.57	1.47
13.	Punjab and Sind Bank	2.82	2.98	2.77	2.85	3.99	3.63
14.	Punjab National Bank	2.82	2.95	2.47	2.39	2.32	2.36
15.	Syndicate Bank	3.13	3.81	3.24	3.15	2.51	2.43
16.	UCO Bank	2.65	2.73	2.67	2.48	2.33	2.02
17.	Union Bank of India	2.47	2.62	2.18	1.99	1.86	1.74
18.	United Bank of India	2.39	2.52	3.33	2.44	2.60	2.42
19.	Vijaya Bank	2.97	3.07	2.61	2.92	2.07	1.87
	State Bank Group	**2.46**	**2.66**	**2.11**	**2.11**	**2.21**	**2.14**
20.	State Bank of India	2.41	2.63	2.07	2.11	2.27	2.19
21.	State Bank of Bikaner and Jaipur	2.85	3.07	2.58	2.50	2.62	2.66
22.	State Bank of Hyderabad	2.42	2.45	1.88	1.73	1.74	1.92
23.	State Bank of Indore	3.07	2.72	2.28	2.18	2.16	1.94
24.	State Bank of Mysore	3.41	3.68	3.03	2.89	2.69	2.89
25.	State Bank of Patiala	2.34	2.62	2.05	1.86	1.67	1.52
26.	State Bank of Saurashtra	2.56	2.88	2.48	2.15	2.00	1.69
27.	State Bank of Travancore	2.37	2.48	2.02	1.93	1.88	1.74
	Other Public Sector Bank						
28.	IDBI Ltd.	–	–	–	–	–	1.12

Appendix Table III.23: Operating Expenses as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Private Sector Banks	**1.83**	**1.87**	**1.44**	**1.99**	**2.02**	**2.77**
	Old Private Sector Banks	**2.17**	**1.99**	**2.07**	**2.05**	**1.97**	**1.95**
1.	Bank of Rajasthan Ltd.	3.23	3.04	3.02	2.59	2.15	2.13
2.	Bharat Overseas Bank Ltd.	2.12	2.21	2.16	1.93	2.13	2.18
3.	Catholic Syrian Bank Ltd.	2.96	2.71	2.56	2.66	2.73	2.57
4.	City Union Bank Ltd.	1.99	1.80	1.68	1.52	1.41	1.79
5.	Dhanalakshmi Bank Ltd.	2.15	2.42	2.68	2.84	2.48	2.62
6.	Federal Bank Ltd.	2.33	1.98	1.89	1.82	1.87	1.87
7.	Ganesh Bank of Kurundwad Ltd.	2.19	2.14	2.07	2.24	2.26	2.23
8.	ING Vysya Bank Ltd.	1.98	1.80	2.42	2.91	2.61	2.46
9.	Jammu and Kashmir Bank Ltd.	1.51	1.30	1.59	1.55	1.38	1.32
10.	Karnataka Bank Ltd.	1.84	1.58	1.68	1.52	1.46	1.58
11.	Karur Vysya Bank Ltd.	2.29	2.33	2.10	1.69	2.21	2.16
12.	Lakshmi Vilas Bank Ltd.	2.78	2.50	2.47	2.26	2.19	2.23
13.	Lord Krishna Bank Ltd.	1.82	1.85	2.21	2.28	2.06	2.35
14.	Nainital Bank Ltd.	2.67	2.65	2.55	2.81	2.99	2.42
15.	Ratnakar Bank Ltd.	3.23	2.84	3.12	2.58	2.48	2.56
16.	Sangli Bank Ltd.	2.80	2.92	2.87	2.82	2.75	2.53
17.	SBI Commercial and International Bank Ltd.	1.14	1.45	1.20	1.50	1.63	1.61
18.	South Indian Bank Ltd.	2.53	2.21	1.84	1.86	2.09	1.97
19.	Tamilnad Mercantile Bank Ltd.	2.14	1.90	1.99	1.97	2.31	2.22
20.	United Western Bank Ltd.	1.94	1.83	1.96	2.10	1.71	1.82
	New Private Sector Banks	**1.42**	**1.75**	**1.10**	**1.96**	**2.04**	**2.06**
21.	Bank of Punjab Ltd.	2.07	2.45	2.88	2.92	3.26	3.76
22.	Centurion Bank Ltd.	2.00	2.42	3.84	4.68	5.10	4.75
23.	Development Credit Bank Ltd.	1.82	1.82	1.95	2.23	2.41	3.54
24.	HDFC Bank Ltd.	1.46	1.98	1.76	1.90	1.91	2.11
25.	ICICI Bank Ltd.	1.27	1.70	0.60	1.88	2.05	1.97
26.	IndusInd Bank Ltd.	1.13	1.19	0.93	1.19	1.44	1.70
27.	Kotak Mahindra Bank Ltd.	–	–	–	3.57	2.39	3.45
28.	UTI Bank Ltd.	0.98	1.20	1.44	1.65	1.74	1.54
29.	Yes Bank Ltd.	–	–	–	–	–	3.13

Appendix Table III.23: Operating Expenses as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8
	Foreign Banks in India	**3.22**	**3.05**	**3.00**	**2.79**	**2.77**	**2.85**
1.	ABN-AMRO Bank N.V.	1.83	2.58	3.62	3.47	4.43	3.68
2.	Abu Dhabi Commercial Bank Ltd.	1.10	0.44	0.49	0.79	0.56	2.43
3.	American Express Bank Ltd.	6.38	6.58	5.49	6.33	7.27	9.66
4.	Antwerp Diamond Bank	–	–	–	2.60	1.39	1.14
5.	Arab Bangladesh Bank Ltd.	2.08	2.40	1.89	2.23	2.30	2.76
6.	Bank Internasional Indonesia	15.03	11.49	3.85	7.27	2.97	2.31
7.	Bank of America NA	3.26	1.60	1.76	1.42	1.55	1.66
8.	Bank of Bahrain and Kuwait B.S.C.	1.75	1.75	1.39	1.71	1.92	2.19
9.	Bank of Ceylon	1.54	1.58	1.29	1.55	1.54	1.33
10.	Bank of Nova Scotia	1.43	0.96	1.07	1.36	1.03	1.03
11.	Bank of Tokyo-Mitsubishi Ltd.	14.70	4.45	4.88	4.70	3.46	2.98
12.	Barclays Bank PLC	3.67	2.81	1.87	1.94	3.24	2.27
13.	BNP Paribas	2.32	2.82	3.59	4.01	2.92	3.28
14.	Chinatrust Commercial Bank	3.30	2.79	3.34	3.72	3.33	3.87
15.	Chohung Bank	2.43	2.30	1.75	2.43	2.00	1.79
16.	Citibank N.A.	3.88	3.15	3.52	3.32	3.41	3.62
17.	Calyon Bank	3.78	2.27	1.62	1.96	2.20	2.82
18.	Deutsche Bank AG	3.89	3.90	3.43	2.89	2.00	2.56
19.	DBS Bank Ltd.	1.70	1.58	1.53	2.36	1.15	1.31
20.	HSBC Ltd.	2.35	2.61	2.63	2.94	2.47	2.43
21.	ING Bank N.V.	6.82	6.52	3.40	10.55	2.87	0.49
22.	JPMorgan Chase Bank	5.60	5.36	7.24	2.72	3.38	2.06
23.	Krung Thai Bank Public Co. Ltd.	4.65	4.41	4.33	4.25	3.90	3.20
24.	Mashreqbank psc	3.39	2.05	1.88	2.05	1.28	1.09
25.	Mizuho Corporate Bank Ltd.	2.63	2.58	2.14	2.65	2.61	1.79
26.	Oman International Bank S.A.O.G.	1.25	1.25	1.18	1.36	1.07	1.17
27.	Societe Generale	2.83	2.81	2.83	2.99	2.01	1.86
28.	Sonali Bank	3.28	5.13	6.66	6.06	7.17	9.25
29.	Standard Chartered Bank	3.29	3.04	2.22	1.98	2.26	2.26
30.	State Bank of Mauritius Ltd.	0.92	0.84	1.19	1.21	1.08	1.01
31.	UFJ Bank Ltd.	2.41	3.27	1.85	1.66	1.89	1.83

Appendix Table III.24: Operating Profit and Net Profit before and after Adjustment of Interest of Recapitalisation Bonds – Nationalised Banks

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Before adjusting interest amount				After adjusting interest amount +			
		Operating Profit		Net Profit		Operating Profit		Net Profit	
		2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5	6	7	8	9	10
	Nationalised Bank	**24,926.58**	**23,431.01**	**10,927.66**	**9,494.04**	**23,070.86**	**22,010.86**	**9,071.94**	**8,073.89**
1.	Allahabad Bank	876.25	1,072.62	463.38	541.80	802.35	1,007.72	389.48	476.90
2.	Andhra Bank	930.17	992.93	463.50	520.10	878.14	960.89	411.47	488.06
3.	Bank of Baroda	2,485.30	2,301.91	967.00	676.84	2,470.77	2,289.28	952.47	664.21
4.	Bank of India	2,241.87	1,460.36	1,008.32	340.05	2,082.67	1,340.26	849.12	219.95
5.	Bank of Maharashtra	676.49	546.47	304.55	177.13	605.96	494.94	234.02	125.60
6.	Canara Bank	2,858.71	2,585.33	1,338.00	1,109.51	2,781.29	2,544.39	1,260.58	1,068.57
7.	Central Bank of India	1,528.93	1,609.17	618.11	357.41	1,353.06	1,482.30	442.24	230.54
8.	Corporation Bank	907.05	1,056.98	504.14	402.16	900.48	1,051.91	497.57	397.09
9.	Dena Bank	710.59	447.49	230.50	61.00	685.69	435.58	205.60	49.09
10.	Indian Bank	802.46	958.07	405.75	408.49	446.84	562.83	50.13	13.25
11.	Indian Overseas Bank	1,325.20	1,336.80	512.76	651.36	1,201.17	1,283.27	388.73	597.83
12.	Oriental Bank of Commerce	1,533.03	1,233.15	686.07	760.81	1,522.07	1,227.19	675.11	754.85
13.	Punjab and Sind Bank	149.61	257.86	8.89	-71.07	83.88	208.12	-56.84	-120.81
14.	Punjab National Bank	3,120.87	2,707.21	1,108.70	1,410.12	3,066.20	2,680.21	1,054.03	1,383.12
15.	Syndicate Bank	1,019.25	994.17	434.13	402.89	894.68	937.60	309.56	346.32
16.	UCO Bank	798.78	818.67	435.42	345.65	584.20	657.58	220.84	184.56
17.	Union Bank of India	1,483.08	1,573.16	712.05	719.05	1,455.27	1,552.08	684.24	697.97
18.	United Bank of India	613.30	689.63	315.08	300.17	440.60	549.28	142.38	159.82
19.	Vijaya Bank	865.64	789.03	411.31	380.57	815.55	745.43	361.22	336.97

+ : Adjusted for interest on recapitalisation bonds.

Appendix Table III.25: Non-Performing Assets as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets				Net NPAs/Total Assets			
		2001-02	2002-03	2003-04	2004-05	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8	9	10
	Scheduled Commercial Banks	**4.60**	**4.00**	**3.30**	**2.50**	**2.30**	**1.90**	**1.20**	**0.90**
	Public Sector Banks	**4.89**	**4.21**	**3.50**	**2.74**	**2.42**	**1.93**	**1.28**	**0.99**
	Nationalised Banks	**5.21**	**4.66**	**3.86**	**2.98**	**2.69**	**2.16**	**1.40**	**0.96**
1.	Allahabad Bank	8.08	6.56	4.09	2.84	4.68	3.16	1.05	0.60
2.	Andhra Bank	2.50	2.35	2.28	1.35	1.13	0.84	0.44	0.15
3.	Bank of Baroda	6.33	5.45	4.68	3.51	2.70	2.22	2.07	1.27
4.	Bank of India	5.33	4.99	4.40	3.32	3.30	3.00	2.43	1.64
5.	Bank of Maharashtra	4.22	3.84	2.96	2.93	2.23	1.84	0.89	0.85
6.	Canara Bank	2.93	3.02	3.15	2.15	1.79	1.77	1.39	1.02
7.	Central Bank of India	6.42	5.68	4.88	4.03	3.23	2.74	2.01	1.19
8.	Corporation Bank	2.49	2.50	2.48	1.91	1.07	0.76	0.86	0.61
9.	Dena Bank	10.59	8.02	6.70	4.78	6.51	4.95	3.99	2.46
10.	Indian Bank	7.19	4.61	3.04	1.71	2.99	2.13	0.98	0.56
11.	Indian Overseas Bank	5.13	4.61	3.33	2.73	2.70	2.22	1.22	0.63
12.	Oriental Bank of Commerce	2.95	3.37	2.95	4.61	1.41	0.66	–	0.61
13.	Punjab and Sind Bank	7.94	8.60	8.02	7.62	4.73	4.41	3.85	3.24
14.	Punjab National Bank	5.68	5.78	4.56	2.96	2.48	1.77	0.44	0.09
15.	Syndicate Bank	4.08	4.12	3.37	2.75	2.12	2.03	1.13	0.82
16.	UCO Bank	4.25	3.91	3.38	2.56	2.31	2.00	1.72	1.49
17.	Union Bank of India	5.46	4.68	4.02	2.84	3.02	2.45	1.45	1.46
18.	United Bank of India	5.34	3.95	2.96	2.50	2.38	1.67	1.16	0.95
19.	Vijaya Bank	3.73	2.65	1.62	1.47	2.31	1.08	0.42	0.29
	State Bank Group	**4.39**	**3.48**	**2.91**	**2.49**	**2.00**	**1.58**	**1.09**	**1.01**
20.	State Bank of India	4.45	3.59	3.11	2.71	1.96	1.64	1.33	1.16
21.	State Bank of Bikaner and Jaipur	3.77	3.23	2.40	1.71	2.21	1.57	0.53	0.83
22.	State Bank of Hyderabad	4.06	2.83	2.26	1.58	1.89	1.21	0.25	0.27
23.	State Bank of Indore	3.25	2.60	2.04	1.80	1.56	1.21	–	0.54
24.	State Bank of Mysore	6.03	4.96	3.74	2.51	3.49	2.41	1.35	0.49
25.	State Bank of Patiala	3.62	2.51	1.87	2.07	1.47	0.75	–	0.60
26.	State Bank of Saurashtra	4.73	3.09	1.56	1.22	2.17	1.43	–	0.63
27.	State Bank of Travancore	4.41	3.34	2.76	2.26	2.58	1.47	0.64	0.93
	Other Public Sector Banks						–	–	–
28.	IDBI Ltd.	–	–	–	1.49	–	–	–	1.04

Appendix Table III.25: Non-Performing Assets as Percentage of Total Assets – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets				Net NPAs/Total Assets			
		2001-02	2002-03	2003-04	2004-05	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8	9	10
	Private Sector Banks	**4.36**	**3.97**	**2.82**	**2.05**	**2.49**	**2.32**	**1.32**	**0.97**
	Old Private Sector Banks	**5.20**	**4.34**	**3.64**	**3.15**	**3.23**	**2.61**	**1.77**	**1.39**
1.	Bank of Rajasthan Ltd.	6.92	4.34	2.81	1.74	3.61	2.46	0.86	0.79
2.	Bharat Overseas Bank Ltd.	3.91	3.30	2.53	1.80	1.87	1.56	1.12	0.80
3.	Catholic Syrian Bank Ltd.	5.47	5.24	4.07	3.83	3.45	3.01	2.05	1.96
4.	City Union Bank Ltd.	6.31	5.92	5.25	3.48	3.72	3.78	3.09	1.94
5.	Dhanalakshmi Bank Ltd.	7.73	7.03	5.59	4.75	5.80	4.98	3.27	2.28
6.	Federal Bank Ltd.	6.29	4.33	3.97	4.03	4.39	2.52	1.47	1.16
7.	Ganesh Bank of Kurundwad Ltd.	8.80	9.56	8.20	8.17	6.53	6.27	4.63	3.37
8.	ING Vysya Bank Ltd.	1.91	1.77	1.41	1.27	1.89	6.27	1.39	1.26
9.	Jammu and Kashmir Bank Ltd.	1.61	1.51	1.35	1.29	0.82	0.76	0.65	0.67
10.	Karnataka Bank Ltd.	4.81	5.81	5.66	4.01	2.59	3.09	2.19	1.14
11.	Karur Vysya Bank Ltd.	4.42	4.14	3.37	3.07	3.03	2.25	1.29	0.96
12.	Lakshmi Vilas Bank Ltd.	7.71	6.60	5.67	4.62	5.00	3.93	2.86	2.84
13.	Lord Krishna Bank Ltd.	6.07	4.54	3.66	3.62	4.72	3.12	2.60	2.33
14.	Nainital Bank Ltd.	1.81	1.43	1.13	0.90	–	–	–	–
15.	Ratnakar Bank Ltd.	5.34	5.31	4.76	5.29	3.40	3.13	2.37	2.70
16.	Sangli Bank Ltd.	4.07	4.13	4.05	3.60	1.93	2.15	2.13	1.65
17.	SBI Commercial and International Bank Ltd.	12.94	14.76	14.16	14.16	8.14	6.23	4.51	3.70
18.	South Indian Bank Ltd.	5.12	4.53	3.55	3.86	3.38	2.83	2.06	2.15
19.	Tamilnad Mercantile Bank Ltd.	7.59	7.21	6.28	5.72	2.75	3.59	2.06	1.37
20.	United Western Bank Ltd.	7.58	7.50	7.23	6.44	5.55	5.01	4.70	3.35
	New Private Sector Banks	**3.90**	**3.76**	**2.42**	**1.55**	**2.10**	**2.16**	**1.10**	**0.78**
21.	Bank of Punjab Ltd.	2.36	3.96	3.06	4.89	1.22	3.01	2.28	2.29
22.	Centurion Bank Ltd.	5.56	6.75	6.24	3.39	2.44	3.07	1.94	1.19
23.	Development Credit Bank Ltd.	5.14	5.89	3.92	6.67	3.57	4.37	2.20	2.94
24.	HDFC Bank Ltd.	0.94	0.87	0.79	0.85	0.14	0.14	0.07	0.12
25.	ICICI Bank Ltd.	4.82	4.71	2.43	1.65	2.48	2.60	1.10	0.87
26.	IndusInd Bank Ltd.	4.09	2.69	1.72	2.05	3.60	2.30	1.41	1.56
27.	Kotak Mahindra Bank Ltd.	–	0.70	0.31	0.43	–	0.06	0.06	0.23
28.	UTI Bank Ltd.	1.96	1.17	1.14	0.82	1.29	0.83	0.46	0.57
29.	Yes Bank Ltd.	–	–	–	–	–	–	–	–

Appendix Table III.25: Non-Performing Assets as Percentage of Total Assets – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Total Assets				Net NPAs/Total Assets			
		2001-02	2002-03	2003-04	2004-05	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8	9	10
	Foreign Banks in India	**2.41**	**2.44**	**2.13**	**1.42**	**0.81**	**0.79**	**0.66**	**0.42**
1.	ABN-AMRO Bank N.V.	2.11	1.92	2.03	1.47	0.81	0.92	0.56	0.22
2.	Abu Dhabi Commercial Bank Ltd.	3.28	2.75	3.94	2.11	2.18	1.39	2.35	0.59
3.	American Express Bank Ltd.	6.98	8.19	6.90	0.80	3.35	3.26	2.11	0.49
4.	Antwerp Bank Ltd.	–	–	–	–	–	–	–	–
5.	Arab Bangladesh Bank Ltd.	1.01	0.84	0.11	0.10	0.35	0.28	0.05	0.06
6.	Bank Internasional Indonesia	40.44	33.19	30.66	28.51	6.19	3.25	2.32	1.67
7.	Bank of America NA	1.63	0.70	0.51	0.34	0.46	0.04	–	–
8.	Bank of Bahrain and Kuwait B.S.C.	5.80	7.28	10.20	10.87	4.79	5.75	7.84	2.43
9.	Bank of Ceylon	19.98	19.76	14.92	14.17	13.40	12.29	6.83	4.51
10.	Bank of Nova Scotia	2.34	7.08	7.64	2.91	1.76	5.41	5.87	1.89
11.	Bank of Tokyo-Mitsubishi Ltd.	–	1.12	0.79	0.71	–	0.05	0.07	0.04
12.	Barclays Bank PLC	0.42	0.40	0.63	–	0.31	–	–	–
13.	BNP Paribas	1.59	3.31	3.00	2.13	0.67	1.97	1.18	0.34
14.	Chinatrust Commercial Bank	1.25	0.38	6.78	15.24	–	–	4.07	3.04
15.	Chohung Bank	0.46	0.48	0.39	–	0.26	0.24	0.19	–
16.	Citibank N.A.	0.50	0.98	1.33	1.09	0.21	0.58	0.72	0.54
17.	Calyon Bank	10.51	12.55	5.20	1.58	0.11	0.12	0.02	0.09
18.	Deutsche Bank AG	1.26	0.70	0.24	0.08	0.13	–	–	–
19.	DBS Bank Ltd.	0.07	7.48	–	–	–	5.92	–	–
20.	HSBC Ltd.	2.33	2.08	1.65	1.47	0.93	0.40	0.27	0.23
21.	ING Bank N.V.	4.82	11.80	1.00	0.60	3.62	–	–	–
22.	JPMorgan Chase Bank	–	–	–	–	–	–	–	–
23.	Krung Thai Bank Public Co. Ltd.	8.62	–	–	–	7.76	–	–	–
24.	Mashreqbank psc	3.81	4.60	3.57	3.65	–	–	–	–
25.	Mizuho Corporate Bank Ltd.	9.44	8.12	8.40	5.25	3.08	0.46	–	–
26.	Oman International Bank S.A.O.G.	25.14	30.34	35.20	29.86	3.04	2.05	2.02	1.58
27.	Societe Generale	1.92	2.50	2.61	1.33	0.14	–	0.32	–
28.	Sonali Bank	0.79	1.13	1.27	1.54	–	0.75	0.23	0.34
29.	Standard Chartered Bank	1.59	1.46	1.41	1.48	0.18	0.14	0.24	0.60
30.	State Bank of Mauritius Ltd.	9.19	11.41	4.27	3.87	7.06	8.80	2.80	2.06
31.	UFJ Bank Ltd.	13.51	5.39	–	–	6.88	4.15	–	–

– : Nil/Negligible.

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

Appendix Table III.26: Non-Performing Assets as Percentage of Advances – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances				Net NPAs/Net Advances			
		2001-02	2002-03	2003-04	2004-05	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8	9	10
	Scheduled Commercial Banks	**10.40**	**8.80**	**7.20**	**5.20**	**5.50**	**4.40**	**2.90**	**2.00**
	Public Sector Banks	**11.09**	**9.36**	**7.79**	**5.53**	**5.82**	**4.53**	**2.99**	**2.06**
	Nationalised Banks	**11.01**	**9.72**	**8.21**	**5.84**	**6.01**	**4.74**	**3.14**	**1.96**
1.	Allahabad Bank	16.94	13.65	8.66	5.80	10.55	7.07	2.37	1.28
2.	Andhra Bank	5.26	4.89	4.60	2.46	2.45	1.79	0.93	0.28
3.	Bank of Baroda	12.39	11.02	10.52	7.30	5.68	4.81	4.95	2.82
4.	Bank of India	9.37	8.55	7.86	5.45	6.01	5.36	4.49	2.77
5.	Bank of Maharashtra	10.44	9.55	7.70	7.00	5.81	4.83	2.46	1.83
6.	Canara Bank	6.22	5.96	6.33	3.89	3.89	3.59	2.89	1.88
7.	Central Bank of India	14.70	13.06	12.55	9.50	7.98	6.74	5.57	2.98
8.	Corporation Bank	5.19	5.27	5.03	3.41	2.31	1.65	1.80	1.12
9.	Dena Bank	24.11	17.86	14.82	9.67	16.31	11.82	9.40	5.23
10.	Indian Bank	17.86	12.39	7.98	4.19	8.28	6.15	2.71	1.42
11.	Indian Overseas Bank	11.35	10.29	7.40	5.28	6.32	5.23	2.85	1.27
12.	Oriental Bank of Commerce	6.57	6.94	5.87	9.06	3.21	1.44	–	1.29
13.	Punjab and Sind Bank	18.19	19.25	18.16	17.17	11.68	10.85	9.62	8.09
14.	Punjab National Bank	11.38	11.58	9.35	5.96	5.27	3.80	0.98	0.20
15.	Syndicate Bank	8.35	8.34	7.33	5.17	4.53	4.29	2.57	1.59
16.	UCO Bank	9.59	8.24	6.93	4.96	5.65	4.38	3.65	2.93
17.	Union Bank of India	10.77	8.96	7.59	5.01	6.26	4.91	2.87	2.64
18.	United Bank of India	16.16	12.15	9.07	6.14	7.94	5.52	3.75	2.43
19.	Vijaya Bank	9.39	6.18	3.44	2.94	6.02	2.61	0.91	0.59
	State Bank Group	**11.23**	**8.68**	**6.98**	**5.32**	**5.45**	**4.12**	**2.70**	**2.24**
20.	State Bank of India	11.95	9.34	7.75	5.96	5.64	4.49	3.45	2.65
21.	State Bank of Bikaner and Jaipur	9.36	8.15	5.36	3.26	5.77	4.16	1.24	1.61
22.	State Bank of Hyderabad	10.08	7.28	5.60	3.46	4.96	3.26	0.65	0.61
23.	State Bank of Indore	7.18	5.53	3.99	3.28	3.58	2.66	–	1.01
24.	State Bank of Mysore	12.07	10.14	7.76	4.56	7.36	5.19	2.96	0.92
25.	State Bank of Patiala	6.94	4.80	3.71	4.13	2.94	1.49	–	1.23
26.	State Bank of Saurashtra	10.18	7.32	3.68	2.70	4.95	3.53	–	1.42
27.	State Bank of Travancore	9.41	6.67	5.63	4.29	5.72	3.05	1.39	1.80
	Other Public Sector Banks								
28.	IDBI Ltd.	–	–	–	2.92	–	–	–	2.04

Appendix Table III.26: Non-Performing Assets as Percentage of Advances – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances				Net NPAs/Net Advances			
		2001-02	2002-03	2003-04	2004-05	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8	9	10
	Private Sector Banks	**9.64**	**8.07**	**5.84**	**4.44**	**5.73**	**4.95**	**2.84**	**2.17**
	Old Private Sector Banks	**11.01**	**8.86**	**7.59**	**5.97**	**7.13**	**5.54**	**3.85**	**2.74**
1.	Bank of Rajasthan Ltd.	15.73	11.39	9.14	5.34	8.86	6.80	2.99	2.49
2.	Bharat Overseas Bank Ltd.	8.77	6.75	4.99	3.44	4.38	3.30	2.26	1.89
3.	Catholic Syrian Bank Ltd.	14.88	13.01	8.84	7.16	9.91	7.89	4.65	3.80
4.	City Union Bank Ltd.	13.20	12.11	10.36	5.89	8.20	8.16	6.37	3.37
5.	Dhanalakshmi Bank Ltd.	15.29	13.18	11.43	8.51	11.94	9.71	7.06	4.27
6.	Federal Bank Ltd.	11.88	8.21	7.44	7.29	8.59	4.95	2.89	2.21
7.	Ganesh Bank of Kurundwad Ltd.	18.08	18.42	17.32	18.04	14.08	12.90	10.59	8.32
8.	ING Vysya Bank Ltd.	4.64	3.61	2.65	2.14	4.59	3.55	2.60	2.13
9.	Jammu and Kashmir Bank Ltd.	3.62	3.11	3.04	2.72	1.88	1.59	1.49	1.42
10.	Karnataka Bank Ltd.	10.43	12.99	11.93	7.58	5.88	7.34	4.98	2.29
11.	Karur Vysya Bank Ltd.	8.97	7.46	5.83	5.10	6.30	4.16	2.32	1.67
12.	Lakshmi Vilas Bank Ltd.	13.42	11.47	10.15	7.88	9.10	7.11	5.40	4.99
13.	Lord Krishna Bank Ltd.	12.32	8.96	8.32	6.39	9.85	6.33	6.05	4.40
14.	Nainital Bank Ltd.	8.68	6.11	4.00	2.57	–	–	–	–
15.	Ratnakar Bank Ltd.	12.88	11.96	10.63	10.31	8.60	7.42	5.58	5.54
16.	Sangli Bank Ltd.	11.80	12.45	11.79	8.95	5.95	6.87	6.56	4.30
17.	SBI Commercial and International Bank Ltd.	32.72	38.48	41.28	24.06	23.38	20.85	18.31	17.66
18.	South Indian Bank Ltd.	10.05	9.27	7.59	6.64	6.87	5.96	4.55	3.81
19.	Tamilnad Mercantile Bank Ltd.	16.47	16.06	13.79	11.26	6.63	8.66	5.00	2.74
20.	United Western Bank Ltd.	14.08	13.58	13.14	10.87	10.72	9.50	8.96	5.97
	New Private Sector Banks	**8.86**	**7.64**	**4.99**	**3.59**	**4.94**	**4.63**	**2.36**	**1.85**
21.	Bank of Punjab Ltd.	5.49	9.23	6.20	9.43	2.93	7.17	4.69	4.64
22.	Centurion Bank Ltd.	12.66	15.88	12.96	6.81	6.09	7.92	4.43	2.51
23.	Development Credit Bank Ltd.	9.29	9.56	8.19	14.19	6.61	7.76	4.87	6.83
24.	HDFC Bank Ltd.	3.18	2.22	1.86	1.69	0.50	0.37	0.16	0.24
25.	ICICI Bank Ltd.	10.23	8.72	4.70	4.27	5.48	5.21	2.21	2.34
26.	IndusInd Bank Ltd.	7.41	4.94	3.30	3.53	6.59	4.25	2.72	2.71
27.	Kotak Mahindra Bank Ltd.	–	1.20	0.85	0.69	–	0.11	0.17	0.37
28.	UTI Bank Ltd.	5.18	3.16	2.88	1.98	3.46	2.26	1.20	1.39
29.	Yes Bank Ltd.	–	–	–	–	–	–	–	–

Appendix Table III.26: Non-Performing Assets as Percentage of Advances – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	Gross NPAs/Gross Advances				Net NPAs/Net Advances			
		2001-02	2002-03	2003-04	2004-05	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8	9	10
	Foreign Banks in India	**5.38**	**5.25**	**4.62**	**2.85**	**1.89**	**1.76**	**1.48**	**0.86**
1.	ABN-AMRO Bank N.V.	3.43	3.25	3.15	2.26	1.34	1.59	0.88	0.35
2.	Abu Dhabi Commercial Bank Ltd.	18.89	17.53	38.78	34.42	13.43	9.67	27.39	18.08
3.	American Express Bank Ltd.	14.56	19.29	16.47	1.63	7.56	8.69	5.68	0.99
4.	Antwerp Bank Ltd.	–	–	–	–	–	–	–	–
5.	Arab Bangladesh Bank Ltd.	3.91	4.49	0.68	0.32	1.35	1.50	0.34	0.18
6.	Bank Internasional Indonesia	91.23	64.62	97.07	66.55	61.40	15.18	69.57	10.46
7.	Bank of America NA	2.68	1.03	0.84	0.57	0.80	0.05	–	–
8.	Bank of Bahrain and Kuwait B.S.C.	13.23	13.77	21.90	20.77	11.40	11.26	17.73	5.53
9.	Bank of Ceylon	31.87	36.08	37.91	33.41	23.88	25.98	21.85	13.76
10.	Bank of Nova Scotia	3.58	11.02	11.48	4.66	2.72	8.64	9.07	3.08
11.	Bank of Tokyo-Mitsubishi Ltd.	–	2.76	2.18	1.43	–	0.13	0.21	0.09
12.	Barclays Bank PLC	43.58	64.01	65.36	–	36.06	–	–	–
13.	BNP Paribas	3.60	6.17	6.56	3.48	1.54	3.77	2.70	0.57
14.	Chinatrust Commercial Bank	2.60	0.65	9.25	24.33	–	–	5.76	24.72
15.	Chohung Bank	0.84	0.98	1.60	–	0.47	0.48	0.81	–
16.	Citibank N.A.	0.93	1.94	2.52	2.01	0.40	1.17	1.40	1.00
17.	Calyon Bank	25.21	34.89	43.96	4.24	0.36	0.51	0.26	0.25
18.	Deutsche Bank AG	3.52	2.49	0.97	0.33	0.38	–	–	–
19.	DBS Bank Ltd.	0.16	12.65	–	–	–	10.37	–	–
20.	HSBC Ltd.	5.51	5.09	4.20	3.16	2.27	1.03	0.70	0.50
21.	ING Bank N.V.	32.79	44.13	–	–	26.82	–	–	–
22.	JPMorgan Chase Bank	–	–	–	–	–	–	–	–
23.	Krung Thai Bank Public Co. Ltd.	37.82	–	–	–	35.43	–	–	–
24.	Mashreqbank psc	17.87	31.32	41.31	39.51	–	–	–	–
25.	Mizuho Corporate Bank Ltd.	13.26	11.99	11.93	8.22	4.75	0.76	–	–
26.	Oman International Bank S.A.O.G.	85.46	91.50	96.51	95.85	41.53	42.13	61.39	8.00
27.	Societe Generale	6.71	13.89	10.21	6.91	0.52	–	1.36	–
28.	Sonali Bank	2.95	6.49	7.49	7.86	–	4.52	1.42	1.84
29.	Standard Chartered Bank	3.44	3.17	2.91	2.73	0.40	0.31	0.52	1.12
30.	State Bank of Mauritius Ltd.	17.46	17.67	6.91	7.65	14.02	14.20	4.64	4.22
31.	UFJ Bank Ltd.	22.20	10.88	–	–	12.69	8.60	–	–

– : Nil/Negligible.

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

Appendix Table III.27(A): Non-performing Assets of Public Sector Banks – Sector-wise
(As at end-March 2005)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Agriculture		Small Scale Industries		Others		Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	
1	2	3	4	5	6	7	8	9 (3+5+7)	10	11	12	13 (15-9-11)	14	15 (9+11+13)
	Public Sector Banks	**7,254.05**	**15.21**	**7,834.96**	**16.43**	**8,308.37**	**17.42**	**23,397.38**	**49.05**	**450.49**	**0.94**	**23,848.61**	**50.00**	**47,696.48**
	Nationalised Banks	**4,979.86**	**15.58**	**6,004.95**	**18.79**	**5,395.69**	**16.88**	**16,380.50**	**51.25**	**282.74**	**0.88**	**15,300.80**	**47.87**	**31,964.03**
1.	Allahabad Bank	256.19	19.95	238.13	18.54	279.35	21.75	773.67	60.24	14.76	1.15	495.83	38.61	1,284.27
2.	Andhra Bank	44.57	10.11	76.40	17.33	119.42	27.08	240.39	54.52	9.89	2.24	190.65	43.24	440.93
3.	Bank of Baroda	445.17	14.08	582.76	18.43	352.27	11.14	1,380.20	43.66	33.46	1.06	1,747.83	55.29	3,161.49
4.	Bank of India	514.45	17.88	561.38	19.51	416.31	14.47	1,492.14	51.85	38.51	1.34	1,347.01	46.81	2,877.66
5.	Bank of Maharashtra	174.49	18.14	195.10	20.28	194.74	20.24	564.33	58.67	0.89	0.09	396.72	41.24	961.94
6.	Canara Bank	244.07	10.34	303.47	12.85	443.35	18.77	990.89	41.96	5.26	0.22	1,365.35	57.82	2,361.50
7.	Central Bank of India	356.34	13.59	627.55	23.94	601.55	22.95	1,585.44	60.48	12.71	0.48	1,023.26	39.03	2,621.41
8.	Corporation Bank	64.27	9.93	58.61	9.06	197.21	30.47	320.09	49.45	12.49	1.93	314.67	48.62	647.25
9.	Dena Bank	148.30	12.92	221.44	19.30	163.44	14.24	533.18	46.46	3.88	0.34	610.48	53.20	1,147.54
10.	Indian Bank	130.46	17.58	265.85	35.83	221.17	29.81	617.48	83.23	1.33	0.18	123.08	16.59	741.89
11.	Indian Overseas Bank	96.76	7.10	342.01	25.11	194.55	14.28	633.33	46.50	19.17	1.41	709.57	52.10	1,362.06
12.	Oriental Bank of Commerce	179.46	7.14	477.17	18.99	178.11	7.09	834.74	33.22	5.14	0.20	1,672.94	66.58	2,512.82
13.	Punjab and Sind Bank	1,180.69	56.85	148.76	7.16	141.87	6.83	1,471.32	70.85	6.01	0.29	599.38	28.86	2,076.71
14.	Punjab National Bank	354.46	9.47	908.30	24.28	478.00	12.78	1,740.76	46.53	39.52	1.06	1,961.06	52.42	3,741.34
15.	Syndicate Bank	158.25	11.07	258.97	18.11	330.22	23.10	747.44	52.28	39.43	2.76	642.79	44.96	1,429.66
16.	UCO Bank	147.62	10.70	167.43	12.14	294.25	21.33	609.30	44.17	16.78	1.22	753.33	54.61	1,379.41
17.	Union Bank of India	279.28	13.57	372.03	18.08	439.26	21.34	1,090.57	52.99	1.20	0.06	966.38	46.95	2,058.15
18.	United Bank of India	151.16	20.81	148.63	20.46	241.65	33.27	541.44	74.54	18.04	2.48	166.89	22.98	726.37
19.	Vijaya Bank	53.86	12.48	50.96	11.81	108.96	25.24	213.78	49.53	4.27	0.99	213.58	49.48	431.64
	State Bank Group	**2,274.19**	**15.36**	**1,830.01**	**12.36**	**2,912.69**	**19.67**	**7,016.89**	**47.39**	**167.75**	**1.13**	**7,623.55**	**51.48**	**14,808.19**
20.	State Bank of India	1,912.68	16.42	1,371.97	11.78	2,320.03	19.92	5,604.68	48.12	90.32	0.78	5,952.43	51.11	11,647.43
21.	State Bank of Bikaner and Jaipur	13.70	3.43	73.11	18.30	103.99	26.03	190.80	47.76	9.56	2.39	199.15	49.85	399.51
22.	State Bank of Hyderabad	28.14	5.09	72.07	13.02	94.40	17.06	194.61	35.17	–	–	358.72	64.83	553.32
23.	State Bank of Indore	37.39	12.32	31.57	10.40	73.15	24.10	142.11	46.83	3.80	1.25	157.57	51.92	303.48
24.	State Bank of Mysore	49.24	11.85	73.46	17.69	59.62	14.35	182.32	43.89	–	–	233.06	56.11	415.38
25.	State Bank of Patiala	166.78	25.54	75.19	11.51	129.08	19.76	371.05	56.81	25.79	3.95	256.26	39.24	653.10
26.	State Bank of Saurashtra	16.96	9.23	21.00	11.42	27.25	14.82	65.21	35.47	–	–	118.63	64.53	183.84
27.	State Bank of Travancore	49.30	7.56	111.64	17.12	105.17	16.13	266.11	40.81	38.28	5.87	347.74	53.32	652.13
	Other Public Sector Bank													
28.	IDBI Ltd.	–	–	–	–	–	–	–	–	–	–	924.26	100.00	924.26

– : Nil/Negligible.
Note: Data are based on domestic operations of respective banks.
Source: Based on off-site returns.

Appendix Table III.27(B): Non-performing Assets of Private Sector Banks – Sector-wise

(As at end-March 2005)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Agriculture		Small Scale Industries		Others		Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	
1	2	3	4	5	6	7	8	9 (3+5+7)	10	11	12	13 (15-9-11)	14	15 (9+11+13)
	Private Sector Banks	**465.40**	**5.29**	**964.31**	**10.96**	**758.76**	**8.62**	**2,188.46**	**24.87**	**42.34**	**0.48**	**6,569.03**	**74.65**	**8,799.83**
	Old Private Sector Banks	**304.25**	**7.19**	**792.07**	**18.71**	**685.57**	**16.19**	**1,781.90**	**42.09**	**8.27**	**0.20**	**2,443.84**	**57.72**	**4,234.01**
1.	Bank of Rajasthan Ltd.	11.98	7.53	18.04	11.33	17.75	11.15	47.78	30.01	–	–	111.41	69.99	159.18
2.	Bharat Overseas Bank Ltd.	5.31	6.78	15.00	19.15	14.43	18.42	34.75	44.36	–	–	43.59	55.64	78.35
3.	Catholic Syrian Bank Ltd.	6.03	3.55	37.85	22.30	45.23	26.64	89.11	52.49	–	–	80.65	47.51	169.76
4.	City Union Bank Ltd.	2.98	2.45	26.04	21.41	11.35	9.33	40.37	33.19	–	–	81.27	66.81	121.64
5.	Dhanalakshmi Bank Ltd.	0.96	0.76	23.70	18.88	23.52	18.74	48.18	38.39	–	–	77.32	61.61	125.50
6.	Federal Bank Ltd.	30.94	4.56	99.89	14.74	147.02	21.69	277.85	40.99	8.27	1.22	391.67	57.79	677.79
7.	Ganesh Bank of Kurundwad Ltd.	2.15	11.27	2.82	14.79	3.00	15.73	7.97	41.79	–	–	11.10	58.21	19.07
8.	ING Vysya Bank Ltd.	19.03	9.80	21.89	11.27	36.55	18.81	77.47	39.88	–	–	116.80	60.12	194.27
9.	Jammu and Kashmir Bank Ltd.	14.83	4.67	64.14	20.22	96.32	30.36	175.29	55.25	–	–	141.96	44.75	317.25
10.	Karnataka Bank Ltd.	40.16	8.00	103.49	20.62	36.53	7.28	180.17	35.91	–	–	321.61	64.09	501.78
11.	Karur Vysya Bank Ltd.	5.11	2.11	75.07	31.03	15.38	6.36	95.55	39.50	–	–	146.36	60.50	241.91
12.	Lakshmi Vilas Bank Ltd.	10.42	5.56	44.60	23.80	34.68	18.50	89.70	47.85	–	–	97.75	52.15	187.44
13.	Lord Krishna Bank Ltd.	0.84	0.93	8.60	9.49	3.50	3.86	12.94	14.28	–	–	77.70	85.72	90.64
14.	Nainital Bank Ltd.	1.10	11.64	1.04	10.96	3.82	40.32	5.96	62.93	–	–	3.51	37.07	9.47
15.	Ratnakar Bank Ltd.	2.34	5.08	11.72	25.47	6.59	14.33	20.65	44.88	–	–	25.36	55.12	46.00
16.	Sangli Bank Ltd.	18.50	24.30	13.70	18.00	4.87	6.40	37.07	48.69	–	–	39.06	51.31	76.13
17.	SBI Commercial and International Bank Ltd.	12.91	16.06	0.57	0.71	–	–	13.49	16.77	–	–	66.94	83.23	80.43
18.	South Indian Bank Ltd.	62.62	17.11	67.40	18.41	53.45	14.60	183.47	50.12	–	–	182.59	49.88	366.06
19.	Tamilnad Mercantile Bank Ltd.	18.92	5.89	85.02	26.48	22.71	7.07	126.65	39.44	–	–	194.48	60.56	321.13
20.	United Western Bank Ltd.	37.13	8.25	71.49	15.88	108.87	24.18	217.48	48.31	–	–	232.71	51.69	450.20
	New Private Sector Banks	**161.14**	**3.53**	**172.24**	**3.77**	**73.18**	**1.60**	**406.56**	**8.90**	**34.07**	**0.75**	**4,125.19**	**90.35**	**4,565.82**
21.	Bank of Punjab Ltd.	2.80	1.17	10.54	4.40	2.27	0.94	15.61	6.51	–	–	224.26	93.49	239.87
22.	Centurion Bank Ltd.	–	–	–	–	4.80	3.07	4.80	3.07	–	–	151.60	96.93	156.40
23.	Development Credit Bank Ltd.	0.21	0.07	44.30	14.26	18.40	5.92	62.91	20.24	–	–	247.84	79.76	310.75
24.	HDFC Bank Ltd.	–	–	19.13	4.48	–	–	19.13	4.48	–	–	408.28	95.52	427.41
25.	ICICI Bank Ltd.	82.28	2.97	50.73	1.83	2.99	0.11	136.00	4.91	34.07	1.23	2,600.36	93.86	2,770.43
26.	IndusInd Bank Ltd.	48.46	15.12	12.12	3.78	33.40	10.42	93.98	29.32	–	–	226.55	70.68	320.53
27.	Kotak Mahindra Bank Ltd.	1.37	4.66	–	–	6.80	23.19	8.16	27.84	–	–	21.16	72.16	29.32
28.	UTI Bank Ltd.	26.03	8.37	35.41	11.38	4.53	1.46	65.97	21.20	–	–	245.14	78.80	311.11
29.	Yes Bank Ltd.	–		–		–		–		–		–		–

– : Nil/Negligible.

Note: Data is based on domestic operations of respective banks.

Source: Based on off-site returns.

Appendix Table III.28(A): Non-Performing Assets in Advances to Weaker Sections under Priority Sector – Public Sector Banks

(As at end-March 2005)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Sections		
		Total	*of which* : **NPAs**	
			Amount	Per cent
1	2	3	4	5
	Public Sector Banks	**51,444.83**	**5,752.04**	**11.18**
	Nationalised Banks	**30.804.05**	**2,880.71**	**9.35**
1.	Allahabad Bank	2,256.84	280.84	12.44
2.	Andhra Bank	1,969.19	80.74	4.10
3.	Bank of Baroda	2,455.52	285.29	11.62
4.	Bank of India	1,925.07	385.81	20.04
5.	Bank of Maharashtra	670.26	117.72	17.56
6.	Canara Bank	3,349.85	215.90	6.45
7.	Central Bank of India	632.46	209.68	33.15
8.	Corporation Bank	415.74	32.70	7.87
9.	Dena Bank	440.00	68.63	15.60
10.	Indian Bank	872.93	175.05	20.05
11.	Indian Overseas Bank	2,598.67	40.06	1.54
12.	Oriental Bank of Commerce	714.47	54.77	7.67
13.	Punjab and Sind Bank	–	–	–
14.	Punjab National Bank	5,572.59	251.04	4.50
15.	Syndicate Bank	2,313.62	217.48	9.40
16.	UCO Bank	1,001.81	132.96	13.27
17.	Union Bank of India	1,143.48	210.86	18.44
18.	United Bank of India	520.00	67.00	12.88
19.	Vijaya Bank	1,951.54	54.19	2.78
	State Bank Group	**20,640.78**	**2,871.33**	**13.91**
20.	State Bank of India	9,162.15	2,312.70	25.24
21.	State Bank of Bikaner and Jaipur	1,120.10	99.61	8.89
22.	State Bank of Hyderabad	584.08	146.02	25.00
23.	State Bank of Indore	501.11	35.91	7.17
24.	State Bank of Mysore	843.16	42.16	5.00
25.	State Bank of Patiala	1,522.36	153.91	10.11
26.	State Bank of Saurashtra	1,152.75	31.72	2.75
27.	State Bank of Travancore	5,755.07	49.30	0.86
	Other Public Sector Bank			
28.	IDBI Ltd.	–	–	–

– : Nil/Negligible.
Source: Data furnished by respective banks.

Appendix Table III.28(B): Non-Performing Assets in Advances to Weaker Sections under Priority Sector – Private Sector Banks

(As at end-March 2005)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Advances to Weaker Sections		
		Total	*of which* : NPAs	
			Amount	Per cent
1	2	3	4	5
	Private Sector Banks	**1,581.37**	**207.98**	**13.15**
	Old Private Section Banks	**1501.62**	**207.97**	**13.85**
1.	Bank of Rajasthan Ltd.	47.79	13.09	27.39
2.	Bharat Overseas Bank Ltd.	15.14	3.00	19.82
3.	Catholic Syrian Bank Ltd.	33.66	9.66	28.70
4.	City Union Bank Ltd.	27.93	0.79	2.83
5.	Dhanalakshmi Bank Ltd.	–	–	–
6.	Federal Bank Ltd.	264.09	23.94	9.07
7.	Ganesh Bank of Kurundwad Ltd.	–	–	–
8.	ING Vysya Bank Ltd.	35.19	2.02	5.74
9.	Jammu and Kashmir Bank Ltd.	315.44	40.31	12.78
10.	Karnataka Bank Ltd.	86.73	7.61	8.77
11.	Karur Vysya Bank Ltd.	186.55	10.97	5.88
12.	Lakshmi Vilas Bank Ltd.	87.23	1.50	1.72
13.	Lord Krishna Bank Ltd.	3.85	–	–
14.	Nainital Bank Ltd.	11.20	1.13	10.09
15.	Ratnakar Bank Ltd.	5.59	1.52	27.19
16.	SBI Commercial and International Bank Ltd.	–	–	–
17.	Sangli Bank Ltd.	–	–	–
18.	South Indian Bank Ltd.	172.03	60.63	35.24
19.	Tamilnad Mercantile Bank Ltd.	14.73	1.36	9.23
20.	United Western Bank Ltd.	194.47	30.44	15.65
	New Private Sector Banks	**79.75**	**0.01**	**0.01**
21	Bank of Punjab Ltd.	0.42	–	–
22.	Centurion Bank Ltd.	–	–	–
23.	Development Credit Bank Ltd.	1.34	0.01	0.75
24.	HDFC Bank Ltd.	20.58	–	–
25.	ICICI Bank Ltd.	38.51	–	–
26.	IndusInd Bank Ltd.	–	–	–
27.	Kotak Mahindra Bank Ltd.	–	–	–
28.	UTI Bank Ltd.	18.90	–	–
29.	Yes Bank Ltd.	–	–	–

– : Nil/Negligible.
Source: Data furnished by respective banks.

Appendix Table III.29: Investment Fluctuation Reserves (IFR) of Public Sector Banks

(As at end-March)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	2003-04				2004-05			
		Investment		IFR	IFR as percentage to (AFS+HFT)	Investment		IFR	IFR as percentage to (AFS+HFT)
		AFS	HFT			AFS	HFT		
1	2	3	4	5	6	7	8	9	10
	Public Sector Banks	**4,87,876.49**	**5,502.54**	**15,192.35**	**3.08**	**3,93,801.50**	**1,311.87**	**17,732.38**	**4.49**
	Public Sector Banks #	**4,87,876.49**	**5,502.54**	**15,192.35**	**3.08**	**3,99,851.79**	**1,818.86**	**18,124.38**	**4.51**
	Nationalised Banks	**2,84,440.79**	**3,411.11**	**8,824.62**	**3.07**	**2,23,260.29**	**672.38**	**10,448.67**	**4.67**
1.	Allahabad Bank	11,421.04	–	330.65	2.90	8,593.22	5.24	429.95	5.00
2.	Andhra Bank	7,540.01	225.15	388.26	5.00	3,898.96	86.23	313.00	7.85
3.	Bank of Baroda	34,727.58	2.71	1,042.54	3.00	25,661.39	0.91	1,042.54	4.06
4.	Bank of India	16,842.33	737.59	541.76	3.08	4,974.76	339.79	321.76	6.05
5.	Bank of Maharashtra	9,875.25	–	327.75	3.32	6,937.91	–	352.75	5.08
6.	Canara Bank	27,140.27	404.12	978.15	3.55	23,584.28	21.00	1,208.15	5.12
7.	Central Bank of India	22,884.74	52.62	587.04	2.56	19,390.89	–	780.10	4.02
8.	Corporation Bank	8,818.68	53.43	444.00	5.00	4,074.00	–	444.00	10.90
9.	Dena Bank	7,296.04	123.90	–	–	5,506.23	19.82	42.70	0.77
10.	Indian Bank	9,653.91	–	442.88	4.59	9,601.85	–	556.99	5.80
11.	Indian Overseas Bank	15,380.31	–	481.14	3.13	11,431.60	–	601.14	5.26
12.	Oriental Bank of Commerce	14,108.95	26.37	625.50	4.43	13,976.97	71.29	705.50	5.02
13.	Punjab and Sind Bank	4,690.34	–	59.02	1.26	2,878.19	42.35	59.02	2.02
14.	Punjab National Bank	30,811.31	587.14	964.97	3.07	31,031.89	–	1,902.34	6.13
15.	Syndicate Bank	13,704.40	259.13	418.91	3.00	9,765.62	–	419.12	4.29
16.	UCO Bank	12,731.06	87.30	329.61	2.57	9,718.04	75.15	391.61	4.00
17.	Union Bank of India	17,450.43	292.89	540.00	3.04	13,579.38	–	555.00	4.09
18.	United Bank of India	10,350.67	516.06	–	–	9,639.11	–	–	–
19.	Vijaya Bank	9,013.47	42.70	322.44	3.56	9,016.00	10.60	323.00	3.58
	State Bank Group	**2,03,435.70**	**2,091.43**	**6,367.73**	**3.10**	**1,70,541.21**	**639.49**	**7,283.71**	**4.25**
20.	State Bank of India	1,50,093.51	1,667.78	4,371.16	2.88	1,33,065.75	414.53	5,253.89	3.94
21.	State Bank of Bikaner and Jaipur	7,843.34	30.03	295.25	3.75	4,139.17	–	295.25	7.13
22.	State Bank of Hyderabad	13,906.05	12.44	467.52	3.36	9,187.45	0.35	467.52	5.09
23.	State Bank of Indore	4,206.30	27.76	220.47	5.21	4,511.90	170.27	220.47	4.71
24.	State Bank of Mysore	4,448.03	11.92	156.00	3.50	3,668.10	–	165.10	4.50
25.	State Bank of Patiala	8,652.03	282.25	402.87	4.51	6,793.62	6.66	408.58	6.01
26.	State Bank of Saurashtra	5,282.00	59.25	176.90	3.31	3,310.44	47.68	176.90	5.27
27.	State Bank of Travancore	9,004.44	–	277.56	3.08	5,864.78	–	296.00	5.05
	Other Public Sector Bank								
28.	IDBI Ltd.	–	–	–	–	6,050.29	506.99	392.00	5.98

– : Nil/Negligible.

: Excluding the impact of a conversion of a non-banking entity into a banking entity.

Note : AFS : Available for sale , HFT: Held for trading .

Sources : 1. Balance sheets of respective banks.
2. Return submitted by the banks.

Appendix Table III.30: Capital Adequacy Ratio – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7
	Scheduled Commercial Banks	**11.40**	**12.00**	**12.70**	**12.90**	**12.80**
	Public Sector Banks	**11.20**	**11.80**	**12.60**	**13.20**	**12.90**
	Nationalised Banks	**10.20**	**10.90**	**12.20**	**13.10**	**13.20**
1.	Allahabad Bank	10.50	10.62	11.15	12.52	12.53
2.	Andhra Bank	13.40	12.59	13.62	13.71	12.11
3.	Bank of Baroda	12.80	11.32	12.65	13.91	12.61
4.	Bank of India	12.23	10.68	12.02	13.01	11.52
5.	Bank of Maharashtra	10.64	11.16	12.05	11.88	12.68
6.	Canara Bank	9.84	11.88	12.50	12.66	12.78
7.	Central Bank of India	10.02	9.58	10.51	12.43	12.15
8.	Corporation Bank	13.30	17.90	18.50	20.12	16.23
9.	Dena Bank	7.73	7.64	6.02	9.48	11.91
10.	Indian Bank	Negative	1.70	10.85	12.82	14.14
11.	Indian Overseas Bank	10.24	10.82	11.30	12.49	14.20
12.	Oriental Bank of Commerce	11.81	10.99	14.04	14.47	9.21
13.	Punjab and Sind Bank	11.42	10.70	10.43	11.06	9.46
14.	Punjab National Bank	10.24	10.70	12.02	13.10	14.78
15.	Syndicate Bank	11.72	12.12	11.03	11.49	10.70
16.	UCO Bank	9.05	9.64	10.04	11.88	11.26
17.	Union Bank of India	10.86	11.07	12.41	12.32	12.09
18.	United Bank of India	10.40	12.02	15.17	17.04	18.16
19.	Vijaya Bank	11.50	12.25	12.66	14.11	12.92
	State Bank Group	**12.70**	**13.30**	**13.40**	**13.40**	**12.40**
20.	State Bank of India	12.79	13.35	13.50	13.53	12.45
21.	State Bank of Bikaner and Jaipur	12.39	13.42	13.18	12.93	12.60
22.	State Bank of Hyderabad	12.28	14.03	14.91	14.29	11.74
23.	State Bank of Indore	12.73	12.78	13.09	12.39	11.61
24.	State Bank of Mysore	11.16	11.81	11.62	11.53	12.08
25.	State Bank of Patiala	12.37	12.55	13.57	13.56	14.21
26.	State Bank of Saurashtra	13.89	13.20	13.68	14.53	11.45
27.	State Bank of Travancore	11.79	12.54	11.30	11.36	11.05
	Other Public Sector Bank					
28.	IDBI Ltd.	–	–	–	–	15.51

Appendix Table III.30: Capital Adequacy Ratio – Scheduled Commercial Banks *(Continued)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7
	Old Private Sector Banks	**11.90**	**12.50**	**12.80**	**13.70**	**12.50**
1.	Bank of Rajasthan Ltd.	10.57	12.07	11.29	11.18	12.75
2.	Bharat Overseas Bank Ltd.	14.43	15.09	13.87	16.25	14.95
3.	Catholic Syrian Bank Ltd.	6.08	9.57	10.58	11.23	11.35
4.	City Union Bank Ltd.	13.59	13.97	13.95	13.36	12.18
5.	Dhanalakshmi Bank Ltd.	9.69	11.23	10.45	13.56	10.16
6.	Federal Bank Ltd.	10.29	10.63	11.23	11.48	11.27
7.	Ganesh Bank of Kurundwad Ltd.	9.11	10.08	10.44	11.94	3.99
8.	ING Vysya Bank Ltd.	12.05	11.57	9.81	11.05	9.09
9.	Jammu and Kashmir Bank Ltd.	17.44	15.46	16.48	16.88	15.15
10.	Karnataka Bank Ltd.	11.37	12.96	13.44	13.03	14.16
11.	Karur Vysya Bank Ltd.	15.56	16.90	17.01	17.11	16.07
12.	Lakshmi Vilas Bank Ltd.	10.21	11.54	11.35	13.79	11.32
13.	Lord Krishna Bank Ltd.	12.90	16.50	12.82	16.68	11.74
14.	Nainital Bank Ltd.	15.81	14.88	20.93	18.54	14.85
15.	Ratnakar Bank Ltd.	10.00	13.60	14.05	16.65	12.41
16.	Sangli Bank Ltd.	11.47	11.64	14.94	13.68	9.30
17.	SBI Commercial and International Bank Ltd.	19.85	22.10	21.19	30.43	23.56
18.	South Indian Bank Ltd.	11.17	11.20	10.75	11.32	9.89
19.	Tamilnad Mercantile Bank Ltd.	17.59	18.02	18.54	21.07	19.74
20.	United Western Bank Ltd.	9.59	9.79	10.17	10.13	4.86
	New Private Sector Banks	**11.50**	**12.30**	**11.30**	**10.20**	**12.07**
21.	Bank of Punjab Ltd.	11.02	12.82	13.59	12.64	9.23
22.	Centurion Bank Ltd.	9.61	4.16	1.95	4.41	39.22
23.	Development Credit Bank Ltd.	11.28	11.49	10.08	14.14	9.88
24.	HDFC Bank Ltd.	11.09	13.93	11.12	11.66	12.16
25.	ICICI Bank Ltd.	11.57	11.44	11.10	10.36	11.78
26.	IndusInd Bank Ltd.	15.00	12.51	12.13	12.75	11.62
27.	Kotak Mahindra Bank Ltd.	–	–	25.97	15.25	12.80
28.	UTI Bank Ltd.	9.00	10.65	10.90	11.21	12.66
29.	Yes Bank Ltd.	–	–	–	–	18.81

Appendix Table III.30: Capital Adequacy Ratio – Scheduled Commercial Banks *(Concluded)*

(Per cent)

Sr. No.	Name of the Bank	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7
	Foreign Banks in India	**12.60**	**12.90**	**15.20**	**15.00**	**14.00**
1.	ABN-AMRO Bank N.V.	11.42	13.17	12.57	13.48	10.55
2.	Abu Dhabi Commercial Bank Ltd.	10.05	10.42	10.14	14.22	14.38
3.	American Express Bank Ltd.	9.59	10.71	10.93	10.74	10.87
4.	Antwerp Diamond Bank	–	–	92.69	53.22	39.99
5.	Arab Bangladesh Bank Ltd.	96.34	138.51	105.64	111.34	109.39
6.	Bank Internasional Indonesia	103.78	123.07	103.99	133.94	92.26
7.	Bank of America NA	13.03	21.07	21.08	22.92	30.07
8.	Bank of Bahrain and Kuwait B.S.C.	11.83	17.03	17.19	21.06	11.66
9.	Bank of Ceylon	36.49	30.94	32.29	45.26	49.40
10.	Bank of Nova Scotia	9.97	10.12	13.38	13.78	15.27
11.	Bank of Tokyo-Mitsubishi Ltd.	15.51	15.36	30.40	32.78	32.10
12.	Barclays Bank PLC	26.97	63.56	45.68	37.16	20.85
13.	BNP Paribas	9.92	9.66	10.74	21.70	9.41
14.	Chinatrust Commercial Bank	28.27	40.11	36.96	39.98	59.94
15.	Chohung Bank	35.00	27.65	37.17	54.43	55.31
16.	Citibank N.A.	11.24	11.04	11.30	11.11	10.78
17.	Calyon Bank	11.60	11.23	20.04	24.51	14.40
18.	Deutsche Bank AG	12.67	14.55	17.35	14.42	16.22
19.	DBS Bank Ltd.	15.93	13.31	15.98	55.49	35.06
20.	HSBC Ltd.	12.37	10.92	18.10	14.54	14.03
21.	ING Bank N.V.	15.00	12.47	20.72	56.91	74.97
22.	JPMorgan Chase Bank	43.79	85.88	72.95	34.83	10.19
23.	Krung Thai Bank Public Co. Ltd.	148.99	167.65	119.88	115.98	101.01
24.	Mashreqbank psc	10.54	20.54	39.38	54.71	60.14
25.	Mizuho Corporate Bank Ltd.	18.38	11.14	18.50	36.09	30.34
26.	Oman International Bank S.A.O.G.	14.21	18.86	14.62	16.48	13.52
27.	Societe Generale	13.93	12.85	32.63	32.71	64.81
28.	Sonali Bank	88.14	113.64	46.86	60.55	105.81
29.	Standard Chartered Bank	9.60	9.28	10.56	10.87	10.46
30.	State Bank of Mauritius Ltd.	30.78	46.78	31.74	35.08	31.06
31.	UFJ Bank Ltd.	34.91	29.44	67.68	121.69	121.60

Source : Balance sheets of respective banks.

Appendix Table III.31: Shareholding Pattern of Scheduled Commercial Banks *(Continued)*

(As at end-March 2005)

(Per cent)

Sr. No.	Bank Name	Total Government and RBI-Resident	Financial Institution-Resident	Financial Institution-Non Resident	Other Corporates-Resident	Other Corporates-Non Resident	Total Individual-Resident	Total Individual-Non Resident	Total - Resident	Total - Non Resident
1	2	3	4	5	6	7	8	9	10	11
	Nationalised Banks									
1.	Allahabad Bank	71.2	3.8	0.8	3.1	–	21.1	0.1	99.2	0.8
2.	Andhra Bank	62.5	18.9	–	1.9	–	16.8	–	100.0	–
3.	Bank of Baroda	66.8	5.8	18.0	1.1	–	7.3	0.9	81.0	19.0
4.	Bank of India	69.5	4.3	10.8	1.4	2.0	10.8	1.2	86.0	14.0
5.	Bank of Maharashtra	76.8	4.2	0.8	2.3	–	15.9	0.1	99.1	0.9
6.	Canara Bank	73.2	3.2	15.3	1.0	–	7.3	–	84.6	15.4
7.	Central Bank of India	100.0	–	–	–	–	–	–	100.0	–
8.	Corporation Bank	57.2	29.4	10.2	0.5	–	2.7	0.2	89.7	10.3
9.	Dena Bank	51.2	2.9	–	7.2	–	31.1	7.6	92.4	7.6
10.	Indian Bank	100.0	–	–	–	–	–	–	100.0	–
11.	Indian Overseas Bank	61.2	6.9	8.9	2.6	–	19.2	1.2	89.9	10.1
12.	Oriental Bank of Commerce	66.5	11.0	14.0	1.5	–	7.0	–	86.0	14.0
13.	Punjab & Sind Bank	100.0	–	–	–	–	–	–	100.0	–
14.	Punjab National Bank	57.8	6.4	18.3	3.3	–	14.1	0.1	81.6	18.4
15.	Syndicate Bank	73.5	5.3	2.7	1.6	–	16.7	0.2	97.1	2.9
16.	UCO Bank	75.0	5.8	–	3.3	1.0	14.8	0.2	98.8	1.2
17.	Union Bank of India	60.9	4.2	18.2	2.2	–	14.5	0.1	81.7	18.3
18.	United Bank of India	100.0	–	–	–	–	–	–	100.0	–
19.	Vijaya Bank	53.9	8.0	13.6	3.2	–	20.7	0.8	85.7	14.3
	State Bank Group									
20.	State Bank of India	59.7	11.4	19.8	2.6	–	6.4	0.1	80.2	19.8
21.	State Bank of Bikaner and Jaipur	–	76.4	–	6.2	4.5	12.8	–	95.5	4.5
22.	State Bank of Hyderabad	–	100.0	–	–	–	–	–	100.0	–
23.	State Bank of Indore	–	98.1	–	0.7	–	1.3	–	100.0	–
24.	State Bank of Mysore	–	94.0	–	0.5	0.1	5.4	–	99.9	0.1
25.	State Bank of Patiala	–	100.0	–	–	–	–	–	100.0	–
26.	State Bank of Saurashtra	–	100.0	–	–	–	–	–	100.0	–
27.	State Bank of Travancore	1.1	77.7	2.0	2.7	–	12.4	4.1	93.9	6.1
	Other Public Sector Bank									
28.	IDBI Ltd.	58.5	24.7	–	3.2	–	12.8	0.8	99.2	0.8
	Old Private Sector Banks									
1.	Bank of Rajasthan Ltd.	–	0.4	1.8	65.1	–	32.5	0.4	97.9	2.1
2.	Bharat Overseas Bank Ltd.	–	100.0	–	–	–	–	–	100.0	–
3.	Catholic Syrian Bank Ltd.	–	–	–	6.1	–	93.5	0.5	99.6	0.5
4.	City Union Bank Ltd.	–	5.0	–	14.5	–	80.3	0.2	99.8	0.2
5.	Dhanalakshmi Bank Ltd.	–	0.1	–	10.7	–	88.3	0.9	99.1	0.9
6.	Federal Bank Ltd.	–	38.4	6.4	10.3	–	43.4	1.4	92.1	7.9

Appendix Table III.31: Shareholding Pattern of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2005)

(Per cent)

Sr. No.	Bank Name	Total Government and RBI-Resident	Financial Institution-Resident	Financial Institution-Non Resident	Other Corporates-Resident	Other Corporates-Non Resident	Total Individual-Resident	Total Individual-Non Resident	Total - Resident	Total - Non Resident
1	2	3	4	5	6	7	8	9	10	11
7.	Ganesh Bank of Kurundwad Ltd.	–	–	–	–	–	100.0	–	100.0	–
8.	ING Vysya Bank Ltd.	–	5.3	5.0	4.6	58.7	21.4	5.1	31.3	68.7
9.	Jammu and Kashmir Bank Ltd.	53.2	4.5	22.5	2.1	–	17.3	0.5	77.0	23.0
10.	Karnataka Bank Ltd.	–	7.5	–	10.9	–	81.2	0.4	99.6	0.4
11.	Karur Vysya Bank Ltd.	–	8.2	13.7	13.8	0.1	61.1	3.2	83.1	16.9
12.	Lakshmi Vilas Bank Ltd.	–	4.8	–	11.0	0.3	83.8	0.2	99.5	0.5
13.	Lord Krishna Bank Ltd.	–	–	–	46.1	0.1	53.9	–	99.9	0.1
14.	Nainital Bank Ltd.	–	97.7	–	–	–	2.3	–	100.0	–
15.	Ratnakar Bank Ltd.	–	0.4	–	–	–	99.6	–	100.0	–
16.	SBI Commercial and International Bank Ltd.	–	100.0	–	–	–	–	–	100.0	–
17.	Sangli Bank Ltd.	0.5	–	–	10.4	–	89.2	–	100.0	–
18.	South Indian Bank Ltd.	–	13.3	–	14.9	–	65.8	6.0	94.0	6.0
19.	Tamilnad Mercantile Bank Ltd.	–	–	–	8.3	–	91.3	0.4	99.6	0.4
20.	United Western Bank Ltd.	–	16.2	–	15.0	0.9	67.8	0.1	99.0	1.1
	New Private Sector Banks									
21.	Bank of Punjab Ltd.	–	3.6	0.3	13.3	3.8	76.5	2.5	93.4	6.6
22.	Centurion Bank Ltd.	–	0.1	6.5	10.4	64.8	17.1	1.1	27.6	72.4
23.	Development Credit Bank Ltd	–	–	–	7.5	68.9	23.7	–	31.1	68.9
24.	HDFC Bank Ltd.	–	5.5	–	28.7	52.9	12.8	0.2	47.0	53.1
25.	ICICI Bank Ltd.	–	17.3	71.0	4.6	–	6.6	0.5	28.5	71.5
26.	IDBI Bank Ltd.	–	78.3	2.8	2.2	–	16.2	0.6	96.6	3.4
27.	IndusInd Bank Ltd.	–	2.9	–	25.1	41.7	26.4	3.9	54.4	45.6
28.	Kotak Mahindra Bank Ltd.	–	2.5	21.9	6.6	0.7	67.5	0.8	76.6	23.4
29.	UTI Bank Ltd.	–	47.2	45.6	1.0	–	6.2	0.1	54.3	45.7
30.	Yes Bank Ltd	–	–	45.0	24.6	–	30.4	–	55.0	45.0

– : Nil/Negligible.

Appendix III.32: Expenditure Incurred on Computerisation and Development of Communication Networks by Public Sector Banks

(As on March 31, 2005)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Expenditure incurred during half year ended March 2005	Expenditure incurred up to end-March 2005
1	2	3	4
	Public Sector Banks (I + II)	**983.19**	**9487.37**
I)	**Nationalised Banks**	**696.60**	**6484.24**
1.	Allahabad Bank	1.88	138.33
2.	Andhra Bank	19.17	266.80
3.	Bank of Baroda	50.34	301.45
4.	Bank of India	149.54	1,873.77
5.	Bank of Maharashtra	4.23	200.83
6.	Canara Bank	80.50	623.12
7.	Central Bank of India	42.00	206.52
8.	Corporation Bank	20.05	260.73
9.	Dena Bank	16.38	120.72
10.	Indian Bank	68.48	247.39
11.	Indian Overseas Bank	4.57	169.96
12.	Oriental Bank of Commerce	18.89	181.14
13.	Punjab National Bank	62.39	668.28
14.	Punjab and Sind Bank	0.38	45.19
15.	Syndicate Bank	15.21	180.42
16.	UCO Bank	31.77	206.51
17.	Union Bank of India	58.34	311.45
18.	United Bank of India	10.38	100.30
19.	Vijaya Bank	42.10	381.33
II)	**State Bank Group**	**286.59**	**3,003.13**
20.	State Bank of India	120.73	2,160.00
21.	State Bank of Bikaner and Jaipur	39.06	153.97
22.	State Bank of Hyderabad	18.90	171.56
23.	State Bank of Indore	18.38	41.69
24.	State Bank of Mysore	12.70	79.90
25.	State Bank of Patiala	34.03	162.31
26.	State Bank of Saurashtra	21.51	92.52
27.	State Bank of Travancore	21.28	141.18

Appendix Table III.33: Computerisation in Public Sector Banks
(As on March 31, 2005)

(Per cent)

Sr. No.	Name of the Bank	Branches already Fully Computerised#	Branches Under Core Banking Solution	Fully Computerised Branches (3+4)	Branches Partially Computerised
1	2	3	4	5	6
	Public Sector Banks	**60.0**	**11.0**	**71.0**	**21.8**
	Nationalised Bank	**50.4**	**10.1**	**60.5**	**29.5**
1.	Allahabad Bank	41.3	–	41.3	11.2
2.	Andhra Bank	53.2	46.8	100.0	–
3.	Bank of Baroda	83.1	–	83.1	16.9
4.	Bank of India	74.5	4.9	79.5	20.5
5.	Bank of Maharashtra	54.2	–	54.2	–
6.	Canara Bank	58.5	–	58.5	41.5
7.	Central Bank of India	50.3	–	50.3	2.0
8.	Corporation Bank	56.7	43.3	100.0	–
9.	Dena Bank	93.8	–	93.8	6.2
10.	Indian Bank	72.0	0.1	72.2	27.8
11.	Indian Overseas Bank	47.8	1.6	49.4	50.5
12.	Oriental Bank of Commerce	14.2	31.3	45.5	44.3
13.	Punjab and Sind Bank	9.0	–	9.0	91.0
14.	Punjab National Bank	38.0	26.1	64.2	33.4
15.	Syndicate Bank	74.7	14.2	88.9	11.1
16.	UCO Bank	22.8	–	22.8	67.1
17.	Union Bank of India	0.1	29.3	29.4	70.6
18.	United Bank of India	22.8	–	22.8	77.2
19.	Vijaya Bank	89.1	10.7	99.8	0.2
	State Bank Group	**84.0**	**13.2**	**97.3**	**2.7**
20.	State Bank of India	87.9	12.1	100.0	–
21.	State Bank of Bikaner and Jaipur	87.7	12.3	100.0	–
22.	State Bank of Hyderabad	89.2	10.8	100.0	–
23.	State Bank of Indore	–	14.6	14.6	83.8
24.	State Bank of Mysore	97.3	2.7	100.0	–
25.	State Bank of Patiala	65.5	34.5	100.0	–
26.	State Bank of Saurashtra	81.8	18.2	100.0	–
27.	State Bank of Travancore	84.9	15.1	100.0	–

– : Nil/Negligible.
: Other than branches under Core Banking Solution.

Appendix Table III.34: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2005)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site ATMs to total branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total	
1	2	3	4	5	6	7	8	9	10	11
	Nationalised Banks	**13,588**	**7,291**	**6,935**	**5,813**	**33,627**	**3,205**	**1,567**	**4,772**	**4.66**
1.	Allahabad Bank	970	323	389	248	1,930	80	11	91	0.57
2.	Andhra Bank	380	316	274	153	1,123	77	253	330	22.53
3.	Bank of Baroda	1,160	558	476	486	2,680	171	1	172	0.04
4.	Bank of India	1,237	489	423	402	2,551	145	115	260	4.51
5.	Bank of Maharashtra	542	233	242	263	1,280	33	12	45	0.94
6.	Canara Bank	760	683	551	525	2,519	647	63	710	2.50
7.	Central Bank of India	1,381	760	556	433	3,130	32	1	33	0.03
8.	Corporation Bank	178	143	214	234	769	229	572	801	74.38
9.	Dena Bank	392	215	192	243	1,042	137	18	155	1.73
10.	Indian Bank	468	351	321	229	1,369	126	14	140	1.02
11.	Indian Overseas Bank	527	374	337	282	1,520	198	38	236	2.50
12.	Oriental Bank of Commerce	253	302	323	260	1,138	306	183	489	16.08
13.	Punjab and Sind Bank	294	110	218	136	758	6	–	6	–
14.	Punjab National Bank	1,930	802	752	521	4,005	399	151	550	3.77
15.	Syndicate Bank	648	421	402	346	1,817	202	41	243	2.26
16.	UCO Bank	775	336	333	286	1,730	75	4	79	0.23
17.	Union Bank of India	793	469	439	349	2,050	274	80	354	3.90
18.	United Bank of India	645	203	248	210	1,306	47	9	56	0.69
19.	Vijaya Bank	255	203	245	207	910	21	1	22	0.11
	State Bank Group	**5,480**	**4,080**	**2,334**	**1,767**	**13,661**	**1,548**	**3,672**	**5,220**	**26.88**
20.	State Bank of India	4,068	2,475	1,470	1,023	9,036	415	3,197	3,612	35.38
21.	State Bank of Bikaner and Jaipur	313	229	133	138	813	154	97	251	11.93
22.	State Bank of Hyderabad	290	285	202	138	915	261	69	330	7.54
23.	State Bank of Indore	132	132	64	110	438	99	76	175	17.35
24.	State Bank of Mysore	213	149	116	149	627	184	19	203	3.03
25.	State Bank of Patiala	277	211	170	87	745	208	43	251	5.77
26.	State Bank of Saurashtra	140	136	69	73	418	77	56	133	13.40
27.	State Bank of Travancore	47	463	110	49	669	150	115	265	17.19

Appendix Table III.34: Branches and ATMs of Scheduled Commercial Banks *(Continued)*

(As at end-March 2005)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site ATMs to total branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total	
1	2	3	4	5	6	7	8	9	10	11
	Old Private Sector Banks	**994**	**1,499**	**1,150**	**868**	**4,511**	**800**	**441**	**1,241**	**9.78**
1.	Bank of Rajasthan Ltd.	104	80	95	90	369	35	19	54	5.15
2.	Bharat Overseas Bank Ltd.	8	9	40	34	91	15	–	15	–
3.	Catholic Syrian Bank Ltd.	32	171	64	33	300	35	15	50	5.00
4.	City Union Bank Ltd.	32	36	42	26	136	11	–	11	–
5.	Development Credit Bank Ltd.	5	11	10	41	67	59	62	121	92.54
6.	Dhanalakshmi Bank Ltd.	23	82	41	27	173	31	1	32	0.58
7.	Federal Bank Ltd.	31	269	91	63	454	111	145	256	31.94
8.	Ganesh Bank of Kurundwad Ltd.	8	13	8	2	31	–	–	–	–
9.	Jammu and Kashmir Bank Ltd.	232	38	104	50	424	114	56	170	13.21
10.	Karnataka Bank Ltd.	95	87	110	94	386	26	2	28	0.52
11.	Karur Vysya Bank Ltd.	35	69	82	47	233	112	44	156	18.88
12.	Lakshmi Vilas Bank Ltd.	38	81	67	36	222	10	–	10	–
13.	Lord Krishna Bank Ltd.	12	47	27	26	112	42	2	44	1.79
14.	Nainital Bank Ltd.	18	15	21	14	68	–	–	–	–
15.	Ratnakar Bank Ltd.	22	24	18	10	74	7	1	8	1.35
16.	Sangli Bank Ltd.	51	47	46	40	184	–	–	–	–
17.	SBI Comm. and International Bank Ltd.	–	–	–	2	2	2	–	2	–
18.	South Indian Bank Ltd.	68	214	78	62	422	59	64	123	15.17
19.	Tamilnad Mercantile Bank Ltd.	46	57	45	25	173	9	13	22	7.51
20.	United Western Bank Ltd.	48	61	54	65	228	57	3	60	1.32
21.	ING Vysya Bank	86	88	107	81	362	65	14	79	3.87
	New Private Sector Banks	**108**	**348**	**589**	**640**	**1,685**	**1,883**	**3,729**	**5,612**	**221.31**
22.	Bank of Punjab Ltd.	–	36	34	45	115	146	79	225	68.70
23.	Centurion Bank Ltd.	–	15	33	29	77	87	72	159	93.51
24.	HDFC Bank Ltd.	16	90	146	194	446	544	603	1,147	135.20
25.	ICICI Bank Ltd.	82	100	168	158	508	569	1,341	1,910	263.98
26.	IDBI Bank Ltd.	5	22	50	43	120	117	212	329	176.67
27.	IndusInd Bank Ltd.	–	25	55	36	116	115	80	195	68.97
28.	Kotak Mahindra Ltd.	–	6	11	36	53	35	11	46	20.75
29.	UTI Bank Ltd.	5	54	92	96	247	269	1,330	1,599	538.46
30.	Yes bank Ltd.	–	–	–	3	3	1	1	2	33.33

Appendix Table III.34: Branches and ATMs of Scheduled Commercial Banks *(Concluded)*

(As at end-March 2005)

Sr. No.	Name of the Bank	Branches					ATMs			Per cent of Off-site ATMs to total branches
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total	
1	2	3	4	5	6	7	8	9	10	11
	Foreign Banks	**–**	**–**	**38**	**204**	**242**	**218**	**579**	**797**	**239.26**
1.	ABN-AMRO Bank N.V.	–	–	2	17	19	24	54	78	284.21
2.	Abu Dhabi Commercial Bank Ltd.	–	–	–	2	2	1	2	3	100.00
3.	American Express Bank Ltd.	–	–	–	8	8	9	1	10	12.50
4.	Antwerp Bank Ltd.	–	–	–	1	1	–	–	–	–
5.	Arab Bangladesh Bank Ltd.	–	–	–	1	1	–	–	–	–
6.	Bank Internasional Indonesia	–	–	–	1	1	–	–	–	–
7.	Bank of America NA	–	–	–	4	4	–	–	–	–
8.	Bank of Bahrain and Kuwait B.S.C.	–	–	–	2	2	2	4	6	200.00
9.	Bank of Ceylon	–	–	1	1	2	–	–	–	–
10.	Bank of Nova Scotia	–	–	–	4	4	–	–	–	–
11.	Bank of Tokyo-Mitsubishi Ltd.	–	–	–	3	3	–	–	–	–
12.	Barclays Bank PLC	–	–	–	1	1	–	–	–	–
13.	BNP Paribas	–	–	–	9	9	–	–	–	–
14.	Calyon Bank	–	–	–	4	4	–	–	–	–
15.	Chinatrust Commercial Bank	–	–	–	1	1	–	–	–	–
16.	Chohung Bank	–	–	–	1	1	–	–	–	–
17.	Citibank N.A.	–	–	10	25	35	44	332	376	948.57
18.	Development Bank of Singapore Ltd.	–	–	–	1	1	–	–	–	–
19.	Deutsche Bank AG	–	–	–	5	5	–	–	–	–
20.	HSBC Ltd.	–	–	9	30	39	59	99	158	253.85
21.	ING Bank N.V.	–	–	–	2	2	–	–	–	–
22.	JPMorgan Chase Bank	–	–	–	1	1	–	–	–	–
23.	Krung Thai Bank Public Co. Ltd.	–	–	–	1	1	–	–	–	–
24.	Mashreqbank psc	–	–	–	2	2	–	–	–	–
25.	Mizuho Corporate Bank Ltd.	–	–	–	1	1	–	–	–	–
26.	Oman International Bank S.A.O.G.	–	–	1	1	2	1	–	1	–
27.	Societe Generale	–	–	–	2	2	–	–	–	–
28.	Sonali Bank	–	–	–	1	1	–	–	–	–
29.	Standard Chartered Bank	–	–	15	68	83	78	87	165	104.82
30.	State Bank of Mauritius Ltd.	–	–	–	3	3	–	–	–	–
31.	UFJ Bank Ltd.	–	–	–	1	1	–	–	–	–

– : Nil/Negligible.

Appendix Table III.35: Distribution of Commercial Bank Branches in India – Bank Group and Population Group-wise

Bank Group	No. of Banks#	Number of Branches									
		As on June 30, 2004 @					As on June 30, 2005 @				
		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	4,068 (45.3)	2,462 (27.4)	1,449 (16.1)	1,010 (11.2)	8,989 (100.0)	4,068 (45.0)	2,475 (27.4)	1,470 (16.3)	1,023 (11.3)	9,036 (100.0)
2. Associates of SBI	7	1,409 (30.8)	1,588 (34.7)	849 (18.5)	732 (16.0)	4,578 (100.0)	1,412 (30.5)	1,605 (34.7)	864 (18.7)	744 (16.1)	4,625 (100.0)
3. Nationalised Banks	19	13,582 (40.9)	7,190 (21.6)	6,801 (20.5)	5,668 (17.1)	33,241 (100.0)	13,587 (40.4)	7,291 (21.7)	6,935 (20.6)	5,812 (17.3)	33,625 (100.0)
4. Other Public Sector Bank	1	–	–	–	–	–	5 (3.1)	26 (16.4)	68 (42.8)	60 (37.7)	159 (100.0)
5. Indian Private Sector Banks	29	1,106 (19.1)	1,768 (30.5)	1,537 (26.5)	1,383 (23.9)	5,794 (100.0)	1,097 (17.9)	1,831 (29.9)	1,714 (28.0)	1,479 (24.2)	6,121 (100.0)
6. Foreign Banks in India	31	–	–	31 (14.2)	188 (85.8)	219 (100.0)	–	1 (0.4)	42 (16.9)	206 (82.7)	249 (100.0)
7. Regional Rural Banks	196	11,922 (82.4)	2,134 (14.7)	396 (2.7)	20 (0.1)	14,472 (100.0)	11,922 (82.2)	2,158 (14.9)	401 (2.8)	20 (0.1)	14,501 (100.0)
8. Non-Scheduled Commercial Banks (Local Area Banks)	4	4 (20.0)	9 (45.0)	7 (35.0)	–	20 (100.0)	4 (17.4)	9 (39.1)	10 (43.5)	–	23 (100.0)
Total	**288**	**32,091** **(47.7)**	**15,151** **(22.5)**	**11,070** **(16.4)**	**9,001** **(13.4)**	**67,313** **(100.0)**	**32,095** **(47.0)**	**15,396** **(22.5)**	**11,504** **(16.8)**	**9,344** **(13.7)**	**68,339** **(100.0)**

: As on June 30, 2005.
@ : Population group-wise classification of branches is based on 1991 Census.
– : Nil.

Note : 1. Figures in brackets indicate percentages to total in each group.
2. Data on number of branches data exclude administrative offices.
3. Data for June 2004 are revised.
4. 'Other Public Sector Bank' comprises IDBI Ltd. only.

Appendix Table III.36: Distribution of Commercial Bank Branches – Region/State/Union Territory-wise@

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 end-June	
		2004	2005	July 2003 to June 2004	*of which:* at unbanked centres	July 2004 to June 2005	*of which:* at unbanked centres	2004	2005
1	2	3	4	5	6	7	8	9	10
	ALL INDIA	**67,313**	**68,339**	**923**	**8**	**1,340**	**13**	**16**	**16**
1.	**NORTHERN REGION**	**11,044**	**11,303**	**222**	**2**	**313**	**2**	**13**	**13**
	Chandigarh	193	199	9	–	8	–	5	5
	Delhi	1,563	1,646	66	–	101	–	10	10
	Haryana	1,626	1,677	40	–	58	–	14	14
	Himachal Pradesh	789	800	2	–	11	–	8	8
	Jammu and Kashmir	846	861	12	–	15	1	13	13
	Punjab	2,662	2,713	57	–	58	1	10	9
	Rajasthan	3,365	3,407	36	2	62	–	18	18
2.	**NORTH-EASTERN REGION**	**1,876**	**1,892**	**8**	–	**19**	–	**22**	**22**
	Arunachal Pradesh	66	67	–	–	1	–	17	17
	Assam	1,223	1,232	7	–	12	–	23	23
	Manipur	76	77	–	–	1	–	33	33
	Meghalaya	182	184	–	–	2	–	13	13
	Mizoram	78	79	–	–	1	–	12	12
	Nagaland	71	72	–	–	1	–	30	29
	Tripura	180	181	1	–	1	–	19	19
3.	**EASTERN REGION**	**11,833**	**11,955**	**85**	–	**140**	–	**20**	**20**
	Andaman and Nicobar Islands	32	33	–	–	1	–	12	12
	Bihar	3,560	3,578	12	–	19	–	25	25
	Jharkhand	1,476	1,492	16	–	19	–	19	19
	Orissa	2,248	2,276	24	–	30	–	17	17
	Sikkim	49	55	–	–	7	–	12	10
	West Bengal	4,468	4,521	33	–	64	–	19	19
4.	**CENTRAL REGION**	**13,609**	**13,731**	**147**	–	**162**	–	**20**	**20**
	Chhattisgarh	1,038	1,046	9	–	11	–	21	22
	Madhya Pradesh	3,464	3,491	30	–	40	–	19	19
	Uttar Pradesh	8,234	8,307	91	–	92	–	22	22
	Uttaranchal	873	887	17	–	19	–	10	10
5.	**WESTERN REGION**	**10,408**	**10,576**	**137**	**2**	**282**	**2**	**15**	**15**
	Dadra and Nagar Haveli	12	12	–	–	0	–	20	20
	Daman and Diu	16	16	–	–	0	–	11	11
	Goa	335	341	10	–	14	–	4	4
	Gujarat	3,677	3,729	42	1	74	2	15	15
	Maharashtra	6,368	6,478	85	1	194	–	16	16
6.	**SOUTHERN REGION**	**18,543**	**18,882**	**324**	**4**	**424**	**9**	**13**	**12**
	Andhra Pradesh	5,320	5,421	66	–	136	2	15	15
	Karnataka	4,885	4,976	88	2	108	3	11	11
	Kerala	3,462	3,522	89	–	68	3	10	9
	Lakshadweep	9	10	–	–	1	–	7	7
	Pondicherry	84	90	1	–	6	–	12	11
	Tamil Nadu	4,783	4,863	80	2	105	1	13	13

@ : Including the branches of non-scheduled commercial banks (Local Area Banks).

– : Nil.

Note: 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 2004 are revised.

Appendix Table III.37: Credit-Deposit Ratio and Investment *plus* Credit-Deposit Ratio of Scheduled Commercial Banks – Region/State-wise

(Amount in Rs crore)

Sr. No.	Region/State/Union Territory	Credit-Deposit Ratio							Investment *plus* Credit-Deposit Ratio @			
		2002		2003		2004		2005	2003		2004	
		As per Sanction	As per Utilisation	As per Sanction	As per Utilisation	As per Sanction	As per Utilisation	As per Sanction	As per Sanction	As per Utilisation	As per Sanction	As per Utilisation
1	2	3	4	5	6	7	8	9	10	11	12	13
	ALL INDIA	**58.4**	**58.4**	**59.2**	**59.2**	**58.2**	**58.2**	**66.0**	**66.8**	**66.8**	**66.5**	**66.5**
1.	**NORTHERN REGION**	**56.2**	**55.0**	**56.0**	**55.5**	**54.8**	**56.8**	**59.3**	**61.4**	**60.9**	**60.6**	**62.6**
	Haryana	43.7	55.0	44.0	58.3	47.6	59.6	51.9	52.3	66.6	57.3	69.3
	Himachal Pradesh	23.4	32.5	24.8	37.7	29.7	42.7	36.0	41.2	54.2	50.2	63.2
	Jammu and Kashmir	36.8	40.9	36.5	39.0	37.4	41.7	38.6	46.5	48.9	48.0	52.4
	Punjab	41.8	43.9	41.5	43.4	43.1	45.7	45.7	47.0	49.0	50.3	52.9
	Rajasthan	48.4	55.4	50.8	55.3	55.8	62.9	69.0	71.8	76.3	78.9	86.0
	Chandigarh	102.8	102.3	109.7	107.6	105.3	107.0	90.8	109.7	107.6	105.3	107.0
	Delhi	67.6	59.1	65.8	59.2	59.9	57.9	63.7	65.9	59.3	59.9	58.0
2.	**NORTH-EASTERN REGION**	**27.2**	**53.2**	**27.4**	**48.2**	**29.8**	**33.7**	**34.8**	**48.2**	**69.0**	**51.2**	**55.1**
	Arunachal Pradesh	15.8	27.4	16.6	22.1	16.1	25.2	24.4	31.4	36.9	29.3	38.5
	Assam	31.7	70.3	29.3	61.6	31.8	35.7	34.4	49.0	81.4	50.6	54.6
	Manipur	26.4	27.3	29.8	30.0	31.6	31.8	40.9	64.1	64.3	74.8	75.0
	Meghalaya	18.3	24.3	29.0	31.8	34.6	42.6	45.3	46.1	48.9	52.1	60.0
	Mizoram	26.4	36.2	27.5	30.5	34.8	39.7	51.0	57.8	60.9	71.1	75.9
	Nagaland	12.8	18.1	13.2	13.3	15.0	15.2	22.9	54.8	54.8	60.7	60.9
	Tripura	21.5	21.6	26.1	23.7	25.2	24.7	29.6	40.6	38.2	44.8	44.4
3.	**EASTERN REGION**	**37.6**	**41.4**	**39.6**	**42.8**	**41.8**	**45.2**	**46.3**	**51.3**	**54.5**	**54.6**	**58.0**
	Bihar	21.3	21.9	23.1	23.7	24.9	26.9	27.8	40.2	40.8	41.7	43.6
	Jharkhand	25.1	31.0	25.1	30.9	26.3	26.9	30.6	28.4	34.2	31.1	31.7
	Orissa	44.5	51.4	48.2	56.9	53.7	58.6	62.2	72.6	81.3	78.2	83.2
	Sikkim	16.0	22.5	17.1	19.3	22.4	23.0	28.9	29.7	31.9	36.3	37.0
	West Bengal	45.8	49.2	47.9	50.0	49.5	53.8	53.6	56.7	58.9	60.2	64.4
	Andaman and Nicobar Islands	18.5	57.2	20.3	49.7	26.1	42.2	26.4	20.3	49.7	26.1	42.2
4.	**CENTRAL REGION**	**33.9**	**38.4**	**33.3**	**38.6**	**35.6**	**39.9**	**40.5**	**44.6**	**49.9**	**48.3**	**52.6**
	Chhatishgarh	44.0	54.2	35.1	43.8	40.0	44.9	45.8	40.1	48.8	46.4	51.2
	Madhya Pradesh	46.6	50.3	46.6	51.7	46.8	50.1	55.4	60.7	65.9	61.7	64.9
	Uttar Pradesh	29.9	34.3	30.6	36.0	33.1	38.0	37.0	42.5	47.8	46.1	50.9
	Uttaranchal	23.7	26.0	19.4	21.4	21.1	23.4	24.7	24.7	26.7	31.7	34.0
5.	**WESTERN REGION**	**79.7**	**71.3**	**81.0**	**71.5**	**72.0**	**63.2**	**83.8**	**84.9**	**75.4**	**76.6**	**67.8**
	Goa	25.3	28.2	24.2	27.8	21.7	27.3	25.2	28.9	32.6	27.4	32.9
	Gujarat	44.1	54.7	44.8	56.0	42.2	54.8	46.7	53.0	64.1	51.5	64.1
	Maharashtra	92.3	77.5	93.7	77.4	81.8	66.5	95.2	96.3	80.1	85.1	69.9
	Dadra and Nagar Haveli	20.9	189.0	22.9	168.7	15.6	118.8	40.3	22.9	168.7	15.6	118.8
	Daman and Diu	9.9	79.4	9.2	66.1	11.6	49.8	10.1	9.2	66.1	11.6	49.8
6.	**SOUTHERN REGION**	**64.6**	**68.9**	**66.3**	**71.2**	**68.5**	**72.7**	**77.7**	**74.7**	**79.6**	**77.7**	**81.9**
	Andhra Pradesh	61.9	67.7	62.4	69.3	65.9	70.9	75.1	74.9	81.8	79.6	84.7
	Karnataka	61.6	68.9	62.3	71.1	63.1	69.0	74.1	69.0	77.8	70.0	75.9
	Kerala	43.3	43.7	42.8	43.6	45.5	47.8	55.8	50.8	51.6	54.5	56.8
	Tamil Nadu	85.4	88.5	90.7	93.1	93.1	96.1	98.4	97.8	100.2	100.8	103.9
	Lakshadweep	7.9	9.6	4.6	5.9	8.0	10.0	9.6	4.6	5.9	8.0	10.0
	Pondicherry	32.3	39.2	32.0	39.6	34.5	42.6	38.2	32.0	39.6	34.5	42.6

@ : Banks' state-wise investments represent their holdings of State level securities such as State Government loan and shares, bonds, debentures, *etc.* of regional rural banks, co-operative institutions, state electricity boards, municipal corporation, municipality and port trusts, state financial corporations, housing board, 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.

Note: 1. Deposits and Credit (as per place of sanction and utilisation) data for 2002, 2003 and 2004 are based on BSR-1 and 2 Surveys as on 31st March.

2. Data on investment are based on BSR-5 Survey as on March 31, 2003 and 2004. Revised investment data of March 31, 2003 have been considered.

3. Data on CD-ratio for 2005 (as per sanction) are based on BSR-7 Survey as on March 31, 2005.

Appendix Table III.38: Statement of Complaints Received Against Scheduled Commercial Banks *(Continued)*
(For the period from 01.01.2003 to 25.06.2005)

Sr. No.	Name of the Bank	Total No. of complaints received during the period	No. of branches	Complaints per branch	Category-wise break up of complaints							
					Deposit Accounts related	Remittance/ collection facilities	Loans /Advances		Credit Cards related	Activities of Direct Selling Agents	Harassment in recovery of loan	General/ others
							General	Housing Loan				
1	2	3	4	5	6	7	8	9	10	11	12	13
	Nationalised Banks											
1.	Allahabad Bank	229	1,918	0.12	61	57	37	2	1	–	6	65
2.	Andhra Bank	104	1,101	0.09	16	12	25	4	1	–	3	43
3.	Bank of Baroda	491	2,683	0.18	84	52	86	9	8	1	44	207
4.	Bank of Maharashtra	147	1,276	0.12	19	17	29	10	–	–	20	52
5.	Bank of India	483	2,545	0.19	91	76	99	6	11	–	21	179
6.	Canara Bank	422	2,513	0.17	72	47	102	8	8	–	14	171
7.	Central Bank of India	557	3,127	0.18	120	61	106	13	4	–	28	225
8.	Corporation Bank	132	768	0.17	23	20	25	3	5	–	3	53
9.	Dena Bank	203	1,044	0.19	37	35	40	4	1	–	6	80
10.	Indian Bank	269	1,368	0.20	49	19	54	10	–	–	15	122
11.	Indian Overseas Bank	275	1,509	0.18	50	29	52	5	–	–	9	130
12.	Oriental Bank of Commerce	302	1,138	0.27	49	34	77	3	1	–	13	125
13.	Punjab National Bank	820	3,987	0.21	161	89	156	10	11	–	46	347
14.	Punjab and Sind Bank	212	758	0.28	40	15	40	3	–	–	6	108
15.	Syndicate Bank	260	1,800	0.14	66	42	59	5	–	–	2	86
16.	UCO Bank	216	1,727	0.13	42	26	44	1	–	–	8	95
17.	Union Bank of India	322	2,033	0.16	73	66	68	3	–	–	10	102
18.	United Bank of India	104	1,305	0.08	15	10	15	1	7	–	3	53
19.	Vijaya Bank	127	894	0.14	17	17	28	2	4	–	5	54
	State Bank Group											
20.	State Bank of India	2,494	9,012	0.28	536	393	458	32	172	1	130	772
21.	State Bank of Bikaner and Jaipur	171	811	0.21	43	10	41	3	1	–	6	67
22.	State Bank of Hyderabad	117	904	0.13	27	23	25	1	1	–	–	40
23.	State Bank of Indore	74	438	0.17	13	19	19	1	–	–	6	16
24.	State Bank of Mysore	95	623	0.15	20	26	26	2	1	–	2	18
25.	State Bank of Patiala	184	743	0.25	21	31	39	5	2	–	4	82
26.	State Bank of Saurashtra	119	418	0.28	28	16	19	–	–	1	3	52
27.	State Bank of Travancore	77	667	0.12	28	13	10	–	–	–	–	26

Appendix Table III.38: Statement of Complaints Received Against Scheduled Commercial Banks *(Continued)*

(For the period from 01.01.2003 to 25.06.2005)

Sr. No.	Name of the Bank	Total No. of complaints received during the period	No. of branches	Complaints per branch	Category-wise break up of complaints							
					Deposit Accounts related	Remittance/ collection facilities	Loans /Advances		Credit Cards related	Activities of Direct Selling Agents	Harassment in recovery of loan	General/ others
							General	Housing Loan				
1	2	3	4	5	6	7	8	9	10	11	12	13
	Old Private Sector Banks											
1.	Bank of Rajasthan Ltd.	61	361	0.17	18	12	8	–	–	–	2	21
2.	Bharat Overseas Bank Ltd.	7	89	0.08	1	–	2	–	–	–	–	4
3.	Catholic Syrian Bank Ltd	18	300	0.06	3	1	5	–	–	–	–	9
4.	City Union Bank Ltd.	32	136	0.24	–	–	3	–	–	–	–	29
5.	Dhanlaxmi Bank Ltd.	10	169	0.06	1	–	4	–	–	–	–	5
6..	Federal Bank Ltd.	62	447	0.14	7	7	14	3	–	–	–	31
7.	Ganesh Bank of Kurundwad Ltd.	3	31	0.10	–	–	–	–	–	–	–	3
8.	ING Vysya Bank Ltd.	86	361	0.24	22	3	17	8	–	–	2	34
9.	Jammu and Kashmir Bank Ltd.	44	420	0.10	8	5	6	3	1	–	2	19
10.	Karnataka Bank Ltd.	43	377	0.11	8	6	10	–	–	–	–	19
11.	Karur Vysya Bank Ltd.	36	229	0.16	2	2	12	–	–	–	–	20
12.	Laxmi Vilas Bank Ltd.	16	224	0.07	–	2	2	–	–	–	–	12
13.	Lord Krishna Bank Ltd.	28	11	2.55	2	2	2	–	–	–	–	22
14.	Nainital Bank Ltd.	19	65	0.29	1	4	6	–	–	–	–	8
15.	Nedungadi Bank Ltd.	8	–	–	2	–	2	–	–	–	–	4
16.	Ratnakar Bank Ltd.	14	74	0.19	1	–	2	2	–	–	–	9
17.	Sangli Bank Ltd.	46	183	0.25	8	6	13	–	–	–	1	18
18.	South Indian Bank Ltd.	34	411	0.08	1	5	9	–	–	–	–	19
19.	Tamilnad Mercantile Bank Ltd.	74	172	0.43	18	11	25	1	–	–	1	18
20.	United Western Bank Ltd.	53	228	0.23	8	4	18	1	–	–	5	17
	New Private Sector Banks											
21.	Bank of Punjab Ltd.	35	114	0.31	6	1	5	1	–	–	–	22
22.	Centurian Bank Ltd.	49	63	0.78	8	7	10	–	–	–	2	22
23.	Development Credit Bank Ltd.	38	66	0.58	7	4	11	1	–	–	1	14
24.	Global Trust Bank Ltd.	27	–	–	2	4	17	–	–	–	–	4
25.	HDFC Bank Ltd.	527	404	1.30	107	62	79	9	80	–	31	159
26.	ICICI Bank Ltd.	1,202	449	2.68	211	97	175	39	203	34	60	383
27.	IDBI Bank Ltd.	164	115	1.43	28	19	22	9	29	1	2	54
28.	IndusInd Bank Ltd.	42	99	0.42	6	3	11	1	–	–	–	21
29.	Kotak Mahindra Bank Ltd.	24	47	0.51	1	1	2	–	–	–	–	20
30.	UTI Bank Ltd.	108	237	0.46	22	19	10	3	9	1	3	41

Appendix Table III.38: Statement of Complaints Received Against Scheduled Commercial Banks *(Concluded)*

(For the period from 01.01.2003 to 25.06.2005)

Sr. No.	Name of the Bank	Total No. of complaints received during the period	No. of branches	Complaints per branch	Category-wise break up of complaints							
					Deposit Accounts related	Remittance/ collection facilities	Loans /Advances		Credit Cards related	Activities of Direct Selling Agents	Harassment in recovery of loan	General/ others
							General	Housing Loan				
1	2	3	4	5	6	7	8	9	10	11	12	13
	Foreign Banks in India											
1.	American Express Bank Ltd.	61	8	7.63	5	3	11	–	12	2	4	24
2.	ABN Amro Bank Ltd.	217	18	12.06	36	4	33	3	68	2	5	66
3.	Bank of America NA	11	4	2.75	1	–	1	–	1	–	–	8
4.	Bank Internasional Indonesia	4	1	4.00	–	–	–	–	–	–	–	4
5.	BNP Paribas	1	10	0.10	–	–	–	–	1	–	–	–
6.	Bank of Nova Scotia	2	5	0.40	–	2	–	–	–	–	–	–
7.	Citibank N. A.	546	34	16.06	36	39	69	9	294	12	25	62
8.	HSBC Ltd.	189	39	4.85	25	10	17	4	62	–	15	56
9.	Mitsubishi Bank Ltd.	1	1	1.00	–	–	–	–	–	–	–	1
10.	Standard Chartered Bank Ltd.	555	79	7.03	46	21	68	11	196	–	49	164

– : Nil/Negligible.

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	2001-02	2002-03	2003-04 P	2004-05 P
1	2	3	4	5	6	7
1.	Urban Co-operative Banks (UCBs)	Number	1,854	1,941	1,926	1,872
		Owned Funds	13,797	9,830	12,348	N.A.
		Deposits	93,069	1,01,546	1,10,256	1,05,017
		Borrowings	N.A.	1,590	1,484	N.A.
		Working Capital	1,15,596	1,11,746	N.A.	N.A.
		Loans Outstanding	62,060	64,880	67,930	66,905
		C-D Ratio	67	64	62	65
2.	State Co-operative Banks (StCBs)	Number	30	30	31	31
		Owned Funds	6,712	7,979	8,520	N.A.
		Deposits	36,191	39,386	43,486	44,338
		Borrowings	11,672	12,209	12,457	14,626
		Working Capital	54,262	57,600	58,889	N.A.
		Loans Issued	34,663	38,118	34,466	38,319
		Loans Outstanding	32,678	34,761	35,105	37.347
		Recovery Performance (as per cent to demand)	82	80	84	N.A.
		C-D Ratio	90	88	81	84
3.	District Central Co-operative Banks (CCBs)	Number	368	367	365	367
		Owned Funds	14,141	16,836	19,131	N.A.
		Deposits	68,181	73,919	79,153	81,013
		Borrowings	18,820	19,639	20,256	20,899
		Working Capital	99,424	1,08,265	1,14,372	N.A.
		Loans Issued	55,915	59,544	58,964	55,764
		Loans Outstanding	59,316	64,214	67,152	72,797
		Recovery Performance (as per cent to demand)	66	61	62	N.A.
		C-D Ratio	87	87	85	90
4.	State Co-operative Agriculture and Rural Development Banks (SCARDBs)	Number @	20	20	20	20
		Owned Funds	2,494	2,906	3,504	N.A.
		Deposits #	533	501	605	518
		Borrowings	14,832	15,892	16,882	17,005
		Working Capital	18,753	20,609	21,250	N.A.
		Loans Issued	2,746	2,962	2,942	3,235
		Loans Outstanding	14,110	15,354	16,212	17,435
		Recovery Performance (as per cent to demand)	55	49	44	N.A.
5.	Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)	Number	768	768	768	730
		Membership (in lakhs)	142	136	N.A.	N.A.
		Owned Funds	2,480	2,722	2,971	N.A.
		Deposits #	255	214	252	168
		Borrowings	10,331	11,214	11,880	12,572
		Working Capital	13,986	15,374	15,851	N.A.
		Loans Issued	2,045	2,151	2,200	2,517
		Loans Outstanding	10,005	10,809	11,209	11,877
		Recovery Performance (as per cent to demand)	48	44	44	N.A.

P : Provisional.

N.A. : Not Available.

@ : Maharashtra SCARDB came under Federal structure as on October 1, 2001 with Maharashtra SCARDB at the Apex level and 29 PCARDBs at ground level.

: Deposits of SCARDBs and PCARDBs include advance repayment by LDBs.

Source : NABARD.

Appendix Table IV.2: Urban Co-operative Banks working under directions of the Reserve Bank *(Continued)*

Sr. No.	Name of the Bank – Centre-wise	Date of imposition	Whether bar on repayment of deposits (Yes/No)	Whether bar on collection of deposits (Yes/No)
1	2	3	4	5
	AHMEDABAD			
1.	Anand Peoples Co-op. Bank Ltd., Anand	30.08.2002	Yes	Yes
2.	Anand Urban Co-operative Bank Ltd., Anand	22.07.2004	No	No
3.	Baroda Mercantile Co-op. Bank Ltd., Baroda	10.10.2002	Yes	Yes
4.	Bhavnagar Mercantile Co-operative Bank Ltd.	21.08.2004	Yes	Yes
5.	Century Co-operative Bank Ltd., Surat	09.10.2004	Yes	Yes
6.	Co-op. Bank of Ahmedabad Ltd., Ahmedabad	21.09.2002	Yes	Yes
7.	Dabhoi Nagrik Sahakari Bank Ltd., Dabhoi, District-Vadodra	14.06.2004	Yes	Yes
8.	Dhansura Peoples Co-operative Bank Ltd., Dhansura	14.06.2004	No	No
9.	Janata Co-op. Bank Ltd., Nadiad	24.09.2002	Yes	Yes
10.	Karamsad Urban Co-op. Bank Ltd., Karamsad	02.10.2003	Yes	Yes
11.	Kuber Co-operative Bank Ltd., Ahmedabad	25.09.2004	Yes	Yes
12.	Mercantile Co-operative Bank Ltd., Godhara	17.09.2004	No	Yes
13.	Metro Co-operative Bank Ltd., Surat	21.10.2004	Yes	Yes
14.	Natpur Co-op. Bank Ltd., Nadiad	16.01.2002	Yes	No
		16.12.2004	Yes	Yes
15.	Royale Co-operative Bank Ltd., Surat	12.10.2004	Yes	Yes
16.	Sarvodaya Nagrik Sahakari Bank Ltd., Visnagar	03.01.2004	Yes	Yes
17.	Shree Janta Sahakari Bank Ltd., Radhanpur	08.04.2003	Yes	Yes
		25.01.2005	Yes	Yes
18.	Shri Swaminarayan Co-op. Bank Ltd., Vadodara	12.11.2003	Yes	No
19.	Sind Mercantile Co-op. Bank Ltd., Ahmedabad	10.10.2002	Yes	Yes
		27.12.2002	Yes	No
20.	Talod Janta Sahakari Bank Ltd., Talod	02.05.2003	Yes	Yes
21.	United Mercantile Co-op. Bank Ltd., Nadiad	10.10.2002	Yes	Yes
		24.12.2004	Yes	No
22.	Shri Vitrag Co-operative Bank Ltd., Surat	21.10.2004	Yes	Yes
	BANGALORE			
23.	Bangalore Mercantile Co-op Bank Ltd., Bangalore	08.10.2001	Yes	Yes
24.	Bedkihal Urban Co-op Bank Ltd., Bedkihal	30.04.2002	Yes	Yes
25.	Onake Obavva Mahila Co-op Bank Ltd., C'durga	11.09.2003	Yes	Yes
26.	Hiriyur Urban Co-op Bank Ltd., Hiriyur	28.06.2003	Yes	Yes
27.	Harugeri Urban Co-op Bank Ltd., Harugeri	23.06.2003	Yes	Yes
28.	Mahalingpur Urban Co-op Bank Ltd., Mahalingpur	31.10.2003	Yes	Yes
29.	S.S.K. Co-op Bank Ltd., Hubli	24.12.2003	Yes	Yes
30.	Maratha Co-op Bank Ltd., Hubli	03.02.2004	Yes	Yes
31.	Challakere Urban Co-op Bank Ltd., Challakere	27.10.2004	Yes	Yes
32.	The Urban Co-operative Bank Ltd., Siddapur	12.01.2005	Yes	Yes
33.	The Bangalore Souharda Central Co-operative Bank Ltd., Bangalore	12.01.2005	Yes	Yes
34.	Sri Kalidasa Sahakara Bank Niyamitha, Bangalore	28.01.2005	Yes	Yes
35.	Vardhman Co-operative Bank Ltd., Hubli	12.02.2005	Yes	Yes
36.	Hirekerur Urban Co-op Bank Ltd., Hirekerur	26.02.2005	Yes	Yes
37.	Rabkavi Urban Co-op Bank Ltd., Rabkavi	05.03.2005	Yes	Yes
38.	Sri Sampige Siddheswara Urban Co-op Bank Ltd., Chitradurga	18.06.2005	Yes	Yes
	BHOPAL			
39.	Khargone Mahila Nagarik Sah. Bank Mydt., Khargone	20.02.2004	Yes	No
40.	Citizen Co-operative Bank Ltd., Burhanpur	15.01.2005	Yes	Yes
41.	Hindu Nagarik Sahakari Bank Ltd., Indore	18.01.2004	Yes	Yes
42.	Nagarik Sahakari Bank Ltd., Chhindwara	09.10.2004	Yes	Yes
43.	Nagarik Sahakari Bank Ltd., Ratlam	07.03.2005	Yes	Yes
44.	Suvidha Mahila Nagarik Sahakari Bank Ltd., Hoshangabad	05.10.2004	Yes	Yes

Appendix Table IV.2: Urban Co-operative Banks working under directions of the Reserve Bank *(Concluded)*

Sr. No.	Name of the Bank – Centre-wise	Date of imposition	Whether bar on repayment of deposits (Yes/No)	Whether bar on collection of deposits (Yes/No)
1	2	3	4	5
	BHUBANESWAR			
45.	Urban Co-operative Bank Ltd., Bhubaneshwar	22.01.2004	No	Yes
46.	Urban Co-operative Bank Ltd., Chatrapur	06.07.2004	No	Yes
	CHANDIGARH			
47.	The Mandi Urban Co-operative Bank Ltd.	27.10.2004	Yes	Yes
	GUWAHATI			
48.	Mizoram Urban Co-operative Development Bank, Aizwal	25.11.2004	Yes	Yes
49.	Urban Co-operative Bank Ltd., Dimapur, Nagaland	30.11.2004	Yes	Yes
	HYDERABAD			
50.	Vasavi Co-operative Urban Bank Ltd.	07.03.2003	Yes	Yes
51.	Srinivasa Padmavathy Co-operative Urban Bank Ltd.	12.08.2003	Yes	Yes
52.	Hyderabad Co-operative Urban Bank Ltd.	26.08.2003	Yes	Yes
53.	Bobbili Co-operative Urban Bank Ltd.	27.01.2004	Yes	Yes
54.	Bharat Mercantile Co-operative Urban Bank Ltd.	14.09.2004	Yes	Yes
55.	Srikalahasti Co-operative Urban Bank Ltd.	27.01.2004	Yes	Yes
56.	Palakol Co-operative Urban Bank Ltd.	12.02.2004	Yes	Yes
57.	Chittor Co-operative Urban Bank Ltd.	23.09.2004	Yes	Yes
58.	Ongole Co-operative Urban Bank Ltd.	16.10.2004	Yes	Yes
59.	Charminar Co-operative Urban Bank Ltd.	16.10.2004	Yes	Yes
60.	Kanyaka Parmeshwari Co-operative Urban Bank Ltd.	27.01.2005	Yes	Yes
61.	Bhimavaram Co-operative Urban Bank Ltd.	13.03.2005	Yes	Yes
	KOLKATTA			
62.	Rahuta Co-operative Bank Ltd.	04.05.2002	No	Yes
63.	Bantra Co-operative Bank Ltd.	12.11.2001	No	Yes
64.	Kasundia Co-operative Bank Ltd.	15.01.2004	No	Yes
	LUCKNOW			
65.	Manasarovar Urban Co-operative Bank Ltd., Lucknow	24.12.1997	No	Yes
66.	Ghaziabad Urban Co-operative Bank Ltd., Ghaziabad	17.06.2004	Yes	Yes
67.	Mercantile Urban Co-operative Bank Ltd., Meerut	15.02.2005	Yes	Yes
	MUMBAI			
68.	Bombay Mercantile Co-operative Bank Ltd., Mumbai	26.09.2002	No	No
69.	Mapusa Urban Co-operative Bank Ltd., Goa	16.08.2002	Yes	Yes
70.	The South Indian Co-operative Bank Ltd., Mumbai	09.08.2004	Yes	No
71.	Maratha Mandir Co-operative Bank Ltd., Mumbai	13.08.2004	Yes	No
72.	Care Co-operative Bank Ltd., Mumbai	14.03.2005	Yes	No
73.	Krishna Valley Co-operative Bank Ltd., Sangli	20.12.2003	Yes	Yes
74.	Citizens Co-operative Bank Ltd., Pune	17.02.2005	Yes	Yes
75.	Shri Balasaheb Satbhai Merchant Co-operative Bank Ltd., Kopergaon, Ahmednagar	06.10.2004	Yes	Yes
76.	Nashik Peoples Co-operative Bank Ltd., Nashik	04.06.2004	Yes	Yes
77.	Ichalkaranji Jiveshwar Sahakari Bank Ltd., Kolhapur	14.05.2003	Yes	Yes
78.	Sriram Sahakari Bank Ltd., Nashik	25.10.2004	Yes	Yes
79.	Shri Sapta Shringi Urban Co-operative Bank Ltd., Nashik	05.11.2004	Yes	Yes
	NAGPUR			
80.	Nagpur Mahila Urban Co-perative Bank Ltd.	15.09.2004	Yes	Yes
81.	Sinhghad Urban Co-perative Bank Ltd.	01.11.2004	Yes	Yes
82.	Sant Janabai Urban Co-perative Bank Ltd.	09.03.2005	Yes	Yes
83.	Purna Nagarik Ltd.	04.02.2005	Yes	Yes
84.	Parbani Peoples Co-perative Bank Ltd.	04.04.2005	Yes	Yes

Appendix Table IV.3: Urban Co-operative Banks under liquidation *(Continued)*

Sr. No.	Name of the Bank – Centre-wise	Date of cancellation	Date of rejection of licence application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
	AHMEDABAD			
1.	Apexa Co-operative Bank Ltd., Ahmedabad			
2.	Bharuch Taluka Teachers & District School Board, Bank Ltd., Jhadeshwar			
3.	Bhiloda Nagarik Sahakari Bank Ltd., Bhiloda			
4.	Harisiddha Co-operative Bank Ltd., Ahmedabad		11.05.1999	29.04.2000
5.	Palana Co-operative Bank Ltd., Palana	21.02.2003		28.02.2003
6.	Palitana Nagarik Sahakari Bank Ltd., Palitana			
7.	Rajkot Mercantile Co-operative Bank Ltd.		01.11.2004	01.11.2004
8.	Relief Mercantile Co-operative Bank Ltd., Ahmedabad		06.05.1999	22.05.2000
9.	Sami Taluka Nagarik Sahakari Bank Ltd., Sami	21.07.1999		20.08.1999
10.	Santram Co-operative Bank Ltd., Nadiad	02.06.2003		02.06.2003
11.	Sardar Nagrik Sahakari Bank Ltd.		07.05.2001	07.05.2001
12.	Shree Bhagyalaxmi Co-operative Bank Ltd., Ahmedabad	09.11.2000		05.02.2001
13.	Shree Laxmi Co-operative Bank Ltd., Ahmedabad		18.10.2001	18.10.2001
14.	Shree Veraval Vibhagiya Nagarik Sahakari Bank Ltd., Veraval	01.08.2001		05.02.2001
15.	Shri Dhrangadhra Nagarik Sahakari Bank Ltd., Dhrangadhra			
16.	Shri Jamnagar Nagarik Sahakri Bank Ltd., Jamnagar		27.12.2002	21.07.2004
17.	Shri Sarvodaya Co-operative Bank Ltd., Ahmedabad		10.04.1999	
18.	Shri Wadhwan Vibhagiya Nagarik Sahakari Bank Ltd., Wadhwan			
19.	Suprabhat Co-operative Bank Ltd., Ahmedabad		27.02.1999	
20.	The Ahmedabad Mahila Nagarik Sahakari Bank Ltd., Ahmedabad	05.03.2002		05.03.2002
21.	The Ahmedabad Urban Co-operative Bank Ltd., Ahmedabad	05.03.2002		
22.	The Bhavnagar Welfare Co-operative Bank Ltd., Bhavnagar	02.06.2003		02.06.2003
23.	The Charotar Nagarik Sahakari Bank Ltd., Anand	28.07.2003		28.07.2003
24.	The Ellisbridge Co-operative Bank Ltd., Ahmedabad	29.04.1999		29.04.1999
25.	The General Co-operative Bank Ltd., Ahmedabad	02.06.2003		02.06.2003
26.	The Janta Commercial Co-operative Bank Ltd., Dholka	02.06.2003		02.06.2003
27.	The Majoor Sahakari Bank Ltd., Ahmedabad		06.02.2002	
28.	The Nayaka Mercantile Co-operative Bank Ltd.	14.08.2003		14.08.2003
29.	The Sahyog Co-operative Bank Ltd., Ahmedabad	20.10.2000		05.03.2001
30.	The Vikas Co-operative Bank Ltd., Ahmedabad	26.04.2001		02.05.2001
31.	The Visnagar Nagarik Sahakari Bank Ltd., Visnagar	11.07.2003		11.07.2003
32.	United Mercantile Co-operative Bank Ltd., Ahmedabad	16.06.1977		16.06.1977
33.	Veraval Ratnakar Co-operative Bank Ltd., Veraval	29.01.2000		10.04.2000
34.	Petlad Nagrik Sahakari Bank Ltd., Petlad	13.03.2004		28.10.2004
35.	Baroda Peoples Co-operative Bank Ltd., Baroda	22.05.2004		27.05.2004
36.	Ujjavar Co-operative Bank Ltd., Ahmedabad	22.05.2004		04.06.2004
37.	Classic Co-operative Bank Ltd., Ahmedabad	21-06-2004		21-06-2004
38.	Co-operative Bank of Umreth Ltd., Umreth	21-06-2004		21-06-2004
39.	Diamond Jubilee Co-operative Bank Ltd., Surat	23-06-2004		23-06-2004
40.	Matar Nagrik Sahakari Bank Ltd., Matar, Dist : Kheda	21-06-2004		21-06-2004
41.	Patni Co-op Bank Ltd., Baroda	27.07.2004		02.08.2004
42.	Suryapur Co-op Bank Ltd., Surat	17.08.2004		19.08.2004
43.	Petlad Commercial Co-op Bank Ltd., Petlad	26.08.2004		26.08.2004
44.	Shri Vikas Co-op Bank Ltd., Surat	01.09.2004		
45.	Sabarmati Co-op Bank Ltd., Ahmedabad	01.09.2004		01.09.2004
46.	Nadiad Mercantlile Co-op Bank Ltd., Nadiad	15.09.2004		16.09.2004

Appendix Table IV.3: Urban Co-operative Banks under liquidation *(Continued)*

Sr. No.	Name of the Bank – Centre-wise	Date of cancellation	Date of rejection of licence application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
47.	Shree Vitthal Co-op Bank Ltd., Dehgam	21.09.2004		22.09.2004
48.	Pragati Co-op Bank Ltd., Ahmedabad	21.09.2004		22.09.2004
49.	Sunav Nagrik Sahkari Bank Ltd., Sunav	29.09.2004		29.09.2004
50.	Textile Processors Co-op Bank Ltd., Ahmedabad		06.11.2004	07.11.2004
51.	Navsari People's Co-op Bank Ltd., Navsari	08.11.2004		
52.	Sheth B.B Shroff Bulsar Peoples Co-op Bank Ltd., Valsad	11.11.2004		
53.	Shreenathji Co-op Bank Ltd., Nadiad	06.12.2004		06.12.2004
	BANGALORE			
1.	Robertsonpet Co-op.society Ltd., Robertsonpet			10.01.1972
2.	TuruvekereCo-p.Merchants Bank Ltd., Turuvekere			29.09.1973
3.	Hubli Muslim Co-operative Bank Ltd., Hubli			11.10.1976
4.	Ron Urban Co-operative Bank Ltd., Ron			27.11.1976
5.	Ramdurga Urban Co-operative Bank Ltd., Ramdurga			22.04.1981
6.	Adarsha Co-operative Bank Ltd., Mysore			28.01.1985
7.	Gadag Urban Co-operative Bank Ltd., Gadag			27.05.1985
8.	Shri Fakereshwara Urban Co-operative Bank Ltd., Shirhatti			16.01.1986
9.	Manihal Urban Co-operative Bank Ltd., Manihal			24.07.1987
10.	Mundargi Urban Co-operative Bank Ltd., Mundargi			18.04.1988
11.	Manoli Shri Panchalingeshwara Urban Co-operative Bank Ltd.			28.05.1981
12.	Bellatti Urban Co-operative Bank Ltd., Bellatti			05.10.1993
13.	Bijapur Industrial Co-operative Bank Ltd., Bagalkot			30.08.1994
14.	Dharwad Industrial Co-operative Bank Ltd., Hubli			31.08.1994
15.	Sri Chamaraja Co-operative Bank Ltd., Chamaraja			16.05.1995
16.	Karnataka Kurubara Credit Co-operative Bank Ltd., Gadag			17.06.1995
17.	Bannikpo Urban Co-operative Bank Ltd., Bannikop			19.06.1995
18.	Srirampura Co-operative Bank Ltd., Bangalore			25.03.1996
19.	Hubli Dharwad Urban Co-operative Bank Ltd., Hubli			04.12.1999
20.	Navodaya Sahakara Bank Ltd., Bangalore			18.03.2000
21.	Jyothirlinga Sahakari Bank Niyamitha Jalageri			28.09.2000
22.	Gulbarga Urban Co-operative Bank Ltd.		01.11.2002	
23.	Sri Mouneshwar Co-operative Bank Ltd.			23.04.2003
24.	Raibag Urban Co operative Bank Ltd.			14.07.2004
25.	Cauvery Urban Co-operative Bank Ltd.			11.02.2004
26.	Karnataka Contractors Co-operative Bank Ltd., Bangalore			12.02.2004
	BHOPAL			
1.	Jabalpur Nagarik Sahakari Bank Ltd., Jabalpur	09.12.1999		05.06.2000
2.	Citizen Urban Co-op. Bank Ltd., Indore	23.04.1993		26.04.1993
3.	Bilaspur Co-op.Commercial Bank Ltd.		14.09.2000	15.11.2000
4.	Sagar Nagarik Sahakari Bank Ltd., Sagar	07.07.1999		21.12.1999
5.	Nagarik Sahakari Bank Ltd., Jhabua			
6.	Janata Sahakari Bank Ltd., Dewas		14.03.2002	30.04.2002
7.	Datia Nagarik Sahakari Bank Ltd., Datia	15.05.2002		26.06.2002
8.	Mandsaur Comm. Co-op. Bank Ltd., Mandsaur	12.12.2002		21.03.2003
9.	Citizen Co-op. Bank Ltd., Damoh	16.09.2003		05.12.2003
10.	Shree Co-op.Bank Ltd., Indore	10.02.2004		28.02.2004
11.	Maharashtra Brahman Sahakari Bank Ltd., Indore	21.09.2004		06.10.2004
12.	Mitramamandal Sahakari Bank Ltd., Indore	18.06.2004		03.07.2004

Appendix Table IV.3: Urban Co-operative Banks under liquidation *(Continued)*

Sr. No.	Name of the Bank – Centre-wise	Date of cancellation	Date of rejection of licence application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
13.	Sankardhani Mahila Nagarik Sahakari Bank Ltd., Jabalpur	27.08.2004		17.09.2004
14.	Nagarik Sahakari Bank Ltd., Dhamatri	28.06.2004		17.09.2004
	BHUBANESHWAR			
1.	The Rourkela Urban Co-op Bank Ltd.	Not issued		01.09.1969
2.	The Bhanjanagar Urban Co-op Bank Ltd.	16.07.1999		20.05.2003
3.	The Aska Co-op Urban Bank Ltd.	13.03.2000		06.03.2002
4.	The Rayagada Urban Co-op Bank Ltd.	Not issued		07.03.1983
5.	The Bhubaneswar Urban Co-op Bank Ltd.	05.11.1969		05.11.1969
6.	The Cuttack Urban Co-op Bank Ltd.	Not issued		23.10.1989
	CHENNAI			
1.	Theni Urban Co-op Bank Ltd.		20.05.2002	03.06.2002
2.	Thiruvanaikovil Co-op Urban Bank Ltd.		23.05.2002	03.06.2002
3.	Madurai Urban Co-op Bank Ltd.		22.08.2003	07.01.2005
	CHANDIGARH			
1.	The Yamunanagar Urban Co-operative Bank Ltd.			14.08.2002
	GUWAHATI			
1.	Manipur Industrial Co-op. Bank Ltd.	25.09.1999		23.09.2000
2.	Gauhati Co-op. Town Bank Ltd.	08.12.1999		07.06.2000
3.	Silchar Co-op. Urban Bank Ltd.		16.02.2002	
4.	Urban Industrial Co-op. Bank Ltd.	07.02.2000		
5.	Lamka Urban Co-op. Bank Ltd.	25.02.2003		19.06.2003
6.	Nagaon Urban Co-op. Bank Ltd.	24.06.2005		
	JAIPUR			
1.	Union Co-op. Bank Ltd.Jaipur	08.10.1976		08.10.1976
2.	Banswara Urban Co-operative Bank Ltd., Banswara	08.10.1976		08.10.1976
3.	Sriganganagar Urban Co-operative Bank Ltd., Sriganganagar	28.08.2004		08.09.2004
4.	LokVikas Urban Co-operative Bank Ltd., Jaipur	28.09.2004		11.10.2004
	KOLKATTA			
1.	Jhargram's People Co-op Bank Ltd.		03.08.1999	
2.	Pranabananda Co-op Bank Ltd.		25.01.2001	06.08.2002
3.	The Asansol Peoples Co-op Bank Ltd.		12.08.1999	16.03.2004
	HYDERABAD			
1.	Anakapalle Co-operative Urban Bank Ltd.		15.12.1997	02.08.1999
2.	Armoor Co-operative Urban Bank Ltd.	26.08.2002		01.10.2002
3.	Aryan Co-operative Urban Bank Ltd.	15.01.2002		09.09.2002
4.	Bellampally Co-operative Urban Bank Ltd.	10.08.2004		
5.	Bhagyanagar Co-operative Urban Bank Ltd.	18.07.2000		28.09.2000
6.	Chipurpalle Co-operative Urban Bank Ltd.		11.12.1991	14.11.1996
7.	Chirala Co-operative Urban Bank Ltd.			
8.	Chodavaram Co-operative Urban Bank Ltd.		26.02.2001	24.09.2001
9.	Dhana Co-operative Urban Bank Ltd.	08.04.2002		16.04.2003
10.	First City Co-operative Urban Bank Ltd.	05.04.2002		27.08.2002
11.	Gudur Co-operative Urban Bank Ltd.		16.10.1998	28.12.1998

Appendix Table IV.3: Urban Co-operative Banks under liquidation *(Continued)*

Sr. No.	Name of the Bank – Centre-wise	Date of cancellation	Date of rejection of licence application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
12.	Gurajala Vasavi Co-operative Urban Bank Ltd.	29.07.1987		08.03.1988
13.	Hindupur Co-operative Urban Bank Ltd.	31.05.1989		31.05.1989
14.	Jawahar Co-operative Urban Bank Ltd.	08.05.2002		23.10.2002
15.	Kalyan Co-operative Urban Bank Ltd.	13.01.2001		
16.	Kollur Parvathi Co-operative Urban Bank Ltd.		04.02.1980	16.04.1980
17.	Krushi Co-operative Urban Bank Ltd.	16.10.2001	16.10.2001	
18.	Kurnool Co-operative Urban Bank Ltd.	08.03.2001		26.07.2002
19.	Mahalakshmi Co-operative Urban Bank Ltd.	12.01.2004		
20.	Manikanta Co-operative Urban Bank Ltd.	07.07.2003		24.07.2003
21.	Megacity Co-operative Urban Bank Ltd.	02.08.2002		09.09.2002
23.	Mother Teresa Co-operative Urban Bank Ltd.	14.10.2002		24.10.2002
24.	Narasaraopet Co-operative Urban Bank Ltd.	24.05.2003		16.09.2003
25.	Neelagiri Co-operative Urban Bank Ltd.	26.09.2003		
26.	Nizamabad Co-operative Urban Bank Ltd.	16.09.1999		25.07.2002
27.	Pithapuram Co-operative Urban Bank Ltd.	07.11.2002		30.06.2003
28.	Praja Co-operative Urban Bank Ltd.	01.07.2002		21.08.2002
29.	Prudential Co-operative Urban Bank Ltd.	03.11.2004		08.12.2004
30.	Rajampet Co-operative Urban Bank Ltd.	03.07.2002		30.07.2002
31.	Sai Co-operative Urban Bank Ltd.	22.05.2004		
32.	Sitara Co-operative Urban Bank Ltd.	06.09.2001		24.10.2002
33.	Sravya Co-operative Urban Bank Ltd.	30.05.2002		30.05.2002
34.	S.S.G.Yogeswara Co-operative Urban Bank Ltd.	23.02.2004		
35.	Sri Lakshmi Mahila Co-operative Urban Bank Ltd.	01.07.2000		03.10.2000
36.	Sri Satya Sai Co-operative Urban Bank Ltd.	19.06.2004		
37.	Star Co-operative Urban Bank Ltd.	27.12.2002		19.04.2003
38.	Trinity Co-operative Urban Bank Ltd.	28.11.2003		18.12.2003
39.	Vasundhara Co-operative Urban Bank Ltd.	01.09.2003		27.09.2003
40.	Vijaya Co-operative Urban Bank Ltd.	20.01.2004		14.02.2004
41.	Yelamanchalli Co-operative Urban Bank Ltd.	27.09.1988		28.12.1988
42.	Nizamabad Co-operative Urban Bank Ltd.	20.01.2005		20.01.2005
43.	Greater Telangana Co-operative Urban Bank Ltd.	03.12.2004		03.12.2004
44.	Vasundhara Co-operative Urban Bank Ltd.			
	NAGPUR			
1.	Aurangabad Peoples Urban Co-operative Bank	13.01.2005		15.01.2005
2.	Partur Peoples Urban Co-operative Bank	02.12.2005		06.12.2005
	LUCKNOW			
1.	Hind Urban Co-op Bank Ltd., Lucknow			29.10.1986
2.	Firozabad Urban Co-op Bank Ltd., Firozabad			06.01.2000
3.	Oudh Sahakari Bank Ltd., Lucknow	25.08.2000	01.07.1999	
4.	Federal Co-op Bank Ltd., Ghatampur, Kanpur	25.08.2000		28.09.2000
5.	Urban Co-op Bank Ltd., Allahabad	19.12.2001		24.08.2002
6.	Urban Co-op Bank Ltd., Tehri (Uttaranchal)	30.03.2002		21.04.2002
7.	Indian Co-op Development Bank Ltd., Meerut	08.06.2004		12.06.2004
8.	Nagriya Sahakari Bank Ltd., Varanasi	11.06.2004		18.08.2004
9.	City Co-op Bank Ltd., Lucknow	23.10.2004		

Appendix Table IV.3: Urban Co-operative Banks under liquidation *(Concluded)*

Sr. No.	Name of the Bank – Centre-wise	Date of cancellation	Date of rejection of licence application by RBI	Date of liquidation order served by RCS
1	2	3	4	5
	MUMBAI			
1.	Metropolitan Co-operative Bank Ltd., Mumbai	19.06.1992	19.06.1992	20.06.1992
2.	Chetna Co-operative Bank Ltd.	15.11.1994	15.11.1994	01.12.1994
3.	Swastik Janata Sahakari Bank Ltd.	30.09.1994	30.09.1994	14.12.1994
4.	Peoples Co-operative Bank Ltd., Ichalkaranji	22.09.1994	22.09.1994	19.12.1994
5.	Kolhapur Zilla Janata Sahakari Bank Ltd., Mumbai	20.10.1997	20.10.1997	20.12.1997
6.	Mafatlal Engg. Emp. Co-operative Bank Ltd., Mumbai	05.03.2002	05.03.2002	
7.	Trimoorti Sahakari Bank Ltd., Pune	07.08.1998	07.08.1998	09.09.1998
8.	Vinkar Sahakari Bank Ltd., Mumbai	18.08.1998	18.08.1998	24.08.1998
9.	Awami Mercantile, Mumbai	17.10.1998	17.10.1998	06.01.1999
10.	Ravikiran Urban Co-operative Bank Ltd., Mumbai	27.11.1998	27.11.1998	15.01.1999
11.	Indira Sahakari Bank Ltd., Mumbai	23.06.1999	23.06.1999	29.06.1999
12.	Nandgaon Urban Co-operative Bank Ltd., Nashik	20.02.1999	20.02.1999	09.06.1999
13.	Siddharth Sahakari Bank Ltd., Nashik	04.08.1999	04.08.1999	27.09.1999
14.	Solapur Zilla Mahila Sahakari Bank Ltd., Solapur	13.09.1999	13.09.1999	04.06.2000
15.	Dadar Janata Sahakari Bank Ltd., Mumbai	16.12.1997	16.12.1997	26.02.1998
16.	Ichalkaranji Kamgar Nagrik Sahakari Bank Ltd., Kolhapur	29.12.1999	29.12.1999	22.05.2000
17.	Khed Urban Co-operative Bank Ltd., Ratnagiri	21.06.2000	21.06.2000	13.10.2000
18.	Maratha Market Peoples Co-operative Bank Ltd., Mumbai	15.05.2000	15.05.2000	14.08.2000
19.	Mira Bhayander Co-operative Bank Ltd., Thane	01.02.2001	01.02.2001	28.02.2002
20.	Friends Co-operative Bank Ltd., Mumbai	20.07.2001	20.07.2001	08.08.2001
21.	Western Co-operative Bank Ltd., Mumbai	31.10.2001	30.10.2001	20.12.2001
22.	Shri Adhinath Co-operative Bank Ltd., Pune	22.06.2002	22.06.2002	28.06.2002
23.	Shree Labh Co-operative Bank Ltd., Mumbai	06.08.2002	06.08.2002	13.08.2002
24.	Kalwa Belapur Sahakari Bank Ltd., Navi Mumbai	10.08.2002	10.08.2002	22.08.2002
25.	Sevalal Urban Co-operative Bank Ltd., Solapur	04.12.2002	04.12.2002	12.12.2002
26.	Pratibha Mahila Sahakari Bank Ltd., Jalgaon	25.02.2003	25.02.2003	04.03.2003
27.	Yeshwant Sahakari Bank Ltd., Mumbai	04.02.2003	04.02.2003	07.03.2003
28.	Solapur Merchants Co-operative Bank Ltd., Solapur	20.06.2003	20.06.2003	03.07.2003
29.	Lord Balaji Co-operative Bank Ltd., Sangli	03.09.2004	03.09.2004	09.09.2004
30.	Samastanagar Co-operative Bank Ltd., Mumbai	09.09.2004	09.09.2004	15.09.2004
31.	Jai Hind Co-operative Bank Ltd., Mumbai	28.10.2004	28.10.2004	03.01.2005
32.	Raghuvanshi Co-operative Bank Ltd., Mumbai	17.03.2005	17.03.2005	19.03.2005
	PATNA			
1.	Patna Urban Co-operative Bank Ltd.	15.04.1976		19.04.1976
2.	The Begusarai Urban Co-op Bank Ltd.	22.04.2002		27.05.2002
3.	The People's Co-operative Bank Ltd.	22.04.2002		27.05.2002
4.	The Madhepura Urban Co-op Bank Ltd.	22.04.2002		27.05.2002
5.	Nalanda Urban Co-operative Bank Ltd.		10.06.2002	22.07.2002
	NEW DELHI			
1.	The Parishad Co-op. Bank Ltd.	30.07.1999		05.08.1999
2.	The Farmers' Co-op. Bank Ltd.	07.02.2000		08.03.2000
3.	Jai Laxmi Co-op. Bank Ltd.	15.10.2004		20.10.2004
	THIRUVANANTHPURAM			
1.	Kundara Urban Co-operative Bank Ltd.	29.11.1990		28.04.1991
2.	Panur Co-operative Urban Bank Ltd.	26.09.1975		29.07.1976
3.	Punalur Urban Co-operative Bank Ltd.	26.09.1975		30.12.1976
	Total UCBs under liquidation = 214			

Appendix Table IV.4: Major Indicators of Financial Performance of Scheduled Urban Co-operative Banks *(Continued)*

(As per cent to total assets)

Sr. No.	Name of the Bank	Operating Profit		Net Profit		Interest Income	
		2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5	6	7	8
1.	A P Mahesh Co-op Urban Bank Ltd.	2.03	1.50	1.20	0.96	9.36	8.54
2.	Abhyudaya Co-op Bank Ltd.	4.77	0.66	0.71	0.05	8.85	2.08
3.	Ahmedabad Mercantile Co-op Bank Ltd.	2.89	1.91	0.65	0.52	8.78	7.07
4.	Akola Janata Commercial Co-op Bank Ltd.	1.86	1.31	0.84	0.34	9.02	8.55
5.	Akola Urban Co-op Bank Ltd.	1.97	0.46	0.66	0.27	11.63	8.16
6.	Amanath Co-op Bank Ltd.	0.27	N.A.	0.27	N.A.	6.46	N.A.
7.	Bassein Catholic Co-op Bank Ltd.	2.53	2.51	1.55	2.06	9.01	8.87
8.	Bharat Co-op Bank (Mumbai) Ltd.	2.36	1.96	1.01	1.06	9.38	8.62
9.	Bharati Sahakari Bank Ltd.	2.34	1.18	0.62	0.26	8.13	8.50
10.	Bombay Mercantile Co-op Bank Ltd.	1.41	0.64	1.29	0.08	4.28	3.75
11.	Charminar Co-op Urban Bank Ltd.	0.91	N.A.	-0.76	N.A.	4.06	N.A.
12.	Citizencredit Co-op Bank Ltd.	1.03	1.08	0.95	1.07	6.86	7.04
13.	Co-operative Bank of Ahmedabad	-0.36	0.65	-4.69	0.51	6.54	7.26
14.	Cosmos Co-op Bank Ltd.	3.44	1.53	2.24	1.10	8.48	7.39
15.	Dombivli Nagari Sahakari Bank Ltd.	2.97	2.23	0.81	0.88	9.37	7.79
16.	Goa Urban Co-op Bank Ltd.	1.19	0.64	0.60	0.60	7.29	7.88
17.	Greater Bombay Co-op Bank Ltd.	2.54	1.27	1.19	0.90	6.85	7.08
18.	Ichalkaranji Janata Sahakari Bank Ltd.	0.87	N.A.	0.37	N.A.	8.51	N.A.
19.	Indian Mercantile Co-op Bank Ltd.	2.16	3.41	2.16	2.96	8.80	9.22
20.	Jalgaon Janata Sahakari Bank Ltd.	0.50	0.25	0.34	0.03	8.22	8.43
21.	Janakalyan Sahakari Bank Ltd.	1.68	-0.96	0.41	-2.87	7.38	7.11
22.	Janalaxmi Co-op Bank Ltd.	2.51	4.41	0.63	0.74	10.17	12.07
23.	Janata Sahakari Bank Ltd.	0.44	0.70	0.32	0.18	5.40	7.36
24.	Kalupur Commercial Co-op Bank Ltd.	3.46	1.28	1.14	1.08	8.27	5.40
25.	Kalyan Janata Sahakari Bank Ltd.	1.98	1.63	0.77	0.85	6.91	6.96
26.	Kapol Co-op Bank Ltd.	1.30	2.96	0.93	0.32	7.91	7.03
27.	Karad Urban Co-op Bank Ltd.	1.26	0.27	0.35	0.07	8.74	7.97
28.	Khamgaon Urban Co-op Bank Ltd.	0.63	0.93	0.07	-0.30	12.06	7.93
29.	Madhavpura Mercantile Co-op Bank Ltd.	-1.74	0.28	-1.74	0.27	0.97	1.43
30.	Mahanagar Co-op Bank Ltd.	2.01	0.84	0.76	0.59	9.30	8.68
31.	Mandvi Co-op Bank Ltd.	0.90	0.69	0.53	0.27	8.89	7.99
32.	Mapusa Urban Co-op Bank of Goa Ltd.	-3.56	-4.06	-3.90	-4.95	2.98	2.79
33.	Mehsana Urban Co-op Bank Ltd.	2.11	1.07	0.90	0.92	11.24	8.66
34.	Nagar Urban Co-op Bank Ltd.	2.66	0.90	0.73	0.23	9.77	9.01
35.	Nagpur Nagrik Sahakari Bank Ltd.	2.42	0.52	0.54	0.21	8.53	7.29
36.	Nasik Merchant's Co-op Bank Ltd.	2.52	3.13	0.79	1.09	8.52	9.20
37.	New India Co-op Bank Ltd.	2.38	1.54	1.87	1.37	8.57	8.01
38.	North Kanara G.S.B. Co-op Bank Ltd.	1.89	1.99	1.15	1.06	8.79	7.85
39.	Nutan Nagarik Sahakari Bank Ltd.	2.36	1.54	1.66	0.91	8.24	7.07
40.	Parsik Janata Sahakari Bank Ltd.	3.29	2.25	1.71	1.13	8.20	7.79
41.	Pravara Sahakari Bank Ltd.	2.12	0.99	0.39	0.00	10.48	10.21
42.	Punjab and Maharashtra Co-op Bank Ltd.	1.64	1.35	1.10	0.96	8.90	8.89
43.	Rajkot Nagrik Sahakari Bank Ltd.	2.17	0.61	1.06	0.57	6.17	5.55
44.	Rupee Co-op Bank Ltd.	0.23	-1.82	-1.51	-2.34	5.37	4.30
45.	Sangli Urban Co-op Bank Ltd.	1.26	-0.93	0.33	-1.06	7.99	7.64
46.	Saraswat Co-op Bank Ltd.	2.32	0.40	1.04	0.07	6.76	1.40
47.	Sardar Bhiladwala Pardi People's Co-op Bank Ltd.	2.72	2.55	1.25	0.63	8.86	8.31
48.	Shamrao Vithal Co-op Bank Ltd.	2.62	1.62	0.96	0.84	9.25	8.73
49.	Shikshak Sahakari Bank Ltd.	1.87	0.66	0.73	-0.77	7.69	7.89
50.	Solapur Janata Sahakari Bank Ltd.	2.08	0.71	0.54	0.33	10.94	9.04
51.	Surat People's Co-op Bank Ltd.	3.15	2.57	1.29	0.94	9.32	9.01
52.	Thane Bharat Sahakari Bank Ltd.	1.90	1.97	0.80	0.83	8.11	8.87
53.	Thane Janata Sahakari Bank Ltd.	2.19	2.00	1.45	1.35	9.01	8.41
54.	Vasavi Co-operative Urban Bank Ltd.	1.84	N.A.	1.84	N.A.	10.52	N.A.
55.	Zoroastrian Co-op Bank Ltd.	2.64	2.33	0.44	1.02	8.83	8.34
	TOTAL	**1.78**	**0.94**	**0.62**	**0.32**	**7.29**	**5.98**

Appendix Table IV.4: Major Indicators of Financial Performance of Scheduled Urban Co-operative Banks *(Continued)*

(As per cent to total assets)

Sr. No.	Name of the Bank	Interest Expended		Provisions & Contingencies	
		2003-04	2004-05	2003-04	2004-05
1	2	9	10	11	12
1.	A P Mahesh Co-op Urban Bank Ltd.	5.65	5.26	0.83	0.54
2.	Abhyudaya Co-op Bank Ltd.	4.33	0.91	4.05	0.60
3.	Ahmedabad Mercantile Co-op Bank Ltd.	4.46	3.45	2.24	1.40
4.	Akola Janata Commercial Co-op Bank Ltd.	6.94	6.58	1.02	0.96
5.	Akola Urban Co-op Bank Ltd.	10.47	6.70	1.31	0.20
6.	Amanath Co-op Bank Ltd.	5.95	N.A.	0.00	N.A.
7.	Bassein Catholic Co-op Bank Ltd.	5.84	5.20	0.98	0.45
8.	Bharat Co-op Bank (Mumbai) Ltd.	5.11	4.54	1.35	0.90
9.	Bharati Sahakari Bank Ltd.	6.64	6.61	1.72	0.92
10.	Bombay Mercantile Co-op Bank Ltd.	3.03	2.70	0.12	0.56
11.	Charminar Co-op Urban Bank Ltd.	2.12	N.A.	1.67	N.A.
12.	Citizencredit Co-op Bank Ltd.	4.87	4.66	0.08	0.01
13.	Co-operative Bank of Ahmedabad	4.36	4.05	4.33	0.14
14.	Cosmos Co-op Bank Ltd.	6.14	4.81	1.20	0.43
15.	Dombivli Nagari Sahakari Bank Ltd.	5.00	4.47	2.16	1.35
16.	Goa Urban Co-op Bank Ltd.	5.27	4.52	0.59	0.04
17.	Greater Bombay Co-op Bank Ltd.	5.18	4.84	1.35	0.36
18.	Ichalkaranji Janata Sahakari Bank Ltd.	7.28	N.A.	0.51	N.A.
19.	Indian Mercantile Co-op Bank Ltd.	5.66	4.78	0.00	0.45
20.	Jalgaon Janata Sahakari Bank Ltd.	6.36	5.78	0.16	0.20
21.	Janakalyan Sahakari Bank Ltd.	7.11	6.83	1.27	1.90
22.	Janalaxmi Co-op Bank Ltd.	7.10	6.98	1.88	3.67
23.	Janata Sahakari Bank Ltd.	5.05	5.88	0.12	0.52
24.	Kalupur Commercial Co-op Bank Ltd.	3.94	3.33	2.32	0.20
25.	Kalyan Janata Sahakari Bank Ltd.	4.61	4.33	1.20	0.78
26.	Kapol Co-op Bank Ltd.	5.40	4.88	0.37	2.64
27.	Karad Urban Co-op Bank Ltd.	6.43	5.33	0.91	0.15
28.	Khamgaon Urban Co-op Bank Ltd.	10.80	5.83	0.55	1.23
29.	Madhavpura Mercantile co-op Bank Ltd.	2.50	2.79	0.00	0.00
30.	Mahanagar Co-op Bank Ltd.	5.55	4.80	1.25	0.25
31.	Mandvi Co-op Bank Ltd.	6.51	5.61	0.37	0.39
32.	Mapusa Urban Co-op Bank of Goa Ltd.	4.54	5.01	0.34	0.89
33.	Mehsana Urban Co-op Bank Ltd.	7.81	7.13	1.21	0.15
34.	Nagar Urban Co-op Bank Ltd.	7.45	6.41	1.93	0.67
35.	Nagpur Nagrik Sahakari Bank Ltd.	6.21	5.25	1.89	0.12
36.	Nasik Merchant's Co-op Bank Ltd.	5.46	5.02	1.74	2.03
37.	New India Co-op Bank Ltd.	4.33	3.76	0.51	0.17
38.	North Kanara G.S.B. Co-op Bank Ltd.	5.88	4.87	0.74	0.40
39.	Nutan Nagarik Sahakari Bank Ltd.	4.86	4.16	0.70	0.63
40.	Parsik Janata Sahakari Bank Ltd.	4.40	3.96	1.58	0.84
41.	Pravara Sahakari Bank Ltd.	8.07	7.66	1.73	0.87
42.	Punjab & Maharashtra Co-op Bank Ltd.	5.96	5.95	0.53	0.39
43.	Rajkot Nagrik Sahakari Bank Ltd.	4.71	3.89	1.11	0.04
44.	Rupee Co-op Bank Ltd.	5.63	4.90	1.74	0.49
45.	Sangli Urban Co-op Bank Ltd.	5.52	6.00	0.93	0.14
46.	Saraswat Co-op Bank Ltd.	4.12	0.92	1.28	0.33
47.	Sardar Bhiladwala Pardi People's Co-op Bank Ltd.	5.15	4.63	1.47	1.91
48.	Shamrao Vithal Co-op Bank Ltd.	5.84	5.20	1.66	0.78
49.	Shikshak Sahakari Bank Ltd.	6.56	5.96	1.13	1.42
50.	Solapur Janata Sahakari Bank Ltd.	6.85	6.70	1.54	0.38
51.	Surat People's Co-op Bank Ltd.	5.02	4.49	1.86	1.60
52.	Thane Bharat Sahakari Bank Ltd.	5.98	5.37	1.10	1.14
53.	Thane Janata Sahakari Bank Ltd.	5.36	4.62	0.74	0.52
54.	Vasavi Co-operative Urban Bank Ltd.	6.37	N.A.	0.00	N.A.
55.	Zoroastrian Co-op Bank Ltd.	4.88	4.66	2.20	1.29
	TOTAL	**5.16**	**4.08**	**1.16**	**0.60**

Appendix Table IV.4: Major Indicators of Financial Performance of Scheduled Urban Co-operative Banks *(Concluded)*

(As per cent to total assets)

Sr. No.	Name of the Bank	Operating Expenses		Spread	
		2003-04	2004-05	2003-04	2004-05
1	2	13	14	15	16
1.	A P Mahesh Co-op Urban Bank Ltd.	2.74	7.82	3.71	3.29
2.	Abhyudaya Co-op Bank Ltd.	2.63	1.56	4.52	1.17
3.	Ahmedabad Mercantile Co-op Bank Ltd.	1.66	5.41	4.33	3.62
4.	Akola Janata Commercial Co-op Bank Ltd.	5.15	8.36	2.09	1.97
5.	Akola Urban Co-op Bank Ltd.	1.38	8.08	1.16	1.46
6.	Amanath Co-op Bank Ltd.	2.40	N.A.	0.50	N.A.
7.	Bassein Catholic Co-op Bank Ltd.	1.63	6.82	3.16	3.67
8.	Bharat Co-op Bank (Mumbai) Ltd.	2.76	7.21	4.27	4.08
9.	Bharati Sahakari Bank Ltd.	1.68	8.23	1.50	1.89
10.	Bombay Mercantile Co-op Bank Ltd.	2.12	4.84	1.25	1.05
11.	Charminar Co-op Urban Bank Ltd.	1.19	N.A.	1.94	N.A.
12.	Citizencredit Co-op Bank Ltd.	1.56	6.38	1.99	2.38
13.	Co-operative Bank of Ahmedabad	2.86	6.80	2.18	3.21
14.	Cosmos Co-op Bank Ltd.	1.75	6.48	2.34	2.58
15.	Dombivli Nagari Sahakari Bank Ltd.	1.64	6.21	4.37	3.32
16.	Goa Urban Co-op Bank Ltd.	2.92	7.69	2.02	3.37
17.	Greater Bombay Co-op Bank Ltd.	2.35	6.93	1.67	2.24
18.	Ichalkaranji Janata Sahakari Bank Ltd.	2.10	N.A.	1.23	N.A.
19.	Indian Mercantile Co-op Bank Ltd.	2.63	6.84	3.15	4.44
20.	Jalgaon Janata Sahakari Bank Ltd.	2.75	8.42	1.86	2.65
21.	Janakalyan Sahakari Bank Ltd.	1.82	8.99	0.27	0.28
22.	Janalaxmi Co-op Bank Ltd.	6.69	8.45	3.07	5.09
23.	Janata Sahakari Bank Ltd.	1.43	7.80	0.34	1.48
24.	Kalupur Commercial Co-op Bank Ltd.	1.20	5.65	4.33	2.07
25.	Kalyan Janata Sahakari Bank Ltd.	1.70	6.13	2.30	2.63
26.	Kapol Co-op Bank Ltd.	3.69	7.95	2.50	2.15
27.	Karad Urban Co-op Bank Ltd.	3.12	8.05	2.31	2.64
28.	Khamgaon Urban Co-op Bank Ltd.	1.64	7.51	1.25	2.10
29.	Madhavpura Mercantile co-op Bank Ltd.	0.22	3.11	-1.54	-1.36
30.	Mahanagar Co-op Bank Ltd.	2.93	8.27	3.75	3.88
31.	Mandvi Co-op Bank Ltd.	2.20	7.88	2.38	2.38
32.	Mapusa Urban Co-op Bank of Goa Ltd.	2.29	7.14	-1.56	-2.22
33.	Mehsana Urban Co-op Bank Ltd.	1.66	8.13	3.43	1.53
34.	Nagar Urban Co-op Bank Ltd.	1.94	8.57	2.31	2.60
35.	Nagpur Nagrik Sahakari Bank Ltd.	2.06	7.61	2.32	2.04
36.	Nasik Merchant's Co-op Bank Ltd.	1.88	7.25	3.07	4.17
37.	New India Co-op Bank Ltd.	3.14	6.88	4.24	4.25
38.	North Kanara G.S.B. Co-op Bank Ltd.	1.78	6.47	2.91	2.98
39.	Nutan Nagarik Sahakari Bank Ltd.	2.73	6.83	3.38	2.91
40.	Parsik Janata Sahakari Bank Ltd.	1.63	5.99	3.80	3.83
41.	Pravara Sahakari Bank Ltd.	1.89	9.65	2.41	2.54
42.	Punjab & Maharashtra Co-op Bank Ltd.	2.29	8.31	2.93	2.94
43.	Rajkot Nagrik Sahakari Bank Ltd.	1.09	4.94	1.46	1.66
44.	Rupee Co-op Bank Ltd.	1.30	6.33	-0.26	-0.61
45.	Sangli Urban Co-op Bank Ltd.	3.42	8.95	2.47	1.64
46.	Saraswat Co-op Bank Ltd.	1.95	1.45	2.64	0.48
47.	Sardar Bhiladwala Pardi People's Co-op Bank Ltd.	1.80	6.67	3.71	3.68
48.	Shamrao Vithal Co-op Bank Ltd.	2.25	7.82	3.41	3.53
49.	Shikshak Sahakari Bank Ltd.	1.45	7.50	1.13	1.93
50.	Solapur Janata Sahakari Bank Ltd.	2.28	8.64	4.10	2.34
51.	Surat People's Co-op Bank Ltd.	2.28	6.98	4.30	4.53
52.	Thane Bharat Sahakari Bank Ltd.	1.68	7.33	2.12	3.50
53.	Thane Janata Sahakari Bank Ltd.	2.19	6.79	3.65	3.79
54.	Vasavi Co-operative Urban Bank Ltd.	2.32	N.A.	4.15	N.A.
55.	Zoroastrian Co-op Bank Ltd.	1.63	6.19	3.95	3.68
	TOTAL	**1.94**	**5.76**	**2.13**	**1.90**

N.A. : Not Available.

Appendix Table IV.5: Select Financial Parameters of Scheduled Urban Co-operative Banks

(As on March 31, 2005)

(Per cent)

Sr. No.	Name of the Bank	CRAR	Net Interest Income/ Working Funds	Non Interest Income/ Working Funds	Operating Profit/ Working Funds	Return on Assets	Average Cost of Deposits (per cent per annum)	Business per Employee (Rs. in Lakhs)	Profit per Employee (Rs. in Lakhs)
1	2	3	4	5	6	7	8	9	10
1.	Abhyudaya Co-operative Bank Ltd.	41.74	1.20	0.15	0.68	0.05	5.40	187.99	0.10
2.	Ahmedabad Mercantile Co-operative Bank Ltd.	62.65	3.78	0.26	2.00	0.52	6.40	137.68	0.93
3.	Amanath Co-operative Bank Ltd.	6.75	-0.25	0.47	-3.11	-6.94	6.90	130.61	-7.99
4.	Andhra Pradesh Mahesh Co-operative Urban Bank Ltd.	44.48	3.38	0.84	1.41	0.78	7.44	107.32	0.86
5.	Bassein Catholic Co-operative Bank Ltd.	29.13	3.73	0.46	2.55	2.06	6.53	321.79	5.26
6.	Bharat Co-operative Bank (Mumbai) Ltd.	16.50	4.22	0.56	2.03	1.06	5.91	271.49	2.12
7.	Bharati Sahakari Bank Limited.	12.36	2.02	0.97	1.26	0.26	8.00	177.68	0.36
8.	Bombay Mercantile Co-operative Bank Ltd.	-16.66	1.70	2.78	1.04	0.08	4.87	94.39	0.09
9.	Citizencredit Co-operative Bank Ltd.	17.35	2.93	0.48	1.61	1.49	5.14	295.24	3.86
10.	Co-operative Bank of Ahmedabad Ltd.	-36.89	3.87	0.23	0.63	0.53	5.84	130.18	0.66
11.	Cosmos Co-operative Urban Bank Ltd.	17.19	2.76	0.66	1.64	1.10	6.84	349.29	3.14
12.	Dombivli Nagari Sahakari Bank Ltd.	14.53	3.62	0.70	2.43	0.88	5.92	255.15	1.79
13.	Goa Urban Co-operative Bank Ltd.	14.87	3.59	0.47	0.68	0.60	5.76	169.68	0.87
14.	Greater Bombay Co-operative Bank Ltd.	12.54	2.55	1.42	1.50	0.60	7.12	252.20	1.48
15.	Ichalkaranji Janata Sahakari Bank Ltd.	12.32	1.95	1.00	0.73	0.28	8.03	175.51	0.36
16.	Indian Mercantile Co-operative Bank Ltd.	20.72	4.72	1.09	3.62	2.96	5.57	111.09	2.53
17.	Jalgaon Janata Sahakari Bank Ltd.	10.06	2.79	0.58	0.27	0.03	7.71	160.33	0.05
18.	Janakalyan Sahakari Bank Ltd.	6.96	0.29	0.95	-0.98	-2.87	7.47	396.89	-7.58
19.	Janalaxmi Co-operative Bank Ltd.	14.11	5.61	0.88	4.86	0.74	7.92	105.28	0.73
20.	Janata Sahakari Bank Ltd.	-11.94	1.49	1.60	1.16	0.02	6.63	244.82	0.03
21.	Kalupur Commercial Co-operative Bank Ltd.	45.02	2.30	1.70	1.42	1.08	7.01	343.62	4.14
22.	Kalyan Janata Sahakari Bank Ltd.	12.80	2.86	0.88	1.78	0.85	5.92	235.64	1.55
23.	Kapole Co-operative Bank Ltd.	14.43	2.18	4.19	3.00	0.32	6.05	143.87	0.44
24.	Karad Urban Co-operative Bank Ltd.	13.08	2.73	0.38	0.28	0.07	6.81	122.04	0.07
25.	Madhavpura Mercantile Co-operative Bank Ltd.	-1,141.43	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
26.	Mahanagar Co-operative Bank Ltd.	16.46	4.24	0.47	0.92	0.59	6.26	160.97	0.77
27.	Mandvi Co-operative Bank Ltd.	12.30	2.52	0.62	0.73	0.27	6.72	334.32	0.71
28.	Mapusa Urban Co-operative Bank of Goa Ltd.	-51.42	-3.49	0.45	-6.38	-4.95	6.46	116.31	-4.88
29.	Mehsana Urban Co-operative Bank Ltd.	14.46	1.52	0.54	1.07	0.92	9.33	269.59	2.15
30.	Nagar Urban Co-operative Bank Ltd.	10.65	2.69	0.47	0.93	0.23	7.74	186.57	0.33
31.	Nagpur Nagrik Sahakari Bank Ltd.	12.44	2.10	1.45	0.53	0.21	6.37	153.74	0.25
32.	Nasik Merchant's Co-operative Bank Ltd.	31.71	4.47	1.26	3.35	1.09	6.76	99.62	1.04
33.	New India Co-operative Bank Ltd.	42.07	4.28	0.41	1.55	1.37	4.90	194.31	2.42
34.	North Kanara GSB Co-operative Bank Ltd.	13.80	3.08	0.62	2.05	1.06	6.08	351.14	2.88
35.	Nutan Nagarik Sahakari Bank Ltd.	46.53	2.91	1.31	1.54	0.91	6.26	153.39	1.36
36.	Parsik Janata Sahakari Bank Ltd.	27.15	3.89	0.45	2.28	1.13	5.06	191.98	1.95
37.	Pravara Sahakari Bank Ltd.	8.39	2.67	0.45	1.04	0.00	8.80	147.76	0.00
38.	Punjab and Maharashtra Co-operative Bank Ltd.	13.45	2.98	0.78	1.37	0.96	7.31	283.45	1.96
39.	Rajkot Nagrik Sahakari Bank Ltd.	30.35	2.05	0.01	0.75	0.57	6.75	256.48	1.66
40.	Rupee Co-operative Bank Ltd.	-54.14	-0.88	0.31	-2.63	-2.34	7.49	215.37	-4.60
41.	Sangli Urban Co-operative Bank Ltd.	9.74	1.79	0.42	-1.01	-1.06	7.80	73.68	-0.64
42.	Saraswat Co-operative Bank Ltd.	15.23	0.63	0.57	0.52	0.07	5.75	456.65	0.28
43.	Sardar Bhiladwala Pardi Peoples' Co-operative Bank Ltd.	45.91	4.14	1.02	2.86	0.63	7.17	154.14	1.02
44.	Shamrao Vithal Co-operative Bank Ltd.	12.77	3.63	0.73	1.67	0.84	6.79	435.77	2.69
45.	Shikshak Sahakari Bank Ltd.	5.70	2.13	0.42	0.72	-0.77	7.49	226.81	-1.31
46.	Solapur Janata Sahakari Bank Ltd.	10.59	2.48	0.34	0.75	0.33	8.51	174.49	0.45
47.	Surat Peoples Co-operative Bank Ltd.	28.00	4.53	0.54	2.57	0.94	6.08	212.24	1.82
48.	Thane Bharat Sahakari Bank Ltd.	13.78	3.59	0.44	1.88	0.84	6.62	205.72	1.33
49.	Thane Janata Sahakari Bank Ltd.	20.29	3.79	0.39	2.01	1.35	5.87	353.79	3.71
50.	The Akola Janata Commercial Co-operative Bank Ltd.	11.21	2.05	1.15	1.36	0.34	8.01	151.04	0.39
51.	The Akola Urban Co-operative Bank Ltd.	10.84	1.47	0.39	0.47	0.27	8.18	233.03	0.43
52.	The Khamgaon Urban Co-operative Bank Ltd.	9.14	2.10	0.51	0.92	-0.30	13.43	154.98	-0.35
53.	Zoroastrian Co-operative Bank Ltd.	19.94	3.72	0.18	2.35	1.02	5.86	332.66	2.67

N.A. : Not Available.

Note : Out of 55 Scheduled UCBs, data in respect of two UCBs, *viz.*, Charminar Co-operative Urban Bank Ltd. and Vasavi Co-operative Urban Bank Ltd. are not available.

Appendix Table IV.6: Working Results of State Co-operative Banks – State-wise

(Amount in Rs. crore)

Sr. No.	All-India / State	Profit/Loss		Total NPAs (As at end-March)		NPAs as Percentage to Loans Outstanding (As at end-March)		Recovery Percentage to Demand (As at end-June)	
		2002-03	2003-04	2003	2004	2003	2004	2003	2004
1	2	3	4	5	6	7	8	9	10
	All India	**469.79**	**373.25**	**6,293.70**	**6,525.71**	**18.11**	**18.59**	**79.56**	**83.00**
1.	Andaman and Nicobar	1.39	1.74	11.72	16.32	22.70	25.96	66.62	87.87
2.	Andhra Pradesh	3.00	4.16	1,668.52	1,374.84	36.81	30.67	45.96	73.82
3.	Arunachal Pradesh	-0.51	-3.43	40.84	73.34	73.73	71.98	19.32	29.82
4.	Assam	-22.87	-13.99	182.96	199.00	67.97	67.49	24.69	31.55
5.	Bihar	1.26	114.02	365.37	254.55	67.65	51.95	20.20	51.49
6.	Chandigarh	2.34	1.60	3.79	3.88	37.10	37.18	61.95	58.08
7.	Chattisgarh	0.90	4.45	13.96	25.89	8.64	27.31	87.32	78.95
8.	Delhi	16.16	12.95	28.44	29.09	19.14	17.70	74.70	52.31
9.	Goa	0.21	5.16	91.13	79.65	28.26	24.76	65.73	65.94
10.	Gujarat	4.19	4.81	127.29	125.75	5.89	6.45	91.29	85.60
11.	Haryana	39.67	29.29	13.54	10.83	0.74	0.59	99.50	99.63
12.	Himachal Pradesh	17.64	19.89	66.81	69.86	15.96	11.22	68.88	71.93
13.	Jammu and Kashmir	1.22	4.58	13.68	15.41	21.76	23.50	43.04	38.22
14.	Karnataka	10.55	2.78	173.15	207.44	10.37	11.99	85.60	82.20
15.	Kerala	6.12	5.05	92.61	155.65	7.49	13.93	94.50	95.49
16.	Madhya Pradesh	1.59	1.84	159.89	195.66	9.62	11.56	93.76	91.62
17.	Maharashtra	271.91	31.93	2,371.87	2,733.22	26.63	32.41	68.66	68.59
18.	Manipur	-0.01	0.47	13.62	13.09	65.66	55.35	8.91	26.65
19.	Meghalaya	2.99	0.70	20.02	22.36	22.36	24.14	38.97	31.10
20.	Mizoram	0.22	0.69	10.85	16.91	22.99	25.55	54.40	54.13
21.	Nagaland	-3.85	-1.77	21.64	21.40	56.62	56.72	52.29	55.11
22.	Orissa	10.37	13.47	167.60	155.39	16.61	14.14	78.01	82.93
23.	Pondicherry	1.77	1.96	8.17	17.32	8.55	18.15	78.21	79.77
24.	Punjab	21.01	31.35	61.16	60.56	2.81	2.68	95.38	96.13
25.	Rajasthan	15.04	17.55	37.85	26.98	3.40	2.20	95.46	83.37
26.	Sikkim	0.24	0.70	0.13	0.54	1.87	7.23	76.06	76.06
27.	Tamil Nadu	15.75	19.41	21.39	135.56	1.10	7.04	97.36	92.16
28.	Tripura	-1.84	-1.02	40.40	52.35	35.69	43.19	35.44	44.87
29.	Uttar Pradesh	27.28	27.36	393.97	344.27	14.70	12.29	70.55	71.81
30.	Uttaranchal	–	0.04	–	–	–	–	–	–
31.	West Bengal	26.74	35.50	71.30	88.60	5.28	6.52	84.79	86.85

– : Nil/Negligible.
Note: 1. Data for 2004 are provisional.
2. Recovery data of 2003 are repeated for 2004 in respect of Sikkim and Tamil Nadu StCBs.
Source: NABARD.

Appendix Table IV.7: Working Results of Central Co-operative Banks – State-wise

(As at end-March)

(Amount in Rs. crore)

Sr. No.	Aii-India / State	2002-03					2003-04					2003			2004		
		CCBs (Number)	Profit		Loss		CCBs (Number)	Profit		Loss		Total NPAs	NPAs as Percent-age to Loans Outst-anding	Recovery Percent-age to Demand (As at end-June)	Total NPAs	NPAs as Percent-age to Loans Outst-anding	Recovery Percent-age to Demand (As at end-June)
			Number	Amount	Number	Amount		Number	Amount	Number	Amount						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
	All India	**367**	**243**	**742.05**	**122**	**953.56**	**365**	**263**	**858.11**	**102**	**758.48**	**13,880.65**	**21.61**	**61.09**	**15,479.07**	**23.24**	**62.25**
1.	Andhra Pradesh	22	10	28.25	12	98.52	22	17	68.68	5	25.02	1,580.22	25.28	33.00	1,725.56	28.54	49.18
2.	Bihar	24	9	8.81	13	32.76	22	11	10.85	11	12.72	361.17	64.27	24.45	386.58	63.79	37.43
3.	Chattisgarh	7	–	–	7	48.41	6	5	13.17	1	2.00	288.07	37.74	65.52	192.41	31.25	59.25
4.	Gujarat	18	14	46.30	4	68.59	18	14	52.69	4	62.96	914.45	18.00	62.70	1,001.88	20.76	66.58
5.	Haryana	19	17	29.13	2	3.39	19	19	57.96	–	–	148.75	4.18	78.26	210.50	5.45	77.11
6.	Himachal Pradesh	2	2	67.26	–	–	2	2	86.70	–	–	36.40	5.30	79.36	44.10	5.33	85.92
7.	Jammu and Kashmir	3	–	–	3	10.83	3	–	–	3	5.28	65.77	29.21	36.13	69.47	26.54	41.33
8.	Jharkhand	8	2	1.77	6	8.13	8	3	3.04	5	10.48	124.42	72.56	18.77	130.98	68.69	19.26
9.	Karnataka	21	11	23.89	10	62.64	21	14	35.50	7	71.08	876.50	23.80	62.32	1,037.35	27.49	53.17
10.	Kerala	14	12	19.38	2	11.60	14	13	38.55	1	6.32	776.69	20.95	76.58	774.60	17.76	80.34
11.	Madhya Pradesh	38	24	25.45	14	92.80	38	24	36.90	14	72.02	901.30	27.68	61.37	993.68	28.87	64.53
12.	Maharashtra	30	22	178.59	8	309.67	31	21	115.54	10	267.54	4,019.58	25.02	51.57	4,955.62	30.10	48.20
13.	Orissa	17	13	10.12	4	6.36	17	15	13.93	2	0.29	436.43	23.96	51.61	419.11	21.34	56.87
14.	Punjab	19	19	84.90	–	–	19	19	105.04	–	–	246.89	5.98	88.88	307.47	7.0	90.11
15.	Rajasthan	26	23	33.33	3	3.21	26	24	46.98	2	1.14	280.22	13.53	75.06	301.25	13.30	76.32
16.	Tamil Nadu	23	11	71.06	12	131.21	23	11	67.87	12	132.90	1,418.41	20.06	63.68	1,418.41	20.06	63.68
17.	Uttar Pradesh	50	29	60.80	21	64.26	50	26	47.71	24	88.56	1,139.13	33.28	52.78	1,210.10	33.69	53.84
18.	Uttaranchal	9	9	24.06	–	–	9	9	26.33	–	–	43.27	9.56	80.85	57.29	9.71	82.80
19.	West Bengal	17	16	28.95	1	1.18	17	16	30.68	1	0.18	223.00	17.90	78.04	242.91	16.71	70.13

– : Nil/Negligible.

Note: 1. Data for 2004 are provisional.

2. NPA data for 2003 are repeated for 2004 in respect of Tamil Nadu CCBs.

3. Recovery data of 2003 are repeated for 2004 in respect of Tamil Nadu and Maharashtra CCBs.

4. Data for Madhavpura Saupal and Darbhanga not available.

Source: NABARD.

Appendix Table IV.8: Working Results of SCARDBs – State-wise
(As at end-March)

(Amount in Rs. crore)

Sr. No.	All India / State	Number of Branches	Profit/Loss		Total NPAs		NPAs as Percentage to Loans Outstanding		Recovery Percentage to Demand (As at end-June)	
		2004	2002-03	2003-04	2003	2004	2003	2004	2003	2004
1	2	3	4	5	6	7	8	9	10	11
	All India	**865**	**-101.46**	**-113.59**	**3,218.85**	**4,336.55**	**20.96**	**26.75**	**48.68**	**44.37**
1.	Assam *	33	-2.12	-0.73	16.86	16.50	100.00	98.68	8.99	7.17
2.	Bihar *	151	-21.08	-16.27	106.50	102.07	83.30	83.73	6.40	18.43
3.	Chattisgarh @	2	2.98	0.24	10.73	3.96	6.50	1.96	31.13	44.78
4.	Gujarat *	181	-1.84	18.38	326.00	363.56	47.45	57.28	33.35	40.34
5.	Haryana @	–	9.11	10.17	–	–	–	–	88.08	90.08
6.	Himachal Pradesh #	33	0.92	1.34	51.22	52.20	26.90	24.65	56.23	56.73
7.	Jammu and Kashmir *	45	-3.57	-2.96	12.91	10.12	46.85	43.13	42.96	35.57
8.	Karnataka @	23	-31.96	-77.86	579.54	650.60	44.51	48.77	22.44	17.91
9.	Kerala @	14	10.42	11.26	74.92	92.92	5.10	6.28	79.83	82.31
10.	Madhya Pradesh @	7	1.38	1.53	98.91	101.13	9.19	8.19	43.57	42.92
11.	Maharashtra @	–	-92.08	-73.04	455.44	685.71	44.68	65.56	24.70	34.31
12.	Manipur *	1	-0.91	N.A.	0.68	0.68	100.00	100.00	2.08	2.08
13.	Orissa @	5	-8.68	-6.97	101.24	106.29	89.91	87.47	6.68	8.85
14.	Pondicherry *	1	-0.22	-0.26	3.00	3.11	33.17	35.61	60.43	63.58
15.	Punjab @	–	20.75	39.32	–	–	–	–	88.32	100.00
16.	Rajasthan @	7	8.91	5.18	87.17	170.56	7.28	13.23	45.92	50.27
17.	Tamil Nadu @	20	-0.42	-32.14	556.27	713.56	43.94	56.62	33.45	27.51
18.	Tripura *	5	-1.02	-0.26	7.75	7.34	63.84	55.60	40.34	55.47
19.	Uttar Pradesh *	335	6.66	6.68	653.16	1,148.88	21.79	35.43	68.23	40.08
20.	West Bengal #	2	1.31	2.80	76.55	107.37	16.34	20.85	61.52	52.94

* : Unitary Structure. @ : Federal Structure. # : Mixed Structure.

– : Nil/Negligible. N.A.: Not Available.

Note:
1. Data for 2004 are provisional.
2. NPA data of 2003 is repeated for 2004 in respect of Manipur SCARDB.
3. DCB position as on June 30, 2003 is repeated for 2004 in respect of Manipur SCARDB.
4. DCB position of West Bengal was as on March 31, 2004.

Source: NABARD.

Appendix Table IV.9: Working Results of PCARDBs – State-wise
(As at end-March)

(Amount in Rs. crore)

Sr. No.	All India / State	2002-03				2003-04				2003			2004		
		Profit		Loss		Profit		Loss		Total NPAs	NPAs as percent-age to Loans Outstand-ing	Recovery percentage to Demand As at end-June	Total NPAs	NPAs as percent-age to Loans Outstand-ing	Recovery percentage to Demand As at end-June
		No.	Amount	No.	Amount	No.	Amount	No.	Amount						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	All India	**208**	**52.43**	**560**	**369.37**	**281**	**75.56**	**430**	**326.00**	**3,569.26**	**33.0**	**43.8**	**3,975.64**	**35.5**	**43.9**
1.	Chattisgarh	1	0.49	11	3.46	5	1.70	7	2.54	30.76	20.4	63.5	28.16	15.5	63.3
2.	Haryana	6	6.06	80	56.36	40	7.97	46	20.03	472.99	29.3	63.2	524.68	29.5	69.0
3.	Himachal Pradesh	–	–	1	0.54	1	1.59	–	–	20.94	35.6	63.3	17.35	27.8	68.2
4.	Karnataka	21	1.76	156	72.06	22	3.45	155	103.57	481.57	40.4	26.1	560.35	51.9	17.3
5.	Kerala	16	5.75	28	26.03	15	3.53	25	26.45	391.23	26.4	51.3	503.87	34.0	44.4
6.	Madhya Pradesh	10	0.85	28	17.05	15	3.05	23	21.66	168.92	17.1	56.4	203.93	17.7	55.8
7.	Maharashtra	1	1.17	28	111.20	2	1.33	27	96.78	524.96	76.6	21.6	535.39	83.8	14.6
8.	Orissa	7	–	46	6.35	–	–	–	–	53.47	74.2	22.9	53.47	74.2	28.7
9.	Punjab	69	18.48	18	12.50	87	40.02	–	–	391.83	23.3	66.3	353.36	19.6	73.6
10.	Rajasthan	23	9.67	13	14.18	22	6.17	14	22.41	361.08	29.5	25.4	470.88	36.3	34.4
11.	Tamil Nadu	47	4.43	134	44.89	57	3.62	124	31.81	565.91	45.2	36.3	618.60	51.5	30.1
12.	West Bengal	7	3.77	17	4.75	15	3.13	9	0.75	105.60	25.7	52.6	105.60	22.9	52.6

– : Nil/Negligible.

Note : 1. Data for 2004 are provisional.

2. NPA data as on end-March 2003 is repeated for end-March 2004 for Orissa and West Bengal PCARDBs.

3. DCB position as on end-June 2003 is repeated for end-June 2004 in respect of West Bengal PCARDBs.

4. Data in respect of 53 PCARDBs in Orissa was not available for 2003-04.

Source : NABARD.

Appendix Table IV.10: Sanctions and Disbursements under Rural Infrastructure Development Fund – State-wise *(Continued)*

(As on March 31, 2005)

(Amount in Rs. crore)

All India / State	RIDF I		RIDF II		RIDF III		RIDF IV		RIDF V		RIDF VI	
	Loan Sanct-ioned	Disburse-ment	Loan Sanct-ioned	Disburse-ment	Loan Sanct-ioned	Disburse-ment	Loan Sanct-ioned	Disburse-ment	Loan Sanct-ioned	Disburse-ment	Loan Sanct-ioned	Disburse-ment
1	2	3	4	5	6	7	8	9	10	11	12	13
All India	**1,910.54**	**1,760.87**	**2,658.88**	**2,397.95**	**2,717.71**	**2,453.50**	**2,904.03**	**2,367.03**	**3,504.41**	**2,875.33**	**4,539.05**	**3,638.07**
Southern Region	**495.65**	**460.18**	**865.14**	**779.79**	**751.51**	**672.78**	**701.84**	**634.50**	**925.81**	**840.51**	**1,291.26**	**1,129.08**
Andhra Pradesh	227.09	215.13	337.23	307.71	281.53	251.61	286.82	271.54	380.00	350.47	561.27	503.51
Karnataka	172.63	158.79	195.21	180.08	171.29	161.75	172.34	166.54	173.18	164.22	301.08	269.70
Kerala	95.93	86.26	86.91	73.14	89.29	73.87	64.00	53.42	126.77	110.46	175.87	133.70
Tamilnadu	–	–	245.79	218.86	209.40	185.55	178.68	143.00	245.86	215.36	253.04	222.17
Western Region	**344.56**	**322.19**	**358.66**	**318.81**	**408.05**	**380.81**	**425.83**	**374.05**	**599.12**	**500.20**	**1,013.01**	**711.66**
Goa	6.85	6.85	–	–	–	–	8.93	8.70	–	–	19.09	8.97
Gujarat	150.90	145.47	127.00	114.34	153.74	134.86	114.92	90.61	248.84	174.28	554.75	383.97
Maharashtra	186.81	169.87	231.66	204.47	254.31	245.95	301.98	274.74	350.28	325.92	439.17	318.72
Northern Region	**231.08**	**216.96**	**328.02**	**306.27**	**408.64**	**360.96**	**408.75**	**341.16**	**544.95**	**484.09**	**841.23**	**753.65**
Haryana	26.70	19.33	61.06	62.16	74.24	62.43	53.46	47.85	90.09	74.60	67.03	58.94
Himachal Pradesh	14.23	14.23	52.96	52.83	51.12	49.43	87.81	78.61	109.19	104.70	128.45	118.77
Jammu & Kashmir	6.14	6.04	–	–	35.95	24.35	107.47	94.90	110.88	100.56	161.52	134.67
Punjab	60.50	60.50	62.50	62.05	88.85	84.77	96.00	73.12	102.79	91.28	230.48	196.20
Rajasthan	123.51	116.86	151.50	129.23	158.48	139.98	64.01	46.68	132.00	112.95	253.75	245.07
Central Region	**536.16**	**496.92**	**740.92**	**645.79**	**693.55**	**653.63**	**767.72**	**606.23**	**616.88**	**521.00**	**591.37**	**461.76**
Chattisgarh	79.12	77.91	9.80	5.64	57.07	57.99	65.32	61.41	34.09	30.14	50.86	41.87
Madhya Pradesh	161.32	137.12	239.47	233.03	200.32	204.06	176.63	151.06	228.87	196.12	292.79	213.94
Uttar Pradesh	295.72	281.89	491.65	407.12	414.48	389.15	474.97	387.29	348.94	294.74	247.72	205.95
Uttranchal	–	–	–	–	21.68	2.43	50.80	6.47	4.98	–	–	–
Eastern Region	**294.19**	**256.52**	**302.85**	**285.85**	**432.83**	**362.51**	**482.13**	**309.90**	**448.33**	**265.74**	**520.09**	**389.08**
Bihar	22.17	12.63	–	–	57.96	26.93	–	–	–	–	–	–
Jharkhand	–	–	–	–	4.35	2.48	118.50	–	91.42	–	–	–
Orissa	169.50	162.05	147.03	141.03	199.98	172.04	149.89	116.44	134.62	90.23	106.86	71.54
West Bengal	102.52	81.84	155.82	144.82	170.54	161.06	213.74	193.46	222.29	175.51	413.23	317.54
North-Eastern Region	**8.90**	**8.10**	**63.29**	**61.44**	**23.13**	**22.81**	**117.76**	**101.19**	**369.32**	**263.79**	**282.09**	**192.84**
Arunachal Pradesh	–	–	–	–	–	–	–	–	25.10	20.40	88.50	72.52
Assam	–	–	63.29	61.44	16.07	15.75	64.72	50.08	185.77	114.45	49.57	44.31
Manipur	1.75	0.96	–	–	–	–	–	–	–	–	8.33	–
Meghalaya	3.39	3.39	–	–	7.06	7.06	9.33	9.21	35.10	30.73	30.49	25.66
Mizoram	2.38	2.37	–	–	–	–	–	–	54.17	53.35	3.76	3.76
Nagaland	1.38	1.38	–	–	–	–	0.72	–	16.52	14.40	61.49	27.56
Tripura	–	–	–	–	–	–	21.70	21.27	43.94	21.73	35.40	14.49
Sikkim	–	–	–	–	–	–	21.29	20.63	8.72	8.73	4.55	4.54

Appendix Table IV.10: Sanctions and Disbursements under Rural Infrastructure Development Fund – State-wise *(Concluded)*

(As on March 31, 2005)

(Amount in Rs. crore)

All India / State	RIDF VII		RIDF VIII		RIDF IX		RIDF X		TOTAL	
	Loan Sanct-ioned	Disburse-ment	Loan Sanct-ioned	Disburse-ment	Loan Sanct-ioned	Disburse-ment	Loan Sanct-ioned	Disburse-ment	Loan Sanct-ioned	Disburse-ment
1	14	15	16	17	18	19	20	21	22	23
All India	**4,792.52**	**3,370.87**	**6,039.62**	**3,686.34**	**5,599.00**	**2,147.63**	**8,282.75**	**686.43**	**42,948.51**	**25,384.02**
Southern Region	**1,406.49**	**1,128.25**	**1,722.97**	**1,197.50**	**1,794.27**	**651.77**	**2,862.28**	**233.60**	**12,817.22**	**7,727.96**
Andhra Pradesh	624.85	518.44	907.76	620.74	868.20	280.39	1,560.86	153.79	6,035.61	3,473.33
Karnataka	236.77	184.67	231.03	152.64	297.17	103.42	420.96	8.12	2,371.66	1,549.93
Kerala	191.76	105.22	196.21	102.44	81.17	5.50	222.74	21.10	1,330.65	765.11
Tamilnadu	353.11	319.92	387.97	321.68	547.73	262.46	657.72	50.59	3,079.30	1,939.59
Western Region	**586.42**	**333.80**	**743.01**	**516.91**	**966.24**	**601.41**	**1,570.18**	**74.15**	**7,015.08**	**4,133.99**
Goa	15.79	9.91	16.10	10.29	–	–	–	–	66.76	44.72
Gujarat	40.90	15.53	283.82	260.06	899.21	563.39	1,311.69	74.15	3,885.77	1,956.66
Maharashtra	529.73	308.36	443.09	246.56	67.03	38.02	258.49	–	3,062.55	2,132.61
Northern Region	**1,203.79**	**935.85**	**1,174.16**	**794.76**	**878.04**	**332.30**	**983.18**	**163.28**	**7,001.84**	**4,689.28**
Haryana	151.92	131.25	270.87	151.32	153.62	74.70	173.21	32.23	1,122.20	714.81
Himachal Pradesh	168.43	148.12	170.73	111.04	142.15	45.89	91.72	5.86	1,016.79	729.48
Jammu & Kashmir	216.80	162.51	175.64	101.04	153.82	26.29	49.36	0.41	1,017.58	650.77
Punjab	231.52	195.52	210.17	163.24	288.18	131.23	312.63	55.08	1,683.62	1,112.99
Rajasthan	435.12	298.45	346.75	268.12	140.27	54.19	356.26	69.70	2,161.65	1,481.23
Central Region	**787.93**	**513.57**	**1,254.67**	**694.57**	**1,158.26**	**391.29**	**1,420.82**	**165.99**	**8,568.28**	**5,150.75**
Chattisgarh	84.42	60.53	281.30	146.42	432.88	130.19	62.53	–	1,157.39	612.10
Madhya Pradesh	311.05	203.28	575.23	301.48	277.46	118.42	533.51	58.59	2,996.65	1,817.10
Uttar Pradesh	338.50	233.56	322.71	188.07	217.84	62.96	516.34	34.65	3,668.87	2,485.38
Uttranchal	53.96	16.20	75.43	58.60	230.08	79.72	308.44	72.75	745.37	236.17
Eastern Region	**706.42**	**402.02**	**986.49**	**427.28**	**544.89**	**134.93**	**1,368.31**	**39.20**	**6,086.53**	**2,873.03**
Bihar	78.76	24.40	218.93	87.70	97.24	18.44	290.91	–	765.97	170.10
Jharkhand	–	–	–	–	49.13	5.00	174.78	–	438.18	7.48
Orissa	153.25	105.36	246.83	129.12	185.11	60.82	375.66	4.74	1,868.73	1,053.37
West Bengal	474.41	272.26	520.73	210.46	213.41	50.67	526.96	34.46	3,013.65	1,642.08
North-Eastern Region	**101.47**	**57.38**	**158.32**	**55.32**	**257.30**	**35.93**	**77.98**	**10.21**	**1,459.56**	**809.01**
Arunachal Pradesh	69.41	32.98	–	–	15.12	4.53	20.14	4.13	218.27	134.56
Assam	–	–	76.23	15.25	189.75	7.59	13.77	–	659.17	308.87
Manipur	–	–	–	–	–	–	0.53	–	10.61	0.96
Meghalaya	18.30	11.03	18.39	6.52	15.52	2.01	–	–	137.58	95.61
Mizoram	7.33	7.33	2.00	2.00	13.50	9.58	6.90	2.11	90.04	80.50
Nagaland	0.95	0.95	6.68	4.96	16.94	10.27	28.66	3.97	133.34	63.49
Tripura	–	–	50.13	21.76	3.17	–	–	–	154.34	79.25
Sikkim	5.48	5.09	4.89	4.83	3.30	1.95	7.98	–	56.21	45.77

– : Nil/Negligible.
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				Others				Total				Percentage variation over 2003-04	
	2003-04		2004-05		2003-04		2004-05		2003-04		2004-05		2003-04		2004-05			
	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
A. All India Development Banks (1 to 5)	**18,708.3**	**11,593.1**	**28,742.1**	**15,892.6**	**457.6**	**715.6**	**2,997.3**	**815.8**	**2,541.7**	**2,324.8**	**354.5**	**198.4**	**21,707.6**	**14,633.5**	**32,093.9**	**16,906.8**	**47.9**	**15.5**
1. IDBI#	3,712.3	4,517.3	14,965.5	6,471.3	84.3	469.1	1,333.6	410.9	141.1	–	189.7	–	3,937.7	4,986.4	16,488.8	6,882.2	318.7	38.0
2. IFCI	1,386.6	275.5	–	83.6	–	2.7	–	–	5.0	–	–	–	1,391.6	278.2	–	83.6	–	-70.0
3. SIDBI	8,246.3	4,414.2	9,190.5	6,193.7	–	–	–	–	–	–	–	–	8,246.3	4,414.2	9,190.5	6,193.7	11.5	40.3
4. IIBI	189.8	54.5	0.9	7.6	5.0	5.0	–	–	2,217.2	2,192.7	–	0.5	2,412.0	2,252.2	0.9	8.1	-99.96	-99.6
5. IDFC	5,173.3	2,331.6	4,585.2	3,136.4	368.3	238.8	1,663.7	404.9	178.4	132.1	164.8	197.9	5,720.0	2,702.5	6,413.7	3,739.2	12.1	38.5
B. Specialised Financial Institutions (6 to 8)	**180.7**	**155.8**	**83.2**	**41.4**	**96.9**	**79.9**	**14.5**	**22.2**	**162.2**	**160.5**	**–**	**–**	**439.8**	**396.2**	**97.7**	**63.6**	**-77.8**	**-84.0**
6. IVCF	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
7. ICICI Venture	133.8	126.0	..	..	83.8	74.8	..	..	162.2	160.5	..	..	379.8	361.3	..	..		
8. TFCI	46.9	29.8	83.2	41.4	13.1	5.1	14.5	22.2	–	–	–	–	60.0	34.9	97.7	63.6	62.8	82.2
C. Investment Institutions (9 to 10)	**15,266.3**	**4,373.4**	**4,454.8**	**3,514.3**	**7,318.2**	**12,002.5**	**5,180.4**	**4,798.6**	**612.9**	**612.8**	**658.5**	**659.0**	**23,197.4**	**16,988.7**	**10,293.7**	**8,971.9**	**-55.6**	**-47.2**
9. LIC	15,232.0	4,328.7	4,447.0	3,458.9	6,742.0	11,452.9	4,782.9	4,495.2	–	–	–	–	21,974.0	15,781.6	9,229.9	7,954.1	-58.0	-49.6
10. GIC @	34.3	44.7	7.8	55.4	576.2	549.6	397.5	303.4	612.9	612.8	658.5	659.0	1,223.4	1,207.1	1,063.8	1,017.8	-13.1	-15.7
D. Total Assistance by All-India Financial Institutions (A+B+C)	**34,155.3**	**16,122.3**	**33,280.1**	**19,448.3**	**7,872.7**	**12,798.0**	**8,192.2**	**5,636.6**	**3,316.8**	**3,098.1**	**1,013.0**	**857.4**	**45,344.8**	**32,018.4**	**42,485.3**	**25,942.3**	**-6.3**	**-19.0**
E. State level Institutions (11 to 12)																		
11. SFCs	1,133.8	856.8	–	–	–	–	–	–	1,855.9	1,454.0	–	–	2,989.7	2,310.8	–	–		
12. SIDCs	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
F. Total Assistance by All Financial Institutions (D+E)	**35,289.1**	**16,979.1**	**33,280.1**	**19,448.3**	**7,872.7**	**12,798.0**	**8,192.2**	**5,636.6**	**5,172.7**	**4,552.1**	**1,013.0**	**857.4**	**48,334.5**	**34,329.2**	**42,485.3**	**25,942.3**		

S: Sanctions. D: Disbursements. – : Nil. .. : Not available.

* : Loans include rupee loans, foreign currency loans and guarantees.

@ : Data include General Insurance Corporation of India, New India Assurance Company Limited and United India Insurance Company Limited.

: Pursuant to the Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003, IDBI Act was repealed on October 1, 2004 and the accounting period for FY 2003-04 was extended by six months up to September 30, 2004.

Note: All data are provisional.

Source: Respective financial institutions.

Appendix Table V.2: Sanctions and Disbursements by Infrastructure Development Finance Company Ltd.

(Amount in Rs. crore)

Sector	Sanctions			Disbursements		
	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05
1	2	3	4	5	6	7
1. Energy	1,095	2,209	2,079	203	828	1,639
2. Telecommunication	64	1,262	1,331	413	1,130	923
3. Transportation	958	1,633	1,888	304	575	566
4. Commercial and Industrial (i to iii)	–	415	898	–	53	489
i) Tourism	–	158	587	–	–	450
ii) Industrial	–	104	–	–	32	14
iii) Commercial	–	153	311	–	21	25
5. Others (i to v)	178	202	218	12	117	123
i) Urban Services	–	30	13	2	1	32
ii) Education	–	19	95	–	13	19
iii) Health Infrastructure	78	104	24	–	78	10
iv) Food and Agri-business	–	50	86	–	15	43
v) Equity Funds	100	–	–	10	10	18
Total (1 to 5)	**2,294**	**5,720**	**6,414**	**933**	**2,702**	**3,739**
Growth (Per cent)	–	**149.3**	**12.1**	–	**189.7**	**38.4**

– : Nil/Negligible.

Source: Infrastructure Development Finance Company Ltd.

Appendix Table V.3: Resources Raised by Select All-India Financial Institutions

(Amount in Rs. crore)

Institutions\Year	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8	9	10
IDBI*									
Resources raised	9,834	13,171	15,819	8,495	7,727	8,405	5,009	10,477	–
Outstandings	29,503	35,286	41,748	46,443	46,929	45,464	41,798	46,967	–
IIBI									
Resources raised	365	797	1,223	689	458	210	44	176	–
Outstandings	1,241	1,856	1,799	2,084	2,140	3,196	2,754	2,420	2,229
IFCI									
Resources raised	4,051	3,366	3,544	1,783	1,634	651	267	–	–
Outstandings	14,640	18,018	20,173	20,092	19,966	19,788	20,203	17,564	13,385
TFCI									
Resources raised	232	234	158	104	124	112	93	172	23
Outstandings	448	586	711	753	676	667	632	546	421
EXIM Bank									
Resources raised	–	–	500	800	565	1,098	4,923	6,881	5,430
Outstandings	817	817	1,275	2,050	4,068	5,303	9,154	12,752	14,704
IDFC									
Resources raised	–	–	500	–	250	250	400	1,350	4,253
Outstandings	–	–	500	500	1,400	1,650	2,175	3,975	6,533
SIDBI									
Resources raised	350	50	50	357	822	1,224	961	1,429	2,364
Outstandings	1,984	1,876	2,002	2,437	10,442	10,074	9,607	10,535	8,427
NABARD									
Resources raised	265	164	354	569	1,472	2,548	2,988	5,334	8,843
Outstandings	1,245	1,370	1,632	2,141	3,614	6,078	8,702	11,883	23,805
NHB									
Resources raised	525	325	475	667	500	287	1,877	2,526	5,172
Outstandings	3,005	3,464	4,069	4,795	5,256	4,830	7,932	10,569	14,385
Total Resources raised	**15,622**	**18,106**	**22,623**	**13,464**	**13,551**	**14,736**	**16,562**	**28,345**	**26,085**
Total Outstandings	**52,883**	**63,273**	**73,909**	**81,295**	**94,491**	**97,050**	**1,02,957**	**1,17,211**	**83,889**

– : Nil/Negligible.

* : IDBI was converted into a banking entity effective October 2004.

Data are provisional.

Source : As furnished by the respective FIs.

Appendix Table V.4(A): Financial Assets of Financial Institutions

(As at end-March)

(Amount in Rs. crore)

Institution	1991	2000	2001	2002	2003	2004	2005 P
1	2	3	4	5	6	7	8
A. All India Financial Institutions (1 to 10)	**57,372**	**2,29,109**	**2,42,062** **(5.7)**	**1,71,215** **(-29.3)**	**1,80,740** **(5.6)**	**1,95,247** **(8.0)**	**1,39,153** **(-28.7)**
1. IDBI*	22,701	70,576	68,822 (-2.5)	65,444 (-4.9)	61,831 (-5.5)	66,322 (7.3)	N.A. N.A.
2. ICICI@	7,084	65,571	73,676 (12.4)	N.A. N.A.	N.A. N.A.	N.A. N.A.	N.A. N.A.
3. IFCI	5,835	22,800	21,808 (-4.4)	20,723 (-5.0)	21,127 (2.0)	18,165 (-14.0)	15,976 (-12.0)
4. IIBI	818	4,004	4,232 (5.7)	4,089 (-3.4)	3,183 (-22.2)	2,849 (-10.5)	2,439 (-14.4)
5. EXIM Bank	1,984	6,995	7,362 (5.3)	8,051 (9.4)	12,269 (52.4)	15,456 (26.0)	18,369 (18.8)
6. SIDBI	5,317	16,388	16,909 (3.2)	17,458 (3.2)	17,427 (-0.2)	19,140 (9.8)	18,161 (-5.1)
7. NABARD	12,664	33,082	38,655 (16.8)	44,454 (15.0)	50,642 (13.9)	55,642 (9.9)	60,544 (8.8)
8. NHB	969	6,251	6,836 (9.4)	6,872 (0.5)	9,802 (42.6)	11,344 (15.7)	17,405 (53.4)
9. TFCI	–	985	862 (-12.5)	872 (1.2)	791 (-9.3)	710 (-10.2)	592 (-16.6)
10. IDFC	–	2,457	2,901 (18.1)	3,252 (12.1)	3,668 (12.8)	5,619 (53.2)	5,668 (0.9)
B. State Level Institutions (11 and 12)	**10,049**	**24,518**	**31,993** **(30.5)**	**38,904** **(21.6)**	**53,044** **(36.3)**	**60,942** **(14.9)**	**60,942 #** **–**
11. SFCs	6,412	12,218	12,692 (3.9)	12,712 (0.2)	17,026 (33.9)	20,708 (21.6)	20,708 # –
12. SIDCs	3,637	12,300	19,301 (56.9)	26,192 (35.7)	36,018 (37.5)	40,234 (11.7)	40,234 # –
C. Investment Institutions (13 to 15)	**58,566**	**2,61,885**	**3,07,732** **(17.5)**	**3,50,538** **(13.9)**	**3,34,570** **(-4.6)**	**4,33,178** **(29.5)**	**4,39,409** **(1.4)**
13. UTI +	23,164	75,102	85,426 (13.7)	64,223 (-24.8)	N.A. N.A.	N.A. N.A.	N.A. N.A.
14. LIC	29,040	1,59,949	1,92,482 (20.3)	2,44,448 (27.0)	2,89,630 (18.5)	3,72,052 (28.5)	3,72,052 # –
15. GIC and its subsidiaries	6,362	26,834	29,824 (11.1)	41,867 (40.4)	44,940 (7.3)	61,126 (36.0)	67,357 (10.2)
D. Other Institutions (16 and 17)	**1,988**	**6,954**	**7,954** **(14.4)**	**8,596** **(8.1)**	**9,523** **(10.8)**	**10,973** **(15.2)**	**12,336** **(12.4)**
16. DICGC	1,744	5,607	6,311 (12.6)	6,933 (9.9)	7,786 (12.3)	9,094 (16.8)	10,146 (11.6)
17. ECGC	244	1,347	1,643 (22.0)	1,663 (1.2)	1,737 (4.4)	1,879 (8.2)	2,190 (16.6)
E. Grand Total (A+B+C+D)	**1,27,975**	**5,22,466**	**5,89,741**	**5,69,253**	**5,77,877**	**7,00,340**	**6,51,840**

N.A. : Not Applicable.
P : Provisional.
* : IDBI was converted into a bank in October 2004.
@ : ICICI was converted into a bank in May 2002.
+ : The Unit Trust of India Act, 1963 was repealed through an ordinance on October 30, 2002 and UTI was restructured by splitting it into two parts, *viz.*, UTI-I and UTI-II (later renamed as UTI Mutual Fund), in January 2003.
# : Figures repeated.
Note : 1. Data pertain to the accounting year of the respective financial institutions. The accounting year of IFCI was changed to financial year from 1993-94.
2. Figures in parentheses indicate percentage change over the previous year.
Source : Balance sheets of respective FIs.

Appendix Table V.4(B): Financial Assets of Banks and Financial Institutions

(As at the end- March)

(Amount in Rs. crore)

Banks/FIs	1990-91	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05P
1	2	3	4	5	6	7	8	9
I. All Banks (3+4)	**2,32,786**	**7,61,326 (16.3)**	**8,88,781 (16.7)**	**10,50,276 (18.2)**	**12,69,034 (20.8)**	**14,50,854 (14.3)**	**16,96,574 (16.9)**	**20,46,643 (20.6)**
1. All Scheduled Commercial Banks*	2,22,613	7,26,129	8,51,100	10,09,150	12,23,008	14,01,682	16,43,447	19,87,456
2. Non-scheduled Commercial Banks**	77	—	—	—	—	—	—	—
3. Total Commercial Banks (1+2)	2,22,690	7,26,129	8,51,100	10,09,150	12,23,008	14,01,682	16,43,447	19,87,456
4. State Co-operative Banks+	10,096	35,197	37,681	41,126	46,026	49,172	53,127	59,187
II. Financial Institutions (5 to 8)++	**1,27,975**	**4,64,328 (20.1)**	**5,22,466 (12.5)**	**5,89,741 (12.9)**	**5,69,253 (-3.5)**	**5,77,877 (1.5)**	**7,00,340 (21.2)**	**6,51,840 (-6.9)**
5. Term-lending Institutions# (All-India)	57,372	2,09,388	2,29,109	2,42,062	1,71,215	1,80,740	1,95,247	1,39,153
6. State Level Institutions@	10,049	21,629	24,518	31,993	38,904	53,044	60,942	60,942 >>
7. Investment Institutions@@	58,566	2,27,023	2,61,885	3,07,732	3,50,538	3,34,570	4,33,178	4,39,409
8. Other Institutions ##	1,988	6,289	6,954	7,954	8,596	9,523	10,973	12,336
III. Aggregate (I+II)	**3,60,761**	**12,25,654 (17.7)**	**14,11,247 (15.1)**	**16,40,017 (16.2)**	**18,38,287 (12.1)**	**20,28,731 (10.4)**	**23,96,914 (18.1)**	**26,98,483 (12.6)**
IV. Percentage Share:								
a) I in III	64.5	62.1	63.0	64.0	69.0	71.5	70.8	75.8
b) II in III	35.5	37.9	37.0	36.0	31.0	28.5	29.2	24.2

P : Provisional.

>> : Figures repeated.

* : As per returns under Section 42 of the RBI Act, 1934 and since 1991 relate to the reporting Friday of March, except the ICICI Bank Ltd., for which the data relate to end-March 2002.

** : As per returns under Section 27 of the Banking Regulation Act,1949. Data relate to the 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 and IDFC. Data exclude ICICI from 2001-02 as it was merged with ICICI Bank Ltd. since May 2002 and IDBI from 2004-05 which was converted into a bank since October 2004.

@ : State level institutions include SFCs and SIDCs.

@@ : Investment institutions include UTI (till 2002 since its conversion into a mutual fund), LIC and GIC and its former subsidiaries.

\## : Other institutions include DICGC and ECGC.

Note : 1. Figures in parentheses indicate percentage variation over the previous year.

2. Data of financial assest of banks include: (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.

Appendix Table V.5: Pattern of Sources and Deployment of Funds of Financial Institutions*

(Amount in Rs. crore)

Sources/ Deployment of Funds	2003-04 Quarter ended								Total		2004-05 Quarter ended								Total	
	June		September		December		March				June		September		December		March			
	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Sources of Funds (i+ii+iii)	**21,905**	**100.0**	**25,248**	**100.0**	**17,831**	**100.0**	**22,006**	**100.0**	**86,992**	**100.0**	**22,629**	**100.0**	**19,669**	**100.0**	**29,076**	**100.0**	**23,434**	**100.0**	**94,811**	**100.0**
i) Internal	15,017	68.6	17,636	69.9	12,714	71.3	12,896	58.6	58,263	67.0	17,195	76.0	13,283	67.5	17,552	60.4	11,340	48.4	59,370	62.6
ii) External	5,728	26.1	7,284	28.8	4,828	27.1	8,477	38.5	26,317	30.3	4,397	19.4	6,189	31.5	10,858	37.3	11,226	47.9	32,670	34.5
iii) Other Sources	1,160	5.3	329	1.3	289	1.6	632	2.9	2,410	2.7	1,037	4.6	197	1.0	665	2.3	868	3.7	2,768	2.9
Deployment of Funds (i+ii+iii)	**21,905**	**100.0**	**25,248**	**100.0**	**17,831**	**100.0**	**22,006**	**100.0**	**86,990**	**100.0**	**22,629**	**100.0**	**19,669**	**100.0**	**29,076**	**100.0**	**23,434**	**100.0**	**94,810**	**100.0**
i) Fresh Deployments	13,918	63.5	16,441	65.1	10,459	58.7	15,738	71.5	56,555	65.0	10,649	47.1	13,434	68.3	21,020	72.3	16,531	70.5	61,635	65.0
ii) Repayment of past borrowings	4,210	19.2	6,761	26.8	3,338	18.7	3,281	14.9	17,590	20.2	8,066	35.6	4,264	21.7	5,166	17.8	3,574	15.2	21,069	22.2
iii) Other Deployments	3,777	17.3	2,046	8.1	4,034	22.6	2,987	13.6	12,845	14.8	3,914	17.3	1,971	10.0	2,891	9.9	3,330	14.2	12,106	12.8
of which : Interest Payment	1,509	—	1,527	—	1,214	—	1,361	—	5,611	—	1,252	—	1,100	—	1,194	—	1,050	—	4,597	—

* : Includes IFCI, IIBI, IDFC, TFCI, NABARD, NHB, SIDBI and EXIM bank.
Source : Respective FIs.

Appendix V.6: Weighted Average Cost/Maturity of Resources raised by way of Rupee Bonds/ Debentures* by select All-India Financial Institutions

(Per cent)

Institution/Year	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
1	2	3	4	5	6	7	8	9	10
IDBI									
Weighted Average Cost	15.7	12.3	13.5	12.1	11.2	9.8	8.5	6.5	–
Weighted Average Maturity	2.7	3.0	4.9	5.1	3.9	2.6	4.3	5.1	–
IIBI									
Weighted Average Cost	–	–	–	–	13.2	10.6	9.6	8.7	–
Weighted Average Maturity	–	–	–	–	5.6	9.6	8.7	18.0	–
IFCI									
Weighted Average Cost	16.1	13.0	13.9	12.9	12.5	11.1	9.6	8.2	–
Weighted Average Maturity	8.3	5.3	5.7	7.0	6.5	6.8	2.2	3.2	–
TFCI									
Weighted Average Cost	16.8	14.1	14.1	12.5	11.8	10.5	8.5	8.6	10.3
Weighted Average Maturity	6.1	4.6	5.7	5.2	9.0	5.9	10.1	10.0	4.8
EXIM Bank									
Weighted Average Cost	12.5	12.5	12.9	12.5	12.2	10.7	8.9	5.9	6.6
Weighted Average Maturity	7.4	6.4	5.6	4.2	3.6	6.4	6.1	6.7	4.2
IDFC									
Weighted Average Cost	–	–	12.5	–	10.9	9.0	7.6	5.6	6.1
Weighted Average Maturity	–	–	5.0	–	5.0	5.0	5.6	5.9	3.6
SIDBI									
Weighted Average Cost	15.2	12.3	12.3	9.7	9.8	7.5	6.5	4.9	5.9
Weighted Average Maturity	5.7	10.0	10.0	2.6	1.3	1.0	2.3	2.8	1.9
NABARD									
Weighted Average Cost	11.1	9.8	11.2	10.6	9.4	8.0	6.1	5.4	5.5
Weighted Average Maturity	8.3	8.2	8.0	5.4	3.0	3.0	5.4	5.4	4.9
NHB									
Weighted Average Cost	13.4	10.5	11.2	11.1	10.2	8.7	6.4	5.4	6.3
Weighted Average Maturity	6.7	8.9	9.0	9.5	5.8	7.4	4.0	3.2	2.6

– : Nil/Negligible.
* : Includes only rupee resources and does not include foreign currency borrowings.
Data are provisional.
Source : As furnished by respective FIs.

Appendix Table V.7: Select Assets and Liabilities of Primary Dealers

(Amount in Rs. crore)

Sr. No.	Name of the Primary Dealer	Capital Funds (Tier I + Tier II + eligible Tier III)		CRAR (per cent)		Stock of Government Securities and Treasury bills		Total Assets (Net of current liabilities and provisions)	
		2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5	6	7	8	9	10
1.	Securities Trading Corporation of India Ltd.	1,004.61	858.98	54.21	70.57	2,391.58	1,477.56	2,936.73	2,166.80
2.	SBI DFHI Ltd.	1,052.36	957.81	58.60	64.15	2,093.68	1,054.56	2,215.90	1,499.53
3.	Gilts Securities Trading Corporation Ltd.	334.56	247.31	72.59	113.90	1,191.00	352.98	1,207.97	378.98
4.	ICICI Securities Ltd.	392.49	425.98	21.16	32.28	1,520.10	691.22	2,259.63	1,310.21
5.	PNB Gilts Ltd.	541.33	462.96	41.91	62.39	1,403.81	996.26	1,520.91	1,263.67
6.	J P Morgan Securities (India) Pvt. Ltd.	372.67	360.26	80.41	36.17	398.61	220.65	669.79	973.75
7.	ABN AMRO Securities (India) Pvt. Ltd.	145.23	139.99	42.34	39.06	326.60	424.16	425.19	593.59
8.	Kotak Mahindra Capital Co. Ltd.	246.68	236.09	38.78	46.22	469.98	201.78	506.29	358.19
9.	DSP Merrill Lynch Ltd.	369.23	398.72	47.80	77.05	388.42	342.65	657.66	596.08
10.	Deutshce Securities (India) Pvt. Ltd.	162.02	168.84	35.74	135.92	402.30	343.40	657.33	317.56
11.	IDBI Capital Market Services Ltd.	580.48	627.88	22.12	40.75	1,814.04	593.87	2,238.26	904.69
12.	Corpbank Securities Ltd.	201.41	133.42	54.30	26.32	743.92	504.33	756.61	535.54
13.	HSBC Primary Dealership (India) Ltd.	77.94	77.94	79.60	188.31	214.92	334.93	212.73	80.36
14.	Bank of America Securities (India) Ltd.	244.65	247.35	118.27	145.20	55.00	206.67	244.76	257.01
15.	Stanchart UTI Securities (India) Pvt. Ltd.	64.99	64.99	41.64	255.36	217.61	71.46	216.69	69.99
16.	BOB Capital Market Ltd.	106.42	81.53	46.46	27.09	216.55	299.03	215.26	319.35
17.	Citicorp Capital Markets Ltd.	117.73	112.96	90.70	48.43	245.69	139.35	193.70	285.60
	TOTAL	**6,014.80**	**5,603.01**	**42.74**	**54.32**	**14,093.81**	**8,254.86**	**17,135.41**	**11,910.90**

Note : 1. Capital Funds and CRAR from PDR III of March 2004 and March 2005.
2. Figures for 2004-05 are unaudited.

Appendix Table V.8: Financial Performance of Primary Dealers

(Amount in Rs. crore)

Sr. No.	Name of the Primary Dealer	Year	Income				Expenditure			Profit Before Tax	Profit After Tax	Return on Net worth (per cent)
			Interest Income*	Trading Profit	Other Income	Total Income	Interest Expenses	Other Expenses	Total Expen-diture			
1	2	3	4	5	6	7	8	9	10	11	12	13
1.	Securities Trading Corporation of India Ltd.	2003-04	277.07	176.19	2.68	455.94	139.38	12.98	152.36	303.58	193.90	20.12
		2004-05	181.39	-221.85	1.10	-39.36	95.53	11.30	106.83	-146.18	-97.80	-15.67
2.	SBI DFHI Ltd.	2003-04	212.65	164.30	2.13	379.08	94.58	7.91	102.49	276.59	177.57	17.50
		2004-05	140.25	-179.19	2.09	-36.85	49.15	8.80	57.95	-94.80	-94.04	-9.39
3.	Gilts Securities Trading Corporation Ltd.	2003-04	85.44	67.27	1.58	154.29	44.96	3.89	48.85	105.44	67.42	21.92
		2004-05	51.32	-110.04	0.44	-58.28	25.24	3.68	28.92	-87.20	-87.24	-29.98
4.	ICICI Securities Ltd.	2003-04	112.39	133.72	75.04	321.15	62.05	79.74	141.79	190.23	143.90	38.70
		2004-05	98.40	22.78	61.15	182.33	61.07	36.80	97.87	84.46	56.40	13.87
5.	PNB Gilts Ltd.	2003-04	121.89	113.30	2.75	237.94	61.63	7.66	69.29	168.65	106.96	21.10
		2004-05	111.76	-103.85	3.37	11.28	71.86	7.55	79.40	-68.13	-68.25	-13.47
6.	J P Morgan Securities (India) Pvt Ltd.	2003-04	39.69	20.49	0.36	60.54	18.90	5.57	24.47	36.07	22.94	8.33
		2004-05	50.07	-11.55	1.89	40.41	21.08	6.05	27.13	13.28	8.34	2.57
7.	ABN AMRO Securities (India) Pvt Ltd.	2003-04	20.58	14.08	15.01	49.67	7.31	14.79	22.10	27.57	17.65	12.94
		2004-05	34.85	-8.72	5.68	31.81	16.62	7.12	23.74	8.07	5.09	3.47
8.	Kotak Mahindra Capital Company Ltd.	2003-04	38.70	49.94	47.91	136.55	20.19	31.65	51.84	84.71	57.95	26.24
		2004-05	53.23	4.16	5.57	62.96	7.59	34.88	42.47	20.49	15.82	6.18
9.	DSP Merrill Lynch Ltd.	2003-04	34.34	44.68	227.98	307.00	16.08	120.54	136.62	170.38	112.48	32.16
		2004-05	30.44	8.77	339.42	378.63	12.43	156.69	169.12	209.51	133.80	32.15
10.	Deutsche Securities (India) Pvt Ltd.	2003-04	26.53	40.01	0.69	67.23	13.26	5.95	19.21	48.02	30.71	18.07
		2004-05	17.68	-1.09	0.66	17.25	6.78	3.76	10.54	6.71	3.74	2.31
11.	IDBI Capital Market Services Ltd.	2003-04	186.57	224.51	27.64	438.72	106.14	16.69	122.83	315.89	200.67	36.63
		2004-05	-15.92	-3.67	21.51	1.92	57.94	18.28	76.22	-74.30	-74.27	-13.68
12.	Corpbank Securities Ltd.	2003-04	70.15	44.00	0.41	114.56	39.44	1.85	41.29	73.27	46.98	24.82
		2004-05	34.83	-88.24	0.74	-52.67	14.44	1.57	16.01	-68.68	-45.08	-26.92
13.	HSBC Primary Dealership (India) Pvt Ltd.	2003-04	13.64	13.75	0.13	27.52	5.84	3.44	9.28	18.24	11.70	15.65
		2004-05	7.46	1.91	1.56	10.93	2.51	2.47	4.98	5.95	3.74	4.32
14.	Bank of America Securities (India) Pvt Ltd.	2003-04	15.90	3.77	0.30	19.97	2.83	3.74	6.57	13.40	8.16	5.25
		2004-05	16.93	-7.73	0.17	9.37	1.27	3.58	4.85	4.52	2.85	1.13
15.	Stanchart UTI Securities (India) Pvt Ltd.	2003-04	12.49	14.81	0.10	27.40	5.98	1.75	7.73	19.67	12.58	20.64
		2004-05	7.38	1.63	1.15	10.16	2.85	1.76	4.61	5.55	3.35	6.36
16.	BoB Capital Markets Ltd.	2003-04	29.33	2.24	-0.13	31.44	11.74	1.93	13.67	17.77	11.37	10.91
		2004-05	-10.67	1.02	0.04	-9.61	7.45	2.37	9.83	-19.44	-19.40	-12.72
17.	Citicorp Capital Markets Ltd.	2003-04	8.87	4.30	3.27	16.44	4.49	2.39	6.88	9.56	6.03	7.05
		2004-05	12.00	-4.48	6.29	13.81	5.47	3.08	8.55	5.26	3.31	2.83
	TOTAL	**2003-04**	**1,306.23**	**1,131.36**	**407.85**	**2,845.44**	**654.80**	**322.47**	**977.27**	**1,868.17**	**1,228.97**	**22.20**
		2004-05	**821.40**	**-700.14**	**452.83**	**574.09**	**459.28**	**309.74**	**769.03**	**-194.92**	**-249.64**	**-5.05**

* : Includes Discount Income.
Note: Figures for 2004-05 are unaudited.

List of Select Abbreviations

AD	Authorised Dealer
ADR	American Depository Receipt
AFI	Annual Financial Inspection
AFS	Available For Sale
AGL	Aggregate Gap Limit
AIFIs	All-India Financial Institutions
ALD	Aggregate Liabilities to the Depositor
ALM	Asset-Liability Management
AMA	Advanced Measurement Approach
AMC	Asset Management Company
AML	Anti-Money Laundering
ARC	Asset Reconstruction Company
ARCIL	Asset Reconstruction Company (India) Limited
AS	Accounting Standard
ASA	Alternative Standardised Approach
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BCSBI	Banking Codes & Standards Boards of India
BFS	Board for Financial Supervision
BIS	Bank for International Settlements
BPLR	Benchmark Prime Lending Rate
BPSS	Board for Payment and Settlement Systems
BSE	The Stock Exchange, Mumbai
BSR	Basic Statistical Return
CAAP	Capital Adequacy Assessment Programme
CALCS	Capital Adequacy, Asset Quality, Liquidity, Compliance and System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and Control
CART	Credit Appraisal and Rating Tool
CBLO	Collateralised Borrowing and Lending Obligation
CBS	Consolidated Banking Statistics
CCB	Central Co-operative Bank
CCIL	Clearing Corporation of India Ltd.
C-D Ratio	Credit-Deposit Ratio
CD	Certificate of Deposit
CDD	Customer Due Diligence
CDF	Co-operative Development Fund
CDR	Corporate Debt Restructuring
CFC	Customer Facilitation Center
CFMS	Centralised Funds Management System
CFS	Consolidated Financial Statements
CFT	Combating Financing of Terrorism
CGTSI	Credit Guarantee Trust for Small Industries
CIBIL	Credit Information Bureau of India Limited
CIBs	Capital Index Bonds
CIR	Cost Income Ratio
CLF	Collateralised Lending Facility
CMP	Common Minimum Programme
CoR	Certificate of Registration
CP	Commercial Paper
CPC	Cheque Processing Center
CPI	Consumer Price Index
CPPAPS	Committee on Procedures and Performance Audit on Public Services

CPR	Consolidated Prudential Return
CRAR	Capital to Risk-Weighted Assets Ratio
CRR	Cash Reserve Ratio
CSGL	Constituent's Subsidiary General Ledger
CTS	Cheque Truncation System
CUG	Closed User Group
CVC	Central Vigilance Commission
DE	Designated Entities
DFI	Development Finance Institution
DICGC	Deposit Insurance and Credit Guarantee Corporation
DNS	Deferred Net Settlement
DNSS	Deferred Net Settlement System
DPSS	Department of Payment and Settlement Systems
DRAT	Debt Recovery Appellate Tribunal
DRI	Differential Rate of Interest
DRT	Debt Recovery Tribunal
DTL	Demand and Time Liability
DvP	Delivery versus Payment
EBR	Export Bills Rediscounted
ECB	External Commercial Borrowing
ECGC	Export Credit Guarantee Corporation
ECS	Electronic Clearing Service
EDP	Electronic Data Processing
EFT	Electronic Funds Transfer
EL	Equipment Leasing
EME	Emerging Market Economy
EWS	Early Warning System
EXIM Bank	Export Import Bank of India
FATF	Financial Action Task Force
FCC	Financial Conglomerate Cell
FCCB	Foreign Currency Convertible Bond
FCNR (B)	Foreign Currency Non-Resident (Banks)
FCNR	Foreign Currency Non-Resident
FDI	Foreign Direct Investment
FEDAI	Foreign Exchange Dealers Association of India
FI	Financial Institution
FII	Foreign Institutional Investor
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FIU-IND	Financial Intelligence Unit - India
FMC	Forward Market Commission
FMD	Financial Market Department
FRAs	Forward Rate Agreements
FRB	Floating Rate Bond
FRBM Act	Fiscal Responsibility and Budget Management Act
FrMC	Fraud Monitoring Cell
FSR	Financial Stability Report
FVR	Funding Volatility Ratio
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GIC	General Insurance Corporation of India Limited
HFC	Housing Finance Company
HFT	Held for Trading
HLCCFCM	High Level Co-ordination Committee on Financial and Capital Markets
HTM	Held to Maturity
IAIS	International Association of Insurance Supervisors
IAS	Integrated Accounting System
IBA	Indian Banks Association
IBRA	Indonesian Bank Restructuring Agency
IBS	International Banking Statistics
ICAI	Institute of Chartered Accountants of India

IDBI	Industrial Development Bank of India
IDFC	Infrastructure Development Finance Company
IDRBT	Institute for Development and Research in Banking Technology
IFR	Investment Fluctuation Reserve
IIBI	Industrial Investment Bank of India Limited
IIP	Index of Industrial Production
IMF	International Monetary Fund
INFINET	INdian FInancial NETwork
IOSCO	International Organisation of Securities Commission
IPO	Initial Public Offering
IRB	Internal Rating Based
IRDA	Insurance Regulatory and Development Authority
IRS	Interest Rate Swap
IS	Information System
IT	Information Technology
JLG	Joint Liability Group
JPC	Joint Parliamentary Committee
KCC	Kisan Credit Card
KVIB	Khadi and Village Industries Commission Board
KVIC	Khadi and Village Industries Commission
KYC	Know Your Customer
L3	Broad Liquidity Aggregate
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LIBOR	London Inter-Bank Offered Rate
LIC	Life Insurance Corporation of India
M3	Broad Money
MACs	Mutually Aided Co-operative Societies
MBS	Mortgage Backed Security
MFDEF	Micro Finance Development and Equity Fund
MFI	Micro-Finance Institution
MIBOR	Mumbai Inter-Bank Offer Rate
MICR	Magnetic Ink Character Recognition
MITCs	Most Important Terms and Conditions
MNBC	Miscellaneous Non-Banking Company
MoU	Memorandam of Understanding
MPI	Macro Prudential Indicator
MSS	Market Stabilisation Scheme
MTF	Medium-Term Framework
NABARD	National Bank for Agriculture and Rural Development
NAFSCOB	National Federation of State Co-operative Banks Ltd.
NAIS	National Agricultural Insurance Scheme
NAV	Net Asset Value
NBC	Net Bank Credit
NBFC	Non-Banking Financial Company
NCR	National Capital Region
NDS	Negotiated Dealing System
NDTL	Net Demand and Time Liability
NGO	Non-Government Organisation
NHB	National Housing Bank
NIA	New India Assurance Company Ltd.
NIM	Net Interest Margin
NNML	Net Non-Monetary Liabilities
NOF	Net Owned Fund
NPA	Non-Performing Asset
NPL	Non-Performing Loan
NRE	Non-Resident External
NRI	Non-Resident Indian
NSE	National Stock Exchange

OMO	Open Market Operation
OPL	Open Position Limit
OSMOS	Off-Site Monitoring and Surveillance System
OSS	Off-site Surveillance System
OTC	Over the Counter
OTS	One Time Settlement
PACS	Primary Agricultural Credit Society
PAT	Profit After Tax
PBT	Profit Before Tax
PCA	Prompt Corrective Action
PCARDB	Primary Co-operative Agricultural and Rural Development Bank
PD	Primary Dealer
PDAI	Primary Dealers Association of India
PKI	Public Key Infrastructure
PLR	Prime Lending Rate
PMLA	Prevention of Money Laundering Act
PPF	Public Provident Fund
PSB	Public Sector Bank
PTCs	Pass-through Certificate
RAM	Risk Assessment Model
RBIA	Risk Based Internal Audit
RBS	Risk Based Supervision
RIB	Resurgent India Bond
RIDF	Rural Infrastructural Development Fund
RNBC	Residuary Non-Banking Company
RoA	Return on Asset
ROC	Registrar of Companies
RoE	Return on Equity
RPTs	Risk Profile Templates
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement System
SAA	Service Area Approach
SACP	Special Agricultural Credit Plan
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SBIP	SHG-Bank Linkage Programme
SCARDB	State Co-operative Agricultural and Rural Development Bank
SCB	Scheduled Commercial Bank
SDS	Special Deposit Scheme
SEBI	Securities and Exchange Board of India
SEFCs	Small Enterprises Financial Centres
SEFT	Special Electronic Funds Transfer
SFC	State Financial Corporation
SFMS	Structured Financial Messaging System
SGL	Subsidiary General Ledger
SGSY	*Swarn Jayanti Gram Swarojgar Yojna*
SHG	Self-Help Group
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporation
SIPS	Systemically Important Payment System
SLBCs	State Level Bankers' Committees
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SPV	Special Purpose Vehicle
SSI	Small Scale Industry
STACFR	Standing Technical Advisory Committee on Financial Regulation
StCB	State Co-operative Bank
STCI	Securities Trading Corporation of India Limited
STP	Straight Through Processing

STRIPS	Separate Trading for Registered Interest and Principal of Securities
TAC	Technical Advisory Committee
TAFCUB	Task Force for Urban Co-operative Banks
TFCI	Tourism Finance Corporation of India
TIN	Tax Information Network
UCB	Urban Co-operative Bank
UIA	United India Assurance Company Ltd.
UTI	Unit Trust of India
VRS	Voluntary Retirement Scheme
VSAT	Very Small Aperture Terminal
WADR	Weighted Average Discount Rate
WPI	Wholesale Price Index